NEW ISSUE

$35,000,000

SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, ARIZONA

Salt River Project Electric System Revenue Bonds, 1975 Series C

To be dated October 1, 1975 **To mature January 1, as shown below:**

Principal and interest (January 1, 1976 and July 1 and January 1 thereafter) payable at the principal offices of First National Bank of Arizona, Phoenix, Arizona, or Continental Illinois National Bank and Trust Company of Chicago, Chicago, Illinois, or First National City Bank, New York, New York, at the option of the holder. Coupon Bonds in the denomination of $5,000 registrable as to principal only and exchangeable for fully registered bonds in any integral multiple of $5,000. First National Bank of Arizona, Phoenix, Arizona, is the Trustee.

The 1975 Series C Bonds maturing on January 1, 2015, are subject to redemption on January 1, 2000 and any interest payment date thereafter from amounts accumulated in the Debt Service Fund with respect to Sinking Fund Installments at the principal amount thereof plus accrued interest to the redemption date. The 1975 Series C Bonds may be redeemed as a whole, or in part in inverse order of maturities, at any time on or after January 1, 1986, at prices ranging from 103% for the period January 1, 1986, to and including December 31, 1987, to 100% on and after January 1, 1998, plus accrued interest to the date of redemption, as further described herein.

Interest is exempt, in the opinion of Bond Counsel, from Federal income taxes under existing laws, and from income taxes within the State of Arizona.

The 1975 Series C Bonds are being issued for the purpose of financing improvements to the Electric System of the District. The 1975 Series C Bonds and the presently outstanding Revenue Bonds are payable from and secured by a pledge of and lien on the net revenues of the District's Electric System, subject to a prior lien of Prior Lien Bonds, as defined in and more particularly described in the Official Statement. The 1975 Series C Bonds and the presently outstanding Revenue Bonds are also secured by a Debt Reserve Account.

Amounts, Maturities, Coupon Rates and Prices or Yields

$5,700,000 Serial Bonds

Amount	Maturity	Coupon Rate	Yield	Amount	Maturity	Coupon Rate	Price or Yield
$200,000	1983	7.20%	5.80%	$200,000	1991	7.20%	7.10%
200,000	1984	7.20	6.00	200,000	1992	7.20	100
200,000	1985	7.20	6.20	200,000	1993	7.30	100
200,000	1986	7.20	6.35	400,000	1994	7.40	100
200,000	1987	7.20	6.50	500,000	1995	7½	100
200,000	1988	7.20	6.65	600,000	1996	7.60	7.55
200,000	1989	7.20	6.80	600,000	1997	7.60	100
200,000	1990	7.20	7.00	700,000	1998	7.60	100
				700,000	1999	7.60	100

$29,300,000 8⅛% Term Bonds due January 1, 2015

Price 100%

(Accrued Interest to be Added)

The 1975 Series C Bonds are offered when, as and if issued and received by us, and subject to the approval of legality by Mudge Rose Guthrie & Alexander, New York, New York, Bond Counsel. It is expected that the 1975 Series C Bonds in definitive form will be available for delivery to the Underwriters in New York, New York, on or about October 15, 1975.

September 24, 1975.

This does not constitute an offer to sell the 1975 Series C Bonds in any State to any person to whom it is unlawful to make such an offer in such State. No dealer, salesman or any other person has been authorized to give any information or to make any representations, other than those contained herein, in connection with the offering of the 1975 Series C Bonds, and, if given or made, such information or representations must not be relied upon. The information set forth herein has been obtained from the District and other sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriters.

MANAGEMENT OF THE DISTRICT
Board of Directors

GERMAIN H. BALL	THOMAS P. HURLEY
ALEX M. CONOVALOFF	WILLIAM P. SCHRADER
BILL ROUSSEAU	JOHN S. HOOPES
LEO C. SMITH	W. LARKIN FITCH
JOHN M. WILLIAMS, JR.	THOMAS J. FINLEY

Principal Officers and Other Executives

KARL F. ABEL	*President*
JOHN R. LASSEN	*Vice President*
ROD J. McMULLIN	*General Manager*
FRANCIS E. SMITH	*Secretary*
A. J. PFISTER	*Associate General Manager—Power*
T. M. MORONG	*Assistant General Manager and Chief Engineer*
VAUGHAN A. PIERCE	*Assistant General Manager, Marketing and Commercial Services*
JOHN O. RICH	*Assistant General Manager—Power Operations*
TRENT O. MEACHAM	*Assistant General Manager—Construction and Maintenance*
ROBERT F. AMOS	*Associate General Manager—Finance and Operations Services*
KENNETH J. KNAUER	*Treasurer*
CARROLL M. PERKINS	*Director, Project Planning*
LEROY MICHAEL, JR.	*Director, Legal Services*
STANLEY E. HANCOCK	*Director, Communications and Public Affairs*
E. W. YORKE	*Director, Personnel*

Consultants

LEGAL ADVISORS	*Jennings, Strouss & Salmon*
AUDITORS	*Arthur Andersen & Co.*
CONSULTING ENGINEERS	*Ford, Bacon & Davis Incorporated*
BOND COUNSEL	*Mudge Rose Guthrie & Alexander*
FINANCIAL CONSULTANT	*Smith, Barney & Co. Incorporated*

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SUMMARY STATEMENT

(Subject in all respects to more complete information contained in this Official Statement)

The Salt River Project Agricultural Improvement and Power District

The District is an agricultural improvement district organized under the laws of the State of Arizona which provides electric service in a 2,900 square mile service territory in parts of Maricopa, Gila and Pinal Counties in Arizona. The District provides electric service to mining customers and wholesale power in an additional area of 2,400 square miles in Pinal and Gila Counties. The District's administrative offices are located in Tempe, Arizona, which is adjacent to and east of Phoenix.

Purpose of the 1975 Series C Bonds

The $35,000,000 1975 Series C Bonds, representing the third installment of a total of $170,000,000 Bonds (of which $135,000,000 have been issued) authorized under the 1975 Series Resolution, are being issued for the purpose of financing further construction of and improvements and replacements to structures and equipment necessary to provide electrical power and energy to the District's service area.

Security for the 1975 Series C Bonds

The Revenue Bonds, which include the 1975 Series C Bonds, are payable from and secured by a pledge of and lien on all revenues and income derived by the District from the ownership and operation of the Electric System after the payment of Operating Expenses and payments required to be made under the Prior Lien Bond Resolutions.

The District has covenanted not to issue any series of bonds or other obligations or create any additional indebtedness which will have priority over the charge and lien on the Revenues pledged to the Revenue Bonds except in the instance of refunding bonds issued pursuant to the Prior Lien Bond Resolutions and loans from the United States of America.

The Electric System

The District presently obtains power and energy from its wholly owned hydroelectric and thermal generating facilities, participation in jointly owned thermal plants and power purchases. The District owns most of its transmission and distribution facilities and shares certain other facilities under joint ownership arrangements.

At year end 1974, the District served 239,431 customers. Annual sales in 1974 totaled approximately 7.6 billion kwh, as compared to 4.7 billion kwh in 1970. Annual revenue from sales of $168,057,000 in 1974 compares to $73,480,000 in 1970. Due to the fact that the bulk of the population growth in the last decade has been directed toward the suburbs of Phoenix, the area served by the District, the District's customer growth rate has usually been higher than the population growth rates of either the State or Maricopa County.

The District is developing several power sources for future use. Due to the lower cost and relative abundance of coal, most of the future generating capacity during the 1970s will come from coal-fired plants. Since the cost of energy from these coal-fired plants is estimated to be lower than existing gas and oil-fired plants, certain presently existing gas and oil-fired plants will eventually be utilized mostly for peaking power during heavy energy demands. This change in fuel source can be illustrated by the fact that in 1974 approximately 31% of production was from gas and oil-fired plants and 39% from coal-fired plants, but by 1980 only 9% of production is estimated to come from oil-fired plants and 81% from coal-fired plants. The District is presently estimating that no natural gas will be available for its use for power generation after 1976.

Electric Rates

The District has covenanted to charge and collect rates, fees and charges as shall be required to pay when due all expenses of the Electric System, all debt service requirements and all other charges necessary for the operation of the District's Electric System. On August 14, 1975, the Board approved a rate increase to become effective with the October 1975 billing cycle. At the same time,

the Board gave approval to incorporate the fuel escalator into the new base rate schedules, thus reducing the escalator to zero. The rate increase is designed to produce approximately $8 million additional revenue in 1975.

The base rates at zero fuel escalation would produce approximately $40 million additional revenues in 1976; however, it is anticipated that the increasing portion of coal-fired energy on the system will require less burning of expensive oil. If the District is successful in achieving the fuel operating economies anticipated, negative fuel escalation will occur such that the net increase in revenues for 1976 will be approximately $21 million. This $21 million figure is the amount used in all representations herein of electric revenues for 1976.

Additional Bonds

The District may issue additional parity Revenue Bonds in compliance with the Resolution if, among other things, (1) Revenues Available for Debt Service, as may be adjusted, of any 12 consecutive calendar months out of the 24 calendar months next preceding the issuance of such additional Revenue Bonds are not less than 1.20 times the maximum annual debt service for any succeeding year on all Revenue Bonds and Prior Lien Bonds, which will be outstanding immediately prior to the issuance of the additional Revenue Bonds, (2) estimated Revenues Available for Debt Service, as may be adjusted, for each of the five calendar years immediately following the issuance of such additional Revenue Bonds is not less than 1.35 times the total debt service for each such respective calendar year on all Revenue Bonds including all Prior Lien Bonds, outstanding immediately subsequent to the issuance of such additional Revenue Bonds and (3) the estimated Revenues Available for Debt Service, as may be adjusted, for the fifth calendar year immediately following the issuance of such additional Revenue Bonds is not less than 1.35 times the maximum annual debt service for any succeeding year on all Revenue Bonds including all Prior Lien Bonds, which will be outstanding immediately subsequent to the issuance of such additional Revenue Bonds.

Debt Service Reserve Funds

The District is required by the Resolution and the Prior Lien Bond Resolutions to maintain certain debt service reserve funds. As of June 30, 1975, the amount in the Debt Service Reserve Fund for the Prior Lien Bonds was $23,798,573. Upon delivery of the 1975 Series C Bonds, the amount in the Debt Reserve Account for the Revenue Bonds will be $17,492,504.

Economic Considerations

The District's service area has a well-balanced, growing economy with no one sector dominating the economy. In Maricopa County as of June 1975, the four largest employers by industry were: wholesale, retail—24.1%, services and miscellaneous—17.3%, government—16.5%, and manufacturing—15.1%.

In Maricopa County, the 1965-1975 growth of certain indicators was as follows: population up 44.4%, retail sales up 180.8%, and bank deposits up 229.4%.

Outstanding Long-Term Indebtedness

As of July 2, 1975, the District had a total of $769,661,622 outstanding long-term debt consisting of $290,980,000 Prior Lien Bonds, $11,576,784 U. S. Government loans, $465,000,000 Revenue Bonds and other subordinate debt of $2,104,838.

Coverage

For the twelve months ended July 31, 1975, Revenues Available for Debt Service were $73,238,000. The maximum total annual debt service requirements for all outstanding Prior Lien Bonds (including reserve deposits therefor) and the Debt Service requirements on the Revenue Bonds, including the Debt Service requirements on the $35,000,000 1975 Series C Bonds, amount to $61,708,000 (in 1976) and would have been covered 1.19 times by such Revenues Available for Debt Service for the twelve months ended July 31, 1975.

Estimated Revenues Available for Debt Service, as adjusted, for 1975-1980 provide estimated coverage for debt service requirements and reserve deposits on all Prior Lien Bonds outstanding and Debt Service requirements on the Revenue Bonds, including Debt Service requirements on the 1975 Series C Bonds, ranging from 1.73 to 2.31 times.

SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, ARIZONA

OFFICIAL STATEMENT

Relating to

$35,000,000

Salt River Project Electric System Revenue Bonds, 1975 Series C

Phoenix, Arizona
September 24, 1975

The purpose of this Official Statement is to set forth information concerning the Salt River Project Agricultural Improvement and Power District (the "District") and its Salt River Project Electric System Revenue Bonds, 1975 Series C (the "1975 Series C Bonds") in connection with the sale by the District of the 1975 Series C Bonds and for the information of all who may become holders thereof. The mailing address of the District's administrative offices is Post Office Box 1980, Phoenix, Arizona 85001 (telephone number 602-273-5900).

AUTHORIZATION OF THE 1975 SERIES C BONDS

Pursuant to the Constitution and laws of the State of Arizona and in particular Article 7, Chapter 4, Title 45, Arizona Revised Statutes (the "Act") and the Resolution Concerning Revenue Bonds, dated as of November 1, 1972 (the "Resolution"), the District has authorized the issuance of bonds designated as "Salt River Project Electric System Revenue Bonds" (the "Revenue Bonds"). Pursuant to the Resolution, Revenue Bonds may be issued by series resolution at such times and in such amounts as the District shall determine. In 1973, the District issued $150,000,000 Revenue Bonds, 1973 Series (the "1973 Bonds") and, in 1974, the District issued $180,000,000 Revenue Bonds, 1974 Series (the "1974 Bonds").

By series resolution, dated as of October 29, 1974 (the "1975 Series Resolution"), the District's Board authorized the issuance of $170,000,000 Revenue Bonds, 1975 Series (the "1975 Bonds"). The District's Council, by resolution adopted on October 30, 1974, ratified and confirmed the issuance of the 1975 Bonds, and the Arizona Corporation Commission, in its approving Opinion and Order of November 6, 1974, authorized the issuance of the 1975 Bonds. On January 29, 1975, the District issued the initial installment of $60,000,000 1975 Series A Bonds. On May 8, 1975, the District issued the second installment of $75,000,000 1975 Series B Bonds. On September 8, 1975, the District by resolution authorized the sale of the third installment of 1975 Bonds. Said third installment is in the principal amount of $35,000,000 and is designated as "Salt River Project Electric System Revenue Bonds, 1975 Series C".

PURPOSE OF THE 1975 SERIES C BONDS

The 1975 Series C Bonds are being issued to finance a portion of the Improvement Program—1975 through 1980 (the "Improvement Program"). The Improvement Program includes construction of and improvements and replacements to the generation, transmission, distribution and general plant facilities of the District as more fully explained herein under "The Improvement Program—1975 through 1980".

SECURITY OF THE 1975 SERIES C BONDS

The Revenue Bonds, which include the 1975 Series C Bonds, are payable from and secured by a pledge of and lien on all revenues and income derived by the District from the ownership and operation of the Electric System after the payment of Operating Expenses and payments required to be made for the Prior Lien Bonds. The 1975 Series C Bonds are also secured by the proceeds of sale

thereof and, together with the other Revenue Bonds, are secured by all funds held under the Resolution, including a debt reserve equal to one-half of the average annual Debt Service for the Revenue Bonds, but not to exceed $25,000,000. Upon delivery of the 1975 Series C Bonds, the Debt Reserve Account for the Revenue Bonds will be $17,492,504.

The 1975 Series C Bonds shall not constitute general obligations of the District, and no holder of any of the 1975 Series C Bonds shall ever have the right to compel any exercise of the taxing powers of the District to pay the 1975 Series C Bonds or the interest thereon. The 1975 Series C Bonds and all other Revenue Bonds issued under the Resolution are equally and ratably secured by a lien on the Revenues and other funds pledged to the payment thereof.

Pursuant to the Prior Lien Bond Resolutions, revenues and income derived by the District from the ownership and operation of the Electric System are deposited in the "Electric Revenue Fund", created by the Prior Lien Bond Resolutions. Moneys in said "Electric Revenue Fund" are used to pay Operating Expenses of the Electric System and debt service on the Prior Lien Bonds, and maintain reserves therefor. Such reserves include a Debt Service Reserve Fund for the Prior Lien Bonds. As of June 30, 1975, the amount in the Debt Service Reserve Fund for the Prior Lien Bonds was $23,798,573. The District covenants that on the last day of every month that Revenue Bonds are outstanding, it will deposit moneys in said "Electric Revenue Fund" not required to be retained for said Operating Expenses, debt service and reserves, into the Revenue Fund established by the Resolution. Each month the District is then required to transfer moneys in the Revenue Fund to the Debt Service Fund and to transfer the amount remaining in the Revenue Fund to the General Fund. Moneys so transferred to the General Fund may be used for any lawful purpose of the District and are no longer pledged to the Revenue Bonds. If for any period funds on deposit in the Debt Service Account are not sufficient to meet the requirements thereof, the District covenants to transfer moneys in the General Fund to such Account to make up such deficiency.

After the retirement of the Prior Lien Bonds, all revenues and income of the District's Electric System shall be deposited directly in the Revenue Fund. Thereafter the District is required each month to pay Operating Expenses from the Revenue Fund, to transfer moneys in the Revenue Fund to the Debt Service Fund and to transfer the amount remaining in the Revenue Fund to the General Fund.

The District has covenanted not to issue any bonds or other obligations or create any additional indebtedness which will have priority over the charge and lien on the Revenues pledged to the Revenue Bonds except in the instance of refunding bonds issued pursuant to the Prior Lien Bond Resolutions or loans from the United States of America.

For a more complete description of outstanding long-term indebtedness see "Financial Factors of the District—Outstanding Long-Term Indebtedness".

The District has covenanted to charge and collect fees and other charges for the sale of electric power and energy to provide revenues sufficient to meet its obligations under the Resolution and the Prior Lien Bond Resolutions. See "Summary of Certain Provisions of the Resolution—Electric System Rate Covenant."

THE DISTRICT

The District is an agricultural improvement district organized in 1937 under the laws of the State of Arizona. It operates the Salt River Project, a federal reclamation project, under contracts with the United States of America and provides electric service to residential, commercial, industrial and agricultural power users in a 2,900 square mile exclusive service territory in parts of Maricopa, Gila and Pinal counties, plus wholesale and mine loads in a 2,400 square mile area in Gila and Pinal counties (see map, centerfold).

The District owns and operates an Electric System (hereinafter described) which generates, purchases and distributes electric power and energy. An Irrigation System (also hereinafter described) is operated by the Salt River Valley Water Users' Association (the "Association").

History

The Salt River Valley Water Users' Association, predecessor of the Salt River Project Agricultural Improvement and Power District, was incorporated under the laws of the Territory of Arizona in February 1903. It was organized to represent the owners and occupants of the lands to be benefited by the Salt River Project. The Salt River Project was the first multi-purpose project authorized under the Federal Reclamation Act of 1902. In 1904, the Association and the United States entered into a contract in which the United States was to construct and operate dams, power plants, and other facilities incident to the operation of irrigation and power works and improvements, and the Association was to repay the cost thereof.

Initially, the United States constructed, operated and maintained Roosevelt Dam and a low dam which diverted the impounded water into a canal system to supply irrigation water to the irrigatable lands within the Salt River Project. A small amount of hydroelectric power was the resultant by-product of the impounded water. In 1917, the Association became, by virtue of a contract, the operating agency of the Salt River Project for the United States.

In 1937, the Salt River Project Agricultural Improvement and Power District was formed in order to secure for the Salt River Project the rights, privileges and exemptions granted to political subdivisions of the State of Arizona. Pursuant to a contract approved by the Secretary of Interior in 1949, the District assumed the duties, obligations and covenants of the Association; and thereafter, the Association operated only the irrigation and drainage system as agent for the District.

Generation and sale of electrical power and energy, incidental to the irrigation features of the Salt River Project for many years, has become more and more important in terms of investment and revenues. Following the long-standing reclamation principle, electrical revenues available after the payment of requirements under the Prior Lien Resolutions and the Resolution are used to support water and irrigation operations, thereby keeping water delivery charges at reasonable levels. At the same time, the District maintains rates for the electric service it provides which are comparable to those of neighboring utilities.

Organization, Management and Employees

The President, Vice President and General Manager have management responsibilities for both the District and the Association. The District and the Association are each governed by a board and a council elected from among the shareholders (landowners). However, representatives of these bodies have generally served in a dual capacity. For a discussion of a class action suit related to the method of electing the board, see "Litigation".

Both the Board of Governors of the Salt River Valley Water Users' Association and the Board of Directors of the Salt River Project Agricultural Improvement and Power District consist of the President and 10 members who are elected for two-year terms. The Boards establish the policies for management and conduct of business affairs and function as the managing bodies of the District and Association.

Three councilmen are elected for two-year terms from each of the ten district areas of the Association and from each of the ten division areas of the District. The Councils enact and amend bylaws relating to management and help maintain liaison with the landowners.

The number of District and Association employees on June 30, 1975, was 3,058, of which 1,947 hourly employees are represented by the International Brotherhood of Electrical Workers. The renewal date of the existing labor contract is January 1, 1976.

Economic Growth In The District's Service Area

General

Formerly, the production of raw materials, cattle, copper and cotton, together with agricultural foodstuffs, have provided the major sources of income in Arizona. Recently, manufacturing has become the largest single source of income within the State and at present generates an income of over $2 billion a year. The rapid growth in the non-manufacturing categories of trade, government and

service reflects the increasing importance of Phoenix as a regional center for commercial and governmental activity. Total income for Arizona is now approaching $10 billion with approximately 58% being generated in the Phoenix metropolitan area.

Tourism in recent years has added to diversification of the State's economy, especially in the Phoenix area where six to eight million tourists visit annually.

Maricopa County has a well-balanced economy with no one sector dominating the economy. Table 1 below demonstrates this diversification by showing employment as of June 1975.

Table 1
EMPLOYMENT IN MARICOPA COUNTY
(as of June 1975)

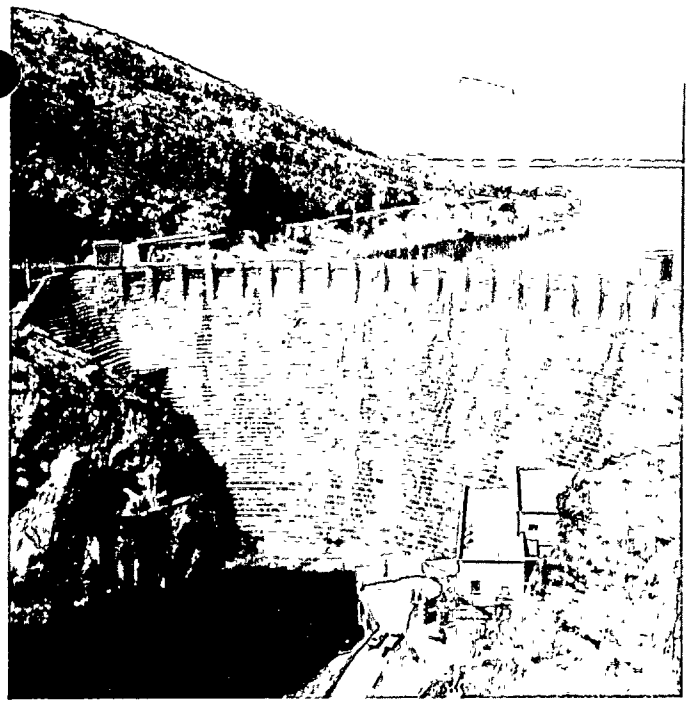
Industry	Number Employed	Percent of Total
Agricultural	11,400	2.4
Manufacturing	70,300	15.1
Mining	400	.1
Construction	27,800	6.0
Transportation, Utilities	23,900	5.1
Wholesale, Retail	112,200	24.1
Finance, Real Estate	32,300	6.9
Services and Miscellaneous	80,800	17.3
Government	77,200	16.5
Other and Adjustments	30,100	6.5
Total Employed	466,400	100.0

SOURCE: Economic Research Department of the Valley National Bank of Arizona, Phoenix, Arizona.

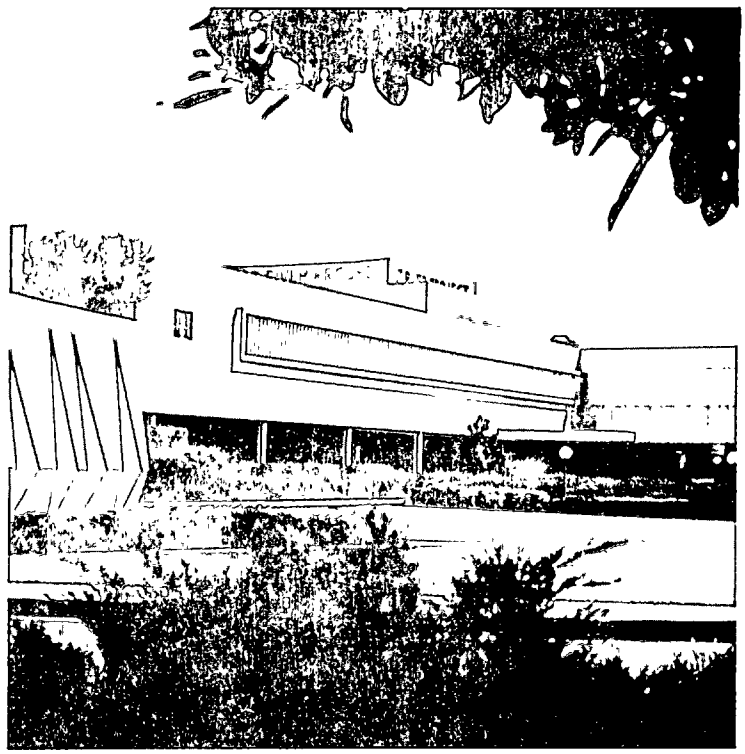
Population and Customer Growth

The City of Phoenix and the suburbs surrounding it in Maricopa County have experienced one of the highest population growth rates in the country. More than 50% of Arizona's total population is already living in Maricopa County, and the County's population is expected to increase from approximately 1,173,000 in 1974 to 1,529,000 by 1980. Table 2 shows population growth rates in the State of Arizona, Maricopa County and the City of Phoenix and the number of District electric customers and growth rates for the same period.

It should be noted that the growth rate in the number of District customers is usually greater than that of the Maricopa County population. This is due to the fact that the bulk of the population growth in Maricopa County has been directed toward the suburbs, which is the area served by the District. In the last two years, the Phoenix area has experienced a tapering off the rapid population growth historically characteristic in the area.



Theodore Roosevelt Dam, completed in 1911, has been designated as a National Historic Civil Engineering Landmark. The District's hydroelectric generating capacity is now approximately 241,500 kilowatts, including 36,000 kilowatts at Roosevelt Dam.



The Salt River Project's administration building is headquarters for service to approximately 240,000 electric customers. The building, which provides offices for 1,175 employes, was recently expanded with a two-level 81,000 square-foot addition.

Demands for electricity are continually increasing with the steady growth of metropolitan Phoenix. Nearly 54.5 percent of Arizona's total population now live in Maricopa County. The Maricopa County population is expected to increase from 1,230,000 in 1975 to 1,529,000 in 1980.

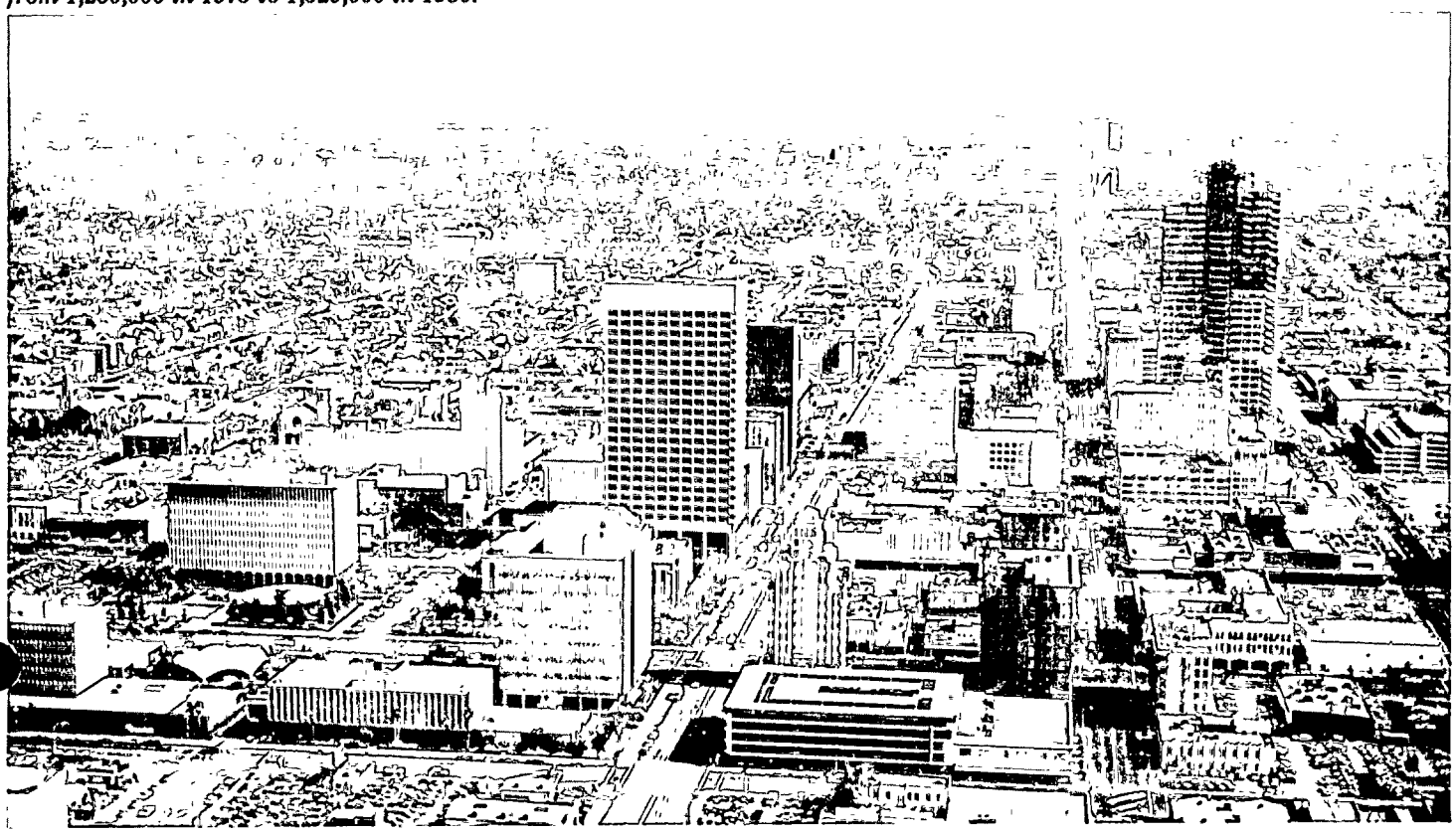


Table 2
POPULATION GROWTH AND DISTRICT CUSTOMER GROWTH

Year	Population Growth(1) State of Arizona(3)	Percent Increase	City of Phoenix(4)	Percent Increase	Maricopa County(3)	Percent Increase	District Customer Growth(2) District Electric Customers	Percent Increase
1965	1,584,000	1.8	504,000	2.0	852,000	2.3	130,970	4.7
1966	1,614,000	1.9	511,000	1.4	870,000	2.1	136,617	4.3
1967	1,646,000	2.0	519,000	1.6	890,000	2.3	141,111	3.3
1968	1,682,000	2.2	528,000	1.7	914,000	2.7	149,320	5.8
1969	1,737,000	3.3	546,000	3.4	946,000	3.5	159,202	6.6
1970	1,773,428	2.1	582,500	6.6	969,425	2.5	169,774	6.6
1971	1,869,000	5.4	621,000	6.6	1,014,000	4.6	186,326	9.8
1972	1,963,000	5.0	674,000	8.5	1,066,000	5.1	206,441	10.8
1973	2,058,000	4.8	724,000	7.4	1,119,000	5.0	225,921	9.4
1974	2,150,000	4.5	755,600	4.4	1,173,000	4.8	239,431	6.0
Estimated								
1975	2,245,000	4.4	783,000	3.7	1,230,000	4.9	252,174	5.3
1980	2,665,000		920,920		1,529,000		341,317	

(1) As of July 1.
(2) Year End.
(3) Source: Arizona Department of Economic Security.
(4) Source: Phoenix City Planning Department (includes annexations).

