

\$50,000,000

SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, ARIZONA

Salt River Project Electric System Revenue Bonds, 1974 Series B

To be dated May 1, 1974

To mature January 1, as shown below:

Principal and interest (July 1, 1974 and January 1 and July 1 thereafter) payable at the principal offices of the 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 1974 Series B Bonds maturing on January 1, 2012, are subject to redemption on January 1, 1996 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 1974 Series B Bonds may be redeemed as a whole, or in part in inverse order of maturities, at any time on or after January 1, 1984, at prices ranging from 102½% for the period January 1, 1984, to and including December 31, 1985, to 100% on and after January 1, 1994, plus accrued interest to the date of redemption, as further described herein.

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

The 1974 Series B Bonds are being issued for the purpose of financing improvements to the Electric System of the District. The 1974 Series B 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 1974 Series B Bonds are also secured by a pledge of a debt reserve and other funds.

Amounts, Maturities, Coupon Rates and Price or Yield

\$15,400,000 Serial Bonds

<u>Amount</u>	<u>Maturity</u>	<u>Coupon Rate</u>	<u>Yield</u>	<u>Amount</u>	<u>Maturity</u>	<u>Coupon Rate</u>	<u>Price or Yield</u>
\$ 400,000	1983	7.60%	5.50%	\$1,350,000	1989	7.60%	5.90%*
350,000	1984	7.60	5.60	1,450,000	1990	7.60	5.95*
450,000	1985	7.60	5.70	1,550,000	1991	6¾	6.00
550,000	1986	7.60	5.75*	1,600,000	1992	6.10	6.00
1,000,000	1987	7.60	5.80*	1,700,000	1993	6.10	6.05
1,450,000	1988	7.60	5.85*	1,750,000	1994	6.10	100
				1,800,000	1995	6.10	100

* Priced to First Call Date, January 1, 1984.

\$34,600,000 6¼ % Term Bonds Due January 1, 2012

Price 97%

(Accrued Interest to be Added)

The 1974 Series B 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.

This does not constitute an offer to sell the 1974 Series B 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 1974 Series B 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

The Board of Directors of the Salt River Project Agricultural Improvement and Power District consists of 10 members elected from among the shareholders for two-year terms. The Board establishes the policies for the management of the District and for the conduct of its business affairs.

GERMAIN H. BALL
ALEX M. CONOVALOFF
BILL ROUSSEAU
LEO C. SMITH
EARNEST C. CHEATHAM

THOMAS P. HURLEY
WILLIAM P. SCHRADER
JOHN S. HOOPES
W. LARKIN FITCH
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*
CARL T. EYRING *Assistant General Manager—Construction and
Maintenance*
ROBERT F. AMOS *Associate General Manager—Finance and
Operations Services*
KENNETH J. KNAUER *Treasurer*
WALTER J. WALL *Comptroller*
FRANK G. SCUSSEL *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, Strauss & 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 1974 Series B Bonds

The \$50,000,000 1974 Series B Bonds, representing the second installment of a total \$180,000,000 Bonds (of which a first installment of \$90,000,000 has been issued) authorized under the 1974 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 to the District's service area.

Security for the 1974 Series B Bonds

The Revenue Bonds, which include the 1974 Series B 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 covenants 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 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 1973 the District served 225,921 customers. Annual sales in 1973 totaled approximately 6.9 billion kwh, approximately double the 3.4 billion kwh sales in 1968. Annual revenue of \$127,656,000 from sales in 1973 compares to \$53,759,000 in 1968. Due to the fact that the bulk of the population growth in the last decade has been directed toward the suburbs of Phoenix, which is the area served by the District, the District's customer growth rate has 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 low cost and relative abundance of coal, most of the estimated future generating capacity during the 1970s will come from coal-fired plants. Due to the estimated lower cost of power from these coal-fired plants, certain presently existing gas and oil-fired plants may eventually be utilized mostly for peaking power during heavy energy demands. This change in fuel source can be illustrated by the fact that in 1973 approximately 40% of production was from gas and oil-fired plants and 28% from coal-fired plants, but by 1979 only 11% of production is estimated to come from oil-fired plants and 82% from coal-fired plants. The District is presently estimating that no gas will be available for its use for power generation after 1975.

Electric Rates

The District covenants 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.

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.

Economic Considerations

The District's service area has a well-balanced, growing economy with no one sector dominating the economy. In Maricopa County in 1972, the four largest employers by industry were: wholesale, retail—22.5%, manufacturing—17.4%, government—16.0% and services and miscellaneous—15.8%. In Maricopa County the 1962-1972 growth of certain indicators was as follows: population up 36.8%, retail sales up 157.6%, bank deposits up 248.6% and vehicle registration up 100.2%.

Outstanding Long Term Indebtedness

As of January 2, 1974, the District had a total of \$553,217,134 outstanding long term debt consisting of \$301,892,000 Prior Lien Bonds, \$11,256,911 U. S. Government loans, \$240,000,000 Revenue Bonds, including \$90,000,000 Revenue Bonds dated January 1, 1974 and issued in February 1974, and other debt of \$68,223.

Coverage

For the calendar year 1973, Revenues Available for Debt Service were \$59,571,000. 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 Debt Service requirements on the \$50,000,000, 1974 Series B Bonds, amount to \$45,460,312 (in 1976) and would have been covered 1.31 times by such 1973 Revenues Available for Debt Service. Estimated Revenues Available for Debt Service, as adjusted, for 1974-1979 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 1974 Series B Bonds, in each of those respective years of 1.62, 1.85, 1.87, 1.99, 2.08 and 2.34 times.

**SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER DISTRICT, ARIZONA
OFFICIAL STATEMENT**

Relating to

\$50,000,000

Salt River Project Electric System Revenue Bonds, 1974 Series B

Phoenix, Arizona

May 2, 1974

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, 1974 Series B (the "1974 Series B Bonds") in connection with the sale by the District of the 1974 Series B 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 1974 SERIES B 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, 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").

By series resolution, dated as of October 15, 1973 (the "1974 Series Resolution"), the District's Board authorized the issuance of \$180,000,000 Revenue Bonds, 1974 Series (the "1974 Bonds"). The District's Council by resolution adopted on October 16, 1973, ratified and confirmed the issuance of said 1974 Bonds and the Arizona Corporation Commission in its approving Opinion and Order of November 13, 1973, authorized the issuance of said 1974 Bonds. In February 1974, the District issued the initial installment of \$90,000,000 1974 Series A Bonds. On April 1, 1974, the District by resolution authorized the sale of the second installment of 1974 Bonds. Said second installment is in the principal amount of \$50,000,000 and is designated as "Salt River Project Electric System Revenue Bonds, 1974 Series B".

PURPOSE OF THE 1974 SERIES B BONDS

The 1974 Series B Bonds are being issued to finance a portion of the Improvement Program—1974 through 1979 (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—1974 through 1979".

SECURITY OF THE 1974 SERIES B BONDS

The Revenue Bonds, which include the 1974 Series B 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 1974 Series B Bonds are also secured by the proceeds of sale thereof and all funds held under the Resolution, including a debt reserve to equal one-half of the average annual Debt Service for the Revenue Bonds; but not to exceed \$25,000,000.

The 1974 Series B Bonds shall not constitute general obligations of the District, and no holder of any of the 1974 Series B Bonds shall ever have the right to compel any exercise of the taxing powers of the District to pay the 1974 Series B Bonds or the interest thereon. The 1974 Series B 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. 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 covenants 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 1974 Series B 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 covenants 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 owns and operates an Electric System (hereinafter described) which generates, purchases and distributes electric power both at wholesale and retail to customers in parts of Maricopa, Pinal and Gila Counties in Arizona. An Irrigation System (also hereinafter described) is operated by the Salt River Valley Water Users' Association (the "Association").

Prior to the issuance of the 1973 Bonds the District's outstanding long-term debt was in the form of (1) general obligation bonds secured by a tax on all the taxable real property within the boundaries of the District, a guaranty by the Association and a prior lien on the net revenues of the Electric System all as more fully described in the respective bond resolutions (the "Prior Lien Bond Resolutions") and (2) certain loans from the United States of America (such bonds and loans collectively called the "Prior Lien Bonds"). In all years to date the electric revenues have always been more than sufficient to meet all debt service requirements. Accordingly, the District has never used its taxing power for the Prior Lien Bonds.

The District is an agricultural improvement district organized 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, page A-3).

The District's administrative offices are located in Tempe, Arizona, which is adjacent to and east of Phoenix. Phoenix, the State Capital and County Seat of Maricopa County, is situated in the western portion of the area served by the District.

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. The prime reason for the existence of the dams was to supply irrigation water to the irrigable 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. The Association operated all of the properties until 1949, but presently operates only the irrigation and drainage system as an agent of 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. Much of the District's electric service area has been suburban to the cities and towns which it surrounds. Arizona Public Service Co. ("APS") operates in and near the District. From time to time agreements which attempted to delineate the respective areas served were made by and between APS and the District. Historically, the District served rural areas and APS cities and towns. As a result of the agreements, most suburban areas annexed to Phoenix and other cities since 1955 are now served by the District, even though they are within present city limits. For a more complete discussion of these agreements see—"Power Agreements". Consequently, the service area of the District has accordingly grown as a result of the trend of population migration to the suburbs. This trend has taken much land out of agricultural production and substituted residential, commercial and industrial development. Large shopping centers, extensive home building development, considerable industrial development, increased pumping load due to deeper irrigation wells, and the phenomenal increase in air conditioning load have all combined to increase the District's electrical business. Starting with 3,645 kw of installed capacity at the Theodore Roosevelt Dam in 1911, the total generating capability has grown to 241,600 kw in hydro plants and 1,089,000 kw in thermal plants in 1973.

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

As previously indicated, the District operates the Electric System, and, as an agent of the District, the Association operates and maintains the irrigation and drainage system. 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 by landowners. However, representatives of these bodies have always served in a dual capacity.

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 10 members each, 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 December 31, 1973, was 3,021 of which 1,912 hourly employees are represented by the International Brotherhood of Electrical Workers. A new three-year labor contract was signed in early 1971 after extensive negotiations with Local Union 266 I.B.E.W. The contract provided for the wage portion to be negotiated yearly, however, in 1973 an overall adjustment of 6% in base compensation was negotiated effective April 1, 1973 and another 6% adjustment became effective April 1, 1974.

Economic Growth In The District's Service Area

General

The economic development of Arizona as well as the District's service area has been diversified and has actually grown at a more rapid rate than the population.

Prior to World War II the State was principally known as a producer of raw materials. Cattle, copper and cotton, together with agricultural foodstuffs, provided the major source of income. These obviously remain important to the economy; however, the rapidly growing manufacturing industry has become the largest single source of income within the State and at present generates an income of over \$2-billion a year. Total income for Arizona is now approaching \$8-billion with approximately 57% being generated in the Phoenix metropolitan area.

Manufacturing presently accounts for about 18% of all employment in the Phoenix area. 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.

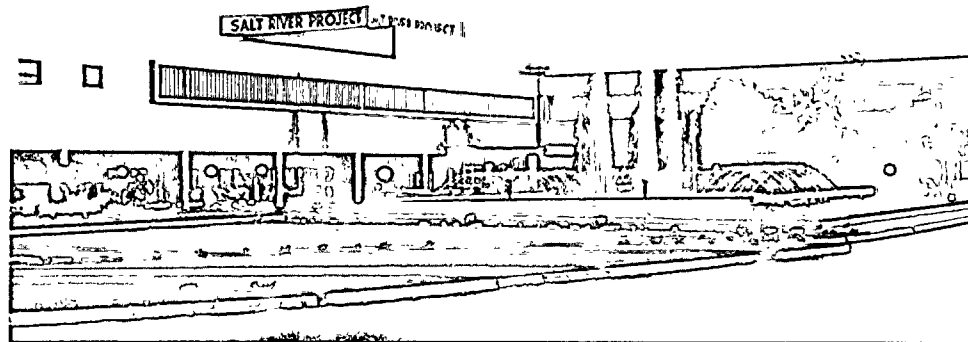
Tourism in recent years has added diversification to the State's economy, especially in the Phoenix area where six to eight million tourists visit annually.

Maricopa County has a well-balanced economy with no one section dominating the economy. Table 1 below demonstrates this diversification by showing average employment in 1972.

Table 1
AVERAGE EMPLOYMENT IN MARICOPA COUNTY
(1972)

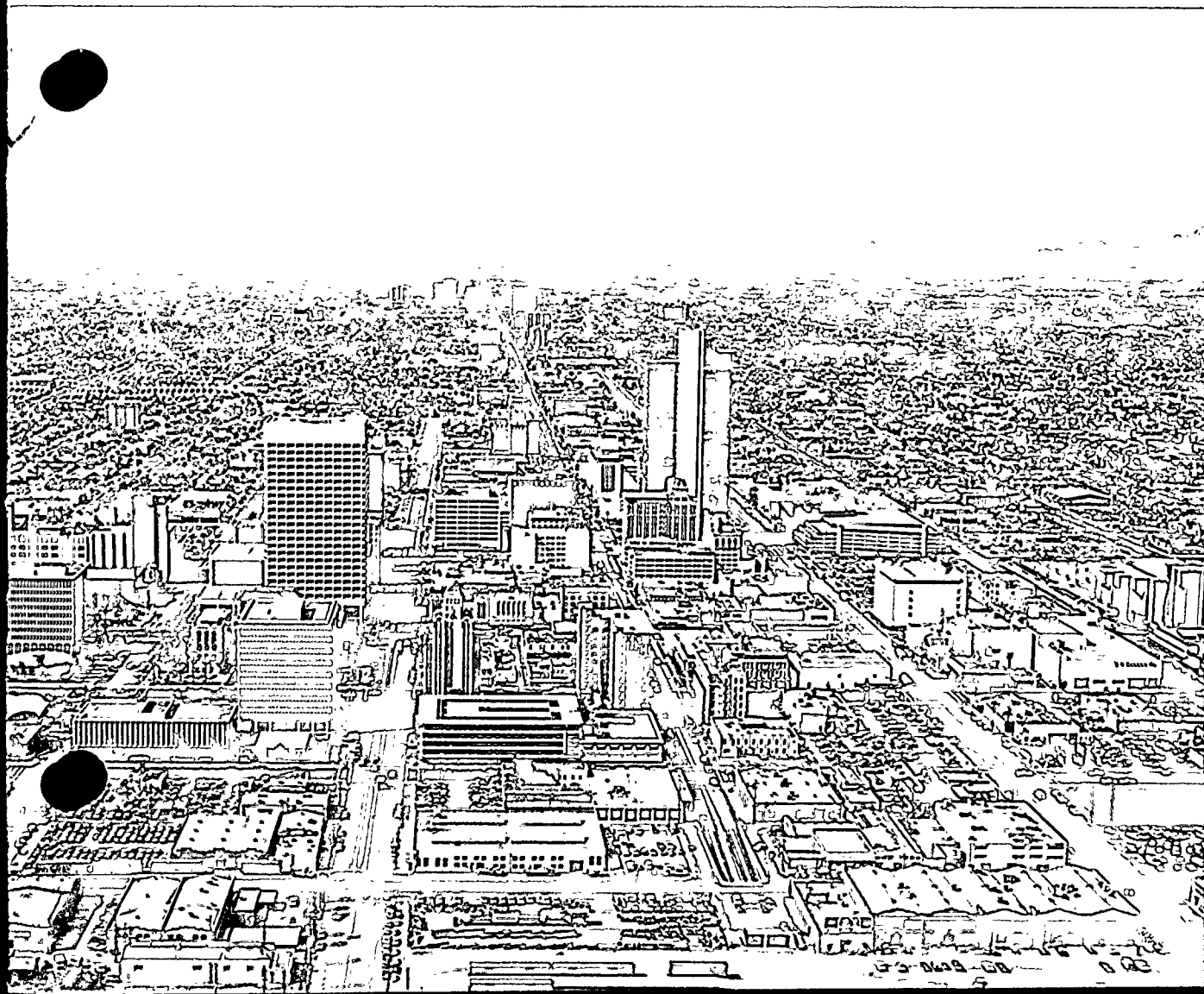
<u>Industry</u>	<u>Number Employed</u>	<u>Percent of Total</u>
Agricultural	13,500	3.2
Manufacturing	74,200	17.4
Mining	300	.1
Construction	32,000	7.5
Transportation, Utilities	18,500	4.3
Wholesale, Retail	95,900	22.5
Finance, Real Estate	27,100	6.4
Government	67,900	16.0
Services and Miscellaneous	67,200	15.8
Other	29,000	6.8
Total Employed	425,600	100.0

SOURCE: Arizona Statistical Review, published September, 1973, by the Valley National Bank, Phoenix.



The Salt River Project's administration building is headquarters for service to more than 220,000 electric customers. With completion this year of a two-level, 81,000 square-foot addition, the building will accommodate up to 1,175 employees. The District has added more than 80,000 electric customers since the last building expansion in 1965. The original building was constructed in 1956-1957.

Demands for electricity are continually increasing with the steady growth of metropolitan Phoenix. More than 54.7 percent of Arizona's total population lives in Maricopa County, and the population is expected to increase from 1,105,000 this year to 1,529,000 in 1980.



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 1,105,000 in 1973 to 1,529,000 by 1980. Table 2 shows population growth rates in the State of Arizona, Maricopa County and the City of Phoenix.

With the steady growth of the Phoenix metropolitan area, demands for electrical power are continually increasing. Table 3 shows the number of District customers and its growth rate over the same period. It should be noted that the growth rate in the number of customers is much greater than that of the County population. This is due to the fact that the bulk of the population growth has been directed toward the suburbs, which is the area served by the District.

Table 2
POPULATION GROWTH
(1960-1972)

Population Growth						
Year	State of Arizona	Percent Increase Over Previous Year	Maricopa County(1)	Percent Increase Over Previous Year	City of Phoenix	Percent Increase Over Previous Year
1960	1,302,161(2)	—	663,510(2)	—	439,170(2)	—
1961	1,406,200	8.0	736,000	10.9	452,000	2.9
1962	1,467,700	4.4	769,000	4.5	468,000	3.5
1963	1,520,500	3.6	802,000	4.3	483,000	3.2
1964	1,562,400	2.8	828,000	3.2	494,000	2.3
1965	1,585,600	1.5	845,000	2.0	504,000	2.0
1966	1,609,600	1.5	868,000	2.7	511,000	1.4
1967	1,647,500	2.4	890,000	2.5	519,000	1.6
1968	1,692,000	2.7	917,000	3.0	528,000	1.7
1969	1,725,000	2.0	944,000	2.9	546,000	3.4
1970	1,772,482(2)	2.8	968,487(2)	2.6	581,562(2)	6.1
1971	1,834,000	3.5	1,005,000	3.8	648,400	11.5
1972	1,945,000	6.1	1,058,000	4.03	674,000	3.9
<u>Estimated(1)</u>						
1973	2,020,000	—	1,105,000	4.44	724,000	—
1975	2,200,000	—	1,200,000	4.21(3)	786,000	—
1980	2,665,000	—	1,529,000	4.97(3)	920,000	—

(1) Estimates from Valley National Bank, except for 1960 and 1970 which is the U. S. Census population.

(2) U. S. Census.

(3) Compound annual rate of growth over intervening years.

Table 3
DISTRICT CUSTOMER GROWTH
(1960-1973 and projections to 1980)

<u>Year</u>	<u>District Electric Customers(1)</u>	<u>Percent Increase Over Previous Year</u>
1960	91,488	14.4
1961	101,292	10.7
1962	109,037	7.7
1963	117,085	7.4
1964	125,134	6.9
1965	130,970	4.7
1966	136,617	4.3
1967	141,111	3.3
1968	149,320	5.8
1969	159,202	6.6
1970	169,774	6.6
1971	186,326	9.8
1972	206,441	10.8
1973	225,921	9.4
<u>Estimated</u>		
1975	261,200	7.5(2)
1980	345,400	5.8(2)

(1) Year end.

(2) Compound annual rate of growth over intervening years.

Selected Comparative Statistics

Table 4 summarizes certain statistical data related to the economy in Arizona, while Table 5 summarizes certain statistical data related to the economy of Maricopa County.

Table 4
COMPARATIVE STATISTICS ON THE ARIZONA ECONOMY
(1962-1972)

<u>Category</u>	<u>1962</u>	<u>1972</u>	<u>Percent Change</u>
Population	1,471,000	1,945,000	+ 32.2
Personal Income	\$3,163,000,000	\$8,292,000,000	+ 162.2
Retail Sales	\$2,119,978,000	\$5,191,225,000	+ 144.9
Bank Deposits	\$1,584,140,000	\$5,248,274,000	+ 231.3
Agricultural Production	\$ 508,317,000	\$ 822,318,000	+ 61.8
Manufacturing Output (Value Added)	\$ 501,900,000	\$1,630,000,000	+ 224.8
Mineral Production	\$ 474,131,000	\$1,050,881,000	+ 121.6
Tourist Expenditures	\$ 350,000,000	\$ 650,000,000	+ 85.7

SOURCE: Arizona Statistical Review, published September 1973, by the Valley National Bank, Phoenix.

Table 5
(1962-1972)
COMPARATIVE STATISTICS ON (1962-1972) THE MARICOPA COUNTY ECONOMY

<u>Category</u>	<u>1962</u>	<u>1972</u>	<u>Percent Change</u>
Population	775,000	1,060,000	+ 36.8
Retail Sales	\$1,215,150,000	\$3,130,825,000	+ 157.6
Bank Deposits	\$ 999,614,000	\$3,485,035,000	+ 248.6
Vehicle Registrations	436,767	874,587	+ 100.2
Motor Fuel Consumption (gal.)	274,359,000	542,202,000	+ 97.6

SOURCE: Arizona Statistical Review, published September 1973, by the Valley National Bank, Phoenix.

Irrigation and Water Supply System

Importance

As previously indicated, 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). An indication of the importance of water supply is the fact that in the State of Arizona, 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. Lands inside the cities and towns in the Salt River Project area have the same rights as farmlands outside.

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 Project, except where the Association delivers water directly to the owners. Where landowners in the city are not using the water to which they are entitled for irrigation, the City pays to the Association the established yearly water charge assessed against these landowners, and makes retail delivery through its own distribution system, after treatment, as a part of the general water supply to all City lands within the Project area. In 1973 the City delivered 79,214 acre-ft. of Association water for residential, commercial and industrial purposes. Similar agreements have been executed with the cities of Gilbert, Glendale, Peoria, Tempe, Mesa, Scottsdale and Chandler.

Sources

Rights to the waters of the Salt and Verde Rivers were established by virtue of the 1910 Kent Decree. A system of dams, two on the Verde, four on the Salt, and a diversion dam ordinarily impounds the entire flow of both rivers. The waters of the two rivers are diverted into a large canal system at Granite Reef Dam, near the confluence of the Salt and Verde Rivers. The canals total 131 miles in length, to which are connected 876 miles of laterals of which approximately 75% are lined or piped.

Central Arizona Project

Except at times of high water conditions, the bed of the Salt River below the Granite Reef diversion dam is entirely dry. Water supplies have been augmented by the drilling of about 1,700 wells in the Salt River Valley. In the state as a whole, water from underground sources has become increasingly important as river flows have become completely utilized. Wells in the Project 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 culminating more than 40 years of effort by Arizona to obtain additional water supplies for the central and southern parts of the state. Upon completion of CAP, anticipated in the early 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 Salt River Project has requested an allocation of 300,000 acre-ft. of CAP water. The amount to be allotted 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 map on page A-3. 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 APS. Negotiations have been completed with the City of Mesa to supply a portion of its load requirements. Historically, the District began by serving the rural areas and APS, 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 73.8% 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. Additionally, 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.

