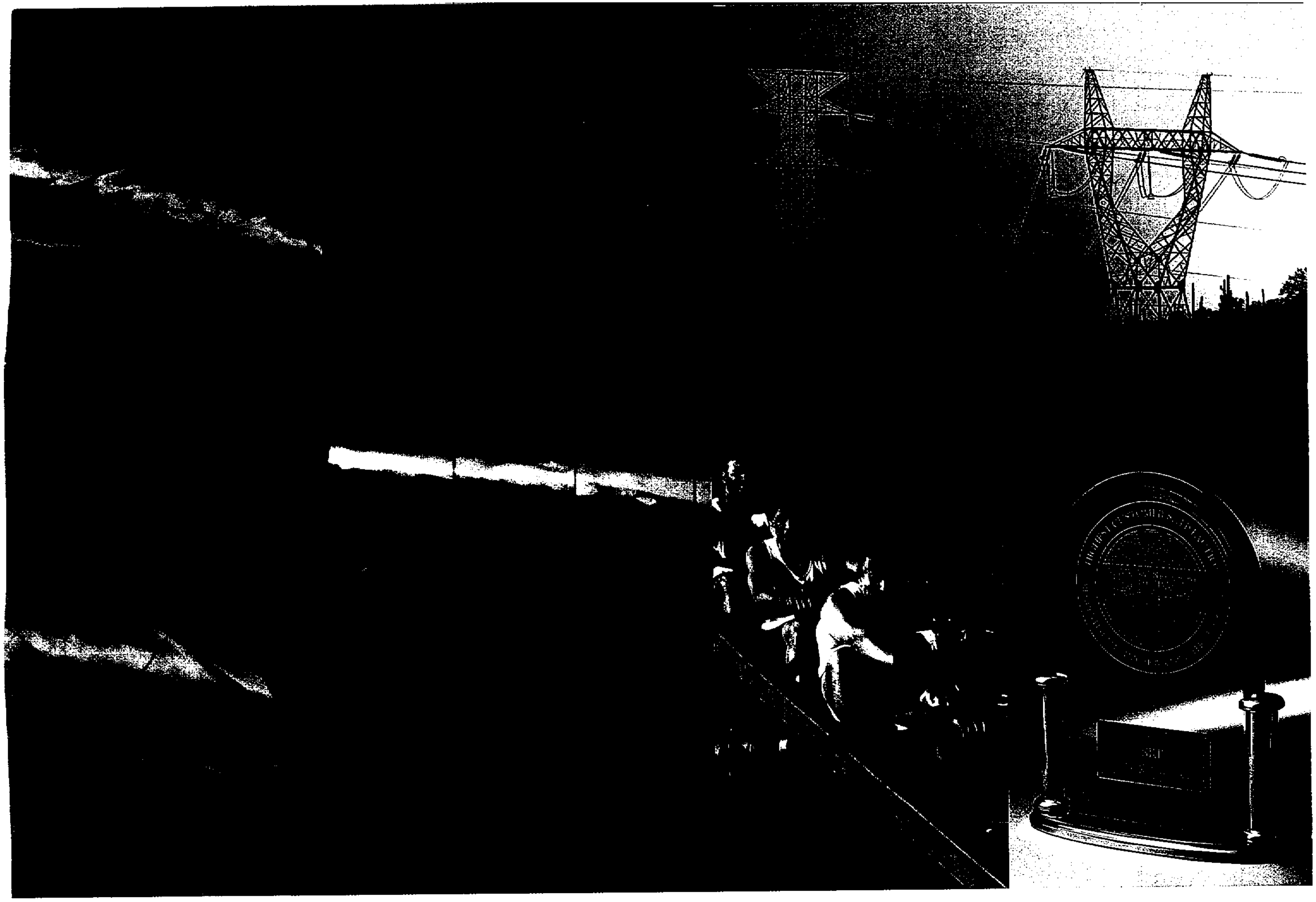


Energy

Water

Growth

Stewardship

Service

Salt River Project

2000 Annual Report

SRP®

Five-Year Financial & Operational Review

SRP®

We generate, transmit and distribute electricity to more than 727,000 customers in central Arizona. We deliver 1 million acre-feet of water to the Phoenix area. We lead the way in a new marketplace. We continue our commitment to our communities. We put the interests of our customers first.

On the Cover

SRP was ranked "Highest in Customer Satisfaction With Residential Electric Service in the Western U.S." two years in a row (tied in 1999) by J.D. Power and Associates and Navigant Consulting, Inc. In addition, SRP ranked highest in customer satisfaction among all electric services ranked in the nation in 2000.

We would like to thank our customers for their confidence in the continuing commitment of our employees to customer satisfaction.

J.D. Power and Associates/ Navigant Consulting, Inc. 1999–2000 Electric Utility Residential Customer Satisfaction Studies.℠ 2000 study based on a total of 23,969 consumer responses. In the Western region, the top 18 largest electric companies were ranked in the study. www.jdpower.com

Financial Data ($000)	**2000**	**1999**	**1998**	**1997**	**1996**
Total operating revenues	$1,797,745	$1,714,158	$1,536,734	$1,457,634	$1,355,391
Electric revenues	1,784,554	1,701,486	1,524,959	1,446,114	1,345,366
Water and irrigation revenues	13,191	12,672	11,775	11,520	10,025
Total operating expenses	1,556,706	1,424,678	1,308,396	1,243,466	1,042,162
Total other income, net	50,047	48,719	39,953	40,134	(16,813)
Net financing costs	172,406	171,979	185,589	197,090	202,040
Net revenues for the year	118,680	111,519	64,510	57,212	94,376
Taxes and tax equivalents	90,931	91,819	93,046	87,219	102,457
Utility plant, gross	6,662,945	6,435,177	6,835,959	6,613,273	6,427,563
Long-term debt	3,164,866	3,235,386	3,302,173	3,432,108	3,517,049
Electric-revenue contributions to support water operations	40,924	42,987	36,216	38,584	28,170
Selected Data					
Total energy sources (million kWh)*	36,262	33,663	28,328	26,926	23,368
Total electric sales (million kWh)	32,801	31,615	26,202	25,072	21,836
Total resources peak month (kW)*	5,892,000	5,740,000	5,730,000	5,727,000	5,062,000
Peak—SRP retail customers (kW)	4,653,000	4,666,000	4,244,000	4,246,000	4,070,000
Peak—Total system (kW)	5,725,000	5,534,000	5,086,000	5,427,000	4,891,000
Water deliveries (acre-feet)**	–	1,030,584	975,177	1,004,634	1,030,090
Runoff (af)**	–	1,074,148	1,339,139	662,174	348,402
Debt service coverage ratio	3.35	3.20	3.02	2.45	2.72
Debt ratio (percent)	60.8	63.0	65.1	67.2	68.7
Employees at year-end	4,050	4,025	4,098	4,276	4,261
Customers at year-end	727,070	701,196	671,096	648,756	625,005

**Includes SRP participation in jointly owned projects.*
***Water data is by calendar year; all other data is by fiscal year ending April 30.*

Inside

A Message from the General Manager

The transition continues. We are prepared for competition, but in Arizona, as in most parts of the country, it is moving slowly. The challenge is to maintain a state of readiness. This past year we examined, confirmed and refined our strategy. SRP will continue in the generation business, maintain and grow our distribution monopoly, and remain a viable public power utility, as we continue our nearly 100-year responsibility to provide reliable and reasonably priced water to the Salt River Valley.

Of note, this year we resolved challenges to SRP's rules for competition, opened our entire customer base to competition, and raised the level of the energy "shopping credit," while reducing prices another 1 percent.

SRP's service area, continuing to grow at an unprecedented rate, is in the second-fastest-growing metropolitan area in the country. Western utilities, during the last decade, have been servicing unprecedented customer growth with excess capacity freed up by Congress' deregulation of transmission. That action encourages diversity purchases and discourages the need for large amounts of installed reserves. But it's time for us to install new generation. And it comes as no surprise that some area residents—unaccustomed to new urban generation—are concerned, no matter how clean and quiet the technology.

Our strategy is a balance of build and purchase. Build, because it's the best economic choice for customers who choose to stay with us. Purchase, because it provides the necessary flexibility as the retail, competitive market develops. Driven by new laws and regulatory direction, incumbent Western utilities are divesting generation. SRP's strategy is to realign our ownership interests where it makes sense.

Meanwhile, we continue to devote substantial resources to the reliability of our distribution system. High priorities are underground cable replacements and voltage support investments.

Our retail power marketing subsidiary, New West Energy, a successful entrant in the highly competitive California market, has completed its start-up phase, and as its original contracts roll over, has taken the opportunity to prune its customer base, renewing contracts selectively. Our challenge is to maintain New West's competitive posture during a transition period longer than originally anticipated, to fulfill its primary mission of marketing SRP's excess generation.

The water side of our business is managing through a two-year shortage. Purchase of excess Colorado River water, and existing and planned underground storage projects—providing regional solutions for periodic shortages—have permitted us to maintain historic allocations while prudently managing limited resources. Early signs of a possible return to more typical weather patterns are encouraging, but we are prepared to manage during an extended shortage.

As always, I offer a tribute to the publicly elected officials and employees of SRP. Their commitment to SRP, its electric customers and water shareholders remains the foundation of our success.

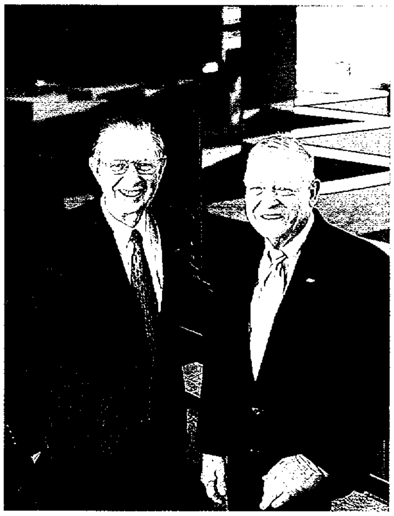
Richard H. Silverman

Richard H. Silverman
GENERAL MANAGER

The transition continues. We are prepared for competition, but in Arizona, as in most parts of the country, it is moving slowly. The challenge is to maintain a state of readiness.

We are pleased to report that SRP achieved its primary goal this past year—to continue the transition into a competitive marketplace.

A Letter to Our Customers, Bondholders and Shareholders



We are pleased to report that SRP achieved its primary goal this past year—to continue the transition into a competitive marketplace. Once again, we demonstrated that a major strength is flexibility as SRP made operational adjustments, fine-tuned service reliability, developed new infrastructure plans and continued our responsibility as the Valley's largest supplier of water.

Our favorable year-end financial results confirm we are on the right track. Total revenues grew by 5 percent to $1.8 billion, thanks to the booming Phoenix area and an active wholesale energy market. Net revenues were nearly $118.7 million, up about $7 million from the previous year. Customer numbers grew by 3.7 percent, topping the 727,000 mark.

