It is proposed that Mobile Energy and Southern Electric organize a new subsidiary of Mobile Energy to be named Mobile Energy Services Company, L.L.C. (''Project Company'') and that Mobile Energy transfer ownership of the Energy Complex and related assets to Project Company. In addition, it is proposed that Project Company assume all liabilities and obligations of Mobile Energy relating to the Energy Complex, including liabilities under the Interim Note and under agreements with the Board, Scott and S.D. Warren Company (''Mill Owners''), and other third parties.

It is also proposed that Mobile Energy declare and pay to Southern a dividend in the form of a 1% membership interest in Project Company, which Southern will contribute to Southern Electric, so that Mobile Energy will hold 99% and Southern Electric will hold 1% of Project Company's membership interests.

Applicants also propose that Project Company issue, and Mobile Energy guaranty, up to $240 million principal amount of first mortgage bonds (''First Mortgage Bonds'') plus such additional principal amount of First Mortgage Bonds as may be required to fund (from the net proceeds thereof) the cost, if any, of terminating the outstanding interest rate hedging agreements between Mobile Energy and Barclays Bank PLC. The net proceeds from the sale of the First Mortgage Bonds (after deduction of the underwriting commission), together with other available funds, will be used: (i) to repay the Interim Note ($190 million, exclusive of interest) and return to Southern approximately $4.5 million of paid-in capital; (ii) to pay to Southern electric approximately $10.5 million, representing amounts paid or incurred by Southern Electric as preliminary project development costs and as costs paid or incurred by Southern Electric under the Facility Operations and Maintenance Agreement between Southern Electric and Mobile Energy; (iii) to finance the balance of the costs of certain capital improvements (estimated at approximately $12.7 million) required under the terms of certain project agreements to be made to the Energy Complex; (iv) to pay certain development and start-up costs aggregating approximately $1.3 million; (v) to pay certain financing costs aggregating approximately $2 million; and (vi) to fund the termination payment, if any, under the two interest rate hedging agreements.

Applicants propose that Project Company issue the First Mortgage Bonds in one or more series on or before December 31, 1995. The First Mortgage Bonds will be issued pursuant to any indenture (''Indenture'') among Project Company, Mobile Energy, as guarantor, and First Union National Bank of Georgia, as trustee (''Trustee''). The bonds will have final maturities of from 10 to 22 years from financial closing and a weighted average life of from 12 to 15 years; will bear interest at a fixed rate to be determined on or before the date of financial closing that will not exceed the sum of the yield to maturity of an actively traded U.S. Treasury bond with a maturity equal to the weighted average life of the First Mortgage Bonds, plus 3-¾%; and may not provide for optional redemption prior to final maturity. Project Company's obligations under the First Mortgage Bonds will be unconditionally guaranteed by Mobile Energy.

It is stated that the First Mortgage Bonds will be sold to a group of underwriters to be led by Goldman, Sachs & Co. pursuant to an Underwriting Agreement and reoffered by such underwriters in part directly to the public and in part to certain securities dealers. It is anticipated that the First Mortgage Bonds will be rated ''investment grade'' by one or more of the nationally recognized independent rating agencies.

Applicants alternatively propose that the First Mortgage Bonds may be sold pursuant to a bond purchase agreement to one or more institutional purchasers in an offering that is intended to qualify for an exemption from registration under the Securities Act, or pursuant to an underwriting agreement with one or more underwriters for resale to qualified institutional buyers pursuant to rule 144A of the Securities Act. If the First Mortgage Bonds are not sold in a registered public offering, the terms of the bond purchase or underwriting agreement may include registration rights.

Applicants also propose that Project Company enter into agreements with the Board for the issuance of a new series of Tax-Exempt Bonds, subject to all other terms and conditions set forth in the December 1994 Order.

In addition, it is proposed that Project Company enter into a working capital facility (''Working Capital Facility'') with one or more commercial banks or other institutional lenders, pursuant to which Project Company may make borrowings from time to time through 2019 in an aggregate principal amount of up to $15 million at any time outstanding, as such amount may be escalated for inflation.

Borrowings under the Working Capital Facility generally will be used by Project Company to pay for operations and maintenance costs and other routine expenses incurred by Project Company. Each loan under the Working Capital Facility will have a maturity date no later than 90 days after the date of borrowing, and no more than $5 million of such loans may be scheduled to mature during any 30-day period. Under the terms of the Working Capital Facility, Project Company will be required to repay all amounts advanced so that no amounts are outstanding thereunder once during each fiscal year (other than 1995) for a period of at least five consecutive days.

Authorization is requested for either Southern or Project Company to enter into a dedicated revolving credit facility (''Major Maintenance Facility'') with one or more commercial banks or other institutional lenders to fund certain major maintenance reserve obligations of Project Company. Borrowings at any one time outstanding under the Major Maintenance Facility will not exceed $13 million.

Southern and Mobile Energy also propose to modify the terms of the Interim Note to be assumed by Project Company, in order to extend its maturity to December 31, 1995, and to provide for the payment of interest from January 1, 1995 to the date of payment at a rate equal to the lesser of (i) Southern's effective cost of borrowing and (ii) the prime commercial lending rate in effect from time to time at a commercial bank designated by Southern, plus 3%.

Under two interest rate hedging agreements executed following the acquisition closing (''Swaps''), Mobile Energy ''locked in'' base fixed rates with respect to notional amounts of $224 million, effective May 1, 1995, and $85 million, effective July 1, 1995. Since the acquisition closing, comparable base rates have declined markedly, with the result that there would currently be a cost associated with reversing, or terminating, the Swaps. That potential cost, or the cash impact, of reversing the Swaps will be based on the comparable base rates in effect on the dates on which the Swaps are in fact reversed, which will be the same date or dates on which the rates on the First Mortgage Bonds and new series of Tax-Exempt Bonds are fixed.

Based on the notional amounts of the Swaps and other relevant factors, the cash impact of a 100 basis point decline in the applicable base rates would be approximately $25 million. By way of illustration, on June 2, 1995, the comparable base rate for the Swaps was approximately 170 basis points lower than the base rate on December 19, 1994, implying a cost (or cash impact)