Hydro-electric Facilities

The District has five sources of hydro-electric power by virtue of the system of dams. Table 6 gives the certain characteristics of each dam and plant and the reservoir capacity of two storage dams on the Verde River.

The four hydro-electric plants on the Salt River originally were operated at 25-Hertz. Conversion to 60-Hertz was completed at Stewart Mountain in 1963, at Mormon Flat in 1971, and at Horse Mesa in 1972. The eight 50 to 60-year old generators at Roosevelt Dam have been retired. Installation of a new 36,500 kw generator, directly connected to a new turbine began commercial operation in March 1973. This represents the last hydro plant to be converted to 60-Hertz.

Table 6
CERTAIN CHARACTERISTICS OF DISTRICT DAMS
(1973)

<u>Name of Dam</u>	<u>River</u>	<u>Reservoir Capacity (acre-ft.)</u>	<u>Plant Capability kw(1)</u>	<u>Annual Generation(2) (1,000 kwh)</u>
Theodore Roosevelt	Salt	1,381,580	36,500	58,936
Mormon Flat	Salt	57,852	60,200(3)	42,181
Horse Mesa	Salt	245,138	129,600(4)	99,100
Stewart Mountain	Salt	69,765	13,300	42,543
Bartlett	Verde	178,477	—	—
Horseshoe	Verde	139,238	—	—
Canal Plant (Crosscut)		—	2,000	254
Total		2,072,050	241,600	243,014

(1) Capability based on 1973 operating agreements during summer peak demand periods.

(2) 10-year average 1963-1972.

(3) Includes a pumped storage unit rated 50,000 kw (1971).

(4) Includes a pumped storage unit rated 97,000 kw (1972).

Thermal Generating Facilities

The District owns and operates three principal wholly-owned thermal plants the largest of which is the Agua Fria plant. It has a capability of 399,800 kw. In 1973 Agua Fria produced 2,308,761 mwh or 30.57% of total production. The plant is a steam generating plant located west of Glendale, Arizona. It consists of two 109,000 kw units constructed in 1957 and 1958 and one 182,000 kw unit constructed in 1961. All units are designed for both oil-firing and gas-firing.

The Kyrene plant is a steam generating plant located south of Tempe. The Kyrene plant has a capability of 104,200 kw consisting of a 33,700 kw unit installed in 1952 and a 70,500 kw unit installed in 1954. In 1973 it produced 378,294 mwh or 5.01% of total production.

Four combustion peaking turbines, totaling 238,800 kw, are installed at the Kyrene plant, producing 332,325 mwh or 4.40% of total production. All peaking units are designed for oil-firing or gas-firing.

The Crosscut steam plant located near the City of Tempe has a capability of 34,400 kw, consisting of four 8,600 kw units, three of which were constructed in 1941 and one in 1949. In 1973 Crosscut produced 14,050 mwh or .19% of total production.

The Kyrene and Agua Fria steam generating plants were the largest sources of energy for the District in the 1960's. At the present time, the supply of natural gas available to the District is limited and declining. As a result of the impending gas shortage, the District's gas or oil-fired generating plants are becoming increasingly dependent upon low-sulphur oil as a primary fuel. The higher cost of this fuel oil is passed on to District customers pursuant to fuel cost adjustment clauses and contractual agreements (see "Fuel Supply").

It is anticipated that the cost of power delivered to the District from the new coal-fired plants (further described herein) will be considerably less than the cost of power obtained from the present gas and oil-fired plants. In such event, the Agua Fria and Kyrene plants may experience a change in operation, eventually ending up as plants utilized mostly for peaking power during heavy energy demands usually experienced during the summer and as area protection plants.

Electric System thermal generating facilities presently operating also include the District's undivided ownership interest in the jointly owned plants at Four Corners and Mohave as described herein under "Power Resources—Historic".

Transmission System

The District transmits power from its generating stations to the load centers via transmission and sub-transmission lines and also participates in jointly-owned transmission systems associated with remote generation. Table 7 lists the District's transmission line totals.

Table 7
DISTRICT TRANSMISSION LINES

As of December 31, 1973

Line Voltages	Circuit Miles of 60-Hertz(1) Lines	Circuit Miles of 25-Hertz(1) Lines
500,000	9(2)	
230,000	140	
115,000	282	
110,000	—	3.5
69,000	451	—
Total	882	3.5

(1) Cycles per second.
(2) District participation in the Eldorado System.

As of December 31, 1973, the District had transmission substations with an aggregate capacity of 4,591,000 kva.

The District also owns participation in certain other transmission facilities as more fully described herein.

Distribution System

As of December 31, 1973, the District supplied service to 241,003 meters. As of December 31, 1973, the District owned and operated 109 distribution substations with an aggregate capacity of almost 2,734,000 kva. An additional 2 customer-owned substations are served by the District.

At the time of the 1973 system peak load the ratio of the residential load to the residential substation capacity was 77.4%.

The District has three mobile transformer units. Unit 1 is a 69 kv unit with a 6,250 kva capacity. Unit 2, which is also 69 kv, has a capacity of 13,420 kva. In 1971 Unit 3 was added. This is a 115 kv unit with 20,000 kva capacity. These units are used only on a temporary or emergency basis. The capacity of these three units is included in the distribution substation capacity total.

The District has a residential underground distribution program for providing electric service in new suburban developments. This program added over 1,000 miles of underground cable in 1973 to bring the total underground cable miles to 3,282. Overhead distribution lines currently total about 4,780 circuit miles. Table 8 shows comparative increases in overhead and underground transformer capacity.

Table 8
NET ANNUAL INCREASE IN
TRANSFORMER CAPACITY
(kva)

<u>Year</u>	<u>Underground</u>	<u>Overhead</u>
1964	9,000	64,000
1965	14,000	35,000
1966	23,000	39,000
1967	30,000	32,000
1968	40,000	42,000
1969	42,000	49,000
1970	91,000	56,000
1971	162,000	71,000
1972	178,000	63,000
1973	215,000	72,000

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 became fully operational in 1971. The center has continued to expand to meet customer growth. It currently consists of 42 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. The center currently operates 76 hours each week and is manned by highly trained personnel who provide a broad range of customer service such as full information on account status, acceptance of routine service orders and acceptance of emergency service orders during storms and other emergencies.

POWER RESOURCES—HISTORIC

Summary

In 1973 the largest source of energy was from thermal plants which supplied 62.1% of requirements (see "The Electric System"). About 14.8% of requirements were supplied from Colorado River hydro power purchased from Arizona Power Authority ("APA") and the United States Bureau of Reclamation ("USBR").

Thermal energy amounting to 15.1% of requirements was purchased from Hayden No. 1 and others. The remaining 8.0% of the energy used came from District hydro plants (see "The Electric System"). Table 9 provides a detailed breakdown of power sources in 1973.

Table 9
DISTRICT POWER SOURCES
(1973)

	<u>Capability (kw)</u>	<u>Production (1,000 kwh)</u>	<u>Production Percent of Total</u>
District Generation: (1)			
Hydro	241,600	600,364	7.95
Crosscut Steam	34,400	14,050	.19
Kyrene	104,200	378,294	5.01
Kyrene (combustion turbines)	238,800	332,325	4.40
Agua Fria	399,800	2,308,761	30.57
Four Corners (10% participation)	160,000	956,236	12.66
Mohave (10% participation)	152,000	703,006	9.31
Purchases and Receipts:			
APA	56,200	208,660	2.76
USBR—Parker-Davis	42,000 (2)	68,200	.90
Colorado River Storage Project	380,600 (3)	840,576	11.13
Arizona Electric Power Co-op—Contract	7,000	56,637	.75
Hayden No. 1—Contract	54,000	438,166	5.80
—Surplus	non-firm	83,530	1.10
Plains G&T	30,000	120,595	1.60
Others	non-firm	442,798	5.87

(1) Based on 1973 operating agreements during summer peak demand period.

(2) Beginning in 1974, 30,000 kw available from March to September and 22,000 kw available from October through February.

(3) Includes 47,600 kw wheeled to other Districts.

Power from Four Corners and Mohave Generating Stations

In 1962 plans of certain members of the Western Energy Supply and Transmission Associates, a planning association of principal utilities in the Southwest, were announced for the construction of two major steam-electric generating stations. These plans were the results of a long study which projected the construction of a number of strategically located plants in the next 15 to 20 years. Because of the large investment required, the plants are jointly owned, with several companies supplying capital for construction and sharing output in proportion to the investment.

On April 1, 1966, the Arizona legislature enacted an amendment to the Agricultural Improvement District Act expressly authorizing agricultural improvement districts to own, construct, operate and maintain, severally or in common with other, generating and transmission facilities outside of Arizona. The Board of Directors subsequently approved the District's 10% participation in each of the Four Corners and Mohave plants. The District is a member of WEST and the remaining ownership of Four Corners and Mohave plants is by other members of WEST.

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 at approximately 15¢ per million Btu. Certain changes in the design features of the plant caused by environmental requirements are still to be completed (see "Environmental Program"). The additional estimated cost to the District for such environmental features is \$18,096,000.

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 first unit went on line for commercial operation in April of 1971 and the second in October of 1971. Fuel is supplied from the Black Mesa coalfields in northern Arizona at approximately 22¢ per million Btu delivered at Mohave. Technical and environmental difficulties experienced with plant operation may require design modifications for this plant (see "Environmental Program").

The two plants add approximately 312,000 kw to the District's capability. Participation, representing contributions of capital and equivalent entitlement to power and energy, is given in Table 10. For a discussion of the participation agreements see "Power Agreements".

Table 10
PARTICIPATION IN FOUR CORNERS AND MOHAVE

<u>Participant</u>	<u>Percent Four Corners</u>	<u>Percent Mohave</u>
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

Power from Hayden No. 1

Under a 40-year contract of February 1962 (see "Power Agreements"), the District is entitled to 50,000 kw of steam power from the Hayden No. 1 plant in Colorado on a firm basis plus a similar block of power which is subject to withdrawal by Colorado-Ute Electric Association ("Colorado-Ute") for its own use at the rate of approximately 5,000 kw per year. Colorado-Ute also has the right to recapture the 50,000 kw on four years' notice. In 1973, a total of 54,000 kw was available as provided for under terms of the contract. Colorado-Ute has notified the District of termination of its entitlement to the 50,000-kw firm block of power after 1975.

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.

Power Purchased from APA

When the Hoover Dam was completed on the Colorado River in 1934, a share of the power developed there was allocated to Arizona. Installation in 1952 of two generators for Arizona in the Hoover plant made a maximum capacity of 165,000 kw available to the APA. This was resold by APA to various Arizona utilities, including the District and APS, but principally to cooperatives and power districts owning no generating facilities.

On January 1, 1971, the District entered into a contract in which the District has firm entitlement to slightly over 24% of APA's portion of Hoover Dam energy.

The District's share amounts to approximately 37,000 kw plus 19,000 kw for delivery to several smaller districts for whom the District acts as agent. Present charges are expected to average 5.45 mills per kwh. The contract term is to 1987 (see "Power Agreements").

Parker-Davis Project Power Purchased from USBR

The USBR has constructed substantial mileage of 230,000 and 161,000-volt transmission lines in Arizona for delivery of power from Hoover, Davis and Parker Dams on the Colorado River as shown on the attached map entitled "High Voltage Transmission Lines and Principal Generating Stations Supplying Salt River Project". All power which USBR has available from Parker-Davis Dams is under contract, and no expansion of this service can be expected. The District's contract for Parker-Davis power of December 18, 1962, provides

for purchase over a 10-year period of 30,000 kw of non-withdrawable 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 (see "Power Agreements"). The monthly rate under this contract is \$1.275 per kw of billing demand charge and 3.0 mills per kwh energy charge. The District renewed the Parker-Davis contract in January 1973, to continue to 1976 on the same basic terms and conditions.

Power Purchased from Colorado River Storage Project of USBR

The Colorado River Storage Project (the "CRSP") consists of five dams now in service and a sixth to be completed by 1976. The power developed from these dams is largely for the benefit of the Upper Colorado River Basin. However, Arizona, a small part of eastern California and three counties of Nevada are permanently allocated 20% of the summer and 7% of the winter power by USBR. The Arizona share has been temporarily expanded by power not usable in the Upper Basin states, to be withdrawn later as demand there increases.

Table 11 shows capacity of the six dams, while Table 12 shows scheduled deliveries to the District.

Table 11
CAPACITY OF
COLORADO RIVER STORAGE PROJECT OF USBR

<u>Hydroelectric Plant</u>	<u>Capacity (kw)</u>
Glen Canyon	900,000
Flaming Gorge	108,000
Fontenelle	10,000
Curecanti Project:	
Blue Mesa	60,000
Morrow Point	120,000
Crystal (Scheduled for 1976)	28,000
Total	1,226,000

Table 12
SCHEDULED DELIVERIES TO THE DISTRICT OF
COLORADO RIVER STORAGE PROJECT POWER (kw)

<u>Year</u>	<u>For Other Districts (summer) (1)</u>	<u>For the District</u>	
		<u>Summer</u>	<u>Winter</u>
1974.....	49,000	200,000	50,000
1975.....	49,000	112,000	30,000
1976.....	14,000	112,000	30,000
1977.....	14,000	112,000	30,000
1978.....	14,000	112,000	30,000
1979.....	14,000	112,000	30,000

(1) Allocated to districts included in the District's service area for irrigation purposes; this power is taken into the District Electric System and distributed to other districts for a "wheeling" charge.

The permanent allotment to the District will be 112,000 kw in summer and 30,000 kw in winter. The contract with USBR is effective to September 30, 1984. Monthly rates charged are \$1.35 per kw of contract demand and 3.0 mills per kwh of energy (see "Power Agreements").

An extensive transmission system has been constructed by the USBR which serves to interconnect the USBR plants in Colorado with the Hayden plant of Colorado-Ute, thence south to the Four Corners area and west to Glen Canyon. The latter is in turn tied to the Phoenix area at Pinnacle Peak substation with two 345,000-volt lines, and the USBR interconnection extends west from Phoenix to the Hoover-Parker-Davis complex. These interconnections make possible the transfer of Hayden power and Four Corners power to the District by displacement and also the CRSP power delivery to the District.

POWER RESOURCES—FUTURE

Summary

The District is developing several power sources for future use. Due to the low cost and relative abundance of coal, most of the estimated future generating capacity will come from coal-fired plants. Due to the estimated lower cost of power from these coal-fired plants, certain present gas and oil-fired plants may eventually be utilized mostly for peaking power during heavy energy demands. This change in fuel source can be illustrated by the fact that in 1973 approximately 40% of production was from gas and oil-fired plants, but by 1979 only 11% 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 1975 (see "Fuel Supply").

Power from the Navajo Project

The "Navajo Project" 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 generating station now under construction is located on the Navajo Indian Reservation near Page in northern Arizona. The station will have three 750,000 kw turbine-generators and coal-fired supercritical reheat boilers. Water for the cooling towers and plant use will be provided from a pumping station located adjacent to Lake Powell. The first unit was "rolled" January 21, 1974 and achieved maximum output of 793,000 kw on March 9, 1974. It is presently in the testing stage and is scheduled for commercial operation in May 1974, with the other two units scheduled for May 1975 and May 1976, respectively. When completed, the net power output of the station is expected to be over 2,250 megawatts.

Agreements have been signed by utilities to participate in the Navajo Project. Table 13 gives participation in the generating station, based on contributions of capital and equivalent entitlement to power and energy.

Table 13
NAVAJO PROJECT—POWER PARTICIPATION

<u>Participant</u>	<u>Percent Participation</u>
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 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 for the CAP pumping, 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 5 years advance notice on amounts to be withdrawn for the pumping requirements of the CAP.

The estimated cost of the generating station is \$612,000,000, the District's share of which would be \$132,804,000. Construction on the entire generating station is about 62% complete.

The generating station will be fueled with coal, averaging 10,700 Btu per pound, which will be surface mined and delivered from the Peabody Coal Company's Black Mesa coal leases. Sufficient coal has been dedicated and reserved to operate the Navajo Station for 35 years at 90% load factor. Cost of the coal at the railhead will range from \$2.90 to \$3.00 per ton based on January 1, 1973, costs. The contract contains provisions for price escalation based on increases and decreases in mining expenses (see "Fuel Supply"). Negotia-

tions are under way, at Peabody's request, to examine ways of amending the coal supply contract to alleviate the effects of certain unanticipated costs.

The coal is transported to the plant site 80 miles away by a railroad that has been completed at a cost of \$54,000,000, the District's share of which is \$11,718,000. It will be operated by the participants. The estimated transportation costs are \$1.33 per ton. The delivered cost at the generating station is about \$0.21 per million Btu based on 1972 costs.

The most effective air quality control devices and dust and noise suppression equipment are planned to be 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 \$666,000,000 over \$200,000,000 will be 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 the Westwing switchyard near Phoenix and a third 500-kv transmission line under construction to the McCullough switchyard located in Southern Nevada near Hoover Dam, about 59 miles north of the Mohave generating station. APS is the Project Manager and Operating Agent for the 249-mile long transmission lines and facilities (southern transmission system) delivering power to the Phoenix area. The Los Angeles Department of Water and Power is Project Manager and Nevada Power Company the Operating Agent for the 250-mile transmission line (western transmission system) to the McCullough switchyard. 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 ownership interests in the Navajo transmission system are based on the transmission line capacity required by each participant. The District will own the capacity required for delivery of CAP power to the Westwing (Phoenix) and McCullough switchyards for the use and benefit of the United States. The USBR, however, will furnish the necessary capital for this construction and will pay the operating and maintenance expenses.

The estimated cost of the southern transmission system is \$94,079,000. Construction of these lines, except for switchyard facilities required for the second and third generating units, is complete. The District owns a portion of the system for its own use and benefit at an estimated cost of about \$30,083,000. The District holds title to a portion of the system for the use and benefit of the USBR at no cost to the District.

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.

The principles incorporated in agreements relating to the construction and operation of the Navajo Project are substantially similar to agreements reached in the construction and operation of the Four Corners and Mohave Projects (see "Power Agreements").

Power from Hayden No. 2

The District and Colorado-Ute are planning the addition of a second 250,000 kw coal-fired generating unit for operation in 1976 at Hayden, Colorado, of which the District will initially own 80% of the unit and be entitled to 80% of the output or about 200,000 kw until January 1, 1982. 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 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 the Hayden No. 1, and will share some 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 \$88,434,000. The District's share of the Hayden Project excluding interest during construction is \$71,783,000 comprised of \$68,705,000 for Hayden No. 2 and \$3,078,000 for the improvement to Hayden No. 1. Definitive agreements have been reached (see "Power Agreements").

Hayden No. 2 is to be a coal-fired steam generating plant. It is anticipated to be operational in the Spring of 1976. The fuel is to be low-sulphur coal with an estimated 1976 price of \$4.03 per ton and averaging about 10,800 Btu per pound. Sufficient 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 same "transmission by displacement" discussed under Hayden No. 1 will apply to Hayden No. 2.

Power from Arizona Station

In order to provide additional capacity, the District now plans on building a new wholly owned generating station to be located within the State of Arizona. The site for the coal-fired plant, the source of coal, and location of transmission lines are still to be decided upon. 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 May 1978 and 1979. The estimated cost of the three units is \$496,000,000 of which \$355,524,000 is estimated to be spent in the present Improvement Program. The balance of the total cost is estimated to be financed after 1979. The long-range planning includes approximately \$60,000,000 for transmission lines to provide for the ultimate 1,050,000 kw capacity of the station.

Environmental hearings on site selections are expected to take place in mid-1974. Two sites are under investigation.

Power from the Combined Cycle Plant

Three 73,000 kw combined cycle units are being erected at the Santan site near Gilbert, Arizona. These units utilize a combination of a combustion turbine generator exhausting its high temperature discharge into a boiler which in turn supplies steam to a steam-turbine generator. The combination is more efficient than either combustion type alone. The combination design also permits ordering and installation in a short period of time.

Location of the plant at the site of the existing substation will permit utilization of the existing transmission system without appreciable changes. The plant is scheduled to be completely operational in time for the 1974 summer loads.

A fourth unit is scheduled for operation in 1975.

The estimated installed cost of the four units is \$57,818,000. All major equipment is presently under contract.

Power from Combustion Turbines

Six dual-fuel combustion turbines have been purchased with four units totaling 238,800 kw already installed at the Kyrene plant and two 64,000 kw units scheduled for operation at the Agua Fria plant in 1974. Plans now call for an additional 61,000 kw unit in 1975.

The existing transmission facilities are expected to be utilized without appreciable changes.

Power from the 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. Present participants are Southern California Edison Company, San Diego Gas & Electric Company, APS and the District. The planned in-service date of the first unit is 1980, with a unit to follow each year. The District has agreed to be a 10% participant in the Kaiparowits Project and has entered into the Kaiparowits Project Participation Agreement.

On June 12, 1973, Interior Secretary Rogers Morton announced he would reject right-of-way permits for the proposed Kaiparowits Project in southern Utah for environmental reasons. The Kaiparowits Project participants and representatives of the Secretary of Interior have had a number of discussions related to relocation of the plant site and reconsideration of the Secretary's decision. Both groups are studying these possibilities and discussions are continuing. On December 18, 1973, the Secretary announced he would consider amended applications for a new site 15 to 16 miles north of the original which will overcome the objections causing rejection of past applications. Expansion of Arizona Station will be one of the alternatives considered if a replacement of Kaiparowits Project becomes necessary.

Power from Craig Station

The District and others have selected a site in the Yampa Valley area near Craig, Colorado for construction of two 350,000 kw coal-fired generating units to be operational in 1978 and 1979 (formerly referred to as the "Yampa Project"). Agreements for the Craig Station are complete and near execution, present plans call for the District to have a 110,000 kw share (29%) in each unit. The preliminary estimated cost of the plant is \$297,000,000 of which the District's share would be approximately \$86,000,000 excluding interest during construction.

The Craig Station will use low-sulphur surface mined coal from a mine adjacent to the Craig plant site. Contracts for the fuel supply have been made. The fuel cost is currently estimated at \$3.98 per ton at 1978 prices. (See "Fuel Supply".)

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

Power from 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 to be in service in time to meet peak demands in 1981, 1983, and 1984. Site selection for this plant was announced on October 30, 1973, as 50 miles west of Phoenix near Wintersburg. 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. (15.4%), El Paso Electric Co. (15.8%) and Public Service of New Mexico (10.2%) and AEPCO (2.4%).

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

FUEL SUPPLY

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 No. 1 and No. 2 and Mohave Project), is obtained from Peabody Coal Company and Utah International, Inc. under long-term contracts and, with 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.

In recent sessions of Congress a number of bills with widely differing provisions have been introduced relating to the regulation of surface mining and, in particular, to reclamation requirements. One such bill was recently passed by the Senate. The District cannot predict the likelihood of this bill, with or without amendments, or any other such bill presently under consideration or yet to be proposed, becoming law. However, should any such legislation be adopted the District believes that a consequence could be an increase in the cost of coal to the District, as well as to other power suppliers. An additional consequence might be some reduction in the supply of coal available to purchasers, including the District, the extent and duration of which cannot be predicted. The District cannot, however, predict the overall impact of any such legislation, or its consequences, upon the District's costs and operations.

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.

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 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 interim 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 expects the final decision to be similar to the interim decision.

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.

