FORM 424B3

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SYSTEM ENERGY RESOURCES INC
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PROSPECTUS SUPPLEMENT
(To Prospectus dated December 28, 1993)

$435,102,000

$356,056,000 Secured Lease Obligation Bonds, 7.43% Series due 2011
$79,046,000 Secured Lease Obligation Bonds, 8.20% Series due 2014

Interest Payable July 15 and January 15

The Secured Lease Obligation Bonds, 7.43% Series due 2011 and 8.20% Series due 2014 (the "Bonds") will be indirectly secured, as described in the accompanying Prospectus, by liens on, and a security interest in, certain ownership interests in and the respective Leases relating to Unit No. 1 of the Grand Gulf Steam Electric Generating Station (nuclear) ("Grand Gulf 1"), and will be payable solely from basic rentals and certain other amounts to be paid under such leases by

System Energy Resources, Inc.

The Bonds will be issued by GG1B Funding Corporation ("Funding Corporation"), a corporation created for the sole purpose of the refinancing of the financing of Grand Gulf 1 as described in the accompanying Prospectus. System Energy Resources, Inc. (the "Company" or "System Energy") will be unconditionally obligated to make rental payments in amounts which will be at least sufficient to pay in full, when due, all scheduled payments of principal of, and premium, if any, and interest on, the Bonds, although the Bonds will not be direct obligations of, or guaranteed by, the Company.

The principal of the Bonds will be payable from time to time in installments. The Bonds will be redeemable, in whole or in part, on not less than 20 days' notice, either upon certain terminations of the Leases, or on or after January 15, 2004 at the option of Funding Corporation at the redemption prices set forth herein, in each case together with accrued interest to the date fixed for redemption. (See "Description of the Bonds and the Indenture" in the accompanying Prospectus.)

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES

AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS SUPPLEMENT OR THE PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

<TABLE>
<CAPTION>

	Price to Public (1)	Underwriting Commissions (2)(3)	Proceeds (1)(3)
<S>	<C>	<C>	<C>
Per Series 2011 Bonds.....	100%	.750%	100%
Total.....	$356,056,000	$2,670,420	$356,056,000
Per Series 2014 Bonds.....	100%	.875%	100%
Total.....	$79,046,000	$691,652	$79,046,000

</TABLE>

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(1) Plus accrued interest, if any, from the date of issuance.

(2) The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended.

(3) Expenses, estimated to be $690,000, will be paid by the Company.

The Bonds are offered by the Underwriters named below subject to prior sale, when, as and if accepted by the Underwriters, and subject to approval of certain legal matters by Winthrop, Stimson, Putnam & Roberts, counsel for the Underwriters, and certain other conditions. It is expected that delivery of the Bonds will be made on or about January 18, 1994 at the office of Morgan Stanley & Co. Incorporated, New York, N.Y., against payment therefor in New York funds.

MORGAN STANLEY & CO.
Incorporated

BEAR, STEARNS & CO. INC.

GOLDMAN, SACHS & CO.

January 11, 1994

SELECTED INFORMATION

The following material, which is presented herein solely to furnish limited introductory information regarding the Bonds, is qualified in its entirety by reference to the detailed information included or incorporated by reference in the Prospectus Supplement and in the accompanying Prospectus. Capitalized terms used in this Prospectus Supplement and in the accompanying Prospectus without definition are defined in the Glossary at the end of the accompanying

Prospectus.

SECURITIES OFFERED.....	$435,102,000 principal amount of Secured Lease Obligation Bonds, of which: $356,056,000 bear interest at the rate of 7.43% per annum and mature on January 15, 2011 ("Series 2011 Bonds"); and $79,046,000 bear interest at the rate of 8.20% per annum and mature on January 15, 2014 ("Series 2014 Bonds"). The Series 2011 Bonds and the Series 2014 Bonds are herein collectively referred to as the "Bonds."
INTEREST PAYMENT DATES.....	January 15 and July 15, commencing July 15, 1994.
PRINCIPAL INSTALLMENT PAYMENTS.....	The Supplemental Indenture relating to the Bonds (Supplemental Indenture) provides for the payment of principal installments on the Bonds on each of the Installment Payment Dates set forth below, in an aggregate amount (subject to adjustment in certain circumstances) equal to the Installment Payment Amounts set forth below, together with interest accrued to such Installment Payment Date. The Outstanding Balance Factor set forth below for each Installment Payment Date is for descriptive purposes only, and, unless there has been a partial redemption or a default or other installment payment adjustment, represents a factor that when multiplied by the original principal amount of each Series 2011 Bond and Series 2014 Bond will indicate the outstanding principal amount of such Bond remaining unpaid after payment of the principal installment due on such Installment Payment Date.

<TABLE>
<CAPTION>

AGGREGATE INSTALLMENT PAYMENT AMOUNT	OUTSTANDING BALANCE FACTOR

INSTALLMENT PAYMENT DATE	SERIES 2011 BONDS	SERIES 2014 BONDS	SERIES 2011 BONDS	SERIES 2014 BONDS
<S>	<C>	<C>	<C>	<C>
July 15, 1995	5,225,284		0.9853245	
July 15, 1996	10,204,068		0.9566659	
July 15, 1997	10,962,231		0.9258780	
January 15, 1998	9,797,200		0.8983621	
July 15, 1998	2,343,491		0.8917803	
January 15, 1999	10,553,218		0.8621411	
July 15, 1999	2,517,612		0.8550703	
January 15, 2000	11,510,561		0.8227423	
July 15, 2000	2,153,434		0.8166943	
January 15, 2001	19,437,598		0.7621029	
January 15, 2002	28,232,361		0.6828110	
January 15, 2003	24,903,663		0.6128679	
January 15, 2004	12,504,594		0.5777481	
January 15, 2005	28,789,957		0.4968902	
January 15, 2006	22,988,553		0.4323257	
January 15, 2007	23,335,332		0.3667874	
January 15, 2008	26,701,473		0.2917950	
January 15, 2009	28,440,279		0.2119192	
January 15, 2010	41,714,749		0.0947613	
January 15, 2011	33,740,342		0.0000000	
January 15, 2012		8,345,484		0.8944224
January 15, 2013		30,583,900		0.5075098
January 15, 2014		40,116,616		0.0000000

</TABLE>

(See "Certain Terms of the Bonds--Principal Installment Payments" in this Prospectus Supplement.)

REDEMPTION..... The Bonds are subject to redemption upon certain Lease terminations and to optional redemption prior to their respective stated maturity dates. (See "Certain Terms of the Bonds--Redemption" in this Prospectus Supplement.)

SECURITY AND SOURCE OF PAYMENT..... The Bonds will be indirectly secured, as described in the accompanying Prospectus, by liens on, and a security interest in, certain ownership interests in and the respective Leases relating to Grand Gulf 1, and will be payable solely from basic rentals and certain other amounts to be paid under such leases by the Company. The Company is unconditionally obligated to make payments under the Leases in

amounts that will be at least sufficient to provide for scheduled payments of the principal of and interest on the Pledged Lessor Notes which amounts, in turn, will be sufficient to provide for scheduled payments of principal of and interest on the Bonds when due. However, neither the Bonds nor the Pledged Lessor Notes will be direct obligations of, or guaranteed by, the Company. The holders of the Bonds will have no recourse against the general

credit of any of the institutions or individuals acting as Lessors or the general credit of the Owner Participants. (See "Security and Source of Payment for the Bonds" in the accompanying Prospectus.)

GRAND GULF 1..... Grand Gulf 1 is a 1,250 megawatt nuclear-fueled electric generating unit located in Claiborne County, Mississippi that was placed in commercial operation in 1985. SMEPA (as defined in the accompanying Prospectus) has a 10% undivided ownership interest in Grand Gulf 1. Unit 1 (as defined in the accompanying Prospectus) excludes certain transmission, pollution control and other facilities included in Grand Gulf 1.

THE REFINANCING..... The Company has determined, in light of prevailing economic and financial circumstances, to cause a refinancing of the Old Pledged Lessor Notes issued in connection with the Transactions and currently outstanding (the "Refinancing"). In addition to the offering of the Bonds described herein, as part of the Refinancing, Old Funding Corporation will redeem all of the outstanding Old Bonds. (See "The Refinancing" in the accompanying Prospectus.)

THE COMPANY

Reference is made to the information under the heading "The Company" in the accompanying Prospectus. On December 31, 1993, Entergy Corporation consummated a business combination with Gulf States Utilities Company ("Gulf States"). Effective with the consummation of these transactions, Entergy Corporation is a

Delaware rather than a Florida corporation, and Gulf States is a subsidiary of Entergy Corporation. Entergy Corporation continues to own all of the common stock of the Company and of the other subsidiaries named in the accompanying Prospectus. For further information on these transactions, reference is made to Entergy Corporation's Current Report on Form 8-K, dated December 31, 1993, filed with the Commission.

CERTAIN TERMS OF THE BONDS

The following description of certain terms of the Bonds offered hereby supplements, and should be read together with, the statements under "Description of the Bonds and the Indenture" in the accompanying Prospectus. Capitalized terms used in this Prospectus Supplement have the same meanings as in the accompanying Prospectus.

PRINCIPAL AMOUNTS, INTEREST RATES, STATED MATURITIES AND PAYMENT

The Bonds will be issued in two separate series: $356,056,000 principal amount of Secured Lease Obligation Bonds, 7.43% Series due 2011 (hereinafter sometimes called the "Series 2011 Bonds") and $79,046,000 principal amount of Secured Lease Obligation Bonds, 8.20% Series due 2014 (hereinafter sometimes called the "Series 2014 Bonds"). The Series 2011 Bonds and the Series 2014 Bonds are hereinafter sometimes referred to, collectively, as the "Bonds".

The Series 2011 Bonds will mature January 15, 2011 and the Series 2014 Bonds will mature January 15, 2014. The Bonds of each series will bear interest on the unpaid principal amount thereof from their date of issuance at the rate per annum shown in its title, payable on January 15 and July 15 of each year, commencing July 15, 1994, to the registered owners thereof at the close of business on January 1 or July 1, as the case may be, next preceding such interest payment date. (Indenture, Sections 2.03 and 2.10, Supplemental Indenture and form of Bond)

The principal of and premium, if any, and interest on the Bonds will be payable upon presentation and surrender thereof at the corporate trust office of Bankers Trust Company, registrar and paying agent, in New York, New York, except that payment of interest and installment payments of principal (other than that payable upon stated maturity) shall be made by check mailed to the address of the person entitled thereto, as shown in the bond register. Since the principal of each Bond will be subject to payment from time to time without surrender of, or notation on, the Bond, the unpaid principal amount of each Bond as reflected in the securities register maintained by the Trustee shall be controlling and binding on each Holder with respect to the actual unpaid principal amount of a Bond as of any date. In any case where any redemption date, any Installment Payment Date or the stated maturity of principal of or any installment of interest on any Bond, or any date on which any defaulted interest or principal is proposed to be paid, is not a business day, then (notwithstanding any other provision of the Indenture or such Bond) payment of interest and/or principal and premium, if any, shall be due and payable on the next succeeding business day with the same force and effect as if made on or at such nominal redemption date, the stated maturity, Installment Payment Date or date on which the defaulted interest or principal is proposed to be paid, and

no interest will accrue on the amount so payable for the period from and after such redemption date, stated maturity, Installment Payment Date or date for the payment of defaulted interest or principal, as the case may be. (Indenture, Sections 1.13, 2.03 and 2.10, and form of Bond)

PRINCIPAL INSTALLMENT PAYMENTS

On each Installment Payment Date (set forth below), the Funding Corporation will pay an installment of principal of each Bond of each series equal (subject to adjustment as described below) in amount (an "Installment Payment Amount") to the Installment Payment Percentage (set forth below) for the Bonds of such series for such Installment Payment Date multiplied by the original principal amount of such Bond.

<TABLE>
<CAPTION>

	INSTALLMENT PAYMENT PERCENTAGE	
INSTALLMENT PAYMENT DATE	SERIES 2011 BONDS	SERIES 2014 BONDS
<S>	<C>	<C>
July 15, 1995	1.4675456%	
July 15, 1996	2.8658604	
July 15, 1997	3.0787941	
January 15, 1998	2.7515896	
July 15, 1998	0.6581805	
January 15, 1999	2.9639208	
July 15, 1999	0.7070832	
January 15, 2000	3.2327951	
July 15, 2000	0.6048021	
January 15, 2001	5.4591407	
January 15, 2002	7.9291912	
January 15, 2003	6.9943107	
January 15, 2004	3.5119740	
January 15, 2005	8.0857947	
January 15, 2006	6.4564431	
January 15, 2007	6.5538376	
January 15, 2008	7.4992341	
January 15, 2009	7.9875859	
January 15, 2010	11.7157832	
January 15, 2011	9.4761335	
January 15, 2012		10.5577562%
January 15, 2013		38.6912684
January 15, 2014		50.7509754

</TABLE>

Upon the occurrence of certain changes in Federal income tax rates or laws, the Company or the Owner Participant may cause the respective principal amount of Series 2011 Bonds and Series 2014 Bonds which are to be paid in installments

on the Installment Payment Date to be adjusted to match any adjustment made to the principal amortization schedules of the Pledged Lessor Notes in connection with a recalculation of basic rent under one or more of the Leases, provided that such adjustments shall not increase or decrease the average life of the Bonds of either such series (calculated in accordance with generally accepted financial practice) by more than 6 months. The Trustee shall send by mail to each Holder of affected Bonds at least 20 days before the first Installment Payment Date with respect to which an adjustment is to be made, a revised schedule of principal amounts of Bonds to be repaid upon payment of applicable Installment Payment Amounts on Installment Payment Dates. (Supplemental Indenture)

In the event that there shall have been any partial redemption of the Bonds of either series (other than pursuant to principal installment payments), each Installment Payment Amount for each Bond of a series subsequent to such redemption shall be reduced by (i) in the case of a partial redemption as described under "Redemption--Other Redemption", an amount equal to the amount obtained by multiplying such Installment Payment Amount as in effect prior to such redemption by a fraction of which the numerator shall be the aggregate principal amount of Bonds of such series redeemed pursuant to such partial redemption, and the denominator shall be the aggregate unpaid principal amount of Bonds of such series Outstanding immediately prior to such redemption and (ii) in the case of a partial redemption as described under "Redemption--Redemption upon Lease Termination", an amount such that the aggregate of all principal installment payments to be made on the Bonds of such series on the relevant Installment Payment Date shall be equal to the amount of principal of the Pledged Lessor Notes to be paid on such date under the remaining Lease Indenture, any such reduction to be made on a prorata basis, as nearly as practicable, among the Holders of the Bonds of such series.

REDEMPTION

Redemption upon Lease Termination

If any Lease is to be terminated as described in the accompanying Prospectus in "Description of the Leases--Purchase Option for Significant Expenditures", - -- "Periodic Purchase Option" or -- "Termination for Obsolescence" or in "Other Agreements--Participation Agreement", and all Lessor Notes issued under the related Lease Indenture are to be prepaid, Bonds, equal in principal amount to the Pledged Lessor Notes issued under such Lease Indenture, will be redeemed on the date on which such Lessor Notes are to be prepaid, at a redemption price equal to the unpaid principal amount thereof plus accrued interest to the redemption date, all subject, however, except in the case of a termination for obsolescence, to the right of the Company to assume such Lessor Notes in which event there will be no redemption of Bonds as a consequence of such termination.

Other Redemption

Except as described in "Redemption upon Lease Termination" and "Principal Installment Payments", the Bonds shall not be subject to prepayment or redemption prior to January 15, 2004. On and after January 15, 2004, the Bonds of each series will be subject to redemption, at the option of the Funding Corporation in whole at any time or in part from time to time at the Redemption Prices (expressed as a percentage of unpaid principal amount) set forth below with respect to each series plus accrued interest to the redemption date:

SERIES 2011 BONDS

<TABLE>
<CAPTION>

IF REDEEMED IN THE 12 MONTH PERIOD BEGINNING JANUARY 15	REDEMPTION PRICE
<S>	<C>
2004	102.477%
2005	101.981
2006	101.486
2007	100.991
2008	100.495

</TABLE>

and thereafter at 100% of the unpaid principal amount thereof. (Indenture Article Six, Supplemental Indenture and form of Bond)

SERIES 2014 BONDS

<TABLE>
<CAPTION>

IF REDEEMED IN THE 12 MONTH PERIOD BEGINNING JANUARY 15	REDEMPTION PRICE
<S>	<C>
2004	104.100%
2005	103.690
2006	103.280
2007	102.870
2008	102.460
2009	102.050
2010	101.640
2011	101.230
2012	100.820
2013	100.410

</TABLE>

(Indenture Article Six, Supplemental Indenture and form of Bond)

Procedure for and Notice of Redemption

If less than all of the Bonds shall be called for redemption, the particular Bonds or portions thereof to be redeemed shall be selected by the Trustee from the series and in the principal amount designated by Funding Corporation except as otherwise required by the Indenture by prorating, as nearly as practicable, the principal amount of such Bonds to be redeemed among the Holders of such Bonds. Any Bonds and portions of Bonds selected for redemption which are deemed to be paid in accordance with the provisions of the Indenture will cease to bear interest on the specified redemption date. Upon presentation and surrender of such Bonds at the place or places of payment, such Bonds shall be paid and redeemed. Notice of redemption shall be given by mail not less than 20 nor more than 60 days prior to the date fixed for redemption to the Holders of Bonds to be redeemed; provided, however, that failure duly to give such notice by mail, or any defect therein, shall not affect the validity of any proceedings for the redemption of Bonds as to which there shall have been no such failure or defect. If a notice of a redemption shall be unconditional, or if the conditions of a conditional notice of redemption shall have been satisfied, then upon presentation and surrender of Bonds so called for redemption at the place or places of payment such Bonds shall be redeemed.