Most importantly, our customers again reaped the benefits. We reduced prices for the fourth time in six years, and we made it possible for all of our retail customers to shop for an alternate generation supplier. And for environmentally minded customers—and to continue our stewardship role—we launched a $29 million program to fund renewable energy resources.

We also continued our long-standing commitment to the community. We consider community involvement a major responsibility, and our employees again demonstrated their commitment by volunteering in record numbers. SRP's contributions and in-kind services totaled nearly $2 million during the fiscal year, and more than 85 percent of SRP's work force participated in volunteer and community programs.

We could not have achieved as much as we did alone. We've worked in partnership with many people—including customers, consumer advocates, others in our industry and policy makers. We reached consensus on how we will conduct our businesses in the new marketplace, and we created a system that provides for the Valley's promising future. Through it all, we maintained our focus on low-cost, reliable electricity and water.

All this and more was accomplished because of the strong working relationships between SRP's elected governing boards and our management team. At the same time, SRP's work force rallied to meet the challenges to bring us to where we are today.

We look forward to the new year with enthusiasm and a continued commitment to the electric customers, water shareholders and communities we serve.

William P. Schrader

William P. Schrader
PRESIDENT

John M. Williams Jr.

John M. Williams Jr.
VICE PRESIDENT

The Year in Review

SRP ECO

Our effort to protect the environment for future generations.

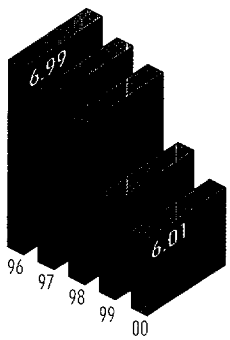
We have a strong commitment to our environmental responsibilities. SRP ECO focuses on 11 key areas important to our customers and communities. Some are discussed within these pages.

Energy

Today, all SRP retail electric customers, if they choose, may shop for an alternative generation supplier.

SRP deserves "national credit for taking a leadership role in setting an example for public and private power organizations around the land."
Restructuring Today,
April 11, 2000

Average Electric Costs to Customers
(Cents per kWh sold)



Average prices per kWh have declined steadily since 1996 for our retail customers.

As a full-service energy retailer, we're one of the major suppliers to homes, businesses and industries in metropolitan Phoenix. When "phase one" of electric competition in Arizona began in late 1998, we were the first to be ready to offer choice to interested customers.

This spring, we accelerated the timetable for competition for the rest of our customers. What does this mean? It means that as of June 2000, seven months ahead of schedule, all retail customers in the SRP service area may consider alternative sources for their generation services.

We were able to make this move because we're fully ready for competition. We have made significant operational adjustments over the past two years. Because of the complex nature of this industry, however, competitors have been slow to enter the marketplace and customers have been slow to choose.

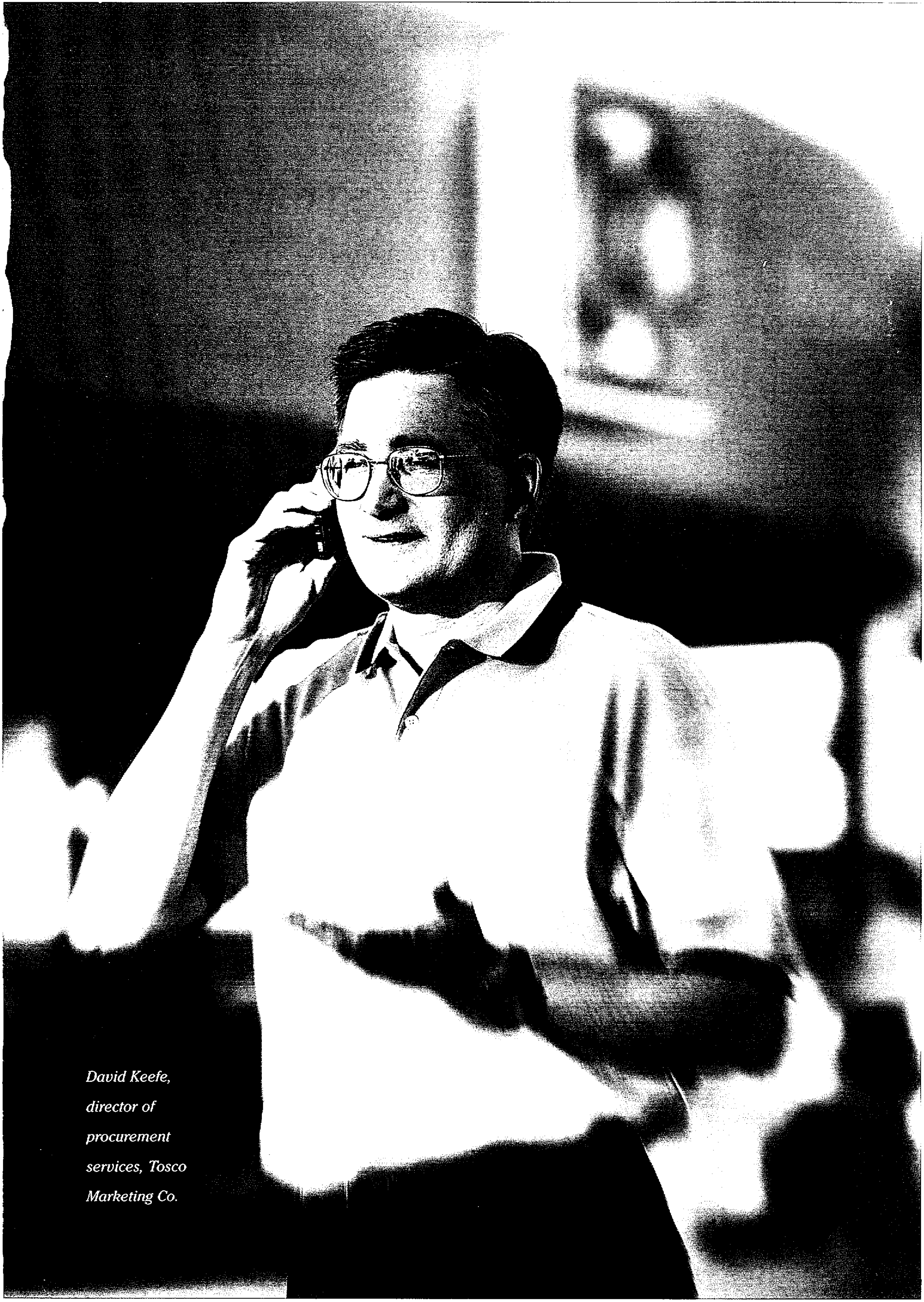
We believe time will accelerate this process. Meanwhile, we continue to provide reliable and affordable electricity, which should keep us well positioned for the future.

DELIVERING MORE THAN POWER FOR CUSTOMERS

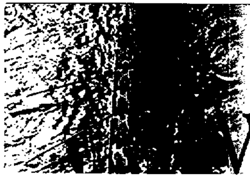
SRP serves about 170 Circle K stores in the Phoenix area that are owned and operated by Tosco Marketing Co., which has 2,000 such stores nationwide. Tosco is a large energy consumer that stands to benefit from the changes in the electric industry.

"SRP shows how committed it is to changing the electric industry and supporting its customers," said Tosco's David Keefe, director of procurement services.

"They've always been good at helping us control our energy costs and, in fact, saved us $30,000 this year with an efficiency analysis."



David Keefe, director of procurement services, Tosco Marketing Co.



Water

SRP water service area is about 375 square miles — or 240,000 acres — in the hottest desert in North America.

The 1999–2000 winter was the driest recorded in 100 years in Arizona, and 1999 was one of the top 10 driest ever.

Our growing portfolio of environmental programs includes increasing the use of SRP canals to generate hydroelectricity.

Located in the heart of the Sonoran Desert, the Phoenix area consumes more than 2 million acre-feet of water each year, supplying homes, business, industry and agriculture.

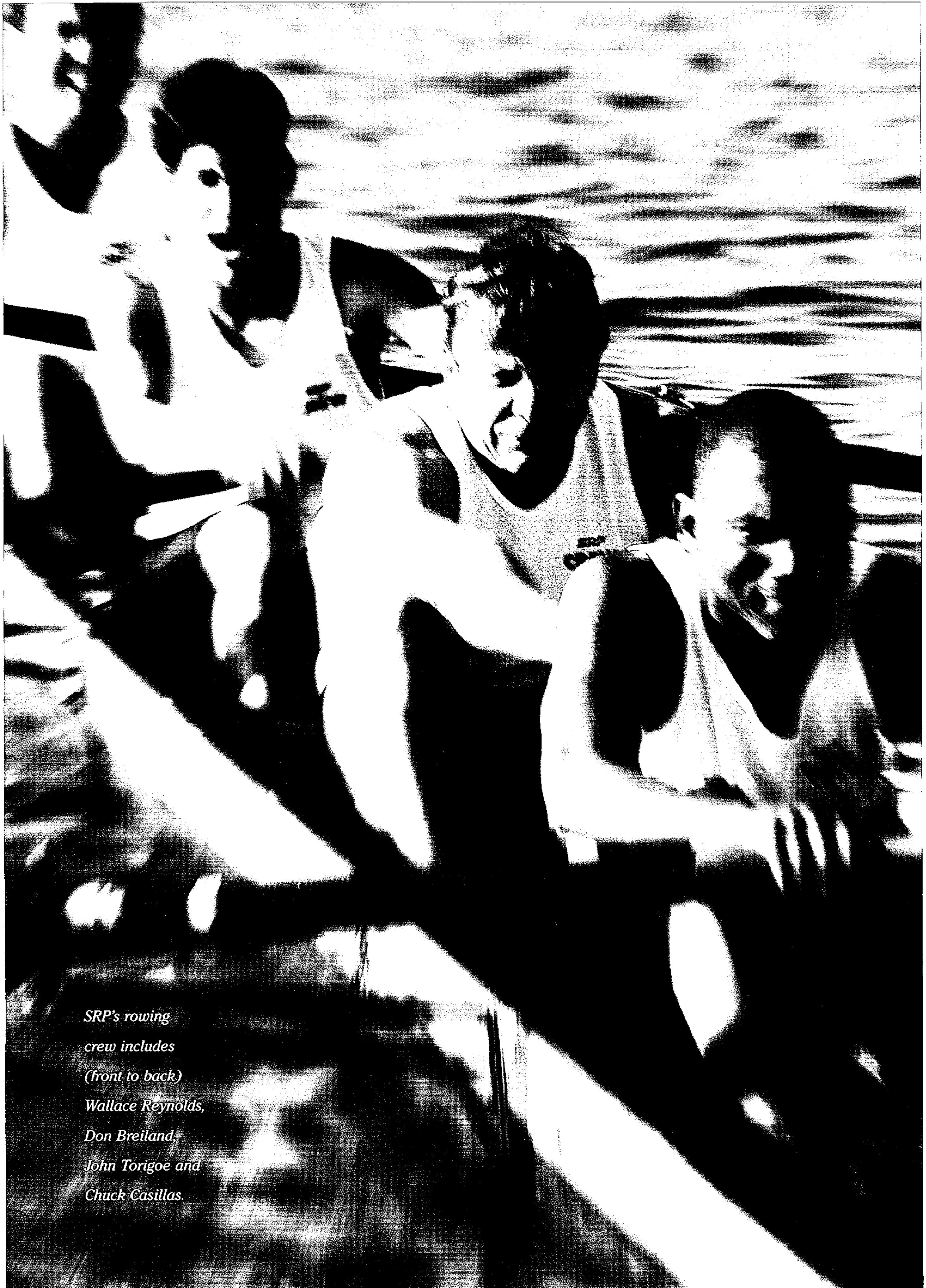
Majestic dams, beautiful lakes and rushing rivers seem to deny the arid nature of the region. Yet these features play critical roles in water supply and management. Surface water is the state's major renewable water source. To make the best use of the surface water when and where it is needed, SRP manages major storage reservoirs and delivery systems serving the Phoenix metropolitan area.