Selected Comparative Statistics

Table 3 summarizes certain statistical data related to the economy in Arizona and Maricopa County.

Table 3
COMPARATIVE ECONOMIC STATISTICS ON ARIZONA AND MARICOPA COUNTY (1965-1975)

Category	Arizona 1965	Arizona 1975	Arizona Percent Change	Maricopa County 1965	Maricopa County 1975	Maricopa County Percent Change
Population (July 1)	1,584,000	2,245,000	41.7	852,000	1,230,000	44.4
Retail Sales (June 30)	$1,957,854,000	$5,421,326,000	176.9	$1,186,577,000	$3,332,145,000	180.8
Bank Deposits (June 30)	$2,096,020,000	$6,049,968,000	188.6	$1,151,968,000	$3,795,012,000	229.4

SOURCES: Figures for 1965, from *Arizona Statistical Review*, September 1966.
Figures for 1975, from Economic Research Department of the Valley National Bank of Arizona, Phoenix, Arizona.

Irrigation and Water Supply System

Importance

The initial reason for the existence of the Salt River Project was water supply. Agriculture in the plains and valleys of south-central Arizona is almost wholly dependent upon irrigation due to the low annual rainfall (an average of 7 to 8 inches per year in the Phoenix area). Rights to the waters of the Salt and Verde Rivers were established by virtue of the 1910 Kent Decree. Water rights are recognized by law as being inseparable from the land, and no barter or sale of either can be consummated without the other.

Agreements

By virtue of an amendment dated September 12, 1949, to the Agreement between the Association and the District dated March 22, 1937, the Association assumed, as agent of the District, the direct operation and maintenance of the irrigation and water supply system of the Salt River Project. In 1952, the Association and the City of Phoenix entered into an agreement under which the City, acting as agent for the Association and the landowners not receiving irrigation water, delivers the water appurtenant to those lands within the City's service area which are also within the Salt River Project, except where the Association delivers water directly to the owners. Similar agreements have been executed with the cities of Gilbert, Glendale, Peoria, Tempe, Mesa, Scottsdale and Chandler. In 1974, the Association delivered 160,343 acre-feet of water to these cities for residential, commercial and industrial purposes.

Central Arizona Project

Water from underground sources has become increasingly important in Arizona as river flows have become completely utilized. Wells in the Salt River Project area have shown a continual decrease in water level, requiring added pumping power year after year.

The President of the United States approved the Central Arizona Project (the "CAP") in 1968. Upon completion of CAP, anticipated in the mid 1980's, approximately 1,200,000 acre-ft. of Colorado River water pumped from Lake Havasu will be delivered annually to central Arizona. This would more than double the surface water available and materially reduce the demand on groundwater resources. The amount to be allotted to the Salt River Project and others will be determined at some future date.

Although the irrigation system or revenues derived from its operation are not pledged to the payment of the Revenue Bonds, the available water supply is important to the District due to its influence on the growth of the economy in the area. In that regard, it is anticipated that the economy of the entire area, as well as that of the District service area, will benefit from the construction and operation of the billion-dollar CAP.

THE ELECTRIC SYSTEM

Area Served

The general area served by the District is shown on the centerfold map. The District serves major populated sections of Maricopa County, as well as portions of Pinal and Gila Counties. All of the cities within the District's service area except the City of Mesa are partly served by the District and partly by Arizona Public Service Company ("APS"). A contract has been made with the City of Mesa to supply a portion of its load requirements. Historically, the District served the rural areas and APS served the cities and towns. Over the last fifteen years, however, the portion of the cities served by the District has steadily increased as suburban areas grew and were annexed, and over 74% of the combined areas of all of the cities is now served by the District. The urban areas and the adjacent rapidly growing suburban areas now served by the District will continue to be so served even though the latter may, in the future, be annexed to a city, all as provided in agreements with APS, described more fully in "Power Agreements".

The District also provides power directly for mining load requirements principally in Pinal and Gila counties. In addition, the District provides wholesale power to APS for resale in those portions of Pinal and Gila counties within the District's service area, as well as in a small area north of Scottsdale and a somewhat larger area along the Agua Fria River northwest of Phoenix.

Hydroelectric Facilities

The District has five sources of hydroelectric power. Table 4 gives certain characteristics of these facilities.

Table 4
DISTRICT HYDROELECTRIC FACILITIES
(1974)

Name of Dam	Reservoir Capacity (acre-ft.)	Plant Capability (kw)(1)	Annual Generation (1,000kwh)(2)
Theodore Roosevelt	1,381,580	36,000	78,866
Mormon Flat	57,852	60,200(3)	49,105
Horse Mesa	245,138	130,800(4)	111,499
Stewart Mountain	69,765	12,500	46,146
Canal Plant (Crosscut)	—	2,000	56
Total	1,754,335	241,500	285,672

(1) Capability based on 1974 operating agreements during summer peak demand periods.
(2) 10-year average 1965-1974 (incl. net pump storage energy).
(3) Includes a pumped storage unit rated 50,000 kw.
(4) Includes a pumped storage unit rated 97,000 kw.

Thermal Generating Facilities

The District owns and operates four thermal plants: Agua Fria, Kyrene, Crosscut and Santan. In addition, the District is operating agent and a joint owner of the Navajo Project and a joint owner in the Four Corners and Mohave plants.

Agua Fria, which is the largest of these valley plants, consists of three steam generating units totaling 399,800 kw and three combustion turbines totaling 186,000 kw. These units are capable of oil-firing and gas-firing.

The Kyrene plant has a capability of 104,200 kw in two units and 238,800 kw of combustion turbine capability in four units. These units are capable of oil-firing and gas-firing.

The four-unit Crosscut steam plant has a capability of 34,400 kw.

Four 73,000 kw combined cycle units have been constructed at the Santan site near Gilbert, Arizona. These units are limited to oil-firing only.

Navajo Project

The "Navajo Project," located on the Navajo Indian Reservation near Page in northern Arizona, consists of a coal-fired steam-electric generating station, a railroad to deliver coal from the Black Mesa coal field and 500-kv transmission lines and switching stations to deliver the power and energy to the various participants. The District is the Project Manager (responsible for construction) and the Operating Agent (responsible for operations and maintenance) of the railroad and the generating station.

The first of three 750,000 kw units has been in commercial operation since May 31, 1974. In the period of Navajo Unit No. 1's commercial operation from June 1, 1974, through June 1, 1975, the unit performed as planned with an average capacity factor of 68.0%. Unit No. 2 was placed in commercial operation on April 1, 1975, sixty days ahead of the originally scheduled May 31, 1975 date.

Agreements have been signed by utilities to participate in the Navajo Project (see "Power Agreements"). Table 5 gives participation in the generating station, based on contributions of capital and equivalent entitlement to power and energy.

Table 5
NAVAJO PROJECT—POWER PARTICIPATION

Participant	Percent Participation
The District	21.7
Arizona Public Service Co.	14.0
Department of Water & Power, Los Angeles	21.2
Nevada Power Company	11.3
Tucson Gas & Electric Company	7.5
U.S. Bureau of Reclamation	24.3

The District holds title to 46.0% of the generating station, 21.7% for its own use and benefit and 24.3% for the benefit and use of the United States Bureau of Reclamation ("USBR"). All participants, including the USBR, furnish their allocated share of capital for construction of the generating station, pay their portion of operating and maintenance costs, and, in return, are entitled to an equivalent share of power and energy. The USBR share will be used for the CAP pumping requirements. Prior to the time when the USBR requires its share of the power and energy, the remaining participants in the Navajo Project and Southern California Edison have agreed to purchase USBR's share. The District's estimated share is 85,000 kw in 1974, 163,000 kw in 1975 and 107,000 kw thereafter until the USBR requires its share. The USBR must give the participants five years advance notice on amounts to be withdrawn for the pumping requirements of the CAP.

The estimated cost of the generating station is $659,000,000, the District's share of which would be $143,003,000. Construction of the entire generating station is about 92% complete, excluding SO_2 removal equipment.

The Navajo generating station is fueled with coal, averaging 10,700 Btu per pound, which is surface mined and delivered from the Peabody Coal Company's Black Mesa coal mines. Sufficient coal has been dedicated and reserved to operate the Navajo generating station for 35 years at 90% capacity factor. The contract contains provisions for price escalation based on increases and decreases in mining expenses (see "Fuel Supply"). Negotiations are under way, at Peabody's request, to examine ways of amending the coal supply contract to alleviate the effects of certain unanticipated costs and the lag time in the effective dates of economic escalators.

As a result of operating difficulties, Peabody Coal Company has been unable to supply the full-load coal requirements for the Navajo generating station during the months of May, June, July and August of 1975. Peabody Coal Company is taking remedial actions; however, it is anticipated that deliveries will not fully meet contract requirements for the balance of 1975. Coal was hauled by truck to the Navajo generating station from the Four Corners Station to make up a portion of the shortfall. The current objective is to maintain a thirty day stockpile of coal at the Navajo generating station. Recent improved production by Peabody Coal Company made it possible to discontinue trucking coal from the Four Corners Station on August 31, 1975. The District is exploring additional sources of coal should it again become necessary to supplement Peabody Coal Company production.

The coal is transported to the plant site 80 miles away by the Black Mesa & Lake Powell Railroad, which has been completed at a cost of $54,500,000, the District's share of which is $11,827,000, not including the District's share of cost of remedial action discussed below. The railroad is operated by the District. The railroad's single train was designed to be fully automatic and to make three round trips daily, on welded rails laid on concrete ties, between the plant and Peabody Coal Company's Black Mesa coal mines. The railroad is experiencing significant operational problems which are caused by factors relating to innovative technology employed in the design and construction of the railroad. The District believes that remedial action involving capital expenditures of approximately $20,000,000 will be required. The remedial action includes, among other things, the rehabilitation of the track and railroad bed, the purchase of new railroad cars, and the purchase of a second electric train to insure that the railroad's hauling capacity will meet the needs of the plant. To the extent not recovered from third parties, the cost will be shared by the partici-

pants in the same proportion as their participation in the Navajo Project showed in Table 5. The District's share of such estimated additional costs are included in the estimated capital expenditures program shown in Table 11.

Effective air quality control devices and dust and noise suppression equipment are being installed to enable the station to conform with all existing laws and regulations related to environmental protection. Of the estimated cost of the generating station and railroad of $733,500,000, over $220,000,000 is for environmental protection. For a discussion of environmental considerations related to the Navajo Project, see "Environmental Program".

The 500 kv transmission system necessary for delivery of power from the Navajo generating station to the participants includes two 500 kv transmission lines to Phoenix and a third 500 kv transmission line to southern Nevada. The participants own and are entitled to use the Navajo transmission system's capacity, including its interconnections and use of existing transmission system facilities as required to deliver power and energy to their load centers.

The cost of the southern transmission system is $101,500,000. Construction of these lines is complete. The District owns a portion of the system for its own use and benefit at a cost of $33,603,000. The District holds title to a portion of the system for the use and benefit of the USBR at no cost to the District.

Four Corners and Mohave Generating Stations

The Four Corners Plant consists of five units. The District's participation is in Units 4 and 5 consisting of two 750,000 kw, nominally rated, coal-fired steam-electric generating units located adjacent to APS Units 1, 2 and 3 on the Navajo Indian Reservation near Shiprock, New Mexico. Unit 4 went on line for commercial operation in 1969, and Unit 5 in 1970. Fuel comes from area mines. Certain changes in the design features of the plant caused by environmental requirements are still to be completed (see "Environmental Program"). The estimated additional cost to the District for such environmental features is $18,738,000, excluding interest during construction.

The Mohave plant consists of two 750,000 kw, nominally rated, coal-fired units and is located in Clark County, Nevada, on the Colorado River, three miles from the USBR Davis Dam. The plant went on line for commercial operation in 1971. Fuel is supplied from the Black Mesa coalfields in northern Arizona by a slurry line. Cost of modification equipment for environmental considerations is not included in the construction cost in Table 11, as explained under "Environmental Program". It is estimated that the amount spent on this activity for Mohave will be $609,000 by year-end 1975.

The two plants add approximately 318,000 kw to the District's capability. Participation, representing contributions of capital and equivalent entitlement to power and energy, is given in Table 6. For a discussion of the participation agreements, see "Power Agreements".

Table 6
PARTICIPATION IN FOUR CORNERS AND MOHAVE

Participant	Percent Four Corners Units 4 & 5	Percent Mohave
The District	10	10
Southern California Edison Co.	48	56
Los Angeles Dept. of Water & Power	—	20
Arizona Public Service	15	—
New Mexico Public Service Co.	13	—
Tucson Gas & Electric Co.	7	—
El Paso Electric Co.	7	—
Nevada Power Co.	—	14

Hayden No. 1

The District's entitlement to 50,000 kw of steam power from the Hayden No. 1 plant in Colorado is subject to recapture on four years' notice by Colorado-Ute Electric Association, Inc. ("Colorado-Ute"). Colorado-Ute has notified the District of termination of its entitlement to the 50,000 kw firm block of power after 1975.

Summary of Existing Power Sources

In 1974, the largest source of energy was from District thermal plants, which supplied 54.7% of requirements (see "Thermal Generating Facilities"). About 13.5% of requirements were supplied from Colorado River hydro power purchased from Arizona Power Authority ("APA") and USBR. Energy amounting to 26.0% of requirements was purchased from USBR's share of Navajo, Hayden No. 1 and others. The remaining 5.8% of the energy used came from District hydro plants (see "Hydroelectric Facilities"). Table 7 provides a detailed breakdown of power sources in 1974.

Table 7
DISTRICT POWER SOURCES
(1974)

	Capability (kw)(1)	Production (1,000 kwh)(4)	Production Percent of Total
District Generation:			
Hydroelectric	241,500	509,950	5.75
Crosscut Steam	34,400	2,342	.03
Kyrene	104,200	330,492	3.72
Kyrene (Combustion Turbine)	238,800	218,057	2.46
Agua Fria	399,800	1,811,218	20.41
Agua Fria (Combustion Turbine)	124,000	34,449	.39
Santan Combined Cycle	225,000	129,429	1.46
Four Corners (10% participation)	160,000	845,355	9.53
Mohave (10% participation)	158,000	793,026	8.94
Navajo (21.7% participation)	163,000	691,175	7.79
Purchases and Receipts:			
APA	56,200	220,776	2.49
USBR—Parker-Davis	30,000(2)	141,372	1.59
—Colorado River Storage Project	378,800(3)	837,647	9.44
—Navajo Layoff	85,000	360,035	4.06
Colorado-Ute (Hayden No. 1)	50,000	291,354	3.28
Plains G&T	30,000	228,156	2.57
Others	Non-firm	1,427,768	16.09
Total		8,872,601	100.00

(1) Based on October 1974 operating agreements.
(2) Beginning in 1974, 30,000 kw available from March through September and 22,000 kw available from October through February.
(3) Includes 48,800 kw wheeled to other districts.
(4) Energy for pump storage (253,722,000 kwh) not deducted.

Transmission System

The District transmits power from its generating stations to the load centers via transmission and subtransmission lines and also participates in jointly owned transmission systems associated with remote generation. Table 8 lists the District's transmission line totals.

Table 8
DISTRICT TRANSMISSION LINES
As of June 30, 1975

Line Voltages	Circuit Miles of 60-Hertz Lines
500,000	195(1)
230,000	159
115,000	292
69,000	465
Total	1,111

(1) District's participation in jointly-owned lines.

As of June 30, 1975, the District had 19 transmission substations with an aggregate capacity of 7,494,526 kva.

Distribution System

As of June 30, 1975, the District supplied service to 241,600 meters. At the same date, the District owned and operated 115 distribution substations with an aggregate capacity of more than 3,044,105 kva.

At the time of the 1974 system peak load, the ratio of the residential load to the residential substation capacity was 74.6%.

The District has three mobile transformer units with total capacity of 39,670 kva.

The District has an underground distribution program for providing electric service in new suburban developments. As of June 30, 1975, underground cable miles totaled about 4,922, while overhead distribution lines totaled 4,892 circuit miles.

General Plant

The administrative headquarters and general offices of the District are located in Tempe, Arizona, just east of Phoenix, with the major service, garage, warehouse and line facilities in or near Tempe and Phoenix.

General plant also includes substantial investments in a variety of vehicles and an extensive communications facility.

Included in the present administration headquarters is a customer information center, which currently consists of 43 stations. Each station is equipped with a cathode-ray display terminal linked directly to the District's computer facility for direct inquiry and automatic display of customer account information at computer speeds.

POWER SOURCES—FUTURE

Summary

The District is developing several power sources for future use. Due to the lower cost and relative abundance of coal, most of the estimated future generating capacity will come from coal-fired plants. Since the cost of energy from these coal-fired plants is estimated to be lower than existing gas and oil-fired plants, certain present gas and oil-fired plants will eventually be utilized mostly for peaking power during heavy energy demands. This change in fuel source can be illustrated by the fact that in 1974 approximately 31% of production was from gas and oil-fired plants, but by 1980 only 9% of production is estimated to come from oil-fired plants. The District is presently estimating that no gas will be used for power generation after 1976 (see "Fuel Supply"). Some of the future power sources are subject to various environmental and regulatory approvals which could affect timing, costs and feasibility.

Navajo Project—Unit No. 3

Unit No. 3 construction is approximately thirty days ahead of original schedule and is expected to be placed in commercial operation in April 1976. When completed, the net power output of the station is expected to be over 2,250 megawatts. Water for the cooling towers and plant use is provided from a pumping station located adjacent to Lake Powell.

Hayden No. 2

The District and Colorado-Ute are adding a second 250,000 kw coal-fired generating unit for operation in 1976 at Hayden, Colorado. The District will own 80% of Hayden No. 2 and Colorado-Ute will own 20%, with the provision that Colorado-Ute must recapture 30% of Hayden No. 2 on January 1, 1982, subject to the approval of the Administrator of Rural Electrification Administration (the "REA"). The unit will be located on the same site as Hayden No. 1 and will share common facilities. Certain improvements will be required in Hayden No. 1 for pollution control and to accommodate joint operation with Hayden No. 2. Total construction cost of the Hayden Project (Hayden No. 2 plus improvement to Hayden No. 1) is estimated to be $120,000,000. The District's share of the Hayden Project, excluding interest during construction, is $83,000,000.

Hayden Unit No. 2 was originally scheduled to go into commercial operation on April 1, 1976. As a result of a two-month lockout during negotiations with the pipefitters' union, and a strike by the insulators' union, construction is behind schedule. The District is currently evaluating the effect of the lockout to determine the merits of overtime and shift work to improve the completion date of the unit. It is now anticipated that the unit will go into commercial operation in June or July of 1976.

Sufficient low-sulphur surface-mined coal from an adjacent area has been dedicated and reserved to operate Hayden No. 2 for 35 years at an average life-time load factor of approximately 75% (see "Fuel Supply").

The District's allotment is delivered to the USBR and is used to supply USBR customers in Colorado, Utah and Wyoming. USBR delivers a similar amount of power and energy to the District from the Glen Canyon hydroelectric plant. This is "transmission by displacement" and effectively reduces transmission investment, operating expenses and losses both for the USBR and for the District.

Coronado Station

In order to provide additional capacity, the District now plans to build a wholly-owned fossil-fueled generating station known as Coronado Station, which will be located near St. Johns, Arizona, approximately 250 miles northeast of Phoenix. Site preparation for Coronado Station has begun. Issuance of a Certificate of Environmental Compatibility for both the plant site and transmission corridors was accomplished by the State Power Plant and Transmission Line Siting Committee and approved by the State Corporation Commission. It is anticipated that the plant will ultimately have three units totaling 1,050,000 kw capacity, with the first two 350,000 kw units scheduled for operation in April 1979 and April 1980 with the possible third unit planned for 1985. The estimated cost,

excluding interest during construction, of the three units is $940,400,000, of which $687,366,000 is estimated to be spent in the present Improvement Program. The balance of the total cost is estimated to be financed after 1980. The long-range planning includes approximately $113,000,000 for transmission lines to provide for the ultimate 1,050,000 kw capacity of the station.

An environmental statement is being prepared by the Department of the Interior in compliance with the National Environmental Policy Act of 1969. Federal actions relating to the Coronado Station that must await the completion of the environmental statement include: (1) Approval of rights of way for the transmission system, (2) Approval of rights of way for the railroad, and (3) Approval of a mining and reclamation plan for the Star Lake Mine.

At the present time, the District is negotiating for a Coronado Station coal supply. It is anticipated that the coal will be mined in the Star Lake area of the San Juan Basin in New Mexico. The District expects to purchase a total of approximately 86 million tons of coal for the first two 350,000 kw units over their estimated 35-year lifetime. This is the equivalent of a 70% lifetime capacity factor for the two units.

The District expects to have a three-year option for dedication of an additional 43 million tons for the potential third unit at the Station.

The coal supply from the Star Lake area of New Mexico will be transported by unit train to the Coronado Generating Station near St. Johns, Arizona. Approximately 115 miles of railroad track will be required to complement the existing Santa Fe rails. Depending on the coal requirements, one or possibly two unit trains will be utilized. The District's portion of the railroad is expected to cost $36,500,000, excluding interest during construction.

The water supply for the Coronado Station will be provided from three well-fields located in the vicinity of the station site by approximately fifteen wells. Three of the wells have already been drilled. The wells will supply the station's estimated average annual make-up water requirements of 13,424 acre-feet per year.

Kaiparowits Project

The Kaiparowits Project is to be a large coal-fired generating plant located in southern Utah consisting of four 750,000 kw generating units. Based on an evaluation of the feasibility of the District's continued participation, the District terminated its participation effective July 2, 1975. The remaining participants are proceeding with the Kaiparowits Project and will pay the District for its investment in the plant to date.

Craig Station

The District and others have selected a site in the Yampa Valley area near Craig, Colorado, for construction of two 380,000 kw coal-fired generating units to be operational in 1978 and 1979 (formerly referred to as part of the "Yampa Project"). The first phase of site preparation has been completed. Agreements among the participants for the Craig Station are complete, and have been approved by REA. A Certificate of Public Convenience and Necessity has been issued for the Craig Station by the Public Service Commission of Colorado. The District will have a 110,000 kw share (29%) in each unit. The preliminary estimated cost of the plant is $414,867,000, of which the District's share would be approximately $120,000,000, excluding interest during construction.

The present participants include Colorado-Ute as Project Manager (29%), the District (29%), Platte River Power Authority (18%), and Tri-State Generation and Transmission Association, Inc. ("Tri-State") (24%).

An all-requirements low-sulfur coal supply contract for the life of the project has been secured by the participants with Utah International, Inc. ("Utah"), and the plant site has been acquired from the State of Colorado adjacent to the mine site. The coal will be mined by surface methods.

On May 23, 1975, Utah filed a suit in the United States District Court for the District of Colorado seeking to void the Craig Station Fuel Agreement or, in the alternative, to limit Utah's obligations to deliver not more than 78,000,000 tons of coal for the life of that agreement.

The Craig Station Fuel Agreement provides the maximum limitations on Utah's obligation to deliver coal as well as the participants' minimum obligations to take and pay for coal. The District believes such provisions are representative of standard industry practices and that Utah will be required to deliver, pursuant to the Craig Station Fuel Agreement, coal sufficient to produce the 1,830 trillion Btus estimated to be required for the life of the two units.

In the event Utah is successful in seeking to void the agreement or, in the alternative, to limit it's obligation under the Craig Station Fuel Agreement to 78,000,000 tons, the District believes that within short distances of Craig Station there is an abundance of coal of essentially the same heat value and low-sulfur content as that to be supplied to the participants by Utah under the Craig Station Fuel Agreement. The District further believes that such coal is available at a reasonable price and adequate to supply coal to the two units at Craig Station for at least 35 years.

The District will use the "transmission by displacement" concept to minimize transmission costs associated with the Craig Station.

Palo Verde Nuclear Station

On August 23, 1973, the District signed a participation agreement for the construction of three 1,270,000 kw pressurized water nuclear reactor units. Site selection for this plant was announced on October 30, 1973, as 50 miles west of Phoenix near Wintersburg, Arizona. The cooling water supply will be delivered from treated sewage effluent from the metropolitan Phoenix area pursuant to contracts between the District, APS and five cities in the area.

The present participants include APS as Project Manager (28.1%), the District (28.1%), Tucson Gas & Electric Co. ("TG&E") (15.4%), El Paso Electric Co. (15.8%), Public Service of New Mexico (10.2%) and Arizona Electric Power Cooperative, Inc. (2.4%). TG&E has disclosed on March 13, 1975 to the Project Manager and to the other participants that it intends to dispose of its interest in the Palo Verde Nuclear Station to Southern California Edison Company ("SCE"). On August 28, 1975, TG&E assigned its interest to SCE. SCE accepts all obligations for this share of the project by such transfer of ownership.

Contracts for engineering and construction, nuclear steam supply systems and turbine generators have been made. In-service dates for the three units are as follows: Unit 1—1982; Unit 2—1984 and Unit 3—1986.

Licensing proceedings are now pending before the Nuclear Regulatory Commission. Petitions to intervene have been filed by parties desiring to raise environmental, safety and other questions.

The District will be responsible for construction and operation of a part of the related 500 kv transmission system.

MONTEZUMA PUMPED STORAGE PROJECT

The District, APS, and the Arizona Power Authority ("APA") are planning to jointly construct and operate a 500,000 kw pumped storage, hydroelectric project, pursuant to the Federal Power Commission License for Project No. 2573. The Montezuma Project will be located in the Sierra Estrella mountains about twenty-five miles southwest of Phoenix.

The Montezuma Project will consist of an upper and lower reservoir with facilities designed to produce electricity during peak hours and pump water to the upper reservoir during off-peak hours and is planned to begin operation in 1981. Initial phases of engineering and construction have begun under the terms of a Preliminary Agreement among the parties. The District will be the Project Manager and Operating Agent responsible for construction, operation and maintenance.

The Montezuma Project will be owned by the APA (66%) and APS (34%). The District will have a firm purchase of 45% of the total capacity but will not own any of the Project. A definitive Participation Agreement is being developed by the parties.

FUEL SUPPLY

Coal

Coal required for operation of the District's facilities, in which it has ownership interests or power entitlements (Hayden No. 1 and No. 2, Navajo Project, Four Corners Project Units 4 and 5, Craig Station and Mohave Project), is obtained from Peabody Coal Company and Utah International, Inc. under long-term contracts and, with the exception of Mohave Project, is in the general vicinity of the generating units. All coal is mined by surface methods. Coal for Mohave is transported via coal slurry pipeline. Coal for the first two units of the Coronado Station is expected to come from the Starlake area of the San Juan Basin of New Mexico. The District, Cherokee and Pittsburg Coal and Mining Company (a subsidiary of Santa Fe Industries), and Peabody Thermal Energy Company (a joint venture of Peabody Coal Company and a group of other corporations) have entered into a Memorandum of Intent, pursuant to which coal is reserved for the District for two units with an option for the third unit, while the parties negotiate a definitive coal supply agreement. The negotiations are well in progress.

The District together with 12 other utilities (the "Utilities Group, Inc.") have submitted a conditional offer to purchase Peabody Coal Company from Kennecott Copper Company. Utilities Group, Inc. is currently making a complete analysis of Peabody Coal Company. Based on the outcome of this analysis, Federal Trade Commission decisions, and negotiations with Kennecott Copper Company, Utilities Group, Inc. may work out a purchase of Peabody Coal Company. The District does not know the ultimate cost of its participation, if any, but believes that it would not substantially increase the cost of the Improvement Program described under "Summary of Estimated Capital Expenditures for the Improvement Program." The District expects that it would issue additional Revenue Bonds to finance its portion, if any, of the purchase price.

As a result of operating difficulties, Peabody Coal Company has been unable to supply the full-load coal requirements of the Navajo and Mohave Stations during the months of May, June, July and August of 1975. Peabody Coal Company is taking remedial action; however, it is anticipated that deliveries will not fully meet contract requirements for the balance of this year. Coal was hauled by truck to the Navajo Station from the Four Corners Station to make up a portion of the shortfall. The current objective is to maintain a thirty day stockpile of coal at the Navajo generating station. Recent improved production by Peabody Coal Company made it possible to discontinue trucking coal from the Four Corners Station on August 31, 1975. The District is exploring additional sources of coal should it again become necessary to supplement Peabody Coal Company production.

Gas

Natural gas is a fuel used by the District for some power generation requirements. Although use of natural gas does not result in significant particulate or sulphur dioxide emissions, the supply of gas available to the District is limited and declining. As a result of the natural gas shortage, the District's gas supply has been steadily decreasing to the extent that by 1976 it is projected that the District will receive no natural gas for fuel. Thereafter, it is expected that the District will be entirely dependent on oil as fuel in its dual-use gas or oil-fueled generating facilities.

