KPMG

LOUISIANA ENERGY AND POWER AUTHORITY

Financial Statements and Schedules

December 31, 1998 and 1997

With Independent Auditors' Report Thereon

Suite 3500 One Shell Square
New Orleans, LA 70139-3599

Independent Auditors' Report

The Board of Directors
Louisiana Energy and Power Authority:

We have audited the accompanying balance sheets of Louisiana Energy and Power Authority (the Authority) as of and for the years ended December 31, 1998 and 1997, and the related statements of revenues, expenses and equity, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Energy and Power Authority at December 31, 1998 and 1997, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 1999, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

As discussed in Note 1, the Authority changed its method of accounting for investments in 1997 to adopt the provisions of GASB No. 31, *Accounting for Financial Reporting for Certain Investments and for External Investment Pools.*

The Year 2000 supplementary information on page 16 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board (GASB), and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the nature of the subject matter underlying the disclosure requirements and because sufficiently specific criteria regarding the matters to be disclosed have not been established. In addition, we do not provide assurance that the Authority is or will become Year 2000 compliant, that the Authority's Year 2000 remediation efforts will successful in whole or in part, or that parties with which the Authority does business are or will become Year 2000 compliant.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

March 31, 1999

LOUISIANA ENERGY AND POWER AUTHORITY

Balance Sheets

December 31, 1998 and 1997

Assets		1998	1997
Utility plant, net (note 2)	$	57,647,777	60,319,909
Central dispatch facility, net of accumulated depreciation of $4,493,934 in 1998 and 1997, respectively		529,497	-
Non-utility property, net of accumulated depreciation of depreciation of $305,053 and $245,209 in 1998 and 1997, respectively		1,094,347	1,152,417
Special deposits (note 4)		18,258,544	16,814,651
Current assets:			
Funds (note 4)		14,374,164	14,007,298
Accounts receivable		3,033,738	2,865,460
Interest receivable		152,880	158,246
Fuel inventory		1,790,831	2,641,309
Prepaid expenses		88,972	90,602
Total current assets		19,440,585	19,762,915
Deferred charges:			
Debt expense (note 3)		2,848,815	2,986,271
Preoperating costs		472,110	494,890
Unamortized loss on reacquired debt (note 3)		25,604,265	26,839,676
Total deferred charges		28,925,190	30,320,837
	$	125,895,940	128,370,729
Capitalization and Liabilities			
Capitalization:			
Long-term debt (note 3)		100,529,050	103,776,022
Equity		10,843,113	10,505,735
Total capitalization		111,372,163	114,281,757
Current liabilities:			
Current maturities of long-term debt (note 3)		4,675,000	4,130,000
Accounts payable		3,836,162	3,628,245
Due to participants		570,957	759,424
Accrued interest payable		3,476,570	3,640,730
Other		1,965,088	1,930,573
Total current liabilities		14,523,777	14,088,972
Commitments (notes 2, 5 and 6)			
	$	125,895,940	128,370,729

See accompanying notes to financial statements.

LOUISIANA ENERGY AND POWER AUTHORITY

Statements of Revenues, Expenses and Equity

Years ended December 31, 1998 and 1997

	1998	1997
Power sales (note 5)	$ 56,897,117	55,003,964
Operating expenses:		
Cost of power produced	20,755,881	19,063,252
Power purchased	19,869,690	18,780,608
Transmission costs	4,230,068	4,052,898
General and administrative	2,179,900	2,550,726
Depreciation and amortization	4,460,000	4,236,596
Charge-off of deferred costs	-	235,275
Total operating expenses	51,495,539	48,919,355
Net operating revenues	5,401,578	6,084,609
Other expenses (revenues):		
Interest expense	6,979,297	7,281,460
Investment income:		
Interest and dividends	(1,645,002)	(1,615,778)
Net decrease in fair value	14,408	76,469
Investment income	(1,630,594)	(1,539,309)
Other, net	(284,503)	(54,311)
Total other expenses	5,064,200	5,687,840
Net revenues	337,378	396,769
Equity, beginning of year, as previously stated	10,505,735	9,322,277
Restatement as a result of adoption of GASB No. 31 (note 4)	-	786,689
Equity, beginning of year, after restatement	10,505,735	10,108,966
Equity, end of year	$ 10,843,113	10,505,735

See accompanying notes to financial statements.