SRP's 97 years of experience in water management is valued throughout the West. We are developing new business ventures for water services, including urban lake management, irrigation construction and groundwater recharge services. We will continue to evaluate and pursue new sources of revenue.

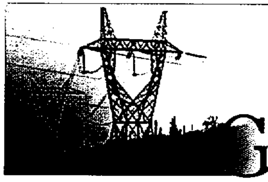
For example, this year we entered into an alliance with one of our largest electric customers, Motorola Inc., to market SPATIA,® a Web-based water measuring device initially developed and marketed by the water side of SRP.

URBAN LAKE BRINGS NEW OPPORTUNITIES

As the operator of Tempe Town Lake, SRP manages the lake's water level and hydraulic features. The lake, new in June 1999, is a growing urban attraction for lakeside developments and recreational ventures. The SRP rowing crew is a good example of the lake's increasing popularity. Twice a week, the crew meets at dawn to practice for upcoming races on the lake. "When the lake was filled last year, we started up a rowing team to compete against others who also use the lake for training," says Bill Powell, an SRP employee and captain of the crew. "We practice early in the morning, then change and go to work. It's a great way to start the day."



SRP's rowing crew includes (front to back) Wallace Reynolds, Don Breiland, John Torigoe and Chuck Casillas.

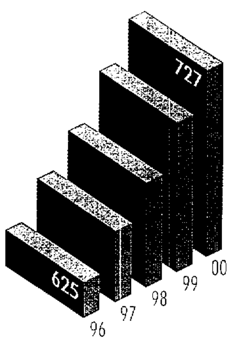


Growth

Nearly 45 percent of SRP's retail energy demand occurs in the four months of June, July, August and September.

SRP's electric service area is 2,900 square miles and includes parts of three counties in central Arizona.

Customers at Year-End
(Thousands)



Our customer base continues to grow, by nearly 4 percent this year, and by 16 percent since 1996.

Over the past 40 years, the Phoenix area has grown from an oasis of fewer than 400,000 people to a metropolis of 2.6 million people. And there's no end in sight: Arizona is the second-fastest-growing state in the nation, and Phoenix is climbing higher among the nation's largest cities.

It's a thriving marketplace and logical choice for business expansion and location. Several business climate factors give the area a competitive edge in attracting and retaining companies that produce everything from computer chips to cosmetics. High on this list: reliable power and water resources.

That's where we fit in. Our low-cost and reliable electricity, and our water management and delivery, are fuel to the economic engine of the area. As the Valley continues to grow and prosper, our proven performance offers the reassurance that we will continue to provide for the future.

We are developing new plans for the continued growth in our service area. We're proposing new generation facilities, and new local and regional transmission projects, to create the resources needed to serve our customers. In combination, these projects will allow us to continue to provide reliable, low-cost electricity in the 21st century.

MORE PEOPLE, MORE JOBS, MORE ELECTRICITY DEMAND

The hot Arizona economy translates to more residents and new and expanding business and industry, which place increasing demands on SRP's electric system. Janeen Rohovit, community outreach coordinator, often hosts meetings and power plant tours to help people understand the complex electricity system serving the Valley and the need for new generation and transmission facilities. Rohovit says, "By educating everyone about our business, we are building understanding about how our business practices result in the low prices and reliability that our customers rely on and value."

Janeen Rohovit,
SRP community
outreach coordinator.

Stewardship

Electric bikes, electric boats, electric cars, electric buses, electric lawnmowers. These are all clean-energy technologies in which SRP is involved.

We support environmental education to preserve and protect Arizona's future.

SRP was recognized during the year by the Library of Congress as an Arizona "Local Legacy" for our unique heritage in the provision of water and electricity, and community involvement.

We don't want to be just any company. We choose to be much more. That's why we take an active stewardship role in our communities.

This stewardship is expressed in many ways. Public education and environmental programs are the focus of much of our efforts, and often the two are combined for increased results.

For example, this year SRP made available new grant monies to local schools to encourage students to tackle the challenge of reducing air pollutants through improved technology. Junior- and senior-high students competed, and scholarships were awarded for the winning ideas. This Enviro-Tech Grant Program will expand in the years to come.

Another good example is our partnership with a local college to fill a shortage of qualified water-quality technicians in central Arizona. The program, in its fourth year, offers high-school students college-level courses to shorten the time it takes to launch their careers as water-quality technicians.

In addition, SRP's employees collectively donate thousands of volunteer hours and monetary contributions to the communities across the Valley and around the state. Together, the efforts of SRP and its employees are creating positive results for our communities.

OUR LAWNMOWER PROGRAM CLEANS THE VALLEY'S AIR

Our lawnmower exchange program is recognized as the most successful in the United States. Gary and Linda DeHoff of Chandler and their sons, Anthony and Kit, brought in the 10,000th gas mower this year, and won a free electric mower as a result. "When we read that gas mowers are responsible for as much as 10 percent of the Valley's ozone-causing air pollutants, we knew we could do something to help," says Gary, who got the word through SRP's customer newsletter. The exchanged equipment is recycled, with proceeds donated to an asthma education and management program for children. The Environmental Protection Agency presented SRP with an Earth Day Award in April for "Mowing Down Pollution."

Gary and Linda DeHoff at their Chandler home with sons, Anthony, 17, and Kit, 6.

Service

SRP is the "Best Public Power Entity in North America" for 1999, according to the global management-consulting firm PHB Hagler Bailly. SRP was recognized for leadership in industry competition in Arizona — and most of all, for our "deep and positive relationships with customers."

Our new "green power" program will make more renewable-energy options available for customers this fall.

SRP's midsize business customers are among the most satisfied in the United States with their electric service, according to a survey this year by J.D. Power & Associates and Navigant Consulting.

If it's important to our customers, then it must be important to us. That's why we dedicate ourselves to making it easy and pleasant for our customers to do business with us. We want them to have the confidence and peace of mind that we'll continue to provide the reliable, affordable services they value.

We take the time to understand our customers' energy needs, and create tailored solutions to help them build efficiencies and control costs. This year, we expanded our account management program serving our largest customers, who typically have the most complex energy needs.

We also adjusted prices again this year for nearly $14 million in savings to our customers. The new prices better reflect costs of providing service by customer type and are intended to stimulate electric competition in our service area.

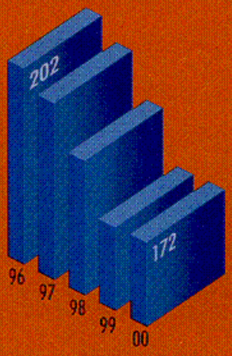
On the product front, we launched a new green power plan for customers who want to support renewable-energy technology. The plan provides opportunities to draw energy from a variety of sources, including solar power plants, facilities that turn landfill gas into electricity, and hydroelectric generation on SRP canals. As demand and opportunities increase for environmentally friendly power, our program will grow as well.

WE ARE GROWING OUR GREEN POWER PROGRAM

As renewable-energy technologies become more efficient and affordable, more SRP customers will be able to consider them as sources of electricity. Ernie Palomino, senior principal engineer for SRP, administers the renewables program to develop green product and energy options for customers. "We believe our plan will benefit customers, lower costs and improve our environment," says Palomino, who oversees the solar program, which included this 25 kW solar thermal dish on the Salt River Pima-Maricopa Indian Community east of Phoenix.

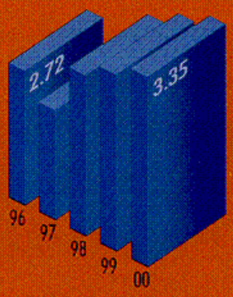
Ernie Palomino, senior principal engineer for SRP.

Financial Section



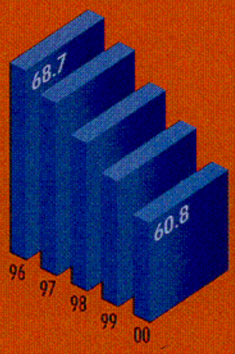
Net Financing Costs
($Millions)

We continue to realize significant financing cost savings as a result of prior years' debt reductions and refundings.



Debt Service Coverage Ratio

Reductions in debt, combined with operational cost controls, create a positive trend in SRP's debt service coverage ratio.



Debt Ratio
(Percent)

A steady decline in SRP's debt ratio is the result of continued emphasis on reduction of debt capitalization.

C01

Management's Financial and Operational Summary

Financial Summary

Fiscal year 2000 was a strong one for SRP, with continued economic growth in our service area fueling increases in operating revenues.

Operating revenues were up 5 percent at $1.8 billion. Retail customer growth of more than 4 percent in the residential, commercial and small industrial customer classes contributed to the increase. Electric revenues were offset by a full year's impact of the 5.4 percent price reduction implemented December 31, 1998. The SRP Board of Directors this year approved another price reduction averaging 1 percent, effective May 15, 2000.

Total operating expenses increased 9.3 percent, mostly due to additional fuel, purchased power and maintenance expenses to meet increased demand. Depreciation expenses reflect an entire year of amortization of our regulatory asset, approximately $11 million per month, compared with only four months' amortization in the prior year. The regulatory asset is amortized over the six-year competitive transition period, which began December 31, 1998.

Financing costs held steady, maintaining our progress to reduce and refinance corporate debt.

SRP's reservoir storage remains below normal with 1 million acre-feet stored at the end of the fiscal year, down about 10 percent from the previous year. Water delivery revenues were $13.2 million, compared with $12.7 million the previous year. Water-related operating expenses were even with the prior year.

Operating Code of Conduct

In accordance with the requirements of the May 1998 Electric Power Competition Act, SRP has developed and implemented a Code of Conduct, which provides a framework to prevent anti-competitive activities that could result from a public power entity providing competitive and non-competitive services to retail electric customers. The underlying principles of the code are to protect the public interest and provide all competitors a fair opportunity to compete in the electric generation and other competitive services markets.

We are subject to an annual independent audit of our adherence to the code. Our first audit covering calendar year 1999 was completed in February 2000. The audit report confirmed that SRP has complied in all material respects with the code's requirements.