With respect to notice of any redemption of the Bonds, unless, upon the giving of such notice, such Bonds are deemed to have been paid under the Indenture as described in the accompanying Prospectus under "Description of the Bonds and the Indenture--Defeasance", such notice will state that such redemption will be conditional upon the receipt by the Trustee at or prior to the date fixed for such redemption of money sufficient to pay the principal of and premium, if any, and interest on such Bonds. If such money is not so received, such notice will be of no force and effect, Funding Corporation will not redeem such Bonds and the Trustee will give notice, in the manner in which the notice of redemption was given, that such money was not so received, and such redemption is not required to be made. (Indenture, Article Six)

USE OF PROCEEDS

Proceeds from the issuance of the Bonds will be used to make loans to the Lessors, to be evidenced by the Pledged Lessor Notes, in amounts sufficient, together with amounts made available to the Lessors by the Company as basic and supplemental rent under the related Leases, to enable the Lessors to prepay the outstanding Old Pledged Lessor Notes from Old Funding Corporation and to pay certain costs and expenses incurred in connection with the Refinancing. Such funds will be used by Old Funding Corporation to redeem the Old Bonds as described in the accompanying Prospectus. (See "Use of Proceeds" in the accompanying Prospectus.)

PROSPECTUS

$435,102,000

Secured Lease Obligation Bonds

The Secured Lease Obligation Bonds (the "Bonds") will be issued at one time or from time to time, in one or more new series, at prices and on terms to be determined at the time of sale. The Bonds will be indirectly secured, as described herein, by liens on, and security interests in, certain ownership interests in and the respective Leases relating to Unit No. 1 of the Grand Gulf Steam Electric Generating Station (nuclear) ("Grand Gulf 1"), and will be payable solely from basic rentals and certain other amounts to be paid under such Leases by

System Energy Resources, Inc.

The Bonds will be issued by GG1B Funding Corporation ("Funding Corporation"), a corporation created for the sole purpose of the refinancing described herein. System Energy Resources, Inc. (the "Company" or "System Energy") will be unconditionally obligated to make rental payments in amounts which will be at least sufficient to pay in full, when due, all scheduled payments of principal of, and premium, if any, and interest on, the Bonds, although the Bonds will not be direct obligations of, or guaranteed by, the Company. This Prospectus will be supplemented by a prospectus supplement (the "Prospectus Supplement") which will set forth, as applicable, the designation, the aggregate principal amount, rate and time of payment of interest, maturity, purchase price, initial public offering price, if any, any redemption or installment payment provisions and other specific terms of each series of the Bonds in respect of which this Prospectus is being delivered.

The Bonds will be secured by a pledge and assignment of certain nonrecourse Lessor Notes ("Pledged Lessor Notes") issued by one or more of the Lessors under the Lease Indentures described herein. Each Pledged Lessor Note will be secured by a lien on and security interest in the undivided ownership interest in Grand Gulf 1 of the Lessor which has issued such Pledged Lessor Notes and certain of the rights of such Lessor under its Lease with the Company, including the right to receive the basic rentals and certain other amounts payable by the Company thereunder. (See "Security and Source of Payment for the Bonds," "Description of the Bonds and the Indenture," "Description of the Lease Indentures" and "Description of the Leases.")

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The Bonds will be sold through an underwriting syndicate including Morgan Stanley & Co. Incorporated. The net proceeds from the sale of the Bonds, and any applicable commissions or discounts, are set forth in the applicable Prospectus Supplement.

December 28, 1993

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SECURITIES OFFERED HEREBY OR ANY OTHER SECURITIES OF THE COMPANY AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

AVAILABLE INFORMATION

System Energy is subject to the informational requirements of the Exchange Act, and in accordance therewith files reports and other information with the SEC. Such reports include information, as of particular dates, concerning the Company's directors and officers, their remuneration, the principal holders of the Company's securities and any material interest of such persons in transactions with the Company. Such reports and other information can be inspected and copied at the public reference facilities maintained by the SEC at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549; 500 West Madison Street, Suite 1400, Chicago, Illinois 60661; and Seven World Trade Center, 13th Floor, New York, New York 10048. Copies of this material can also be obtained at prescribed rates from the Public Reference Branch of the SEC at its principal office at 450 Fifth Street, N.W., Washington, D.C. 20549.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents filed with the SEC pursuant to the Exchange Act are incorporated in this Prospectus by reference:

1. The Company's Annual Report on Form 10-K for the year ended December 31, 1992.

2. The Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 1993, June 30, 1993 and September 30, 1993.

3. The Company's Current Report on Form 8-K dated April 21, 1993.

In addition, all documents subsequently filed by the Company with the SEC pursuant to Section 13, 14 or 15(d) of the Exchange Act prior to the termination of this offering shall be deemed to be incorporated by reference in this Prospectus and to be a part hereof from the date of filing of such documents (such documents, and the documents enumerated above, being herein referred to as "Incorporated Documents," provided, however, that the documents enumerated above or subsequently filed by the Company pursuant to Section 13, 14 or 15(d) of the Exchange Act prior to the filing of the Company's most recent Annual Report on Form 10-K with the SEC shall not be Incorporated Documents or be incorporated by reference in this Prospectus or be a part hereof from and after any such filing of an Annual Report on Form 10-K).

Any statement contained herein or in an Incorporated Document shall be deemed

to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any other subsequently filed Incorporated Document or in an accompanying Prospectus Supplement modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

THE COMPANY HEREBY UNDERTAKES TO PROVIDE WITHOUT CHARGE TO EACH PERSON, INCLUDING ANY BENEFICIAL OWNER, TO WHOM A COPY OF THIS PROSPECTUS HAS BEEN DELIVERED, ON THE WRITTEN OR ORAL REQUEST OF ANY SUCH PERSON, A COPY OF ANY OR ALL OF THE INCORPORATED DOCUMENTS, OTHER THAN EXHIBITS TO SUCH DOCUMENTS, UNLESS SUCH EXHIBITS ARE SPECIFICALLY INCORPORATED BY REFERENCE HEREIN. REQUESTS FOR SUCH COPIES SHOULD BE DIRECTED TO JOSEPH L. BLOUNT, ESQ., SECRETARY, SYSTEM ENERGY RESOURCES, INC., 1340 ECHELON PARKWAY, JACKSON, MISSISSIPPI 39213, TELEPHONE NUMBER: (601) 984-9000.

THE INFORMATION RELATING TO THE COMPANY CONTAINED IN THIS PROSPECTUS AND ANY ACCOMPANYING PROSPECTUS SUPPLEMENT DOES NOT PURPORT TO BE COMPREHENSIVE AND IS BASED UPON INFORMATION CONTAINED IN THE INCORPORATED DOCUMENTS; ACCORDINGLY, SUCH INFORMATION CONTAINED HEREIN SHOULD BE READ TOGETHER WITH THE INFORMATION CONTAINED IN THE INCORPORATED DOCUMENTS.

NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION NOT CONTAINED IN THIS PROSPECTUS OR, WITH RESPECT TO ANY SERIES OF THE BONDS, THE PROSPECTUS SUPPLEMENT RELATING THERETO, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR ANY UNDERWRITER. THIS PROSPECTUS AND ANY PROSPECTUS SUPPLEMENT DO NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF ANY OFFER TO BUY ANY OF THE SECURITIES OFFERED HEREBY IN ANY JURISDICTION TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER IN SUCH JURISDICTION.

NEITHER THE DELIVERY OF THIS PROSPECTUS AND A PROSPECTUS SUPPLEMENT NOR ANY SALE MADE THEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY SINCE THE DATE OF THIS PROSPECTUS OR THAT PROSPECTUS SUPPLEMENT.

SELECTED INFORMATION RELATING TO THE BONDS

The following material, which is presented herein solely to furnish limited introductory information regarding the Bonds, is qualified in its entirety by reference to the detailed information included or incorporated by reference in this Prospectus and in the accompanying Prospectus Supplement. Capitalized terms used in this Prospectus and in the accompanying Prospectus Supplement without definition are defined in the Glossary at the end of this Prospectus.

THE TRANSACTIONS AND THE REFINANCING

In 1988, the Company sold two portions of its 90% interest in Unit 1 (as defined) of the Grand Gulf Station to the Owner Trustees of two separate trusts ("Lessors") established for the benefit of two equity investors, the Owner Participants. Simultaneously, each Lessor leased the interest it purchased to the Company under a separate long-term Lease. Approximately 87% of the aggregate consideration paid by the Lessors for their respective interests in Unit 1 was contributed to the Lessors in the form of loans from banks, and the balance of such consideration was contributed to the Lessors by the Owner Participants. The proceeds of the secured lease obligation bonds issued in 1989 (the "Old Bonds") were loaned to the Lessors (such loans being evidenced by the issuance of the Old Pledged Lessor Notes to the Old Funding Corporation) and were used to retire the Lessors' bank loans.

The Company has determined, in light of prevailing economic and financial circumstances, to cause a refinancing of the Old Pledged Lessor Notes issued in connection with the Transactions and currently outstanding (the "Refinancing"). In addition to the offering of the Bonds described herein, as part of the Refinancing, Old Funding Corporation will redeem all of the outstanding Old Bonds as described herein. (See "The Refinancing.")

USE OF PROCEEDS

Unless the accompanying Prospectus Supplement provides otherwise, the proceeds of the sale of the Bonds will be used to make loans to the Lessors, to be evidenced by the Pledged Lessor Notes, in amounts sufficient, together with amounts made available to the Lessors by the Company as basic and supplemental rent under the related Leases, to enable the Lessors to prepay the outstanding Old Pledged Lessor Notes owned by Old Funding Corporation and to pay certain costs and expenses incurred in connection with the Refinancing. Such funds will be used by Old Funding Corporation to redeem the Old Bonds as described herein. (See "Use of Proceeds" and "The Refinancing.")

SECURITY AND SOURCE OF PAYMENT

The Company is unconditionally obligated to make payments under the Leases in amounts that will be at least sufficient to provide for scheduled payments of the principal of and interest on the Pledged Lessor Notes which amounts, in turn, will be sufficient to provide for scheduled payments of principal of and interest on the Bonds when due. However, neither the Bonds nor the Pledged Lessor Notes will be direct obligations of, or guaranteed by, the Company. The holders of the Bonds will have no recourse against the general credit of any of the institutions or individuals acting as Lessors or the general credit of the Owner Participants. (See "Security and Source of Payment for the Bonds.")

The Bonds will be secured by the Pledged Lessor Notes, which will be held by the Trustee. Each Pledged Lessor Note will be secured by, among other things, (a) a lien on and security interest in the Undivided Interest of the Lessor issuing such Pledged Lessor Note and (b) certain of the rights of such Lessor under its Lease with the Company, including the right to receive basic rent and certain other amounts payable by the Company thereunder. (See "Security and Source of Payment for the Bonds.")

Upon the occurrence and continuance of any Lease Indenture Event of Default that results from a Lease Event of Default, the related Lessor will control the exercise of remedies against the Company under the related Lease, subject to the right of the Lease Indenture Trustee to cause such Lessor to forbear from any proposed action which would have a material adverse effect on the holders of the related Lessor Notes. There could be circumstances, therefore, in which amounts due on the Bonds are not paid and neither the Lease Indenture Trustee nor the Trustee would be able to direct such Lessor's pursuit of remedies against the Company under such Lease. The Lease Indenture Trustee would not be precluded, however, from selling the related Lease Indenture Estate (including the Undivided Interest) in a foreclosure or similar proceeding. If such sale occurs prior to or simultaneously with the termination of the related Lease, such Lessor must first be given an opportunity to purchase such Lease Indenture Estate at the proposed sale price. In the event of a sale pursuant to a foreclosure or similar proceeding (other than a sale to such Lessor), the Lease Indenture Trustee has the right to terminate such Lease in connection with such sale. (See "Description of the Lease Indentures--Acceleration and Remedies.")

Under certain circumstances the Company (and in certain situations, one or more of its Affiliates) may assume all or a portion of the Lessor Notes issued under either Lease Indenture and all obligations of the related Lessor thereunder and under such Lease Indenture. (See "Description of the Lease Indentures--Assumption by the Company.") In such cases, the holders of the Bonds would retain the benefit of the pledge and mortgage under the Lease Indenture of the related Undivided Interest and the obligation to make payments on the Pledged Lessor Notes would become a direct obligation of the Company.

For a description of possible limitations on amounts payable as damages if the Company were to reject the Leases in the context of a bankruptcy proceeding, see "Security and Source of Payment for the Bonds."

DESCRIPTION OF GRAND GULF 1

Grand Gulf 1 is a 1,250 megawatt nuclear-fueled electric generating unit located in Claiborne County, Mississippi that was placed in commercial operation in 1985. SMEPA has a 10% undivided ownership interest in Grand Gulf 1. Unit 1 (as defined) excludes certain transmission, pollution control and other facilities included in Grand Gulf 1.

GG1B FUNDING CORPORATION

Funding Corporation was incorporated in Delaware on September 24, 1993 for the purpose of facilitating the refinancing of the debt associated with the Lessors' interests in Unit 1. The assets of Funding Corporation will consist of the Pledged Lessor Notes, which are payable from basic rent and certain other payments which the Company is unconditionally obligated to make under the Leases. (See "GG1B Funding Corporation.")

THE COMPANY

System Energy is a wholly-owned subsidiary of Entergy that was incorporated under the laws of the State of Arkansas in 1974 to construct and finance certain baseload generating units for the operating subsidiaries of Entergy. System Energy's principal executive offices are located at Echelon One, 1340 Echelon Parkway, Jackson, Mississippi 39213. System Energy's telephone number is 601-984-9000. Entergy, a registered public utility holding company under the Public Utility Holding Company Act of 1935, as amended, also owns all the common stock of four retail electric utility operating subsidiaries, AP&L, LP&L, MP&L and NOPSI. Other subsidiaries of Entergy are Entergy Services, Inc., a service company; Entergy Operations, Inc., a nuclear management services company; Entergy Power, Inc., a subsidiary formed to market certain capacity and energy in certain wholesale markets; and Entergy Enterprises, Inc., a non-utility company. Entergy also has several subsidiaries formed to participate in utility projects located outside the Entergy System's retail service territory, both domestically and in foreign countries. The System operating companies own System Fuels, Inc., which implements and/or maintains certain programs to procure, deliver and store fuel supplies for the System.

System Energy's principal asset consists of a 90% interest in Grand Gulf 1, approximately 78.5% of which is owned and 11.5% of which is leased on a long-term basis. Grand Gulf 1 is a 1,250 megawatt nuclear-powered electric generating unit located near Port Gibson, Mississippi that was placed in commercial operation on July 1, 1985. Entergy Operations, Inc. operates Grand Gulf 1, along with the other nuclear generating units in the System. System Energy's investment (excluding nuclear fuel but including its capitalized lease obligations in respect of the Transactions (as hereinafter defined)) in its 90% share of Grand Gulf 1 is presently approximately $3.5 billion. The other 10% of Grand Gulf 1 is owned by SMEPA, a wholesale cooperative in Mississippi. Construction of a proposed second unit of the Grand Gulf Station was suspended in 1985 and this unit was canceled and written off in 1989.

The Company sells its share of the capacity and energy from Grand Gulf 1 exclusively to the System operating companies under the Unit Power Sales Agreement. As modified and approved by the Federal Energy Regulatory Commission, the Unit Power Sales Agreement provides for the allocation in various percentages of the capacity and energy from System Energy's 90% interest in Grand Gulf 1 (and the costs related thereto) to the System operating companies on a full cost of service basis. Payments under the Unit Power Sales Agreement are System Energy's only source of operating revenues. The financial condition of System Energy significantly depends upon the continued commercial operation of Grand Gulf 1 and upon the receipt of payments from the System operating companies.

At September 30, 1993, System Energy had net utility plant of $2.918 billion, long-term debt (excluding current maturities) of $1.756 billion (of which $880 million consisted of first mortgage bonds) and common shareholder's equity of

$1.023 billion. For the nine months ended September 30, 1993, System Energy had operating revenues of $473 million and net income of $76 million.