LOUISIANA ENERGY AND POWER AUTHORITY

Statements of Cash Flows

Years ended December 31, 1998 and 1997

		1998	1997
Cash flows from operating activities:			
Net revenues	$	337,378	396,769
Adjustments to reconcile net revenues to net cash provided by operating activities:			
Charge-off of deferred costs		-	235,275
Depreciation and amortization		4,460,000	4,236,596
Net decrease in fair value of investments		14,408	76,469
(Increase) decrease in assets:			
Accounts receivable		(168,278)	(34,908)
Interest receivable		5,366	(54,790)
Coal inventory		850,478	(124,127)
Prepaid expenses		1,630	11,468
Increase (decrease) in liabilities:			
Accounts payable		207,917	368,295
Due to participants		(188,467)	118,195
Accrued interest payable		(164,160)	(149,080)
Other, net		27,129	27,061
Net cash provided by operating activities		5,383,401	5,107,223
Cash flows used in investing activities - payments for purchases of property, plant and equipment		(635,621)	(96,029)
Cash flows used in financing activities:			
Principal payments on long-term debt		(4,130,000)	(3,840,000)
Proceeds from issuance of long-term debt		1,200,000	-
Net cash used in financing activities		(2,930,000)	(3,840,000)
Net increase in cash and cash equivalents		1,817,780	1,171,194
Cash and cash equivalents at beginning of year		18,808,616	17,637,422
Cash and cash equivalents at end of year (note 4)	$	20,626,396	18,808,616
Cash paid during the year for interest	$	7,143,457	7,430,540

See accompanying notes to financial statements.

(1) Organization and Significant Accounting Policies

(a) *Organization and Operations*

The Louisiana Energy and Power Authority (the Authority) was created as a political subdivision of the State of Louisiana in 1979 pursuant to Title 33 of the Louisiana Revised Statutes of 1950. Nineteen Louisiana municipalities currently are members of the Authority and are joined together in order to provide a reliable and economic supply of electric power and energy to member municipalities.

The Authority is a 20% co-owner, under the Joint Ownership Agreement, of a 530 MW coal-fired steam electric generating plant, the Rodemacher Unit No. 2 (the Unit). The Unit was constructed by Central Louisiana Electric Company, Inc. (CLECO) and Lafayette Public Power Authority (LPPA) near Boyce, Louisiana adjacent to CLECO's Rodemacher Unit No. 1. CLECO and LPPA have ownership interests of 30% and 50%, respectively. The Authority's 20% undivided ownership interest in the Unit and its rights and interests under the Joint Ownership Agreement are referred to as the Project. The Joint Ownership Agreement shall remain in effect so long as the Project is useful for the generation of electricity or for a period of 35 years, whichever is less.

(b) *Accounting Standards*

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

(c) *Chart of Accounts*

The accounting records of the Authority are maintained substantially in accordance with the uniform system of accounts as prescribed by the Federal Energy Regulatory Commission. The Authority meets the criteria and, accordingly, follows the reporting and accounting requirements of Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation*.

(d) *Funds and Special Deposits*

Funds and special deposits consist of cash, overnight repurchase agreements and obligations guaranteed by federal agencies. Effective January 1, 1997, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting for Financial Reporting for Certain Investments and for External Investment Pools*. This statement establishes fair value standards for investments in debt securities. Fair value is the amount in which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Governmental entities should report debt securities at fair value on the balance sheet. This statement also provides for the valuation of money market investment such as short-term, highly liquid debt instruments, including U.S. Treasury and agency obligations at amortized cost. The Authority has restated its equity as of December 31, 1996 to conform to the policies and presentation requirements of GASB No. 31 (see note 4).

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(e) ***Coal Inventory***

Coal inventory is recorded at the lower of cost or market. Cost is determined using the last-in, first-out method.

(f) ***Rate Setting***

The Authority has entered into Rodemacher Power Sales Contracts with five of its member cities. These five members are referred to as Participants. The Authority bills each Participant monthly for its share of the electric power generated by the Rodemacher Unit No. 2 (the Project) (see notes 2 and 5) and for certain items stipulated in the Bond Resolution which governs the bonds issued in 1982 to purchase the Authority's 20% interest in the Unit. To the extent billings related to the Project vary from actual expenses incurred by the Authority related to the Project, the amounts billed to the Participants are adjusted.

All Requirements Power Sales Contracts (the All Requirements Approach) expire in the year 2000 for one of the five Participants and in the year 2005 for two of the five participants and six other members (the All Requirements Members). Subsequent to December 31, 1998, the All Requirements Power Sales Contract which expired in the year 2000 was renewed and now expires in the year 2005. The Authority continues to bill the three Participants in the manner described above; however, the Authority now buys the power back at actual cost to be distributed under the All Requirements Approach. Rate setting for the All Requirements Members is budgeted in advance and ratified by the Board of Directors. The rates are comprised of two basic components: (1) Energy Rate - which includes variable fuel costs and is billed on a KWH consumption basis and (2) Demand Rate - which includes all fixed costs and is billed on monthly peak KW basis.

