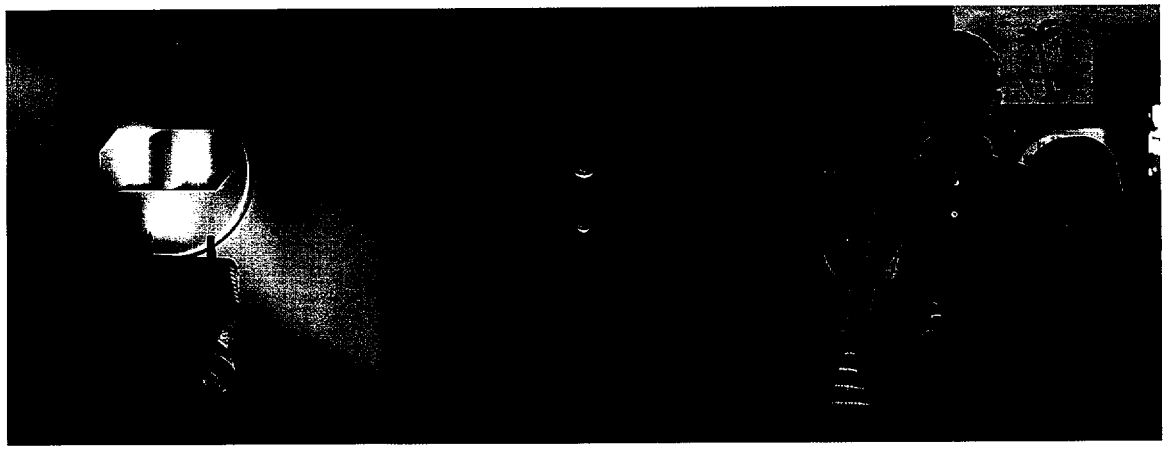
Value to the Valley

Salt River Project
2001 Annual Report



Value to the Valley

Delivering Value to the Valley is as important to SRP today as it was in our early years nearly a century ago. Today, the greater Phoenix metropolitan area is one of the fastest-growing in the country. SRP delivers Value to the Valley by improving the quality of life for the people we serve. For our customers, this means low-cost, reliable power. For our shareholders, it means time-tested water management. For our communities, it means strong support.

SRP is two companies: the Salt River Project Agricultural Improvement and Power District, and the Salt River Valley Water Users' Association.

The District, a public power system, provides electricity to more than 745,000 customers representing about 1.75 million people in Maricopa, Gila and Pinal counties in central Arizona. The District is an integrated utility, providing generation, transmission and distribution services.

The Association, a private corporation, manages a system that delivers 1 million acre-feet of water annually to agricultural, urban and municipal water users in the Phoenix area.

POINTS OF LIGHT FOUNDATION & VOLUNTEER CENTER NATIONAL NETWORK

SRP received the Award for Excellence in Corporate Community Service for 2000 from the Points of Light Foundation. The award is one of the world's highest and most distinguished honors for community service.

Three-Year Financial & Operational Review

Financial Data ($000)	2001	2000	1999
Total operating revenues	$3,026,787	$1,797,745	$1,714,158
Electric revenues	3,014,205	1,784,554	1,701,486
Water & irrigation revenues	12,582	13,191	12,672
Total operating expenses	2,612,036	1,556,706	1,424,678
Total other income, net	65,485	50,047	48,719
Net financing costs	170,540	172,406	171,979
Net revenues for the year	309,696	118,680	111,519
Taxes and tax equivalents	82,335	90,931	91,819
Utility plant, gross	6,968,803	6,662,945	6,435,177
Long-term debt	3,098,273	3,164,866	3,235,386
Electric revenue contributions to support water operations	47,469	40,924	42,987
Selected Data			
Total energy sources (million kWh)*	40,004	36,262	33,663
Total electric sales (million kWh)	36,323	32,801	31,615
Total resources peak month (kW)*	6,340,000	5,892,000	5,740,000
Peak–SRP retail customers (kW)	5,002,000	4,653,000	4,666,000
Peak–Total system (kW)	6,205,000	5,725,000	5,534,000
Water deliveries (acre-feet)**	–	998,972	1,030,584
Runoff (acre-feet)**	–	456,937	471,875
Debt service coverage ratio	4.72	3.35	3.20
Debt ratio (percent)	57.3	60.8	63.0
Employees at year-end	4,096	4,050	4,025
Customers at year-end	746,368	727,070	701,196

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

SRP's low-cost, reliable power serves as a catalyst for the Valley's continued economic success. It's the value we bring to our region, and our mission is to keep it that way.

Energy

In high-growth states like Arizona, an adequate supply of electricity is essential. During a year when talk about electricity – especially supply and price – reached a fever pitch across the country, SRP moved ahead with plans to meet the ever-increasing energy demand in our 2,900-square-mile electric service area.

Generation Resources

To understand generation planning, a look at the past 20 years provides perspective. The 1980s were boom years for the growth of energy resources in Arizona and in the Western U.S. In fact, by the late '80s, the West had an oversupply of base load resources (coal and nuclear generating facilities) from the build-out of the prior years.

Consequently, many utilities in the West, including SRP, purchased low-cost wholesale power from other markets to meet increasing retail peak loads. This strategy worked well for several years. By the late 1990s, however, excess supplies began to dwindle as local and regional

SRP lineman Ruben Cardenas, a 25-year employee, is one of hundreds of linemen who work around the clock to repair distribution wires and re-energize neighborhoods after outages from summer monsoon storms, other weather incidents, and accidents.

We learned through deregulation that enhancements to our core businesses and services are what our customers need, expect and appreciate the most. Therefore, SRP's focus remains on providing the best reliability, lowest cost and highest value to our customers.

to help our customers manage their electricity use. We look forward to these exciting innovations in the coming year.

This past year, we dedicated our efforts to adding new generating resources. Some new resources will come on line soon, others are under construction, and still others are in the planning stages. All are necessary to meet our continuing obligation to serve our retail customers. We remain confident in our ability to do so, though the process of siting generating plants and transmission lines grows increasingly complex and challenging.

While the levels of energy reserves are low in the West and are not expected to rise significantly for the next two years, SRP's reserve levels will satisfy our requirements in the short term. Last summer's requirement to operate generating units more than usual resulted in enhanced maintenance requirements this past winter. This investment in extensive plant maintenance will help ensure our facilities operate at peak performance this year.

The significance of transmission investment cannot be overstated. Historically, transmission lines have been designed to move a utility's generation resources to its customers. In the new environment, transmission is an interstate highway. Merchant power plant owners simply interconnect to the nearest transmission system and have no obligation to move generation to a particular load center. Independent transmission system operation is still evolving in the Southwest, and crucial decisions will be made in upcoming months. As well, a significant transmission study for substantial portions of Arizona is underway and is expected to identify needed transmission.

SRP has developed a plan to assist small public power entities in Arizona who have suffered under the volatile wholesale market. The Arizona Public Power Pool was introduced this past year to help smaller public systems manage their price risk and reduce costs. The pool is essentially a mutual fund of energy that allows the participants to determine the level of market price volatility that they are able to manage. The pool has proven to be a convenient and beneficial tool for the participants.

In our water business, runoff this past year was adequate but still below normal. However, thanks to supplemental water purchased from the Central Arizona Project, we are in a comfortable situation with respect to water in storage.

It is imperative that we recognize the tremendous accomplishments of our employees. We are in a successful position today due to the dedication of SRP's workforce. And, as always, SRP's hardworking elected officials continue to provide the stability that has been a hallmark of SRP for almost 100 years. Given this winning team, we feel confident as we look to what the future holds for SRP.

Richard H. Silverman
General Manager

A Message from the General Manager

It is a pleasure to report that SRP had a remarkably good year in all respects. Financial results are very favorable, as are customer service results. Our safety record is exemplary, and our community service is at an all-time high. We have maintained our high level of reliability, and have secured the incremental resources necessary to keep it that way. And, we have successfully completed the opening of our service territory, though only a handful of customers have switched to other providers.

The contrast to other situations in the industry could not be more dramatic. Blackouts and price spikes are widely publicized and discussed daily, so it is not necessary to discuss them here. However, it is worthwhile to note that for SRP in Arizona, deregulation did not require divestiture or discourage long-term supply contracts, nor did it adopt a single-point market structure. These factors are allowing a temperate transition to competition, which we believe is in the best interest of our customers.

SRP recorded a banner year, marked by strong retail sales and wholesale prices. Robust customer growth and warmer weather boosted sales, and wholesale prices throughout the West (not limited to California) resulted in higher-than-projected wholesale revenues. Our net revenues will permit debt retirement and infrastructure investment to enhance our financial viability, and will improve our ability to serve our customers.

We learned through deregulation that enhancements to our core businesses and services are what our customers need, expect and appreciate the most. Therefore, SRP's focus remains on providing the best reliability, lowest cost and highest value to our customers.

For example, SRP this year developed personalized annual reports for our largest residential energy customers, with tips for saving money and suggestions on SRP programs. The response was extremely positive. We dramatically improved the terms of our bill equalization plan, providing better service to those who participate. We also enhanced our time-of-use price plans for even-greater savings to customers, which helped boost customer participation by more than 10 percent.

We expanded what is already the nation's largest network of automated pay stations, and rolled out the second generation of a pre-payment technology we jointly developed with Motorola. Upgrades to our phone center, with the latest communication technology, help us provide the best service possible. In addition, we are working on other innovations to provide better and timelier information

A Letter to Our Customers, Bondholders and Shareholders

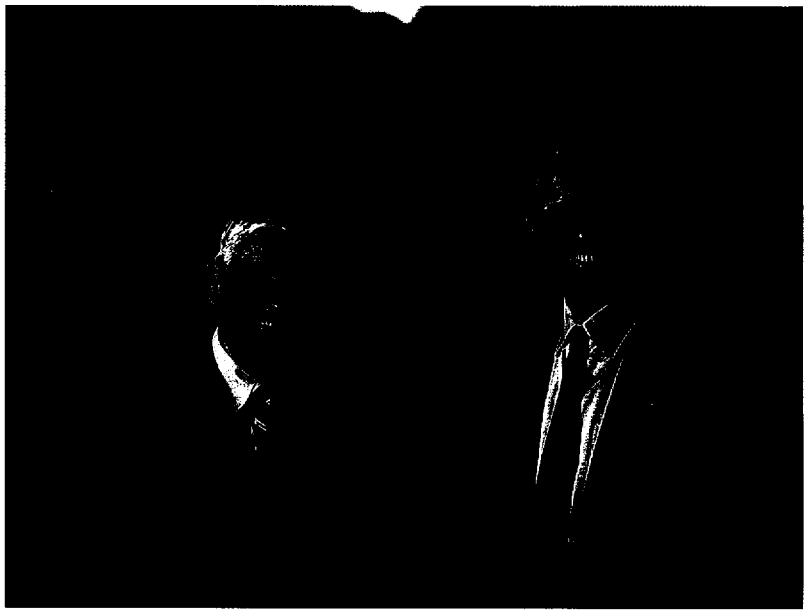
We continue to bring value to our customers, shareholders and communities in the Phoenix area, the hub of the second-fastest-growing state in the nation. Overall, our services this year benefited more people – in more ways – than ever before.

We are pleased to share the news of yet another successful financial year for SRP, due to a strong Arizona economy and despite the challenges of a volatile energy market. Our total revenues grew to $3 billion, with net revenues of $310 million. These results help to ensure stable, competitive pricing for our retail customers, and provide the resources we need to make capital investments necessary for the future.