The information relating to the Company contained in this Prospectus does not purport to be comprehensive and should be read together with the information contained in the Incorporated Documents. For further information concerning the System operating companies and Entergy, reference is made to the information relating to such companies which accompanies the Incorporated Documents.

INTRODUCTION

On December 28, 1988 the Company sold and leased back, on a long-term net lease basis, two portions of its 90% undivided interest in Unit 1 (as defined) in two substantially identical, but entirely separate, transactions (each, a "Transaction" and together, the "Transactions"), each such transaction being documented separately. The Company sold undivided interests in Unit 1 representing, in the aggregate, approximately 15.146% of the total ownership interests in Unit 1 (which constitutes approximately 11.5% of the total ownership interests in Grand Gulf 1) to Meridian Trust Company and an individual co-trustee, as Owner Trustee under each of two separate trust agreements (each such agreement with an institutional

investor as an Owner Participant) and as Lessor under each of two separate Leases with the Company. Unit 1 (as defined) excludes certain transmission, pollution control and other facilities included in Grand Gulf 1. The Lessors as owners of the Undivided Interests in Unit 1 are entitled to approximately 15.146% of the capacity and energy produced by Grand Gulf 1, which capacity and energy is available to the Company during the terms of the Leases. After the term of a Lease, any person other than the Company (including a Lessor) which has possession of a related Undivided Interest would be required to compensate the Company, at fair market values, for those assets excluded from Unit 1 which are a part of Grand Gulf 1 and which are necessary to use the Undivided Interest.

The purchase price of the Undivided Interests was $500,000,000. Of such purchase price, approximately $64,898,000 was provided by the Owner Participants and approximately $435,102,000 was provided by interim borrowings from banks. These interim bank loans were refinanced by issuance by the Lessors of the Old Pledged Lessor Notes to the Old Funding Corporation in April 1989. Old Funding Corporation obtained the funds to loan to the Lessors by issuing and selling on April 13, 1989 $435,102,000 principal amount of the Old Bonds.

THE REFINANCING

The Company has determined, in light of prevailing economic and financial circumstances, to cause a refinancing of the Old Pledged Lessor Notes. As part of the Refinancing, all of the outstanding Old Bonds consisting of $163,666,000 aggregate principal amount of Secured Lease Obligation Bonds, 11.07% Series due 2004 are to be redeemed at 105.535% of the principal amount thereof with

interest accrued to the redemption date and all of the outstanding Old Bonds consisting of $271,436,000 aggregate principal amount of Secured Lease Obligation Bonds, 11.50% due 2014 are to be redeemed at 108.625% of the principal amount thereof with interest accrued to the redemption date.

As part of the Refinancing, the Lessors will prepay all of the Old Pledged Lessor Notes issued by them. The aggregate principal amount of the Old Pledged Lessor Notes is equal to the aggregate principal amount of the Old Bonds to be redeemed. The proceeds from the prepayment by the Lessors of the Old Pledged Lessor Notes will be used by Old Funding Corporation to pay for the Old Bonds redeemed.

The Lessors will obtain the funds required to prepay the Old Pledged Lessor Notes and to pay related expenses from non-recourse borrowings by them from Funding Corporation and from basic and supplemental rent payments which the Company has agreed to make under the Leases with such Lessors. The loans by Funding Corporation to each Lessor will be evidenced by new lessor notes (the "Pledged Lessor Notes") issued by such Lessor to Funding Corporation under the Lease Indenture. The Pledged Lessor Notes of each Lessor will be secured by, among other things, the basic rentals and other payments which the Company is obligated to make under the relevant Lease. Funding Corporation intends to obtain the funds to enable it to make the loans to the Participating Lessors through the offer and sale of the Bonds. (See "Security and Source of Payment for the Bonds" and "Use of Proceeds.")

USE OF PROCEEDS

Unless the Prospectus Supplement provides otherwise, proceeds from the issuance of the Bonds will be used to make loans to the Lessors, to be evidenced by the Pledged Lessor Notes, in amounts sufficient, together with amounts made available to the Lessors by the Company as basic and supplemental rent under the related Leases, to enable the Lessors to prepay the outstanding Old Pledged Lessor Notes from Old Funding Corporation and to pay certain costs and expenses incurred in connection with the Refinancing. Such funds will be used by Old Funding Corporation to redeem the Old Bonds as described above under "The Refinancing."

FLOW OF FUNDS FOR DEBT SERVICE PAYMENTS ON THE BONDS

(CHART OF SYSTEM ENERGY APPEARS HERE)

See "Security and Source of Payment for the Bonds."

SECURITY AND SOURCE OF PAYMENT FOR THE BONDS

Concurrently with the initial authentication and delivery of the Bonds of each series, Funding Corporation will cause to be delivered to the Trustee Pledged Lessor Notes (a) issued as separate series under the Lease Indentures, (b) payable as to principal on such dates and in such amounts that on the stated maturity of principal and each sinking fund redemption date or principal installment payment date of such Bonds there shall be payable on the Pledged Lessor Notes an amount in respect of principal equal to the principal amount of such Bonds then to mature or to be payable in installments of principal or be redeemed, (c) bearing interest at the same rate and payable at the same times as the corresponding Bonds of such series, (d) containing provisions for redemption, including redemption premiums, correlative to the provisions for redemption (other than pursuant to a sinking fund) of the corresponding Bonds of such series and (e) registered in the name of the Trustee. (Indenture, Section 2.03.)

The Pledged Lessor Notes, which will be without recourse to the general credit of the related Owner Trustee or the related Owner Participant and will not be direct obligations of, or guaranteed by, the Company, will be payable from and secured by, among other things, a lien on and security interest in the related Undivided Interest, and, subject to certain exceptions, the rights of the Owner Trustee under the related Lease, including the right to receive all basic rentals and certain other payments to be made by the Company. The Leases require that basic rent payments be made by the Company in such amounts as will be sufficient to provide for the payment, when due, of scheduled payments of principal of and interest on all of the related Lessor Notes. In addition, each Lease requires that basic rent payments together with payments of Casualty Value or Special Casualty Value and certain other amounts be made in such amounts and at such times as will be sufficient for the payment, when due, of the prepayments of principal of and premium, if any, and interest on the related Lessor Notes. (See "Description of the Leases--Terms and Rentals.") Each Lease is a net lease pursuant to which the Company is unconditionally obligated to make all payments thereunder without any right of counterclaim, set-off, deduction or defense. (See "Description of the Leases--Net Lease.") If a Lease Event of Default shall have occurred and be continuing, remedies under the Lease may be exercised as described in "Description of the Leases--Remedies."

If a Lease Indenture Event of Default shall have occurred and be continuing, remedies may be exercised subject to the limitations described under "Description of the Lease Indentures--Acceleration and Remedies." If a Lease Indenture Event of Default shall have occurred and be continuing at a time when there shall not have occurred and be continuing a Lease Event of Default, the exercise of such remedies may not disturb the Company's quiet use and possession of the Undivided Interest or require prepayment of basic rent, Casualty Value or Special Casualty Value.

In certain instances, upon the purchase by or transfer to the Company of an Undivided Interest, the Company may assume the obligations of the Owner Trustee under the Lease Indenture. (See "Description of the Lease Indentures--Assumption by the Company.") Upon such an assumption by the Company, an Owner Trustee would be released from its obligations under the related Lease

Indenture and the related Lessor Notes. In such case, the holders of the Bonds would retain the benefit of the pledge and mortgage under the Lease Indenture of the related Undivided Interest and the obligation to make payments on the Pledged Lessor Notes would become a direct obligation of the Company.

Subject to certain conditions, additional Securities may be issued under the Indenture (a) for the purpose of redeeming all or any part of any series of Securities previously issued under the Indenture, including the Bonds, (b) to provide funds to purchase additional Lessor Notes for all or a portion of certain alterations, modifications, additions or improvements to Unit 1, subject to certain limitations and (c) to refund a portion of the initial investment of an Owner Participant. All subsequently issued Securities and the Bonds will be secured equally by all Lessor Notes pledged by Funding Corporation to the Trustee.

The Company has caused letters of credit to be issued to each Owner Participant to secure the payment of certain amounts payable by the Company under the related Lease. These letters of credit expire on

January 15, 1997. Upon the occurrence of an Event of Loss, a Deemed Loss Event or a Lease Event of Default under such Lease, the Owner Participant is entitled to draw on the letters of credit amounts generally not exceeding Casualty Value less the aggregate principal amount of and accrued interest on the related Lessor Notes then outstanding. The failure of the Company to maintain a letter of credit for the Owner Participant or to renew or replace an expiring letter of credit or the notice of the bank issuing a letter of credit that the letter of credit is being terminated (if the Company fails to provide a replacement letter of credit) will constitute a Lease Event of Default under the related Lease. Neither the holders of the Lessor Notes (including the Trustee, as holder of the Pledged Lessor Notes) nor the Holders of the Bonds are entitled to the benefit of any such letter of credit. See "Description of the Leases--Lease Events of Default" and "Other Agreements--Reimbursement Agreement."

If the Company were to enter into bankruptcy or reorganization proceedings, the Company or its bankruptcy trustee could seek to reject either of the Leases. In such event, there could be no assurance that the amount of any claim for damages that would be allowed in such bankruptcy case, if the bankruptcy court treated the Leases as true leases and authorized their rejection, would be in amounts sufficient to provide for the repayment of the related Lessor Notes and thus the applicable portion of the Bonds. Under Section 502(b)(6) of the United States Bankruptcy Code, as amended, a claim by a lessor for damages resulting from the rejection of a lease of real property in connection with bankruptcy proceedings affecting the lessee may be limited to an amount equal to the rent reserved under the lease, without acceleration, for the greater of 1 year or 15 percent (but not more than 3 years) of the remaining term of the lease, plus rent already due but unpaid. There can be no assurance that a bankruptcy court would not find the property covered by the Leases to be real property, in whole or in part. If the property covered by the Leases were held to constitute personal property, such limitation would not apply. In any case,

rejection of either of the Leases by the Company or its bankruptcy trustee would not deprive the related Lease Indenture Trustee of its lien on and security interest in the related Undivided Interest.

In a bankruptcy proceeding which is already pending with respect to another utility, the utility has sought to reject leases of interests in a nuclear generating unit and to have the restrictions imposed by Section 502(b)(6) of the Bankruptcy Code applied. In addition, in such proceeding, the utility also requested the bankruptcy court to declare that the proceeds drawn under letters of credit provided for the benefit of the equity investors in the lessors under such leases be credited against the damages that such utility would be liable for as a result of its rejection of such leases. Such bankruptcy proceeding is being conducted in a jurisdiction outside the jurisdiction in which the Company operates or is domiciled. No final decision has been rendered with respect to the claims of such utility with respect to Section 502(b)(6) of the Bankruptcy Code, and the Company cannot predict at this time the eventual outcome.

For further information with respect to the source of payment for the Bonds, the Indenture and the Lease Indentures relating to the Bonds, see "Description of the Bonds and the Indenture" and "Description of the Lease Indentures."

GG1B FUNDING CORPORATION

Funding Corporation was incorporated under the laws of Delaware on September 24, 1993 for the purpose of facilitating the Refinancing and has only nominal equity capital. The only business of Funding Corporation will be the issuance and sale of the Bonds and other Securities and the lending of the proceeds therefrom to reduce such debt and in connection with possible future sale and leaseback transactions involving the Company's owned interests in Unit 1. (See "Use of Proceeds.") Funding Corporation may (but is not required to) make loans in connection with any significant capital improvements which may be installed at Unit 1 from time to time. The assets of Funding Corporation will consist of any Lessor Notes issued by the Lessors to Funding Corporation from time to time and $1,000 in cash, representing the equity capital

contributed by its sole shareholder, NCR Holding, Inc., which is a wholly-owned subsidiary of National Corporate Research, Ltd. None of the Company, any Lessor or any Owner Participant holds any ownership interest in Funding Corporation, NCR Holding, Inc. or National Corporate Research, Ltd., and no person affiliated with the Company, any Lessor or any Owner Participant is an officer, director or employee of any such entity.

DESCRIPTION OF THE BONDS AND THE INDENTURE

THE STATEMENTS CONTAINED UNDER THIS CAPTION ARE INTENDED TO BRIEFLY SUMMARIZE THE BONDS; THEY DO NOT PURPORT TO BE COMPLETE AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THE INDENTURE, A COPY OF THE FORM OF WHICH HAS BEEN FILED AS AN EXHIBIT TO THE REGISTRATION STATEMENT OF WHICH THIS PROSPECTUS IS A PART. A PROSPECTUS SUPPLEMENT WILL DESCRIBE THE FOLLOWING TERMS OF, OR

APPLICABLE TO, THE SERIES OF BONDS TO BE ISSUED: (1) THE DESIGNATION OF EACH SERIES OF THE BONDS; (2) THE AGGREGATE PRINCIPAL AMOUNT OF EACH SERIES; (3) THE DATE ON WHICH EACH SERIES WILL MATURE; (4) THE RATE AT WHICH EACH SERIES WILL BEAR INTEREST AND THE DATE FROM WHICH SUCH INTEREST ACCRUES; (5) THE DATES ON WHICH INTEREST WILL BE PAYABLE; AND (6) THE PRICES, TERMS AND CONDITIONS UPON WHICH EACH SERIES MAY BE REDEEMED BY THE COMPANY PRIOR TO MATURITY OR UPON WHICH INSTALLMENT PAYMENTS OF PRINCIPAL WILL BECOME DUE AND PAYABLE.

GENERAL

The Bonds are to be issued under the Collateral Trust Indenture, dated as of January 1, 1994 (the "Indenture"), among Funding Corporation, the Company and Bankers Trust Company, as Trustee, as supplemented by one or more Supplemental Indentures (each a "Supplemental Indenture"), among such parties.

Unless otherwise indicated in a Prospectus Supplement, the Bonds will be issued in fully registered form without coupons in denominations of $1,000 or any integral multiple thereof. Bonds may be surrendered for registration of transfer or exchange for Bonds of the same series and maturity at the corporate trust office of Bankers Trust Company, registrar and paying agent for the Bonds, in New York, New York. The Trustee shall not be required to register the transfer or exchange of any Bonds called for redemption or during a period of 15 days preceding a mailing of notice of redemption. No service charge will be required of any Bondholder participating in any transfer or exchange of Bonds in respect of such transfer or exchange, but, with certain exceptions, payment may be required of any tax or other governmental charges that may be imposed in connection therewith. (Indenture, Sections 2.05, 2.08 and 2.09.)

ADDITIONAL SECURITIES

The Indenture provides that the aggregate principal amount of Securities (including the Bonds) which may be issued thereunder is unlimited, provided that at least an equal aggregate principal amount of Lessor Notes must be pledged as security under the Indenture in support of the payment of such Securities. A separate Supplemental Indenture will be entered into among Funding Corporation, the Company and the Trustee establishing the designation, interest rate, sinking fund, installment payments of principal and redemption provisions, if any, and other specific terms of any particular series of Securities. (Indenture, Section 2.03.) Any additional series of Securities will be secured pari passu with the Bonds by the Pledged Lessor Notes. (Indenture, Granting Clauses.)

MERGER, CONSOLIDATION AND TRANSFER OF ASSETS BY FUNDING CORPORATION

The certificate of incorporation of Funding Corporation provides that Funding Corporation will not (a) dissolve or liquidate, in whole or in part, or (b) merge into or consolidate with, or sell all or any part of its assets to, any person, firm, corporation, partnership or other entity unless the acquiring entity or the surviving corporation, as the case may be, has a certificate of incorporation containing provisions identical to those of

Funding Corporation's certificate of incorporation restricting the nature of its business and purposes and its ability to take certain action and, in the case of a sale of assets, the acquiring entity shall have assumed all the liabilities and obligations of Funding Corporation. In addition, Funding Corporation has agreed in the Indenture that it will not amend those provisions of its certificate of incorporation that restrict the nature of its business and its purposes or restrict its activities or that provide for its capitalization. (Indenture, Section 5.08.)