(g) ***Income Taxes***

The Authority is exempt from federal and state income taxes.

(h) ***Depreciation and Amortization***

Depreciation and amortization of utility plant, central dispatch facility, debt expense, preoperating costs, unamortized loss on reacquired debt and the original issue discount on long-term debt are based upon the principal repayments of long-term debt, the proceeds of which were used to acquire the Rodemacher Unit No. 2. This method correlates with the rate setting policies prescribed by the Bond Resolution of the 1982 Series Power Project Revenue Bonds and the 1985 and 1991 Series Power Project Refunding Revenue Bonds in that debt service requirements, as opposed to depreciation or amortization, are considered a cost for the purpose of rate making. Depreciation of nonutility property is computed using the straight-line method over the estimated useful lives of the assets.

Expenses incurred in making repairs and minor replacements and in maintaining the utility plant and central dispatch facility in efficient operating condition are charged to expense.

(i) ***Cash and Cash Equivalents***

For purposes of the statement of cash flows, the Authority considers cash in banks, overnight

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repurchase agreements, and mutual funds investing in U.S. Treasury obligations as cash and cash equivalents. These deposits are recorded at cost which approximates market. Under state law, the Authority may deposit funds in demand deposits, interest-bearing demand deposits, money market accounts, or time deposits with state banks organized under Louisiana law and national banks having their principal offices in Louisiana.

(j) ***Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Utility Plant

The Authority's acquisition cost of its interest in the Unit includes costs of certain facilities common to the Unit and CLECO's Unit No. 1 (common facilities). The cost of the utility plant is summarized as follows at December 31:

	1998	1997
Acquisition cost of the Unit, including common facilities, related facilities, and site development costs	$ 83,834,020	83,729,670
Less accumulated depreciation and amortization	(26,186,243)	(23,409,761)
	$ 57,647,777	60,319,909

Participants in the Rodemacher Unit No. 2 are liable for decommissioning costs upon termination of the Project.

(3) Long-term Debt

Long-term debt consists of the following at December 31:

		1998	1997
Serial Bonds, 1985 Series, 5.50% - 8.50%, due January 1, 1993 to 1998	$	-	3,200,000
Serial Bonds, 1991 Series, 5.65% - 6.80%, due January 1, 1993 to 2004		31,585,000	32,515,000
Term Bonds, 1991 Series, 6.75%, due January 1, 2008		29,060,000	29,060,000
Term Bonds, 1991 Series, 6.00%, due January 1, 2013		48,085,000	48,085,000
Serial Bonds, 1998 Series, 4.3% - 6%, due July 1998 to 2003		1,200,000	-
		109,930,000	112,860,000
Less:			
Current maturities		4,675,000	4,130,000
Original issue discount		4,725,950	4,953,978
	$	100,529,050	103,776,022

In 1982, the Authority issued $109,515,000 of Power Project Revenue Bonds (Rodemacher Unit No. 2), 1982 Series, to fund its share of the estimated costs of acquisition and construction of the Project and to pay other related costs, including acquisition of coal inventory, debt issuance costs and to establish various funds required by the bond resolution. The 1985 Series Bonds were issued to advance refund the 1982 Series Power Project Revenue Bonds.

In 1991, the Authority issued $114,570,000 of Power Project Refunding Revenue Bonds (Rodemacher Unit No. 2), 1991 Series with an original issue discount of $6,251,587, to advance refund $100,275,000 of the $118,335,000 1985 Series Power Project Refunding Revenue Bonds outstanding. The proceeds of the 1991 Series Bonds, net of financing costs and bond insurance premiums ($105,505,047), and certain amounts available in the Authority's funds and accounts ($2,979,733) were deposited into an irrevocable escrow account maintained by a trustee. The funds were invested by the trustee in direct obligations of the United States Government in order to pay, at maturity, the 1985 Series Bonds maturing on January 1, 1999, January 1, 2004 and January 1, 2013. The 1985 Series Bonds maturing after January 1, 1995 were redeemed on January 1, 1995. The Authority received approximately $67,000 in funds remaining after the redemption.

The Authority incurred a loss of approximately $16,650,000 in connection with the advance refunding, which, in addition to losses incurred in a 1985 refunding, has been deferred and is being amortized over the life of the 1991 Series Bonds (see note 1(h)).

The Authority also incurred $2,813,366 of expenses related to the issuance of the 1991 Series Bonds which have been deferred and are being amortized over the life of the 1991 Series Bonds.

In 1998, the Authority issued $1,200,000 of Construction Bonds, 1998 Series, to fund the acquisition of the equipment and to pay other related costs, including debt issuance costs and to establish various funds required by the bond resolution.

