

Preparing for Arizona's Energy Future

Arizona Tomorrow

APS will continue to play an active role in shaping the future — to help assure that Arizona's future will be sound. Our product — energy — is the lifeblood of the state's economy and APS is committed to assuring orderly development of the state's energy resources. We're keenly aware that decisions APS and Arizonans make today about energy and other major issues will determine how we'll live tomorrow.

Arizona's future has been scoped and, if planning, foresight and strong leadership serve to guide our state, Arizona's future should be bright. So concluded the Hudson Institute, world-renowned for the study of alternative futures. In a major study released in 1979, Hudson looked ahead to Arizona's 100th anniversary of statehood in 2012, focusing on the state and the people APS serves.

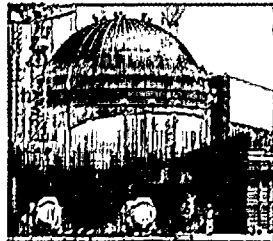
Arizona should have adequate energy and water, Hudson predicted. Completion of the Palo Verde Nuclear Generating Station and increased utilization of the region's rich coal supplies will be major factors in assuring that energy will be there when Arizonans need it. (APS is vigorously pursuing these objectives.)

Completion of the Central Arizona Project (to bring Colorado River water to our state), conservation, and water management programs are major reasons for Hudson's conclusions that water should not be a problem.

Hudson predicted a continuing population boom, made up primarily of younger and highly-educated newcomers who will solidify Arizona's position as a state with a younger population than the U.S. average.

Arizona's economy will continue to grow. Manufacturing and the service industries should show healthy gains and tourism alone, a \$3.4 billion industry in 1978, is expected to bring the state \$20-\$25 billion by 2000.

(Hudson's study was funded by Arizona Tomorrow, a non-profit corporation.)



The rate increases we seek are vital to improving the earnings picture. Only by maintaining APS' financial health can we continue to meet our basic objective: to provide reliable customer service and carry out our responsibility to shareholders Page 4.

Coal and nuclear units are being readied for the '80s — they're vital to meet the growing energy needs of Arizona's burgeoning population. Electric and gas sales rose; we improved our load factor; held down peak electric demand and will further improve an already impressive fuel mix Page 6.

APS' energy management programs have chalked up marked successes — we're well on the way toward reaching load management goals. Many of our programs are in harmony with new federal guidelines Page 11.

Fuel supply limitations, and the increasing cost of conventional fossil fuels, have accelerated energy research and development. APS is a research leader, with solar projects in the forefront. Page 14.

We're addressing energy-related issues through objective, responsive and responsible communications, stressing face-to-face dialogue. A comprehensive nuclear information program presses home the link between reliable energy supplies and Arizona's bright future Page 14.



Kelth L. Turley (left), President and Chief Executive Officer; Ralph M. Bilby, Chairman of the Board

To Our Shareholders

Events unfolding in 1979 and an analysis of what the 1980s might hold in store make it clear that our company and our industry face profound changes in the social, political and economic environment in which we must operate. This report focuses on the plans and programs that enabled us to meet the challenges of 1979 and which have positioned us well for dealing with whatever the 1980s might bring.

Our 1979 earnings per share of common stock were \$2.90, compared to \$3.15 per share in 1978. While the earnings available for common stock increased, per share results declined due to the sale of five million additional common shares, a sale that was necessary to support our construction program.

This makes it clear that the rate increases we are now seeking in hearings before the Arizona Corporation Commission are needed and needed now.

The picture is clear: Arizona continues to grow. Despite customers' positive conservation efforts, we recognize that Arizona's demand for energy will be greater in the years ahead. This growing need continues in the face of an all-too-familiar scenario of oil prices rising beyond reason, supplies of natural gas dwindling rapidly, and foreign fuel sources becoming more and more insecure.

The obvious solution for the next few decades is reliance on additional coal- and nuclear-powered generating units. These resources will produce power cheaper than any of the alternatives because of their lower fuel costs. However, they are more expensive to build, which means that we must have long-term financial stability and earnings that are competitive with alternative investments.

In the long run, rate increases now are the only way to avoid even higher rates and insecure energy supplies in the future. We have every confidence that the commission recognizes these facts and will act accordingly.

Our basic objectives...

In 1979, coal produced about 79 percent of the electricity our company generated, while oil accounted for only 7 percent and natural gas 14 percent. By the end of the decade, when additional coal-fired units at our Cholla Power Plant and nuclear units at Palo Verde will be on line, we will be producing about 97 percent of our electric energy from economical coal and nuclear sources. Oil's share will be reduced to three percent and natural gas will have been phased out as a generation fuel.

Our efforts to achieve an optimum generation mix go hand in hand with our research into solar energy, our conservation and load management programs, and our study of alternative rate designs. The goal is to minimize the need for new facilities and to use all our facilities as efficiently as possible.

Nuclear power's contribution to this fuel mix is essential. Arizona's energy needs cannot be met without nuclear energy. Our plans include educational, communications and public affairs programs which are bringing this message to all our Arizona audiences.

We are also aware that, in times marked by record high inflation, consumer opposition to higher energy rates is mounting. To address this issue—to gain public understanding of the need for rate increases—we will continue to link Arizona's well-being to adequate supplies of energy.

...reliable service

Following the accident at Three Mile Island, we formed an interdisciplinary Palo Verde Safety Evaluation Task Force, and charged it with the responsibility for complete review of the Palo Verde project. The task force's study includes an in-depth analysis of the TMI accident to insure that Palo Verde's design, construction and operation will reflect any and all lessons learned from this event.

The scope and depth of task force activities were outlined in an interim report made in October, 1979. Final findings and recommendations are to be reported and acted upon by mid-1980, well in advance of the first Palo Verde unit's operating date of May, 1983.

Many of the recommendations made by the Presidential Commission on Three Mile Island (Kemeny Commission) closely parallel efforts being made by the Palo Verde task force, and two recently-organized industry groups are now providing valuable input to our safety efforts. One, the Nuclear Safety Analysis Center—an arm of the Electric Power Research Institute—conducts ongoing reviews of safety-related designs and equipment. And the Institute of Nuclear Power Operations was formed by our industry in December to provide industry-wide benchmarks and evaluation of operational performance, fo-

cus on the human element in plant operations.

...responsible programs

Securing safe and reliable energy supplies for our state and nation will depend in large part on our ability to provide the public and policy makers with solid facts and definitive action regarding the safety of nuclear power. In this regard, we are working with several national organizations to strengthen confidence in this technology so that it can play a proper role in reducing the nation's dependence on foreign oil.

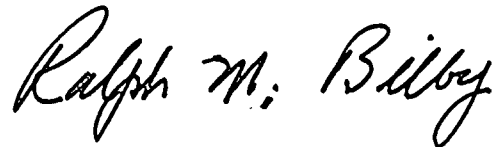
Shareholder and employee support of our plans and programs was most gratifying in 1979. This support is typified by employee understanding of our commitment to stay within federal wage guidelines issued by the President's Council on Wage and Price Stability.

As our team of employees grows to meet the needs of our ever-increasing number of customers, we recognize that attracting and keeping highly-skilled individuals is vital to the company's future. Motivating employees and providing them opportunities for advancement are continuing goals being pursued through a variety of management development programs.

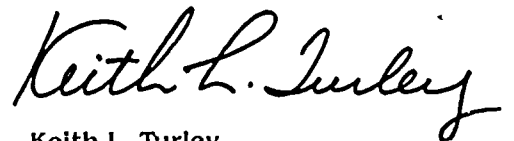
We're aware, too, that employee perceptions are changing. Our employee force at year-end 1979 was more than two years younger on average than it was only five years ago. The average length of service per employee has dropped by nearly two and one half years in that time period.

...for our energy future.

All in all, the task before us is to continue to be aware of and responsive to the issues we face today and those we are preparing to address tomorrow. We ask for your continued support. It will be needed and appreciated as we work toward maintaining the company's financial health, assuring the future of nuclear power in Arizona, shaping an intelligent and realistic energy policy and attracting and retaining high caliber employees to get these jobs done.



Ralph M. Bilby
Chairman of the Board



Keith L. Turley
President and
Chief Executive Officer

February 21, 1980

Business and Finance

Our objective, as we develop the energy resources Arizona will need in the years ahead, is to continue our record of reliable customer service while meeting our responsibilities to our shareholders.

Accomplishing this objective in an era of double-digit inflation, when energy prices have not kept pace with the escalating costs of doing business, makes the job especially difficult.

The goal can only be achieved by maintaining the company's financial health. We will continue to aggressively pursue cost control measures and increased productivity, not only in our day-to-day operations, but in our long-range planning, setting the stage for an even more efficient operation tomorrow.

But such efforts can do only so much. In order to maintain our financial health and remain effective and viable, we must receive rate increases, and regulatory delays must be minimized.

The company's earnings per share of common stock were \$2.90 in 1979, compared to \$3.15 per share in 1978. Net income rose to \$121.6 million in 1979, a 13.9 percent increase over 1978 totals.

Because of external financing requirements, the average number of common shares outstanding increased by 21.4 percent from 1978 to 1979. This increase in the number of common shares outstanding was a major factor contributing to the lower 1979 earnings per share. Higher construction costs and increases in the cost of capital needed to complete a large construction program, as well as increased operating expenses, also contributed to the lower 1979 results.

The chart at right illustrates that we have successfully met an important financial objective by strengthening capitalization ratios. Those ratios remained on target in 1979. We will continue to use debt financing for about 50 percent of APS' total capitalization. Common equity will be kept at about 38 percent of total capitalization, with preferred stock making up the balance.

The company's improved financial position in 1977 resulted in Moody's Investor Service upgrading APS bonds to an "A" rating and restoration of our "P-2" commercial paper rating two years ago. We have maintained these improved ratings. Their continuation will rest in large part on approval and implementation of the rate increases APS is now seeking.

In line with the company's program to gradually raise the percentage of earnings paid out in dividends, your board of directors voted to raise the quarterly common stock dividend from 47 cents to 50 cents per share, effective with the September 1, 1979 dividend. Dividends per common share paid for the year totaled \$1.94, up from the \$1.73 paid in 1978. The current indicated annual dividend rate is \$2.00 per share.

Rate increases pending

Our five percent 1979 electric rate increase was not sufficient to offset the effects of inflation and the higher costs of doing business. Consequently, the company filed a major rate case with the Arizona Corporation Commission (ACC) in March, 1979 requesting increases in both electric and natural gas rates. The ACC voted to deny hearings on the case, which was based on a test year ended December 31, 1978.

Hearings began in February, 1980 before the ACC for the consideration of another request (filed in November, 1979) for a

natural gas rate increase of 11.7 percent and a two-step electric rate increase totaling 19.2 percent in 1980 and 1981. A test year ending July 31, 1979 is being used in the case.

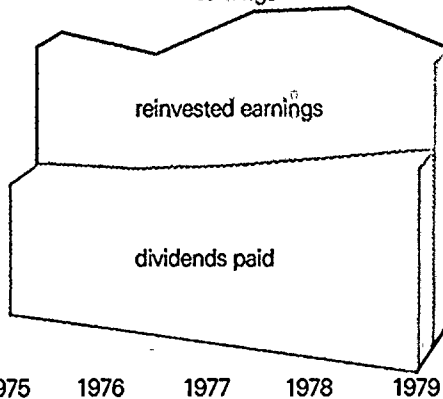
We requested that the natural gas increase and a 10.4-percent first-step electric rate increase go into effect in April, 1980. A step two electric increase of 8.8 percent would become effective in January, 1981, pending commission approval. The step one increases would produce additional annual revenue of \$69.7 million (\$52.7 million from the electric increase and \$17 million from natural gas), with the second-step electric increase producing another \$44.7 million in yearly revenue.

Commission to review other rate matters

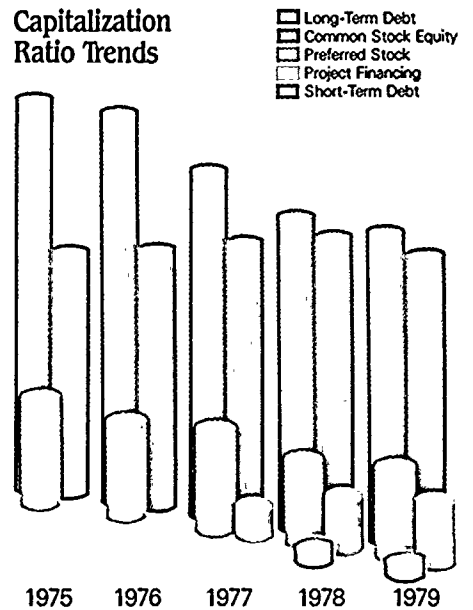
A five percent electric rate increase the company implemented in January, 1978 was the subject of a legal challenge filed with the Maricopa County Superior Court in 1978. Although the Superior Court upheld the validity of the rate increase, the Arizona Supreme Court reversed the Superior Court's decision in July, 1979 and remanded the matter back to Superior Court for further action.

We were encouraged, however, by the Supreme Court's affirmation of the validity of including portions of construction work in progress in the rate base and its agreement with the reasonable-

Earnings, Dividends, Reinvested Earnings per Average Share of Common Stock



Capitalization Ratio Trends



ness of the step rate philosophy.

During the course of the current rate hearings, the company is seeking confirmation of the January, 1978 rate increase, as well as the additional five percent electric rate increase implemented in January, 1979.

Various rate cases also are pending before the Federal Energy Regulatory Commission (FERC). In August, the company began collecting the major part of a new 13 percent interim rate increase from certain wholesale customers. The increase is subject to refund pending the results of a FERC hearing. Other issues involving FERC are discussed in Legal Matters on page 31.

Common Stock Price Ranges
(Symbol: AZP)

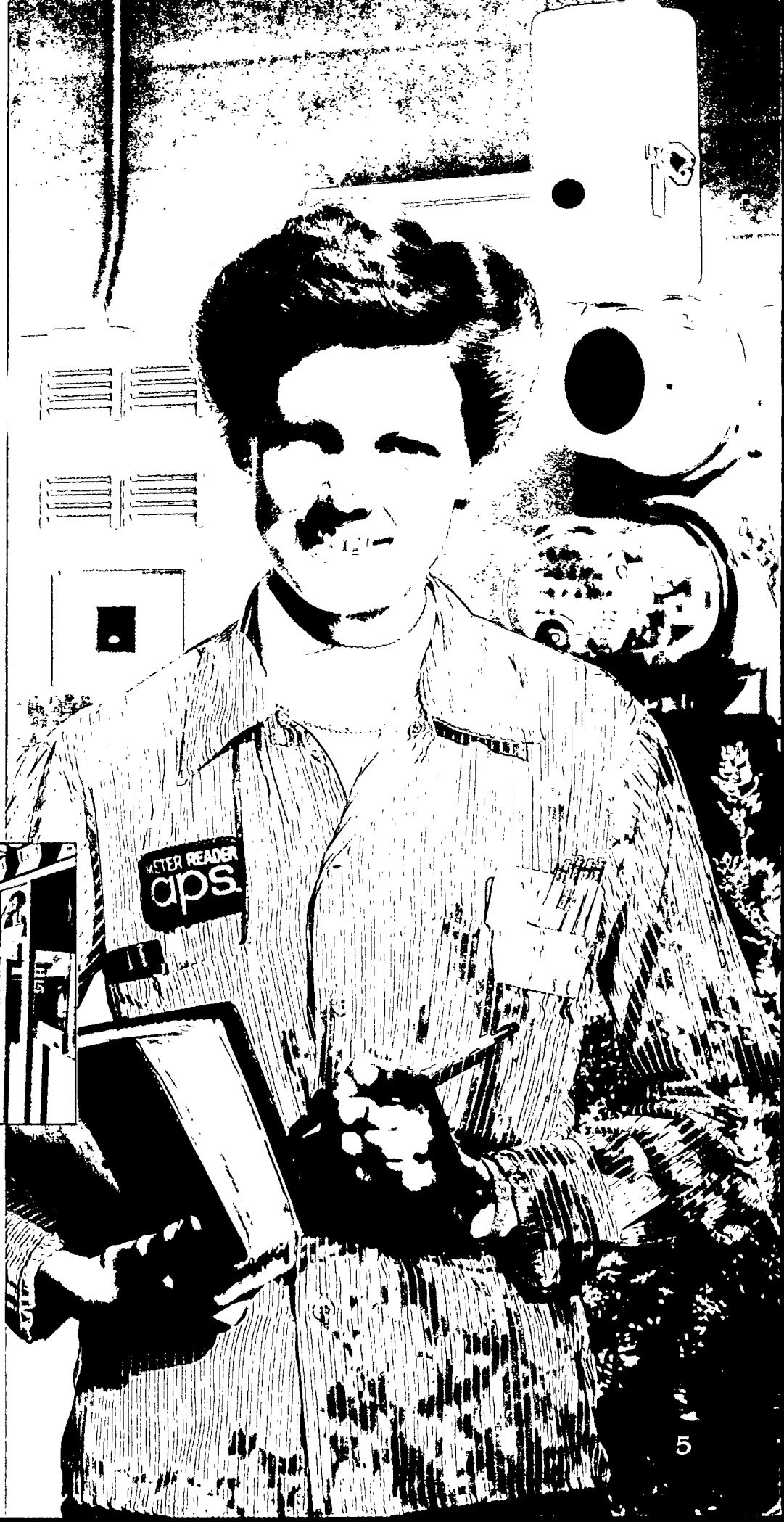
1979	High	Low	Dividend per Share
1st quarter	\$21 3/8	\$20	\$.47
2nd quarter	20 7/8	18 1/4	.47
3rd quarter	20 3/8	18 3/4	.50
4th quarter	19 1/2	16 7/8	.50
1978			
1st quarter	\$21 5/8	\$19 1/8	\$.42
2nd quarter	20 5/8	18 3/4	.42
3rd quarter	21 1/4	19 1/4	.42
4th quarter	20 7/8	19 1/8	.47

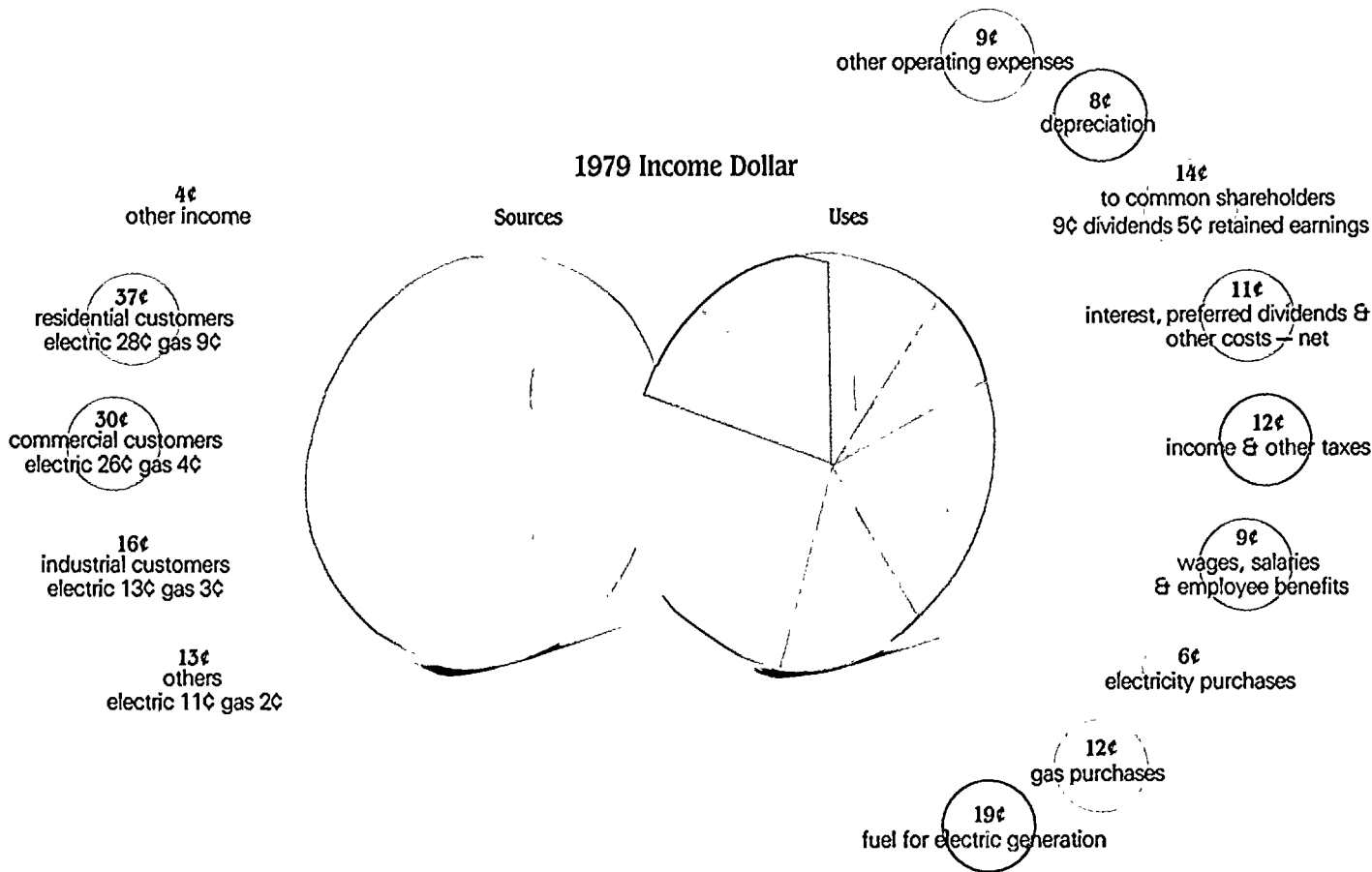


Meter reader Leah Berryhill's recordings become vital data for detailed computer analysis.
"An ideal energy rate must do many things... provide adequate revenue... offer customers ways to control costs... encourage off-peak use... without disrupting lifestyles..."

Financing highlights

Major sources of capital raised outside the company in 1979 came from two common stock offerings, two first mortgage bond issues and one preferred stock sale. Net proceeds of the issues were used to repay short-term construction debt.





A February sale of 600,000 shares of \$8.80 cumulative preferred stock, Series K, \$100 par value, priced at \$100 per share, brought net proceeds of \$59.3 million.

In March the company placed privately a \$75 million 25-year first mortgage bond issue at a 9.95 percent annual interest rate.

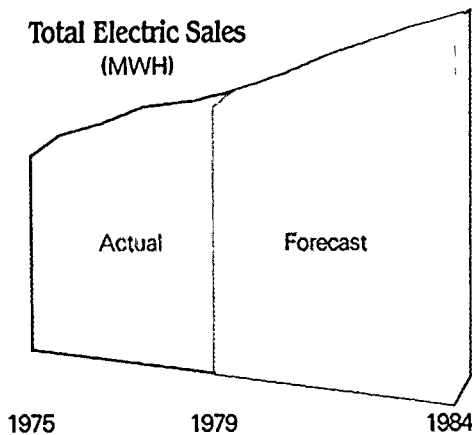
Net proceeds of approximately \$47.6 million resulted from the June issuance of 2.5 million shares of common stock priced at \$19.625 per share.

The company sold \$75 million in 30-year first mortgage bonds at an October public offering. The 12.125 percent Series bonds were priced at 99.402 to yield 12.20 percent.

The year's second common stock sale occurred in November when APS received net proceeds of \$41.7 million from the sale of 2.5 million shares priced at \$17.25 per share.

New permanent financing in 1980 will exceed \$400 million, of which approximately \$100 million will be used to refund outstanding issues of senior securities. At least \$100 million will come from the sale of common stock and the balance from senior securities, including a possible pollution control issue, to maintain the capitalization ratios outlined on page 4.

Total Electric Sales (MWH)



Operations

The keys to APS' long-range plan to produce and deliver energy to Arizona's burgeoning population are continued expansion of the coal-fired Cholla Plant in northern Arizona, and completion of units now under construction at the Palo Verde Nuclear Generating Station 50 miles west of Phoenix.

These additions are extremely important for a number of reasons. The state's population is expected to increase by 25.7 percent in the next decade — approaching 3.4 million in 1990. APS' electric peak demand will grow by an estimated five percent annually from 1980 through 1989. Electric sales are expected to grow by 5.5 percent annually from 1980, reaching approximately 20.2 million megawatt-hours in 1989, compared to a record of nearly 11.6 million megawatt-hours in 1979.

Number of customers grows

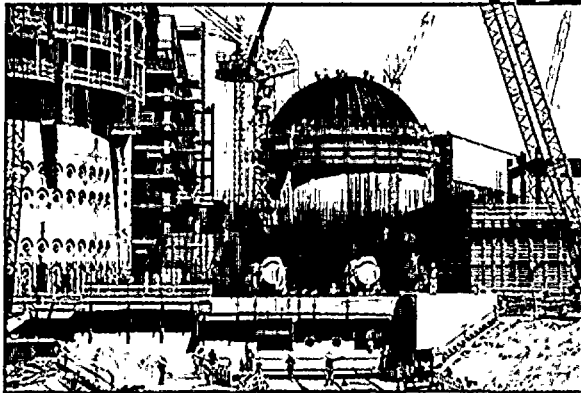
We added 23,430 new electric customers in 1979, a 6.2 percent gain from a year ago. Average residential electric use also rose to 10,209 kilowatt-hours, up 2.9 percent from 1978.

The state's healthy economy in 1979, as well as Arizona's continued growth, contributed to increased electric sales in nearly all categories, with residential sales showing the biggest jump — 9.1 percent. Total electric sales rose to 11,584,898 megawatt-hours, a 6.2 percent increase over 1978.

These gains are particularly significant since APS' system peak rose by only 1.2 percent in 1979. Our load factor improved, with the ratio of the average load supplied versus peak system energy demand rising to 56.5 percent in 1979, compared to 54.4 percent in 1978.

Electric resources totaled 3,077,200 kilowatts, consisting of 2,795,700 kilowatts of generation plus 281,500 kilowatts of firm purchased power.

In 1980, as in 1976, the threat of an anti-nuclear initiative clouds Arizona's nuclear energy future. The fact is that Arizona's energy needs cannot be met in the '80s and beyond without Palo Verde. Arizona utilities' share of the plant's three units — each with a capacity of 1,270,000 kilowatts — will meet about one-fourth of the state's total electric energy needs when all three are in service. Unit 1 is scheduled to come on line in May, 1983. Units 2

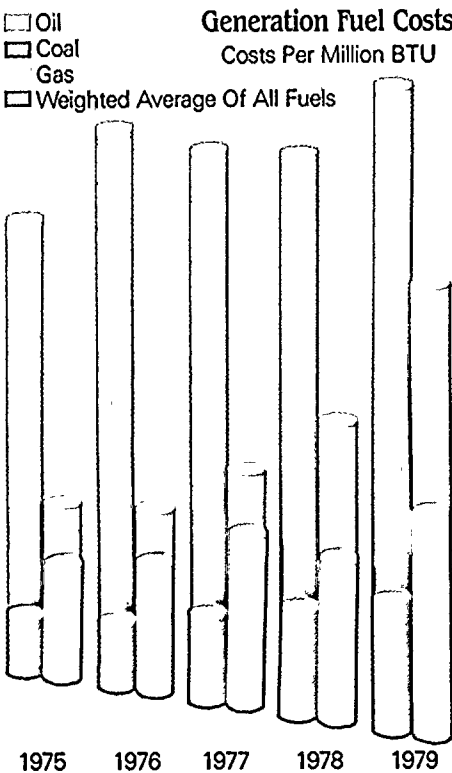


While construction continues, Palo Verde control operators undergo intensive training.

"Arizona just won't have a future without an adequate energy supply...we're looking for a good mix...coal, nuclear...and the sun..."

and 3 are scheduled for service in 1984 and 1986 respectively. However, the Unit 2 and 3 schedule is currently being reevaluated in light of reductions in the demand forecasts of participants and potential construction delays.

APS owns a 29.1 percent share of each Palo Verde unit, with four other Southwest utilities sharing ownership. Unit 1 and common plant were 55.7 percent complete at year-end 1979. Units 2 and 3 were 26.1 percent and 4.5 percent complete respectively. The total project composite is 37.1 percent complete.



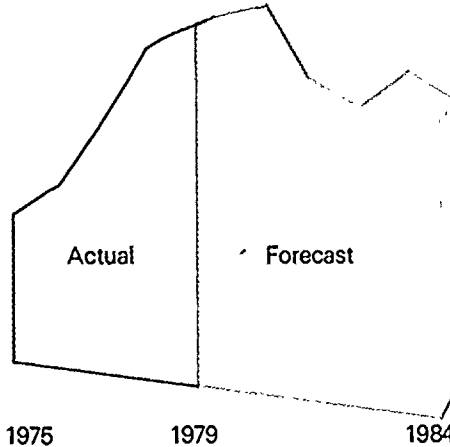
1979, 1980 construction

APS spent a record \$386 million on construction projects in 1979 and we estimate expenditures of approximately \$400 million in 1980. Construction expenditures will drop significantly beginning in 1981. (See accompanying chart.)

New generating facilities accounted for approximately 64 percent of 1979's construction budget, with approximately \$15.6 million of that amount going for environmental protection equipment.

Electric transmission lines and equipment accounted for \$24.9 million, while construction expenditures for natural gas facilities totaled \$3.7 million.

Capital Expenditures
millions of \$

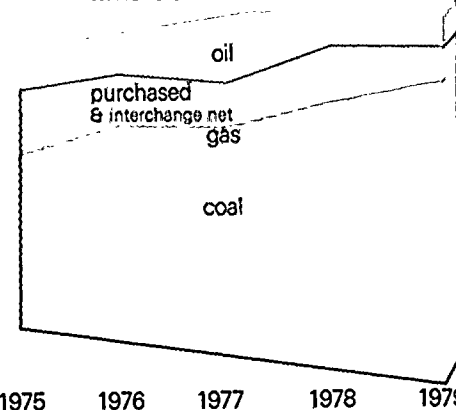


APS' share of construction cost estimates for the three Palo Verde units will now total an estimated \$955 million.

Palo Verde Unit 1 was originally scheduled for operation in mid-1982. However, difficulty in hiring and retaining skilled craftsmen to work at the remote plant site, coupled with adverse weather and labor difficulties, led to the announcement in 1979 that Unit 1 would be delayed one year. Several steps have been taken to correct these difficulties.

The Palo Verde delay will not affect our ability to meet customers' power demands because additional generating capacity from the Cholla Power Plant will be available and load growth projections have been reduced. Cholla Unit 3 will provide an additional 250,000 kilowatts in May, 1980 and is now undergoing test runs. Unit 4, with a capacity of 350,000 kilowatts, is scheduled for completion in 1981.

Sources of Electric Energy
millions of mwh



Fuel economy; energy mix

Coal and nuclear fuels will provide about 96 percent of APS' generation when the final Palo Verde unit goes into operation. Our increasing reliance on these sources is important to minimizing further the use of oil and phasing out natural gas for power generation. It also benefits our customers, since we'll be producing most of our electricity with the most economical fuels available.

Our most economical future energy source will be nuclear power. This fact was confirmed by two independent consulting firms which concluded that Palo Verde's electricity should cost 12-30 percent less than comparable coal-fired generation. The studies were published in April, 1979.

Palo Verde will bring other economic benefits. The largest construction project in Arizona's history, it required a work force of more than 5,000 at the end of 1979. Hundreds of millions of dollars will accrue to Arizona in the form of Palo Verde taxes and payroll, as well as services and materials purchased during and after construction.

Palo Verde 4 & 5 halted; coal plans expand

Because of regulatory uncertainties in California that hampered the timely and economical devel-

The number of medical treatment cases resulting from employee accidents decreased by 44 percent from the previous year and remained much lower than the rate for all utilities as reported by the National Safety Council. Though the number of injuries resulting in lost time was about the same as in 1978, the severity rate decreased by 10 percent.

In order to improve this performance we are continuing a number of education and safety improvement programs.

Our public safety efforts were highlighted by a campaign to warn contractors of the dangers of working near overhead electric lines and underground cables. Our antenna safety program was expanded and our discovery of the dangers of using certain types of tape on plastic natural gas lines spurred warnings to contractors, governmental agencies and the public.

opment of Palo Verde Units 4 and 5, APS decided, in mid-1979, that it was in the best interests of the company and its customers to halt preliminary studies of these units.

Another concern prompting our decision was regulatory uncertainty at the federal level, particularly the Nuclear Regulatory Commission's propensity for shutting down all units of a given type because of problems at one unit.

We are proceeding with construction of the 350,000-kilowatt Unit 5 at the Cholla Plant to replace part of the generation that would have been received from our share of Palo Verde 4 and 5.

The fourth Palo Verde unit was targeted for completion in 1988, several years later than Cholla 5's scheduled completion date. We have agreed to sell a portion of Cholla's generation to a neighboring California utility from 1984 until 1989, after which time we will need the full plant output.

Beyond 1989, the company is considering additional coal-fired generation. To this end, we recently purchased a 12,400-acre site near Bouse, in western Arizona.

Bixco gas arrives

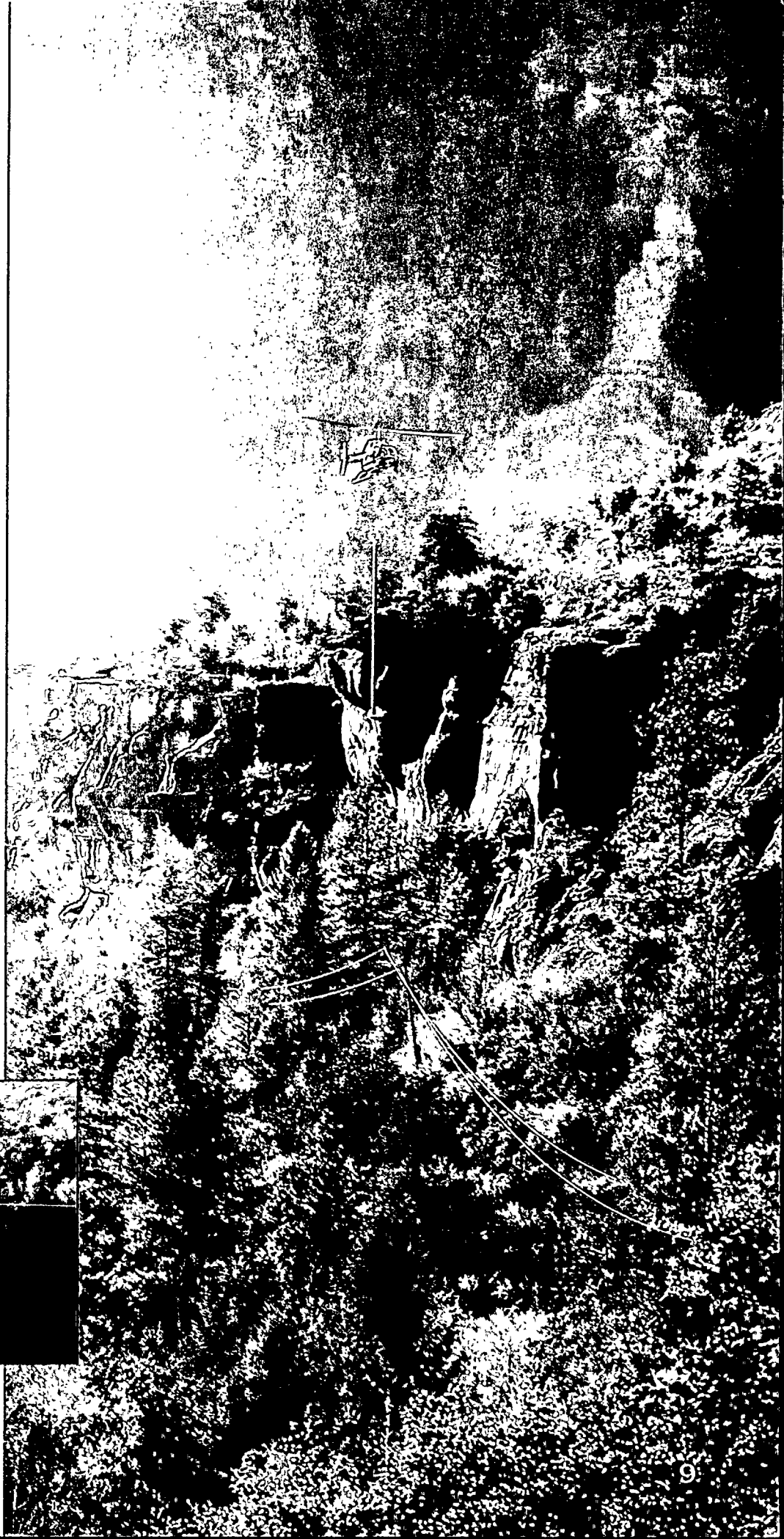
Supplies from a gas exploration program being carried out by Bixco, an APS wholly-owned subsidiary, reached customers in the fall of 1979. These supplies began supplementing those from our major supplier, El Paso Natural Gas Co. and, along with emergency gas purchases, were vital in helping eliminate service curtailments to our industrial gas customers.

APS' natural gas sales climbed by 3.9 percent in 1979, totaling 467,088 M therms. The 1978-79

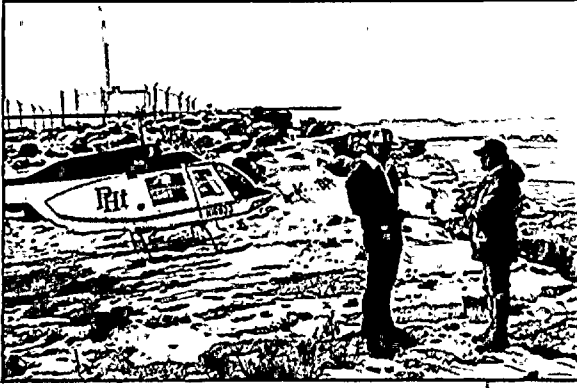


Stringing new line in rugged Oak Creek Canyon is a challenge.

"Our basic job continues to be serving our customers... and that's still a job that has to be done reliably...safely..."



winter was approximately eight percent colder than normal, which was a major reason for the gain. While our number of gas customers remained essentially unchanged from 1978 to 1979, we anticipate the addition of approximately 4,000 new gas customers in 1980 due to the 1978 lifting of a moratorium on new hookups.



Environmental concern takes our specialists to the desert or to the tops of mountains.

"There's still environmental improvement to be made and we have a responsibility to help... It will take energy to help clean up our environment... Improve our quality of life..."

Environment

Our concern for the natural environment is matched by a commitment to make sound environmental protection investments. With more than \$250 million in environmental capital costs to date, we're actively pursuing policies and programs to make sure that every dollar spent offers matching benefits.

The company is continuing an air monitoring program near the Four Corners Power Plant in preparation for a hearing the New Mexico Environmental Improvement Board has scheduled for April, 1980. We are seeking to convince the State of New Mexico that the purchase of expensive sulfur dioxide control equipment for Four Corners Units 4 and 5 is unnecessary. Results of the air monitoring program have confirmed to the company that federal and state ambient air standards are already being met without the equipment.

A separate program to control particulate emissions for Units 4 and 5 is proceeding. APS' share of capital expenditures for the particulate program is estimated at \$27 million.

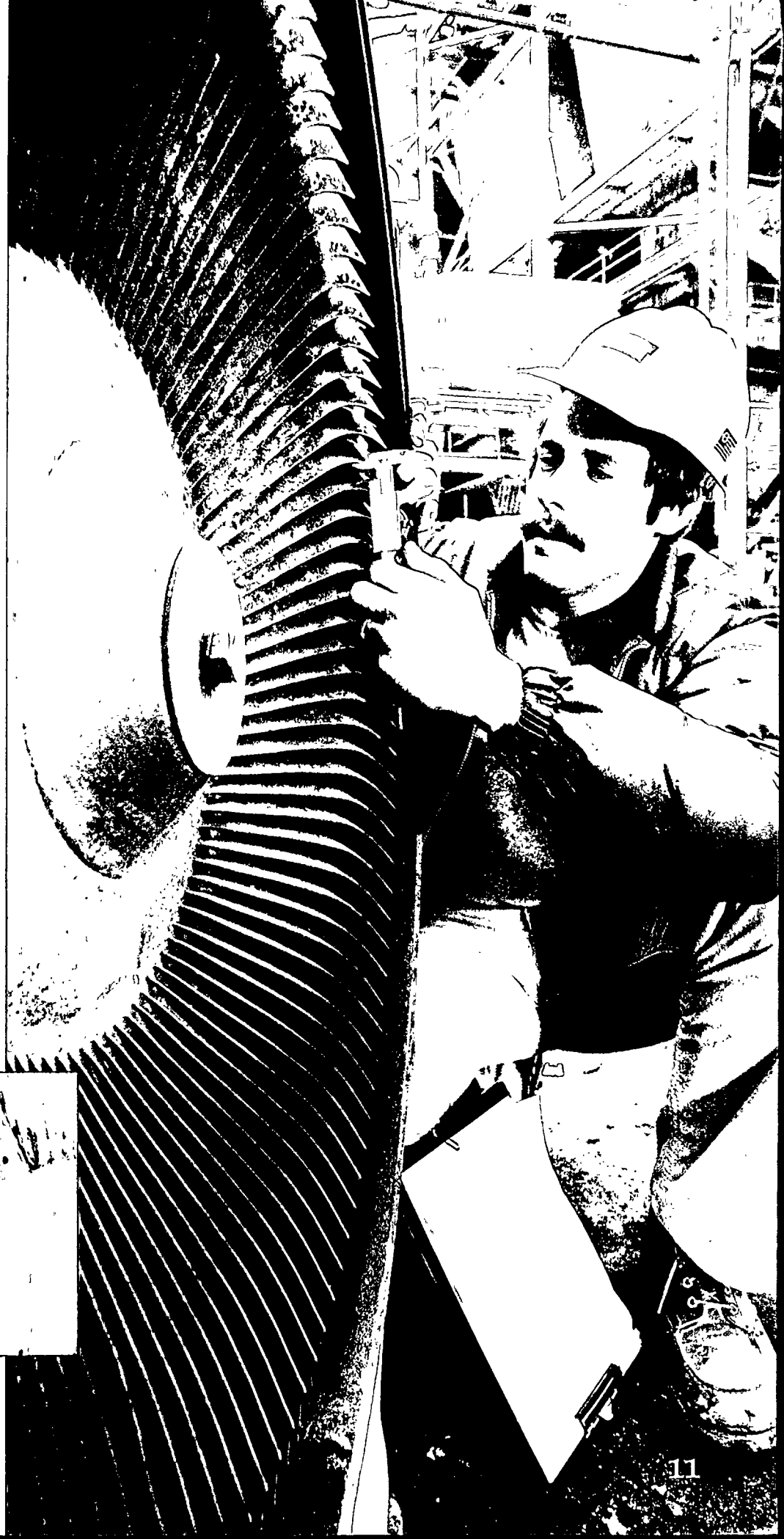
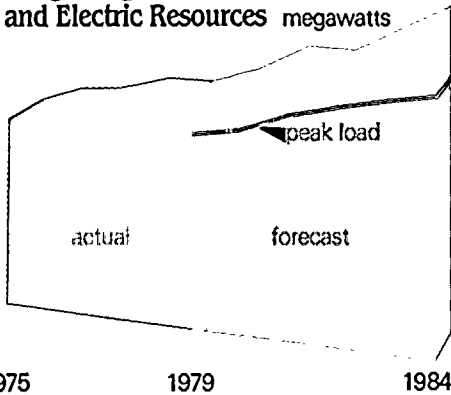


Load Management

One of our major objectives is to slow the growth rate of peak loads on our generating system so that new generating units that would have to be built primarily to meet these peak demands can be delayed or eliminated, lessening the financial burden on the company and our customers.

APS' peak energy load will increase by an average annual rate of five percent through the 1980s. But this is significantly lower than the 8.2 percent annual growth in peak demands met during the '70s. An extensive load management program, launched three years ago, plays a key role in helping us trim peak energy demands. The objective is to reduce our system peak by 285 megawatts by 1989, compared to peak demand estimates without load management.

Long-Range Forecast of Peak Load and Electric Resources megawatts



*A team of specialists makes certain that equipment performs up to purchase contract specifications.
"Employees are younger... more dedicated to their professions... more concerned, outspoken... they want challenge, opportunity..."*

Our load management programs offer customers some 85 positive approaches to help them cut peak energy use and better control monthly energy bills without disrupting lifestyles.

Our highly successful Professional Home Energy Analysis Program will continue in 1980. A recent survey indicated that 87 percent of our customers requesting the home energy audit had taken steps to conserve their energy use.

Nearly 100,000 copies of our popular *Energy Consumer's Guide* were distributed in 1979. We anticipate that at least that many will be requested in 1980.

Among 1980's new offerings will be a unique on-site, computerized energy analysis tailored for small and medium-size commercial customers.

Efforts to reduce peak loads and encourage our customers to conserve energy through effective load management practices have positioned us well to deal with provisions of the National Energy Act. Our 1980 program, with some adjustments, will be in harmony with federal guidelines.

Rate designs studied

APS' extensive testing of various rate designs and load research programs began long before passage of recent national energy legislation. We stepped up those efforts in 1979. Our goal is to develop rate structures that will produce adequate earnings, while at the same time accurately reflecting the costs of serving all our customers.



100,000 "Consumer Energy Guides" were mailed to customers in 1979.

"We see ourselves in partnership with our customers... If we can help them better control energy use, they'll be helping us keep our construction costs down..."





Energy from the sun will heat and cool a visitor center at our Palo Verde Nuclear Generating Station. "We know solar energy works... It has worked for centuries... but we've got to find ways to make it work for our customers... at costs they can afford..."

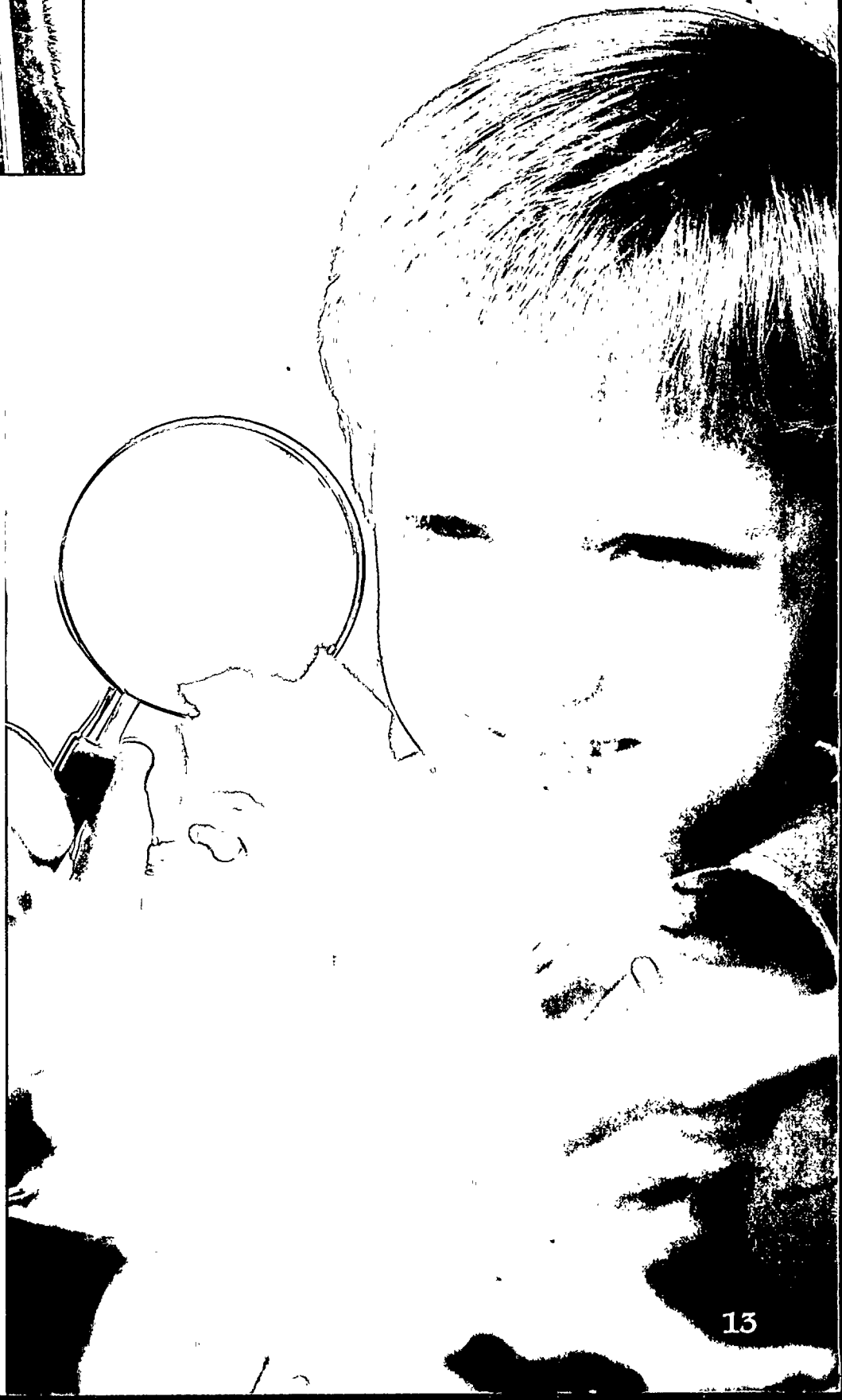
New rate design concepts are being tested by participants in a variety of voluntary on-site studies. Some 1,000 residential customers are taking part in a test that will provide in-depth information about rates based on energy demand, as well as consumption. Automatic control devices are being used in some test homes, allowing customers to select both a maximum energy demand level, and the appliances to be controlled when energy demands reach the selected level.

Additionally, we are investigating the load management potential of residential air conditioner remote control. Such a system could result in lower peak demands without reducing customer comfort.

Time-of-use rate tests, initiated five years ago, have been expanded to provide the company data about customers' ability to shift their demand for power to off-peak times, in addition to supplying information about energy use patterns.

We also began limited testing on the effects of financial incentives to irrigation customers who limit irrigation pumping during peak periods.

We are trying to carefully analyze and fairly administer future rates, keeping in mind the needs of both shareholders and customers, as well as the added challenges presented by Arizona's unique climate.



Research and Development

Fuel supply limitations and the increasing cost of conventional fossil fuels have dramatically accelerated the energy research and development to make certain that alternative fuels and technologies are available as soon as possible.

The choices for our nation are clear: make changes in our energy use and production methods, or face potential shortages and even higher costs in the future.

Research and development on the massive scale needed to bring these new technologies into being would require too great an expenditure for any single company to bear. So, in the main, we help manage research or contribute funds to organizations engaged in direct research, such as the Electric Power Research Institute (EPRI), an organization of American utility companies.

In addition, APS has developed an extensive research and development program that is specifically tailored to meet our customers' needs and enhance our present energy mix. Emphasis is placed on projects with high potential for near-term, concrete results.

We receive funding assistance from the U.S. Department of Energy (DOE) for many projects, since benefits will be shared with other utilities and industries and the general public.

Harnessing the sun

We are a leader in solar research aimed at central station electric generation. Our goal is to determine the potential for solar energy on our own system so that an optimum mix of solar and other types of electric generation can be developed.

One of our more exciting projects is the conceptual design of a solar system to use the sun's heat to power conventional oil- or gas-fired turbine generators. The concept is particularly attractive because it offers the possibility of displacing scarce, expensive fuel.

This solar repowering system is being planned for Unit 1 at our Saguaro Power Plant near Tucson, normally fueled with either oil or natural gas. The Saguaro proposal features a tower-mounted receiver heated by the sun's rays reflected from an array of ground-mounted mirrors. A molten salt solution will circulate heat from the tower through heat exchangers, which in turn will produce steam for Unit 1's steam generators. Under a contract with DOE, we are now preparing a conceptual design for the repowering of 60,000 kilowatts of the unit which, when completed, will save the equivalent of 370,000 barrels of oil each year.

Another DOE-funded project (outlined in last year's Annual Report) is the joint APS/Motorola effort to build the world's largest photovoltaic solar generation system — to convert sunlight *directly* to electricity — at Phoenix's Sky Harbor International Airport. Construction of the 283-kilowatt plant, now in the design phase, is scheduled to begin later in 1980.

The merging of solar energy with traditional generation methods makes sense. The object is to make effective use of the sun's limitless energy in economical large-scale applications, in combination with reliable fossil and nuclear generation sources for round-the-clock energy availability.

Projects cover wide spectrum

We also have been carrying out on-site solar heating and cooling experiments. Early in 1979, our Holbrook customer service office became the company's first new building designed specifically to use a solar heating system. During the summer of 1980, we will also see the start-up of a 15-ton solar absorption heating and cooling unit at the Palo Verde Nuclear Generating Station's visitor center.

Our new Paradise Valley service center, to be completed this fall, will be the test site for an advanced, solar-powered air conditioning system driven by an air-cooled Rankine-cycle engine. When air conditioning is not required, the system can feed electricity into the company's electric system.

Our nuclear research follows several paths. Through our own study or in association with industry groups, we are: finding ways to improve the reliability and efficiency of water-cooled reactors such as those being installed at Palo Verde; supporting the design and development of two advanced types of breeder reactors; and assisting planning and engineering of an advanced high temperature gas-cooled reactor to directly power a gas turbine.

Today we generate about 79 percent of our electric power with coal and we will continue to rely heavily on coal in the future. A vigorous industry coal research program seeks ways to increase the cleanliness, efficiency and reliability of existing coal-fired plants that use stack-gas cleanup systems. Looking still further into the future, we're exploring ways to produce clean gas or liquid fuels from coal.

During 1980, we'll integrate a small number of electric-powered vehicles into our present fleet operation, to test how they will perform in regular use. Data gained will help determine how electric vehicles may someday help to replace gasoline-powered fleets.

Facing the Issues

Along with other electric utilities, we face a formidable array of major issues, from the need to gain approval of vital rate increases in the face of spiraling inflation, through the obstacles of a growing regulatory maze, to heated debates over the real or imagined hazards of nuclear energy.

We address these and other issues openly and directly. Our approach is positive, responsive, and responsible.

We communicate often with our many audiences, including customers, community leaders, shareholders, employees. Whenever possible, we communicate directly: face-to-face. And in every exchange we try to press home the truth of the relationship between a reliable energy supply and Arizona's bright future.

Throughout the year, we responded to an increasing demand for nuclear energy information — and energy information in general — by expanding existing communication programs and developing new approaches.

For example, we greatly expanded the activities of APS' speakers bureau to bring the facts about Arizona's energy supply situation to thousands of customers in our service territory. Recognizing the importance of bringing our story to local, state and federal governmental bodies, we also expanded our public affairs department.

Many of these efforts will help in dealing with anti-nuclear initiatives that may be on the November, 1980 ballot in Arizona. If approved by the voters, such initiatives would shut down nuclear power in our state.

Throughout the year we continued to address a major concern of our customers: rising energy costs. Our extensive marketing program helped inform customers on how to control energy costs while maintaining their lifestyles.

Overall, we have attempted to reach out to all the people we work with, and all those we work for, to enlist their support and to help them prepare for the years ahead. Most of the issues we faced in 1979 will be with us again in 1980. Our approach will be the same — responsive and responsible and, whenever practical, face-to-face.



A division manager gets out of the office often to talk with customers about their problems and needs. "Face to face... that's still the best way to get to know our customers... to get them to know us... we certainly need their understanding..."



SUMMARY OF OPERATIONS

	1979	1978	1977	1976	1975
	(Thousands of Dollars)				
Operating Revenues	\$ 664,423	\$ 562,217	\$ 493,684	\$ 394,779	\$ 359,747
Operating Expenses:					
Operating and maintenance expenses	371,983	291,908	269,581	215,500	196,475
Depreciation and amortization	57,021	48,295	40,370	36,621	32,793
Taxes*	84,549	83,314	71,885	59,617	56,414
Total	513,553	423,517	381,836	311,738	285,682
Other Income*	26,760	14,914	12,662	26,301	22,003
Interest Deductions—Net	56,052	46,855	40,499	48,863	39,572
Net Income	121,578	106,759	84,011	60,479	56,496
Preferred Dividend Requirements	21,882	17,471	14,628	13,311	10,422
Earnings for Common Stock	\$ 99,696	\$ 89,288	\$ 69,383	\$ 47,168	\$ 46,074
Common Stock Data:					
Book value per share	\$ 22.75	\$ 22.56	\$ 21.83	\$ 20.64	\$ 19.98
Earnings per average share of common stock outstanding	\$ 2.90	\$ 3.15	\$ 3.02	\$ 2.47	\$ 2.60
Dividends paid per share	\$ 1.94	\$ 1.73	\$ 1.53	\$ 1.39	\$ 1.36
Shares of common					
— year end	38,181,297	32,777,258	26,576,428	22,500,000	19,000,000
— average	34,426,346	28,363,223	22,970,741	19,105,191	17,739,726
Number of common shareholders	92,396	78,275	66,358	56,011	56,003

*Federal and State income taxes are included in Taxes, Other Income and, in 1977, Interest Deductions. Total income tax expense was as follows (in thousands): 1979, \$14,422; 1978, \$13,937; 1977, \$6,265; 1976, \$1,554; 1975, \$2,122.

COMMENTS ON THE SUMMARY OF OPERATIONS

Increases in operating revenues and expenses reflect increases in unit sales of electricity. Operating revenues also reflect rate increases (some of which are subject to refund) and effects of adjustment clauses.

The increase in unit sales of electricity was less in 1978 and 1979 than in previous years because of declines in sales for irrigation (due to heavy rainfall) and in sales to wholesale customers (principally one that serves a large copper mine which suspended operations). Conservation efforts by customers in reaction to higher energy costs have affected unit sales for the past several years. Offsetting factors resulted in 1977 from a significant increase in wholesale sales; in 1977, 1978 and 1979 from extraordinarily warm summers; and in 1978-79 from an abnormally cool winter. Unit sales of gas are substantially affected by weather conditions but for several years prior to 1979 had declined because of a moratorium on new gas connections and service curtailments by the company.

In addition to the effect of volume increases on operating expenses, the cost of fuel used for the generation of a given amount of electricity has risen, as has the unit price paid by the company for gas purchased by it for resale. The rise in generating fuel cost was particularly acute in 1977 due to a renegotiated coal contract, higher priced boiler gas and the necessity for burning more oil to meet demand growth and to replace hydroelectric power formerly available from other sources. A subsequent decrease in 1978 was largely due to a favorable change in fuel mix resulting from unusually large supplies of boiler gas and from the startup of coal-fired Cholla Unit 2. The abrupt resumption in 1979 in cost increases resulted from high-priced purchases of emer-

gency boiler-gas and from limited availability of purchased power from hydroelectric sources.

Maintenance expense has increased with system size and age and a particularly intensive program at the Four Corners Plant. Depreciation and amortization expenses and taxes (other than income) increase with the size of the company's utility plant, and both property and sales taxes increase with the amount of the company's operating income. These increases were offset in 1979 by a court decision invalidating a New Mexico generating tax and the apparent exercise of restraint by several Arizona taxing authorities, but pending legislation in Arizona could sharply increase the company's property taxes for 1980 and subsequent years. Fluctuations in income tax expense are shown in Note 8 of Notes to Financial Statements.

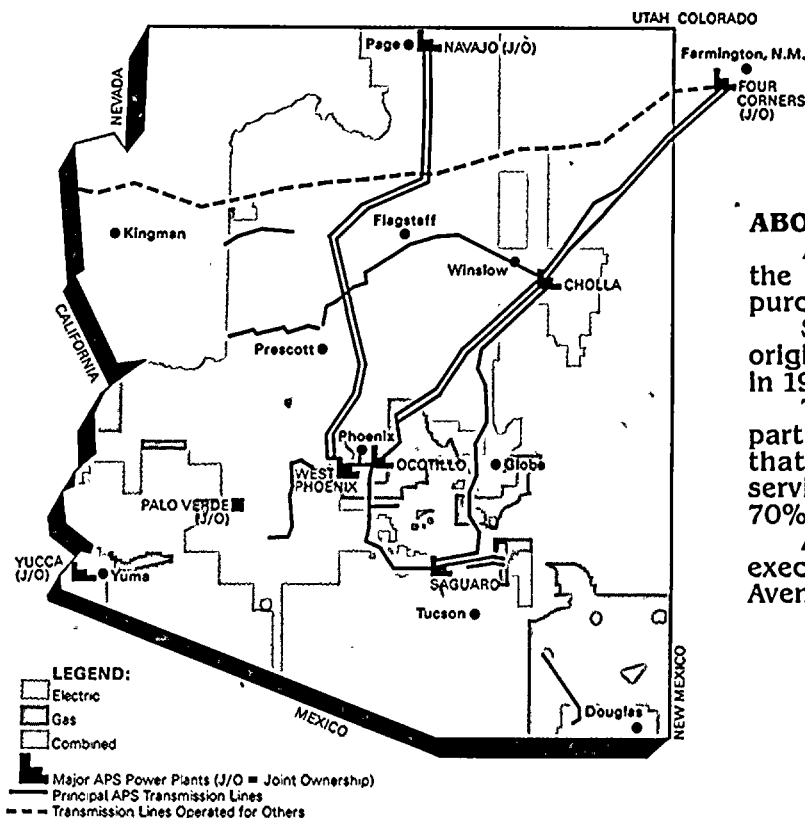
The principal component of other income is a portion (and before 1977 all) of the allowance for funds used during construction, the total amount of which is primarily a function of construction work in progress during a given period; see Note 1 of Notes to Financial Statements for changes in the rate of the allowance. Interest deductions have increased substantially with the incurrence of large amounts of new long-term debt and liability.

Recent issues of preferred stock (which increase the dividend requirements) and common stock (which increase the average number of shares outstanding) are summarized on page 24 and 25.

The company's net income and its earnings for common stock represent composites of cash and non-cash items (see the Statements of Changes in Financial Position) and, in part, reflect accounting practices unique to regulated public utilities. See Note 10 of Notes to Financial Statements for certain contingencies.

OTHER FINANCIAL AND OPERATING STATISTICS

	1979	1978	1977	1976	1975
	(Thousands of Dollars)				
Capitalization:					
Common equity	\$ 868,658	\$ 739,349	\$ 580,170	\$ 464,410	\$ 379,535
Non-redeemable preferred stock	118,561	118,561	118,561	68,561	68,561
Redeemable preferred stock	156,000	100,000	100,000	100,000	100,000
Long-term debt	828,464	763,450	701,917	673,639	595,569
Project financing liability	195,656	127,723	53,617	—	—
Total	\$ 2,167,339	\$ 1,849,083	\$ 1,554,265	\$ 1,306,610	\$ 1,143,665
Utility Plant—Gross	\$ 2,735,073	\$ 2,288,604	\$ 1,889,320	\$ 1,580,672	\$ 1,368,370
Utility Plant—Depreciated	\$ 2,292,341	\$ 1,901,044	\$ 1,547,486	\$ 1,279,533	\$ 1,103,569
Number of Employees at Year End	5,263	4,951	4,570	4,042	3,731
Average Wage per Hour	\$ 9.20	\$ 8.57	\$ 7.99	\$ 7.44	\$ 6.82
Electric:					
Electric resources (kw)	3,077,200	3,061,600	2,872,500	2,790,700	2,568,700
Peak load (kw)	2,579,300	2,548,900	2,373,400	2,190,900	2,068,300
Electric sales—total (mwh)	11,584,898	10,912,704	10,481,972	9,606,571	8,892,570
Number of customers at year end	401,983	378,553	357,884	342,059	331,382
Gas:					
Total gas sales (m therms)	467,088	449,451	463,643	491,007	526,659
Number of customers at year end	340,343	339,803	339,949	339,265	336,839



ABOUT THE COMPANY

Arizona Public Service is engaged principally in the generation and sale of electricity and in the purchase and sale of natural gas.

Successor to a series of small utility operations originating in 1886, the company was incorporated in 1920 under the laws of Arizona.

The company's service territory includes all or part of 11 of Arizona's 14 counties. It is estimated that the company's electric and/or natural gas service reaches approximately 1,840,000 or about 70% of the state's population.

Arizona Public Service Company's principal executive offices are located at 411 North Central Avenue, Phoenix, Arizona. Phone (602) 271-7900.

LINES OF BUSINESS

Operating revenues, and operating income before income taxes, attributable to electric and gas operations of the company for the five years ended December 31, 1979 were as follows:

Year Ended December 31,	Operating Revenues				Operating Income Before Income Taxes			
	(Millions of Dollars)				(Millions of Dollars)			
	Electric		Gas		Electric		Gas	
Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	
1979	\$533.2	80.3	\$131.2	19.7	\$151.5	92.2	\$12.9	7.8
1978	452.4	80.5	109.8	19.5	141.0	92.4	11.6	7.6
1977	397.3	80.5	96.4	19.5	109.2	91.3	10.4	8.7
1976	312.0	79.0	82.8	21.0	78.8	88.0	10.7	12.0
1975	281.1	78.1	78.7	21.9	70.6	87.2	10.4	12.8

OPERATING REVENUES

	1979	1978	\$ Increase (Decrease)	1977	1976	1975
	(Thousands of Dollars)			(Thousands of Dollars)		
Electric:						
Residential	\$191,066	\$158,383	\$ 32,683	\$135,274	\$106,334	\$ 98,420
Commercial	179,534	155,669	23,865	135,585	108,506	97,508
Industrial	86,563	72,677	13,886	61,617	47,055	40,737
Irrigation	14,193	12,252	1,941	13,512	9,799	9,669
Other	50,402	41,716	8,686	39,657	28,565	21,880
Total	521,758	440,697	81,061	385,645	300,259	268,214
Transmission for others	8,731	9,021	(290)	9,328	9,591	10,598
Miscellaneous services	2,696	2,713	(17)	2,291	2,119	2,268
Total Electric Operating Revenue	533,185	452,431	80,754	397,264	311,969	281,080
Gas:						
Residential	64,123	53,879	10,244	48,351	42,922	42,096
Commercial	29,371	24,223	5,148	20,779	17,156	15,761
Industrial	22,128	17,646	4,482	13,219	10,130	8,760
Irrigation	13,400	11,969	1,431	12,359	10,979	10,639
Other	1,324	1,169	155	860	830	652
Miscellaneous services	892	900	(8)	852	793	759
Total Gas	131,238	109,786	21,452	96,420	82,810	78,667
Total Gas Operating Revenue	131,238	109,786	21,452	96,420	82,810	78,667
Total Operating Revenues	\$664,423	\$562,217	\$102,206	\$493,684	\$394,779	\$359,747

ACCOUNTANTS' OPINION

Deloitte Haskins & Sells,
Certified Public Accountants
Phoenix, Arizona 85003

Arizona Public Service Company:

We have examined the balance sheets of Arizona Public Service Company as of December 31, 1979 and 1978 and the related statements of income, retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 10 of Notes to Financial Statements, retail revenues of the company include amounts which may be subject to refund. The ultimate outcome of this uncertainty cannot presently be determined, and no allowance for refunds, if any, that may result has been made in the financial statements.

In our opinion, subject to the effects on the 1979 financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to in the preceding paragraph been known, such financial statements present fairly the financial position of the company at December 31, 1979 and 1978 and the results of its operations and the changes in its financial position for years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells
February 8, 1980

STATEMENTS OF INCOME

For the Years Ended December 31, 1979 and 1978 and Comparison

	1979	1978	Increase (Decrease)
	(Thousands of Dollars)		
Operating Revenues (Note 10):			
Electric	\$ 533,185	\$ 452,431	\$ 80,754
Gas	131,238	109,786	21,452
Total	<u>664,423</u>	<u>562,217</u>	<u>102,206</u>
Operating Expenses:			
Operating and maintenance expenses:			
Fuel for electric generation	128,472	88,426	40,046
Purchased gas	81,371	63,314	18,057
Purchased power and interchange—net	38,727	31,218	7,509
Other production expenses	12,622	10,724	1,898
Transmission and distribution	14,010	12,985	1,025
Maintenance	48,338	41,845	6,493
Other operating expenses	48,443	43,396	5,047
Total	<u>371,983</u>	<u>291,908</u>	<u>80,075</u>
Depreciation and amortization	57,021	48,295	8,726
Taxes—other than income	70,993	69,397	1,596
Income taxes (Note 8)	13,556	13,917	(361)
Total	<u>513,553</u>	<u>423,517</u>	<u>90,036</u>
Operating Income	<u>150,870</u>	<u>138,700</u>	<u>12,170</u>
Other Income:			
Allowance for equity funds used during construction	24,696	16,536	8,160
Income taxes (Note 8)	(866)	(20)	(846)
Other—net	2,930	(1,602)	4,532
Total	<u>26,760</u>	<u>14,914</u>	<u>11,846</u>
Gross Income	<u>177,630</u>	<u>153,614</u>	<u>24,016</u>
Interest Deductions:			
Interest on long-term debt and liability (Notes 4 and 5)	87,609	66,152	21,457
Interest on short-term borrowings	5,912	2,566	3,346
Amortization of debt discount, premium and expense	665	644	21
Allowance for borrowed funds used during construction—credit	(38,134)	(22,507)	(15,627)
Total	<u>56,052</u>	<u>46,855</u>	<u>9,197</u>
Net Income	<u>121,578</u>	<u>106,759</u>	<u>14,819</u>
Preferred Dividend Requirements	<u>21,882</u>	<u>17,471</u>	<u>4,411</u>
Earnings for Common Stock	<u>\$ 99,696</u>	<u>\$ 89,288</u>	<u>\$ 10,408</u>
Average Common Shares Outstanding	<u>34,426,346</u>	<u>28,363,223</u>	<u>6,063,123</u>
Per Share of Common Stock:			
Earnings (based on average shares outstanding)	\$2.90	\$3.15	(.25)
Dividends declared	\$1.94	\$1.73	.21

See Notes to Financial Statements, including Note 1 as to significant accounting policies.