Of the many accomplishments during the year, the approvals of two SRP urban generating stations take the spotlight. An additional 1,075 megawatts of electricity will be available to serve our retail customers once both plants are on line. Employees worked long and hard to help us achieve these approvals, and we again offer our appreciation to SRP's dedicated and talented workforce. We also extend our appreciation to the many community leaders and others who supported the planning and permitting processes of these two facilities.

SRP's tradition of community commitment continues to grow. Of particular note, the Points of Light Foundation recognized SRP this year with the coveted *Excellence in Corporate Community Service Award.* This honor demonstrates, once again, that the efforts of our employees shine beyond expectations.

As the Valley's primary water steward, SRP manages surface water and groundwater supplies for municipalities, agriculture and other water systems. Supporting us again this year in reducing groundwater pumping was the Central Arizona Project, which provided excess water from the Colorado River to SRP for the second straight year.



John M. Williams Jr. *William P. Schrader*

We also acknowledge the strong working relationship that continues between SRP elected officials and management. Together, as a team, we were able to keep the year's initiatives moving forward toward shared goals.

At SRP, our mission is always to deliver the best value to the Valley. We are focused on doing so again in the new fiscal year.

William P. Schrader
President

John M. Williams Jr.
Vice President

growth accelerated. When the decade ended, reserve margins had dropped substantially and demand for power had increased beyond projections.

Today, generation supply is not only tight in the SRP service area, but throughout Arizona and the West. SRP is planning for reserve levels of about 12 percent for the remainder of this decade. At the same time, the wholesale market has become a less-reliable source for short-term power purchases, due to the decrease in excess supply and the uncertainties throughout the West and Southwest.

For SRP, a vertically integrated public power utility, new resources are needed to continue to keep prices at affordable levels and meet customer demand. SRP's generation planning for the next decade includes the addition of environmentally responsible generation in a stair-step fashion that balances capital costs with customer demand. The addition of two urban generating facilities by 2005 will bring 1,075 megawatts (MW) in new SRP resources, a healthy step toward the additional resources we will need to meet future demand. Other resources may be acquired by increasing SRP ownership percentage in participation plants, and by long-term purchases of generation from plants owned by others.

Transmission

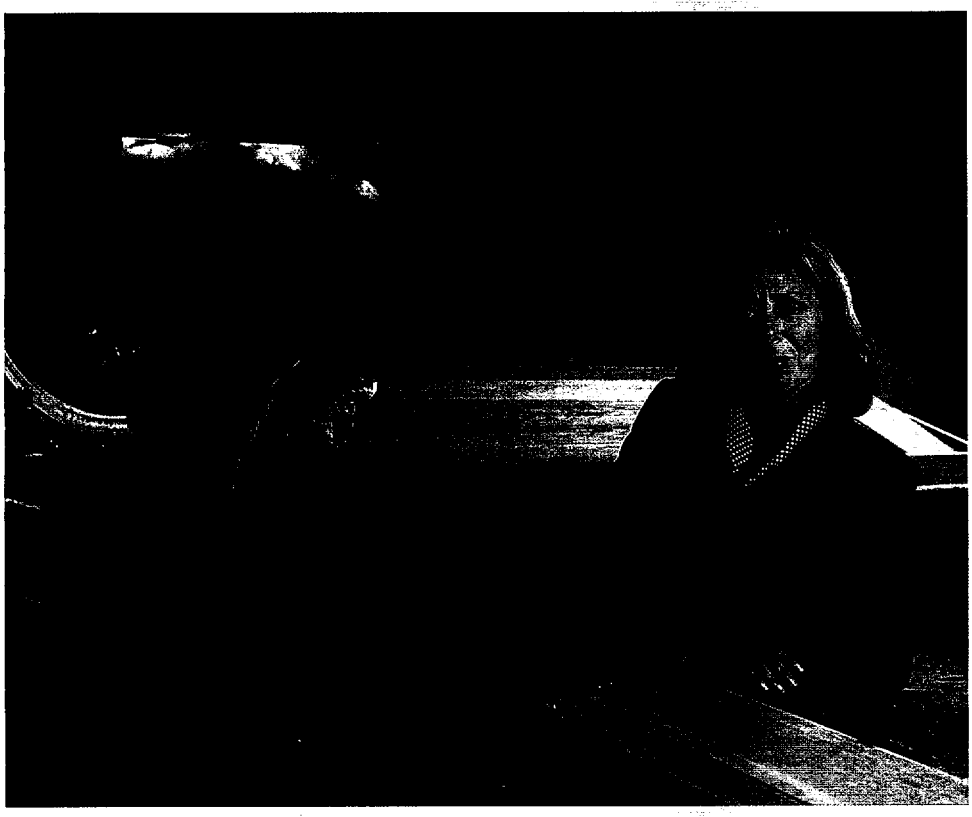
SRP's plans for new high-voltage transmission lines depend upon generation facilities. The location of generation affects the siting of new transmission lines. SRP owns major transmission lines

Value to the Valley

While energy costs climb in neighboring states, SRP prices have been reduced three times over the past six years and are on average 10 percent less than a decade ago.

that move power from our generating stations to our service area and transport it across the region as needed. The SRP transmission system is at capacity, due to energy demand growth in our service area and a directive by the Federal Energy Regulatory Commission (FERC) that allows the use of SRP transmission by other suppliers wishing to sell power to the region.

With major system improvements, we can maintain our low-price, reliable supply. SRP has a six-year transmission plan that calls for a series of projects to upgrade existing facilities and build new ones, again contingent upon the location of new generation resources.



Helping customers achieve success is SRP's goal. SRP customer Executive Door of Glendale creates custom wood doors for homes and businesses throughout the country. Dana Dayden, controller for Executive Door, says that SRP's reliable and low-cost power helps the company to maintain uninterrupted production and contain electric costs. As a time-of-use customer, Executive Door saved nearly 8 percent on its electricity bill last year by shifting power use to off-peak hours.

This past year, SRP completed the Browning Substation in the growing eastern region of the service area. This triple-function substation will help maintain reliability while supporting SRP's load serving capability and increasing import capacity. The substation is named for the late Ronald D. Browning, a 25-year SRP employee.

More than 20,000 MW of new generation from merchant plants either is approved or being sited in Arizona. Transmission upgrades could bring some of this power into the Valley as well as export it to other regional areas. A new 500 kilovolt (kV) switchyard near Palo Verde Nuclear Generating Station is under construction by SRP for just this purpose.

SRP and another utility are building the Southwest Valley 500kV Transmission Project to provide another connection from Palo Verde to the Valley. This project will bring an additional 1,200 MW of power to the Valley and protect the Valley load during major line outages. The most significant transmission project tied to

resource import since the late 1980s, it is expected to be in service by mid-2003.

Statewide and regional transmission planning and expansion also are issues. Several efforts are underway to establish cooperative planning that best serves the interconnected "power superhighway" of the West. One such effort in which SRP is involved is the Central Arizona Transmission System Study, a three-phase process to identify the best locations for new major transmission, desired in-service dates, and joint efforts for construction of the facilities.

SRP also is working with other utilities in Arizona, New Mexico, Colorado, eastern Wyoming and western Texas to develop a regional transmission organization (RTO) known as Desert STAR (Southwest Transmission and Reliability Operator). This is in response to FERC orders for utilities to voluntarily form RTOs that will be independent transmission system operators. The RTOs are to focus on ensuring reliability and non-discriminatory access to transmission to help develop robust energy markets as the industry transitions to both deregulated wholesale and retail marketplaces.

Distribution

As SRP's service area continues its dramatic growth, maintenance and construction on the SRP distribution system increases. The capital plan for distribution projects inside the service area focuses on infill needs, consistent with the past several growth years.

Nearly 50 distribution substations are planned in the next five years, as well as multiple receiving station transformers, due to load growth resulting from a continued strong local economy.

Distribution system reliability is critical for customers. This past year, SRP's reliability index shows the distribution system's performance at its best ever recorded. This success can be attributed in great part to an aggressive underground cable upgrade program, as well as systematic replacements of wood distribution poles.

Renewables

To complement SRP's generation mix, and to further demonstrate our commitment to the environment, SRP this year constructed a 200 kilowatt solar generation facility, which doubled our solar portfolio. A 4 MW landfill-gas-energy facility

also began operation, and next year, SRP's canal system will be the location for a new hydroelectric generating plant.

Using these new sources of renewable energy, SRP launched a "green power" program for retail customers. Customers can support the production of renewable energy at $3 per 100-kilowatt-hour block. *Earthwise Energy*™ is the product of a $29 million SRP initiative to fund renewable energy options for electric customers.

Energy Efficiency

As the focus sharpens on energy supply and demand, SRP is stepping up efforts to encourage customers to increase the efficiency of their energy use. Our energy efficiency campaign promotes a wide range of options to reduce consumption and electric bills. By working together, SRP and electricity consumers can ensure that SRP remains one of the best energy values in the West.

Customer Service

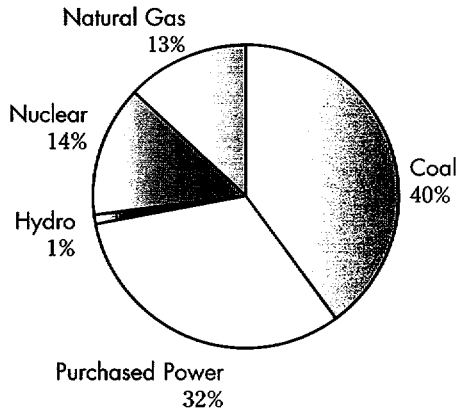
SRP's service efforts all aim to make it easy and convenient to do business with us while providing value through reduced costs and increased efficiency.

Our energy efficiency campaign promotes a wide range of options to reduce consumption and electric bills. By working together, SRP and electricity consumers can ensure that SRP remains one of the best energy values in the West.

This year, we boosted enrollment on our time-of-use price plans. Benefits of the plan are twofold: customers save on their electric bills, and peak demand is reduced. Another voluntary program for customers is SRP's *M-Power*,™ the largest prepaid electricity program in North America. The program helps participants save as well as reduces consumption on the SRP system.

SRP also provides a large and expanding base of freestanding, self-service pay stations, located at popular shopping locations for customer convenience. Other value-enhancing offers include an expanded menu of programs and services for our customers that can be accessed on our Web site at **www.srpnet.com.**

Fuel Mix



Coal and nuclear comprise the majority of SRP generating resources. Purchased power increased this year due to favorable wholesale market conditions.

As the Valley's largest water supplier, SRP provides more than 1 million acre-feet of water every year to towns, cities, agriculture and other water systems. That's enough to cover the city of San Francisco in water 35 feet deep.

Water

Across the SRP water service area are majestic mountains and arid desert, little towns and booming cities. Water is critical to this beautiful and diverse environment, where SRP manages a system of dams, reservoirs, canals and underground facilities.

Our water stewardship ranges from storage to delivery. Even during this past year, the seventh driest on record, we delivered the water needed by our shareholders, municipalities and other water entities.

Groundwater Management

SRP's water stewardship is reflected in many ways, none more important than groundwater recharge efforts. A major SRP underground storage facility in the Salt River bed is one of the largest recharge projects in the country and will provide water to the Valley in the event of a shortage in surface water supplies.

Don Whitmer, environmental resource specialist, and Cindy Murray, environmental laboratory technician, both SRP employees, sample water of the Salt River just below Stewart Mountain Dam. Such testing is just one of the many water management responsibilities for SRP, the Valley's largest water supplier.