The 1991 Series Bonds and the 1998 Series Bonds are payable solely from the revenues of the Authority and the funds pledged in accordance with the bond resolutions. The payments of principal and interest on the 1991 and 1998 Series Bonds have been insured under noncancelable policies by the Financial Guaranty Insurance Company (FGIC).

Scheduled principal maturities for each of the 1991 and 1998 Series Bonds are as follows for the years presented:

	1991 Series	1998 Series	Total
1999	$ 4,460,000	215,000	4,675,000
2000	4,750,000	230,000	4,980,000
2001	5,065,000	240,000	5,305,000
2002	5,400,000	250,000	5,650,000
2003	5,760,000	265,000	6,025,000
Thereafter	83,295,000	-	83,295,000
	$ 108,730,000	1,200,000	109,930,000

The 1991 Series Bonds scheduled to mature after January 1, 2001 will be redeemable at the option of the Authority, on or after January 1, 2001, as a whole at any time or in part on any interest payment date, at redemption prices expressed as percentages of the principal amount ranging from 100% to 102% depending on the redemption date, plus accrued interest at the redemption date.

(4) Funds and Special Deposits

The bond resolutions under which the 1985 Series, 1991 Series and 1998 Series Bonds were issued provide for the creation and maintenance of certain funds and accounts relative to the operations of the Project. The Authority also maintains other accounts for its All Requirements Approach operations (see note 5).

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Funds and accounts at December 31, are as follows:

	1998	1997
Project:		
Special deposits:		
Debt service fund, debt service reserve account	$ 12,101,925	12,108,946
Reserve and contingency fund:		
Renewal and replacement account	2,010,792	1,791,923
Contingency account	1,317,533	1,317,533
General revenue fund, project account	2,037,212	1,596,249
Total Project special deposits	17,467,462	16,814,651
Current assets:		
Operations and maintenance trust	1,030,750	1,060,147
Restricted - debt service fund, debt service account	7,941,386	7,775,547
Total Project current assets	8,972,136	8,835,694
Total Project funds and accounts	26,439,598	25,650,345
Other:		
Special deposits:		
Construction account	694,124	-
1998 debt service sinking fund	96,958	-
Total Other special deposits	791,082	-
Current assets:		
Other revenue fund	5,400,114	5,195,896
Contract operations account	1,914	(24,292)
Total Other current assets	5,402,028	5,171,604
Total Other funds and accounts	6,193,110	5,171,604
Total Project and Other funds and accounts	$ 32,632,708	30,821,949

(Continued)

Governmental auditing standards require that the carrying amounts of investments as of the balance sheet date be categorized according to the level of credit risk associated with the Authority's investments at the time.

The level of credit risk is defined as follows:

Category 1 - Insured (including governmental securities) or registered, or collateralized with its securities held by the Authority or its agent in the Authority's name.

Category 2 - Uninsured and unregistered, collateralized with securities held by the counterparty's trust department or agent in the Authority's name.

Category 3 - Uninsured and unregistered, or uncollateralized, including balances collateralized with securities held by the pledging financing institution but not in the Authority's name.

Investments classified as funds and accounts at December 31, 1998 and 1997 are as follows:

		1998	1997
Cash	$	1,914	(24,292)
Temporary cash investments, at amortized cost which approximates market - Mutual funds investing in U.S. Treasury obligations		20,624,482	18,832,908
Cash and cash equivalents		20,626,396	18,808,616
Federal National Mortgage Association obligation, at fair market at December 31, 1998 and 1997 at 8.25%, maturing December 18, 2000		12,006,312	12,013,333
	$	32,632,708	30,821,949

On December 31, 1998 and 1997, all funds and accounts are a Category 1 type.

The 1985, 1991 and 1998 Series bond resolutions authorize the Authority to invest in direct obligations of the United States Government.

Under state law, the bank balances of bank deposits and cash balances included in funds and accounts must be served by Federal deposit insurance or the pledge of securities owned by the fiscal agent. Cash on deposit is insured up to $100,000 by the Federal Deposit Insurance Corporation. At December 31, 1998 and 1997, the Authority did not have bank balances of bank deposits and cash balances which exceed $100,000.

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The retroactive application of the change in accounting policy for investments relating to GASB No. 31, as described in note 1(d), resulted in a decrease in the amounts previously reported as funds, accounts and equity as follows:

Equity, December 31, as previously stated	$	9,322,277
Adjustment for unrealized market gain on investments		786,689
Equity, December 31, after restatement	$	10,108,966

(5) Project Contracts and Commitments

(a) Rodemacher Power Sales Contracts

Under the Rodemacher Power Sales Contracts, the Authority sells and the Participants purchase their respective shares (entitlement shares) of the capacity and energy of the Project. These contracts require payments to be made on a take-or-pay basis, whether or not the Project is operable or operating.