Gas is purchased from the Southern Division of El Paso Natural Gas Company ("El Paso") under long-term arrangements extending to 1980. In recent years, El Paso has been unable to acquire any substantial new gas reserves for its Southern Division, and not only has the District been unable to increase its contract purchase quantities, but also on increasing occasions El Paso has curtailed its deliveries of gas to industrial customers, including the District. Curtailment plans in regard to El Paso gas deliveries, which would impose relative priorities and limitations among its customers in time of curtailment, are now pending in proceedings before the Federal Power Commission (the "FPC"). An FPC decision has been entered, which places boiler gas in a fifth priority. The decision as to boiler gas for electric generation places all Southern Division customers on the same basis. The District is a party to one of the numerous petitions for review which have been filed.

Oil

At this time, the District has been able to contract with six oil companies for approximately 75 percent of its fuel oil requirements for generation in 1975. The allocations are based on data filed with the FPC by all utilities. Allocations are based on available supplies, utility requirements and non-utility requirements and an applied electric energy conservation factor. Fuel in excess of the allocation is available on the market, and the District has been able to purchase sufficient residual fuel to meet its steam generating requirements.

Under the allocation regulations, the Federal Energy Administration ("FEA") allocates residual oil to electric utilities. The new regulations on distillate fuel were issued on January 11, 1974. They provide that electric utilities shall receive 100% of current requirements for start-up and flame stabilization of coal-fired generating stations and 100% of 1972 base period use by months for other uses including other generation. The regulations also provide that consideration shall be given to supply of distillate fuel required to replace natural gas supply interrupted pursuant to FPC order. On this basis, the District has filed for, and the FEA has increased, the District's allocation of distillate fuel by amounts sufficient to replace natural gas interrupted by El Paso pursuant to order of the FPC. Residual oil is allocated monthly by FEA. No recent fuel oil deficiencies have been experienced, and the District now receives adequate supplies from 12 different refineries located in California (8), New Mexico (2), Colorado (1) and Wyoming (1).

The District has a fuel oil storage capacity of 1,669,000 barrels. As of June 30, 1975, there were 788,785 barrels of distillate and 485,958 barrels of residual in storage.

The District started leasing railroad tank cars in October 1973, to help assure delivery of fuel oil purchases, and now has 250 cars in service. The District receives the majority of its distilled fuel via pipeline from California and has its own storage facilities at the Southern Pacific terminal.

Nuclear

With regard to nuclear fuel, currently, the participants in the Palo Verde Nuclear Station have contractual commitments for a supply of uranium and related fabrication which, if certain options are duly exercised by the participants, are sufficient to provide for approximately twenty years of operation of the planned nuclear Units 1 and 2. The contractual commitments for the supply of uranium and fabrication are also applicable for planned nuclear Unit 3. Contracts have also been entered into with the Nuclear Regulatory Commission for necesary uranium enrichment services required for lifetime operation of Units 1, 2 and 3.

Estimated Fuel Sources

Table 9 illustrates the estimated relative significance of various fuels to the District's sources of electric energy including purchased energy during each of the years 1974 through 1980:

Table 9
ESTIMATED FUEL SOURCES

Year	Hydro(1)	Gas	Oil	Coal	Misc. Purchases
1974(2)	19%	12%	19%	39%	11%
1975	12	4	20	50	14
1976	11	2	20	57	10
1977	14	—	21	64	1
1978	13	—	19	67	1
1979	11	—	13	76	—
1980	10	—	9	81	—

(1) Includes hydro purchases.
(2) Actual.

ESTIMATED LOADS AND RESOURCES—1975 THROUGH 1980

The District has estimated the future sales of energy and examined the present sources and estimated future sources of power that may be used to supply the estimated system requirements. In the opinion of the Consulting Engineers, the estimated future sales of energy are reasonable and the estimated sources of power that may be used to supply the estimated system requirements are adequate and reasonable for the foreseeable future. (See Appendix A—Summary Report of Ford, Bacon & Davis Incorporated.)

Table 10 summarizes loads by translating estimates of sales of energy made elsewhere in this Official Statement into kilowatts of peak demand on the system. It also summarizes the previously described future sources of power that may be used to supply the estimated system requirements.

Table 10
LOADS AND RESOURCES
(1,000 kw)
Actual 1974, Estimated 1975-1980

	1974	1975	1976	1977	1978	1979	1980
Loads							
The District	1,620	1,736	1,876	2,120	2,279	2,448	2,626
Remote Losses	25	34	44	44	48	67	80
Sales to Other Utilities							
City of Mesa	31	35	48	53	59	66	73
San Carlos Project	—	—	5	6	7	8	9
APS Territorial Equivalent	169	169	184	206	223	239	255
APS Contingent Power	62	62	62	62	62	62	62
Total Loads	1,907	2,036	2,219	2,491	2,678	2,890	3,105
Resources							
Hydroelectric	241	241	241	241	241	241	241
Thermal							
Steam Turbines	539	539	539	539	539	539	539
Combined Cycle Units (1)	—	292	292	292	292	292	292
Combustion Turbines	363	433	433	433	433	433	433
Hayden No. 1	50	50	—	—	—	—	—
Four Corners	160	160	160	157	157	157	157
Mohave	158	158	158	155	155	155	155
Navajo	163	326	489	489	489	489	489
Hayden No. 2	—	—	200	200	200	200	200
Craig Station	—	—	—	—	110	220	220
Coronado Station	—	—	—	—	—	350	700
Purchased							
APA	56	56	56	56	56	56	56
USBR—Navajo	85	163	107	107	107	107	107
USBR—Parker-Davis	30	33	33	33	33	33	33
USBR—CRSP (Summer)	379	151	130	130	130	130	130
Other Purchased	30	—	—	137	162	—	—
Total Resources	2,254	2,602	2,838	2,969	3,104	3,402	3,752
Resources in Excess of Load	347	566	619	478	426	512	647
Reserve Requirements	277	296	323	364	395	424	456
Surplus	70	270	296	114	31	88	191

(1) Not available for 1974 peak load.

POWER AGREEMENTS

The following are brief summaries of the principal agreements of the District related to service areas, transmission facilities and generating units referred to above undertaken with other utilities.

Agreement of August 31, 1955, with APS

APS and the District entered into the Agreement of August 31, 1955, defining the service areas of each. This Agreement was approved by the Arizona Corporation Commission on behalf of APS and the Secretary of Interior on behalf of the District. The Agreement has no provisions for termination except under very limited conditions of default.

The agreement resulted in (i) continuance of service by District to rural areas then served by it, even though such areas were later annexed by the cities in which APS was serving, (ii) the District withdrawing from retail service in certain areas and the assumption of service by APS, and (iii) APS agreeing to purchase from District at wholesale, the power requirements necessary to supply the retail sales in the areas where the District discontinued service. The Agreement also defines types of load to be served by the two parties in the eastern part of the service area, with the District continuing to serve directly certain large mining loads and selling wholesale to APS the other requirements of the Globe-Miami-Superior area.

Power Coordination Agreement with APS

The electric systems of APS and the District were interconnected at various points at which transactions could occur between the systems. On September 15, 1955, APS and the District entered into the Power Coordination Agreement to provide (i) for cooperation in the development and operation of their respective electric system, (ii) for the sale and interchange of power and (iii) for mutual emergency assistance between the two systems.

Four Corners and Mohave Participation Agreements

The District and the other participants in the Four Corners and Mohave Projects have acquired or established for both plants, their respective percentage ownership interests in (i) the plant sites and necessary land rights and the facilities to be located thereon, (ii) rights to use of water in amounts required, (iii) contracts for coal fuel, (iv) construction contracts, and (v) operating agreements. In both projects, the basic title document is a Co-Tenancy Agreement which sets forth the undivided percentage ownership interests in the projects and establishes entitlements to power and energy in the same percentages. The Co-Tenancy Agreements also establish the basic legal provisions relating to settlements of disputes, defaults, arbitration, and termination as well as establishing the means of administering and managing the projects.

In the event a default by any participant in the payment or performance of any obligation under the Co-Tenancy Agreements or Construction Agreements shall continue for a period of six months or more without having been cured by the defaulting participant or without such participant having commenced and continued action in good faith to cure such default, then, at any time thereafter and while said default is continuing, all of the non-defaulting participants may, by written notice to all participants, suspend the right of the defaulting participant to receive all or a part of its capacity entitlement by reducing the amount of energy generation of the project, by a part or all of the capacity entitlement of the defaulting participant, in which event: (1) during the period that such decrease in generation is in effect, the non-defaulting participants will bear all of the operation and maintenance costs, fuel costs, insurance costs and other expenses otherwise payable by the defaulting participant under the Operating Agreement in the ratio of their respective capacity entitlements to the total capacity entitlements of all non-defaulting participants, and (2) the defaulting participant shall be liable to the non-defaulting participants (in the proportion that the capacity entitlement of each non-defaulting participant bears to the capacity entitlements of all non-defaulting participants) for all costs incurred by such non-defaulting participants pursuant to

paragraph (1) above and for all excess costs and expenses involved in operating the project at a reduced level of generation brought about by the reduction of the capacity entitlement of the defaulting participant.

The Construction Agreements designated one entity to have responsibility for construction as the Project Manager and provides for funding the project costs in accord with cost responsibilities. The Project Manager is reimbursed for its costs but receives no fee or profit. The Operating Agreements designate one entity as Operating Agent to operate and maintain the project and allocates the costs to the co-owners. The Operating Agent is generally supervised by an engineering and operating committee of all co-owners. The District has also executed contracts for delivery of its portion of the power and energy from both projects into its system in the Phoenix area. The participation of the various utilities in the two plants is shown in Table 6 above.

Power Purchase Agreement with APA

A share of the power developed at Hoover Dam is allocated to Arizona. This power is resold by APA to various Arizona utilities including the District, its largest customer. The District has a firm entitlement to slightly over 24% of APA's portion of Hoover Dam energy per contract dated January 1, 1971. Customers for this energy also pay their percentage share of the transmission cost of the energy, which APA purchases from USBR. The power is delivered to the District in the Phoenix area over the USBR transmission system. Additionally, one-half mill is charged by APA for administration.

The District's share amounts to approximately 37,300 kw plus 18,900 kw received for transmission to several smaller irrigation and electrical districts. Charges for the current fiscal year are expected to average 5.9 mills per kwh. The contract term is to 1987.

Parker-Davis Power Purchase Agreement with USBR

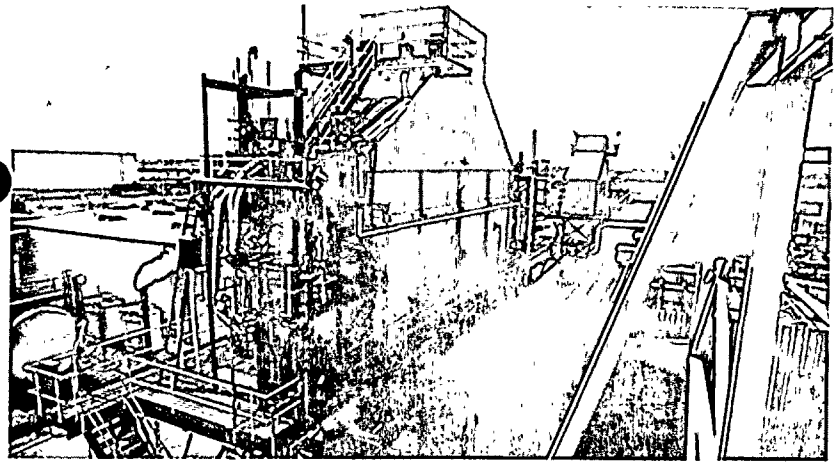
The District's Parker-Davis contract of December 18, 1962, effective through 1976, provides for a purchase of 33,000 kw of firm power during the summer and 22,000 kw during the winter (October to March), with energy available at various minimum load factors and increased energy usage depending on availability. The power is also delivered to the District in the Phoenix area over the USBR Parker-Davis transmission system.

Colorado-Ute Electric Association (Hayden No. 2) Participation Agreement

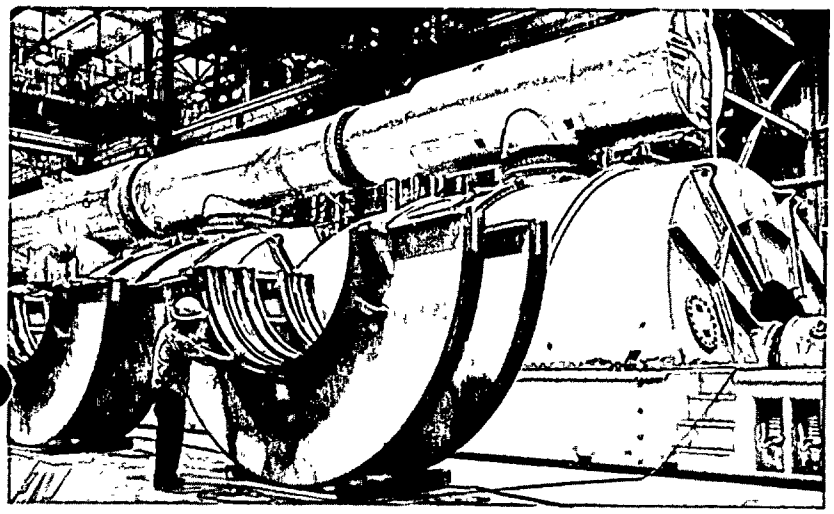
The District and Colorado-Ute are in the process of adding a second coal-fired unit at Hayden—Hayden No. 2. This unit will be owned jointly by Colorado-Ute and the District pursuant to arrangements similar to those existing for Four Corners, Mohave and Navajo Projects. The District and Colorado-Ute entered into the Hayden No. 2 Participation Agreement on August 11, 1972, which has been approved by the Public Utilities Commission of Colorado and the REA. Hayden No. 2 is scheduled to be in operation in 1976. Under the terms of this Agreement, the District will own 80% of Hayden No. 2 and Colorado-Ute will own 20%, with the provision that Colorado-Ute must recapture a portion of the District's share of Hayden No. 2 on January 1, 1982, subject to the approval of the Administrator of REA. After the date of recapture, the District and Colorado-Ute will each own 50% of Hayden No. 2. Contracts for coal fuel for the requirements of Hayden No. 2 have been made.

USBR-District Interconnection and Transmission Service Contract of May 16, 1974

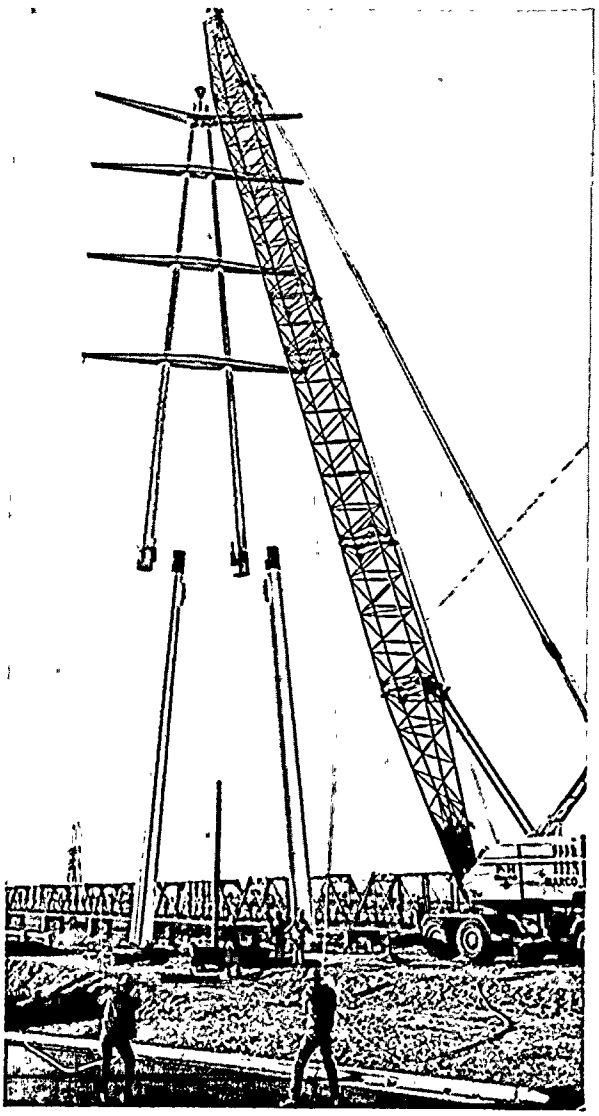
The District has entered into an amended contract with the USBR which provides for exchange, transmission and delivery of power and energy from thermal generation interconnected to USBR's Colorado River Storage Project ("CRSP") Transmission System at Hayden, Colorado and Shiprock, New Mexico. Power delivered to USBR at these two points is exchanged with USBR for hydroelectric generation at Glen Canyon Dam, Arizona. When the exchange does not balance, USBR is also obligated to transmit over the CRSP system up to its capabilities. Under this contract,



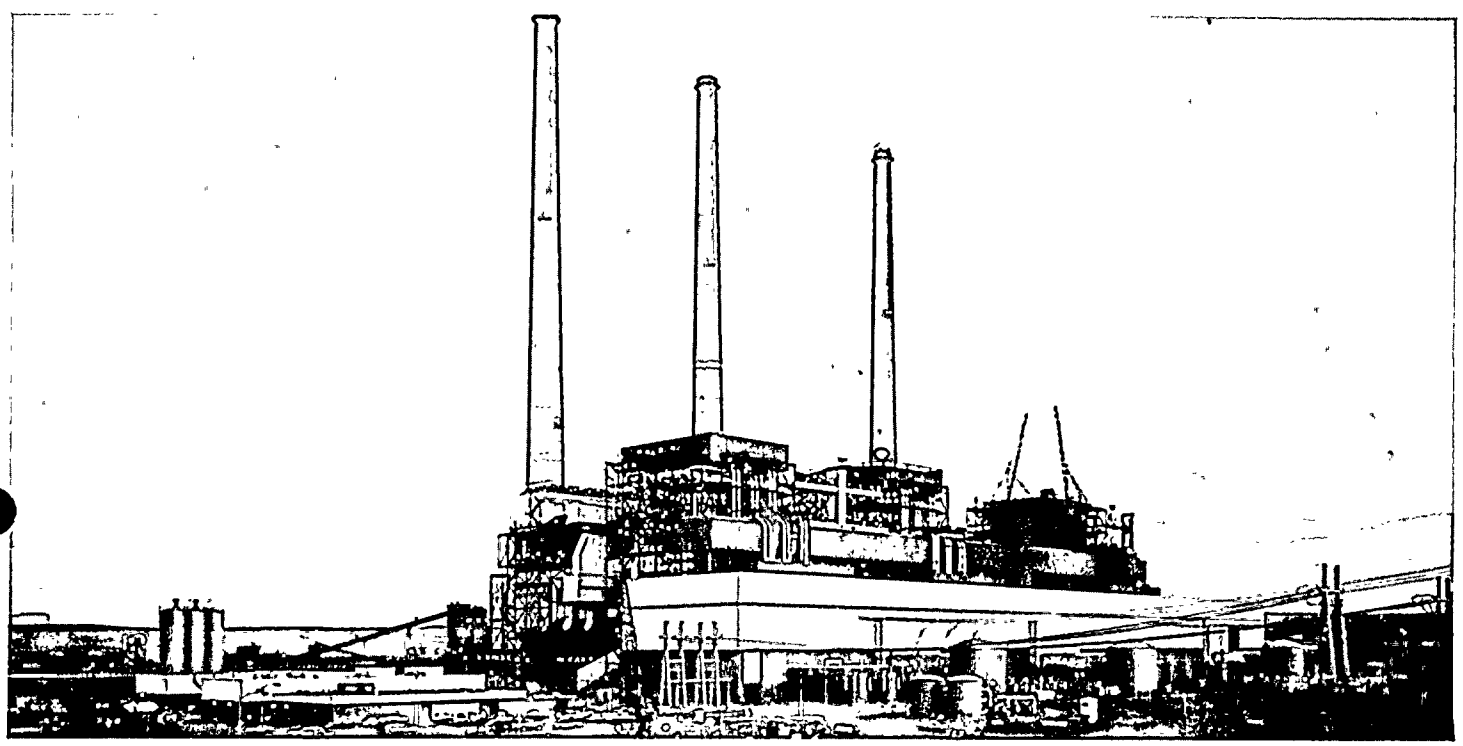
Four 73,000 kilowatt combined-cycle generating units have begun operation recently at the Santan Generating Station near Gilbert, Arizona. Construction at the station was completed in 1975.



(Above) Employe checks inner casing support ring for low-pressure turbine at Navajo Generating Station. (Below) Navajo Generating Station will be Arizona's largest when completed in 1976. The District, which is constructor-operator, will receive 489,000 of the station's 2.25 million kw capacity. The first unit was completed in 1974, and the second unit, in 1975. The third unit will begin operation in 1976.



Construction of electrical transmission lines is a continuing job. The District now has more than 1,100 circuit miles in operation. Many of the newer transmission towers are designed and colored for harmony with the environment.



the District receives power equivalent to its Hayden No. 1 and No. 2, Four Corners Units 4 and 5 and Craig Units 1 and 2 (future) entitlements at Pinnacle Peak, Arizona. The initial term of this Agreement is to 2014, with extensions possible to 2047.

USBR-District Colorado River Storage Project Purchase Contract

The District purchases its CRSP power and energy from USBR pursuant to this agreement. This agreement will terminate on September 30, 1984. The charges are $1.32 per kw/month and 3 mills per kwh. The District's permanent allotment is 110,000 kw in the summer plus 20,000 kw for delivery to others and 38,000 kw in the winter for the District and 4,000 kw for delivery to others.

Navajo Project Participation Agreement

On September 30, 1969, the participants entered into the Navajo Project Participation Agreement which sets down the principles of construction, ownership, operation and maintenance of the Navajo Project. This agreement will terminate on September 30, 2019. It follows the pattern described for the Four Corners and Mohave Projects. The District is both Project Manager and Operating Agent for the Navajo Project.

The plant site and other land rights have been obtained by lease from the Navajo Tribe and right-of-way grant by the United States. Water rights to 34,100 acre-feet of water from the Colorado River have also been obtained. The Navajo Project co-owners have entered into an all-requirements coal fuel contract for the lifetime of the project.

Under the Participation Agreement, the District owns 21.7% of the generating station for its own use and benefit and 24.3% for the use and benefit of the United States. The United States pays all capital costs and operating and maintenance expense associated with its entitlement. The participation agreement contains special provisions covering the relationship between the District and the United States. The United States must consent to all Navajo Project agreements which the District may enter into where the United States is not a party. The agreement also provides that any liability or burden incurred by the District because of its relationship with the United States shall be shared among all the co-owners on the basis of their ownership interest in the Navajo generating station. This agreement follows the general pattern described above for the other jointly-owned projects in which the District participates.

Puget Sound Power and Light Company Exchange Agreement

The District and Puget Sound Power and Light Company entered into a diversity exchange agreement, dated October 16, 1974. This exchange agreement provides for a winter-summer diversity exchange during the winter 1974-75 and summer 1977. The District fulfilled its obligations during the winter 1974-75 and will receive 137,000 kw during the summer 1977. Transmission arrangements have been obtained from Utah Power and Light Company and the USBR. A letter agreement was signed on December 18, 1974 by the District, Puget Sound, and Utah Power and Light which provides for an additional diversity exchange. Puget Sound will deliver 137,000 kw to the District summer 1978, and District will return the capacity during the winter 1979-80 or 1980-81.

Yampa Project Participation Agreement

The District, Colorado-Ute (Project Manager and Operating Agent), Platte River Power Authority, and Tri-State have entered into the Yampa Project Participation Agreement, which provides for ownership, construction, operation and maintenance of the Yampa Project, including two 380,000 kw coal-fired units—designated as the Craig Station. This agreement follows the general pattern described above for the other jointly-owned projects in which the District participates and has been approved by the Public Utilities Commission of Colorado and the REA.

Arizona Nuclear Power Project Participation Agreement

The District, APS, TG & E, Public Service Company of New Mexico, El Paso Electric Company and Arizona Electric Power Cooperative, Inc. entered into the Arizona Nuclear Power Project Participation Agreement dated August 23, 1973. This agreement provides for ownership, construction, operation and maintenance of the project and follows the general pattern described above for the other jointly-owned projects in which the District participates. On August 28, 1975, TG&E notified the other participants that it assigned its interest in the Arizona Nuclear Power Project to Southern California Edison Company.

The initial generating station designated the Palo Verde Nuclear Station is discussed above under "Power Sources—Future".

Montezuma Pumped Storage Project Preliminary Agreement

The District, APA and APS entered into the Montezuma Pumped Storage Project Amended Revised Preliminary Agreement dated August 15, 1975. This agreement provides for the District, as Project Manager, to undertake certain preliminary aspects of the project including, among other things: the commencement of negotiations and the recommendation of an agreement for preliminary engineering; the preparation of a program for submission to the Federal Power Commission; the preparation of contracts for engineering and design services and for the construction start of the project; the preparation of environmental studies; and the drafting of the necessary project agreements, including a participation agreement.

THE IMPROVEMENT PROGRAM—1975 THROUGH 1980

General Description

In order to improve its long-range forecasting process, the District implemented a program during 1971 utilizing a computer-based mathematical model. This Corporate Model permits analysis of a greatly increased number of alternative factors and effects, as well as significantly reducing the time required to change the inputs and produce revised plans. The Corporate Model is reprogrammed and revised and its data base updated periodically to keep the model current for long-range planning. The initial input is a detailed and carefully considered estimate of load growth and new customers expected to be added to the system. The load of each class of customers is estimated separately, with effect given to known industrial developments, new proposed housing, etc. Based upon the expected growth of load, expansions of the power supply is then planned on a comparative basis, and necessary transmission and distribution expenditures then estimated. Through extensive study of the Corporate Model, the District makes a thorough annual update of its 10-year long-range plan and prepares the budget for the coming year.

District estimates of load growth and the resulting capital cost requirements follow, in general, the methods used by the Consulting Engineers. Previous independent estimates by the Consulting Engineers and the degree of their conformance with those made by the District, together with a comprehensive check of current estimates, lead the Consulting Engineers to accept the estimates and projections of the District as being reasonable.

Summary of Estimated Capital Expenditures for the Improvement Program

The Improvement Program, totaling $1,852,491,000, includes $1,488,937,000 for generating facilities, $184,216,000 for transmission systems, $156,801,000 for distribution facilities and $22,537,000 for other expenditures. It is anticipated that a substantial portion of funds for the Improvement Program will be provided by additional Revenue Bonds as indicated in Table 27 on page 39. The ability of the District to issue additional Revenue Bonds is subject, among other things, to general capital market conditions and its ability to meet the additional bond tests described under "Summary of Certain Provisions of the Resolution—Additional Bonds."

Table 11 summarizes estimated capital expenditures for the Improvement Program. Expenditures for 1975-1980 are based on detailed estimates which include interest during construction. In financing the capital expenditure requirement for the Improvement Program, the District follows the practice of funding interest during construction from revenues rather than Revenue Bond proceeds in order to minimize bonding requirements.

Table 11
SUMMARY—ESTIMATED CAPITAL EXPENDITURES FOR 1975-1980 IMPROVEMENT PROGRAM
(000's omitted)

	1975	1976	1977	1978	1979	1980	Total 1975-80
Four Corners (Units No. 4 and 5)	$ 1,212	$ 317	$ 1,162	$ 2,270	$ 10,678	$ 5,200	$ 20,839
Mohave	349	—	—	—	—	—	349
Navajo	26,210	11,970	7,773	1,978	—	—	47,931
Navajo Railroad	2,735	2,963	—	—	—	—	5,698
Hayden No. 2	25,343	9,325	1,336	—	—	—	36,004
Craig	23,234	48,470	38,205	19,322	6,242	1,119	136,592
Coronado (Units No. 1, 2 & 3)	34,618	90,628	167,345	217,604	149,571	27,600	687,366
Coronado Railroad (1)	1,423	13,017	22,187	4,662	884	—	42,173
Hayden No. 1	898	—	—	—	—	—	898
Combustion Turbine	3,313	—	—	—	—	—	3,313
Santan Combined Cycle	5,263	—	—	—	—	—	5,263
Palo Verde Nuclear	8,538	20,007	44,166	86,049	144,924	153,904	457,588
Nuclear Fuel	1,790	1,484	276	3,880	7,444	1,866	16,740
Future Nuclear Projects	—	—	—	214	3,761	8,414	12,389
Future Nuclear Fuel	—	—	—	—	—	1,744	1,744
Sub Total Thermal Plants	$134,926	$198,181	$282,450	$335,979	$323,504	$199,847	$1,474,887
Major Transmission (2)	17,930	27,033	42,846	51,587	14,464	19,297	173,157
Pumped Storage	238	—	—	—	—	—	238
Other Electric Construction							
Generation	3,480	4,872	1,068	936	1,128	2,328	13,812
Transmission	1,704	672	1,949	2,070	2,240	2,424	11,059
Distribution	16,187	18,358	16,670	31,836	34,492	39,258	156,801
Project General	9,512	1,120	892	3,001	4,295	3,617	22,437
Research and Development	100	—	—	—	—	—	100
Construction Program Total	$184,077	$250,236	$345,875	$425,409	$380,123	$266,771	$1,852,491
Less:							
Interest During Construction ("IDC")(3)	13,176	17,680	31,156	49,795	38,180	33,082	183,069
Total Without IDC	$170,901	$232,556	$314,719	$375,614	$341,943	$233,689	$1,669,422

(1) Cost of unit trains not included.
(2) Includes District funds for transmission systems associated with new power plants as well as all lines over 69 kv.
(3) Interest during construction was computed at a rate of 6% over the past several years, but was changed to 7.25% effective July 1, 1975.

Generation Additions

The Improvement Program includes thermal generating plants planned, being constructed, or being modified at Four Corners, Navajo, Hayden, Craig Station, Coronado Station and Palo Verde Nuclear Station units. Also included are combustion turbine peaking units and combined cycle units already completed in 1975. The estimated expenditures for the additional generating capacity in 1975 through 1980 are $1,488,937,000, or 80.4% of the Total Improvement Program.

For a more complete description of generation additions, see "Power Sources—Future".

Transmission Additions

The Improvement Program calls for the addition of increased capacity of transmission lines to serve new substations and to connect new generating capacity into the system. Demands for improved appearance often require expensive structure or rerouting that adds to the length and cost. The higher voltages also add to costs, but result in increased capacity advantages in meeting future demands.