At this time the District has been able to contract for approximately eighty percent of its fuel oil requirements for generation in 1974. However, the recently imposed federal mandatory allocation program for petroleum product fuel pursuant to the enactment of the Emergency Petroleum Allocation Act of 1973 and the promulgation of allocation regulations, along with recent cutbacks in supply of foreign crude oil supplies, has placed into question the ability of the District's oil suppliers to meet contract commitments. Under the allocation regulations the Federal Office of Oil and Gas in Washington allocates residual oil to electric utilities. The allocations are based on data filed with the FPC by all utilities. Allocations are based on available residual supplies, utility requirements and non-utility requirements and an applied electric energy conservation factor. Fuel in excess of the allocation may be purchased if available on the market.

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 an increase in its allocation.

Based on current inventory and assuming no increase in the 1972 base year allocations and inability to purchase distillate in amounts greater than 1972 base, the District could incur a deficiency of 1,357,563 barrels of distillate during the remainder of 1974. However, the District's experience to date has shown that distillate fuel in amounts greater than the 1972 base allocation is available on the market. Moreover, if the regional office of the Federal Office of Oil and Gas follows the clear mandate and intention of the Emergency Petroleum Act of 1973 and the regulations, it will increase the District's allocation of distillate fuel by amounts sufficient to replace natural gas interrupted by El Paso Natural Gas Company pursuant to order of the FPC. Such an increase would cover the above stated deficiency.

The District has a fuel oil storage capacity of 1,384,048 barrels. As of March 28, 1974 there were 1,128,634 barrels of distillate and 167,037 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 208 cars in service. Additional cars are on order and are being manufactured and delivered. Scheduled delivery of a total requirement of 250 cars is to be completed by August 1974.

The table below gives estimated percentages of electric energy resources to illustrate the estimated relative significance of various fuels to the District's sources of electric energy including purchased energy during each of the years 1973 through 1979:

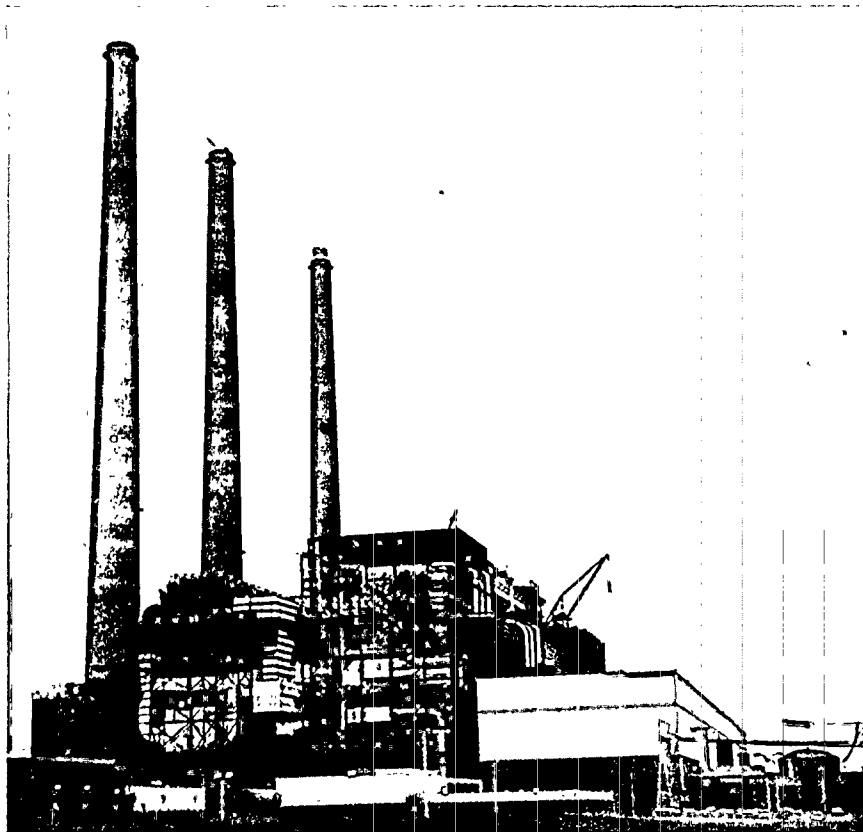
Table 14
FUEL SOURCES
Actual 1973; Estimated 1974-1979

<u>Year</u>	<u>Hydro</u>	<u>Gas</u>	<u>Oil</u>	<u>Coal</u>	<u>Misc. Purchases</u>
1973	23%	18%	22%	28%	9%
1974	13	14	36	32	5
1975	9	7	36	47	1
1976	9	0	32	58	1
1977	8	0	28	62	2
1978	7	0	18	74	1
1979	7	0	11	82	0

ESTIMATED LOADS AND RESOURCES—1974 THROUGH 1979

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 requirement, are adequate for the foreseeable future. (See Appendix A—Summary Report of Ford, Bacon & Davis Incorporated.)

Table 15 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.



The Navajo Generating Station, being built near Page, Arizona, will be the state's largest generating station. Construction by the District and five other participants began in 1970. Unit No. 1 is going through start-up and is scheduled to be in commercial operation in May. Units 2 and 3 are scheduled for operation in May 1976 and 1977, respectively. The District, which is constructor-operator, will receive 448,000 kilowatts of the station's 2.25 million kilowatt capacity.

Water can be recycled to produce electricity at Mormon Flat Dam, site of the Southwest's first pumped-storage generating system. Water used to spin the 47,000 kilowatt generators can be pumped back for re-use. There is also a conventional 10,000 kilowatt generator at the dam. A similar system is used at Horse Mesa Dam, where there is a 97,000 kilowatt pumped-storage unit and three conventional 10,000 kilowatt generators.



Table 15

LOADS AND RESOURCES

(1,000 kw)

Actual 1973, Estimated 1974-1979

	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
Loads							
The District	1,433	1,700	1,885	2,049	2,209	2,423	2,583
Remote Losses	15	24	34	44	44	62	80
Sales to Other Utilities:							
City of Mesa	26	31	35	52	59	66	74
Territorial Equivalent ..	143	174	181	199	217	236	251
Contingent Power	62	62	62	62	62	62	62
Total Loads	<u>1,679</u>	<u>1,991</u>	<u>2,197</u>	<u>2,406</u>	<u>2,591</u>	<u>2,849</u>	<u>3,050</u>
Resources							
Hydro	239	241	241	241	241	241	241
Thermal							
Steam Turbines	538	538	538	538	538	538	538
Combined Cycle Units ..	—	219	285	285	285	285	285
Combustion Turbines ..	224	367	428	428	428	428	428
Hayden No. 1	54	50	50	—	—	—	—
Four Corners	158	160	160	160	157	157	157
Mohave	152	158	158	158	149	149	149
Navajo	—	163	326	489	489	489	489
Hayden No. 2	—	—	—	200	200	200	200
Craig Station	—	—	—	—	—	110	220
Arizona Station	—	—	—	—	—	350	700
Purchased							
Arizona Power Authority ...	56	56	56	56	56	56	56
USBR—Navajo	—	85	163	107	107	107	107
USBR—Parker-Davis	42	30	30	30	30	30	30
USBR—CRSP (Summer) ..	380	249	151	126	126	126	126
Other Purchased	37	30	—	—	162	—	—
Total Resources ...	<u>1,880</u>	<u>2,346</u>	<u>2,586</u>	<u>2,818</u>	<u>2,968</u>	<u>3,266</u>	<u>3,726</u>
Resources in Excess of Load	201	355	389	412	377	417	676
Reserve Requirements	200	261	302	336	363	402	433
Surplus	1	94	87	76	14	15	243

POWER AGREEMENTS

The following are brief summaries of the principal agreements of the District related to the Electric System.

Agreement of August 31, 1955 with APS

To resolve differences of opinion between APS and the District concerning their respective service areas, APS and the District entered into the Agreement of August 31, 1955 defining the service areas of each. This Agreement has been 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. The Construction Agreements designate 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 10, above.

Power Purchase Agreement with APA

When the Hoover Dam was completed on the Colorado River in 1934, a share of the power developed there was allocated to Arizona. Installation in 1952 of two Arizona generators in the Hoover plant made available to APA a maximum capacity of 165,000 kw. This was resold by APA to various Arizona utilities including the District.

On January 1, 1971, the 1951 contract was replaced by a new contract in which the District has a firm entitlement to slightly over 24% of APA's portion of Hoover Dam energy. Customers for this energy also pay their percentage share of the cost of the energy, which APA purchases from USBR and the transmission charges. 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 37,000 kw plus 19,200 kw received for transmission to several smaller irrigation and electrical districts. Charges for the current fiscal year are expected to average 5.45 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, provides for a purchase over a 10-year period of 30,000 kw of non-withdrawable 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. Previously the District had a contract with the Colorado River Commission (the "CRC") which entitled the District to the use of 12,000 kw of Parker-Davis power, in exchange for energy to be transmitted to the CRC. This contract was terminated by CRC on February 1, 1974. Thus, the District's share of Parker-Davis summer power is reduced from 42,000 kw, as reported in previous Official Statements, to 30,000 kw. The power is also delivered to the District in the Phoenix area over the USBR Parker-Davis transmission system. The District renewed this contract through 1976, with substantially the same terms.

Colorado-Ute Electric Association (Hayden No. 1 and No. 2) Participation Agreement

Under a 40-year contract of February, 1962, the District is entitled to 50,000 kw of coal-fired electric generation from Hayden No. 1 of Colorado-Ute Electric Association on a firm basis plus a similar block of power which is subject to withdrawal by Colorado-Ute for its own use at the rate of approximately 5,000 kw per year. In 1973 a total of 54,000 kw was available. The Colorado-Ute District contract required the District to prepay the capital costs of the 50,000 kw block with the energy being received at cost. The 50,000 kw withdrawal block is charged at a negotiated rate with energy at cost. Colorado-Ute has the right to recapture the 50,000 kw firm block on four years' notice upon payment of original cost less depreciation at the rate of 2.52% a year and has served notice of recapture effective January 1, 1976.

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. 1 and No. 2 have been made.

USBR-District Interconnection and Transmission Service Contract of June 26, 1962

The District has entered into a 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 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 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 2007 with extensions possible to 2046.

USBR-District CRSP 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 \$1.35 per kw/month and 3 mills per kwh. The District's permanent allotment is 112,000 kw in the summer and 30,000 kw in the winter. Larger amounts are available until withdrawal is completed in 1976.

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 will use its power entitlement to pump water for the CAP. The United States will pay all capital costs and operating and maintenance expense associated with its entitlement.

Yampa Project Participation Agreement

The District, Colorado-Ute Electric Association, Inc., Platte River Power Authority, and Tri-State Generation and Transmission Association, Inc., are negotiating the Yampa Project Participation Agreement which provides for ownership, construction, operation and maintenance of the Yampa Project. This agreement follows the general pattern described for the other jointly-owned projects in which the District participates.

Two 350,000 kw coal-fired units—designated as the Craig Station—will be located near Craig, Colorado, with the first unit scheduled for operation in early 1978 and the second unit in early 1979. Colorado-Ute Electric Association, Inc., one of the participants, will be both Project Manager and Operating Agent for the Yampa Project.

An all-requirements coal supply contract for the life of the project has been secured by the participants with Utah International, Inc. 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.

Arizona Nuclear Power Project Participation Agreement

The District, APS, Tucson Gas and Electric Company, 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 for the other jointly owned projects in which the District participates.

The initial generating station designated the Palo Verde Nuclear Station, consisting of three nuclear steam supply systems operating three steam turbine generators, each with an approximate capacity of 1,270 mw, will be located approximately 50 miles southwest of Phoenix. The first unit is presently scheduled for operation in May 1981; the second in November 1982; and the third in May 1984. Consideration is being given to accelerating the commercial operating dates for these units.

The plant site has been acquired and a contract signed with several cities for purchase of waste water effluent which will be used for plant operation. APS will be the Project Manager responsible for constructing the generating station. Application to the Atomic Energy Commission for construction permits will be made in 1974.

THE IMPROVEMENT PROGRAM—1974 THROUGH 1979

General Description

In order to improve its long-range forecasting process, the District implemented a new 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 re-programmed and revised and its data base up-dated 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.

District estimates of load growth and the resulting capital 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 realistic.

The present Improvement Program is a continuation and updating of the 6-year program for 1974-1979, as reported in the District's Official Statement of January 9, 1974, prepared in connection with \$90,000,000 1974 Series A Bonds. Since then the 1974 portion of the program has been adjusted for current changes in the various categories and by the addition of unexpended funds from 1973. These changes along with the elimination of a 61 mw combustion turbine have increased the 1974-1979 program costs by \$1,340,000.

Summary of Estimated Capital Expenditures for the Improvement Program

The Improvement Program, totaling \$1,373,407,000, includes \$1,049,204,000 for new thermal generating facilities, \$142,138,000 for transmission systems, \$137,421,000 for distribution facilities and \$44,644,000 for other expenditures. It is anticipated that a substantial portion of funds for the Improvement Program will be provided by additional Revenue Bonds.

Table 16 summarizes estimated capital expenditures for the Improvement Program. Expenditures for 1974-1979 are based on detailed estimates which include interest during construction.

Table 16

ESTIMATED CAPITAL EXPENDITURES FOR THE IMPROVEMENT PROGRAM

(000's omitted)

	1974	1975	1976	1977	1978	1979	Total 1974-1979
Four Corners(1)	\$ 2,048	\$ 1,198	\$ 12,462	\$ 2,388	—	—	\$ 18,096
Navajo Project	30,846	20,563	11,679	1,463	—	—	64,551
Railroad	600	403	140	—	—	—	1,143
Hayden Project	33,436	20,478	7,424	7,177	\$ 77	—	68,592
Craig Station	2,207	3,774	24,003	36,586	21,454	\$ 8,027	96,051
Arizona Station	5,449	18,316	90,926	132,821	76,568	33,569	357,649
Kaiparowits(2)	326	1,943	4,138	8,945	31,119	40,245	86,716
Combustion Turbines	11,418	2,157	—	—	—	—	13,575
Santan Combined Cycle Units	23,699	2,497	—	—	—	—	26,196
Palo Verde Nuclear Station	3,673	\$ 5,561	22,166	61,659	94,592	106,499	294,150
Nuclear Fuel	1,113	1,166	1,231	545	204	4,463	8,722
Future Nuclear Projects	12	12	696	567	4,163	8,313	13,763
Subtotal Thermal Plants	\$114,827	\$ 78,068	\$174,865	\$252,151	\$228,177	\$201,116	\$1,049,204
Major Transmission(3)	10,471	10,258	18,719	51,406	16,949	22,663	130,466
Hydro Conversion and Pumped Storage	—	—	—	—	96	524	620
Other Electric Construction:							
Generation	3,540	336	384	504	528	756	6,048
Transmission	3,004	1,546	1,634	1,728	1,827	1,933	11,672
Distribution	21,073	21,830	20,880	22,214	26,094	25,330	137,421
Project General	11,763	3,691	4,177	4,160	5,435	6,664	35,890
Research and Development	1,632	454	—	—	—	—	2,086
Construction Program Total	\$166,310	\$116,183	\$220,659	\$332,163	\$279,106	\$258,986	\$1,373,407
Less:							
Interest during Construction	10,084	9,910	10,996	21,011	25,903	26,107	104,011
Total (without interest during Construction)	\$156,226	\$106,273	\$209,663	\$311,152	\$253,203	\$232,879	\$1,269,396

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

(2) On June 12, 1973, Interior Secretary Rogers Morton announced he would reject right-of-way permits for the proposed Kaiparowits Project in southern Utah for environmental reasons. The participants have appealed the decision. A number of discussions related to relocation of the plant site have been held with representatives of the Secretary of Interior. Consideration of this possibility is continuing. On December 18, 1973 the Secretary announced he would consider amended applications for a new site 15 to 16 miles north of the original which will overcome the objections causing rejection of past applications. Expansion of Arizona Station is one alternative if replacement of Kaiparowits Project becomes necessary.

(3) Includes District funds for 500-kv transmission systems associated with new power plants as well as all lines over 69 kv.

Generation Additions

The Improvement Program includes thermal generating plants planned, being constructed, or being modified at Four Corners, Navajo, Hayden, Craig Station, Arizona Station, Kaiparowits and Palo Verde Nuclear Station units; and combustion turbine peaking units and combined cycle units. Installation of 189,000 kw in combustion turbine capacity, 285,000 kw in combined cycle capacity, completion of Hayden No. 2, operation of two units at Craig Station, two units at Arizona Station and operation of three units at Navajo will add 2,190,000 kw to the Electric System's capacity through 1979. The estimated expenditures

for the additional generating capacity in 1974 through 1979 is \$1,055,252,000, or 76.9% of the total Improvement Program.

For a more complete description of production 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 advantageous in meeting future demands.

As shown on the map entitled "High Voltage Transmission Lines and Principal Generating Stations Supplying the District", new lines have been constructed for delivery of power to be generated at Navajo. To deliver the District's and other participants' power, 500,000-volt lines are completed between Navajo and the proposed Westwing transmission substation near Phoenix. The District's share of the investment required for completion of transmission of Navajo power is approximately \$22,442,000.

Approximately \$60,000,000 has been allocated for construction of two new 500-kv transmission lines for delivery of power from the undetermined site of the Arizona Station to the Phoenix area. This amount is predicated on a plant site about 250 miles from Phoenix.

As of December 31, 1973, the District had 16 transmission substations, (receiving or bulk-power stations) with a total capacity of about 4,951,000 kva. This capacity will be increased considerably in the near future by completion of the Westwing substation northwest of Phoenix, a part of the current program. It will be of major size and will become a key distribution point for Navajo power.

The estimated cost of the total 1974-1979 transmission portion of the Improvement Program is \$142,138,000, or 10.3% of the total projected electrical construction costs.

Distribution Additions

Costs for distribution system additions and improvements for the Improvement Program are estimated at \$137,421,000 or 10%. Approximately nine 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—"Electric System—Distribution"). Projected costs include \$55,159,000 for underground lines compared to \$21,021,000 for overhead lines.

General Plant

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 Improvement Program includes extensive renovation and addition to the administration headquarters located in Tempe, Arizona. Construction is nearing completion on the new \$4.9 million addition to the headquarters building. Completion is scheduled for mid-1974. This is the second such addition since completion of the original building in 1957.

The estimated costs of all general plant facilities and other expenditures in the Improvement Program is \$35,890,000 or 2.6% of total costs.

DISPOSITION OF 1974 SERIES B BOND PROCEEDS

The \$50,000,000 1974 Series B Bonds are to be issued to cover the following:

Estimated Amount available for Cost of Construction	\$47,576,321
Estimated Deposit in Debt Reserve Account	1,814,154
Estimated Costs of Financing	120,000
Bond Discount	489,525
Principal Amount of 1974 Series B Bonds	<u>\$50,000,000</u>

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 no water will be returned to Lake Powell or the Colorado River.)
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 1973 approximately 3,300 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 over-all neighborhood appearance. In rural areas, routes are chosen to use terrain features to reduce visibility of the lines.

All new electrical substations 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.

Air Quality Control

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

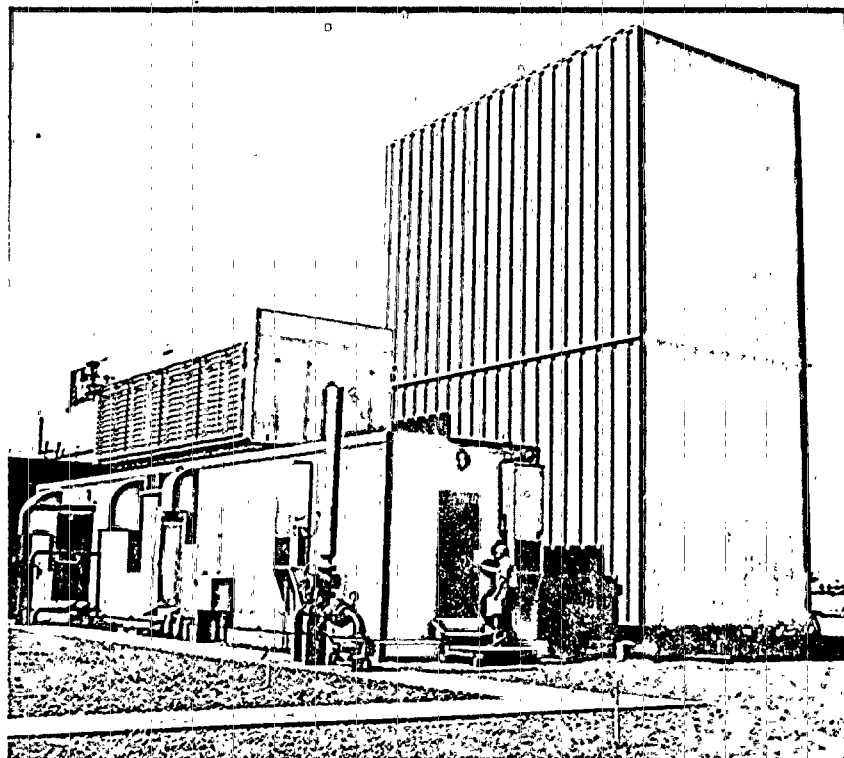
The Clean Air Act of 1970 requires the Federal Environmental Protection Agency ("EPA") to establish national air quality standards and authorizes each of the states to adopt air contaminant limitations which will permit the attainment and maintenance of the standards established by the EPA, failing which the EPA itself is to establish such limitations. The States of Arizona, New Mexico, Nevada and Colorado have adopted limitations on emissions of particulates by fuel burning equipment which have been approved by the EPA. EPA has refused to approve the implementation plans of Arizona and New Mexico related to emissions of oxides of sulphur and has promulgated proposed standards which may preclude further industrial development in the Four Corners Interstate Regional Air Shed. 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 August 1973, as a result of a request by the utilities involved, the Environmental Protection Agency 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 of compliance with the standards imposed will be July 31, 1977 rather than March 15, 1976. The Ninth Circuit Court of Appeals has stayed the various pending cases until March 21, 1974 and in the Tenth Circuit Court of Appeals a motion to stay the cases until April 1, 1974, is pending. In both circuits petitions filed by various environmental groups have been consolidated with the petitions for review filed by the affected utilities.

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 United States on behalf of EPA has filed a petition requesting review of this decision by the Supreme Court of the United States. The Supreme Court on June 11, 1973, by a four-to-four vote affirmed, without a written opinion, the decision of the lower Court. To date there has been no definition of "significant deterioration" by EPA.