This past year, the recharge project continued its record-setting pace for water storage, and in the past seven years, 500,000 acre-feet of water from the Central Arizona Project has been recharged. This allowed Arizona to maximize its Colorado River allotment, and reduced the need for groundwater pumping in the drier-than-normal past three years. To meet anticipated needs, we are planning to increase recharge capacity, and a similar project is under consideration at another Valley location.

Preservation of the Valley's groundwater supply is a constant concern. SRP is participating in the governor's Water Management Commission, which is expected to make recommendations later this year on modifications to the state's 20-year-old Groundwater Management Code. The code provides the framework for conserving water in Arizona's populous areas, and SRP works in concert with regulators and policymakers to ensure a secure water supply for the future.

Water Rights

SRP's service area continues to experience robust population growth, as do other areas of the state. To support the Valley's water requirements, we continue to maintain the surface water and groundwater rights that are the foundation of SRP's 100-year water history.

As such, we are participating in various watershed-planning groups to

Value to the Valley

The mountains of eastern and northern Arizona make up a 13,000-square-mile watershed for the Valley and provide about two-thirds of SRP's water supply.

study water resources and develop supply proposals for the benefit of all stakeholders. In particular, SRP has provided funding to establish a research and education program at Northern Arizona University that will explore ways to satisfy the unprecedented demand placed on water supplies in three counties in the Verde River watershed. That watershed and the Salt River watershed are the two major water supply sources for SRP and the Valley.

Conservation

In our role as water steward, SRP provides many services in the interest of conservation.

Our water-use specialists regularly consult with agricultural and municipal users to help them manage their water consumption, and we upgrade our system to improve measurement and minimize water delivery losses.

Conservation also includes the use of alternative water supplies such as municipal effluent. For example, at two power plant expansions, SRP plans to exchange surface water for effluent for cooling purposes. This would reduce fresh water use at the plants and provide the cities with a new surface water source for their customers.

In addition, SRP this year launched – with several municipalities in the Valley – a public campaign on water conservation called *Water: Use It Wisely.* This educational program helps consumers identify specific and simple ways to save water without affecting quality of life.

Valley residents Suzanne Breitenstein and Dan Corredor are among the countless runners, walkers and cyclists who enjoy the appeal of SRP's canal banks throughout the Phoenix area. From sunup to sundown, the canal banks are a recreational oasis in urban areas. More and more, SRP is working with Valley cities to develop these unique areas for neighborhood recreational purposes. For more information about SRP canals, and a map of canal routes for running and other activities, check out **www.srpnet.com/water/canals.**

A company's value to the community should be measured along with the business products and services delivered. We have a responsibility as a corporate citizen to be a good neighbor.

Community

It starts as a commitment: Service to others. It continues every day, week, month and year at SRP, through organized volunteer initiatives, educational programs and environmental efforts that reach across our communities.

This year, we received the coveted *Excellence in Corporate Community Service Award* by the Points of Light Foundation. As one of six companies worldwide to be so recognized, SRP is attracting attention as a national leader in community involvement and volunteerism. Such best practices recognition means we are able to help more business and community leaders in developing the tools, skills and resources for collaborative solutions to community issues.

Volunteering is a core SRP business value. Volunteering takes many forms at SRP, including hands-on projects, board involvement, community leadership programs, company-sponsored events and financial support of non-profit organizations. More than 85 percent of SRP employees participate in community outreach activities.

Second-graders at Maryland Elementary School in Phoenix became junior agriculturalists last year, thanks to an SRP Project RESOURCE grant to fund their garden project. The children raised a full vegetable garden, a project that brought them a cross-curriculum lesson in science, math and social studies.


Our Garden Grow

Educational Outreach

Our Project RESOURCE education grants close a gap for schools by providing funding for special projects such as science equipment, reading workshops for parents, and other learning-skills enhancement efforts.

This year, as we approach our centennial celebration, SRP funded several museum and cultural projects that will result in exhibits to educate the public about SRP's historic connections to the Valley.

Our educational outreach also includes a volunteer component, with a literacy program for children and a mentorship program for homeless students. In addition, because safety education is always a concern, SRP has launched a comprehensive public safety program, *SRP Safety Connection*, with season-specific messages that build awareness of safe practices at home, work and play.

Environmental Stewardship

Protecting and improving the environment is a critical community commitment, and SRP often pairs such efforts with education for greater results.

At our annual *Fresh Air Science Fair*, for example, urban students develop creative ways of reducing air pollution with assistance from SRP engineers. Other initiatives include the water resources mentor program, in which students work with SRP water experts to learn conservation strategies, and a micro-society program for schoolchildren that provides water and energy lessons.

Our annual *Mowing Down Pollution* campaign scoops up polluting lawn equipment across the Valley and replaces

Value to the Valley

More than 75 percent of Valley residents say SRP is "heavily involved in the local community." This is particularly compelling in view of the fact that nearly one-third of all residents have lived in the area for five years or less.

it with cleaner electric-powered machines. Nearly 13,000 gas-powered lawnmowers have been collected and recycled as a result, permanently removing several thousand tons of air pollutants. Proceeds from the sale of the resulting scrap metal are donated to the American Lung Association's *Open Airways for Schools* program, which benefits asthmatic children in elementary schools. Over six years, these donations exceed $25,000.

Family Enrichment

SRP actively supports the Valley's Hispanic community with volunteer services, community events, student mentoring and cultural education.

In addition, SRP's customer assistance program helps hundreds of families who are in a crisis by helping to pay their electric bills. SRP customers can voluntarily contribute to this fund, which raised more than $350,000 last year including matching funds from SRP.

Volunteer efforts also regularly result in returns for non-profit groups that help families. For example, Hospice of the Valley received $40,000 from the Scottsdale Arabian Horse Show, which was staffed by volunteers including SRP employees.

Other family outreach efforts by SRP employees include holiday gift programs, neighborhood clean-ups and home building.

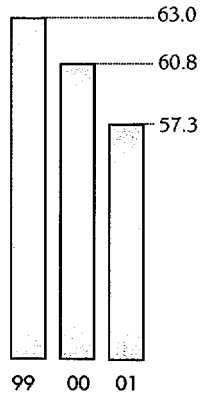
This year, SRP volunteers helped to build their fifth Habitat for Humanity home in Phoenix, providing a permanent residence for another family in need. Michael Krause, an SRP operations manager, worked with more than 100 SRP volunteers and others to make the home complete.

Financial Contributions

As well as our corporate-funded community activities, SRP and its employees last year donated $1.2 million to the United Way and other health and human service organizations. Beyond that, SRP provides $2 million in funding support for other community-based efforts including the arts, environment and recreation.

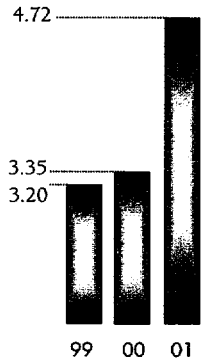
Financial Section

Debt Ratio
(Percent)



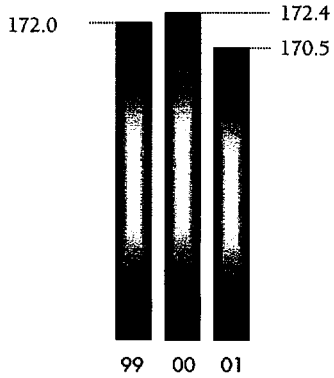
A steady decline in SRP's debt ratio is the result of continued emphasis on reduction of debt capitalization.

Debt Service Coverage Ratio



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

Net Financing Costs
($Millions)



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

Management's Financial and Operational Summary

Fiscal year 2001 was an exceptional one for SRP, with continued economic growth in the metropolitan Phoenix area, increased in-territory retail sales and increased wholesale sales.

Operating revenues of $3.0 billion grew 68 percent over the prior year with contributions from retail customer growth, more energy usage per customer due to the building of larger homes, wholesale sales, and higher-than-expected retail sales from our affiliate, New West Energy.

Customer growth and sales were better than expected for our residential and commercial customers. Wholesale sales were higher than expected due to the increased demand, and thus prices, for power in the Southwest. Favorable wholesale results help SRP provide low-cost, reliable energy to its retail customers, and this year was particularly noteworthy in that regard.

Total operating expenses increased 68 percent, mostly due to increased production costs. Purchased power costs increased 148 percent from the prior year and fuel expenses were up 85 percent. Also included in operating expenses are the usual and standard allowances taken to offset amounts at risk from counter parties in the power business. Financing costs held steady, maintaining our progress to reduce and refinance company debt.

In water operations, delivery revenues were $12.6 million, compared with $13.2 million the previous year. Water-related operating expenses were slightly higher than the prior year. SRP's reservoir storage was below normal with 1.2 million acre-feet stored at the end of the fiscal year, up about 25 percent from the previous year.

Overall, SRP's net revenues for this fiscal year were $309.7 million. All of SRP's net revenues are recommitted and reinvested into the company for the benefit of our customers, shareholders and bondholders.

Operating Code of Conduct

In accordance with the requirements of the 1998 Arizona Electric Power Competition Act, SRP has developed and implemented a Code of Conduct.

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. Effective January 1, 2001, SRP amended the Code of Conduct to more-clearly isolate the distribution functions and services provided by SRP and to simplify the Code.

We are subject to an annual independent audit of our adherence to the Code. Our second audit covering calendar year 2000 was completed in February 2001. The audit report confirmed that SRP has complied in all material respects with the Code's requirements.

Combined Balance Sheets

As of April 30	2001	2000
ASSETS		*(Thousands)*
Utility Plant		
Plant in service —		
Electric	$ 5,948,320	$ 5,765,976
Irrigation	234,392	227,423
Common	391,698	396,627
Total plant in service	6,574,410	6,390,026
Less — accumulated depreciation on plant in service	(3,102,243)	(2,926,142)
	3,472,167	3,463,884
Plant held for future use	31,134	31,134
Construction work in progress	326,215	200,805
Nuclear fuel, net	37,044	40,980
	3,866,560	3,736,803
Other Property and Investments		
Non-utility property and other investments	87,573	103,762
Segregated funds, net of current portion	352,302	557,642
	439,875	661,404
Current Assets		
Cash and cash equivalents	636,954	88,935
Temporary investments	348,031	366,858
Current portion of segregated funds	72,312	74,294
Receivables, net of allowance for doubtful accounts	348,307	180,370
Fuel stocks	25,480	27,610
Materials and supplies	60,500	62,669
Other current assets	39,519	29,136
	1,531,103	829,872
Deferred Charges and Other Assets	516,410	747,545
	$ 6,353,948	$ 5,975,624

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

Combined Balance Sheets

As of April 30	2001	2000
CAPITALIZATION AND LIABILITIES		*(Thousands)*
Long-Term Debt	$ 3,098,273	$ 3,164,866
Accumulated Net Revenues and Other Comprehensive Income	2,312,014	2,038,893
Total Capitalization	5,410,287	5,203,759
Current Liabilities		
Current portion of long-term debt	71,940	74,255
Accounts payable	207,129	112,427
Accrued taxes and tax equivalents	31,551	32,772
Accrued interest	52,279	53,029
Customers' deposits	23,336	22,082
Other current liabilities	159,148	92,686
	545,383	387,251
Deferred Credits and Other Non-Current Liabilities	398,278	384,614
Commitments and Contingencies *(Notes 3, 5, 7, 8, 9 and 10)*		
	$ 6,353,948	$ 5,975,624