As shown on the map entitled "High Voltage Transmission Lines and Principal Generating Stations Supplying the District," new lines will be constructed for delivery of power to be generated at the Palo Verde Nuclear Station. To deliver the District's and other participants' power, three 500,000-volt lines are contemplated between Palo Verde Nuclear Station and Phoenix and one 500,000-volt line between Palo Verde Nuclear Station and southern Arizona.

Approximately one hundred million dollars has been allocated for construction of one 500 kv transmission line for delivery of power from Coronado Station to the Phoenix area and one 500 kv line to interconnect to APS's Cholla generating station and associated EHV switchyard facilities.

The estimated cost of the total 1975-1980 transmission portion of the Improvement Program is $184,216,000, or 9.9% of the total projected electrical construction costs.

Distribution Additions

The estimated expenditure for distribution system additions and improvements in 1975 through 1980 are at $156,801,000, or 8.5% of the Improvement Program. An average of six new 22,400 kva unit substations must be provided each year to meet residential and commercial load growth.

It is anticipated that the trend toward undergrounding of all new distribution lines will continue (for historic perspective, see "The Electric System—Distribution System"). Percentage projected costs include 68.9% for underground lines compared to 31.1% for overhead lines.

General Plant Additions

This category includes structures, automotive equipment, communication facilities, etc. The communication system is being expanded through added District-owned microwave facilities and leased telephone lines to provide remote supervisory control for all substations, both in the transmission and distribution classes. The number of substations has now become so great that conventional supervisory control is impractical and the system has been computerized. With the completion of the system, system operators will have, in a limited space, a continuous indication of telemetering outputs at widely separated points on the system. It will also provide for the position and operation of line-protection devices (breakers) with visual and audible indications of unusual system conditions.

The estimated costs of all general plant facilities and other expenditures in the Improvement Program is $22,537,000, or 1.2% of total costs.

DISPOSITION OF 1975 SERIES C BOND PROCEEDS

The proceeds of the $35,000,000 1975 Series C Bonds are estimated to be applied as follows:

Amount Available for Cost of Construction(1)	$32,910,300
Deposit in Debt Reserve Account	1,470,558
Costs of Financing	100,000
Bond Discount	519,142
Principal Amount of 1975 Series C Bonds	$35,000,000

(1) Includes repayment of $30,000,000 in short-term line of credit bank loans incurred to finance part of the Improvement Program.

ENVIRONMENTAL PROGRAM

Policy

It has long been the intent of the District to make all installations and facilities environmentally compatible with the areas in which they are located. The District's environmental program is a commitment to take those actions which are necessary for the ecological and social well-being of the area served by the District or affected by its facilities.

Although the District had demonstrated an environmental awareness prior to the recent wave of public concern over environmental quality, the District formalized its environmental program with the adoption and publication of an environmental policy. Under this policy, the District and the Association are pledged, in regard to both electric and water facilities, to:

1. Conduct those studies necessary to obtain a complete understanding of how any new facility or activity may affect the environment and take appropriate action to protect the environment.

2. Inspect and survey all new facility sites so that any historic or archaeological materials or any endangered species can be saved for posterity.

3. Install the necessary air pollution control equipment at our facilities so that emissions of particulate matter and gases will meet or be less than established limits.

4. Construct generating stations in a manner which assures that stack effluents, however small, will be adequately dispersed.

5. Design facilities, when it is necessary to return water to lakes, rivers or streams, so there will be no detrimental effect to the ecology of the area from heat, dissolved solids, or chemicals, as determined by ecologists, biologists and controlling agencies. (At the Navajo Generating Station and proposed Coronado Generating Station, no waste water will leave the site.)

6. Provide protection against pollution by dust.

7. Build into all generating stations the appropriate facilities for noise abatement.

8. Design and landscape all new facilities so that they will be compatible with the surrounding area.

9. Work harmoniously with all Federal, state and local agencies and groups responsible for or interested in the protection of our environment.

In accordance with this policy, new electrical distribution lines to homes are being installed underground whenever possible. By the end of June 1975, approximately 4,922 cable miles had been installed underground. When underground construction is not feasible, the District utilizes modern gray poles rather than the old style dark poles. Careful consideration is given to the routing of lines which must be built above ground. In urban areas, every effort is made to keep overhead lines in alleys and along back property lines; this reduces visibility from the street and improves overall neighborhood appearance. In rural areas, routes are chosen to maximize use of existing high-voltage transmission corridors and to use terrain features to reduce visibility of the lines.

All new electrical substations in suburban areas are of low-profile design and are enclosed with attractive walls designed to blend with the architecture of the neighborhood. Compatible landscaping is also added.

The District also is conforming to numerous and extensive regulatory restrictions which have been imposed as a result of growing public environmental concern. The Legislature of the State of Arizona has enacted legislation which establishes a siting committee under the Arizona Corporation Commission and requires that certificates of environmental compatibility be obtained for generating stations of 100,000 kw or more and for transmission lines of 115 kv or more. Arizona utilities, including the District, supported this legislation.

In all of the thermal stations which are owned in whole or part by the District, cooling towers or cooling ponds are employed and no discharges of water are made to water courses. As a result, the District is not experiencing any environmental problems related to water pollution from its generating stations.

Interruptions in power sources due to inability to satisfy rapidly changing environmental control criteria could temporarily reduce the District's ability to completely meet consumer demand. The District has developed a load shedding scheme where blocks of load would be disconnected on a selected and rotating basis to meet such possible situation.

Air Quality Control

The District, in common with many other electric utilities and other industries, is subject to stringent standards for air quality control. The standards have substantially increased the cost of electric generating plants.

The Clean Air Act of 1970 requires the Federal Environmental Protection Agency ("EPA") to establish national air quality standards and authorizes each of the states to adopt air contaminant limitations which will permit the attainment and maintenance of the standards established by the EPA, failing which the EPA itself is to establish such limitations. Limitations on emissions of particulates have been adopted and approved by EPA for the Clark-Mohave Interstate Region, Four Corners Interstate Region and all Colorado air quality regions. The Phoenix-Tucson Intrastate Region does not have an approved particulate emission limitation plan. The Clark-Mohave Interstate Region, and the Colorado Regions have plans for limitations on sulfur oxide emissions which have been approved by EPA while the Four Corners Interstate Region and the Phoenix-Tucson Intrastate Region do not have approved sulfur oxide emission limitation plans. The District and other utilities have challenged EPA's position by filing Petitions for Review in both the Ninth and Tenth Circuit U.S. Courts of Appeal. In both circuits, petitions filed by various environmental groups have been consolidated with the petitions for review filed by the affected utilities. In August 1973, as a result of a request by the utilities involved, the EPA held hearings for the purpose of taking additional information to evaluate the regulations which it had promulgated and which had been challenged by the utilities. Based on the evidence presented, EPA has modified the regulations in several important respects, one of which is that the final date for achievement by the Navajo plant of compliance with the standards imposed will be November 30, 1977 rather than March 15, 1976. Additionally, EPA, the State of Arizona, the environmental groups and the District have agreed that the degree of SO_2 removal required at Navajo should be established by a scientific method of testing, and a joint SO_2 monitoring program was conducted at the Navajo plant site and surrounding area between October 1974 and February 1975. The petitions pending in the Ninth Circuit have been dismissed subject to a refiling only if EPA should fail to promulgate new SO_2 removal regulations in accordance with the results of the joint monitoring program. The final report on the SO_2 monitoring program is scheduled for publication in September 1975. Tentative conclusions indicate that no SO_2 removal at Navajo would be required by EPA.

The scope, interpretation and enforcement of the Clean Air Act and of certain implementing actions taken thereunder are being extensively litigated throughout the country. Among other things, the U.S. Court of Appeals for the District of Columbia has upheld the District Court decision in *Sierra Club v. Ruckelshaus* which would prohibit any "significant deterioration" (as yet undefined) in existing air quality in those parts of the country where air quality is already better than the national standards set by the EPA. The Supreme Court on June 11, 1973, by a four-to-four vote, affirmed, without a written opinion, the decision of the lower Court.

On July 16, 1973, EPA published proposed revised regulations reflecting four alternate regulatory programs for preventing "significant deterioration". EPA has held hearings on the four schemes and, on August 27, 1974, published a further proposed regulation adopting a combination of the various schemes. Final regulations were published in December 1974 and are applicable to

facilities where construction begins after June 1975. The District and seven other utilities have filed a petition for review of the regulations in the Ninth Circuit Court of Appeals. Other petitions for review were filed in the Fifth, Sixth, Seventh, Tenth and District of Columbia circuits. The various petitions have all been consolidated and transferred to the District of Columbia Circuit.

The District has a 10% ownership interest in the Four Corners Project Units 4 and 5. APS, as the Operating Agent of this project, is encountering difficulties in complying with the existing applicable standards. Electrostatic precipitators on Four Corners Units 4 and 5 have been modified to enable them consistently to meet New Mexico standards currently applicable to them for the removal of particulate emissions. Studies are in process on a solution to emissions of oxides of sulphur. If air quality control devices sufficient to meet the prescribed standards cannot be developed and installed by July 31, 1977, the continued operations of Four Corners Units 4 and 5 will depend upon obtaining variances.

The District also owns a 10 percent interest in the Mohave Project located in Clark County, Nevada. Southern California Edison Company, as Operating Agent of the Mohave Project, has received notices of violation of the Nevada State air pollution regulations applicable in Clark County, Nevada, and is operating the plant subject to a variance. The variance required a schedule of compliance to be developed with equipment to be installed by January 1, 1977.

In June 1973, EPA denied the Nevada State request for an 18-month extension for attainment of national ambient air quality standards for sulphur dioxide and particulate matter in the air quality control region for Mohave. The denial had the effect of requiring SO_2 abatement equipment to be installed by July 15, 1975. A variance was granted Mohave until December 1976. Prototypes of the requisite equipment to be installed are only now in the development stage under a combined Navajo-Mohave Project research and development program recently concluded at the Mohave Project. Due to the fire in one of the two test modules referred to below, a request for an additional six-month extension was made and granted by the Nevada authorities. A conforming change was requested and granted from EPA. The State of Nevada has currently enacted legislation, the effect of which is to place a two year moratorium on the enforcement of installation of SO_2 removal equipment at Mohave.

The District is concerned about the availability of power from Four Corners and Mohave generating units in which it has a percentage ownership. Due to environmental problems, the continued availability of these units is subject to some doubt and will be dependent on administrative actions. Although extensive programs are under way to correct these problems, it is anticipated that operations at reduced loads or temporary complete shutdowns may be experienced in the near term. The process of installation and checkout of air quality control equipment to meet pollution standards established subsequent to completion of these units has in the past and may in the future cause shutdown of the units or operation at reduced levels.

The particulate equipment for the Navajo generating station which has been installed will meet the existing Arizona standards. Module plant SO_2 removal tests have been run at the Mohave Project, and the test results will be used to help select SO_2 removal equipment for the Navajo Project, if necessary. Navajo Unit No. 1 passed State of Arizona particulate matter and SO_2 emission compliance testing in November 1974, and an operating permit was issued. Navajo Unit No. 2 passed State of Arizona emission compliance testing in July 1975, and an operating permit was issued.

The cost of the Navajo generating station and the electric railroad, which transports coal to the station, provides a dramatic example of the impact of environmental costs on capital requirements. Environmental protection for this plant will be $220,000,000 of which the District's share will be at least $47,000,000.

An environmental statement was filed with CEQ by REA for Hayden No. 2 generating station on February 4, 1972 and, for the Craig Station in late July 1974. EPA has refused to accept a proposed amendment to the Colorado state implementation plan allowing until January 1, 1978 to install and operate SO_2 removal equipment. Thereafter, Colorado-Ute and others filed suit to challenge the regulation. Proceedings in that suit have been stayed by stipulation. Subsequently the

State of Colorado withdrew SO_2 removal from the State Implementation Plan and EPA has approved the State Plan. The Air Pollution Control Division has adopted, or will adopt, proposed regulations which will have the effect of delaying any SO_2 removal until 1985.

Environmental Litigation

Two law suits involving environmental matters have been filed which may affect the Four Corners, Navajo and Mohave Projects. It is the opinion of the District's attorneys and its Legal Advisors that the outcome of these suits will not impair the ability of the District to meet all of its obligations under the Resolution and the Prior Lien Bond Resolutions.

A description of these law suits follows:

Lomayaktewa, et al. v. Rogers Morton, et al.

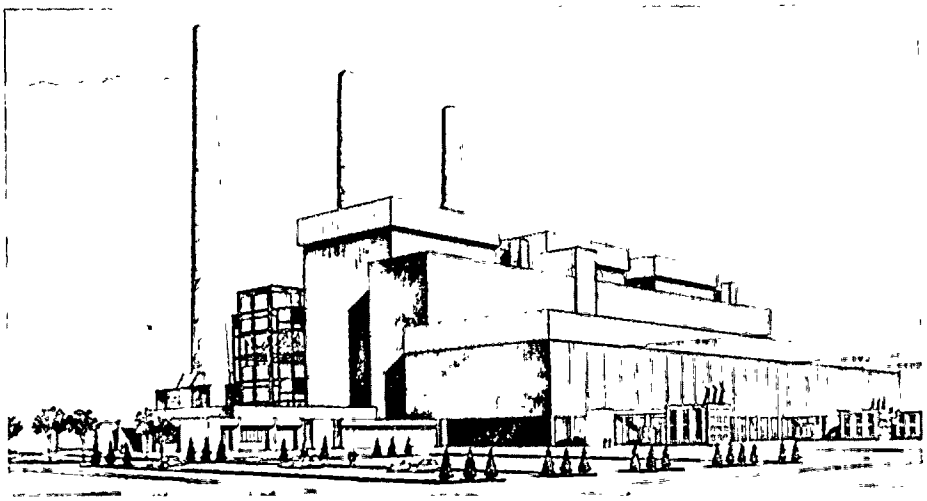
On May 14, 1971, an action was filed in the U. S. District Court for the District of Columbia by a number of Hopi Indians against the Secretary of Interior and Peabody Coal Company. The plaintiffs alleged that a mining lease between the Hopi Tribe and Peabody covering the interest of the Hopi Tribe as lessor of some 40,000 acres of land on the 1882 Executive Order Reservation is invalid.

The lands on the 1882 Executive Order Reservation covered by the Hopi and Navajo leases are the locus of about 49% of the fuel supply dedicated to the Mohave Project and the locus of about 86% of the fuel supply dedicated to the Navajo Project.

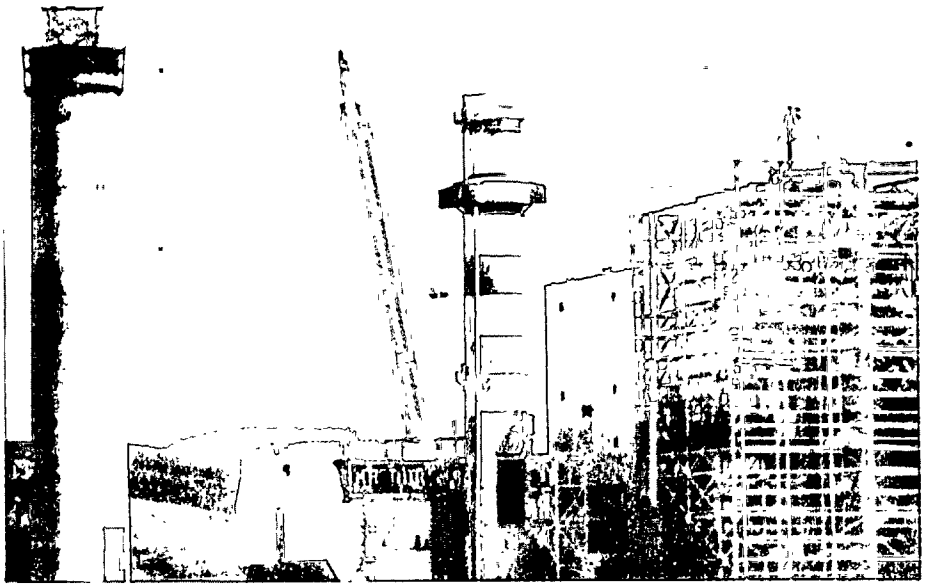
The Motions to Intervene of the Navajo Project co-owners were granted by the Arizona Federal District Court on July 20, 1972. Motions to Dismiss on several grounds including failure to join the Hopi Tribe as an indispensable party were filed by intervenors. The defendants filed Motions to Dismiss and Motions for Summary Judgment. The Arizona Federal District Court rendered a Judgment in favor of the District, Peabody Coal Company, and the other utility intervenors by granting their Motion to Dismiss the case. The plaintiffs appealed to the Ninth Circuit Court of Appeals. On July 25, 1975, the Circuit Court affirmed the action of the District Court by dismissing the case. Plaintiffs have filed a motion for rehearing.

Arizona Public Service Company, et al. v. EPA, et al.

A total of five lawsuits in the Ninth Circuit Court of Appeals and six lawsuits in the Tenth Circuit Court of Appeals are discussed under this caption. After the March 23, 1973 promulgation by EPA of regulations requiring 70% removal of SO_2 at the Navajo and Four Corners Plants by March 15, 1976, the District and APS petitioned for review of that action in the Ninth Circuit Court of Appeals. Environmental groups and the State of Arizona filed separate petitions also challenging aspects of the promulgation. Similar petitions were filed in the Tenth Circuit Court of Appeals by the utilities participating in Four Corners and other environmental groups. The utilities and environmental groups filed similar petitions for review in both the Ninth and Tenth Circuits after EPA promulgated certain modifications to its original regulations on March 15, 1974. As a result of the agreement to monitor SO_2 emissions from the Navajo Plant, stipulations dismissing all of the Ninth Circuit actions have been filed by all of the parties thereto. Those suits will only be reinstated if EPA does not meet its commitment under the monitoring agreement referred to above, to promulgate revisions in its SO_2 emission regulations demonstrated to be necessary after completion of the monitoring program. Tentative conclusions from the joint monitoring program indicate that the 70% removal at Navajo initially required by EPA is scientifically unsupportable and that no removal is necessary to comply with the national ambient air standards. Settlement of the Tenth Circuit actions whereby the amount of SO_2 removal required by EPA will be reduced is expected to be completed in the near future.

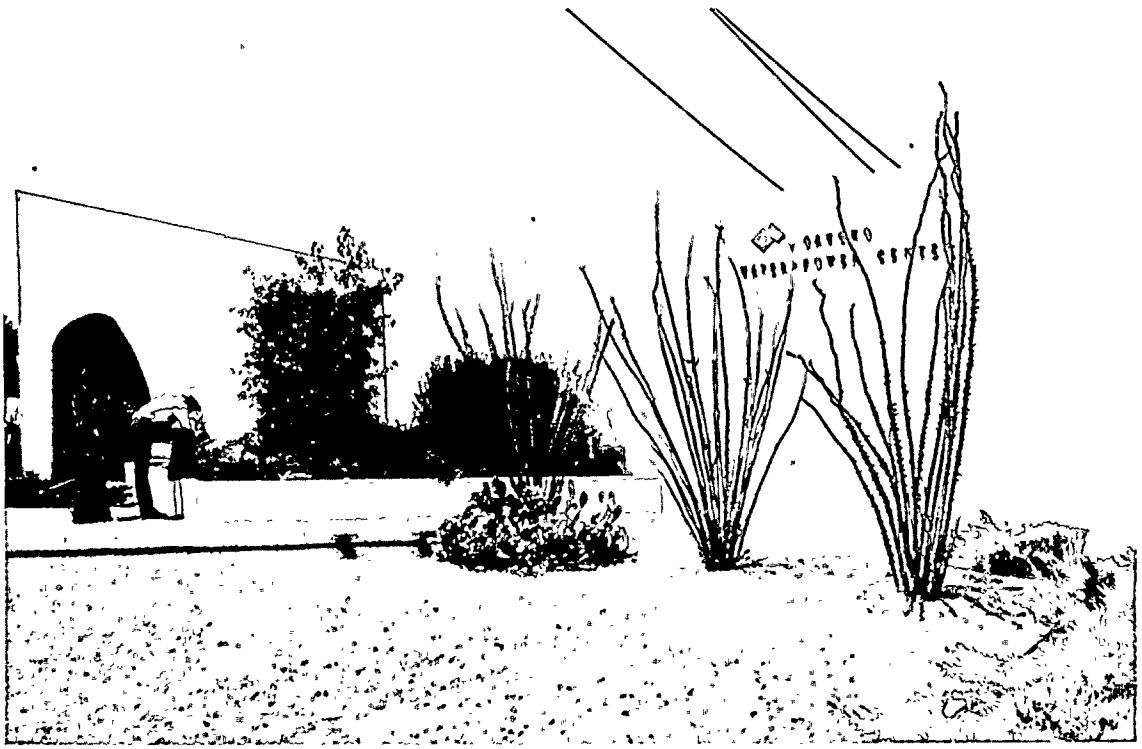


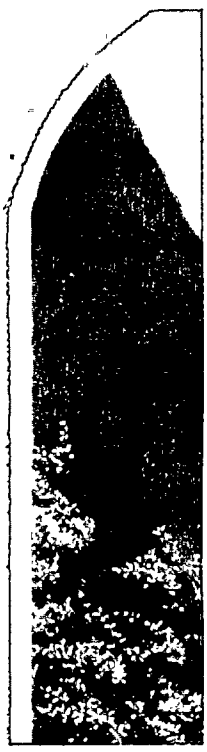
Coronado Generating Station, to be built near St. Johns, Arizona, will have a generating capacity of 1,050,000 kilowatts from three 350,000 kilowatt units. The first unit is expected to begin commercial operation in 1979 and the second in 1980.



Unit 2 of the Hayden Generating Station, in northwest Colorado, is under construction. The District is now receiving 50,000 kilowatts of power from Unit 1. It will receive 200,000 kilowatts from Unit 2 beginning in 1976 with the amount diminishing to 125,000 kilowatts in 1982.

Pleasing landscaping and low profile facilities are part of Gaucho Substation. The District's award-winning beautification program, begun 10 years ago, requires all new facilities to be compatible with surrounding areas.





SUMMARY OF EXISTING RATE SCHEDULES

The District has maintained rates for electric service which have been sufficient to provide for all operating costs, repairs, replacements, debt service requirements and for substantial capital additions to the Electric System. On November 4, 1974, the District Board approved adjusted rate schedules effective with the January 1975 billings designed to produce approximately $21 million additional revenue in 1975. On June 2, 1975, the District staff recommended to the District Board an additional rate increase to become effective with the October 1975 billing cycle. The increase was proposed to offset the combined effects of the continuing recession and inflation. The District Board took the staff recommendation under consideration and retained the nationally known consulting firm of National Economic Research Associates, Inc. ("NERA") to study the staff's proposal. NERA concurred with the need for additional revenues. On August 14, 1975, the Board approved a rate increase to become effective with the October 1975 billing cycle. At the same time, the Board gave approval to incorporate the fuel escalator into the new base rate schedules, thus reducing the escalator to zero. The rate increase is designed to produce approximately $8 million additional revenue in 1975. The base rates, as so adjusted for zero fuel escalation, would produce approximately $40 million additional revenues in 1976; however, it is anticipated that the increasing portion of coal-fired energy on the system will require less burning of expensive oil. If the District is successful in achieving the fuel operating economies anticipated, negative fuel escalation will occur such that the net increase in revenues for 1976 will be approximately $21 million. The estimated additional revenues of $8 million in 1975 and $21 million in 1976 are included in Table 26 and all other representations herein of electric revenues for these two years.

Under Arizona law, the District Board has exclusive authority to establish electric rates. Recently, in response to a recent rate increase, certain members of the State Legislature have expressed intent to introduce legislation when the Legislature convenes in January 1976, to subject the District's rate making to some form of state review or control. The District's status as a political subdivision of the State of Arizona pursuant to the Arizona Constitution, and as the operator of a federal reclamation project pursuant to contract with the United States of America, will present complex and difficult legal questions and obstacles should any effort to establish state regulatory control over District electrical rate making be attempted.

While the Articles of the Association provide that the Secretary of the Interior may revise electric rates, the Secretary has never requested revision of electric rates.

Table 12 compares monthly bills for residential electric service, at energy consumption levels considered to be significant for the District, of selected Arizona electric utilities. The District expects that, on a long-term basis, it will maintain its relative standing as to rates with respect to the other utilities in Arizona.

Table 12
SELECTED MAJOR UTILITIES IN ARIZONA

Comparison of Monthly Electric Bills for Residential Services(1)

Utility	500 kwh	1,000 kwh
The District		
a. Rate Effective 10-1-75		
May-October	$23.66	$40.96
November-April	22.13	34.67
b. Rate As Of 8-1-75		
May-October	18.86	32.36
November-April	17.86	27.81
Arizona Public Service(2)		
Rate As Of 8-1-75		
May-October	20.48	36.80
November-April	19.80	31.64
Tucson Gas and Electric Co.		
Rate As Of 8-1-75		
April-October	23.11	44.55
November-March	23.11	41.45

(1) Includes fuel adjustment

(2) Amounts shown are for Interim Rates; APS is awaiting approval of the Interim Rates and has asked for an additional 7% rate increase.

Because of high summer temperatures, the District is a summer peaking utility. The District has for many years made an effort to balance the summer-winter load relationships through seasonal rate differentials.

In conjunction with the October 1975 rate increase, the District Board approved a new basis for the fuel escalator. The new base is the average cost of fuel in calendar year 1974.

For many years, negotiated contracts have included price escalators for increases in costs of fuel or purchased power, and cost of labor. The District is renegotiating all such contracts wherever possible, in order to apply standard rates which can be adjusted more readily as costs change.

Rates in effect in 1974 yielded revenues for the various classes of customers as given in Table 13.

Table 13
APPLICATION OF RATES
(1974)

	kwh Sales (000)	%	Sales Revenue (000)	%
Residential	2,751,863	36.1	$ 72,191	43.0
Commercial and Small Industrial	1,641,455	21.5	41,379	24.6
Large Industrial	678,560	8.9	9,594	5.7
Mines	871,325	11.4	11,923	7.1
Agricultural Pumps	308,554	4.1	3,654	2.2
Street Lights	38,757	.5	1,415	.8
Municipalities	239,777	3.1	3,400	2.0
Interdepartmental	194,652	2.6	3,044	1.8
Total, District Customers	6,724,943	88.2	146,600	87.2
Electric Utilities	903,561	11.8	21,457	12.8
Total	7,628,504	100.0	$168,057	100.0

CUSTOMERS, SALES, REVENUES AND EXPENSES—1970-1974

Residential

The residential group of customers has historically accounted for the largest kwh consumption and largest revenue.

Table 14
RESIDENTIAL CUSTOMERS, ENERGY SALES AND AVERAGE SALE PRICE
(1970-1974)

Year	Average Residential Customers(1)	Total (1000 kwh)	Average Annual Customer Usage (kwh)	Average Sale Price per kwh (cents)
1970	151,730	1,655,829	10,913	2.00
1971	163,955	1,911,776	11,660	1.95
1972	181,701	2,260,767	12,442	2.14
1973	200,336	2,640,917	13,182(2)	2.23
1974	214,833	2,751,863	12,809	2.62

(1) Differs from year end figures.
(2) Comparable U. S. Average 8,079 kwh.

Commercial and Small Industrial

The second largest customer classification is the commercial and small industrial category. At year-end 1974, there were 16,634 customers in this category as compared with 15,414 in 1973, using 1.64 billion kwh up from 1.56 billion kwh in 1973. This group of customers used 21.5% of energy sold and contributed 24.6% of the revenue for 1974. Since most of the customers included in this class are service-oriented organizations, their growth is linked directly to the growth of the residential customer class.

Mines and Large Industrial

In 1974, the mines and large industrial together used 20.3% of the energy sold and yielded 12.8% of the revenue. The relatively low realization from industrial sales represents conventional cost-related rate making in the utility industry. The District generally delivers the power at a higher voltage than for smaller customers thus eliminating some of the transformation and facility costs necessary for delivery at lower voltages.

Summary of Customers, Sales and Revenue—1970-1974

Table 15
SUMMARY OF CUSTOMERS, SALES AND REVENUES
(1970-1974)

						District Only(1)		Annual Peak (1,000 kw)	
Year	Customers at Year End	Total Annual Sales (Million kwh)	Annual Revenue from Sales (000)	Average Revenue per kwh (cents)	Increase in Revenue (%)	Sales (Million kwh)	Increase Over Prior Year (%)	System(2)	Total Generated and Purchased
1970	169,774	4,742	$ 73,480	1.550	14.5	4,530	11.8	1,055	1,172
1971	186,326	5,825	84,356	1.448	14.8	4,975	9.8	1,120	1,291
1972	206,441	6,036	103,721	1.718	23.0	5,607	12.7	1,360	1,533
1973	225,921	6,912	127,656	1.847	23.1	6,057	8.0	1,448	1,679
1974	239,431	7,629	168,057	2.203	31.6	6,725	11.0	1,645	1,907

(1) Excludes sales to APS and excess sales to others.
(2) Includes remote losses.

Large Customers

Table 16
15 LARGEST DISTRICT CUSTOMERS
(1974)

Customers	Maximum Demand kw
Inspiration Mines	81,800
Motorola, Inc.	57,012
Kennecott Mine	53,600
Pinto Valley Mine	41,200
Miami Mines	20,600
Western Electric Mfg. Co.	20,529
Marathon Steel Co.	19,776
Magma Mines	16,700
Capital Foundry	15,360
American Smelting and Refining	8,200
Roosevelt Irrigation District	7,649
Arizona Agrochemical	5,040
Bluebird Mine	4,000
American Express Co.	2,784
Revlon, Inc.	2,550

Summary of Operating Expenses—1970-1974

Table 17
OPERATING EXPENSES 1970-1974
(000's omitted)

Year	Power Operation(1)	Operation and Maintenance(2)	Sales Taxes	Ad Valorem Taxes(3)	Total Operating Expenses
1970	$23,099	$13,183	$3,300	$ 57	$39,639
1971	30,617	14,902	3,727	130	49,376
1972	34,080	16,823	4,493	394	55,790
1973	49,221	20,242	5,789	416	75,668
1974	82,222	21,019	7,876	534	111,651

(1) Excludes charges for falling water.
(2) Excludes depreciation.
(3) Ad Valorem taxes apply to out-of-state properties owned by the District.