Year 2000

SRP tackled the Year 2000 computer challenge with a comprehensive effort across our core business systems. The challenge of ensuring uninterrupted electric and water services was made a top priority. SRP experienced no significant Y2K computer issues involving its business units, suppliers or customers. We anticipate no further issues related to Year 2000. Y2K expenses totaled about $17 million, which is within our estimate of $15 million to $20 million.

Combined Balance Sheets

As of April 30, 2000 and 1999

	2000	1999
Assets	*(Thousands)*	
Utility Plant		
Plant in service—		
Electric	[illegible]	$5,509,688
Irrigation	[illegible]	216,371
Common	[illegible]	379,862
Total plant in service	[illegible]	6,105,921
Less—accumulated depreciation on plant in service	[illegible]	(2,742,260)
	[illegible]	3,363,661
Plant held for future use	[illegible]	32,795
Construction work in progress	[illegible]	255,505
Nuclear fuel, net	[illegible]	40,956
	[illegible]	3,692,917
Other Property and Investments		
Non-utility property and other investments	[illegible]	121,875
Segregated funds, net of current portion	[illegible]	512,712
	[illegible]	634,587
Current Assets		
Cash and cash equivalents	[illegible]	113,050
Temporary investments	[illegible]	265,283
Current portion of segregated funds	[illegible]	74,608
Receivables, net of allowance for doubtful accounts of $1,729,000 and $1,674,000 at April 30, 2000 and 1999	[illegible]	158,879
Fuel stocks	[illegible]	23,369
Materials and supplies	[illegible]	60,428
Other current assets	[illegible]	15,799
	[illegible]	711,416
Deferred Charges and Other Assets	[illegible]	899,348
	[illegible]	$5,938,268

The accompanying notes are an integral part of these combined balance sheets.

Combined Balance Sheets

As of April 30, 2000 and 1999

Assets		1999
	(Thousands)	
Utility Plant		
Plant in service—		
Electric	$5,765,976	$5,509,688
Irrigation	227,423	216,371
Common	396,627	379,862
Total plant in service	6,390,026	6,105,921
Less—accumulated depreciation on plant in service	(2,926,142)	(2,742,260)
	3,463,884	3,363,661
Plant held for future use	31,134	32,795
Construction work in progress	200,805	255,505
Nuclear fuel, net	40,980	40,956
	3,736,803	3,692,917
Other Property and Investments		
Non-utility property and other investments	103,762	121,875
Segregated funds, net of current portion	557,642	512,712
	661,404	634,587
Current Assets		
Cash and cash equivalents	88,935	113,050
Temporary investments	366,858	265,283
Current portion of segregated funds	74,294	74,608
Receivables, net of allowance for doubtful accounts of $1,729,000 and $1,674,000 at April 30, 2000 and 1999	180,370	158,879
Fuel stocks	27,610	23,369
Materials and supplies	62,669	60,428
Other current assets	29,136	15,799
	829,872	711,416
Deferred Charges and Other Assets	747,545	899,348
	$5,975,624	$5,938,268

The accompanying notes are an integral part of these combined balance sheets.

Combined Balance Sheets

As of April 30, 2000 and 1999

	2000	1999
Capitalization and Liabilities	*(Thousands)*	
Long-Term Debt	$3,164,866	$3,235,386
Accumulated Net Revenues *(Note 4)*	2,038,893	1,898,934
Total Capitalization	5,203,759	5,134,320
Current Liabilities		
Current portion of long-term debt	74,255	71,635
Accounts payable	112,427	133,284
Accrued taxes and tax equivalents	32,772	36,813
Accrued interest	53,029	53,524
Customers' deposits	22,082	20,419
Other current liabilities	92,686	88,919
	387,251	404,594
Deferred Credits and Other Non-Current Liabilities	384,614	399,354
Commitments and Contingencies *(Notes 3, 5, 7, 8, 9 and 10)*		
	$5,975,624	$5,938,268

The accompanying notes are an integral part of these combined balance sheets.

Combined Statements of Net Revenues & Comprehensive Income

For the Years Ended April 30, 2000 and 1999

	2000	1999
	(Thousands)	
Operating Revenues	$1,797,745	$1,714,158
Operating Expenses		
Power purchased	368,628	338,624
Fuel used in electric generation	278,263	262,574
Other operating expenses	304,237	318,382
Maintenance	146,631	122,779
Depreciation and amortization	368,016	290,500
Taxes and tax equivalents	90,931	91,819
Total operating expenses	1,556,706	1,424,678
Net operating revenues	241,039	289,480
Other Income (Expenses)		
Interest income	55,699	47,090
Other income (expense), net	(5,652)	1,629
Total other income, net	50,047	48,719
Net revenues before financing costs	291,086	338,199
Financing Costs		
Interest on bonds, net of capitalized interest	146,070	147,263
Amortization of bond discount and issuance expenses	5,449	5,253
Interest on other obligations	20,887	19,463
Net financing costs	172,406	171,979
Net Revenues Before Extraordinary Item	118,680	166,220
Extraordinary Item *(Note 3)*	–	54,701
Net Revenues	118,680	111,519
Other Comprehensive Income		
Unrealized gains on securities	21,279	18,885
Comprehensive Income	$ 139,959	$ 130,404

The accompanying notes are an integral part of these financial statements.

Combined Statements of Cash Flows

For the Years Ended April 30, 2000 and 1999

	2000	1999
	(Thousands)	
Cash Flows From Operating Activities		
Net revenues	$118,680	$111,519
Adjustments to reconcile net revenues to net cash provided by operating activities:		
Depreciation and amortization	368,016	290,500
Postretirement benefits expense	18,000	14,495
Amortization of provision for loss on long-term contracts	(13,281)	(4,427)
Amortization of bond discount and issuance expenses	5,449	5,253
Amortization of spent nuclear fuel storage	1,222	385
Loss on sale of property	952	51
Extraordinary item	–	54,701
Decrease (increase) in—		
Fuel stocks and materials & supplies	(6,482)	1,141
Receivables, including unbilled revenues, net	(21,491)	(25,278)
Other assets	(8,795)	4,183
Increase (decrease) in—		
Accounts payable	(20,857)	31,589
Accrued taxes and tax equivalents	(4,041)	(27,577)
Accrued interest	(495)	(1,423)
Other liabilities, net	(14,029)	4,062
Net cash provided by operating activities	422,848	459,174
Cash Flows From Investing Activities		
Additions to utility plant, net	(271,702)	(224,708)
Decrease (increase) in investments	(78,575)	66,158
Net cash used for investing activities	(350,277)	(158,550)
Cash Flows From Financing Activities		
Repayment of long-term debt, including refundings	(73,349)	(74,315)
Increase in segregated funds	(23,337)	(208,619)
Net cash used for financing activities	(96,686)	(282,934)
Net Increase (Decrease) in Cash and Cash Equivalents	(24,115)	17,690
Balance at Beginning of Year in Cash and Cash Equivalents	113,050	95,360
Balance at End of Year in Cash and Cash Equivalents	$ 88,935	$113,050
Supplemental Information		
Cash Paid for Interest *(Net of capitalized interest)*	$167,452	$168,149

The accompanying notes are an integral part of these combined financial statements.

Notes to Combined Financial Statements

April 30, 2000 and 1999

1. BASIS OF PRESENTATION

The Company

The Salt River Project Agricultural Improvement and Power District (the District) is an agricultural improvement district organized in 1937 under the laws of the State of Arizona. It operates the Salt River Project (the Project), a federal reclamation project, under contracts with the Salt River Valley Water Users' Association (the Association) by which it has assumed the obligations of the Association to the United States of America for the care, operation and maintenance of the Project. The District owns and operates an electric system that generates, purchases and distributes electric power and energy. The Association operates an irrigation system as the District's agent.

On May 1, 1997, the District established a wholly-owned, taxable subsidiary, New West Energy Corporation (New West Energy), to market, at retail, energy produced by the District that may be rendered surplus by retail competition in Arizona in the supply of generation *(see Note 3)*.

Possession and Use of Utility Plant

The United States of America retains a paramount right or claim in the Project that arises from the original construction and operation of certain facilities as a federal reclamation project. Rights to the possession and use of, and to all revenues produced by these facilities, are evidenced by contractual arrangements with the United States.

Principles of Combination

The accompanying combined financial statements reflect the combined accounts of the Association and the District (together referred to as SRP). The District's financial statements are consolidated with its two wholly-owned taxable subsidiaries, New West Energy and Papago Park Center, Inc. (PPC). PPC is a real estate management company. All material intercompany transactions have been eliminated.

Regulation and Pricing Policies

Under Arizona law, the District's publicly elected Board of Directors (the Board) serves as its regulatory body and has the exclusive authority to establish electric prices. The District is required to follow certain procedures, including public notice requirements and special Board meetings, before implementing changes in standard electric price schedules. Market fluctuations can influence prices for generation related products.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying combined financial statements are presented in conformity with accounting principles generally accepted in the United States (GAAP) and reflect the pricing policies of the Board *(see Note 3)*. The District's "regulated" operations apply Statement of Financial Accounting Standards (SFAS) No. 71, *"Accounting for the Effects of Certain Types of Regulation"* (SFAS No. 71), while "non-regulated" operations follow GAAP for enterprises in general. Classification of regulated and non-regulated operations are determined in accordance with applicable GAAP accounting guidelines.

The preparation of financial statements in compliance with GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and disclosures of contingencies. Actual results could differ from the estimates.

Utility Plant

Utility plant is stated at the historical cost of construction, less any impairment losses. Capitalized construction costs include labor, materials, services purchased under contract, and allocations of indirect charges for engineering, supervision, transportation and administrative expenses and capitalized interest or an allowance for funds used during construction (AFUDC). AFUDC is the estimated cost of debt and equity funds used to finance regulated plant additions and is recovered in prices through depreciation expense over the useful life of the related asset. The cost of property that is replaced, removed or abandoned, together with removal costs, less salvage, is charged to accumulated depreciation.

A composite rate of 5.41% and 5.50% was used in fiscal years 2000 and 1999 to calculate interest on funds used to finance construction work in progress, resulting in $5.3 million and $7.9 million of interest capitalized, respectively.

Depreciation expense is computed on the straight-line basis over the estimated useful lives of the various classes of plant. The following table reflects the District's average depreciation rates on the average cost of depreciable assets, for the fiscal years ended April 30:

	2000	1999
Average electric depreciation rate	3.34%	3.29%
Average irrigation depreciation rate	1.97%	2.00%
Average common depreciation rate	6.81%	7.19%

The average electric depreciation rate for fiscal year 2000 reflects accelerated cost recovery of distribution facilities.

Bond Expense

Bond discount and issuance expenses are being amortized using the effective interest method over the terms of the related bond issues *(see Note 5)*.

Nuclear Fuel

The District amortizes the cost of nuclear fuel using the units of production method. The nuclear fuel amortization and the disposal expense are components of fuel expense. Accumulated amortization of nuclear fuel at April 30, 2000 and 1999 was $283.2 million and $264.5 million, respectively *(see Notes 3 and 10)*.