EVENTS OF DEFAULT

The following will be Events of Default under the Indenture:

(a) failure to pay any interest on any Security when it becomes due and payable, and the continuation of such failure for a period of 10 days; or

(b) failure to pay principal of or premium, if any, on any Security when it becomes due and payable, whether at its stated maturity of principal, on any applicable redemption date or any principal installment payment date or at any other time, and the continuation of such failure for a period of 10 days; or

(c) failure on the part of either Funding Corporation or the Company to perform or observe any covenant or agreement in the Indenture to be performed or observed by it, and the continuation of such failure for a period of 30 days after notice has been given to Funding Corporation or the Company, as the case may be, by the Trustee, or to the Company or Funding Corporation, as the case may be, and the Trustee by the Holders of at least 25% in principal amount of the outstanding Securities, specifying such failure and requiring it to be remedied and stating that such notice is a "Notice of Default" under the Indenture; provided, however, that the continuation of such failure for a period of 30 days or more after such notice has been so given (but in no event for a period which is greater than one year after such notice has been given) shall not constitute an Event of Default if (i) such failure can be remedied but cannot be remedied within such 30 days, (ii) the Company or Funding Corporation, as the case may be, is diligent in pursuing a remedy of such failure and (iii) such failure does not impair in any respect the lien and security interest created by the Indenture; or

(d) the occurrence of any Lease Indenture Event of Default; or

(e) the entry of a decree or order by a court having jurisdiction in the premises adjudging Funding Corporation a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of Funding Corporation under the Federal Bankruptcy Act or any other applicable federal or state law or law of the District of Columbia, or appointing a receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of Funding Corporation or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and the continuation of any such

decree or order unstayed and in effect for a period of 75 consecutive days; or

(f) the institution by Funding Corporation of proceedings to be adjudicated a bankrupt or insolvent, or the consent by it to the institution of bankruptcy or insolvency proceedings against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under the Federal Bankruptcy Code or any other applicable federal or state law or law of the District of Columbia, or the consent by it to the filing of any such petition or to the appointment of a receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of Funding Corporation or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due, or the taking of corporate action by Funding Corporation in furtherance of any such action.

(Indenture, Section 8.01)

Funding Corporation has agreed in the Indenture that it will not take certain corporate action which could result in its being declared bankrupt or insolvent. (Indenture, Section 5.08.) The Company, the Lessors, the Owner Participants and the Lease Indenture Trustees have each agreed in the Participation Agreements that none of them will file, or participate in the filing of, a petition seeking reorganization, arrangement, adjustment, or composition of or in respect of Funding Corporation prior to the 181st day following the payment in full of the Bonds and discharge of the Indenture. (Participation Agreement, Sections 7(b), 8(b), 9(b), and 10(b).)

ACCELERATION AND REMEDIES

Upon the occurrence and continuance of an Event of Default, (i) if such Event of Default is of the type specified in clause (a), (b), (c), (e) or (f) of the first paragraph of "Events of Default" above, the Trustee may and, upon the direction of the Holders of not less than a majority in principal amount of the Securities outstanding the Trustee shall, and (ii) if such Event of Default is of the type specified in clause (d) of the first paragraph of "Events of Default" above (including without limitation a Lease Event of Default which has resulted in a default of the type specified in clause (a) or (b) of such paragraph), under circumstances in which there has been an acceleration of the maturity of the related Pledged Lessor Notes, the Trustee will declare all the Securities to be immediately due and payable; provided that no such declaration will be made (and the Trustee will not take action to sell any property pledged to it under the Indenture or to institute proceedings for payment on any Securities or Pledged Lessor Notes) in the case of a payment default of the type specified in clause (a) or (b) of such paragraph which resulted directly from a failure by the Company to make any payment of rent under a Lease until such time as the Lessor under such Lease has been given the opportunity to exercise its rights, if any, to cure such default under the related Lease

Indenture. (See "Description of the Lease Indentures--Rights of Lessor to Cure and Purchase Lessor Notes; Substitute Lessee.") (Indenture, Section 8.02.)

In addition, upon the occurrence of a Lease Indenture Event of Default, Lease Indenture Default, Event of Loss or Deemed Loss Event, if an officer of the Trustee has actual knowledge thereof, the Trustee will give notice to all Holders of such fact in accordance with the provisions of the Indenture and thereafter each Holder will have the right to direct the Trustee, as the holder of the Pledged Lessor Notes issued under such Lease Indenture, to vote the principal amount of such Pledged Lessor Notes in proportion to the principal amount of Securities owned by such Holder, or to direct the related Lease Indenture Trustee to take such action, or refrain from taking such action, as it is permitted to take under the terms of the related Lease Indenture. Under each Lease Indenture, directions given to the Lease Indenture Trustee as described in the preceding sentence will be dictated by the holders of a majority in principal amount of all Lessor Notes outstanding thereunder which will mean, until such time, if any, as additional Lessor Notes are issued under such Lease Indenture, the Holders of a majority in aggregate principal amount of the Bonds outstanding, as a result of the pass-through voting mechanism described above. (Indenture, Section 3.03; Lease Indenture, Section 7.1.)

With certain exceptions, the request of the Holders of not less than a majority in aggregate principal amount of Securities outstanding will be necessary to require the Trustee to exercise any remedy under the Indenture. (Indenture, Section 8.07.) The Trustee will be entitled to receive reasonable indemnity and under certain circumstances is not required to act. (Indenture, Section 9.03.) Certificates of the Company and Funding Corporation as to the absence or nature of a default and compliance with the terms of the Indenture will be required to be furnished to the Trustee annually. (Indenture, Section 5.09.)

VOTING OF LESSOR NOTES

The Trustee, as holder of the Pledged Lessor Notes, will have the right to vote and give consents and waivers in respect of such Pledged Lessor Notes and the Lease Indentures only as described below. The Holders of the Securities may instruct the Trustee as to action by the Trustee, as holder of the Pledged Lessor

Notes, under any Lease Indenture, including the voting of Pledged Lessor Notes. Upon receiving from Holders any directions as to the taking of any action, including the voting of any Pledged Lessor Note, the Trustee shall specify to the related Lease Indenture Trustee the principal amount of the Pledged Lessor Note which is in favor of the action or vote, the principal amount of the Pledged Lessor Note which is opposed to the action or vote and the principal amount of the Pledged Lessor Note which is not taking any position as to the action or vote. Such principal amounts shall be determined by allocating to the total principal amounts of the Pledged Lessor Notes with respect to which direction is to be given the proportionate principal amount of Securities

taking corresponding positions or not taking any position, based on the aggregate principal amount of outstanding Securities. (Indenture, Section 3.03.) Because the Lease Indenture will permit additional Lessor Notes to be issued and secured thereunder, and will not require that such additional Lessor Notes be issued only to Funding Corporation, it is possible that at some future time the Pledged Lessor Notes would not constitute a majority of the Lessor Notes issued and outstanding under the Lease Indenture. (See "Description of the Lease Indentures--Additional Lessor Notes.")

SUPPLEMENTAL INDENTURES

Without the consent of the Holders of any Securities, Funding Corporation, the Company and the Trustee may enter into supplemental indentures for the following purposes:

(a) to establish the form and terms of any series of Securities;

(b) to evidence the succession of another corporation to the Company, and the assumption by any such successor of the covenants of the Company contained in the Indenture, or to evidence the succession of another corporation to Funding Corporation, and the assumption by any such successor of the covenants of Funding Corporation contained in the Indenture and in the Securities;

(c) to evidence the succession of a new trustee or the appointment of a co-trustee or a separate trustee under the Indenture;

(d) to add to the covenants of the Funding Corporation or of the Company, for the benefit of the Holders of the Securities, or to evidence the surrender of any right or power conferred in the Indenture upon Funding Corporation or the Company;

(e) to convey, transfer and assign to the Trustee, and to subject to the lien of the Indenture, additional Pledged Lessor Notes or additional properties or assets, and to correct or amplify the description of any property at any time subject to the lien of the Indenture or to assure, convey and confirm unto the Trustee any property subject or required to be subject to the lien of the Indenture;

(f) to permit or facilitate the issuance of Securities in uncertificated form;

(g) to change or eliminate any provision of the Indenture; provided, however, that if such change or elimination will adversely affect the interests of the Holders of Securities of any series, such change or elimination will become effective with respect to such series only when no Security of such series remains outstanding; or

(h) to cure any ambiguity, to correct or supplement any provision in the Indenture which may be defective or inconsistent with any other provision in the Indenture, or to make any other provisions with respect to matters or questions arising under the Indenture, provided such action shall not

adversely affect the interest of the Holders of the Securities in any material respect.

Without limiting the generality of the foregoing, if the Trust Indenture Act as in effect at the date of the execution and delivery of the Indenture or at any time thereafter shall be amended and

(x) if any such amendment shall require one or more changes to any provisions of the Indenture or the inclusion in the Indenture of any additional provisions, or shall by operation of law be deemed to effect such changes or incorporate such provisions by reference or otherwise, or

(y) if any such amendment shall permit one or more changes to, or the elimination of, any provisions of the Indenture which, at the date of the execution and delivery of the Indenture or at any time thereafter, are required by the Trust Indenture Act to be contained in the Indenture or are contained in the Indenture to reflect any provisions of the Trust Indenture Act as in effect at such date,

the Indenture shall be deemed to have been amended to conform to such amendment to the Trust Indenture Act or to effect such changes or elimination, and the Funding Corporation, the Company and the Trustee may, without the consent of any Holders, enter into a supplemental indenture to evidence such amendment. (Indenture, Section 11.01.)

With the consent of the Holders of not less than a majority in aggregate principal amount of all Securities then outstanding considered as one class, Funding Corporation, the Company and the Trustee may enter into supplemental indentures for any purpose; provided that if there is more than one series of Securities outstanding and if a proposed supplemental indenture directly affects the Holders of at least one, but not all, of such series, then only the consent of a majority in aggregate principal amount of the Holders of the directly affected series of Securities will be required; and provided, further, that without the consent of the Holders of all the Securities then outstanding directly affected thereby no such supplemental indenture may:

(a) change the stated maturity of the principal of, or any installment of interest on, or the date of any installment of principal of, or the dates or circumstances of payment of premium, if any, on any Security or reduce the principal amount of, or the interest on, or any premiums payable upon any redemption of, any Security or change the place of payment where, or the coin or currency in which, any Security or the premium, if any, or interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment of principal or interest on or after the stated maturity thereof (or, in the case of redemption, on or after the redemption date) or such payment of premium, if any, on or after the date such premium becomes due and payable or change the dates or amounts of payments to be made through the operation of a sinking fund (if any) or through installment payments of principal (if any) in respect of such

Securities;

(b) permit the creation of any lien prior or, except with respect to additional Securities issued in accordance with the Indenture, equal to the lien of the Indenture with respect to any of the Pledged Lessor Notes, terminate the lien of the Indenture on the Pledged Lessor Notes (except as permitted by the Indenture) or deprive any Holder of the security afforded by the Indenture;

(c) reduce the percentage in principal amount of the Securities the consent of whose Holders is required for any supplemental indenture or the consent of whose Holders is required for any waiver provided for in the Indenture or reduce the requirements of the Indenture relating to (1) a quorum for meetings of Holders or (2) action taken by Holders pursuant to the Indenture at meetings thereof; or

(d) modify any of the above provisions or the provisions of the Indenture dealing with waivers of past defaults, except to increase the percentage of the Holders whose consent is required for certain action or to provide that certain other provisions of the Indenture cannot be modified or waived without the consent of the Holders affected thereby.

(Indenture, Section 11.02)

DEFEASANCE

Bonds of any series, or any portion of the principal amount thereof, will, prior to the maturity thereof, be deemed to have been paid for purposes of the Indenture (except as to any surviving rights of registration of transfer or exchange expressly provided for in the Indenture), and the entire indebtedness of the Funding Corporation in respect thereof will be deemed to have been satisfied and discharged, if (a) there shall have been irrevocably deposited with the Trustee, in trust, money in an amount which will be sufficient to pay when due the principal of and premium, if any, and interest due and to become due on such Bonds or portions thereof on and prior to the stated maturity of principal or redemption date or each principal installment

payment date thereof or (b) the Pledged Lessor Notes of the corresponding series are deemed to have been paid in accordance with the Lease Indenture or Lease Indentures under which such Pledged Lessor Notes were issued. (Indenture, Section 12.01.) (See "Description of the Lease Indentures--Defeasance.")

It is possible that for federal income tax purposes any deposit contemplated in the preceding paragraph or any deeming of the Pledged Lessor Notes to have been paid as contemplated in the previous paragraph could be treated as a taxable exchange of the related Bonds for an issue of obligations of a trust or a direct interest in the cash and securities held in a trust. In that case, Holders of such Bonds would recognize gain or loss as if the trust obligations or the cash or securities deposited or deemed paid, as the case may be, had

actually been received by them in exchange for their Bonds. Such gain or loss, generally, would be capital in nature to Holders for whom the Bonds are held as capital assets and any deductions for losses would be subject to certain limitations. Such Holders would be required to include in income a share of the income, gain or loss of the trust or the income from the securities held in trust, as the case may be, in the taxable year in which such event occurs. The amount so required to be included in income could be different from the amount that would be includable in the absence of such deposit. Neither the Company nor Funding Corporation has any obligation to obtain a revenue ruling or other authority as to the absence of adverse tax consequences arising from any such event. Prospective investors are urged to consult their own tax advisors as to the specific consequences to them of such deposit.

THE TRUSTEE

Bankers Trust Company will act as Trustee under the Indenture. Bankers Trust Company is also Lease Indenture Trustee under each of the Lease Indentures entered into in connection with the Transactions and the trustee under the collateral trust indenture for the Old Bonds.

DESCRIPTION OF THE LEASE INDENTURES

THE STATEMENTS CONTAINED UNDER THIS CAPTION ARE INTENDED TO BRIEFLY SUMMARIZE THE LEASE INDENTURES AS THEY RELATE TO THE BONDS; THEY DO NOT PURPORT TO BE COMPLETE AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THE LEASE INDENTURES, COPIES OF WHICH HAVE BEEN FILED AS EXHIBITS TO THE REGISTRATION STATEMENT OF WHICH THIS PROSPECTUS IS A PART. EACH LEASE INDENTURE IS AN ENTIRELY SEPARATE INDENTURE BUT CONTAINS SUBSTANTIALLY THE SAME TERMS AND PROVISIONS AS EACH OTHER LEASE INDENTURE. IN THE FOLLOWING SUMMARY, REFERENCES TO THE LEASE INDENTURE, THE LEASE, THE LEASE INDENTURE ESTATE, THE LESSOR, THE OWNER TRUSTEE, THE OWNER PARTICIPANT, THE LESSOR NOTES AND THE PLEDGED LESSOR NOTES RELATE TO EACH LEASE INDENTURE.

GENERAL

Lessor Notes (including the Initial Series Lessor Notes, Pledged Lessor Notes and other Lessor Notes) have been and may be issued under the Lease Indentures. The Pledged Lessor Notes will, at the direction of Funding Corporation, be pledged and assigned to the Trustee for the benefit of the Holders of the Securities (including the Bonds).