In addition to Operating Expenses, the District made voluntary contributions in lieu of taxes in the following amounts for 1970 through 1974: 1970—$4,175,000, 1971—$5,491,000, 1972—$6,068,000, 1973—$6,207,000 and 1974—$10,199,000.

ESTIMATED CUSTOMERS, ENERGY SALES, REVENUES AND EXPENSES 1975-1980

General Considerations

As elsewhere mentioned, the District developed and is using a computerized Corporate Model to simulate long-range operations using various forecasts. The Consulting Engineers have reviewed and made independent analyses of the Corporate Model forecast, particularly with respect to the sales revenue and operating expenses. As a result of such review and analysis, the Consulting Engineers concur in and have used certain of such data in their revenue and expense projections appearing in Appendix A of this Official Statement.

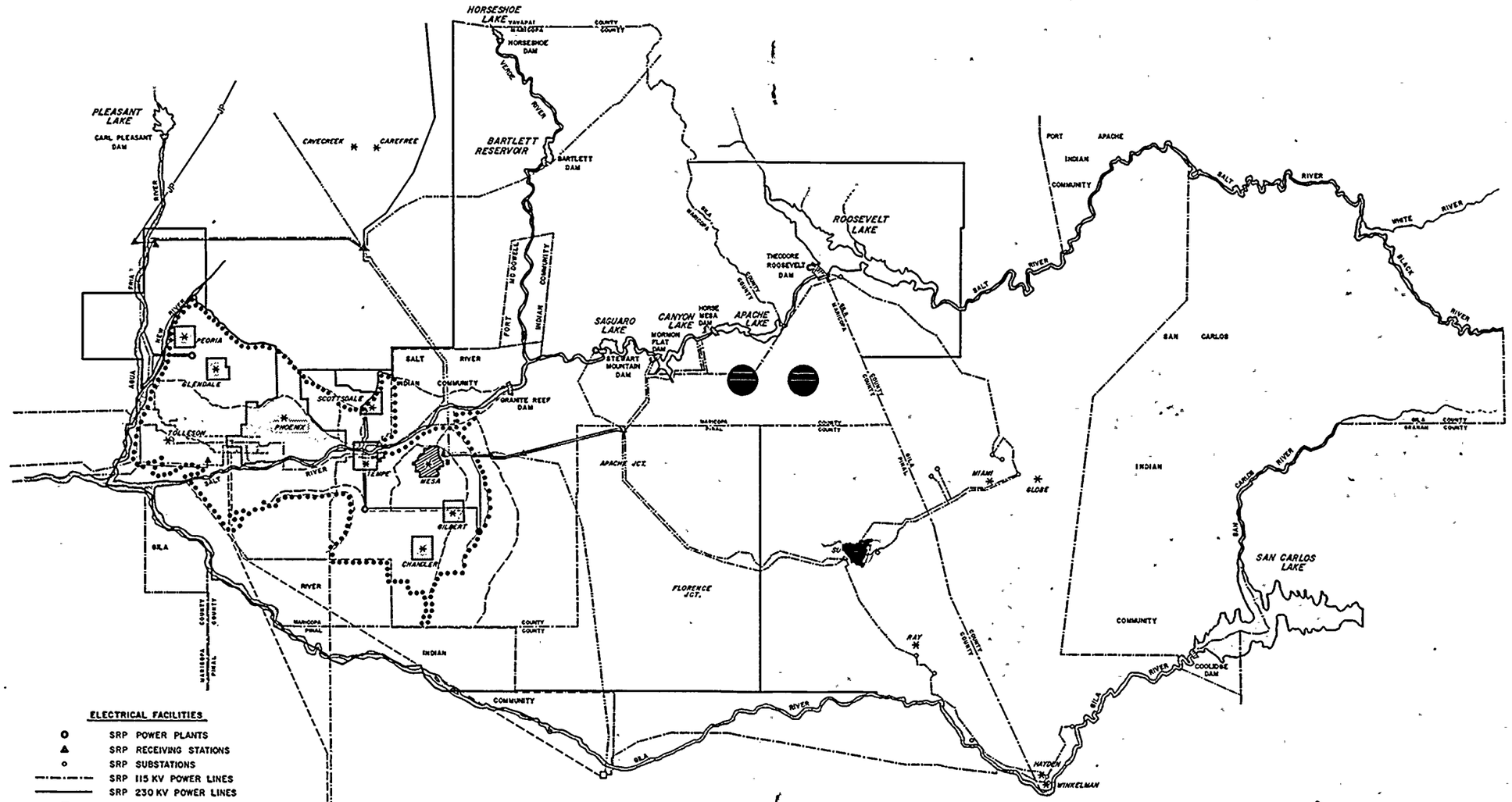
SALT RIVER PROJECT SERVICE AREA

SCALE OF MILES
0 5 10 15 20

LEGEND

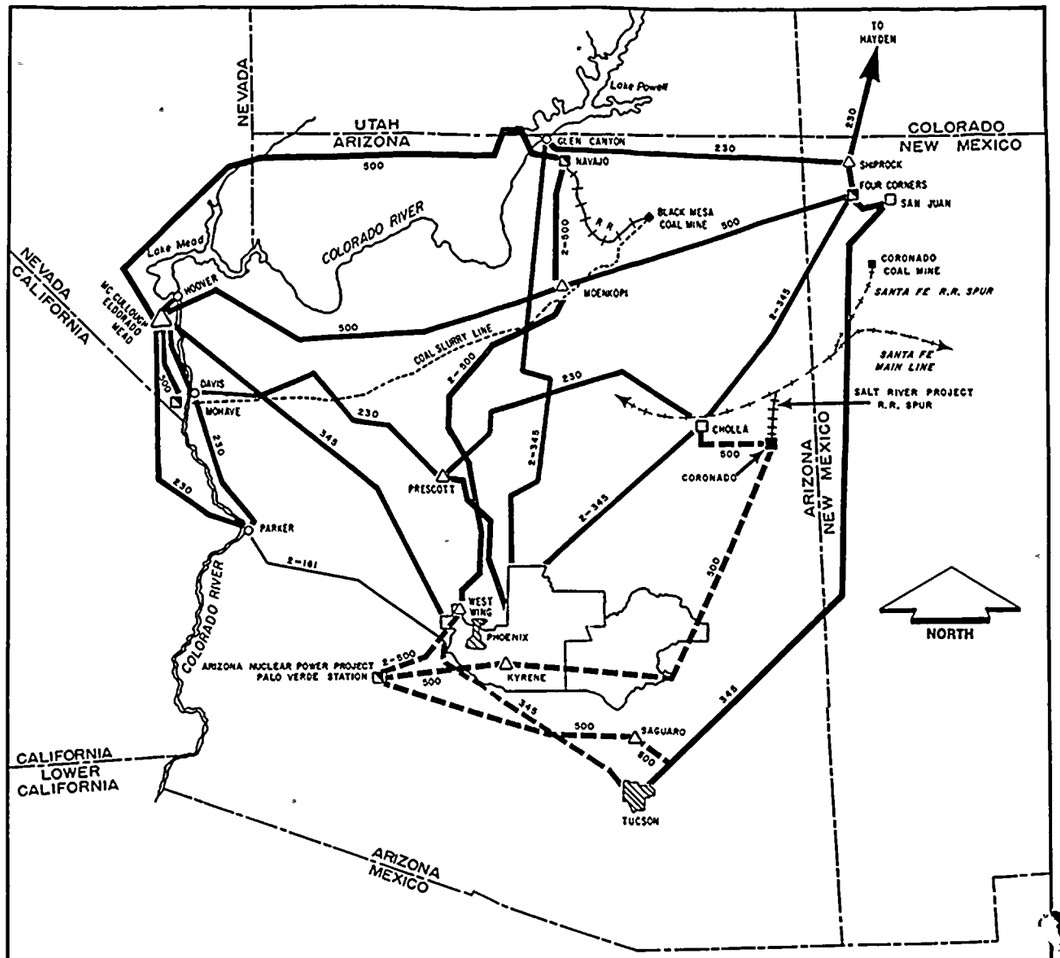
- AREAS SERVED EXCLUSIVELY BY SRP POWER DISTRICT.
- SRP POWER DISTRICT PROVIDES POWER REQUIREMENTS OF APS FOR RESALE EXCEPT FOR MINING LOADS.
- SRP POWER DISTRICT PROVIDES FULL POWER REQUIREMENTS OF APS FOR RESALE.
- AREAS WITHIN SRP POWER DISTRICT SERVED BY ARIZONA PUBLIC SERVICE.
- AREA SERVED EXCLUSIVELY BY THE CITY OF MESA.
- ASSOCIATION BOUNDARY.
- SRP MAJOR CANAL SYSTEM.

AREAS OUTSIDE SRP POWER DISTRICT BOUNDRY FOR THE MOST PART SERVED BY ARIZONA PUBLIC SERVICE.



ELECTRICAL FACILITIES

- SRP POWER PLANTS
- SRP RECEIVING STATIONS
- SRP SUBSTATIONS
- SRP 115 KV POWER LINES
- SRP 230 KV POWER LINES
- APS POWER PLANTS
- APS RECEIVING STATIONS
- APS SUBSTATIONS
- APS 230 KV POWER LINES
- APS 345 KV POWER LINES
- APS 500 KV POWER LINES
- USBR POWER PLANTS
- USBR RECEIVING STATIONS
- USBR SUBSTATIONS
- USBR 115 KV POWER LINES
- USBR 161 KV POWER LINES
- USBR 230 KV POWER LINES
- USBR 345 KV POWER LINES
- JP JOINT PARTICIPATION



LEGEND

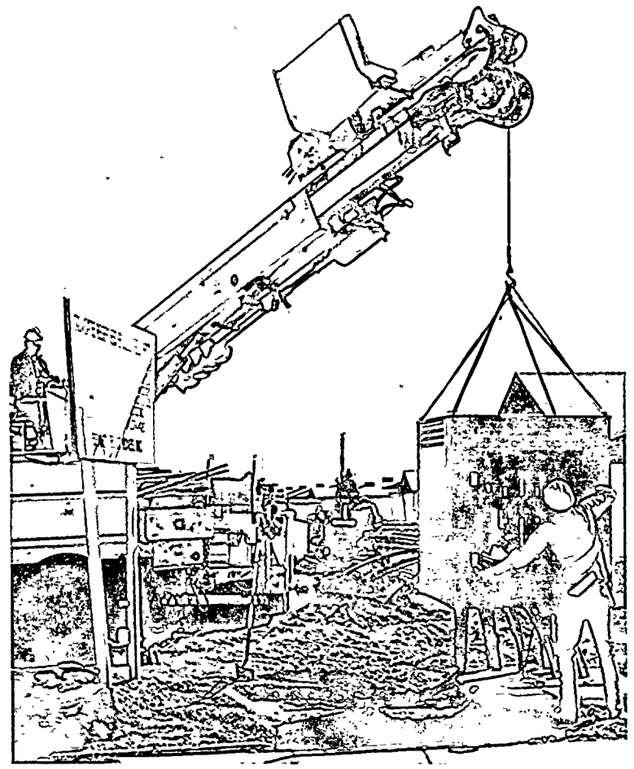
- PROPOSED OR UNDER CONSTRUCTION
- 230 KV AND ABOVE
- 161 KV
- THERMAL POWER PLANT S.R.P.D.
- THERMAL POWER PLANT S.R.P.D. PARTICIPATION
- THERMAL POWER PLANT OTHERS
- HYDRO POWER PLANT
- SUBSTATION AND/OR SWITCHING STATION

HIGH VOLTAGE TRANSMISSION LINES AND PRINCIPAL GENERATING STATIONS SUPPLYING SALT RIVER POWER DISTRICT

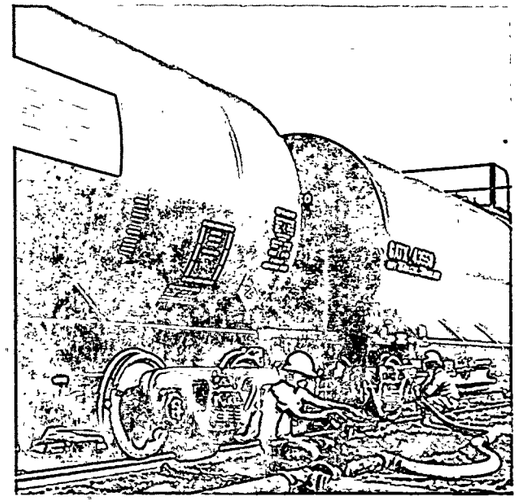
APPROXIMATE SCALE OF MILES
0 50 100

Ford, Bacon & Davis
Engineers

EXHIBIT NO. 2

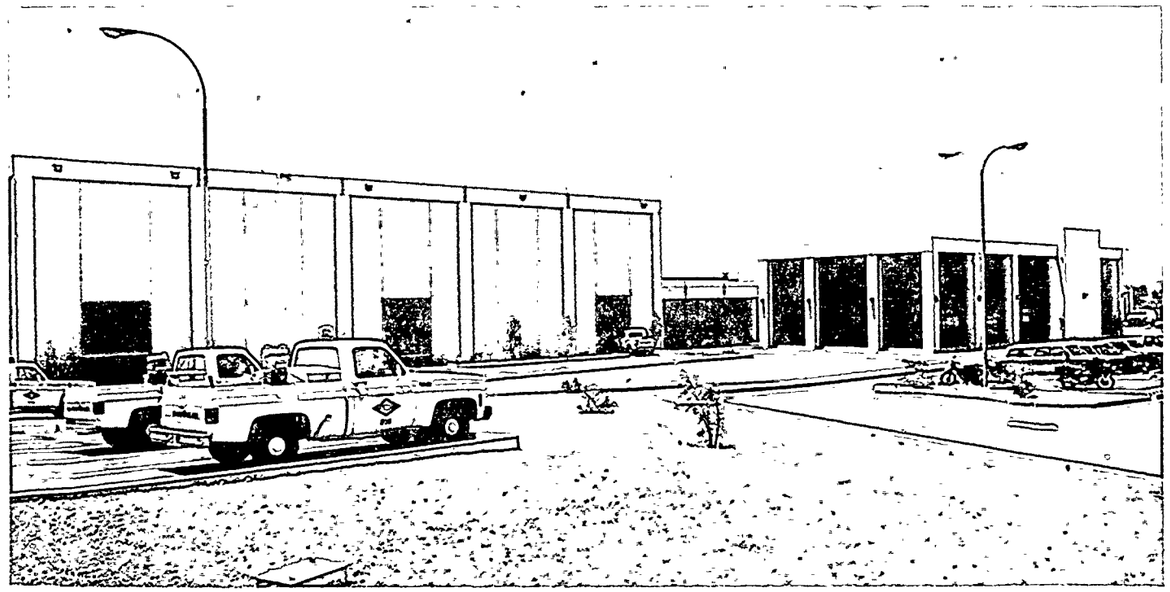


More than 31 percent of the District's distribution system is underground. This work at a new subdivision is typical of that in the growing Phoenix area. Total customers are expected to increase to 338,838 by 1980.



The District has leased 250 oil tank railroad cars to assure adequate delivery of oil to generating stations. In addition, District has storage capacity for more than 1.5 million barrels of oil.

The Crosscut Power Construction and Maintenance complex is headquarters for nearly 300 employes. This facility, which was completed in 1975, is located near the administration building in Tempe.



The short term effect of the recession has been recognized in the preparation of revenue and expense projections. The effects of voluntary curtailments and price elasticity as experienced during the past three years have not been specifically determined, however, they are generally reflected in the projections of revenue and expenses. Due to the general shortage of natural gas, conversion plans of commercial and industrial users to electric service and a larger proportion of new all-electric residential construction will probably offset the effects of the conservation program.

Both APS and TG&E have been granted permission by the Arizona Corporation Commission to refuse new gas hookups. This results in increased all-electric customers in the District's service area, and the probable effect on the District will be both increased loads and improved load factors.

Estimated Residential Growth

Residential construction in the District's service area slowed during 1974 and the first half of 1975 in response to reduction in housing demand. Following three years of exceptional growth in residential meter installations, averaging over 10% annually, residential meter installations in 1974 increased by 6.0% and in 1975 are projected by the District to increase by 4.3%.

Recent estimates of the Arizona Office of Economic Planning and Development indicate a 25% increase in population in the District's service area for the period 1975-80. To meet housing requirements for this increase, approximately double the present levels of housing production will have to be maintained for the balance of the decade.

The District's projections reflect both the short-range reduction in growth and a gradual return to increasing rates of activity for the long term.

Estimated Commercial Growth

Although business activity in the area has been adversely affected by the recession, the local economy is well diversified and is expected to continue to expand in 1975 at a slower rate of growth. The District's commercial meter installations in 1974 increased by 13.3% over 1973 and in 1975 are projected by the District to increase by 4.2%.

Phoenix's growth as a major business center in the Southwest has attracted large national corporations to the area. As examples, the Greyhound Corporation has moved its headquarters to Phoenix, American Express has established regional computer facilities serving their multinational operations from Phoenix, and regional headquarters buildings are now nearing completion for both Sentry Insurance and the Hartford Insurance Group.

For the long term, continued commercial growth will be required to meet the needs of the 25% population increase projected for this area for the period 1975-80 by the Arizona Office of Economic Planning and Development.

Estimated Industrial Growth

Manufacturing in the Phoenix area has levelled off as a result of the national recession. Manufacturing output (value added) increased only about 5% in 1974 but is forecast by the Economic Research Department of the Valley National Bank of Arizona to increase about 7% in 1975 as a result of inventory liquidations and improving new order files. Expansion plans were generally shelved, but a number of new plant openings are scheduled for next year. The District maintains a program designed to attract desirable industry to sites within its service area and participates in locally organized area development activities. The District expects their mine customers' power usage will grow from 226,100 kw in 1974 to over 400,000 kw in 1980.

Estimated Sales and Revenues—1975-1980

Table 18
ESTIMATED SALES AND REVENUE 1975-1980

Year	Estimated Customers at Year End	Estimated Annual Sales (million kwh)	Estimated Annual Revenue From Sales (000's) (2)	Estimated Average Revenue per kwh (cents)(2)	Estimated Increase in Revenue (%)(2)	District Only(1) Sales (million kwh)	District Only(1) Increase over Prior Year (%)	Annual Peak Load (1,000 kw) System(3)	Annual Peak Load (1,000 kw) Total
1975	252,174	8,288	$218,117	2.632	29.8	7,379	9.7	1,770	2,036
1976	267,032	9,209	252,834	2.746	15.9	8,034	8.9	1,920	2,219
1977	284,011	9,435	273,009	2.894	8.0	8,783	9.3	2,164	2,491
1978	302,052	10,159	294,439	2.898	7.8	9,449	7.6	2,327	2,678
1979	321,153	10,859	311,946	2.873	5.9	10,087	6.8	2,515	2,890
1980	341,317	11,571	337,966	2.921	8.3	10,732	6.4	2,706	3,105

(1) Excludes sales to other utilities and excess sales.

(2) 1975 revenues based on January 1, 1975 electric rates from January to September and October 1975 electric rates for the remainder of the year. 1976 revenues and subsequent years based upon October 1975 electric rates. Does not include adjustments displayed on Table 21 or Table 26.

(3) Includes remote losses.

Table 19
ESTIMATED OPERATING REVENUE 1975-1980
(000's omitted)

Year	Revenue From Sales(1)	Other Electric Revenue	Estimated Total Electric Revenue
1975	$218,117	$1,419	$219,536
1976	252,834	1,661	254,495
1977	273,009	1,501	274,510
1978	294,439	1,585	296,024
1979	311,946	1,671	313,617
1980	337,966	1,773	339,739

(1) From Table 18. Does not include adjustments displayed on Table 21 or Table 26.

Estimated Operating Expenses—1975-1980

Table 20
ESTIMATED OPERATING EXPENSES 1975-1980
(000's omitted)

Year	Power Operation(1)	Operation and Maintenance(2)	Sales Taxes	Ad Valorem Taxes(3)	Estimated Total Operating Expenses
1975	$ 97,122	$25,180	$10,112	$ 540	$132,954
1976	110,005	28,980	11,612	1,296	151,893
1977	127,361	31,172	12,699	1,848	173,080
1978	136,937	35,181	13,658	2,184	187,960
1979	148,792	42,954	14,434	2,460	208,640
1980	159,953	52,237	15,525	2,748	230,463

(1) Excludes charges for falling water.

(2) Excludes depreciation.

(3) Ad valorem taxes apply to out-of-state properties owned by the District.

Voluntary Contributions in Lieu of Taxes

Although not considered an Operating Expense under the Resolution, the District has historically made voluntary contributions in lieu of taxes to school districts, cities, counties and the State in accordance with permissive legislation passed by the Arizona Legislature in 1963. The intent of the legislation is to permit utilities such as the District to make such voluntary contributions, since the District is a political subdivision of the State of Arizona and exempt from property taxation. The payments are made voluntary by statute and are subject to approval of the Secretary of the Interior to avoid possible conflict with the interest of the United States in the District. The District has elected to make voluntary contributions in lieu of taxes every year since the enactment of the legislation.

A change enacted by the Legislature in 1969 provides a minimum for total contributions of not less than 7.5% of the previous year's gross revenue from retail sales of electricity to residential, commercial and industrial (not including pumping) customers; this percentage is to increase to 10% by 1978. This minimum has been applied only once, in 1973, and is not expected to be a factor for several years. Other changes relate to deductions for agricultural pumping power sales and to deductions for water department costs devoted to municipal use. These changes eliminated the large fluctuations in contributions that were possible under the previous legislation.

The contributions are made to the political subdivisions in Arizona within whose boundaries the District has property devoted to furnishing electric service. The assessing authority must use the same method of assessment applied to other properties of like character and devoted to the same use. The amount paid is computed on the same basis as ad valorem taxes on a private utility corporation with allowance for the aforementioned deductions. It is estimated that the contributions in lieu of taxes will continue in the following amounts for 1975 through 1980: 1975—$15,800,000, 1976—$20,000,000, 1977—$21,864,000, 1978—$22,488,000, 1979—$27,432,000 and 1980—$45,360,000.

Estimated Revenues Available for Debt Service-1975-1980

Table 21
ESTIMATED REVENUE AVAILABLE FOR DEBT SERVICE 1975-1980
(000's omitted)

Calendar Year	Estimated Electric Revenues(1)	Estimated Operating Expenses	Estimated Revenues from Operations	Interest and Other Income Net	Estimated Revenue Available for Debt Service
1975	$219,536	$132,954	$ 86,582	$ 6,141	$ 92,723
1976	254,495	151,893	102,602	8,806	111,408
1977	274,510	173,080	101,430	11,258	112,688
1978	296,024	187,960	108,064	10,755	115,819
1979	313,617	208,640	104,977	8,337	113,314
1980	359,739	230,463	129,276	7,955	137,231

(1) Electric rates are expected to be increased sufficiently to provide additional electric revenues of at least $20,000,000 in 1980 to provide additional funds for construction, to cover increased contributions in lieu of taxes and to meet other obligations subordinate to debt service. This additional amount is included in total Electric Revenues for this Table 21 and Table 26. Such amount is in addition to the amounts of projected revenues, based on current electric rates included in Tables 18 and 19 and in the Engineers Report in Appendix A.

FINANCIAL FACTORS OF THE DISTRICT

Line of Credit

Notes payable to banks represent borrowings under an annual line of credit agreement by 15 banks, which provide for a maximum commitment of $60,000,000 with interest on borrowings at a rate equal to 0.667 times the prime rate as established from time to time by the lead bank. The agreement also provides that the District maintain on deposit with the banks a compensating balance of $6,000,000. From the proceeds of the 1975 Series C Bonds, $30,000,000 will be used to repay the outstanding borrowings. The annual line of credit agreement terminates on October 15, 1975. The District has begun negotiations to renew the annual line of credit prior to its termination. The line of credit borrowings are borrowed in the name of and payable from the General Fund and rank junior to payments required for the Prior Lien Bonds and the Revenue Bonds.

Outstanding Long-Term Indebtedness

Outstanding long-term indebtedness presently consists of Prior Lien Bonds, loans from the United States of America, shareholders' advance payments and the Revenue Bonds. In all years to date, such net revenues have been more than sufficient to meet all debt service requirements and the District has never used its taxing power for the Prior Lien Bonds.

There appears in Table 22 a list of the bonded indebtedness of the District dated as of July 2, 1975, including $11,576,784 non-interest bearing loans made to the District by the United States of America and $56,872 shareholders' advance payments for construction.

Table 22
OUTSTANDING LONG-TERM DEBT OF THE DISTRICT
As of July 2, 1975

Issue Designation	Date of Issue	Original Amount of Issue	Amount Outstanding	Interest Rates	Future Maturities
Corporate Bonds #4	1950	$ 3,500,000	$ 1,400,000	2⅝ to 2¾	1976-77
Corporate Bonds #5	1951	4,500,000	3,000,000	2½	1976-80
Corp. Bonds #6, Blk 1, 2, 3	1953	13,500,000	8,500,000	2¾ to 3⅜	1976-82
Corp. Bonds #7, Blk 1	1956	11,000,000	7,095,000	3.10 to 3.40	1976-87
Corp. Bonds #8, Ser. B	1959	5,000,000	3,950,000	3.60, 3⅜	1976-87
SRP Bonds #9, Ser. A, B, C	1960	34,000,000	23,860,000	1 to 4¼	1976-92
SRP Bonds #10, Ser. A, B, C	1962-65	24,000,000	16,575,000	1 to 3.60	1976-94
SRP Refund Bonds #11	1965	13,470,000	11,400,000	3¼ to 3½	1976-87
SRP Bonds #12, Ser. A, B	1968-69	48,000,000	38,650,000	3 to 5	1976-99
SRP Bonds #13	1969	10,000,000	8,250,000	4 to 5	1976-99
SRP Bonds #14, Ser. A, B, C, D	1970-72	177,000,000	168,300,000	3½ to 6	1976-2003
Total general obligation Bonds		$343,970,000	$290,980,000		
Obligation to U. S. Govt. for Irrigation Plant Annual Contracts—Various Dates to 1999			$ 11,576,784	None	1975-1999
1973 Series A Bonds	1-1-73	$ 75,000,000	75,000,000	5 to 6½	1976-2010
1973 Series B Bonds	7-1-73	75,000,000	75,000,000	5 to 6½	1977-2011
1974 Series A Bonds	1-1-74	90,000,000	90,000,000	5.70 to 7.20	1983-2012
1974 Series B Bonds	5-1-74	50,000,000	50,000,000	6.10 to 7.60	1983-2012
1974 Series C Bonds	10-1-74	40,000,000	40,000,000	6.50 to 7.75	1983-2012
1975 Series A Bonds	1-1-75	60,000,000	60,000,000	7.10 to 8⅛	1983-2013
1975 Series B Bonds	4-1-75	75,000,000	75,000,000	7 to 7.60	1983-2015
Total Revenue Bonds		$465,000,000			
Equipment Contract (1)			2,047,966	6⅞	1975-1982
Shareholders Advance Payments			56,872	None	1975-1979
Total Outstanding Long-Term Debt			$769,661,622		

(1) Lease-purchase of two IBM 370 computers and peripheral equipment.

Prior Lien Debt Service Requirements

Table 23
PRIOR LIEN DEBT SERVICE REQUIREMENTS

Year Ending December 31	OUTSTANDING GENERAL OBLIGATION BONDS			U.S. Government Loans	Total Prior Lien Debt Service Requirements
	Principal(1)	Interest	Total Debt Service Requirements		
1975	$ 8,707,000	$13,430,453	$22,137,453	$710,063	$22,847,516
1976	12,535,000	13,041,614	25,576,614	710,063	26,286,677
1977	12,855,000	12,468,375	25,323,375	719,917	26,043,292
1978	13,392,000	11,870,565	25,262,565	731,135	25,993,700
1979	13,748,000	11,239,510	24,987,510	720,746	25,708,256
1980	14,355,000	10,315,865	24,670,865	561,770	25,232,635
1981	14,517,000	9,905,237	24,422,237	570,273	24,992,510
1982	12,483,000	9,292,756	21,775,756	578,761	22,354,517
1983	13,265,000	8,732,875	21,997,875	587,038	22,584,913
1984	13,445,000	8,130,847	21,575,847	595,294	22,171,141
1985	13,640,000	7,523,662	21,163,662	602,783	21,766,445
1986	13,865,000	6,918,710	20,783,710	611,377	21,395,087
1987	11,860,000	6,306,033	18,166,033	581,669	18,747,702
1988	12,730,000	5,728,990	18,458,990	536,798	18,995,788
1989	12,805,000	5,108,205	17,913,205	506,035	18,419,240
1990	12,900,000	4,484,651	17,384,651	470,897	17,855,548
1991	12,960,000	3,872,735	16,832,735	436,885	17,269,620
1992	10,695,000	3,311,125	14,006,125	402,932	14,409,057
1993	10,385,000	2,815,250	13,200,250	344,862	13,545,112
1994	10,100,000	2,333,675	12,433,675	282,751	12,716,426
1995	7,700,000	1,857,950	9,557,950	226,753	9,784,703
1996	7,700,000	1,491,525	9,191,525	170,401	9,361,926
1997	5,300,000	1,132,600	6,432,600	100,499	6,533,099
1998	5,600,000	897,300	6,497,300	71,259	6,568,559
1999	4,800,000	644,100	5,444,100	36,416	5,480,516
2000	3,600,000	422,900	4,022,900	—	4,022,900
2001	3,000,000	247,500	3,247,500	—	3,247,500
2002	2,500,000	112,500	2,612,500	—	2,612,500

(1) Accrued periodic payments to the Trustee.