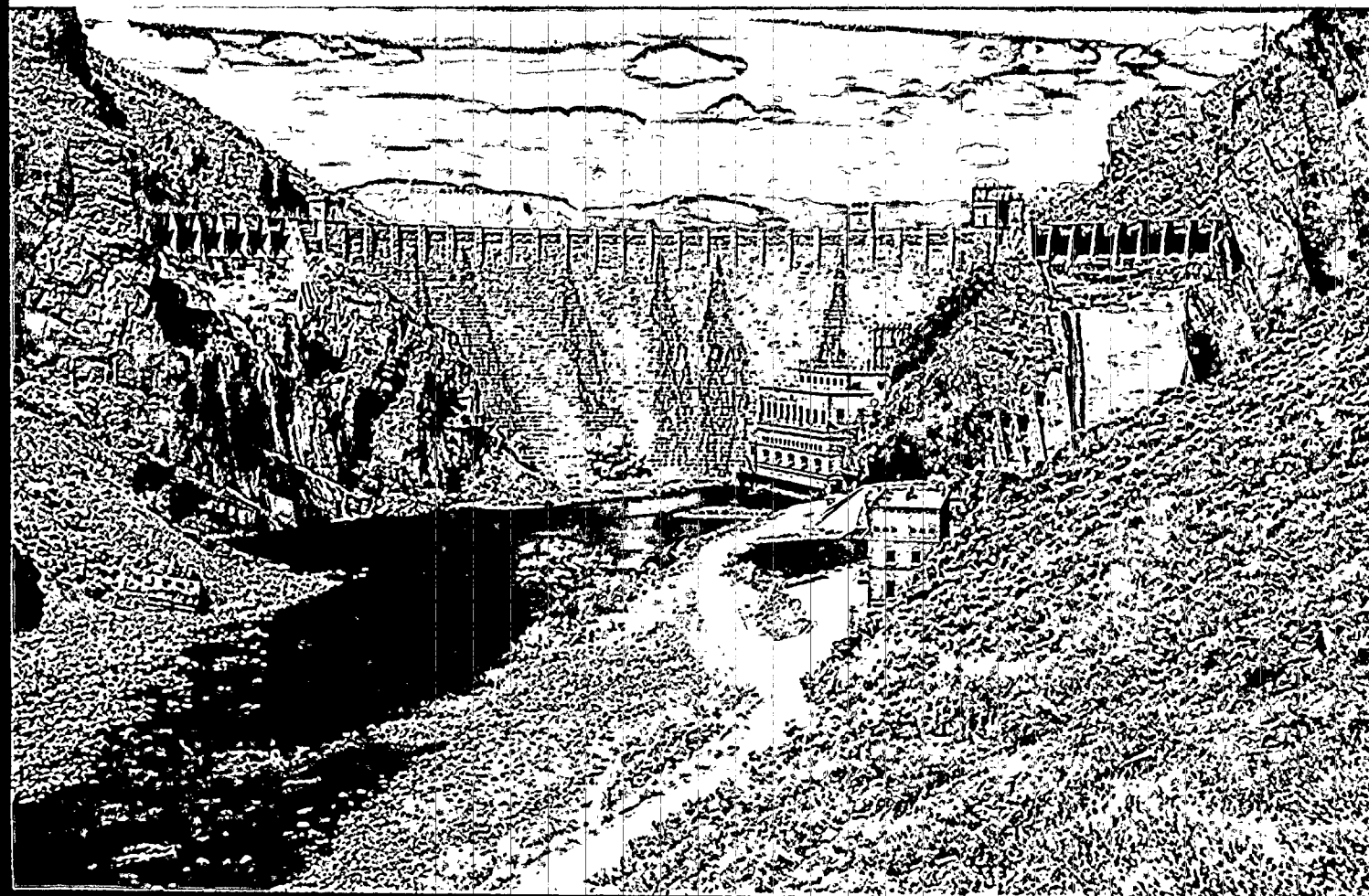
On July 16, 1973, EPA published proposed revised regulations reflecting four alternate regulatory programs for preventing "significant deterioration". EPA has held hearings on the four schemes but has not published final regulations. It is impossible to predict with certainty the impact of the final regulation on new facilities at this time.

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.

Low-profile, 56,000 kilowatt combustion turbine generator is one of four at Kyrene Generating Station, south of Tempe, Arizona. The station also has two conventional steam turbines which have a combined generating capacity of 104,000 kilowatts.



Theodore Roosevelt Dam, completed in 1911, is the keystone of the Salt River Project's water storage and irrigation system. Its existing generating units were retired and replaced with a new 37,000 kilowatt generating unit as part of the District's hydroelectric generation expansion program in 1973. With the installation of pumped-storage units at Mormon Flat and Horse Mesa dams, and the Roosevelt Dam generation expansion, the capacity of the four Salt River dams is now approximately 239,000.kw.



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-dioxides and particulate matter in the air quality control region for Mohave. The denial has the effect of requiring SO₂ abatement equipment to be installed by July 15, 1975. Since 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 conducted at the Mohave Project, the District believes that such schedule cannot be met. Unless necessary extension or revisions of regulations are made by appropriate regulatory bodies, it will be necessary to challenge the reasonableness of the regulations in Court.

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 availability of these units has been less than expected. 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 and may in the future cause shutdown of the units or operation at reduced levels.

The District is a participant (21.7%) and the operating agent of the Navajo generating station consisting of three coal-fired generating units being built at Page, Arizona. The particulate equipment which has been ordered will meet the existing Arizona standards. Further, the participants in the Navajo Project have announced their intention to install SO₂ removal equipment on these units. Module plant SO₂ removal tests will be run at the Mohave Project and the test results will be used to help select SO₂ removal equipment for the Navajo Project. A final environmental statement for Navajo Project facilities was filed with the Council on Environmental Quality ("CEQ") on February 6, 1972, thus preparing the way for future approval of additional required construction permits.

With regard to the Navajo Project, EPA initially proposed a 70% SO₂ removal to be effective July 31, 1977. On March 23, EPA promulgated a final regulation requiring 70% SO₂ removal to be effective by March 15, 1976. The proposed 70% SO₂ removal is the subject of the test removal module program set forth below. As noted, EPA has reinstated July 31, 1977 as the final date for 70% SO₂ removal.

The Mohave Project participants and Navajo Project participants have jointly conducted pilot tests of various SO₂ removal systems. Two SO₂ removal modules of differing designs each sized for 160,000 kw capacity were scheduled to be placed in operation at the Mohave Project by the end of 1973. Unfortunately one of the two modules was partially destroyed by a fire in January 1974, and the start-up of this module has been rescheduled for September 1974. It is believed some six to twelve months experience with the module will provide the basis for selection, design, construction and placing in operation of SO₂ removal equipment at the Navajo Project by July 1, 1977.

The cost of the Navajo generating station and the electric railroad, which will transport coal from the Black Mesa mine to the station, provides a dramatic example of the impact of environmental costs on capital requirements. The total cost of the two facilities will be approximately \$666,000,000, of which over \$200,000,000 will be for environmental protection. The District's share of the \$200,000,000 plus will be at least \$43 million.

Environmental evaluation and analysis of the proposed Hayden No. 2 and Yampa Project sites on the western slope in Colorado have been under way for more than two years. The studies include ecology, meteorology, water resources and air quality. An environmental statement was filed with CEQ by REA for

Hayden No. 2 generating station on February 4, 1972. EPA has refused to accept a proposed amendment to the Colorado State implementation plan allowing until January 1, 1978 to install and operate SO₂ removal equipment. The effect of this action is to require SO₂ removal equipment to be installed by January 1, 1975, or in the case of Hayden Unit 2 by its mid Spring 1976 start up date. For reasons discussed above District believes such date to be unattainable. Representatives of District, Colorado Ute and EPA are currently discussing changes in the EPA regulation.

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 discontinued on a selected and rotating basis to meet such possible situation.

Environmental Litigation

A number of 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 allege 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 have been filed by intervenors. The defendants have filed Motions to Dismiss and Motions for Summary Judgment. The Arizona Federal District Court has 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 have filed a Notice of Appeal to the 9th Circuit Court of Appeals. The District's attorneys believe the ultimate decisions in this case should be favorable to the District.

Friends of the Earth, et al. v. Ellis Armstrong, et al.

In November, 1970, an action was filed in the U. S. District Court for the District of Columbia by certain environmental organizations and others against the Commissioner of Reclamation and the Secretary of Interior. The suit, which has been transferred to Utah, asks that the Court require the Secretary and Commissioner to limit the level of Lake Powell reservoir behind Glen Canyon Dam to 3,600 feet above mean sea level so that it will not encroach into the boundaries of Rainbow Bridge National Monument. The limitation would require Lake Powell to be operated 100 feet below the level for which Glen Canyon is constructed and would decrease the potential Lake Powell reservoir capacity by one-half. There would also be a reduction in electric generation at Glen Canyon Dam.

The District exchanges electric power and energy from thermal generating capacity installed at Hayden, Colorado, and Four Corners Project, New Mexico, with hydroelectric power and energy from Glen Canyon

pursuant to a Contract for Interconnections and Transmission Service, Contract No. 14-06-400-2468, with the United States Bureau of Reclamation. The existing exchange is about 230,000 kw. By 1976, the exchange is scheduled to reach 410,000 kw when Hayden No. 2 is completed.

The plaintiffs have filed Motions for Summary Judgment and the defendants' Motions to Dismiss which were argued before the court in January, 1972. The Federal District Court for the State of Utah issued a decision enjoining the Secretary and the Commissioner from allowing the level of Lake Powell Reservoir to rise above 3,600 feet. This decision was appealed to the 10th Circuit Court of Appeals which reversed the decision of the District Court and entered its judgment in favor of the Commissioner and the Secretary. The United States Supreme Court has denied plaintiffs' request to hear appeal of the 10th Circuit decision.

Chemehuevi Tribe of Indians, et al. v. Arizona Public Service Company, et al.

On September 10, 1971, a complaint was tendered for filing with the FPC by two Indian Tribes, two environmental organizations, and five individual Indians as complainants against ten Southwestern utilities as complaenees, including the District, who are participants in one or more of the Four Corners, Mohave, Navajo, San Juan, Huntington Canyon and Kaiparowits Projects. The complainants allege that the FPC has licensing jurisdiction over these projects under Part I of the Federal Power Act and ask the FPC to order the complaenees to show cause why they should not be required to apply for licenses and why they should not be required to suspend development, planning and construction of the projects pending the outcome of the FPC proceedings.

The FPC, acting on its own motion, has dismissed the complaint and has denied the complainants' Motion for Rehearing. The complainants' appeal to the Circuit Court of Appeals for the District of Columbia Circuit was heard on oral argument in September 1972. The utility complaenees moved the Circuit Court to be permitted to intervene in the appeal and the intervention was granted. On November 9, 1973, the Court of Appeals rendered a decision holding FPC has jurisdiction to license the utilization of United States surplus water by thermal electric generating plants. The Court noted (i) that it did not decide whether FPC has jurisdiction in this case over any plants because there was no record on which to make such a determination. The Court remanded the case to FPC for further proceedings. Should the complainants' position be upheld, then license to utilize United States surplus water could be required. The Court did not decide what constitutes use of United States surplus water. The owners of the plants involved will request that the United States Supreme Court review the decision of the Circuit Court of Appeals. The District is unable at this time to assess what delay, if any, would ensue in construction of the Navajo Project if it is determined that the Navajo Project is using United States surplus water and a license is required. The District is also unable to assess what effect, if any, a similar determination would have on operation of the Four Corners Project and the Mohave Project.

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

As a result of the March 23, 1973 promulgation by the Environmental Protection Agency of regulations which would have required 70% SO₂ removal at the Navajo and Four Corners plants by March 15, 1976, the District and some of the other affected utilities petitioned for review of that action in the Ninth and Tenth Circuit Court of Appeals. As noted, EPA has recently reinstated July 31, 1977 as the date for final compliance. The District is a 10% owner of Units 4 and 5 of the Four Corners plant. In the Ninth Circuit, the petitioners are APS and the District; in the Tenth Circuit, the petitioners are APS, El Paso Electric Company, the District and Southern California Edison Company. Various motions are pending in both circuits, but both have granted stays of any further action pending the final promulgation of modifications to the regulations previously promulgated by EPA. While the Ninth Circuit stay is effective only until March 21, 1974, and in the Tenth Circuit a motion to stay until April 1, 1974 is pending, it is not anticipated that either circuit would proceed to dispose of the cases until after the final promulgation by EPA, since, to some extent, such modified final promulgation will moot the present pending petitions. In the Tenth Circuit, the petition filed by the District and APS has been consolidated with two other cases, *Jicarilla Apache Tribe of Indians, et al. v. EPA*, and *Utah International, Inc., et al. v. EPA*. In the Ninth Circuit, *Arizona Public Service Company, et al. v. EPA* has been consolidated with *Committee to Save Black Mesa, Inc., et al. v. EPA, et al.*

SUMMARY OF EXISTING RATE SCHEDULES

The District has maintained rates for electric service which have been sufficient to provide for all operating costs and expenses, repairs, replacements, debt service requirements and for substantial capital additions to the Electric System.

Table 17 compares monthly bills for residential electric service, at energy consumption levels considered to be significant for the District, of selected electric utilities in the general geographic area of the District as of January 1974. 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 the southwest.

Table 17
SELECTED MAJOR ELECTRIC UTILITIES
Comparison of Monthly Electric Bills for Residential Services
As of January, 1974

<u>Utility</u>	<u>250 kwh</u>	<u>500 kwh</u>	<u>1,000 kwh</u>
The District:			
May-October	\$8.74	\$13.74	\$23.74
November-April	8.74	13.12	19.35
Arizona Public Service Co.: (1)			
May-October	8.68	14.35	25.15
November-April	8.68	13.78	20.80
Tucson Gas and Electric Co.: (1)			
April-October	8.76	14.35	24.75
November-March	8.76	14.35	23.51
Public Service Co. of New Mexico: (2)			
(Albuquerque) Overhead	7.85	13.10	20.80
Underground	9.65	14.90	22.60
Southern California Edison: (1)			
(Long Beach)	9.81	15.42	25.70
Dept. of Water & Power: (1)			
(Los Angeles)	8.26	13.36	22.81

(1) Rate schedules on file with the District.

(2) National Electric Rate Book.

Present rate schedules were placed into effect with the January 1974 billing cycle. Because of high summer temperatures, the District is a summer peaking utility. In order to maximize the return on the Electric System, the District has for many years made an effort to balance the summer-winter load relationships.

A fuel escalator is applied to the standard rates and most special contracts to compensate the District for the added fuel costs incurred above the cost of fuels in effect on October 1, 1962. In the immediate future, due to forecasted natural gas curtailments, a large amount of higher priced fuel oil is expected to be burned for generating purposes. The added impact of such costs will have a substantial effect on the fuel adjustments.

It is anticipated that use of relatively low cost coal in the new power plants will help limit the fuel oil requirements. Table 18 gives past and current cumulative fuel cost adjustments.

Table 18

FUEL COST ADJUSTMENTS

<u>Effective Date</u>	<u>Mills per kwh</u>	<u>Effective Date</u>	<u>Mills per kwh</u>
July 1, 1968	-0.16	June 1, 1972	0.78
April 1, 1969	-0.06	November 1, 1972	2.77
May 1, 1970	0.08	March 1, 1973	2.37
June 1, 1971	0.20	May 1, 1973	1.64
January 1, 1972	0.38	November 1, 1973	3.91

For many years, negotiated contracts have included price escalators for increases in costs of fuel or purchased power, and cost of labor. Since these are the major elements of operating expense, the contract rates continue to remain compensatory.

Rates in effect in 1973 yielded revenues for the various classes of customers as given in Table 19.

Table 19

**APPLICATION OF RATES
(1973)**

	<u>Revenue(1)</u>		<u>Sales</u>	
	<u>Amount</u> <u>(000)</u>	<u>Percent of</u> <u>Total</u>	<u>kwh Sold</u> <u>(000)</u>	<u>Percent of</u> <u>Total</u>
Residential	\$ 58,902	46.1	2,640,917	38.2
Commercial and Small Industrial	33,649	26.4	1,558,782	22.6
Large Industrial	7,487	5.9	644,858	9.3
Mines	7,810	6.1	691,260	10.0
Agricultural Pumps	2,294	1.8	218,567	3.2
Street Lights	1,171	.9	38,974	.5
Municipalities	2,578	2.0	201,268	2.9
Interdepartmental	896	.7	62,477	.9
Total, District Customers	\$114,787		6,057,103	
Electric Utilities	12,869	10.1	855,119	12.4
Total	\$127,656	100.0%	6,912,222	100%

The current rates for the more widely used schedules are listed in Table 20. Other schedules now in effect cover: Total Electric Services for Schools and Churches, Playground Lighting, Dusk-to-Dawn Lighting, Security Lighting, Traffic Signal Lighting, Street Lighting, Service for Wind Machines for Frost Control, Chilled Water Service and Residential and General Services in the Roosevelt Lake area.

Table 20

MONTHLY ELECTRIC RATES

As of January, 1974

Residential Service

<u>May—October</u>	<u>November—April</u>
\$1.70 minimum, including use of 30 kwh	\$1.70 minimum, including use of 30 kwh
3.20¢ per kwh for next 220 kwh	3.20¢ per kwh for next 220 kwh
2.00¢ per kwh for next 950 kwh	1.75¢ per kwh for next 350 kwh
1.65¢ per kwh all additional kwh	1.12¢ per kwh for next 400 kwh
	0.95¢ per kwh all additional kwh

Table 20—(Continued)
Commercial—Industrial Service

<u>May—October</u>	<u>November—April</u>
Service Charge:	Service Charge:
\$1.40 per kw first 220 kw over 10 kw	\$1.28 per kw first 220 kw over 10 kw
0.35 per kw next 220 kw	0.32 per kw next 220 kw
No Charge for additional kw	No Charge for additional kw
Energy Charge:	Energy Charge:
3.67¢ per kwh first 500 kwh	3.35¢ per kwh first 500 kwh
2.81¢ per kwh next 2,700 kwh	2.57¢ per kwh next 2,700 kwh
2.40¢ per kwh next 100 kwh	2.19¢ per kwh next 100 kwh
per kw of billing demand	per kw of billing demand
1.23¢ per kwh next 12,000 kwh	1.12¢ per kwh next 12,000 kwh
1.12¢ per kwh next 42,500 kwh	1.03¢ per kwh next 42,500 kwh
0.89¢ per kwh next 458,000 kwh	0.81¢ per kwh next 458,000 kwh
0.76¢ per kwh next 3,000,000 kwh	0.70¢ per kwh next 3,000,000 kwh
0.65¢ per kwh next 175 kwh per kw	0.60¢ per kwh next 175 kwh per kw
0.63¢ per kwh all additional	0.58¢ per kwh all additional

Agricultural Pumping Service

<u>April—September</u>	<u>October—March</u>
1.28¢ per kwh first 275 kwh	1.00¢ per kwh for all kwh
per kw of billing demand	
1.00¢ per kwh for all additional	Minimum: \$5.00 per month

CUSTOMERS, ENERGY SALES, REVENUES AND EXPENSES 1968-1973

Residential

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

Table 21 summarizes historical customer energy sales for the period 1968-1973.

Table 21
RESIDENTIAL CUSTOMERS, ENERGY SALES AND AVERAGE SALE PRICE
(1968-1973)

<u>Year</u>	<u>Average Residential Customers(1)</u>	<u>Total (1000 kwh)</u>	<u>Average Annual Customer Usage kwh</u>	<u>Average Sale Price (per kwh)</u>
1968	132,364	1,244,308	9,401	1.94
1969	141,142	1,508,159	10,685	1.93
1970	151,730	1,655,829	10,913	2.00
1971	163,955	1,911,778	11,660	1.95
1972	181,720	2,260,767	12,441(2)	2.14
1973	200,336	2,640,917	13,183	2.23

(1) Differs from year end figures.

(2) Comparable U. S. Average 7,691 kwh.

Commercial and Small Industrial

The second largest customer classification is the commercial and small industrial category. At year-end 1973 there were 15,414 customers in this category as compared with 14,047 in 1972 using 1.56 billion kwh up from 1.4 billion kwh in 1972. This group of customers used 22.6% of energy sold and contribute 26.4% of the revenue for 1973. 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 1973 large industrial and the mines together used 19.3% of the energy sold and yielded 12.0% of the revenue. The relatively low realization from industrial sales (about 1.14¢ per kwh) represents conventional 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. Large amounts of power are usually used on a 24-hour basis for five or more days per week, more fully utilizing the investment in facilities as compared to most of the smaller customers that operate on a one or two shift basis for five days per week.

Summary of Customers, Sales and Revenues 1968-1973

Table 22 gives customers, sales and revenue statistics from: 1968-1973.

Table 22
SUMMARY OF CUSTOMERS, SALES AND REVENUES
(1968-1973)

Year	Customers at Year End	Total Annual Sales (Million kwh)	Annual Revenue from Sales (000)	Average Revenue per kwh (cents)	Increase in Revenue (%)	District Only(1)		Annual Peak (1,000 kw)	
						Sales (Million kwh)	Increase Over Prior Year (%)	District Generated	Total Generated and Purchased
1968.....	149,320	3,426	53,759	1.569	7.9	3,272	7.7	762	824
1969.....	159,202	4,177	64,183	1.537	19.4	4,051	23.8	944	1,043
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

(1) Excludes sales to APS and excess sales to others.

Large Customers

Table 23 gives the 15 largest customers of the District in 1973.

Table 23
15 LARGEST DISTRICT CUSTOMERS
(1973)

Customers	Maximum Demand kw
Motorola, Inc.	49,554
Inspiration Mines	35,901
Kennecott Mine	29,952
Marathon Steel Co.	22,281
Western Electric Mfg. Co.	22,188
Magma Mines	14,376
Miami Mines	14,075
Capital Foundry	11,280
Roosevelt Irrigation District	7,545
Bluebird Mine	4,048
Swift & Co.	3,680
American Express Co.	2,784
Pinto Valley Mine	2,560
Revlon, Inc.	2,320
Air Reduction Pacific	1,520

Summary of Operating Expenses from 1968-1973

Table 24 summarizes Operating Expenses for 1968 through 1973.

Table 24
OPERATING EXPENSES: 1968-1973
(000's omitted)

Year	Power Operation(1)	Operation and Maintenance(2)	Sales and Ad Valorem Taxes(3)	Total Operating Expenses
1968	\$16,101	\$12,281	\$2,480	\$30,862
1969	20,199	11,808	2,952	34,959
1970	23,099	13,183	3,357	39,639
1971	30,617	14,902	3,857	49,376
1972	34,080	16,823	4,887	55,790
1973	49,221	20,242	6,205	75,668

(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 1968 through 1973: 1968—\$1,542,000, 1969—\$4,507,000, 1970—\$4,175,000, 1971—\$5,491,000, 1972—\$6,068,000 and 1973—\$6,207,000.