LEASE INDENTURE EVENTS OF DEFAULT

The following are Lease Indenture Events of Default:

(a) any Lease Event of Default described in the following clauses of the first paragraph in "Description of the Leases--Lease Events of Default": (i) clause (a) (x), except a failure of the Company to pay an amount which constitutes an Excepted Payment or except in the case of a default in the payment of Casualty Value or Special Casualty Value where such Owner Trustee has not rescinded or terminated such Lease or (ii) clause (e) or (h); or

(b) the rescission or termination of, or the taking of action by the Owner Trustee or the Owner Participant the effect of which would be to rescind or terminate, the Lease; or

(c) the exercise by the Lessor or the Owner Participant of certain remedies under the Lease as a result of which the Company would be obligated to pay liquidated damages prior to the occurrence of any of the events set forth in clause (b) above; or

(d) any assignment, sublease or transfer by the Company in violation of the terms of the Lease; or

(e) breach by the Company of the provisions of the related Participation Agreement relating to the maintenance of its corporate existence and relating to a merger by the Company into or consolidation of the Company with another entity or the sale or transfer of all or substantially all of the Company's assets by the Company (see "Other Agreements--Participation Agreement"); or

(f) (x) failure by the Owner Trustee to make any payment in respect of the principal of or premium, if any, or interest on the Lessor Notes within five Business Days after the same shall have become due (other than by virtue of any failure by the Company to make any payment of rent therefor); or (y) following the actual receipt by the Owner Participant of proceeds of a partial draw upon a letter of credit in excess of the amounts due to the Owner Participant at the time of such partial draw, failure of such Owner Participant to cause such excess proceeds to be delivered to the Lease Indenture Trustee within five business days after the actual receipt of such proceeds; or

(g) (x) failure by the Owner Trustee to perform its agreement in the Lease Indenture not to (A) create certain liens on the Lease Indenture Estate or the trust estate, (B) enter into any business or activity other than the business of carrying out the transactions contemplated or permitted by the transaction documents, (C) take any action which would result in an impairment of any Lessor Note or the obligation of the Company to pay any amount under the Lease which is part of the Lease Indenture Estate or any of the other rights or security created or effected thereby, except as otherwise permitted or contemplated by the transactions documents, (D) issue, or incur any obligation in respect of, indebtedness for borrowed money except for its obligations in respect of such Lessor Notes, or (y) failure by the Owner Participant to observe its covenants in the Participation Agreement not to create certain liens on the Lease Indenture Estate or the trust estate, and the continuance of such failure for 30 days after notice; provided, however, that the continuation of such failure for a period of 30 days or more after such notice has been so given (but in no event for a period which is greater than one year after such notice has been given) shall not constitute a Lease Indenture Event of

Default if (i) such failure can be remedied but cannot be remedied within such 30 days, (ii) the Owner Participant or the Owner Trustee, as the case may be, is diligent in pursuing a remedy of such failure and (iii) such failure does not impair in any respect the mortgage and security interest created by the Lease Indenture; or

(h) any representation or warranty made by the Owner Trustee in the Participation Agreement, or any representation or warranty made by the Owner Participant in the Participation Agreement concerning liens against the trust estate or the Lease Indenture Estate as a result of claims against the Owner Participant unrelated to the Transactions, shall prove to have been incorrect in any material respect when such representation or warranty was made or given and continues to be material and remains materially incorrect at the time of discovery; provided, however, that such failure of such representation or warranty to be correct shall not constitute a Lease Indenture Event of Default if (i) the facts or circumstances making such representation or warranty incorrect can be remedied or changed so that such representation or warranty will henceforth be correct in all material respects, (ii) the Owner Trustee or the Owner Participant, as the case may be, is diligently pursuing such a remedy or change, (iii) such remedy or change is, in fact, accomplished within a period of one year from the time that the Owner Trustee or the Owner Participant, as the case may be, has been notified of such misrepresentation or breach of warranty and (iv) such facts or circumstances do not impair in any material respect the mortgage and security interest created by the Lease Indenture; or

(i) the Owner Trustee shall file any petition for dissolution or liquidation of the trust created by the trust agreement or shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or subsequently in effect, or the Owner Trustee shall have consented to the entry of an order for relief in an involuntary case under any such law, or a receiver, custodian or trustee (or

other similar official) shall be appointed for the Owner Trustee or shall take possession of any substantial part of its property (other than at the insistence of the Lease Indenture Trustee or the holders of Lessor Notes), or the Owner Trustee shall make a general assignment for the benefit of its creditors, or shall enter into an agreement of composition with its creditors; or there shall be filed (other than at the insistence of the Lease Indenture Trustee or the holders of Lessor Notes) against the Owner Trustee an involuntary petition in bankruptcy which results in an order for relief being entered or, notwithstanding that an order for relief has not been entered, the petition is not dismissed within 60 days of the date of the filing of the petition, or there shall be filed (other than at the insistence of the Lease Indenture Trustee or the holders of Lessor Notes) under any federal or state law relating to bankruptcy, insolvency or relief of debtors any petition against the Owner Trustee for reorganization, composition, extension or arrangement with creditors which either (i)

results in a finding or adjudication of insolvency of the Owner Trustee or (ii) is not dismissed within 60 days after the date of the filing of such petition; or

(j) the Owner Participant shall file any petition for dissolution or liquidation of the Owner Participant, or shall commence a voluntary case, under any applicable bankruptcy, insolvency or other similar law now or subsequently in effect, or the Owner Participant shall have consented to the entry of an order for relief in an involuntary case under any such law, or shall fail generally to pay its debts as such debts become due (within the meaning of the United States Bankruptcy Code, as amended), or a receiver, custodian or trustee (or other similar official) shall be appointed for the Owner Participant or shall take possession of any substantial part of its property, or the Owner Participant shall make a general assignment for the benefit of its creditors, or shall enter into an agreement of composition with its creditors; or there shall be filed against the Owner Participant an involuntary petition in bankruptcy which results in an order for relief being entered or, notwithstanding that an order for relief has not been entered, the petition is not dismissed within 60 days of the date of the filing of the petition, or there shall be filed under any federal or state law relating to bankruptcy, insolvency or relief of debtors any petition against the Owner Participant for reorganization, composition, extension or arrangement with creditors which either (i) results in a finding or adjudication of insolvency of the Owner Participant or (ii) is not dismissed within 60 days of the filing of such petition and any such event materially adversely affects the holders of the Lessor Notes; or

(k) after a Special Transfer has been effected and amounts payable to the Owner Participant in connection herewith have been paid in full in accordance with the Participation Agreement, any violation or breach of a warranty or covenant of the Company contained in the Participation Agreement concerning the Company's continuing obligation to pay rent under the Lease. (Lease Indenture Section 6.2.)

RIGHTS OF LESSOR TO CURE AND PURCHASE LESSOR NOTES; SUBSTITUTE LESSEE

The Lease Indenture provides that a Lease Indenture Event of Default is to be deemed cured if such Lease Indenture Event of Default results from a non-payment of rent under the Lease and the Owner Trustee or Owner Participant has paid all principal of and interest on the Lessor Notes due (other than by acceleration) on the date such rent was payable within 15 days after receipt by the Owner Trustee of notice of such non-payment. However, such right of the Owner Trustee or Owner Participant to cure the non-payment of rent is limited to not more than six basic rent payment dates or two consecutive basic rent payment dates. (Lease Indenture, Section 6.8.)

If a Lease Indenture Event of Default has occurred and is continuing and (a) the Lessor Notes have been accelerated and (b) the Owner Trustee, within 30 days after receiving notice from the Lease Indenture Trustee of such Lease Indenture Event of Default, has given written notice to the Lease Indenture Trustee of its intention to purchase all the Lessor Notes, then, upon receipt

by the Lease Indenture Trustee within 10 business days after such notice from the Owner Trustee of an amount equal to the aggregate unpaid principal amount of and any premium with respect to any unpaid Lessor Notes together with accrued but unpaid interest thereon to the date of such receipt (as well as any interest on overdue principal and, to the extent

permitted by law, interest), each holder of a Lessor Note issued by the Owner Trustee, including the Trustee, as the registered holder of the Pledged Lessor Notes, will be required to sell the Lessor Notes and its rights, title and interest in and to the Lease Indenture and the Lease Indenture Estate to the Owner Trustee. (Lease Indenture, Section 6.8.)

In addition to the foregoing, if a Lease Event of Default has occurred the Owner Trustee may terminate the Lease and, in conjunction therewith, arrange for a substitute lessee under a new lease substantially similar to the terminated Lease. In connection with any such substitution, (i) the Owner Trustee must have cured any Lease Indenture Event of Default described in clauses (f) through (k) under "Lease Indenture Events of Default" above, (ii) such substitute lessee must assume the Company's obligations under such Lease, (iii) such substitute lessee must have a credit rating from Standard & Poor's Corporation and Moody's Investors Service, Inc. (or, if either of such organizations shall not rate securities issued by such substituted lessee, by any other nationally recognized rating organization) with respect to at least one series of its debt obligations or preferred stock equal to or better than the ratings assigned, immediately prior to such substitution, by such organizations to comparable securities of the Company immediately prior to such substitution but in no event less than "investment grade" and (iv) if any Securities are outstanding, the provisions of the Indenture relating to substituted lessees must be satisfied. (Lease Indenture, Section 6.8.) Since the property subject to the Lease is an undivided interest in a nuclear generating station, any proposed substitute lessee would need to comply with all applicable licensing and regulatory requirements relating to the lease of such an interest.

ACTION BY LEASE INDENTURE TRUSTEE; WAIVER

Subject to the terms of the Lease Indenture, the Lease Indenture Trustee is required to take such action (including the waiver of past defaults), or refrain from taking such action, with respect to any Lease Indenture Event of Default, Lease Event of Default, Deemed Loss Event or Event of Loss as instructed by a Directive. To the extent that any Lessor Note is pledged as collateral for one or more of the obligations of the registered holder thereof, or as collateral for obligations with respect to which it is acting as trustee, such Directive will be given in accordance with instructions received from the holder or holders of the obligations so secured which, in the case of the Pledged Lessor Notes, will be the Trustee as directed by the Holders of the Securities (including the Bonds) under the circumstances described in the discussion under "Description of the Bonds and the Indenture--Voting of Lessor Notes." If the Lease Indenture Trustee has not received such instructions

within 20 days after the mailing by the Lease Indenture Trustee of notice of such Lease Indenture Event of Default, Lease Event of Default, Deemed Loss Event or Event of Loss, the Lease Indenture Trustee may, subject to the receipt of a Directive after such 20-day period, but is not required to, take such action, or refrain from taking such action, as it deems advisable in the best interest of holders of Lessor Notes of all series. (Lease Indenture, Section 7.1.)

The Lease Indenture Trustee may waive any past Lease Indenture Default or Lease Indenture Event of Default and its consequences except a Lease Indenture Default or a Lease Indenture Event of Default (a) in the payment of the principal of or premium, if any, or interest on any Lessor Note, subject to the provisions described in the preceding paragraph, or (b) in respect of a covenant or provision of the Lease Indenture which under such Lease Indenture cannot be modified or amended without the consent of each holder of a Lessor Note then outstanding. (Lease Indenture, Section 6.7.)

ACCELERATION AND REMEDIES

If a Lease Indenture Event of Default has occurred and is continuing, the Lease Indenture Trustee may, and upon receipt of a Directive shall, declare the unpaid principal amount of all outstanding Lessor Notes with accrued interest thereon, to be due and payable, subject to the right of the Owner Trustee or the Owner Participant to cure such default as described above. (Lease Indenture, Section 7.1.)

Except in the case of the Lease Indenture Events of Default (i) described in clauses (f) through (k) under "Lease Indenture Events of Default" above and (ii) occurring or continuing after a Special Transfer, an

assumption of Lessor Notes by the Company or any of certain drawings upon a letter of credit, and except as described in the next paragraph, the exercise of remedies against the Company under the Lease will be controlled by the Owner Trustee. In such circumstances, however, the Lessor is required to consult with the Lease Indenture Trustee as to any proposed exercise or pursuit of remedies and the Lease Indenture Trustee has the right to cause the Owner Trustee to forbear from such action if the Lease Indenture Trustee has determined that such action would have a material adverse effect on the holders of the Lessor Notes. In addition, the Owner Trustee has agreed that it will not exercise or pursue remedies in a manner which would unreasonably deprive the holders of the Lessor Notes of a material right or remedy unless the Owner Trustee is commensurately adversely affected. There could be circumstances, therefore, in which amounts due on the Bonds are not paid and the Lease Indenture Trustee is not able to direct the Owner Trustee's pursuit of remedies against the Company under the Lease. (Lease Indenture, Sections 6.3 and 6.11.)

Although the exercise of remedies is generally within the control of the Lessor, the Lease Indenture Trustee does have the right to sell the Lease Indenture Estate in foreclosure or similar proceedings. However, if such sale

occurs prior to or simultaneously with the termination of the Lease, the Lease Indenture Trustee must have offered to sell to the Owner Trustee the Lease Indenture Estate at a stated price determined by the Lease Indenture Trustee. If the Lessor does not, within 60 days following receipt of such offer, elect to so purchase the Lease Indenture Estate, the Lease Indenture Trustee may foreclose and sell the Lease Indenture Estate within 180 days to any person (other than the Lease Indenture Trustee or a holder or holders of more than 25% of the outstanding Bonds or the outstanding Lessor Notes (including, in each case, affiliates thereof)) for not less than such stated price. In the event of a sale by the Lease Indenture Trustee pursuant to a foreclosure or similar proceeding (other than a sale to the Owner Trustee), the Lease Indenture Trustee has the right to terminate the Lease in connection with such sale subject, however, to the Company's rights under the Lease. (See "Limitations on Remedies" below.) (Lease Indenture, Sections 6.11 and 6.12.)

The rights of the Trustee under the Indenture, as well as the rights of the Lessor under the Lease, insofar as they relate to disposition of any interest in the Grand Gulf Station (including the Undivided Interests in Unit 1), are subject to the rights of SMEPA under the ownership agreement for the Grand Gulf Station. Pursuant to such ownership agreement, an owner of an interest in the Grand Gulf Station may not transfer its interest to a third party unless it first offers such interest to SMEPA upon the same terms and conditions provided for in the proposed transfer. SMEPA must elect to purchase within 90 days of the notice of transfer. If SMEPA does not so elect, and the transfer is to be made to a third party, in no event may such transfer be made to such party on any terms at variance from those initially proposed to SMEPA. Notwithstanding the foregoing, any transfer of an Undivided Interest from either Owner Trustee to the Company may be made without such offer being made to SMEPA.

If a Lease Indenture Event of Default occurs and is continuing, and the maturity of Lessor Notes has been accelerated, any sums held or received by the Lease Indenture Trustee may be applied to reimburse the Lease Indenture Trustee for any expense or other loss incurred by it and to pay its fees and any other amounts due it prior to any payments to holders of the Lessor Notes. (Lease Indenture, Section 5.3.)

In the event of a bankruptcy of either of the Owner Participants, it is possible that, notwithstanding that the related Undivided Interest is owned by the related Owner Trustee in trust, such Undivided Interest and the related Lease and Pledged Lessor Notes might become subject to bankruptcy proceedings. In such event, payments under such Lease or on such Lessor Notes might be interrupted and the ability of the related Lease Indenture Trustee to exercise its remedies under the related Lease Indenture might be restricted, although such Lease Indenture Trustee would retain its status as a secured creditor in respect of such Lease and such Undivided Interest.

LIMITATION ON REMEDIES

Notwithstanding any other provision of the Lease Indenture, so long as no Lease Event of Default has occurred and is continuing, the Lease Indenture Trustee may not take or cause to be taken any action

contrary to the Company's rights under the Lease, including the right to quiet use, enjoyment and possession of the Undivided Interest. (Lease Indenture, Section 6.12.)

ASSUMPTION BY THE COMPANY

The Company or the Company and one or more of its Affiliates, upon the satisfaction of certain conditions, may assume the Lessor Notes. Upon assumption by the Company (and, where applicable, any of its Affiliates), the Lessor Notes will become direct obligations of the Company (and such Affiliates), the Lease will terminate, the Undivided Interest of the Lessor in Unit 1 would be transferred to the Company (and/or any such Affiliate), and the Owner Trustee shall be released and discharged from all further obligations and liabilities under the Lease Indenture and under the Lessor Notes. Although certain changes will be made to the Lease Indenture to reflect the termination of the Lease, the lien on the interest in Unit 1 created by the Lease Indenture will not be affected thereby.

Upon the occurrence of a Deemed Loss Event or Event of Loss, a Lessor can demand payments pursuant to its Lease (Lease, Sections 9(c) and 9(d)), and an Owner Participant can effect a Special Transfer of its beneficial interest in the owner trust to the Company (Participation Agreement, Section 7(b)(4)).)

If a Deemed Loss Event or Event of Loss has occurred in respect of which the Lessor has demanded payment pursuant to the Lease or in response to which a Special Transfer has been effected, the Company is required to pursue diligently satisfaction of the conditions necessary to effectuate an assumption of the Lessor Notes; specifically, to deliver to the Indenture Trustee, among other things, (a) a duly executed assumption agreement of the Company (and, where applicable, any of its Affiliates), (b) an opinion of counsel to the Company (and, if applicable, such Affiliates) as to, among other things, compliance with the conditions of the assumption (including the obtainment of any necessary governmental actions) and as to due authorization, execution, delivery and enforceability of the assumption agreement referred to in clause (a) above, (c) copies of all necessary governmental actions referred to in such opinion, (d) an indenture supplemental to the Lease Indenture which, among other things, confirms the release of the Owner Trustee and contains provisions amending the Lease Indenture to delete references to the Lease and reflect the fact that the obligations of the Owner Trustee have been assumed by the Company (and, if applicable, such Affiliates), (e) a certificate of a responsible officer of the Company (and, if applicable, such Affiliates) to the effect that, to the best of such officer's knowledge (i) the conditions precedent to such assumption have been complied with, (ii) no Lease Indenture Default or Lease Indenture Event of Default has occurred and is continuing, (iii) such assumption is permitted by the provisions of the Company's Articles of Incorporation and by-laws (or similar corporate documents) and (iv) the Company (and, if applicable, such Affiliates) is not insolvent at the time of such assumption and (f) a certificate of a responsible officer of the Owner Trustee

to the effect that, to the best of such officer's knowledge, no Lease Indenture Default or Lease Indenture Event of Default has occurred and is continuing. (Lease Indenture, Section 3.9.)

In the case of a Deemed Loss Event or Event of Loss in respect of which payment had been demanded under the Lease, the Company is further required to pay the Lessor the excess of Casualty Value (in the case of an Event of Loss) or Special Casualty Value (in the case of a Deemed Loss Event) over the unpaid principal amount of the Lessor Notes together with any other amounts then owing to the Owner Trustee, the Owner Participant, the Lease Indenture Trustee or the Trustee. Upon satisfaction of the assumption conditions and payment of the amounts described above, the Lessor is required to transfer title to its Undivided Interest back to the Company (or one or more Affiliates of the Company) as directed by the Company subject to the lien of the Lease Indenture.