Revenue Bonds Debt Service Requirements

Table 24
DEBT SERVICE REQUIREMENTS FOR THE REVENUE BONDS

Year Ending December 31	Total Debt Service Requirements Previously Issued Revenue Bonds	1975 Series C Bonds				Total Debt Service Requirements for the Revenue Bonds
		Serial Maturities	Term Bond Sinking Fund Requirements	Interest	Total Debt Service Requirements 1975 Series C Bonds	
1975	$28,353,093	—	—	$ 591,940(1)	$ 591,940(1)	$28,945,033(1)
1976	31,494,275	—	—	2,803,925	2,803,925	34,298,200
1977	31,473,975	—	—	2,803,925	2,803,925	34,277,900
1978	31,453,150	—	—	2,803,925	2,803,925	34,257,075
1979	31,426,475	—	—	2,803,925	2,803,925	34,230,400
1980	31,403,150	—	—	2,803,925	2,803,925	34,207,075
1981	31,379,925	—	—	2,803,925	2,803,925	34,183,850
1982	33,799,075	$200,000	—	2,803,925	3,003,925	36,803,000
1983	33,447,000	200,000	—	2,789,525	2,989,525	36,436,525
1984	33,558,450	200,000	—	2,775,125	2,975,125	36,533,575
1985	33,519,025	200,000	—	2,760,725	2,960,725	36,479,750
1986	33,819,300	200,000	—	2,746,325	2,946,325	36,765,625
1987	34,914,275	200,000	—	2,731,925	2,931,925	37,846,200
1988	34,531,600	200,000	—	2,717,525	2,917,525	37,449,125
1989	34,678,362	200,000	—	2,703,125	2,903,125	37,581,487
1990	34,693,887	200,000	—	2,688,725	2,888,725	37,582,612
1991	34,801,035	200,000	—	2,674,325	2,874,325	37,675,360
1992	35,880,735	200,000	—	2,659,925	2,859,925	38,740,660
1993	35,659,015	400,000	—	2,645,325	3,045,325	38,704,340
1994	35,416,960	500,000	—	2,615,725	3,115,725	38,532,685
1995	34,804,085	600,000	—	2,578,225	3,178,225	37,982,310
1996	34,632,485	600,000	—	2,532,625	3,132,625	37,765,110
1997	34,483,340	700,000	—	2,487,025	3,187,025	37,670,365
1998	34,150,245	700,000	—	2,433,825	3,133,825	37,284,070
1999	33,673,625	—	$ 700,000	2,380,625	3,080,625	36,754,250
2000	33,558,407	—	800,000	2,323,750	3,123,750	36,682,157
2001	33,521,069	—	1,000,000	2,258,750	3,258,750	36,779,819
2002	33,443,012	—	1,100,000	2,177,500	3,277,500	36,720,512
2003	35,630,500	—	1,200,000	2,088,125	3,288,125	38,918,625
2004	35,540,662	—	1,300,000	1,990,625	3,290,625	38,831,287
2005	35,308,894	—	1,400,000	1,885,000	3,285,000	38,593,894
2006	35,251,137	—	1,500,000	1,771,250	3,271,250	38,522,387
2007	35,135,025	—	1,600,000	1,649,375	3,249,375	38,384,400
2008	34,990,338	—	1,700,000	1,519,375	3,219,375	38,209,713
2009	34,882,644	—	1,800,000	1,381,250	3,181,250	38,063,894
2010	30,144,460	—	2,100,000	1,235,000	3,335,000	33,479,460
2011	26,649,983	—	2,400,000	1,064,375	3,464,375	30,114,358
2012	12,133,575	—	3,100,000	869,375	3,969,375	16,102,950
2013	8,440,000	—	3,600,000	617,500	4,217,500	12,657,500
2014	8,285,200	—	4,000,000	325,000	4,325,000	12,610,200

(1) Net of accrued interest.

Table 25
TOTAL DEBT SERVICE REQUIREMENTS

Year Ending December 31	Total Debt Service Requirements Prior Lien Indebtedness	Total Debt Service Requirements Previously Issued Revenue Bonds	Total Debt Service Requirements 1975 Series C Bonds	Total Debt Service Requirements
1975	$22,847,516	$28,353,093	$ 591,940(1)	$51,792,549(1)
1976	26,286,677	31,494,275	2,803,925	60,584,877
1977	26,043,292	31,473,975	2,803,925	60,321,192
1978	25,993,700	31,453,150	2,803,925	60,250,775
1979	25,708,256	31,426,475	2,803,925	59,938,656
1980	25,232,635	31,403,150	2,803,925	59,439,710
1981	24,992,510	31,379,925	2,803,925	59,176,360
1982	22,354,517	33,799,075	3,003,925	59,157,517
1983	22,584,913	33,447,000	2,989,525	59,021,438
1984	22,171,141	33,558,450	2,975,125	58,704,716
1985	21,766,445	33,519,025	2,960,725	58,246,195
1986	21,395,087	33,819,300	2,946,325	58,160,712
1987	18,747,702	34,914,275	2,931,925	56,593,902
1988	18,995,788	34,531,600	2,917,525	56,444,913
1989	18,419,240	34,678,362	2,903,125	56,000,727
1990	17,855,548	34,693,887	2,888,725	55,438,160
1991	17,269,620	34,801,035	2,874,325	54,944,980
1992	14,409,057	35,880,735	2,859,925	53,149,717
1993	13,545,112	35,659,015	3,045,325	52,249,452
1994	12,716,426	35,416,960	3,115,725	51,249,111
1995	9,784,703	34,804,085	3,178,225	47,767,013
1996	9,361,926	34,632,485	3,132,625	47,127,036
1997	6,533,099	34,483,340	3,187,025	44,203,464
1998	6,568,559	34,150,245	3,133,825	43,852,629
1999	5,480,516	33,673,625	3,080,625	42,234,766
2000	4,022,900	33,558,407	3,123,750	40,705,057
2001	3,247,500	33,521,069	3,258,750	40,027,319
2002	2,612,500	33,443,012	3,277,500	39,333,012
2003	—	35,630,500	3,288,125	38,918,625
2004	—	35,540,662	3,290,625	38,831,287
2005	—	35,308,894	3,285,000	38,593,894
2006	—	35,251,137	3,271,250	38,522,387
2007	—	35,135,025	3,249,375	38,384,400
2008	—	34,990,338	3,219,375	38,209,713
2009	—	34,882,644	3,181,250	38,063,894
2010	—	30,144,460	3,335,000	33,479,460
2011	—	26,649,983	3,464,375	30,114,358
2012	—	12,133,575	3,969,375	16,102,950
2013	—	8,440,000	4,217,500	12,657,500
2014	—	8,285,200	4,325,000	12,610,200

(1) Net of accrued interest.

Table 26
APPLICATION OF REVENUES, DEBT SERVICE REQUIREMENTS AND PRO-FORMA COVERAGE OF DEBT SERVICE REQUIREMENTS, INCLUDING THE 1975 SERIES C BONDS
(000's omitted)

	Actual					Estimated					
	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Electric Revenues	$74,295	$85,286	$104,699	$128,859	$169,554	$219,536	$254,495	$274,510	$296,024	$313,617	$339,739
Additional Electric Revenues (1)	—	—	—	—	—	—	—	—	—	—	20,000
Total Electric Revenues	$74,295	$85,286	$104,699	$128,859	$169,554	$219,536	$254,495	$274,510	$296,024	$313,617	$359,739
Operating Expenses(2)	39,639	49,376	55,790	75,668	111,651	132,954	151,893	173,080	187,960	208,640	230,463
Revenues from Operations	$34,656	$35,910	$ 48,909	$ 53,191	$ 57,903	$ 86,582	$102,602	$101,430	$108,064	$104,977	$129,276
Interest and Other Income (Net)	1,330	1,567	2,285	6,046	6,557	6,141	8,806	11,258	10,755	8,337	7,955
Revenues Available for Debt Service	$35,986	$37,477	$ 51,194	$ 59,237	$ 64,460	$ 92,723	$111,408	$112,688	$118,819	$113,314	$137,231
Debt Service Requirements											
Prior Lien Bonds:											
Interest	$ 7,516	$ 9,856	$ 13,449	$ 14,171	$ 13,813	$ 13,430	$ 13,042	$ 12,468	$ 11,871	$ 11,240	$ 10,316
Principal	5,529	7,037	7,151	8,469	8,591	8,707	12,535	12,855	13,392	13,748	14,355
Repayment of U.S. Debt	741	607	613	634	666	710	710	720	731	721	562
Deposit to Debt Reserve	1,909	2,546	3,443	3,270	2,865	1,922	1,123	225	—	—	—
Total	$15,695	$20,046	$ 24,656	$ 26,544	$ 25,935	$ 24,769	$ 27,410	$ 26,268	$ 25,994	$ 25,709	$ 25,233
Revenue Bonds (See Table 24):											
Interest	$ —	$ —	$ —	$ 5,502	$ 15,339	$ 28,155	$ 32,678	$ 32,573	$ 32,462	$ 32,345	$ 32,222
Principal	—	—	—	—	—	790	1,620	1,705	1,795	1,885	1,985
Total	$ —	$ —	$ —	$ 5,502	$ 15,339	$ 28,945	$ 34,298	$ 34,278	$ 34,257	$ 34,230	$ 34,207
Total Debt Service	$15,695	$20,046	$ 24,656	$ 32,046	$ 41,274	$ 53,714	$ 61,708	$ 60,546	$ 60,251	$ 59,939	$ 59,440
Coverage of Total Debt Service by Revenues Available for Debt Service	2.29	1.87	2.08	1.85	1.56	1.73	1.81	1.86	1.97	1.89	2.31
Balance after Debt Service	$20,291	$17,431	$ 26,538	$ 27,191	$ 23,186	$ 39,009	$ 49,700	$ 52,142	$ 58,568	$ 53,375	$ 77,791
Plus: Investment Income on Construction Fund	419	207	14	334	175	135	150	150	150	150	150
Contribution In Lieu of Taxes	4,175	5,491	6,068	6,207	10,199	15,800	20,000	21,864	22,488	27,432	45,360
Contributions to Water Operations (2)	7,758	7,855	8,792	8,278	10,136	10,823	10,915	11,550	12,729	15,233	18,881
Balance Available for Corporate Purposes	$ 8,777	$ 4,292	$ 11,692	$ 13,040(3)	$ 3,026(3)	$ 12,521	$ 18,935	$ 18,878	$ 23,501	$ 10,860	$ 13,700
Additional Bond Sales (4)	$ —	$ —	$ —	$ —	$ —	$ —	$280,000	$360,000	$360,000	$360,000	$260,000

(1) Electric rates are expected to be increased sufficiently to produce at least the additional electric revenues shown in 1980, to provide additional funds for construction, to cover increased contributions in lieu of taxes and to meet other obligations subordinate to debt service. This additional amount is included in total Electric Revenues for this Table 26 and Table 21. Such amount is in addition to the amounts of projected revenues, based on current electric rates included in Tables 18 and 19 and in the Engineers Report in Appendix A.

(2) Charge for falling water is omitted from operating expenses of the electric system and is excluded from revenues of the irrigation system.

(3) May be reconciled with combined net revenues shown on page B-4 as follows: Add Debt Service Requirements for bond principal, repayment of U. S. Debt and deposit to Debt Reserve as shown above. Add (because it is an addition to income) allowance for Funds Used for Construction shown as a deduction to financing costs in Combined Revenue Statement, page B-4. Deduct depreciation and amortization, amortization of bond discount and amortization of bond issue expense, page B-4.

(4) Under its program of financing the facilities expected to be required to provide for projected growth during the next decade, the District presently expects to issue additional Revenue Bonds (not included in the debt service calculations) in the approximate amounts shown in the last line of this table.

DESCRIPTION OF THE 1975 SERIES C BONDS

Principal Amount, Date, Interest and Maturities

The 1975 Series C Bonds are issued in the principal amount of $35,000,000 and are dated and bear interest from October 1, 1975. The 1975 Series C Bonds mature on the dates and in the principal amounts, and bear interest (payable on January 1 and July 1) at the respective rates, as shown on the cover page.

Redemption

The 1975 Series C Bonds maturing after January 1, 1986 shall be redeemable at the election of the District on 30 days' published notice, as provided in the Resolution, at any time on or after January 1, 1986, as a whole, or in part in inverse order of maturities (and in the event that less than all of the 1975 Series C Bonds of an entire maturity are redeemed, the 1975 Series C Bonds of such maturity shall be selected at random in a manner deemed fair by the Trustee), at the respective Redemption Prices (expressed as percentages of the principal) set forth below, together with accrued interest to the redemption date.

REDEMPTION PRICES

Period During Which Redeemed (both dates included)	Redemption Price
January 1, 1986-December 31, 1987	103%
January 1, 1988-December 31, 1989	102½
January 1, 1990-December 31, 1991	102
January 1, 1992-December 31, 1993	101½
January 1, 1994-December 31, 1995	101
January 1, 1996-December 31, 1997	100½
January 1, 1998 and thereafter	100

Sinking Fund Installments

The 1975 Series C Bonds maturing on January 1, 2015, will also be subject to redemption, by operation of the Debt Service Fund to satisfy Sinking Fund Installments required by the Resolution, on January 1, 2000, and on each interest payment date thereafter, at 100% of the principal amount of the 1975 Series C Bonds so to be redeemed plus accrued interest, if any, to the redemption date, and such Sinking Fund Installments will be sufficient to redeem the following principal amounts of such 1975 Series C Bonds on the dates set forth below.

SINKING FUND INSTALLMENTS

January 1	Principal Amount	January 1	Principal Amount
2000	$ 700,000	2008	$1,600,000
2001	800,000	2009	1,700,000
2002	1,000,000	2010	1,800,000
2003	1,100,000	2011	2,100,000
2004	1,200,000	2012	2,400,000
2005	1,300,000	2013	3,100,000
2006	1,400,000	2014	3,600,000
2007	1,500,000	2015	4,000,000

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

Certain Definitions

The following are definitions in summary form of certain terms contained in the Resolution and used herein:

Accounting Practice: Generally accepted accounting principles appropriate to the electric utility industry.

Accrued Aggregate Debt Service: As of any date of calculation, an amount equal to the sum of the amounts of accrued Debt Service with respect to all Series calculating the accrued Debt Service with respect to each series at an amount equal to the sum of (i) interest on the Revenue Bonds of such Series accrued and unpaid and to accrue to the end of the then current calendar month, and (ii) Principal Installments due and unpaid and that portion of the Principal Installments for such Series next due which would have accrued (if deemed to accrue in the manner set forth in the definition of *Debt Service*) to the end of such calendar month.

Aggregate Debt Service: For any calendar year, and as of any date of calculation, the sum of the amounts of Debt Service for such year with respect to all Series.

Cost of Construction: The District's cost of physical construction, costs of acquisition by or for the District of a Project for the Electric System, and costs of the District incidental to such construction or acquisition, the cost of any indemnity and surety bonds and premiums on insurance during construction, engineering expenses, legal fees and expenses, cost of financing, audits, fees and expenses of the Fiduciaries, amounts, if any required by the Resolution or any Series Resolution to be paid into the Debt Service Fund upon the issuance of any Series of Revenue Bonds, payments when due (whether at the maturity of principal or the due date of interest or upon redemption) on any indebtedness of the District (other than the Revenue Bonds) incurred for a Project for the Electric System, costs of machinery, equipment and supplies and initial working capital and reserves required by the District for the commencement of operation of a Project for the Electric System, and any other costs properly attributable to such construction or acquisition, as determined by Accounting Practice, and shall include reimbursement to the District for any such items of Cost of Construction theretofore paid by the District. Any Series Resolution may provide for additional items to be included in the aforesaid Cost of Construction.

Debt Reserve Requirement: As of any date of calculation, an amount equal to one-half of the average annual Debt Service on all Outstanding Revenue Bonds, but not to exceed $25,000,000.

Debt Service: For any period, as of any date of calculation and with respect to any Series, an amount equal to the sum of (i) interest accruing during such period on Revenue Bonds of such series (except to the extent that such interest is to be paid from deposits in the Debt Service Account in the Debt Service Fund made from Revenue Bond proceeds, as described in the Resolution), and (ii) that portion of each Principal Installment for such Series which would accrue during such period if such Principal Installment were deemed to accrue daily in equal amounts from the next preceding Principal Installment due date for such series (or, if there be no such preceding Principal Installment due date, from a date one year preceding the due date of such Principal Installment). Such interest and principal installments for such Series shall be calculated on the assumption that no Revenue Bonds of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of each Principal Installment on the due date thereof.

Electric System: Properties and assets to which legal title is vested in the District and was so vested on the date of adoption of the Resolution and all properties and assets acquired by the District as renewals and replacements, additions and expansion, and improvements thereto, as recorded in the books of the District pursuant to Accounting Practices, but shall not include properties and assets that may be hereafter purchased, constructed or otherwise acquired by the District as a sepa-

rate system or facility, the revenue of which may be pledged to the payment of bonds or other forms of indebtedness issued to purchase, construct or otherwise acquire such separate system or facility and shall not include properties or assets charged to Irrigation Plant.

Investment Securities: Any of the following, if and to the extent the same are at the time legal for investment of District funds.

(i) Direct obligations of or obligations guaranteed by, the United States of America or the State of Arizona;

(ii) Certificates of deposit, and banker's acceptances whose maturity value shall not be greater than 1/25 of the capital and surplus of the accepting bank;

(iii) Bonds, debentures or notes issued by any of the following Federal Agencies: Bank for Cooperatives; Federal Intermediate Credit Banks; Federal Home Loan Bank System; Export-Import Bank of Washington; Federal Land Banks; the Federal National Mortgage Association (Including Participation Certificates issued by such Association); or the Government National Mortgage Association; the United States Postal Service; the Tennessee Valley Authority; or any Agency or instrumentality of the United States of America which shall be established for the purpose of acquiring the obligations of any of the foregoing or otherwise providing financing therefor;

(iv) Public Housing Bonds issued by public agencies and municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an Annual Contributions Contract or Contracts with the United States of America; or Project Notes issued by public agencies or municipalities, in each case, fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America; and

(v) Direct and general obligations of any State within the territorial United States, to the payment of the principal of and interest on which the full faith and credit of such State is pledged, provided that at the time of their purchase under the Resolution, such obligations are rated in any of the three highest rating categories by a nationally recognized bond rating agency.

Irrigation Plant: All land and land rights, structures, facilities and equipment used or usable by the District or the Salt River Valley Water Users' Association solely for the development, storage, transportation, distribution and delivery of water to the owners or occupants of the lands within the Salt River Project having rights thereto or to anyone acting on behalf thereof pursuant to contracts with the Salt River Valley Water Users' Association or the District.

Operating Expenses: The District's expenses of operating the Electric System, including all costs of purchased power, operation, maintenance, generation, production, transmission, distribution, repairs, replacements, engineering, transportation, administrative and general, audit, legal, financial, pension, retirement, health, hospitalization, insurance, taxes, and any other expenses actually paid or accrued, without limitation, expenses of the District applicable to the Electric System, as recorded on its books pursuant to Accounting Practice and any other expenses of the District applicable to the Electric System, as recorded on its books pursuant to Accounting Practice, and any other expenses incurred or payments by the District under the provisions of the Resolution or in discharge of obligations required to be paid by local, state or federal laws, all to the extent properly allocable to the Electric System under Accounting Practice. Operating Expenses shall not include any costs or expenses for new construction, falling water used in hydroelectric operations of the District, charges for depreciation, voluntary payments in lieu of taxes and operation, maintenance, repairs, replacement and construction of the Irrigation Plant.

Principal Installment: As of any date of calculation, and with respect to any Series of Revenue Bonds, (i) the principal amount of Revenue Bonds of such Series due on a certain future date for which no Sinking Fund Installments have been established, or (ii) the unsatisfied balance of any Sinking Fund Installments due on a certain future date for bonds of such series, plus the amount of

sinking fund redemption premiums which would be applicable upon redemption of such Revenue Bonds in a principal amount equal to said unsatisfied balance of such Sinking Fund Installments or (iii) if such future dates coincide as to different Revenue Bonds of such Series, the sum of such principal amount of Revenue Bonds and of such unsatisfied balance of Sinking Fund Installments due on such future date plus such applicable redemption premiums, if any.

Prior Lien Bonds: Outstanding bonds of the District authorized and issued pursuant to the Prior Lien Bond Resolutions, and all outstanding loans with the United States of America, heretofore, or hereafter made or assumed by the District which have a prior lien on revenues of the Electric System.

Prior Lien Debt Service: For any period, as of any date of calculation, all payments required by the Prior Lien Bond Resolutions on account of principal and interest for the Prior Lien Bonds, and all such loan repayments made to the United States of America.

Project: The purchase, replacement, construction, leasing or acquisition of any real or personal property or interest therein, works or facilities which the District is authorized by law to purchase, replace, construct, lease or otherwise acquire, or the improvement, reconstruction, extension or addition to any real or personal property, works or facilities owned or operated by the District, or any program of development involving real or personal property, works or facilities which the District is authorized by law to purchase, replace, construct, lease or otherwise acquire or the improvement, reconstruction, extension or addition to such program.

Revenues: (i) All funds transferred by order of the Treasurer of the District from the "Electric Revenue Fund" (established, created and maintained pursuant to the Prior Lien Bond Resolutions) to the General Fund of the District for deposit in the Revenue Fund pursuant to Sections 504 and 716 of the Resolution and (ii) after the Retirement Date of the Prior Lien Bonds all revenues, income rents and receipts derived by the District from the ownership and operation of the Electric System and the proceeds of any insurance covering business interruption loss relating to the Electric System and (iii) interest received on any moneys or securities (other than in the Construction Fund) held pursuant to the Resolution and paid into the Revenue Fund.

Revenues Available for Debt Service: For any calendar year or period of 12 calendar months shall mean all revenues, income, rents and receipts derived by the District from the ownership and operation of the Electric System and the proceeds of any insurance covering business interruption loss relating to the Electric System for such year or period less the amounts of the Operating Expenses for such year or period.

[Resolution, Section 101].

Pledge of Revenues and Funds

The payment of the principal and redemption price of, and interest on the Revenue Bonds is secured by (i) the proceeds of sale of the Bonds, (ii) the Revenues, and (iii) all Funds established by the Resolution, including the investments, if any, thereof. The pledge, insofar as it relates to the Revenues, is subject and subordinate in all respects to the pledges and liens created by the Prior Lien Bond Resolutions and, in addition, is subject to transfer on the first day of the month of Revenues to the General Fund of the District, after all payments required by the Resolution have been made.

[Resolution, Section 501].

Additional Bonds

The District may issue additional parity Revenue Bonds in compliance with the Resolution if, among other things, (a) Revenues Available for Debt Service, adjusted as provided in the Resolution, of any 12 consecutive calendar months out of the 24 calendar months next preceding the issuance of such additional Revenue Bonds are not less than 1.20 times the maximum total of the Debt Service and the Prior Lien Debt Service for any succeeding year on all Revenue Bonds and Prior Lien Bonds, which will be outstanding immediately prior to the issuance of the Additional Revenue Bonds, (b) estimated Revenues Available for Debt Service, adjusted as provided in the

Resolution, for each of the five calendar years immediately following the issuance of such proposed additional Revenue Bonds are not less than 1.35 times the total, for each such respective calendar year, of the Debt Service and the Prior Lien Debt Service on all Bonds and all Prior Lien Bonds, which will be outstanding immediately subsequent to the issuance of such proposed additional Revenue Bonds and (c) the estimated Revenues Available for Debt Service, adjusted as provided in the Resolution, for the fifth calendar year immediately following the issuance of such proposed additional Revenue Bonds are not less than 1.35 times the maximum total Debt Service and Prior Lien Debt Service for any succeeding year on all Revenue Bonds and all Prior Lien Bonds, which will be outstanding immediately subsequent to the issuance of such proposed additional Revenue Bonds.

In determining the amount of Revenues Available for Debt Service, the Authorized Officer of the District may adjust the Revenues Available for Debt Service by adding thereto the following:

(i) in the event the District shall have acquired an operating utility or facility subsequent to the beginning of the 12-month period selected pursuant to clause (a) above, and estimate made by an Authorized Officer of the District of such additional Revenues Available for Debt Service for such 12-month period which would have resulted had such operating utility or facility been acquired at the beginning of such 12-month period; and

(ii) in the event any adjustment of rates with respect to the Electric System shall have become effective subsequent to the beginning of the 12-month period selected pursuant to clause (a) above, an estimate made by an Authorized Officer of the District of such additional Revenues Available for Debt Service for such 12-month period which would have resulted had such rate adjustment been in effect for the entire period.

In determining the amount of estimated Revenues Available for Debt Service for the purpose of clauses (b) and (c) the Authorized Officer of the District with the approval of the Consulting Engineers may adjust the estimated Revenues Available for Debt Service by adding thereto any estimated increase in revenue resulting from any increase in electric rates which, in the opinion of the Authorized Officer of the District and the Consulting Engineers, are economically feasible, and reasonably considered necessary based on projected operations for such 5-year period.
[Resolution, Section 204].

Refunding Bonds

One or more series of Revenue Bonds ("Refunding Bonds") may be issued to refund (a) all or any part of the Revenue Bonds of one or more series then outstanding or (b) all or any part of the Prior Lien Bonds of any one or more series then outstanding.

The issuance of Refunding Bonds to refund outstanding Revenue Bonds is subject to the condition, among others, that the District certify that the Aggregate Debt Service for the then current and each future year shall not be increased by such refunding.
[Resolution, Section 205].

Subordinated Indebtedness

The District may, at any time, or from time to time, issue evidences of indebtedness payable out of Revenues and which may be secured by a pledge of Revenues provided, however, that such pledge shall be and shall be expressed to be, subordinate in all respects to the pledge of the Revenues, moneys, securities and funds created by the Resolution.
[Resolution, Section 509].

Allocation of Electric System Revenues

The Resolution establishes the following Funds and Accounts for the application of Revenues:

Fund	Held By
Revenue Fund	District
Debt Service Fund	Trustee
Debt Service Account	Trustee
Debt Reserve Account	Trustee

Pursuant to the Prior Lien Bond Resolutions, revenues and income derived by the District from the ownership and operation of the Electric System are deposited in the "Electric Revenue Fund", created by the Prior Lien Bond Resolutions. Moneys in said "Electric Revenue Fund" are used to pay Operating Expenses of the Electric System and debt service on the Prior Lien Bonds, and maintain reserves therefor. The District covenants that on the first day of every month that Revenue Bonds are outstanding, it will deposit moneys in said "Electric Revenue Fund" not required to be retained for said Operating Expenses, debt service and reserves into the Revenue Fund established by the Resolution.

The District shall (i) out of the moneys in the Revenue Fund, pay, free and clear of any lien or pledge created by the Resolution, all amounts required for reasonable and necessary Operating Expenses, and (ii) at all times retain in the Revenue Fund amounts deemed by the District to be reasonable and necessary for working capital and reserves for Operating Expenses including expenses which do not recur annually; provided that the total amount of such reserves set aside during any year shall not exceed 20% of the amount of Operating Expenses for such year. Prior to the Retirement Date of Prior Lien Bonds, no moneys in the Revenue Fund shall be applied to the payment of any such Operating Expenses (or reserves therefor) the payment of which shall be provided for pursuant to the Prior Lien Bond Resolutions.

Amounts in the Revenue Fund not retained for Operating Expenses, working capital, and reserves for Operating Expenses are to be paid monthly to the following Funds and Accounts in the order of priority as follows:

(1) To the Debt Service Fund: (i) for credit to the Debt Service Account, to the extent required so that the balance in said Account shall equal the Accrued Aggregate Debt Service; provided that, for the purposes of computing the amount to be allocated to said Account, there shall be excluded the amount, if any, set aside in said Account which was deposited therein from the proceeds of Revenue Bonds less an amount equal to the interest accrued and unpaid and to accrue on Revenue Bonds (or any Refunding Bonds issued to refund Bonds) to the last day of the then current calendar month; and (ii) for credit to the Debt Reserve Account, an amount equal to one-twelfth of twenty percent (1/12 of 20%) of the amount necessary to make the total moneys on depost in the Debt Reserve Account equal to the Debt Reserve Requirement; provided, however, that no deposits need be made into the Debt Reserve Account when the amount on deposit therein shall equal or exceed $25,000,000.

(2) The District shall out of the moneys in the Revenue Fund not retained therein for operating expenses and not applied for credit of the Debt Service Account or the Debt Reserve Account, on or before the first working day of each month transfer such remaining balance in the Revenue Fund to the General Fund of the District. Any amount so transferred to the General Fund of the District may be used by the District for any lawful purpose.

So long as there shall be held in the Debt Service Fund an amount sufficient to fully pay all Outstanding Bonds in accordance with their terms (including principal or applicable sinking fund Redemption Price and interest thereon), no deposits shall be required to be made into the Debt Service Fund.

The Trustee shall pay from the Debt Service Account the amounts required (i) for the payment of interest and Principal Installments on the Revenue Bonds when due, (ii) on or before the day preceding any redemption date if the Revenue Bonds, for payment of the redemption price and accrued interest on the redemption of Revenue Bonds, and the purchase price on the purchase of Revenue Bonds, through application of moneys accumulated in the Debt Service Account with respect to any sinking fund installment, and through application of any moneys in the Debt Service Account when applied from 40 to 60 days prior to the due date of a sinking fund installment to the retirement of the balance of such installment, and (iii) accrued interest included in the purchase price of Revenue Bonds purchased for retirement.

If on the first working day of any month the amount in the Debt Service Account shall be less than the amount required to be in such Account, the Trustee shall apply amounts from the Debt Reserve Account to the extent necessary to make good the deficiency.

Whenever moneys on deposit in the Debt Reserve Account shall exceed the Debt Reserve Requirement, the excess shall be applied by the Trustee in the same manner as Revenues.

Whenever the amount in the Debt Reserve Account, together with the amount in the Debt Service Account, is sufficient to pay in full all outstanding Revenue Bonds in accordance with their terms, including principal or applicable sinking fund Redemption Price and interest thereon the funds on deposit in the Debt Reserve Account shall be transferred to the Debt Service Account. [Resolution, Sections 501-508].

Transfer from General Fund

In the event there is a deficiency in the Bond Fund established by the Prior Lien Bond Resolutions or in the Debt Service Account and if such a deficiency is not paid from other sources, the District shall transfer money in the General Fund to said Bond Fund or said Debt Service Account or both in amounts sufficient to make up such deficiency or deficiencies.
[Resolution, Section 717].

Construction Fund

The Resolution establishes a Construction Fund, to be held by the District, and provides that there shall be paid into the Construction Fund: (i) the balance of Revenue Bonds proceeds, remaining after the deposit of an amount equal to the accrued interest on such bonds to the date of delivery of the Revenue Bonds of each series in the Debt Service Account, and any other deposits required by the Series Resolution to be made in the Debt Service Account and Debt Reserve Account; (ii) insurance proceeds, if any, from physical loss of or damage to a Project, or of contractors' performance bond proceeds, unless otherwise required to be applied by Prior Lien Bond Resolutions or otherwise permitted to be applied by the provisions of the Resolution.

In addition there may be paid into the Construction Fund, at the option of the District, any moneys received for or in connection with the Electric System by the District from any other source, unless required to be otherwise applied as provided by the Resolution.