BALANCE SHEETS

December 31, 1979 and 1978

Assets	1979	1978
	(Thousands of Dollars)	
Utility Plant:		
Plant in service (Notes 4 and 7):		
Electric	\$1,574,313	\$1,499,005
Gas	127,305	124,500
Common, used in all services	57,775	47,678
Total	<u>1,759,393</u>	<u>1,671,183</u>
Less accumulated depreciation and amortization	442,732	387,560
Plant in service—depreciated	1,316,661	1,283,623
Construction work in progress (Notes 5 and 7)	973,609	611,309
Plant held for future use	2,071	6,112
Utility plant—depreciated	<u>2,292,341</u>	<u>1,901,044</u>
 Investments and Other Assets:		
Investments in and receivables from subsidiaries	22,560	8,116
Other investments and notes receivable	2,958	3,180
Other physical property (less accumulated depreciation: 1979, \$43,000; 1978, \$36,000)	906	994
Total investments and other assets	<u>26,424</u>	<u>12,290</u>
 Current Assets:		
Cash (Note 6)	5,819	4,101
Special deposits and working funds (Note 6)	3,074	2,063
Accounts receivable:		
Service customers	54,761	50,708
Miscellaneous	12,387	11,374
Allowance for doubtful accounts	(1,718)	(1,528)
Materials and supplies (at average cost)	27,863	22,002
Fuel (at average cost)	35,198	16,843
Prepayments and other	9,357	9,636
Total current assets	<u>146,741</u>	<u>115,199</u>
 Deferred Debits:		
Unamortized debt issue costs	5,970	5,381
Other	3,856	5,506
Total deferred debits	<u>9,826</u>	<u>10,887</u>
Total	<u><u>\$2,475,332</u></u>	<u><u>\$2,039,420</u></u>

Liabilities	1979	1978
	<u>(Thousands of Dollars)</u>	
Capitalization:		
Common stock (Notes 2, 3, 4 and 5)	\$ 95,453	\$ 81,943
Premiums and expenses	512,003	429,476
Retained earnings	<u>261,202</u>	<u>227,930</u>
Common stock equity	868,658	739,349
Non-redeemable preferred stock	118,561	118,561
Redeemable preferred stock	156,000	100,000
Long-term debt, less current maturities	828,464	763,450
Project financing liability	<u>195,656</u>	<u>127,723</u>
Total capitalization	<u>2,167,339</u>	<u>1,849,083</u>
Current Liabilities:		
Commercial paper (Note 6)	54,000	39,000
Current maturities of long-term debt	86,639	4,594
Accounts payable	79,342	66,192
Accrued taxes	39,471	45,896
Accrued interest	17,257	12,786
Accrued dividends	1,866	1,456
Customers' deposits, advances and other	<u>10,085</u>	<u>6,478</u>
Total current liabilities	<u>288,660</u>	<u>176,402</u>
Deferred Credits and Other:		
Customers' advances for construction	5,383	5,450
Deferred income taxes	7,334	3,601
Other	<u>6,616</u>	<u>4,884</u>
Total deferred credits and other	<u>19,333</u>	<u>13,935</u>
Commitments and Contingencies (Note 10)		
Total	<u><u>\$2,475,332</u></u>	<u><u>\$2,039,420</u></u>

See Notes to Financial Statements, including Note 1 as to significant accounting policies.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the Years Ended December 31, 1979 and 1978

	<u>1979</u>	<u>1978</u>
	(Thousands of Dollars)	
Source of Funds:		
Funds from operations:		
Net income	\$121,578	\$106,759
Principal non-fund charges (credits) to income:		
Depreciation and amortization	57,021	48,295
Equity in undistributed (earnings) loss of unconsolidated subsidiaries	(196)	1,754
Deferred income taxes	3,733	2,601
Allowance for equity funds used during construction	<u>(24,696)</u>	<u>(16,536)</u>
Total funds from operations	<u>157,440</u>	<u>142,873</u>
Funds from external sources:		
Common stock	97,061	118,558
Preferred stock	59,370	—
Long-term debt	152,005	66,300
Project financing liability	67,933	74,106
Short-term borrowings—net	<u>15,000</u>	<u>39,000</u>
Total funds from external sources	<u>391,369</u>	<u>297,964</u>
Other items—net	7,840	10,946
Decrease in working capital*	—	3,836
Total source of funds	<u>\$556,649</u>	<u>\$455,619</u>
Application of Funds:		
Capital expenditures	\$468,116	\$405,789
Allowance for equity funds used during construction	<u>(24,696)</u>	<u>(16,536)</u>
Funds used for capital expenditures	443,420	389,253
Repayment of long-term debt and preferred stock	8,594	552
Dividends on preferred and common stock	88,306	65,814
Increase in working capital*	<u>16,329</u>	<u>—</u>
Total application of funds	<u>\$556,649</u>	<u>\$455,619</u>
Increase (Decrease) in Working Capital*:		
Cash	\$ 1,718	\$ 132
Accounts receivable	4,876	17,170
Materials, supplies and fuel	24,216	140
Accounts payable and accrued expenses	(11,606)	(26,619)
Customers' deposits, advances and other	(3,607)	3,260
Other—net	732	2,081
Net increase (decrease) in working capital	<u>\$ 16,329</u>	<u>\$ (3,836)</u>

*Excluding short-term borrowings—net and current maturities of long-term debt.

STATEMENTS OF RETAINED EARNINGS

For the Years Ended December 31, 1979 and 1978

	1979	1978
	(Thousands of Dollars)	
Retained earnings at beginning of year	\$227,930	\$186,985
Add—Net income	121,578	106,759
Total	<u>349,508</u>	<u>293,744</u>
Deduct—Dividends:		
Preferred stock	21,882	17,471
Common stock	66,424	48,343
Total	<u>88,306</u>	<u>65,814</u>
Retained earnings at end of year	<u>\$261,202</u>	<u>\$227,930</u>

See Notes to Financial Statements including Note 1 as to significant accounting policies.

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 1979 and 1978

1. Summary of Significant Accounting Policies

(a) System of accounts—The accounting records of the company are maintained in accordance with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (FERC) and used by the Arizona Corporation Commission (ACC).

(b) Plant and depreciation—Property is stated at original cost as defined for regulatory purposes. The cost of additions to utility plant and replacements of retirement units is capitalized. Replacements of minor items of property are charged to expense as incurred. In addition to direct costs, capitalized items include the present value of certain future lease payments (see Note 4), research and development expenditures pertaining to construction projects, indirect charges for engineering, supervision, transportation and similar costs, and an allowance for funds used during construction. Costs of depreciable units of plant retired are eliminated from plant accounts and such costs plus removal expenses less salvage are charged to accumulated depreciation. Contributions in aid of construction are credited to plant cost.

Depreciation is provided on a straight-line basis at rates authorized by the ACC annually, which have ranged from 2.95% to 4.16% for electric plant, 3.25% to 3.49% for gas plant, and 2.85% to 15.50% for common and general plant.

(c) Revenues and recognition of certain costs—Timing differences resulting from electric fuel adjustment clauses are reflected by deferring purchased power and fuel costs, or revenues, to be matched against revenues or costs, respectively, in subsequent periods. The estimated cost of gas purchased from the company's supplier, but not billed to gas customers, is also deferred to be matched against revenues recorded in the subsequent period. Under its approved rate schedules, and subject to a hearing procedure applicable to purchased power and fuel adjustments in retail rates, the company may pass through to its customers increases in purchased power and fuel costs, resale gas costs and specified taxes.

(d) Allowance for funds used during construction—In accordance with the regulatory accounting practice prescribed by FERC

and the ACC, the company capitalizes an allowance for the cost of funds used to finance its construction program ("AFC"). AFC, which does not represent current cash earnings, is defined as the net cost during the period of construction of borrowed funds used for construction, and a reasonable rate on funds obtained from other sources. The calculated amount is capitalized as a part of the cost of utility plant.

AFC has been calculated using composite rates of 9% in 1978 through June 30, 1979 and 10% thereafter, except for AFC related to project financing which was computed at the actual rate thereon. The rates of AFC used by the company do not exceed those allowable by FERC.

(e) Income taxes—The company uses accelerated depreciation methods for income tax purposes. As prescribed by the ACC for rate making and accounting purposes, the company began providing deferred income taxes for the difference between accelerated and straight line tax depreciation of property placed in service after January 1, 1977. Previously the difference was included currently in income. The effect of this change on the accompanying financial statements is not material. Income tax reductions arising from timing differences respecting certain other items of income and expense reported differently for income tax and financial reporting purposes and from allowable investment tax credits are reflected currently in income, in accordance with orders or practices of the ACC for rate making purposes.

(f) Investments in subsidiaries—Investments in subsidiaries are reported at equity.

(g) Employees' pension plan—The company's policy is to accrue and fund the current and prior service costs of its pension plan. Prior service costs are amortized over a fifteen-year period.

(h) Research and development costs—The company expenses research and development costs on a current basis, except that costs which may result in utility plant are deferred for subsequent inclusion in plant or to be written off if the applicable project is abandoned.

2. Common and Non-Redeemable Preferred Stock

The status at December 31, 1979 and December 31, 1978 of common stock, and of preferred stock which is not redeemable except pursuant to call by the company at its option, is shown below.

	Number of Shares		Par Value		Call Price Per Share(b)		
	Authorized	Outstanding		Per Share		Outstanding (Thousands of Dollars)	
		Decem- ber 31, 1979	Decem- ber 31, 1978				Decem- ber 31, 1979
Common Stock	50,000,000	38,181,297	32,777,258	\$ 2.50	\$ 95,453	\$ 81,943	
Non-redeemable Preferred Stock (cumulative)							
\$1.10 preferred	160,000	155,945	155,945	25.00	\$ 3,898	\$ 3,898	\$ 27.50
\$2.50 preferred	105,000	103,254	103,254	50.00	5,163	5,163	51.00
\$2.36 preferred	120,000	40,000	40,000	50.00	2,000	2,000	51.00
\$4.35 preferred	150,000	75,000	75,000	100.00	7,500	7,500	102.00
Serial preferred	1,000,000						
\$2.40 series A		240,000	240,000	50.00	12,000	12,000	50.50
\$2.625 series C		240,000	240,000	50.00	12,000	12,000	51.00
\$2.275 series D		200,000	200,000	50.00	10,000	10,000	(c)
\$3.25 series E		320,000	320,000	50.00	16,000	16,000	(d)
Serial preferred	4,000,000 (a)						
\$8.32 series J		500,000	500,000	100.00	50,000	50,000	(e)
Serial preferred	3,000,000	—	—	25.00	—	—	
Total		1,874,199	1,874,199		\$118,561	\$118,561	

(a) This authorization covers the outstanding redeemable preferred shares shown in Note 3, as well as the non-redeemable shares indicated above.

(b) In each case plus accrued dividends.

(c) From \$51.00 through February 29, 1980; then to \$50.50 thereafter.

(d) From \$51.50 through February 28, 1983; then to \$51.00 thereafter.

(e) Not callable prior to September 1, 1982 through certain refunding operations; otherwise at \$108.32 through August 31, 1982 to \$101.00 after August 31, 1992.

The holders of preferred stock are entitled to one vote for each share held of record, as are holders of common stock. Special requirements for favorable votes of holders of preferred stock, voting by the classes respectively prescribed for the several purposes, pertain to (i) certain conversions or exchanges of outstanding preferred stock, (ii) the authorization of any stock ranking prior to the preferred stock, (iii) making any change in the terms and provisions of preferred stock that would adversely

affect the rights and preferences of the holders thereof, (iv) the issuance of any additional shares of preferred stock except under prescribed circumstances or (v) a merger, consolidation or sale of substantially all the assets of the company. The foregoing voting rights attach to both redeemable and non-redeemable preferred stock, as do the rights that would arise out of dividend arrearages as discussed in Note 3.

Common and non-redeemable preferred stock sales and changes in premiums and expenses during the years ended December 31, 1979 and 1978 were as follows (dollars in thousands):

Description	Common Stock		Non-Redeemable Preferred Stock (cumulative)		Premiums and (Expenses) Net*
	Number of Shares	Par Value Amount	Number of Shares	Par Value Amount	
Balance, December 31, 1977	26,576,428	\$ 66,441	1,874,199	\$118,561	\$326,744
Common Stock	6,200,830	15,502	—	—	102,732
Balance, December 31, 1978	32,777,258	81,943	1,874,199	118,561	429,476
Common Stock	5,404,039	13,510	—	—	82,527
Balance, December 31, 1979	38,181,297	\$95,453	1,874,199	\$118,561	\$512,003

*Expenses reflected for common stock include expenses of the redeemable preferred stock issues shown in the second table in Note 3.

The 1978 balance sheet has been reclassified to separately state redeemable and non-redeemable preferred stock.

The company has a dividend reinvestment and stock purchase plan whereby newly issued shares of its common stock may be purchased at market on the applicable dates by any participant in the plan. It also has an employee savings plan under which its own periodic contributions probably would, and the investment

of certain funds contributed by participating employees could, involve its issuance of new shares of common stock.

On February 12, 1980 the company filed a registration statement with the Securities and Exchange Commission in connection with a proposed issue of 4,000,000 shares of common stock, \$2.50 par value.

3. Redeemable Preferred Stock

The status at December 31, 1979 and December 31, 1978 of preferred stock which is redeemable at the option of the holders or pursuant to sinking fund obligations, in addition to being callable by the company, is shown below.

	Number of Shares		Per Share	Par Value		Call Price Per Share(b)
	Outstanding			Outstanding		
	December 31, 1979	December 31, 1978		(Thousands of Dollars)		
	December 31, 1979	December 31, 1978	December 31, 1979	December 31, 1978		
Redeemable preferred stock						
(cumulative) serial preferred (a)						
\$8.50 series F	193,200	210,000	\$100.00	\$ 19,320	\$ 21,000	(c)
\$8.50 series G	82,800	90,000	100.00	8,280	9,000	(c)
\$10 series H	384,000	400,000	100.00	38,400	40,000	(d)
\$10.70 series I	300,000	300,000	100.00	30,000	30,000	(e)
\$8.80 series K	600,000	—	100.00	60,000	—	(f)
Total	<u>1,560,000</u>	<u>1,000,000</u>		<u>\$156,000</u>	<u>\$100,000</u>	

(a) There is no specific authorized number of redeemable shares. See Note 2 in this regard.

(b) In each case plus accrued dividends.

(c) Redeemable at par at the option of either the company or the respective holders, in the case of series F at any time, or in the case of series G after May 30, 1982 (or earlier under certain conditions that could require the company to repurchase series G shares, which conditions did not exist at December 31, 1979), in every case upon 120 days notice; certain holders of series F shares are exercising their options to require redemption. Sinking fund provisions applicable to the two series require the redemption of a total of 12,000 shares at par semi-annually (representing annual payments of \$2,400,000).

(d) Not callable by the company prior to September 1, 1984 through certain refunding operations; otherwise at \$108.25 through September 1, 1980 to par after September 1, 2002. Applicable sinking fund provisions require the redemption of 16,000 shares at par annually (representing annual payments of \$1,600,000).

(e) Not callable by the company prior to December 1, 1985 through certain refunding operations; otherwise at \$110.70 through November 30, 1980 to \$101.00 after November 30, 1990. Applicable sinking fund provisions require the redemption of 15,000 shares at par annually commencing December 1, 1981 (representing annual payments of \$1,500,000). The company may, but is not required to, redeem an additional 15,000 shares at par on December 1 in any year beginning in 1981.

(f) Not callable by the company prior to March 1, 1984 through certain refunding operations; otherwise at \$108.80 through February 28, 1984 to \$101.00 after March 1, 1994. Applicable sinking fund provisions require the redemption of 22,500 shares at par annually commencing March 1, 1986 (representing annual payments of \$2,250,000). The company may, but is not required to, redeem an additional 22,500 shares at par on March 1 in any year beginning in 1986.

The combined aggregate amount of sinking fund requirements for the above issues each year for the next five years will be as follows: \$4,000,000 in 1980; and \$5,500,000 in 1981 thru 1984.

If there were to be any arrearage in dividends on any of its preferred stock or in the sinking fund requirements applicable to any of its redeemable preferred stock (each such dividend being cumulative and of equal ranking with other such dividends, and each such requirement being cumulative and of equal ranking with other such requirements), the company could not pay dividends on its common stock or acquire any shares thereof for consideration. If any such dividend arrearage were to equal six or more quarterly dividends, the holders of preferred stock, in addition to their other voting rights and voting by the classes prescribed for this purpose, could elect a total of six directors (all series of serial preferred stock, regardless of par value and whether redeemable or non-redeemable, comprising one such class and being entitled to elect two of the six directors). See Note 2 in regard to other voting rights of holders of preferred stock.

Changes in redeemable preferred stock during the years ended December 31, 1979 and 1978 were as follows (dollars in thousands):

Description	Redeemable Preferred Stock (cumulative)	
	Number of Shares	Par Value Amount
Balance, December 31, 1977 ..	<u>1,000,000</u>	<u>\$100,000</u>
Balance, December 31, 1978 ..	<u>1,000,000</u>	<u>100,000</u>
Redeemable preferred stock		
\$8.80 series K	600,000	60,000
Sinking fund retirements:		
\$8.50 series F	(16,800)	(1,680)
\$8.50 series G	(7,200)	(720)
\$10 series H	(16,000)	(1,600)
Balance, December 31, 1979 ..	<u><u>1,560,000</u></u>	<u><u>\$156,000</u></u>

Expenses of these redeemable preferred stock issues are included in those reflected for common stock in the second table in Note 2.

The company is currently negotiating or discussing with limited groups of institutional investors the sale in March, 1980 of \$47,900,000 in aggregate par value of redeemable (through a sinking fund) preferred stock.

4. Long-Term Debt

Details of long-term debt outstanding at December 31, 1979 and December 31, 1978 are as follows:

	December 31, 1979	December 31, 1978
	(Thousands of Dollars)	
First Mortgage Bonds:		
3% series due April 1, 1979	—	\$ 4,000
2¾% series due February 1, 1980 .. \$	5,000	5,000
9.80% series due June 1, 1980	75,000	75,000
2¾% series due December 1, 1980 ...	6,000	6,000
9.50% series due February 15, 1982	100,000	100,000
3½% series due February 1, 1983 ..	14,500	14,500
3½% series due		
November 1, 1983	5,723	5,723
3¼% series due March 1, 1984	15,000	15,000
5½% series due October 1, 1987 ...	15,000	15,000
4.70% series due March 1, 1989 ...	20,000	20,000
4.80% series due		
November 1, 1991	35,000	35,000
4.45% series due June 1, 1992	25,000	25,000
4.40% series due		
December 1, 1992	25,000	25,000
4.50% series due		
September 1, 1993	15,000	15,000
6.25% series due		
September 1, 1997	25,000	25,000
10.625% series due		
November 15, 2000	75,000	75,000
7.45% series due March 15, 2002 ..	60,000	60,000
9.95% series due March 1, 2004 ...	75,000	—
6.20% series due April 1, 2004	50,000	50,000
6.45% series due April 15, 2007 ...	43,000	43,000
6% series due January 15, 2008 ...	34,000	34,000
12½% series due October 15, 2009 .	75,000	—
Less securities held by trustee	—	(2,005)
Unamortized discount and premium	(1,192)	(840)
Total First Mortgage Bonds	792,031	644,378
Unsecured notes payable (a)	70,000	70,000
Capitalized lease obligation (b)	53,072	53,666
Total Long-Term Debt	915,103	768,044
Less current maturities:		
3% series due April 1, 1979	—	(4,000)
2¾% series due February 1, 1980 ..	(5,000)	—
9.80% series due June 1, 1980	(75,000)	—
2¾% series due December 1, 1980 ..	(6,000)	—
Capitalized lease obligation	(639)	(594)
Total Long-Term Debt		
Less Current Maturities	<u>\$828,464</u>	<u>\$763,450</u>

(a) Consisting of \$30,000,000 payable in thirteen equal quarterly installments commencing June 1, 1983 or, under certain conditions, in ten equal quarterly installments commencing June 1, 1984, with interest through August 31, 1982 at 105% of prime (107% thereafter); and \$40,000,000 due February 1, 1985, with interest through December 31, 1981 at 105% (107% thereafter) of the higher of prime or ½ of 1% above the current rate on 90 to 119-day, dealer-placed commercial paper.

(b) Represents the present value of future lease payments (discounted at the interest rate of 7.48%) on a combined cycle plant sold and leased back from the independent owner-trustee formed to own the facility. The lease requires semi-annual payments of \$2,299,000 through June 1983 and then \$2,582,000 through June 2001, and includes renewal and purchase options based on fair market value. This plant is included in plant in service at its original cost of \$54,405,000; accumulated amortization at December 31, 1979 was \$7,822,000.

Aggregate annual payments which will be due on long-term debt and for sinking fund requirements through 1984 are as follows: 1980, \$86,639,000; 1981, \$3,688,000; 1982, \$103,740,000; 1983, \$24,302,000; 1984, \$28,454,000. Other sinking fund requirements through 1984 for the outstanding first mortgage bonds (which may be met by property additions) will be as follows: 1980 through 1982, \$2,552,000; 1983, \$2,350,000; 1984, \$2,200,000; as allowed in the bond indenture, requirements of this type have in the past been satisfied by certification of property additions of 1½ times the amount stated and the company expects to meet similar requirements in that manner in the future. For sinking fund requirements and redemptions at the option of the holders of redeemable preferred stock, see Note 3; for requirements under project financing, see Note 5.

Substantially all utility plant, other than the combined cycle plant mentioned above and the construction work in progress for Cholla Unit 4 (see Note 5), is subject to the lien of the first mortgage bonds. The indenture respecting the first mortgage bonds includes provisions which would restrict the payment of dividends on common stock under certain conditions which did not exist at December 31, 1979.

5. Project Financing

In 1977 the company sold the construction work in progress for Unit 4 of its Cholla Plant to an unrelated corporation ("owner"), which appointed the company as its agent to complete construction of the Unit and agreed to resell it to the company. The company is unconditionally obligated to repurchase the Unit at or about the time of its completion (presently scheduled for May 31, 1981), and in no event later than July 31, 1981, for an amount equal to the owner's cost of acquiring, completing and financing the Unit.

Financing is to be provided to the owner by bank loans in two categories, the first consisting of up to \$218,500,000 to be disbursed as construction progresses, to bear interest at 103% of prime through July 31, 1980 and at 105% of prime thereafter, and to become due on the date the company is obligated to repurchase the Unit; such loans can then be refinanced by the company (with

interest thereon after July 31, 1981 increasing to 110% of prime) for payment in five equal installments in 1981, 1983 and 1984. Loans in the other category aggregate \$41,500,000 of pollution control financing provided through a governmental authority to the owner (with funds not yet required for the pollution control facilities included in Unit 4 being held in an escrow for temporary investment, \$11,490,000 being so held at December 31, 1979); these loans bear interest at 70% of prime and are due in 1987, but in effect will become due when the company is obligated to repurchase Unit 4 unless assumed by the company at that time (which assumption will require the issuance of the company's first mortgage bonds in an amount equal to the balance of such pollution control loans).

So long as the owner remains the principal obligor thereon, both categories of loans will be secured by Unit 4 and the company's repurchase obligation. The two categories are subject in varying degrees to cessation in funding or to acceleration, and interest on the pollution control loans is subject to increase, under certain conditions which did not exist at December 31, 1979. Pursuant to the loan documents, the declaration of any dividend on common stock, if the per share dividend thus declared would exceed the previous per share dividend, is subject to certain restrictions related to earnings; for the year ended December 31, 1979 up to \$84,742,000 could have been paid in dividends on common stock compared to the \$66,424,000 actually paid.

The company includes costs of construction of Unit 4 in construction work in progress on its balance sheet. Net outstanding balances of the aforementioned bank loans, together with capitalized interest and related fees thereon (13.6% for the year ended December 31, 1979), appear as a liability. In addition to the construction costs financed by the owner through December 31, 1979, the company incurred construction costs of approximately \$9,000,000 which will be reimbursed by the owner.

6. Short-Term Borrowings and Compensating Balances

The company had bank lines of credit of \$120,605,000 at December 31, 1979 and \$107,000,000 at December 31, 1978. Although such lines were all unused at the indicated dates, the company in each case regarded that portion of such lines equal to its then outstanding commercial paper to be committed as backup. The company's commercial paper was outstanding on December 31, 1979 in the amount of \$54,000,000 at an effective rate of 14.6% and on December 31, 1978 in the amount of \$39,000,000 at an effective rate of 10.65%.

Average aggregate short-term borrowings outstanding during 1979 and 1978 were \$39,031,000 and \$19,357,000, respectively; weighted daily average interest rates on such amounts were 11.86% and 8.80%, respectively. The maximum amount of short-term borrowings outstanding at any month end aggregated \$88,000,000 in 1979 and \$49,000,000 in 1978.

Compensating balances required at banks, but which were not legally restricted, were generally 10% of the line plus 5% (10% in some instances) of borrowings. Substantially all cash shown in the balance sheet is considered compensating balances.

7. Jointly-Owned Facilities

At December 31, 1979, the company owned the following interests in jointly-owned electric generating and transmission facilities (dollars in thousands):

	Percent owned by Company	Plant in Service	Accumulated Depreciation	Plant in Service	Construction Work in Progress
Navajo Plant	14.0%	\$110,837	\$16,288	\$ 94,549	\$ 558
Four Corners Units 4 and 5	15.0	29,822	9,073	20,749	9,085
Palo Verde Nuclear Generating Station Units 1, 2 and 3	29.1	—	—	—	477,273
Certain transmission lines from the Navajo Plant (the Company's interest in which varies from 14% to 100%)	31.4	27,856	3,722	24,134	137
Total		<u>\$168,515</u>	<u>\$29,083</u>	<u>\$139,432</u>	<u>\$487,053</u>

The foregoing amounts represent the company's interest in each facility. Financing for all such interests is provided by the company. Its share of related operating and maintenance expenses is included in its corresponding operating expenses.

8. Income Tax Expense

Details of factors related to income taxes for the years ended December 31, 1979 and 1978 are as follows (see Note 1):

	1979	1978
	(Thousands of Dollars)	
Federal and state income tax expense at statutory rates	\$66,462	\$61,161
Reductions in taxes resulting from:		
Timing differences:		
Tax over book depreci- tion	(9,417)	(11,497)
Allowance for funds used during construction	(20,631)	(14,282)
Other—principally taxes, pensions and other items capitalized	(7,814)	(1,893)
Investment credit	(17,775)	(22,153)
Other items	(136)	—
Taxes currently payable	<u>10,689</u>	<u>11,336</u>
Deferred taxes included in expenses:		
Deferred	3,943	2,811
Restored	(210)	(210)
Total deferred	<u>3,733</u>	<u>2,601</u>
Total federal and state income taxes	<u>\$14,422</u>	<u>\$13,937</u>

Federal and state income taxes
included in:

Operating expenses	\$13,556	\$13,917
Other income	866	20
Total	<u>\$14,422</u>	<u>\$13,937</u>
Taxes currently payable:		
Federal	\$ 6,751	\$ 5,816
State	3,938	5,520
Total	<u>\$10,689</u>	<u>\$11,336</u>

At December 31, 1979 the company had approximately \$38,000,000 of unused investment tax credit which could be carried forward through 1986, of which \$13,000,000 has been recognized as a reduction of deferred taxes.

9. Pension Plan

The company's pension plan covers virtually all employees. Contributions to the plan were \$9,567,000 and \$8,318,000 in 1979 and 1978, respectively. The liability for unfunded prior service costs at July 1, 1979 was \$1,229,000, which is expected to be completely funded by 1981.

10. Commitments and Contingencies

The company is subject to the possibility of being ordered to refund retail rates in a material amount as discussed in the first two paragraphs of "Legal Matters."

Also discussed under that caption are certain other legal and regulatory proceedings involving the company. Based upon the

opinions of its counsel, the company believes that ultimate resolution of these proceedings will not have a material effect on the accompanying financial statements.

The company has significant purchase commitments in connection with its continuing construction program. Construction expenditures in 1980 have been estimated at \$400,000,000.

11. Business Segments

Listed below is selected information relating to the company's electric and gas operations as of and for the three years ended December 31, 1979.

	Year Ended December 31,					
	1979		1978		1977	
	Electric	Gas	Electric	Gas	Electric	Gas
	(Thousands of Dollars)					
Operating revenues	\$ 533,185	\$131,238	\$ 452,431	\$109,786	\$ 397,264	\$ 96,420
Operating income before income taxes . .	151,480	12,946	141,043	11,574	109,154	10,352
Utility plant	2,597,139	137,934	2,152,937	135,667	1,753,809	135,511
Accumulated depreciation	386,503	56,229	335,533	52,027	292,969	48,865
Capital expenditures	449,104	19,012	401,475	4,314	309,774	1,999

12. Selected Quarterly Financial Data (Unaudited)

Quarter	Operating Revenues	Operating Income	Net Income	Earnings for Common Stock	Earnings per Average Share of Common Stock
	(Thousands of Dollars)				
1979					
First	\$154,440	\$24,663	\$17,277	\$12,337	\$0.38
Second	145,921	27,347	19,719	14,040	0.43
Third	192,943	56,505	49,142	43,493	1.23
Fourth	171,119	42,355	35,440	29,826	.82
1978					
First	128,025	25,992	19,265	14,897	0.56
Second	127,699	28,498	21,568	17,201	0.63
Third	164,835	49,304	41,394	37,025	1.27
Fourth	141,658	34,906	24,532	20,165	0.66

See Note 10 of Notes to Financial Statements for revenues which may be subject to refund.

13. Supplementary Information to Disclose the Effects of Changing Prices (Unaudited)

The following supplementary information is furnished pursuant to Statement No. 33 of the Financial Accounting Standards Board for the purpose of illustrating the effects of changing prices in an inflationary environment. It offers some perspectives of approximated effects of inflation, and is not intended as precise measurements of those effects.

The company and other public utilities similarly situated are subject to rate-making procedures which, by law and practice, in large part utilize the historical cost of utility plant in the determination of the allowed recovery (through depreciation) of the investment therein and return thereon. This precludes or restricts a rate-making response to the effects of realizing such recovery and return in inflated dollars, compared to those in which the investment was made. The first table below presents two approximate measurements of those effects from the perspective of that portion of the investment, restated on alternative bases to reflect intervening cost escalation, which was not reflected in 1979 depreciation or in the company's return, and which is therefore not "recoverable."

For these presentations, "constant dollar" and "current cost" amounts were calculated by applying certain indices (or ratios

derived therefrom) to certain historical or other amounts. In the case of constant dollars, the index was the Consumer Price Index for All Urban Consumers, which approximates the upward trend of prices in general during the indicated periods. In the case of current costs, the primary index was the Handy Whitman Index of Public Utility Construction Costs (an estimate of which was used for the last half of 1979), although the Consumer Price Index was used for construction work in progress. The company believes that the Handy Whitman Index is the more accurate of the two in estimating the prices it would incur to duplicate at various times its utility plant in service at the indicated dates. Over the period up to 1979 which is relevant to the information presented below, that index rose faster than the Consumer Price Index, but the reverse occurred in 1979.

Depreciation expense for 1979 was recalculated by applying the company's composite depreciation rate to depreciable base determined by indexing the historical cost of the company's utility plant (or, in the case of the Current Cost presentation, certain appraised values thereof in 1969) from the times of construction (or appraisal). The amount by which the expense so recalculated exceeds that shown on the company's 1979 statement of income

appears as an adjustment to income from operations. The Current Cost adjustment is the larger of the two because the faster Handy Whitman rise up to 1979 produced a greater depreciable base (referred to in the discussion below as "Utility Plant at Current Cost").

The sum of the depreciation adjustment in the Constant Dollar column and the figure shown lower in that column as the "reduction to net recoverable cost" was derived through application of 1979 increases in the Consumer Price Index to historical costs of the company's utility plant. The comparable sum in the Current Cost column, again consisting of the depreciation adjustment plus the "reduction to net recoverable cost," reflects the larger depreciation adjustment referred to above, which is more than offset by the difference between the two measurements of cost (or price) escalation in 1979 which are described in the next paragraph.

The first such measurement is that of a hypothetical increase in the dollar value of the company's utility plant, and was derived by applying 1979 index rises (primarily in the Handy Whitman Index) to the Utility Plant at Current Cost, and subtracting the depreciation adjustment shown in the column. The second measurement is that of an assumed, unrecoverable dollar amount computed by applying the 1979 rise in the Consumer Price Index (which exceeded the corresponding rise in the Handy Whitman Index) to the Utility Plant at Current Cost.

In neither measurement did the company make any adjustments to asset values, or related income statement amounts, other than those discussed above in regard to utility plant and depreciation thereon. Fuel inventories and fuel and purchased gas expenses are, in effect, monetary items, due to applicable rate-making procedures which include adjustment clauses. In accordance with Statement No. 33, income taxes were not adjusted.

As contrasted to the assumed net value losses which, in the presentation below, are associated with the holding of assets committed to a regulated business, there is an assumed "holding gain" associated with borrowings that will be repaid with inflated dollars. The 1979 decline in the purchasing power of net amounts owed by the company (measured by the Consumer Price Index) appears in both columns, to result in a "net" difference between the assumed holding losses and gain.

Inferences which, in the case of some industries, may be drawn from information in the nature of that presented below as to the adequacy of future cash flows in relation to future plant replacement requirements, are believed by the company to be less valid in the case of public utilities which, like itself, should be able to establish rates to cover increased costs of new plant. However, the information may provide some indication of the expanded capital structure that will be required for making plant replacements and additions with inflated dollars.

Income From Operations Adjusted for Changing Prices For The Year Ended December 31, 1979

	Constant Dollar Average 1979 Dollars	Current Cost Average 1979 Dollars
(Thousands of Dollars)		
Income from operations, as reported in Statements of Income	\$121,578	\$121,578
Adjustment to restate depreciation expense	(38,678)	(51,943)
Income from operations (excluding reduction to net recoverable cost)	\$ 82,900(a)	\$ 69,635
Income per common share (after preferred stock dividend requirements and excluding reduction to net recoverable costs)	\$1.77	\$1.39
Increase in specific prices (current cost) of utility plant held during the year (b)	—	\$281,982
Reduction to net recoverable cost	\$(221,816)	(75,864)
Effect of increase in general price level	—	(414,669)
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost	—	(208,551)
Gain from decline in purchasing power of net amounts owed	153,153	153,153
Net	\$ (68,663)	\$ (55,398)

(a) Including the reduction to recoverable net cost, operations on a constant dollar basis would have resulted in a loss of \$138,916,000 for 1979.

(b) At December 31, 1979 Utility Plant at Current Cost was \$3,648,195,000 while historical cost or net cost recoverable through depreciation was \$2,292,341,000.

Five-Year Comparison Of Selected Supplementary Financial Data Adjusted For Effect Of Changing Prices On The Constant Dollar Basis

	Year Ended December 31,				
	1979	1978	1977	1976	1975
(In Thousands of Average 1979 Dollars)					
Operating revenues	\$664,423	\$625,517	\$591,333	\$503,372	\$485,167
Cash dividends declared per common share	\$ 1.94	\$ 1.92	\$ 1.83	\$ 1.77	\$ 1.83
Market price per common share at year-end	\$ 16.31	\$ 21.83	\$ 24.82	\$ 24.48	\$ 20.59
Average consumer price index	217.4	195.4	181.5	170.5	161.2
Net assets at year-end (both constant dollar and current cost basis)	\$933,542	—	—	—	—

Legal Matters

Included in operating revenues for 1978 and 1979 is a total of \$61,019,000 which was collected pursuant to the five percent increases in retail electric rates that were implemented in January of 1978 and 1979, as discussed previously, and which may be subject to refund if ordered by the court or the Arizona Corporation Commission. Those increases were premised in part upon the addition to rate base of certain construction work in progress and the concurrent cessation of the allowance for funds used therefor; had such allowance not ceased, it would have contributed \$8,863,000 to net income during the period in which the related revenues were collected. Giving pro forma effect to a refund of such revenues, assuming that such a refund, with interest, is ultimately required and deducting the amount of the allowance that presumably would be restored and the tax benefits the company would derive in the event of a refund, pro forma net income for 1978 and 1979 would respectively be \$10,337,000 and \$28,871,000 less than the net income shown for those periods in the Statements of Income.

Notwithstanding the foregoing presentation, the company presently proposes to reflect the full effects of any such refund of retail rates that ultimately may be required of it in its statement of income for the period in which the likelihood of such a refund requirement becomes probable, if that should occur. In the current rate hearings before the Arizona commission, the company is seeking a resolution of the refund possibility by requesting the commission to confirm the propriety of the two five percent increases from their inception, and to continue the rate levels that resulted from those increases.

Operating revenues through December 31, 1979 also include approximately \$8,550,000 of wholesale rates collected on an interim basis from a large resale customer. That customer has recently asserted contract rights which allegedly preclude the collection of rate increases from it before they have been fully approved and made permanent by the Federal Energy Regulatory Commission. Based on the opinion of its counsel, the company believes that any refund of the amount in dispute that it may ultimately be required to make would not be material.

The administrative proceedings now pending in New Mexico relative to the necessity for installing sulfur dioxide control equipment for Four Corners Units 4 and 5 are attended by several developments and issues. Suit has been brought by others to stop the proceedings, and the outcome of that suit is uncertain, as is the outcome of the proceedings if they progress as scheduled. Because of those uncertainties and

others (which include a question as to the EPA's position in regard to the New Mexico control requirement), the company is evaluating and designing various sulfur dioxide control measures. If ultimately required to implement those measures, it will be unable to do so by the 1982 compliance date presently prescribed, and an extension of the compliance period in that circumstance is not assured.

Separately, the EPA has issued citations alleging violations of existing regulations in past operations of Four Corners Units 4 and 5, which the company disputes. It is possible that the EPA may seek fines from the participants in the Units of up to \$25,000 per pollutant per day of alleged violation. More serious than that, however, would be the prospect of the company's inability to comply with the EPA regulations applicable to future operation of the Units pending completion of major installations of pollution control equipment; in that circumstance the company could be faced either with inability to maintain Unit operations in the intervening period or with fines in substantial amounts related to cost benefits of non-compliance, the company's share of which could be several million dollars per year.

The Four Corners and Navajo plants of the company are located on the Navajo Indian Reservation, as are certain of its transmission lines and all of its contracted coal sources. The Tribal Council has adopted three resolutions, two of which purport to impose taxes that, if valid, would cost the company an estimated \$2,000,000 per quarter. The company has obtained an order from the Arizona Corporation Commission that should allow it to recover from its retail customers the amounts of such taxes that are allocable to them if the payment thereof is ultimately required.

The third Tribal resolution, which becomes effective only if and when certain action is taken by the Secretary of the Interior, purports to regulate sulfur emissions through a permit and fee system; if validly imposed, the fee would appear to be in an amount that would make it less costly (but nevertheless extremely expensive) to attempt to remove more sulfur dioxide from plant emissions than is required by federal and state law, so as to minimize the fee. All three Navajo resolutions are being contested in court. The company has brought suit in the U. S. District Court for New Mexico, where various motions are now pending. Certain of the issues raised there by the company were decided adversely by the U. S. District Court for Arizona in a suit brought by the operator of the Navajo Plant and are now on appeal.

Shareholder Information

Stocklisting

(Symbol: AZP)

Common stock of the company and the \$10.70 cumulative preferred stock, Series I, are listed for trading on the New York Stock Exchange. Common stock is also listed on the Pacific Stock Exchange.

Transfer Agents

First National Bank of Arizona, Phoenix, Arizona
Irving Trust Company, New York, N.Y. (common stock only)

Registrars

The Valley National Bank of Arizona, Phoenix, Arizona
Irving Trust Company, New York, N.Y. (common stock only)

General Counsel

Snell & Wilmer, Phoenix, Arizona

Auditors

Deloitte Haskins & Sells, Phoenix, Arizona

Dividend Reinvestment and Stock Purchase Plan

A Prospectus describing this plan for holders of the company's common stock is available to shareholders upon request. Write: Office of the Secretary, Sta. 1892, at the address below.

Form 10-K

A copy of our Annual Report to the Securities and Exchange Commission, Form 10-K, will be available after March 31, 1980 without charge, upon written request of shareholders. Write: Office of the Secretary, Sta. 1892, at the address below.

Statistical Report

A detailed Statistical Report for Financial Analysis 1969-1979 will be available by mid-April on request. Write: Office of the Treasurer, Sta. 1820, at the address below.

MAILING ADDRESS:

P.O. Box 21666,
Phoenix, Arizona 85036

DIRECTORS



Kelth Turley, Ralph Bilby



Kenneth Wilbanks, Douglas Wall



Leon Levy, Victor Lytle, Wilma Schwada, Donald Soldwedel



Ben Williams, Jr., Morrison Warren



Del Fisher



Richard Snell, Henry Sargent, Jr., Karl Eller, Maurice Tanner



Thomas Woods, Jr., William Garland, Marvin Morrison



Officer named

Joseph A. Gelinas was elected vice president of employee relations by the board of directors in May. He has been responsible for all personnel activities since joining the company in April, 1978 as employee relations director.

He was formerly manager of industrial relations for FMC Corporation's chain division in Indianapolis.

BOARD OF DIRECTORS

- * **Ralph M. Bilby, 62**, Chairman of the Board, Phoenix, Arizona
- * **Karl Eller, 51**, Chairman of the Board, Red River Resources Inc. (investments), Phoenix, Arizona
- * **Del W. Fisher, 69**, Chairman of the Board, Fisher Contracting Co., Phoenix, Arizona
- * **William T. Garland, 63**, Chairman of the Board, Garland-Rhuart Development Corporation (land development), Sedona, Arizona
- Leon Levy, 66**, Honorary Chairman of the Board, First National Bank of Arizona, Tucson, Arizona
- * **Victor H. Lytle, 68**, Chartered Life Underwriter, Prescott, Arizona
- Marvin R. Morrison, 56**, Farmer and Cattle Feeder, Morrison Brothers Ranch, Higley, Arizona
- Henry B. Sargent, Jr., 45**, Financial Vice President of the company, Phoenix, Arizona
- Wilma W. Schwada, 53**, Civic Leader, Homemaker, Tempe, Arizona
- Richard Snell, 49**, Member of Snell & Wilmer (general counsel to the company), Phoenix, Arizona
- * **Donald N. Soldwedel, 55**, President, Western Newspapers, Inc., Prescott, Arizona; Publisher and General Manager, Yuma Daily Sun, Yuma, Arizona
- * **Maurice R. Tanner, 58**, Chairman of the Board and Chief Executive Officer, The Tanner Companies (construction and materials supply), Phoenix, Arizona
- * **Keith L. Turley, 56**, President and Chief Executive Officer of the company, Phoenix, Arizona
- † **Douglas J. Wall, 53**, Member of the Law Firm of Mangum, Wall, Stoops and Warden, Flagstaff, Arizona
- † **Morrison F. Warren, 56**, Director of Experimental Programs, College of Education, Arizona State University, Tempe, Arizona
- † **K.O. Wilbanks, 58**, President, First National Bank of Farmington, Farmington, New Mexico
- † **Ben F. Williams, Jr., 50**, Attorney at Law, Douglas, Arizona
- Thomas G. Woods, Jr., 53**, Executive Vice President of the company, Phoenix, Arizona

*Member of Executive Committee
†Member of Audit Review Committee

DIRECTOR EMERITUS

E. Ray Cowden, President, Cowden Livestock Company, Phoenix, Arizona

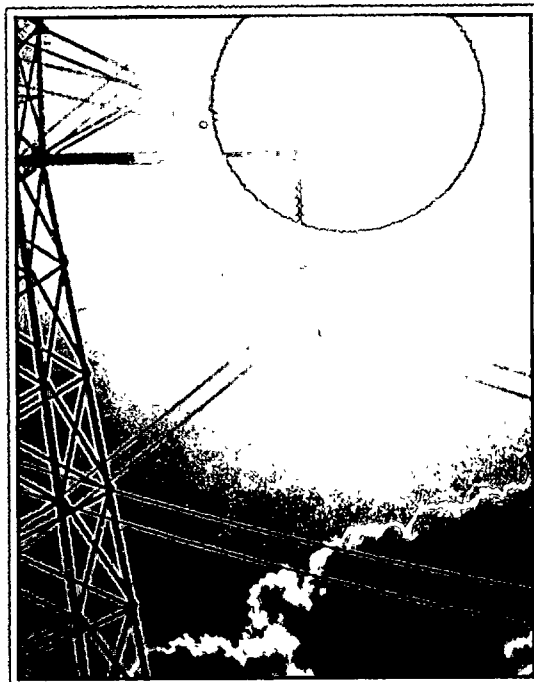
OFFICERS

- Ralph M. Bilby, 62**, Chairman of the Board
- D.L. Broussard, 59**, Vice President, Research and Development
- O. Mark De Michele, 46**, Vice President, Corporate Relations
- Karl Eller, 51**, Chairman of the Executive Committee
- Joseph A. Gelinis, 35**, Vice President, Employee Relations
- Gerald J. Griffin, 59**, Assistant Secretary
- Howard F. Hersey, 51**, Vice President, Gas Operations
- Russell D. Hulse, 53**, Vice President, Resources Planning
- Jerry P. Human, 49**, Vice President, Customer Services
- Charles D. Jarman, 44**, Vice President, Engineering and Construction
- Lyman K. Mundth, 62**, Vice President, Electric Operations
- John C. Ogden, 34**, Vice President, Administration and Economic Planning
- Wm. T. Quinsler, 55**, Secretary and Assistant Treasurer
- Henry B. Sargent, Jr., 45**, Financial Vice President
- George H. Toler, 42**, Treasurer
- Keith L. Turley, 56**, President and Chief Executive Officer
- Edwin E. Van Brunt, Jr., 48**, Vice President, Nuclear Project Management
- Thomas G. Woods, Jr., 53**, Executive Vice President, Operations

DIVISION MANAGERS

- A.G. Anderson, 48**, Metropolitan Division, Phoenix
- Glen D. Daly, 51**, Cochise Division, Douglas
- Jack Duffy, 41**, Navajo Division, Flagstaff
- Forrest J. Jones, 43**, Western Division, Goodyear
- James C. Lauchner, 54**, Pinal Division, Casa Grande
- Guy W. Lunt, 46**, Mountain Division, Globe
- Don Roberts, 59**, Yuma Division, Yuma
- Jesse F. Thomas, 57**, Yavapai Division, Prescott

(Numerals are ages at annual meeting date, April 24, 1980)



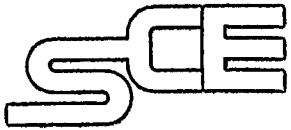
**Arizona Public Service Company
1979 ANNUAL REPORT**

"...we will continue to emphasize that Arizona's well-being is linked to adequate energy supplies..."

1979

8005200616

Annual Report



Southern
California
Edison
Company

Produced by the Southern California Edison Company

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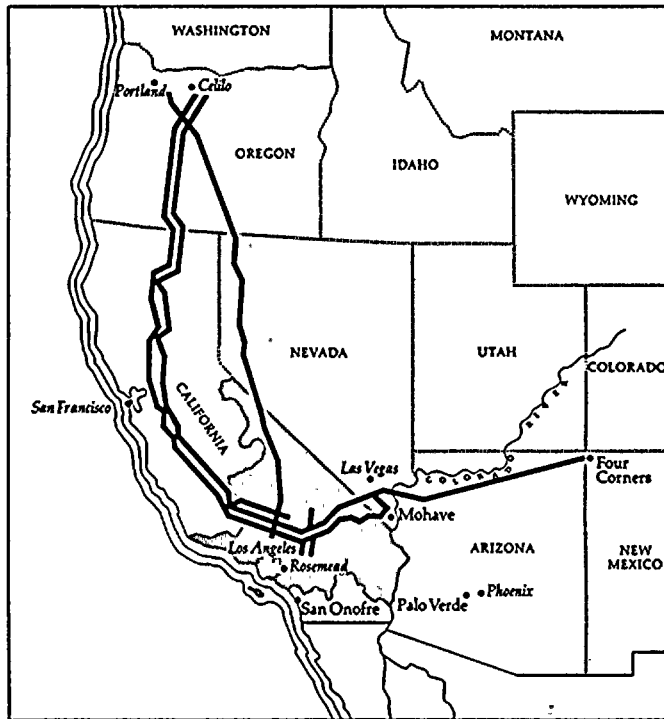
Date 5/13/80 of Document

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RECORDS FACILITY BRANCH

Southern California Edison Company



▭ Service Territory

— Extra-High Voltage (EHV) Transmission Lines

Southern California Edison Company provides electric service in a 50,000 square-mile area of Central and Southern California. This area includes some 800 cities and communities with a population of more than eight million people.

Edison's gross investment in utility plant totals nearly \$7.6 billion. The installed Company-owned generating capacity at the end of 1979 was 13,263 megawatts of which 79% is composed of oil and gas-fired generating units. SCE's interest in coal-fired generating units accounts for another 12%, and 6% is in hydroelectric plants. The Company's 80% interest in a nuclear plant accounts for the remaining 3%. In addition, Edison had 1,670 megawatts of capacity under contract from other utility sources at year-end.

The Company, incorporated in 1909 under the laws of California, is a public utility and its retail operations are subject to regulation by the California Public Utilities Commission which has the power, among other things, to establish retail rates and to regulate securities issues, accounting and depreciation. The Company's resale operations are subject to regulation by the Federal Energy Regulatory Commission as to rates on sales for resale, as well as to other matters including accounting and depreciation.

Under the National Energy Act, the federal Department of Energy has been granted regulatory authority over certain aspects of energy conservation, solar energy development, power plant fuel use, coal conversion, public utility regulatory policy and natural gas pricing.

The Company's planning and siting of new plant construction are subject to the jurisdiction of the California Energy Commission. Edison also is subject to various governmental licensing requirements, to Securities and Exchange Commission filing and disclosure requirements, and to certain other federal, state and local laws and regulations, including those related to nuclear energy and nuclear plant construction, environmental protection, fuel supplies and land use.

Contents

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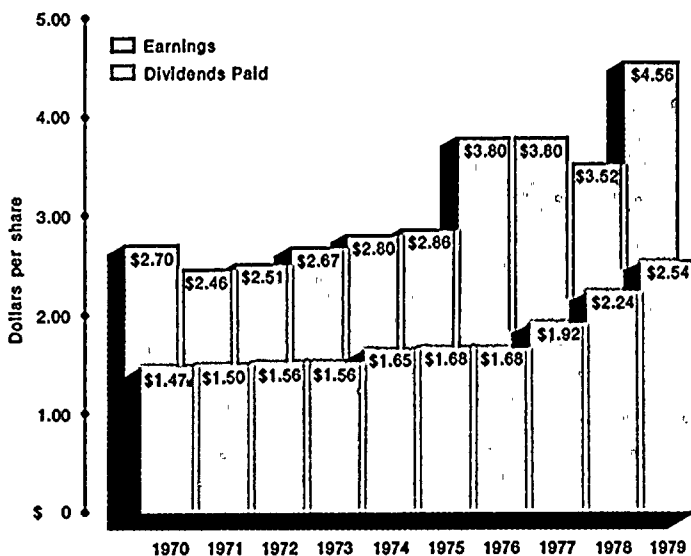
1979 Annual Report

Highlights	1979	1978	% Change	% Five-Year Compound Growth
Earnings Per Share	\$ 4.56	\$ 3.52	29.5	10.2
Common Dividends Paid Per Share (a)	\$ 2.54	\$ 2.24	13.4	9.0
Return on Common Equity	13.6%	10.5%	29.5	7.4
Operating Revenues (000)	\$2,563,974	\$2,328,798	10.1	13.5
Operating Expenses (000)	\$2,178,978	\$2,004,197	8.7	14.5
Energy Costs (000) (b)	\$1,344,023	\$1,240,029	8.4	19.9
Construction Expenditures (000)	\$ 674,000	\$ 568,000	18.7	16.0
Employees	12,917	12,845	0.6	(0.1)
Customers Served	3,082,382	2,986,545	3.2	2.7
Kilowatt-hour Consumption (000)	59,517,861	57,027,035	4.4	3.1

(a) On September 20, 1979, the Company's Board of Directors authorized an increase in the common stock quarterly dividend to \$0.68 from \$0.62 per share, effective with the October 31, 1979 payment, which is equivalent to \$2.72 per share on an annual basis.

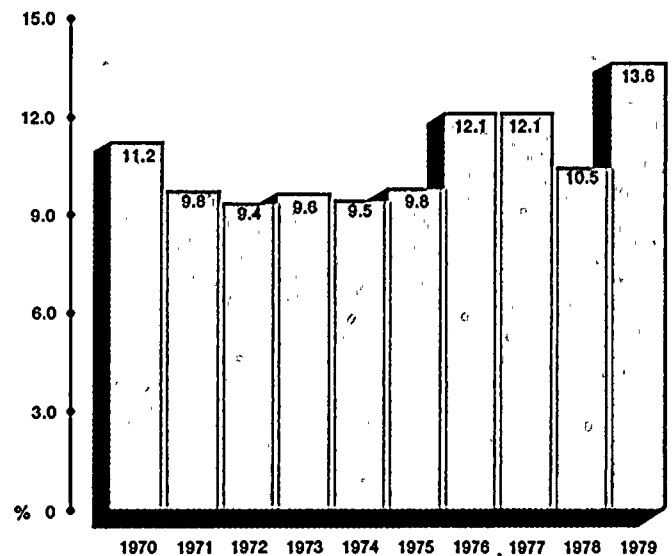
(b) Included in Operating Expenses.

Earnings and Dividends Paid Per Share



Recent increases in the common stock dividend underscore the Company's commitment to provide adequate returns to its common stock shareholders.

Return on Common Equity



One of the key contributing factors to the improvement in earnings and rate of return is the more positive ratemaking climate in which the Company operates.

To Our More Than 180,000 Shareholders

Your Company's 1979 operations show improved financial results, progress in developing new sources of energy, and a continued commitment to conservation and load management. In addition, the Company intensified its efforts to control costs and improve productivity and management effectiveness.

Edison's earnings per share in 1979 amounted to \$4.56, up from the \$3.52 recorded in 1978. The improved earnings are attributable to increased operating revenues resulting from the December 1978 general rate increase, higher non-cash allowances for funds used during construction and increased kilowatt-hour (KWH) consumption, due largely to a substantial number of new customers.

Despite the earnings improvement, Edison began to face serious cash flow problems late in the year because of rapidly increasing prices paid for foreign oil which then had not been reflected in the Energy Cost Adjustment Clause. In recognition of this, in January 1980, the California Public Utilities Commission (CPUC) issued decisions to modify the energy clause procedure which should help alleviate future cash flow problems associated with any additional increases in foreign oil prices. The CPUC also has an accelerated general rate case procedure which is producing decisions in a timely manner, and recent CPUC decisions have recognized increasing costs of labor, operations and maintenance as well as allowing for more realistic rates of return.

Nevertheless, continued increases in operating costs and inflation caused the Company to file for a \$340 million rate increase. This rate filing includes a requested rate of return on rate base of 10.78%, and a return on common equity of 15.0%, currently authorized at 9.60% and 13.49%, respectively. The Company requested the new rates to become effective January 1, 1981.

Common Stock Dividend Increased

On September 20, 1979, the Board of Directors declared a 9.7% increase in the common stock quarterly dividend by raising the rate, on an annual basis, to \$2.72 per share. At year-end, the dividend was providing a yield on common stock market value of 11.1%.

The Board's action represents the fourth dividend increase in the past three years and emphasizes Edison's efforts to provide returns to its common stock shareholders which should tend to support a market price of common stock at least equal to its book value. The Company has paid quarterly cash dividends on its common stock each year since 1910.

Conservation

The current energy climate continues to underscore the need for our customers to conserve electric energy, both to reduce the use of low-sulfur, high-cost oil which the Company is required to burn to meet air quality standards, and to defer the need for increasingly expensive future plant facilities.

Edison has implemented more than 70 energy conservation and load management programs in its service territory. Our 1979 programs, coupled with the impact of the rising cost of electricity, resulted in an estimated reduction in energy consumption for the year of nearly three billion KWH, saving approximately \$100 million in imported, high-cost fuel oil. In addition, the Company's projected peak demand is expected to be reduced by 700 megawatts (MW) by 1985, a capacity equivalent to an amount which could serve more than 450,000 residential customers. Such a reduction would mean lower capital expenditure requirements for new generating plants and a correspondingly reduced need for external financing.

Because of soaring OPEC oil prices, however, it is projected that customers' electric bills could increase by 50% by the end of 1980. The Company has embarked upon a conservation communications program to inform customers of the anticipated increase and to urge them to continue to use electricity as wisely and efficiently as possible.

Nuclear Power

The accident at Three Mile Island (TMI) in March 1979 has impacted public attitudes about nuclear power and significantly affected the future of nuclear energy as a resource option for the United States.

Although the San Onofre Nuclear Generating Station Unit No. 1 has significant safety and design differences from the TMI plant, Edison responded promptly to Nuclear Regulatory Commission (NRC) requests and recommendations involving the lessons learned from the TMI accident.

The Company has begun to implement a number of NRC-required modifications to Unit No. 1. Reviews and evaluations of the operating procedures at San Onofre are being conducted on a continuing basis. In addition, during the course of construction of San Onofre Units Nos 2 and 3, more than 40 improvements have been scheduled and will be made before these units are placed into operation. Because of slowed administrative procedures in processing licenses by the NRC staff following the TMI accident, Edison has rescheduled construction work to complete San Onofre Unit No. 2 in April 1981 rather than November 1980 as previously scheduled. Unit No. 3, previously scheduled for completion November 1981, will be rescheduled to mid-1982.

During 1979, San Onofre Unit No. 1 established a new production record, generating more than 3.3 billion KWH of electricity. The unit, which has an outstanding 12-year record of operation, achieved excellent results in 1979, operating at 87.9% of its capacity, and replacing the need to burn more than five million barrels of expensive foreign oil, saving about \$95 million in replacement fuel costs.

In recognition of the increased attention being given to nuclear energy, the Company combined its nuclear functions under a new Nuclear Engineering and Operations Department. This reorganization centralized all nuclear projects under one department and is designed to more effectively manage and

coordinate Edison's nuclear operations, including the construction supervision of San Onofre Units Nos 2 and 3.

We are encouraged by the growing recognition of the necessity of nuclear energy to lessen our nation's reliance on foreign-controlled oil. President Carter recently said that nuclear energy must play "an important role in the United States to ensure our energy future." Also, Congress rejected efforts to impose a statutory moratorium on nuclear plant licensing. Another example is a four-year National Academy of Sciences study which concluded that more nuclear power plants are a necessity to meet our nation's electricity requirements for the next 30 years.

Nuclear power must remain a viable option if we are to continue to meet our customers' electricity needs reliably and economically without increasing our dependence on potentially interruptible, uncontrollable, expensive foreign oil.

Future Growth Projections

Edison's long-range average annual peak demand and KWH consumption forecasts are slightly below previous forecasts, but remain in the 3% to 3½% growth range. Although these growth projections are higher than those forecast by the California Energy Commission, which has authority for the siting of new power plants in the state, Edison is proceeding with generation resource plans to provide sufficient capacity reserves to meet projected customer demand for reliable electric service through the 1980s.

Even with conservation and the impact of higher prices for electricity, the Company is projecting a need for more than 6,000 additional MW of generating capacity to serve present customers and about 700,000 new customers during the next decade.

The new capacity requirement is expected to be met mostly by nuclear power plants now under construction, the development of coal projects, combustion turbines, increased hydroelectric capacity, purchased power and cogeneration, supplemented by a relatively small amount of alternative energy including solar, wind and geothermal.

Edison continues to emphasize the development of new energy resources as alternatives to expensive, imported fuel oil. The Company's energy research and development expenditure last year totaled more than \$28 million, one of the highest among investor-owned electric utilities in the country. For 1980, Edison plans an expenditure of nearly \$40 million for energy research.

Currently, the Company has under construction a 10-MW central station solar plant, two small wind turbines with a combined output of 3½ MW, and a 9-MW geothermal electric power plant. Edison also is involved in a 92-MW coal-gasification/combined cycle project. These demonstration projects, however, could account for only about 115 MW of the more than 6,000 MW needed during the next 10 years.

There is some confusion about the role of solar power. Solar-supplemented water and space heating are technologically feasible now and are economically attractive in certain applications, and Edison is encouraging installation of such systems in its service territory. Central station solar power plants to serve the overall electric needs of consumers, however, remain in the developmental stage and are not expected to make significant contributions to our nation's energy mix until at least the turn of the century.

Emphasis on Productivity Intensifies

To control costs, the Company intensified its productivity improvement programs during the year, placing emphasis on increasing the effective management of all resources, including fuel, finances, labor, materials and the efficiency of system operations.

In 1979, SCE added nearly 96,000 new customers to its system, the largest yearly increase in customers since 1963, and the second highest in the Company's history. During the last six years, about 455,000 new customers have been added to the system, yet the Company has been able to serve them with 474 fewer employees than at year-end 1973, a clear measure of our emphasis on improving productivity.

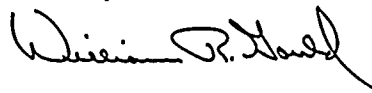
Change in Board of Directors

On August 16, Roy A. Anderson, chairman of the board and chief executive officer of Lockheed Corporation, was elected a director of the Company.

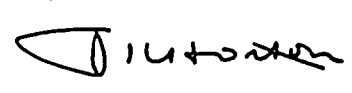
Mrs. Joan C. Hanley, speech pathologist, educator and businesswoman, was elected a director effective January 1, 1980, replacing Dr. Dorothy W. Nelson, who resigned after her nomination by President Carter to serve as judge of the United States Court of Appeals for the Ninth Circuit.

A Decade of Challenges

The 1980s will be a decade of critical energy decisions for the world, our nation and our Company. The energy challenges which lie ahead are formidable and will require the continued diligence, ingenuity and hard work of all employees and the support of shareholders. In this regard, Edison was named recently by a major credit rating agency, Standard and Poor's Corporation, as one of five electric utilities which are well-positioned to meet the challenges of the 1980s. The Company pledges its best efforts to achieve practicable and cost-effective energy solutions that will contribute to a productive economy and the betterment of society.



William R. Gould
President



Jack K. Horton
Chairman of the Board

February 21, 1980

Year in Review

Electric Consumption and Customers Increase

Consumption of electricity by Edison's 3.1 million customers totaled 59.5 billion KWH in 1979, an increase of 4.4% as compared with 1978, primarily the result of adding 95,837 new customers to the system. This was the largest yearly increase of new customers since 1963, and the second highest in the Company's history.

Residential consumption was up 5.3%, as compared with the previous year, while industrial usage gained 4.2% and commercial usage rose 3.7%. Consumption by other customer classifications increased 4.1%. The average annual growth in KWH consumption over the last five years has been 3.1%.

Record Peak Set During Heat Wave

Despite continuing conservation efforts by customers, a record net peak demand of 12,464 MW was set on September 11 during a prolonged heat wave and accompanying heavy use of air conditioning. The new net peak represents a 3.9% increase over the 11,997 MW peak recorded in September 1978. The average annual growth in peak demand over the last five years, including the 1979 peak, was 4.1%.

Edison Develops Capacity Shortage Plan

An assessment of the state's generating capacity levels in 1979 resulted in Edison and other major electric utilities in California developing a capacity shortage contingency plan to help avert a possible shortage of electric generation. However, because of the increased level of reserve sharing and the availability of electrical resources from out-of-state utilities during periods of peak customer demands, implementation of the statewide plan was not required.

Conservation Efforts Expand

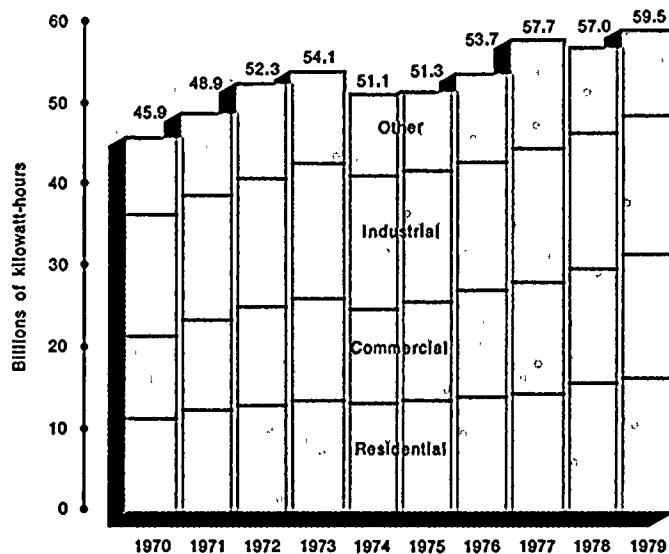
SCE continued its development and expansion of conservation programs designed to encourage more efficient use of electric energy by all customer groups and to moderate the growth of system peak demand.

During 1979, these programs included the installation of more than 60,000 electric water heater insulation jackets and the distribution of about 55,000 shower flow-control devices.

In July, Edison intensified its street lighting conversion program by expanding its five-year project to include conversion of all Edison-owned street lights to energy-efficient high-pressure sodium vapor lamps.

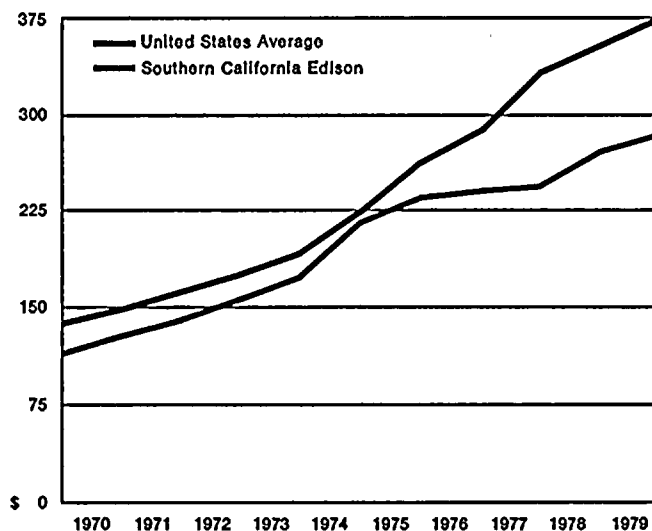
Edison participated with two other electric utilities in the state to develop a conservation/load management education package for students from elementary through secondary grades. In 1980, more than 15,000 sets of conservation materials are expected to be distributed to schools in Edison's service territory alone.

Kilowatt-Hour Consumption



Kilowatt-hour consumption increased 4.4% during the year primarily as a result of adding nearly 96,000 new customers. This was the largest yearly customer increase since 1963 and the second largest in the Company's history.

Average Annual Residential Bill



The average annual bill for the Company's residential customers compares favorably to the United States average.

In 1979, Edison's conservation display center recorded its 200,000th visitor. Conservation consultants at the center, located in a major shopping mall, have been providing information about energy-saving techniques for the home since it opened in July 1978.

Edison presented more than 90 Energy Management Awards in 1979 to commercial and industrial customers which made significant conservation and load management contributions. The combined efforts of these customers are expected to save approximately 10 million KWH annually and achieve a demand reduction of 3.1 MW.

The Company also is working with more than 65 industrial firms to develop methods of capturing waste heat to produce or cogenerate electricity with in-plant generators to conserve energy resources.

In 1979, Edison signed five cogeneration contracts totaling 40 MW, bringing to 56 MW the amount of cogeneration now under contract. The Company has identified about 450 MW of cogeneration potential and is vigorously pursuing this resource.

Other Edison conservation projects include experimental programs in appliance efficiency testing, agricultural energy saving techniques, conservation workshops, residential lighting projects and energy audits for all customer groups.

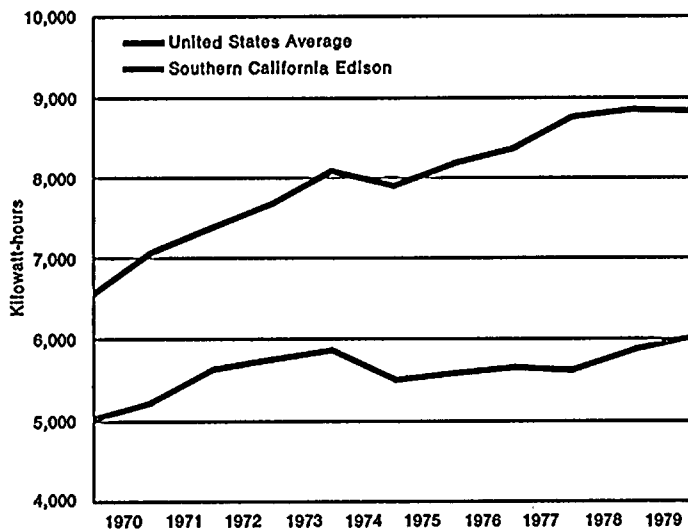
Load Management Activities Increase

Load management, the process of reducing peak demand by shifting some electric use away from peak periods to improve system efficiency, continues to be an integral element in future resource plans.