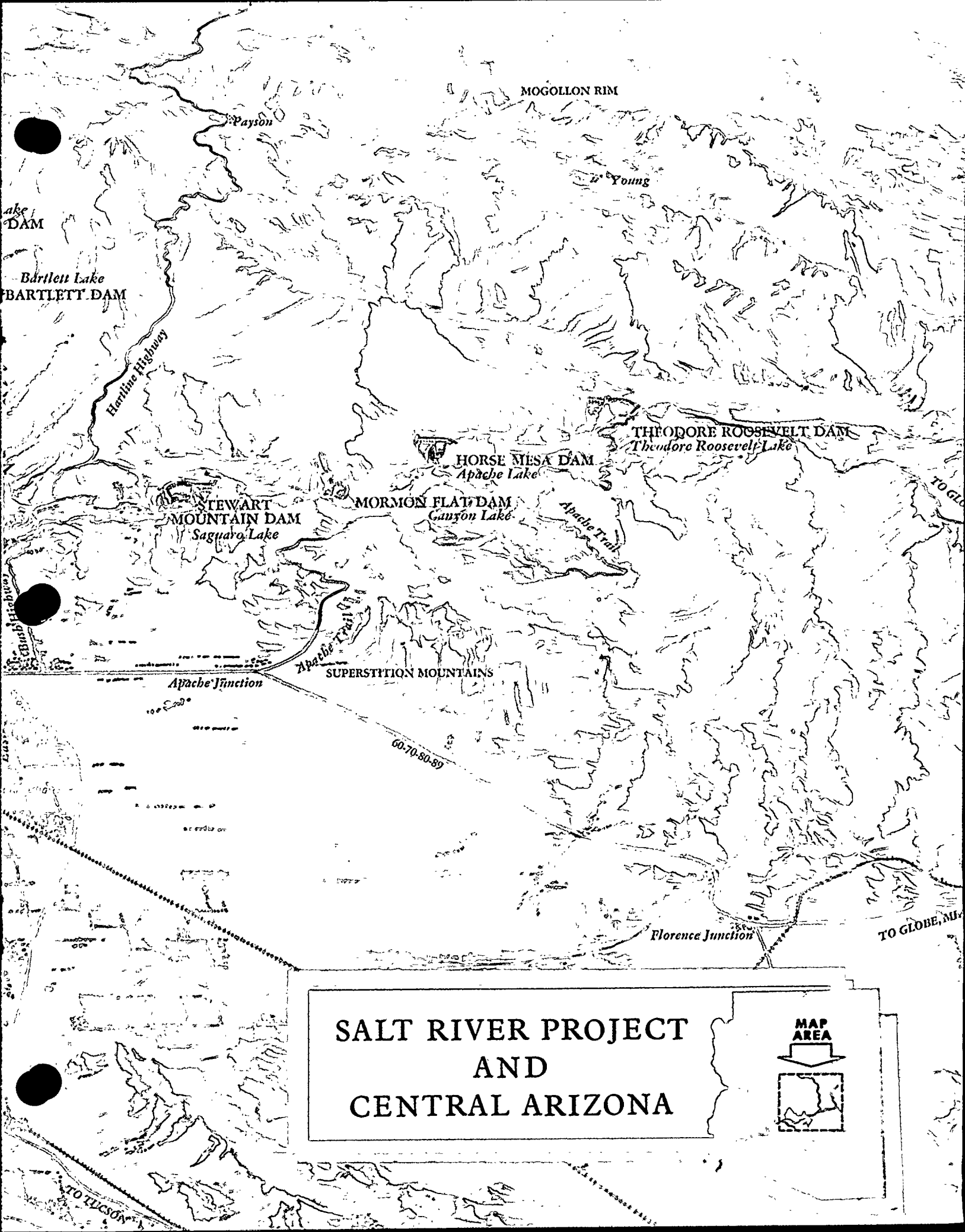
ESTIMATED CUSTOMERS, ENERGY SALES, REVENUES AND EXPENSES 1974-1979

General Considerations

As elsewhere mentioned, the District developed a computerized Corporate Model during 1971. With the present day complexities of siting and building electric power plants, projections for ten years or more are necessary for management to evaluate different expansion plans and their impact on the financing program. The Corporate Model will simulate long range operations using various forecasts. A complete utility forecast, due to the large amount of work required, has previously been prepared only once a year. The Corporate Model permits speedy and accurate assessment of any changes that may become necessary or desirable during the year.

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 of the Consulting Engineers appearing in Appendix A of this Official Statement.

The effects of the voluntary energy conservation program on power consumption were considered but have not been reflected in the preparation of revenue and expense projections or in the long-range capital improvement program. Sales of electric energy and resulting revenues were 14% below budgeted amounts for January and February. Analysis shows there were two major causes and one minor cause for this. One major cause was a reduced electric space heating load due to an extremely mild winter which had 19% fewer heating degree days during the billing periods for January and February 1974 than the long-term average for these periods. The other major cause was that two significant loads from mining customers originally scheduled to go into service in November, 1973 did not go into service until March, 1974. The minor cause was the effect of the energy conservation program. Analysis indicates approximately 3% of the 14% below budget amount in energy sales and revenues was attributable to the conservation program. In the long run, the increased use of electricity by commercial, industrial and residential customers because of the general shortage of natural gas is expected to partially, if not totally, offset the effect of the conservation program.



MOGOLLON RIM

Payson

Young

Bartlett Lake

BARTLETT DAM

Hartline Highway

STEWART MOUNTAIN DAM
Saguaro Lake

MORMON FLAT DAM
Canyon Lake

HORSE MESA DAM
Apache Lake

THEODORE ROOSEVELT DAM
Theodore Roosevelt Lake

Apache Trail

SUPERSTITION MOUNTAINS

Apache Junction

60-70-80-89

Florence Junction

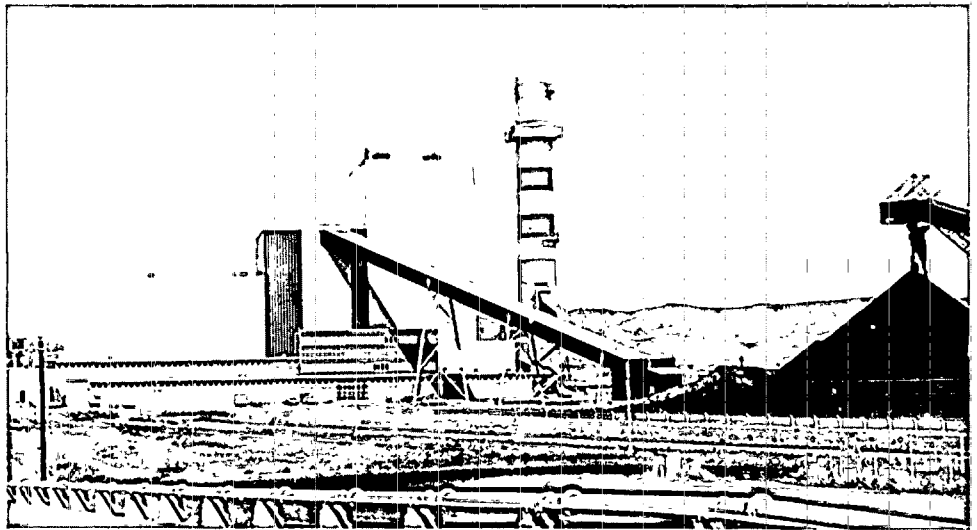
TO GLOBE, ARIZ.

SALT RIVER PROJECT AND CENTRAL ARIZONA

MAP
AREA

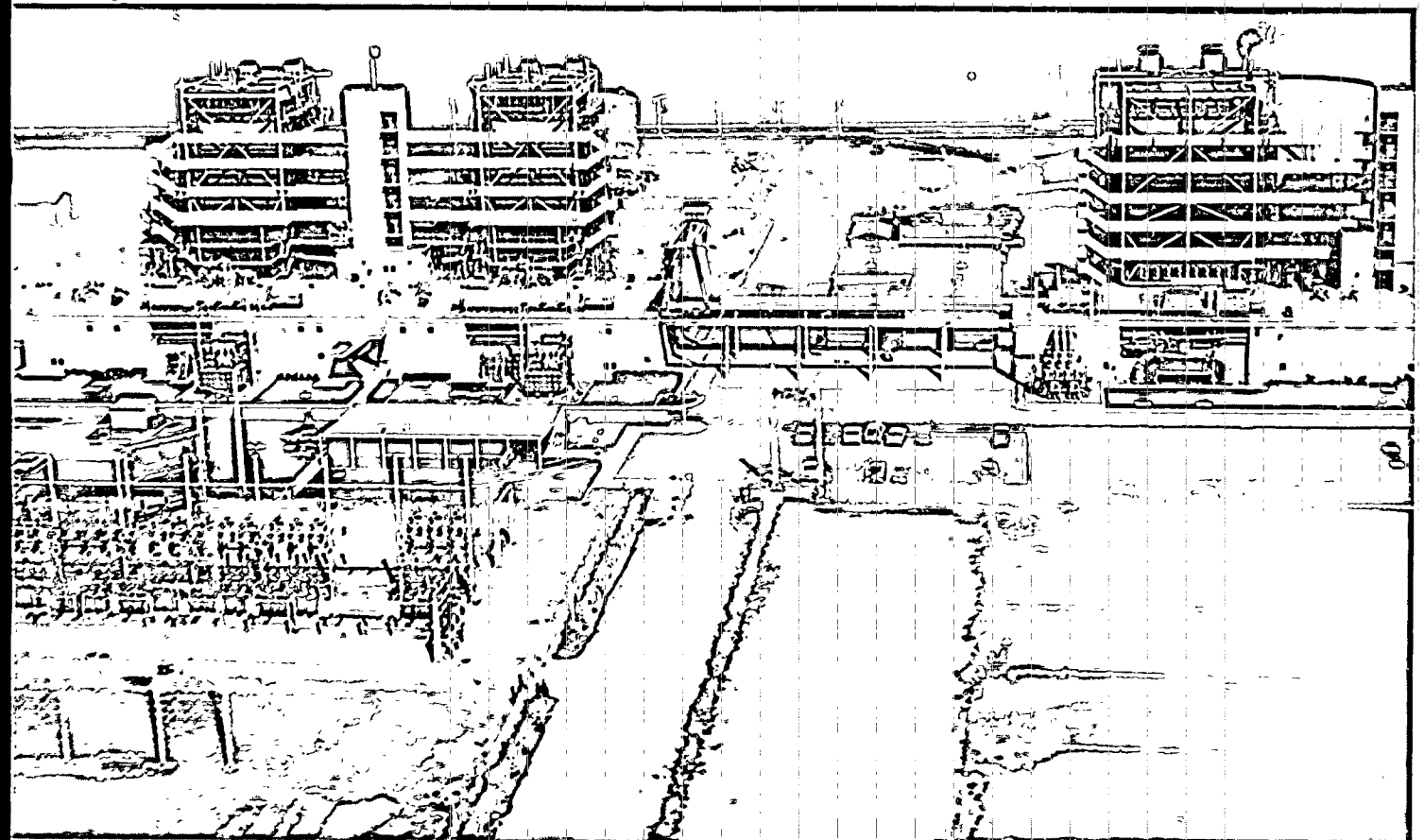


TO TUCSON

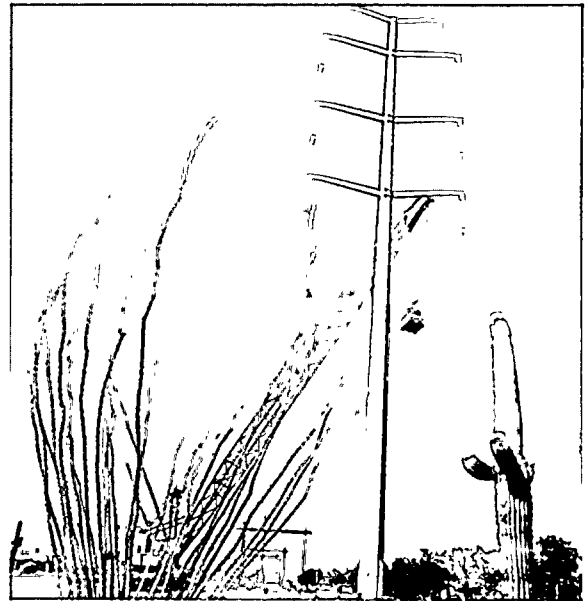


The District receives 50,000 kilowatts of pre-paid power from the 168,000 kilowatt unit number one of Hayden Generating Station at Hayden, Colo. Power is delivered to the District in an exchange agreement with the U.S. Bureau of Reclamation, thereby eliminating the need for new transmission lines from Colorado. The 250,000 kilowatt second unit is scheduled for completion in 1976. The District will receive 80 percent of that unit's power until January 1982, when Colorado-Ute Electric Association, Inc. will have the opportunity to increase its ownership of the unit from 20 percent to 50 percent.

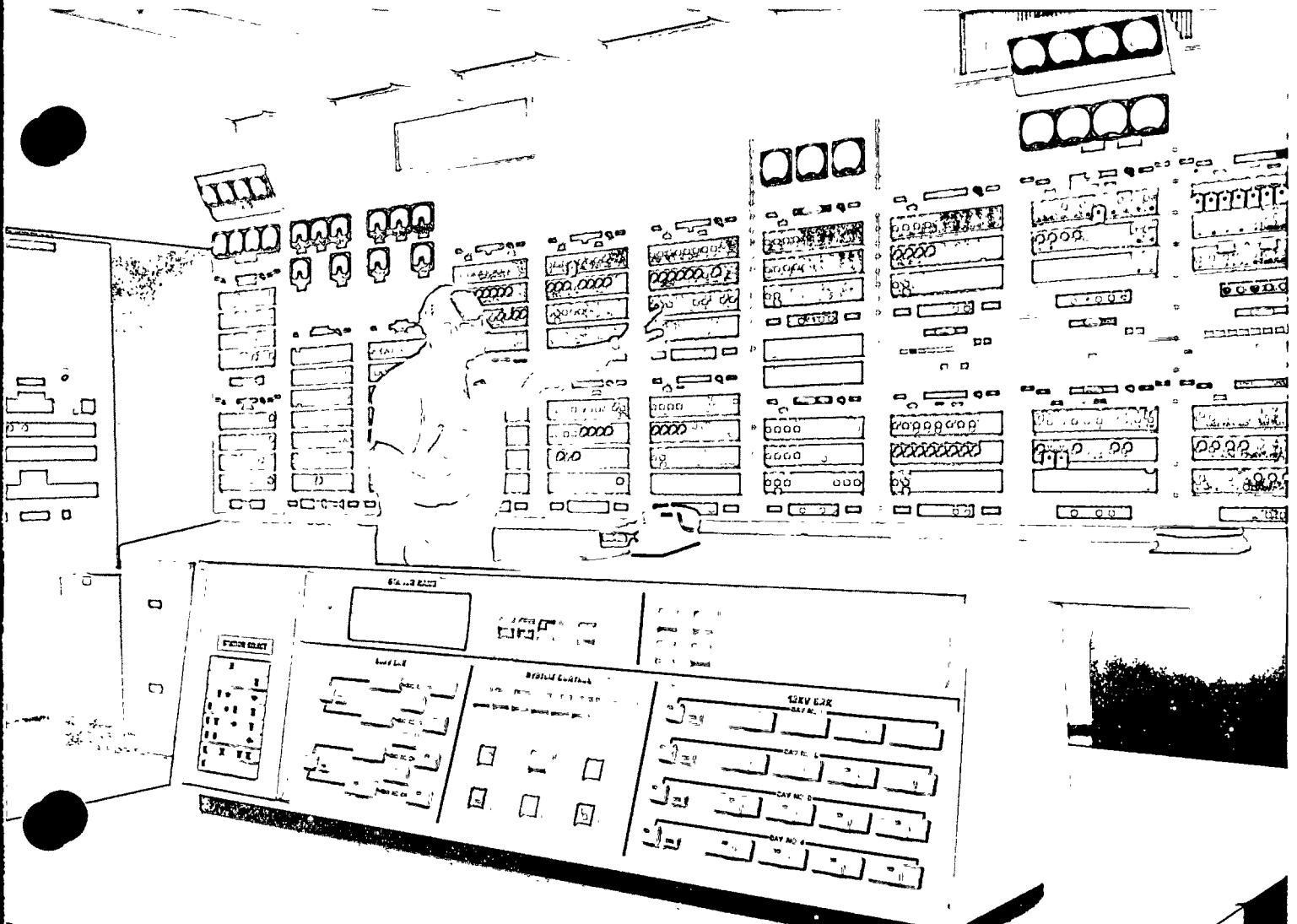
The District's Agua Fria Generating Station west of Glendale has three steam turbines with a combined generating capacity of 399,800 kilowatts. Two combustion turbines are scheduled for completion in May and will provide approximately 128,000 additional kilowatts of generating capacity.

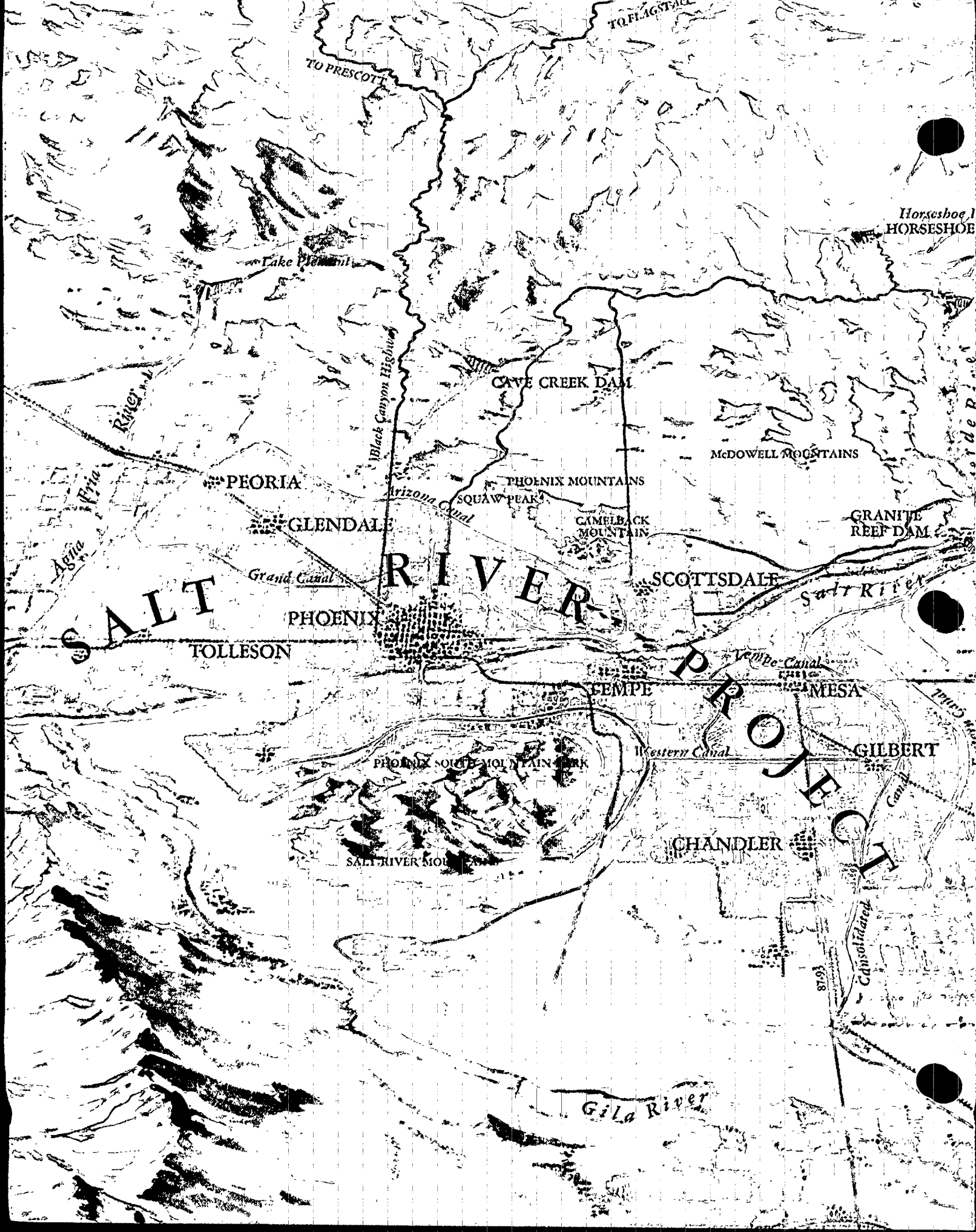


Construction of power lines in the District area is a continuing job. Many of the newer power poles are designed and colored for beauty as well as function.



Instrumentation in the District's Power Dispatching Office enables efficient operation of the transmission and distribution system.





TO PRESCOTT

TO FLAGSTAD

Horseshoe / HORSESHOE

Lake Pleasant

CAVE CREEK DAM

McDOWELL MOUNTAINS

PEORIA

PHOENIX MOUNTAINS

GLENDAL

SQUAW PEAK

CAMELBACK MOUNTAIN

GRANITE REEF DAM

SALT

RIVER

SCOTTSDALE

PHOENIX

TOLLESON

TEMPE

MESA

PHOENIX SOUTH MOUNTAIN PARK

SALT RIVER MOUNTAIN

CHANDLER

GILBERT

PROJECT

Gila River

Estimated Residential Growth

The results of a survey taken by the District in 1972 indicate planning of a substantial amount of building of housing units by nationally known development companies during the remaining portion of this decade. Major developers built about one third of the estimated units built in 1972. The major portion of the approximately 22,000 new housing units completed in 1973 were sold to people employed in the area.

During 1973, annual new installed meters were 21,250 up from 20,779 in 1972.

Estimated Commercial Growth

The vigorous economic activity experienced in the recent past has continued in 1973. Although losses in manufacturing employment occurred through mid-1971, primarily in aero-space related industries, these were counterbalanced by gains in mining and in tourism-travel services and trade employment. The Maricopa County unemployment rate in December 1973 was 3.8% as compared to the national average of 4.9%. About 31,500 new non-agricultural jobs were created in the Phoenix area in 1973.

Phoenix's growth as a major business center in the Southwest is indicated by nationally known corporations, such as Greyhound, moving their headquarters to the area and the opening of the American Express computer facilities to service its national and worldwide operations. Included in the commercial growth are substantial increases in educational facilities, hospitals, shopping centers and service businesses required by a rapidly increasing population as well as facilities to serve the tourist trade.

Estimated Industrial Growth

During 1973, manufacturing industries contributed to a substantial growth rate of about 8.1% or about 6,300 new jobs.

With favorable prospects for future growth in U. S. copper production, most of the mines in the area have long term expansion programs. Total mining loads were 140,000 kw in 1973 and are expected to increase to 276,000 kw by 1979.

Estimated Sales and Revenues 1974-1979

The amounts of estimated sales and revenues for 1974-1979 is shown in Table 25. The estimated operating revenues for the same period are shown in Table 26.

Table 25

ESTIMATED SALES AND REVENUE 1974-1979

Year	Estimated Customers at Year End	Estimated Annual Sales (million kwh)	Estimated Annual Revenue From Sales (\$1,000) (1)	Estimated Average Revenue per kwh (cents)(1)	Estimated Increase in Revenue (%) (1)	District Only (2)		Annual Peak Load (1,000 kw)	
						Sales (million kwh)	Increase over Prior Year (%)	District	Total
1974.....	242,935	8,529	165,671	1.924	28.6	7,276	20.1	1,724	1,991
1975.....	261,200	9,277	175,022	1.887	6.6	8,355	14.0	1,919	2,197
1976.....	278,031	9,642	185,402	1.923	5.9	8,864	6.1	2,093	2,406
1977.....	294,862	10,282	200,159	1.947	8.0	9,431	6.4	2,253	2,591
1978.....	311,693	11,326	212,675	1.878	6.3	10,393	10.2	2,485	2,849
1979.....	328,524	11,986	221,353	1.847	4.1	10,964	5.5	2,663	3,050

(1) Based upon January 1, 1974 electric rates. Does not include adjustments displayed on Table 28 or Table 33.

(2) Excludes sales to APS and excess sales to others.

Table 26

ESTIMATED OPERATING REVENUE 1974-1979
(000's omitted)

<u>Year</u>	<u>Revenue From Sales(1)</u>	<u>Other Electric Revenue</u>	<u>Total Electric Revenue</u>
1974.....	\$165,671	\$1,240	\$166,911
1975.....	175,022	1,186	176,208
1976.....	185,402	1,161	186,563
1977.....	200,159	1,204	201,363
1978.....	212,675	1,245	213,920
1979.....	221,353	1,286	222,639

(1) Based upon January 1, 1974 electric rates. Does not include adjustments displayed on Table 28 or Table 33.

Estimated Operating Expenses—1974-1979

Estimated Operating Expenses for 1974-1979 are presented in Table 27. Ad valorem taxes apply to out-of-state properties owned by the District.

Table 27

ESTIMATED OPERATING EXPENSES 1974-1979
(000's omitted)

<u>Year</u>	<u>Power Operation(1)</u>	<u>Operation and Maintenance(2)</u>	<u>Sales and Ad Valorem Taxes</u>	<u>Estimated Total Operating Expenses</u>
1974.....	\$78,661	\$21,444	\$ 6,516	\$106,621
1975.....	80,964	29,943	7,655	118,562
1976.....	83,311	31,840	8,363	123,514
1977.....	99,911	32,589	9,401	141,901
1978.....	95,718	39,724	10,603	146,045
1979.....	93,770	46,361	11,432	151,563

(1) Excludes charges for falling water.