Nuclear Decommissioning

The total cost to decommission the District's 17.49% share of Palo Verde Nuclear Generating Station (PVNGS) is estimated to be $271.8 million, in 1998 dollars. This estimate is based on a site specific study prepared by an independent consultant, assuming the prompt removal/dismantlement method of decommissioning authorized by the Nuclear Regulatory Commission (NRC). This study is updated as required, every three years, and was last updated in the fall of 1998. Based on the 1998 site study, the District estimates its share of ultimate decommissioning expenditures will be $1.9 billion.

The estimate assumes earnings on the decommissioning funds of 7.65%, as well as a future annual escalation rate of 5.92% in decommissioning costs. The actual decommissioning costs may vary from the estimate. Expenditures for decommissioning activities are anticipated over a fourteen-year period beginning in 2024. Estimated decommissioning costs are accrued over the estimated useful life of PVNGS. The liability associated with decommissioning is included in deferred credits and other non-current liabilities in the accompanying Combined Balance Sheets and amounted to $76.8 million and $67.9 million as of April 30, 2000 and 1999, respectively. Decommissioning expense, net of earnings on trust fund assets, of $4.1 million and $4.5 million was recorded in fiscal years 2000 and 1999, respectively. The District contributes to an external trust set up in accordance with the NRC requirements. Decommissioning funds of $122.1 million and $104.7 million, stated at market value, as of April 30, 2000 and 1999, respectively, are held in the trust and are classified as segregated funds in the accompanying Combined Balance Sheets. Unrealized gains on decommissioning fund assets of $46.6 million and $38.1 million at April 30, 2000 and 1999, respectively, are included in accumulated comprehensive income as a component of accumulated net revenues *(see Note 4)*.

Accounting for Price Risk Management Activities

The District engages in price risk management activities to limit exposure to risks inherent to normal energy business operations. The goals of the price risk management program include reducing the impact of market fluctuations on energy commodity prices associated with excess generation and fuel expenses, meeting customer pricing needs, and maximizing the value of physical generating assets. Financial instruments used in hedging activities include futures, options and other contractual arrangements. Hedge transactions are accounted for under the deferral method with gains and losses on these transactions initially deferred and classified as other current liabilities in the accompanying Combined Balance Sheets and then recognized as a component of fuel or purchase power expense when the hedged transaction occurs.

The District's contractual commitments to purchase and sell energy are accounted for using the aggregate lower of cost or market method of accounting.

Financial instruments that do not qualify for hedge accounting are minimal and resulting gains and losses are immaterial.

Concentrations of Market and Credit Risk

Market risk is the risk that changes in market prices or customer demand will adversely affect earnings and cash flows. Industry movements towards competition in electric generation will subject the District to market risk associated with energy commodities such as electric power and natural gas. Recovery of costs to produce electricity in a non-regulated environment will be affected by changes in competitive market prices for both production resources and the market price of energy sales to ultimate customers.

The use of financial instruments to manage the risks associated with changes in energy commodity prices creates credit risk exposure resulting from the possibility of nonperformance by counterparties pursuant to the terms of their contractual obligations. The District routinely assesses the financial strength of its counterparties and minimizes credit risk by dealing primarily with credit-worthy counterparties and by requiring letters of credit or parent guarantees when it does not consider the financial strength of a counterparty sufficient.

Income Taxes

The District is exempt from federal and Arizona state income taxes. Accordingly, no provision for income taxes has been recorded for the District in the accompanying combined financial statements.

New West Energy recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been recognized in its financial statements or tax returns. Deferred tax liabilities and assets are determined based on differences between the financial statement carrying amounts and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. Since its inception in May 1997, the tax effect of New West Energy's results of operations has been immaterial.

Cash Equivalents

The District treats short-term temporary cash investments with original maturities of three months or less as cash equivalents.

Recognition of Unbilled Revenues

The District estimates and accrues revenue for electricity delivered to customers that has not yet been billed.

Deferred Charges and Other Assets

Deferred charges and other assets consist primarily of the following at April 30 (in thousands):

	2000	1999
CTC regulatory asset *(see Note 3)*	$608,900	$742,256
Bond defeasance regulatory asset *(see Note 3)*	50,815	63,519
Spent nuclear fuel storage regulatory asset *(see Notes 3 and 10)*	21,565	20,974
Prepaid pension benefits *(see Note 7)*	22,100	28,100
Other	44,165	44,499
	$747,545	$899,348

Deferred Credits and Other Non-Current Liabilities

Deferred credits and other non-current liabilities consist primarily of the following at April 30 (in thousands):

	2000	1999
Provision for contract losses *(see Note 9)*	$146,021	$159,301
Accrued postretirement benefit liability *(see Note 7)*	96,400	85,300
Accrued decommissioning costs	76,862	67,897
Accrued spent nuclear fuel storage *(see Notes 3 and 10)*	23,173	21,359
Accrued long-term contract payable *(see Note 3)*	0	20,348
Other	42,158	45,149
	$384,614	$399,354

Materials and Supplies, and Fuel Stocks

Material and supplies are stated at average cost. Fuel stocks are stated at cost using the last-in, first-out method.

Recently Issued Accounting Standards

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, *"Accounting for Derivative Instruments and Hedging Activities"* (SFAS 133). SFAS 133 establishes accounting and reporting standards requiring that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded in the balance sheet as either an asset or liability measured at its fair value. It also requires that changes in the fair value of the derivative be recognized each period in current earnings or other comprehensive income depending on the purpose for using the derivative and/or its qualification, designation, and effectiveness as a hedging transaction. The statement requires a formal documentation of hedge designation and assessment of the effectiveness of transactions that receive hedge accounting. In June 1999, the FASB issued SFAS No. 137, *"Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of SFAS 133."* This statement defers the effective date of SFAS 133 to fiscal years beginning after June 15, 2000, and will not require retroactive restatement of prior period financial statements. The District will adopt the new standard for the fiscal year beginning May 1, 2001. The District is analyzing the impact of SFAS 133. Due to the inherent complexities of this standard and the fact that certain issues remain unresolved by the FASB, the full impact that the adoption of SFAS 133 will have on the District's financial position, results of operations, or cash flow has not yet been determined.

In fiscal year 2000 the District adopted the Emerging Issues Task Force Issue No. 98-10, *"Accounting for Contracts Involved in Energy Trading and Risk Management Activities"* (EITF Issue 98-10). EITF Issue 98-10 requires energy trading contracts to be recorded at fair value on the balance sheet, with the changes in fair value included in earnings. The District has evaluated its net open physical purchase and sale commitments and determined the trading activity, as defined in EITF Issue 98-10, to be minimal. Accordingly, the effects of adoption in fiscal year 2000 were not material to the financial statements.

3. REGULATORY ISSUES

Fundamental Changes in the Electric Utility Industry

The electric utility industry is undergoing fundamental changes leading to a more competitive environment. The District traditionally operated in a highly regulated environment in which it had an obligation to deliver electric service to customers within its service area. In May 1998, the Arizona Electric Power Competition Act (the Act) authorized competition in the retail sale of electric generation, recovery of stranded costs, and competition in billing, metering and meter reading.

The Act allows for a temporary surcharge on electric distribution service prices to pay for all or a portion of unmitigated stranded costs of electric generation service that were incurred as a direct result of the onset of competition. Such costs must have been incurred to serve customers in Arizona before December 26, 1996.

This surcharge may not continue past December 31, 2004, and must not cause rates to exceed the rates that were in effect on December 30, 1998.

Since 1999, the Arizona Corporation Commission (the Commission), which regulates public service corporations, has been entering into settlement agreements with each of its regulated utilities, establishing terms and conditions precedent to a framework for stranded cost recovery and unbundled tariffs. The Commission's competition rules require each utility to make available at least 20% of its 1995 system retail peak demand for competitive generation supply once the Commission makes a final decision on its stranded cost recovery and unbundled rates. Beginning January 1, 2001, all customers may select an alternative generation provider. Additionally, the rules provide that, prior to January 1, 2001, each utility governed by the Commission must transfer all competitive generation assets and services either to an unaffiliated party or to a separate corporate affiliate. However, waivers have been obtained by certain utilities to defer this date until January 1, 2003. Various lawsuits remain outstanding regarding stranded cost recovery and the amendment of the rules on competition. Nevertheless, the territories of some regulated utilities are open to competition while the litigation continues.

The Federal Energy Regulatory Commission (FERC) regulates the electric utility industry under the authority of various statutes. FERC issued rules in 1996 mandating, among other things, open nondiscriminatory access to transmission lines. The rules require comparable transmission service in order to use the transmission systems of public utilities. The District has filed a comparable open access transmission tariff to ensure reciprocal access, pursuant to rules FERC developed for nonjurisdictional entities like the District. In addition, FERC issued its order No. 2000 in December 1999, requiring all jurisdictional public utilities that own, operate or control interstate transmission to file by October 15, 2000, a proposal for a regional transmission organization (RTO) or, alternatively, a description of any efforts made by the utility to participate in an RTO. SRP is actively participating in the development of an RTO for the Southwest.

SRP's Response to the Changing Regulatory Environment

The Board passed resolutions in August 1998 and December 1998 to open 20% of the District's 1995 retail load to competition for the retail sale of electric generation on December 31, 1998. During the first two years of competition, customers who elect competitive electric services may also choose billing, collection and meter reading services on a competitive basis if their demand exceeds one megawatt. On April 10, 2000, the Board passed a resolution opening the District's entire service area to generation competition to electricity suppliers approved by the Commission. The service area will be open beginning June 1, 2000, thereby accelerating the original terms outlined in the Act which required opening the entire service area no later than December 31, 2000. The entire service area will be open to competition in billing, metering and meter reading no later than December 31, 2000. The District's electric distribution area will remain regulated and the District will not provide distribution services in the distribution areas of other utilities.

On December 7, 1998, the District approved unbundled pricing plans effective December 31, 1998. For retail customers who are unable to choose competitive electric generation, prices reflect a decrease of at least 10% over a 10-year period, apportioned among customer classes. On April 10, 2000, the District approved a price plan redesign that resulted in an overall average 1.0% further price reduction. The new price plans more closely align the components of the unbundled price plans to costs. In almost all cases the energy price (shopping credit) increased, further promoting competition. The new price plans were effective May 15, 2000. The District prices its electric generation based upon market and cost induced factors. The new price plans do not affect the level of competitive transition charge (CTC) to be collected.

Under the August 1998 and December 1998 resolutions, the Board has authorized the District to recover a non-bypassable CTC of $795.5 million. In addition, through a surcharge to the District's transmission and distribution customers, the Board also allowed for recovery of the cost of programs that benefit the general public, such as discounted rates for the elderly or impoverished, efficiency programs, demand-side management measures, renewable energy programs, economic development, research and development and nuclear decommissioning, including the cost of spent fuel storage. These surcharges have been separately identified and included in the District's price plans of the regulated portion of operations.

The Board has provided mechanisms for evaluation of the CTC during the transition period, with respect to actual market price variances from the 2.6 cent market price per kWh used to determine the CTC, and with respect to activities to mitigate operation and maintenance costs. If the CTC is fully recovered before the planned six-year period, the District will cease collection of the CTC. Additionally, if cost mitigation exceeds certain targets, some of the savings from mitigation will be used to reduce the CTC charge.