Under existing law, the rates charged by the Participants to their customers are not subject to regulation by any federal or state authority. Each Participant is obligated to establish rates and charges sufficient to pay all of its obligations to the Authority. Payments to be made by the participants are payable monthly solely from the revenues of the Participants' utilities systems. At December 31, 1998, the Participants' respective shares of the capacity and energy of the Project are as follows:

	Entitlement Share (MW)	Percent Share (%)
Alexandria	55.26	52.83%
Houma	22.70	21.70%
Morgan City	20.72	19.81%
New Roads	2.96	2.83%
Jonesville	2.96	2.83%
	104.60	100.00%

(b) Transmission Contracts

The Authority has entered into separate transmission agreements with Entergy and CLECO, pursuant to which electric power and energy received by the Authority from the Project are transmitted to the points of delivery of the Participants. The costs of delivery are shared by all Participants on a pro-rata basis. The costs of delivery of electric power and energy received by the Authority from sources other than the Project are included in the demand rate charged to the All Requirements Members.

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(c) ***Coal Supply Contract***

The coal supply for the Project is purchased under a contract between Kerr-McGee Coal Corporation (Kerr-McGee), the Authority, CLECO and LPPA. The contract provides for the purchase of 34 million tons of coal to be delivered over a 20-year period at a price subject to escalation based upon certain actual costs compared with those used to negotiate the contract. Under terms of the contract, a minimum of 1.4 million tons of coal must be purchased each year. The Authority, CLECO and LPPA are liable and obligated individually for amounts due under the contract.

(d) ***Operating Costs***

Under the Joint Ownership Agreement, CLECO has the sole responsibility to operate, maintain and dispatch the Unit and related facilities in accordance with prudent utility practices. The Authority, CLECO and LPPA pay all operation and maintenance costs other than fuel, based upon their respective ownership percentages of the Unit.

(e) ***All Requirements Approach Operations Agreements***

The Authority supplies power to the All Requirements Members under the following contracts:

- The Authority has agreements which expire in the year 2000 with one of the Participants and in the year 2005 with two of the Participants, whereby the Authority purchases their entitlements in the Project. This agreement does not relieve the Participants of their obligations under the Rodemacher Power Sales Contracts discussed in note 5(a). Subsequent to December 31, 1998, the agreements expiring in the year 2000 were renewed and will now expire in the year 2005.

- The Authority has Capacity Purchase and Operating Agreements with three of the All Requirements Members whereby the Authority operates the members' generation facilities and purchases all of the energy produced. As of December 31, 1998, these agreements expire in 2000 for one of the members and in 2005 for the others. However, subsequent to December 31, 1998, the agreements expiring in the year 2000 were renewed and will now expire in the year 2005.

- The Authority has a Capacity Purchase Agreement with one All Requirements Member whereby the Authority controls 100% of its dependable capacity and directs power generation quantities to meet its power requirements. This agreement expires in the year 2005.

- The Authority entered into a Load Matching Servicing Agreement with one Participant whereby the Authority administers load matching services.

- The Authority entered into an Operating Agreement with one of its member cities whereby the Authority operates the member's generation facilities.

- The Authority entered into an agreement with the Southwestern Power Administration (SWPA), whereby the Authority purchases hydroelectric power which results from fixed power allocations of SWPA's available peaking capacity to certain member cities. The Authority then resells hydroelectric power to one member city and one nonmember city

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and retains the balance of the hydroelectric power for use under the All Requirements Approach. Purchases under this contract for the year ended December 31, 1998 were $1,262,304. Sales to the one member city and one nonmember city for the year ended December 31, 1998 were $1,263,678. Purchases and sales for the year ended December 31, 1997 were $1,211,205 and $1,069,194, respectively.

(6) Business Concentrations

During 1998 three customers each accounted for more than ten percent and in the aggregate, more than fifty percent, of the Authority's power sales. Following are the sales to each of these customers:

Customer 1	$ 15,779,000
Customer 2	8,270,000
Customer 3	8,088,000

(7) Other Matters

Members of the Board of Directors of the Authority received no compensation from the Authority for services rendered as directors during 1998 and 1997.

The Authority's employees are covered under the Municipal Employees' Retirement Plan of Louisiana (the plan). The plan is contributory and covers substantially all employees who work an average of 35 hours per week. Participant vesting begins after ten years of creditable service.

Information regarding the Authority's proportionate interest in the net assets available for benefits and the actuarial present value of accumulated plan benefits is not available. Pension expense under the plan is not significant.