(2) Excludes depreciation.

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 in Arizona 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 voluntary contributions previously prohibited by law, since the District is a political subdivision of the State of Arizona 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. An important change enacted by the Legislature in 1969 provides that if the District elects to make such payments, then there is a minimum for total contributions of not less than a sum equal to 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. Other major changes relate to deductions for agricultural pumping power sales

and to deductions for water department costs devoted to municipal use. These changes will tend to eliminate 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 amount paid is computed on the same basis as ad valorem taxes on a private utility corporation. Limited exemptions are made, in computing the basis for the payments, of irrigation property or electric property used in the pumping or distribution of water for irrigation or public use. Electric rates were increased by a small amount in 1963 and in 1969 to reimburse the District for these payments. It is estimated that the contributions in lieu of taxes will continue in the following amounts for 1974 through 1979: 1974—\$9,228,000, 1975—\$13,548,000, 1976—\$16,980,000, 1977—\$19,704,000, 1978—\$21,048,000 and 1979—\$29,472,000.

Estimated Revenues Available for Debt Service—1974-1979

Table 28 gives estimated revenues, estimated expenses and estimated Revenues Available for Debt Service for 1974 through 1979.

Table 28
ESTIMATED REVENUE AVAILABLE FOR DEBT SERVICE 1974-1979
(000's omitted)

<u>Calendar Year</u>	<u>Estimated Electric Revenues(1)</u>	<u>Estimated Operating Expenses</u>	<u>Estimated Revenues from Operations</u>	<u>Interest and Other Income Net</u>	<u>Estimated Revenue Available for Debt Service</u>
1974	\$166,911	\$106,621	\$60,290	\$5,252	\$65,542
1975	189,808(1)	118,562	71,246	6,276	77,522
1976	201,263(1)	123,514	77,749	7,350	85,099
1977	221,863(1)	141,901	79,962	8,112	88,074
1978	228,520(1)	146,045	82,475	8,925	91,400
1979	243,939(1)	151,563	92,376	9,743	102,119

(1) While projected revenues at 1974 electric rate levels are estimated to be sufficient to provide debt service coverage and meet additional Bond tests for the issuance of the 1974 Series B Bonds, rates are expected to be increased sufficiently to at least provide additional revenues of \$13,600,000 in 1975, \$14,700,000 in 1976, \$20,500,000 in 1977, \$14,600,000 in 1978 and \$21,300,000 in 1979, to provide additional funds for construction, to cover increased contributions in lieu of taxes and to meet other obligations subordinate to debt service. These additional amounts are included in total Electric Revenues for this Table and Table 33 on page 46. Such amounts are in addition to the amounts of projected revenues, based on current electric rates included in Tables 25 and 26 and in the Engineers Report in Appendix A.

FINANCIAL FACTORS OF THE DISTRICT

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 1973 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 29 a list of the bonded indebtedness of the District dated as of January 2, 1974, including \$11,256,911 non-interest bearing loans made to the District by the United States of America and \$68,223 shareholders' advance payments for construction.

Table 29

OUTSTANDING LONG TERM DEBT OF THE DISTRICT

As of January 2, 1974

Issue Designation	Date of Issue	Original Amount of Issue	Amount Outstanding	Interest Rates	Future Maturities
Refunding Bonds "F"	7-1-47	\$ 262,000	\$ 30,000	3%	1974
Refunding Bonds "I"	7-1-47	422,000	262,000	3	1974-75
Corporate Bonds #4	8-1-50	3,500,000	2,100,000	2¾, 2½	1974-77
Corporate Bonds #5	1-1-51	4,500,000	3,750,000	2¾, 2½	1974-80
Corp. Bonds #6, Blk 1	1-1-53	5,000,000	3,370,000	3½, 3%	1974-82
Corp. Bonds #6, Blk 2	1-1-53	5,000,000	3,370,000	3½	1974-82
Corp. Bonds #6, Blk 3	1-1-53	3,500,000	2,360,000	2¾, 3½	1974-82
Corp. Bonds #7, Blk 1	1-1-56	11,000,000	7,445,000	3.10 to 3.40	1975-87
Corp. Bonds #8, Ser. B	1-1-59	5,000,000	4,090,000	3.60, 3%	1975-87
SRP Bonds #9, Ser. A	1-1-60	15,000,000	11,110,000	1 to 4¼	1975-92
SRP Bonds #9, Ser. B	7-1-60	15,000,000	10,710,000	1 to 4	1975-92
SRP Bonds #9, Ser. C	7-1-60	4,000,000	2,930,000	1 to 4	1975-92
SRP Bonds #10, Ser. A	7-1-62	10,000,000	7,335,000	1 to 3½	1975-94
SRP Bonds #10, Ser. B	7-1-65	6,000,000	4,320,000	3¼ to 3.60	1975-92
SRP Bonds #10, Ser. C	7-1-65	8,000,000	5,760,000	3¼ to 3.60	1975-92
SRP Refund Bonds #11	7-1-65	13,470,000	11,850,000	3¼ to 3½	1975-87
SRP Bonds #12, Ser. A	1-1-68	32,000,000	26,500,000	3 to 4½	1975-98
SRP Bonds #12, Ser. B	1-1-69	16,000,000	13,800,000	4 to 5	1975-99
SRP Bonds #13	1-1-69	10,000,000	8,600,000	4 to 5	1975-99
SRP Bonds #14, Ser. A	1-1-70	36,000,000	32,400,000	4¼ to 5¾	1975-82
SRP Bonds #14, Ser. B	1-1-71	40,000,000	39,400,000	4 to 5½	1975-95
SRP Bonds #14, Ser. C	10-1-71	52,000,000	51,400,000	3½ to 5	1975-2001
SRP Bonds #14, Ser. D	4-1-72	49,000,000	49,000,000	4½ to 6	1979-2003
Total general obligation Bonds		<u>\$344,654,000</u>	<u>\$301,892,000</u>		
Obligation to U. S. Govt. for Irrigation Plant Annual Contracts—Various Dates to 1998			11,256,911		
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
Total Revenue Bonds		<u>\$240,000,000</u>			
Shareholders Advance Payments			68,223		
Total Outstanding Long Term Debt			<u>\$553,217,134</u>		

Prior Lien Debt Service Requirements

Table 30 gives Prior Lien debt service requirements.

Table 30

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		
1974	\$ 8,591,000	\$13,813,390	\$22,404,390	\$658,698	\$23,063,088
1975	8,707,000	13,456,703	22,163,703	658,698	22,822,401
1976	12,535,000	13,094,114	25,629,114	658,698	26,287,812
1977	12,855,000	12,520,875	25,375,875	668,553	26,044,428
1978	13,392,000	11,923,065	25,315,065	679,770	25,994,835
1979	13,748,000	11,292,010	25,040,010	669,382	25,709,392
1980	14,355,000	10,638,365	24,993,365	510,405	25,503,770
1981	14,517,000	9,957,737	24,474,737	518,908	24,993,645
1982	12,483,000	9,345,256	21,828,256	527,397	22,355,653
1983	13,265,000	8,785,375	22,050,375	535,674	22,586,049
1984	13,445,000	8,183,347	21,628,347	543,930	22,172,277
1985	13,640,000	7,576,162	21,216,162	551,419	21,767,581
1986	13,865,000	6,971,210	20,836,210	560,012	21,396,222
1987	11,860,000	6,358,533	18,218,533	530,304	18,748,837
1988	12,730,000	5,781,490	18,511,490	485,434	18,996,924
1989	12,805,000	5,160,705	17,965,705	454,671	18,420,376
1990	12,900,000	4,537,151	17,437,151	419,532	17,856,683
1991	12,960,000	3,925,235	16,885,235	385,520	17,270,755
1992	10,695,000	3,363,625	14,058,625	351,568	14,410,193
1993	10,385,000	2,867,750	13,252,750	293,498	13,546,248
1994	10,100,000	2,386,175	12,486,175	231,387	12,717,562
1995	7,700,000	1,910,450	9,610,450	175,389	9,785,839
1996	7,700,000	1,544,025	9,244,025	119,036	9,363,061
1997	6,800,000	1,185,100	7,985,100	49,134	8,034,234
1998	5,600,000	897,300	6,497,300	19,894	6,517,194
1999	4,800,000	644,100	5,444,100	—	5,444,100
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.

Debt Service Requirements for the Revenue Bonds

Table 31 gives debt service requirements for the Revenue Bonds which includes debt service requirement for the 1974 Series B Bonds.

Table 31

DEBT SERVICE REQUIREMENTS FOR THE REVENUE BONDS

1974 Series B Bonds

Year Ending December 31,	Total Debt Service Requirements Previously Issued Revenue Bonds	Serial Maturities	Term Bond Sinking Fund Requirements	Interest	Total, Debt Service Requirements 1974 Series B Bonds	Total Debt Service Requirements for the Revenue Bonds
1974	\$12,728,747 (1)	—	—	\$1,882,098 (1)	\$1,882,098 (1)	\$14,610,845 (1)
1975	14,059,688	—	—	3,211,162	3,211,162	17,270,850
1976	14,838,338	—	—	3,211,162	3,211,162	18,049,500
1977	14,818,038	—	—	3,211,162	3,211,162	18,029,200
1978	14,797,213	—	—	3,211,162	3,211,162	18,008,375
1979	14,770,538	—	—	3,211,162	3,211,162	17,981,700
1980	14,748,013	—	—	3,211,162	3,211,162	17,959,175
1981	14,723,998	—	—	3,211,162	3,211,162	17,935,160
1982	15,443,138	\$ 400,000	—	3,211,162	3,611,162	19,054,300
1983	15,261,463	350,000	—	3,180,762	3,530,762	18,792,225
1984	15,339,513	450,000	—	3,154,162	3,604,162	18,943,675
1985	15,278,638	550,000	—	3,119,962	3,669,962	18,948,600
1986	15,268,763	1,000,000	—	3,078,162	4,078,162	19,346,925
1987	15,888,525	1,450,000	—	3,002,162	4,452,162	20,340,687
1988	15,828,363	1,350,000	—	2,891,962	4,241,962	20,070,325
1989	15,790,975	1,450,000	—	2,789,362	4,239,362	20,030,337
1990	15,901,575	1,550,000	—	2,679,162	4,229,162	20,130,737
1991	15,895,910	1,600,000	—	2,580,350	4,180,350	20,076,260
1992	15,985,960	1,700,000	—	2,482,750	4,182,750	20,168,710
1993	15,918,740	1,750,000	—	2,379,050	4,129,050	20,047,790
1994	15,845,810	1,800,000	—	2,272,300	4,072,300	19,918,110
1995	15,768,435	—	\$1,000,000	2,162,500	3,162,500	18,930,935
1996	15,687,035	—	1,100,000	2,100,000	3,200,000	18,887,035
1997	15,651,090	—	1,200,000	2,031,250	3,231,250	18,882,340
1998	15,604,920	—	1,000,000	1,956,250	2,956,250	18,561,170
1999	15,557,750	—	1,000,000	1,893,750	2,893,750	18,451,500
2000	15,612,019	—	1,100,000	1,831,250	2,931,250	18,543,269
2001	15,550,381	—	1,100,000	1,762,500	2,862,500	18,412,881
2002	15,483,000	—	1,200,000	1,693,750	2,893,750	18,376,750
2003	16,614,125	—	2,200,000	1,618,750	3,818,750	20,432,875
2004	16,564,300	—	2,300,000	1,481,250	3,781,250	20,345,550
2005	16,505,706	—	2,400,000	1,337,500	3,737,500	20,243,206
2006	16,437,325	—	2,600,000	1,187,500	3,787,500	20,224,825
2007	16,508,100	—	2,700,000	1,025,000	3,725,000	20,233,100
2008	16,508,463	—	2,850,000	856,250	3,706,250	20,214,713
2009	16,510,206	—	3,075,000	678,125	3,753,125	20,263,331
2010	11,776,173	—	3,400,000	485,937	3,885,937	15,662,110
2011	7,251,020	—	4,375,000	273,437	4,648,437	11,899,457

(1) Net of Accrued Interest.

Total Debt Service Requirements

Table 32 gives total debt service requirements immediately following the issuance of the 1974 Series B Bonds.

Table 32

TOTAL DEBT SERVICE REQUIREMENTS

<u>Year Ending December 31</u>	<u>Total Debt Service Requirement Prior Lien Indebtedness(1)</u>	<u>Total Debt Service Requirement Previously Issued Revenue Bonds(2)</u>	<u>Total Debt Service Requirements 1974 Series B Bonds(2)</u>	<u>Total Debt Service Requirements</u>
1974	\$23,063,088	\$12,728,747	\$1,882,098	\$37,673,933
1975	22,822,401	14,059,688	3,211,162	40,093,251
1976	26,287,812	14,838,338	3,211,162	44,337,312
1977	26,044,428	14,818,038	3,211,162	44,073,628
1978	25,994,835	14,797,213	3,211,162	44,003,210
1979	25,709,392	14,770,538	3,211,162	43,691,092
1980	25,503,770	14,748,013	3,211,162	43,462,945
1981	24,993,645	14,723,998	3,211,162	42,928,805
1982	22,355,653	15,443,138	3,611,162	41,409,953
1983	22,586,049	15,261,463	3,530,762	41,378,274
1984	22,172,277	15,339,513	3,604,162	41,115,952
1985	21,767,581	15,278,638	3,669,962	40,716,181
1986	21,396,222	15,268,763	4,078,162	40,743,147
1987	18,748,837	15,888,525	4,452,162	39,089,524
1988	18,996,924	15,828,363	4,241,962	39,067,249
1989	18,420,376	15,790,975	4,239,362	38,450,713
1990	17,856,683	15,901,575	4,229,162	37,987,420
1991	17,270,755	15,895,910	4,180,350	37,347,015
1992	14,410,193	15,985,960	4,182,750	34,578,903
1993	13,546,248	15,918,740	4,129,050	33,594,038
1994	12,717,562	15,845,810	4,072,300	32,635,672
1995	9,785,839	15,768,435	3,162,500	28,716,774
1996	9,363,061	15,687,035	3,200,000	28,250,096
1997	8,034,234	15,651,090	3,231,250	26,916,574
1998	6,517,194	15,604,920	2,956,250	25,078,364
1999	5,444,100	15,557,750	2,893,750	23,895,600
2000	4,022,900	15,612,019	2,931,250	22,566,169
2001	3,247,500	15,550,381	2,862,500	21,660,381
2002	2,612,500	15,483,000	2,893,750	20,989,250
2003	—	16,614,125	3,818,750	20,432,875
2004	—	16,564,300	3,781,250	20,345,550
2005	—	16,505,706	3,737,500	20,243,206
2006	—	16,437,325	3,787,500	20,224,825
2007	—	16,508,100	3,725,000	20,233,100
2008	—	16,508,463	3,706,250	20,214,713
2009	—	16,510,206	3,753,125	20,263,331
2010	—	11,776,173	3,885,937	15,662,110
2011	—	7,251,020	4,648,437	11,899,457

(1) See Table 30.

(2) See Table 31.

Estimated Coverage

Table 33 gives application of revenues, debt service requirements and pro-forma coverage.

Table 33.

**APPLICATION OF REVENUES, DEBT SERVICE REQUIREMENTS AND
PRO FORMA COVERAGE OF DEBT SERVICE REQUIREMENTS, 1969-1979**
(000's omitted)

	Actual					Estimated					
	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
Total Electric Revenues (1)	\$64,991	\$74,295	\$85,286	\$104,699	\$128,859	\$166,911	\$189,808	\$201,263	\$221,863	\$228,520	\$243,939
Operating Expenses (2)	34,959	39,639	49,376	55,790	75,668	106,621	118,562	123,514	141,901	146,045	151,563
Revenues from Operations	\$30,032	\$34,656	\$35,910	\$ 48,909	\$ 53,191	\$ 60,290	\$ 71,246	\$ 77,749	\$ 79,962	\$ 82,475	\$ 92,376
Interest and Other Income (Net)	2,087	1,749	1,774	2,299	6,380	5,252	6,276	7,350	8,112	8,925	9,743
Revenues Available for Debt Service	\$32,119	\$36,405	\$37,684	\$ 51,208	\$ 59,571	\$ 65,542	\$ 77,522	\$ 85,099	\$ 88,074	\$ 91,400	\$102,119
Debt Service Requirements											
Prior Lien Bonds:											
Interest	\$ 5,975	\$ 7,516	\$ 9,856	\$ 13,449	\$ 14,171	\$ 13,813	\$ 13,457	\$ 13,094	\$ 12,521	\$ 11,923	\$ 11,292
Principal	4,333	5,529	7,037	7,151	8,469	8,591	8,707	12,535	12,855	13,392	13,748
Repayment of U.S. Debt	931	741	607	613	634	659	659	659	669	680	669
Deposit to Debt Reserve	999	1,909	2,546	3,443	3,270	2,865	1,922	1,123	225	—	—
Total	\$12,238	\$15,695	\$20,046	\$ 24,656	\$ 26,544	\$ 25,928	\$ 24,745	\$ 27,411	\$ 26,270	\$ 25,995	\$ 25,709
Revenue Bonds (See Table 31)											
Interest	\$ —	\$ —	\$ —	\$ —	\$ 5,502	\$ 14,611	\$ 16,481	\$ 16,430	\$ 16,324	\$ 16,213	\$ 16,097
Principal	—	—	—	—	—	—	790	1,620	1,705	1,795	1,885
Total (3)	\$ —	\$ —	\$ —	\$ —	\$ 5,502	\$ 14,611	\$ 17,271	\$ 18,050	\$ 18,029	\$ 18,008	\$ 17,982
Total Debt Service (4)	\$12,238	\$15,695	\$20,046	\$ 24,656	\$ 32,046	\$ 40,539	\$ 42,016	\$ 45,461	\$ 44,299	\$ 44,003	\$ 43,691
Coverage of Total Debt Service by Revenues Available for Debt Service	2.62	2.32	1.88	2.08	1.86	1.62	1.85	1.87	1.99	2.08	2.34
Balance after Debt Service	\$19,881	\$20,710	\$17,638	\$ 26,552	\$ 27,525	\$ 25,003	\$ 35,506	\$ 39,638	\$ 43,775	\$ 47,397	\$ 58,428
Contribution In Lieu of Taxes (5)	4,507	4,175	5,491	6,068	6,207	9,228	13,548	16,980	19,704	21,048	29,472
Contributions to Water Operations (2) ...	7,155	7,758	7,855	8,792	8,278	9,530	12,770	12,943	13,319	15,592	17,458
Balance Available for Corporate Purposes	\$ 8,219	\$ 8,777	\$ 4,292	\$11,692(6)	\$13,040(6)	\$ 6,245	\$ 9,188	\$ 9,715	\$ 10,752	\$ 10,757	\$ 11,498

(1) While projected revenues at 1974 electric rate levels are estimated to be sufficient to provide debt service coverage and meet additional Bond tests for issuance of the 1974 Series B Bonds, rates are expected to be increased sufficiently to at least provide additional revenues of \$13,600,000 in 1975, \$14,700,000 in 1976, \$20,500,000 in 1977, \$14,600,000 in 1978 and \$21,300,000 in 1979, to provide additional funds for construction, to cover increased contributions in lieu of taxes and to meet other obligations subordinate to debt service. These additional amounts are included in total Electric Revenues for this Table and Table 28 on page 41. Such amounts are in addition to the amounts of projected revenues, based on current electric rates included in Tables 25 and 26 and in the Engineers Report in Appendix A.

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

(3) 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 Table 33) in the following approximate amounts: \$40,000,000 in 1974, \$75,000,000 in 1975, \$210,000,000 in 1976, \$250,000,000 in 1977, \$280,000,000 in 1978 and \$225,000,000 in 1979.

(4) Includes Deposit to Debt Reserve for Prior Lien Bonds.

(5) See discussion of Voluntary Contributions in Lieu of Taxes.

(6) 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.

DESCRIPTION OF THE 1974 SERIES B BONDS

Principal Amount, Date, Interest and Maturities

The 1974 Series B Bonds are issued in the principal amount of \$50,000,000, and are dated and bear interest from May 1, 1974. The 1974 Series B 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 below.

\$50,000,000 1974 SERIES B BONDS MATURITIES AND INTEREST RATES

<u>January 1</u>	<u>Amount Maturing</u>	<u>Interest Rate</u>	<u>January 1</u>	<u>Amount Maturing</u>	<u>Interest Rate</u>
1983	\$ 400,000	7.60%	1990	\$ 1,450,000	7.60%
1984	350,000	7.60	1991	1,550,000	6¾
1985	450,000	7.60	1992	1,600,000	6.10
1986	550,000	7.60	1993	1,700,000	6.10
1987	1,000,000	7.60	1994	1,750,000	6.10
1988	1,450,000	7.60	1995	1,800,000	6.10
1989	1,350,000	7.60	2012	34,600,000	6¼

Redemption

The 1974 Series B Bonds maturing after January 1, 1984 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, 1984, as a whole, or in part in inverse order of maturities (and in the event that less than all of the 1974 Series B Bonds of an entire maturity are redeemed, the 1974 Series B 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

<u>Period During Which Redeemed (both dates included)</u>	<u>Redemption Price</u>
January 1, 1984-December 31, 1985	102½ %
January 1, 1986-December 31, 1987	102
January 1, 1988-December 31, 1989	101½
January 1, 1990-December 31, 1991	101
January 1, 1992-December 31, 1993	100½
January 1, 1994 and Thereafter	100

The 1974 Series B Bonds maturing on January 1, 2012, 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, 1996, and on each interest payment date thereafter, at 100% of the principal amount of the 1974 Series B 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 principal amounts of such 1974 Series B Bonds on the dates set forth below.

SINKING FUND INSTALLMENTS

<u>January 1</u>	<u>Principal Amount</u>	<u>January 1</u>	<u>Principal Amount</u>
1996.....	\$1,000,000	2005.....	\$2,300,000
1997.....	1,100,000	2006.....	2,400,000
1998.....	1,200,000	2007.....	2,600,000
1999.....	1,000,000	2008.....	2,700,000
2000.....	1,000,000	2009.....	2,850,000
2001.....	1,100,000	2010.....	3,075,000
2002.....	1,100,000	2011.....	3,400,000
2003.....	1,200,000	2012.....	4,375,000
2004.....	2,200,000		

Form, Denominations and Interchangeability

Definitive 1974 Series B Bonds will be issued in coupon form registrable as to principal only in the denomination of \$5,000, and in fully registered form without coupons in the denominations of \$5,000 or integral multiples thereof. Coupon 1974 Series B Bonds and fully registered 1974 Series B Bonds are interchangeable at the office of the Trustee in the manner, subject to the conditions and upon the payment of the charges provided in the Resolution.

Paying Agents

Principal, premium, if any, and interest on the 1974 Series B Bonds will be payable at the option of the holder at the respective offices of the following Paying Agents:

First National Bank of Arizona, Phoenix, Arizona
Continental Illinois National Bank and Trust Company of Chicago, Chicago, Illinois
First National City Bank, New York, New York

Trustee

First National Bank of Arizona, Phoenix, Arizona, is Trustee under the Resolution.