Amounts in the Construction Fund shall be applied to the purpose or purposes specified in the Series Resolution authorizing the Revenue bonds, unless otherwise provided for in the Resolution.

To the extent that other moneys are not available therefor, amounts in the Construction Fund shall be applied to the payment of principal of and interest on Revenue Bonds when due.

Amounts in the Construction Fund shall be invested by the District to the fullest extent practicable in Investment Securities maturing in such amounts and at such times as may be necessary to provide funds when needed to pay the Cost of Construction or such other purpose to which such moneys are applicable. The District may, and to the extent required for payments from the Construction Fund shall, sell any such Investment Securities at any time, and the proceeds of such sale,

and of all payments at maturity and upon redemption of such investments, shall be held in the Construction Fund. Interest received on moneys or securities in the Construction Fund shall be deposited in the Construction Fund.
[Resolution, Section 503].

Redemption Fund

The Resolution establishes a Redemption Fund, and requires that proceeds from the sale or exchange by the District of any property constituting part of the Electric System and not necessary, in the opinion of the District, in the operation thereof, and not required to be applied otherwise by Prior Lien Bond Resolutions, shall be deposited in either the Construction Fund or the Redemption Fund, at the discretion of the District. In addition, the proceeds of any insurance against damage or destruction, other than against business interruption loss not applied by the District to constructing or replacing damaged or destroyed property or in acquiring property or assets of the Electric System shall be paid to the Trustee for deposit in the Redemption Fund.

Amounts in the Redemption Fund shall be used by the District for the purchase or redemption of any Revenue Bonds, and expenses in connection with the purchase or redemption of any Revenue Bonds.
[Resolution, Sections 510, 707 and 713).

Electric System Rate Covenant

The District covenants that it shall charge and collect fees and other charges for the sale of electric power and energy and other services, facilities and commodities of the Electric System as shall be required to provide revenues and income at least sufficient in each calendar year for the payment of the sum of:

(a) Operating Expenses during such calendar year, including reserves, if any, therefor provided for in the Annual Budget for such year;

(b) An amount equal to the Aggregate Debt Service for such calendar year;

(c) The amount, if any, to be paid during such calendar year into the Debt Reserve Account in the Debt Service Fund;

(d) An amount equal to the Prior Lien Debt Service for such calendar year;

(e) The amount, if any, to be paid during such calendar year into the Debt Service Reserve Fund pursuant to the Prior Lien Bond Resolution; and

(f) All other charges or liens whatsoever payable out of revenues and income during such calendar year and, to the extent not otherwise provided for, all amounts payable on subordinated Indebtedness.

The collection of revenues and income in any calendar year in an amount in excess of the aggregate payments specified for such calendar year shall not be taken into account as a credit against such aggregate payments for any subsequent calendar year or years.

On or before December 1 in each year the District shall complete a review of its financial condition for the purpose of estimating whether the revenues and income from the operation of the Electric System, including investment income treated as revenues for such year, will be sufficient to provide all of the payments and meet all other requirements as specified and shall by resolution make a determination with respect thereto. If the District determines that such revenues and income may not be sufficient to provide such payments and meet such other requirements, it shall forthwith make a study for the purpose of making a schedule of rates, fees and charges for the Electric System which will cause sufficient revenues and income to be collected in the following calendar year to provide funds for all the payments and other requirements as specified in subsection 1 of this Section for such following year and will cause additional revenues and income to be collected in such following and later calendar years sufficient to restore the amount of such deficiency at the earliest practicable time. If, in any calendar year, the revenues and income collected shall not have

been sufficient to provide all of the payments and meet all other requirements as specified in said subsection 1, the District shall as promptly as permitted by law establish and place in effect a schedule of rates, fees and charges which will cause sufficient revenues and income to be collected.

The failure in any calendar year to comply with the Electric System Rate Covenant shall not constitute an Event of Default under the Resolution, if the District shall comply with the requirements of the immediately preceding paragraph.
[Resolution, Section 711].

Certain Other Covenants

No Free Service: The District will not furnish or supply power or energy free of charge to any person, firm or corporation, public or private, and will promptly enforce payment of any and all accounts owing to the District by reason of the ownership and operation of the Electric System, to the extent dictated by sound business practice.
[Resolution, Section 711-3].

Creation of Liens; Disposition of Properties: The District will not issue bonds or other evidences of indebtedness including any bonds issued pursuant to the Prior Lien Bond Resolutions, other than the Revenue Bonds payable out of or secured by a pledge of any Revenues or income of the Electric System or of the moneys, securities or funds held or set aside under the Resolution, nor will it create or cause to be created, any lien or charge thereon except with respect to (i) Subordinated Indebtedness; (ii) Prior Lien Bonds in lieu of or in substitution for other Prior Lien Bonds in connection with servicing the Prior Lien Bonds or Prior Lien Bonds in connection with the refunding of Prior Lien Bonds; (iii) Loans made or assumed with the United States of America, which loans may be secured by a lien on Revenues and income of the Electric System prior to the lien of Revenue Bonds issued pursuant to the Resolution.

No part of the Electric System shall be sold, mortgaged, leased or otherwise disposed of or encumbered, except: (i) for sales and exchanges of any property constituting part of the Electric System which, in the opinion of the District is not necessary in the operation of the Electric System; (ii) the District may lease or make contracts or grant licenses for the operation of, or grant easements or other rights with respect to, any part of the Electric System if such lease, contract, license, easement or right does not materially impede or unduly restrict the operation by the District of the Electric System. Any proceeds received by the District for sale or exchange of unnecessary property not applied in accordance with Prior Lien Bond Resolutions shall be deposited in either the Construction Fund or the Redemption Fund at the discretion of the District. Any payment received by the District under or in connection with any such lease, contract, license, easement or right of way in respect of the Electric System or any part thereof on and after the Retirement Date of the Prior Lien Bonds shall constitute Revenues.
[Resolution, Section 707].

Consulting Engineers: The District shall, until the Revenue Bonds and the interest thereon shall have been paid or provision for such payment shall have been made, for the purpose of performing and carrying out the duties imposed on the Consulting Engineers by the Resolution, employ an independent engineer or engineering firm or corporation having a favorable reputation for skill and experience in such work.
[Resolution, Section 708].

Annual Budget: Not less than 30 days prior to the beginning of each calendar year, the District shall prepare an Annual Budget for the ensuing calendar year. Each such Annual Budget shall include estimates for Operating Expenses for such year. Such Annual Budget may set forth such additional material as the District may determine. The District may at any time adopt an amended Annual Budget for the remainder of the then current calendar year.
[Resolution, Section 709].

Insurance: The District shall provide protection for the Electric System in accordance with sound electric utility practice which may consist of insurance, self insurance and indemnities. Any insurance shall be in the form of policies or contracts for insurance with insurers of good standing, shall be payable to the District as its interest may appear, and may provide for such deductibles, exclusions, limitations, restrictions and restrictive endorsements customary in policies for similar coverage issued to entities operating properties similar to the properties of the Electric System. Any self insurance shall be in the amounts, manner and of the types provided by entities operating properties similar to the properties of the Electric System.
[Resolution, Section 712].

Accounts and Reports: The District shall keep, in accordance with Accounting Practice, proper books of record and account of its transactions relating to the Electric System, the Funds and accounts and reserves under the Prior Lien Bond Resolutions, together with all contracts for the sale of power and energy and all other books and papers of the District, including insurance policies, relating to the Electric System and such Funds and accounts.

The Trustee shall advise the District promptly after the end of each month of its transactions during such month relating to the Funds and accounts held by it under the Resolution.

The District shall annually, within 180 days after the close of each calendar year, file with the Trustee, and otherwise as provided by law, a copy of the annual report of the District for such year, accompanied by an Accountant's Report. In addition, the District will file with the Trustee a statement, or statements, accompanied by an Accountant's Report of each Fund and account established under the Resolution and the electric revenue fund, bond fund and debt service reserve fund established under the Prior Lien Bond Resolutions, summarizing the receipts therein and disbursements therefrom during such year and the amounts held therein at the end of each year. Such Accountant's Report on the statement summarizing the transactions in the Funds established under the resolution shall state whether or not, to the knowledge of the signer, the District is in default with respect to any of the covenants, agreements or conditions as set forth in Section 801 of the Resolution, insofar as they pertain to accounting matters, and if so, the nature of such default.

The reports, statements and other documents required to be furnished to the Trustee pursuant to Section 714 of the Resolution shall be available for the inspection of the Revenue Bondholders at the office of the Trustee and shall be mailed to each Revenue Bondholder who shall file a written request therefor with the District.
[Resolution, Section 714].

Defeasance

Outstanding Revenue Bonds shall prior to the maturity or redemption date thereof be deemed to have been paid and shall cease to be entitled to any lien, benefit or security under the Resolution if the following conditions are met: (i) in case of Revenue Bonds to be redeemed, the District shall have given to the Trustee irrevocable instructions to publish the notice of redemption therefore, (ii) there shall have been deposited with the Trustee in trust either moneys in an amount which shall be sufficient, or investment securities (which shall consist of the securities described in items (i), (iii) and (iv) in the definition of "Investment Securities") the principal of and interest on which, when due, will provide moneys which, together with any moneys also deposited shall be sufficient to pay when due the principal or redemption price, if applicable, and interest due or to become due on such Revenue Bonds, and (iii) in the event such Revenue Bonds are not subject to redemption within the next succeeding 60 days, the District shall have given the Trustee irrevocable instructions to publish, as soon as practicable, a notice to the holders of such Revenue Bonds that the above deposit has been made with the Trustee and that such Revenue Bonds are deemed to be paid and stating the maturity or redemption date upon which moneys are to be available to pay the principal or redemption price, if applicable, of such Revenue bonds.
[Resolution, Section 1201].

Remedies

Events of Default specified in the Resolution include failure to pay principal or redemption price of any Revenue Bond when due; failure for 30 days to pay any interest installment or the unsatisfied balance of any sinking fund installment thereon when due; failure to comply with the rate and fee covenants with respect to the Electric System, if such failure is not remedied by compliance with subsection 2 of Section 711 of the Resolution; failure for 60 days after written notice thereof to the District by the Trustee or the District and Trustee by the holders of not less than 10% of the principal amount of the Revenue Bonds Outstanding in the observance or performance of any other covenants, agreements or conditions; and the filing of a petition seeking a composition of indebtedness under the Federal Bankruptcy Laws, or a Federal or Arizona statute. Upon the happening of any such Event of Default the Trustee or the holders of not less than 25% in principal amount of the Revenue Bonds then outstanding may declare the principal and accrued interest on all Revenue Bonds then outstanding due and payable. Such declaration may be rescinded by written notice to the District and to the Trustee of the holders of a majority of the principal amount of the Revenue Bonds outstanding at any time after such declaration but prior to the maturity of the Revenue Bonds by their term, if: (i) all overdue installments of interest upon the Revenue Bonds, interest upon such overdue installments permitted by law, the reasonable and proper charges, expenses and liabilities of the Trustee and all other sums then due under the Resolution (except the principal of and interest accrued upon the Revenue Bonds due solely by virtue of such declaration) shall either be paid by or for the account of the District or provision for such payment satisfactory to the Trustee shall be made; (ii) all defaults under the Revenue Bond or Resolution shall be cured, made good or secured (or provision for such cure, making good or securing be made) to the satisfaction of the Trustee.

If the Trustee shall have acted itself, and if there shall not have been theretofore delivered to the Trustee written direction to the contrary by the Holders of a majority in principal amount of the Revenue Bonds then Outstanding, then any such declaration shall ipso facto be deemed to be rescinded and any such default and its consequences shall ipso facto be deemed to be annulled, but no such rescission and annulment shall extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

Upon occurrence of an Event of Default, the District shall subject the books of record and account of the District, and all other records relating to the Electric System to the use of the Trustee and its agents and attorneys.

Upon occurrence of an Event of Default, which shall not have been remedied, the District shall, if demanded by the Trustee, account as a trustee of an express trust, for all Revenues, moneys, securities and funds pledged under the Resolution, and pay over to the Trustee all assets held in any fund or account under the Resolution and, as received, all Revenues. The Trustee shall apply such moneys, securities, funds and Revenues and income therefrom in the following order: (i) to the payment of the amounts required for reasonable and necessary Operating Expenses, and for reasonable renewals, repairs and replacements of the Electric System to prevent loss of Revenues, to the extent not required by Prior Lien Bond Resolutions; (ii) to the payment of reasonable and proper charges, expenses and liabilities of the Trustee and its engineers; (iii) to the payment of interest and principal or Redemption Price then due on the Revenue Bonds, subject to the provisions of Section 803(2) of the Resolution.

If all defaults under the Revenue Bonds or the Resolution shall be cured, made good or secured to the satisfaction of the Trustee, the District and the Trustee shall be restored to their former position and rights, and all Revenues shall be applied as if there had been no Event of Default.

If an Event of Default shall have occurred and not be remedied the Trustee may, or on request of the holders of not less than 25% in principal amount of Revenue Bonds outstanding shall, take such steps by a suit or suits in equity or at law, whether for the specific performance of any cov-

enants of the Resolution or in aid of the execution of any power granted in the Resolution, or for an accounting against the District, or in the enforcement of any other legal or equitable right as the Trustee shall deem most effectual to enforce any of its rights or to perform any of its duties under the Resolution.

The holders of not less than a majority in principal amount of Revenue Bonds then outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee (subject to the Trustee's right to decline to follow such direction upon advice of counsel as to the unlawfulness thereof or upon its good faith determination that such action would involve the Trustee in personal liability or would be unjustly prejudicial to bondholders not parties to such direction).

The Trustee may, upon the request of the holders of a majority in principal amount of the Revenue Bonds then outstanding, and upon being furnished with reasonable security and indemnity, shall be under no obligation to institute and prosecute a proper action to prevent any impairment of the security under the Resolution or to preserve or protect the interests of the Trustee and of the bondholders.

In case an Event of Default shall occur (which shall not have been cured) the Trustee shall be required to exercise and use the same degree of care and skill as a prudent man would exercise and use under the circumstances in the conduct of his own affairs.

No holder of any Revenue Bond or Coupon shall have any right to institute any suit, action or proceeding for the enforcement of any provision of the Resolution or the execution of any trust under the Resolution or for any remedy under the Resolution, unless such holder shall have previously given the Trustee written notice of the Event of Default, and the holders of at least 25% in principal amount of the Revenue Bonds then outstanding shall have filed a written request with the Trustee and shall have afforded the Trustee a reasonable opportunity to exercise its powers or institute such action, suit or proceeding, and unless there shall have been offered to the Trustee adequate security and indemnity against its costs, expenses and liability to be incurred and the Trustee shall have refused to comply with such request within 60 days. Nothing in the Resolution or the Revenue Bonds affects or impairs the District's obligation to pay the Revenue Bonds and interest thereon when due or the right of any bondholder to enforce such payment.
[Resolution, Section 801-808]

Supplemental Resolutions

For any of the following purposes, a Supplemental Resolution of the District may be adopted, which, upon the filing with the Trustee, shall be fully effective: (1) To provide additional limitations and restrictions on the delivery of Revenue Bonds or the issuance of other evidences of indebtedness; (2) To add other covenants and agreements to be observed by the District which are not contrary to or inconsistent with the Resolution as theretofore in effect; (3) To add other limitations and restrictions to be observed by the District which are not contrary to or inconsistent with the Resolution as heretofore in effect; (4) To authorize Revenue Bonds of a Series and any other matters and things relative to such Revenue Bonds which are not contrary to or inconsistent with the Resolution or to amend, modify or rescind any such authorization, prior to the first delivery of such Revenue Bonds; (5) To confirm, as further assurance, any pledge under, and the subjection to any lien or pledge of the Revenues or of any other moneys, securities or funds; (6) To modify any of the provisions of the Resolution in any respect whatever, provided that (i) such modification shall be, and be expressed to be, effective only after all Revenue Bonds of any Series Outstanding at the date of the adoption of such Supplemental Resolution shall cease to be Outstanding, and (ii) such Supplemental Resolution shall be specifically referred to in the text of all Revenue Bonds of any Series delivered after the date of the adoption of such Supplemental Resolution and of Revenue Bonds issued in exchange therefor or in place thereof; (7) To cure any ambiguity, supply any omission, or

cure or correct any defect or inconsistent provision in the Resolution; (8) To insert such provisions clarifying matters or questions arsing under the Resolution as are necessary or desirable and are not contrary to or inconsistent with the Resolution as theretofore in effect.
[Resolution, Section 1001].

Amendment with Consent of Bondholders

Any modification or amendment of the Resolution may be made in any particular by a Supplemental Resolution, with the written consent (i) of the holders of at least two-thirds in principal amount of the Revenue Bonds Outstanding at the time such consent is given and (ii) in case less than all of the several Series of Revenue Bonds then Outstanding or less than all the Revenue Bonds of a Series then Outstanding are affected by the modification or amendment of the Holders of at least two-thirds in principal amount of the Revenue Bonds so affected and Outstanding at the time such consent is given, and (iii) in case the modification or amendment changes the terms of any Sinking Fund Installment, of the Holders of at least two-thirds in principal amount of the Revenue Bonds entitled to such Sinking Fund Installment and Outstanding at the time such consent is given. If such modification or amendment will, by its terms, not take effect so long as any Revenue Bonds of any specified like Series and maturity remain Outstanding, the consent of the Holders of such Revenue Bonds shall not be required.

No such modification or amendment shall permit a change in the terms of (i) redemption or maturity of the principal of any Outstanding Revenue Bond; (ii) any installment of interest thereon; (iii) a reduction in the principal amount; (iv) the Redemption Price thereof; (v) in the rate of interest thereon without the consent of the Holder of such Revenue Bond; (vi) shall reduce the percentages or otherwise affect the classes of Revenue Bonds; (vii) or shall change or modify any of the rights or obligations of the Trustee and any Paying Agents or all without its written assent thereto.
[Resolution, Sections 1102 and 1103].

LITIGATION

A class action suit was brought in the Federal District Court for the District of Arizona on July 29, 1975 (*James v. Ball*, Civ. No. 75-498), challenging the statute under which members of the Board of Directors of the District are elected. Pursuant to the current statute, those eligible to vote for members of the Board ("Eligible Electors") are restricted to those qualified electors of Arizona who own real property located within the District. Each Eligible Elector is entitled to one vote for each acre of land and a fractional vote corresponding to any fractional acre of land in which the Eligible Elector has an ownership interest. The suit alleges that the limitation on those eligible to vote in said elections constitutes a deprivation under color of state law of the rights, privileges and immunities of the plaintiffs secured by the Fourteenth Amendment to the United States Constitution. The relief requested by the plaintiffs is that the statutory manner in which the Board of Directors are elected be declared unconstitutional and that the Board of Directors be enjoined and restrained from adopting, implementing and/or enforcing any system of voting in District elections based upon ownership of real property or upon any other qualification other than qualifications applicable to Arizona voters generally. The District filed an Answer on August 18, 1975 which, in addition to raising certain jurisdictional issues, denied the essential allegations in the plaintiffs' complaint and asked that the plaintiffs' complaint be dismissed. The ultimate outcome of such suit cannot be predicted.

At the time of delivery of and payment for the 1975 Series C Bonds, Jennings, Strouss & Salmon, Phoenix, Arizona, Legal Advisors to the District, will deliver a no-litigation opinion stating substantially as follows: That no litigation is now pending or to our knowledge threatened affecting or questioning the organization of the District; or the titles or manner of election of the officers or Directors of the District to their terms of office, respectively, except for *James v. Ball* described above; or the power and authority of the District to issue, execute and deliver the 1975 Series C Bonds; or the pledge or application of any monies or security provided for the payment thereof.

TAX EXEMPTION

In the opinion of Mudge Rose Guthrie & Alexander, Bond Counsel, interest on the 1975 Series C Bonds is exempt, under existing laws from Federal income taxes and from income taxes within the State of Arizona.

The District has certified in the Resolution Authorizing the Sale of $35,000,000 Salt River Project Electric System Revenue Bonds, 1975 Series C that it is not expected that on the basis of the facts and circumstances in existence on the date of adoption of said resolution, that the proceeds of the 1975 Series C Bonds will be used in a manner that would cause the 1975 Series C Bonds to be arbitrage bonds within the meaning of section 103(d) of the Internal Revenue Code, as amended, and the regulations thereunder.

APPROVAL OF LEGAL PROCEEDINGS

All legal matters incident to the authorization and issuance of the 1975 Series C Bonds are subject to the approval of Mudge Rose Guthrie & Alexander of New York, Bond Counsel, whose final approving opinion will be delivered with the 1975 Series C Bonds.

MISCELLANEOUS

The reference herein to the Act, the Prior Lien Bond Resolutions, the Resolution concerning Revenue Bonds and certain other statutes, resolutions and contracts are brief outlines of certain provisions thereof. Such outlines do not purport to be complete, and reference is made to such documents for full and complete statements of such provisions.

The information herein related to engineering matters has been approved by Ford, Bacon & Davis Incorporated, Consulting Engineers.

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not representations of fact, and no representation is made that any of the estimates will be realized.

The delivery of the Official Statement by its President and General Manager has been duly authorized by the District.

SALT RIVER PROJECT
AGRICULTURAL IMPROVEMENT AND POWER DISTRICT

/s/ KARL F. ABEL
President

/s/ ROD J. MCMULLIN
General Manager

Attest:

/s/ FRANCIS E. SMITH
Secretary

ESTABLISHED 1894

Ford, Bacon & Davis
Incorporated

Engineers

TELEPHONE:
(212) 344-3200

2 BROADWAY
NEW YORK, N. Y. 10004

CABLE:
FORBACIS NEW YORK

New York, September 24, 1975

Salt River Project Agricultural
Improvement and Power District
Phoenix, Arizona

Subject: Summary Report on Property, Operations, and 1975-1980 Construction Program

Dear Sirs:

We present this summary of portions of our analysis of your property and its operations, the District's construction program, and future operating revenues and expenses from which estimates of revenues available for debt service are derived.

This summary has been prepared as an appendix to the District's Official Statement for the issuance of $35,000,000 in Electric System Revenue Bonds, 1975 Series C. We have reviewed the information taken from portions of our analysis as contained in the Official Statement and consider them to fairly represent our findings.

The Salt River Project Agricultural Improvement and Power District controls and is responsible for the property and operations of two utilities. The electric system is operated by the District directly while the irrigation system is operated by the Salt River Valley Water Users' Association under an agency agreement.

The Electric System

As shown in Exhibit No. 1 centerfold, the electric service area served exclusively by the District totals about 2,900 square miles and embraces the major populated areas of Maricopa County as well as western portions of Pinal and Gila Counties. Except for the central portion of the City of Mesa which has its own power supply, all of the cities within this area, including Phoenix, Scottsdale, Tempe, Glendale, Peoria, Gilbert, and Chandler, are partly served by the District and partly by Arizona Public Service Co. The District recently began to supply the City of Mesa with a portion of its load requirements. The District also supplies all of the mining loads in Gila County and the eastern portion of Pinal County as well as providing Arizona Public Service Co. with all power requirements for resale in this area and for a small area to the west of Phoenix and Peoria. These areas encompass an additional 2,400 square miles.

The District owns about 450 miles of high-voltage transmission lines and participates in jointly-owned transmission systems associated with remote generation. Some of these systems and the location of remote jointly-owned generating stations are shown on Exhibit No. 2, back of centerfold.

Power Resources

About 31% of the District's energy requirements for 1974 were obtained from oil and gas fired plants, for the most part located in the valley. About 39% of its energy requirements came from its participation in remotely located coal fired plants. Of the remaining 30% of its energy requirements, about 19% came from hydro generating sources. Although the District's hydro plants do not supply a significant portion of the energy requirements (about 5.7%) the hydro units and pumped storage units add appreciably to the system's ability to provide for peak loads. Refer to Table 7, page 11 of the Official Statement for a detailed listing of the District's 1974 power sources.

The District's power requirements during the program will increase more rapidly than the national average, rising from 1,620,000 kw in 1974 to 2,626,000 kw in 1980. The District will meet this increasing demand by developing those resources which will provide the greatest reliability at the least cost while protecting the environment.

Table 10, page 18 of the Official Statement converts subsequent estimates of sales of energy into kilowatts of peak demands on the system. It also identifies future sources of power that may be used to supply the estimated system requirements. The following tabulation excludes details of loads and resources contained in the table.

Loads and Resources (1,000 kw)

Actual 1974; Estimated 1975-1980

	1974	1975	1976	1977	1978	1979	1980
Total Resources	2,254	2,602	2,838	2,969	3,104	3,402	3,752
Total Loads	1,907	2,036	2,219	2,491	2,678	2,890	3,105
Resources in Excess of Load	347	566	619	478	426	512	647
Reserve Requirements	277	296	323	364	395	424	456
Surplus	70	270	296	114	31	88	191

Modest surpluses range from a maximum of 13.3% of load requirements in 1976 to 1.2% of load requirements in 1978. The surpluses will help increase the reliability of the system power supply and will place the District in a better position to provide for unforeseen load requirements or to continue to provide for its commitments in the event that delays occur in scheduled operating dates of new generating units.

The 1975-1980 Improvement Program

The present program is a continuation and updating of the program reported by the Engineers on April 16, 1975.

Estimates by the District of load growth and of the resulting capital requirements in general follow methods used by the Engineers. Previous independent estimates by the Engineers and the degree of their conformance with those made by the District, together with a comprehensive check of current estimates, lead the Engineers to accept the estimates and projections of the District as realistic.

The 6-year plan (1975-1980) of the District includes generating plants planned or being constructed in widely separated locations, combustion turbines and combined-cycle units already in service in the Valley, conventional thermal units at Yampa and Hayden in Colorado, Navajo in northern Arizona, a new plant (the Project's wholly owned 1050 mw Coronado Station) north of St. John's, Arizona and the Palo Verde Nuclear Station west of Phoenix. The estimated expenditure for production plant in 1975-1980 is $1,488,937,000 or 80.4% of the total program.

Transmission lines are added or increased in capacity to serve new substations, and new generating capacity requires transmission lines to connect it into the system. Demands for improved appearance often require expensive structures or rerouting that add to the length and cost. Higher

and higher voltages add to costs but result in increased capacity advantageous in meeting future demands. The recently completed 500,000-volt transmission lines built to deliver Navajo power, the proposed Coronado transmission lines and other high-voltage transmission lines supplying power to the District are shown in Exhibit No. 2.

The estimated cost of the total 1975-1980 transmission program is $184,216,000 or 9.9% of the total projected construction costs.

Costs for distribution system additions and improvements for the 1975-1980 program are estimated at $156,801,000 or 8.5% of the program. Thousands of items are included: new substations, transformers, meters, new-customer line extensions varying from 100 ft. to several miles of line in a new subdivision. Approximately six new 22,400-kva unit substations must be provided each year to meet residential and commercial load growth. Projected costs include $62,636,000 for underground lines compared to $28,300,000 for overhead lines, which indicate the continuing trend toward undergrounding of all new distribution lines.

The general plant additions include automotive equipment, communications and supervisory control of substations from a system dispatch office. The 6-year program (including research and development) calls for an expenditure of $22,537,000 or 1.2% of the total.

Expenditures shown below for 1975-1980 are based on detailed estimates which include interest during construction.

As stated previously, this program is a continuation and updating of the 6-year program of 1975-1980. The new estimates reflect changes in costs, in interest during construction, in scheduling, and in additions made. Such changes are inevitable in a growing utility. Comparison of estimates follows:

	Estimate March 1975 (000)	Estimate August 1975 (000)
Expenditures for 1975	$ 175,442	$ 184,077
Expenditures for 1976	234,217	250,236
Expenditures for 1977	436,282	345,875
Expenditures for 1978	356,468	425,409
Expenditures for 1979	344,324	380,123
Expenditures for 1980	294,023	266,771
	$1,840,756	$1,852,491

The present estimate has an increase of $38,504,000 for interest during construction as compared to the estimate of March 1975. The following changes combined with the foregoing have brought about an increase of $11,735,000 in the present estimates:

1. Elimination of SO_2 removal equipment at Mohave, Hayden No. 2 and Yampa	$ (38,690,000)
2. Additional equipment for/and renovation of the Navajo railroad and construction of a 40-mile railroad track to the Coronado Station	$ 47,151,000
3. Various changes in the thermal plant program including the two-year delay of a third unit at Coronado	$ (20,864,000)
4. Changes in costs of other phases of the construction program	$ 24,138,000
	$ 11,735,000

Summary—Estimated Capital Expenditures for 1975-1980 Construction Program (000)

	1975	1976	1977	1978	1979	1980	1975-1980 Total
Four Corners (1)	$ 1,212	$ 317	$ 1,162	$ 2,270	$ 10,678	$ 5,200	$ 20,839
Mohave	349	—	—	—	—	—	349
Navajo	26,210	11,970	7,773	1,978	—	—	47,931
Railroad	2,735	2,963	—	—	—	—	5,698
Hayden No. 2	25,343	9,325	1,336	—	—	—	36,004
Craig	23,234	48,470	38,205	19,322	6,242	1,119	136,592
Coronado	34,618	90,628	167,345	217,604	149,571	27,600	687,366
Railroad (2)	1,423	13,017	22,187	4,662	884	—	42,173
Hayden No. 1	898	—	—	—	—	—	898
Combustion Turbine	3,313	—	—	—	—	—	3,313
Santan Combined Cycle	5,263	—	—	—	—	—	5,263
Palo Verde Nuclear Station	8,538	20,007	44,166	86,049	144,924	153,904	457,588
Nuclear Fuel	1,790	1,484	276	3,880	7,444	1,866	16,740
Future Nuclear Projects, Fuel	—	—	—	214	3,761	10,158	14,133
Subtotal Thermal Plants	$134,926	$198,181	$282,450	$335,979	$323,504	$199,847	$1,474,887
Major Transmission (3)	17,930	27,033	42,846	51,587	14,464	19,297	173,157
Other Electric Construction:							
Generation	3,718	4,872	1,068	936	1,128	2,328	14,050
Transmission	1,704	672	1,949	2,070	2,240	2,424	11,059
Distribution	16,187	18,358	16,670	31,836	34,492	39,258	156,801
Project General	9,512	1,120	892	3,001	4,295	3,617	22,437
Research and Development	100	—	—	—	—	—	100
Construction Program Total	$184,077	$250,236	$345,875	$425,409	$380,123	$266,771	$1,852,491
Less:							
Interest during Construction (IDC) (4)	13,176	17,680	31,156	49,795	38,180	33,082	183,069
Total (without IDC)	$170,901	$232,556	$314,719	$375,614	$341,943	$233,689	$1,669,442

Note:

(1) Units No. 4 and No. 5.