Title IV of the Clean Air Act Amendments of 1990 (the Act) establishes a regulatory program to address the effects of acid rain. The Act will result in more stringent restrictions on sulfur-dioxide emissions from solid-fuel generating stations. The Act essentially requires each ton of sulfur-dioxide emissions to be authorized by the possession of an "allowance."

The Authority's existing solid-fuel generating station burns low-sulfur coal and utilizes pollution control equipment to reduce sulfur emissions. The Unit is not affected by Phase I of Title IV of the Act which became effective in 1995. The Authority believes that the limits on sulfur-dioxide emissions required by Phase II of Title IV of the Act, effective in the year 2000, will not significantly impact the Authority's operations or the operation of its Unit.

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(8) Disclosures About Fair Value of Financial Instruments

The following estimated fair value amounts have been determined, using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Authority could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

		Carrying amount	Fair value
Assets:			
Special deposits	$	18,258,554	18,258,544
Funds		14,374,164	14,374,164
Accounts receivable		3,033,738	3,033,738
Interest receivable		152,880	152,880
Liabilities:			
Long-term debt		105,204,050	115,674,864
Accounts payable		3,836,162	3,836,162
Due to participants		570,957	570,957
Accrued interest payable		3,476,570	3,476,570
Other liabilities		1,965,088	1,965,088

Funds, accounts receivable, interest receivable, accounts payable, due to participants, accrued interest payable and other liabilities - The carrying amounts of these items are a reasonable estimate of their fair value.

Special deposits - Fair value is estimated from quoted market prices of investments held on deposit.

Long-term debt - Interest rates that are currently available to the Authority for issuance of debt with similar terms and remaining maturities are used to estimate fair value.

(9) Year 2000 (Unaudited Required Supplementary Information)

In June 1997, LEPA initiated its Year 2000 (Y2K) process. Since then LEPA has reviewed their mission critical functions for compliance which led to the replacement of both the Energy Management System located in the Energy Control Center and the current accounting software in the Accounting Department. These replacement projects are scheduled for completion by June 30, 1999 with an estimated total cost of $1,300,000. Other mission critical devices do not appear susceptible to the misinterpretation of date functions. Suppliers of mission critical services have been queried. The suppliers' responses indicate their own internal Y2K processes have been initiated. Nothing has come to the Authority's attention that would preempt the suppliers' ability to continue to provide services beyond December 31, 1999.

Schedule 2

LOUISIANA ENERGY AND POWER AUTHORITY

Balance Sheet Components

December 31, 1998

Assets	Project related	Other	Eliminations	Combined
Utility plant, net	$ 57,647,777	-	-	57,647,777
Central dispatch facility	-	529,497	-	529,497
Non-utility property, net	-	1,094,347	-	1,094,347
Special deposits	17,467,462	791,082	-	18,258,544
Current assets:				
Funds	8,972,136	5,402,028	-	14,374,164
Accounts receivable	-	3,320,536	(286,798)	3,033,738
Interest receivable	128,408	24,472	-	152,880
Coal inventory	1,775,528	15,303	-	1,790,831
Prepaid expenses	-	88,972	-	88,972
Total current assets	10,876,072	8,851,311	(286,798)	19,440,585
Deferred charges:				
Debt expense	2,848,815	-	-	2,848,815
Preoperating costs	472,110	-	-	472,110
Unamortized loss on reacquired debt	25,604,265	-	-	25,604,265
Total deferred charges	28,925,190	-	-	28,925,190
	$ 114,916,501	11,266,237	(286,798)	125,895,940
Capitalization and Liabilities				
Capitalization:				
Long-term debt	99,544,050	985,000	-	100,529,050
Equity	4,070,696	6,772,417	-	10,843,113
Total capitalization	103,614,746	7,757,417	-	111,372,163
Current liabilities:				
Current maturities of long-term debt	4,460,000	215,000	-	4,675,000
Accounts payable	829,141	3,293,819	(286,798)	3,836,162
Due to participants	570,957	-	-	570,957
Accrued interest payable	3,476,570	-	-	3,476,570
Other	1,965,088	-	-	1,965,088
Total current liabilities	11,301,756	3,508,819	(286,798)	14,523,777
	$ 114,916,502	11,266,236	(286,798)	125,895,940

See accompanying independent auditors' report.