Regulatory Accounting

The District accounts for the financial effects of the regulated portion of its operations in accordance with the provisions of SFAS No. 71, which requires cost-based, rate-regulated utilities to reflect the impacts of regulatory decisions in their financial statements.

As a result of the Board actions in August 1998, the District discontinued the application of SFAS No. 71 for its electric generation operations in fiscal year 1999. From that time forward, the provisions of SFAS No. 101, *"Regulated Enterprises: Accounting for the Discontinuation of Application of FASB Statement No. 71,"* have been applied to the portion of its business which no longer meets the provisions of SFAS No. 71.

During 1997, the Emerging Issues Task Force (EITF) issued EITF Issue 97-4, *"Deregulation of the Pricing of Electricity,"* which concluded that SFAS No. 71 must be discontinued no later than when deregulatory legislation or a rate order is issued that contains sufficient detail to reasonably determine how the transition plan will affect the portion of the business being deregulated. Thus, the District discontinued the application of SFAS No. 71 to its generation operations following August 1998 Board actions. EITF Issue 97-4 also permits the recording during the transition period of new regulatory assets that are probable of recovery through a non-bypassable transition charge through regulated operations.

In fiscal year 1999, the District evaluated the carrying amounts of its generation operations in relation to future cash flows expected to be generated from their use in a competitive environment and determined that $850.2 million of these assets were impaired. Impairment of $631.8 million was attributable to generation operations, and $163.7 million was attributable to long-term energy contracts. Of the total impairment, $795.5 million is to be recovered through the CTC, and such amount was recorded as a regulatory asset (CTC asset). Additionally, $54.7 million in excess of the amount deemed unrecoverable in a competitive market, or through the CTC, was reflected as an extraordinary item in the Combined Statements of Net Revenues and Comprehensive Income in fiscal year 1999. The District is amortizing the CTC asset over the transition period in conjunction with the revenues available from the CTC. On December 31, 1998, the District began collecting the CTC. During fiscal year 2000, the CTC asset decreased by $133.3 million and $132.2 million was recovered through CTC revenue. In fiscal year 1999, the CTC asset decreased by $53.2 million and $34.5 million was recovered through CTC revenue.

Management believes that revenues, through increases in customer demand for electricity and cost reduction measures, will allow the District to recover the CTC asset during the transition period and the attendant rate cap. At April 30, 2000 and 1999, the CTC asset was $608.9 million and $742.3 million, respectively. Other regulatory assets, which include bond defeasance losses and spent nuclear fuel storage costs, totaled $72.4 million and $84.5 million on those dates. The CTC asset will be recovered through the competitive transition charge over the six-year period that began December 31, 1998, and will continue through December 31, 2004. Regulatory assets for spent nuclear fuel storage are being amortized over the life of nuclear plants *(see Note 10)*. Other regulatory assets are being amortized over an eight-year period, which began in fiscal year 1997. Regulatory assets are included in deferred charges and other assets on the accompanying Combined Balance Sheets.

If events were to occur making the recovery of these regulatory assets no longer probable, the District would be required to write off the remaining balance of such assets as a one-time charge to net revenues.

Operating results from the separable portion of the District's operations no longer meeting the provisions of SFAS No. 71 are as follows (in thousands):

	Fiscal Year Ended April 30, 2000	Four-Month Period from December 31, 1998 through April 30, 1999
Operating revenues	$1,019,144	$213,787
Operating expenses	899,072	306,357
Net operating revenues from non-regulated operations	$ 120,072	$(92,570)

Assets used in the separable portion of the District's operations that no longer meet the provisions of SFAS No. 71 are as follows at April 30 (in thousands):

	2000	1999
Electric plant in service	$3,115,865	$3,269,835
Less accumulated depreciation	(1,797,266)	(1,799,453)
Net assets used in non-regulated operations	$1,318,599	$1,470,382

Long-Term Contracts

The District has long-term contracts for coal and purchase power whose prices exceed the current and future expected market rates *(see Note 9)*. To position itself for a competitive environment in the electric utility industry, the District renegotiated a contract during fiscal year 1997 whereby the District paid $21 million per year in fiscal years 1998, 1999 and 2000 in return for a reduction in the long-term contract rate to the expected future market rate. The Board did not authorize recovery of this amount in electric prices.

4. ACCUMULATED NET REVENUES AND COMPREHENSIVE INCOME

The following table summarizes the two activities in accumulated net revenues; net unrealized gain on available-for-sale securities and net revenues (in thousands):

	Accumulated Net Revenues	Accumulated Comprehensive Income	Accumulated Net Revenues and Comprehensive Income
BALANCE, April 30, 1998	$1,705,896	$ 62,634	$1,768,530
Net revenues	111,519	–	111,519
Net unrealized gain on available-for-sale securities	–	18,885	18,885
BALANCE, April 30, 1999	1,817,415	81,519	1,898,934
Net revenues	118,680	–	118,680
Net unrealized gain on available-for-sale securities	–	21,279	21,279
BALANCE, April 30, 2000	$1,936,095	$102,798	$2,038,893

The majority of unrealized gains originate from decommissioning trust and segregated fund investments. Net unrealized gains on available-for-sale securities at April 30, 2000 and 1999 consist of gross unrealized gains on equity funds of $24.1 million and $20.1 million at April 30, 2000 and 1999, respectively, and gross unrealized loss on debt funds of $2.8 million and $1.2 million at April 30, 2000 and 1999, respectively.

5. LONG-TERM DEBT

Long-term debt consists of the following at April 30 (in thousands):

	Interest Rate	2000	1999
Revenue bonds (mature through 2031)	4.25–7.0%	$2,787,589	$2,860,652
Unamortized bond discount		(73,468)	(78,631)
Total revenue bonds outstanding		2,714,121	2,782,021
Commercial paper	3.5–4.2%	525,000	525,000
Total long-term debt		3,239,121	3,307,021
Less—current portion		(74,255)	(71,635)
Total long-term debt, net of current portion		$3,164,866	$3,235,386

The annual maturities of long-term debt (excluding commercial paper and unamortized bond discount) as of April 30, 2000, due in the fiscal years ending April 30, are as follows (in thousands):

2001	$ 74,255
2002	71,940
2003	95,012
2004	100,163
2005	113,867
Thereafter	2,332,352
	$2,787,589

Revenue Bonds

Revenue bonds are secured by a pledge of, and a lien on, the revenues of the electric system, after deducting operating expenses, as defined in the bond resolution. Under the terms of the bond resolution, the District is required to maintain a debt service fund for the payment of future principal and interest. Included in segregated funds in the accompanying Combined Balance Sheets is $346.9 million and $346.0 million of debt service related funds as of April 30, 2000 and 1999, respectively. These amounts include $192.3 million and $191.1 million at April 30, 2000 and 1999, respectively, that were authorized by the Board in fiscal year 1999 for repayment of bonds. Subsequent to the balance sheet date, the Board authorized the transfer of $192.3 million from the segregated funds back to the general fund.

The District has $81.2 million of mini-revenue bonds outstanding which can be redeemed at the option of the bondholder under certain circumstances. The District has a $25.0 million revolving line-of-credit agreement available to refinance these bonds if significant redemption requests occur. Based on historical redemptions made on these bonds, management believes that these credit agreements are more than sufficient.

The debt service coverage ratio, as defined in the bond resolution, is used by bond rating agencies to help evaluate the financial viability of the District. For the years ended April 30, 2000 and 1999, the debt service coverage ratio was 3.35 and 3.20, respectively.

Interest and the amortization of the bond discount and issue expense on the various issues results in an effective rate of 5.86% over the remaining term of the bonds.

The District has authorization to issue additional Electric System Revenue Bonds totaling $72.7 million principal amount and Electric System Refunding Revenue Bonds totaling $2.9 billion principal amount.

Commercial Paper

The District has issued $525.0 million of tax-exempt commercial paper consisting of $375.0 million Series B Issue and $150.0 million Series A Issue, initiated in fiscal year 1998. The issues have an average weighted interest rate to the District of 3.9%. The commercial paper matures not more than 270 days from the date of issuance and is an unsecured obligation of the District. The commercial paper has been classified as long-term debt in the accompanying Combined Balance Sheets in connection with refinancing terms under two revolving line-of-credit agreements that support the commercial paper. Under the terms of these agreements, the District may borrow up to $525.0 million through February 5, 2001.

While the revolving credit agreements contain covenants that could prohibit borrowing under certain conditions, management believes that financing would be available. The District has never borrowed under the two agreements and management does not expect to do so in the future. Alternative sources of funds to support the commercial paper program include existing funds on hand or the issuance of alternative debt, such as revenue bonds.

General Obligation Bonds

In 1984, the District refunded its then-outstanding general obligation bonds. Although the refunding constituted an in-substance defeasance of the prior lien on revenues which secured the bonds, the general obligation bonds continue to be general obligations of the District, secured by a lien upon the real property of the District, the authority of the District to assess taxes, and a guarantee by the Association. As of April 30, 2000, the amount of defeased general obligation bonds outstanding was $8.0 million.

Line-of-Credit Arrangements

In addition to the $525.0 million in revolving line-of-credit agreements that support the commercial paper, the District has a $25.0 million revolving line-of-credit agreement available for general corporate purposes.

Among other restrictions, covenants within the line-of-credit agreements require the District to maintain minimum accumulated net revenues of $1.1 billion plus 50% of accumulated net revenues earned subsequent to April 30, 1995 (not reduced by any net losses), or $1.4 billion at April 30, 2000. Additionally, the agreements require the District to maintain a minimum debt service coverage ratio of 1.35.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments identified in the following items in the accompanying Combined Balance Sheets.

Investments in Marketable Securities

The District invests in U.S. government obligations, certificates of deposit and other marketable investments. Such investments are classified as other investments, segregated funds, cash and cash equivalents or temporary investments in the accompanying Combined Balance Sheets depending on the purpose and duration of the investment. The fair value of marketable securities with original maturities greater than one year is based on published market data. The carrying amount of marketable securities with original maturities of one year or less approximates their fair value because of their short-term maturities.

Long-Term Debt

The fair value of the District's revenue bonds, including the current portion, was estimated by using pricing scales from independent sources. The carrying amount of commercial paper approximates the fair value, because of its short-term maturities.

Other Current Assets and Liabilities

The carrying amounts of receivables, accounts payable, customer deposits and other current liabilities in the accompanying Combined Balance Sheets approximate fair value because of their short term to maturity.

The estimated fair values of the District's financial instruments, at April 30, are as follows (in thousands):

	2000		1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investments in marketable securities:				
Other investments	$ 30,000	$ 29,332	$ 52,998	$ 52,946
Segregated funds	631,936	633,385	587,320	587,951
Temporary investments	366,858	366,858	265,283	265,266
Long-term debt	3,239,121	3,309,597	3,307,021	3,545,535

Accounting for Debt and Equity Securities

The District's investments in debt securities are reported at amortized cost if the intent is to hold the security to maturity. At April 30, 2000, the District's investments in debt securities have maturity dates ranging from May 1, 2000 to March 11, 2009. Other debt and equity securities are reported at market, with unrealized gains or losses included as a separate component of Accumulated Net Revenues and Other Comprehensive Income. The District's investments in debt and equity securities are included in temporary investments, segregated funds and non-utility plant and other investments in the accompanying Combined Balance Sheets.