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 separate 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 Bond Resolutions: The bond resolutions of the District authorizing the issuance of: \$1,929,000 Refunding Corporate Bonds, Bond Issue Number One, Series E, F, G, H & I, all adopted November 3, 1948; \$3,500,000 Corporate Bonds, Bond Issue Number Four, adopted July 28, 1950; \$4,500,000 Corporate Bonds, Bond Issue Number Five, adopted January 30, 1951; \$5,000,000 Corporate Bonds, Bond Issue Number Six (first installment), adopted December 1, 1952; \$5,000,000 Corporate Bonds, Bond Issue Number Six (second installment), adopted December 7, 1953; \$3,500,000 Corporate Bonds, Bond Issue Number Six (third installment), adopted May 4, 1954; \$11,000,000 Corporate Bonds, Bond Issue Number Seven (first installment), adopted April 25, 1956; \$5,000,000 Corporate Bonds, Bond Issue Number Eight, Series B, adopted February 9, 1959; \$15,000,000 Salt River Project Bonds, Bond Issue Number Nine, Series A, adopted November 9, 1959; \$15,000,000 Salt River Project Bonds, Bond Issue Number Nine,

Series B, and \$4,000,000 Salt River Project Bonds, Bond Issue Number Nine, Series C, adopted July 6, 1960; \$10,000,000 Salt River Project Bonds, Bond Issue Number Ten, Series A, adopted May 7, 1962; \$6,000,000 Salt River Project Bonds, Bond Issue Number Ten, Series B, and \$8,000,000 Salt River Project Bonds, Bond Issue Number Ten, Series C, adopted August 31, 1965; \$13,470,000 Salt River Project Refunding Bonds, Bond Issue Number Eleven, adopted August 31, 1965; \$32,000,000 Salt River Project Bonds, Bond Issue Number Twelve, Series A, adopted January 8, 1968; \$16,000,000 Salt River Project Bonds, Bond Issue Number Twelve, Series B, adopted January 6, 1969; \$10,000,000 Salt River Project Bonds, Bond Issue Number Thirteen, adopted January 6, 1969; \$36,000,000 Salt River Project Bonds, Bond Issue Number Fourteen, Series A, adopted February 10, 1970; \$40,000,000 Salt River Project Bonds, Bond Issue Number Fourteen, Series B, adopted November 2, 1970; \$52,000,000 Salt River Project Bonds, Bond Issue Number Fourteen, Series C, adopted October 4, 1971; \$49,000,000 Salt River Project Bonds, Bond Issue Number Fourteen, Series D, adopted March 6, 1972, together with all supplemental resolutions adopted in accordance with the terms thereof, and certain loan agreements with the United States of America, heretofore, or hereafter made or assumed by the District.

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, including the 1974 Series B 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 that the District certify that the Aggregate Debt Service for the then current and each future year shall not be increased by such refunding. Issuance of such Refunding Bonds to refund Revenue Bonds is subject to the following conditions: (i) the Trustee shall receive irrevocable instructions to give due notice of redemption; (ii) if the Revenue Bonds to be refunded are not subject to redemption within 60 days thereafter, irrevocable instructions to the Trustee to make due publication of notice; (iii) receipt by the Trustee of moneys sufficient to effect payment at the applicable redemption price of the Revenue Bonds to be refunded, together with accrued interest on such bonds to redemption date; or receipt by the Trustee of Investment Securities in such principal amounts, of such maturities and bearing such interest, subject to the qualification that such Investment Securities be non-callable and sufficient to effect payment at the applicable redemption price, together with accrued interest on such bonds to redemption date.

The Issuance of Refunding Bonds to refund Prior Lien Bonds is subject to the following conditions: (i) the Trustee shall receive evidence as to the discharge and satisfaction of the pledge of the revenues to

such Prior Lien Bonds under the Resolutions, and (ii) the District shall fulfill the requirements, conditions and tests referred to in the above section for Additional Bonds which are made applicable to Refunding Bonds for Prior Lien Bonds under this subsection.

[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:

<u>Fund</u>	<u>Held By</u>
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 deposit 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 Bond 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].

Investment of Certain Funds and Accounts

The Resolution provides that certain Funds and Accounts held thereunder may, and in the case of the Construction Fund, Revenue Fund, Debt Service Account and the Debt Reserve Account shall, be invested to the fullest extent practicable in Investment Securities. The Resolution provides that such investments shall mature no later than such times as shall be necessary to provide moneys when needed for payments from such Funds and Accounts, and in the case of the Debt Reserve Account, may be invested in Investment Securities having a maturity of not more than 15 years.

Net interest earned on any moneys or securities in such Funds or Accounts, other than the Construction Fund, shall be paid into the Revenue Fund. Interest earned on any moneys or in the Construction Fund shall be deposited in the Construction Fund.

Obligations purchased as an investment of moneys in any Fund created under the provisions of the Resolution shall be deemed at all times to be a part of such Fund and any profit realized from the liquidation of such investment shall be credited to such Fund and any loss resulting from the liquidation of such investment shall be charged to the respective Fund.

[Resolution, Sections 503, 603 and 604].

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 Bonds 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 therefor, (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 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 Revenue 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 covenants 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 arising 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].

TAX EXEMPTION

In the opinion of Mudge Rose Guthrie & Alexander, Bond Counsel, interest on the 1974 Series B 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 \$50,000,000 Salt River Project Electric System Revenue Bonds, 1974 Series B that it is not expected that on the basis of the facts and circumstances in existence on the date of adoption of the said resolution, that the proceeds of the 1974 Series B Bonds will be used in a manner that would cause the 1974 Series B 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 1974 Series B 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 1974 Series B Bonds. Jennings, Strouss & Salmon, Phoenix, Arizona, Legal Advisors to the District, will deliver a no-litigation certificate with the 1974 Series B 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

CHICAGO

CONSTRUCTION VALUATIONS REPORTS MANAGEMENT

SAN FRANCISCO

2 BROADWAY
NEW YORK, N. Y. 10004

New York, May 2, 1974

Salt River Project Agricultural
Improvement and Power District
Phoenix, Arizona

Subject: Summary Report on Property, Operations, and 1974-1979
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 \$50,000,000 in Electric Revenue Bonds, 1974 Series B. 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, 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 City of Mesa, 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 500 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. 3.

Power Resources

In 1973 the largest source of energy (62.1%) was from the District thermal plants and about 8.0% from its hydro plants. Although the hydro generation does not supply a significant portion of the energy requirements, the pumped storage units add appreciably to the system's ability to provide for peak loads. Refer to Table 9, page 12 of the Official Statement for a detailed listing of the District's 1973 power sources.

About 40.1% of the District's energy requirements for 1973 came from its plants located in the valley, while 22.0% came from its participation in the Four Corners plant located in New Mexico and the Mohave plant located in southern Nevada. It is anticipated that the production from the latter two plants will be increased after the technical and environmental problems associated with them have been resolved.

The District purchased through firm power contracts about 22.9% of its 1973 energy requirements. The largest portion, about 11.1%, was obtained from the Colorado River Storage Project. Under terms of this contract the USBR will furnish declining amounts of power, from 380,000 kw in 1973 to its permanent allotment of 126,000 kw in 1976. The second largest source, from Hayden No. 1, amounted to 5.8%. Other firm purchases amounting to 6.0% came from the Arizona Power Authority, the Parker-Davis hydro plants of the U.S.B.R., Arizona Electric Power Cooperative and the Plains G & T Co-op. The remaining 7% of the annual production consisted of non-firm energy obtained through the Power Coordination Agreement with Arizona Public Service or from other sources.

The District's power requirements during the coming decade will increase more rapidly than the national average, rising from 1,679,000 kw in 1973 to 3,752,000 kw in 1982. 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 15, page 21 of the 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)

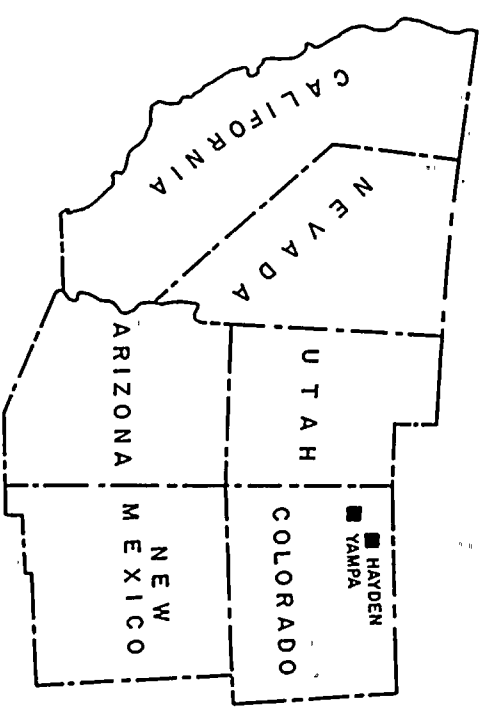
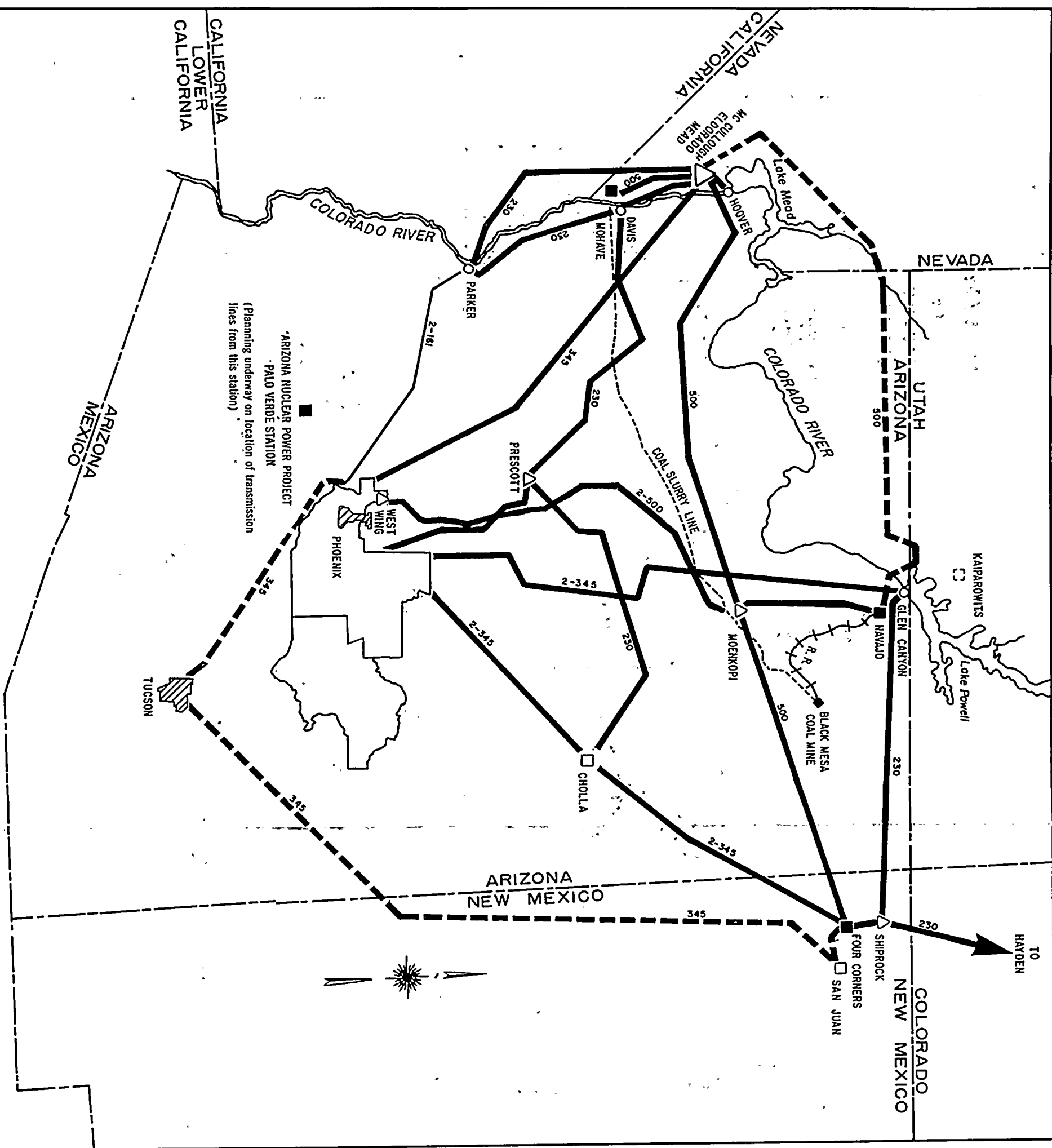
Actual 1973; Estimated 1974-1979

	1973	1974	1975	1976	1977	1978	1979
Total Resources	1,880	2,346	2,586	2,818	2,968	3,266	3,726
Total Loads	1,679	1,991	2,197	2,406	2,591	2,849	3,050
Resources in Excess of Load	201	355	389	412	377	417	676
Reserve Requirements	200	261	302	336	363	402	433
Surplus	1	94	87	76	14	15	243

The last line of the tabulation illustrates the changes from small surpluses in the early years of the program to a substantial surplus in 1979. This will help increase the reliability of the system 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 production plants. It is anticipated that if a substantial surplus is available in 1979, it can be sold on a short-term basis.

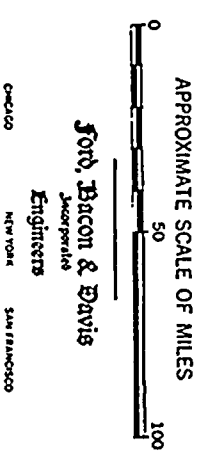
The 1974-1979 Improvement Program

The present program is a continuation and updating of the program reported by the Engineers on January 9, 1974.













- LEGEND**
- Proposed or under construction
 - 230 KV and above
 - 161 KV
 - 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**



LEGEND

-  AREAS SERVED EXCLUSIVELY BY DISTRICT
-  DISTRICT PROVIDES POWER REQUIREMENTS OF MINING LOADS AND OF ARIZONA PUBLIC SERVICE FOR RESALE
-  DISTRICT PROVIDES FULL POWER REQUIREMENTS OF ARIZONA PUBLIC SERVICE FOR RESALE
-  AREAS WITHIN DISTRICT BOUNDARY SERVED BY ARIZONA PUBLIC SERVICE
-  AREA SERVED BY THE CITY OF MESA
-  DISTRICT SUBSTATIONS
-  DISTRICT POWER PLANTS
-  ARIZONA PUBLIC SERVICE POWER PLANTS
-  USBR SUBSTATION
-  DISTRICT AND ASSOCIATION BOUNDARY

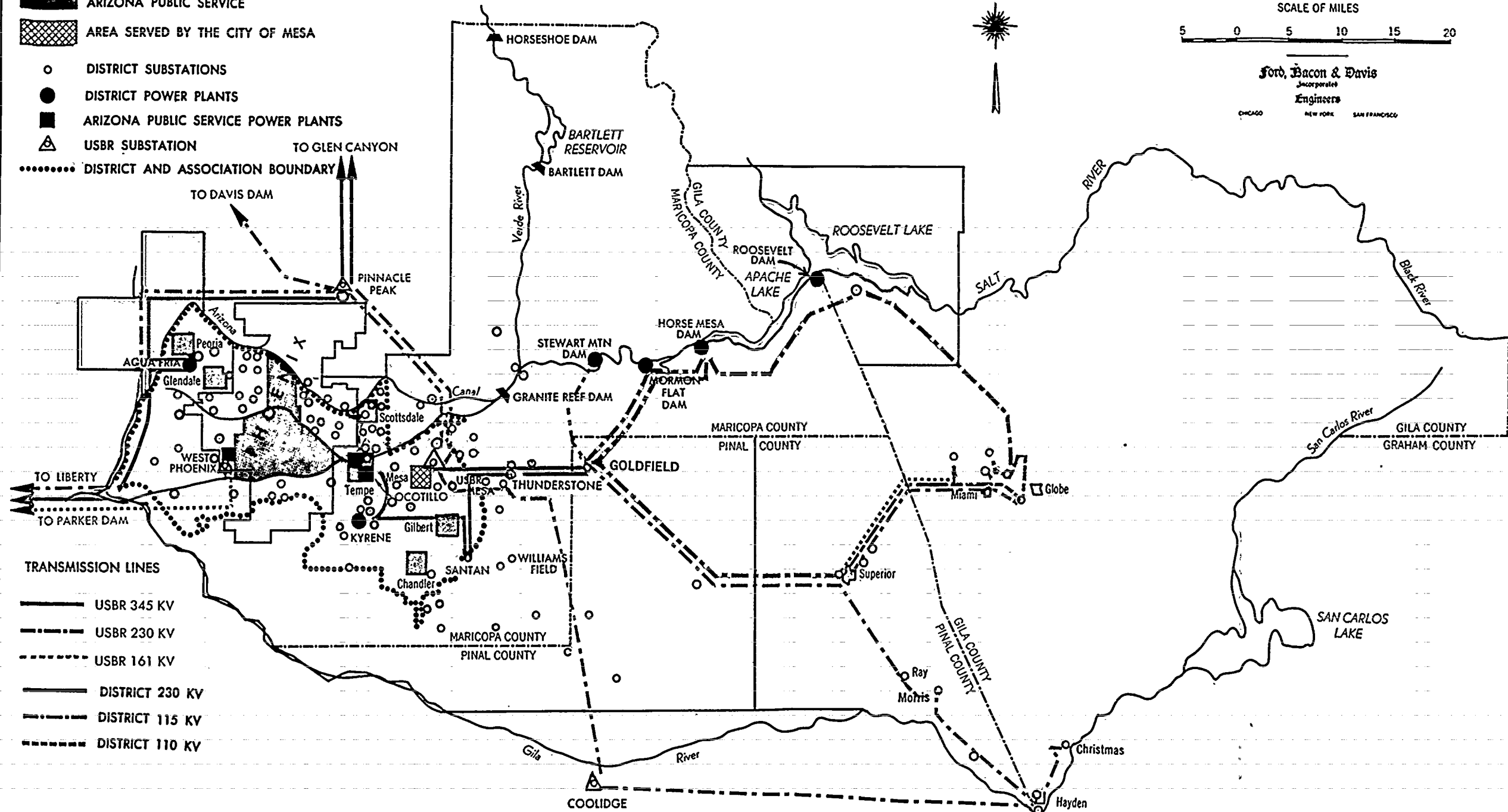
SERVICE AREA OF THE DISTRICT

SCALE OF MILES

5 0 5 10 15 20

Ford, Bacon & Davis
Incorporated
Engineers

CHICAGO NEW YORK SAN FRANCISCO



W-5954 - 11/21/72 A.R.

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 (1974-1979) of the District includes generating plants planned or being constructed, in widely separated locations, combustion turbines and combined-cycle units in the Valley, conventional thermal units at Yampa and Hayden in Colorado, Kaiparowits in Utah, Navajo in northern Arizona, a new plant at an undetermined site in Arizona and the Palo Verde Nuclear Station west of Phoenix. During the 1974-1976 portion of the program, about 20% of the new plant capacity is to replace the loss of 254 mw from the Colorado River Storage Project. This represents a significant capital expenditure during the early years of the program. The estimated expenditure for production plant in 1974-1979 is \$1,049,204,000 or 76.4% 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 and other high-voltage transmission lines supplying power to the District are shown in Exhibit No. 3.

The estimated cost of the total 1974-1979 transmission program is \$142,138,000, or 10.3% of the total projected construction costs.

Costs for distribution system additions and improvements for the 1974-1979 program are estimated at \$137,421,000 or 10.0% 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 nine new 22,400-kva unit substations must be provided each year to meet residential and commercial load growth. Projected costs include \$62,674,000 for underground lines compared to \$25,081,000 for overhead lines, which indicate the continuing trend toward undergrounding of all new distribution lines.

The general plant additions include automotive equipment, communications, supervisory control of substations from a system dispatch office, and a \$4,900,000 addition to the main office building. The 6-year program calls for an expenditure of \$35,890,000 or 2.6% of the total.

Expenditures shown below for 1974-1979 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 1974-1979. The new estimates reflect changes in estimated costs for the current year and elimination of a combustion turbine from the program. Such changes are inevitable in a growing utility. Comparison of estimates follows:

	Estimate February 1974 (000)	Estimate October 1973 (000)
Expenditures for 1974	\$ 166,310	\$ 154,256
Expenditures for 1975	116,183	116,183
Expenditures for 1976	220,659	229,283
Expenditures for 1977	332,163	334,253
Expenditures for 1978	279,106	279,106
Expenditures for 1979	258,986	258,986
	<u>\$1,373,407</u>	<u>\$1,372,067</u>

SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT

Summary—Estimated Capital Expenditures for 1974-1979 Electric Construction Program (1) (000)

	1974	1975	1976	1977	1978	1979	Total 1974-1979
Four Corners(2)	\$ 2,048	\$ 1,198	\$ 12,462	\$ 2,388	—	—	\$ 18,096
Navajo	30,846	20,563	11,679	1,463	—	—	64,551
Railroad	600	403	140	—	—	—	1,143
Hayden Project	33,436	20,478	7,424	7,177	\$ 77	—	68,592
Yampa Project	2,207	3,774	24,003	36,586	21,454	\$ 8,027	96,051
Arizona Station	5,449	18,316	90,926	132,821	76,568	33,569	357,649
Kaiparowits	326	1,943	4,138	8,945	31,119	40,245	86,716
Combustion Turbines	11,418	2,157	—	—	—	—	13,575
Santan Combined-Cycle Units	23,699	2,497	—	—	—	—	26,196
Palo Verde Nuclear Station ..	3,673	5,561	22,166	61,659	94,592	106,499	294,150
Nuclear Fuel	1,113	1,166	1,231	545	204	4,463	8,722
Future Nuclear Projects	12	12	696	567	4,163	8,313	13,763
Subtotal Thermal							
Plants	\$114,827	\$ 78,068	\$174,865	\$252,151	\$228,177	\$201,116	\$1,049,204
Major Transmission(3)	10,471	10,258	18,719	51,406	16,949	22,663	130,466
Pumped Storage	—	—	—	—	96	524	620
Other Electric Construction:							
Generation	3,540	336	384	504	528	756	6,048
Transmission	3,004	1,546	1,634	1,728	1,827	1,933	11,672
Distribution	21,073	21,830	20,880	22,214	26,094	25,330	137,421
Project General	11,763	3,691	4,177	4,160	5,435	6,664	35,890
Research and Development ...	1,632	454	—	—	—	—	2,086
Construction Program							
Total	\$166,310	\$116,183	\$220,659	\$332,163	\$279,106	\$258,986	\$1,373,407
Less:							
Interest during Construc-							
tion (IDC)	10,084	9,910	10,996	21,011	25,903	26,107	104,011
Total (without IDC)	\$156,226	\$106,273	\$209,663	\$311,152	\$253,203	\$232,879	\$1,269,396

Note: (1) Costs of future sulfur dioxide removal systems at Mohave not included. Results from the test program now under way at this station will determine future costs.

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

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

Operating Revenues and Expenses

Table 19, page 35 of the Official Statement contains the estimated 1973 revenues available from the various customer classifications. The residential group of customers in 1973 accounted for the largest kwh consumption, 38.2%, and yielded 46.1% of the revenue. The residential load has been growing consistently, and there was a significant increase of annual housing completions from 14,500 in 1971 to 18,500 in 1972 and almost 22,000 in 1973.