LOUISIANA ENERGY AND POWER AUTHORITY

Components of Revenues, Expenses and Equity

Year ended December 31, 1998

		Project related	Other	Eliminations	Combined
Power sales	$	27,492,122	36,109,795	(6,704,800)	56,897,117
Operating expenses:					
Cost of power produced		14,390,450	6,365,431	-	20,755,881
Power purchased		-	26,574,490	(6,704,800)	19,869,690
Transmission costs		1,783,935	2,446,133	-	4,230,068
General and administrative		-	2,179,900	-	2,179,900
Depreciation and amortization		4,460,000	-	-	4,460,000
Charge-off of deferred costs		-	-	-	-
Total operating expenses		20,634,385	37,565,954	(6,704,800)	51,495,539
Net operating revenues (expenses)		6,857,737	(1,456,159)	-	5,401,578
Other expenses (revenues):					
Interest expense		6,953,140	26,157	-	6,979,297
Investment income:					
Interest and dividends		(1,379,849)	(265,153)	-	(1,645,002)
Net decrease in fair value		14,408	-	-	14,408
Investment income		(1,365,441)	(265,153)	-	(1,630,594)
Other, net		1,259,640	(1,544,143)	-	(284,503)
Total other expenses (revenues)		6,847,339	(1,783,139)	-	5,064,200
Net revenues		10,398	326,980	-	337,378
Equity, beginning of year		4,060,298	6,445,437	-	10,505,735
Equity, end of year	$	4,070,696	6,772,417	-	10,843,113

See accompanying independent auditors' report.

Schedule 4

LOUISIANA ENERGY AND POWER AUTHORITY

All Requirements Approach Revenues, Expenses
and Capital Expenditures
Budget to Actual Comparison

Year ended December 31, 1998

	Budget	Actual	Percent of actual to budget
Power sales:			
Energy	$ 15,587,030	18,055,636	115.8%
Demand	13,151,803	13,888,531	105.6%
Hydropower	1,162,153	1,263,578	108.7%
Other	554,981	2,902,050	522.9%
	30,455,967	36,109,795	118.6%
Operating expenses:			
Power produced:			
Fuels	3,553,324	2,858,942	80.5%
Electric plant expenses	1,181,304	1,364,957	115.5%
Maintenance of electric plant	399,722	1,328,472	332.3%
Supervision and engineering	258,461	273,143	105.7%
Steam power	558,975	539,917	96.6%
	5,951,786	6,365,431	106.9%
Power purchased:			
Energy costs	12,033,706	17,491,265	145.4%
Hydropower	1,162,153	1,254,136	107.9%
Other	7,932,158	7,829,089	98.7%
	21,128,017	26,574,490	125.8%
Transmission - System	2,428,060	2,446,133	100.7%
General and administrative:			
Load dispatching	731,615	691,478	94.5%
Outside services	288,500	389,225	134.9%
Salaries	563,009	560,261	99.5%
Employee pensions and benefits	155,494	140,063	90.1%
Miscellaneous	110,793	123,722	111.7%
Injuries and damages	31,231	30,953	99.1%
Office supplies and expenses	129,943	131,209	101.0%
General public relations	104,500	100,414	96.1%
Property insurance	15,016	12,575	83.7%
	2,130,101	2,179,900	102.3%
Total operating expenses	31,637,964	37,565,954	118.7%
Other expenses (revenues):			
Interest income	(190,000)	(265,153)	139.6%
Other net:			
Non-utility operations revenue	(51,576)	(284,503)	551.6%
Other additions	(1,259,640)	(1,259,640)	100.0%
Contingency	19,218	-	0.0%
Total other revenue	(1,481,998)	(1,809,296)	122.1%
Operating expenses, net of other revenues	30,155,966	35,756,658	118.6%
Capital expenditures	-	1,774	0.0%
Debt service	-	122,590	0.0%
Excess revenues	$ 300,001	228,773	76.3%

See accompanying independent auditors' report.

LOUISIANA ENERGY AND POWER AUTHORITY

Analysis of Equity

December 31, 1998

		Project related	Other	Combined
Funds used in the defeasance of the 1982 and 1985 Series Bonds	$	2,099,138	-	2,099,138
Ten percent debt service coverage, as required by the Bond Resolution		537,716	-	537,716
Funds generated by the one mill assessment, dedicated to the *construction of the Central* Dispatch Facility and payment of the related Certificates of Indebtedness		-	1,111,073	1,111,073
Interest earned on funds dedicated to the construction of the Central Dispatch Facility and payment of the related Certificates of Indebtedness		-	334,205	334,205
Capital expenditures		587,646	330,046	917,692
Interest earned on other funds and accounts not related to the Project		-	561,996	561,996
Miscellaneous power sales		19,528	-	19,528
Excess funding from Escrow account		130,856	-	130,856
Unrealized gain on securities		695,812	-	695,812
Excess of revenues over expenses under the All Requirements Approach Operations		-	4,435,097	4,435,097
Equity, end of year	$	4,070,696	6,772,417	10,843,113

See accompanying independent auditors' report.