7. EMPLOYEE BENEFIT PLANS, INCENTIVE PROGRAM AND SEVERANCE PLANS

Defined Benefit Pension Plan and Other Postretirement Benefits

SRP's Employees' Retirement Plan (the Plan) covers substantially all employees. The Plan is funded entirely from SRP contributions and the income earned on invested Plan assets. No contributions were required in fiscal years 2000 or 1999. The Plan assets consist primarily of stocks, U.S. government obligations, corporate bonds and real estate funds. The unrecognized net transition asset is being amortized over 15 years, beginning in 1988.

SRP provides a non-contributory defined benefit medical plan for retired employees and their eligible dependents and a non-contributory defined benefit life insurance plan for retired employees. Employees are eligible for coverage if they retire at age 65 or older with at least five years of vested service, or any time after attainment of age 55 with a minimum of ten years of vested service. The funding policy is discretionary and is based on actuarial determinations. The unrecognized transition obligation is being amortized over 20 years, beginning in 1994.

The following tables outline changes in benefit obligations, plan assets, the funded status of the plans, and amounts included in SRP's combined financial statements as of April 30 (based on January 31 valuation dates—in thousands):

	Pension Benefits		Other Benefits	
	2000	1999	2000	1999
Change in benefits obligation:				
Benefit obligation at beginning of year	$575,900	$504,900	$ 142,500	$ 123,300
Service cost	17,400	14,900	3,700	3,100
Interest cost	36,800	33,400	9,100	8,100
Actuarial loss (gain)	(96,600)	44,700	21,500	13,900
Benefits paid	(22,700)	(22,000)	(6,400)	(5,900)
Benefit obligations at end of year	$510,800	$575,900	$ 170,400	$ 142,500
Change in plan assets:				
Fair value of plan assets at beginning of year	$672,600	$599,800	$ –	$ 5,600
Actual return on plan assets	49,200	94,800	–	–
Employer contributions	–	–	6,400	5,400
Benefits paid	(22,700)	(22,000)	(6,400)	(5,900)
Distribution of assets	–	–	–	(5,100)
Fair value of plan assets at end of year	$699,100	$672,600	$ –	$ –
Funded status	$188,300	$ 96,700	$(170,400)	$(142,500)
Unrecognized transition obligation (asset)	(8,000)	(12,000)	73,600	79,200
Unrecognized net actuarial gain	(160,200)	(59,000)	(1,200)	(23,400)
Unrecognized prior service cost	2,000	2,400	–	–
Post January 31 contributions	–	–	1,600	1,400
Net amount recognized	$ 22,100	$ 28,100	$ (96,400)	$ (85,300)
Prepaid benefit cost	$ 22,100	$ 28,100	$ –	$ –
Accrued benefit liability	–	–	(96,400)	(85,300)
Net amount recognized	$ 22,100	$ 28,100	$ (96,400)	$ (85,300)

Weighted average assumptions used to calculate actuarial present values of benefit obligations were as follows:

	Pension Benefits		Other Benefits	
	2000	1999	2000	1999
Discount rate	8.00%	6.50%	8.00%	6.50%
Expected return on plan assets	9.50%	8.00%	N/A	N/A
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%

For employees who retire at age 65 or younger, for measurement purposes, an 8.0% annual increase before attainment of age 65 and a 10.0% annual increase on and after attainment of age 65 in per capita costs of health care benefits were assumed during 2000; these rates were assumed to decrease 0.5% per year until equaling 6.0% in all future years.

The District internally funds its other benefits obligation. At April 30, 2000 and 1999, $151.7 million and $129.3 million of segregated funds are designated for this purpose.

Components of net periodic benefit costs for the year ended April 30, are as follows (in thousands):

	Pension Benefits		Other Benefits	
	2000	1999	2000	1999
Service cost	$17,400	$14,900	$ 3,700	$ 3,100
Interest cost	36,800	33,400	9,100	8,100
Expected return on plan assets	(44,600)	(41,600)	–	(300)
Amortization of transition obligation (asset)	(4,000)	(4,000)	5,700	5,700
Recognized net actuarial gain	–	–	(800)	(2,100)
Amortization of prior service cost	400	400	–	–
Net periodic benefit cost	$ 6,000	$ 3,100	$17,700	$14,500

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage-point change in the assumed health care cost trend rates would have the following effects (in thousands):

	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on total service cost and interest cost components	$ 1,800	$ (1,600)
Effect on post-retirement benefit obligation	$17,600	$(15,600)

Defined Contribution Plan

SRP's Employees' 401(k) Plan (the 401(k) Plan) covers substantially all employees. The 401(k) Plan receives employee contributions and partial employer matching contributions. Employer matching contributions to the 401(k) Plan were $5.4 million and $4.9 million during fiscal years 2000 and 1999, respectively.

Employee Incentive Compensation Program

SRP has an incentive compensation program that covers substantially all regular employees. The incentive compensation amount is based on achievement of pre-established targets. An accrual of $25.9 million and $21.1 million for fiscal years ended April 30, 2000 and 1999, respectively, is included in other current liabilities in the accompanying Combined Balance Sheets. This liability is stated net of a receivable from participants in jointly owned electric utility plants of $3.0 million and $2.6 million at April 30, 2000 and 1999, respectively.

8. INTERESTS IN JOINTLY OWNED ELECTRIC UTILITY PLANTS

The District has entered into various agreements with other electric utilities for the joint ownership of electric generating and transmission facilities. Each participating owner in these facilities must provide for the cost of its ownership share. The District's share of expenses of the jointly owned plants is included in operating expenses in the accompanying combined statements of net revenues. The following table reflects the District's ownership interest in jointly owned electric utility plants as of April 30, 2000 (in thousands):

Generating Station	Ownership Share	Plant in Service	Accumulated Depreciation	Construction Work in Progress
Four Corners (NM) (Units 4 & 5)	10.00%	$ 102,526	$ (68,372)	$ 746
Mohave (NV) (Units 1 & 2)	10.00%	63,037	(39,710)	2,741
Navajo (AZ) (Units 1, 2 & 3)	21.70%	342,600	(169,330)	2,545
Hayden (CO) (Unit 2)	50.00%	109,080	(49,948)	2,535
Craig (CO) (Units 1 & 2)	29.00%	238,057	(133,435)	3,736
PVNGS (AZ) (Units 1, 2 & 3)	17.49%	1,105,126	(744,354)	14,864
		$1,960,426	$(1,205,149)	$27,167

The District acts as the operating agent for the participants in the Navajo Generating Station (NGS).

9. COMMITMENTS

Subsidiary Guarantees

The District acts as guarantor for New West Energy's contractual obligations as necessary to satisfy performance security requirements under agreements with utility distribution companies, brokers and counterparties for financial hedge transactions, and power purchasers and sellers. The District's contingent liability under guarantees for New West Energy is limited to an aggregate of $70.0 million.

Improvement Program

The improvement program represents SRP's six-year plan for major construction projects and ongoing improvements to existing generation, transmission, distribution and irrigation assets. For the 2001–2006 period, SRP estimates capital expenditures of approximately $2.2 billion. Planned major construction projects include a new receiving station, air quality improvements at Santan Generating Station (Santan) and generation expansion at the Kyrene Generating Station (Kyrene) as well as other key strategic distribution and transmission projects. As an alternative or supplement to the plant expansion at Kyrene, the District is considering generation expansion at Santan. Any resulting costs can be covered by capital contingencies within the improvement program.

Long-Term Power Contracts

The District entered into three contracts, collectively, with the United States Bureau of Reclamation (United States), the Western Area Power Administration and the Central Arizona Water Conservation District (CAWCD) for the long-term sale, through September 2011 to the District, of power and energy associated with the United States' entitlement to NGS. The amount of energy available to the District varies annually and is expected to decline over the life of the contracts. The District pays a fixed amount under the contracts, pays the cost of NGS generation and other related costs, and supplies energy at cost to CAWCD for Central Arizona Project facilities. The fixed portion of the District's payment obligations under the three contracts totals $47.0 million annually through fiscal year 2005, and $301.3 million thereafter. Of the total obligation, $25.2 million annually through fiscal year 2005 and $161.7 million thereafter are unconditionally payable regardless of the availability of power. Payments under these contracts totaled $84.7 million and $97.1 million in fiscal years 2000 and 1999, respectively.

The District entered into two other long-term power purchase agreements to obtain a portion of its projected load requirements through 2011. Minimum payments under these contracts are $38.2 million annually through fiscal year 2005, and $225.1 million thereafter. Total payments, including the minimum payments, under these two contracts were $57.9 million and $55.1 million in fiscal years 2000 and 1999, respectively. In conjunction with the impairment analysis performed on generation-related operations, the District has recorded provisions for losses on these contracts *(see Note 3)*. These provisions recorded in August 1998, of $163.7 million, are being amortized over the life of the contracts, commencing January 1, 1999. Amortization of $13.3 million and $4.4 million has been reflected as a reduction in fuel expense in the Combined Statement of Net Revenues and Comprehensive Income in fiscal years 2000 and 1999, respectively. The remaining liability at April 30, 2000 of $146.0 million is included in deferred credits and other non-current liabilities in the Combined Balance Sheets.

Fuel Supply

At April 30, 2000, minimum payments under long-term coal contract commitments are $120.0 million annually through fiscal year 2005, and $526.2 million thereafter *(see Note 3)*.

10. CONTINGENCIES

Nuclear Insurance

Under existing law, public liability claims that could arise from a single nuclear incident are limited to $9.5 billion. PVNGS participants insure for this potential liability through commercial insurance carriers to the maximum amount available ($200 million) with the balance covered by an industrywide retrospective assessment program as required by the Price-Anderson Act. If losses at any nuclear power plant exceed available commercial insurance, the District could be assessed retrospective premium adjustments. The maximum assessment per reactor per nuclear incident under the retrospective program is $88.1 million including a 5% surcharge, which could be applicable in certain circumstances, but not more than $10 million per reactor may be charged in any one year for each incident.

Based on the District's ownership share in PVNGS, the maximum potential assessment would be $46.0 million, including the 5% surcharge, but would be limited to $5.2 million per incident in any one year.

Spent Nuclear Fuel

Under the Nuclear Waste Policy Act of 1982, the District pays 1/10 of one cent per kWh on its share of net energy generation at PVNGS to the Department of Energy (DOE). The DOE was responsible for the selection and development of repositories for permanent storage and disposal of spent nuclear fuel not later than December 31, 1998. However, the DOE has not yet accepted spent nuclear fuel and high-level radioactive waste from operators of any nuclear power plants. Because of the significant delays in the DOE's schedule, it is not certain when the DOE will accept PVNGS' waste or waste from the other owners of nuclear power plants. Extended delays or default by the DOE would lead to consideration of costly alternatives involving serious siting and environmental issues.