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	2001	2000
		(Thousands)
Operating Revenues	$ 3,026,787	$ 1,797,745
Operating Expenses		
Power purchased	914,646	368,628
Fuel used in electric generation	514,049	278,263
Other operating expenses	471,670	304,237
Maintenance	156,002	146,631
Depreciation and amortization	473,334	368,016
Taxes and tax equivalents	82,335	90,931
Total operating expenses	2,612,036	1,556,706
Net operating revenues	414,751	241,039
Other Income (Expenses)		
Interest income	68,147	55,699
Other expenses, net	(2,662)	(5,652)
Total other income (expenses), net	65,485	50,047
Net revenues before financing costs	480,236	291,086
Financing Costs		
Interest on bonds, net of capitalized interest	141,578	146,070
Amortization of bond discount and issuance expenses	4,951	5,449
Interest on other obligations	24,011	20,887
Net financing costs	170,540	172,406
Net Revenues	309,696	118,680
Other Comprehensive Income		
Unrealized gain (loss) on securities	(36,575)	21,279
Comprehensive Income	$ 273,121	$ 139,959

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

Combined Statements of Cash Flows

For the Years Ended April 30	2001	2000
		(Thousands)
Cash Flows from Operating Activities		
Net revenues	$ 309,696	$ 118,680
Adjustments to reconcile net revenues to net cash provided by operating activities:		
Depreciation and amortization	473,334	368,016
Post-retirement benefits expense	23,800	18,000
Amortization of provision for loss on long-term contracts	(13,281)	(13,281)
Amortization of bond discount and issuance expenses	4,951	5,449
Amortization of spent nuclear fuel storage	1,333	1,222
Loss on sale of property	99	952
Decrease (increase) in –		
Fuel stocks and materials & supplies	4,299	(6,482)
Receivables, including unbilled revenues, net	(167,937)	(21,491)
Other assets	(11,620)	(8,795)
Increase (decrease) in –		
Accounts payable	94,702	(20,857)
Accrued taxes and tax equivalents	(1,221)	(4,041)
Accrued interest	(750)	(495)
Other liabilities, net	70,861	(14,029)
Net cash provided by operating activities	788,266	422,848
Cash Flows from Investing Activities		
Additions to utility plant, net	(372,962)	(271,702)
Decrease (increase) in investments	228,138	(78,575)
Net cash used for investing activities	(144,824)	(350,277)
Cash Flows from Financing Activities		
Repayment of long-term debt, including refundings	(73,859)	(73,349)
Increase in segregated funds	(21,564)	(23,337)
Net cash used for financing activities	(95,423)	(96,686)
Net Increase (Decrease) in Cash and Cash Equivalents	548,019	(24,115)
Balance at Beginning of Year in Cash and Cash Equivalents	88,935	113,050
Balance at End of Year in Cash and Cash Equivalents	$ 636,954	$ 88,935
Supplemental Information		
Cash Paid for Interest *(Net of Capitalized Interest)*	$ 166,339	$ 167,452

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

Notes to Combined Financial Statements

April 30, 2001 and 2000

NOTE 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 available to the District that is surplus to the needs of its retail customers, and energy that may be rendered surplus by retail competition in Arizona in the supply of generation. In addition, New West Energy provides other retail energy related services to current and prospective energy customers as part of its program to market surplus energy.

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 and balances 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.

NOTE 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. 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 is 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 5.54% and 5.41% was used in fiscal years 2001 and 2000 to calculate interest on funds used to finance construction work in progress, resulting in $6.0 million and $5.3 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 assets. The following table reflects the District's average depreciation rates on the average cost of depreciable assets, for the fiscal years ended April 30:

	2001	2000
Average electric depreciation rate	3.58%	3.34%
Average irrigation depreciation rate	2.20%	1.97%
Average common depreciation rate	5.84%	6.81%

BOND EXPENSE ⇨ Bond discount and issuance expenses are being amortized using the effective interest method over the terms of the related bond issues.

ALLOWANCE FOR DOUBTFUL ACCOUNTS ⇨ The District has provided for an allowance for doubtful accounts of $76.4 million and $1.7 million as of April 30, 2001 and 2000, respectively.

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, 2001 and 2000 was $301.0 million and $283.2 million, respectively.

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 $84.9 million and $76.8 million as of April 30, 2001 and 2000, respectively. Decommissioning expense, net of earnings on trust fund assets, of $4.3 million and $4.1 million was recorded in fiscal years 2001 and 2000, respectively. The District contributes to a trust set up in accordance with the NRC requirements. Decommissioning funds of $113.5 million and $122.1 million, stated at market value, as of April 30, 2001 and 2000, 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 $30.2 million and $46.6 million at April 30, 2001 and 2000, respectively, are included in accumulated comprehensive income as a component of accumulated net revenues.

ACCOUNTING FOR ENERGY RISK MANAGEMENT ACTIVITIES ⇨ The District has an energy risk management program to limit exposure to risks inherent in normal energy business operations. The goal of the energy risk management program is to measure and minimize exposure to price risks, credit risks, and control risks. Specific goals of the energy risk management program include reducing the impact of market fluctuations on energy commodity prices associated with customer energy requirements, excess generation and fuel expenses, meeting customer pricing needs, and maximizing the value of physical generating assets. The District employs established policies and procedures to meet the goals of the energy risk management program using various physical and financial instruments, including forward contracts, futures, swaps and options. These activities are accounted for primarily using hedge accounting methods with gains and losses on these transactions initially deferred and classified as other current assets or liabilities in the accompanying Combined Balance Sheets and then recognized as a component of fuel or purchased power expense when the hedged transaction occurs.

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

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

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 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 contractual arrangements 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. In addition, volatile energy prices can create significant credit exposure from energy market receivables. The District has a Credit Policy for wholesale counterparties, and monitors credit exposures continuously, routinely assesses the financial strength of its counterparties, and minimizes credit risk by dealing primarily with creditworthy counterparties and by requiring letters of credit, parent guarantees or other collateral 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.

REVENUE RECOGNITION ⇨ The District recognizes revenue when billed and estimates and accrues revenue for electricity delivered to customers that has not yet been billed.

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 ⇨ Effective May 1, 2001, the District adopted SFAS No. 133, *"Accounting for Derivative Instruments and Hedging Activities"* (SFAS No. 133). SFAS No. 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. Any change in the fair value resulting from ineffectiveness, as defined by SFAS No. 133, is recognized currently in earnings. Adoption of the new standard did not result in a material impact on the District's earnings, as most derivative activities qualified for hedge accounting under SFAS No. 133.

Subsequent to April 30, 2001, the Financial Accounting Standards Board (FASB) reached a tentative conclusion regarding an interpretation of SFAS No. 133 dealing with extending the eligibility of qualifying for the normal purchases and sales exception to option contracts for the purchase and sale of electricity by public electric utilities. The tentative conclusion reached allows these types of contracts to qualify for the normal purchases and sales exception if certain criteria are met. The conclusion also applies to power purchase or sale agreements, even if they are subject to being booked out (subject to unplanned netting of transactions).

Contracts of this type entered into by the District generally meet the above criteria and would therefore qualify under the normal purchases and sales exception. If the FASB reverses its position in its tentative conclusion, the District may be required to mark its electricity option purchase contracts to fair market value, which could have either a positive or negative material impact on the District's financial statements.

NOTE 3 Regulatory Issues:

FUNDAMENTAL CHANGES IN THE ELECTRIC UTILITY INDUSTRY ⇨ The District historically 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 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 prices to exceed the prices 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. Beginning January 1, 2001, all customers may select an alternative generation provider.

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 attempt to develop proposals for regional transmission organizations (RTO). The District is participating in the development of an RTO for the Southwest region and parts of the Rocky Mountain region.

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 elected competitive electric services could also choose billing, collection and meter reading services on a competitive basis if their demand exceeded one megawatt. In April 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 was opened to generation competition beginning June 1, 2000, and to competition in billing, metering and meter reading beginning December 31, 2000. The District's electric distribution area will remain regulated by its Board and the District will not provide distribution services in the distribution areas of other utilities.

Also in 1998, the District approved unbundled pricing plans effective December 31, 1998. For retail customers who were unable to choose competitive electric generation, prices reflected 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) has been 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.

In connection with the August 1998 and December 1998 resolutions, the Board authorized the District to recover a non-bypassable CTC of $795.0 million. In June 2001, the Board passed an additional resolution which stated the District would stop collecting the CTC effective June 1, 2004. As a result of this resolution, management has determined, based upon projections using current economic conditions, it is no longer probable that the full CTC amount may be collected. Management has, therefore, reduced the amount of the CTC asset and taken a charge to depreciation and amortization expense of $85.0 million as of April 30, 2001.

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 for the regulated portion of its 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 end of the planned collection 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.

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, a maximum of $795.0 million may be recovered through the CTC, and such amount was recorded as a regulatory asset (CTC asset). The CTC asset will be recovered through the competitive transition charge over the period that began December 31, 1998, and will continue through May 31, 2004. Since December 31, 1998, the District has amortized or charged $403.4 million of CTC asset to depreciation and amortization and recovered $312.0 million through CTC revenue.

Regulatory assets for spent nuclear fuel storage are being amortized over the life of the nuclear plant. 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.

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

	2001	2000
CTC regulatory asset	$ 392,097	$ 608,900
Bond defeasance regulatory asset	36,600	50,815
Spent nuclear fuel storage regulatory asset	21,974	21,565
Prepaid pension benefits	32,700	22,100
Other	33,039	44,165
	$ 516,410	$ 747,545

If events were to occur making full 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.

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

	2001	2000
Provision for contract losses	$ 132,741	$ 146,021
Accrued post-retirement benefit liability	113,200	96,400
Accrued decommissioning costs	84,946	76,862
Accrued spent nuclear fuel storage	24,915	23,173
Other	42,476	42,158
	$ 398,278	$ 384,614

Operating results from the separable portion of the District's operations that do not meet the provisions of SFAS No. 71 are as follows (in thousands):

	Fiscal Year Ended April 30, 2001	Fiscal Year Ended April 30, 2000
Operating revenues	$ 2,277,240	$ 1,019,144
Operating expenses	1,770,065	899,072
Net operating revenues from non-regulated operations	$ 507,175	$ 120,072

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):

	2001	2000
Electric plant in service	$ 3,460,089	$ 3,115,865
Less accumulated depreciation	(1,985,330)	(1,797,266)
Net assets used in non-regulated operations	$ 1,474,759	$ 1,318,599

NOTE 4 Accumulated Net Revenues and Other Comprehensive Income:

The following table summarizes accumulated net revenues and other comprehensive income (in thousands):

	Accumulated Net Revenues	Accumulated Other Comprehensive Income	Accumulated Net Revenues & Other Comprehensive Income
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
Net revenues	309,696	—	309,696
Net unrealized loss on available-for-sale securities	—	(36,575)	(36,575)
BALANCE, April 30, 2001	$ 2,245,791	$ 66,223	$ 2,312,014

The majority of unrealized gain (loss) originates from decommissioning trust and segregated fund investments. Net unrealized gain (loss) on available-for-sale securities consists of gross unrealized gain (loss) on equity funds of $(41.1) million and $24.1 million and gross unrealized gain (loss) on debt funds of $4.5 million and $(2.8) million at April 30, 2001 and 2000, respectively.