If the Company makes the payments to the Owner Trustee and the Owner Participant required under the Lease as described above but has not assumed or cannot assume the Lessor Notes and the Lessor has received payment of amounts due it under the Lease, then the Owner Participant must make a Special Transfer. In addition, an Owner Participant may, at its option, also make a Special Transfer upon (x) the occurrence of any Deemed Loss Event or Event of Loss irrespective of whether a demand for payment has

been made under the Lease or (y) the occurrence and continuance of a Lease Event of Default. In the case of any Special Transfer, the Company would be required to pay to the Owner Participant the Required Rent Payment Amount (which is defined in the Participation Agreement and which can be (i) Special Casualty Value or (ii) Casualty Value or (iii) the highest of Casualty Value, discounted fair market rental value and fair market sales value, depending upon the event giving rise to the Special Transfer) less any amounts drawn on the appropriate letter of credit, and until such time as the Company shall have assumed the Lessor Notes, the Company will be obligated to pay basic rent under the Lease reduced to an amount, payable on each January 15 and July 15 thereafter, equal to the amount of principal of and premium, if any, and accrued interest then payable on all outstanding related Lessor Notes. (Participation Agreement, Section 7(b)(4); Lease Indenture, Section 3.9; Lease, Sections 9(c) and 9(d).)

"Deemed Loss Event" includes the following types of events:

(a) the Lessor or Owner Participant becoming subject to adverse regulation as a public utility solely as a result of the Transactions;

(b) certain changes and/or new interpretations by a governmental authority regarding applicable law, including the Price-Anderson Act, the Atomic Energy Act, the Nuclear Waste Act or NRC regulations, as a result of which the Lessor or Owner Participant would (i) become liable or responsible in any capacity for payments owed in respect of the nuclear waste fund or in respect of, among other things, the handling or disposal

of nuclear waste and other radioactive or hazardous materials, or (ii) be prohibited from asserting any material right, protection or defense available under applicable law as of the date of the closing of the Transactions with respect to civil or criminal actions brought in connection with a nuclear incident;

(c) the Lessor or Owner Participant being required to become a licensee of the NRC or subject to the Atomic Energy Act or otherwise subject to NRC or other burdensome regulation; or

(d) any governmental action or change in applicable law adversely affecting the legality of the Transactions or certain remedies of the Lessor or Owner Participant under the transaction documents or causing the Lessor or Owner Participant to become liable with respect to the decommissioning of Unit 1.

"Event of Loss" includes such events as:

(a) a final shutdown of Unit 1 which could result from any of several events, including certain NRC licensing problems with respect to Unit 1, direction by the NRC or other governmental authority to suspend operation of Unit 1 for reasons of radiological health and safety for a period exceeding 24 consecutive months, cessation of operation of Unit 1 for such period if resumption of operation would require concurrence of the NRC or other governmental authority, the occurrence of certain nuclear incidents (as defined in the Atomic Energy Act) with respect to Unit 1 as a result of which Unit 1 ceases to operate for a period of 18 consecutive months, damage to Unit 1 and failure to restore Unit 1 within the shorter of three years or the period from the occurrence of such damage until the end of the Lease term, or the destruction of Unit 1;

(b) a requisition of title of Unit 1 or the Undivided Interest or certain common facilities or the Grand Gulf Station site by a governmental authority for a period of time which exceeds or is expected to exceed the shorter of 60 months or the remaining Lease term, subject to certain contest rights of the Company;

(c) a requisition of the use of Unit 1 or the Undivided Interest or certain common facilities or the site of the Grand Gulf Station by a governmental authority, other than a requisition of title, which would significantly interfere with the use of Unit 1 or the Undivided Interest, and which requisition is for a period of time which exceeds or is expected to exceed the shorter of 60 months or the remaining Lease term, subject to certain contest rights of the Company; or

(d) failure by the Company to provide to the Lessor, effective by the end of the lease term, access with respect to certain transmission, substitute power and other assets necessary for the operation of Unit 1 or to make certain payments to the Owner Trustee in respect of the exercise of certain

purchase options regarding the Undivided Interest.

The Company may, at its option, but is not required to, assume the Lessor Notes if it chooses to exercise certain purchase options described under "Description of The Leases--Purchase Option for Significant Expenditures" or "Periodic Purchase Option" or under "Other Agreements--Participation Agreement." (See Participation Agreement, 10(b)(3)(ix); Lease, Sections 13(f) and 13(g).)

DEFEASANCE

Lessor Notes will, at or prior to the maturity thereof, be deemed to have been paid for purposes of the Lease Indenture and the Owner Trustee (except as expressly provided in any transaction document) will be released from any further obligations under the Indenture with respect to such Lessor Notes, if there shall have been irrevocably deposited with the Lease Indenture Trustee, in trust, either: (a) moneys in an amount which will be sufficient, or (b) Federal Securities (as defined below), which do not contain provisions permitting the redemption or other prepayment thereof at the option of the issuer thereof, the principal of and the interest on which when due, without any regard to reinvestment thereof, will provide moneys which, together with the moneys, if any, deposited with or held by the Lease Indenture Trustee, will be sufficient, to pay when due the principal of and premium, if any, and interest due and to become due on the Lessor Notes on and prior to the maturity thereof. For this purpose, Federal Securities include direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America and certificates of any ownership interest in the principal of or interest in such obligations. (Lease Indenture, Section 2.4.)

AMENDMENTS AND SUPPLEMENTS

The Lease Indenture Trustee and the Owner Trustee may amend or supplement each Lease Indenture without the consent of the holders of the Lessor Notes (including the Trustee, as the registered holder of the Pledged Lessor Notes), to, among other things, evidence the assumption of the Lessor Notes by the Company as described under "Assumption by the Company" above or the issuance of additional Lessor Notes in accordance with the terms of the Lease Indenture. (Lease Indenture, Section 10.1.)

Upon the receipt of a Directive, the Lease Indenture Trustee will enter into amendments or supplements to the Lease Indenture or consent to certain amendments or waivers to the Lease. Upon the receipt of an instruction from the Company and the Owner Trustee, the Lease Indenture Trustee will consent to the amendment, supplement, waiver or modification of the terms of the Lease other than certain terms of the Lease relating, among other things, to the form of payment of rent, the sufficiency of certain rental payments to provide funds at least equal to amounts payable on the Lessor Notes, liens, certain Lease Events of Default and the exercise of remedies under the Lease. Without the consent of the holders of all the Lessor Notes, the Lease Indenture Trustee may not consent to any supplement or amendment to the Lease Indenture or the Lease or to any waiver or modification of the terms of either thereof which has the

effect of (a) (x) modifying, waiving, discharging or terminating (i) any of the provisions of the Lease Indenture relating to (A) amendments and supplements to such Lease Indenture or the Lease, (B) the issuance of additional Lessor Notes or (C) the duties of the Lease Indenture Trustee in respect of Lease Indenture Events of Default, Lease Events of Default, Deemed Loss Events, Events of Loss and matters specified in a Directive, (ii) the provisions of the Lease relating to (A) the sufficiency of basic rent to pay the Lessor Notes, (B) the net lease provisions, (C) the Lease Event of Default relating to the failure of basic rent to be paid within five days after the same shall be due or (D) insofar as it affects redemption of the Lessor Notes, termination by the Company of the Lease on the basis of the obsolescence of Unit 1 or (iii) the definition of Directive or the definition of Lease Indenture Event of Default or (y) reducing the amount of basic rent or Casualty Value or Special Casualty

Value or any payment pursuant to the remedial provisions of the Lease below the amount required to pay the full principal of, and premium, if any, and interest on, the Lessor Notes when due or extending the time of payment thereof; (b) except as permitted by the preceding clause (a), modifying, amending or supplementing the Leases or consenting to the termination of assignment thereof so as to reduce the Company's payment obligations of the type referred to in the preceding clause (a) below the amounts therein specified; (c) except as provided in the Lease Indenture, depriving the holder of any Lessor Note of the lien of the Lease Indenture; (d) materially adversely affecting the rights and remedies for the benefit of the holders of the Lessor Notes under the default and remedy provisions of the Lease Indenture; or (e) reducing the amount or extending the time of payment of any amount payable under a Lessor Note or reducing or modifying the provisions for the computations of interest owing or payable thereon or changing the priorities of recipients of any amounts received with respect to the Lessor Notes or reducing or modifying any indemnities in favor of the holders of the Lessor Notes. (Lease Indenture, Section 10.2.)

LIMITATION OF LIABILITY

The Pledged Lessor Notes which will secure the Bonds are not direct obligations of, or guaranteed by, the Company, any Owner Participant, or any institution or individual acting as Owner Trustee in its individual capacity. All payments to be made by the Owner Trustee under the Lease Indenture or on the Lessor Notes shall be made only from the Lease Indenture Estate and the trust estate (which is composed of all of the Owner Trustee's interest in the Undivided Interest, the transaction documents and other property contributed by the Owner Participant but excludes Excepted Payments and certain excepted rights). No Owner Participant or, except as specifically provided in the Lease Indentures, Owner Trustee or Lease Indenture Trustee will be liable to any holder of a Lessor Note for amounts payable in respect thereof or otherwise pursuant to the Lease Indentures or, in the case of any Owner Participant or, except as specifically provided in the Lease Indentures, any Owner Trustee to any Lease Indenture Trustee for any amounts payable under any Pledged Lessor Notes or Lease Indentures. (Lease Indenture, Section 3.7.)

ADDITIONAL LESSOR NOTES

The Lease Indenture permits issuance of additional Lessor Notes (including additional Pledged Lessor Notes) at any time or from time to time, subject to certain conditions, for cash in the original principal amount of such additional Lessor Notes for the following purposes: (a) refunding any previously issued series of Lessor Notes in whole or in part, (b) providing funds for all or any portion of certain capital improvements to Unit 1 and/or (c) under certain circumstances, refunding a portion of the initial investment of the Owner Participant in Unit 1. (Lease Indenture, Section 3.5.) If such additional Lessor Notes are issued to Funding Corporation they would be pledged to the Trustee as security for subsequent issuances of Securities by Funding Corporation, which subsequently issued Securities will be secured on a parity with the Bonds by the Lessor Notes then or thereafter pledged to the Trustee. All of the Lessor Notes issued and outstanding under the Lease Indenture, whether or not issued to Funding Corporation, will rank on a parity with each other and will as to each other be secured equally and ratably thereunder, without preference, priority or distinction of any thereof over any other by reason of difference in time of issuance or otherwise. (Lease Indenture, Sections 3.5 and 3.6.)

DESCRIPTION OF THE LEASES

THE STATEMENTS CONTAINED UNDER THIS CAPTION ARE INTENDED TO SUMMARIZE BRIEFLY THE LEASES AS THEY RELATE TO THE BONDS; THEY DO NOT PURPORT TO BE COMPLETE AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THE LEASES, COPIES OF WHICH HAVE BEEN FILED AS EXHIBITS TO THE REGISTRATION STATEMENT OF WHICH THIS PROSPECTUS IS A PART. EACH LEASE IS AN ENTIRELY SEPARATE LEASE BUT CONTAINS SUBSTANTIALLY THE SAME TERMS AND PROVISIONS AS EACH OTHER LEASE. IN THE FOLLOWING SUMMARY, REFERENCES TO THE LEASE, THE LEASE INDENTURE, THE OWNER PARTICIPANT, THE UNDIVIDED INTEREST, THE LESSOR AND THE LESSOR NOTES RELATE TO EACH LEASE.

TERM AND RENTALS

The Lessor has acquired its Undivided Interest and has leased such interest to the Company pursuant to the Lease, which has a term expiring on July 15, 2015 unless earlier terminated or extended as described below. Basic rent is required to be paid by the Company under the Lease in immediately available funds on each January 15 and July 15, commencing July 15, 1989 and ending July 15, 2015. (Lease, Sections 2(b) and 3(a).) The amount of basic rent payable under the Lease on each basic rent payment date will be at least equal to the scheduled amount of principal of and interest then payable on all Lessor Notes then outstanding. (Lease, Section 3(g).) In addition, the Leases require that basic rent payments, together with payments of Casualty Value or Special Casualty Value and certain other amounts, be made in such amounts and at such times as will be sufficient for the payment when due of the prepayment of principal of and premium, if any, and interest on the related Lessor Notes.

Each payment of basic rent by the Company during such time as the Lease Indenture is in effect will be made to the Lease Indenture Trustee and applied first to the payment of principal and interest due from the Lessor on the Lessor Notes. Except in the case of an acceleration of Lessor Notes due to a continuing Lease Indenture Event of Default, the balances of any payments of basic rent under the Lease, after payment of the scheduled principal of and premium, if any, and interest on the Lessor Notes, will be distributed to the Owner Participant, as beneficial owner of the trust which is the owner of the Undivided Interest. (Lease Indenture, Sections 2.2, 5.1 and 5.6.)

NET LEASE

The obligations of the Company under the Lease are those of a lessee under a "net lease," and the Company will be responsible under the Lease for paying all insurance premiums, operating and maintenance costs, decommissioning costs, and all other similar costs associated with the Undivided Interest. Payments of rent under the Lease by the Company are to be made without counterclaim, set-off, defense, abatement, suspension or reduction. (Lease, Section 4.) The Company will be responsible under the Lease for paying all taxes, insurance premiums, operating and maintenance costs and all other similar costs associated with the Undivided Interest.

CAPITAL IMPROVEMENTS

The Company may incur costs from time to time in connection with capital improvements to Unit 1. Certain of such costs, based on the Owner Trustee's proportionate interest in Unit 1, may be financed through a Supplemental Financing. (See "Description of the Lease Indentures--Additional Lessor Notes.") In the event of such a Supplemental Financing, the rent under the Lease will be increased to cover the additional debt service. In addition, the Owner Participant may elect to make an additional equity investment with respect to the cost of any capital improvements on terms to be agreed upon. (Lease, Section 8(f).)

RIGHTS TO ASSIGN OR SUBLEASE

The Company is permitted to assign, sublease, encumber or transfer its rights and obligations under the Lease or other documents related to the Transactions so long as (i) such assignment, sublease, encumbrance or transfer does not (A) permit the early termination of a letter of credit, or (B) result in any tax loss to the Owner Participant, and (ii) the Company remains the primary obligor on the Lease. (Lease, Section 11.)

INSURANCE

The Company is required under the Lease to carry and maintain, with respect to the Undivided Interest, Unit 1 and the site of the Grand Gulf Station, the insurance described below:

(a) provided that such insurance is commercially available at a commercially reasonable cost, non-nuclear property insurance covering physical loss with respect to Unit 1;

(b) provided that such insurance is commercially available at a commercially reasonable cost, bodily injury and property damage liability insurance covering claims arising out of the ownership, operation, maintenance, condition or use of Unit 1;

(c) nuclear property insurance; and

(d) nuclear liability insurance.

With respect to each of the types of insurance described in (a) through (d) above, the Company is required to maintain such insurance in such amounts and with such terms as are consistent with the Company's normal practice in respect of those other owned, leased or operated nuclear generating units for which the Company determines or controls the determination of the amount and other terms of such insurance, and in any event in such amounts and with such terms as are consistent with applicable law and prudent utility practice. The Company is also required to maintain supplier's and transporter's insurance and nuclear worker exposure insurance, in each case in amounts consistent with prudent utility practice and applicable law. (Lease, Section 10.)

PURCHASE AND RENEWAL OPTIONS AT THE END OF THE LEASE TERM

The Company has the option under the Lease to purchase at fair market sales value the Lessor's Undivided Interest at the end of the term of the Lease, or to renew the Lease for one or more periods of three years, at a fair market rental value or, subject to receipt of a satisfactory appraisal which will address certain tax matters, to renew the Lease at the end of the initial Lease term at a fixed rate rental for a single period of at least two years. (Lease, Sections 12 and 13.) If the Company does not give notice of its election to exercise the options to purchase or renew the Lease not earlier than five but not later than two years prior to the expiration of the Lease, the Lessor may, on at least one year's prior written notice, terminate the Lease on the date specified in the notice. Upon such termination, the Company must pay to the Lessor all basic rent then due or accrued, together with any other amounts then due to the Owner Trustee, the Owner Participant, the Lease Indenture Trustee and the Trustee. On or prior to such termination, the Lessor would be required to deposit with the Lease Indenture Trustee cash in an amount (or a letter of credit in such an amount) equal to the unpaid principal amount of all Lessor Notes outstanding on such date, and all premium, if any, and interest accrued or to accrue on and as of such termination. (Lease, Section 14(c).)

PURCHASE OPTION FOR SIGNIFICANT EXPENDITURES

The Company has the option on any January 15 or July 15 on or after January 15, 1999 to terminate the Lease if the Company is planning or required to make any significant expenditure for certain types of capital improvements to Unit 1. On such January 15 or July 15, the Company must pay to the Lessor an amount equal to the higher of the fair market sales value of the Undivided Interest

and Casualty Value determined as of such January 15 or July 15, and assuming such payment, the Lessor would be required to transfer the Undivided Interest to the Company. If the Company has assumed the Lessor Notes such amount shall be reduced by the principal amount of the Lessor Notes so assumed. A "significant expenditure" is an expenditure with respect to certain capital improvements to Unit 1 which (i) for the period until and including December 28, 2008, shall exceed $250,000,000 (as such amount may be adjusted periodically in accordance with the Consumer Price Index) and (ii) for the period from and including December 29, 2008 until the end of the Lease Term, shall exceed $100,000,000 (as such amount may be adjusted periodically in accordance with the Consumer Price Index). (Lease, Section 13(f).)