The United States Court of Appeals for the District of Columbia Circuit has ruled that the DOE had an obligation to begin accepting used nuclear fuel in 1998. However, the court refused to issue an order compelling DOE to begin accepting used fuel. The Court ruled that any damages to utilities should be sought under the standard contract between the DOE and affected utilities. This ruling is under appeal and the final determination is pending.

PVNGS has capacity in existing fuel storage pools, which, with certain modifications, could accommodate fuel expected to be discharged from normal operations through 2002. Existing wet storage could be augmented with new facilities for on-site dry cask storage of spent fuel for an indeterminate period of operation beyond 2002, subject to obtaining any required government approvals. The District's share of on-site interim storage at PVNGS is estimated to be $23.2 million for costs to store spent nuclear fuel from inception of the plant to date, and $1.7 million per year going forward. These costs have been included in the District's regulated operations price plans for transmission and distribution.

Navajo Nation Lawsuit

In June 1999, the Navajo Nation filed a lawsuit in the United States District Court in Washington D.C., naming Peabody Coal Company, Southern California Edison Company, the District, and other defendants, for allegedly causing the United States to breach its fiduciary duty to the Navajo Nation and for violating federal racketeering statutes. The lawsuit arises out of the renegotiations in 1987 of coal royalty and lease agreements to mine coal for the Navajo and Mohave Generating Stations. The suit alleges $600 million in damages and seeks treble damages along with punitive damages of not less than $1 billion. The District denies all charges and will vigorously defend itself. On February 29, 2000, the Hopi Tribe filed a motion to intervene in the suit, but the court has not yet ruled on the motion. Because this litigation is in preliminary stages, the District is unable to assess the extent of its potential liability, if any, or the potential impact of the lawsuit to the District's financial position or results of operations.

Environmental

SRP is subject to numerous legislative, administrative and regulatory requirements relative to air quality, water quality, hazardous waste disposal, and other environmental matters. SRP conducts ongoing environmental reviews of its properties for compliance and to identify those properties it believes may require remediation. Such requirements have resulted and will continue to result in increased costs associated with the operation of existing properties.

Air Quality

The federal Clean Air Act (CAA), as amended, among other things, requires reductions in sulfur dioxide and nitrogen oxide emissions from electric generating stations and regulates emissions of hazardous air pollutants by generating stations. Pollution control equipment has already been installed at both the Navajo Generating Station and the Hayden Generating Station.

In December 1999, the participants in Mohave Generating Station agreed to a settlement in a lawsuit alleging numerous and continuing violations of opacity and sulfur dioxide standards. Under the terms of the settlement, the participants must install by January 1, 2006, a sulfur-dioxide scrubber and other pollution control equipment. Capital costs are estimated at $300 million, of which the District's share would be $30 million. These costs are included in the capital contingencies portion of the 2001–2006 Improvement Program.

In addition, the District and the other owners of Craig Generating Station have been named in complaints alleging, among other things, violations of opacity standards. The District estimates its costs to comply with the CAA at Craig to be approximately $9 million and has adequate amounts in the capital contingencies portion of the 2001–2006 Improvement Program for potential CAA compliance programs.

Coal Mine Reclamation

In management's opinion, there are sufficient accruals in the accompanying combined financial statements for the District's obligation to reimburse certain coal providers for amounts due for certain coal mine reclamation costs. However, the District is contesting certain other coal mine reclamation costs. Neither the District's responsibility or the ultimate amount of liability, if any, can be determined at this time. Management does not believe that the outcome of these matters will have a material adverse effect on the District's financial position or results of operations.

Notes to Combined Financial Statements

April 30, 2000 and 1999

Indian Matters

From time to time, SRP is involved in litigation and disputes with various Indian tribes on issues concerning regulatory jurisdiction, royalty payments, taxes and water rights, among others *(see Navajo Nation Lawsuit previous page)*. Resolution of these matters may result in increased operating expenses.

Other Litigation

In the normal course of business, SRP is exposed to various litigation or is a defendant in various litigation matters. In management's opinion, the ultimate resolution of these matters will not have a material adverse effect on the District's financial position or results of operations.

Self-Insurance

The District maintains self-insurance retention on certain matters. In addition, the District has indemnity coverage for amounts in excess of its self-insurance retention levels. The District provides for reserves based on management's best estimate of claims, including incurred but not reported claims. In management's opinion, the reserves established for these claims are adequate and any changes will not have a material adverse effect on the District's financial position or results of operations.

Report of Independent Public Accountants

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

We have audited the accompanying combined balance sheets of the SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT AND SUBSIDIARIES, and the SALT RIVER VALLEY WATER USERS' ASSOCIATION (collectively, the Company) as of April 30, 2000 and 1999, and the related combined statements of net revenues and comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

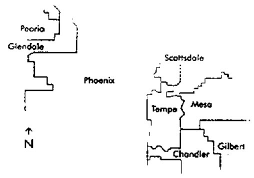
We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of April 30, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Phoenix, Arizona
May 25, 2000

Boards
Association & District



About Our Boards

The two Boards of Salt River Project work with management to establish policies to further the business affairs of SRP.

The 10 members of the Salt River Valley Water Users' Association Board of Governors serve staggered four-year terms and are elected from voting districts by the landowners within the water service territory. The Association is SRP's private water corporation, which administers the water rights of SRP's 240,000-acre area and operates and maintains the irrigation and drainage system.

The 14 members of the Salt River Project Agricultural Improvement and Power District Board of Directors serve staggered four-year terms. Ten District Board members are elected from voting divisions and four are elected at-large, by landowners within the District's boundaries. The District is SRP's public power utility and a political subdivision of Arizona. Most often, candidates seek election to both Boards.

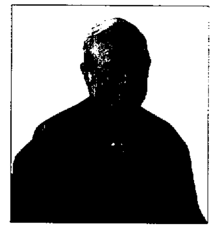
About Our Councils

The two Councils of Salt River Project enact and amend bylaws relating to business affairs of SRP and also serve as liaisons to District electors and Association shareholders.

As with the SRP Boards, there is one Council for the District and one for the Association. The 30 District Council members are elected to staggered four-year terms from 10 voting areas. Most often, candidates seek election to both Councils.

Larry D. Rovey
District/Division 1

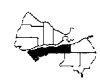
Clarence C. Pendergast Jr.
District/Division 2



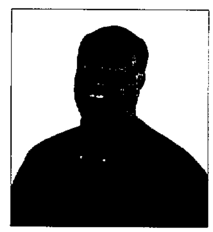
Elvin E. "Gene" Fleming
District/Division 3

Gilbert R. Rogers
District/Division 4

Carl E. Weiler
District/Division 5



James L. Diller
District/Division 6



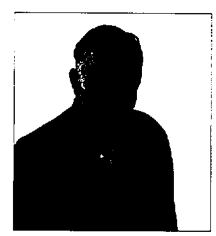
Keith Woods
District 7
Elected Nov 2000

Ann Maitland Burton
Division 7

Martin Kempton*
District/Division 8

Robert G. Kempton
District/Division 8
Appointed May 2000

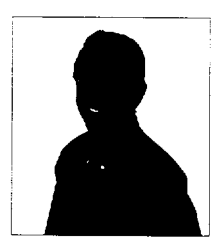
Dale C. Riggins Jr.
District/Division 9



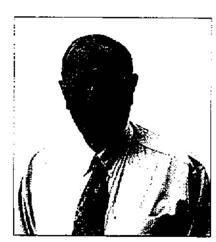
Dwayne E. Dobson
District/Division 10

Eldon Rudd
Director-at-large, Seat 11

William W. Arnett
Director-at-large, Seat 12



Fred J. Ash
Director-at-large, Seat 13



James R. Marshall
Director-at-large, Seat 14

* Retiring after 22 years of service.

Councils
Association & District

District/Division 1

John R. Starr | Kevin J. Johnson | Robert L. Cook

District/Division 2

John A. Vanderwey | Paul E. Rovey | Wayne A. Hart

District/Division 3

John E. Anderson | Mario J. Herrera | Robert T. Van Hofwegen

District/Division 4

Lloyd E. Banning | Leslie C. Williams | Charles D. Coppinger

District/Division 5

Edmund Navarro* | Roy W. Cheatham | Wayne A. Weiler

District/Division 6

Robert W. Warren (District only) | David Rousseau (Council Chairman) | Ben A. Butler (Division only) | Clarence J. Duncan

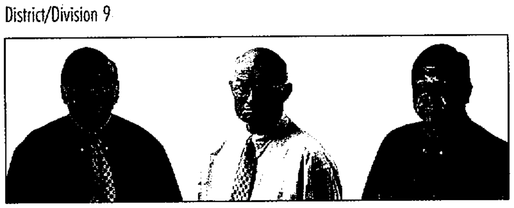
District/Division 7

Mark A. Lewis | J. Stuart Rosebrook** | Keith Woods (District only) | Ann Maitland Burton (Division only) Elected May 2000

District/Division 8

John R. Hoopes | Robert G. Kempton*** | Mark V. Pace

District/Division 9



Arthur L. Freeman | W. Curtis Dana | Edward E. Johnson

District/Division 10

Lawrence P. Schrader | Orland R. Hatch | C. Dale Willis

New Members

Stephen Williams, District/Division 5, Elected May 2000 | Harmen Tjaarda Jr., District/Division 7, Elected May 2000 | Deborah Hendrickson, District/Division 8, Appointed June 2000

*Retiring after 30 years of service.
**Did not seek re-election after 2 years of service.
***Appointed May 2000 to Association and District boards.

Corporate Information

This annual report is printed on 100% recycled paper. SRP's support of recycled products is part of our effort to protect the environment for future generations.

Corporate Officers

President	William P. Schrader
Vice President	John M. Williams Jr.
Secretary	Terrill A. Lonon
Treasurer	Cynthia J. Baker

Executive Management

General Manager	Richard H. Silverman
Associate General Managers	David G. Areghini
	Mark B. Bonsall
	D. Michael Rappoport
	John F. Sullivan
	L.J. U'Ren
Corporate Counsel	Jane D. Alfano
Manager	Richard M. Hayslip

Corporate Headquarters

Street Address	SRP 1521 N. Project Drive Tempe, AZ 85281-1298
Mailing Address	SRP P.O. Box 52025 Phoenix, AZ 85072-2025

SRP on the Internet

www.srpnet.com

Inquiries

Dean Yee
Manager, SRP Financial Services
(602) 236-5231

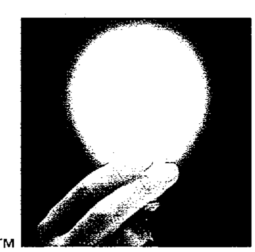
Requests for Annual Reports

SRP Corporate Communications
(602) 236-2598

Bondholder Information

SRP Treasury Department
(602) 236-2222

TM



Delivering More Than Power.®

www.srpnet.com