In May, the California Energy Commission adopted standards to establish several cost-effective load management programs in such areas as residential appliance cycling, the operation of swimming pool filter pumps and non-residential energy audits. Many of Edison's current programs comply with the new rules, and additional projects are being accelerated to further comply with the new standards on a timely and cost-conscious basis.

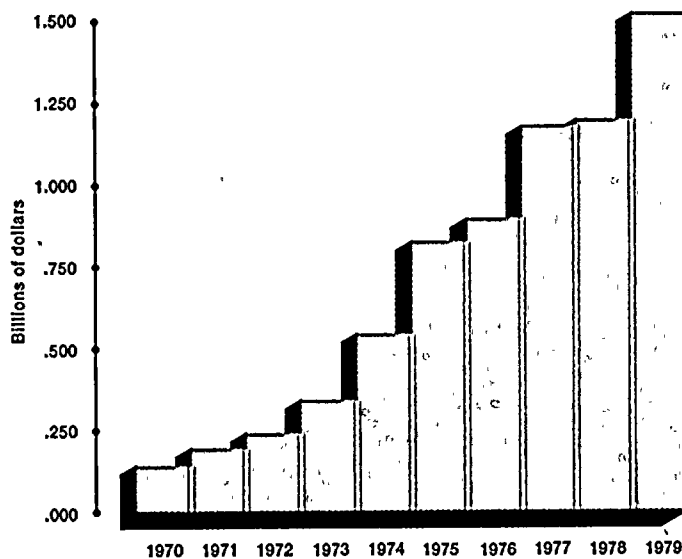
The Company expanded its residential automatic power-shift programs, previously involving 12,000 customers, by including an additional 2,200 volunteer residential customers from throughout the Edison system. The programs are designed to test the effectiveness of automatically cycling off and on air conditioners and electric water heaters during hot days when electric demand on the Company's system is highest. Preliminary results from these tests are expected in 1980.

Average Annual Use Per Residential Customer



Since the oil embargo of 1973, the average annual kilowatt-hour consumption by the Company's residential customers has increased moderately.

Annual Fuel and Purchased Power Expenses



Over the past decade, annual fuel and purchased power expenses for the Company increased more than one billion dollars.

During 1979, experiments were conducted to evaluate conservation and load management alternatives involving time-of-use (TOU) rates for residential, commercial and industrial users. TOU rates are designed to provide economic incentives to encourage customers to shift electric usage to non-peak periods on a voluntary basis. All large non-residential customers, 1,000-kilowatt (KW) demand or greater, on the Edison system are on TOU rates.

Through 1979, the Company completed the adjustment and/or installation of trippers on swimming pool time clocks for about 22,000 customers to shut off filter pumps during peak demand periods. Since this program began in 1977, more than 42,000 customers have participated.

Edison also is involved in residential and non-residential off-peak cooling systems for air conditioning using ice storage systems. These systems displace energy usage by making ice

at night when demand for electricity is less than during the day. The ice is used throughout the day to chill water for air conditioning systems in place of energy-consuming refrigeration compressors.

Two experimental projects scheduled for implementation in 1980 involve the use of visual display devices installed in the homes of nearly 400 volunteer participants. These devices are designed to display continuously changing information such as energy costs, monthly billing calculations and projections of the next month's electricity bill.

The Company is developing another new experimental load management concept called "Demand Subscription Service." This program will provide economic incentives to certain customers who will select a maximum demand limit. Should a customer's demand exceed the pre-selected limit, electric service could be interrupted automatically by Edison if needed

Planned Capacity Additions

Under Construction	No. Units	Percent Complete (as of 12-31-79)	Fuel Type	Total Capacity (Megawatts-SCE Share Only)	Scheduled Operating Date
Big Creek 3 #5	1	87	Hydro	31	1980
Geothermal-Brawley	1	60	Geothermal	Demonstration Project	1980
Wind	2	8	Wind	Demonstration Projects	1980
San Onofre 2 & 3	2	76	Nuclear	1,760	1981, 83
Solar One	1	3	Solar	Demonstration Project	1982
Palo Verde 1, 2 & 3	3	30	Nuclear	579	1983, 84, 86
Cholla 4*	1	65	Coal Purchase	347	1984
Planned					
Cogeneration	—		Customer Generation	60	1981 - 1989
California Geothermal	2		Geothermal	54	1982
California Department of Water Resources*	—		Hydro Exchange	510**	1983
Mexico Geothermal*	—		Geothermal Purchase	330	1984 - 1986
Coal Gasification	1		Coal	Demonstration Project	1984
Combustion Turbine	20		Oil	Up to 1,290	1985 - 1987
Allen-Warner Valley Energy System	6		Coal	1,045	1985 - 1989
Balsam Meadow	1		Hydro	200	1986
Dinkey Creek*	—		Hydro Purchase	120	1986
California Coal 1, 2, 3	3		Coal	750	1988, 89, 90

*Purchase or exchange power. No capital required by Edison.

**Replaces existing contract for 340 MW which terminates in 1983.

at a time of system peak load. Service could be readily restored once the customer's demand has been reduced to the pre-selected level, or when the system's peak has passed. Edison expects to test this service on 2,000 new residential customers during 1980 and 1981.

Progress continued on other load management programs, including the promotion of solar energy for supplemental water and space heating.

Generation Resources Under Construction

The Company projects a need for more than 6,000 MW of new generating capacity for the next decade to meet the electric needs of its customers. This generation requirement is equal to about 45% of Edison's current Company-owned capacity.

Last year, SCE spent approximately \$674 million on its construction program and currently projects an expenditure of about \$728 million for 1980.

The two 80% Edison-owned 1,100-MW units now under construction at the San Onofre Nuclear Generating Station site are approximately 76% complete. The scheduled operating dates are December 1981 for Unit No. 2 and February 1983 for Unit No. 3. These dates reflect a delay in the units caused by the slowed administrative procedures in processing licenses by the NRC staff following the TMI accident.

The delay will result in an increase in total project costs for Units Nos 2 and 3 of \$140 million. More than three-quarters of this increase results from the cost of carrying the money invested in the project for the longer period.

Edison has a 15.8% interest (579 MW) in three 1,222-MW units being constructed at the Palo Verde Nuclear Generating Station near Phoenix, Arizona. Construction is approximately 30% complete. The units are scheduled for firm operation in the 1983-86 period.

In July, Arizona Public Service Company, Palo Verde project manager, canceled proposed Units 4 and 5, in which Edison would have had a 32.3% interest.

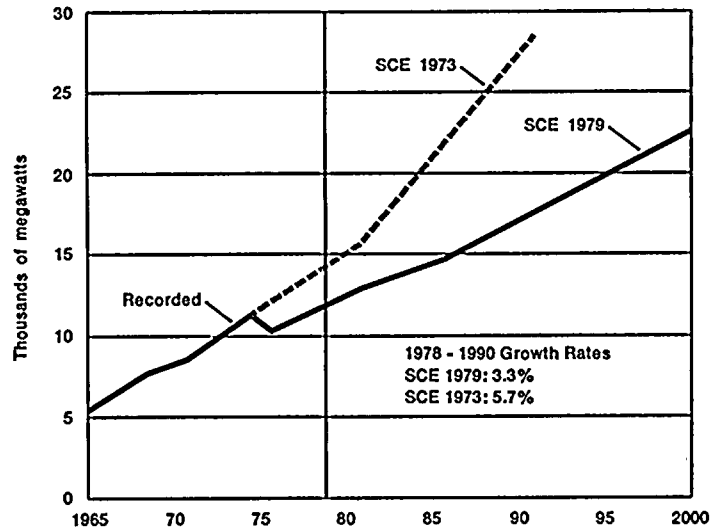
Construction of a 31-MW hydroelectric unit at Big Creek is approximately 87% complete. The scheduled firm operating date is March 1980.

Generation Resources Planned

In August, the California Energy Commission approved Edison's Notice of Intent for the siting of a 1,290-MW combustion-turbine "peaker park" to be built in California's Lucerne Valley. This facility, which can be put into operation or shut down rapidly, is scheduled for completion in the mid-1980s, subject to obtaining timely regulatory approvals.

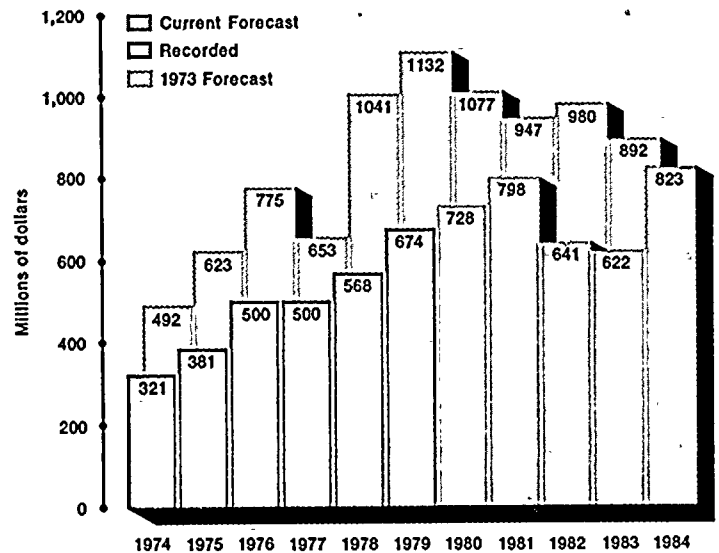
In December, Edison filed a Notice of Intent with the California Energy Commission to build a three-unit, 1,500-MW coal-fired generating station (the California Coal Project) at one of five proposed sites in the Company's service territory. Edison would be a 50% owner and would serve as manager and operator.

Peak Demand Forecast Comparison



Projections for both kilowatt-hour consumption and peak demand have been reduced by nearly one-half from the pre-oil embargo growth rates projected in 1973, resulting in a reduced need for new electric generating capacity.

Funds Required for Construction



A comparison of the pre-oil embargo 1973 10-year construction expenditure forecast with the Company's recorded expenditures and current forecast reflects substantially lower construction expenditures as a result of the reduction of growth rate projections. Construction expenditures for the five-year period 1980-84 currently are projected at approximately \$3.6 billion.

Preliminary engineering is in progress for a new 200-MW hydroelectric unit, to be located near Big Creek between Huntington and Shaver Lakes, with a new diversion tunnel and dam at Balsam Meadow. Operation of this facility is scheduled for the mid-1980s.

The Company is participating in the planning for two out-of-state coal-fired generating stations. The proposed Allen-Warner Valley Energy System consists of a 2,000-MW plant to be built near Las Vegas, Nevada, and a 500-MW plant to be located near St. George, Utah. One of the participants, the Nevada Power Company, will be project manager. Edison's initial share of the two-plant project, scheduled for completion in the mid-to-late 1980s, would be approximately 1,045 MW.

Edison is actively pursuing the acquisition of non-capital generation resources to reduce the large amount of capital required by the Company for its annual construction program, and to further reduce dependence on fuel oil. In some instances, Edison can purchase, with minimal or no expenditure of capital funds, portions of generating resources constructed and owned by other utilities. In 1979, the Company acquired the rights to purchase approximately 630 MW of generating capacity for the 1983-2000 period, and is presently pursuing similar power purchases in the western United States, Canada and Mexico.

Edison Pursues New Energy Resources

Edison continued its efforts to lessen dependence on oil and natural gas through the development of alternative energy resources.

In September, preliminary excavation for a 10-MW solar plant commenced on the nation's first electric generating station powered directly by solar energy and connected to a utility grid. In late 1979, contracts were awarded for approximately 1,800 heliostats (mirrors) and the construction of a visitor's information center. The solar facility, located at SCE's Cool Water Generating Station site in the California desert, is scheduled for completion in 1982. The project is a cooperative effort by Edison, which will serve as project manager of the non-solar portion of the plant, the U.S. Department of Energy, the Los Angeles Department of Water and Power, and the California Energy Commission.

The Company's geothermal energy program expanded in 1979 with the start of construction of a 9-MW power plant at Brawley, one of three geothermal sites in the Imperial Valley of California being developed by the Company. Scheduled for operation in early 1980, this electric generating facility will be the first utility-owned plant in the United States operating on a hot water (in contrast to steam) resource.

SCE's geothermal activities also include the development of two other Imperial Valley power plants, a 9-MW unit near Salton Sea, and a 45-MW facility at Heber, both with operating dates in 1982.

In July, the Company and Texaco Inc. signed an agreement to build a 92-MW coal-gasifier/combined cycle test facility at the Cool Water site designed to demonstrate the feasibility of producing and using a clean-burning gas from coal in actual power plant operation. The test unit is scheduled for preliminary operation in 1983.

Operating Revenues and Kilowatt-Hour Consumption

Class of Service	Operating Revenues (000)				Kilowatt-Hour Consumption (000)			
	% of 1979 total	1979	1978	% change	% of 1979 total	1979	1978	% change
Residential	29.8	\$ 764,595	\$ 704,658	8.5	27.2	16,191,091	15,369,184	5.3
Agricultural	1.8	47,146	40,449	16.6	1.6	975,311	851,017	14.6
Commercial	25.9	663,678	610,735	8.7	24.3	14,454,319	13,937,000	3.7
Industrial	26.7	683,013	593,580	15.1	29.2	17,351,728	16,652,243	4.2
Public Authorities	8.7	222,223	202,573	9.7	7.9	4,701,251	4,656,895	1.0
Interdepartmental	—	39	30	30.0	—	1,134	1,015	11.7
Resale	5.8	149,266	134,038	11.4	7.4	4,426,206	4,170,027	6.1
Subtotal	98.7	2,529,960	2,286,063	10.7	97.6	58,101,040	55,637,381	4.4
Resale-Special Contracts	0.8	20,038	4,215	*	0.9	558,385	233,106	139.5
Public Authorities-Special	0.1	3,128	4,265	(26.7)	1.5	858,436	1,156,548	(25.8)
Total Sales of Electric Energy	99.6	2,553,126	2,294,543	11.3	100.0	59,517,861	57,027,035	4.4
Other Electric Revenues ..	0.4	10,848	34,255	(68.3)	—	—	—	—
Total	100.0	\$2,563,974	\$2,328,798	10.1	100.0	59,517,861	57,027,035	4.4

*Indicates over 200%.

Edison is constructing two wind turbine generators (WTG) near its Devers Substation near Palm Springs. One is a horizontal axis unit expected to produce 3 MW of electricity in a 40 mph wind, making it the highest output WTG being tested in the nation. The second unit is a vertical axis design and will produce ½ MW of electricity in a 35 mph wind. Testing of both units will begin in 1980.

The Company is actively studying the feasibility of magnetohydrodynamics (MHD) systems to test the possibility of converting power plants from oil to coal-burning. MHD converts the thermal energy of a fuel such as coal directly to electricity without moving parts, and offers the possibility of higher system efficiency.

Edison also is participating in a multi-utility program to develop fuel cell generating units. Fuel cells generate energy by converting the chemical energy in liquid and gaseous fuels, including synthetic fuels, directly into electricity.

Energy Costs Continue to Rise

Fuel costs continue to represent the Company's largest expense. Fuel and purchased power costs amounted to \$1.5 billion in 1979, compared with \$1.2 billion in 1978, representing

approximately 70% of the Company's total 1979 operating expenses. Fuel and purchased power costs for 1980 are expected to reach \$2.2 billion, an increase of 47% over 1979 costs.

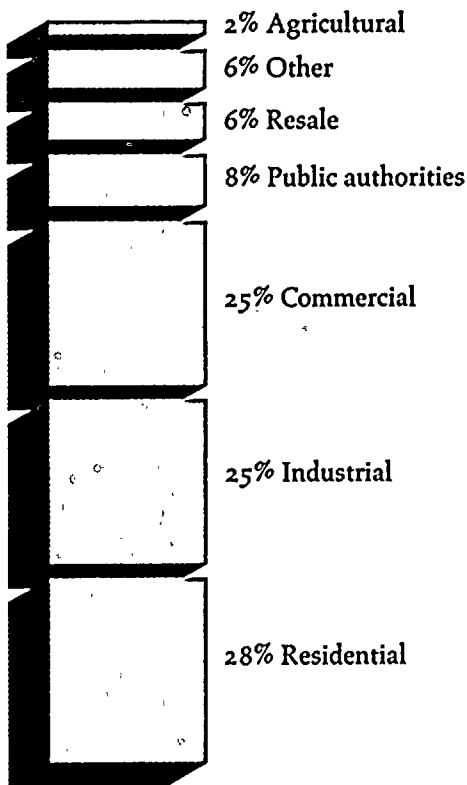
Fuel oil requirements for 1979 totaled 48 million barrels, nearly three million barrels more than the previous year. The Company expects fuel oil use to decline to approximately 41 million barrels in 1980, primarily because of a projected increase in natural gas availability.

Federal Fuel Regulations

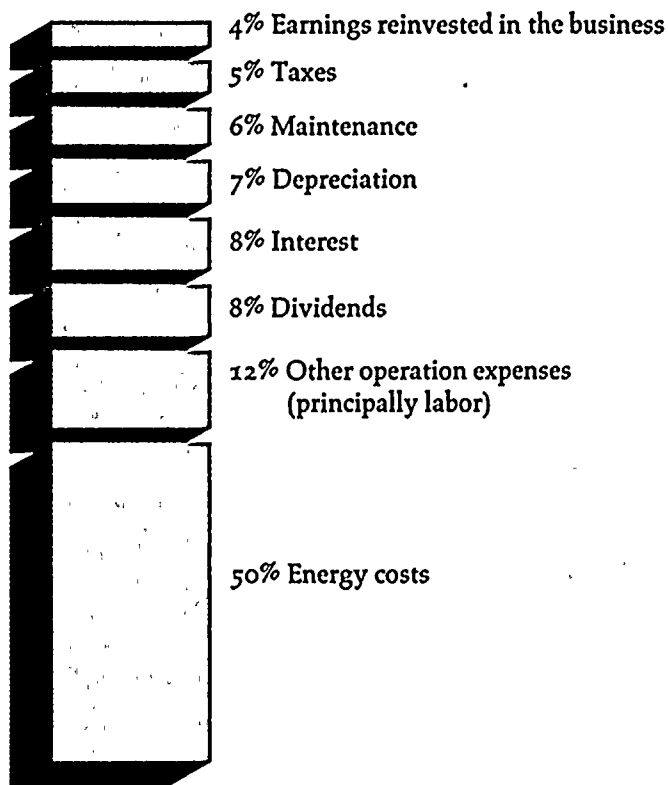
The Powerplant and Industrial Fuel Use Act of 1978 (PIFUA) prohibits the use of natural gas as a primary energy source in existing power plants after 1990. However, prior to 1990, natural gas may be used in proportions generally not greater than the average use during 1974-1976, which, on a systemwide basis for Edison, is about 24% of combined oil and gas requirements. However, temporary exemptions have been issued to use gas in excess of the prescribed limits.

PIFUA also prohibits use of natural gas or oil in any new power plant except as permitted by specific exemption. Although regulations implementing PIFUA are not final, they

Source of Income: 1979



Distribution of Income: 1979



are being challenged in the courts. Consequently, the full impact of PIFUA on Company operations cannot yet be determined.

Edison has for many years been studying various synthetic fuels, such as oil shale and fuel gas made from coal and other domestic sources. These studies have identified certain alternative fuels which may serve to reduce the use of oil, the objective of PIFUA and the President's proposed oil displacement program announced in July 1979.

The President's program proposed that utilities reduce oil consumption, saving one million barrels of oil a day on a national basis by 1990. This is to be achieved by converting coal-capable oil-fired generation to coal burning and by use of alternative fuels. Physical conversion to coal burning to meet this requirement is not feasible on the Edison system, and equivalent use of alternate fuels may not be possible for a number of reasons, including permit process constraints related to synthetic fuel production, delivery and utilization.

The Company supports legislation which would expedite the permit process for construction and operation of synthetic fuel production plants.

Edison Files for Rate Increase

On December 26, Edison filed for a \$340 million rate increase based on a 1981 test year. This rate filing includes a requested rate of return on rate base of 10.78%, and a return on common equity of 15.0%, currently authorized at 9.60% and 13.49%, respectively.

Resale Rates

On January 15, 1979, the Company filed an application with the Federal Energy Regulatory Commission (FERC) for higher rates and an optional TOU rate for resale customers. These

higher rates became effective, subject to refund, August 16, 1979, and are designed to increase annual revenues by approximately \$5.5 million.

In August 1979, Edison received decisions, subject to further review, from the FERC on resale rate cases filed January 2, 1974, and October 31, 1975. These rate case decisions will produce annual increases in resale revenues of approximately \$12 million and \$13.4 million, respectively.

Costly Air Quality Rule

The California Air Resources Control Board adopted a rule requiring a 90% reduction of oxides of nitrogen from power plants by 1990. In its current form, this regulation could cost the Company's ratepayers as much as \$1.5 billion. Edison is working with local and state agencies to achieve reasonable emissions reductions more compatible with state and federal objectives at a significantly lower cost to the Company.

SOHIO Project Canceled

On May 25, 1979, Standard Oil of Ohio (SOHIO) announced its decision to cancel a project which would have included the construction and operation of air quality equipment at one of the Company's steam generation plants. Costs incurred by Edison for this project have been reimbursed by SOHIO in accordance with the project agreement.

Management Succession Plans Continue

Edison continues to plan for effective management at all levels through formal programs of executive and management development and replaceability. During the year, a number of changes occurred at the officer level.

Jack B. Moore, vice president of advanced engineering, retired August 31, and on December 31, James H. Drake, vice

Percentage of Male, Female and Minority Employees at Year-End 1974 and 1979

	Male %		Female %		Black %		Asian American %		American Indian %		Hispanic %		Total Minorities %	
	1974	1979	1974	1979	1974	1979	1974	1979	1974	1979	1974	1979	1974	1979
Management ⁽¹⁾	94.1	89.6	5.9	10.4	1.8	2.5	3.5	4.8	0.4	0.5	3.9	5.6	9.6	13.3
Non-Management ⁽²⁾	80.5	77.1	19.5	22.9	6.4	7.9	1.3	2.4	0.6	0.9	10.5	15.2	18.8	26.4
Total Company ⁽³⁾	84.6	81.1	15.4	18.9	5.0	6.1	2.0	3.2	0.6	0.8	8.5	12.1	16.1	22.2

(1) Management employees include the "Officials and Managers" and "Professionals" Affirmative Action Categories.

(2) Non-Management employees include the "Technicians," "Office and Clerical," "Craftsmen," "Operators," "Laborers" and "Service Workers" Affirmative Action Categories.

(3) Includes all classes of employees.

president of engineering and construction, and G. E. Wilcox, vice president of personnel, both retired. Each of these officers provided 30 years of distinguished service to the Company.

Glenn J. Bjorklund, previously a customer service vice president, was elected corporate vice president in charge of system development, effective August 1.

The Board of Directors elected three other officers, effective January 1, 1980: Robert Dietch, previously Southeastern Division manager, was elected a vice president in charge of Edison's newly-created nuclear engineering and operations department; C. E. Hathaway, previously a customer service vice president, was elected corporate vice president of personnel; and Dr. Lawrence T. Papay, previously a general superintendent, was elected vice president for advanced engineering.

On September 20, Mrs. Honor Muller was elected corporate secretary, effective November 1, succeeding Joseph C. Bobek, who retired after serving the Company with merit for 33 years.

On March 1, Robert L. Boynton was appointed a customer service vice president.

SCE Chairman Honored

In 1979, Edison Chairman of the Board Jack K. Horton was elected chairman of the Edison Electric Institute (EEI), the association of America's investor-owned electric utility companies. Mr. Horton assumed leadership of the EEI at a significant time for the industry. During his term, the consolidation of the Institute and the National Association of Electric Companies was completed, and the resulting organization, the EEI, moved from New York City to Washington, D.C. In 1979, the Institute also developed far-reaching nuclear programs designed to respond to the TMI incident.

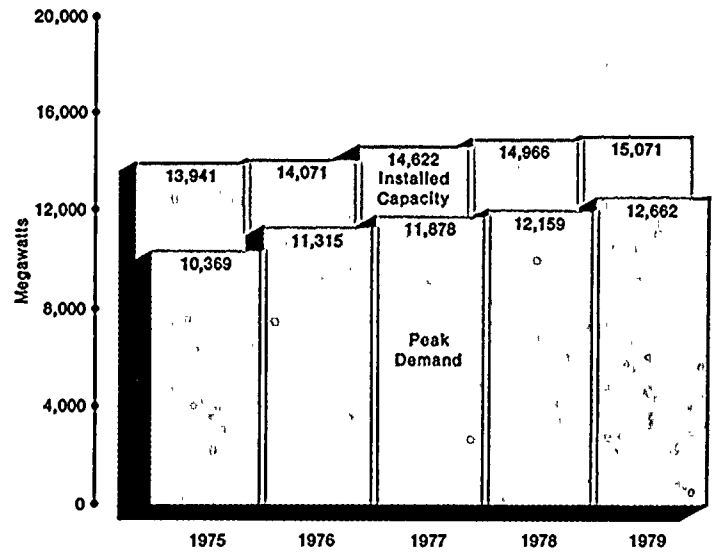
Affirmative Action Program Continues

Efforts to increase the representation of minorities and females in the work force continued during 1979 through the Company's Affirmative Action Program.

During 1979, minority representation increased from 20.7% at the beginning of the year to 22.2% at year-end. Female representation increased from 18.0% to 18.9% during the same period.

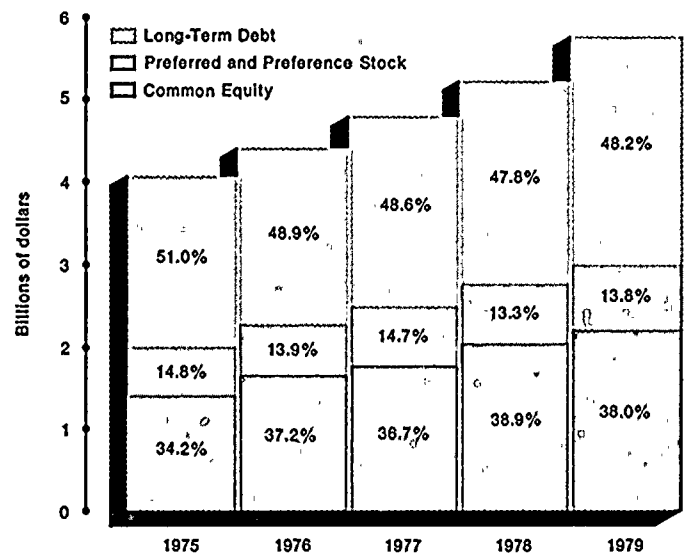
During the five-year period year-end 1974 through year-end 1979, minority representation in the work force increased from 16.1% to 22.2%, and females have increased from 15.4% to 18.9%.

Area Installed Capacity and Area Peak Demand



In 1979, a September heat wave and heavy use of air conditioning pushed the demand for electricity to a record area peak demand of 12,662 megawatts, a 4.1% increase over the 1978 peak. The net main system peak reached 12,464 megawatts on the same day.

Total Capitalization



At year-end 1979, the Company's capital structure was 48.2% long-term debt, 13.8% preferred and preference stock, and 38.0% common equity.

Financial Review

The Company experienced an improvement in its financial position during the year principally as a result of the December 1978 general rate increase which became fully effective on January 1, 1979.

A more detailed review of the factors affecting Edison's operations is contained in the Commentary on the Summary of Operations of this report on Page 29. Financial highlights for the year include the following:

- Revenues surpassed the two and one-half billion dollar level during 1979, totaling \$2.56 billion for the year, an increase of \$235 million or 10.1% over the prior year. This increase is primarily attributable to: (1) the general rate increase which became effective at the beginning of the year; (2) increased energy costs for generation and purchased power, and (3) kilowatt-hour usage by new customers.
- Earnings per share for 1979 were \$4.56 per share, reflecting a 30% increase over the \$3.52 per share recorded in 1978. Earnings per share over the past five years have grown at an average annual rate of 10.2%.
- The Company's return on average common equity increased from 10.54% for 1978 to 13.64% for 1979.
- Pre-tax interest coverage increased from 2.66 times in 1978 to 3.05 times in 1979.

Recognizing these improved results and Edison's continuing intent to provide more competitive returns to its common shareholders, the Board of Directors declared a 9.7% increase in the common stock quarterly dividend on September 20, 1979, by raising the rate from 62 to 68 cents per share. On an annual basis, the increased dividend is equivalent to \$2.72 per share.

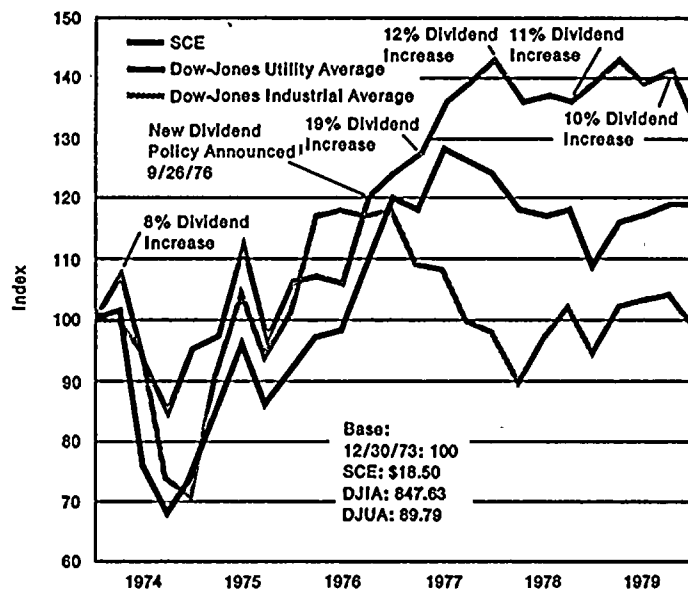
This action, combined with three other dividend increases declared since early in 1977, has contributed to a growth in the Company's dividend rate over the past five years of 9% annually.

Energy Cost Recovery

Although earnings per share increased substantially in 1979, cash flow was adversely affected during the year by rising energy costs for generation which, at the time, were not fully reflected in the Company's rates through the Energy Cost Adjustment Clause (ECAC). Under the ECAC procedure, energy costs above or below those used in establishing rates are accumulated in a balancing account, and the accumulated amount is reflected in succeeding rate adjustments. In 1979 the CPUC authorized two energy cost adjustment increases totaling approximately \$500 million annually. At year-end 1979, accumulated net undercollections and accrued interest in the balancing account amounted to approximately \$304 million.

To improve cash flow, Edison petitioned the CPUC on December 21, 1979, to modify an earlier ECAC decision to

Stock Price Information



The Company's common stock price has increased primarily as a result of an aggressive dividend policy initially announced in 1976.

accelerate the recovery of undercollections already incurred. On January 29, 1980, the CPUC granted the Company's request and authorized an ECAC increase to recover \$81 million during the period between February 3 to April 30, 1980, instead of later in the year.

In addition, the CPUC instituted a number of interim changes which are intended to improve the cash recovery aspect of the ECAC procedure. First, the CPUC increased the frequency for filing ECAC adjustments from two to three times per year and adopted the use of more current energy prices and balancing account amounts as well as estimates of energy mix, rather than the historical data previously used, for determining energy cost billing factor adjustments. Secondly, more flexibility has been provided for determining the period during which undercollected energy costs are to be recovered.

In another decision, the CPUC revised the rate for accruing interest on under or overcollected amounts in the balancing account from a fixed rate of 7% to a floating rate which more nearly matches current short-term borrowing or investment rates. Currently that rate is approximately 13%.

Financing Program Continues

A return to double-digit inflation, the Federal Reserve Board's tightening of monetary policy, and uncertain domestic and world affairs all contributed to a dramatic rise in interest rates during 1979. Despite the difficult capital market conditions created by these events, the Company was able to raise \$433 million in new capital at comparatively attractive rates through two private and two public securities issues. This capital, combined with an additional \$47 million raised through the sale of common stock under Edison's Dividend Reinvestment and Stock Purchase Plan, and Employee Stock Purchase Plan, was used to help finance the Company's continuing construction program. Details of these issues are provided in the accompanying table.

Prior to the rapid acceleration of interest rates in October, Edison undertook several financings in the private and public markets which, in retrospect, were at relatively favorable rates. In April and June, the Company privately placed \$53 million in preferred stock and \$105 million in mortgage bonds, respectively. The Company then moved to the public market in September and negotiated the sale of \$75 million in preferred stock.

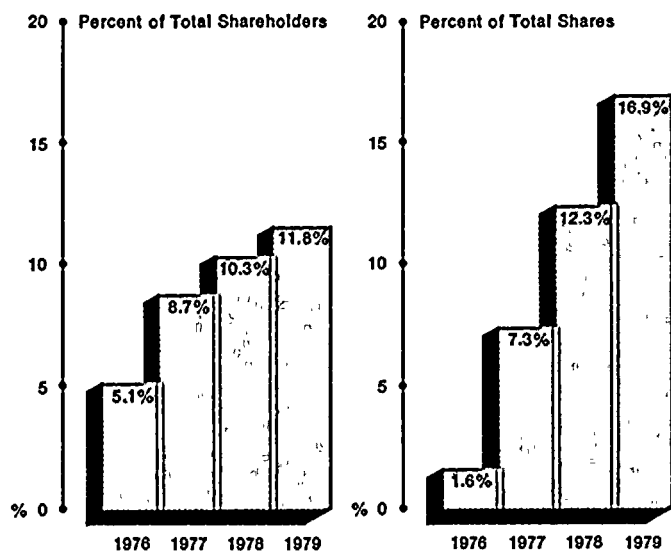
During the year, Edison again looked to foreign sources for new capital and entered into a 7½-year financing agreement, utilizing mortgage bonds, with a syndicate of foreign banks. The agreement, signed on September 18, permits the Company to borrow up to \$50 million at any time during the first year at a floating interest rate. At the end of the first year the full \$50 million will be borrowed and the interest rate will convert from a floating rate to a fixed rate of 9½% for the remaining 6½ years.

On October 6, the Federal Reserve Board implemented strong measures to curb monetary expansion and slow the growth in inflation. As a result, interest rates began to rise dramatically. With a \$200 million public offering of mortgage bonds already on the calendar for competitive bidding on October 11, Edison faced its first issue of debt at a coupon rate in excess of 10%. However, because of the prospect of continuing high long-term bond rates and possible disruptions in the short and long-term capital markets, the Company went forward with the financing.

Reflecting the \$480 million in total new capital raised in 1979, Edison's capital structure at year-end was 48.2% debt, 13.8% preferred and preference stock, and 38.0% common equity.

Short-term cash requirements increased in 1979 as a result of rising energy costs not being fully reflected in the Company's rates. Edison has been financing the temporary shortfall primarily through the issuance of commercial paper, the lowest cost form of short-term financing available to the Company. Edison maintains 100% back-up lines of credit to support the issuance of commercial paper.

Dividend Reinvestment and Stock Purchase Plan



Since the 5% discount feature was added to the Dividend Reinvestment and Stock Purchase Plan in early 1977, participation has increased significantly. In 1979, more than 16,000 participating shareholders purchased 1.2 million shares with nearly \$28 million of dividends and optional cash payments.

1979 Financings

Month	Issue and Cost to Company	Net Proceeds (Millions)
April	Cumulative Preferred Stock, Series A Dividend Rate — 8.70%	\$ 53
June	25-year First & Refunding Mortgage Bonds Coupon Rate — 9.95%	105
September	Cumulative Preferred Stock Dividend Rate — 8.54%	75
October	25-year First & Refunding Mortgage Bonds Coupon Rate — 11.75%	200
Periodically	Dividend Reinvestment and Stock Purchase Plan, and Employee Stock Purchase Plan	47
		<u>\$480</u>

Looking to 1980, the Company's capital expenditures are expected to amount to approximately \$728 million for the construction of new facilities and \$85 million to refund maturing debt obligations. To help finance these capital needs, Edison currently expects to raise approximately \$700 million in new capital through the issuance of common and preferred stock, and mortgage bonds.

The first issue of the new year, seven million shares of common stock, was completed on February 13, 1980, at a market price of \$23.125 per share, raising approximately \$157 million in net proceeds. In addition, a public offering of \$200 million of mortgage bonds is scheduled for April 1.

Over the five-year period 1980 to 1984, construction expenditures are projected to amount to approximately \$3.6 billion, an average of more than \$700 million per year. Construction expenditures, as a percent of total capitaliza-

tion, are expected to average less than 10% annually during this period which is within the Company's objective to maintain a stable and financially manageable growth in plant additions.

Dividend Stock Plan Continues to Grow

At the end of 1979, more than 16,000 shareholders, or about 12% of the holders of Edison's common stock, were participating in the Dividend Reinvestment and Stock Purchase Plan (DRP). This represented approximately 11 million shares, or 17% of the Company's total common stock outstanding on December 31, 1979.

During the year, participants purchased 1.2 million shares with nearly \$28 million of dividends and optional cash payments. Since the DRP was started in 1976, nearly \$53 million has been invested in new shares.

Southern California Edison Company

Capital Stock—Dividend and Price Information

Class and Series of Stock	Quarterly Dividends Paid Per Share (a)	High and Low Sales Prices (\$)															
		Calendar Quarter — 1978								Calendar Quarter — 1979							
		1		2		3		4		1		2		3		4	
High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low		
Original Preferred	.62	27¾	25¼	27	24⅞	27⅞	25	27⅞	24⅞	27½	25½	27⅞	24½	28	25⅞	27⅞	25¼
Cumulative Preferred:																	
4.08%	.25½	12¾	11¾	12¾	10⅝	12⅝	11⅝	12¾	10½	11⅝	10¼	11⅝	10⅞	11⅝	10	10½	8⅝
4.24%	.26½	13⅝	11⅞	13⅝	11¼	13¼	11½	12¼	10½	12¼	10⅞	12	10⅞	12⅞	10	11⅞	8¼
4.32%	.27	13⅝	11¾	13½	11⅝	12⅞	11⅝	12⅞	10⅞	12	10½	13	10⅞	12	10	10¾	8½
4.78%	.29⅞	14¾	13¼	14¾	12¾	14	12⅝	13¾	11⅞	13⅝	11¾	13⅝	11⅞	13¼	11½	12¼	10
5.80%	.36¼	18	16½	18	15⅞	17¼	15¾	17½	15⅞	16⅞	14⅞	16⅞	14½	16⅞	14⅞	15¼	12
8.85%	.553125	27⅞	24⅞	25¾	23¾	26½	23½	26	22½	24¾	22¼	24	21¾	24¾	22⅞	22⅞	18¾
9.20%	.57½	27¼	25⅞	27	24½	27¼	24⅞	27	23½	25⅞	23½	25⅞	22⅞	25½	23½	23¾	19
\$100 Cumulative Preferred:																	
7.325% (b)	1.83⅞	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
7.58%	1.89½	90	86½	88½	81⅞	90	79¼	86⅞	82	82¾	77½	84¼	78½	85⅞	77	77⅞	63
7.80% (b)	1.95	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
8.54%	2.562(c)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	93	85¼
8.70%	2.17½	104	100	103	94¼	103	93	101	91	95⅞	89	96⅞	90	98⅞	87½	87	72
8.70%-A (b)	1.59½(d)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
8.96%	2.24	106⅞	100¾	104	97⅞	106⅞	95¾	104	94⅞	98½	94	100	91	99½	90	92	74
Preference:																	
5.20% Convertible	.32½	18¾	17¾	18⅞	16	19⅞	17⅞	19⅞	16¾	19⅞	18½	19⅞	17⅞	19¼	18½	19	17⅞
7.375% (b)	.460938	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Common	.62	26⅞	25	26¾	22⅞	27	25⅞	26⅞	23½	27⅞	25⅞	27¼	24¼	26⅞	25¼	26½	23½

(a) Quarterly dividends were paid at the rates indicated in each quarter of 1979 except the fourth quarter dividend on Original Preferred Stock and Common Stock, which was at the rate of \$0.68 per share.

(b) There are no prices as these issues are private placements and shares are not traded.

(c) Initial pro rata dividend paid December 31, 1979. Subsequent quarterly dividends to be paid at \$2.135 per share or \$8.54 annually.

(d) Initial pro rata dividend paid June 30, 1979. Subsequent quarterly dividends paid at \$2.175 per share or \$8.70 annually.

Report of Management

The accompanying financial statements have been prepared by Company personnel in conformity with generally accepted accounting principles appropriate in the circumstances applied on a consistent basis. The integrity and objectivity of the data in these financial statements are the responsibility of management. In order to assure this integrity and objectivity, the Company maintains a highly developed system of internal controls. This system includes communication by written policies and procedures, organization structures that provide for appropriate division of responsibility, and the selection and training of qualified personnel and is augmented by programs of internal audits.

An independent examination of these financial statements has been conducted by Arthur Andersen & Co., independent public accountants, in accordance with generally accepted auditing standards. The accompanying Report of the Independent Public Accountants expresses an informed opinion as to whether the financial statements, considered in their entirety, present fairly the Company's financial position, results of operations and changes in financial position, in conformity with generally accepted accounting principles applied on a consistent basis.

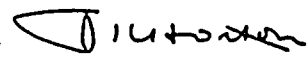
The Audit Committee of the Board of Directors is entirely composed of Directors who are free from any relationships that, in the opinion of the Board of Directors, would interfere

with the exercise of independent judgment as Audit Committee members. The Audit Committee meets periodically with management, the independent public accountants and the internal auditors to make inquiries as to the manner in which the responsibilities of each are being discharged and reports thereon to the Board of Directors. In addition, the Audit Committee recommends to the Board of Directors the annual appointment of the independent public accountants with whom the Audit Committee reviews the scope of the audit and non-audit assignments, the accounting principles being applied by the Company in financial reporting and the adequacy of internal accounting controls and internal audit procedures.

To further assure independence in performing and reporting the results of audits, representatives of the independent public accountants and the Company's staff of internal auditors have full and free access to meet with the Audit Committee, without members of Company management being present, to discuss any accounting, auditing, or financial reporting matter.



H. Fred Christie
Senior Vice President
and Chief Financial Officer



Jack K. Horton
Chairman of the Board
and Chief Executive Officer

Report of Independent Public Accountants

To the Shareholders and the Board of Directors,
Southern California Edison Company:

We have examined the balance sheets and statements of capital stock and long-term debt of Southern California Edison Company (a California corporation, hereinafter referred to as the "Company"), as of December 31, 1979 and 1978, and the related statements of income, earnings re-invested in the business, additional paid-in capital and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, and also included similar examinations of the financial statements for each quarter within each of the years.

In our opinion, the financial statements referred to above present fairly the financial position of the Company as of December 31, 1979 and 1978, and the results of its operations and the changes in its financial position for the years then ended and further, in our opinion, the quarterly financial data set forth in Note 2 of "Notes to Financial Statements" summarize fairly the results of operations for each quarter within such years, all in conformity with generally accepted accounting principles applied on a consistent basis.



Los Angeles, California
February 8, 1980

ARTHUR ANDERSEN & CO.

Statements of Income

Year Ended December 31,
1979 1978
Thousands of Dollars

Operating Revenues:	Sales (Notes 1 and 3)	\$2,553,126	\$2,294,543
	Other	10,848	34,255
	Total operating revenues (Note 2)	2,563,974	2,328,798
Operating Expenses:	Fuel (Note 3)	1,433,658	1,086,051
	Purchased power	99,245	118,698
	Provision for energy cost adjustments (Notes 1, 3 and 5)	(188,880)	35,280
	Subtotal — energy costs	1,344,023	1,240,029
	Other operation expenses (Notes 3, 6 and 7)	322,191	283,622
	Maintenance (Note 1)	177,407	164,111
	Provision for depreciation (Note 1)	178,637	157,203
	Taxes on income — current and deferred (Notes 1 and 5)	100,292	72,803
	Property and other taxes	56,428	86,429
	Total operating expenses	2,178,978	2,004,197
Operating Income (Note 2)		384,996	324,601
Other Income and Income Deductions:	Allowance for equity funds used during construction (Note 1)	92,019	58,471
	Other — net (Notes 1 and 5)	47,739	31,319
	Total other income and income deductions	139,758	89,790
Total Income before Interest Charges		524,754	414,391
Interest Charges:	Interest on long-term debt	179,626	154,301
	Other interest and amortization (Note 1)	25,456	28,357
	Total interest charges	205,082	182,658
	Allowance for debt funds used during construction (Note 1)	(26,547)	(19,950)
	Net interest charges	178,535	162,708
Net Income (Note 2)		346,219	251,683
Dividends on Cumulative Preferred and Preference Stock		53,738	49,457
Earnings Available for Common and Original Preferred Stock		\$ 292,481	\$ 202,226
Weighted Average Shares of Common and Original Preferred Stock Outstanding and Common Stock Equivalents (ooo)		64,202	57,477
Earnings Per Share (Notes 1 and 2):	Primary	\$4.56	\$3.52
	Fully diluted	\$4.39	\$3.38
Dividends Declared Per Common Share		\$2.60	\$2.30

Statements of Changes in Financial Position

Year Ended December 31,
1979 1978
Thousands of Dollars

Funds Provided By:		1979	1978
Operations —	Net income (Note 2)	\$ 346,219	\$251,683
	Non-fund items —		
	Depreciation (Note 1)	178,637	157,203
	Equity in earnings of unconsolidated subsidiaries (Note 1)	(3,133)	(608)
	Allowance for debt and equity funds used during construction (Note 1)	(118,566)	(78,421)
	Investment tax credit deferred — net (Notes 1 and 5)	45,533	32,568
	Other — net	9,269	4,788
	Earnings distributed from unconsolidated subsidiaries	1,000	1,000
	Total from operations	<u>458,959</u>	<u>368,213</u>
Long-term financing —	Preferred stock	127,500	—
	*Preference stock	(13,828)	(14,522)
	*Common stock	62,002	203,364
	Long-term debt	<u>355,000</u>	<u>200,000</u>
	Total from long-term financing	<u>530,674</u>	<u>388,842</u>
Other sources —	Construction advances and other	11,628	9,258
	Decrease in working capital	<u>3,918</u>	<u>13,067</u>
	Total from other sources	<u>15,546</u>	<u>22,325</u>
	Total funds provided	<u>\$1,005,179</u>	<u>\$779,380</u>
Funds Applied To:	Construction expenditures — net	\$ 792,713	\$646,252
	Less — allowance for debt and equity funds used during construction (Note 1)	<u>118,566</u>	<u>78,421</u>
	Funds used for construction expenditures	674,147	567,831
	Advances to unconsolidated subsidiaries	5,769	3,630
	Dividends	221,400	182,738
	Repayment of long-term debt	33,736	35,500
	Customer refunds — net	49,321	(36,918)
	Other — net	<u>20,806</u>	<u>26,599</u>
	Total funds applied	<u>\$1,005,179</u>	<u>\$779,380</u>
Working Capital Changes:	Receivables and temporary cash investments	\$ (79,429)	\$ 79,155
	Fuel stock, materials and supplies (Notes 3 and 4) ..	132,731	(114,118)
	Deferred energy costs — net (Notes 1, 3 and 5) ...	167,105	(14,286)
	Notes and accounts payable	(270,346)	68,803
	Taxes, interest accrued and other	<u>46,021</u>	<u>(32,621)</u>
	**Increase (Decrease) in working capital	<u>\$ (3,918)</u>	<u>\$ (13,067)</u>

*These amounts include conversions of Preference Stock, 5.20% Convertible Series, to Common Stock.

**Other than current maturities of long-term debt.

The accompanying notes are an integral part of these statements.

Balance Sheets

ASSETS	December 31,		
	1979	1978	
	Thousands of Dollars		
Utility Plant:	Utility plant, at original cost (Notes 1 and 3)	\$5,502,984	\$5,303,746
	Less — Accumulated provision for depreciation (Note 1)	1,676,148	1,519,174
	Net utility plant	3,826,836	3,784,572
	Construction work in progress (Note 6)	2,058,958	1,493,573
	Nuclear fuel, at amortized cost	15,728	13,572
	Total utility plant	<u>5,901,522</u>	<u>5,291,717</u>
Other Property and Investments:	Real estate and other, at cost — less accumulated provision for depreciation	11,110	7,658
	Subsidiary companies (Note 1)	93,725	85,818
	Total other property and investments	<u>104,835</u>	<u>93,476</u>
Current Assets:	Cash (Note 4)	4,705	7,458
	Temporary cash investments	—	80,532
	Receivables, less reserves of \$8,496,000 and \$5,608,000 for uncollectible accounts at respective dates (Notes 1 and 8)	212,728	211,625
	Fuel stock, at cost (first-in, first-out) (Notes 3 and 4)	284,827	163,021
	Materials and supplies, at average cost	39,388	28,463
	Deferred energy costs (Notes 1, 3 and 5)	303,622	102,369
	Prepayments and other (taxes, insurance, etc.)	80,266	42,022
	Total current assets	<u>925,536</u>	<u>635,490</u>
Deferred Charges:	Unamortized debt expense (Note 1)	16,589	14,709
	Other deferred charges	28,755	22,305
	Total deferred charges	<u>45,344</u>	<u>37,014</u>
		<u>\$6,977,237</u>	<u>\$6,057,697</u>

December 31,
1979 1978
Thousands of Dollars

CAPITALIZATION AND LIABILITIES

Capitalization:	Preferred Stock — subject to mandatory redemption requirements:		
	Cumulative Preferred Stock	\$ 262,500	\$ 135,000
	Preference Stock	62,000	62,000
	Preferred Stock — other:		
	Original Preferred Stock	4,000	4,000
	Cumulative Preferred Stock	458,755	458,755
	Preference Stock	27,067	40,895
	Common stock, including additional stated capital	577,259	547,166
	Other Shareholders' Equity:		
	Additional paid-in capital	601,578	569,673
	Earnings reinvested in the business	1,054,296	931,217
	Long-term debt (Notes 1, 4 and 8)	2,746,207	2,477,474
	Total capitalization	<u>5,793,662</u>	<u>5,226,180</u>
Current Liabilities:	Accounts payable	288,897	154,495
	Commercial paper payable (Note 4)	134,340	—
	Notes payable to banks (Note 4)	19,840	19,986
	Current maturities of long-term debt	84,544	33,737
	Customer refunds — current	58,139	52,724
	Taxes accrued (Note 5)	73,312	92,550
	Interest accrued	55,619	51,069
	Customer deposits	14,583	15,601
	Dividends declared	48,381	43,205
	Accumulated deferred income taxes — net (Notes 1 and 5)	88,076	53,928
	Other	19,947	23,612
	Total current liabilities	<u>885,678</u>	<u>540,907</u>
Commitments and Contingencies (Note 3)			
Reserves and Deferred Credits:	Customer advances and other deferred credits	51,598	46,115
	Customer refunds	58,454	107,774
	Accumulated deferred income taxes and investment tax credits (Notes 1 and 5)	155,297	110,096
	Reserves for pensions, insurance, etc. (Note 7)	32,548	26,625
	Total reserves and deferred credits	<u>297,897</u>	<u>290,610</u>
		<u>\$6,977,237</u>	<u>\$6,057,697</u>

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

Statements of Earnings Reinvested in the Business

Year Ended December 31,
1979 1978
Thousands of Dollars

Balance at January 1		\$ 931,217	\$ 862,956
Add:	Net income	346,219	251,683
	Transfer of amortization reserve — Federal (a) ...	—	3,801
		<u>1,277,436</u>	<u>1,118,440</u>
Deduct:	Dividends declared on capital stock —		
	Original preferred	1,219	1,075
	Cumulative preferred	47,574	42,532
	Preference	6,164	6,926
	Common — \$2.60 per share for 1979 and \$2.30 per share for 1978	166,443	132,205
	Capital stock expense	1,740	4,485
		<u>223,140</u>	<u>187,223</u>
Balance at December 31 (b).....		<u>\$1,054,296</u>	<u>\$ 931,217</u>

- (a) Pursuant to a regulatory order, an operating reserve relating to certain federally-licensed hydroelectric projects was transferred to Earnings Reinvested in the Business and became an appropriation thereof.
- (b) Includes undistributed earnings of unconsolidated subsidiaries of \$10,753,000 at December 31, 1979.

Statements of Additional Paid-in Capital

Year Ended December 31,
1979 1978
Thousands of Dollars

Balance at January 1		\$569,673	\$443,109
	Premium received on sale of common stock	31,908	126,572
	Payments made in lieu of issuing fractional shares of common stock	(3)	(8)
Balance at December 31		<u>\$601,578</u>	<u>\$569,673</u>

Southern California Edison Company
Statements of Capital Stock

December 31, 1979

	December 31, 1979		December 31, 1978	
	Shares Outstanding	Redemption Price Per Share	Thousands of Dollars	Thousands of Dollars
Preferred Stock — Subject to Mandatory Redemption Requirements (a) (b):				
\$100 Cumulative Preferred (d):				
7.325% Series	750,000	\$110.00	\$ 75,000	\$ 75,000
7.80% Series	600,000	110.00	60,000	60,000
8.54% Series	750,000	108.54	75,000	—
8.70% Series A	525,000	110.00	52,500	—
			<u>\$262,500</u>	<u>\$135,000</u>
Preference —				
7.375% Series	2,480,000	26.25	<u>\$ 62,000</u>	<u>\$ 62,000</u>
Preferred Stock — Other (a) (b):				
Original Preferred — 5%, prior, cumulative, participating, not redeemable ...	480,000		<u>\$ 4,000</u>	<u>\$ 4,000</u>
Cumulative Preferred:				
4.08% Series	1,000,000	\$ 25.50	\$ 25,000	\$ 25,000
4.24% Series	1,200,000	25.80	30,000	30,000
4.32% Series	1,653,429	28.75	41,336	41,336
4.78% Series	1,296,769	25.80	32,419	32,419
5.80% Series	2,200,000	25.65	55,000	55,000
8.85% Series	2,000,000	26.50	50,000	50,000
9.20% Series	2,000,000	27.25	50,000	50,000
\$100 Cumulative Preferred:				
7.58% Series	750,000	105.00	75,000	75,000
8.70% Series	500,000	111.00	50,000	50,000
8.96% Series	500,000	111.00	50,000	50,000
			<u>\$458,755</u>	<u>\$458,755</u>
Preference (c) (d) —				
5.20% Convertible Series	1,082,680	25.00	<u>\$ 27,067</u>	<u>\$ 40,895</u>
\$100 Preference				
Common Stock — including additional stated capital (a) (c) (d)	64,894,936		<u>\$577,259</u>	<u>\$547,166</u>

(a) The Company's Articles of Incorporation authorize the issuance of:

Class of Stock	Shares Authorized (000)	Par Value Per Share
Original Preferred	480	\$ 8½
Cumulative Preferred \$100 Cumulative Preferred	24,000	25
Preference	6,000	100
\$100 Preference	10,000	25
Common	2,000	100
	90,000	8½

(b) Cumulative Preferred and Preference Stock Redemption Provisions — All series of \$100 Cumulative Preferred Stock, Cumulative Preferred Stock and Preference Stock are redeemable at the option of the Company. The various series of \$100 Cumulative Preferred Stock, the Cumulative Preferred Stock, 8.85% Series and 9.20% Series, and the Preference Stock, 7.375% Series, are subject to certain restrictions on redemption for refunding purposes. The \$100 Cumulative Preferred Stock, 7.325% Series, has a cumulative sinking fund provision requiring the redemption of 30,000 shares annually at \$100 per share plus accumulated unpaid dividends, commencing July 31, 1983, and continuing until all shares are redeemed. Commencing November 30, 1983, and continuing until all shares are redeemed, the \$100 Cumulative Preferred Stock, 7.80% Series, has a cumulative sinking fund provision requiring the annual

redemption of a specified percentage of the shares originally outstanding (2.5% in 1983 and increasing to 5.5% by 2003) at \$100 per share plus accumulated unpaid dividends. Commencing September 1, 1984, and continuing until all shares are repurchased, the Company has a contractual obligation to offer to repurchase a minimum of 496,000 shares annually of its Preference Stock, 7.375% Series, at \$25 per share plus accumulated unpaid dividends. Commencing June 30, 1985, and continuing until all shares are redeemed, the \$100 Cumulative Preferred Stock, 8.70% Series A, has a cumulative sinking fund provision requiring the annual redemption of a specified percentage of shares originally outstanding (2.5% in 1985 and increasing to 9.5% by 2000) at \$100 per share plus accumulated unpaid dividends. Commencing June 30, 1986, and continuing until all shares are redeemed, the \$100 Cumulative Preferred Stock, 8.54% Series, has a mandatory sinking fund provision requiring the annual redemption of 22,500 shares at \$100 per share plus accumulated unpaid dividends. For each of the five years subsequent to 1979, the aggregate mandatory redemption requirements will be: none for 1980 through 1982, \$4,500,000 for 1983, and \$16,900,000 for 1984.

(c) Under a prescribed formula, the conversion prices of convertible securities are adjusted when additional shares of Common Stock are sold by the Company. On December 31, 1979, the shares

of Common Stock reserved for the conversion of the Preference Stock, 5.20% Convertible Series, amounted to 796,088 shares at the adjusted conversion price of \$34.00 per share. In addition, 2,024,380 shares of Common Stock were reserved for the conversion of 3½% Convertible Debentures, Due 1980, at the adjusted conversion price of \$37.00 per share.

(d) Transactions in the capital stock accounts during 1978 and 1979 reflect the following: On October 25, 1978, 6,000,000 shares of Common Stock were issued at an initial public offering price of \$25.375 per share, and 525,000 shares of \$100 Cumulative Preferred Stock, 8.70%, Series A, and 750,000 shares of \$100 Cumulative Preferred Stock, 8.54% Series, were issued during 1979. Additional shares of Common Stock were issued as follows:

	Shares Issued	
	1979	1978
Dividend Reinvestment and Stock Purchase Plan	1,165,073	637,014
Employee Stock Purchase Plan	756,427	631,521
Employee Stock Ownership Plan	30,282	203,879
Conversion of 553,140 and 580,854 shares in respective years of Preference Stock, 5.20% Convertible Series	406,573	417,710

Statements of Long-term Debt

Year Ended December 31,
1979 1978
Thousands of Dollars

First and Refunding Mortgage Bonds (a):	Series F, Due 1979 (3%)	\$ —	\$ 30,000
	Series G, Due 1981 (3 $\frac{5}{8}$ %)	40,000	40,000
	Series H, Due 1982 (4 $\frac{1}{4}$ %)	37,500	37,500
	Series I, Due 1982 (4 $\frac{3}{4}$ %)	40,000	40,000
	Series J, Due 1982 (4 $\frac{7}{8}$ %)	40,000	40,000
	Series K, Due 1983 (4 $\frac{5}{8}$ %)	50,000	50,000
	Series L, Due 1985 (5%)	30,000	30,000
	Series M, Due 1985 (4 $\frac{3}{8}$ %)	60,000	60,000
	Series N, Due 1986 (4 $\frac{1}{2}$ %)	30,000	30,000
	Series O, Due 1987 (4 $\frac{1}{4}$ %)	40,000	40,000
	Series P, Due 1987 (4 $\frac{1}{4}$ %)	50,000	50,000
	Series Q, Due 1988 (4 $\frac{3}{8}$ %)	60,000	60,000
	Series R, Due 1989 (4 $\frac{3}{8}$ %)	60,000	60,000
	Series S, Due 1990 (4 $\frac{1}{2}$ %)	60,000	60,000
	Series T, Due 1991 (5 $\frac{1}{4}$ %)	75,000	75,000
	Series U, Due 1991 (6 $\frac{1}{8}$ %)	80,000	80,000
	Series V, Due 1992 (5 $\frac{7}{8}$ %)	80,000	80,000
	Series W, Due 1993 (6 $\frac{3}{8}$ %)	100,000	100,000
	Series X, Due 1994 (7 $\frac{1}{8}$ %)	75,000	75,000
	Series Y, Due 1994 (8 $\frac{1}{8}$ %)	100,000	100,000
	Series Z, Due 1995 (7 $\frac{7}{8}$ %)	100,000	100,000
	Series AA, Due 1996 (8%)	100,000	100,000
	Series BB, Due 1997 (7 $\frac{3}{8}$ %)	125,000	125,000
	Series CC, Due 1999 (8 $\frac{1}{4}$ %)	100,000	100,000
	Series DDP, Due 1999 (7%)	15,030	15,030
	Series EE, Due 1981 (9%)	100,000	100,000
	Series FF, Due 2000 (8 $\frac{7}{8}$ %)	150,000	150,000
	Series GG, Due 2001 (8 $\frac{7}{8}$ %)	125,000	125,000
	Series HH, Due 2002 (8 $\frac{1}{4}$ %)	125,000	125,000
	Series II, Due 1984 (7 $\frac{1}{4}$ %)	75,000	75,000
	Series JJ, Due 2003 (9 $\frac{5}{8}$ %)	200,000	200,000
	Series KK, Due 2004 (9.95%)	105,000	—
	Series LL, Due 1987 (9 $\frac{3}{8}$ %) (c)	—	—
	Series MM, Due 2004 (11 $\frac{3}{4}$ %)	200,000	—
		2,627,530	2,352,530
First Mortgage Bonds (Calctric) (a)	Due 1980-1991 (2 $\frac{7}{8}$ %-5 $\frac{1}{8}$ %)	66,000	66,000
Convertible Debentures (b)	Due 1980 (3 $\frac{3}{8}$ %)	74,902	74,902
Promissory Notes (Note 8)	Due 1980-1983 (5 $\frac{1}{2}$ %)	14,217	17,953
Short-term debt expected to be refinanced — Commercial paper (c)		50,000	—
Principal amounts outstanding		2,832,649	2,511,385
Current maturities of long-term debt (d)		(84,544)	(33,737)
Unamortized premium or (discount) — net		(1,898)	(174)
Total long-term debt		\$2,746,207	\$2,477,474

(a) All mortgage bonds are secured by utility plant, substantially all of which is subject to a lien under the Company's trust indentures. Additional First and Refunding Mortgage Bonds, including additional bonds equal in principal amount to bonds retired, may be issued subject to the provisions of the applicable trust indentures. Each of the bond indentures requires special deposits with the trustees, which are based primarily upon the amount of bonds outstanding. These deposit requirements of \$77,780,900 in 1979 were satisfied by property additions and replacements. The Company expects to satisfy these requirements in the same manner in 1980. The First and Refunding Mortgage Bonds, Series DDP and KK, are subject to mandatory sinking fund requirements commencing on July 1, 1990 and June 15, 1985, respectively.

(b) At December 31, 1979 and 1978, the 3 $\frac{3}{8}$ % Convertible Debentures, Due 1980, were convertible at the adjusted rate of one share of

Common Stock for each \$37.00 and \$37.50, respectively, of the principal amount of such debentures. Any such debentures which are converted may not be reissued.

(c) In September 1979, the Company entered into a financing agreement with certain foreign banks that permits the Company to borrow, at any time through September 17, 1980, up to \$50,000,000 at a floating interest rate based on the London Interbank Offered Rate. On September 18, 1980, as required by the agreement, the Company will borrow any additional amount necessary to bring the total borrowings to \$50,000,000. Commencing on that date, the principal outstanding will bear interest at the fixed rate of 9 $\frac{5}{8}$ % per annum. The borrowings will be secured by the concurrent issuance of an equal principal amount of the Company's First and Refunding Mortgage Bonds, Series LL, due March 18, 1987. The financing agreement contains no restrictive covenants.

There were no outstanding borrowings under the agreement at December 31, 1979. Because the Company expects to refinance \$50,000,000 of short-term obligations through the operation of the agreement, such amount has been classified as long-term debt in the balance sheet at December 31, 1979.

(d) Current maturities of long-term debt at December 31, 1979, included 3 $\frac{3}{8}$ % Convertible Debentures, Due August 15, 1980, in the amount of \$74,902,000; First Mortgage Bonds (Calctric), Series of 2 $\frac{7}{8}$ %, Due June 1, 1980, in the amount of \$6,000,000, 5 $\frac{1}{2}$ % Promissory Notes, Due February 28, 1980, in the amount of \$1,832,000 and Due August 31, 1980, in the amount of \$1,810,000. The amounts of maturing long-term debt will be \$143,548,000 in 1981; \$121,025,000 in 1982; \$53,501,000 in 1983; and \$83,000,000 in 1984.

Notes to Financial Statements

Note 1 — Summary of Significant Accounting Policies

General —

The Company is a public utility primarily engaged in the business of supplying electric energy in portions of central and southern California, excluding the City of Los Angeles and certain other cities. The accounting records of the Company are maintained in accordance with the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission (FERC) and adopted by the California Public Utilities Commission (CPUC).

Utility Plant —

Additions to utility plant and replacements of retirement units of property are capitalized at original cost, which includes labor, material, indirect charges for engineering, supervision, transportation, etc., and an allowance for debt and equity funds used during construction. Maintenance is charged with the cost of repairs and minor renewals; plant accounts with the replacement of property units; and the depreciation reserve with the cost, less net salvage, of property units retired. The Company also owns undivided interests in jointly-owned facilities and the balance sheet at December 31, 1979 includes utility plant, accumulated provision for depreciation, and construction work in progress of \$528,620,000, \$128,445,000, and \$1,827,317,000, respectively, pertaining to such facilities.

Depreciation —

Depreciation of utility plant is computed on a straight-line remaining life basis for financial statement purposes, and approximated 3.5% and 3.2% of average depreciable plant for the years 1979 and 1978, respectively. Although the eventual cost of retiring a nuclear generating unit cannot be predicted with certainty, the Company has estimated that decommissioning costs will approximate \$36,000,000 for nuclear generation facilities in service. The Company's rates are designed to recover such costs through depreciation expense over the estimated remaining useful lives of such facilities.

Income Taxes —

Accounting policies with respect to income taxes, including investment tax credits applicable thereto, are set forth in Note 5, together with supplementary income tax information.

Debt Premium and Discount —

Debt premium or discount and related expenses are amortized to income over the lives of the issues to which they pertain.

Revenues —

Customers are billed monthly, except for most residential customers who are billed bi-monthly. Revenues are recorded when customers are billed.

Deferred Energy Costs —

Deferred energy costs result from the Company's Energy Cost Adjustment Clause (ECAC), which requires monthly entries to adjust the results of operations and the maintenance of a balancing account for overcollections or undercollections. Variations between ECAC revenues and the related energy costs included in rates are deferred until such variations are refunded to, or recovered from, utility customers through CPUC authorized rate adjustments. ECAC related energy costs include incurred transportation and storage costs related to spent nuclear fuel. The income tax effects of ECAC also are deferred. For income tax purposes, billed revenues and incurred energy costs are utilized in the determination of taxable income.

Subsidiaries —

Investments in unconsolidated subsidiary companies, all of which are wholly owned, are accounted for by the equity method. None of the Company's five wholly owned subsidiaries is considered significant for financial reporting purposes. Mono Power Company (Mono), a non-public utility, is engaged primarily in the acquisition and development of mineral properties and interests therein. Mono has entered into agreements to conduct uranium, oil, coal, gas and geothermal exploration and development, substantially all of the costs and benefits of which are being reflected in the Company's energy costs.

Allowance for Funds Used During Construction (ADC) —

ADC is the generally accepted utility accounting procedure designed to capitalize the cost of both debt and equity funds used to finance plant additions during construction periods and to restore net income to the level which would have been experienced without the construction program through a transfer of such costs from the income statement to the balance sheet as utility plant construction work in progress. Such costs are recovered from customers as a cost of service through provisions for depreciation in future periods. Although ADC increases net income, it does not represent current cash earnings. The effective annual ADC rate was 7.76% for 1979 and 6.96% for 1978, based upon a formula prescribed by the FERC which provides for the separate computation of ADC applicable to debt funds and to equity funds and permits semi-annual compounding.

Earnings Per Share —

Primary earnings per share are based on the weighted average shares of Common and Original Preferred Stock outstanding, giving effect to the participating provisions of the Original Preferred Stock, and Common Stock Equivalents for funds held by the Employee Stock Purchase Plan Trustee in each period, and after providing for cumulative preferred and preference dividend requirements. Fully diluted earnings per share also give effect to the dilution which would result from the conversion of the Preference Stock, 5.20% Convertible Series, and the 3/8% Convertible Debentures, due 1980.

Note 2 — Quarterly Financial Data

Three Months Ended	Thousands of Dollars			Earnings Per Share	
	Operating Revenues	Operating Income	Net Income	Primary	Fully Diluted
December 31, 1979 ...	\$709,252	\$100,352	\$92,538	\$1.19	\$1.15
September 30, 1979 ...	684,334	106,738	98,822	1.32	1.27
June 30, 1979	566,656	81,748	71,183	0.91	0.88
March 31, 1979	603,733	96,159	83,677	1.13	1.09
December 31, 1978 ...	600,902	99,162	85,455	1.19	1.15
September 30, 1978 ...	634,934	90,778	68,846	1.00	0.96
June 30, 1978	545,444	70,612	50,912	0.69	0.67
March 31, 1978	547,518	64,050	46,470	0.62	0.59

Note 3 — Commitments and Contingencies

Construction program and fuel supply —

The Company has significant purchase commitments in connection with its continuing construction program. As of December 20, 1979 (the date of the Company's latest approved budget), funds required for construction expenditures are estimated at \$767,831,000 for 1980, \$753,808,000 for 1981 and \$627,864,000 for 1982. Minimum long-term commitments of approximately \$8.4 billion existed on December 31, 1979 under the Company's fuel supply and transportation arrangements.