PERIODIC PURCHASE OPTION

The Company has the option on January 15 in each of the years 1999, 2004 and 2009 to terminate the Lease and to purchase the Undivided Interest. On such January 15, the Company must pay to the Lessor an amount equal to the higher of the fair market sales value of the Undivided Interest and Casualty Value

determined as of such January 15 together with any amounts of rent then due. If the Company has assumed the Lessor Notes such amount shall be reduced by the principal amount of the Lessor Notes so assumed. (Lease, Section 13(g).)

TERMINATION FOR OBSOLESCENCE

The Company has the option on any January 15 or July 15 commencing on January 15, 1999 to terminate the Lease if the Company's Board of Directors determines that Unit 1 is economically obsolete and that the Company should seek to dispose of all its interests (owned or leased) in Unit 1. On such termination date, the Lessor will be required to sell the Undivided Interest to the highest bidder (which may not be either the Company or any Affiliate thereof) and the Company must pay to the Lessor an amount equal to the excess, if any, of Special Casualty Value as of the termination date over such net sale price, plus any premium payable on the Lessor Notes upon the redemption thereof and any other amounts then payable to the Owner Trustee, the Owner Participant, the Lease Indenture Trustee and the Trustee. If no such sale shall occur or if the Company shall not have fulfilled its obligations in respect of such termination, the Lease will continue in full force and effect. (Lease, Sections 14(a) and 14(b).) In the event of such a termination, the Lessor Notes shall be prepaid. (Lease Indenture, Sections 3.9 and 5.2.)

LEASE EVENTS OF DEFAULT

The following are Lease Events of Default:

(a) the Company shall fail to make, or cause to be made, (x) any payment of Casualty Value, Special Casualty Value or basic rent within five business days after the same shall become due or (y) any payment of supplemental rent (other than Casualty Value or Special Casualty Value)

including, without limitation, any payments due under the Tax Indemnification Agreement, within 20 days after the same shall become due or be demanded, as the case may be; or

(b) (x) the Company shall fail (A) to perform or observe any covenant, condition or agreement to be performed or observed by it under the Participation Agreement relating to the maintenance of its corporate existence and maintenance of certain of its material agreements or to comply with the assignment and sublease provisions of the Lease or (B) to make the payments required to be made by it upon the exercise of its option to purchase the Undivided Interest upon the termination of a letter of credit or upon its inability to return the Undivided Interest at the end of the Lease term or (y) if the Company has failed to comply with certain notice and cooperation requirements in the Lease, failure by the Company to return the Undivided Interest at the end of the Lease term; or

(c) the Company shall fail to perform or observe any covenant, condition or agreement (other than those referred to in clauses (a), (b), (g), (i) and (j) of this paragraph) to be performed or observed by it under the Lease or any other transaction document (other than under the Tax Indemnification Agreement or under the general tax indemnity provisions of the Participation Agreement), and such failure shall continue for a period of 30 days after there shall have been given to the Company by the Lessor or the Owner Participant a notice specifying such failure and requiring it to be remedied; provided, however, that the continuation of such failure for a period of 30 days or more after such notice has been so given (but in no event for a period which is greater than one year after such notice has been given) shall not constitute a Lease Event of Default if (a) such failure can be remedied but cannot be remedied within such 30 days, (b) the Company is diligently pursuing a remedy of such failure and (c) such failure does not impair in any material respect the Lessor's interest in Unit 1 or the mortgage and security interest created by the Lease Indenture; or

(d) any representation or warranty made by the Company in the Lease, any other transaction document (other than the Tax Indemnification Agreement) or any agreement, document or certificate delivered by the Company in connection with the Transactions shall prove to have been incorrect in any material respect when such representation or warranty was made or given if such representation or

warranty continues to be material and remains materially incorrect at the time in question; provided, however, that such failure of such representation or warranty to be correct shall not constitute a Lease Event of Default if (i) the facts or circumstances making such representation or warranty incorrect can be remedied or changed so that such representation or warranty will thenceforth be correct in all material respects, (ii) the Company is diligently pursuing such a remedy or change, (iii) such remedy or change is, in fact, accomplished within a period of one year from the

time that the Company has been notified of such misrepresentation or breach of warranty and (iv) such facts or circumstances do not impair in any material respect the Lessor's interest in Unit 1 or the mortgage and security interest created by the Lease Indenture; or

(e) the Company shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect, or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking of possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall take any corporate action to authorize any of the foregoing, or an involuntary case or other proceeding shall be commenced against the Company seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency, or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed or unstayed for a period of 60 consecutive days; or

(f) final judgment for the payment of money in excess of $10,000,000 shall be rendered against the Company and the Company shall not have discharged the same or provided for its discharge in accordance with its terms or bonded the same or procured a stay of execution thereof within 60 days from the entry thereof; or

(g) the Company (A) shall fail, at any time, to provide or maintain a letter of credit which complies with the terms and conditions of the Participation Agreement, whether or not the Company has used best efforts to obtain and maintain such letter of credit, or (B) shall fail to provide a renewal or replacement letter of credit so complying (1) by the 15th day prior to the stated termination date of an existing letter of credit, (2) if the issuing bank of an existing letter of credit shall have delivered notice, in accordance with the terms thereof, that such existing letter of credit will be terminated prior to its stated termination date and if such issuing bank was required to give at least 30 days' notice of such early termination, by the 15th day prior to the date of such early termination or (3) if the issuing bank of an existing letter of credit shall have delivered notice, in accordance with the terms thereof, that such existing letter of credit will be terminated prior to its stated termination date and if such issuing bank was not required to give at least 30 days' notice of such early termination, by the later of (x) the time of the effectiveness of such notice and (y) the 15th day prior to the date of such early termination; or

(h) the exercise of remedies upon the occurrence and continuance of an event of default under any other lease under which the Company is the lessee of equipment or facilities (other than fuel) which equipment or facilities (A) were owned or leased by the Company on the closing date of

the Transactions and (B) were purchased by the lessor at an original purchase price not less than $100,000,000 (considering the property subject to each such lease individually and not together with the property subject to any other such lease); or

(i) any suspension, revocation or termination of non-nuclear insurance required to be maintained pursuant to the Lease, and such suspension, revocation or termination shall continue for more than five business days from the effective date of such suspension, revocation or termination unless such insurance is reinstated or replaced; or

(j) any suspension, revocation or termination of nuclear insurance required to be maintained under the Lease and certain endorsements providing that interests of the Lessor and the Owner Participant in

all insurance referred to in the Lease shall not be invalidated by a breach of warranty by the Company, to the extent that such endorsements are required under the Lease; provided, however, that such suspension, revocation or termination shall not constitute a Lease Event of Default if the applicable insurer has failed to comply with applicable notice termination provisions of the pertinent policy; and provided, further, that the foregoing proviso shall cease to apply upon the earlier of (x) five business days following receipt by the Company of actual notice of such suspension, revocation or termination or (y) the applicable termination date of such policy assuming that the insurer had complied with its notice obligations under the pertinent policy. (Lease, Section 15.)

REMEDIES

Upon the occurrence and continuance of any Lease Event of Default, a Lessor may exercise one or more of the remedies set forth in the Lease, which include the following: (a) the Lessor may declare the Lease to be in default or may terminate the Lease; (b) the Lessor may repossess the Undivided Interest; (c) subject to certain rights of first refusal of any other owners of an undivided interest in the Grand Gulf Station other than the Company, the Lessor may sell the Undivided Interest or any part thereof; (d) the Lessor may hold, keep idle or lease to others all or any part of the Undivided Interest; (e) the Lessor may demand any unpaid rent plus, as liquidated damages, any of the following amounts which the Lessor, in its sole discretion, shall specify: (i) an amount equal to the excess of Casualty Value over the fair market rental value of the Undivided Interest until the end of the remaining useful life of Unit 1 (discounted to present worth), (ii) an amount equal to the excess of Casualty Value over the fair market sales value of the Undivided Interest, (iii) an amount equal to the excess of the present value of all installments of basic rent until the end of the Lease term over the present value of the fair market rental value of the Undivided Interest until the end of such term, or (iv) an amount equal to the highest of Casualty Value, such discounted fair market rental value and such fair market sales value; and (f) if the Lessor shall have sold all the Undivided Interest pursuant to clause (c) above, the Lessor, in

lieu of exercising its rights under clause (e) above may demand that the Company pay to the Lessor, as liquidated damages, any unpaid rent plus the amount of any deficiency between the sale proceeds and Casualty Value together with interest on the amount of such rent and such deficiency.

The remedies in the Lease are cumulative and in addition to any other remedy available to the Lessor at law or in equity, and no exercise of any remedy under the Lease will, except as specifically provided therein, relieve the Company of any of its liabilities and obligations under the Lease. (Lease, Section 16.)

QUIET ENJOYMENT

Unless a Lease Event of Default has occurred and is continuing, the Company's use and possession of Unit 1, including the Undivided Interests, in accordance with the transaction documents shall not be interrupted by the Lessor or any person claiming by, through or under the Lessor. (Lease, Section 6(a).)

OTHER AGREEMENTS

THE DISCUSSION OF THE PARTICIPATION AGREEMENTS, TAX INDEMNIFICATION AGREEMENTS AND REIMBURSEMENT AGREEMENT BELOW IS MERELY INTENDED TO SUMMARIZE CERTAIN PROVISIONS OF THOSE AGREEMENTS AS THEY RELATE TO THE BONDS AND THE TRANSACTIONS; IT DOES NOT PURPORT TO BE COMPLETE AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THOSE AGREEMENTS, COPIES OF WHICH HAVE BEEN FILED AS EXHIBITS TO THE REGISTRATION STATEMENT OF WHICH THIS PROSPECTUS IS A PART.

PARTICIPATION AGREEMENT

In each Participation Agreement the Company has agreed that it will at all times maintain its corporate existence and will not consolidate with or merge into, or sell, transfer or otherwise dispose of substantially all of its assets to, any person unless immediately after giving effect to such transaction a number of conditions

are met, including the requirements that (a) the survivor be a corporation, organized under the laws of the United States of America, a State thereof or the District of Columbia, (b) the survivor of such transaction assume the obligations by the Company under each of the other documents relating to the Transactions to which the Company was a party, (c) such transaction does not permit the early termination of a letter of credit prior to its scheduled expiration date, (d) all governmental actions and corporate approvals have been obtained for the transaction, (e) the transaction will not result in a violation of any provision of any agreement or financing arrangement to which the Company is a party, and (f) the survivor delivers to the Owner Participant, the Owner Trustee and the Lease Indenture Trustee opinions and officers' certificate as to, among other things, compliance with the transfer conditions above. (Participation Agreement, Section 10(b)(3)(i) and (ii).)

Pursuant to each Participation Agreement, the Company has caused a letter of credit to be issued to each Owner Participant to secure the payment of certain amounts payable by the Company under such Owner Participant's Lease. Upon the occurrence of an Event of Loss, a Deemed Loss Event or a Lease Event of Default under the related Lease, an Owner Participant is entitled to draw on the letter of credit amounts generally not exceeding Casualty Value less the aggregate principal amount of and accrued interest on the related Lessor Notes then outstanding. The Company is obligated to make reimbursement to the issuer of such letter of credit for any amount so drawn plus interest thereon. The holders of the Lessor Notes (including the Trustee, as holder of the Pledged Lessor Notes) and Holders of the Bonds are not entitled to the benefit of any such letter of credit. Each Participation Agreement requires the Company to cause such a letter of credit of an eligible bank to be in place during the entire basic term of the related Lease. If a letter of credit is to expire, or be terminated prior to the scheduled expiration thereof, and the Company cannot replace such letter of credit with another letter of credit issued by an eligible bank, the Company will have the right to purchase the related Undivided Interest from the related Lessor, thereby terminating the related Lease, at a price equal to the higher of fair market sales value and Casualty Value; provided, however, that if the Company has assumed the Owner Trustee's obligations on the related Lessor Notes, the purchase price will be reduced by the principal amount of such Lessor Notes then outstanding. (Participation Agreement, Section 10(b)(3)(ix).)

Any Owner Participant may at any time sell, assign, convey or otherwise transfer all or any part of its interest in, to and under any transaction document or its trust estate to a person with a net worth at the time of such transfer of not less that $50 million or to a person whose obligations under the transaction documents have been absolutely and unconditionally guaranteed by a person with such a net worth. The transferring Owner Participant will, with certain limited exceptions, be released from its obligations under the transaction documents to the extent of the interest transferred and the transferee Owner Participant shall succeed to such obligations and rights of the transferring Owner Participant to the extent of the interest transferred. (Participation Agreement, Section 15(a).)

TAX INDEMNIFICATION AGREEMENT

Pursuant to separate Tax Indemnification Agreements, between the Company and each Owner Participant, the Company is obligated to pay to each Owner Participant, among other things, amounts which, on an after-tax basis, equal the amounts of additional federal income taxes payable by such Owner Participant with respect to any current or prior taxable year as a result of a Tax Loss and any interest, penalties or additions to any tax imposed as a result of such Tax Loss or the contest thereof. For purposes of each Tax Indemnification Agreement, "Tax Loss" includes, generally, (a) loss to an Owner Participant of depreciation or analogous deductions with respect to the related Undivided Interest or interest deductions with respect to the related Lessor Notes or (b) loss to an Owner Participant of foreign tax credits due to the treatment of any item of income, gain, loss or deduction with respect to the related Transaction as derived from, or allocable to, foreign sources, in the case of either (a) or (b) as a result of, among other things, (i) any act or

failure to act by the Company, (ii) any misrepresentation or breach of warranty or covenant in the transaction documents by the Company, (iii) bankruptcy of the Company or any disposition of the related Undivided Interest pursuant to the exercise of remedies under the related Lease Indenture or (iv) damage to or the taking of the related Undivided Interest.

REIMBURSEMENT AGREEMENT

Under the provisions of the Reimbursement Agreement entered into by System Energy and various banks in connection with the issuance of a letter of credit to each Owner Participant to secure the payment of certain amounts payable by the Company under the related Lease, System Energy has agreed to a number of covenants relating to, among other things: preservation of its corporate existence, properties, rights and franchises; restrictions on sales or other dispositions of assets and on mergers or consolidations; restrictions on the creation or incurrence of certain liens upon System Energy's assets; and the maintenance of certain capitalization and fixed charge coverage ratios. In this latter connection, System Energy has agreed during the term of the Reimbursement Agreement to maintain its equity at not less than 33% of its adjusted capitalization and to maintain its common equity at not less than 29% of such amount. In addition, System Energy has agreed to maintain, with respect to each fiscal quarter during the term of the Reimbursement Agreement, a ratio of adjusted net income to interest expense (calculated, in each case, as specified in the Reimbursement Agreement) of at least 1.60. (At September 30, 1993, System Energy's equity and common equity in each case approximated 34.32% of its adjusted capitalization, and its fixed charge coverage ratio, calculated as provided in the Reimbursement Agreement was 1.90.) The letters of credit may be terminated by the banks if the Company fails to perform or observe these covenants, if other events of default have occurred under the Reimbursement Agreement and under certain other circumstances including any change in applicable law or governmental action which adversely affects the obligations or ability of System Energy and certain other participants in the Transactions to make required payments or otherwise perform under the Transaction documents.

In connection with an audit of System Energy, the FERC issued a decision on August 4, 1992 finding that System Energy overstated its Grand Gulf 1 utility plant account by approximately $95 million and requiring System Energy to make adjusting accounting entries and refunds, with interest, to the System operating companies. System Energy filed a request for rehearing of the FERC's order. If the decision of the FERC is ultimately sustained and implemented, System Energy's income would be reduced. System Energy has obtained a waiver for a twelve month period by the banks of the fixed charge coverage and equity ratio covenants in the Reimbursement Agreement in order to avoid violation of the covenants in the event that the decision of the FERC is sustained and implemented in 1994. Absent a waiver, System Energy's failure to perform these covenants would entitle the issuing bank to give notice of the early termination of the letters of credit. If the letters of credit were not replaced in a timely manner, a Lease Event of Default would result, the Owner Participants would be entitled to draw on the letters of credit and remedies

may be exercised against the Company. See "Security and Source of Funds for the Bonds" and "Description of the Leases--Lease Events of Default." Reference is made to the Incorporated Documents for further information on this matter.

The existing letters of credit expire on January 15, 1997. The provisions of the Reimbursement Agreement relating to renewed or replacement letters of credit, and the provisions for the early termination of the letters of credit, may vary from those relating to the existing letters of credit.