NOTE 5 Long-Term Debt:

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

	Interest Rate	2001	2000
Revenue bonds (mature through 2031)	4.3 – 7.0%	$ 2,713,999	$ 2,787,589
Unamortized bond discount		(68,786)	(73,468)
Total revenue bonds outstanding		2,645,213	2,714,121
Commercial paper	2.9 – 4.3%	525,000	525,000
Total long-term debt		3,170,213	3,239,121
Less – current portion		(71,940)	(74,255)
Total long-term debt net of current portion		$ 3,098,273	$ 3,164,866

The annual maturities of long-term debt (excluding commercial paper and unamortized bond discount) as of April 30, 2001, due in the fiscal years ending April 30, are as follows (in thousands):

2002	$ 71,940
2003	94,812
2004	100,102
2005	113,253
2006	107,237
Thereafter	2,226,655
	$ 2,713,999

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 $283.7 million and $346.9 million of debt service related funds as of April 30, 2001 and 2000, respectively.

The District has $80.4 million of mini-revenue bonds outstanding which can be redeemed at the option of the bondholder under certain circumstances. Based on historical redemptions made on these bonds, management believes there are sufficient funds available to cover potential redemptions in any year.

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, 2001 and 2000, the debt service coverage ratio was 4.72 and 3.35, respectively.

Interest and the amortization of the bond discount and issue expense on the various issues results in an effective rate of 5.88% over the remaining term of the bonds.

The District has authorization to issue additional Electric System Revenue Bonds totaling $497.7 million principal amount and Electric System Refunding Revenue Bonds totaling $2.9 billion principal amount. On March 1, 2001, the District filed an application with the Commission for authorization to issue an additional $500.0 million Electric System Revenue Bonds and $550.0 million Electric System Refunding Revenue Bonds. This application was amended June 11, 2001 requesting an additional $175.0 million Electric System Revenue Bonds and $200.0 million Electric System Refunding Revenue Bonds.

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 3.3%. 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 May 6, 2003.

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, 2001, the amount of defeased general obligation bonds outstanding was $4.4 million.

LINE-OF-CREDIT ARRANGEMENTS ⇨ The District has $525.0 million in revolving line-of-credit agreements that support the commercial paper program. These agreements have various covenants, with which the District is in compliance at April 30, 2001.

NOTE 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, customers' deposits and other current liabilities in the accompanying Combined Balance Sheets approximate fair value because of their short-term maturities.

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

	2001		2000	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investments in marketable securities:				
Other investments	$ 13,000	$ 13,117	$ 30,000	$ 29,332
Segregated funds	424,614	422,788	631,936	633,385
Temporary investments	348,031	348,060	366,858	366,858
Long-term debt	$ 3,170,213	$ 3,342,096	$ 3,239,121	$ 3,309,597

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, 2001, the District's investments in debt securities have maturity dates ranging from May 1, 2001 to November 15, 2010. 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.

NOTE 7 Employee Benefit Plans, Incentive Program and Severance Plans:

DEFINED BENEFIT PENSION PLAN AND OTHER POST-RETIREMENT 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 2001 or 2000.

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	
	2001	2000	2001	2000
Change in benefits obligation:				
Benefit obligation at beginning of year	$ 510,800	$ 575,900	$ 170,400	$ 142,500
Service cost	14,300	17,400	4,400	3,700
Interest cost	40,100	36,800	13,400	9,100
Amendments	8,400	—	—	—
Actuarial loss (gain)	17,700	(96,600)	34,200	21,500
Benefits paid	(24,000)	(22,700)	(7,000)	(6,400)
Benefit obligations at end of year	$ 567,300	$ 510,800	$ 215,400	$ 170,400
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 699,100	$ 672,600	$ —	$ —
Actual return on plan assets	30,000	49,200	—	—
Employer contributions	—	—	7,000	6,400
Benefits paid	(24,000)	(22,700)	(7,000)	(6,400)
Fair value of plan assets at end of year	$ 705,100	$ 699,100	$ —	$ —
Funded status	$ 137,800	$ 188,300	$ (215,400)	$ (170,400)
Unrecognized transition obligation (asset)	(4,000)	(8,000)	67,900	73,600
Unrecognized net actuarial (gain) loss	(111,000)	(160,200)	32,500	(1,200)
Unrecognized prior service cost	9,900	2,000	—	—
Post January 31 contributions	—	—	1,800	1,600
Net asset (liability) recognized	$ 32,700	$ 22,100	$ (113,200)	$ (96,400)
Prepaid benefit cost	$ 32,700	$ 22,100	$ —	$ —
Accrued benefit liability	—	—	(113,200)	(96,400)
Net amount recognized	$ 32,700	$ 22,100	$ (113,200)	$ (96,400)

The pension plan was amended effective January 1, 2001 to provide a retiree pension enhancement, as well as enhanced benefits for selected employees.

The District internally funds its other benefits obligation. At April 30, 2001 and 2000, $148.0 million and $151.7 million of segregated funds, respectively, are designated for this purpose.

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

	Pension Benefits		Other Benefits	
	2001	2000	2001	2000
Discount rate	7.5%	8.0%	7.5%	8.0%
Expected return on plan assets	9.0%	9.5%	N/A	N/A
Rate of compensation increase	4.0%	4.0%	4.0%	4.0%

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 2001; these rates were assumed to decrease 0.5% per year until equaling 6.0% in all future years.

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

	Pension Benefits		Other Benefits	
	2001	2000	2001	2000
Service cost	$ 14,300	$ 17,400	$ 4,400	$ 3,700
Interest cost	40,100	36,800	13,400	9,100
Expected return on plan assets	(59,100)	(44,600)	—	—
Amortization of transition obligation (asset)	(4,000)	(4,000)	5,700	5,700
Recognized net actuarial (gain) loss	(2,400)	—	300	(800)
Amortization of prior service cost	400	400	—	—
Net periodic benefit (gain) cost	$ (10,700)	$ 6,000	$ 23,800	$ 17,700

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	$ 2,100	$ (1,600)
Effect on post-retirement benefit obligation	$ 23,000	$ (20,700)

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 $5.9 million and $5.4 million during fiscal years 2001 and 2000, 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 $28.2 million and $25.9 million for fiscal years ended April 30, 2001 and 2000, 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 $3.3 million and $3.0 million at April 30, 2001 and 2000, respectively.

NOTE 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, 2001 (in thousands):

Generating Station	Ownership Share	Plant in Service	Accumulated Depreciation	Construction Work in Progress
Four Corners (NM) (Units 4 & 5)	10.00%	$ 102,564	$ (75,638)	$ 1,776
Mohave (NV) (Units 1 & 2)	10.00%	63,668	(42,481)	3,120
Navajo (AZ) (Units 1, 2 & 3)	21.70%	345,099	(186,058)	1,142
Hayden (CO) (Unit 2)	50.00%	110,939	(55,210)	1,876
Craig (CO) (Units 1 & 2)	29.00%	238,490	(140,637)	5,253
PVNGS (AZ) (Units 1, 2 & 3)	17.49%	1,095,272	(748,342)	24,494
		$ 1,956,032	$ (1,248,366)	$ 37,661

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

NOTE 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.

IMPROVEMENT PROGRAM ⇨ The improvement program represents SRP's six-year plan for major construction projects and capital expenditures for existing generation, transmission, distribution and irrigation assets. For the 2002-2007 period, SRP estimates capital expenditures of approximately $3.2 billion. Major construction projects include generation expansion at the Kyrene and Santan Generating Stations, as well as other key strategic distribution and transmission projects. The six-year improvement program also provides for future increased ownership in the Mohave Generating Station.

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 2006, and $254.3 million thereafter. Of the total obligation, $25.2 million annually through fiscal year 2006 and $136.5 million thereafter are unconditionally payable regardless of the availability of power. Payments under these contracts totaled $76.5 million and $84.7 million in fiscal years 2001 and 2000, 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 $38.9 million annually through fiscal year 2006, and $187.0 million thereafter. Total payments under these two contracts, including the minimum payments, were $62.9 million and $57.9 million in fiscal years 2001 and 2000, respectively. In conjunction with the impairment analysis performed on generation-related operations, the District has recorded provisions for losses on these contracts. The 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 has been reflected as a reduction in fuel expense in fiscal years 2001 and 2000. The remaining liability at April 30, 2001 of $132.7 million is included in deferred credits and other non-current liabilities in the Combined Balance Sheets.

In fiscal year 2001, the District entered into a ten-year contract for the long-term exclusive purchase of power and energy produced at a generating facility (Facility) located in Southern Arizona. The amount of energy available to the District is approximately 596 MW annually and payments are fixed at $65.5 million for fiscal year 2002, $61.3 million in each of fiscal years 2003 through 2006, and $285.5 million thereafter. These payments include costs for both capacity and operation and maintenance of the Facility.

Upon inception of the contract, the present value of the fixed payment attributable to capacity costs meets the requirement for accounting for this contract as a capital lease; therefore, the District will record the present value of the capacity payments as utility plant and capital lease obligation in the Combined Balance Sheet in fiscal year 2002. The cost recorded to utility plant will be depreciated over the term of the contract and payments under the contract attributable to the capacity cost will be amortized to the capital lease obligation and interest expense.

Under the above Facility contract, the District exercised an option to supply all natural gas required to operate the Facility. In connection with exercising this option, the District entered into a ten-year gas index basis swap agreement with the Facility operator which provides that both parties will share equally, based on the volume of natural gas purchased daily, in the price differential between the SoCal Gas Daily Index and the Permian Basin Gas Daily Index. To mitigate its exposure to fluctuations in the market prices of natural gas under the swap, the District has purchased natural gas financial swaps on both the SoCal Gas Daily Index and the Permian Basin Gas Daily Index to hedge a portion of the estimated natural gas requirements. The natural gas swaps expire annually through December 2005.

FUEL SUPPLY ⇨ At April 30, 2001, minimum payments under long-term coal contract commitments are estimated to be $121.7 million annually in fiscal years 2002 and 2003, $121.4 million in fiscal year 2004, $117.9 million in fiscal year 2005, $107.9 million in fiscal year 2006, and $427.6 million thereafter.

NOTE 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 ($200.0 million) with the balance covered by an industry-wide 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 $10.0 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 $46.2 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 the DOE to begin accepting used fuel. The Court ruled that any damages incurred by 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 to accommodate spent fuel discharges from normal operations through 2002. Existing wet storage is being augmented with new facilities for on-site dry cask storage of spent fuel for at least the balance of the currently licensed life beyond 2002, subject to obtaining any required government approvals. The District's share of on-site interim storage at PVNGS is estimated to be $24.9 million for costs to store spent nuclear fuel from inception of the plant to date, and $1.9 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 $600.0 million in damages and seeks treble damages along with punitive damages of not less than $1.0 billion. The District denies all charges and is vigorously defending itself. On March 15, 2001, the court granted the motion of the Hopi Tribe to intervene in the suit. However, on May 16, 2001, the court granted the District's earlier motions to dismiss in their entirety. An appeal by the Navajo Nation is probable. In addition, the court has not yet addressed the District's motions to dismiss the Hopi Tribe's claims. Because this litigation is still 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 $300.0 million, of which the District's share would be $30.0 million. These costs are included in the capital contingencies portion of the 2002–2007 Improvement Program.

In January 2001, the participants in the Craig Generating Station agreed to settle a lawsuit alleging, among other things, numerous violations of opacity standards by Craig Units 1 and 2. Under the terms of the settlement, the participants must install fabric filter baghouses and other equipment on Units 1 and 2 by December 31, 2003 and June 30, 2004, respectively. Capital costs are estimated at $123.0 million, of which the District's share would be $35.6 million. These costs are included in the capital contingencies portion of the 2002–2007 Improvement Program.

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.