Government licenses —

The terms and provisions of licenses granted by the United States covering the Company's major and certain minor hydroelectric plants, together with certain storage and regulating reservoirs and related transmission facilities, expire at various times between 1980 and 2009. They contain numerous restrictions and obligations on the part of the Company, including the right of the United States to acquire Company properties or the FERC to issue a license to a new licensee under certain conditions upon the payment of specified compensation.

Resale revenues —

Pursuant to FERC procedures, on August 4, 1974, February 1, 1976, and August 16, 1979, increases in the Company's resale rates became effective, subject to refund with interest to the extent that any of the increases are subsequently determined to be inappropriate. Effective May 2, 1974, a Fuel Clause Adjustment (FCA) was added to the Company's resale rates and was modified effective February 1, 1976. As of December 31, 1979, approximately \$377,800,000 has been collected subject to refund. Of this amount, approximately \$46,600,000 is no longer subject to refund by virtue of appeals relative to the May 2, 1974 FCA becoming final since December 31, 1979. The Company believes that any other amounts which the FERC may require the Company to refund as a result of the proceedings relative to these increases should not have a material financial effect on the Company.

The August 1, 1979 FERC decision which affirmed the August 4, 1974 rate increase with respect to cost of service, provided, however, that the rate increase remain subject to refund pending resolution of the "price squeeze" issue raised by the intervenors.

The August 22, 1979 FERC decision on the February 1, 1976 rate increase, required the Company to file a revised cost of service which reduced the annual revenues by approximately \$3,600,000. Revenues billed in excess of this revised cost of service had previously been deferred and the related interest accrued. Both the Company and certain intervenors have petitioned for rehearing. The decision also provided that to determine the extent of a "price squeeze," if any, with respect to the filed revised rates, the case would be remanded to an Administrative Law Judge for hearings on that issue. If a "price squeeze" is determined, a further rate reduction may be imposed which could result in additional refunds, but the Company believes that they would not have a material financial effect.

Energy cost adjustment clause —

On October 23, 1979, the CPUC granted approximately \$431,600,000 of the Company's requested \$466,600,000 increase pursuant to ECAC. Such increase became effective on November 1, 1979. The requested amount was reduced by approximately \$35,000,000 as a result of the CPUC's determination to defer consideration of the reasonableness of operating capacity factors at the Company's coal-fired power plants until results of a consultant's report on such plants can be evaluated. The Company believes that operating practices at its coal-fired power plants have been prudent and reasonable.

Legal matters — antitrust and employment practices

Antitrust — In March 1978, five resale customers filed a suit against the Company in Federal Court alleging violation of certain antitrust laws. The complaint seeks damages in excess of \$23,000,000, consequential damages and a trebling of such damages and certain injunctive relief, and alleges that the Company (i) is engaging in anti-competitive behavior by charging more for wholesale electricity sold to the resale customers than the Company charges certain classes of its retail customers, and (ii) has taken actions alone and in concert with other utilities to prevent or limit such resale customers from obtaining bulk power supplies from other sources to reduce or replace the resale customers' wholesale purchases from the Company. In May 1979, the Federal Court continued a stay of the proceedings pending resolution of the Company's FERC resale rate filing which became effective on February 1, 1976, and of the FERC proceedings involving bulk power contracts and substantially the same antitrust issues. The resale customers have asked the FERC

to modify these contracts and to order the Company to provide additional transmission services to them. On February 15, 1980, the Court lifted the stay on discovery and set February 10, 1981 for the next status conference. The foregoing proceedings involve complex issues of law and fact, and, although the Company is unable to predict their final outcome, it has categorically denied the allegations of these resale customers. The August 22, 1979 FERC decision discussed above under "Resale revenues" could affect the pending antitrust litigation.

Employment Practices — In 1972, a charge was filed with the Federal Equal Employment Opportunity Commission (EEOC) and a class action lawsuit was filed in Federal Court in 1974, both of which alleged that the Company had engaged in unlawful, discriminatory employment practices.

Although denying that it has engaged in any unlawful employment practices, the Company has entered into a Conditional Settlement with the EEOC and the representatives of most of the class action plaintiffs which, on November 7, 1977, was submitted to the Federal Court for approval as a consent decree. The estimated cost of this settlement is initially \$700,000 with the possibility of an additional estimated \$300,000 in payment on individual awards after hearings.

On December 31, 1979, the court filed a memorandum indicating it would approve the Agreement. It is not known at this time whether an appeal will be taken from a judgment. If the decision were to be reversed on appeal and the cases tried, it is the opinion of Company counsel that the Company has a number of defenses which should be sustained by a court and which, among other things, have the effect of limiting monetary damages. The Company believes, based on a current analysis of the applicable law and facts, that the amount of any recovery for monetary damages, including back pay, should not have a material financial effect on the Company.

Leases and Rentals —

The Company has entered into various arrangements to lease automotive equipment, computer equipment, nuclear fuel, office space and other incidental equipment and property which are accounted for as operating leases in accordance with ratemaking practices. Neither the annual gross lease expense nor the present value of the minimum commitments of capital leases are material.

Note 4 — Compensating Balances and Short-Term Debt
In order to continue lines of credit with various banks, which amounted to approximately \$198,000,000 on December 31, 1979 and \$170,000,000 on December 31, 1978, the Company

presently maintains deposits aggregating approximately \$12,000,000 which are not legally restricted as to withdrawal. None of such lines of credit was used during 1979 and 1978.

The Company has an additional \$150,000,000 line of credit which may be utilized only for the purchase of fuel oil through the use of bankers' acceptances. Notes issued under this agreement are secured by a pledge of the Company's fuel oil inventory. There were no bankers' acceptances outstanding during 1979. The maximum amount of bankers' acceptances outstanding during 1978 was \$68,545,000 with average daily borrowings of \$24,259,000 and a weighted average annual interest rate (total interest divided by average daily borrowings) of 7.87%.

The maximum amount of commercial paper outstanding for 1979 and 1978, was \$184,340,000 and \$165,273,000, respectively. The average daily borrowings for these same periods were \$65,057,000 and \$113,414,000, respectively, with weighted average annual interest rates of 11.08% and 7.23%, respectively. Of the amount outstanding at December 31, 1979, \$50,000,000 is expected to be refinanced and has been classified in the balance sheet as long-term debt.

The maximum amount of notes payable outstanding during 1979 and 1978 was \$20,078,000 and \$87,970,000, respectively. The average daily borrowings for these same periods were \$20,052,000 and \$41,402,000, respectively, with weighted average annual interest rates of 11.01% and 8.23%, respectively. These notes are unrelated to the lines of credit referred to above.

Note 5 — Taxes on Income

As required by the CPUC, no provisions are made for income tax reductions (net) which result from reporting certain transactions for income tax purposes in a period different from that in which they are reported in the financial statements, except for certain investment tax credits (ITC) discussed below, the tax effects of the ECAC balancing account provisions and certain resale revenues.

Effective January 1, 1976, pursuant to FERC procedure, the Company began providing deferred income taxes for certain timing differences allocable to resale rates. The revenues related to such deferred income taxes are being collected subject to refund, as discussed in Note 3, pending action by the FERC.

ITC not deferred have been applied as a current reduction of income tax expense. Additional ITC, made available to the Company under the provisions of the Tax Reduction Act of 1975 and the Tax Reform Act of 1976, have been deferred and are being amortized to income tax expense ratably over the service lives of the properties generating such credits.

The Company has reduced its deferred income tax provision and the balance of accumulated deferred income taxes — net, in the amount of \$68,128,000, representing ITC in

excess of those utilized to date or to be utilized on the 1979 federal income tax return, pending their utilization in future income tax returns. Such ITC were generated in 1979 and, if not utilized, would expire in 1986.

Supplementary information regarding taxes on income is set forth in the following table:

	Thousands of Dollars	
	Year Ended December 31, 1979	1978
Current:		
Federal	\$ 6,717	\$ (49,219)
State	4,019	3,567
	<u>10,736</u>	<u>(45,652)</u>
Deferred — Federal and State:		
Investment tax credits — net	45,533	32,568
Deferred energy costs	34,148	(15,904)
Customer refunds	—	78,801
Other	(13,644)	2,208
	<u>66,037</u>	<u>97,673</u>
Total taxes on income	<u>\$ 76,773</u>	<u>\$ 52,021</u>
Taxes on income included in operating expenses	\$100,292	\$ 72,803
Taxes on income included in other income ..	(23,519)	(20,782)
Total taxes on income	<u>\$ 76,773</u>	<u>\$ 52,021</u>
Difference between the federal statutory tax rate and the company's effective tax rate are reconciled as follows:		
Federal statutory rate	46.0%	48.0%
Excess of tax over book depreciation ..	—	(3.4)
Allowance for debt and equity funds used during construction	(12.9)	(12.4)
Percentage repair allowance	(3.3)	(4.7)
Administrative and general expenses capitalized	(2.2)	(2.7)
Investment tax credits — net	(8.1)	(8.4)
Federal deduction for state taxes on income	(2.2)	(2.7)
Ad valorem lien date deduction	(.2)	4.2
All other differences	(3.7)	(5.5)
State tax provision	4.7	4.7
Effective tax rate	<u>18.1%</u>	<u>17.1%</u>

Note 6 — Research and Development

Research and Development (R&D) expenditures are expensed currently if they are of a general nature. Plant related R&D expenditures are accumulated in construction work in progress (CWIP) until a determination is made whether or not such projects will result in construction of electric plant. If no construction of electric plant ultimately results, the expenditures are charged to operating expense. The balance of R&D expenditures included in CWIP at December 31, 1979 and 1978 was \$29,438,000 and \$17,178,000, respectively.

	Thousands of Dollars	
	Year Ended December 31, 1979	1978
R&D expensed	\$15,778	\$14,442
R&D charged to CWIP — net	12,260	3,847
Total R&D expenditures	<u>\$28,038</u>	<u>\$18,289</u>

Note 7 — Retirement Plans

The Company's current pension program is based on a trustee non-contributory pension plan. Company contributions are determined on the basis of a level premium funding method and prior service costs are funded. Pension costs are funded or reserved for on an actuarial basis and amounted to \$37,456,000 and \$32,236,000 for 1979 and 1978, respectively. Accumulated pension funds and reserves exceed vested benefits under the program.

Under the Employee Stock Purchase Plan adopted to supplement employees' income after retirement, employees may elect to contribute specified percentages of their compensation to a trustee for the purchase of Company Common Stock and the Company contributes to the plan an amount equal to one-half of the aggregate contributions of employees, less forfeitures. The Company's contribution amounted to \$3,263,000 and \$2,785,000 for 1979 and 1978, respectively. In addition, employees may contribute up to 5% of their regular monthly base pay through supplemental contributions without regard to years of service. These supplemental contributions are not matched by the Company.

The Tax Reduction Act of 1975 introduced a provision for an additional 1% ITC if the funds generated therefrom are invested in the purchase of employer securities for the benefit of employees and transferred into an Employee Stock Ownership Plan (ESOP). Eligible securities include Common Stock or securities convertible into Common Stock. The Company has established an ESOP and has elected the additional 1% ITC for the years 1976, 1977 and 1978. As of December 31, 1979, 336,423 shares of Common Stock applicable to the plan have been issued in trust.

The Tax Reform Act of 1976 provided for an additional 1/2% ITC for the purchase of employer securities, similar to the provision for the additional 1% ITC discussed above, for eligible employees who provide matching contributions. An election to obtain such additional 1/2% ITC was made with respect to 1978. The availability of the additional 1/2% ITC is contingent upon a favorable determination by the Internal Revenue Service that the ESOP as amended to incorporate the 1/2% ITC continues to qualify under the Internal Revenue Code.

The Company has recorded as a liability to ESOP approximately \$13,681,000 for the 1% ITC for the years 1978 and 1979 in excess of those utilized or to be utilized on the federal income tax returns for those years. An additional 1/2% ITC of approximately \$3,088,000 was elected for 1978, and it is expected approximately \$3,971,000 will be elected for 1979, both amounts are in excess of those utilized or to be utilized on the federal income tax returns for those years. Such 1% and 1/2% ITC were generated in 1978 and 1979 and, if not utilized, would expire in 1985 and 1986, respectively.

Note 8 — Long-Term Debt Payable in Foreign Currency
The Company has entered into a financing agreement, as amended, with certain English banks pursuant to which it issued promissory notes payable in pounds sterling. These notes are secured by a pledge of the Company's customer

accounts receivable. On June 28, 1976, the Company entered into forward exchange contracts with a United States bank to purchase, at various times from February 1979 to August 1983, pounds sterling to repay substantially all of the promissory notes.

Supplementary Information to Disclose the Effects of Changing Prices (Unaudited)

In accordance with the requirements and guidelines of the Financial Accounting Standards Board, the supplementary

information presented below is intended to provide certain information about the effects of both general inflation and changes in specific prices. It should be viewed as an estimate of the approximate effect of inflation, rather than as a precise measure.

Statement of Earnings Available for Common and Original Preferred Stock Adjusted for Changing Prices for the Year Ended December 31, 1979

	(Thousands of Dollars)		
	As Reported in the Primary Financial Statements	Average 1979 Dollars	
		Constant Dollar	Current Cost
Total Operating Revenues	\$2,563,974	\$2,563,974	\$2,563,974
Operating Expenses:			
Energy costs	1,344,023	1,344,023	1,344,023
Provision for depreciation	178,637	350,000	415,000
Taxes on income	100,292	100,292	100,292
Other operating expenses	556,026	556,026	556,026
Other income and deductions	(139,758)	(139,758)	(139,758)
Net interest charges	178,535	178,535	178,535
Dividends on cumulative preferred and preference stock	53,738	53,738	53,738
	<u>2,271,493</u>	<u>2,442,856</u>	<u>2,507,856</u>
Earnings available for common and original preferred stock (excluding reduction of utility plant to net recoverable cost)	<u>\$ 292,481</u>	<u>\$ 121,118</u>	<u>\$ 56,118</u>
Excess of increase in general price level of \$1,468,000,000 over increase in specific prices of \$1,417,000,000 of utility plant held during the year (a)			\$ (51,000)
Reduction of utility plant to net recoverable cost		\$ (561,000)	\$ (445,000)
Gain from decline in purchasing power of net monetary liabilities		\$ 452,000	\$ 452,000

(a) At December 31, 1979, current cost of utility plant, net of accumulated depreciation, was \$12,133,000,000 while related historical cost and net recoverable cost was \$5,902,000,000. The difference of \$6,231,000,000, which includes \$1,417,000,000 for the current year, represents the changes in specific prices (current cost) of utility plant from the date the plant was originally acquired.

Five Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices

(In Thousands of Dollars, Except Per Share Data)	1975	1976	1977	1978	1979
Average 1979 Dollars					
Total Operating Revenues	\$2,223,000	\$2,357,000	\$2,476,000	\$2,593,000	\$2,563,974
Historical Cost Information Adjusted for					
General Inflation (Constant Dollar):					
Earnings available for common and original preferred stock*					\$121,118
Earnings per share on common and original preferred stock*					\$1.89
Net assets at year-end at net recoverable cost ...					\$2,101,000
Current Cost Information:					
Earnings available for common and original preferred stock*					\$56,118
Earnings per share on common and original preferred stock					\$.87
Excess of increase in general price level over increase in specific prices of utility plant after reduction to net recoverable cost					\$ 496,000
Net assets at year-end at net recoverable cost ...					\$2,101,000
General Information:					
Gain from decline in purchasing power of net monetary liabilities					\$ 452,000
Cash dividends declared per common share	\$ 2.26	\$ 2.14	\$ 2.45	\$ 2.53	\$ 2.57
Market price per common share at year-end	\$25.68	\$28.56	\$30.84	\$27.62	\$23.05
Average consumer price index	161.2	170.5	181.5	195.4	217.6**

*Excludes reduction of utility plant to net recoverable cost.

**Estimated.

Constant dollar amounts represent historical costs of utility plant restated in terms of dollars of equal purchasing power, as measured by the Consumer Price Index for all Urban Consumers. Current cost amounts reflect the changes in specific prices of utility plant from the date the plant was acquired to the present, and differs from constant dollar amounts to the extent that prices in general have increased more or less rapidly than specific prices. The current cost of utility plant was determined by restating its historical cost using Company projections of year-end indices to be reported in the Handy-Whitman Index of Public Utility Construction Costs.

The provision for depreciation on constant dollar and current cost bases was determined by applying primary financial statement depreciation rates to restated utility plant accounts.

Since only historical costs are deductible for income tax purposes, the income tax expense in the primary financial statements was not adjusted.

Fuel inventories and the cost of fuel used in the generation of electricity have not been restated from their historical cost since rate regulation limits the recovery of fuel and purchased power costs to recorded costs. As such, fuel inventories are effectively monetary assets and have been included in the computation of purchasing power gain or loss.

Under ratemaking procedures prescribed by the regulatory commissions exercising rate jurisdiction over the Company, only the historical cost of utility plant is recoverable through future depreciation charges. Therefore, the cost of utility plant, stated in terms of constant dollars or current cost, exceeding the historical cost of utility plant is not presently recoverable through depreciation charges, and, accordingly, the excess is reflected as a reduction of utility plant to net recoverable cost. While the ratemaking process gives no recognition to the current cost of replacing utility plant, based on past ratemaking practices the Company believes it will be allowed to recover and earn a return on the increased cost of its investment when replacements of utility plant occur.

During a period of inflation, holders of monetary assets suffer a loss of general purchasing power while holders of monetary liabilities experience a gain. The gain from the decline in purchasing power of net monetary liabilities is primarily attributable to the substantial amount of debt which has been used to finance utility plant. However, to properly reflect the economics of rate regulation, the gain from the decline in purchasing power of net monetary liabilities, including Cumulative Preferred and Preference Stock, offsets the reduction to net recoverable cost of utility plant. The Company, therefore, does not have the opportunity to realize such holding gain on net monetary liabilities.

Commentary on Summary of Operations

This commentary discusses variations between the years 1979 and 1978 and should be read in conjunction with the Summary of Operations on Page 30.

Operating revenues increased by 10.1% over 1978 which was primarily due to the combined effect of a 7% increase in the average revenue per KWH from 4.02¢ to 4.31¢ and an increase in KWH consumption of 4.4%. The higher average revenue largely reflected a rate increase which became effective January 1, 1979. Approximately 32% of the increase in revenues, however, was attributable to the Company's Energy Cost Adjustment Clause (ECAC) revenues which do not affect earnings but do represent cash flow.

The increase in KWH consumption resulted primarily from an increase of nearly 96,000 in the total number of customers. This was the largest yearly customer increase since 1963 and the second largest in the Company's history. The residential sales growth rate equalled that of 1972, only the second time it has been equalled or exceeded in the past seven years.

Operating expenses, which include energy costs as well as other operation, maintenance, depreciation, and tax expenses, increased by 8.7% in 1979. This increase is the net result of the following:

— Energy costs consisting primarily of fuel and purchased power expenses, increased by 8.4% in 1979. However, it is intended that through the operation of the Company's ECAC, including the balancing account feature, changes in ECAC-related fuel and purchased power expenses will not affect earnings. While the ECAC has not adequately provided the cash recovery needed during times of rapid increases in energy costs such as the recent price increases in foreign oil, recent actions of the CPUC to revise the ECAC procedures should accelerate the cash recovery of increases in energy costs.

— Operation expenses other than energy cost, increased 13.6% in 1979 as compared with 17.2% in 1978. The increase was primarily due to the impact of inflation on the costs of labor, material and services and additional operation costs associated with system growth. The lower rate of increase, as compared with the prior year, reflects the increased emphasis by the Company on productivity improvement.

— The increase in maintenance expenses of 8.1% resulted primarily from the impact of inflation. This increase, however, is considerably less than the 23.2% increase experienced in 1978, which was largely due to storm damage experienced during the first quarter of 1978.

— Depreciation expense increased by \$21,434,000, or 13.6%, reflecting, in part, additional plant but primarily the implementation, effective September 1, 1978, of higher depreciation rates authorized by the CPUC.

— The increase in taxes on income of \$27,489,000 reflected the net effect of higher pre-tax net income, which was due primarily to the rate increase which became effective January 1, 1979, partially offset by the reduction from 48% to 46% in the federal statutory tax rate and an increase in the net investment tax credits.

The Company's Allowance for Debt and Equity Funds Used During Construction (ADC) increased 51.2% in 1979, due to more construction work in progress, approximately two-thirds of which was related to the San Onofre Nuclear Generating Station. In addition, there was an increase in the ADC rate from 6.96% to 7.76% effective January 1, 1979.

The 12.3% increase in interest charges reflected the combined effects of higher short-term interest rates and additional long-term debt outstanding during 1979. Preferred dividend requirements increased 8.7%, reflecting additional preferred stock outstanding during 1979.

Primary earnings per share were \$4.56 for 1979 as compared with \$3.52 for 1978. The increase of \$1.04 or 29.5%, reflected the \$90,255,000, or 44.6%, net increase in earnings, which was partially offset by the dilutive effect of the issuance of new shares of Common Stock.

Summary of Operations and Comparative Statistics of Progress 1969-1979

		1979	1978
Summary of Operations <i>in thousands</i>	Operating Revenues	\$2,563,974	\$2,328,798
	Operating Expenses	2,178,978	2,004,197
	Energy Costs (a)	1,344,023	1,240,029
	Taxes on Income — Current and Deferred (a)	100,292	72,803
	Allowance for Debt and Equity Funds		
	Used During Construction	118,566	78,421
	Interest Charges	205,082	182,658
	Net Income	346,219	251,683
	Earnings Available for Common and Original Preferred Stock	\$ 292,481	\$ 202,226
	Weighted Average Shares of Common and Original Preferred Stock Outstanding and Common Stock Equivalents	64,202	57,477
	Per Share Data:		
	Primary Earnings	\$4.56	\$3.52
	Fully Diluted Earnings	\$4.39	\$3.38
	Dividends Declared on Common Stock	\$2.60	\$2.30
	Dividend payout ratio (paid)	55.7%	63.6%
	Balance Sheet Data <i>in thousands</i>	Gross Utility Plant	\$7,577,670
Accumulated Provision for Depreciation		1,676,148	1,519,174
Percent of Gross Utility Plant		22.1	22.3
Long-Term Debt (includes current maturities) (b):			
Bonds		2,691,577	2,418,212
Debentures		74,957	75,046
Other		64,217	17,953
Preferred & Preference Stock		814,322	700,650
Common Stock, including Additional Stated Capital		577,259	547,166
Additional Paid-in Capital		601,578	569,673
Earnings Reinvested in the Business		\$1,054,296	\$ 931,217
Capital Structure (percent):			
Long-Term Debt:			
Bonds		45.8	46.0
Debentures		1.3	1.4
Other		1.1	0.4
Preferred & Preference Stock		13.8	13.3
Common Equity		38.0	38.9
Book Value Per Common Share		\$34.22	\$32.57
Operating and Consumption Data	Operating Capacity (kw) (c)	14,932,223	14,805,223
	Total Energy Requirement (kwh) (ooo)	66,216,910	63,877,116
	Percent Output:		
	Thermal	82.1	73.9
	Hydro-Company Plants	7.6	9.2
	Purchased Power & Other Sources	10.3	16.9
	Kilowatt-Hour Consumption (ooo)	59,517,861	57,027,035
	Number of Customers	3,082,382	2,986,545
	Average Annual kwh Consumption		
	Per Residential Customer	6,010	5,883
	Number of Employees	12,917	12,845
Main System Peak (kw) (ooo)	12,464	11,997	

(a) Included in Operating Expenses.

1977	1976	1975	1974	1973	1972	1971	1970	1969
\$2,064,914	\$1,846,540	\$1,647,134	\$1,360,959	\$1,075,949	\$ 927,674	\$ 802,434	\$ 720,661	\$ 642,124
1,734,192	1,539,400	1,380,528	1,108,249	843,530	709,724	612,732	535,846	482,663
1,040,091	916,131	824,826	541,890	344,990	240,135	192,982	143,475	126,216
68,792	59,506	46,623	70,618	46,496	44,542	38,542	38,635	36,480
60,238	47,610	26,773	16,163	10,190	7,152	15,859	17,007	17,471
161,078	144,368	126,185	112,959	97,728	91,752	82,308	77,633	68,246
251,979	226,798	176,781	160,344	146,110	135,648	127,297	127,495	107,869
\$ 206,330	\$ 185,047	\$ 137,177	\$ 124,656	\$ 117,268	\$ 110,469	\$ 105,752	\$ 110,497	\$ 95,152
54,347	48,678	47,965	44,580	43,965	43,965	43,041	40,963	40,501
\$3.80	\$3.80	\$2.86	\$2.80	\$2.67	\$2.51	\$2.46	\$2.70	\$2.35
\$3.63	\$3.61	\$2.75	\$2.68	\$2.57	\$2.43	\$2.37	\$2.59	\$2.27
\$2.06	\$1.68	\$1.68	\$1.68	\$1.56	\$1.56	\$1.51½	\$1.50	\$1.40
50.5%	44.2%	58.7%	58.9%	58.4%	62.2%	61.0%	54.6%	59.6%
\$6,191,733	\$5,658,433	\$5,147,333	\$4,766,175	\$4,458,631	\$4,233,067	\$3,998,045	\$3,737,837	\$3,461,836
1,383,009	1,258,327	1,149,311	1,051,024	958,210	851,910	779,409	707,928	649,702
22.3	22.2	22.3	22.1	21.5	20.1	19.5	18.9	18.8
2,255,216	2,055,966	2,012,597	1,863,951	1,640,349	1,705,139	1,584,840	1,484,840	1,384,840
75,135	75,224	75,313	75,401	75,490	75,579	74,902	74,987	74,987
20,023	20,671	25,968	14,327	6,871	7,991	7,991	438	—
715,172	612,753	612,753	562,753	512,753	437,753	362,753	362,753	262,753
470,374	442,741	395,709	395,709	362,376	362,376	362,376	337,360	337,360
443,109	427,422	350,503	350,503	316,636	316,636	316,636	243,437	243,437
\$ 862,956	\$ 769,425	\$ 671,548	\$ 616,562	\$ 569,938	\$ 512,164	\$ 470,754	\$ 430,477	\$ 381,040
46.6	46.7	48.6	48.1	47.1	49.9	49.9	50.6	51.6
1.6	1.7	1.8	1.9	2.2	2.2	2.3	2.6	2.8
0.4	0.5	0.6	0.4	0.2	0.3	0.3	—	—
14.7	13.9	14.8	14.5	14.7	12.8	11.4	12.4	9.8
36.7	37.2	34.2	35.1	35.8	34.8	36.1	34.4	35.8
\$32.30	\$30.67	\$29.64	\$28.50	\$28.46	\$27.14	\$26.20	\$24.72	\$23.53
14,440,123	14,169,323	13,760,713	13,494,849	13,447,095	12,615,665	12,458,165	10,904,845	10,238,627
63,344,706	59,427,973	56,279,231	55,105,988	57,730,121	55,686,776	52,672,084	49,674,757	46,344,845
87.5	75.2	76.2	75.2	84.9	86.6	80.0	82.5	79.1
2.4	4.3	8.4	10.0	9.0	6.4	8.4	9.2	12.7
10.1	20.5	15.4	14.8	6.1	7.0	11.6	8.3	8.2
57,726,273	53,685,378	51,327,508	51,089,981	54,092,934	52,309,906	48,856,493	45,881,076	42,601,606
2,900,856	2,814,403	2,749,680	2,691,691	2,626,492	2,566,341	2,497,342	2,438,584	2,383,251
5,630	5,650	5,596	5,541	5,885	5,777	5,642	5,240	5,031
12,671	12,510	12,377	12,970	13,391	12,907	12,534	12,048	11,693
11,247	11,081	10,193	9,997	10,253	9,815	9,350	8,274	7,804

(b) The years subsequent to 1971 include unamortized premium or discount related to each category of long-term debt.

(c) Includes 1,669,503 and 1,650,503 kw available from others in 1979 and 1978.

Board of Directors

Jack K. Horton	<i>Chairman of the Board and Chief Executive Officer</i>
Roy A. Anderson	<i>Chairman of the Board and Chief Executive Officer, Lockheed Corporation, Burbank, California</i>
Norman Barker, Jr.	<i>Chairman of the Board and Chief Executive Officer, United California Bank, Los Angeles, California</i>
Edward W. Carter	<i>Chairman of the Board, Carter Hawley Hale Stores, Inc., Los Angeles, California</i>
William B. Coberly, Jr.	<i>President, California Cotton Oil Corporation, (Investments and Real Estate Holdings), Los Angeles, California</i>
Terrell C. Drinkwater	<i>Retired Airline Executive, Los Angeles, California</i>
Walter B. Gerken	<i>Chairman of the Board and Chief Executive Officer, Pacific Mutual Life Insurance Company, Newport Beach, California</i>
William R. Gould	<i>President</i>
Joan C. Hanley	<i>General Partner and Manager, Miramonte Vineyards, Rancho California, California</i>
Frederick G. Larkin, Jr.	<i>Chairman of the Executive Committee, Security Pacific National Bank, Los Angeles, California</i>
T. M. McDaniel, Jr.	<i>Corporate Director and Consultant (Retired President, Southern California Edison Company), San Marino, California</i>
John V. Newman	<i>President, CBS-Sony California, Inc. (Citrus Production), Oxnard, California</i>
Gerald H. Phipps	<i>President, Gerald H. Phipps, Inc., General Contractors (Building Construction), Denver, Colorado</i>
Henry T. Segerstrom	<i>Managing General Partner, C. J. Segerstrom & Sons (Real Estate Development), Costa Mesa, California</i>
E. L. Shannon, Jr.	<i>Chairman of the Board and Chief Executive Officer, Santa Fe International Corporation (Oil Service, Petroleum Exploration and Production), Orange, California</i>
H. Russell Smith	<i>Chairman of the Board, Avery International (Manufacturer of Self-Adhesive Products), San Marino, California</i>
Richard R. Von Hagen	<i>President, Lloyd Corporation, Ltd. (Real Estate Development and Production of Oil and Gas), Beverly Hills, California</i>

Executive Officers

Jack K. Horton	<i>Chairman of the Board and Chief Executive Officer</i>
William R. Gould	<i>President</i>
Howard P. Allen	<i>Executive Vice President</i>
H. Fred Christie	<i>Senior Vice President and Chief Financial Officer</i>
David J. Fogarty	<i>Senior Vice President</i>
A. Arenal	<i>Vice President (Engineering and Construction)</i>
G. J. Bjorklund	<i>Vice President (System Development)</i>
Robert Dietch	<i>Vice President (Nuclear Engineering and Operations)</i>
C. E. Hathaway	<i>Vice President (Personnel)</i>
Joe T. Head, Jr.	<i>Vice President (Power Supply)</i>
P. L. Martin	<i>Vice President (Customer Service)</i>
A. L. Maxwell	<i>Vice President and Comptroller</i>
Edward A. Myers, Jr.	<i>Vice President (Conservation, Communications and Revenue Services)</i>
L. T. Papay	<i>Vice President (Advanced Engineering)</i>
William H. Seaman	<i>Vice President (Fuel Supply)</i>
Robert E. Umbaugh	<i>Vice President (Administration)</i>
John R. Bury	<i>General Counsel</i>
Michael L. Noel	<i>Treasurer</i>
Honor Muller	<i>Secretary</i>

1980 Annual Shareholders' Meeting

The annual meeting of shareholders of Southern California Edison Company will be held at 10 a.m., Thursday, April 17, 1980, at the Company's Corporate Headquarters, 2244 Walnut Grove Avenue, Rosemead, California 91770. Telephone (213) 572-1212.

Statistical Supplement

A comprehensive financial and statistical supplement to this report is available in limited quantity. A copy may be requested by writing to the Treasurer, Southern California Edison Company, P.O. Box 800, Rosemead, California 91770.

Stock Transfer Agent
Southern California Edison Company
Rosemead, California

Registrar of Stock
Security Pacific National Bank
Los Angeles, California

Stock Exchange Listings
Common Stock:
New York Stock Exchange
Pacific Stock Exchange

Preferred and Preference Stocks:
American Stock Exchange
Pacific Stock Exchange

Ticker Symbol
SCE (Common Stock)

Media Listing:
SCalEd

This Annual Report and the statements and statistics contained herein have been assembled for general informative purposes and are not intended to induce, or for use in connection with, any sale or purchase of securities. Under no circumstances is this report or any part of its contents to be considered a prospectus, or as an offer to sell, or the solicitation of an offer to buy, any securities.

For Investor Relations Information, contact the Treasurer, Southern California Edison Company. Telephone (213) 572-1086



Southern California Edison Company, 2244 Walnut Grove Avenue, Rosemead, California 91770

SECTION 1

LOS ANGELES DEPARTMENT OF WATER AND POWER

Question 1.

Describe the nature, amount, ratings and success of each municipal applicant's most recent revenue and general obligation bond sales. Indicate the current total outstanding indebtedness in each category for each entity.

Answer:

Refer to the answer to Question 3 in Section 1 of the "Palo Verde Nuclear Generating Station Units 1, 2 and 3 (Docket Nos. STN 50-528/529/530), Financial Information In Support of Application for Amendment to Construction Permits Nos. CPPR-141, CPPR-142 and CPPR-143" (hereinafter referred to as "Financial Information Regarding LADWP and SCPPA").

Question 2.

Provide copies of the official statement for the most recent bond issue. Provide copies of the preliminary statement for any pending security issue.

Answer:

Refer to the answer to Question 4 in Section 1 of the Financial Information Regarding LADWP and SCPPA.

Question 3.

Provide copies of the most recent annual financial report and the most recent interim financial statements. Continue to submit copies of the annual financial report for each year thereafter, as required by 10 CFR 50.71(b).

Answer:

Refer to the answer to Question 5 in Section 1 of the Financial Information Regarding LADWP and SCPPA.

Question 4.

Is each participant's percentage-ownership share in the facility equal to its percentage entitlement in the electrical capacity and output of the plant? If not, explain the difference(s) and any resultant effect on any participant's obligation to provide its share of operating cost.

Answer:

Refer to the answer to Question 6 in Section 1 of the Financial Information Regarding LADWP and SCPPA.



Question 5.

Describe the rate-setting authority of each municipal applicant and how that authority may be used to ensure the satisfaction of financial obligations related to operating costs and eventual shutdown costs of the facility. Describe any restrictions on such rate-setting authority and how this may affect the applicant's ability to satisfy its obligations to the project. Describe the nature and amount of each municipal applicant's most recent rate relief action and the anticipated effect on revenue. Indicate the nature and amount of any pending rate relief action(s).

Answer:

Refer to the answer to Question 7 in Section 1 of the Financial Information Regarding LADWP and SCPFA.



Question 6.

If a membership organization is participating in the joint ownership, explain the contractual arrangement among the members that assures that funds will be available to meet the entity's obligations to the project. Provide copies of the power sales contract.

Answer:

Not applicable.



Question 7.

Describe the applicant's plan for financing its share of the cost of eventual shutdown of the facility and maintenance in a safe shutdown condition.

Answer:

The cost of permanently shutting down the facility and maintaining it in a safe condition will be shared by LADWP in proportion to its Generation Entitlement Share, as defined in the ANPP Participation Agreement. However, ultimate plans and policies for the shutdown of PVNGS have not been finalized and, therefore, no method of financing has been determined at this time by LADWP respecting its share of such cost. Eventual implementation of a financing plan will require approval by LADWP's rate-setting authority.

SECTION 2

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY

Question 1.

Describe the nature, amount, ratings and success of each municipal applicant's most recent revenue and general obligation bond sales. Indicate the current total outstanding indebtedness in each category for each entity.

Answer:

Refer to the answer to Question 3 in Section 2 of the Financial Information Regarding LADWP and SCPA.



Question 2.

Provide copies of the official statement for the most recent bond issue. Provide copies of the preliminary statement for any pending security issue.

Answer:

Refer to the answer to Question 4 in Section 2 of the Financial Information Regarding LADWP and SCPPA.

Question 3.

Provide copies of the most recent annual financial report and the most recent interim financial statements. Continue to submit copies of the annual financial report for each year thereafter as required by 10 CFR 50.71(b).

Answer:

Refer to the answer to Question 5 in Section 2 of the Financial Information Regarding LADWP and SCPPA.



Question 4.

Is each participant's percentage ownership share in the facility equal to its percentage entitlement in the electrical capacity and output of the plant? If not, explain the difference(s) and any resultant effect on any participant's obligation to provide its share of operating costs.

Answer:

Refer to the answer to Question 6 in Section 2 of the Financial Information Regarding LADWP and SCPFA.



Question 5.

Describe the rate-setting authority of each municipal applicant and how that authority may be used to ensure the satisfaction of financial obligations relating to operating costs and eventual shutdown costs of the facility. Describe any restrictions on such rate-setting authority and how this may affect the applicant's ability to satisfy its obligations to the project. Describe the nature and amount of each municipal applicant's most recent rate relief action and the anticipated effect on revenues. Indicate the nature and amount of any pending rate relief action(s).

Answer:

Refer to the answer to Question 7 of the Financial Information Regarding LADWP and SCPA.



Question 6.

If a membership organization is participating in the joint ownership, explain the contractual arrangement among the members that assures that funds will be available to meet the entity's obligations to the project. Provide copies of the power sales contract.

Answer:

Refer to the answer to Question 10 in Section 2 of the Financial Information Regarding LADWP and SCPFA.



Question 7.

Describe the applicant's plan for financing its share of the cost of eventual shutdown of the facility and maintenance in a safe shutdown condition.

Answer:

SCPPA is currently studying several methods of financing to determine which of such methods it should adopt to finance its share of the costs of eventual shutdown and maintenance of PVNGS. A principal factor in this determination is that those electric customers who benefit from use of PVNGS should also bear the cost of the shutdown of PVNGS. It is also the intention of SCPPA to comply with the regulatory requirements of all governmental authorities having jurisdiction to regulate decommissioning cost recovery.



Control #8109030298

ARIZONA



PUBLIC SERVICE COMPANY

P. O. BOX 21666 • PHOENIX, ARIZONA 85036

July 31, 1981

Director of Nuclear Reactor Regulation
U.S. Nuclear Regulatory Commission
Washington, D.C. 20555

Subject: Application for Amendment to Construction
Permits Nos. CPPR-141, CPPR-142 and CPPR-143
Palo Verde Nuclear Generating Station
Units 1, 2 and 3
Docket Nos. STN 50-528/529/530

Dear Sir:

Arizona Public Service Company (APS), as Project Manager and Operating Agent for Palo Verde Nuclear Generating Station (PVNGS) Units 1, 2 and 3, is enclosing herewith three originals and nineteen copies of its Application for Amendment to Construction Permits Nos. CPPR-141, CPPR-142 and CPPR-143.

The enclosed Application seeks the amendment of Construction Permits Nos. CPPR-142 and CPPR-143 to reflect the transfer by Salt River Project Agricultural Improvement and Power District (SRP) to the Los Angeles Department of Water and Power of a 5.7% undivided ownership interest as a tenant in common with the other Participants in PVNGS, upon notice to the Commission by APS that Palo Verde Unit 1 has been placed into commercial operation. The Application also seeks the amendment of Construction Permits Nos. CPPR-141, CPPR-142 and CPPR-143 to reflect the transfer by SRP to the Southern California Public Power Authority (SCPPA) of a 5.91% undivided ownership interest as a tenant in common with the other Participants in PVNGS.

In support and as part of the enclosed Application, APS is submitting herewith the following:

Nineteen (19) copies of the financial qualifications information required by 10 CFR §50.33(f).

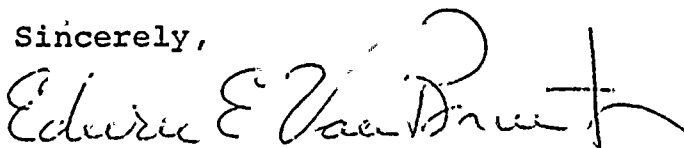
Twenty (20) copies of the antitrust information required by 10 CFR §50.33a and 10 CFR Part 50, Appendix L.

Director of Nuclear Reactor Regulation
July 31, 1981
Page Two

The general information required by 10 CFR §50.33 and the environmental information required by 10 CFR Part 51 are being submitted under separate cover as additions to the Palo Verde Nuclear Generating Station (Docket Nos. STN 50-528/529/530), General Information, Operating License Application and as part of Supplement 3 to the Palo Verde Nuclear Generating Station Units 1, 2 and 3 (Docket Nos. STN 50-528/529/530), Environmental Report - Operating License Stage, respectively.

For the reasons set forth in the enclosed Application, the requested amendment has no safety or environmental significance. Accordingly, APS considers the requested amendment to be a Class II amendment for purposes of determining the applicable fee under 10 CFR §170.22. Enclosed are two APS checks in the total amount of \$2000 in full payment of such fee. This amount is based upon a fee of \$1200 for amendment of Construction Permit No. CPPR-141, and a fee of \$800 for amendment of Construction Permits Nos. CPPR-142 and CPPR-143.

Sincerely,



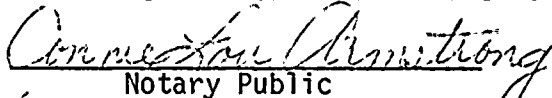
Edwin E. Van Brunt, Jr.
APS Vice President, Nuclear Projects
ANPP Project Director

EEVB:CAB:jaw

Enclosure

STATE OF ARIZONA)
) ss.
County of Maricopa)

Subscribed and sworn to before me this 29th day of JULY, 1981.


Notary Public

My Commission expires: My Commission Expires June 24, 1983

SECTION 1

LOS ANGELES DEPARTMENT OF WATER AND POWER

Question 1.

Provide a detailed statement of the projected sources of funds for each municipal applicant's capital contribution to the subject project showing both the timing and amounts that will be financed and advanced to the lead applicant for the acquisition of the respective ownership interest of the facility. State in detail all other construction expenditures that are projected to be incurred during the acquisition period, including other capital requirements such as sinking fund requirements and redemptions of maturing bond issues. Indicate the expected breakdown between internally generated funds and external financing during the acquisition period in the meeting of total capital requirements. Provide a detailed explanation of the assumptions upon which the projected sources of funds statement is based.

Answer:

The financing by the Los Angeles Department of Water and Power (LADWP) of its 5.7% share of the cost of construction of the Palo Verde Nuclear Generating Station (PVNGS) and related facilities will be integrated into the financing of LADWP's total construction program for all classifications of property. For planning purposes, the construction program is reviewed and established annually and projected for a period of five years. The current estimated construction program expenditures for the fiscal year periods beginning July 1, 1981, and ending June 30, 1986, are shown in Table 1-1.

LADWP currently owns 30% of the Coronado Generating Station Units 1 and 2, a coal-fired station located near St. Johns, Arizona. Salt River Project Agricultural Improvement and Power District (SRP) is the Project Manager and Operating Agent of the Coronado Generating Station. LADWP will retain its interest in the Coronado Generating Station until PVNGS Unit 1 goes into commercial operation, at which time LADWP will exchange its interest in the Coronado Generating Station for a 5.7% undivided ownership interest in PVNGS Units 1, 2 and 3. SRP will supplement LADWP's entitlement in PVNGS with capacity contingent on the operation of the Coronado Generating Station until all three PVNGS units are in commercial operation. For details of the



transaction, see the "SRP-LADWP, Memorandum of Agreement Providing for Purchase," dated August 18, 1977, and provided in Appendix 1A hereto. Table 1-2 lists the amounts expected to be advanced by LADWP to Arizona Public Service Company (APS), as Project Manager, after PVNGS Unit 1 is placed into commercial operation.

It is estimated for the years 1981-1986 that internal funding sources (i.e., retained earnings, depreciation and contributions and advances from customers) will provide approximately 37.5% of the funds required for construction purposes, and external funding sources will provide the balance. The determination of the amounts of external funding sources to be used (i.e., electric revenue bonds and notes) is determined from time to time as financial market conditions and LADWP's circumstances warrant. The capitalization ratios as of June 30, 1981, were as follows:

Debt = 64.0%

Equity = 36.0%

The ratings for LADWP's outstanding securities are as follows:

<u>Description</u>	<u>Moody's</u>	<u>Standard & Poor's</u>
Revenue Bonds	Aa	AA
Five Year Notes	MIG1	AA



Table 1-1

LADWP

Estimated Construction Program Expenditures

(as of May 1981)

(millions)

Generation	52.0	107.4	96.1	100.5	130.9
Transmission	12.6	36.0	21.0	73.7	67.1
Distribution	90.8	83.2	96.6	106.4	115.6
Other	26.1	26.5	20.8	24.2	29.1
Less Reim- bursements & other adjustments	33.1	103.6	92.0	99.5	128.6
Less AFUDC*	<u>2.7</u>	<u>5.6</u>	<u>17.6</u>	<u>11.7</u>	<u>10.2</u>
TOTAL	145.7	143.9	124.9	193.6	203.9

* Allowance for Funds Used During Construction



Table 1-2

LADWP

ESTIMATE OF EXPENDITURES TO APS (\$1000)*

	YEAR (July 1 - June 30)				
	<u>1982-83</u>	<u>1983-84</u>	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
Acquisition of 5.7% Ownership of PVNGS	5,538	19,740	11,863	8,819	576
5.7% Share of PVNGS Startup Costs	5,928	449	596	280	0
5.7% Share of Uranium Oxide Procurement, Conversion, Enrichment and Fabrication for First Cores of PVNGS	14,568	4,656	3,559	2,996	0
5.7% Share of PVNGS Switchyard	1,502	163	403	368	0

* The estimates provided above do not include any reimbursements which SRP may pay to LADWP at the time of the transfer of the 5.7% interest in PVNGS.

Question 2.

If any municipal applicant is to finance its ownership-share with bonds, indicate the source of funds for payment of interest charges and principal. Indicate the legal authority by which each municipal applicant can issue bonds to provide financial support for the subject project. Show the effect of any restrictions on both project and total financing ability stating the amount of financing that may be presently performed under such restrictions.

Answer:

For information respecting LADWP's source of construction funds, see the answer to Question 1.

LADWP's legal authority to issue bonds, and restrictions on such authority, are described in the Official Statement dated September 3, 1980, a copy of which is provided in Appendix 1B hereto.

Question 3.

Describe the nature, amount, ratings and success of each municipal applicant's most recent revenue and general obligation bond sales. Indicate the current total outstanding indebtedness in each category for each entity.

Answer:

The information requested respecting LADWP's most recent revenue bond sale and total outstanding indebtedness is described in the Official Statement dated September 3, 1980, a copy of which is provided in Appendix 1B hereto.



Question 4.

Provide copies of the official statement for the most recent bond issue. Provide copies of the preliminary statement for any pending security issue.

Answer:

A copy of the Official Statement for LADWP's most recent bond sale is provided in Appendix 1B hereto.

LADWP has no pending security issue.



Question 5.

Provide copies of the most recent annual financial report and the most recent interim financial statements for each municipal applicant. Continue to submit copies of the annual financial report for each year thereafter as required by 10 CFR Part 50.71(b).

Answer:

A copy of LADWP's most recent annual report is provided in "Palo Verde Nuclear Generating Station (Docket Nos. STN 50-528/529/530), General Information, Operating License Application," Appendix 6A.

A copy of LADWP's most recent financial statement is provided in Appendix 1C hereto.



Question 6.

Is each participant's percentage ownership share in the facility equal to its percentage entitlement in the electrical capacity and output of the plant? If not, explain the difference(s) and any resultant effect on any participant's obligation to provide its share of design, construction and operating costs.

Answer:

LADWP's percentage ownership interest in PVNGS is equal to its Generation Entitlement Share, as defined in the Arizona Nuclear Power Project Participation Agreement, dated as of August 23, 1973, as amended (hereinafter referred to as the "ANPP Participation Agreement"). A copy of the ANPP Participation Agreement is provided in the "Palo Verde Nuclear Generating Station Units 1, 2 and 3 (Docket Nos. STN 50-528/529/530), General Information, Construction Permit Application," Appendices 1A and 1B.

Question 7.

Describe the rate-setting authority of each municipal applicant and how that authority may be used to ensure the satisfaction of financial obligations related to both capital and operating costs of the facility. Describe any restrictions on such rate-setting authority and how this may affect the applicant's ability to satisfy its obligations to the project. Describe the nature and amount of each municipal applicant's most recent rate relief action and the anticipated effect on revenues. Indicate the nature and amount of any pending rate relief action(s).

Answer:

In accordance with the City Charter, LADWP's electric rates are set by the Board of Water and Power Commissioners and approved by the City Council and Mayor. However, the rates must be published for thirty (30) days before they become effective. The most recent electric revenue increase was 12.9% on October 18, 1980. This increase will raise electric revenues by approximately \$132.5 million annually. There are no pending electric revenue increases, although LADWP anticipates an electric revenue increase of six percent (6%) in the fall of 1983.



Question 8.

What is the estimated dollar amount that will be payable by the applicant at the date of closing the sale? What is the total estimated dollar amount that the applicant will pay to the lead applicant after closing the sale and through completion of the units?

Answer:

Pursuant to the transaction between LADWP and SRP described in the answer to Question 1, no expenditures by LADWP to SRP are anticipated at the date of closing the sale.

An estimate of the amount that LADWP will pay to APS through completion of PVNGS is provided in the answer to Question 1.

LADWP's investment in PVNGS at the completion of construction is estimated to be approximately \$315,800,000. This figure consists of the amount paid by LADWP to SRP for LADWP's ownership interest in the Coronado Generating Station, plus an estimate of the amount that LADWP will pay to APS through completion of PVNGS, minus an estimate of the amount to be paid by SRP to LADWP at the date of closing the sale.



Question 9.

Provide copies of the joint ownership agreement. The Staff will require copies of the executed agreement as a condition of the CP amendment.

Answer:

A copy of the "SRP-LADWP, Memorandum of Agreement Providing for Purchase," dated August 18, 1977, is provided in Appendix 1A hereto. A copy of the ANPP Participation Agreement is provided in the "Palo Verde Nuclear Generating Station Units 1, 2 and 3 (Docket Nos. STN 50-528/529/530), General Information, Construction Permit Application," Appendices 1A and 1B.



Question 10.

If a membership organization is participating in the joint ownership, explain the contractual arrangement among the members that assures that funds will be available to meet the entity's obligations to the project. Provide copies of the power sales contract.

Answer:

Not applicable.



Question 11.

Explain the procedure to be used by the lead applicant for billing the municipalities for construction progress payments subsequent to closing the sale. This may be answered by reference to pertinent portions of the joint ownership agreement that is submitted to the Staff.

Answer:

The procedure used by the Participants in PVNGS respecting the advancement of funds for the construction of PVNGS is set forth in Section 12 of the ANPP Participation Agreement.



APPENDIX 1A



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MEMORANDUM OF AGREEMENT
PROVIDING FOR PURCHASE

BETWEEN

SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER DISTRICT

and

DEPARTMENT OF WATER AND POWER
OF THE CITY OF LOS ANGELES

1 MEMORANDUM OF AGREEMENT

2 PROVIDING FOR PURCHASE

3 This Memorandum of Agreement Providing for Purchase
4 ("Memorandum"), entered into as of the 18th day of August,
5 1977, by and between SALT RIVER PROJECT AGRICULTURAL IMPROVE-
6 MENT AND POWER DISTRICT, an Arizona agricultural improvement
7 district ("Salt River Project"), and DEPARTMENT OF WATER AND
8 POWER OF THE CITY OF LOS ANGELES, a department organized and
9 existing under the charter of the City of Los Angeles, a
10 municipal corporation of the State of California ("Los Angeles"),
11 is for the purpose of setting forth the terms and conditions of
12 a purchase of ownership or other interest in electric genera-
13 tion and associated facilities and capacity and associated
14 energy by Los Angeles from Salt River Project.

15 WHEREAS, Salt River Project and Los Angeles have nego-
16 tiated a Coronado Project Participation Agreement ("Partici-
17 pation Agreement"), a copy of which is attached hereto as
18 Exhibit A and made a part hereof, for the purpose of Los
19 Angeles purchasing an interest in Units 1 and 2 and associated
20 facilities of Salt River Project's wholly owned Coronado Gen-
21 erating Station, Coronado Railroad Spur and Coronado Trans-
22 mission System ("Coronado Project"), presently under construc-
23 tion.

24 WHEREAS, Salt River Project and Los Angeles have nego-
25 tiated an Amendment No. 4 of the Arizona Nuclear Power Project
26 Participation Agreement, a SRP-LA Palo Verde Station Assignment

1 Agreement, and a LA-SRP Coronado Project Assignment Agreement,
2 copies of which are attached as Exhibits B, C and D and made a
3 part hereof, pursuant to which Los Angeles shall transfer its
4 interest in the Coronado Project to Salt River Project and Salt
5 River Project shall transfer to Los Angeles a 5.7% interest in
6 Units 1, 2 and 3 and associated facilities of the Palo Verde
7 Nuclear Generating Station and the ANPP Project Agreements
8 ("Palo Verde"), presently under construction near Buckeye,
9 Arizona.

10 WHEREAS, Salt River Project and Los Angeles propose to
11 execute and deliver the Coronado Project Participation Agree-
12 ment, Amendment No. 4 of Arizona Nuclear Power Project Partici-
13 pation Agreement, SRP-LA Palo Verde Station Assignment Agree-
14 ment and LA-SRP Coronado Project Assignment Agreement, upon
15 certain conditions precedent having been fulfilled, or waived,
16 as hereinafter set forth.

17 NOW, THEREFORE, Salt River Project and Los Angeles agree
18 as follows:

19 1. TRANSFER OF OWNERSHIP IN CORONADO PROJECT

20 1.1 Salt River Project and Los Angeles agree to execute
21 and deliver the Participation Agreement in substantially the
22 form attached hereto and made a part hereof as Exhibit A
23 following such time as Salt River Project and Los Angeles have
24 received their respective required approvals.

25 1.2 In the event the condition precedent referred to in
26 Section 1.1 hereof has not occurred on or before November 1,

1 1977, and for that reason the Participation Agreement shall not
2 have been executed and delivered by Salt River Project and Los
3 Angeles, this Memorandum shall thereupon terminate and be of no
4 further force or effect; provided, however, that the time
5 within which the occurrence of the aforesaid condition prece-
6 dent must have been completed, may by agreement between Salt
7 River Project and Los Angeles be extended or waived at any time
8 and from time to time. Any such extension shall similarly
9 extend the termination date of this Memorandum.

10 1.3 Until the occurrence of the transfer contemplated in
11 Section 2.1 hereof, Salt River Project shall consult with Los
12 Angeles as to all matters which, in Salt River Project's judg-
13 ment, have a significant impact on the costs of and/or schedule
14 for Palo Verde. Salt River Project shall have the right and
15 duty to perform the obligations set forth in the ANPP Parti-
16 cipation Agreement, dated as of August 23, 1973, as amended,
17 and the ANPP Project Agreements with respect to its total
18 ownership interest and shall treat the interest to be trans-
19 ferred to Los Angeles in the same manner as it treats its
20 interest not so transferred. Nothing herein shall be construed
21 to require Salt River Project to obtain the consent of Los
22 Angeles to any action required to be taken by Salt River
23 Project under either the ANPP Participation Agreement, as
24 amended, or the ANPP Project Agreements.

25 2. EXCHANGE OF OWNERSHIP IN CORONADO PROJECT FOR OWNERSHIP
26 IN PALO VERDE

27 2.1 Salt River Project and Los Angeles agree to execute

1 and deliver Amendment No. 4 of Arizona Nuclear Power Project
2 Participation Agreement, SRP-LA Palo Verde Station Assignment
3 Agreement and LA-SRP Coronado Project Assignment Agreement in
4 substantially the form attached hereto and made a part hereof
5 as Exhibits B, C and D forthwith upon the occurrence, fulfill-
6 ment or waiver of the latest of the conditions precedent in
7 Sections 2.1.1 and 2.1.2 hereof:

8 2.1.1 There shall have been obtained from the
9 Nuclear Regulatory Commission required approvals to
10 effectuate the transfer of a 5.7% interest in Units 1, 2
11 and 3 of Palo Verde from Salt River Project to Los Angeles,
12 subject to the condition set forth in Section 2.1.2
13 hereof.

14 2.1.2 The date of commercial operation of Unit 1 of
15 Palo Verde shall have been declared and occurred which,
16 for the purposes of this Memorandum, is the Date of Firm
17 Operation of such Unit as defined in the Arizona Nuclear
18 Power Project Participation Agreement, as amended.

19 2.2 Los Angeles shall provide to Salt River Project, in a
20 timely manner, the information and data required to initiate
21 and file the documents necessary to effect the transfer of
22 interest set forth in Section 2.1 hereof.

23 2.3 In the event that the conditions precedent that are
24 referred to in Section 2.1 hereof have not occurred on or
25 before January 1, 1984, and for that reason Amendment No. 4
26 of Arizona Nuclear Power Project Participation Agreement, SRP-

1 LA Palo Verde Station Assignment Agreement and LA-SRP Coronado
2 Project Assignment Agreement shall not have been executed and
3 delivered by Salt River Project and Los Angeles, this Memorandum,
4 subject to Section 2.4 hereof, shall thereupon terminate and be
5 of no further force or effect; provided, however, that the time
6 within which the occurrence of the aforesaid conditions prece-
7 dent must have been completed, may by agreement between Salt
8 River Project and Los Angeles be extended or waived at any time
9 and from time to time. Any such extension shall similarly
10 extend the termination date of the Memorandum.

11 2.4 In the event Salt River Project and Los Angeles are
12 unable to effectuate the transfer of Los Angeles' interest in
13 the Coronado Project and the transfer of a 5.7% interest in
14 Palo Verde pursuant to Section 2.1 hereof, by January 1, 1984,
15 Los Angeles, subject to the recapture provisions set forth in
16 Section 16 of the Participation Agreement, shall retain its
17 ownership interest in the Coronado Project and Salt River
18 Project shall execute and deliver to Los Angeles the remaining
19 interest in land and land rights for the Coronado Transmission
20 System and Coronado Railroad Spur, in proportion to Los Angeles'
21 Cost Responsibility referred to in Section 5.2.2 of the Parti-
22 cipation Agreement, in a form acceptable to Los Angeles. In
23 such event, the Participation Agreement shall be amended by
24 Salt River Project and Los Angeles to reflect appropriate
25 changes in conditions.



1 3. SETTLEMENT OF COSTS

2 3.1 In the event the transfer contemplated by Section 2.1
3 hereof shall have occurred, then:

4 3.1.1 If, upon the date of transfer of interests in
5 Palo Verde to Los Angeles, Los Angeles' installed costs
6 in the Coronado Project exceed 5.7% of the installed costs
7 of Palo Verde as determined in accordance with FPC accounts
8 shown on the books of Salt River Project, Salt River
9 Project shall pay Los Angeles the difference, with interest
10 at an annual rate of 7.25% from date of transfer to the
11 date of payment. Such payment shall be made by Salt
12 River Project in the same number of installments and in a
13 similar time frame as Los Angeles' payment to Salt River
14 Project for Los Angeles' acquisition of an interest in
15 the Coronado Project pursuant to Section 13.13 of the
16 Participation Agreement; provided, however, by agreement
17 between Salt River Project and Los Angeles, Salt River
18 Project shall pay to the Palo Verde Project Manager
19 amounts due on behalf of Los Angeles' interest in Palo
20 Verde until the amount of the payment due Los Angeles
21 because of such transfer, with interest, has been paid by
22 Salt River Project.

23 3.1.2 If, upon the date of transfer of interests in
24 Palo Verde to Los Angeles, 5.7% of the installed costs of
25 Palo Verde as determined in accordance with FPC accounts
26 shown on the books of Salt River Project, exceeds Los



1 Angeles' installed costs in the Coronado Project, Los
2 Angeles shall pay Salt River Project the difference, with
3 interest at an annual rate of 7.25% from date of transfer
4 to the date of payment. Such payment shall be made by
5 Los Angeles in the same number of installments and in a
6 similar time frame as Los Angeles' payment to Salt River
7 Project for Los Angeles' acquisition of an interest in
8 the Coronado Project pursuant to Section 13.13 of the
9 Participation Agreement.

10 4. RIGHT OF RECAPTURE

11 4.1 In the event the transfer contemplated by Section 2.1
12 hereof shall have occurred, then Salt River Project shall have
13 options to recapture all or part of Los Angeles' interest in
14 Palo Verde upon five years written notice of the exercise of
15 each option. The options to recapture shall be in increments
16 of one third of Los Angeles' interest in Palo Verde and, sub-
17 ject to obtaining of required approvals from the Nuclear Regu-
18 latory Commission to effectuate the transfer, shall be effec-
19 tive for the first increment, 15 years after the Date of Firm
20 Operation of Unit 1; for the second increment, 15 years after
21 the Date of Firm Operation of Unit 2; and for the last incre-
22 ment, 15 years after the Date of Firm Operation of Unit 3.
23 Settlement for any of such recaptures shall be made within 60
24 days of the date of recapture and shall be a price established
25 on a "Reproduction Cost New Depreciated" basis for non-working
26 capital items but shall not fall below salvage value, with

1 calculations of escalation and depreciation beginning on
2 January 1, 1988, or such other time as Salt River Project and
3 Los Angeles agree. Working capital items, such as operating
4 funds; nuclear fuel, prepayments and inventories shall be
5 priced at book value. Reproduction cost new shall be calcu-
6 lated using the Handy-Whitman Index (Plateau Region) as the
7 basis for escalation. In the event Salt River Project and Los
8 Angeles agree the Handy-Whitman Index is inapplicable in whole
9 or in part, another mutually agreeable index or method shall be
10 chosen. Depreciation shall be calculated on a straight-line
11 basis, assuming a generating station lifetime of thirty (30)
12 years. The computation of Reproduction Cost New Depreciated
13 shall be as follows:

$$\begin{aligned} 14 \quad \text{Recapture Price} &= \text{Increment Recaptured} \times [(\text{Total installed} \\ 15 &\quad \text{cost excluding working capital items on} \\ &\quad \text{January 1, 1988} \pm \text{changes per index}) \\ 16 &\quad \times \frac{(\text{2018} - \text{Year of Recapture})}{30} \\ 17 &\quad + (\text{Capital Improvements as defined in} \\ 18 &\quad \text{the ANPP Participation Agreement} \pm \\ 19 &\quad \text{changes per index from in-service date} \\ &\quad \text{to recapture date}) \\ 20 &\quad \times \frac{(\text{2018} - \text{Year of Recapture})}{(\text{2018} - \text{In-service Date})} \\ 21 &\quad + \text{working capital at book value.}] \end{aligned}$$

22
23 The recapture price for the interest in the Palo Verde
24 Uranium Venture shall be calculated separately with deprecia-
25 tion determined in the same manner as that used by the Palo
26 Verde Uranium Venture. The computation of the recapture price



1 (Reproduction Cost New Depreciated) shall be adjusted to reflect
2 fractions of years, should such recapture occur at time other
3 than the anniversary of a Date of Firm Operation. If any
4 applicable index used in the calculation of a recapture settle-
5 ment lags the respective settlement dates, Salt River Project
6 and Los Angeles shall make the settlement on an estimated basis
7 and shall make the appropriate adjustment within 60 days after
8 the index shall be available for the date of the settlement.

9 Los Angeles shall pay its proportionate share of net
10 decommissioning costs (cost of decommissioning plus salvage
11 cost minus salvage value) of Palo Verde as incurred on the
12 following basis:

13 Los Angeles Share = Net decommissioning costs per year of
14 plant life times years owned by Los
Angeles times share recaptured
15 = $\frac{\text{Net decommissioning costs}}{\text{Year of decommissioning} - 1988}$
16 x (Year of Recapture-1988) x Share Recaptured
17

18 The computation of the net decommissioning cost
19 shall be adjusted to reflect fractions of years, should recap-
20 ture occur at times other than the anniversary of a Date of
21 Firm Operation.

22 Salt River Project and Los Angeles shall review the
23 basis for depreciation and, if mutually agreeable to the Parties,
24 may use a different depreciation method or rate in calculating
25 the recapture price. It is the intent of the Parties that upon
26 recapture neither shall obtain or suffer undue profit or loss.



1 5. TRANSMISSION SERVICE FROM PALO VERDE

2 5.1 Los Angeles, by written notice to Salt River Project
3 on or before January 1, 1980, shall notify Salt River Project
4 whether it elects to provide its own transmission from the
5 Palo Verde Switchyard 500 kV bus. If such transmission is not
6 in service upon the Date of Firm Operation of Unit 1 of Palo
7 Verde, Salt River Project will provide interim transmission
8 service to Los Angeles by the method contemplated in Section
9 5.2.2 hereof. If Los Angeles does not elect to provide its own
10 transmission from the Palo Verde Switchyard 500 kV bus, then,
11 on or before the Date of Firm Operation of Unit 1 of Palo Verde,
12 Salt River Project and Los Angeles shall enter into an "Agree-
13 ment for Transmission Service" for Los Angeles' generation
14 entitlement share from Palo Verde.

15 5.2 At Salt River Project's option, the "Agreement for
16 Transmission Service" referred to in Section 5.1 hereof shall
17 be one of the following:

18 5.2.1 Los Angeles shall participate in its pro-
19 portionate share of the "ANPP Transmission System Agree-
20 ment" and "Palo Verde High Voltage Switchyard Agreement,"
21 by assignment from Salt River Project, plus extension of
22 wheeling arrangements over Salt River Project's system to
23 the United States' Liberty and Pinnacle Peak Substations,
24 or

25 5.2.2 Los Angeles and Salt River Project shall
26 enter into a "Wheeling Agreement for Transmission Service"



1 from Palo Verde to the United States' Liberty and Pinnacle
2 Peak Substations.

3 5.3 The terms and conditions for transmission service
4 shall include the provisions set forth on Exhibit E hereof.

5 6. RIGHT TO PURCHASE ORE OR CONCENTRATES

6 6.1 In the event the transfer contemplated by Section
7 2.1 hereof shall have occurred, Los Angeles, pursuant to the
8 SRP-LA Palo Verde Station Assignment Agreement, shall be
9 assigned a 5.7% interest in the Palo Verde Uranium Venture
10 Agreement, dated as of January 7, 1977 ("Venture Agreement"),
11 as well as other ANPP Project Agreements. In the event the
12 Operating Agent for Palo Verde advises in writing, pursuant to
13 Section 8.1 of the Venture Agreement, that all, or any part,
14 of the ores or concentrates produced from the joint venture
15 established by said Venture Agreement are not required for
16 Palo Verde, and the management committee established under
17 said Venture Agreement shall have determined that disposition
18 of such ores or concentrates shall be by sale by any or all of
19 the venture members, then, subject to Section 8.2 of the
20 Venture Agreement, Salt River Project shall have the preferen-
21 tial right and option to purchase all or a part of said ores
22 or concentrates from Los Angeles in the manner provided in
23 Section 6.2 hereof.

24 6.2 If Los Angeles receives a bona fide offer which it
25 is willing to accept for the purchase of any part or all of
26 the ore or concentrates referred to in Section 6.1 hereof from

1 a third party, ready, willing and able to purchase the same,
2 Los Angeles shall immediately give written notice thereof to
3 Salt River Project. The notice shall include the name and
4 address of the offeror, the price offered and all other perti-
5 nent terms and conditions of the offer and be accompanied by a
6 copy of the offer if available. Such offer must not be tied
7 in with, enhanced, or otherwise encumbered by any trade or
8 transaction that could not be equally fulfilled by Salt River
9 Project. Salt River Project shall then have an optional prior
10 right, for a period of sixty (60) days after receipt of the
11 notice, to elect by written notice duly served to purchase
12 said ore or concentrates on the same terms and conditions of
13 said offer. If Salt River Project exercises its option to
14 purchase, the sale shall be consummated in accordance with
15 said terms and conditions. If Salt River Project shall not
16 exercise its option, then Los Angeles may accept said offer in
17 accordance with said terms and conditions after the expiration
18 of the sixty (60) day period.

19 7. WAIVERS AND REMEDIES

20 7.1 Any waiver by a party of its rights with respect to a
21 default under this Memorandum of Agreement or with respect to
22 any other matter arising in connection with this Memorandum of
23 Agreement shall not be deemed to be a waiver with respect to
24 any subsequent default or matter. No delay, short of the
25 statutory period of limitations, in asserting or enforcing
26 any right hereunder shall be deemed a waiver of such right.



1 8. GOVERNING LAW

2 8.1 This Memorandum of Agreement shall be governed by
3 and construed and enforceable in accordance with the laws of
4 the State of Arizona.

5 9. TERMINATION

6 9.1 Except as provided in Sections 1.2 and 2.3 hereof,
7 this Memorandum of Agreement shall terminate and be of no
8 further force or effect upon receipt of the final payment made
9 pursuant to the terms of Section 4 hereof.

10 IN WITNESS WHEREOF, the respective Parties have caused
11 this Memorandum of Agreement Providing for Purchase to be
12 executed as of the date above written.