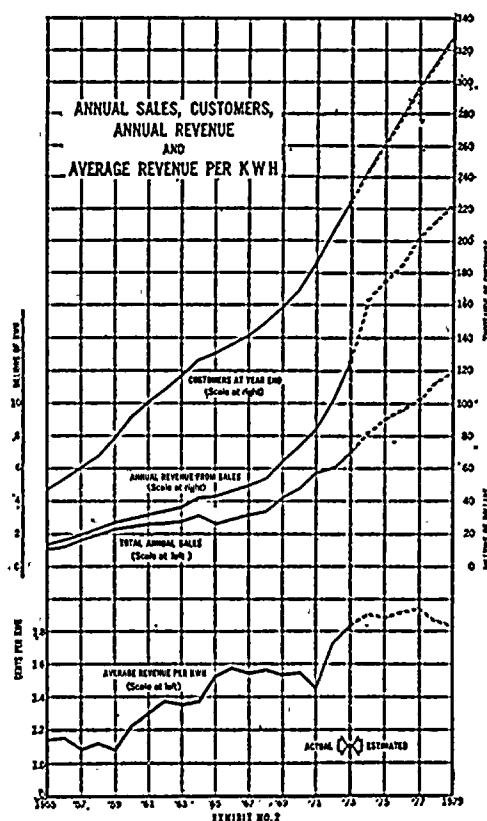
The second largest customer category is the commercial and small industrial category. In 1973 this group used about 22.6% of the energy sold and contributed about 26.4% of the revenue. Since most of the customers included in this class are service-oriented organizations, their growth is linked directly to the growth of the residential customer class. Sales in both the residential and commercial and small industrial classes are expected to increase by 53% during the 1974-1979 period.

Large Industrial and the Mines together used 19.3% of the electricity sold and yielded 12.0% of the 1973 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 50,000-kw requirement for its new Pinto Valley Development; Kennecott Copper Company plans an additional 30,000 kw at Hayden, Arizona, by 1980. Total eastern mining area loads were 140,000 kw for 1973 and are expected to increase to 276,000 kw by 1979.

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 1973 the 225,921 customers represented an increase of about 10% per year, compounded annually over the last 20 years. Exhibit No. 2 illustrates the accompanying growth in sales and revenues.

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 1963-73 period, revenue from sales increased from \$37,724,000 to \$127,656,000, an increase of 238%. 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 2,312,000,000 kwh in 1963 and 6,057,000,000 kwh in 1973, an increase of 162%. This was an increase of about 11% a year, compounded annually.

The estimated total operating revenues is the sum of sales of electricity and "Other Electric Revenue." The latter in 1973 amounted to \$1,203,000 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 18% of 1973 operating expenses. The largest item, about 46% 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, which is also in short supply. 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 utili-

zation 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

1973 Actual—1974-1979 Estimated

(000)

	Operating Revenues			Operating Expenses				Net Revenues from Operations
	From Sales(1)	Other(2)	Total Electric	Power Operations (3)	Operating and Maintenance(4)	Sales and Ad Valorem Taxes	Total (5)	
1973	\$127,656	\$1,203	\$128,859	\$49,221	\$20,242	\$ 6,205	\$ 75,668	\$53,191
1974	165,671	1,240	166,911	78,661	21,444	6,516	106,621	60,290
1975	175,022	1,186	176,208	80,964	29,943	7,655	118,562	57,646
1976	185,402	1,161	186,563	83,311	31,840	8,363	123,514	63,049
1977	200,159	1,204	201,363	99,911	32,589	9,401	141,901	59,462
1978	212,675	1,245	213,920	95,718	39,724	10,603	146,045	67,875
1979	221,353	1,286	222,639	93,770	46,361	11,432	151,563	71,076

NOTES: (1) For the years 1974-79, includes rate increase effective with January 1974 billing cycle.

(2) Excluding interest and investment income.

(3) Excludes charges for falling water.

(4) Excludes depreciation.

(5) Excludes contributions in lieu of taxes, depreciation, and otherwise in accordance with the Bond Resolution.

CONCLUSIONS

Based upon our studies and analysis which are summarized herein 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 1974-1979 construction program is well conceived, the estimates are reasonable, 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 or lower than those of neighboring utilities.
4. The revenue and expense projections are reasonable.
5. The effects of voluntary curtailments in power consumption have been considered but not reflected in the preparation of revenue and expense projections and in the long-range capital improvement program. Sales of electric energy and resulting revenues were substantially below projected amounts during January and February but Arizona was experiencing an extremely mild winter and this factor contributed significantly to the lower level of usage with a small portion attributable to conservation measures. Indications are that if present conservation trends continue, revenue projections may be reduced slightly for the short term; however 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. The District is 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 ($1 \frac{35}{100}$ ths) 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 ($1 \frac{35}{100}$ ths) 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 without requiring adjustments as provided in paragraph 4, above.

Very truly yours,

Ford, Bacon & Davis, Inc.

FORD, BACON & DAVIS INC.

AUDITORS' REPORT

To the Board of Directors and Board of Governors of
Salt River Project Agricultural Improvement and Power District, and
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, 1973, and December 31, 1972, and the related combined statements of net revenues and sources of funds for additions to utility plant for the years then ended. Our examinations were 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, 1973, and December 31, 1972, 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 13, 1974.

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

COMBINED BALANCE SHEET—DECEMBER 31, 1973 AND 1972

ASSETS

	<u>1973</u>	<u>1972</u>
UTILITY PLANT, at original cost (Notes 1, 2 and 3):		
Plant in service—		
Electric	\$380,199,002	\$328,673,965
Irrigation	71,997,620	66,503,010
General	25,704,188	23,335,390
Total plant in service	\$477,900,810	\$418,512,365
Less—Accumulated depreciation on plant in service	129,071,089	116,579,864
	\$348,829,721	\$301,932,501
Construction work in progress	210,177,530	101,406,942
Total utility plant	\$559,007,251	\$403,339,443
SEGREGATED FUNDS, consisting of cash and U. S. Government obligations set aside in accordance with bond resolutions:		
Debt service funds, excluding \$11,115,000 in 1973 and \$7,894,000 in 1972 for payment of accrued interest (Note 7)	\$ 44,645,865	\$ 32,634,273
Construction funds	138,498	301,440
	\$ 44,784,363	\$ 32,935,713
CURRENT ASSETS:		
Cash, including \$4,000,000 restricted by line of credit (Note 8)	\$ 4,592,901	\$ 2,239,270
Temporary investments, at cost, held primarily for construction	37,818,741	25,297,542
Deposit in debt service fund for payment of accrued interest on bonds	11,115,396	7,894,246
Accounts receivable, less reserves of \$642,000 in 1973 and \$1,425,000 in 1972 for doubtful accounts	13,881,592	11,695,644
Fuel stocks, at average cost	7,652,322	1,357,294
Materials and supplies, at average cost	7,066,411	5,079,363
Prepayments, interest receivable and other	1,857,109	1,497,732
	\$ 83,984,472	\$ 55,061,091
OTHER ASSETS AND DEFERRED CHARGES:		
Advances for dedicated capacity and beneficial interest in electric plant of others, less accumulated straight-line amortization over 39 years	\$ 10,763,179	\$ 9,384,336
Nonutility plant, less accumulated depreciation of \$400,000 in 1973 and \$536,000 in 1972	1,299,433	1,229,462
Bond expense being amortized	1,689,652	1,385,850
Miscellaneous deferred charges	4,879,536	3,954,490
	\$ 18,631,800	\$ 15,954,138
	\$706,407,886	\$507,290,385

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, 1973 AND 1972

CAPITALIZATION AND LIABILITIES

	<u>1973</u>	<u>1972</u>
LONG-TERM DEBT (Note 7):		
General obligation bonds	\$304,872,729	\$311,741,004
Electric system revenue bonds	148,548,103	—
Obligations to U. S. Government	11,256,911	11,109,147
Other obligations	68,223	79,576
	<u>\$464,745,966</u>	<u>\$322,929,727</u>
ACCUMULATED NET REVENUES, invested principally in utility plant:		
Balance beginning of year	\$109,663,321	\$ 96,902,577
Net revenues for the year	17,459,416	12,760,744
Balance end of year	<u>\$127,122,737</u>	<u>\$109,663,321</u>
Total capitalization, consisting of long-term debt and accumulated net revenues	<u>\$591,868,703</u>	<u>\$432,593,048</u>
CURRENT LIABILITIES, excluding \$8,950,000 in 1973 and \$7,897,000 in 1972 representing current portion of long-term debt which is to be paid from segregated funds:		
Notes payable to banks (Note 8)	\$ 41,250,000	\$ 21,500,000
Accounts payable	18,016,469	6,508,577
Accrued taxes and tax equivalents	4,047,535	3,751,874
Accrued interest	11,250,233	8,023,561
Customers' deposits	1,656,334	1,318,726
Other current and accrued liabilities	1,956,105	1,970,983
	<u>\$ 78,176,676</u>	<u>\$ 43,073,721</u>
DEFERRED CREDITS AND RESERVES:		
Irrigation assessments levied for subsequent year	\$ 1,353,241	\$ 1,203,610
Advances for construction	866,112	841,467
Other	622,597	680,379
	<u>\$ 2,841,950</u>	<u>\$ 2,725,456</u>
COMMITMENTS AND CONTINGENCIES (Notes 3, 4, 5 and 6) .		
CONTRIBUTIONS IN AID OF CONSTRUCTION:		
Electric plant	\$ 10,889,549	\$ 7,970,426
Irrigation plant	22,631,008	20,927,734
	<u>\$ 33,520,557</u>	<u>\$ 28,898,160</u>
	<u>\$706,407,886</u>	<u>\$507,290,385</u>

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, 1973 and 1972

	<u>1973</u>	<u>1972</u>
OPERATING REVENUES:		
Electric	\$128,334,924	\$102,627,839
Water and irrigation	<u>1,578,819</u>	<u>2,070,781</u>
Total operating revenues	<u>\$129,913,743</u>	<u>\$104,698,620</u>
OPERATING EXPENSES:		
Power purchased	\$ 14,746,135	\$ 12,147,085
Fuel used in electric generation	28,694,459	15,969,017
Other operation expenses	25,546,385	23,372,173
Maintenance	9,456,018	7,891,291
Depreciation and amortization (Note 1)	14,352,886	13,282,518
Taxes and tax equivalents (Note 6)	<u>12,691,099</u>	<u>11,207,572</u>
Total operating expenses	<u>\$105,486,982</u>	<u>\$ 83,869,656</u>
Net operating revenues	<u>\$ 24,426,761</u>	<u>\$ 20,828,964</u>
FINANCING COSTS:		
Interest on bonds at coupon rates	\$ 19,673,195	\$ 13,448,903
Amortization of bond discount	435,622	406,620
Amortization of bond issue expense	133,085	120,708
Interest on other obligations	297,911	155,691
Interest earned on investments and deposits	<u>(6,313,813)</u>	<u>(2,933,477)</u>
Net financing costs	\$ 14,226,000	\$ 11,198,445
ALLOWANCE FOR FUNDS USED FOR CONSTRUCTION (Note 1)	<u>(6,967,752)</u>	<u>(3,671,377)</u>
Financing costs less allowance for funds used for construction	<u>\$ 7,258,248</u>	<u>\$ 7,527,068</u>
OTHER DEDUCTIONS (REVENUES), NET	<u>\$ (290,903)</u>	<u>\$ 541,152</u>
NET REVENUES FOR THE YEAR	<u>\$ 17,459,416</u>	<u>\$ 12,760,744</u>

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, 1973 and 1972

	<u>1973</u>	<u>1972</u>
GROSS ADDITIONS TO UTILITY PLANT	\$171,144,625	\$ 89,788,071
FUNDS GENERATED FROM OPERATIONS:		
Net revenues for the year	\$ 17,459,416	\$ 12,760,744
Depreciation and other charges not requiring current funds	16,925,011	15,196,684
Total funds generated from operations before retirement of debt and debt service	\$ 34,384,427	\$ 27,957,428
Less—		
Repayments of long-term debt	7,913,157	8,070,177
Increase in segregated funds set aside for debt service	12,011,592	5,982,608
Net funds generated from operations	<u>\$ 14,459,678</u>	<u>\$ 13,904,643</u>
FUNDS OBTAINED FROM FINANCING:		
Proceeds of bond issues	\$148,507,206	\$ 49,038,526
Advances from U. S. Government for rehabilitation of irrigation plant	786,569	686,050
Other advances and contributions in aid of construction	4,647,041	2,808,946
Short-term borrowing, net of repayments	19,750,000	21,500,000
Reduction (increase) in segregated funds set aside for construction	162,942	(78,519)
Reduction (increase) in temporary investments held primarily for construction	(12,521,199)	8,557,705
Net funds obtained from financing	<u>\$161,332,559</u>	<u>\$ 82,512,708</u>
CHANGES IN OTHER ITEMS AFFECTING FUNDS:		
Decrease (increase) in fuel stocks	\$ (6,295,028)	\$ 147,372
Decrease (increase) in other assets and liabilities, net	1,647,416	(6,776,652)
Net change in other items	<u>\$ (4,647,612)</u>	<u>\$ (6,629,280)</u>
FUNDS USED FOR ADDITIONS TO UTILITY PLANT	<u>\$171,144,625</u>	<u>\$ 89,788,071</u>

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, 1973 and 1972

(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. 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 component cost of 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. However, the amounts capitalized have increased because of substantial increases in construction programs and construction costs.

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 1973 and 1972 resulted in provisions approximating 3.49% for 1973 and 3.46% for 1972 on the average cost of depreciable electric plant, and 2.45% for 1973 and 3.12% for 1972 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.

In 1973, the Federal Power Commission ordered companies subject to its jurisdiction to adopt in 1974, a method of accounting whereby the balances of contributions in aid of construction will be offset against utility plant. While Salt River Project is not subject to this order, its management has expressed its intention to adopt such a method of accounting at January 1, 1974.

(c) Deferred Charges

Bond discount, premium, and bond issue expense are being amortized over the terms of the related bond issues. Other deferred charges are amortized over the estimated useful periods of such expenditures.

(d) Employees' Retirement Plan

The Project has a retirement plan covering substantially all employees. Since 1968, the plan has been 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 \$10,117,000 at July 1, 1973, and will be funded over a period ending in 2001. The employers' cash contributions to this plan totaled \$2,706,000 in 1973, and \$2,488,000 in 1972.

(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 to date for uncompleted new facilities required to serve anticipated customer needs and consist of:

	December 31	
	1973	1972
Electric generating facilities	\$161,312,356	\$ 73,573,083
Transmission and distribution	40,356,532	21,567,234
Irrigation plant	3,873,943	4,352,343
Other construction	4,634,699	1,914,282
Total	\$210,177,530	\$101,406,942

Construction expenditures planned for 1974 approximate \$173 million, which includes \$100 million to be expended in 1974 on the major construction projects described below:

Salt River Project, together with a participant, is constructing a 250 megawatt coal fired electric generating station near Hayden, Colorado, at the site of an existing unit now operated by the participant. The Project owns an undivided 80% interest in this station, which is anticipated to be in service in April 1976. On January 1, 1982, upon approval of appropriate public authorities, the participant may purchase from the Project 30% of the Project's interest and at that time the Project and the participant would both own 50% of the station. The estimated total cost of the station is \$91 million, with the Project furnishing 80% of the construction funds. Transmission of the power generated by this new unit will be handled under existing arrangements, without further construction cost to the Project.

Salt River Project is the manager of the Navajo Project, acting for itself and five other participants for the purpose of constructing and operating three 750 megawatt coal fired electric generating units and a related coal haul railroad in northern Arizona at an estimated cost of \$669 million. Due primarily to requirements for additional environmental protection equipment, estimated costs have increased \$15 million over that estimated at December 31, 1972. Total costs of environmental protection equipment are now estimated at \$209 million. The Salt River Project owns an undivided 21.7% interest in the Navajo Project for its own use and benefit. It also owns an undivided 24.3% interest in the generating station and railroad for the use and benefit of the United States, an interest fully funded by the United States. Testing of Unit 1 began in January, 1974, and estimated "in-service" dates for Units 1, 2 and 3 are May, 1974, 1975 and 1976, respectively.

The participants in the Navajo Project have also joined in the construction of related transmission systems. The Salt River Project owns an undivided 32.9% interest in the Southern Transmission System, which was completed in December, 1973, at a cost to the Salt River Project of \$31 million, and also owns undivided interests in the Southern and Western Transmission Systems for the use and benefit of the United States, with these interests being fully funded by the United States.

The costs related to the interests held for the use and benefit of the United States in the Navajo Project and in the related transmission systems are not reflected in the accounts of the Salt River Project, since they are not assets of the Salt River Project.

Salt River Project is constructing for its own use four 73 megawatt combined cycle generating units near Chandler, Arizona. The first three units will be completed in May of 1974 with the fourth unit being completed in May of 1975. The total cost of the four units is estimated at \$57.5 million.

Salt River Project is constructing for its own use three 68 megawatt combustion turbine generating units at Peoria, Arizona. Two of the units will be completed in May of 1974 with the third being completed a year later. Estimated cost of the three units is \$22.3 million.

(4) Environmental Litigation:

Pending lawsuits involving environmental matters could affect interests owned by Salt River Project in generating facilities in the Four Corners, Navajo, Mohave and other power projects.

The Chemehuevi Tribe of Indians, with others, has alleged that the Federal Power Commission has licensing jurisdiction over the southwest power projects and asks that the Commission order the companies which are members of such projects to show cause why they should not be required to apply for licenses, and why they should not be required to suspend the development, planning, and construction of Four Corners, Mohave, Navajo and other projects, pending the outcome of the Commission proceedings. The complainants appealed the FPC's dismissal of the complaint. The Circuit Court of Appeals for the District of Columbia held that the FPC does have jurisdiction to license the use of surplus water behind United States dams if not subject to other United States jurisdiction and remanded the case to FPC for further proceedings. The FPC and utility intervenors plan to seek review of the decision by the Supreme Court. The Project and other utilities, in *Arizona Public Service, et al., v. Environmental Protection Agency* are contesting EPA regulations which would require 70 percent SO₂ removal at the Navajo and Four Corners generating stations by March 15, 1976. The petitions were filed in both the Ninth and Tenth Circuit Court of Appeals. Both courts stayed any further action pending final modifications of the EPA regulations. Final regulations confirming the 70% standard, but extending the March, 1976 date to July, 1977 are expected to be promulgated by EPA within the next month.

Management believes that the final dispositions of the above legal matters will not materially adversely affect the interest of Salt River Project.

In *Lomayaktewa, et al., v. Rogers Morton, et al.*, the complainants sought to invalidate a mining lease between the Hopi Tribe and Peabody Coal Company. The lease is for lands which have 49 percent of the fuel supply dedicated to the Mohave Project and about 86 percent of the fuel supply dedicated to the Navajo Project. The Federal District Court of Arizona has rendered judgment in favor of the United States, Peabody Coal Company and utility intervenors on their Motion to Dismiss. The plaintiffs have filed a notice of appeal to the 9th Circuit Court of Appeals. Attorneys for the District believe the ultimate decision in this case should be favorable to the District.

(5) FLOOD DAMAGE LITIGATION:

Various lawsuits and claims have been filed by property owners within the boundaries of Salt River Project, alleging that the Project has a responsibility in regard to flood control and a liability in regard to flood damage. A jury decision in a trial held in the Superior Court of the State of Arizona in February, 1974, awarded punitive damages of \$434,000 to a group of 217 claimants. This decision will be appealed on a number of issues and therefore, may not be settled for some time. The ultimate liability, if any, of Salt River Project in this suit, and in four other pending cases where claims for unspecified sums also have been advanced, is not presently determinable.

Management expects that a significant portion of the liabilities, if any, which might result from these flood damage claims will be covered by insurance.

(6) 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 filed suit against the Project to increase the value used in the computation of the voluntary contributions for the years 1970, 1971 and 1972, which would have had the effect of increasing contributions by \$2.25 million for the three years. On July 11, 1973 the Superior Court of Arizona granted judgment in favor of the Salt River Project. This decision has been appealed by the Department of Property Valuation. The Department of Property Valuation has also filed suit against the Salt River Project to increase the valuation for the year ended December 31, 1973, which would increase contributions by approximately \$400,000. This suit is being held in abeyance pending disposition of the suits for the years 1970 thru 1972. Since all prior findings have been favorable to the Project, no reserve for additional contributions has been provided at December 31, 1973.

(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, 1973, and December 31, 1972, was as follows:

General Obligation Bonds—

	Interest Rate	Issued in Year	Outstanding		Future Maturities
			12/31/73	12/31/72	
Refunding Bonds	3	1944-47	\$ 398,000	\$ 1,316,000	1974-75
Issue No. 4	2½ to 2¾	1950	2,300,000	2,300,000	1974-77
Issue No. 5	2¾ to 2½	1951	4,000,000	4,250,000	1974-80
Issue No. 6	2¾ to 3¾	1953	9,300,000	9,700,000	1974-82
Issue No. 7	3 to 3¾	1956	7,595,000	8,200,000	1974-87
Issue No. 8	3¾ to 3¾	1959	4,170,000	4,240,000	1974-87
Issue No. 9	1 to 4¾	1960	25,875,000	26,675,000	1974-92
Issue No. 10	1 to 3½	1962-65	18,245,000	19,065,000	1974-94
Issue No. 11	3¼ to 4¾	1965	12,070,000	12,270,000	1974-87
Issue No. 12	3 to 5	1968-69	41,950,000	43,600,000	1974-99
Issue No. 13	4 to 5	1969	8,950,000	9,300,000	1974-99
Issue No. 14	3½ to 6	1970-72	174,600,000	175,800,000	1974-2003
Unamortized bond discount, net of premium being amortized			(4,580,271)	(4,974,996)	
Total G.O. bonds outstanding			<u>\$304,872,729</u>	<u>\$311,741,004</u>	
Electric System Revenue Bonds—					
1973 Series A	5 to 6½	1973	75,000,000	—	1976-2010
1973 Series B	5 to 6½	1973	75,000,000	—	1977-2011
Unamortized bond discount			(1,451,897)	—	
Total E.S.R. bonds outstanding			<u>\$148,548,103</u>	<u>\$ —</u>	
Total bonds outstanding			<u>\$453,420,832</u>	<u>\$311,741,004</u>	
Obligations to U.S. Gov't for irrigation plant	None	1935-73	11,256,911	11,109,147	1974-96
Other obligations	None	1950-68	68,223	79,576	1974-79
Total long-term debt			<u>\$464,745,966</u>	<u>\$322,929,727</u>	

The annual maturities of bonds and other long-term debt outstanding as of December 31, 1973, due in each of the years 1974 thru 1978 are \$8,950,000; \$9,363,000; \$10,130,000; \$14,835,000 and \$15,201,000, respectively.

On January 9, 1974, the District sold bonds in the principal amount of \$90,000,000 at an effective interest rate of 5.76%. These bonds were the first installment of \$180 million of electric system revenue bonds authorized October 15, 1973, to finance the 1974 construction program.

Interest and amortization of discount on the various issues outstanding during the year resulted in an effective annual rate of 4.97% for 1973. This rate approximates 5.22% over the remaining terms of the bonds, after giving effect to the bonds sold on January 9, 1974.

The debt service funds portion of segregated funds includes continuing operating reserve requirements under bond resolutions of \$10,787,000 and \$8,931,000 at December 31, 1973 and 1972, respectively.

(8) LINE OF CREDIT:

The District, with the Association joining as guarantor, maintains a line of bank credit in the amount of \$40,000,000. The full amount available was borrowed at December 31, 1973, and at that date carried an interest rate of 5.75%. Other bank borrowings total \$1,250,000 at an interest rate of 4.25%. The average interest rate on these types of borrowings for the year was 4.38%.

(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 \$7,187,000 in 1973 and \$10,600,000 in 1972. These amounts do not include expenditures for additions and improvements to irrigation plant and for repayment of long-term debt.