CALIFORNIA ENERGY MARKET ISSUES ⇨ In 1996, California adopted a restructuring program for the electric utility industry that combined generation divestiture and reliance on wholesale spot markets with rigid retail price controls. The situation was further compounded by significant increases in fuel costs, transmission constraints between northern and southern California, and a relatively dry period in the northwest, which has significantly reduced the amount of hydroelectric power available. The result has been a dysfunctional energy market, exponentially high wholesale prices, bankruptcy of California's largest investor owned utility (Pacific Gas and Electric Company), and inadequate resources to serve customers.

Because of the District's close ties to the California energy market, both as a seller and buyer of wholesale energy, the activities of New West Energy in marketing energy and related energy services in California and the role of Southern California Edison as operator of the Mohave Generating Station and a participant in other jointly owned facilities, the District is closely monitoring developments in California and their potential impact on the District. Nevertheless, based upon transactions to date, the District does not believe that the foregoing matters will have a material adverse effect on its financial position or liquidity. However, the District cannot predict with certainty the impact that any future resolution, or attempted resolution, of the California energy market situation may have on it, New West Energy, or the regional energy market in general.

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 above). 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 SRP's financial position or results of operations.

SELF-INSURANCE ⇨ The District maintains various self-insurance retentions for certain casualty and property exposures. In addition, the District has insurance 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 Users' 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, 2001 and 2000, 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, 2001 and 2000, 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
June 11, 2001

Boards
Association & District

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

Ann Maitland Burton
Division 7

Keith Woods
District 7

Robert G. Kempton
District/Division 8

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

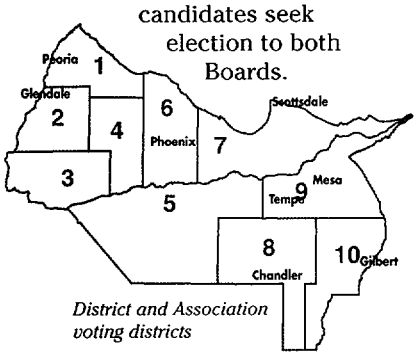
James R. Marshall
Director-at-large, Seat 14

SRP 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.



District and Association voting districts

SRP Councils

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

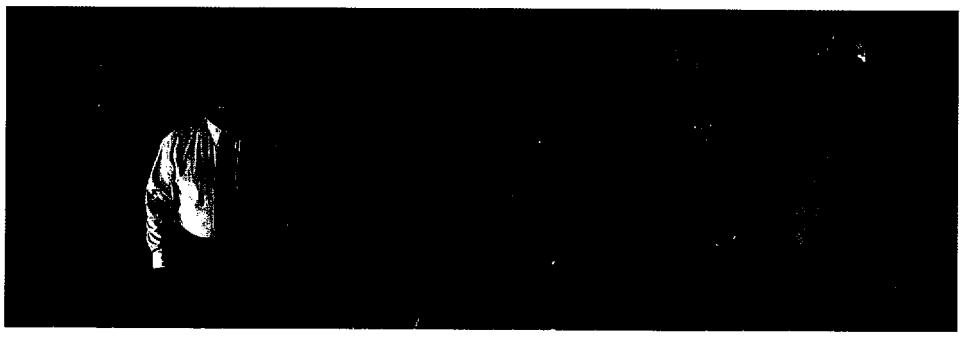
As with the SRP Boards, there is one Council for the District and one for the Association.

The 30 District Council members are elected to staggered four-year terms from 10 divisions. The 30 Association Council members are elected to staggered four-year terms from 10 districts. Most often, candidates seek election to both Councils.

Councils
Association & District

left to right
District/Division 1
John R. Starr
Kevin J. Johnson
Robert L. Cook

District/Division 2
John A. Vanderwey
Paul E. Rovey
Wayne A. Hart



left to right
District/Division 3
Robert T. Van Hofwegen
Mario J. Herrera
John E. Anderson

District/Division 4
Lloyd E. Banning
Leslie C. Williams
Charles D. Coppinger

left to right
District/Division 5
Stephen Williams
Wayne A. Weiler
Roy W. Cheatham

District/Division 6
Robert W. Warren (District only)
David Rousseau (Chairman)
Ben A. Butler (Division only)
Clarence J. Duncan

left to right
District/Division 7
Mark A. Lewis
Harmen Tjaarda Jr.
Keith Woods (Division only)
Ann Maitland Burton (District only)

District/Division 8
John R. Hoopes
Deborah Hendrickson
Mark V. Pace

left to right
District/Division 9
Arthur L. Freeman
W. Curtis Dana
Edward E. Johnson

District/Division 10
Lawrence P. Schrader
Orland R. Hatch
C. Dale Willis

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

SRP on the Internet
Visit SRP's home page at **www.srpnet.com** for an electronic version of our annual report.

Inquiries
Dean Yee, Manager, SRP Financial Services
(602) 236-5319

Requests for Annual Reports
For additional copies of this report, or SRP quarterly reports, call (602) 236-2598. Or send a request to **investor@srpnet.com**.

Bondholder Information
Regarding all bond information, contact the SRP Treasury Department, (602) 236-2222.

Delivering More Than Power.®

PNM annual report

[2000]

transforming ideas into results

C01

PUBLIC SERVICE COMPANY OF NEW MEXICO

CONTENTS

ABOUT OUR COMPANY

PNM is a combined electric and gas utility serving the people of New Mexico. We also sell electric power to other utilities and wholesale customers, and this business is now the primary driver of revenue growth for the company. Avistar, a separate PNM subsidiary, seeks out and invests in promising new opportunities in energy-related technologies.

INVESTOR HIGHLIGHTS *(dollars in thousands, except per share amounts)*

	2000	1999	PERCENTAGE CHANGE	5-YEAR ANNUAL GROWTH RATE
Financial Data				
Operating Revenues	$1,611,274	$1,157,543	39.2%	14.8%
Operating Expenses	$1,478,800	$1,037,464	42.5%	16.3%
Net Earnings Available for Common	$ 100,360	$ 82,569	21.6%	6.9%
Retained Earnings	$ 296,843	$ 227,829	30.3%	63.7%
Return on Average Common Equity	11.1%	9.5%	17.4%	0.7%
Common Share Data				
Earnings (Basic)	$ 2.54	$ 2.01	26.4%	8.0%
Earnings (Diluted)	$ 2.53	$ 2.01	25.9%	8.0%
Book Value	$ 23.64	$ 21.79	8.5%	7.0%
Closing Price	$ 26.81	$ 16.25	65.0%	8.7%
Dividends Paid	$ 0.80	$ 0.80	—	N/M
Average Shares Outstanding	39,487	41,038	(3.8)%	(1.1)%
Number of Employees	2,667	2,667	—	(0.3)%

N/M = NOT MEANINGFUL

RESULTS

FINANCIAL STRENGTH
retained earnings in millions

PRODUCTIVITY
customers per employee

ELECTRIC SALES
total MWh in thousands

SHAREHOLDER RETURN
return on average common equity

C-02

IDEAS

The PNM strategic plan is the map that guides our company through the turmoil of today's evolving energy markets and shifting regulatory environment. It allows us to maintain an unwavering **FOCUS** on preserving and increasing shareholder value, building on existing strengths to **MAXIMIZE** today's opportunities, even as we **PREPARE** to compete in tomorrow's markets and **ACCELERATE** our progress to stay ahead of the pace of change in our industry.

A PROFITABLE STRATEGY BORN OF NECESSITY

Providing reliable, affordable electric and natural gas service to the people of New Mexico remains our core business. According to the 2000 Census, our home state was the 12th fastest growing in the nation during the 1990s, and PNM's utility operations have been expanding to serve new customers. Electric sales in our service territory increased 4.2 percent in 2000, to nearly 7.1 million megawatt-hours (MWh).

Our local utility operations provide steady cash flow and a predictable stream of revenue to complement the more volatile performance of other areas of our business.

In recent years, most of PNM's growth has been outside our home territory, in the regional wholesale power market. PNM wholesale power revenues surged from just $80.9 million in 1995 to $748.2 million in 2000 (an average annual growth rate of 56 percent). Wholesale power marketing now accounts for nearly half of our company's total operating revenues.

Wholesale electricity prices reached unprecedented highs in the West in 2000, contributing to the substantial increase in PNM revenues for the year. While California's flawed experiment in deregulation destabilized the market, the underlying cause of the price volatility is a shortage of electric power in the region. We believe this situation will persist until a combination of energy conservation and new generating plants begins to bring supply and demand back into alignment.

PNM's continued success is not based on these temporary shifts in the market, however, but on years of experience born of necessity. More than a decade ago, PNM had more generation capacity than was needed by our retail customers. To cover the cost of that investment, we began to aggressively market power to other utilities. As the wholesale power market has grown in size and complexity, we have evolved a strategy designed to maximize returns and manage risks.

[focus]

transforming necessity
into opportunity

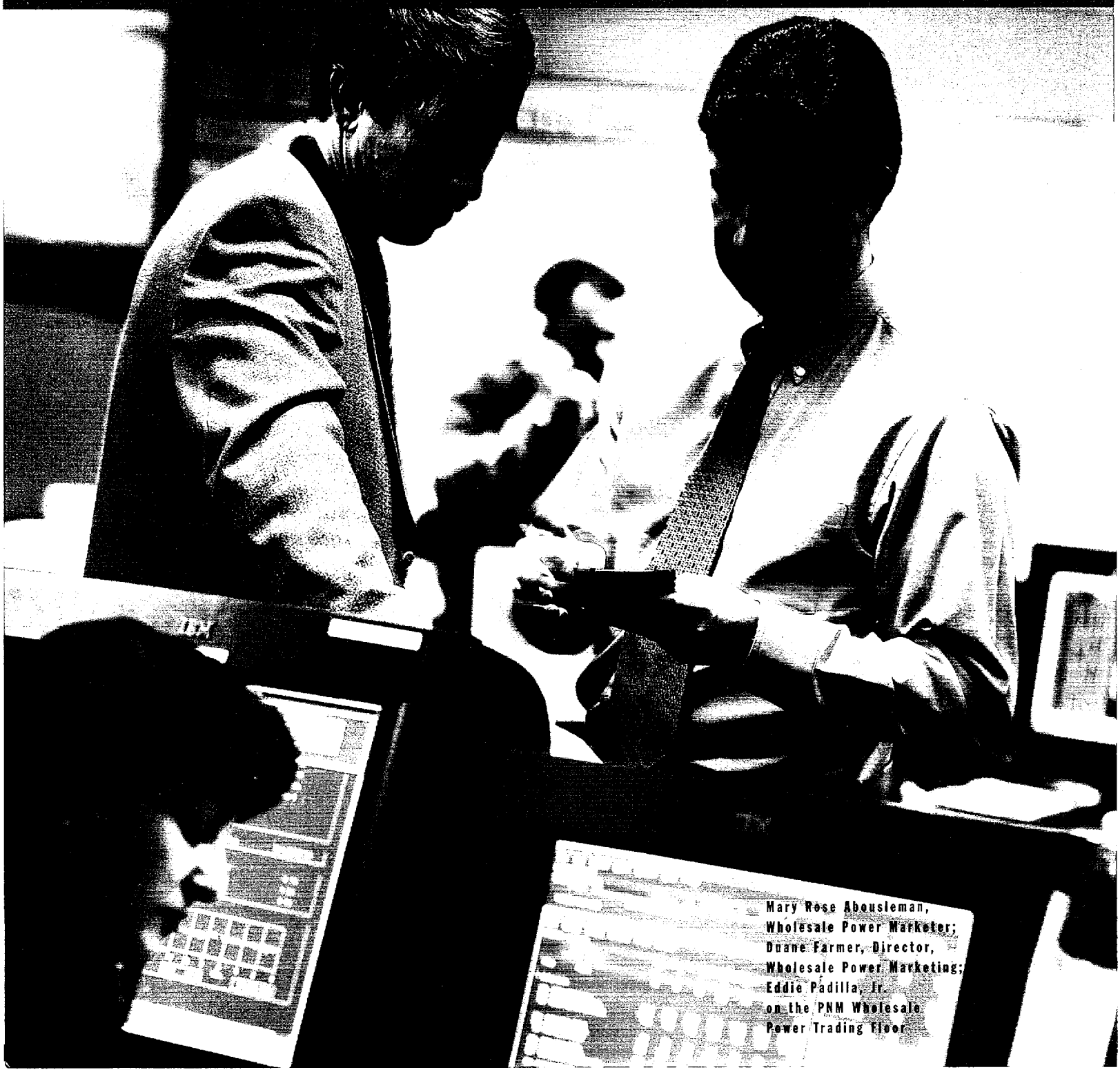
"It's easy to say you want to be 'customer-centric.' But it's something you have to practice every day by continually looking at all your processes and procedures through the customer's eyes. Is it easy for the customer? Is it convenient for the customer? We have to focus on that every day. We measure our success through the eyes of our customers."