(2) Costs of unit trains not included.

(3) Includes District funds for transmission systems associated with new power plants as well as all lines over 69 kv.

(4) Interest during construction was computed at a rate of 6% over the past several years, but was changed to 7.25% effective July 1, 1975.

Operating Revenues and Expenses

Table 13, page 32 of the Official Statement contains the 1974 revenues available from the various customer classifications. The residential group of customers in 1974 accounted for the largest kwh consumption, 36.1% and yielded 43.0% of the revenue. In the past the residential load has had a consistent growth with a corresponding growth in annual housing completions. In 1973 almost 22,000 housing units were completed. Since then due to high interest rates, escalating building costs and the recession about 17,300 units were completed in 1974 and present estimates indicate about 10,000 housing units will be completed in 1975.

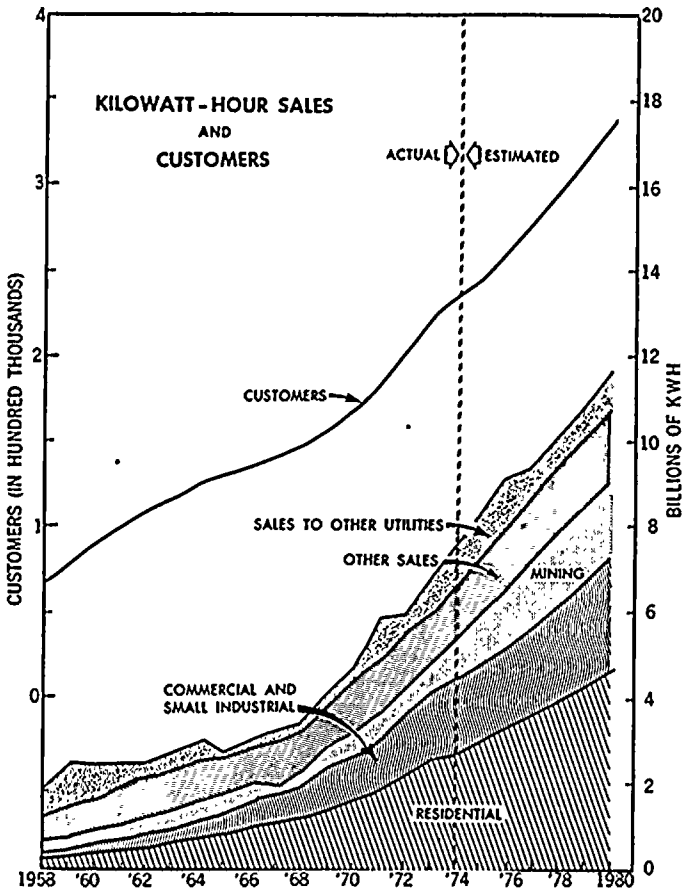
The second largest customer category is the commercial and small industrial category. In 1974 this group used 21.5% of the energy sold and contributed 24.6% of the revenue. Since most of the customers included in this class are service-oriented organizations, their growth is linked directly to the growth of the residential customer class. Energy sales in the residential and commercial and small industrial classes are expected to increase by 64-66% during the 1974-80 period.

Large Industrial and the Mines together used 20.3% of the electricity sold and yielded 12.8% of the 1974 revenue. With favorable prospects for future growth in U. S. copper production, most of the mines in the area have long-term expansion programs. Inspiration Consolidated Copper Company added about 44,000 kw of interruptible load for electric reverberatory furnaces in 1974; Miami Copper operations anticipate a 60,000-kw requirement for its new Pinto Valley Development; Ken-

necott Copper Company plans an additional 130,000 kw at Hayden, Arizona, by 1980. Although the recession caused a drop in sales, sales in recent months have increased and indications are that they will continue to increase as the economic situation improves. Total eastern mining area loads were 226,100 kw for 1974 and are expected to increase to 405,000 kw by 1980.

In 1921 the Association had 21 electric customers. By the end of World War II the number had grown to 10,611. Subsequently, the customers doubled every 5 years up to 1960, and at the end of 1974 the 239,431 customers represented an increase of about 6.7% per year, compounded annually over the last 10 years. The adjoining graph illustrates the accompanying growth in sales of major customer classifications.

Sales to APS are based on the terms of the Power Coordination Agreement referred to elsewhere. This agreement provides for the supply of an increasing number of kilowatts of demand by the District to the Company each year with a corresponding increase in revenues based primarily on the demand charge.



We reviewed and made independent analyses of the District forecasts, particularly in respect of the sales revenue and electric utility operating expenses. As a result of the independent review and analysis, we concur with and have used certain of such data in the revenue and expense projections.

In the 1964-74 period, revenue from sales increased from $41,833,000 to $168,057,000, an increase of 302%. The growth in revenues has of course included sales to other utilities. Perhaps a better measure of District growth lies in sales of energy to customers other than utilities. Sales to utilities vary widely from year to year and it is difficult to estimate future sales with accuracy. The kwh sold to District customers, excluding utilities, was 2,564,000,000 kwh in 1964 and 6,725,000,000 kwh in 1974, an increase of 162%. This was an increase of about 10% a year, compounded annually.

The estimated total operating revenues is the sum of sales of electricity and "Other Electric Revenue." The latter in 1974 amounted to $1,497,000 and consisted of rent from electric property, reconnect charges and interest on delinquent bills, fees for connecting services, and miscellaneous service revenue.

Purchased power, principally from APA, USBR, and Colorado-Ute and capacity charges from Arizona Electric Power Co-op amounted to 10.7% of 1974 operating expenses. The largest item, about 39.7% of these costs, was incurred from District thermal power generation. During the next few years, the shortage of gas supplies will require a greater dependence on fuel oil for power generation. In future years the lower cost power available from large coal-fired and nuclear plants now

being built or planned will enable the District to furnish its base load from these sources while reducing its utilization of high-cost gas and oil fuels. Units using these fuels will then be used for emergency duties and for short periods of time during system peaks.

The following tabulation summarizes total operating revenues and total operating expenses, consisting of production and other power costs, operating and maintenance expenses, and taxes. The projections include estimated escalation in cost levels.

Net Revenues Available from Operations
1974 Actual—1975-1980 Estimated
(000)

	Operating Revenues			Operating Expenses				
	From Sales(1)	Other(2)	Total Electric	Power Operations (3)	Operating and Maintenance	Sales and Ad Valorem Taxes	Total (4)	Net Revenues from Operations
1974	$168,057	$1,497	$169,554	$ 82,222	$21,019	$ 8,410	$111,651	$ 57,903
1975(1)	218,117	1,419	219,536	97,122	25,180	10,652	132,954	86,582
1976	252,834	1,661	254,495	110,005	28,980	12,908	151,893	102,602
1977	273,009	1,501	274,510	127,361	31,172	14,547	173,080	101,430
1978	294,439	1,585	296,024	136,937	35,181	15,842	187,960	108,064
1979	311,946	1,671	313,617	148,792	42,954	16,894	208,640	104,977
1980	337,966	1,773	339,739	159,953	52,237	18,273	230,463	109,276

NOTES: (1) For the years 1975-80, includes rate increase effective with October 1975 billing cycle.
(2) Excluding interest and investment income.
(3) Excludes charges for falling water.
(4) Excludes contributions in lieu of taxes, depreciation, and otherwise in accordance with the Bond Resolution.

CONCLUSIONS

Based upon our studies and analysis we are of the opinion that:

1. The properties of the District are well maintained, provide reliable electric service, and have substantial insurance coverage.

2. The 1975-1980 construction program is well conceived, the estimates are realistic and the new facilities along with purchased capacity will provide adequate generating reserves to enable the District to supply its future load requirements.

3. The rates for electric service are comparable to those of neighboring utilities.

4. The revenue and expense projections are reasonable.

5. The short term effect of the recession has been recognized in the preparation of revenue and expense projections. The effects of voluntary curtailments and price elasticity as experienced during the past three years have not been specifically determined, however, they are generally reflected in the projections of revenue and expenses. Due to the general shortage of natural gas, conversion plans of commercial and industrial users to electric service and a larger proportion of new all-electric residential construction will probably offset the effects of the conservation program.

6. Issuance of the 1975 Series C Bonds by the District will be in full compliance with clauses (b) and (c), paragraph 2 of section 204 of the Bond Resolution dated November 1, 1972, as described in the following paragraph:

"(b) the estimated Revenue Available for Debt Service, adjusted as provided in paragraph 4 hereof, for each of the five (5) calendar years immediately following the issuance of such proposed additional Bonds is not less than one and thirty-five hundredths (1 35/100ths) times the total, for each such respective calendar year, of the Debt Service and Prior Lien Debt Service on all Bonds and Prior Lien Bonds which will be outstanding immediately subsequent to the issuance of the proposed additional Bonds, and (c) the estimated Revenues Available for Debt Service, adjusted as provided in paragraph 4 hereof, for such fifth calendar year is not less than one and thirty-five hundredths (1 35/100ths) times the maximum total of Debt Service and Prior Lien Debt Service for any succeeding year on all Bonds and Prior Lien Bonds which will be outstanding immediately subsequent to the issuance of the proposed additional Bonds." Based upon the estimated Revenues Available for Debt Service and the Debt Service requirements of the additional Bonds, the provisions of clauses (b) and (c) can be complied with by adjustments as provided in paragraph 4, of Section 204 of the Bond Resolution, dated November 1, 1972.

Very truly yours,

Ford Bacon & Davis, Inc

FORD, BACON & DAVIS INC.

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AUDITORS' REPORT

To the Board of Directors,
Salt River Project Agricultural Improvement
and Power District, and
Board of Governors,
Salt River Valley Water Users' Association:

We have examined the combined balance sheet of SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT (a political subdivision of the State of Arizona) and its agent, SALT RIVER VALLEY WATER USERS' ASSOCIATION, together referred to as the SALT RIVER PROJECT, as of December 31, 1974, and December 31, 1973, and the related combined statements of net revenues and sources of funds for additions to utility plant for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Salt River Project as of December 31, 1974, and December 31, 1973, and the results of its operations and sources of funds for additions to utility plant for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

ARTHUR ANDERSEN & CO.

Phoenix, Arizona,
February 24, 1975.
(Except with respect to the bond sales discussed in Note 7, as to which matter the date is August 4, 1975)

SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT
AND ITS AGENT, SALT RIVER VALLEY WATER USERS' ASSOCIATION

COMBINED BALANCE SHEET—DECEMBER 31, 1974 AND 1973

ASSETS

	1974	1973
UTILITY PLANT, at original cost (Notes 1, 2 and 3):		
Plant in service—		
Electric	$517,459,324	$372,215,351
Irrigation	60,763,852	53,958,879
General	35,412,147	25,704,188
Total plant in service	$613,635,323	$451,878,418
Less—Accumulated depreciation on plant in service	151,398,751	136,509,334
	$462,236,572	$315,369,084
Construction work in progress	216,956,381	210,177,530
	$679,192,953	$525,546,614
SEGREGATED FUNDS, consisting of cash and U. S. Government obligations set aside in accordance with resolutions of underlying bond issues:		
Debt service funds, excluding $15,900,974 in 1974 and $11,115,396 in 1973 for payment of accrued interest (Note 7)	$ 60,132,372	$ 44,645,865
Construction funds	283,774	138,498
	$ 60,416,146	$ 44,784,363
CURRENT ASSETS:		
Cash, including $6,000,000 restricted by line of credit (Note 8)	$ 6,828,388	$ 4,592,901
Temporary investments, at cost, held primarily for construction	45,411,557	37,818,741
Deposit in debt service fund for payment of accrued interest on bonds	15,900,974	11,115,396
Accounts receivable, less reserves of $802,000 in 1974 and $642,000 in 1973 for doubtful accounts	16,179,043	13,881,592
Fuel stocks, at average cost	17,249,725	7,652,322
Materials and supplies, at average cost	13,294,125	7,066,411
Prepayments, interest receivable and other	2,609,038	1,857,109
	$117,472,850	$ 83,984,472
OTHER ASSETS:		
Advances for dedicated capacity in electric plant owned by others, less accumulated straight-line amortization over 39 years	$ 12,627,615	$ 10,763,179
Nonutility plant less accumulated depreciation of $414,000 in 1974 and $400,000 in 1973	1,268,538	1,239,513
Bond expense being amortized	1,961,264	1,689,652
Miscellaneous deferred charges	6,985,219	4,879,536
	$ 22,842,636	$ 18,571,880
	$879,924,585	$672,887,329

The accompanying notes to combined financial statements are an integral part of this balance sheet.

SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT AND ITS AGENT, SALT RIVER VALLEY WATER USERS' ASSOCIATION

COMBINED BALANCE SHEET—DECEMBER 31, 1974 AND 1973

CAPITALIZATION AND LIABILITIES

	1974	1973
LONG-TERM DEBT (Note 7):		
General obligation bonds	$296,977,898	$304,872,729
Electric system revenue bonds	326,787,909	148,548,103
Obligations to U. S. Government	11,231,655	11,256,911
Other obligations	2,229,734	68,223
	$637,227,196	$464,745,966
ACCUMULATED NET REVENUES, invested principally in utility plant:		
Balance beginning of year	$127,122,737	$109,663,321
Net revenues for the year	8,858,430	17,459,416
Balance end of year	$135,981,167	$127,122,737
Total capitalization, consisting of long-term debt and accumulated net revenues	$773,208,363	$591,868,703
CURRENT LIABILITIES, excluding $9,389,000 in 1974 and $8,950,000 in 1973 representing current portion of long-term debt which is to be paid from segregated funds:		
Notes payable to banks (Note 8)	$ 61,000,000	$ 41,250,000
Accounts payable	14,259,890	18,016,469
Accrued taxes and tax equivalents (Note 5)	7,742,820	4,047,535
Accrued interest	16,446,059	11,250,233
Customers' deposits	1,837,381	1,656,334
Other current and accrued liabilities	2,449,080	1,956,105
	$103,735,230	$ 78,176,676
COMMITMENTS AND CONTINGENCIES (Notes 3, 4, 5 and 6)		
DEFERRED CREDITS AND RESERVES:		
Irrigation assessments levied for subsequent year	$ 1,639,943	$ 1,353,241
Advances for construction	731,371	866,112
Other	609,678	622,597
	$ 2,980,992	$ 2,841,950
	$879,924,585	$672,887,329

The accompanying notes to combined financial statements are an integral part of this balance sheet.

SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT
AND ITS AGENT, SALT RIVER VALLEY WATER USERS' ASSOCIATION

COMBINED STATEMENT OF NET REVENUES
For the Years Ended December 31, 1974 and 1973

	1974	1973
OPERATING REVENUES:		
Electric	$166,971,981	$128,334,924
Water and irrigation	2,613,184	1,578,819
Total operating revenues	$169,585,165	$129,913,743
OPERATING EXPENSES:		
Power purchased	$ 27,705,014	$ 14,746,135
Fuel used in electric generation	44,074,595	28,694,459
Other operation expenses	29,390,114	25,546,385
Maintenance	11,845,338	9,456,018
Depreciation and amortization (Note 1)	16,993,880	14,352,886
Taxes and tax equivalents (Note 5)	18,948,704	12,691,099
Total operating expenses	$148,957,645	$105,486,982
Net operating revenues	$ 20,627,520	$ 24,426,761
FINANCING COSTS:		
Interest on bonds at coupon rates	$ 29,151,707	$ 19,673,195
Amortization of bond discount	486,365	435,622
Amortization of bond issue expense	144,768	133,085
Interest on other obligations	1,259,712	297,911
Interest earned on investments and deposits	(8,310,470)	(6,313,813)
Net financing costs	$ 22,732,082	$ 14,226,000
LESS—Allowance for funds used for construction (Note 1)	(11,335,298)	(6,967,752)
Financing costs less allowance for funds used for construction	$ 11,396,784	$ 7,258,248
OTHER DEDUCTIONS (REVENUES), NET	$ 372,306	$ (290,903)
NET REVENUES FOR THE YEAR	$ 8,858,430	$ 17,459,416

The accompanying notes to combined financial statements are an integral part of this statement.

SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT
AND ITS AGENT, SALT RIVER VALLEY WATER USERS' ASSOCIATION

COMBINED STATEMENT OF SOURCES OF FUNDS FOR ADDITIONS TO UTILITY PLANT

For the Years Ended December 31, 1974 and 1973

	1974	1973
GROSS ADDITIONS TO UTILITY PLANT	$177,096,264	$171,144,625
FUNDS GENERATED FROM OPERATIONS:		
Net revenues for the year	$ 8,858,430	$ 17,459,416
Depreciation and other charges not requiring current funds	20,114,309	16,925,011
Total funds generated from operations before retirement of debt	$ 28,972,739	$ 34,384,427
Less—		
Repayments of long-term debt	8,964,999	7,913,157
Net funds generated from operations	$ 20,007,740	$ 26,471,270
FUNDS OBTAINED FROM FINANCING:		
Proceeds of bond issues	$178,138,610	$148,507,206
Advances from U. S. Government for rehabilitation of irrigation plant	648,392	786,569
Other advances and contributions in aid of construction	4,909,099	4,647,041
Long-term contract, net of repayments	2,410,168	—
Short-term borrowing, net of repayments	19,750,000	19,750,000
	$205,856,269	$173,690,816
Less—		
Increase in segregated funds set aside for debt service	(15,486,507)	(12,011,592)
Reduction (increase) in segregated funds set aside for construction	(145,276)	162,942
Increase in temporary investments held primarily for construction	(7,592,816)	(12,521,199)
Net funds obtained from financing	$182,631,670	$149,320,967
CHANGES IN OTHER ITEMS AFFECTING FUNDS:		
Increase in fuel stocks	$ (9,597,403)	$ (6,295,028)
Increase in materials and supplies	(6,227,714)	(1,987,048)
Increase in debt service fund for payment of accrued interest on bonds	(4,785,578)	(3,221,150)
Decrease (increase) in other assets and liabilities, net	(4,932,451)	6,855,614
Net change in other items	$(25,543,146)	$ (4,647,612)
FUNDS USED FOR ADDITIONS TO UTILITY PLANT	$177,096,264	$171,144,625

The accompanying notes to combined financial statements are an integral part of this statement.

SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT AND ITS AGENT, SALT RIVER VALLEY WATER USERS' ASSOCIATION

NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 1974 and 1973

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(a) *Principles Underlying Combined Statements*

The combined financial statements include the accounts of the Salt River Project Agricultural Improvement and Power District and the accounts of its agent, the Salt River Valley Water Users' Association, together referred to as the Salt River Project, and a wholly owned subsidiary Salt River Generating Company. All significant intercompany transactions have been eliminated.

(b) *Utility Plant, Depreciation and Maintenance*

The accounting records of Salt River Project are maintained substantially in accordance with the Uniform System of Accounts prescribed for electric utilities by the Federal Power Commission. Utility plant is stated at the historical cost of construction. Construction costs include labor, materials, services purchased under contract, and allocations of indirect charges for engineering, supervision, transportation, and administrative expenses.

An allowance for funds used to finance construction work in progress is capitalized as a part of the electric and general plant. The cost of funds so used is deducted from net financing costs in the combined statement of net revenues. A capitalization rate of 6% has been consistently used for several years.

Depreciation expense is computed on the straight-line basis over estimated useful lives of the various classes of plant. Rates in effect during the years 1974 and 1973 resulted in provisions approximating 3.42% for 1974 and 3.49% for 1973 on the average cost of depreciable electric plant, and 2.31% for 1974 and 2.45% for 1973 for depreciable irrigation plant. When property representing a retirement unit is replaced, removed, or abandoned, the cost of such property is credited to the appropriate utility plant account, and such cost together with removal costs less salvage is charged to accumulated depreciation.

The Project charges to maintenance expense the cost of labor, materials, and other expenses incurred in the repair, restoration of condition and replacements of minor items of property.

The Federal Power Commission has ordered companies subject to its jurisdiction to adopt a method of accounting whereby the balances of contributions in aid of construction are offset against utility plant. While Salt River Project is not subject to this order, its management adopted such accounting on January 1, 1974. To effect comparability between 1974 and 1973 contributions in aid of construction have been reclassified against utility plant at December 31, 1973.

(c) *Deferred Charges*

Bond discount, premium, and bond issue expense are being amortized over the terms of the related bond issues.

(d) *Employes' Retirement Plan*

The Project has a retirement plan covering substantially all employes. The plan is funded entirely from employers' contributions and the earnings of the invested assets. The estimated unfunded past service liability based on the "entry age normal" actuarial cost method was approximately $9,938,000 at July 1, 1974, and will be funded over a period ending in 2001. The employers' cash contributions to this plan totaled $3,483,000 in 1974, and $2,706,000 in 1973.

As of July 1, 1973, a change was made in the actuarial cost method of valuing the retirement plan's investments from the cost basis to a modified market method. The effect of this change was to increase employers' contributions in 1974 to a rate of 10.83% of total basic salary rates of participants. Under the previously used actuarial method, the employers' contributions in 1974 would have been at a rate of 10.04%.

The excess of the actuarially computed value of vested benefits at July 1, 1974 over the total at December 31, 1974 of the market value of the plan's assets plus contributions receivable from employers was $6,740,000.

The Pension Reform Act of 1974 requires the Association to amend its retirement plan to conform with certain provisions of the Act, which will become mandatory in 1976. Management believes that the effect of such amendment on annual retirement plan costs will not be significant.

(e) *Revenues*

Meters for residential, commercial and small industrial customers are read cyclically and sales recorded when billed. For large industrial customers, meters are read near month-end and billings recorded on the accrual basis. Revenues from water and irrigation operations are recorded when earned.

(2) POSSESSION AND USE OF UTILITY PLANT:

The United States of America retains a paramount right or claim in the Salt River Project which arises from the original construction and operation of the Project's facilities as a Federal Reclamation Project. The Project's right to the possession and use of, and to all revenues produced by, these facilities is evidenced by contractual arrangements with the United States.

(3) CONSTRUCTION PROGRAM:

Balances shown for construction work in progress represent expenditures for new facilities required to serve anticipated customer needs and consist of:

	December 31	
	1974	1973
Electric generating facilities	$174,124,250	$161,312,356
Transmission and distribution	35,463,106	40,356,532
Irrigation plant	2,528,863	3,873,943
Other construction	4,840,162	4,634,699
Total	$216,956,381	$210,177,530

Construction expenditures planned for 1975 approximate $175 million, which includes $134 million to be expended in 1975 on the following major projects:

Name	Expected In-Service Date	($000) Expected Expenditures Overall	In 1975
Navajo Generating Station	1974-76	$ 171,456	$ 23,959
Hayden Generating Station	1976	91,529	24,737
Craig Generating Station	1978-79	157,845	21,109
Coronado Generating Station	1979-83	990,865	40,376
Palo Verde Nuclear Station	1982-86	947,450	8,457
Santan Combined Cycle Units	1974-75	60,547	6,989
Coronado Transmission System	1979	108,234	8,280
Palo Verde Transmission System	1982	31,295	242
		$2,559,221	$134,149

Significant operating problems are being experienced on the Navajo Project coal haul railroad. Although the matter is under intensive analysis, studies to date indicate that remedial action involving capital expenditures in the range of $20 to $30 million may be required. These costs would be for reconstruction and modification and would increase the coal delivery capacity of the railroad. To the extent not recovered from third parties, the costs will be shared by the participants in the same proportion as their participation in the Navajo Project. Salt River Project's share of such costs would be 21.7% and are not included in the expected expenditures shown above.

(4) ENVIRONMENTAL LITIGATION:

Various pending lawsuits involving environmental matters and contract claims could affect interests owned by Salt River Project in present generating facilities and in proposed generating facilities and transmission lines. In general, these lawsuits seek to impose higher air quality standards for generating plants, delay or halt the construction of transmission lines, or invalidate coal leases and coal supply agreements. If ultimately decided adversely to the interest of Salt River Project these lawsuits could result in increased construction costs, increased future operating costs, and a possible loss in the operational reliability of certain generating plants. All of these effects would increase the costs to be passed on to customers through increased electric rates.

(5) PROPERTY VALUATION LITIGATION:

Salt River Project makes voluntary contributions to taxing bodies in lieu of payment of property taxes. The Department of Property Valuation of the State of Arizona has filed suits (since consolidated into one suit) against the Project to increase the value used in the computation of the voluntary contributions for the years 1970, 1971 and 1972. This suit would have had the effect of increasing contributions by $2.25 million for these three years. In 1973, the Superior Court of Arizona granted judgment on this suit in favor of the Salt River Project. This decision has been appealed by the Department of Property Valuation. The Department has also filed suits against the Salt River Project to increase the valuations for 1973 and 1974, which would increase the contributions by approximately $1.4 million.

Since all legal findings to date have been favorable to the Project, no reserve for additional contributions has been provided at December 31, 1974.

(6) OTHER LITIGATION:

Principally as a result of certain water flooding in 1970 and 1972, various lawsuits and claims have been filed against Salt River Project alleging that the Project has a responsibility in regard to flood control and a liability in regard to flood damage. The ultimate liability, if any, is not determinable, but management expects that a significant portion of any liabilities which might result from flood damage claims will be covered by insurance.

The Salt River Pima-Maricopa Indians have brought two lawsuits against Salt River Project claiming damages for trespass on various property originally held by the U. S. Government and used by the Project under a 1917 agreement with the U.S. Government. Management believes that the Project will be able to sustain its position with regard to its entitlement to the use of the major properties involved in these suits.

(7) LONG-TERM DEBT:

Bonds outstanding are general obligation bonds and electric system revenue bonds. General obligation bonds are additionally secured by a pledge of revenues from the operation of the electric system. These bonds are a lien upon the real property included in the District, and the bonds and the interest thereon are payable from the levy of taxes on such real property unless the net electric revenues, as defined in the bond resolutions, are sufficient to meet the principal and interest payments.

Electric system revenue bonds are secured by a pledge of, and a lien on, the net revenues of the electric system, subject to prior liens of general obligation bonds and amounts due the United States. In all years to date net electric revenues have been more than sufficient to meet all debt service requirements.

Long-term debt outstanding at December 31, 1974, and December 31, 1973, was as follows:

	Interest Rate	Issued in Year	Outstanding 12/31/74	Outstanding 12/31/73	Future Maturities
General Obligation Bonds—					
Refunding Bonds	3	1944-47	$ 223,000	$ 398,000	1975
Issue No. 4	2⅝ to 2¾	1950	1,900,000	2,300,000	1975-77
Issue No. 5	2⅜ to 2½	1951	3,500,000	4,000,000	1975-80
Issue No. 6	2¾ to 3⅝	1953	8,900,000	9,300,000	1975-82
Issue No. 7	3⅒ to 3⅘	1956	7,445,000	7,595,000	1975-87
Issue No. 8	3⅜ to 3⅝	1959	4,090,000	4,170,000	1975-87
Issue No. 9	1 to 4¼	1960	24,750,000	25,875,000	1975-92
Issue No. 10	1 to 3⅘	1962-65	17,415,000	18,245,000	1975-94
Issue No. 11	3¼ to 3½	1965	11,850,000	12,070,000	1975-87
Issue No. 12	3 to 5	1968-69	40,300,000	41,950,000	1975-99
Issue No. 13	4 to 5	1969	8,600,000	8,950,000	1975-99
Issue No. 14	3½ to 6	1970-72	172,200,000	174,600,000	1975-2003
			$301,173,000	$309,453,000	
Unamortized bond discount			(4,195,102)	(4,580,271)	
Total General Obligation bonds outstanding			$296,977,898	$304,872,729	
Electric System Revenue Bonds—					
1973 Series A	5 to 6½	1973	$ 75,000,000	$ 75,000,000	1976-2010
1973 Series B	5 to 6½	1973	75,000,000	75,000,000	1977-2011
1974 Series A	5.7 to 7.2	1974	90,000,000	—	1983-2012
1974 Series B	6.1 to 7.6	1974	50,000,000	—	1983-2012
1974 Series C	6½ to 7¾	1974	40,000,000	—	1983-2012
			$330,000,000	$150,000,000	
Unamortized bond discount			(3,212,091)	(1,451,897)	
Total E.S.R. bonds outstanding			$326,787,909	$148,548,103	
Total bonds outstanding			$623,765,807	$453,420,832	
Obligations to U.S. Gov't for irrigation plant	None	1935-74	11,231,655	11,256,911	1975-99
Equipment contract	6.875	1974	2,172,862	—	1975-82
Other obligations	None	1950	56,872	68,223	1975-79
Total long-term debt			$637,227,196	$464,745,966	

The annual maturities of bonds and other long-term debt outstanding as of December 31, 1974, due in each of the years 1975 thru 1979 are $9,389,000; $10,156,000; $14,861,000; $15,227,000 and $15,957,000, respectively.

On January 8, 1975, the District sold bonds in the principal amount of $60,000,000 at an effective interest rate of 8.11%. These bonds were the first installment of $170 million of electric system revenue bonds authorized October 29, 1974, to finance the 1975 construction program. On April 16, 1975, a second installment of $75,000,000 was sold at an effective interest rate of 7.60%.

Interest and amortization of discount on the various issues outstanding during the year resulted in an effective annual rate of 5.26% for 1974. This rate approximates 6.18% over the remaining terms of the bonds, after giving effect to the bonds sold on January 8, 1975 and April 16, 1975.

The debt service funds portion of segregated funds includes $15,717,000 at December 31, 1974 and $10,787,000 at December 31, 1973, restricted for operating reserve requirements under bond resolutions.

(8) LINE OF CREDIT:

The District, with the Association joining as guarantor, maintains a line of bank credit in the amount of $60,000,000. The full amount available was borrowed at December 31, 1974, and at that date carried an interest rate of 7.00%. Under terms of the line of credit, a $6,000,000 non-interest bearing compensating balance deposit is required. Other bank borrowings total $1,000,000 at an interest rate of 6.50%. The average interest rate on bank borrowings for the year was 6.26%.

(9) IRRIGATION AND WATER OPERATIONS:

The expenses, including depreciation, for irrigation and water operations exceeded the assessments, delivery fees, and other revenues therefrom by approximately $9,971,000 in 1974 and $7,187,000 in 1973. These amounts do not include expenditures for additions and improvements to irrigation plant and for repayment of long-term debt.