UNDERWRITING

Funding Corporation will sell the Bonds to an underwriting syndicate, including Morgan Stanley & Co. Incorporated, to be named in the Prospectus Supplement relating to the series of Bonds being offered. The Prospectus Supplement relating to a series of Bonds ("Offered Bonds") will set forth the terms of the offering of the Offered Bonds, including the names of underwriters, the proceeds to the Funding Corporation from such sale, any items constituting underwriters' compensation, any initial public offering price and any discounts or concessions allowed or reallowed to dealers. Any initial public offering price and any discounts or concessions allowed or reallowed or paid to dealers may be changed from time to time. The Offered Bonds will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of each resale. Unless otherwise set forth in the Prospectus Supplement, the obligations of the underwriters to purchase the Offered Bonds will be subject to certain conditions precedent, and the underwriters will be obligated to purchase all such Offered Bonds if any are purchased; provided that the agreement between the Company and the underwriters providing for the sale of the Offered Bonds may provide that under certain circumstances involving a default of underwriters, less than all of the Offered Bonds may be purchased.

Each Prospectus Supplement relating to a particular offering of Offered Bonds will contain a statement (1) as to whether or not the existence of a secondary market for such securities can be predicted and, if such existence is predicted, as to the extent of such secondary market, and (2) as to whether or not the underwriter or underwriters intend to make a market in such securities.

Subject to certain conditions, the Company may agree to indemnify the underwriter or underwriters and their controlling persons against certain civil liabilities, including liabilities under the Securities Act of 1933.

RATIOS OF EARNINGS TO FIXED CHARGES

System Energy has calculated ratios of earnings to fixed charges pursuant to Item 503 of SEC Regulation S-K as follows:

<TABLE>
<CAPTION>

	TWELVE MONTHS ENDED					
	DECEMBER 31,					SEPTEMBER 30,
	1988	1989	1990	1991	1992	1993
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Ratios of Earnings to Fixed Charges (a)	1.98	-- (b)	2.10	1.74	2.04	1.90

(a) "Earnings", as defined by SEC Regulation S-K, represent the aggregate of (1) net income, (2) taxes based on income, (3) investment tax credit adjustments-net and (4) fixed charges. "Fixed Charges" include interest (whether expended or capitalized), related amortization and interest applicable to rentals charged to operating expenses.

(b) Earnings for the twelve months ended December 31, 1989 were inadequate to cover fixed charges due to System Energy's cancellation and write-off of its investment in Unit No. 2 of the Grand Gulf Station in September 1989. The amount of the coverage deficiency for fixed charges was $745.2 million.

EXPERTS AND LEGALITY

The financial statements and related financial statement schedules of System Energy, incorporated in this Prospectus by reference from the Company's Annual Report on Form 10-K, have been audited by Deloitte & Touche, independent auditors, as stated in their reports (which reports express an unqualified opinion and include an explanatory paragraph referring to an uncertainty resulting from a regulatory proceeding), which are incorporated by reference herein and have been so incorporated in reliance upon such reports of such firm given upon their authority as experts in accounting and auditing.

With respect to the unaudited interim financial information incorporated herein by reference, Deloitte & Touche have applied limited procedures in accordance with professional standards for a review of such information. However, as stated in their reports included in the Company's Quarterly Reports on Form 10-Q, and incorporated herein by reference, they did not audit and do not express an opinion on such interim financial information. Accordingly, the degree of reliance on their reports on such information should be restricted in light of the limited nature of the review procedures applied. Deloitte & Touche are not subject to the liability provisions of Section 11 of the Securities Act of 1933 for their reports on the unaudited interim financial information because such reports are not "reports" or "parts" of the Registration Statement prepared or certified by the accountants within the meaning of Section 7 and 11 of the Securities Act.

The statements as to matters of law and legal conclusions made under "Description of the Bonds and the Indenture" have been reviewed by Reid & Priest, New York, New York, and are set forth herein in reliance upon the

opinion of said firm and upon their authority as experts. The statements made herein and in the Incorporated Documents, as to matters of law and legal conclusions, based on the opinion or belief of System Energy or otherwise, pertaining to titles to properties, franchises and other operating rights of System Energy, regulations to which System Energy is subject and any legal proceedings to which System Energy is a party, are made on the authority of Wise Carter Child & Caraway, Professional Association, and such statements are included herein and in such documents in reliance upon their authority as experts.

All statements made herein and in the Incorporated Documents, as to matters of law and legal conclusions, based on the opinion or belief of the System operating companies or otherwise, pertaining to titles to properties, franchises and other operating rights of the System operating companies, and their subsidiaries, the regulations to which they are subject and any legal proceedings to which they are parties, are made on the authority of Friday, Eldredge & Clark, Little Rock, Arkansas, as to AP&L; Monroe & Lemann (A Professional Corporation), New Orleans, Louisiana, as to LP&L and NOPSI, and Wise Carter Child & Caraway, Professional Association, Jackson, Mississippi, as to MP&L, and such statements are included herein and in such documents upon their authority as experts.

The statements made herein and in the Incorporated Documents, as to matters of law and legal conclusions, based on the belief of NOPSI or otherwise, with respect to legal proceedings with respect to NOPSI have been reviewed by Thomas O. Lind, Esq., Regional Counsel--Louisiana, Entergy Services, Inc., and such statements are included herein and in such documents upon his authority as an expert. Mr. Lind is a full-time employee of Entergy Services, Inc.

The legality of the Bonds will be passed upon for System Energy and Funding Corporation by Wise Carter Child & Caraway, Professional Association, Jackson, Mississippi, and Reid & Priest, New York, New York, and for the underwriters by Winthrop, Stimson, Putnam & Roberts, New York, New York. However, all legal matters pertaining to the organization of System Energy, titles to property, franchises and the security for the Bonds will be passed upon only by Wise Carter Child & Caraway, Professional Association, Jackson, Mississippi. In rendering such opinions, such firms will, as appropriate, rely upon as to matters of Mississippi law, the opinion of Wise Carter Child & Caraway, Professional Association, Jackson, Mississippi; as to matters of Arkansas law, the opinion of Friday, Eldredge & Clark, Little Rock, Arkansas and as to matters of New York law, the opinion of Reid & Priest, New York, New York.

GLOSSARY

CERTAIN CAPITALIZED TERMS USED IN THIS PROSPECTUS HAVE THE FOLLOWING MEANINGS AND SUCH MEANINGS SHALL APPLY TO TERMS BOTH SINGULAR AND PLURAL UNLESS THE CONTEXT CLEARLY REQUIRES OTHERWISE:

"AP&L" means Arkansas Power & Light Company.

"Affiliate" means with respect to the Company any other person directly or indirectly controlling or controlled by, or direct or indirect common control with, the Company. For purposes of this definition, the term "control" (including the correlative meanings of the terms "controlled by" and "under common control with"), as used with respect to any person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management policies of such person, whether through the ownership of voting securities or by contract or otherwise.

"Articles of Incorporation" means System Energy's Amended and Restated Articles of Incorporation.

"Atomic Energy Act" means the Atomic Energy Act of 1954, as amended, and regulations from time to time issued, published or promulgated pursuant thereto.

"Bonds" means the Secured Lease Obligation Bonds to which this Prospectus relates.

"Casualty Value" means an amount specified in each Lease which the Company must pay to the Lessor under such Lease in certain circumstances, which amount is, in general and among other things, calculated to preserve the net economic return of the related Owner Participant.

"Company" means System Energy Resources, Inc.

"Deemed Loss Event" means any of the events described as a Deemed Loss Event in each Lease upon the occurrence of which the Company must (subject to certain conditions) assume the related Lessor Notes or acquire the beneficial interest of the related Owner Participant. (See "Description of the Lease Indentures--Assumption by the Company.")

"Directive" means, with respect to all Lessor Notes issued by a Lessor, an instrument in writing and executed by the holder of such Lessor Notes, representing a majority of the aggregate unpaid principal amount of such Lessor Notes, directing such Lessor's Lease Indenture Trustee to take or refrain from taking the action specified therein or otherwise advising such Lease Indenture Trustee; provided, however, that each registered holder of a Lessor Note issued by such Lessor which is outstanding at the time of a Directive will be entitled to direct such Lessor's Lease Indenture Trustee only with respect to the proportionate aggregate unpaid principal amount of such Lessor Notes then outstanding which are registered in its name and which are (a) certified by the holder of such Lessor Notes to be held by it for its own account and not pledged as collateral for any of its obligations, or (b) pledged as collateral for one or more of its obligations, or obligations with respect to which it is acting as trustee under a related indenture, but in respect of which it has received a directive, satisfactory in form and substance to such Lease Indenture Trustee, given by the holder or holders of a proportionate interest in the obligations secured by such Lessor Notes in accordance with the instrument governing such obligations under the Lease Indenture.

"Entergy" means Entergy Corporation.

"Entergy System" means Entergy and its various direct and indirect subsidiaries.

"Event of Default" means an Event of Default under the Indenture.

"Event of Loss" means any of the events described as an Event of Loss in each Lease upon the occurrence of which the Company must (subject to certain conditions) assume the related Lessor Notes or acquire the

beneficial interest of the Owner Participant. (See "Description of the Lease Indentures--Assumption by the Company.")

"Excepted Payment" means (i) any indemnity payment (including payments under the Tax Indemnification Agreement) payable to the Owner Trustee or the Owner Participant, (ii) any amount payable under any transaction document to reimburse the Lessor or the Owner Participant for performing or complying with any of the obligations of the Company under and as permitted by any transaction document, (iii) any amount payable to the Owner Participant as the purchase price for its beneficial interest in the owner trust, (iv) any insurance proceeds or other payments received with respect to an Event of Loss in excess of amounts then due and owing in respect to the Lessor Notes, (v) any insurance proceeds under liability policies and other insurance policies not required by the Lease, (vi) payments by the Company to the Lessor with respect to certain obligations of the Company in connection with amounts owned by it to a Lessor upon a Special Transfer, (vii) if a letter of credit has been terminated or has expired, the portion, if any, of Casualty Value or Special Casualty Value (before taking into account the effect of certain drawings on such letter of credit) equal to the amount by which Casualty Value, reduced by the principal amount of an accrued interest on the outstanding Lessor Notes, exceeds the sum of all amounts drawn under the letter of credit and not reinstated and (viii) any payments in respect of interest to the extent attributable to payments referred to in clauses (i) through (vii) above.

"Exchange Act" means Securities Exchange Act of 1934, as amended.

"FERC" means Federal Energy Regulatory Commission.

"Funding Corporation" means GG1B Funding Corporation, a Delaware corporation.

"Grand Gulf 1" means Unit No. 1 of the Grand Gulf Station.

"Grand Gulf Station" means Grand Gulf Steam Electric Generating Station (nuclear).

"Holder" means any holder of Securities.

"Indenture" means the Collateral Trust Indenture, dated as of January 1,

1994, among Funding Corporation, the Company, and Bankers Trust Company, as Trustee, as supplemented and amended, pursuant to which the Bonds are issued.

"Initial Series Lessor Notes" means the Lessor Notes issued to certain banks which were parties to each Participation Agreement in connection with the Transactions.

"Lease" means each Facility Lease, dated as of December 1, 1988, as supplemented, under which the Company leases an Undivided Interest in Unit 1 from a Lessor in connection with the Transactions.

"Lease Default" means an event or condition which, with the giving of notice or lapse of time, or both, would constitute a Lease Event of Default.

"Lease Event of Default" means an Event of Default as such term is defined under a Lease.

"Lease Indenture" means each Trust Indenture, Deed of Trust, Mortgage, Security Agreement and Assignment of Facility Lease, dated as of December 1, 1988, as supplemented, between a Lessor and the Lease Indenture Trustee, pursuant to which the related Lessor Notes are issued.

"Lease Indenture Default" means an event or condition which, with the giving of notice or the lapse of time, or both, would constitute a Lease Indenture Event of Default.

"Lease Indenture Estate" means the trust estate assigned, transferred and pledged from a Lessor to the related Lease Indenture Trustee under its Lease Indenture, for the ratable benefit of the holders of the Lessor Notes issued thereunder.

"Lease Indenture Event of Default" means an "Indenture Event of Default" as defined in a Lease Indenture.

"Lease Indenture Trustee" means an indenture trustee under each of the Lease Indentures.

"Lessor" means any institution and/or individual acting as owner trustee under a trust agreement with an Owner Participant and as Lessor under a Lease and which, in such capacity, has purchased an Undivided Interest in Unit 1 as part of the Transactions, and "Lessors" means all such Lessors.

"Lessor Notes" means the non-recourse promissory notes issued by a Lessor under its Lease Indenture.

"LP&L" means Louisiana Power & Light Company.

"MP&L" means Mississippi Power & Light Company.

"NOPSI" means New Orleans Public Service Inc.

"NRC" means Nuclear Regulatory Commission.

"Nuclear Waste Act" means Nuclear Waste Policy Act of 1982, as amended, or any comparable successor law.

"Old Bonds" means the Secured Lease Obligation Bonds of the series initially issued by Old Funding Corporation on April 13, 1989 in connection with the funding of the permanent debt capital associated with the Transactions, which were secured by a pledge of the Old Pledged Lessor Notes.

"Old Funding Corporation" means GG1A Funding Corporation, a Delaware corporation.

"Old Pledged Lessor Notes" means the Lessor Notes which were pledged by Old Funding Corporation as security for the Old Bonds.

"Owner Participant" means a corporation which, in connection with the Transactions, has acquired a beneficial interest in the owner trust which is the owner and Lessor of an Undivided Interest.

"Owner Trustee" means each institution and/or individual acting as owner trustee under a trust agreement with an Owner Participant in connection with the Transactions.

"Participation Agreement" means each Participation Agreement, dated as of December 1, 1988, entered into among the Company, an Owner Participant, a Lessor, a Lease Indenture Trustee and others which relates to a Transaction and sets forth the terms and conditions upon which a Transaction will be consummated.

"Pledged Lessor Notes" means the Lessor Notes which are pledged by Funding Corporation to the Trustee as security for the Securities (including the Bonds).

"Price-Anderson Act" means the Atomic Energy Damages Act of 1957, as amended.

"Refinancing" means the series of transactions pursuant to which the Old Pledged Lessor Notes will be refinanced.

"Reimbursement Agreement" means the agreement, dated as of December 1, 1988, as amended, entered into by System Energy and various banks in connection with the sale and leaseback of a portion of System Energy's ownership interest in Grand Gulf 1.

"SEC" means Securities and Exchange Commission.

"Securities" means debentures, notes or other evidences of indebtedness which

may be issued under the Indenture.

"Securities Act" means Securities Act of 1933, as amended.

"SMEPA" means South Mississippi Electric Power Association.

"Special Casualty Value" means an amount specified in each Lease which the Company must pay to the Lessor under such Lease in certain circumstances, which amount is, in general and among other things, calculated to preserve the net economic return of the related Owner Participant.

"Special Transfer" means the assignment by an Owner Participant of its beneficial interest in the related owner trust to the Company or its assignees upon the occurrence of certain events, including the Company's inability to assume the related Lessor Notes following an Event of Loss or Deemed Loss Event.

"Supplemental Financing" means the issuance of additional Lessor Notes under a Lease Indenture to finance the related Lessor's proportionate share of capital improvements to Unit 1.

"Supplemental Indenture" means a supplemental indenture to the Indenture among Funding Corporation, the Company and the Trustee.

"System" means Entergy System.

"System Energy" means System Energy Resources, Inc.

"System operating companies" means AP&L, LP&L, MP&L and NOPSI, collectively.

"Tax Indemnification Agreement" means each tax indemnity agreement dated as of December 1, 1988 between the Company and an Owner Participant.

"Transaction" means either of the two transactions consummated on December 28, 1988 pursuant to which the Company sold the Undivided Interests in Unit 1 to Lessors under two separate owner trust agreements and leased back such interest pursuant to two separate Leases. "Transactions" refers to both of such transactions. (See "Brief Description of the Transactions.")

"Trustee" means Bankers Trust Company, trustee under the Indenture.

"Trust Indenture Act" means Trust Indenture Act of 1939.

"Undivided Interest" means either of the Company's leased undivided interests in Unit 1, which interests compose in aggregate approximately 15.146% of the total ownership interest in Unit 1 (as defined) (which constitutes approximately 11.5% of the total ownership interest in Grand Gulf 1) and each of which undivided interests were sold by the Company to the Owner Trustee under two separate owner trust agreements with two Owner Participants, and then leased back to the Company on a long-term net lease basis.

"Unit 1" means Grand Gulf 1, exclusive of certain transmission, pollution

control and other facilities, together with certain capital improvements thereto.

"Unit Power Sales Agreement" means the agreement, dated as of June 10, 1982, as amended, among the System operating companies and System Energy, relating to the sale capacity and energy from System Energy's share of Grand Gulf 1.