KPMG

LOUISIANA ENERGY AND POWER AUTHORITY

Independent Auditors' Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

December 31, 1998

Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Louisiana Energy and Power Authority:

We have audited the financial statements of Louisiana Energy and Power Authority (the Authority) as of and for the year ended December 31, 1998, and have issued our report thereon dated March 31, 1999, which included an explanatory paragraph that described the change in the Authority's method of accounting for investments to adopt the provision of Governmental Accounting Standards Board No. 31, *Accounting for Financial for Certain Investments and for External Investment Pools.* We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management, and the Louisiana Legislative Auditor and is not intended to be, and should not be used by anyone other than these specified parties.

KPMG LLP

March 31, 1999

KPMG

LOUISIANA ENERGY AND POWER AUTHORITY

Independent Auditors' Report on Compliance with the Rodemacher Unit No. 2 Power Project Revenue Bond Resolution

December 31, 1998

KPMG

Suite 3500 One Shell Square
New Orleans, LA 70139-3599

Independent Auditors' Report

The Board of Directors
Louisiana Energy and Power Authority:

We have audited, in accordance with generally accepted auditing standards, the balance sheet of Louisiana Energy and Power Authority (the Authority) as of December 31, 1998, and the related statements of revenues, expenses and equity and cash flows for the year then ended, and have issued our report thereon dated March 31, 1999, which included an explanatory paragraph that described the change in the Authority's method of accounting for investments to adopt the provision of Governmental Accounting Standards Board No. 31, *Accounting for Financial for Certain Investments and for External Investment Pools.*

In connection with our audit, nothing came to our attention that caused us to believe that the Authority failed to comply with all of the terms, covenants, provisions or conditions which would constitute an Event of Default as described in Article VIII of the Rodemacher Unit No. 2 Power Project Revenue Bond Resolution, adopted September 16, 1982, as amended by the First, Second and Third Supplemental Rodemacher Unit No. 2 Power Project Revenue Bond Resolutions, adopted December 3, 1982, September 19, 1985 and November 30, 1985, respectively, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Board of Directors and management of Louisiana Energy and Power Authority and is not intended to be, and should not be, used for any other purpose.

KPMG LLP

March 31, 1999

KPMG

Suite 3500 One Shell Square
New Orleans, LA 70139-3599

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March 31, 1999

The Board of Directors
Louisiana Energy and Power Authority

Dear Members:

We have audited the financial statements of Louisiana Energy and Power Authority (the Authority) as of and for the year ended December 31, 1998, and have issued our report thereon dated March 31, 1999. Under generally accepted auditing standards, we are providing you with the attached information related to the conduct of our audit.

This information is intended solely for the information and use of the Board of Directors and management and is not intended to be, and should not be, used for any other purpose.

Very truly yours,

KPMG LLP

REPORT BY KPMG LLP
TO THE BOARD OF DIRECTORS OF
LOUISIANA ENERGY AND POWER AUTHORITY

Our Responsibility Under Generally Accepted Auditing Standards

We have a responsibility to conduct our audit in accordance with generally accepted auditing standards. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected.

In addition, in planning and performing our audit, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control.

Furthermore, our audit was not designed to, and does not, provide any assurance that a Year 2000 issue which may exist will be identified, or the adequacy of the Authority's rededication plans related to Year 2000 financial or operational issues, or on whether the Authority is or will become Year 2000 compliant on a timely basis. Year 2000 compliance is the responsibility of management.

Significant Accounting Policies

The significant accounting policies used by the Authority are described in the "Organization and Significant Accounting Policies" note to the financial statements.

As described in Note 1, the Authority changed accounting polices related to accounting for investment by adopting Governmental Accounting Standards Board Statement No. 31, *Accounting on Financial Reporting for Internal and External Investment Pools,* on January 1, 1998.

Management Judgments and Accounting Estimates and Significant Audit Adjustments

Accounting estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

We evaluated the key factors and assumptions used by management to develop their estimates in determining that the estimates were reasonable in relation to the financial statements of Louisiana Energy and Power Authority taken as a whole.

Significant Audit Adjustments

We proposed an adjustment relating to the valuation of investments based upon the implementation of GASB Statement No. 31, *Accounting for Financial Reporting for Certain Investment and External Investment Pools*. This statement establishes fair value standards for certain investments. A restatement of the equity was made for $786,689.

Disagreements With Management

There were no disagreements with management on financial accounting and reporting matters which, if not satisfactorily resolved, would have caused a modification of our report on the Authority's 1998 financial statements.

Consultation With Other Accountants

To the best of our knowledge, management has not consulted with or obtained an opinion, written or oral, from other independent accountants during the past year which were subject to the requirements of Statement on Auditing Standards No. 50, "*Reporting on the Application of Accounting Principles.*"

Major Issues Discussed With Management Prior to Retention

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.