13
14 SALT RIVER PROJECT AGRICULTURAL
15 IMPROVEMENT AND POWER DISTRICT

16 By John R. Lesson
17 VICE PRESIDENT

18 Attest and Countersign:

19 Don Smith
20 ASST. SECRETARY

APPROVED AS TO FORM
Salt River Project Law Department
By: [Signature]
Date: Aug 18 1977

21 DEPARTMENT OF WATER AND POWER
22 OF THE CITY OF LOS ANGELES
23 By
24 BOARD OF WATER AND POWER COMMISSIONERS
25 OF THE CITY OF LOS ANGELES

22 APPROVED AS TO FORM AND LEGALITY.
23 BURT PINES, CITY ATTORNEY.

23 AUG 10 1977
24 By Ralph Guy Wesson
25 RALPH GUY WESSON
26 Assistant City Attorney

24 By [Signature]
25 General Manager and Chief Engineer
26 and [Signature]
Secretary

AUTHORIZED BY RES. 061
AUG 18 1977



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ACKNOWLEDGEMENT

STATE OF ARIZONA)
County of Maricopa) ss.

On this 11th day of August, 1977, before me, the undersigned Notary Public, personally appeared _____

JOHN R. LASSEN and DON E. SMITH who acknowledged

themselves to be the VICE PRESIDENT and ASST. SECRETARY of of SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, an Arizona agricultural improvement district, and that they as such officers, being authorized so to do, executed the foregoing instrument for the purposes therein contained by signing the name of the company by themselves as such VICE PRESIDENT and ASST. SECRETARY.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

Phonda Rhodes
Notary Public

My Commission Expires:
My Commission Expires Aug. 24, 1980



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ACKNOWLEDGEMENT

STATE OF CALIFORNIA)
County of Los Angeles) ss.

On this 28th day of September, 1977, before me, the undersigned Notary Public, personally appeared Louis H. Winnard and Judith K. Davison who acknowledged themselves to be the General Manager and Chief Engineer and Board Secretary of DEPARTMENT OF WATER AND POWER OF THE CITY OF LOS ANGELES, a department organized and existing under the charter of the City of Los Angeles, a municipal corporation of the State of California, known to me to be the persons described in the foregoing instrument, and acknowledged that they executed the same in the capacity therein stated and for the purposes therein contained.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

Linda L. Newman
Notary Public

My Commission Expires:
May 27, 1981





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EXHIBIT A

CORONADO PROJECT
PARTICIPATION AGREEMENT

between

SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER DISTRICT

and

DEPARTMENT OF WATER AND POWER
OF THE CITY OF LOS ANGELES

CORONADO PROJECT PARTICIPATION AGREEMENT

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12	G FUEL COST ALLOCATION
13	H PROJECT AGREEMENTS
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CORONADO PROJECT PARTICIPATION AGREEMENT

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1. PARTIES: The Parties to this Participation Agreement are:
SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER
DISTRICT, an agricultural improvement district organized
and existing under and by virtue of the laws of the State
of Arizona, hereinafter referred to as "Salt River Project,"
and DEPARTMENT OF WATER AND POWER OF THE CITY OF LOS
ANGELES, a department organized and existing under the
charter of the City of Los Angeles, a municipal corpora-
tion of the State of California, hereinafter referred to
as "Los Angeles."

1 2. RECITALS: This Participation Agreement is made with
2 reference to the following facts, among others:

3 2.1 Salt River Project is presently constructing
4 its wholly owned Coronado Project.

5 2.2 Salt River Project desires to transfer a
6 portion of its interest in the Coronado Project to Los
7 Angeles and Los Angeles desires to acquire a portion of
8 Salt River Project's interest in the Coronado Project.

9 2.3 Los Angeles desires to purchase Contingent
10 Power from the Coronado Project during various periods as
11 defined in this Participation Agreement.

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3. AGREEMENT: In consideration of the mutual covenants herein, the Participants agree as follows:

1 4. DEFINITIONS: The following terms, when used herein and
2 in the Appendices attached hereto, shall have the meanings
3 specified:

4 4.1 ACCOUNTING PRACTICE: Generally accepted account-
5 ing principles in accordance with the FPC Accounts.

6 4.2 ACTIVE COAL STORAGE: The coal stored at the
7 Coronado Plant Site and available for use in each Unit of
8 the Coronado Generating Station on a day-to-day and hour-
9 by-hour basis.

10 4.3 ADMINISTRATIVE COMMITTEE: The committee estab-
11 lished pursuant to Section 7.1.1 hereof.

12 4.4 AUDITING COMMITTEE: The Committee established
13 pursuant to Section 7.1.3 hereof.

14 4.5 AVAILABLE GENERATING CAPABILITY: The maximum
15 generating capability of each Generating Unit as of any
16 time less that amount of Power equal to the product of
17 (i) the Power then used for the General Service Require-
18 ments and (ii) the ratio of the then maximum generating
19 capability of such Generating Unit to the sum of the then
20 maximum generating capabilities of all Generating Units.

21 4.6 CAPACITY: The rate at which electrical Energy
22 can be generated, expressed in megawatts (MW) or megavolt-
23 amperes (MVA).

24 4.7 CAPITAL IMPROVEMENTS: Any Units of Property,
25 land or land rights which are added to the Coronado Pro-
26 ject, the betterment of land or land rights or the

1 enlargement or betterment of any Units of Property
2 constituting a part of the Coronado Project, and the
3 replacement of any Units of Property for other Units of
4 Property for the replacement of land or land rights consti-
5 tuting a part of the Coronado Project, irrespective of
6 whether such replacement constitutes an enlargement or
7 betterment of that which it replaces, which additions,
8 betterments, enlargements and replacements in accordance
9 with Accounting Practice would be capitalized and are not
10 included or reflected in the Final Completion Report.

11 4.8 COMPONENT: Any of the components of the
12 Coronado Project described in Appendices A-1, A-2 and A-3
13 hereto.

14 4.9 CONSTRUCTION ACCOUNT: Any bank account or
15 accounts selected and established by the Project Manager
16 to receive and disburse construction funds pursuant to
17 Section 13.3 hereof.

18 4.10 CONSTRUCTION COSTS: The costs of constructing
19 the Coronado Project as described in Section 11 hereof.

20 4.11 CONSTRUCTION FUNDS: Monies advanced to the
21 Project Manager for Construction Work by or on behalf of
22 the Participants in accordance with this Participation
23 Agreement.

24 4.12 CONSTRUCTION INSURANCE: Policies of insurance
25 to be procured and maintained or caused to be procured
26 and maintained by the Project Manager in accordance with

1 Sections 23 and 24 hereof.

2 4.13 CONSTRUCTION SCHEDULE: The schedule of
3 Construction Work to be prepared and from time to time
4 revised by the Project Manager as set forth in Section
5 8.6 hereof.

6 4.14 CONSTRUCTION WORK: All engineering, design,
7 contract preparation, services of consultants and outside
8 attorneys, public information services, purchasing,
9 construction, supervision, acquisition of land and water
10 rights, expediting, inspection, accounting, testing and
11 start-up for each Component of the Coronado Project,
12 preparation of operating and equipment manuals, all
13 reports required by regulatory authorities and the conduct
14 of hearings, conferences and other activities incidental
15 to obtaining requisite permits, licenses and certificates
16 for the construction and operation of each Component prior
17 to the In-service Date of such Component and disposal of
18 surplus material associated with the Coronado Project.

19 4.15 CONTINGENT POWER: Power contingent upon
20 availability to Salt River Project in day-to-day and hour-
21 to-hour operation of its electric system of the particular
22 Generating Units named in Section 15 herein..

23 4.16 CORONADO AGREEMENTS: Those Project Agreements
24 excluding land and land rights for the Coronado Transmission
25 System and the Coronado Railroad Spur.

26 4.17 CORONADO GENERATING STATION: Two coal-fired

1 steam electric generating units; each having a net
2 generator rating of approximately 350MW, and all facilities
3 and structures used therewith or related thereto, to be
4 constructed at or adjacent to the Coronado Plant Site.
5 The Coronado Generating Station is generally described in
6 Appendix A-1 hereto.

7 4.18 CORONADO PLANT SITE: A parcel of land located
8 in Apache County, Arizona, consisting of approximately
9 12,286 acres and described in Appendix B hereto.

10 4.19 CORONADO PROJECT: The Coronado Generating
11 Station, Coronado Transmission System and Coronado Rail-
12 road Spur, all as generally described and depicted in
13 Appendix A hereto.

14 4.20 CORONADO RAILROAD SPUR: The railroad spur as
15 generally described in Appendix A-3 hereto.

16 4.21 CORONADO TRANSMISSION SYSTEM: The transmission
17 system as generally described in Appendix A-2 hereto.

18 4.22 COST RESPONSIBILITY: The percentage of
19 financial obligation of each Participant for Construction
20 Costs and Operating Funds concerning each Component of
21 the Coronado Project. Cost Responsibility of a Partici-
22 pant for the Coronado Generating Station and the Coronado
23 Railroad Spur shall be equal to the Participant's
24 Generation Entitlement Share. Cost Responsibility of each
25 Participant for the Coronado Transmission System shall be
26 estimated, for the period prior to the Date of Firm

1 Operation of the second Unit at the Coronado Generating
2 Station as follows:

3	4.22.1	Los Angeles	$\frac{210}{1050}$
4	4.22.2	Salt River Project	$\frac{840}{1050}$

5 Following the Date of Firm Operation of the
6 second Unit the Cost Responsibility for the Coronado
7 Transmission System shall be determined for each
8 Participant by the following formula and there shall
9 be a retroactive adjustment for all Sunk Costs,
10 Construction Costs and Operating Funds which relate
11 to the Coronado Transmission System:

12			0.30 X (total Net
13			Effective Generating
14	4.22.3	Los Angeles	Capability of Unit 1 and 2)
			<hr/>
			1050

15 4.22.4 Salt River Project's Cost Responsi-
16 bility for the Coronado Transmission System shall
17 be the difference between 1.00 and Section 4.22.3
18 herein.

19 4.23 DATE OF FIRM OPERATION: The date with respect
20 to each Generating Unit on which the Operating Agent
21 determines it to be reliable as a source of Power and on
22 which such Generating Unit can reasonably be expected to
23 operate steadily at its rated Capacity.

24 4.24 DATE OF RECAPTURE: The dates on which Los
25 Angeles shall transfer all or a part of its interest in
26 the Coronado Project pursuant to Section 16 hereof.



1 4.25 EMERGENCY SPARE PARTS: Spare parts or equip-
2 ment, the cost of which is capitalized, which are stocked
3 for the Coronado Project.

4 4.26 ENGINEERING AND OPERATING COMMITTEE: The
5 committee established pursuant to Section 7.1.2 hereof.

6 4.27 ENERGY: Megawatt-hours (MWH).

7 4.28 FINAL COMPLETION REPORT: A complete summary of
8 Construction Costs, a description of the Coronado Project
9 and a summary of each Participant's contributions to
10 Construction Costs.

11 4.29 FPC ACCOUNTS: The Federal Power Commission's
12 "Uniform System of Accounts Prescribed for Public Utilities
13 and Licenses (Class A and Class B)," in effect as of the
14 date of this Participation Agreement, and as such system
15 of accounts may be in effect from time to time. Refer-
16 ences in this Participation Agreement to any specific FPC
17 Account number shall mean the FPC Account number in effect
18 as of the effective date of this Participation Agreement
19 or any successor FPC Account.

20 4.30 FUEL AGREEMENT: Any agreement entered into by
21 the Project Manager or the Operating Agent relating to the
22 purchase, sale, transfer, disposition, storage, transpor-
23 tation, and mining, of any fuel for use in the Coronado
24 Generating Station.

25 4.31 GENERAL SERVICE REQUIREMENTS: The Power and
26 Energy required during any period and supplied from one

1 or more Generating Units for operation of all process and
2 auxiliary equipment and systems used or useful in connec-
3 tion with the operation and maintenance of all Generating
4 Units.

5 4.32 GENERATION ENTITLEMENT SHARE: The percentage
6 entitlement of each Participant to the Net Energy Genera-
7 tion and to the Available Generating Capability. Each
8 Participant's percentage entitlement in the Coronado
9 Generating Station is as follows:

10 4.32.1 Los Angeles 30 percent

11 4.32.2 Salt River Project 70 percent

12 4.33 GENERATING UNIT or Unit: The combination of
13 one (1) steam generator, one (1) turbine-generator and the
14 associated auxiliary and accessory systems and equipment
15 required for the production of electrical Power and Energy.

16 4.34 INITIAL GENERATION DATE: The date on which
17 each Unit of the Coronado Generating Station, respectively
18 is synchronized and electrical generation is first availa-
19 ble from each Unit for transmission to any Participant.

20 4.35 IN-SERVICE DATE: The date established for each
21 Unit of the Coronado Generating Station or component of
22 the Coronado Transmission System on or before the Date of
23 Firm Operation, as determined by Salt River Project, on
24 which the Participants cease accruals for the capitaliza-
25 tion of interest and ad valorem taxes during the period
26 of construction thereof:



1 4.36 INSTALLED COSTS: The total costs at any time
2 after the In-Service Date of the Coronado Project or Com-
3 ponent thereof, defined as the sum of: Construction,
4 Costs, Capital Improvement Costs (as specified in Appendix
5 D, Section 2.5.1. hereof, and allowance for funds used
6 during construction ("ADC") per the affected Participant's
7 books, 0.74 times Materials and Supplies cost, fuel cost
8 per Appendix G, Section G.2 hereof, if applicable, pre-
9 payments per FPC Account 165---, and 0.125 times annual
10 expenses for Operating Work.

11 4.37 MATERIALS AND SUPPLIES: Materials and supplies
12 which are stocked for the Coronado Project, as defined in
13 FPC Account 154.

14 4.38 MINIMUM GENERATING CAPABILITY: The lowest
15 Power level at which each Generating Unit can be reliably
16 maintained in service on a continuous basis.

17 4.39 NET EFFECTIVE GENERATING CAPABILITY: The maxi-
18 mum continuous ability of each Generating Unit of the
19 Coronado Generating Station to produce Power which is
20 available to the Participants at the high voltage termin-
21 als of the generator step-up transformers, less that
22 amount of Power equal to the product of (i) the Power then
23 used for the General Service Requirements and (ii) the
24 ratio of the maximum continuous ability of such Generating
25 Unit to the sum of the then maximum continuous ability of
26 all Generating Units...



1 4.40 NET ENERGY GENERATION: The Energy generated
2 over any period of time by each Generating Unit measured
3 at the high side of its main generator step-up transformer
4 : less the Energy generated by said Generating Unit which is
5 allocated for General Service Requirements pursuant to
6 Section 7.3.2.4 hereof.

7 4.41 OPERATING ACCOUNT: Any bank account or
8 accounts selected and established by the Operating Agent
9 to receive and disburse funds, pursuant to Section 13.7
10 hereof, for Operating Work and Capital Improvements.

11 4.42 OPERATING AGENT: The Participant responsible
12 for the performance of Operating Work and making Capital
13 Improvements.

14 4.43 OPERATING EMERGENCY: An unplanned event or
15 circumstance which reduces or may reduce the availability
16 of Power from or the generation of Energy by any Genera-
17 ting Unit.

18 4.44 OPERATING FUNDS: Monies advanced to the
19 Operating Agent for Operating Work and Capital Improve-
20 ments by or on behalf of the Participants in accordance
21 with this Participation Agreement.

22 4.45 OPERATING INSURANCE: Policies of insurance to
23 be procured and maintained or caused to be procured and
24 maintained by the Operating Agent in accordance with
25 Sections 23 and 24 hereof.

26 4.46 OPERATING WORK: Engineering, contract prepara-



1 tion, services of consultants and outside attorneys,
2 public information service, purchasing, repair, supervi-
3 sion, recruitment, training, expediting, inspection,
4 : accounting, testing, protection, operation, use, manage-
5 ment, retirement, reconstruction and maintenance associated
6 with operating the Coronado Project, including any work
7 undertaken by the Operating Agent pursuant to Section 20
8 hereof, any work undertaken in the procurement, processing
9 and transportation of fuel and limestone, any work necess-
10 itated by an Operating Emergency, but excluding all work
11 undertaken to make any Capital Improvements and disposal
12 of surplus material associated with the Coronado Project.

13 4.47 PARTICIPANT: Any party hereto.

14 4.48 PAYROLL TAXES: Taxes based on payroll.

15 4.49 PERMANENT COAL STORAGE: The coal stored at the
16 Coronado Plant Site and available for use in each Unit of
17 the Coronado Generating Station when availability of fuel
18 from other sources is interrupted or curtailed.

19 4.50 POWER: Megawatts electric (MWe).

20 4.51 PROJECT AGREEMENTS: This Participation Agree-
21 ment, any Fuel Agreement, and any agreements between the
22 Participants or any of them and any third party for land,
23 land rights, water rights, transmission rights or limestone
24 rights for the Coronado Project, as such agreements are
25 originally executed or as they may thereafter be supple-
26 mented or amended and any other agreements as the Partici-

1 pants agree to designate as Project Agreements. A list of
2 said agreements, as of the date hereof, being attached
3 as Appendix H hereto.

4 4.52 PROJECT INSURANCE: Construction Insurance and
5 Operating Insurance.

6 4.53 PROJECT MANAGER: The Participant responsible
7 for the performance of Construction Work.

8 4.54 START-UP PERIOD: The period with respect to
9 each Generating Unit commencing with the date on which the
10 first 13.8 KV auxiliary bus of a Generating Unit is first
11 energized and during which any necessary alterations and/
12 or adjustments will be made to provide for the Generating
13 Unit's safe and dependable operation and terminating with
14 the Date of Firm Operation of said Generating Unit.

15 4.55 SUNK COSTS: Installed Costs of the
16 Coronado Project or Component thereof, as of December 31,
17 1977.

18 4.56 UNITS OF PROPERTY: Units of property as
19 described in the Federal Power Commission's "List of Units
20 of Property for Use in Connection with Uniform System of
21 Accounts Prescribed for Public Utilities and Licensees"
22 in effect as of the date of this Participation Agreement,
23 and as such list may be amended from time to time.

24 4.57 WILLFUL ACTION:

25 4.57.1 Action taken or not taken by a Partici-
26 pant at the direction of its directors, officers or

1 employees having management or administrative respon-
2 sibility affecting its performance under any of the
3 Project Agreements, which action is knowingly or
4 intentionally taken or failed to be taken with con-
5 scious indifference to the consequences thereof or
6 with intent that injury or damage would result or
7 would probably result therefrom. Willful Action does
8 not include any act or failure to act which is merely
9 involuntary, accidental or negligent.

10 4.5 7.2 Action taken or not taken by a Partici-
11 pant at the direction of its directors, officers or
12 employees having management or administrative respon-
13 sibility affecting its performance under any of the
14 Project Agreements, which action has been determined
15 by final arbitration award or final judgment or
16 judicial decree to be a material default under any of
17 the Project Agreements and which occurs or continues
18 beyond the time specified in such arbitration award
19 or judgement or judicial decree for curing such
20 default or, if no time to cure is specified therein,
21 occurs or continues thereafter beyond a reasonable
22 time to cure such default.

23 4.5 7.3 Action taken or not taken by a Partici-
24 pant at the direction of its directors, officers or
25 employees having management or administrative respon-
26 sibility affecting its performance under any of the

1 Project Agreements, which action is knowingly or
2 intentionally taken or failed to be taken with the
3 knowledge that such action taken or failed to be
4 taken is a material default under any of the Project
5 Agreements.

6 4.57.4 The phrase "employees having management
7 or administrative responsibility" as used in this
8 Section 4.57 means employees of a Participant who
9 are responsible for one or more of the executive
10 functions of planning, organizing, coordinating,
11 directing, controlling and supervising such Partici-
12 pant's performance under any of the Project Agree-
13 ments.

14 4.58 WORK LIABILITY: Liability of one or more
15 Participants for damage suffered by anyone other than a
16 Participant, whether or not resulting from the negligence
17 of any Participant, its directors, officers, employees
18 or any other person or entity whose negligence could be
19 imputed to such Participant, resulting from:

20 4.58.1 The performance or non-performance of
21 Construction Work, Operating Work or Capital Improve-
22 ments.

23 4.58.2 The use or ownership of the Coronado
24 Project.

1 5. OWNERSHIP AND TITLES:

2 5.1 The Participants shall acquire and own undivided
3 interests as tenants in common in the Components of the
4 : Coronado Project in accordance with their Cost Responsibil-
5 ity. Salt River Project shall acquire and own the land and
6 land rights for the Coronado Railroad Spur and the Coronado
7 Transmission System and the Project Agreements which are
8 not Coronado Agreements, for its own use and benefit and
9 for the use and benefit of Los Angeles, on the basis of
10 their Cost Responsibility.

11 5.2 Salt River Project hereby assigns and transfers
12 to Los Angeles:

13 5.2.1 All its right, title and interest in and
14 to the Components of the Coronado Project and the
15 Coronado Agreements, on the basis of Los Angeles'
16 Cost Responsibility.

17 5.2.2 The use of and a beneficial interest in
18 land and land rights for the Coronado Railroad Spur,
19 the Coronado Transmission System and the Project
20 Agreements which are not Coronado Agreements, on
21 the basis of Los Angeles' Cost Responsibility.

22 5.3 Los Angeles hereby accepts the assignment and
23 transfer referred to in Section 5.2 hereof, assumes the
24 status of a Participant in the Coronado Project to the
25 extend of said assignment and transfer, and releases Salt
26 River Project from the status, obligations and liabilities

1 of a Participant in the Coronado Project as of the date
2 of this Participation Agreement, to the extent of said
3 assignment and transfer.

4 : 5.4 At any time as any Participant may reasonably
5 demand in writing, the Participants shall jointly make,
6 execute and deliver one or more supplements to this Parti-
7 cipation Agreement in recordable form which shall describe
8 with such particularity and detail as may be warranted
9 under the circumstances the property and facilities then
10 constituting the Coronado Project, the rights, titles and
11 interests of each Participant therein and any and all
12 further documents as Los Angeles may reasonably determine
13 to be necessary to effectuate the transfer and assignment
14 referred to in Section 5.2 hereof.

15 5.5 Salt River Project hereby represents and warrants
16 that to the best of its knowledge:

17 5.5.1 The Project Agreements are in full force
18 and effect and are valid and enforceable according
19 to their terms. Salt River Project shall furnish Los
20 Angeles a conformed copy of each Project Agreement
21 upon execution of this Participation Agreement.

22 5.5.2 Salt River Project is not in breach of
23 any of the terms of the Project Agreements.

24 5.5.3 Salt River Project has not assigned, trans-
25 ferred, or encumbered or agreed to assign, transfer or
26 encumber in whole or in part Salt River Project's

1 interest in the Coronado Project or any of the rights
2 assigned hereunder to any person or entity other than
3 Los Angeles.

4 5.6 As full compensation, satisfaction, and payment
5 for the assignment of Los Angeles' Cost Responsibility
6 share of Salt River Project's interest in the Coronado
7 Project, Los Angeles agrees to pay and Salt River Project
8 agrees to accept, in accordance with Section 13.13 hereof,
9 subject to the other provisions of this Participation
10 Agreement, an amount equal to Los Angeles Cost Responsibil-
11 ity Share of Salt River Project's Sunk Costs, in connection
12 with the Coronado Project.

13 5.7 The ownership of and title to the Coronado Project,
14 excluding land and land rights for the Coronado Railroad
15 Spur and the Coronado Transmission System described or to be
16 described in this Participation Agreement and all Capital
17 Improvements related to the Coronado Project excluding land
18 and land rights for the Coronado Railroad Spur and the
19 Coronado Transmission System shall be deemed to have vested
20 simultaneously in the Participants in proportion to their
21 respective Cost Responsibility so that the estate of each of
22 them shall be deemed to be concurrent as to time, right and
23 priority.

24 5.8 In the event any Participant transfers or assigns
25 any of its rights, title or interest in and to the Coronado
26 Project in accordance with Section 18 hereof and other

1 terms and conditions of this Participation Agreement, the
2 Participants and any successor shall jointly make, execute
3 and deliver a supplement to this Participation Agreement
4 in recordable form which shall describe with such particu-
5 larity and detail as may be warranted under the circum-
6 stances the rights, titles and interests of each Partici-
7 pant and any successor following such transfer or assign-
8 ment.

9 5.9 The Participants contemplate other industrial
10 users may acquire an interest in the Coronado Railroad Spur.
11 In the event of transfer, the Project Manager and Operating
12 Agent are authorized, on behalf of the Participants, with
13 approval of the Administrative Committee, to enter into
14 appropriate joint agreements. The Participants shall
15 execute documents necessary and proper for such purpose.

16 5.10 The Participants contemplate that other electric
17 utilities or entities may desire to interconnect their
18 electrical systems with the Coronado Transmission System
19 or desire wheeling over the Coronado Transmission System.
20 In such event the Project Manager or Operating Agent is
21 authorized to enter into appropriate agreements to effec-
22 tuate the transfer of such interest, provided that:

23 5.10.1 The Participants' interests and rights
24 to use of the Coronado Transmission System are not
25 jeopardized, and

26 5.10.2 The Participants are properly compensated

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for use of common facilities of the Coronado Transmission System due to interconnections with other electric utilities or entities and use of the Coronado Transmission System due to wheeling.

The Participants shall execute documents necessary and proper for such purpose.

5.11 The transfer and assignment under Section 5.2 hereof shall become effective upon receipt by Salt River Project of the first payment from Los Angeles pursuant to Section 13.13 hereof.

1 6. CORONADO GENERATING STATION CAPACITY AND ENERGY ENTITLE-
2 MENTS:

3 6.1 During the Start-up Period of each Generating
4 Unit, each Participant shall schedule and be obligated to
5 take delivery of its Generation Entitlement Share of the
6 Net Energy Generation of such Generating Unit.

7 6.2 At all times after the Date of Firm Operation
8 of each Generating Unit, each Participant shall be entitled
9 to schedule for its account Power from such Generating Unit
10 equal to the product of its Generation Entitlement Share
11 and the Available Generating Capability of such Generating
12 Unit; and each Participant shall be obligated to provide
13 its own system reserve requirements, including spinning
14 reserves, for its Generation Entitlement Share of the
15 Available Generating Capability of all Generating Units.

16 6.3 Whenever any Participant schedules for its
17 account Power and Energy from a Generating Unit, the
18 Operating Agent shall additionally schedule for each
19 Participant a percentage, equal to its Generation Entitle-
20 ment Share, of the General Service Requirements as effec-
21 tive during the period that such Generating Unit is oper-
22 ated to meet such schedule.

23 6.4 Operation of any Generating Unit by the Oper-
24 ating Agent shall be subject to scheduled outages or
25 curtailments and restrictions imposed by a regulatory
26 authority or by Operating Emergencies.



1 6.5 The delivery of Power and Energy from the
2 Coronado Project shall be scheduled by the Participants in
3 advance with the Operating Agent and accounted for on the
4 basis of such advance schedules.

5 6.6 The Operating Agent shall deliver Power and
6 Energy to each Participant from each Generating Unit at
7 the high side of the Unit's main generator step-up trans-
8 former in accordance with the schedule submitted by such
9 Participant to the Operating Agent or in accordance with
10 any revisions thereto.

11 6.7 In the event of an Operating Emergency, the
12 Participants shall revise their schedules, if necessary,
13 to reflect the actual Power and Energy available from
14 the Coronado Project during the period of the Operating
15 Emergency.

16 6.8 The Operating Agent shall determine the Power
17 and Energy necessary to start up and operate each Unit
18 and the separate General Service Requirements (which shall
19 be measured or estimated, as appropriate) allocable to
20 each Unit. Each Participant shall be obligated to provide
21 such Power and Energy requirements in proportion to its
22 Generation Entitlement Share.

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1 7. ADMINISTRATION COMMITTEES:

2 7.1 As a means of securing effective cooperation
3 and interchange of information and of providing consulta-
4 tion on a prompt and orderly basis among the Participants
5 in connection with various administrative and technical
6 matters which may arise from time to time in connection
7 with the terms and conditions of the Project Agreements,
8 the Participants establish the committees described in
9 this Section 7.1. The chairman of each of such committees
10 shall be a representative of the Project Manager up to the
11 Date of Firm Operation of the first Generating Unit and
12 thereafter shall be a representative of the Operating
13 Agent. The chairman shall be responsible for calling
14 meetings and establishing agendas. The following commit-
15 tees are hereby established and shall have the functions
16 and responsibilities described herein and in the Project
17 Agreements:

18 7.1.1 An Administrative Committee consisting of
19 one representative appointed by each Participant, who
20 shall be either an officer or the general manager of a
21 Participant, or an authorized designee thereof.

22 7.1.2 An Engineering and Operating Committee
23 consisting of not more than two (2) representatives
24 appointed by each Participant.

25 7.1.3 An Auditing Committee consisting of not
26 more than two representatives appointed by each

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Participant.

7.2 The Administrative Committee shall have the following functions, among others:

7.2.1 Provide liaison among the Participants at the management level.

7.2.2 Exercise general supervision over the Engineering and Operating Committee, the Auditing Committee and other permanent or ad hoc committees established pursuant to Section 7.9 hereof.

7.2.3 Review and discuss issues and problems referred to it by another committee.

7.2.4 Verify the Date of Firm Operation, the commencement of the Start-up Period, the Initial Generation Date and the In-Service Date of each Unit of the Coronado Generating Station.

7.2.5 Perform such other functions and duties as may be delegated to it in the Project Agreements.

7.3 The Engineering and Operating Committee shall have the following functions, among others, with respect to the Construction Work and Operating Work:

7.3.1 Provide liaison among the Participants.

7.3.2 Review the following items related to the performance of Operating Work:

7.3.2.1 The annual capital expenditures budget, and annual operation and maintenance budget.

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7.3.2.2 The planned outages scheduled for maintenance.

7.3.2.3 The written statistical and administrative reports, written budgets, and information and other similar records, and the form thereof, to be kept and furnished by the Operating Agent in accordance with Section 7.3.10 hereof (excluding accounting records used internally by the Operating Agent for the purpose of accumulating financial and statistical data, such as books of original entry, ledgers, work papers, and source documents).

7.3.2.4 The procedures for determining Net Effective Generating Capability, Minimum Generating Capability, and Net Energy Generation.

7.3.2.5 The procedures for maintaining complete and accurate fuel, Power and Energy accounting.

7.3.2.6 The Operating Agent's analysis of the total expenditures caused by an Operating Emergency.

7.3.3 Review practices and procedures established by the Operating Agent for keeping each Participant advised of the Available Generating Capability, and for the delivery of Power and Energy from the Coronado Project in accordance with the

1 Participant's Schedules. Such practices and pro-
2 cedures shall provide for modifying said schedules
3 to meet the needs of day-to-day or hour-by-hour
4 operation, including emergencies on a Participant's
5 system.

6 7.3.4 Review the amount of coal, as established
7 by the Operating Agent, to be maintained initially
8 in the Active Coal Storage and the Permanent Coal
9 Storage, and the procedures for delivery of coal and
10 make periodic reviews and inform the Administrative
11 Committee of any planned increases or decreases there-
12 in.

13 7.3.5 Review procedures and practices for the
14 measurement and sampling of coal stored in the
15 Permanent Coal Storage.

16 7.3.6 Review procedures and practices for the
17 apportionment of charges to be made pursuant to
18 Appendix G hereof pursuant to the bills rendered by
19 the coal supplier(s).

20 7.3.7 Review criteria established by the
21 Operating Agent for determination of the Date of
22 Firm Operation.

23 7.3.8 Periodically review any revision of the
24 fixed dollar limitations contained in Section D.2.2,
25 D.2.4 and D.2.5.5. of Appendix D attached hereto.

26 7.3.9 Establish annually an estimate of Net

1 Energy Generation, by months, for each Participant
2 on or before August 1, with such estimates to be up-
3 dated monthly.

4 7.3.10 Perform such other functions and duties
5 as may be assigned to it in the Project Agreements.

6 7.4 The Auditing Committee shall have the following
7 functions, among others:

8 7.4.1 Review procedures developed by the
9 Project Manager and Operating Agent for proper
10 accounting and financial liaison between Participants
11 in connection with the Construction Work and Operat-
12 ing Work.

13 7.4.2 Review accounting, financial and internal
14 control aspects of the Construction Work and Operating
15 Work.

16 7.4.3 Advise and make recommendations to the
17 Administrative Committee, the Project Manager and
18 the Operating Agent on matters involving auditing
19 and financial transactions.

20 7.4.4 Make periodic audits of the records
21 maintained by the Project Manager and Operating Agent
22 in their performance of Construction Work and
23 Operating Work, respectively, and any other records
24 maintained by the Project Manager and Operating Agent
25 in support of their billings to the Participants.

26 7.4.5 Certify to the Participants, for manage-

1 ment purposes and for the use of the Participants
2 only, that the Project Manager's and Operating Agent's
3 accounting methods and records, including any alloca-
4 tions for Construction Work and Operating Work, are
5 in accordance with the Project Agreements.

6 7.4.6 Review the format and content of the
7 Project Manager's and Operating Agent's accounting
8 records and reports for Construction Work and
9 Operating Work.

10 7.4.7 Perform such other functions and duties
11 as may be delegated to it in the Project Agreements
12 or by the Administrative Committee.

13 7.5 Within thirty (30) days after the execution of
14 this Participation Agreement, each Participant shall
15 designate its representatives on the committees hereby
16 established, with notice thereof given to the other
17 Participants.

18 7.6 The Administrative Committee, the Engineering
19 and Operating Committee and the Auditing Committee shall
20 each keep written minutes and records of all meetings.

21 7.7 Except as specifically provided herein, the
22 committees shall have no authority to modify any of the
23 terms, covenants or conditions of the Project Agreements.

24 7.8 Each Participant shall notify the other Partici-
25 pants promptly of any change to the designation of its
26 representatives on the committees. A Participant may



1 designate an alternate to act as its representative on any
2 committee in the absence of the regular member or to act
3 on specified occasions with respect to specified matters.

4 : 7.9 The Participants, acting through the Administra-
5 tive Committee, shall have the right to establish permanent
6 or ad hoc committees. The authority and duties of any such
7 committee shall be set forth in writing and shall be
8 subject to the provisions of the Project Agreements.

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1 8. PROJECT MANAGER:

2 8.1 The Project Manager for the Coronado Project
3 shall be Salt River Project.

4 8.2 The Participants hereby appoint the Project
5 Manager as their agent, and the Project Manager shall
6 undertake as their agent and as principal on its own
7 behalf to perform the Construction Work and to carry out
8 the duties and responsibilities provided hereunder to be
9 performed by it.

10 8.3 The Project Manager shall:

11 8.3.1 Purchase and procure such equipment,
12 apparatus, machinery, materials, tools, supplies and
13 services as it in its sole discretion may deem
14 necessary or useful for the performance and comple-
15 tion of the Construction Work from any source or
16 sources it may select.

17 8.3.2 Furnish each member of the Administrative
18 Committee upon their request any copies of contracts,
19 Fuel Agreements and completed reports with the
20 architect/engineer, constructor, contractors or
21 vendors and consultants.

22 8.3.3 Arrange for placement of Construction
23 Insurance pursuant to Sections 23 and 24 hereof, or
24 provide for indemnification as necessary.

25 8.3.4 Determine what contractors, if any, shall
26 be required to furnish any portion of the Construc-

1 tion Insurance, other insurance and faithful per-
2 formance and payment bonds.

3 8.3.5 Assist any insurer in the investigation,
4 adjustment and settlement of any loss or claim covered
5 by Construction Insurance.

6 8.3.6 Present and prosecute claims against
7 insurers providing Construction Insurance and, to
8 the extent that any such loss or damage is not covered
9 by Construction Insurance, present and prosecute
10 claims therefor against any parties who may be liable
11 therefor, including indemnification under indemnity
12 agreements.

13 8.3.7 Subject to the provisions of Section 24
14 hereof and except as hereinafter provided in this
15 Section 8.3.7, investigate, adjust, defend and settle
16 claims against any or all Participants arising out of
17 or attributable to Construction Work, or the past or
18 future performance or non-performance of the obliga-
19 tions and duties of any Participant, including the
20 Project Manager, under or pursuant to this Participa-
21 tion Agreement, including but not limited to any
22 claim resulting from death or injury to persons or
23 damage to property, when said claims are not covered
24 by valid and collectible Construction Insurance or
25 other valid and collectible insurance carried by any
26 Participant, and, whenever and to the extent warrant-

1 ed, present and prosecute claims against any third
2 party, including insurers, for any costs, losses and
3 damages incurred in connection with said claims.

4 8.3.8 Comply with (i) any and all laws applica-
5 ble to the performance of Construction Work, includ-
6 ing without limitation all applicable laws, rules and
7 regulations for protection of the environment and all
8 applicable provisions of any workers' compensation
9 laws; and (ii) the terms and conditions of any con-
10 tract, permit or license relating to the Coronado
11 Project.

12 8.3.9 Expend the funds advanced to the Project
13 Manager only in the manner and for the purposes set
14 forth in Sections 11 and 13 hereof.

15 8.3.10 Keep and maintain records of monies
16 received and expended, obligations incurred, credits
17 accrued, estimates of Construction Costs (excluding,
18 subject to Section 14.3 hereof, ad valorem taxes or
19 payments in lieu thereof and allowance for funds used
20 during construction) and contracts entered into in
21 the performance of Construction Work, and make such
22 records available for inspection by the Auditing
23 Committee at reasonable times and places.

24 8.3.11 Not suffer any liens to remain in effect
25 unsatisfied against the Coronado Project (other than
26 liens permitted under the Project Agreements, liens



1 for taxes or assessments not yet delinquent, liens
2 for labor and material not yet perfected, or undeter-
3 mined charges or liens incidental to the performance
4 of Construction Work); provided, however, that the
5 Project Manager shall not be required to pay or dis-
6 charge any such lien as long as the Project Manager
7 in good faith shall be contesting the same, which
8 contest shall operate during the pendency thereof to
9 prevent the collection or enforcement of such lien
10 so contested.

11 8.3.12 Obtain or cause to be obtained necess-
12 ary construction permits, temporary access rights and
13 other licenses and approvals requisite to the per-
14 formance and completion of Construction Work and
15 initiation of Operating Work.

16 8.3.13 As soon as practicable after the Date of
17 Firm Operation of each Generating Unit, provide each
18 Participant with a summary of the Construction Costs
19 applicable to such Generating Unit in a form which
20 will allow each such Participant to classify such
21 Construction Costs to appropriate FPC Accounts.

22 8.3.14 Provide the Participants with all neces-
23 sary and required records and information pertaining
24 to the performance of Construction Work, including
25 progress reports at such regular intervals as the
26 Project Manager shall determine.

1 8.3.15 Keep the Participants fully and promptly
2 informed of any known default by any Participant
3 under the provisions of this Participation Agreement.

4 8.3.16 As soon as practicable after the execu-
5 tion of this Participation Agreement, furnish each
6 Participant an estimate of total Construction Costs
7 and a forecast of the cash requirements of each
8 Participant to meet such Construction Costs incurred
9 as of January 1, 1978 and thereafter. Such forecast
10 shall set forth such cash requirements (i) for each
11 quarterly period commencing in 1978 and thereafter
12 in the month of January, April, July and October in
13 which Construction Costs will become due, (ii) for
14 each month of the first two quarterly periods im-
15 mediately following the issuance of such forecast,
16 and (iii) the cash requirements for Los Angeles to
17 make payment of Los Angeles' Cost Responsibility
18 share of Sunk Costs as of December 31, 1977, such
19 payment to be made pursuant to Section 13.13 hereof.
20 Such forecast shall be revised and furnished to each
21 Participant every three (3) months thereafter until
22 completion of Construction Work. In addition, the
23 Project Manager shall furnish each Participant a
24 monthly forecast of each Participant's estimated
25 expenditures during each week of the succeeding month
26 for Construction Work, which said forecast shall be

1 furnished each Participant monthly thereafter until
2 completion of Construction Work.

3 8.3.17 Furnish a Participant any information
4 reasonably available pertaining to the construction
5 of the Coronado Project that will assist said Partici-
6 pant in responding to a request for such information
7 by an Federal, state or local regulatory authority.

8 8.3.18 Use its best efforts in the performance
9 of its responsibilities hereunder to effect the com-
10 pletion of Construction Work in accordance with
11 Section 8.6 hereof.

12 8.3.19 Keep the Participants fully and promptly
13 advised of significant developments in connection
14 with the progress, performance and completion of
15 Construction Work.

16 8.3.20 Prepare and distribute the Final Comple-
17 tion Report to each Participant as soon as practicable
18 but not later than twenty-four (24) months after the
19 Date of Firm Operation of the final Generating Unit
20 unless such time is extended by the Administrative
21 Committee.

22 8.3.21 Provide the Administrative Committee
23 with all necessary and required records and informa-
24 tion for its use in the performance of its responsi-
25 bilities under this Participation Agreement.

26 8.3.22 Construct the Coronado Project so as to

1 comply with the Project Agreements.

2 8.3.23 Conduct tests to verify that specified
3 characteristics of major equipment items have been
4 achieved and, if necessary, make or cause to be made
5 final equipment modifications to meet the specified
6 requirements thereof.

7 8.3.24 Provide for and enforce any and all
8 warranties on equipment, facilities, materials and
9 services sold to or furnished to the Coronado Project,
10 except that any equipment warranties which expire
11 more than one (1) year after the Date of Firm
12 Operation of the final Generating Unit shall be
13 enforced by the Operating Agent.

14 8.3.25 Coordinate with the Operating Agent all
15 arrangements (i) for shipment, transfer, receipt,
16 inspection and storage of fuel at the Coronado Plant
17 Site, (ii) for the preoperational testing and accep-
18 tance by the Operating Agent of Components and sys-
19 tems of the Coronado Project, (iii) for preoperational
20 and environmental monitoring programs which are to be
21 continued after the Date of Firm Operation of the
22 first Generating Unit, and (iv) for the start-up,
23 operational testing and operation of each Generating
24 Unit prior to its Date of Firm Operation.

25 8.4 Each Participant shall provide to the extent
26 possible all assistance requested in advance in writing



1 by the Project Manager in the performance of its obliga-
2 tions hereunder and such Participant shall be reimbursed
3 for its costs and expenses incurred in providing such
4 assistance on such terms and conditions as may be agreed
5 upon by such Participant and the Project Manager. Each
6 Participant shall, within sixty (60) days after the
7 execution of this Participation Agreement, submit to the
8 Project Manager any special requirement it may have regard-
9 ing accounting, records, or information in order that all
10 required records may be maintained in the same manner
11 throughout the construction and final completion of the
12 Coronado Project. The Project Manager shall use its best
13 efforts to accommodate said special requirements.

14 8.5 The Project Manager shall have the full respon-
15 sibility and authority for the employment and organization
16 of the personnel and staff required to prosecute the
17 Construction Work.

18 8.6 The Project Manager shall construct the
19 Coronado Generating Station with the objective of having
20 each Unit available for start-up tests and for operation
21 as follows:

22		SCHEDULED	SCHEDULED DATE
23	<u>UNIT NO.</u>	<u>ROLL DATE</u>	<u>OF FIRM OPERATION</u>
24	1	1/1/79	4/1/79
25	2	1/1/80	4/1/80
26			

1 9. OPERATING AGENT:

2 9.1 The Operating Agent for the Coronado Project
3 shall be Salt River Project.

4 9.2 The Participants hereby appoint the Operating
5 Agent as their agent, and the Operating Agent shall under-
6 take as their agent and as principal on its own behalf, to
7 perform the Operating Work and Capital Improvements to
8 carry out the duties and responsibilities provided here-
9 under to be performed by it.

10 9.3 The Operating Agent shall:

11 9.3.1 Administer, enforce and perform the
12 Operating Work and Capital Improvements so as to
13 comply with the Project Agreements and in a manner
14 consistent with generally accepted practices in the
15 electric utility industry recognizing that such
16 practices may be affected by the design and opera-
17 tional characteristics of the Coronado Project, the
18 rights and obligations of the Participants under
19 this Participation Agreement and other special
20 circumstances affecting the Operating Work.

21 9.3.2 Furnish from its own resources or con-
22 tract for and obtain from any other sources it may
23 select, including any Participant, the services and
24 studies necessary for performance of Operating Work
25 and Capital Improvements.

26 9.3.3 Execute, administer, perform and enforce

1 contracts in the name of the Operating Agent, acting
2 as principal on its own behalf and as agent for all
3 of the other Participants, for Operating Work and
4 Capital Improvements, including without limitation any
5 and all warranties on equipment, facilities, materials
6 and services furnished pursuant to any such contracts.

7 9.3.4 Administer, perform and enforce any Fuel
8 Agreements executed by the Project Manager pursuant
9 to Section 8.3.2 and execute, administer, perform
10 and enforce all other Fuel Agreements.

11 9.3.5 Administer, perform and enforce all other
12 contractual obligations and arrangements, including
13 all warranties applicable thereto, entered into by
14 the Project Manager and continuing beyond the period
15 ending one year after the Date of Firm Operation of
16 the final Generating Unit.

17 9.3.6 Furnish or recruit the necessary person-
18 nel and provide for such training as may be required
19 to qualify them to perform the Operating Work and
20 Capital Improvement and to meet all licensing require-
21 ments established by law.

22 9.3.7 Comply with (i) any and all appli-
23 cable laws, rules and regulations for protection of
24 the environment and all applicable provisions of any
25 workers' compensation laws; and (ii) the terms and
26 conditions of any contract, permit or license relat-

1 ing to the Coronado Project.

2 9.3.8 Purchase and procure, through and from
3 any source it may select, the equipment, apparatus,
4 machinery, tools, Materials and Supplies and Emergen-
5 cy Spare Parts necessary for the performance of
6 Operating Work and Capital Improvements.

7 9.3.9 Expend the Operating Funds advanced to
8 the Operating Agent in accordance with the terms and
9 conditions of this Participation Agreement.

10 9.3.10 Keep and maintain such records of monies
11 received and expended, obligations incurred, credits
12 accrued, the conduct of Operating Work and making
13 Capital Improvements, and of contracts entered into
14 in the performance of Operating Work and Capital
15 Improvements as may be necessary or useful in carry-
16 ing out Project Agreements or required to permit
17 an audit of the Operating Work and Capital Improve-
18 ments, and make such records available for inspection
19 by the Auditing Committee.

20 9.3.11 Not suffer any liens to remain in
21 effect unsatisfied against the Coronado Project
22 (other than the liens permitted under the Project
23 Agreements, liens for taxes and assessments not yet
24 delinquent, liens for labor and material not yet
25 perfected or undetermined charges or liens incidental
26 to the performance of the Operating Work and Capital

1 Improvements); provided, that the Operating Agent
2 shall not be required to pay or discharge any such
3 lien as long as the Operating Agent in good faith
4 shall be contesting the same, which contest shall
5 operate during the pendency thereof to prevent the
6 collection or enforcement of such lien so contested.

7 9.3.12 Arrange for the placement and mainten-
8 ance of Operating Insurance as provided in Sections
9 23 and 24 hereof, or provide for indemnification as
10 necessary.

11 9.3.13 Assist any insurer in the investigation,
12 adjustment and settlement of any loss or claim
13 covered by Operating Insurance.

14 9.3.14 Present and prosecute claims against
15 insurers providing Operating Insurance and, to the
16 extent that any such loss, damage or liability is
17 not covered by Operating Insurance, present and
18 prosecute claims therefor against any parties who may
19 be liable therefor, including indemnification under
20 indemnity agreements.

21 9.3.15 Subject to the provisions of Section 24
22 hereof and except as hereinafter provided in this
23 Section 9.3.15, investigate, adjust, defend and
24 settle claims against any or all Participants arising
25 out of or attributable to Operating Work or Capital
26 Improvements, or the past or future performance or

1 non-performance of the obligations and duties of any
2 Participant, including the Operating Agent, under or
3 pursuant to this Participation Agreement, including
4 but not limited to any claim resulting from death
5 or injury to persons or damage to property, when
6 said claims are not covered by valid and collectible
7 Operating Insurance carried by any Participant, and
8 whenever and to the extent reasonable present and
9 prosecute claims against any third party, including
10 insurers, for any costs, losses and damages incurred
11 in connection with said claims.

12 9.3.16 Keep the Participants fully and prompt-
13 ly advised of material changes in conditions or other
14 material developments affecting the performance of
15 Operating Work and furnish the other Participants
16 with copies of any notices given or received pursuant
17 to the Project Agreements.

18 9.3.17 Provide the Administrative, Engineer-
19 ing and Operating, and Auditing Committees with all
20 written statistical and administrative reports,
21 accounting records, written budgets, information and
22 other records relating to Operating Work and Capital
23 Improvements necessary or useful in the performance
24 of their respective responsibilities under this
25 Participation Agreement.

26 9.3.18 Determine in accordance with policies,

1 criteria and procedures reviewed by the Engineering
2 and Operating Committee pursuant to Section 7.3.2.4
3 hereof, and keep the system dispatcher of each Par-
4 ticipant advised of, the Net Effective Generating
5 Capability, Minimum Generating Capability and the
6 Available Generating Capability of each Generating
7 Unit.

8 9.3.19 Upon the request of any Participant;
9 provide such Participant, in reasonable quantity
10 without direct charge therefor, a copy or copies of
11 any report, record, list, budget, manual, accounting
12 or billing summary, classification of accounts or
13 other documents or revisions of any of the aforesaid
14 items, all as prepared in accordance with this
15 Participation Agreement.

16 9.3.20 Take such action and responsibility for
17 pre-operational Operating Work as required under
18 Appendix E attached hereto.

19 9.3.21 Keep the Participants fully and prompt-
20 ly informed of any known default of the Project Agree-
21 ments and submit to the Participants any recommenda-
22 tions for amendments for the Project Agreements.

23 9.3.22 Prepare recommendations covering the
24 matters which are to be reviewed by the Administra-
25 tive Committee pursuant to Section 7.2.3 hereof or
26 by the Engineering and Operating Committee pursuant

1 to Section 7.3.2 hereof.

2 9.3.23 Carry out and follow the practices and
3 procedures and directions which have been reviewed
4 by the Administrative Committee, the Engineering and
5 Operating Committee, or the Auditing Committee pur-
6 suant to the Project Agreements, except as otherwise
7 provided in Section 9.3.24 hereof.

8 9.3.24 In the event of an Operating Emergency
9 take such action as the Operating Agent in its sole
10 discretion may deem prudent or necessary, notwith-
11 standing any practices and procedures and directions
12 reviewed by the Administrative Committee or the
13 Engineering and Operating Committee, to terminate the
14 Operating Emergency, to preserve and maintain the
15 safety, integrity and operability of the Coronado
16 Project, to maintain to the maximum extent the
17 availability of Power and Energy from each Generating
18 Unit, to protect the health and safety of the public
19 or to minimize any adverse environmental effects and
20 such other action as required by Appendix F attached
21 hereto.

22 9.4 The other Participants shall lend and be proper-
23 ly reimbursed for all necessary and available assistance as
24 may be requested by the Operating Agent in the performance
25 of Operating Work and Capital Improvements.
26

1 10. DELIVERY POINT AND TRANSMISSION SERVICE:

2 10.1 Los Angeles shall have the right to use the
3 Coronado Transmission System to transmit to its designated
4 : delivery point under normal operating conditions Power
5 in an amount equivalent to its Capacity entitlement share
6 and Contingent Power in the Coronado Generating Station,
7 less losses, or to reserve the Coronado Transmission
8 System for such transmission without regard to the origin,
9 source, ownership or type of generation used to produce
10 such Power or Energy.

11 10.2 In the event of an outage or curtailment of
12 any circuit or element of the Coronado Transmission System,
13 the Operating Agent shall make every effort to furnish,
14 temporary alternate service through other circuits or
15 elements of the Coronado Transmission System.

16 10.3 When the Capacity available to the Participants
17 in any segment of the Coronado Transmission System is in-
18 sufficient to accommodate all of the firm use of the
19 Coronado Transmission System pursuant to Section 10.1
20 hereof, then the use of the available Capacity of that
21 segment of the Coronado Transmission System will be allo-
22 cated in proportion to the Participants' Cost Responsibil-
23 ity in such segment.

24 10.4 Los Angeles' designated delivery points shall
25 be the Coronado 500 KV Switchyard and the Kyrene 230 KV
26 Switchyard.

1 10.5 Salt River Project shall wheel Power and Energy,
2 less losses, scheduled by Los Angeles pursuant to Sections
3 10.1 and 15.1 hereof from the Kyrene 230 KV Switchyard to
4 the 230 KV bus of the United States' Liberty Substation
5 and/or the 230 KV bus of the United States' Pinnacle Peak
6 Substation.

7 10.5.1 The charge for wheeling pursuant to
8 Section 10.5 hereof shall be \$0.16/KW-month (escalated
9 at 1% per year after 1977) times (Generation
10 Entitlement Share and Contingent Power less losses),
11 unless otherwise agreed by the Engineering and
12 Operating Committee.

13 10.6 Salt River Project shall wheel Power and Energy,
14 less losses, scheduled by Los Angeles pursuant to Sections
15 15.1.2 and 15.1.3 hereof, from the Coronado 500 KV
16 Switchyard to the 230 KV bus of the United States' Liberty
17 Substation and/or the 230 KV bus of the United States'
18 Pinnacle Peak Substation.

19 10.6.1 The monthly charge for wheeling pursuant
20 to Section 10.6 hereof shall be computed, using
21 budget estimates when necessary and adjusting to
22 actual costs annually, as follows:

$$\text{Monthly Charge} = A \times \left(B \times 0.0072 + \frac{C}{12} + \frac{D}{12} \right) + E \times \$0.16 \times (1.01)^N$$

23 Where A = the ratio of Contingent Power in megawatts
24
25 to 1050 megawatts.
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B = the Installed Costs of the Coronado
Transmission System.

C = Annual property taxes and insurance for the
Coronado Transmission System.

D = Annual expenses for Coronado Transmission
System Operating Work.

E = Contingent Power, less losses to the Kyrene
230 KV Switchyard, wheeled over Salt River
Projects' 230 KV system, in kilowatts.

N = Number of years after 1977.

10.7 Los Angeles will deliver start-up Power and
Energy to Arizona Public Service (APS) Company for Salt
River Project's account at the APS Pinnacle Peak 230 KV
Substation for delivery to the Coronado Generating Station.

10.8 Losses for deliveries pursuant to Sections
10.1 and 10.5 herein will be accounted for in accordance
with procedures developed by the Operating Agent.

1 11. CONSTRUCTION COSTS:

2 11.1 Construction Costs of the Coronado Project shall
3 include all payments made and obligations incurred by the
4 Project Manager for or in connection with Construction Work,
5 including but not limited to those costs specified in
6 Appendix C attached hereto and in Section 11.2 hereof.

7 11.2 Construction Costs shall include the costs
8 incurred by any Participant in developing the Coronado
9 Project prior to or after the effective date of this
10 Participation Agreement, including (i) the costs incurred
11 in negotiation and preparation of Project Agreements and
12 the costs of studies associated therewith, and (ii) all
13 Sunk Costs.

14 11.3 Los Angeles recognizes that Construction Costs
15 include the costs of certain common facilities incurred by
16 the Participants in developing the Coronado Project, that
17 a portion of said common facilities shall be common to
18 possible future facilities of the Coronado Project which
19 may be solely owned by Salt River Project, and that Salt
20 River Project shall have sole discretion for any such
21 future use of said common facilities.

22 11.4 All Construction Costs shall be shared by the
23 Participants in proportion to their respective Cost
24 Responsibility and shall be advanced by them and dis-
25 bursed and accounted for by the Project Manager in
26 accordance with Section 13 hereof.

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11.5 Notwithstanding any provision of this Partici-
pation Agreement to the contrary, Construction Costs shall
include costs associated with land and land rights for the
Coronado Railroad Spur and the Coronado Transmission
System.

1 12. OPERATION AND MAINTENANCE COSTS:

2 12.1 Operation and maintenance costs of the Coronado
3 Project shall include all payments made and obligations
4 incurred by the Operating Agent for or in connection with
5 the performance of Operating Work, including (i) those
6 costs of Operating Work specified in Appendix D attached
7 hereto, (ii) those costs specified in Section 14 hereof to
8 the extent any tax or payment in lieu thereof is levied
9 against a Participant in behalf of all of the Participants,
10 and in Section 23 hereof (excluding workers' compensation
11 expense for the Operating Agent's employees), (iii) those
12 costs and expenses described in Section 25.3 hereof, and
13 (iv) all costs required or reserved for operation and
14 maintenance of the Coronado Project including back-up
15 transmission costs but excluding all such costs as may be
16 included in Construction Costs or in the cost of Capital
17 Improvements.

18 12.2 The costs of Operating Work shall be shared by
19 the Participants in proportion to their respective Cost
20 Responsibility and shall be advanced by them to the
21 Operating Agent and disbursed and accounted for by it
22 in accordance with Section 13 hereof.

23 12.3 Notwithstanding any provision of this Partici-
24 pation Agreement to the contrary, the costs of Operating
25 Work shall include costs associated with land and land
26 rights for the Coronado Railroad Spur and the Coronado
27 Transmission System.

1 13. ADVANCEMENT OF FUNDS:

2 13.1 Each Participant shall advance its share of
3 Construction Funds and Operating Funds prior to the date
4 when funds are required by the Project Manager or Operating
5 Agent to pay for Construction Work, Operating Work and
6 Capital Improvements so that neither the Project Manager
7 nor the Operating Agent in its capacity as such will have
8 to advance any funds on behalf of another Participant.

9 13.2 Each Participant shall pay weekly in advance its
10 share (equal to its Cost Responsibility) of all Construc-
11 tion Costs in accordance with the monthly forecasts of
12 estimated weekly expenditures for Construction Work pre-
13 pared by the Project Manager and furnished to each Partici-
14 pant pursuant to Section 8.3.16 hereof. Each such payment
15 shall be adjusted to reconcile estimates to actual Con-
16 struction Costs. Construction Funds on hand shall be
17 invested to the maximum extent feasible. Earnings and
18 losses, if any, shall be allocated to the Participants on
19 the basis of such funds advanced. Following completion of
20 the Construction Work, the Project Manager shall compute
21 the total Construction Costs of the Coronado Project, and
22 each Participant shall promptly settle any balance of its
23 share of such total Construction Costs in accordance there-
24 with. If at any time it is determined that a Participant
25 has made advances which are greater or less than its share
26 of the Construction Costs, the difference shall be paid by
27 or refunded to such Participant.



1 13.3 The Project Manager shall establish a Construc-
2 tion Account at a bank of its choice and notify the Par-
3 ticipants in writing of the establishment of the Construc-
4 tion Account not later than five (5) days following its
5 establishment.

6 13.4 Construction Funds required to be advanced by
7 the Participants in accordance with this Participation
8 Agreement shall be deposited in the Construction Account,
9 and the Project Manager, unless otherwise agreed to by
10 the Participants, shall make disbursements from the Con-
11 struction Account only for expenditures or obligations
12 incurred by it in the performance of Construction Work
13 or for the investment of Construction Funds pursuant to
14 Section 13.2 hereof.

15 13.5 Not less than sixty (60) days prior to the
16 establishment of the Operating Account, the Administrative
17 Committee shall establish a minimum balance for the
18 Operating Account so that the Operating Agent will have
19 Operating Funds to pay for expenditures or obligations
20 incurred by the Operating Agent pursuant to this Partici-
21 pation Agreement. Such minimum balance may be revised by
22 the Administrative Committee at any time. The original
23 minimum balance and any increase therein shall be allocated
24 among the Participants on the basis of their respective
25 Cost Responsibility and shall be due and payable within
26 fifteen (15) business days following notification of the



1 establishment of the Operating Account or of the date on
2 which any increase in such minimum balance shall become
3 effective. In the event the Administrative Committee
4 : authorizes a decrease in such minimum balance, then each
5 Participant shall receive a credit on the next bills from
6 the Operating Agent.

7 13.6 All Operating Funds required to be advanced by
8 the Participants in accordance with this Participation
9 Agreement shall be made payable to the account of the
10 Operating Agent, or may be credited to the Operating
11 Account by bank transfers. All Operating Funds shall be
12 deposited in the Operating Account, and the Operating
13 Agent shall make disbursements from the Operating Account
14 only for expenditures or obligations incurred by it in
15 the performance of Operating Work or Capital Improvements
16 or for payments due under any Fuel Agreement.

17 13.7 Not less than thirty (30) days prior to
18 incurring any cost for Operating Work or making any pay-
19 ment under any Fuel Agreement, whichever occurs first, on
20 behalf of the Participants pursuant to this Participation
21 Agreement, the Operating Agent shall establish the Operat-
22 ing Account at a bank of its choice. The Operating Agent
23 shall notify the Participants in writing of the establish-
24 ment of the Operating Account not later than five (5) days
25 following its establishment.

1 13.8 Each Participant shall advance Operating Funds
2 to the Operating Account on the basis of bills it receives
3 from the Operating Agent which reflect such Participant's
4 share of the costs of Operating Work and Capital Improve-
5 ments determined in accordance with this Participation
6 Agreement as follows:

7 13.8.1 Expenses described in Appendix D hereof
8 (excluding Section D.10 Emergency Spare Parts) for
9 the current month shall be billed on an estimated
10 basis on or before the first business day of each
11 month, and payment shall be due and payable by the
12 15th day of such month; provided the adjustments for
13 actual expenses incurred for such month shall be
14 reflected in the bill for the month which follows
15 the date of determination of such actual expenses.

16 13.8.2 Expenses described in Appendices E
17 hereof (excluding Section E.2 Start-Up) and G hereof
18 and expenses in Sections 14 and 23 hereof (excluding
19 workers' compensation insurance) shall be billed not
20 less than eight (8) business days prior to their due
21 date and shall be due and payable not less than three
22 (3) business days prior to such date. If such expen-
23 ditures or obligations do not have a specific due
24 date, such as Emergency Spare Parts and Start-Up
25 Costs, they shall be billed within a reasonable time
26 following the incurring of such expenditures or



1 obligations and shall be due and payable within five
2 (5) business days following receipt of the bill.

3 13.9 Each Participant shall advance funds to the
4 Operating Account for its share of all expenditures for
5 Operating Emergencies (excluding those items billed under
6 Sections 13.8.1 and 13.8.2 hereof) on the basis of esti-
7 mates made in accordance with Section F.4 of Appendix F
8 attached hereto.

9 13.10 Each Participant shall advance Operating Funds
10 to the Operating Account for its share of all payments due
11 under any Fuel Agreement in accordance with Section G.3
12 of Appendix G attached hereto.

13 13.11 Funds not advanced to the Project Manager or
14 the Operating Agent on or before the due date specified
15 in Sections 13.2, 13.7, 13.8, 13.9 and 13.10 hereof shall
16 be payable with interest, if any, accrued as provided in
17 Section 27.3 hereof.

18 13.12 If a Participant shall dispute any portion of
19 any amount specified in a monthly forecast, billing or a
20 request for funds, the disputant shall make the total pay-
21 ment specified in said forecast, billing or request for
22 funds pursuant to Section 27.4 hereof.

23 13.13 Los Angeles agrees to pay its Cost Responsi-
24 bility share of Sunk Costs pursuant to the following terms:

25 13.13.1 Los Angeles agrees to make one payment
26 on or before December 31, 1977, the amount of such



1 payment to be approximately fifty percent (50%) of
2 Los Angeles' Cost Responsibility share of Sunk Costs
3 as estimated by Salt River Project.

4 : 13.13.2 In consideration of the benefit to be
5 derived herefrom, Los Angeles further promises to pay
6 to the order of Salt River Project, at its place of
7 business in the City of Tempe, State of Arizona, an
8 additional payment on or before August 1, 1978, the
9 amount of such payment to be: (i) the remaining
10 balance of Los Angeles' share of Sunk Costs and (ii)
11 interest calculated from December 31, 1977, to the
12 date paid on such remaining balance. The interest
13 charges shall be at the rate of Seven and One Quarter
14 percent (7.25%) per year.
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1 14. TAXES:

2 14.1 The Participants shall use their best efforts
3 to have any taxing or other authority levying any taxes or
4 : assessments, or payments in lieu thereof, or making any
5 valuations for the purpose of levying any taxes or assess-
6 ments or payments in lieu thereof, on the Coronado Project,
7 or any interest or rights therein, including land or land
8 rights for the Coronado Railroad Spur or Coronado Trans-
9 mission System, assess and levy such taxes or assessments
10 or payments in lieu thereof directly against the ownership
11 or beneficial interest of each Participant.

12 14.2 All taxes or assessments or payments in lieu
13 thereof levied against each Participant's ownership or
14 beneficial interest in the Coronado Project, including
15 land or land rights for the Coronado Railroad Spur and
16 Coronado Transmission System, excepting those taxes or
17 assessments or payments in lieu thereof levied against an
18 individual Participant in behalf of any or all of the
19 other Participants, shall be the sole responsibility of
20 the Participant upon whose ownership or beneficial interest
21 said taxes or assessments or payments in lieu thereof are
22 levied.

23 14.3 If any property taxes or payments in lieu
24 thereof or any other taxes or assessments are levied or
25 assessed in a manner other than as specified in Section
26 14.1 hereof, it shall be the responsibility of the Project

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Manager or the Operating Agent to establish equitable practices and procedures for the apportionment among the Participants of such taxes and assessments or payments in lieu thereof.

14.4 No Participant who is exempt from any taxes assessed against any or all of the other Participants shall be obligated to make any contribution toward such taxes to the extent of the exemption.

1 15. CONTINGENT POWER SALE:

2 15.1 Salt River Project shall make available,
3 Contingent Power available from the Coronado Generating
4 Station as follows:

5 15.1.1 Effective on the Date of Firm Operation
6 of the first Unit of the Coronado Generating Station
7 and terminating on the Date of Firm Operation of the
8 second Unit of the Coronado Generating Station, 100
9 MW of Contingent Power from the first Unit of the
10 Coronado Generating Station.

11 15.1.2 Effective on the "date of firm opera-
12 tion" of the first "unit" of the "Palo Verde Nuclear
13 Generating Station," and terminating on the "date of
14 firm operation" of the second "unit" of the "Palo
15 Verde Nuclear Generating Station," 70 MW of Contingent
16 Power from each of the two Units of the Coronado
17 Generating Station.

18 15.1.3 Effective on the "date of firm opera-
19 tion" of the second "unit" of the "Palo Verde Nuclear
20 Generating Station," and terminating on the "date of
21 firm operation" of the third "unit" of the "Palo
22 Verde Nuclear Generating Station," 35 MW of Contingent
23 Power from each of the two Units of the Coronado
24 Generating Station.

25 15.2 Los Angeles shall have the right to schedule
26 such Power and Energy referred to under Section 15.1 hereof,

1 contingent on Power availability from the Coronado
2 Generating Station Unit in which Los Angeles has rights
3 to schedule.

4 : 15.3 Los Angeles shall have the right to transmit
5 its Power under Section 15.1 hereof in accordance with
6 Section 10 hereof.

7 15.4 Los Angeles shall pay Salt River Project for
8 Power and Energy under this Section 15 as follows:

9 15.4.1 For Capacity, Los Angeles shall pay a
10 monthly demand charge calculated as follows and
11 adjusted annually to actual costs or revised
12 projections:

13 Monthly Charge = $A \times (B \times 0.0072 + \frac{C}{12})$

14 Where:

15 A = The ratio of Contingent Power to the Net Effective
16 Generating Capacity of Coronado Generating Station
17 Units 1 and 2;

18 B = The Installed Costs of the Coronado Generating
19 Station and the Coronado Railroad Spur.

20 C = Property taxes and insurance for the Coronado
21 Generating Station and the Coronado Railroad
22 Spur.

23 The charge shall apply to the Contingent Power
24 scheduled pursuant to Sections 15.1.1, 15.1.2, and
25 15.1.3 hereof.

1 15.4.2 For Energy: Los Angeles shall pay
2 Salt River Project the actual costs of Operating
3 Work on the basis of the ratio of its right to
4 Contingent Power over the total Net Effective
5 Generating Capability of the Coronado Generating
6 Station.

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1 16. RECAPTURE OF THE LOS ANGELES INTEREST:

2 16.1 Salt River Project shall have the option to
3 recapture the Los Angeles interest in the Coronado Project
4 upon five years' written notice; provided that such recap-
5 ture shall not be effective sooner than fifteen years
6 after the Date of Firm Operation of the first Unit of the
7 Coronado Generating Station.