-- SARITA PARRA LOEHR, VP, CUSTOMER SERVICE

Sarita Parra Loehr;
Marissa Ravich, Customer Service Rep;
Eugene Quintana, Meter Rep
at the PNM Customer Call Center

"We are constantly assessing the changing nature of this marketplace. Every day at our morning meeting we ask ourselves: 'How did we do yesterday? What have we learned? How can we best manage risk today?' We don't swing for the homeruns. But we have succeeded in creating a sustainable advantage through niche markets that will allow us to continue to grow our margin and manage risk throughout the commodity price cycle."

-- EDDIE PADILLA, JR., SENIOR VP, BULK POWER MARKETING AND DEVELOPMENT



Mary Rose Abousleman, Wholesale Power Marketer; Duane Farmer, Director, Wholesale Power Marketing; Eddie Padilla, Jr. on the PNM Wholesale Power Trading Floor.

[maximize]

CUSTOMIZED SERVICES WITH CONTROLLED RISK

In a market where the emphasis is on high-volume, standardized transactions, our ability to provide customized services allows us to improve on the narrow profit margins typical of commodity markets.

At the same time, we manage market risk by backing our trading activity with the power available from our own generating plants, reducing our exposure to adverse price moves. Maintaining a balanced mix of short and long-term wholesale contracts provides another hedge against market volatility.

Our continuing effort to improve productivity and lower costs at our generating plants is yet another factor underlying our success in the wholesale market. In 2000, PNM renegotiated the coal contract at San Juan Generating Station to reduce fuel costs by between $400 million and $500 million over the next 17 years.

PNM's $35 million investment in new pollution control equipment at San Juan is producing benefits in both reduced emissions and improved operating performance. In 2000, the EPA selected San Juan as a charter member of the agency's environmental achievement track program.

To support our expanding wholesale business, PNM aims to double the size of its generation portfolio over the next five years. To meet this goal, we plan to add new capacity either by buying shares in existing generating plants or participating in the construction of new plants.

[prepare]

transforming uncertainty
into discovery

"We've been participating in the debate over deregulation and utility industry restructuring for seven years now. Through collaboration and candid discussion, we've worked to develop a core consensus with regulators, legislators and all the other stakeholders. It's important to keep an open dialogue as we continue to prepare for our competitive future so that all decisions are beneficial to customers and shareholders."

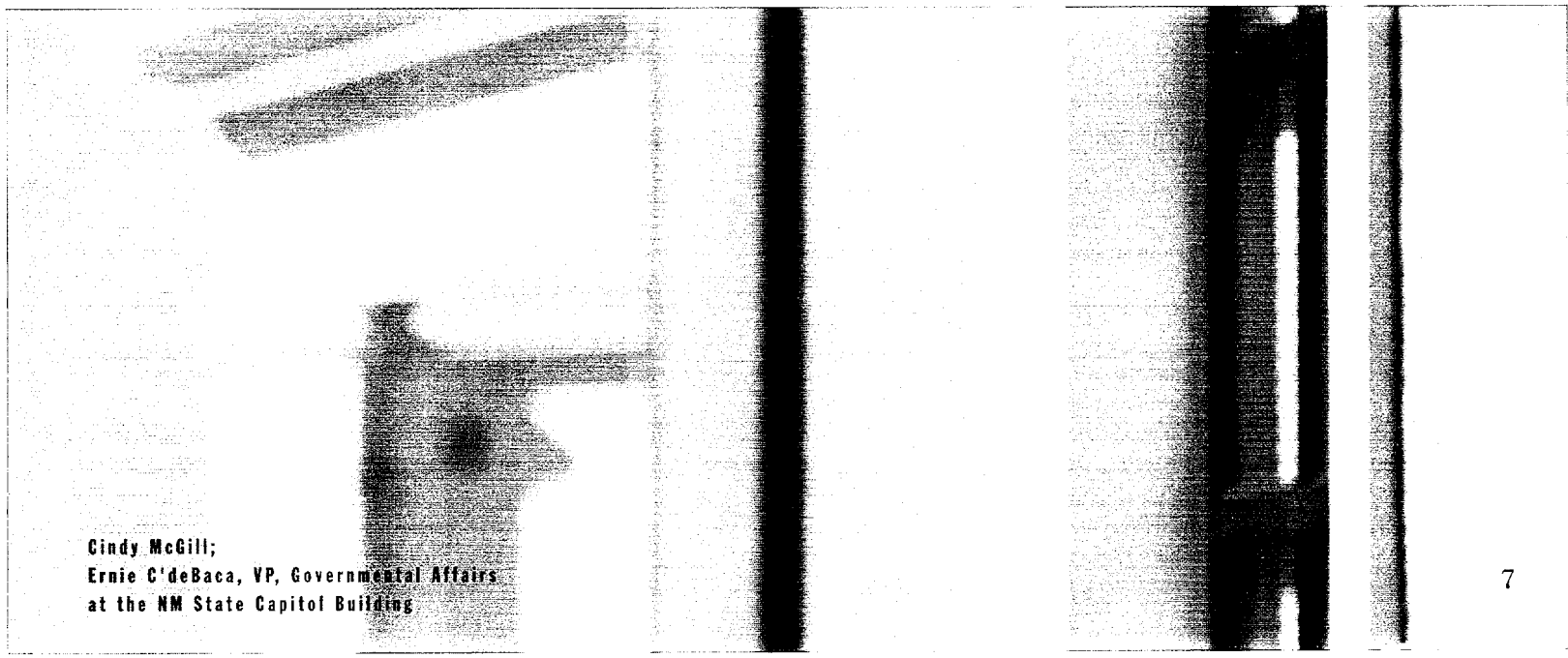
-- CINDY McGILL, VP, REGULATORY & PUBLIC POLICY

FACING THE CHALLENGE OF CHANGE

In 1999, New Mexico enacted legislation setting the state on the path toward customer choice in the electric power market. In 2000, PNM shareholders approved creating a new holding company as a step toward preparing for competition.

California's flawed attempt at deregulation has raised new concerns, however, and New Mexico has decided to delay retail electric competition until 2007. The plan for delay, however, allows PNM to continue pursuing its strategic plan even though retail competition has been deferred.

We believe customer choice can be implemented in a manner that will bring New Mexico the benefits of an open market while preserving system reliability, providing consumers with continued price stability, and protecting the interests of PNM shareholders.



Cindy McGill;
Ernie C'deBaca, VP, Governmental Affairs
at the NM State Capitol Building

SEIZING NEW OPPORTUNITIES

The changing dynamics of our industry are opening up new horizons for companies with the financial strength and the vision to take advantage of those opportunities.

In 2000 PNM found an opportunity to substantially increase shareholder value in a single transaction by agreeing to acquire the Kansas electric utility operations of Western Resources in a stock-for-stock transaction with an aggregate enterprise value of $4.4 billion.

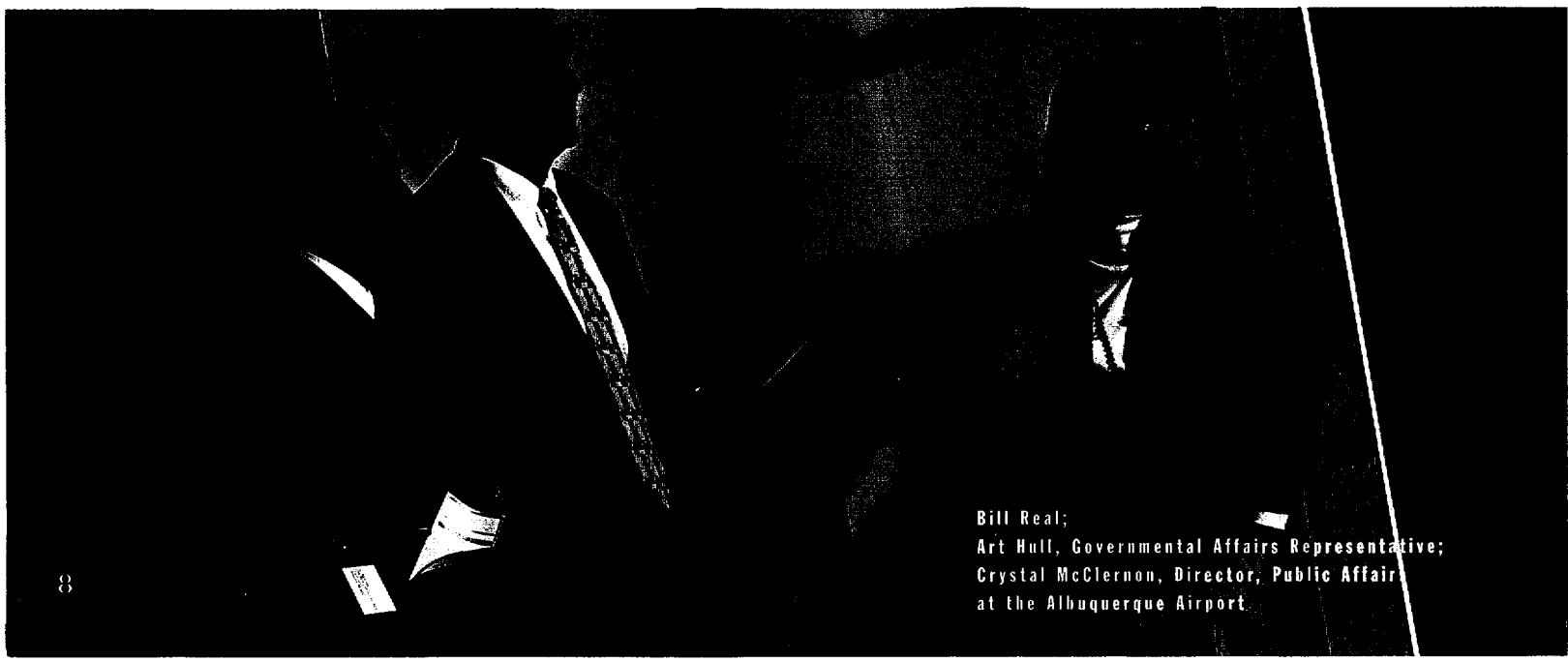
If approved by shareholders and regulators, the combination of PNM and Western Resources will form a single company with more than 7,000 MW of generating capacity, 42,500 miles of electric transmission and distribution lines, and 1.4 million electric and gas customers in Kansas and New Mexico.