8 16.2 The recapture settlement shall be at a price
9 established on a "Reproduction Cost New Depreciated"
10 basis for non-working-capital items, with calculations of
11 escalation and depreciation beginning on January 1, 1982,
12 but shall not fall below salvage value. Working capital
13 items, such as operating funds, prepayments and inventories,
14 shall be priced at book value except that Permanent Coal
15 Storage shall be priced at book value less an adjustment
16 for BTU content reduction, if any. Reproduction cost new
17 shall be calculated using the Handy-Whitman Index, Plateau
18 Region, as the basis for escalation. In the event the
19 Administrative Committee unanimously agree the Handy-
20 Whitman Index is inapplicable, in whole or in part, another
21 mutually agreeable index or method shall be chosen. Depre-
22 ciation shall be calculated on a straight-line basis,
23 assuming a Generating Unit lifetime of 1982-2017. The
24 computation shall be as follows:

$$\begin{aligned}
& \text{Recapture Price} = \text{Appropriate Los Angeles Cost Responsibility} \\
& \quad \times \left[\text{(Installed Costs excluding working} \right. \\
& \quad \quad \text{capital items as of January 1, 1982} \\
& \quad \quad \left. \pm \text{ changes per index)} \right. \\
& \quad \times \left(\frac{2017 - \text{Year of Recapture}}{35} \right) \\
& \quad + \text{(Capital Improvement costs as defined in} \\
& \quad \quad \text{Appendix D, Section 2.5.1 } \pm \text{ changes per} \\
& \quad \quad \text{index from In-Service Date to recapture} \\
& \quad \quad \text{date)} \\
& \quad \times \left(\frac{2017 - \text{Year of Recapture}}{2017 - \text{In-Service Date}} \right) \\
& \quad + \text{(Working capital at book value less} \\
& \quad \quad \text{adjustment for coal BTU content)} \left. \right]
\end{aligned}$$

The recapture price of Los Angeles' interest in the other Components shall be calculated separately, pursuant with depreciation rates to be agreed upon by the Administrative Committee. The computation of the recapture price (Reproduction Cost New Depreciated) shall be adjusted to reflect fractions of years, should such recapture occur at times other than anniversaries of the Dates of Firm Operation.

Salt River and Los Angeles shall review the basis for depreciation and, if mutually agreeable to the Administrative Committee, may use a different depreciation method or rate in calculating the recapture price.



1 17. NONPARTITIONMENT:

2 17.1 Each Participant hereby waives any rights it
3 may have to partition the Coronado Project or the Project
4 : Agreements, whether by partitionment in kind or by sale
5 and division of the proceeds, and further agrees that it
6 will not resort to any action in law or in equity to
7 partition the Coronado Project or the Project Agreements,
8 and it waives the benefits of all laws that may now or
9 hereafter authorize such partition for a term (i) which
10 shall be coterminous with this Participation Agreement,
11 or (ii) which shall be for such lesser period as may be
12 required under applicable law.

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1 18. MORTGAGE AND TRANSFER OF INTEREST:

2 18.1 Each Participant shall have the right at any
3 time and from time to time to mortgage, create or provide
4 for a security interest in or convey in trust all or a
5 part of its ownership share in the Coronado Project,
6 together with an equal interest in the Coronado Agreements
7 to a trustee or trustees under deed of trust, mortgage or
8 indenture or to a secured party or parties under a security
9 agreement, as security for its present or future bonds or
10 other obligations or securities, and to any successors or
11 assigns thereof, without need for the prior written consent
12 of any other Participant and without such mortgagee,
13 trustee or secured party assuming or becoming in any
14 respect obligated to perform any of the obligations of
15 the Participants.

16 18.2 Any mortgagee, trustee or secured party under
17 present or future deeds of trust, mortgages, indentures
18 or security agreements of any of the Participants and any
19 successor or assignee thereof, and any receiver, referee
20 or trustee in bankruptcy or reorganization of any of the
21 Participants, and any successor by action of law or other-
22 wise, and any purchaser, transferee or assignee of any
23 thereof may, without need for the prior written consent of
24 any other Participant, succeed to and acquire all the
25 rights, titles and interests of such Participant in the
26 Coronado Project and the Coronado Agreements, and may take

1 over possession of or foreclose upon said property, rights,
2 titles and interests of such Participant, and in such event
3 shall assume and be obligated fully to perform and dis-
4 charge all of the obligations hereunder and under any
5 other Coronado Agreement of such Participant.

6 18.3 Each Participant shall have the right to trans-
7 fer or assign all or part of its interest in the Coronado
8 Project together with an equal interest in the Coronado
9 Agreements, to any of the following entities without the
10 need for prior written consent of the other Participant:

11 18.3.1 Any entity acquiring all or substan-
12 tially all of the property of such Participant; or

13 18.3.2 Any entity merged or consolidated with
14 such Participant; or

15 18.3.3 Any entity which is wholly owned or
16 controlled by a Participant.

17 18.4 Except as otherwise provided in Sections 18.1
18 and 18.2 hereof, any successor to the rights, titles and
19 interests of a Participant in the Coronado Project, to-
20 gether with an equal interest in the Coronado Agreements,
21 shall assume and agree fully to perform and discharge all
22 of the obligations hereunder of such Participant, and such
23 successor shall notify each of the other Participants in
24 writing of such transfer, assignment or merger, and shall
25 furnish to each Participant evidence of such transfer,
26 assignment or merger and thereupon shall be considered to

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be a Participant in the Coronado Project and the transferring Participant shall thereupon, without the consent of any other Participant, be released from all obligations under the Coronado Agreements so assumed and agreed to by such successor.

1 19. RIGHT OF FIRST REFUSAL:

2 19.1 Except as provided in Section 18 hereof, should
3 Los Angeles desire to transfer its interest in the Coronado
4 Project or any part thereof to any person or entity, Salt
5 River Project shall have the right of first refusal to
6 purchase such interest for the Installed Costs (with
7 Capital Improvements depreciated from the time of their
8 In-Service Date) of such interest, depreciated from the
9 Date of Firm Operation to the date of transfer at an annual
10 rate of 2.82%. If Salt River Project elects not to pur-
11 chase the interests of Los Angeles, the latter may proceed
12 to sell such interests for the amount of the bona fide
13 written offer from a prospective buyer, ready, willing
14 and able to purchase such interest, after the expiration
15 of the periods of giving notices specified in Sections
16 19.2 and 19.3 hereof.

17 19.2 At least three (3) years prior to the date on
18 which the intended transfer is to be consummated, Los
19 Angeles shall serve written notice of its intention to
20 do so upon Salt River Project. Such notice shall contain
21 the proposed date of transfer and the terms and conditions
22 of the transfer.

23 19.3 Salt River Project shall have the option to
24 purchase all or any part of the interest to be transferred
25 and shall exercise said option by serving written notice
26 of its intention upon Los Angeles within one hundred eighty

1 (180) days after service of the written notice of intention
2 to transfer given pursuant to Section 19.2 hereof. Failure
3 by Salt River Project to exercise said option as provided
4 herein within the time period specified shall be conclu-
5 sively deemed to be an election not to exercise said
6 option.

7 19.4 When the options to purchase all or any portion
8 of said ownership interest have been exercised, the Par-
9 ticipants shall thereby incur the following obligations:

10 19.4.1 Los Angeles and Salt River Project
11 shall be obligated to proceed in good faith and with
12 due diligence to obtain all required authorizations
13 and approvals of such purchase.

14 19.4.2 Los Angeles shall, upon request of
15 Salt River Project, be obligated to obtain the release
16 of any lien encumbering the ownership interest which
17 is the subject of the transfer at the earliest
18 practicable date but not later than the transfer date.

19 19.4.3 Salt River Project shall be obligated
20 to perform all of the terms and conditions required
21 of it to complete the purchase of said ownership
22 interest.

23 19.5 The purchase of the ownership interest by Salt
24 River Project shall be fully consummated within thirty
25 (30) months following the date upon which all notices
26 required to be given under this Section 19 have been duly



1 served, unless the Participants are then diligently pur-
2 suing applications for required authorizations or approvals
3 to effect such transfer or are then diligently pursuing or
4 : defending appeals from orders entered or authorizations
5 issued in connection with such applications, in which
6 event the transfer shall be consummated within twelve
7 (12) months following the date upon which the final order
8 is entered or authorization issued in connection with such
9 applications.

10 19.6 If Salt River Project fails to exercise its
11 option to purchase all of the ownership interest to be
12 transferred, Los Angeles shall be free to transfer all,
13 but not less than all, of such interest to the party that
14 made the offer to purchase referred to in Section 19.1
15 hereof upon the terms and conditions set forth in said
16 bona fide written offer. If such transfer is not con-
17 summated, Los Angeles must give a complete new right of
18 first refusal to Salt River Project pursuant to the pro-
19 visions of this Section 19 before Los Angeles shall be
20 free to transfer said ownership interest to another party.

21 19.7 The Participants who purchase the ownership
22 interest pursuant to this Section 19 shall receive title
23 to and shall own the interest as tenants in common, subject
24 to the same rights, duties and obligations as are applied
25 by the Coronado Agreements to the interest being trans-
26 ferred in the hands of the transferring Participant.



1 19.8 Any Participant transferring an ownership
2 interest pursuant to the provisions of this Section 19
3 shall remain liable and obligated for the performance of
4 all the terms and conditions of the Project Agreements,
5 unless otherwise agreed to by all of the remaining Partici-
6 pants; provided, however, that any Participant transferring
7 an ownership interest pursuant to the provisions of this
8 Section 19 to a Participant or Participants shall be liable
9 and obligated only for the performance of the terms and
10 conditions of the Project Agreements related to such
11 interest occurring prior to the time of transfer, and it
12 shall not be liable or obligated for the performance of
13 the terms and conditions of the Project Agreements occur-
14 ring subsequent to the time of transfer as to the owner-
15 ship interest transferred.

16 19.9 Any party who may succeed to an ownership
17 interest pursuant to this Section 19 shall specifically
18 agree in writing with the remaining Participants at the
19 time of such transfer that it will not transfer or assign
20 all or any portion of such ownership interest without com-
21 plying with the terms and conditions of this Section 19.

22 19.10 For purposes of this Section 19, the term
23 "transfer" shall mean the conveyance of either fee title
24 or a possessory estate.

25 19.11 Without the prior written consent of Los
26 Angeles, Salt River Project shall have the right to

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transfer or assign all or part of its interest in the
Coronado Project, together with an equal interest in the
ownership of the Project Agreements, to any person, part-
nership, corporation, or governmental corporation or
agency engaged in the generation, transmission or
distribution of Energy.

1 20. DESTRUCTION:

2 20.1 If the Coronado Generating Station or any
3 portion thereof should be damaged or destroyed to the
4 extent that the cost of repairs or reconstruction is
5 estimated to be less than 150% of the aggregate amount of
6 Project Insurance coverage carried pursuant to Section 23
7 hereof, and covering the cost of such repairs or recon-
8 struction, then the Project Manager or the Operating Agent
9 shall cause such repairs or reconstruction to be made so
10 that the Coronado Generating Station shall be restored to
11 substantially the same general condition, character or use
12 as existed prior to such damage or destruction and the
13 Participants shall share the costs of such repairs or
14 reconstruction in proportion to their Generation Entitle-
15 ment Share.

16 20.2 If the Coronado Generating Station or any
17 portion thereof should be damaged or destroyed to the
18 extent that the costs of repairs or reconstruction is
19 estimated to be 150% or more of the aggregate amount of
20 Project Insurance coverage carried and covering the cost
21 of such repairs or reconstruction, then upon agreement of
22 all Participants the Project Manager or the Operating
23 Agent shall cause such repairs or reconstruction to be
24 made as may be agreed and the Participants shall share
25 the costs of such repairs or reconstruction in proportion
26 to their Generation Entitlement Share; provided, however,

1 that should all of the Participants not agree to restore
2 or reconstruct the damaged portion of the Coronado
3 Generating Station, but either of the Participants never-
4 : theless desires to do so, then the Participant who does
5 not agree to restore or reconstruct shall sell its owner-
6 ship in the Coronado Generating Station to the remaining
7 Participant for a price equal in amount to its Generation
8 Entitlement Share in the salvage value thereof. The
9 Participants agreeing to repair or reconstruct such
10 damaged portion shall share the costs of repair or
11 reconstruction in the proportion to their Generation.
12 Entitlement Share.

13 20.3 If any facilities of the Coronado Transmission
14 System or the Coronado Railroad Spur should be destroyed,
15 the Participants shall, unless otherwise agreed, repair or
16 reconstruct such facilities. The Participants shall share
17 the costs of such repair or reconstruction in proportion
18 to their Cost Responsibility for the Component, or part
19 thereof, so destroyed.
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1 21. SEVERANCE OF IMPROVEMENTS:

2 21.1 The Participants agree that all facilities,
3 structures, improvements, equipment and property of what-
4 ever kind and nature constructed, placed or affixed on
5 the rights-of-way, easements, patented and leased lands as
6 part of or as a Capital Improvement to the Coronado Project
7 as against all Parties and persons whomsoever (including
8 without limitation any party acquiring any interest in the
9 rights-of-way, easements, patented or leased lands or any
10 interest in or lien, claim or encumbrance against any of
11 such facilities, structures, improvements, equipment and
12 property of whatever kind and nature), shall be deemed
13 to be and remain personal property of the Participant(s),
14 not affixed to the realty.

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1 22. CAPITAL IMPROVEMENTS:

2 22.1 The Participants recognize that from time to
3 time it may be necessary or desirable to make Capital
4 Improvements or that Capital Improvements may be required
5 by laws and regulations applicable to the Coronado Project.

6 22.2 All Capital Improvements shall be included in
7 the annual capital expenditures budget or in revisions as
8 submitted by the Operating Agent. After such budget has
9 been reviewed by the Engineering and Operating Committee,
10 each Participant shall be obligated for the costs incurred
11 for such Capital Improvements in proportion to its Cost
12 Responsibility.

13 22.3 The Operating Agent shall submit to the
14 Participants a forecast of cash requirements for each
15 Capital Improvement. Such forecast shall set forth such
16 cash requirements (i) for each quarterly period commencing
17 in the month of January, April, July and October in
18 which costs for such Capital Improvements shall become
19 due, and (ii) for each month of the first two quarterly
20 periods immediately following the issuance of such fore-
21 cast. Such forecast shall be revised and furnished to
22 each Participant every three (3) months thereafter until
23 completion of the Capital Improvement.

24 22.4 The Operating Agent shall be responsible for
25 the design and construction of all Capital Improvements
26 unless otherwise agreed by the Administrative Committee.

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22.5 The cost of Capital Improvements shall be determined in accordance with Section D.2 of Appendix D hereto.

22.6 Units of Property retired from service, whether considered original construction or Capital Improvements, shall be disposed of by the Operating Agent on the best available terms as soon as practicable, and the proceeds, if any, received therefrom shall be credited or distributed to the Participants in proportion to their Cost Responsibility.

1 23. PROJECT INSURANCE:

2 23.1 Unless otherwise specified by the Administra-
3 tive Committee, during the performance of Construction
4 Work the Project Manager shall procure and maintain in
5 force, or cause to be procured and maintained in force,
6 Construction Insurance providing coverage against the
7 following risks, hazards and perils:

8 23.1.1 Comprehensive liability risks, includ-
9 ing bodily injury, personal injury and property
10 damage risks, hazards of automobile liability, con-
11 tractual liability, protective liability and liability
12 for products and completed operations.

13 23.1.2 Risks covered by the standard form of
14 All Risk Builder's Risk Insurance, including the
15 transportation hazard, and including boiler, pressure
16 vessel and turbine insurance during the Start-Up
17 Period.

18 23.1.3 Risks covered by the standard form of
19 All Risk Contractor's Equipment Floater Insurance
20 covering owned, non-owned and leased equipment used
21 in connection with the performance of Construction
22 Work.

23 23.1.4 Risks covered by the standard form of
24 employees' dishonesty bond covering loss of property
25 or funds of the Coronado Project due to dishonest or
26 fraudulent acts committed by an officer or employee



1 of the Project Manager or any Participant who is
2 engaged in Construction Work.

3 23.1.5 Risks covered by the standard form of
4 workers' compensation and employer's liability
5 insurance, covering officers and employees of the
6 Project Manager, any Participant and contractors
7 engaged in the performance of Construction Work.

8 23.2 The Operating Agent shall procure and maintain
9 in force, or cause to be procured and maintained in force,
10 so as to be effective not later than the date on which
11 the Operating Agent shall first incur a risk of loss,
12 damage or liability, Operating Insurance providing
13 coverage against the following risks, hazards and perils:

14 23.2.1 Comprehensive liability risks, includ-
15 ing bodily injury, personal injury and property
16 damage risks, hazards of automobile liability, con-
17 tractual liability, protective liability and liability
18 for products and completed operations.

19 23.2.2 Risks covered by the standard form of
20 employee dishonesty bond covering loss of property
21 or funds of the Coronado Project due to dishonest or
22 fraudulent acts committed by an officer or employee
23 of the Operating Agent or any Participant who is
24 engaged in Operating Work or Capital Improvements.

25 23.2.3 Risks covered by the standard form of
26 workers' compensation and employer's liability

1 insurance covering officers and employees of the
2 Operating Agent, any Participant and contractors
3 engaged in the performance of Operating Work.

4 23.2.4 Broad form steam turbine insurance,
5 including reasonable expediting expenses.

6 23.2.5 Broad form boiler and pressure vessel
7 insurance, including reasonable expediting expense.

8 23.2.6 Physical damage insurance. Except as
9 otherwise authorized herein, such insurance shall be
10 maintained in an amount not less than 90% of either
11 actual cash value or replacement cost, as the Project
12 Manager or the Operating Agent may in its sole dis-
13 cretion determine, of all property of the Coronado
14 Project as determined from time to time by independent
15 qualified appraisers selected by the Project Manager
16 prior to completion of Construction Work or the
17 Operating Agent thereafter.

18 23.2.7 In the event any Capital Improvements
19 are undertaken, the Operating Agent shall procure
20 and maintain or cause to be procured and maintained
21 Construction Insurance providing coverage for risks
22 described in Sections 23.1.1, 23.1.3 and 23.2.6
23 hereof in respect of the construction of such Capital
24 Improvements.

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1 24. GENERAL PROVISIONS AFFECTING PROJECT INSURANCE: The
2 following provisions shall apply to the Project Insurance
3 obtained by the Project Manager or Operating Agent in
4 compliance with Section 23 hereof.

5 24.1 Except for Project Insurance described in
6 Sections 23.1.3, 23.1.4, 23.1.5, 23.2.2 and 23.2.3
7 hereof, each Participant shall be named an additional
8 insured, individually and jointly with the other Parti-
9 cipants, on all policies of Project Insurance, and the
10 policies of Project Insurance referred to in Sections
11 23.1.1 and 23.2.1 hereof shall carry cross-liability
12 endorsements. In lieu of naming Participants insureds
13 on policies described in Section 23.1.1 hereof, the
14 Project Manager may require contractors to procure owner's
15 protective liability insurance naming the Participants as
16 insureds therein, with limits similar to those required
17 in Section 23.1.1 hereof.

18 24.2 Such insurance coverages as required under
19 Section 23 hereof shall be written with deductibles and
20 limits as determined by the Project Manager or Operating
21 Agent. The Project Manager or Operating Agent may, at
22 any time, increase the policy(ies) limits, eliminate
23 coverage(s) or require additional policies not previously
24 specified, and shall determine appropriate deductibles,
25 retentions and other special terms and conditions of the
26 Coronado Project Insurance.



1 24.3 Any deductibles shall be apportioned among the
2 Participants on the basis set forth in Section 25.3 hereof,
3 except that deductibles under any workers' compensation
4 insurance carried for officers and employees of the Project
5 Manager and Operating Agent shall be apportioned in the
6 manner specified in Section D.6 of Appendix D hereto.

7 24.4 Project Insurance policies shall be primary
8 insurance for all purposes and shall be so endorsed. Any
9 other insurance carried by a Participant individually
10 shall not participate with Project Insurance as to any
11 loss or claim for which valid and collectible Project
12 Insurance shall apply. Such other insurance shall apply
13 solely as to the individual interest of the Participant
14 carrying such other insurance; provided, however, that
15 each Participant shall accept any reasonably restrictive
16 endorsement to its separate insurance policies as may be
17 required by an insurer as a condition precedent to the
18 issuance of a policy of Project Insurance.

19 24.5 At the direction of the Project Manager or
20 Operating Agent, any party furnishing services, materials,
21 parts or equipment in connection with the planning, design,
22 engineering, construction, maintenance, operation or use
23 of property of the Coronado Project may be named as an
24 insured as its interest may appear in any of the Project
25 Insurance policies, and either the Project Manager or the
26 Operating Agent may waive on behalf of each Participant



1 its right of recovery against any such party for insured
2 loss of or damage to any property covered by Project
3 Insurance; provided that no such waiver shall impair the
4 right to recover any sums otherwise payable to any Partici-
5 pant under the Project Insurance.

6 24.6 The Project Manager and Operating Agent
7 respectively shall furnish the other Participants with a
8 certified copy of each of the policy forms of Project
9 Insurance, together with a line sheet therefor (and any
10 subsequent amendments) naming the insurers and under-
11 writers and the extent of their participation.

12 24.7 Each of the Project Insurance policies shall
13 be endorsed so as to provide that the Participants and
14 additional named insureds pursuant to Section 24.5 hereof
15 shall be given the same advance notice of cancellation or
16 material change as that required to be given to the
17 Project Manager or Operating Agent.

18 24.8 During any period of negotiations with an
19 insurer, or other negotiations which are pending at the
20 expiration of the period of coverage of a Project Insur-
21 ance policy, or in the event a Project Insurance policy
22 is canceled, the Project Manager and Operating Agent shall
23 renew or bind policies as an emergency measure or may
24 procure policies of insurance which are identical to those
25 which were canceled, or may, to the extent possible, secure
26 replacement policies which will provide substantially the
27 same coverage as the policy expiring or canceled.



1 24.9 Each Participant shall have the right to have
2 any mortgagee, trustee or secured party named on all or
3 any of the Project Insurance policies relating to property
4 as loss payee or additional insured as its interest may
5 appear, by notice to the Project Manager or Operating Agent
6 given in writing not less than ninety (90) days prior to
7 the procurement or renewal of the Project Insurance
8 policy(ies) relating to property, which such notice shall
9 specify the name or names of such mortgagee, trustee or
10 secured party and such additional information as may be
11 necessary or required to permit it to be included on the
12 policy(ies) of Project Insurance.

13 24.10 The Project Manager and Operating Agent shall
14 obtain Project Insurance from such insurers or under-
15 writers, including stock companies, mutuals and pools or
16 groups of insurers or underwriters, as either of them in
17 its sole discretion may select; provided that any policy
18 which obligates any Participant to pay any assessment
19 shall not be obtained unless such Participant has agreed
20 in writing to undertake such obligation. Written approval
21 of the Administrative Committee shall be secured prior to
22 implementation of a fully self-insured insurance program
23 for any of the insurance coverages required hereunder.

24 24.11 Any refunds of premiums or dividends received
25 by the Project Manager or Operating Agent on any Project
26 Insurance shall be allocated among the Participants in



1 proportion to their Cost Responsibility at the time of
2 receipt thereof; provided that any reserve premium refunds
3 received under any policy with a retrospective rating plan
4 shall be allocated among the Participants at the time of
5 payment of the reserve premium in proportion to their
6 Cost Responsibility.

7 24.12. Nothing herein shall prohibit the Project
8 Manager or Operating Agent from combining the coverage
9 required by this Participation Agreement with coverage
10 outside the scope of that required by this Participation
11 Agreement. The Project Manager or Operating Agent, as
12 the case may be, shall make an allocation and bill the
13 Participants on the basis thereof.

14 24.13 Except as provided in Section 24.9 hereof, if
15 any Participant desires changes in any policy of Project
16 Insurance, such Participant shall request in writing to
17 the Project Manager or Operating Agent, as the case may be,
18 to have the desired changes made. Upon receipt of any
19 such request the Project Manager or Operating Agent shall
20 promptly determine whether or not the desired changes can
21 be made and the effect thereof upon the coverage afforded
22 each other Participant and upon insurance premiums. If
23 the Project Manager or Operating Agent determines that (i)
24 the desired changes can be made, (ii) will not reduce the
25 coverage otherwise afforded to any Participant, and (iii)
26 will not result in any increase in premium expense or if



1 an increase in premium expenses will result and the
2 requesting Participant agrees in writing to pay such
3 increase, then the Project Manager or Operating Agent
4 shall cause such desired changes to be made at the
5 earliest feasible time.

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1 25. LIABILITY:

2 25.1 Except for any judgment debt for damage resulting
3 from Willful Action and except to the extent any judgment
4 debt is collectible from valid Project Insurance, each
5 Participant hereby extends to all other Participants and
6 all of their directors, officers and employees, its cove-
7 nant not to execute on any judgment obtained against any
8 of them for direct or consequential loss from physical
9 damage to its property, which results from the performance
10 or non-performance of the Project Agreements.

11 25.2 In the event any insurer providing Project
12 Insurance refuses to pay any judgment obtained by a Parti-
13 cipant against another Participant, or any of its direc-
14 tors, officers or employees, on account of liability
15 referred to in Section 25.1 hereof, the Participant or
16 any of its directors, officers or employees against whom
17 the judgment is obtained shall, at the request of the
18 Participant obtaining the judgment and in consideration
19 for the covenant given in Section 25.1 hereof, execute
20 such documents as may be necessary to effect an assignment
21 of its or their contractual rights against the non-paying
22 insurer.

23 25.3 Except for Work Liability resulting from Willful
24 Action and except as provided in Section 25.5 hereof, the
25 costs and expenses of discharging all Work Liability
26 imposed upon one or more of the Participants for which

1 payment is not made by Project Insurance, shall be allo-
2 cated among the Participants in proportion to their Cost
3 Responsibility in the Components.

4 25.4 Each Participant shall be responsible for the
5 consequences of its own Willful Action and shall indemnify
6 and hold harmless the other Participants from the conse-
7 quences thereof to the extent that such consequences are
8 not covered by any Project Insurance.

9 25.5 Except for liability resulting from Willful
10 Action, any Participant whose electric customer shall have
11 a claim or bring an action against any other Participant
12 for any death, injury, loss or damage arising out of or
13 in connection with interruptions to or curtailment of
14 electric service to such customer caused by the operation
15 or failure of operation of the Coronado Project or any
16 portion thereof shall indemnify and hold harmless such
17 other Participant, its directors, officers and employees,
18 from and against any liability for such death, injury,
19 loss or damage.

20 25.6 The provisions of this Section 25 shall not be
21 construed so as to relieve any insurer of its obligation
22 to pay any insurance proceeds in accordance with the terms
23 and conditions of valid and collectible Project Insurance
24 policies.

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1 26. AUTHORIZATIONS AND APPROVALS:

2 26.1 The Project Manager shall be responsible for
3 obtaining all licenses, permits and authorizations requi-
4 site to construct each Component and any portions thereof
5 and, in coordination with the Operating Agent, for obtain-
6 ing all licenses, permits and authorizations requisite to
7 operate and maintain such Component prior to the completion
8 of Construction Work, for the release of any effluents
9 therefrom and is authorized to submit and prosecute on
10 behalf of each Participant any applications therefor,
11 including the preparation and submission of any supple-
12 mentary or supporting documentation or other evidence and
13 appearing at any hearing. The Project Manager shall keep
14 each Participant informed of the status of all applica-
15 tions. Each Participant shall cooperate with the Project
16 Manager in the preparation, submission and execution of
17 such information, records, statements or other material
18 required to obtain any such licenses, permits or authori-
19 zations.

20 26.2 The Operating Agent shall be responsible for
21 obtaining and continuing in effect all licenses, permits
22 and authorizations requisite to (i) operate and maintain
23 each Component, (ii) release of any effluents and to
24 construct or install any Capital Improvement and is
25 authorized on behalf of each Participant to submit and
26 prosecute any applications therefor, including the



1 preparation and submission of any supplementary or support-
2 ing documentation or other evidence and appearance at any
3 hearing. The Operating Agent shall keep each Participant
4 informed of the status of all licenses, permits and
5 authorizations in effect and any pending or proposed
6 applications therefor or for changes thereto. Each
7 Participant shall cooperate with the Operating Agent in
8 the preparation, submission and execution of such informa-
9 tion, records, statements or other material required to
10 obtain and continue in effect any such licenses, permits
11 or authorizations and any changes thereto.

12 26.3 Except as provided in Sections 26.1 and 26.2
13 hereof, each Participant shall be responsible for obtain-
14 ing, at its own expense, its required authorizations and
15 approvals, if any, relating to its participation in the
16 construction or reconstruction and operation of the
17 Coronado Project and to its performance of the provisions
18 of the Project Agreements, from Federal, state or local
19 regulatory authorities having jurisdiction to issue such
20 authorizations and approvals, and each Participant shall
21 keep the Project Manager and Operating Agent informed of
22 its applications therefor.



1 27. DEFAULTS AND COVENANTS REGARDING OTHER AGREEMENTS:

2 27.1 Each Participant hereby agrees that it shall
3 pay all monies and carry out all other duties and obliga-
4 tions agreed to be paid and/or performed by it pursuant to
5 all of the terms and conditions set forth and contained in
6 the Project Agreements, and a default by any Participant
7 in the covenants and obligations to be kept and performed
8 pursuant to the terms and conditions set forth and con-
9 tained in any of the Project Agreements shall be an act of
10 default under this Participation Agreement.

11 27.2 In the event of a default by any Participant in
12 any of the terms and conditions of the Project Agreements,
13 then, within ten (10) days after written notice has been
14 given by any non-defaulting Participant to all other Parti-
15 cipants of the existence and nature of the default, the
16 non-defaulting Participant shall remedy such default
17 by advancing the necessary funds and/or commencing to ren-
18 der the necessary performance, with each non-defaulting
19 Participant contributing to such remedy in the ratio of
20 its Cost Responsibility to the total of the Cost Responsi-
21 bility of all non-defaulting Participants.

22 27.3 In the event of a default by any Participant
23 in any of the terms and conditions of the Project Agree-
24 ments and the giving of notice as provided in Section 27.2
25 hereof, the defaulting Participant shall take all steps
26 necessary to cure such default as promptly and completely

1 as possible and shall pay promptly upon demand to each
2 non-defaulting Participant the total amount of money and/
3 or the reasonable equivalent in money of non-monetary per-
4 formance, if any, paid and/or made by such non-defaulting
5 Participant in order to cure any default by the defaulting
6 Participant, together with interest on such money and/or
7 the costs of non-monetary performance at the rate of ten
8 per cent (10%) per annum, or the maximum rate of interest
9 legally chargeable, whichever is the lesser, from the
10 date of the expenditure of such money and/or the date of
11 completion of such non-monetary performance by each such
12 non-defaulting Participant to the date of such reimburse-
13 ment by the defaulting Participant, or such greater amount
14 as may be otherwise provided in the Project Agreements.

15 27.4 In the event that any Participant shall dispute
16 the existence or nature of a default asserted in a notice
17 given pursuant to Section 27.2, then such Participant
18 shall pay the disputed payment or perform the disputed
19 obligation, but may do so under protest. The protest
20 shall be in writing, shall accompany the disputed payment
21 or precede the performance of the disputed obligation, and
22 shall specify the reasons upon which the protest is based.
23 Copies of such protest shall be mailed by such Participant
24 to all other Participants. Payments not made under pro-
25 test shall be deemed to be correct, except to the extent
26 that periodic or annual audits may reveal over or under



1 payments by Participants, necessitating adjustments. In
2 the event it is determined by arbitration, pursuant to the
3 provisions of this Participation Agreement or otherwise,
4 that a protesting Participant is entitled to a refund of
5 all or any portion of a disputed payment or payments or
6 is entitled to the reasonable equivalent in money or non-
7 monetary performance of a disputed obligation theretofore
8 made, then, upon such determination, the non-protesting
9 Participants shall pay such amount to a protesting
10 Participant, together with interest thereon at the rate
11 of six percent (6%) per annum from the date of payment
12 or from the date of completion of performance of a dis-
13 puted obligation to the date of reimbursement. Reimburse-
14 ment of the amount so paid shall be made by the non-
15 protesting Participants in the ratio of their respective
16 Cost Responsibility.

17 27.5 Unless otherwise determined by a board of
18 arbitrators, in the event a default by any Participant in
19 the payment or performance of any obligation under the
20 Project Agreements shall continue for a period of six (6)
21 months or more without having been cured by the defaulting
22 Participant or without such Participant having commenced
23 or continued action in good faith to cure such default, or
24 in the event the question of whether an act of default
25 exists becomes the subject of an arbitration pursuant to
26 Section 28 hereof, and such act continues for a period of

1 six (6) months following a final determination by a board
2 of arbitrators or otherwise that an act of default exists
3 and the defaulting Participant has failed to cure such
4 default or to commence such action during said six (6)
5 month period, then, at any time thereafter and while said
6 default is continuing, all of the non-defaulting Partici-
7 pants, by written notice to all Participants, may suspend
8 the right of the defaulting Participant (i) to be repre-
9 sented on and participate in the actions of all committees
10 and (ii) to receive all or any part of its proportionate
11 share of its Generation Entitlement Share and its trans-
12 mission rights in which event:

13 27.5.1 During the period that such suspension
14 is in effect, the non-defaulting Participants (i)
15 shall bear all of the operation and maintenance costs,
16 insurance costs and other expenses, otherwise payable
17 by the defaulting Participant under the Project
18 Agreements and (ii) shall be entitled to schedule
19 and receive for their respective accounts the
20 Generation Entitlement Share of, and the transmission
21 rights of the defaulting Participant in the Components
22 in the ratio of their respective Cost Responsibility
23 in the Components to the total of the Cost Responsi-
24 bility in the Components of all non-defaulting
25 Participants.



1 27.5.2 A defaulting Participant shall be
2 liable to the non-defaulting Participants in the
3 proportion that the Cost Responsibility of each
4 non-defaulting Participant bears to the total of
5 the Cost Responsibility of all non-defaulting
6 Participants for all costs incurred by such non-
7 defaulting Participants pursuant to Section 27.5.1
8 hereof. The proceeds paid by any defaulting Partici-
9 pant to remedy any such default shall be distributed
10 to the non-defaulting Participants in the ratio of
11 their respective Cost Responsibility to the total of
12 the Cost Responsibility of all non-defaulting
13 Participants.

14 27.5.3 The suspension of any defaulting Partici-
15 pant shall be terminated and its full rights hereunder
16 restored when all of its defaults have been cured and
17 all costs incurred by non-defaulting Participants
18 pursuant to Section 27.5.1 have been paid by the
19 defaulting Participant or other arrangements suitable
20 to all non-defaulting Participants have been made.

21 27.6 In addition to the remedies provided in Section
22 27.5 hereof the non-defaulting Participants may, in sub-
23 mitting a dispute to arbitration in accordance with the
24 provision of Section 28 hereof, request that the board of
25 arbitrators determine what additional remedies may be
26 reasonably necessary or required under the circumstances

1 which give rise to the dispute. The board of arbitrators
2 may determine what remedies are necessary or required in
3 the premises, including but not limited to the conditions
4 under which the Cornado Project may be operated economi-
5 cally and efficiently during periods when the defaulting
6 Participant's right to receive its proportionate share of
7 its Generation Entitlement Share and its transmission
8 rights is suspended.

9 27.7 The rights and remedies of the Participants
10 set forth in this Participation Agreement shall be in
11 addition to the rights and remedies of the Participants
12 set forth in any other of the Project Agreements.

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1 28. ARBITRATION:

2 28.1 If a dispute between any of the Participants
3 should arise under the Project Agreements, any Partici-
4 pant(s) may call for submission of the dispute to arbitra-
5 tion which shall be binding upon all of the other Partici-
6 pants.

7 28.2 The Participant(s) calling for arbitration
8 shall give written notice to all other Participants,
9 setting forth in such notice in adequate detail the nature
10 of the dispute, the amount or amounts, if any, involved
11 in such dispute, and the remedy sought by such arbitration
12 proceedings, and, within twenty (20) days from receipt of
13 such notice, any other Participant(s) involved may, by
14 written response to the first Participant(s) and all other
15 Participants, submit its or their own statement of the
16 matter at issue and set forth in adequate detail addi-
17 tional related matters or issues to be arbitrated. There-
18 after, the Participant(s) first submitting its or their
19 notice of the matter at issue shall have ten (10) days
20 in which to submit a written rebuttal statement, copies
21 of which shall be given to all other Participants.

22 28.3 Within forty (40) days following delivery of
23 the written notice pursuant to Section 28.2 hereof, the
24 Participants, acting through their representatives on the
25 Administrative Committee, shall meet for the purpose of
26 selecting arbitrators. Each Participant or group of



1 Participants representing one side of the dispute shall
2 designate an arbitrator. The arbitrators so selected
3 shall meet within twenty (20) days following their selec-
4 tion and shall select additional arbitrators, the number
5 of which shall be one (1) less than the total number of
6 arbitrators selected by the Participants. If the arbi-
7 trators selected by the Participants, as herein provided,
8 shall fail to select such additional arbitrator(s) within
9 said twenty (20) day period, then the arbitrators shall
10 request from the American Arbitration Association (or a
11 similar organization if the American Arbitration Associa-
12 tion should not at the time exist) a list of arbitrators
13 who are qualified and eligible to serve as hereinafter
14 provided. The arbitrators selected by the Participants
15 shall take turns striking names from the list of arbi-
16 trators furnished by the American Arbitration Association,
17 and the last name(s) remaining on said list shall be the
18 additional arbitrator(s). All arbitrators shall be per-
19 sons skilled and experienced in the field which gives rise
20 to the dispute, and no person shall be eligible for appoint-
21 ment as an arbitrator who is an officer or employee of
22 any of the parties to the dispute or is otherwise inter-
23 ested in the matter to be arbitrated.

24 28.4 Except as otherwise provided in this Section
25 28, the arbitration shall be governed by the rules and
26 practice of the American Arbitration Association (or the



1 rules and practice of a similar organization if the
2 American Arbitration Association should not at that time
3 exist) from time to time in force, except that if such
4 rules and practice, as modified herein, shall conflict
5 with state or Federal law, as the case may be, then in
6 force which are specifically applicable to such arbitra-
7 tion proceedings, such law shall govern.

8 28.5 Included in the issues which may be submitted
9 to arbitration pursuant to this Section 28 is the issue
10 of whether the right to arbitrate a particular dispute is
11 permitted under the Project Agreements.

12 28.6 The arbitrators shall hear evidence submitted
13 by the respective Participants and may call for additional
14 information, which additional information shall be fur-
15 nished by the Participant(s) having such information. The
16 decision of a majority of the arbitrators shall be binding
17 upon all the Participants.

18 28.7 The award of the arbitrators shall contain
19 findings relative to the materiality of the default, the
20 period of time within which the defaulting party must
21 remedy the default or commence remedial action, and the
22 remedies which may be exercised by the non-defaulting
23 Participants in the event the default is not remedied
24 within such period of time.

25 28.8 This agreement to arbitrate shall be specifi-
26 cally enforceable, and the award and findings of the

1 arbitrators shall be final and binding upon the Partici-
2 pants to the extent permitted by applicable law. Any
3 award may be filed with the clerk of any court having
4 jurisdiction over the Participants, or any of them, against
5 whom the award is rendered, and, upon such filing, such
6 award, to the extent permitted by the laws of the juris-
7 diction in which said award is filed, shall be specifically
8 enforceable or shall form the basis of a declaratory judg-
9 ment or other similar relief.

10 28.9 The fees and expenses of the arbitrators shall
11 be shared by the Participants equally, unless the decision
12 of the arbitrators shall specify some other apportionment
13 of such fees and expenses. All other expenses and costs
14 of the arbitration shall be borne by the Participant
15 incurring the same.

16 28.10 In the event that any Participant shall attempt
17 to carry out the provisions herein set forth in regard
18 to arbitration, and such Participant shall not be able to
19 obtain a valid and enforceable arbitration decree, such
20 Participant shall be entitled to seek legal remedies in
21 the courts having jurisdiction in the premises, and the
22 provisions of the Project Agreements referring to decision
23 of a board of arbitration, to the extent allowable by law,
24 shall be then deemed applicable to final decisions of such
25 courts.
26



1 29. ACTIONS PENDING RESOLUTION OF DISPUTES:

2 29.1 If a dispute should arise which is not re-
3 solved by the Administrative Committee or the higher
4 authorities within the Participants' organizations, then,
5 pending the resolution of the dispute by arbitration or
6 judicial proceedings, the Project Manager or Operating
7 Agent shall proceed with Construction Work, Operating Work
8 or Capital Improvements in a manner consistent with the
9 Project Agreements and generally accepted practice in the
10 electric utility industry, and the Participants shall
11 advance the funds required to perform such Construction
12 Work, Operating Work or Capital Improvements in accordance
13 with the applicable provisions of the Project Agreements.
14 The resolution of any dispute involving the failure of
15 the Administrative Committee to reach agreement upon
16 matters involving future expenditures shall have pro-
17 spective application from the date of final determination,
18 and amounts advanced by the Participants pursuant to this
19 Section 29 during the pendency of such dispute shall not
20 be subject to refund except upon a final determination
21 that the expenditures were not made in a manner consis-
22 tent with the Project Agreement and generally accepted
23 practice in the electric utility industry.
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1 30. RELATIONSHIP OF PARTICIPANTS:

2 30.1 The covenants, obligations and liabilities of
3 the Participants are intended to be several and not joint
4 or collective and nothing herein contained shall ever be
5 construed to create an association, joint venture, trust
6 or partnership, or to impose a trust or partnership cove-
7 nant, obligation or liability on or with regard to any one
8 or more of the Participants. Each Participant shall be
9 individually responsible for its own covenants, obliga-
10 tions and liabilities as herein provided. No Participant
11 or group of Participants shall be under the control of or
12 shall be deemed to control any other Participant or the
13 Participants as a group. No Participant shall be the
14 agent of or have a right or power to bind any other Parti-
15 cipant without its express written consent, except as
16 expressly provided in this Participation Agreement or
17 other Project Agreements.

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31. FEES:

31.1 No Project Manager or Operating Agent shall receive any fee or profit hereunder.

1 32. ENVIRONMENTAL PROTECTION:

2 32.1 The Participants agree to operate and maintain
3 the Coronado Project in a manner consistent with the
4 Participants' objective of attaining the degree of en-
5 vironmental protection reasonably feasible. The Partici-
6 pants affirm their continuing obligation to comply fully
7 with applicable Federal, state and local laws, orders,
8 regulations, rules and standards relating to environmental
9 protection. The Participants shall to the extent practica-
10 ble anticipate and make provision for the future installa-
11 tion of any systems required to comply with changes in
12 said laws, orders, regulations, rules and standards.

13 32.2 The Participants hereby direct that the Project
14 Manager and Operating Agent shall install and diligently
15 operate as part of the Coronado Project such solid, gaseous
16 and liquid effluent control and treatment systems as may
17 be necessary to comply with and fulfill the objectives
18 and obligations set forth in Section 32.1 hereof.

19 32.3 The Project Manager is hereby authorized and
20 directed to conduct such studies and monitoring programs
21 and employ such expert consultants as may be required or
22 useful, to properly evaluate feasible means of minimizing
23 the impact of the Coronado Project on the environment and
24 of enhancing the incidental environmental benefits which
25 may accrue from or be developed in connection with the
26 operation and maintenance of the Coronado Project.



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Further, the Project Manager shall take all appropriate measures to harmonize the Coronado Project with the environment and shall exercise care to prevent any unnecessary destruction, scarring, or defacing of the natural surroundings in the vicinity of the Coronado Project.

32.4 The Operating Agent shall continue or initiate such monitoring programs as may be appropriate to detect in their incipiency any changes, anticipated and unanticipated, in the environment that may be attributable to the operation of the Coronado Project and may budget and install such Capital Improvements as may in the future with improvements in technology enhance the environmental benefits derivable from the Coronado Project or minimize any adverse effects.

1 33. UNCONTROLLABLE FORCES:

2 33.1 No Participant, shall be considered to be in
3 default in the performance of any of its obligations under
4 the Project Agreements (other than obligations of said
5 Participant to pay costs and expenses) when a failure of
6 performance shall be due to an uncontrollable force. The
7 term "uncontrollable force" shall be any cause beyond the
8 control of the Participant affected, including but not
9 restricted to failure of or threat of failure of facilities,
10 flood, earthquake, tornado, storm, fire, lightning, epi-
11 demic, war, riot, civil disturbance or disobedience, labor
12 dispute, labor or material shortage, sabotage, restraint
13 by court order or public authority, and action or non-
14 action by or failure to obtain the necessary authorizations
15 or approvals from any governmental agency or authority,
16 which by exercise of due diligence such Participant could
17 not reasonably have been expected to avoid and which by
18 exercise of due diligence it shall be unable to overcome.
19 Nothing contained herein shall be construed so as to
20 require a Participant to settle any strike or labor dis-
21 pute in which it may be involved. Any Participant ren-
22 dered unable to fulfill any of its obligations under the
23 Project Agreements by reason of an uncontrollable force
24 shall give prompt written notice of such fact to the other
25 Participants and shall exercise due diligence to remove
26 such inability with all reasonable dispatch. The term



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"Participant" as used in this Section 33 shall include the Project Manager and Operating Agent in their capacities as such.



1 34. GOVERNING LAW:

2 34.1 This Agreement shall be governed by and con-
3 strued and enforceable in accordance with the laws of the
4 : State of Arizona.

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1 35. BINDING OBLIGATIONS:

2 35.1 All of the respective covenants and obligations
3 of each of the Participants set forth and contained in
4 the Project Agreements shall bind and shall be and become
5 the respective covenants and obligations of:

6 35.1.1 Each such Participant;

7 35.1.2 All mortgagees, trustees and secured
8 parties under all present and future mortgages, in-
9 dentures and deeds of trust, and security agreements
10 which are or may become a lien upon any of the inter-
11 ests of such Participant in the Coronado Project
12 provided, however, that such covenants and obliga-
13 tions shall become binding upon such parties only
14 at the time of taking possession;

15 35.1.3 All receivers, assignees for the bene-
16 fit of creditors, bankruptcy trustees and referees
17 of such Participant;

18 35.1.4 All other persons, firms, partnerships
19 or corporations claiming through or under any of the
20 foregoing; and

21 35.1.5 Any successors or assigns of any of
22 those mentioned in Sections 35.1.1 through 35.1.4
23 hereof,

24 and shall be covenants and obligations running with such
25 Participant's respective rights, titles and interests in
26 the Coronado Project and in, to and under the Project



1 Agreements, and shall be for the benefit of the respective
2 rights, titles and interests of the Participants and their
3 respective successors and assigns, in and to the Coronado
4 Project. It is the specific intention of this provision
5 that all such covenants and obligations shall be binding
6 upon any party which acquires any of the rights, titles
7 and interests of any such Participant in the Coronado
8 Project, or in, to and under the Project Agreements and
9 that all of the above-described persons and groups shall
10 be obligated to use such Participant's rights, titles and
11 interests in the Coronado Project and/or in, to or under
12 the Project Agreements for the purpose of discharging its
13 covenants and obligations under the Project Agreements;
14 except that in the case of a partial assignment the
15 assignee shall only be required to share in the cost of
16 fulfilling the covenants and obligations of the assigning
17 Participant in, to and under the Project Agreements to an
18 extent proportionate or attributable to such assignment.

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1 36. NONDEDICATION OF FACILITIES:

2 36.1 The Participants do not intend to dedicate and
3 nothing in this Participation Agreement or the Project
4 : Agreements shall be construed as constituting a dedication
5 by any Participant of its properties or facilities, or
6 any part thereof, to any other Participant or to the
7 customers of any Participant.

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1 37. GENERAL PROVISIONS GOVERNING PROJECT AGREEMENTS:

2 37.1 The Participants agree to negotiate in good
3 faith and to proceed with diligence to obtain all of the
4 Project Agreements among the Participants and between the
5 Participants and other entities.

6 37.2 It is acknowledged by the Participants that
7 one or more of the Project Agreements may contain provi-
8 sions which are in conflict with or contrary to the terms
9 of this Participation Agreement, and any such provision
10 in a Project Agreement executed subsequent to the execu-
11 tion of this Participation Agreement and agreed to by the
12 Participants shall be deemed to supersede, amend or
13 modify any conflicting or contrary provision herein. The
14 mutual agreement of the Participants to supersede, amend
15 or modify the terms hereof shall constitute the legal
16 consideration to support such change in the legal rights
17 and obligations of the Participants.

18 37.3 Each Participant agrees, upon request by the
19 other Participants, to make, execute and deliver any and
20 all documents reasonably required to implement this
21 Participation Agreement and the Project Agreements.

22 37.4 Each term, covenant and condition of this
23 Participation Agreement and the Project Agreements is
24 deemed to be an independent term, covenant and condition,
25 and the obligation of any Participant to perform any or
26 all of the terms, covenants and conditions to be kept and

1 performed by it is not dependent on the performance by
2 the other Participants of any or all of the terms, cove-
3 nants and conditions to be kept and performed by them.

4 37.5 In the event that any of the terms, covenants
5 or conditions of this Participation Agreement or any of
6 the Project Agreements, or the application of any such
7 term, covenant or condition, shall be held invalid as to
8 any person or circumstance by any court having jurisdic-
9 tion in the premises, all other terms, covenants or con-
10 ditions of such agreements and their application shall not
11 be affected thereby, but shall remain in force and effect.

12 37.6 The Project Agreements shall be subject to
13 filing with, and to such changes or modifications as may
14 from time to time be directed by, competent regulatory
15 authority, if any, in the exercise of its jurisdiction.

16 37.7 Except as otherwise specifically provided in
17 this Participation Agreement or the Project Agreements,
18 the Participants do not intend to create rights in or to
19 grant remedies to any third party as a beneficiary of
20 this Participation Agreement or the Project Agreements or
21 of any duty, covenant, obligation or undertaking estab-
22 lished therein.

23 37.8 Any waiver at any time by any Participant of
24 its rights with respect to a default or any other matter
25 arising in connection with this Participation Agreement
26 or a Project Agreement shall not be deemed a waiver with
27 respect to any subsequent default or matter.



1 38. TERMS AND TERMINATION:

2 38.1 This Participation Agreement shall become
3 effective on the date of execution hereof; provided that
4 it shall have been then duly executed by all of the
5 Participants and shall terminate upon the earlier of:

6 38.1.1 Forty (40) years from the completion
7 of Construction Work of the last Component constructed
8 hereunder;

9 38.1.2 Upon the date of recapture pursuant to
10 Section 16 hereof;

11 38.1.3 Upon the date when Los Angeles no longer
12 has an interest in the Coronado Project and is no
13 longer receiving Power and Energy pursuant to
14 Section 15 hereof.

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1 39. ASSIGNMENT OF INTERESTS:

2 39.1 Any Participant who acquires in its name an
3 interest in any real or personal property or contract
4 which becomes a part of the Coronado Project shall trans-
5 fer and assign an undivided interest therein to the other
6 Participants so that the ownership and rights of the
7 Participants in such property or contract shall be as
8 provided for in this Participation Agreement and the
9 Project Agreements, except that interest to the land and
10 land rights to the Coronado Railroad Spur and Coronado
11 Transmission System and those Project Agreements which
12 are not Coronado Agreements shall be transferred by the
13 Salt River Project as such rights are set forth in
14 Section 5.2.2 hereof.

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1 40. EQUAL OPPORTUNITY:

2 40.1 During the term of this Participation Agreement,
3 the Project Manager and the Operating Agent (hereinafter
4 in this Section 40 referred to collectively as the
5 "Contractor") agree as follows:

6 40.1.1 The Contractor will not discriminate
7 against any employee or applicant for employment
8 because of race, color, religion, sex or national
9 origin. The Contractor will take affirmative action
10 to ensure that applicants are employed, and that
11 employees are treated during employment without
12 regard to their race, color, religion, sex, or
13 national origin. Such action shall include, but not
14 be limited to, the following: employment, upgrading,
15 demotion or transfer; recruitment or recruitment
16 advertising; layoff or termination; rates of pay or
17 other forms of compensation; and selection for
18 training, including apprenticeship. The Contractor
19 agrees to post in conspicuous places, available to
20 employees and applicants for employment, notices to
21 be provided by the contracting officer setting forth
22 the provisions of this non-discrimination clause.

23 40.1.2 The Contractor will send to each labor
24 union or representative of workers with which it has
25 a collective bargaining agreement or other contract
26 or understanding, a notice to be provided advising



1 the said labor union or workers' representative of
2 the Contractor's commitments under this Section 40,
3 and shall post copies of the notice in conspicuous
4 places available to employees and applicants for
5 employment.

6 40.1.3 The Contractor will comply with all
7 provisions of Executive Order 11246 of September 24,
8 1965, as amended by Executive Order 11375 of
9 October 13, 1967, and of the rules, regulations and
10 relevant orders of the Secretary of Labor.

11 40.1.4 The Contractor will furnish all infor-
12 mation and reports required by Executive Order 11246
13 as amended by rules, regulations and orders of the
14 Secretary of Labor, or pursuant thereto, and will
15 permit access to its books, records and accounts by
16 the administering agency and the Secretary of Labor
17 for purposes of investigation to ascertain compliance
18 with such rules, regulations and orders.

19 40.1.5 In the event of the Contractor's non-
20 compliance with the nondiscrimination clauses of
21 this Participation Agreement or with any of the said
22 rules, regulations or orders, this Participation
23 Agreement may be cancelled, terminated or suspended
24 in whole or in part and the Contractor may be de-
25 clared ineligible for further Government contracts
26 or federally assisted construction contracts in

1 accordance with procedures authorized in said
2 Executive Order 11246 as amended and such other sanc-
3 tions may be imposed and remedies invoked as provided
4 in the said Executive Order as amended or by rule,
5 regulation or order of the Secretary of Labor, or as
6 otherwise provided by law.

7 40.1.6 The Contractor will include the provi-
8 sions of Sections 40.1.1 through 40.1.5 hereof in
9 every subcontract or purchase order unless exempted
10 by rules, regulations or orders of the Secretary of
11 Labor issued pursuant to Section 204 of said Execu-
12 tive Order 11246 as amended, so that such provisions
13 will be binding upon each subcontractor or vendor.
14 The Contractor will take such action with respect
15 to any subcontract or purchase order as the adminis-
16 tering agency may direct as a means of enforcing
17 such provisions, including sanctions for non-compli-
18 ance; provided, however, that in the event a
19 Contractor becomes involved in, or is threatened
20 with, litigation with a subcontractor or vendor as
21 a result of such direction by the administering
22 agency, the Contractor may request the United States
23 to enter into such litigation to protect the interests
24 of the United States.

25 40.2 Contractor is aware of and is fully informed of
26 Contractor's responsibilities under Executive Order No.

1 11701, "List of Job Openings for Veterans," and shall
2 comply with the requirements of such Order and all orders,
3 rules, regulations promulgated thereunder unless exempted
4 therefrom. Without limitation of the foregoing, Contrac-
5 tor's attention is directed to 41 CFR, Section 50-250, and
6 the clause therein entitled "List of Employment Openings"
7 is incorporated herein by reference.

8 40.3 Contractor is aware of and is fully informed
9 of Contractor's responsibilities under the Rehabilitation
10 Act of 1973, and, where applicable, shall comply with the
11 provisions of the Act and the regulations promulgated
12 hereunder unless exempted therefrom. Without limitation
13 of the foregoing, and unless specifically exempt, Contrac-
14 tor's attention is directed to 20 CFR, Section 741, and
15 the clause therein entitled "Affirmative Action for
16 Handicapped Workers" is incorporated herein by reference.



1 41. NOTICES:

2 41.1 Except as set forth in Section 41.2 hereof,
3 any notice, demand or request provided for in this
4 : Participation Agreement or any other Project Agreement
5 shall be in writing and shall be deemed properly served,
6 given or made if delivered in person or sent by registered
7 or certified mail, postage prepaid, to the persons
8 specified below:

9 Department of Water and Power
10 of the City of Los Angeles
11 c/o Chief Electrical Engineer
 and Assistant Manager
12 P. O. Box 111
 Los Angeles, California 90051

13 Salt River Project Agricultural
14 Improvement and Power District
 c/o Secretary
15 P. O. Box 1980
 Phoenix, Arizona 85001

16 41.2 Informal communications of a routine nature
17 involving committee matters shall be given in such a
18 manner as the committees shall arrange.

19 41.3 Any Participant may, at any time, by written
20 notice to all other Participants, designate different or
21 additional persons or different addresses for the giving
22 of notices hereunder.

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1 42. EXECUTION:

2 IN WITNESS WHEREOF, the Participants have caused
3 this Participation Agreement to be executed as of the
4 _____ day of _____, 1977.

6 SALT RIVER PROJECT AGRICULTURAL
7 IMPROVEMENT AND POWER DISTRICT

8 By _____
9 President

10 ATTEST AND COUNTERSIGN:

11
12 _____
13 Secretary

15 DEPARTMENT OF WATER AND POWER
16 OF THE CITY OF LOS ANGELES
17 by
18 BOARD OF WATER AND POWER COMMISSIONERS
19 OF THE CITY OF LOS ANGELES

20 By _____
21 and _____
22 Secretary

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ACKNOWLEDGEMENT

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STATE OF ARIZONA)
) ss.
County of Maricopa)

On this ____ day of _____, 19__, before me, the undersigned Notary Public, personally appeared _____ and _____ who acknowledged themselves to be the _____ and _____ of SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, an Arizona agricultural improvement district, and that they as such officers, being authorized so to do, executed the foregoing instrument for the purposes therein contained by signing the name of the company by themselves as such _____ and _____.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

Notary Public

My Commission Expires:

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ACKNOWLEDGEMENT

STATE OF CALIFORNIA.)
County of Los Angeles) ss.

On this ____ day of _____, 19__, before me, the undersigned Notary Public, personally appeared _____ and _____ who acknowledged themselves to be the _____ and _____ of DEPARTMENT OF WATER AND POWER OF THE CITY OF LOS ANGELES, a department organized and existing under the charter of the City of Los Angeles, a municipal corporation of the State of California, known to me to be the persons described in the foregoing instrument, and acknowledged that they executed the same in the capacity therein stated and for the purposes therein contained.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

Notary Public

My Commission Expires:

APPENDIX A-1

DESCRIPTION OF THE CORONADO GENERATING STATION

A-1.1 The Coronado Generating Station shall consist of the following:

A-1.1.1 Two steam electric Generating Units, which shall each have a net rating of approximately 350 MW and each shall be a tandem-compound, two flow, single reheat, turbine-generator unit with initial steam conditions of 2400 psig maximum and 1000°F. and reheat to 1000°F. and designed to take steam from a pulverized coal-fired steam generator.

A-1.1.2 All auxiliary equipment associated with said Units, including fuel, ash, sulfur removal and limestone systems.

A-1.1.3 An administration building, machine shop and warehouse to be located adjacent to the power plant and several auxiliary buildings.

A-1.1.4 500 KV main unit generator step-up transformers and all equipment associated therewith up to the high voltage bushings of the generator transformers.

A-1.1.5 Standby auxiliary power transformation equipment and related facilities.

A-1.1.6 Plant control and communication facilities and associated buildings or equipment, including the Green's Peak microwave facility.

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A-1.1.7 The water supply system which includes two well fields and transmission pipelines and ancillary equipment.

A-1.1.8 All facilities associated with providing construction Power, start-up Power and Power to the Coronado Plant Site and well fields.

1 APPENDIX A-2

2 DESCRIPTION OF THE CORONADO TRANSMISSION SYSTEM

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4 : A-2.1 CORONADO TRANSMISSION SYSTEM: The transmission
5 system shall consist of the following transmission facilities
6 as shown on the Coronado Transmission System Line and Switch-
7 yard Schematic included herein which will be constructed,
8 operated and maintained by Salt River Project: (i) Coronado-
9 Cholla 500 kV Line, (ii) Coronado-Silver King 500 kV Line,
10 (iii) Silver King-Kyrene 500 kV Line, (iv) Coronado 500 kV
11 Switchyard, (v) Silver King Switchyard, (vi) Cholla 500 kV
12 Switchyard (to be constructed, operated and maintained by
13 Arizona Public Service Company), (vii) Kyrene 230 kV Switchyard
14 Expansion.

15 A-2.2 DESCRIPTION OF THE CORONADO TRANSMISSION SYSTEM:

16 The Coronado Transmission System shall consist of the following
17 components:

18 A-2.2.1 CORONADO-CHOLLA 500 kV LINE: The Coronado-
19 Cholla 500 kV Line shall consist of approximately 75 miles
20 of 500 kV line.

21 A-2.2.2 CORONADO-SILVER KING 500 kV LINE: The
22 Coronado-Silver King 500 kV Line shall consist of approxi-
23 mately 180 miles of 500 kV line and a single transformer
24 termination in the Silver King Switchyard (initially).

25 A-2.2.3 SILVER KING-KYRENE 500 kV LINE: The Silver
26 King-Kyrene 500 kV Line shall consist of approximately 60

1 miles of 500 kV line (which will be initially energized at
2 230 kV for an interim period).

3 A-2.2.4 CORONADO 500 kV SWITCHYARD:

4 A-2.2.4.1 The Coronado 500 kV Switchyard shall
5 be a basic breaker-and-a-half scheme, initially
6 constructed and placed in service as a ring bus
7 providing the termination for the following elements:

8 A-2.2.4.1.1 Coronado Project Generating
9 Unit 1.

10 A-2.2.4.1.2. Coronado Project Generating
11 Unit 2.

12 A-2.2.4.1.3 Auxiliary Station Service and
13 69 kV Substation Tie.

14 A-2.2.4.1.4 Coronado-Cholla 500 kV Line
15 including shunt compensation.

16 A-2.2.4.1.5 Coronado-Silver King 500 kV
17 Line including series and shunt compensation.

18 A-2.2.4.2 The Coronado 500 kV Switchyard limits
19 will be the high voltage bushings of the generator
20 step-up transformer on the Unit 1 and Unit 2 ties,
21 the first line deadend structure inside the switch-
22 yard on the Coronado-Cholla 500 kV Line and the
23 Coronado Silver King 500 kV Line, and the high voltage
24 bushings on the Auxiliary Station Service and 69 kV
25 Substation tie.



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A-2.2.5 SILVER KING SWITCHYARD:

A-2.2.5.1 The Silver King Switchyard shall consist of a single 500 kV line termination including series and shunt compensation for the Coronado-Silver King 500 kV Line on a 500/230 kV transformer including a tertiary reactor. Provisions will be made for a future breaker-and-a-half 500 kV switchyard. The 230 kV switchyard shall be a basic breaker-and-a-half scheme which will be initially constructed and placed in service as a ring bus and will provide terminations for the following elements:

A-2.2.5.1.1 500/230 kV Transformer.

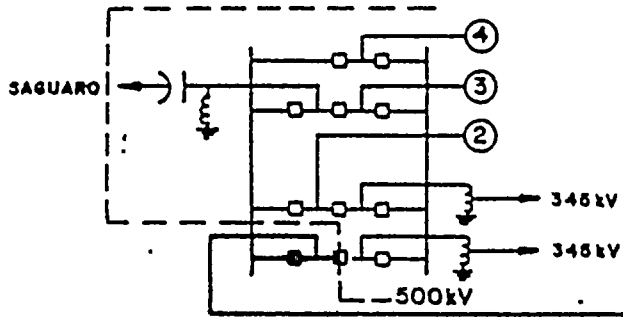
A-2.2.5.1.2 Silver King-Kyrene 500 kV Line.

A-2.2.6 CHOLLA 500 kV SWITCHYARD: The Cholla 500 kV Switchyard, owned and operated by Arizona Public Service Company, to be expanded to provide a breaker-and-a-half line termination for the Coronado-Cholla 500 kV Line.

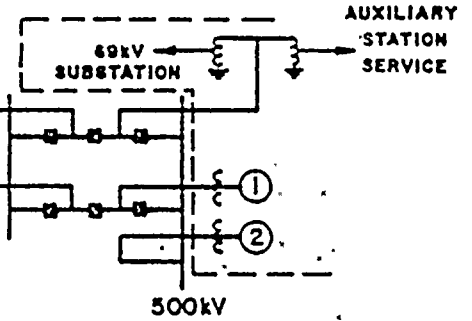
A-2.2.7 KYRENE 230 kV SWITCHYARD EXPANSION: The Kyrene 230 kV switchyard, owned and operated by Salt River Project, to be expanded to provide a breaker-and-a-half line termination for the Silver King-Kyrene 500 kV Line.



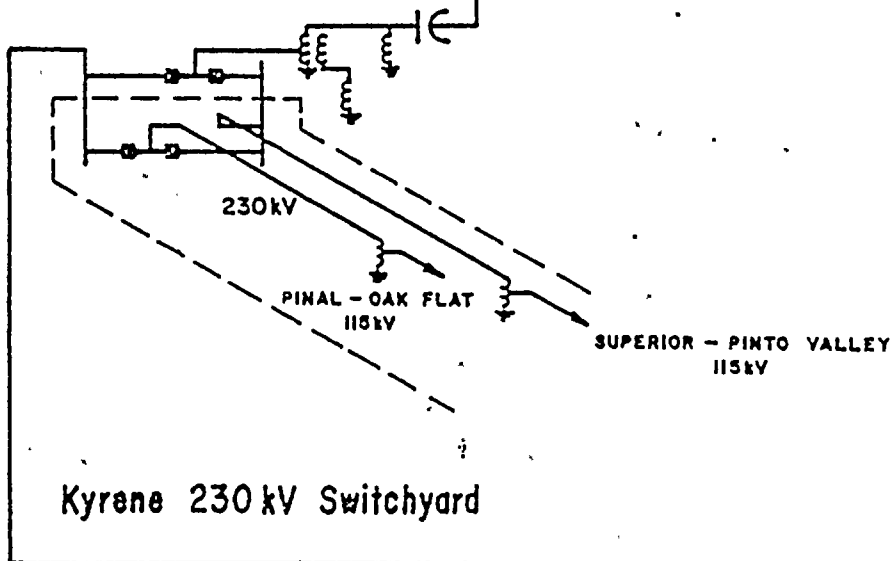
APS 500 kV Cholla Switchyard



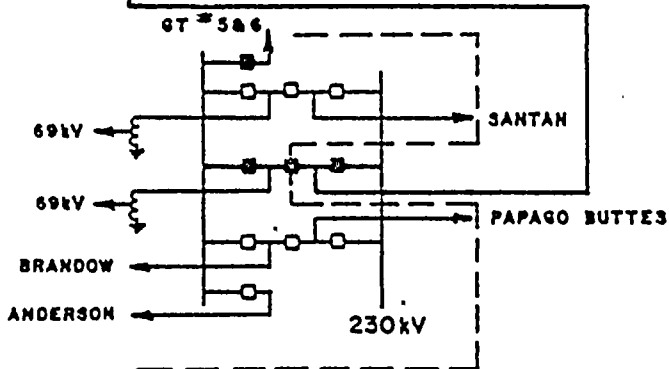
Coronado 500 kV Switchyard



Silver King Switchyard



Kyrene 230 kV Switchyard



- NEW CONSTRUCTION
- EXISTING
- - - SYSTEM BOUNDARIES

Coronado Transmission System Line & Switchyard Schematic

1 APPENDIX A-3

2 DESCRIPTION OF THE CORONADO RAILROAD SPUR

3
4 : A-3.1 The Coronado Railroad Spur shall be standard gauge
5 railroad, constructed to Atchison, Topeka and Santa Fe Railroad
6 (AT&SF) mainline standards, and totaling approximately 48 miles
7 of single track including the unloading loop. .

8 A-3.2 The Coronado Railroad Spur will be located in
9 Apache County in northeastern Arizona, and will extend from
10 the Gallup-Holbrook segment of the AT&SF mainline, 43 miles to
11 the Coronado Plant Site. The railroad will depart the AT&SF
12 mainline near the Navajo interchange on Interstate I-40 just
13 south of the Puerco River.

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APPENDIX B

LEGAL DESCRIPTIONS OF CORONADO PLANT SITE AND ACCESS ROAD;
PATTERSON WELLFIELD; CONCHO WELLFIELD

B.1 CORONADO PLANT SITE AND ACCESS ROAD

Section 33, Township 14 North, Range 29 East, Gila and Salt River Base and Meridian.

West half, Section 34, Township 14 North, Range 29 East, Gila and Salt River Base and Meridian.

Lots 3 and 4, the South half of the Northwest quarter and the Southwest quarter of Section 3, Township 13 North, Range 29 East, Gila and Salt River Base and Meridian.

Lots 1, 2, 3 and 4, the South half of the Northwest quarter, the South half of the Northeast quarter, and the South half of Section 4, Township 13 North, Range 29 East, Gila and Salt River Base and Meridian.

Lots 1, 2, the North 200 feet of Lot 3, and the North 200 feet of Lot 4, the South half of the Northeast quarter, and the Southeast quarter of Section 5, Township 13 North, Range 29 East, Gila and Salt River Base and Meridian.

The North 200 feet of Lot 1, the North 200 feet of Lot 2, and the North 200 feet of Lot 4, Section 6, Township 13 North, Range 29 East, Gila and Salt River Base and Meridian.

The North 200 feet of Lot 1, the North 200 feet of Lot 2, the North 200 feet of Lot 3, and the North 200 feet of Lot 4, Section 1, Township 13 North, Range 28 East, Gila and Salt River Base and Meridian.

1 The West half of Section 5, Township 13 North, Range
2 29 East, Gila and Salt River Base and Meridian;
3 EXCEPT the North 200 feet thereof.

4 Section 7, Township 13 North, Range 29 East, Gila
5 and Salt River Base and Meridian.

6 Section 8, Township 13 North, Range 29 East, Gila
7 and Salt River Base and Meridian.

8 B.2 PATTERSON WELLFIELD:

9 Section 1, Township 13 North, Range 28 East, Gila
10 and Salt River Base and Meridian, Apache County, Arizona;
11 EXCEPT the North 200 feet of Lot 1, North 200 feet of Lot 2,
12 North 200 feet of Lot 3 and the North 200 feet of Lot 4.

13 Section 3, Township 13 North, Range 28 East, Gila
14 and Salt River Base and Meridian.

15 Section 11, Township 13 North, Range 28 East, Gila
16 and Salt River Base and Meridian.

17 The Northwest quarter of the Northeast quarter, the
18 South half of the Northeast quarter; the Northeast quarter of
19 the Southeast quarter; the East half of the Southwest quarter
20 and the West half of the Southeast quarter of Section 12, Town-
21 ship 13 North, Range 28 East, Gila and Salt River Base and
22 Meridian, Apache County.

23 The East half of Section 3, Township 13 North, Range
24 29 East, Gila and Salt River Base and Meridian.

25 Section 6, EXCEPT Lot 3, Township 13 North, Range 29
26 East, Gila and Salt River Base and Meridian, Apache County,
27 Arizona;

1 EXCEPT the North 200 feet of Lot 1, the North 200 feet of
2 Lot 2 and the North 200 feet of Lot 4.

3 B.3 CONCHO WELLFIELD:

4 Section 24, Township 13 North, Range 25 East, of the
5 Gila and Salt River Base and Meridian.

6 Section 8, Township 13 North, Range 26 East of the
7 Gila and Salt River Base and Meridian.

8 Lots 1, 2, 3, 4, the East half of the West half and
9 the East half of Section 18, Township 13 North, Range 26 East
10 of the Gila and Salt River Base and Meridian.

11 Lots 1, 2, 3, 4, the East half of the West half and
12 the East half of Section 7, Township 13 North, Range 26 East,
13 Gila and Salt River Base and Meridian.

14 Section 17, Township 13 North, Range 26 East of the
15 Gila and Salt River Base and Meridian.

16 The North 50 feet of the following described proper-
17 ty: Lot 1, the Northeast quarter of the Northwest quarter and
18 the Northeast quarter of Section 19, lying West of Highway 180,
19 Township 13 North, Range 26 East of the Gila and Salt River
20 Base and Meridian.

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1 APPENDIX C

2 CONSTRUCTION COSTS OF THE CORONADO PROJECT

3
4 C.1 Construction Costs shall consist of payments made
5 and obligations incurred (other than obligations for allowance
6 for funds used during construction) for the account of Con-
7 struction Work and shall consist of, but not be limited to,
8 the following:

9 C.1.1 All costs of labor, services and studies
10 performed in connection with Construction Work, if author-
11 ized and approved by the Project Manager.

12 C.1.2 Payroll and other expenses of the Project
13 Manager's employees while performing Construction Work,
14 including properly allocated labor loading charges, such
15 as department overhead, time-off allowances, payroll taxes
16 workers' compensation insurance, retirement and death
17 benefits and employee benefits.

18 C.1.3 All components of Construction Costs, in-
19 cluding overhead costs associated with construction
20 (including the allowance for the Project Manager's admin-
21 istrative and general expenses described in Section C.4
22 hereof), costs of temporary facilities, land and land
23 rights, structures and improvements, and equipment for
24 the Coronado Project, as set forth in the Electric Plant
25 Instructions of the FPC Accounts.

26 C.1.4 All costs and expenses, including those of

1 outside consultants and attorneys and public information
2 services, incurred by the Project Manager or any Partici-
3 pant for construction and operating permits, certificates
4 and licenses, and with respect to environmental laws,
5 rules and regulations, land and water rights, fuel re-
6 quirements and supply and the acquisition thereof, and
7 the preparation of agreements relating to Construction
8 Work with entities other than the Participants. A Par-
9 ticipant anticipating such costs and expenses shall submit
10 an estimate thereof to the Project Manager for review and
11 approval. After approval, any Participant incurring such
12 costs and expenses shall bill the Project Manager therefor.

13 C.1.5 Applicable costs of materials, supplies, tools,
14 machinery, equipment, apparatus, initial Emergency Spare
15 Parts, construction power and construction water in con-
16 nection with Construction Work including rental charges.

17 C.1.6 All costs of Construction Insurance, all costs
18 of any loss, damage or liability arising out of or caused
19 by Construction Work which are not satisfied under the
20 coverage of Construction Insurance, and the expenses
21 incurred in settlement of injury and damage claims, in-
22 cluding the costs of labor and related supplies and ex-
23 penses incurred in injury and damage activities (all as
24 referred to in FPC Account 925), because of any claim
25 arising out of or attributable to construction of the
26 Coronado Project, the past or future performance or

1 nonperformance of the obligations and duties of any
2 Participant (including the Project Manager) or the past
3 or future performance or nonperformance of Construction
4 Work, including but not limited to any claim resulting
5 from death or injury to persons or damage to property.

6 C.1.7 All Federal, state or local taxes of any
7 character imposed upon Construction Work, except any tax
8 assessed directly against an individual Participant unless
9 such tax was assessed to such individual Participant on
10 behalf of the other Participants.

11 C.1.8 Expenses of Participants incurred in the per-
12 formance of Construction Work; except costs and expenses
13 incurred in Section C.1.4 hereof, if authorized and
14 approved by the Project Manager, including expenses which
15 are billed by the Operating Agent to the Project Manager
16 pursuant to Section E.2 of Appendix E hereof.

17 C.1.9 All costs of relocating existing facilities
18 necessitated by Construction Work.

19 C.1.10 All costs and expenses of enforcing or
20 attempting to enforce the provisions of Construction
21 Insurance policies, payment and performance bonds, con-
22 tracts executed as Project Manager and warranties ex-
23 tended to facilities which form the Coronado Project.

24 C.2 In cases where the allocation of a cost item is
25 made between Construction Work and any other work, such allo-
26 cation shall be made on a fair and equitable basis as deter-
27 mined by the Project Manager.



1 C.3 The Project Manager shall use the FPC Accounts to
2 account for Construction Costs in the Final Completion Report
3 and any supplement thereto.

4 C.4 The allowance for the Project Manager's administra-
5 tive and general expenses to cover the costs of services
6 rendered by it in the performance of Construction Work shall
7 be allocated monthly at the rate of one and one quarter percent
8 (1.25%) of Construction Costs incurred during the preceding
9 month, excluding from such Construction Costs:

10 C.4.1 Any allowance for administrative and general
11 expenses provided for in this Section C.4.

12 C.4.2 Expenses described in Section C.1.6 hereof.

13 C.4.3 Expenses described in Section C.1.8 hereof.

14 C.4.4 Start-up expenses described in Appendix E,
15 Section E.1 hereof.

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1 APPENDIX D

2 COSTS OF OPERATING WORK AND CAPITAL IMPROVEMENTS

3 FOR THE CORONADO PROJECT

4 D.1 OPERATION AND MAINTENANCE EXPENSES:

5 D.1.1 In determining the expenses of Operating Work,
6 the Operating Agent shall include the following expenses,
7 to the extent that they are chargeable to the Coronado
8 Generating Station and Coronado Railroad Spur, in accor-
9 dance with Accounting Practice:

10 D.1.1.1 The Operation expenses chargeable to
11 FPC Accounts 500, 501 (excluding fuel), 502, 503,
12 504, 505, 506, 507, 556, and 557 and any costs in
13 FPC Accounts 560, 561, 566 pertaining to load dis-
14 patching and related expenses which shall include
15 departmental overhead expenses, labor loading charges
16 (which shall include, but not be limited to, time-off
17 allowance, employee payroll taxes chargeable to FPC
18 Account 408, employee pensions and benefits charge-
19 able to FPC Account 926 and Workers' Compensation
20 Insurance chargeable to FPC Account 925) and admin-
21 istrative and general expenses. Such related
22 expenses shall be determined and applied in accor-
23 dance with Sections D.3, D.4, D.5 and D.6 hereof.

24 D.1.1.2 The maintenance expenses chargeable
25 to FPC Accounts 510 through 514 and to FPC Accounts
26 568, 569, 570 and 571 insofar as applicable to stepup

1 transformers and related expenses which shall
2 include departmental overhead expenses, labor
3 loading charges (which shall include, but not be
4 limited to, time off allowance, employee payroll
5 taxes chargeable to FPC Account 408, and employee
6 pensions and benefits chargeable to FPC Account 926
7 and workers' compensation insurance chargeable to
8 FPC Account 925), and administrative and general
9 expenses. Such related expenses shall be determined
10 and applied in accordance with Sections D.3, D.4,
11 D.5 and D.6 hereof.

12 D.1.2 In determining the expenses of Operating
13 Work, the Operating Agent shall include the following
14 expenses, to the extent that they are chargeable to the
15 Coronado Transmission System, in accordance with
16 Accounting Practice:

17 D.1.2.1 The operation expenses chargeable to
18 FPC Accounts 560, 561, 562, 563, 566 and 567 and
19 related expenses which shall include departmental
20 overhead expenses, labor loading charges (which
21 shall include, but not be limited to, time-off
22 allowance, employee payroll taxes chargeable to
23 FPC Account 408, employee pensions and benefits
24 chargeable to FPC Account 926 and workers' compen-
25 sation insurance chargeable to FPC Account 925),
26 and administrative and general expenses. Such



1 related expenses shall be determined and applied in
2 accordance with Sections D.3, D.4, D.5 and D.6
3 hereof.

4 D.1.2.2 The maintenance expenses chargeable
5 to FPC Accounts 568, 569, 570 and 571 and related
6 expenses which shall include departmental overhead
7 expenses, labor loading charges (which shall in-
8 clude, but not be limited to, time-off allowance,
9 employee payroll taxes chargeable to FPC Account
10 408, and employee pensions and benefits chargeable
11 to FPC Account 926 and workers' compensation in-
12 surance chargeable to FPC Account 925), and admin-
13 istrative and general expenses. Such related
14 expenses shall be determined and applied in accor-
15 dance with Sections D.3, D.4, D.5 and D.6 hereof.

16 D.1.3 At the start of each calendar year an esti-
17 mated "Payroll Tax Ratio," "Workers' Compensation Ratio,"
18 "Benefits Ratio," and "A&G Ratio Applicable to Operation
19 and Maintenance" shall be used, and such ratios shall be
20 determined in accordance with the methods set forth in
21 Sections D.3, D.4, D.5 and D.6 hereof, respectively.
22 Such ratios shall be based on the Operating Agent's
23 systemwide expenses for the preceding calendar year; pro-
24 vided that by agreement of the Auditing Committee, such
25 ratios may be adjusted to more nearly reflect the ex-
26 penses of the current year because of tax legislation,



1 labor contract negotiations, or other factors not re-
2 flected in the prior year's costs.

3 D.1.4 As soon as practicable after the end of each
4 : calendar year the actual "Payroll Tax Ratio," "Workers'
5 Compensation Ratio," "Benefits Ratio," and "A&G Ratio
6 Applicable to Operation and Maintenance" for such year
7 shall be determined in accordance with the methods set
8 forth in Sections D.3, D.4, D.5 and D.6 hereof, respec-
9 tively, by using said year's actual system-wide expenses
10 of the Operating Agent. Using said actual ratios, the
11 portions of the Operating Agent's payroll tax expenses,
12 employee workers' compensation insurance expenses, em-
13 ployee pensions and benefits expenses, and administrative
14 and general expenses for which the Participants are obli-
15 gated hereunder shall be determined for such year. To
16 the extent that such expenses are more or less than those
17 already paid by the Participants during said year, the
18 Operating Agent shall bill or credit the Participants for
19 the amount of such difference.

20 D.1.5 Any Participant may request that the methods
21 used to determine the Operating Agent's payroll tax ex-
22 penses, employee workers' compensation insurance ex-
23 penses, employee pensions and benefits expenses, and
24 administrative and general expense be submitted to the
25 Auditing Committee for review if such Participant be-
26 lieves that such methods result in an unreasonable burden



1 on it; provided that such review may be requested no
2 sooner than one year after the Date of Firm Operation of
3 the second Unit of the Coronado Generating Station, and
4 thereafter at intervals of not less than two (2) years.
5 After any such request the Auditing Committee shall review
6 said method and shall attempt to determine whether or not
7 said unreasonable burden does exist. If after such re-
8 view the Auditing Committee determines that the applica-
9 tion of said method does result in an unreasonable burden
10 on any of the Participants, the Auditing Committee shall
11 determine and recommend a modified method to the Operating
12 Agent so that such unreasonable burden would be elimi-
13 nated if such modified method is adopted by the Operating
14 Agent. If after such review the Auditing Committee is
15 unable to agree on whether or not such unreasonable bur-
16 den does exist or is unable to agree on said modified
17 method of eliminating said unreasonable burden, the
18 Auditing Committee shall submit the entire matter to the
19 Administrative Committee.

20 D.1.6 Any modified method adopted by the Administra-
21 tive Committee or determined through arbitration shall be
22 retroactive to the first day of the month in which it is
23 determined an unreasonable burden began; provided, that
24 such retroactive period shall not be more than two (2)
25 years from the date of a request for review. Said modi-
26 fied method shall remain in effect until a new modified



1 method is adopted, notwithstanding the provisions of
2 Section D.1.5 hereof.

3 D.1.7 Except as otherwise provided in this Parti-
4 cipation Agreement, the expenses of Operating Work shall
5 be allocated to the Participants in accordance with their
6 Cost Responsibility.

7 D.1.8 The Operating Agent's administrative and
8 general expenses, for operating and maintenance work
9 performed by a contractor, allocable to such operation
10 and maintenance costs, shall be determined by multi-
11 plying the total contractor invoice cost thereof by one
12 and one quarter percent (1.25%).

13 D.2 CAPITAL IMPROVEMENTS:

14 D.2.1 All Capital Improvements, including a contin-
15 gency allowance for capital expenditures if necessitated
16 by an Operating Emergency, shall be included in the annual
17 capital expenditures budget. After such budget has been
18 reviewed by the Engineering and Operating Committee, each
19 Participant shall be obligated for the costs incurred for
20 such Capital Improvements in proportion to its Cost
21 Responsibility.

22 D.2.2 At any time the Engineering and Operating
23 Committee may suggest Capital Improvements not included
24 in the annual capital expenditures budget; provided that
25 any single non-budget Capital Improvement shall be
26 subject to authorization by the Operating Agent.

1 D.2.3 The Operating Agent shall submit to the
2 Participants a forecast of cash requirements by months
3 for all Capital Improvements. Such forecast shall be
4 submitted on a yearly basis after final budget approvals
5 have been made. A revised forecast shall be submitted
6 when the capital expenditures budget is revised and
7 approved, or when significant changes in monthly
8 expenditures from those previously forecast are
9 anticipated.

10 D.2.4 The Operating Agent shall be responsible for
11 the design and construction of Capital Improvements
12 and it shall submit to the Engineering and Operating
13 Committee, for review and comment but not for approval,
14 design and major component information.

15 D.2.5 The costs of Capital Improvements shall
16 include:

17 D.2.5.1 All costs, including time off allow-
18 ance, incurred by the Operating Agent (other than
19 obligations for allowance for funds used during
20 construction) which conform to the provisions of
21 Electric Plant Instruction 3 of the FPC Accounts
22 entitled, "Components of Construction Cost".
23 Instruction 3 shall not include any taxes shared by
24 the Participants pursuant to Section 14 hereof.
25 However, such charges shall include costs of any
26 injuries or damages arising out of and occurring



1 during the course of construction of Capital Improve-
2 ments and the cost of any additional insurance which
3 the Operating Agent deems necessary to protect the
4 interests of the Participants during the effectua-
5 tion of such Capital Improvements prior to the time
6 the coverage provided in Section 23 hereof becomes
7 applicable thereto.

8 D.2.5.2 All other applicable overhead costs
9 incurred by the Operating Agent which conform to
10 the provisions of Electric Plant Instruction 4 of
11 the FPC accounts entitled "Overhead Construction
12 Costs."

13 D.2.5.3 If any Capital Improvements are made
14 by the Operating Agent's employees, the labor
15 loading charges shall be determined by multiplying
16 the sum of the Operating Agent's labor charges
17 included in Section D.2.5.1 hereof by the "Payroll
18 Tax Ratio," the "Workers' Compensation Ratio" and
19 the "Benefits Ratio" determined pursuant to Sec-
20 tions D.3, D.4 and D.5, respectively, hereto.
21 Estimated ratios shall be used and year-end adjust-
22 ments shall be made in a manner similar to that
23 described in Sections D.1.3 and D.1.4 hereof.

24 D.2.5.4 If any Capital Improvements are made
25 by the Operating Agent's employees, the amount of
26 the Operating Agent's administrative and general



1 expenses allocable to such Capital Improvements
2 shall be determined by multiplying the sum of the
3 Operating Agent's labor charges included in Sec-
4 tion D.2.5.1 hereof by a decimal fraction herein-
5 after referred to as the "Capital A&G Ratio" as
6 determined pursuant to Section D.8 hereto. Esti-
7 mated ratios shall be used and year-end adjustments
8 shall be made in a manner similar to that described
9 in Sections D.1.3 and D.1.4 hereof.

10 D.2.5.5 If any Capital Improvements are
11 made by a contractor, the amount of the Operating
12 Agent's administrative and general expenses alloc-
13 able to such Capital Improvements shall be de-
14 termined by multiplying the total work order cost
15 thereof by one and one quarter percent (1.25%).
16 As used herein, "total work order cost" does not
17 include the costs of injuries and damages, claims,
18 taxes, other than sales and use taxes, and interest
19 incurred by the Operating Agent or any other of the
20 Operating Agent's noncontracted costs during the
21 construction of Capital Improvements, however,
22 costs of administration of the injuries and
23 damages program is included.

24 D.2.6 Units of Property retired from service shall
25 be held in inventory or shall be disposed of by the
26 Operating Agent on the best available terms as soon as



1 practicable, and the proceeds, if any; received there-
2 from shall be credited or distributed to the Parti-
3 cipants in accordance with their Cost Responsibility.

4 : D.3 PAYROLL TAX RATIO

5 The Payroll Tax Ratio set forth below shall be
6 applied to the labor expense portion of the Coronado Project
7 operation and maintenance expenses, to the Operating Agent's
8 direct labor charges incurred in effecting Capital Improve-
9 ments, and to the labor expenses included in the Operating
10 Agent's supervisory and administrative and general expense
11 accounts. Estimated and actual Payroll Tax Ratios shall be
12 determined, adjusted and used in the manner set forth as
13 follows:

14 Payroll Tax Ratio = $\frac{T}{P}$

15

16 Where:

17 T = The Operating Agent's payroll tax expenses

18 P = The Operating Agent's total labor distributed
19 including accruals

20 The following example sets forth the method to be employed
21 by the Operating Agent to determine the Payroll Tax Ratio:

22

23 EXAMPLE COMPUTATION OF PAYROLL TAX RATIO

24 (SRP 1976 Expenses)

25

26 Total Payroll Taxes

\$ 2,148,441

1 Total labor charged to operation and
2 maintenance, construction and miscel-
laneous general ledger accounts \$44,788,141

3 Payroll Tax Ratio:

4 : \$2,148,441 ÷ \$44,788,141 = 4.797%

5 D.4 BENEFITS RATIO

6 The Benefits Ratio set forth below shall be applied
7 to the labor expense portion of the Coronado Project opera-
8 tions and maintenance expenses, to the Operating Agent's
9 direct labor charges incurred in effecting Capital Improvements,
10 and to the labor expenses included in the Operating Agent's
11 supervisory and administrative and general expense accounts.
12 Estimated and actual Benefits Ratios shall be determined,
13 adjusted and used in the manner set forth as follows:

14 Benefits Ratio = $\frac{B}{L}$

15 Where:

16 B = The Operating Agent's total system employee
17 pensions and benefits (as defined in FPC Account
18 926), including payroll taxes and workers' com-
19 pensation expense on labor charged to employee
20 pensions and benefits.

21 L = The Operating Agent's total labor distributed
22 including accruals less labor charged to employee
23 pensions and benefits.

24
25 The following example sets forth the method to be em-
26 ployed by the Operating Agent to determine the Benefits Ratio:



1 EXAMPLE COMPUTATION

2 OF BENEFITS RATIO

3 (SRP's 1976 Expenses)

4		<u>Labor</u>	<u>Total</u>
5			
6	<u>Pensions and Benefits</u>		
7			
8	Employees Pensions and Benefits	\$ <u>346,396</u>	\$ 6,230,602
9	Payroll Taxes @4.797% of labor (See Example in 10 Section D.3		16,617
11	Workers' Compensation @3.313% of labor (See 12 Example in Section D.6		<u>11,476</u>
13			<u>\$ 6,258,695</u>
14			
15	<u>Labor Base</u>		
16	Labor charged to operation and 17 maintenance, construction and miscellaneous general 18 ledger accounts		\$44,788,141
19	Less total labor charged to Pensions and Benefits		<u>346,396</u>
20			
21	Total applicable labor		<u>\$44,441,745</u>
22			
23	Benefits Ratio:		
24		\$6,258,695 ÷ \$44,441,745 =	<u>14,083%</u>
25			
26			

1 D.5 OPERATION AND MAINTENANCE A&G RATIO

2 That portion of the Operating Agent's administrative and
3 general expenses which are allocable to operation and mainten-
4 ance shall be determined by multiplying the total operating
5 and maintenance labor by a decimal fraction hereinafter
6 referred to as the "Administrative and General Expense Ratio."
7 The Administrative and General Expense Ratio will be adjusted
8 to actual at year-end, and the adjusted ratio used in prepara-
9 tion of a revised billing to Participants. The Operation and
10 Maintenance A & G Ratio shall be the percentage computed by
11 dividing (i) the sum of (a) the total amounts charged to FPC
12 Accounts 920 and 921 multiplied by the O&M Ratio computed in
13 accordance with Section D.7 hereof, (b) the total amounts
14 charged to FPC Accounts 923 and 932, (c) the product of the
15 portion of labor charged included within (a) and (b) above
16 multiplied by the Payroll Tax Ratio computed in accordance
17 with Section D.3 hereof, (d) the product of the labor charges
18 included within (a) and (b) above multiplied by the Benefits
19 Ratio computed in accordance with Section D.4 hereof, and (e)
20 the product of the labor charges included within (a) and (b)
21 above multiplied by the Workers' Compensation Ratio computed
22 in accordance with Section D.6 hereof, less (f) that portion
23 of the administrative and general expense charged to FPC
24 Accounts 920 and 921 allocable to contract operations and
25 maintenance for the Coronado Project by (ii) the total
26 labor charged to the Operating Agent's system operations and

1 maintenance less the labor charged to administrative and
2 general expenses. The following example sets forth the
3 method to be employed by the Operating Agent to determine
4 the Operation and Maintenance A&G Ratio:

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OPERATION AND MAINTENANCE A&G RATIO

EXAMPLE COMPUTATION

(SRP's 1976 Expenses)

1			
2			
3			
4	Administrative and General Salaries		
	charged to FPC Account 920	\$ 4,132,053	\$ 4,132,053
5	Office Supplies and Expenses		
	charged to FPC Account 921		<u>1,739,720</u>
6			
	Total	<u>\$ 4,132,053</u>	<u>\$ 5,871,773</u>
7			
8	Line 7, multiplied by O&M Ratio		
	@73.89% (See Example in		
9	Section D.7)	\$ 3,053,174	\$ 4,338,653
	FPC Account 923		726,863
10	FPC Account 932 (Excluding		
	maintenance costs of the		
11	Microwave System	<u>106,920</u>	<u>200,010</u>
12	Subtotal	<u>\$ 3,160,094</u>	\$ 5,265,526
13			
14	Payroll Taxes @4.797% (See Example		
	in Section D.3) on labor charges		
15	shown between lines 9 and 11		
	above		151,590
16			
17	Pensions and Benefits @14.083% (See		
	Example in Section D.4) on labor		
18	charges shown between lines 9		
	and 11 above		445,036
19	Workers' Compensation @3.313% (See		
	Example in Section D.6) on labor		
20	charges shown between lines 9 and		
	11 above		104,694
21			
22	Less that portion of A&G allocable		
	to Contract Operation and Mainten-		
23	ance for the Navajo* Generating		
	Station		<u>63,724</u>
24			
25	Total administrative and general expense		
	allocable to operations and maintenance		<u>\$ 5,903,122</u>

*After Date of Firm Operation of the first Unit, A & G allocable to Contract Operation and Maintenance will be applied to the Coronado Project only.



<u>Labor Base</u>	<u>Total</u>
Labor charged to system operations and maintenance	\$ 34,514,121
Less labor charged to administrative and general expense (excluding maintenance labor costs of the Microwave System)	<u>5,441,613</u>
Labor Base	<u><u>\$ 29,072,508</u></u>

Operation and Maintenance A&G Ratio for 1976:

$$\begin{array}{rcl}
 \$5,903,122 & \div & \$29,072,508 & = & \underline{\underline{20.305\%}}
 \end{array}$$

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1 D.6 WORKERS' COMPENSATION RATIO

2 The Workers' Compensation Ratio to be applied to
3 the labor expense portion of the Coronado Project system
4 operation and maintenance expenses, to the Operating Agent's
5 direct labor charges incurred in effecting Capital Improve-
6 ments, and to the labor expenses included in the Operating
7 Agent's supervisory and administrative and general accounts
8 shall be determined annually on the basis of the Operating
9 Agent's preceding year's expenses as set forth herein unless
10 otherwise agreed to by the Participants. The Workers' Com-
11 pensation Ratio will be adjusted to actual at year-end and
12 the adjusted ratio used in preparation of a revised billing
13 to Participants.

14

$$\text{Workers' Compensation Ratio} = \frac{I}{P}$$

16

17 Where:

18 I = The Operating Agent's total system compen-
19 sation insurance premiums and accruals for
20 self-insurance charges to FPC Account 925

21

22 P = The Operating Agent's total labor paid and
23 accrued

24

25

26



1 WORKERS' COMPENSATION RATIO

2 EXAMPLE COMPUTATION

3 (SRP's 1976 Expenses)

4
5 Total

6
7 Workers' Compensation premiums,
8 payments and accruals as defined
9 in FPC Account 925

\$1,483,737

10 Labor Base

11
12 Total labor in operation and
13 maintenance, construction and
14 miscellaneous general ledger
15 account

\$44,788,141

16
17 Total applicable labor

\$44,788,141

18
19 Workers' Compensation Ratio:

20
21
22
23
24
25
26
$$\cdot \$1,483,737 \div \$44,788,141 =$$

3.313%



1 D.7 O&M RATIO AND CONSTRUCTION RATIO

2 The O&M Ratio shall be applied to the amounts charge-
3 able to FPC Accounts 920 and 921 for the purpose of determining
4 one component in the computation of the Operations and Main-
5 tenance A&G Ratio as provided in Section D.5 hereof.

6 O&M Ratio = $\frac{O}{L}$

7
8 Where:

9 O = The Operating Agent's total labor charged to opera-
10 tion and maintenance accounts, less labor charge-
11 able to FPC Accounts 920 through 932

12
13 L = The Operating Agent's total labor distributed,
14 including accruals, less labor charged to FPC
15 Accounts 920 through 932

16
17 The Construction Ratio set forth below shall be applied to
18 the amounts chargeable to FPC Accounts 920 and 921 for the pur-
19 pose of determining one component in the computation of the
20 Capital Improvements A&G ratio as provided in Section D.8 hereof.

21 Construction Ratio = $\frac{C}{L}$

22
23 Where:

24 C = The Operating Agent's total labor in construction
25 accounts

26 L - The Operating Agent's total labor distributed,

1 including accruals, less labor chargeable to FPC
2 Accounts 920 through 932
3

4 The following example sets forth the method to be em-
5 ployed by the Operating Agent to determine the O&M Ratio and
6 the Construction Ratio:
7

8 O&M RATIO AND CONSTRUCTION RATIO

9 EXAMPLE COMPUTATION

10 (SRP's 1976 Expenses)

11		
12	Total Labor in Operation and	
13	Maintanance Accounts	\$34,514,121
14	Less: Labor charged to A&G Accounts	
14	920 through 932, inclusive	<u>5,441,613</u>
15	Net Labor in O&M Accounts	\$29,072,508
16	Total Labor charged to General	
17	Ledger Accounts	26,783
18	Total Labor in Construction Accounts	<u>10,247,237</u>
19	Total Labor Base	<u>\$39,346,528</u>
20	Ratio of Net O&M Labor to Total Labor	$\frac{\$29,072,508}{\$39,346,528} = 73.89\%$
21		
22	Ratio of Construction Labor to	
23	Total Labor	$\frac{\$10,247,237}{\$39,346,528} = 26.04\%$
24		

25 Note: All labor figures include loading for allowed time.
26



1 D.8 CAPITAL IMPROVEMENTS A&G RATIO

2 The rate to be applied to the Operating Agent's labor
3 charges, which are included in expenses for Capital Improve-
4 ments, to determine the Operating Agent's administrative and
5 general expenses applicable thereto shall be established
6 annually on the basis of the Operating Agent's preceding year's
7 expenses by the method set forth herein unless otherwise
8 agreed to by the Participants. The Capital A&G Ratio will
9 be adjusted to actual at year-end and the adjusted ratio used
10 in preparation of a revised billing to the Participants. The
11 Capital Improvements A&G Ratio shall be the percentage comput-
12 ed by dividing (i) the amount equal to (A) the sum of (a)
13 the total amounts charged to FPC Accounts 920 and 921 multi-
14 plied by the Construction Ratio computed in accordance with
15 Section D.7 hereof, (b) the product of the portion of labor
16 charges included in (a) above multiplied by the sum of the
17 Payroll Tax Ratio, the Benefits Ratio and the Workers'
18 Compensation Ratio less (B) the portion of administrative and
19 general expenses charged to FPC Accounts 920 and 921 allocable
20 to contract construction by (ii) the total labor in construc-
21 tion accounts (exclusive of overheads).

22 The following example sets forth the method to be employ-
23 ed by the Operating Agent to determine the Capital Improve-
24 ments A&G Ratio:
25
26



1 D.9 MATERIALS AND SUPPLIES:

2 D.9.1 At least four (4) months prior to the
3 scheduled Initial Generation Date of the first Unit of
4 the Coronado Generating Station, the Operating Agent
5 shall establish a list of Materials and Supplies, in-
6 cluding estimated cost, required for the performance of
7 Operating Work.

8 D.9.2 The Operating Agent shall allocate the costs
9 of Materials and Supplies to the Participants in accord-
10 ance with their Cost Responsibility.

11 D.9.3 The Operating Agent shall maintain Materials
12 and Supplies. The Operating Agent shall correspondingly
13 charge or credit the Participants in accordance with
14 their Cost Responsibility.

15 D.10 EMERGENCY SPARE PARTS:

16 D.10.1 The Operating Agent shall maintain an
17 Emergency Spare Parts inventory for the Coronado Project
18 in accordance with the policies established by the
19 Operating Agent.

20 D.10.2 The Operating Agent shall purchase all re-
21 placements of Emergency Spare Parts and shall allocate
22 the costs thereof to the Participants in accordance with
23 their Cost Responsibility.
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1 APPENDIX E

2 PRE-OPERATIONAL OPERATING WORK

3
4 E.1 INITIAL TRAINING EXPENSES:

5 E.1.1 The initial training expenses shall consist
6 of labor, material, transportation, services and any
7 other costs applicable to hiring and training, including
8 any relocation of personnel, for Operating Work.

9 E.1.2 Initial training expenses shall also include
10 departmental overheads, time-off allowances, payroll
11 taxes, employee pensions and benefits, workers' compensa-
12 tion, and administrative and general expenses determined
13 in accordance with Section D.1 of Appendix D hereof.

14 E.1.3 The Operating Agent shall accumulate the
15 initial training expenses up to but not beyond the Date
16 of Firm Operation for each Unit of the Coronado Genera-
17 ting Station in a manner to provide identification and
18 basis for the monthly billing to the Participants in
19 accordance with their Cost Responsibility.

20 E.2 START-UP:

21 E.2.1 The Operating Agent shall establish a work
22 order for accumulation of all charges relating to the
23 operation and maintenance of each Unit of the Coronado
24 Generating Station during its Start-Up Period. Charges
25 in this work order shall include (i) the cost of fuel
26 and other consumable supplies, items and equipment



1 incidental to start-up; (ii) the cost of all operation
2 and maintenance expenses (exclusive of the cost of all
3 operation and maintenance performed by the engineer-
4 constructor's start-up crews); and (iii) an allowance
5 for Operating Agent's payroll loading and administrative
6 and general expenses determined in accordance with
7 Section D:1 of Appendix D hereof.

8 E.2.2 The Operating Agent shall bill the Project
9 Manager monthly for the charges accumulated in such work
10 order.

11 E.2.3 The Project Manager shall charge all costs
12 accumulated in such work order to Construction Costs.

13 E.2.4 The Operating Agent shall determine the Power
14 and Energy necessary to start up and operate each Unit.
15 Each Participant shall be obligated to provide for such
16 Power and Energy requirements, either measured or esti-
17 mated, in proportion to its Generation Entitlement
18 Share.

19 E.2.5 Energy generated during the Start-up Period
20 and delivered into the Coronado Transmission System will
21 be valued at the cost of coal burned in generation.
22 This value will be credited to Construction Costs
23 monthly.
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1 APPENDIX F

2 OPERATING EMERGENCY

3 F.1 In the event of an Operating Emergency, the Oper-
4 ating Agent shall, in addition to the action required to be
5 taken pursuant to Section 9.3.24 of the Participation Agree-
6 ment, take such steps as are required in this Appendix F.

7 F.2 As soon as practicable after the commencement of an
8 Operating Emergency, the Operating Agent shall advise each
9 Participant of the occurrence of the Operating Emergency,
10 its nature and the steps taken or to be taken to terminate
11 the Operating Emergency.

12 F.3 As soon as practicable after giving the advice re-
13 quired pursuant to Section F.2 hereof, the Operating Agent
14 shall submit an estimate of expenses, incurred and projected,
15 required to terminate the Operating Emergency and to restore
16 the availability of each Generating Unit affected and the esti-
17 mated time schedule within which such measures can be accom-
18 plished. In the event the uninsured cost of restoring the
19 availability of such Generating Unit to its rated Capacity
20 shall exceed 10% of its original cost as defined in the FPC
21 Accounts, the Operating Agent shall obtain the review of the
22 Administrative Committee before committing any expenditures
23 therefor; provided however, that nothing herein shall prevent
24 the Operating Agent from incurring any expense it deems in its
25 sole discretion necessary to protect the health and safety of
26 the public.



1 F.4 Subject to Section F.3 hereof and Section 20 of the
2 Participation Agreement, costs incurred in terminating an
3 Operating Emergency and restoring the availability of each
4 Generating Unit affected may be billed to the Participants by
5 the Operating Agent on the basis of its estimate of such costs
6 with adjustment to be made in accordance with Sections F.6
7 and F.7 hereof when a final cost determination has been made.

8 F.5 Following the termination of the Operating Emer-
9 gency, the Operating Agent shall submit to each Participant
10 a report containing a summary of the costs incurred and
11 expenditures made in connection with the repair, restoration
12 or reconstruction and such other information as may be re-
13 quested by the Administrative Committee.

14 F.6 The Operating Agent shall allocate to the Partici-
15 pants, in accordance with Section 12 of the Participation
16 Agreement, the costs incurred or expenditures made in such
17 repair, restoration or reconstruction which are charged as
18 maintenance expense.

19 F.7 The Operating Agent shall allocate to the Parti-
20 cipants, in accordance with their respective Cost Re-
21 sponsibility the costs incurred or expenditures made in
22 such repair, restoration or reconstruction which are
23 capitalized.

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1 APPENDIX G

2 FUEL COST ALLOCATION

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4 : G.1 Before the Date of Firm Operation of each Unit of
5 the Coronado Generating Station, the Operating Agent and the
6 Project Manager shall have the coal supplier(s) deliver coal
7 so that the amount stored in the Active Coal Storage and
8 Permanent Coal Storage on each of said dates is equal to that
9 specified by the Operating Agent pursuant to Section 7.3.4
10 hereof and a fuel oil inventory shall be provided in the
11 amount necessary for ignition and backup fuel for each Unit
12 on each of said dates.

13 G.2 The costs and quantities of fuel purchased under all
14 Fuel Agreements shall be apportioned among and paid for by the
15 Participants in accordance with Sections G.3-G.6 herein, unless
16 otherwise agreed by the Engineering and Operating Committee.
17 The initial cost of ignition and flame stabilization fuel shall
18 be apportioned among and paid for by the Participants in
19 accordance with their Generation Entitlement Shares.

20 G.3 The costs of Operating Work, including the fixed cost
21 of fuel chargeable to FPC Account 501, shall be shared by the
22 Participants on the basis of their Generation Entitlement
23 Shares. The fixed cost of fuel shall include:

24 G.3.1 The cost of the coal including transportation
25 costs for such coal associated with start-up, shut-down
26 and Minimum Generating Capability.

1 G.3.2 The cost of maintenance of the Coronado Rail-
2 road Spur and rail cars.

3 G.3.3 The labor and labor loading expenses for fuel
4 handling.

5 G.4 Except as provided in Section G.3.1 herein, the cost
6 of coal including transportation costs for such coal included
7 in FPC Account 501 for the Navajo Generating Station shall be
8 shared in the ratio that each Participant's monthly generation
9 scheduled bears to the monthly Net Energy Generation scheduled
10 less generation attributable to consumption of coal withdrawn
11 from Permanent Coal Storage.

12 G.5 The cost of coal required to initially fill or enlarge
13 the Active Coal Storage and Permanent Coal Storage shall be
14 shared by the Participants on the basis of their Generation
15 Entitlement Shares unless otherwise agreed by the Engineering
16 and Operating Committee.

17 G.6 The costs of ash disposal including labor and labor
18 loading expenses shall be a fixed cost and shall be shared by
19 the Participants on the basis of their Generation Entitlement
20 Shares.

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APPENDIX H

PROJECT AGREEMENTS

<u>Contract</u>	<u>Effective Date</u>
Engineering and Procurement Contract, Arizona Station, between Bechtel Power Corporation and Salt River Project	November 1, 1973
Construction Contract, Arizona Station, between Bechtel Power Corporation and Salt River Project	November 1, 1973
Letter Agreement between Arizona Public Service and Salt River Project, Limestone Source - Welch Prospect	October 10, 1974
Supplemental Letter Agreement between Arizona Public Service and Salt River Project, Limestone Source - Welch Prospect Amendment No. 1	July 14, 1976 December 5, 1974 October 8, 1975



	<u>Contract</u>	<u>Effective Date</u>
2	Turbine Generator Contract with General	August 19, 1974
3	Electric - Purchase Order No. 10507C-400	
4		
5	Steam Generator Contract with Riley Stoker -	July 7, 1974
6	Purchase Order No. 10507C-401	
7		
8	Particulate Removal Equipment Contract with	June 28, 1976
9	Joy-Western - Purchase Order No. 10507C-450	
10		
11	Navopache Electric Cooperative, Inc. and	May 29, 1975
12	Salt River Project Facilities Agreement	
13		
14	Construction Agreement between Navopache	August 4, 1975
15	Electric Cooperative, Inc. and Salt River	
16	Project	
17		
18	Interconnection of Coronado-Cholla 500 KV	June 24, 1975
19	Back-up Line, Letter of Intent between	
20	Salt River Project and Arizona Public	
21	Service Company	
22		
23	Contract for Construction Power Service	June 2, 1975
24	between Navopache Electric Cooperative,	
25	Inc. and Salt River Project	
26		



	<u>Contract</u>	<u>Effective Date</u>
1		
2	Purchase and Installation of Three Slack	October 9, 1975
3	Span Poles at Cholla Plant Site, Letter	
4	Agreement between Salt River Project and	
5	Arizona Public Service Company	
6		
7	Interconnection at Silver King 500 KV	September 29, 1975
8	Substation, Letter of Intent between Salt	
9	River Project and Arizona Public Service	
10	Company	
11		
12	69 KV Delivery Point at Coronado SES	September 17, 1975
13	Letter of Intent between Salt River	
14	Project and Arizona Public Service	
15	Company	
16		
17	Coronado Station Interim Coal Supply	June 30, 1976
18	Agreement between the Pittsburg & Midway	
19	Coal Mining Co. and Salt River Project	
20		
21	Letter of Intent to Grant Aid to Construc-	February 4, 1977
22	tion Funds to Navopache Electric for Moon	
23	Meadow between Salt River Project and	
24	Navopache Electric Cooperative, Inc.	
25		
26		



	<u>Contract</u>	<u>Effective Date</u>
1		
2	Coronado Coal Supply Agreement between	July 19, 1977
3	Coastal States Energy Company and Salt	
4	River Project	
5		
6	Coronado Station Coal Agreement between	
7	Consolidation Coal Company, Inc. and	
8	Salt River Project	
9		
10	Navajo (Arizona) Switch Turnout	July 21, 1977
11	Construction Agreement, Letter Agreement	
12	between Atchison, Topeka and Santa Fe	
13	Railroad and Salt River Project	
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EXHIBIT B

AMENDMENT NO. 4 OF
ARIZONA NUCLEAR POWER PROJECT
PARTICIPATION AGREEMENT

AMONG

ARIZONA PUBLIC SERVICE COMPANY,
SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER DISTRICT,
SOUTHERN CALIFORNIA EDISON COMPANY,
PUBLIC SERVICE COMPANY OF NEW MEXICO,
EL PASO ELECTRIC COMPANY

and

DEPARTMENT OF WATER AND POWER
OF THE CITY OF LOS ANGELES

1 AMENDMENT NO. 4 OF
2 ARIZONA NUCLEAR POWER PROJECT
3 PARTICIPATION AGREEMENT

4 PARTIES: ARIZONA PUBLIC SERVICE COMPANY, a corporation
5 organized and existing under and by virtue of the
6 laws of the State of Arizona, hereinafter referred
7 to as "Arizona," SALT RIVER PROJECT AGRICULTURAL
8 IMPROVEMENT AND POWER DISTRICT, an agricultural
9 improvement district organized and existing under
10 and by virtue of the laws of the State of Arizona,
11 hereinafter referred to as "Salt River Project,"
12 SOUTHERN CALIFORNIA EDISON COMPANY, a corporation
13 organized and existing under and by virtue of the
14 laws of the State of California, hereinafter referred
15 to as "Edison," PUBLIC SERVICE COMPANY OF NEW MEXICO,
16 a corporation organized and existing under and by
17 virtue of the laws of the State of New Mexico, herein-
18 after referred to as "PNM," EL PASO ELECTRIC COMPANY,
19 a corporation organized and existing under and by
20 virtue of the laws of the State of Texas, hereinafter
21 referred to as "El Paso," and DEPARTMENT OF WATER
22 AND POWER OF THE CITY OF LOS ANGELES, a department
23 organized and existing under the charter of the
24 City of Los Angeles, a municipal corporation of the
25 State of California, hereinafter referred to as
26 "Los Angeles."



1 DATED: As of _____, 19__.

2 WHEREAS, pursuant to the Salt River Project-Los
3 Angeles Palo Verde Station Assignment Agreement, dated _____
4 _____, 19__, Salt River Project assigned and transferred to
5 Los Angeles an undivided 5.7% interest in Palo Verde Station
6 and the Project Agreements, and a 5.7% Generation Entitlement
7 Share (all collectively referred to as "Los Angeles' Palo Verde
8 Interest") and pursuant to Section 15.3 under the Arizona
9 Nuclear Power Project Participation Agreement, dated as of
10 August 23, 1973, as amended by Amendment No. 1, dated as of
11 January 1, 1974, Amendment No. 2, dated as of August 28, 1975,
12 Amendment No. 3, dated as of July 22, 1976, and Amendment No.
13 4, dated as of _____, 19__ ("Participation Agreement,
14 as amended"), and Los Angeles, pursuant to Section 15.5 of the
15 Participation Agreement, as amended, has accepted said assign-
16 ment and transfer and has become and assumed the status and
17 obligations of a Participant in the Palo Verde Station to the
18 extent of Los Angeles' Palo Verde Interest.

19 NOW, THEREFORE, in consideration of the premises and
20 of the covenants and conditions set forth in the Participation
21 Agreement, as amended, the parties hereto agree as follows:

22 1. In order to reflect the assignment by Salt River
23 Project to Los Angeles, as aforesaid, the Participation Agree-
24 ment, as amended, is hereby amended as follows:

25 1.1 Section 3.28 of the Participation Agree-
26 ment, as amended, is hereby amended to read as follows:



1 "3.28 Generation Entitlement Share: The per-
2 centage entitlement of each Participant
3 to the Net Energy Generation and to the Avail-
4 able Generating Capability. Each Participant's
5 percentage entitlement is as follows:

6	3.28.1	Arizona	= 29.1 percent
7	3.28.2	Salt River Project	= 23.4 percent
8	3.28.3	Edison	= 15.8 percent
9	3.28.4	PNM	= 10.2 percent
	3.28.5	El Paso	= 15.8 percent
	3.28.6	Los Angeles	= 5.7 percent

10 1.2 Section 38.1 of the Participation Agreement
11 is hereby amended to read as follows:

12 "38.1.6 Department of Water and Power of the
13 City of Los Angeles
14 c/o Chief Electric Engineer
15 and Assistant Manager
16 P. O. Box 111
17 Los Angeles, California 90051

18 1.3 All references to Salt River Project in the
19 Participation Agreement, as amended, including all
20 rights, obligations and interests of Salt River
21 Project thereunder, shall be deemed to be references
22 to, and rights, obligations and interests of Los
23 Angeles to the extent of its acceptance of Los
24 Angeles' Palo Verde Interest.

25 2. The Participation Agreement, as amended by
26 Amendment No. 1, Amendment No. 2, Amendment No. 3, and
Amendment No.4, shall remain in full force and effect.



1 WHEREFORE, the parties have executed this Amendment
2 No. ___ as of the date first set forth above.

3
4 ARIZONA PUBLIC SERVICE COMPANY

5 ATTEST:

6 By _____
7

8 SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER DISTRICT

9 ATTEST AND COUNTERSIGN:
10
11

12 SOUTHERN CALIFORNIA EDISON COMPANY

13 ATTEST:

14 By _____
15

16 PUBLIC SERVICE COMPANY OF
NEW MEXICO

17 ATTEST:

18 By _____
19

20 EL PASO ELECTRIC COMPANY

21 ATTEST:

22 By _____
23

24 DEPARTMENT OF WATER AND POWER OF
THE CITY OF LOS ANGELES

25 By
BOARD OF WATER AND POWER COM-
MISSIONERS OF THE CITY OF
LOS ANGELES

26 By _____

and _____
Secretary



1 STATE OF ARIZONA)
2 County of Maricopa) ss.

3 On this _____ day of _____, 19____, before me,
4 the undersigned Notary Public, personally appeared _____
5 _____ and _____ who acknowledged
6 themselves to be the _____ and _____
7 _____ of ARIZONA PUBLIC SERVICE COMPANY, an Arizona
8 corporation, and that they as such officers, being authorized
9 so to do, executed the foregoing instrument for the purposes
10 therein contained by signing the name of the company by them-
11 selves as such _____ and _____.

12 IN WITNESS WHEREOF, I hereunto set my hand and
13 official seal.

14 _____
15 Notary Public

16 My Commission Expires:

17 _____

18 STATE OF ARIZONA)
19 County of Maricopa) ss.

20 On this _____ day of _____, 19____, before me, the
21 undersigned Notary Public, personally appeared _____
22 _____ and _____ who acknowledged them-
23 selves to be the _____ and _____
24 of SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT,
25 an Arizona agricultural improvement district, and that they as
26 such officers, being authorized so to do, executed the fore-
going instrument for the purposes therein contained by signing
the name of the company by themselves as such _____
and _____.

IN WITNESS WHEREOF, I hereunto set my hand and
official seal.

Notary Public

My Commission Expires:

1 STATE OF CALIFORNIA)
2 County of Los Angeles) ss.

3 On this _____ day of _____, 19____, before me, the
4 undersigned Notary Public, personally appeared _____
5 _____ and _____ who acknow-
6 ledged themselves to be the _____ and _____
7 _____ of SOUTHERN CALIFORNIA EDISON COMPANY, a
8 California corporation, and that they as such officers,
9 being authorized so to do, executed the foregoing instrument
10 for the purposes therein contained by signing the name of
11 the company by themselves as such _____ and _____

12 IN WITNESS WHEREOF, I hereunto set my hand and
13 official seal.

10

11

Notary Public

12 My Commission Expires:

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15 STATE OF NEW MEXICO)
16 County of Bernalillo) ss.

17 On this _____ day of _____, 19____, before me the
18 undersigned Notary Public, personally appeared _____
19 _____ and _____ who acknow-
20 ledged themselves to be the _____ and _____
21 _____ of PUBLIC SERVICE COMPANY OF NEW MEXICO,
22 a New Mexico corporation, and that they as such officers,
23 being authorized so to do, executed the foregoing instrument
24 for the purposes therein contained by signing the name of
25 the company by themselves as such _____ and _____

22 IN WITNESS WHEREOF, I hereunto set my hand and
23 official seal.

24

25

Notary Public

26 My Commission Expires:



1 STATE OF TEXAS)
2 County of El Paso)

ss.

3 On this ____ day of _____, 19__, before me
4 the undersigned Notary Public, personally appeared _____
5 _____ and _____ who
6 acknowledged themselves to be the _____ and
7 _____ of EL PASO ELECTRIC COMPANY, a Texas corpora-
8 tion, and that they as such officers, being authorized so to
9 do, executed the foregoing instrument for the purposes therein
10 contained by signing the name of the company by themselves as
11 such _____ and _____.

12 IN WITNESS WHEREOF, I hereunto set my hand and
13 official seal.

Notary Public

14 My Commission Expires:
15 _____
16 _____

17 STATE OF CALIFORNIA)
18 County of Los Angeles)

ss.

19 On this ____ day of _____, 19__, before me, the
20 undersigned Notary Public, personally appeared _____
21 _____ and _____ who acknowledged
22 themselves to be the _____ and
23 _____ of DEPARTMENT OF WATER AND POWER OF THE CITY OF LOS ANGELES, a
24 department organized and existing under the charter of the City
25 of Los Angeles, a municipal corporation of the State of California,
26 known to me to be the persons described in the foregoing instru-
ment, and acknowledged that they executed the same in the
capacity therein stated and for the purposes therein contained.

IN WITNESS WHEREOF, I hereunto set my hand and
official seal.

Notary Public

My Commission Expires:

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EXHIBIT C

SALT RIVER PROJECT-LOS ANGELES
PALO VERDE STATION
ASSIGNMENT AGREEMENT

BETWEEN

SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER DISTRICT

AND

DEPARTMENT OF WATER AND POWER OF THE
CITY OF LOS ANGELES

1 SALT RIVER PROJECT-LOS ANGELES
2 PALO VERDE STATION
3 ASSIGNMENT AGREEMENT

4 This Salt River Project-Los Angeles Palo Verde Station
5 Assignment Agreement ("Assignment Agreement"), by and between
6 SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT,
7 ("Salt River Project"), an Arizona agricultural improvement
8 district, and DEPARTMENT OF WATER AND POWER OF THE CITY OF LOS
9 ANGELES ("Los Angeles"), a department organized and existing
10 under the charter of the City of Los Angeles, a municipal
11 corporation of the State of California, is made as of the ____
12 day of _____, 19__.

13 WHEREAS, Salt River Project is a Participant in the Palo
14 Verde Nuclear Generating Station ("Palo Verde Station"), as
15 defined and provided in the Arizona Nuclear Power Project
16 Participation Agreement, dated as of August 23, 1973, and as
17 thereafter amended ("Participation Agreement").

18 WHEREAS, Salt River Project, a Palo Verde Station Parti-
19 cipant, owns in excess of a 5.7% Generation Entitlement Share
20 and in excess of a 5.7% undivided ownership interest as a
21 tenant in common in the Palo Verde Station, the Project Agree-
22 ments, a list of which are set forth on Exhibit 1 hereto, and
23 certain other property and rights provided for, contemplated
24 by, or resulting from the Project Agreements (all collectively
25 hereinafter referred to as "Salt River Project's Palo Verde
26 Interest"); and

 WHEREAS, Salt River Project desires to transfer and

1 assign to Los Angeles a 5.7% Generation Entitlement Share, 5.7%
2 interest in Palo Verde Station and 5.7% interest in the Project
3 Agreements, (all collectively referred to as "Los Angeles' Palo
4 Verde Interest"), a portion of Salt River Project's Palo Verde
5 Interest; and

6 WHEREAS, the Participation Agreement provides that Salt
7 River Project may assign all or a portion of Salt River Pro-
8 ject's Palo Verde Interest without the consent of the other
9 Participants, to any person, partnership, corporation or
10 governmental corporation or agency engaged in the generation,
11 transmission or distribution of Energy; and

12 WHEREAS, Los Angeles, is engaged in the generation,
13 transmission and distribution of electric Energy; and

14 WHEREAS, Los Angeles desires to acquire by assignment a
15 portion of Salt River Project's Palo Verde Interest;

16 NOW, THEREFORE, in consideration of the mutual promises
17 and covenants hereunder, Salt River Project and Los Angeles
18 agree as follows:

19 1. Salt River Project hereby assigns and transfers the
20 Los Angeles' Palo Verde Interest to Los Angeles.

21 2. Los Angeles hereby accepts the assignment and trans-
22 fer of Los Angeles' Palo Verde Interest from Salt River Project
23 assumes the status and obligations of a Participant in the Palo
24 Verde Station to the extent of Los Angeles' Palo Verde Interest
25 and releases Salt River Project from the status, obligations
26 and liabilities of a Participant in the Palo Verde Station as



1 of the date of this Assignment Agreement, to the extent of Los
2 Angeles' Palo Verde Interest.

3 3. All terms defined in the Participation Agreement, and
4 used in this Assignment Agreement, shall have the meaning
5 specified in the Participation Agreement.

6 4. At any time, and, from time to time, upon written
7 request of Los Angeles or any other Participant, Salt River
8 Project shall promptly execute and deliver any and all further
9 instruments and documents and take such further actions as Los
10 Angeles or any other Participant may reasonably determine to be
11 necessary in order for Los Angeles to obtain the full status of
12 a Participant in the Palo Verde Station to the extent of Los
13 Angeles' Palo Verde Interest, and all of the rights incident
14 thereto.

15 5. Salt River Project hereby represents and warrants
16 that to the best of its information and belief:

17 a) The Participation Agreement and the other
18 Project Agreements are in full force and effect and are valid
19 and enforceable according to their terms. Salt River Project
20 shall furnish Los Angeles a conformed copy of each Project
21 Agreement upon execution of this Assignment Agreement.

22 b) Salt River Project is not in breach of any of
23 the terms of the Participation Agreement or the other Project
24 Agreements.

25 c) Salt River Project has not assigned, trans-
26 ferred, or encumbered or agreed to assign, transfer or encumber

1 in whole or in part Los Angeles' Palo Verde Interest or any of
2 the rights assigned hereunder to any person or entity other
3 than Los Angeles.

4 6. As full compensation, satisfaction, and payment
5 for the assignment of Los Angeles' Palo Verde Interest, Los
6 Angeles agrees to pay and Salt River Project agrees to accept,
7 subject to the other provisions of this Assignment Agreement,
8 an amount equal to Salt River Project's costs incurred to date
9 of this Assignment Agreement in connection with its participa-
10 tion in a 5.7% interest in the Palo Verde Station, said amount
11 payable in accordance with the provisions of Section 3 of the
12 Memorandum of Agreement Providing for Purchase between Salt
13 River Project and Los Angeles, dated _____. Said
14 amount shall be subject to adjustment and appropriate payments
15 made following audit of the books and accounts of the Palo
16 Verde Station and excluding any costs from said amount related
17 to transmission.

18 7. This Assignment Agreement and the terms and condi-
19 tions contained herein shall bind and inure to the benefit of
20 respective successors, assigns, trustees and/or representatives
21 of the parties hereto.

22 8. This Assignment Agreement shall be governed by and
23 construed in accordance with the laws of the State of Arizona.

24
25
26

1 IN WITNESS WHEREOF, Salt River Project and Los Angeles
2 have executed this Assignment Agreement as of the day and year
3 first above written.

4
5
6 SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER DISTRICT

7
8 By _____
9

10 ATTEST & COUNTERSIGN:

11
12 _____

13 DEPARTMENT OF WATER AND POWER OF
14 THE CITY OF LOS ANGELES
15 By
16 BOARD OF WATER AND POWER COM
MISSIONERS OF THE CITY OF LOS ANGELES

17 By _____
18 and _____
19 Secretary

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ACKNOWLEDGEMENT

STATE OF ARIZONA)
County of Maricopa) ss.

On this ____ day of _____, 19__, before me, the undersigned Notary Public, personally appeared _____ and _____ who acknowledged themselves to be the _____ and _____ of _____ of SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, an Arizona agricultural improvement district, and that they as such officers, being authorized so to do, executed the foregoing instrument for the purposes therein contained by signing the name of the company by themselves as such _____ and _____.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

Notary Public

My Commission Expires:

1	Turbine Generator Contract between	
2	Arizona Public Service Company as	
3	Project Manager and Operating	
4	Agent for Palo Verde Nuclear	
5	Generating Station and General	Mar. 21, 1974
6	Electric Company	
7	Contract No. AT-(40-1)-4672-DUE	
8	Arizona Public Service Company, et al.	
9	Agreement for Furnishing Uranium	
10	Enrichment Services (Long-Term,	May 15, 1974
11	Fixed-Commitment) (Unit 1)	
12	Contract No. AT-(40-1)-4673-DUE	
13	Arizona Public Service Company, et al.	
14	Agreement for Furnishing Uranium	
15	Enrichment Services (Long-Term,	May 15, 1974
16	Fixed-Commitment) (Unit 2)	
17	Contract No. AT-(40-1)-4656-DUE	
18	Carolina Power & Light Company	
19	Energy Research and Development	
20	Administration	
21	Enriching Services Contract	
22	Assignment	Apr. 14, 1975
23	Consent and Agreement (Unit 3)	Apr. 11, 1975
24	Sewage Effluent Agreement (Agreement	
25	No. 13904 - Option and Purchase	
26	of Effluent)	Apr. 23, 1973
27	Contract for Insurance Brokerage	
28	and Consulting Services between	
29	The Valley National Company-	
30	Insurance and Johnson & Higgins	
31	of Arizona, Inc., an Affiliated	
32	Entity, and Arizona Public Service	
33	Company	May 1, 1974
34	Agreement for Archaeological Consulting	
35	Services	
36	Palo Verde Nuclear Generating Station,	
37	Units 1, 2 and 3 between APS/ANPP	
38	and Northern Arizona Society of	
39	Science and Art, Inc.	May 15, 1975
40	Letter Agreement Between Arizona	
41	Public Service Company and NUS	
42	Corporation for Meteorological	
43	Monitoring Systems	Nov. 17, 1972

1	Quality Assurance Agreement Between	
2	Arizona Public Service Company	Mar. 1, 1974
	and General Physics Corporation	
3	Single Beneficiary Trust Agreement	
4	Between U.S. Life Title Company	Oct. 1, 1973
	of Arizona and the Participants	
5	Environmental and Siting Studies	
6	Agreement Between Arizona Public	
7	Service Company, Acting as	
	Project Manager and Agent for	
8	Other Participants in Arizona	Jun. 29, 1972
	Nuclear Power Project, and NUS	
	Corporation	
9	Agreement for Conversion Services	
10	Between Allied Chemical	
11	Corporation and Arizona Public	
12	Service Company, Acting for	
13	itself as a Participant and	Nov. 17, 1975
	as Agent for all other	
	Participants in Palo Verde	
	Nuclear Generating Station	
14	Electric Power Agreement Between	
15	Arizona Public Service Company	
16	Acting as Project Manager of	Sep. 15, 1976
	the Palo Verde Nuclear Gen-	
	erating Station and Arizona	
	Public Service Company	
17	Palo Verde Uranium Venture Agreement	
18	Among Arizona Arizona Public	
19	Service Company, Salt River	
20	Project Agricultural Improve-	
21	ment and Power District, El	Jan. 7, 1977
22	Palo Electric Company, Mono	
23	Green Mountain Company and	
24	Public Service Company of	
25	New Mexico	
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EXHIBIT D

LOS ANGELES-SALT RIVER PROJECT
CORONADO PROJECT
ASSIGNMENT AGREEMENT

BETWEEN

DEPARTMENT OF WATER AND POWER OF THE
CITY OF LOS ANGELES

AND

SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER DISTRICT



1 LOS ANGELES-SALT RIVER PROJECT
2 CORONADO PROJECT
3 ASSIGNMENT AGREEMENT

4 This Los Angeles-Salt River Project Coronado Project
5 Assignment Agreement ("Assignment Agreement"), by and between
6 DEPARTMENT OF WATER AND POWER OF THE CITY OF LOS ANGELES ("Los
7 Angeles"), a department organized and existing under the
8 charter of the City of Los Angeles, a municipal corporation of
9 the State of California, and SALT RIVER PROJECT AGRICULTURAL
10 IMPROVEMENT AND POWER DISTRICT ("Salt River Project"), an
11 Arizona agricultural improvement district, is made as of the
12 _____ day of _____, 19__.

13 WHEREAS, Los Angeles is a Participant in the Coronado
14 Project as defined and provided in the Coronado Project Parti-
15 cipation Agreement ("Participation Agreement"), dated as of
16 _____, 197_.

17 WHEREAS, Los Angeles, a Coronado Project Participant, owns
18 an undivided ownership interest as a tenant in common in accord-
19 ance with its Cost Responsibility in the Components of the
20 Coronado Project, the Coronado Agreements, a list of which are
21 set forth on Exhibit 1 hereto, and a beneficial interest in the
22 land and land rights for the Coronado Transmission System, the
23 Coronado Railroad Spur and the Project Agreements which are not
24 Coronado Agreements (all collectively hereinafter referred to
25 as "Los Angeles' Coronado Interest"); and

26 WHEREAS, Los Angeles desires to transfer and assign to
Salt River Project all of Los Angeles' Coronado Interest; and

1 WHEREAS, the Participation Agreement provides that Los
2 Angeles may assign all or a portion of Los Angeles' Coronado
3 Interest to Salt River Project; and

4 WHEREAS, Salt River Project desires to acquire by assign-
5 ment all of Los Angeles' Coronado Interest;

6 NOW, THEREFORE, in consideration of the mutual promises
7 and covenants hereunder, Los Angeles and Salt River Project
8 agree as follows:

9 1. Los Angeles hereby assigns and transfers to Salt
10 River Project 100% of Los Angeles' Coronado Interest.

11 2. Salt River Project hereby accepts the assignment and
12 transfer of 100% of Los Angeles' Coronado Interest from Los
13 Angeles, and releases Los Angeles from the status, obligations
14 and liabilities of a Participant in the Coronado Project as of
15 the date of this Assignment Agreement, to the extent of 100% of
16 Los Angeles' Coronado Interest.

17 3. All terms defined in the Participation Agreement, and
18 used in this Assignment Agreement, shall have the meaning
19 specified in the Participation Agreement.

20 4. At any time, and, from time to time, upon written
21 request of Salt River Project, Los Angeles shall promptly
22 execute and deliver any and all further instruments and docu-
23 ments and take such further actions as Salt River Project may
24 reasonably determine to be necessary in order for Salt River
25 Project to obtain in full the 100% of Los Angeles' Coronado
26 Interest, and all of the rights incident thereto.

1 5. Los Angeles hereby represents and warrants that to
2 the best of its knowledge:

3 a) Los Angeles is not in breach of any of the terms
4 of the Participation Agreement or the Project Agreements.

5 b) Los Angeles has not assigned, transferred, or
6 encumbered or agreed to assign, transfer or encumber in whole
7 or in part Los Angeles' Coronado Interest or any of the rights
8 assigned hereunder to any person or entity other than Salt
9 River Project.

10 6. As full compensation, satisfaction, and payment
11 for the assignment of 100% of Los Angeles' Coronado Interest,
12 Salt River Project agrees to pay and Los Angeles agrees to
13 accept, subject to the other provisions of this Assignment
14 Agreement, an amount equal to 100% of Los Angeles' costs
15 incurred to date of this Assignment Agreement in connection
16 with its participation in the Coronado Project, said amount
17 payable in accordance with the provisions of Section 3 of the
18 Memorandum of Agreement Providing for Purchase between Salt
19 River Project and Los Angeles, dated _____. Said
20 amount shall be subject to adjustment and appropriate payments
21 made following audit of the books and accounts of the Coronado
22 Project.

23 7. This Assignment Agreement and the terms and condi-
24 tions contained herein shall bind and inure to the benefit of
25 respective successors, assigns, trustees and/or representatives
26 of the parties hereto.

1 8. This Assignment Agreement shall be governed by and
2 construed in accordance with the laws of the State of Arizona.

3 IN WITNESS WHEREOF, Los Angeles and Salt River Project
4 have executed this Assignment Agreement as of the day and year
5 first above written.

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DEPARTMENT OF WATER AND POWER OF
THE CITY OF LOS ANGELES
By
BOARD OF WATER AND POWER COM
MISSIONERS OF THE CITY OF LOS ANGELES

By _____
and _____
Secretary

ATTEST & COUNTERSIGN:

SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER DISTRICT

By _____



ACKNOWLEDGEMENT

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STATE OF CALIFORNIA)
County of Los Angeles) ss.

On this ____ day of _____, 19__, before me, the undersigned Notary Public, personally appeared _____ and _____ who acknowledged themselves to be the _____ and _____ of DEPARTMENT OF WATER AND POWER OF THE CITY OF LOS ANGELES, a department organized and existing under the charter of the City of Los Angeles, a municipal corporation of the State of California, known to me to be the persons described in the foregoing instrument, and acknowledged that they executed the same in the capacity therein stated and for the purposes therein contained.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

Notary Public

My Commission Expires:

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ACKNOWLEDGEMENT

STATE OF ARIZONA)
County of Maricopa)

ss.

On this ____ day of _____, 19__, before me, the undersigned Notary Public, personally appeared _____ and _____ who acknowledged themselves to be the _____ and _____ of of SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, an Arizona agricultural improvement district, and that they as such officers, being authorized so to do, executed the foregoing instrument for the purposes therein contained by signing the name of the company by themselves as such _____ and _____.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

Notary Public

My Commission Expires:



EXHIBIT 1

CORONADO AGREEMENTS

	<u>Contract</u>	<u>Effective Date</u>
4	Engineering and Procurement Contract,	November 1, 1973
5	Arizona Station, between Bechtel Power	
6	Corporation and Salt River Project	
7		
8	Construction Contract, Arizona Station,	November 1, 1973
9	between Bechtel Power Corporation and	
10	Salt River Project	
11		
12	Letter Agreement between Arizona Public	October 10, 1974
13	Service and Salt River Project, Limestone	
14	Source - Welch Prospect	
15		
16	Supplemental Letter Agreement between	July 14, 1976
17	Arizona Public Service and Salt River	
18	Project, Limestone Source - Welch Prospect	
19		
20	Arizona Public Service Company Construction	December 5, 1974
21	Agreement with Salt River Project for Design	
22	and Construction of Portions of the Coronado-	
23	Dinosaur (Silver King) Transmission System	
24	Amendment No. 1	October 8, 1975
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1	<u>Contract</u>	<u>Effective Date</u>
2	Turbine Generator Contract with General	August 19, 1974
3	Electric - Purchase Order No. 10507C-400	
4		
5	Steam Generator Contract with Riley Stoker -	July 7, 1974
6	Purchase Order No. 10507C-401	
7		
8	Particulate Removal Equipment Contract with	June 28, 1976
9	Joy-Western - Purchase Order No. 10507C-450	
10		
11	Navopache Electric Cooperative, Inc. and	May 29, 1975
12	Salt River Project Facilities Agreement	
13		
14	Construction Agreement between Navopache	August 4, 1975
15	Electric Cooperative, Inc. and Salt River	
16	Project	
17		
18	Interconnection of Coronado-Cholla 500 KV	June 24, 1975
19	Back-up Line, Letter of Intent between	
20	Salt River Project and Arizona Public	
21	Service Company	
22		
23	Contract for Construction Power Service	June 2, 1975
24	between Navopache Electric Cooperative,	
25	Inc. and Salt River Project	
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	<u>Contract</u>	<u>Effective Date</u>
2	Purchase and Installation of Three Slack	October 9, 1975
3	Span Poles at Cholla Plant Site, Letter	
4	Agreement between Salt River Project and	
5	Arizona Public Service Company	
6		
7	Interconnection at Silver King 500 KV	September 29, 1975
8	Substation, Letter of Intent between Salt	
9	River Project and Arizona Public Service	
10	Company	
11		
12	69 KV Delivery Point at Coronado SES	September 17, 1975
13	Letter of Intent between Salt River	
14	Project and Arizona Public Service	
15	Company	
16		
17	Coronado Station Interim Coal Supply	June 30, 1976
18	Agreement between the Pittsburg & Midway	
19	Coal Mining Co. and Salt River Project	
20		
21	Letter of Intent to Grant Aid to Construc-	February 4, 1977
22	tion Funds to Navopache Electric for Moon	
23	Meadow between Salt River Project and	
24	Navopache Electric Cooperative, Inc.	
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1	<u>Contract</u>	<u>Effective Date</u>
2	Coronado Coal Supply Agreement between Coastal States Energy Company and Salt River Project	July 19, 1977
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6	Coronado Station Coal Agreement between Consolidation Coal Company, Inc. and Salt River Project	
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9		
10	Navajo (Arizona) Switch Turnout Construction Agreement, Letter Agreement between Atchison, Topeka and Santa Fe Railroad and Salt River Project	July 21, 1977.
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EXHIBIT E

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2 1. Salt River Project shall wheel power and energy
3 scheduled by Los Angeles from Palo Verde to the 230 kV bus of
4 the United States Pinnacle Peak Substation and/or the 230 kV
5 bus of the United States Liberty Substation.