Combining New Mexico's leading utility with the largest electric utility in Kansas will create a company that remains operationally local and responsive to the communities we serve, and also has the financial strength and market reach to take advantage of new opportunities.

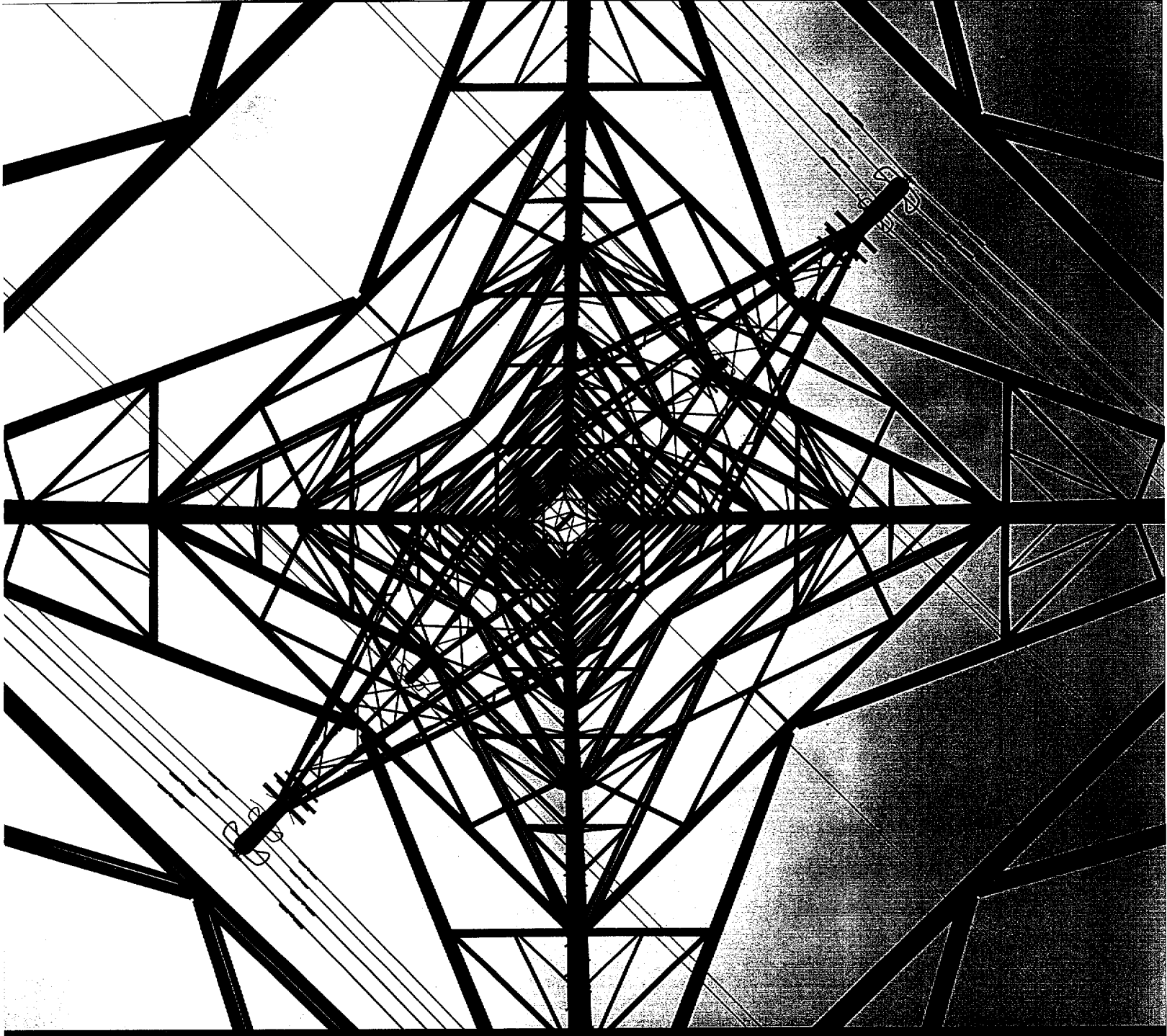
Through Avistar, a wholly-owned PNM subsidiary, we are also seeking out promising new opportunities in energy-related technology. In 2000, Avistar acquired a $10 million stake in a new company aiming to extend low-cost Internet service in rural and small town America through an inexpensive device attached to the customer's electric meter.

transforming momentum
into velocity

[accelerate]



Bill Real;
Art Hull, Governmental Affairs Representative;
Crystal McClernon, Director, Public Affairs
at the Albuquerque Airport



"PNM's proposed combination with Western Resources accelerates our plans for future growth and opens up exciting new opportunities for us. These are two very similar companies, with a shared dedication to their customers and the communities they serve. There are also a lot of areas where we can learn from each other's success. By building on those common traits and applying the best practices from each to the new company we create, we can tap our full potential to create new value for shareholders."

-- BILL REAL, EXECUTIVE VP, POWER PRODUCTION & MARKETING

Jeffry E. Sterba
Chairman, President and Chief Executive Officer

dear shareholders

After several years of lagging the hot technology stocks, the utility sector surged ahead in 2000 as investors rediscovered the solid value of our industry. PNM stock outperformed our peers in the industry, providing a total return to investors of 72 percent, ranking us in the top quarter of investor-owned electric utilities around the country.

Led by the success of our wholesale power marketing business, PNM achieved record earnings of $100.9 million in 2000. Earnings per share (diluted) of $2.53 were up 25.9 percent over 1999, while total operating revenues rose nearly 40 percent, to $1.61 billion.

Our strategy remains unchanged in 2001. We are committed to remaining in the regulated utility business while continuing to expand our wholesale power marketing operation.

To balance our short-term trading activities with longer-term wholesale contracts, we are aggressively seeking new customers for PNM power in our region. In 2000, we were pleased to welcome Navopache Electric Cooperative as a new customer under a 10-year contract that is expected to provide an additional $12 million a year in revenues for PNM.

Although much of our trading is in power purchased for resale, our own generation resources play a key role in helping us manage risk in this increasingly volatile market. As a result, over the next few years we plan to add significant new generation resources to support growth in our wholesale business.

We also continue to upgrade our existing plants. In 2000, we concluded an agreement with the coal supplier for our flagship San Juan Generating Station near Farmington to shift to underground mining using the latest technology. The new mine will not only reduce fuel costs but also allow us access to a cleaner-burning coal for the plant.

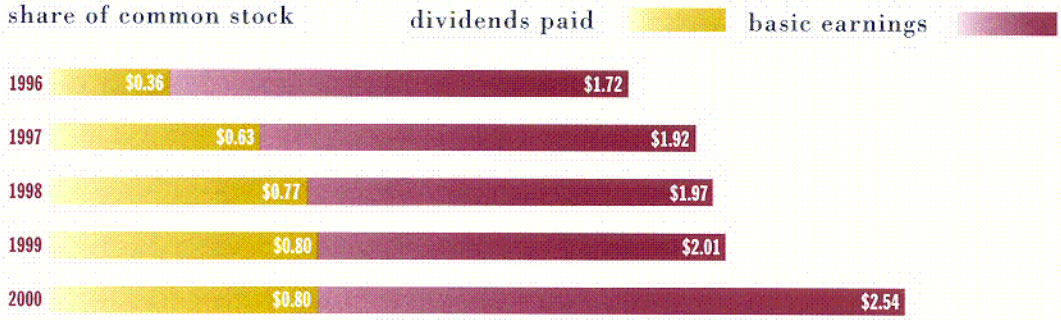
The renovation of San Juan's pollution control system has reduced sulfur dioxide emissions by nearly a third. The plant's generating availability ranks in the top five percent of all coal fired power plants in the nation, and last year San Juan earned international recognition for its stringent environmental management procedures.

Our work at San Juan, like our donation of 190 acres of scenic, ecologically valuable land near Santa Fe to the Nature Conservancy last year, are just two examples reaffirming your company's continuing commitment to environmental stewardship.

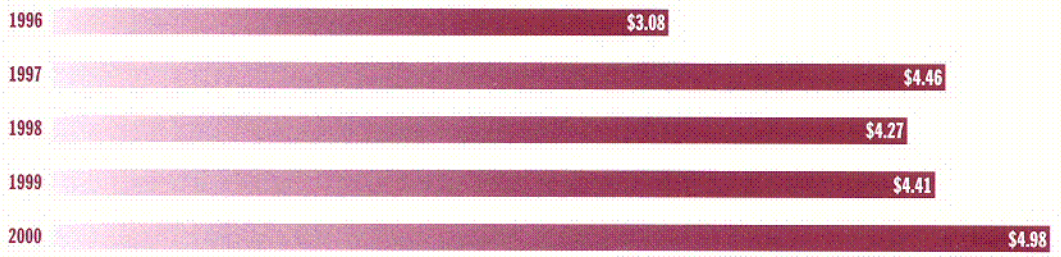
Late last year we also took a major step forward in our business strategy by agreeing to acquire the utility assets of Western Resources in Kansas. The boards of both companies have approved this proposed combination, and we will ask for shareholder and regulatory approvals later in 2001. Adding these strategically placed generation, transmission and distribution systems will more than quadruple our generation capacity, provide us access to expanding new wholesale markets in the Midwest and give us the scale and market reach we need to continue to compete successfully.

We believe the combined company will produce higher revenues and earnings than either company could achieve separately. Stockholders will also benefit from the larger market capitalization and increased stock float, which should attract new interest from investors.

EARNINGS AND DIVIDENDS
per share of common stock



LIQUIDITY
cash flow per share



C03

Together with finalizing the Western Resources transaction, our top priority in 2001 is to continue the progress toward achieving greater business flexibility that has been associated with utility industry restructuring. California's experience has led New Mexico to delay retail electric competition until 2007. We do not believe this will be detrimental to PNM, because the delay is coupled with removal of those regulatory barriers that hampered our ability to add generation resources and continue to build our electric wholesale business.

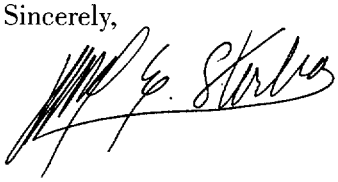
Growing revenues from both our regulated and competitive businesses, coupled with improved productivity and a constant attention to cost control throughout the company, continue to yield substantial gains for both PNM customers and for shareholders. Our New Mexico customers have benefited from lower prices, as we have been able to reduce rates by nearly $70 million since 1994.

Shareholders have seen their stock increase in value as PNM's total market capitalization rose from $661.4 million at the end of 1999 to more than $1 billion at the end of 2000. Over the last two years, we have also reduced our outstanding debt by more than $50 million and bought back 2.7 million shares of common stock.

These achievements all stem from your management team's effective execution of a sound strategic plan that uses our core strengths to make the most of new opportunities. Much of this was begun under the leadership of my predecessor, friend and mentor, Ben Montoya, who retired as PNM Chairman, President and CEO in 2000. On behalf of our company, shareholders, and employees, I want to say, "Thank you, Ben, for all you have done to set us on the right road."

Since returning to PNM early last year, I have been exceptionally pleased with the ability of our employees to innovate and respond to new challenges even as they stay focused on our key objectives. Our ability to achieve our targeted 9 to 11 percent average annual earnings growth is due to their capabilities. It is a pleasure to lead them in making your company one that succeeds in the future energy markets.

Sincerely,



Jeffry E. Sterba
Chairman, President, and Chief Executive Officer