6 1.1 The monthly charge for wheeling pursuant to this
7 Section 1 shall be computed, using budget estimates when
8 necessary and adjusting to actual annually, as follows:

9 Monthly Charge = $A \times [B \times 0.0072 + \frac{C}{12} + \frac{D}{12}] + E \times \$0.16 \times (1.01)^N$

10 A = Los Angeles' proportion of ANPP Transmission System
11 and Palo Verde High Voltage Switchyard

12 B = Installed cost of ANPP Transmission System and Palo
13 Verde High Voltage Switchyard

14 C = Annual property taxes and insurance for the ANPP
15 Transmission System and the Palo Verde High
16 Voltage Switchyard

17 D = Annual expenses for ANPP Transmission System and Palo
18 Verde High Voltage Switchyard Operating Work

19 E = Palo Verde Capacity wheeled over Salt River Project's
20 230 kV System in kilowatts

21 N = Number of years after 1977.
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APPENDIX 1B

NEW ISSUES

	<u>Notes</u>	<u>Bonds</u>
Ratings — Moody's:	MIG1	Aa
Standard & Poor's:	AA-	AA-

Interest on the Notes and the Bonds is exempt, in the opinion of Bond Counsel, from income taxes of the United States of America under present federal income tax laws, and is also exempt from personal income taxes of the State of California under present state income tax laws.

Department of Water and Power of The City of Los Angeles

**\$40,000,000 Electric Plant Revenue Notes, Issue of 1980 and
\$40,000,000 Electric Plant Revenue Bonds, Third Issue of 1980**

Dated: September 1, 1980

Due: September 1, as shown below

Principal and interest (September 1 and March 1, commencing March 1, 1981) are payable at the office of the City Treasurer, Los Angeles, California, Citibank, N.A., New York, New York, or The First National Bank of Chicago, Chicago, Illinois. The securities will be issued, in bearer form with coupons, in the denomination of \$5,000, registrable as to principal only, or as to principal and interest.

All the Notes, and those Bonds maturing on or after September 1, 1991 are subject to redemption, as further described herein.

The securities are being issued for necessary additions to working capital, and for the purpose of continuing the construction program of the Power System.

The securities are solely an indebtedness of the Department and not of the City, and are payable from revenues of the Power System.

MATURITIES, AMOUNTS, COUPON RATES AND YIELD OR PRICE

NOTES

<u>Year</u>	<u>Amount</u>	<u>Coupon Rate</u>	<u>Yield or Price</u>
1984	\$ 5,000,000	6¾%	Par
1985	35,000,000	7 %	6.90%

(Accrued Interest to be added)

BONDS

<u>Year</u>	<u>Amount</u>	<u>Coupon Rate</u>	<u>Yield or Price</u>	<u>Year</u>	<u>Amount</u>	<u>Coupon Rate</u>	<u>Yield or Price</u>
1986	\$ 300,000	9¼ %	7 %	1994	\$1,200,000	8¼ %	Par
1987	600,000	9¼ %	7.15%	1995	1,200,000	8.40%	Par
1988	700,000	7.30%	Par	1996	1,200,000	8½ %	Par
1989	700,000	7½ %	7.45%	1997	1,200,000	8.60%	Par
1990	800,000	7.60%	Par	1998	1,200,000	8.70%	Par
1991	800,000	7.80%	Par	1999	1,200,000	8.80%	Par
1992	800,000	8 %	Par	2000	1,200,000	8.90%	Par
1993	900,000	8.10%	Par				

\$26,000,000 9½% Sinking Fund Bonds due September 1, 2020
Price Par

(Accrued Interest to be added)

To be retired by call and redemption or otherwise @ \$1,300,000 in each year from 2001 to 2020.

The securities are offered when, as, and if issued and received by the Underwriters, and subject to the approval of legality by O'Melveny & Myers, Los Angeles, California, Bond Counsel, and the City Attorney of The City of Los Angeles, and the Chief Assistant City Attorney for Water and Power of The City of Los Angeles. It is expected that the securities in definitive form will be ready for delivery in Los Angeles, California, or in New York, New York, at the Underwriters' option, on or about September 17, 1980.

September 3, 1980



DEPARTMENT OF WATER AND POWER
OF THE CITY OF LOS ANGELES
111 North Hope Street
Los Angeles, California 90012
(213) 481-4211

BOARD OF WATER AND POWER COMMISSIONERS

RICARDO R. GUTIERREZ, *President*
JOHN J. GUARRERA, *Vice President*
JAMES K. MURPHY
SARA C. STIVELMAN
HERBERT C. WARD

Judith K. Davison, *Secretary*

Officers and Executives

Louis H. Winnard, *General Manager and Chief Engineer*
Paul H. Lane, *Chief Engineer of Water Works and Assistant Manager*
James L. Mulloy, *Chief Electrical Engineer and Assistant Manager*
William D. Sachau, *Chief Financial Officer*

*Paying Agents for Electric Plant Revenue Notes, Issue of 1980 and
Electric Plant Revenue Bonds, Third Issue of 1980*

Treasurer of The City of Los Angeles
Los Angeles, California

Citibank, N.A.
New York, New York

The First National Bank of Chicago
Chicago, Illinois

General Counsel

Office of the City Attorney of The City of Los Angeles
Burt Pines, *City Attorney*

Edward C. Farrell, *Chief Assistant City Attorney for Water and Power*

Bond Counsel

O'Melveny & Myers, Los Angeles, California

Independent Accountants
Price Waterhouse & Co.



This Official Statement is in connection with the proposed issuance by the Department of Water and Power of The City of Los Angeles, California, of a total of \$40,000,000 principal amount of Electric Plant Revenue Notes, Issue of 1980, and \$40,000,000 principal amount of Electric Plant Revenue Bonds, Third Issue of 1980. The Department herein sets forth, for the interest of prospective holders, certain information relating to the issues and to the properties, operations, and finances of the Municipal Power System. The estimates and assumptions included herein are believed to be reliable and correct; however, no representations are made that such estimates and assumptions will be realized.

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SUMMARY STATEMENT

The Department of Water and Power of The City of Los Angeles

The Department exists under and by virtue of the Charter of The City of Los Angeles as a separate proprietary agency of the City, controlling its own funds and responsible for providing water and electric service to the City's inhabitants.

Purpose of and Security for the Notes and Bonds

The proceeds of the sale of the Notes and the Bonds will be used for necessary additions to working capital and to continue the Power System construction program. A substantial portion of the proceeds will be used to fund the Coronado/Palo Verde Projects, the energy control system, and additions to and betterments of existing generation and transmission facilities. The Notes and Bonds are solely indebtedness of the Department and not of the City, and are payable as to principal and interest from Power System revenues. No prior lien bonds or notes exist or may be issued.

Construction Program, Fiscal Years 1980-81 Through 1984-85

The Department currently estimates that it will spend \$941,000,000 during the 1981-1985 period for Power System capital construction, of which amount an estimated \$610,000,000 will be derived from bond sales.

The Power System

The Department distributes power and energy from its wholly owned hydroelectric and steam-driven generating facilities, from jointly owned steam driven generating plants and from purchases. The Department owns transmission and distribution facilities and shares certain other facilities under joint ownership arrangements.

Electricity is distributed to a population of 2.8 million in a service area of 465 square miles. The Power System utility plant net depreciated valuation at March 31, 1980 was \$2.3 billion, and long-term debt, excluding revenue notes and advance refunding revenue bonds, was \$1.5 billion.

Electric Rates

The City Charter requires the Board of Water and Power Commissioners to fix, and the City Council to approve by ordinance, rates which will provide revenues sufficient to pay principal and interest on indebtedness and Power System operating and maintenance expenses.

Outstanding Indebtedness

A total of \$1,721,607,000 Electric Plant Revenue Bonds and Notes will be outstanding as of September 3, 1980, and will rank on a parity with these issues.

Additional Indebtedness; Transfers to City Reserve Fund

No additional bonded indebtedness (including Notes) payable from the Power Revenue Fund shall be incurred unless net income, as described in Covenant 4 of the Final Resolutions, shall be at least twice the greatest amount of interest and at least one and one-quarter times the maximum total of principal and interest accruing in a subsequent fiscal year on all indebtedness including the Notes and the Bonds, and unless the surplus, as described in the Covenant, is at least one-third of the total indebtedness including the Notes and the Bonds.

No transfers from the Power Revenue Fund to the Reserve Fund of the City shall be made in any fiscal year in excess of net income, as described in Covenant 5 of the Final Resolutions, or which would reduce the surplus, as described in the Covenant, to less than one-third of the total indebtedness as defined in the Covenant.

Coverage

Income available for debt service for the twelve months ended March 31, 1980 (\$242,081,665) was 2.02 times the \$119,966,544 total debt service for that period.



THE ISSUES

General Description of the Notes

The Notes in the aggregate principal amount of \$40,000,000 will be dated September 1, 1980, and will be in denominations of \$5,000 each. They will be in coupon form and will be registrable either as to principal only or as to both principal and interest. Interest will be payable semiannually on March 1 and September 1. The Notes mature \$5,000,000 on September 1, 1984 and \$35,000,000 on September 1, 1985.

Redemption of the Notes

The Notes will be callable at the option of the Department on interest payment dates beginning September 1, 1982, at 101% of the principal amount of each such redeemable Note.

General Description of the Bonds

The Bonds in the aggregate principal amount of \$40,000,000 will be dated September 1, 1980, and will be in denominations of \$5,000 each. They will be in coupon form and will be registrable either as to principal only or as to both principal and interest. Interest will be payable semiannually on March 1 and September 1. Serial Bonds mature annually on September 1, in each of the years 1986 to 2000, and Sinking Fund Bonds mature September 1, 2020 as set forth in the following table:

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Maturity Date</u>	<u>Principal Amount</u>
1986	\$ 300,000	1994	\$ 1,200,000
1987	600,000	1995	1,200,000
1988	700,000	1996	1,200,000
1989	700,000	1997	1,200,000
1990	800,000	1998	1,200,000
1991	800,000	1999	1,200,000
1992	800,000	2000	1,200,000
1993	900,000	2020	26,000,000

Redemption of the Bonds

Bonds maturing on or after September 1, 1991 will be callable, at the option of the Department, on interest payment dates beginning September 1, 1990, at redemption prices determined as follows:

<u>Redemption In</u>	<u>Redemption Price</u>
1990 - 1991	103 %
1992 - 1994	102½%
1995 - 1997	102 %
1998 - 2000	101 %
2001 - 2020	100 %

The Department is obligated to retire, by call and redemption or otherwise, at least \$1,300,000 of the Sinking Fund Bonds in each of the years 2001 to 2020.

Security

The Notes and Bonds are solely an indebtedness of the Department and not of the City, are payable as to principal and interest from Power System revenues, and will rank on a parity with \$1,721,607,000 Electric Plant Revenue Bonds and Notes of the Department outstanding as of September 3, 1980.

No prior lien bonds or notes exist or may be issued.



Purpose

The proceeds of the sale of the Notes and Bonds will be used for necessary additions to working capital and to continue the Power System construction program. A substantial portion of the proceeds will be used to fund the Coronado/Palo Verde Projects, the energy control system and additions to and betterments of existing generating and transmission facilities. (See Power System Generation Resources Additions.) The Department anticipates that the cost of the construction program will aggregate \$152 million for the fiscal year ending June 30, 1981.

Paying Agents

The Notes and Bonds will be payable at the Office of the Treasurer of the City, in Los Angeles, California, and at the Current Official Banks of the Department for these issues in New York, New York, and in Chicago, Illinois.

Legal Opinions

With respect to each issue, the Department will furnish to the Underwriters unqualified approving legal opinions from (1) the City Attorney of The City of Los Angeles and the Chief Assistant City Attorney for Water and Power of The City of Los Angeles, and (2) the bond counsel for the Department, O'Melveny & Myers, of Los Angeles, California. The legal opinion of the latter will be printed on the back of each Note and each Bond.

Bond counsel's participation in the preparation of this Official Statement has been limited to preparing or reviewing the statements of law and legal conclusions set forth herein under the captions "The Issues" and "Authorization for Issues". The services of bond counsel are limited to reviewing and rendering assistance in the preparation of the legal proceedings authorizing the issues, to the limited participation in the preparation of the Official Statement described above, to the issuance of the opinions described in the preceding paragraph, and to the issuance of the tax opinions described below. Such opinions will not consider or extend to any documents, agreements, representations, offering circulars or other material of any kind, concerning the issues, not stated in this paragraph to have been reviewed by bond counsel.

Tax Exemption

With respect to each issue, the Department will furnish unqualified legal opinions from the three attorneys, stating that interest on the issue is exempt from income taxes of the United States under present federal income tax laws, and is also exempt from personal income taxes of the State of California under present state income tax laws.

AUTHORIZATION FOR ISSUES

Charter Provisions

The following are brief summaries of certain financial provisions of the Los Angeles City Charter applicable to the Department.

Revenue Funds

The Charter has established the Department as a separate proprietary agency controlling its own funds. Its Water and Power Systems are operated financially independently of each other. The Charter requires the revenues of the Water System to be deposited and maintained in the Water Revenue Fund, separate and apart from the revenues of the Power System, which are deposited and maintained in the Power Revenue Fund.

Revenue Bonds

Under Section 229 of the Charter, the Department may issue revenue bonds, payable from the Water Revenue Fund or the Power Revenue Fund, to finance the acquisition and construction of water works and electric works, and may issue refunding bonds. While the Department may also issue bonds to pay costs of operating and maintaining its works, it must first submit a proposition for such issuance to the voters of the City and receive the assent of a majority of those voting thereon. The Department has never issued bonds for this latter purpose.



Proceedings for the authorization of bonds to finance the acquisition and construction of works are initiated by the adoption of a resolution (the "Initial Resolution") by the Board and submission of such resolution to the Mayor and City Council. Unless disapproved following such submission, the Initial Resolution takes effect, subject to a right of referendum by the voters of the City. If no referendary petition is filed within 30 days following publication of the Initial Resolution, it becomes fully and finally effective.

Section 229 permits the issuance of bonds to refund outstanding indebtedness payable out of either the Water Revenue Fund or the Power Revenue Fund, whether at or prior to maturity, and such refunding bonds may be issued in advance of the time at which the indebtedness to be refunded is subject to redemption. Proceedings for the issuance of refunding bonds are initiated by the adoption of an Initial Resolution by the Board; however, the required transmittal of such resolution to the Mayor and the City Council is for information only, and the resolution takes effect upon adoption by the Board, subject only to a right of referendum by the voters of the City. If no referendary petition is filed within 30 days following publication of the Initial Resolution, it becomes fully and finally effective. The amount of any issue of refunding bonds may equal, but not exceed, the amount required for the payment or redemption of the indebtedness to be refunded thereby, including the premiums, if any, due upon such redemption, but excluding accrued interest. Section 229 also provides that the retirement of refunding bonds shall be through payments on principal so that at no time shall the principal remaining outstanding be greater than if the payments on the refunding issue had been proportional to the payments on principal prescribed for the indebtedness to be refunded.

Section 229 further sets forth the manner of issuance and sale of bonds so authorized and permits the establishment of terms and conditions of the bonds, including but not limited to the creation of special funds and accounts and the making of covenants to bondholders. (See Covenants.)

Debt Limit

Section 229 establishes an equity-to-debt ratio that must be met before the Department can issue revenue bonds. As applied to the particular revenue fund involved, it generally provides that no bonds shall be issued unless the amount of surplus, including surplus arising from contributions in aid of construction, equals at least 60% of the total of (a) the amount of the Department's outstanding bonds payable out of such fund, (b) the amount of outstanding bonds of the City which are serviced from that fund, and (c) the amount of the revenue bonds proposed to be issued. The foregoing limitation does not apply to refunding bonds, to certain short-term borrowings (see below), or to voter-authorized bonds.

Short-Term Borrowing

The Department may also issue short-term revenue notes, payable in not to exceed five years and ranking on a parity with its bonds. The authorization of such notes is not subject to disapproval by the Mayor or the City Council, but is subject to referendum. The 60% limitation applicable to bonds does not apply to such notes, but the aggregate amount of such notes may not exceed 50% of the gross operating revenues of the Water or Power System, as the case may be. Such notes may be issued for the payment of operating and maintenance costs and for any purpose for which bonds may be issued. While not subject to the same Charter debt limit as revenue bonds, such notes nevertheless constitute "indebtedness" for purposes of the bond covenants. (See Covenants.)

At the general election on November 4, 1980, the electorate of Los Angeles will be asked to approve a Charter Amendment that would authorize the Department to issue short-term revenue certificates, which would be in addition to its existing authority to issue short-term revenue notes.

Transfers to City

The Board of Water and Power Commissioners has control of all moneys in the Water and Power Revenue Funds. Pursuant to the provisions of Charter Section 382, no transfers of money from such funds to the City is permitted without the consent of the Board, and such transfers are restricted by the Department's covenant to bondholders (see Covenants) and may be further restricted under Article XIII B of the California Constitution. (See Constitutional Limitation on

Governmental Spending.) For many years, the Board's practice has been to consent to the transfer of approximately 5% of the gross operating revenues of each system for the prior fiscal year. Such consents have expressly been conditioned upon the payment by the City of its current bills for water and electric service. The extent to which the Department has authorized payments to the City is reflected in Appendix A, Note H.

Summary of Final Resolutions

The following are brief summaries of certain provisions of proposed Resolutions 4027 and 4042 (the "Final Resolutions") of the Board of Water and Power Commissioners to be adopted following the award of each issue to the successful bidder. Each Final Resolution incorporates pertinent provisions of Section 229 of the City Charter. The agreements of the Department with the holders of the Notes and Bonds will be fully set forth therein and in the Final Resolutions. Copies of each Final Resolution are available upon request to the Department.

Power Revenue Fund

Revenue of the Power System is deposited into the Power Revenue Fund. The Fund receives all revenues from the sale of power and all other commodities and services sold, furnished or supplied by the Department through its ownership, operation and management of all properties and facilities constituting the Power System, including all additions and betterments, and represents the source of payment, without priority, of all bonded indebtedness of the Power System, the necessary expenses of operating and maintaining the Power System, and all other obligations and indebtedness payable out of such fund.

Reserve Fund

A reserve fund in the City Treasury must be established for each issue of bonds and notes to insure prompt payment of principal and interest. The Board is obligated to direct the transfer of sufficient debt service moneys from the Power Revenue Fund to such reserve fund. Special trust accounts may be created to provide debt service moneys at designated agencies in Los Angeles, Chicago, and New York.

Sinking Fund

In the case of the Bonds, a sinking fund must be established, and the Department is obligated to deposit therein, in cash, at least the full amount required to call and redeem Sinking Fund Bonds at the time and in the principal amounts shown on page 1 hereof. Sinking Fund Bonds may be purchased by the Department in satisfaction of such obligation to the extent of the principal amount thereof.

Power Note Fund

The Department is obligated to deposit proceeds of the sale of the Notes into a separate fund for that issue in the City Treasury. Moneys in such fund may be used only for the purposes for which the Notes were issued, except for temporary investments.

Construction Fund

The Department is obligated to deposit proceeds of the sale of the Bonds into a separate construction fund for this issue in the City Treasury. Construction fund moneys may be used only for purposes for which the Bonds were issued, except for temporary investments.

Covenants

Following is a brief summary of the covenants to noteholders and bondholders; the full text thereof is contained in Article VI of the Final Resolutions. All references in this summary to "preceding fiscal year" shall mean the latest fiscal year for which the Department's books have been reported upon by independent accountants.

Rates: The Board is required to fix rates, subject to the approval of the City Council, and to collect charges sufficient to pay principal of and interest on all indebtedness and the expenses of operating and maintaining the System.



Priority Indebtedness: No evidence of indebtedness (including bonds or notes) may be issued payable from the Power Revenue Fund which will enjoy any priority over the payment of principal of and interest on evidences of indebtedness outstanding or to be issued.

Sale and Disposition of Property: The Board will not sell or dispose of all or substantially all of System properties unless provision is made for payment of principal and interest requirements on all bonds and notes.

Additional Indebtedness: Additional indebtedness may be incurred provided that the following conditions are met:

A. Net income (as defined below) during the preceding fiscal year is equivalent to at least:

1. Two (2.00) times the maximum annual interest payments required on all outstanding and such additional indebtedness, and

2. One and one-quarter (1.25) times the maximum annual principal and interest payments required on all outstanding and such additional indebtedness.

Net income for this purpose is defined as net income before depreciation, amortization, and interest chargeable to income account. Net income may be adjusted within specified limits to reflect either or both of the following:

a. An allowance for earnings from System additions not in service during all or part of the preceding fiscal year financed by outstanding indebtedness or by such additional indebtedness.

b. An allowance for additional earnings resulting from a rate increase not in effect during all or part of the preceding fiscal year, but effective before the incurring of such additional indebtedness.

B. Surplus, defined as retained income reinvested in the business plus contributions in aid of construction, at the close of the preceding fiscal year, after deducting the aggregate of all transfers out of the Power Revenue Fund under Section 382 of the Charter made since the close of such fiscal year, must be equivalent to at least 33⅓% of all outstanding and such additional indebtedness.

Restrictions on Transfers: No transfers under Section 382 of the Charter will be made in any fiscal year in excess of net income (defined as net income after depreciation, amortization and interest chargeable to income account) for the preceding fiscal year, or which would reduce surplus (as defined above) at the close of the preceding fiscal year, after deducting the aggregate of such transfers made or consented to by the Board since the close of such preceding fiscal year, to less than 33⅓% of total indebtedness, including current liabilities, outstanding within 10 days before such transfer.

Audits: An annual examination will be made of the Department's financial statements by independent accountants. The Department will furnish copies of its financial statements together with the report of such independent accountants to bondholders on request.

THE DEPARTMENT

The Los Angeles Department of Water and Power, the largest municipal utility in the United States, is a separate proprietary agency controlling its own funds with full responsibility for meeting the water and electric requirements of The City of Los Angeles.

The Department exists under and by virtue of the Charter of The City of Los Angeles adopted in January 1925, as amended. It had its beginning, however, in the early years of this century. The first Board of Water Commissioners was established in 1902. The responsibilities for the provision of electricity as well as water were given to a new Los Angeles Department of Public Service organized in 1911. This Department was superseded in 1925 when a new Charter was adopted creating the Department of Water and Power. Subsequently, the two component systems came to be known as the Water System and the Power System.



The Department serves water and electricity almost entirely within the boundaries of The City of Los Angeles, which encompasses some 465 square miles, to a population of approximately 2.8 million.

Administration of the Department is under the direction of a five-member Board of Water and Power Commissioners, traditionally selected from among prominent business, professional and civic leaders in the City. They are appointed for terms of five years each by the Mayor and confirmed by the City Council. The members of the Board serve without compensation except for an attendance fee of twenty-five dollars each for each Board meeting they attend, not to exceed two hundred fifty dollars in any calendar month.

The management and operation of the Department of Water and Power are under the direction of the General Manager and Chief Engineer. The Water System is directed by the Chief Engineer of Water Works, and the Power System by the Chief Electrical Engineer. Financial affairs are under the guidance of the Chief Financial Officer, and legal counsel is provided by the City Attorney and the Chief Assistant City Attorney for Water and Power.

The personnel functions of the Department are conducted in accordance with the Charter-established civil service system which is applicable to almost all Department employees. Under this system, appointments are made on the basis of merit through competitive examinations and civil service procedures. The position of General Manager and Chief Engineer and a few other management positions are specifically exempted from the classified civil service under provisions of the Charter.

In accordance with a State Act (the Meyers-Milias-Brown Act) and a conforming Los Angeles City Ordinance (the Employee Relations Ordinance), fifteen bargaining units covering approximately 9,300 persons, or 98% of all Department employees, have been established since 1975. Seven labor or professional organizations represent the employees' bargaining units. In the bargaining process, Memoranda of Understanding are developed which set forth wages, hours, overtime and other terms and conditions of employment. Wages and salaries paid all Department employees are fixed by the City Council. After appropriate approval, the Memoranda are binding upon the Department, City Council and the respective employees' unions and organizations. Under State law, Department employees do not have a right to strike, and there is no provision in the Employee Relations Ordinance for binding arbitration.

In cooperation with its employees, a funded retirement, disability and death benefit insurance plan is maintained by the Department which is amended from time to time with respect to benefits and to reflect appropriate actuarial standards. Funding is by both Department and employee contributions and is designed to meet all accrued retirement plan costs. Department contributions are determined on the basis of the entry-age normal-cost funding method, i.e., a determination of the level contribution rate which, if contributed on behalf of all new employees from the dates of employment to the dates of separation from service, will be adequate to provide for all of their benefits, taking into account earnings and employee contributions. Total past service liability is being funded over a 30-year period which began in 1972. The City Charter requires a general survey and actuarial report of the plan at least once every five years, and the Department conducts an actuarial study annually, or whenever there is a change in plan benefits, in order to assure adequate funding. (See Appendix A, Note F.)

Contributions are made by the Department toward eligible active and retired employees' cost of membership in hospital and medical insurance plans.

THE POWER SYSTEM

General

The municipal Power System, which was authorized by an amendment to the City Charter in 1911, began distributing electrical energy in 1916 and generating its own power in 1917. A significant addition to the System occurred in 1922 when the distribution facilities of the Southern California Edison Company within the City were purchased. However, not until 1937, when the



generation and distribution properties of the Los Angeles Gas and Electric Corporation were acquired, did the System become the sole distributor of electric power in Los Angeles. Over the past six decades the System has become the nation's largest municipal electric utility with System capability of over 6.7 million kilowatts and depreciated properties valued in excess of \$2.33 billion compared with 1916 values of 28,000 kilowatts and approximately \$1 million, respectively.

Steam electric generating capacity is equal to 63.5% of the System's total net capability, and hydroelectric capacity accounts for 36.5%. These ratios represent a substantial change from the situation in 1940 when 95% of the System's capacity was provided by hydroelectric sources. This change was brought about by a combination of the phenomenal increase in energy demand attending the City's rapid growth in population, business and industry, and the unavailability of additional economic hydroelectric sources.

Steam Generation: There has been a notable expansion in steam generation under a continuous, long-range program of planning and construction. The System's largest generating facility is the Haynes Generating Station with a total plant capacity of 1,583,000 kilowatts, situated in the southeastern part of Los Angeles County near Seal Beach. The Haynes Generating Station represents 23.4% of the System's overall generating capability.

Three additional steam plants generate a total of 1,634,000 kilowatts: the Valley Generating Station in San Fernando Valley, the Harbor Generating Station in Wilmington and the Scattergood Generating Station situated near El Segundo. The third unit at Scattergood is presently operated under a permit which limits its output to 284,000 kw using natural gas as a fuel. The Department initially planned to seek regulatory approvals to burn fuel oil when natural gas was not available, with possible subsequent operation at full-rated capacity. This would have provided an additional 176 megawatts of base load capacity and firm operation of the unit. However, because of present fuel oil uncertainty and the existing national policy, the Department plans to continue operating Scattergood Unit 3 at 284 megawatts utilizing natural gas or an alternate fuel other than petroleum with the intention of procuring future boiler fuel supplies on a firm contract basis.

The Department shares ownership in three coal-fired generating stations, Mohave in Southern Nevada and Navajo and Coronado in Arizona. The Department's share of Mohave is 20% and amounts to 316,000 kw capacity. The share of Navajo is 21.2%, which, together with 73,000 kw layoff from the Water and Power Resources Service, amounts to 550,000 kw capacity. The share of Coronado is 30%, which, together with 100,000 kw of contingent capacity, amounts to 205,000 kw capacity.

Natural gas, supplied by the Southern California Gas Company, is used by the Department's steam plants whenever availability permits. Low-sulfur, low-ash residual oil is burned when gas is not available. (See Fuel Supply.)

Hydroelectric Generation: The Department's major sources of hydroelectric capacity are Castaic Power Plant and Hoover Power Plant. These two plants represent 63.7% and 26.4% of the total hydroelectric capability of the system, respectively. Castaic Power Plant provides peaking capability only and is not a source of energy to meet base load requirements.

An additional source of hydroelectric capability is provided by the Owens Gorge Hydroelectric Development, with an aggregate generating capacity of 110,000 kw. Situated on the northern rim of the Owens Valley in the Eastern High Sierra, this complex utilizes water resources of the Los Angeles-Owens River Aqueduct System. The utilization by the City of such water resources has been the subject of considerable controversy and is now the subject of litigation. (See Litigation, item [12].) Smaller hydroelectric facilities are located north of the City along the Aqueduct in San Francisquito Canyon and at Van Norman and Franklin Reservoirs. The net plant capability of these smaller units under normal water conditions is 74,000 kw including the Foothill Power Plant.

Purchased Capability: The Department purchased 525,000 kw of firm capacity for peaking requirements from the Pacific Northwest to be delivered over the 800 kv DC Transmission Line. This can be considered base load capacity only during periods when there is surplus energy in the Pacific Northwest.



SYSTEM CAPABILITY AND POWER PRODUCTION

Power Sources	Type of Unit	Number Units	Net Capability (MW)	% of Total Net Capability	Production in MWH, Twelve Months Ended			
					June 30			March 31
					1977	1978	1979	1980
Haynes.....	Oil-fired	6	1,583	23.4				
Scattergood	Oil-& Gas-fired	3	642	9.5				
Valley	Oil-fired	4	519	7.7				
Harbor.....	Oil-fired	9	473	7.0				
Subtotal.....	Oil-& Gas-fired	<u>22</u>	<u>3,217</u>	<u>47.6</u>	11,371,930	12,249,720	12,307,787	12,164,663
					(43.9%)	(45.8%)	(46.4%)	(45.5%)
Navajo.....	Coal-fired	3	550	8.2				
Mohave.....	Coal-fired	2	316	4.7				
Coronado.....	Coal-fired	1	205	3.0				
Subtotal.....	Coal-fired	<u>6</u>	<u>1,071</u>	<u>15.9</u>	5,141,198	4,633,932	4,841,152	5,315,766
					(19.9%)	(17.3%)	(18.3%)	(19.9%)
Castaic.....	Hydro	7	1,234*	18.3				
Hoover.....	Hydro	6	511	7.5				
Owens Gorge, Owens Valley and Aqueduct.	Hydro	22	193	2.9				
Subtotal.....	Hydro	<u>35</u>	<u>1,938</u>	<u>28.7</u>	1,944,236	2,041,014	2,734,734	2,584,635
					(7.5%)	(7.6%)	(10.3%)	(9.7%)
PNW DC — Intertie.....	Purchase (Hydro)		525	7.8	1,194,924	943,147	531,880	1,278,286
					(4.6%)	(3.5%)	(2.0%)	(4.8%)
Interchange Energy, and Miscellaneous Purchases					6,248,629	6,897,076	6,099,055	5,364,448
					(24.1%)	(25.8%)	(23.0%)	(20.1%)
Total.....		<u>63</u>	<u>6,751</u>	<u>100.0</u>	<u>25,900,917</u>	<u>26,764,889</u>	<u>26,514,608</u>	<u>26,707,798</u>
					(100.0%)	(100.0%)	(100.0%)	(100.0%)

* Excludes 13 MW average capacity transferred to the State of California in June 1979.

Transmission and Distribution

Electricity from the Department's hydroelectric and steam power sources is delivered to the customers over a complex, reliable transmission and distribution system.

To deliver energy from generating plants to the customers, the Department owns and operates approximately 17,215 miles of transmission and distribution circuits operating at voltages ranging from 120 to 800,000 volts. Approximately 13,560 miles are overhead and 3,655 miles are underground.

System transmission lines at 800,000, 500,000, 287,500, 230,000, 138,000 and 115,000 volts feed electric energy into 19 bulk power receiving stations. Energy is transmitted from the receiving stations on 34,500-volt circuits to 168 distributing stations and 1,912 customer stations. The distributing stations deliver energy at 4,800 volts to distribution transformers which further reduce the voltage for customer utilization.

The Victorville-Rinaldi Transmission Line and supplementary facilities from Victorville, California, to the Rinaldi Receiving Station in the San Fernando Valley are under construction to provide additional capacity to deliver energy from generating plants in the southwest at 500,000 volts. (See Litigation, item [6].) The cost of this project is estimated at \$146 million.



System Growth

Source	as of June 30								as of March 31	
	1965		1970		1975		1979		1980	
	No. of Units	Net Plant Capability (KW)	No. of Units	Net Plant Capability (KW)	No. of Units	Net Plant Capability (KW)	No. of Units	Net Plant Capability (KW)	No. of Units	Net Plant Capability (KW)
Basin Thermal										
Seal Beach.....	2	75,000								
Harbor.....	5	426,000	5	445,000	9	515,000	9	473,000	9	473,000
Valley.....	4	510,000	4	524,000	4	533,000	4	519,000	4	519,000
Scattergood.....	2	340,000	2	350,000	3	667,000	3	642,000	3	642,000
Haynes.....	4	880,000	6	1,625,000	6	1,589,000	6	1,583,000	6	1,583,000
Total Basin Thermal Capability.....	17	2,231,000	17	2,944,000	22	3,304,000	22	3,217,000	22	3,217,000
Hydroelectric										
Aqueduct.....	11	100,000	11	50,000	12	74,000	12	74,000	12	74,000
Hoover.....	6	445,000	6	293,000	6	553,000	6	511,000	6	511,000
Owens Gorge.....	3	110,000	3	110,000	3	110,000	3	110,000	3	110,000
Owens Valley.....	9	9,000	7	9,000	7	9,000	7	9,000	7	9,000
Castaic.....	-	-	-	-	3	410,000(1)	7	1,234,000(2)	7	1,234,000(2)
Total Hydro Capability.....	29	664,000	27	462,000	31	1,156,000	35	1,938,000	35	1,938,000
Joint Facilities										
Mohave.....					2	316,000	2	316,000	2	316,000
Navajo.....					2	318,000	3	550,000	3	550,000
Coronado.....					-	-	-	-	1	205,000
Total Joint Facilities.....					4	634,000	5	866,000	6	1,071,000
Purchases and Sales										
Columbia Storage Power										
Exchange.....				124,000						
Pacific Northwest.....				200,000		525,000		525,000		525,000
Sales.....						(75,000)		(400,000)		
Total Firm Purchases less Firm Sales.....				324,000		450,000		125,000		525,000
Total System.....	46	2,895,000	44	3,730,000	57	5,544,000	62	6,146,000	63	6,751,000

Excludes firm transfers of (1) 125,000 KW and (2) 13,000 KW.

Power System Loads

As with most electric utilities in the United States, the Power System has experienced a marked decline in the rate of load growth since the early 1970's. The rate of growth of both system peak demand and net energy for load (NEL), the net system energy generated and purchased for Power System customers, was in the range of 7-8% for the twenty-year period through 1970. Growth in NEL continued at a slightly lower rate through 1972. In 1974, the Arab oil embargo and resulting mandatory curtailment program reduced the level of net energy for load to 1970 levels. A portion of this reduction, however, is attributed to the economic recession experienced during that period. Since 1974 the Power System's loads have reflected moderate increases resulting from both increased demand and economic recovery.

The most recent Power System load projection for the period through 2000, prepared in July 1980, is summarized in the following table. The projected rate of growth is considerably below that experienced in the 1950's and the 1960's, and slightly below the level of the May 1979 forecast. This reflects both the modest rate of population growth within the City and expected impact of higher costs and conservation measures over the next twenty-year period. The variations in the indicated five-year compound growth rates reflect assumptions relative to the impact of conservation measures.



SUMMARY OF PROJECTED POWER SYSTEM LOADS

Calendar Year	System Peak Demand		System Net Energy for Load		Load Factor
	MW(1)	Growth Rate(3)	GWH(2)	Growth Rate(3)	
1980.....	4,121	2.8%	19,686	2.2%	54.4%
1985.....	4,437	1.5%	20,509	0.8%	52.8%
1990.....	4,980	2.3%	23,113	2.4%	53.0%
1995.....	5,509	2.0%	25,879	2.3%	53.5%
2000.....	6,025	1.8%	28,854	2.2%	54.5%

(1) 1 Megawatt (MW) equals 1,000 Kilowatts.

(2) 1 Gigawatt-Hour (GWH) Equals 1 Million Kilowatt-Hours.

(3) Five-Year Compound Annual Growth Rate.

POWER SYSTEM GENERATION RESOURCES ADDITIONS

Although the Power System has adequate peaking capability, it faces a need for additional base load generation capacity both to meet load growth and to replace existing oil-fired units as they reach the end of their operating lives. Unless additional base load resources are obtained, in addition to the Coronado purchase (see below), the Power System will face an energy deficit situation as early as the mid-1980's.

Presently, a number of alternatives are being pursued to provide required additional base-load capacity and are included in financial planning studies.

Projects Included in Current Financial Planning Studies

Three major generation resource projects are included in current financial planning studies:

(a) the Coronado/Palo Verde Projects, (b) the Intermountain Power Project, and (c) the White Pine Project. The location of each of these projects is shown on the centerfold map.

Coronado/Palo Verde Projects — In late 1977, the Department completed arrangements with the Salt River Project Agricultural Improvement and Power District (SRP) for the purchase of approximately 210 megawatts of capacity entitlement in the Coronado coal-fired project and the eventual exchange of this ownership for an equivalent ownership in the Palo Verde Nuclear Project.

The Coronado Project consists of a two-unit, 700 megawatt coal-fired generating station and associated transmission systems located near St. Johns, in northeast Arizona. Construction of Units 1 and 2 began in 1974, and Unit 1 was placed in service on December 31, 1979. Unit 2 is scheduled to be in service in October 1980.

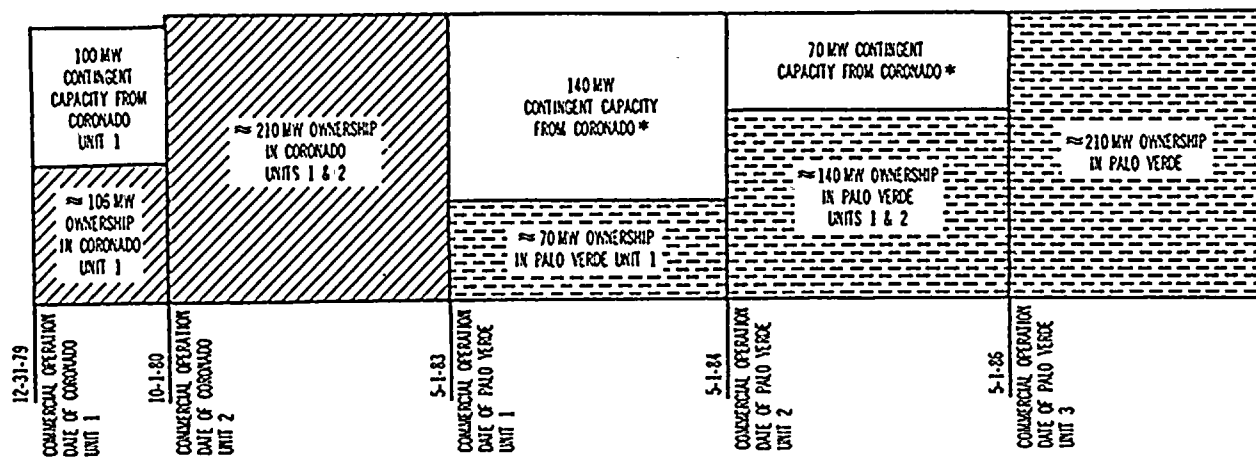
The purchase arrangement between the Department and SRP involves acquisition by the Power System of 30% of Coronado, Units 1 and 2. SRP is providing an additional 100 megawatts of contingent capacity to the Department until the commercial operation date of Unit 2.



The Palo Verde Nuclear Project, managed by Arizona Public Service Company, consists of three 1,270-megawatt, nuclear-fueled units and associated transmission systems located approximately 50 miles west of Phoenix, Arizona, near Wintersburg, Arizona. The Nuclear Regulatory Commission issued a construction permit in May of 1976 for all three units, which are presently under construction. Under the current schedule, Unit 1 is planned for commercial operation in May 1983, Unit 2 in May 1984, and Unit 3 in May 1986. The Palo Verde Project is presently jointly owned by the first five utilities as shown in the following summary.

	Ownership %
Arizona Public Service Company — Project Manager	29.1
Salt River Project Agricultural Improvement and Power District	23.4
Southern California Edison Company	15.8
El Paso Electric Company	15.8
Public Service Company of New Mexico	10.2
Los Angeles Department of Water and Power	5.7

The following chart illustrates the purchase arrangement.



* On the commercial operation date of Palo Verde Unit 1, DWP's ownership interest in Coronado will be transferred to Palo Verde. SRP will supplement DWP's entitlement in Palo Verde with capacity contingent on Coronado's operation until all three Palo Verde units are in commercial operation.

FIGURE 1

The cost of the Department's share in the Coronado/Palo Verde Projects is estimated to be \$344 million. As of May 31, 1980, a total of \$253 million for these projects had been disbursed by the Department, of which amount approximately \$150 million was provided from bond funds.

Intermountain Power Project (IPP) — The feasibility study for IPP has been completed. The project, to be located in Millard County, Utah will consist of four 750-megawatt coal-fired generating units and associated transmission facilities. The presently projected commercial operation dates for the four units are 1986, 1987, 1988 and 1989, respectively.

Federal approval for IPP was granted in December 1979, and the City Council in May 1980 approved the Power Sales Contract, the Construction Management and Operating Agreement, and the Final Environmental Statement, authorizing the Department's participation in IPP. (See Litigation.) The detailed engineering design of the project has been initiated.



IPP is proposed to be constructed through project financing (estimated at approximately \$8 billion, escalated) by a political subdivision of the State of Utah, the Intermountain Power Agency (IPA). The Department's only direct requirement for capital expenditures will be for relatively short reaches of the transmission system. It is expected that the following utilities will be participants in IPP:

	<u>Percent Participation Share</u>
Los Angeles Department of Water and Power — Project Manager	34.1
City of Anaheim	10.2
City of Glendale.....	1.7
City of Burbank.....	1.7
City of Pasadena	3.4
City of Riverside.....	6.8
Utah Power and Light.....	25.0
Utah Municipalities and Cooperatives	17.1

White Pine Project — At the invitation of White Pine County officials, the Department, in cooperation with White Pine County and the California municipalities of Anaheim, Burbank, Glendale, Pasadena, and Riverside, has begun preliminary studies to explore the feasibility of constructing a coal-fired generating station near Ely, Nevada. This project would cost an estimated \$2 billion, escalated, and provide approximately 1,500 megawatts of base load capacity. White Pine County would own and finance this project with support provided by sales agreements with the Department and various Nevada and California utilities.

Presently projected commercial operation dates for the three units are 1989, 1990 and 1991, respectively. It is expected that the following utilities will participate in the White Pine Project:

	<u>Percent Preliminary Feasibility Participation</u>
Nevada Entities	
Boulder City, Nevada.....	2.5
Overton Power District No. 5 (Rural Electrification Project).....	2.5
Mt. Wheeler Power, Inc.....	3.0
Lincoln County Power District No. 1.....	2.5
Sierra Pacific Power Company	10.0
Nevada Power Company	25.0
Wells Rural Electric Company.....	1.0
Valley Electric Association	2.5
California Municipalities	
City of Anaheim.....	3.6
City of Riverside	2.7
City of Glendale	1.8
City of Burbank.....	2.0
City of Pasadena.....	1.8
Los Angeles Department of Water and Power	39.1



Projects in Preliminary Study Stage

The Power System is presently involved in preliminary studies relative to three base load generation projects: the California Coal Project, geothermal development in Imperial County, California and cogeneration.

California Coal Project — The Department has accepted an invitation from Southern California Edison Company (Edison) to purchase an approximate 20% of the output of Edison's proposed California Coal Project, which is expected to consist of three 500-megawatt coal-fired generating units to be located in the Southern California desert. A Notice of Intention (NOI) has been filed by Edison with the California Energy Commission. The Department's present expenditures are limited to those necessary to fund its share of NOI costs.

Geothermal — The Department is exploring geothermal development in the North Brawley Geothermal Field of Imperial County, California through a proposed 36% participation in a 10-megawatt demonstration unit near New River, scheduled for operation in 1980. Other geothermal projects in this area are being studied for further development. However, participation by the Department will depend on successful operation of the demonstration unit.

Cogeneration — The Department is investigating the feasibility of participating with industry in various cogeneration projects the capacity of which could total approximately 100 megawatts by 1985.

Joint Powers Authority

The Southern California Public Power Authority is a joint powers agency being created as a separate public entity for the purpose of planning, financing, development, acquisition, construction, operation or maintenance of projects for the generation for transmission of electric energy. The Department is a participant with the California cities of Anaheim, Azusa, Banning, Burbank, Colton, Glendale, Pasadena and Riverside, and the Imperial Irrigation District. The Joint Powers Agreement is scheduled to become effective November 1, 1980, and continue for a term of fifty (50) years.



LOS ANGELES DEPARTMENT OF WATER AND POWER
EXISTING AND PLANNED GENERATING CAPACITY ADDITIONS

MEGAWATTS

10000

9500

9000

8500

8000

7500

7000

6500

6000

5500

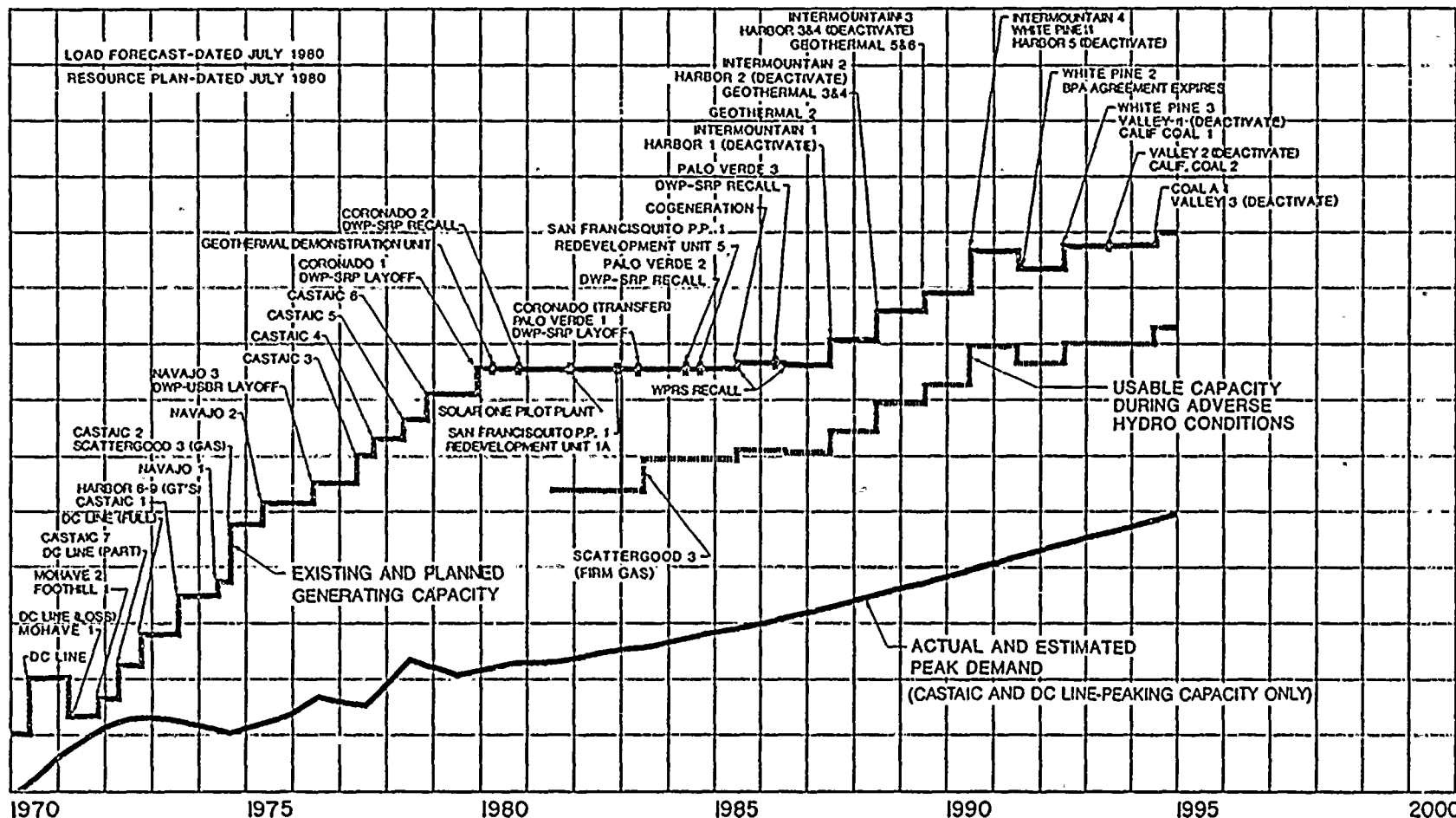
5000

4500

4000

3500

3000



Major Generating Resources — Increase (Decrease) 1979-1986

Resource	Net Capability (mw)	Resource	Net Capability (mw)
1979 Coronado 1 (30% of 350 MW)	105	1984 Coronado 1 & 2 (SRP Layoff Recall)	(70)
Coronado 1 (SRP Layoff)	100	Palo Verde 2 (5.7% of 1270 MW).....	70
1980 Coronado 1 (SRP Layoff Recall).....	(100)	1985 Navajo WPRS* Recall	(42)
Coronado 2 (30% of 350 MW)	105	1986 Coronado 1 & 2 (SRP Layoff Recall)	(70)
1983 Coronado 1 & 2 (Transfer of Ownership).....	(210)	Palo Verde 3 (5.7% of 1270 (MW))..	70
Palo Verde 1 (5.7% of 1270 MW).....	70	Navajo WPRS Recall	(31)
Coronado 1 & 2 (SRP Layoff).....	140		

* Water and Power Resources Service (USBR)



Contracts

There are numerous contracts in effect pertaining to the Power System. Most are routine contracts such as customers' service contracts, joint pole agreements, current material and supply contracts, and other miscellaneous contracts necessarily incident to the conduct of a utility business.

The following is a brief description of the major contracts, which are customarily made jointly in the names of the City and the Department, relating to the Power System.

Hoover Power contracts with the United States, extending to May 31, 1987, provide for the operation of 13 of the 17 units at this plant by the Department as agent of the U.S. Government, and for the purchase of electric energy at Hoover Power Plant for use by the Department. Other contracts related to Hoover power supply provide for: (a) transmission by the Department of electric energy from Hoover Power Plant for the cities of Burbank, Glendale, and Pasadena; and (b) sale of electric energy to the United States during the Lake Powell filling period.

The desire to make use of seasonal surpluses of hydroelectric capacity and energy formerly wasted in the Pacific Northwest due to lack of water storage facilities led to the establishment of the Columbia Storage Power Exchange and to the development of the Pacific Intertie. These projects have made it possible to utilize more fully the power available in the Columbia River drainage system by providing for water storage and for a means of transmitting the electric power to the Southwest.

Department contracts relating to Pacific Northwest power supply provide for: (a) purchase of, or exchange of, off-peak energy for on-peak capacity of the Bonneville Power Administration (BPA); (b) sale of surplus energy by BPA, and sale of excess energy by the Department; and (c) participation by the Department, Edison, and the cities of Burbank, Glendale, and Pasadena in the ownership of the Pacific Intertie DC facilities.

BPA has acted to increase significantly the price of electrical power and energy sold to its customers. The Department and the cities of Burbank, Glendale, and Pasadena have intervened in proceedings before the Federal Energy Regulatory Commission and have protested the proposed rate increase.

Other contracts related to the Department's Power System provide for: (a) mutual standby capacity of the systems of the Department, Edison, Burbank, Glendale, and Pasadena; (b) joint development of the Castaic Power Project with the State of California, Department of Water Resources; (c) joint participation with other utilities in providing surplus capacity and energy to the California State Water Project (See Litigation); (d) Department participation and joint ownership in the Mohave Generating Station and the Eldorado Transmission System; (e) Department participation and joint ownership in the Navajo Generating Station and the Western Transmission System and associated lines; (f) Department purchase of the United States share of Navajo Generation Unit 3 and associated transmission capacity in the Western Transmission System until 1985; (g) Department joint participation in a pilot solar-electric generation station; (h) Department participation in Coronado and Palo Verde generating stations; (i) Department joint membership and study agreement for Intermountain Power Project; (j) Department joint membership in and preliminary agreement for the California Coal Project; (k) interconnection facilities with Edison; (l) interconnection facilities and the sale of surplus capacity and energy with Pasadena, Burbank, and Glendale; (m) interconnection facilities with Nevada Power Company; (n) exchange and sale of capacity and energy with Nevada Power Company; (o) nonfirm transmission service over the Water and Power Resources Service transmission facilities from Midway and Flaming Gorge to Mead Substation; (p) purchase of nonfirm energy and transmission service and firm purchase of more than 600 million kilowatt hours during 1980 from Salt River Project Agricultural Improvement and Power District; (q) sale and interchange of nonfirm energy from Tucson Electric Power Company and from Arizona Public Service Company; (r) sale and interchange of nonfirm energy with Colorado Ute Association, City of Colorado Springs, and Tri-State Generation and Transmission Association Inc.; (s) purchase of Hanford extension energy from BPA; (t) purchase of nonfirm energy from twelve Pacific Northwest utilities and two Canadian utilities; (u) sale, purchase of interchange of energy with Pacific Gas and Electric Company and San Diego Gas and Electric



Company; (v) nonfirm transmission service with the cities of Anaheim, Burbank, Glendale, Pasadena and Riverside; (w) nonfirm transmission service with Nevada Power Company and San Diego Gas and Electric Company; (x) interconnection facilities with the Department of Energy, Western Area Power Administration, at Mead Substation; (y) firm transmission service over the Department of Energy, Western Area Power Administration, Mead-Liberty-Pinnacle Peak transmission facilities; (z) long-term purchase of natural gas fuel from the Southern California Gas Company; (aa) purchase of 55,200,000 barrels of low-sulfur fuel oil from Atlantic Richfield Company; (bb) purchase of 1,800,000 barrels of low-sulfur fuel oil from Newhall Refining Co., Inc.; and (cc) purchase of at least 1,295,000 barrels of low-sulfur fuel oil from Pacific Refining Co. (See Litigation.)

Fuel Supply

The fuel oil requirement for 1980 is estimated to be 9 million barrels. The Department currently has under contract 100% of the fuel oil required for the years 1980 and 1981, and 45 to 50% during the six years thereafter. The balance of the fuel oil requirements for 1980-1984 is expected to be obtained on medium-term contracts and through spot purchases when availability of energy purchases and natural gas are known more accurately.

Total storage capacity provides for approximately four months of fuel oil requirements.

Coal-fired steam-generating projects in which the Department has an ownership interest are supplied with coal under 35-year contracts.

Natural gas is supplied by the Southern California Gas Company at the lowest priority level. Of the Department's total Los Angeles Basin oil and gas requirements, it is estimated natural gas will supply 44% during the years 1980 and 1981, 16 to 22% during 1982-1985 and 36% in 1986-1987.

Water

Water required for steam plant operations is secured from a number of sources. Three Los Angeles basin steam plants, Harbor, Scattergood and Haynes, utilize the waters of the Pacific Ocean for power plant cooling purposes. A fourth basin plant, the Valley Generating Station, utilizes groundwater pumped from the San Fernando Valley. The California Supreme Court has upheld the rights of The City of Los Angeles to the native waters of the San Fernando basin, and to certain other contested water rights.

The Mohave and Navajo Generating Stations utilize water taken from the Colorado River for cooling purposes, the Navajo plant extracting water from Lake Powell, which was created by the construction of the Glen Canyon Dam. The rights to use such waters from the river rest upon the Colorado River compact, the decree of the U.S. Supreme Court in the case of *Arizona v. California*, and upon contracts entered into pursuant to the rights granted by such compact and decree. Certain small Indian tribes have announced claims to additional waters of the Colorado River beyond those granted in the decree, and the Navajo Indian Nation has indicated it will make substantial claims to the waters of the river. In December 1978, the United States and several Indian tribes along the Colorado River asked the United States Supreme Court to reopen the case of *Arizona v. California* to hear their claims of additional water rights over and beyond those previously granted by the Court. A Special Master has been appointed to hear those claims, and trial has been scheduled to begin September 2, 1980. The Department is confident that these pending matters do not pose a threat to the operation of the generating stations.

Insurance

The Department is insured against liability to third parties for amounts in excess of \$10,200,000 arising out of any one occurrence by reason of property damage, personal injury, or death. This insurance is underwritten by a number of companies, with limits totaling \$70,000,000 in excess of the \$10,200,000.

The Department insures its steam-generating plants up to certain monetary limits against accidental loss or damage caused by explosion of boilers or turbo-generators. In addition, the Department has fire and extended coverage on its steam-generating plants, fuel oil and fuel oil storage facilities, but does not otherwise insure its utility plant or structures against physical damage loss.



As a participant in the Mohave Generating Station Project, the Navajo Power Project and the Coronado Project, and associated transmission systems, the Department is a named insured, or additionally named insured, on various forms of insurance providing protection against loss of property and equipment and for liability claims. The amounts of coverages are established by project participants.

Litigation

There is no pending litigation affecting in any manner the issuance of the Notes and Bonds, or their legality. Furthermore, there is no pending litigation relating to the Power System or the Department's operations or business pertaining thereto, except as hereinafter stated:

(1) A lawsuit was filed in February 1972 in the Los Angeles Superior Court wherein plaintiff employees alleged the Department failed to pay wages equal to the prevailing wages paid in private industry, as required by the City Charter. The Department prevailed in the trial court but the judgment was reversed on appeal on the ground the Department had not made a broad enough survey of salaries paid in private industry. A broader salary survey was made in response to the Appellate Court's order, which survey concluded that prevailing wages had, in fact, been paid to the employees. The case was then retried in the Superior Court, and again, the court ruled in favor of the Department. The plaintiffs have again appealed from the ruling. If the Court were ultimately to rule in the plaintiffs' favor, liability to the plaintiff employees for wages could amount to about \$5 million per year from 1968 to 1977. However, it is the opinion of the City Attorney that the Department's actual exposure to liability is minimal. (*Gottlieb v. Department of Water and Power, et al.*)

(2) The Tax Reform Act of 1976 subjected disability benefits to certain tax liabilities from which employees had previously been held to be exempt. Certain affected employees have filed a class action in the Los Angeles Superior Court seeking to have the Department reimburse them for the amounts of additional taxes they have had to pay. The Department has denied liability, and the case has not yet been set for trial. (*Marks v. Department of Water and Power, et al.*)

(3) An action was filed in the U.S. District Court in October 1978 on behalf of Black personnel against the Department and IBEW, Local 18, containing broad general allegations of racial discrimination in employment practices, seeking declaratory, injunctive and "make whole" relief, and requesting punitive damages and damages for emotional distress. Counsel have met and prepared a Joint Preliminary Status Report to the court, and extended discovery is being engaged in, but the case has neither been certified as a class action, nor has it been set for trial. (*Worthen, et al. v. Department, etc., et al.*)

(4) A class action suit was brought in the Los Angeles Superior Court on behalf of the temporary employees employed during the period of conversion of the Department's Commercial Division from manual to computerized billing procedures. The complaint alleges that the Department violated City Charter provisions relating to civil service rights, tenure, the use of temporary employees and emergency appointments, as well as denying plaintiffs the equal protection rights of the State and Federal Constitutions. The plaintiffs consist of some 400 employees who seek retroactive civil service status and seniority rights as well as back pay. The matter has been certified as a class action and is expected to be brought to trial in 1980. (*Grant, et al. v. Department of Water and Power, et al.*)

(5) In June 1977, the Tribal Council of the Navajo Indian Nation adopted a tribal ordinance requiring persons and organizations to obtain a permit to discharge sulfur and its compounds into the air, and requiring a fee to be paid to the Tribe for such emissions. The permit requirement would be applicable to the Navajo Generating Station, of which the Department is a 21.2% owner. It is estimated the permit fee for the Station for the first year would be \$7 million, of which the Department's share would be almost \$1.5 million escalating to \$7 million in 1981. In September 1977, the Generating Station participants (other than the United States) filed an



action in the U.S. District Court in Arizona and successfully obtained a temporary restraining order against the application of the ordinance. Thereafter, the Tribal Council amended the ordinance to make it effective after approval by the U.S. Secretary of the Interior. The Secretary did not approve the ordinance and has returned it to the Tribe for revision.

The Tribal Council has also adopted two additional taxes — a possessory interest tax upon leasehold and mineral interests in land on the reservation, and a business activity tax. The Generating Station participants (except the United States) filed an action in the U.S. District Court in Arizona to have the possessory interest tax declared invalid. The court denied relief and ruled against the participants. The case has been appealed to the U.S. Ninth Circuit Court of Appeal and has been briefed, but it has not yet been ruled upon. The effect of the possessory interest tax upon the Generating Station lease is not expected to be large, but it is probable such tax would impact heavily upon the coal leases held by Peabody Coal Co., and portions of such tax could be passed on to the participants as part of the cost of coal. The Department and other participants anticipate filing an action to contest the validity of the business activity tax, which could, if upheld, result in a tax liability of approximately \$3.5 million a year to the Department. (*Salt River Project Agricultural Improvement and Power District, et al. v. Navajo Tribe of Indians, et al.*) (2 cases)

(6) The Department has commenced construction of the Victorville-Rinaldi Transmission Line to bring a portion of the electricity generated east of the California border to Los Angeles. In December 1979, a lawsuit was filed in the U.S. District Court in which property owners along the proposed route of the transmission line alleged that the Secretary of Agriculture and the U.S. Forest Service failed to comply with the National Environmental Policy Act in deciding to permit a portion of the Victorville-Rinaldi Transmission Line to cross U.S. Government property. Neither the City nor the Department is named as a party to this action. The case has not been set for trial. (*Lannan v. Bergland, et al.*)

(7) In December 1977, a Complaint for Declaratory Relief and Petition for Writ of Mandate was filed in the Los Angeles Superior Court, purportedly on behalf of all consumers of electric energy supplied by the Department, alleging that the provisions of the City Charter pursuant to which rates are fixed to be charged for electric energy are unconstitutional for lack of an "independent agency" to fix such rates. The complaint also alleges that rates fixed from 1975 to the date of complaint have been unfair and unreasonable and have been fixed in violation of the City Charter. The plaintiff also seeks an order mandating that the rates be set by an "independent agency", and for the Department to make retroactive reimbursement totaling \$205.4 million. There has been no significant activity on the case since it was filed, and it has not been set for trial. (*Samario v. Department of Water and Power, et al.*)

(8) In December 1977, a complaint was filed in the Los Angeles Superior Court alleging that the November 1977 rate restructuring ordinance was invalid on several grounds. The complaint did not attack the validity of the general 12.5% electric rate increase established in the ordinance, but only the restructuring of the rate schedules. The Superior Court issued a preliminary injunction halting the restructuring of the rates based on non-compliance with the California Environmental Quality Act. Thereafter, the California Legislature amended the Act in 1978, and a new electric rate restructuring ordinance was thereafter adopted (see Electric Rates). The Department believes these events have made this lawsuit moot. However, on March 6, 1979, a new separate lawsuit, identically titled, was filed in the Los Angeles Superior Court challenging the revised rate restructuring ordinance. Discovery is now proceeding in the latter lawsuit. (*California Manufacturers Association, et al. v. City of Los Angeles.*) (2 cases)

(9) The American Bridge Division of U.S. Steel Corporation contracted with the Department to construct certain fuel oil storage tanks and to install penstocks at Castaic Power Plant. The Department brought two lawsuits in the U.S. District Court against the American Bridge Division for late completion and other breaches of contract, seeking \$1.5 million in damages. American Bridge has cross-complained in such actions for \$6.5 million damages for alleged



losses resulting from extra work which it claims it was forced to perform and for delays allegedly caused by the Department. Both parties have initiated discovery but no trial date has yet been set. (*Department of Water and Power v. American Bridge Division of United States Steel Corp.*)

(10) In October 1978, a major brush fire burned several homes and other structures in the Mandeville Canyon area of the City. Claims for damages in excess of \$17 million have been filed with the Department alleging negligent operation and maintenance of electrical transmission lines. The Department management and the City Attorney's Office believe the Department has no responsibility for the fire. Several lawsuits have been filed, but to date none has been set for trial.

(11) A petition for injunction and declaratory relief was filed in the Superior Court, seeking to require the Department's water diversions from four streams in the Mono Basin to cease or to be substantially decreased until such time as the water level in Mono Lake — a saline lake — reaches a higher level than at present. About 15% to 20% of the City's water supply comes from the Mono Basin diversions, and if the plaintiffs were to prevail, there would be a loss of hydroelectric generation capability. The Department has filed an answer denying the allegations of the complaint. The Department has cross-complained against a number of parties asserting water rights in the Mono Basin, including the United States of America and the State of California. It is now uncertain whether the case will be heard in the state court system, or whether jurisdiction will ultimately rest in the U.S. District Court. The case has not been set for trial. (*National Audubon Society, et al. v. Department of Water and Power.*)

(12) A dispute with the State of California and other utilities over the contracts to supply the State Water Project with surplus capacity and electrical energy arose out of the continuing escalation of the price of fuel oil. The Department notified the State and other utilities of its intention to end its participation due to the commercial impracticability of continuing to provide the low-cost energy. Southern California Edison Co. and Pacific Gas & Electric Company brought lawsuits alleging breach of contract, with the former obtaining a preliminary injunction to prevent cessation of service pending the outcome of trial. The issuance of the injunction was conditioned on the plaintiff's posting a \$14 million bond. The State of California has intervened in the lawsuit. The case has not been set for trial. (*Southern California Edison Co. v. Department of Water and Power, et al.*, and *Pacific Gas & Electric Co. v. Department of Water and Power, et al.*) (2 cases)

(13) In an action filed in the state court in Millard County, Utah, residents of the county have sued the IPP, IPA, the State Engineer of the State of Utah, the cities involved in the project and others to prevent use of certain local waters for the Project. The plaintiffs, among other allegations, claim superior rights to the water, allege improper transfer of rights to use the water by the Utah State Engineer and improper appropriation of the water for the benefit of the California cities involved in the Project. In addition to an order preventing use of the water, plaintiffs ask \$200,000,000 in damages. IPA has been advised by its Utah counsel that in his opinion the lawsuit is not meritorious and that in the final analysis IPA will prevail. (*Jackson, et al. v. Cox, et al.*)

(14) In April 1980, and in July 1980, the City of St. Johns, Arizona, adopted ordinances, the first purporting to annex into such City the property comprising the Coronado Project, and the second purporting to encircle the Project with a 10-foot strip of annexed property. SRP and the Department filed actions in the Apache County Superior Court, Arizona, to have the annexations declared void on the basis that the City of St. Johns failed to obtain appropriate consent before proceeding with the annexation process, contrary to requirements of Arizona annexation statutes, and failed to comply with certain notice and open meeting requirements of Arizona law in conducting the annexation proceeding. (*Salt River Project Agricultural Improvement and Power District, et al. v. City of St. Johns, Arizona.*) (2 cases)



(15) Southern California Edison Co. and the Department have filed an action in Superior Court seeking a writ of mandate to have the California State Air Resources Board vacate and withdraw the current NOx standards from the State Implementation Plan. The plaintiffs are challenging the rule on procedural and substantive grounds. (See Environmental and Regulatory Factors.) (*Southern California Edison Co. et al. v. South Coast Air Quality Management District.*)

(16) Other claims and suits arising out of the ownership and operation of the Power System of the Department are pending against the Department for alleged deaths, personal injuries and property damage, and for alleged liabilities arising out of other matters, all of which are of a nature usually incident to the conduct of such a utility business. Until these claims and suits are disposed of, the Department's liability, if any, in these matters cannot be determined. Realistic evaluation of total exposure is complicated by the fact that California courts have adopted the rule of pure comparative negligence.

ELECTRIC RATES

The Board is obligated by the City Charter and each Final Resolution to establish electric rates and collect charges in an amount sufficient to service the Department's Power System indebtedness and to meet its expenses of operation and maintenance. Rates are subject to the approval of the Mayor and the City Council by ordinance, but are not regulated by the Public Utilities Commission of California or by any other state agency.

Although its rates are not subject to approval by any federal agency, the Department is subject to certain ratemaking provisions of the Public Utilities Regulatory Policy Act of 1978. On July 11, 1980, the Board duly adopted the requisite standards for public utility service and rates required by such Act. The adoption of such standards followed extensive public hearings on various standards required to be considered by affected utilities. The Board has approved, subject to ratification by the Mayor and the City Council, a 12.9% revenue increase which would be expected to provide \$86.3 million in additional revenue in the current fiscal year, and \$132.5 million on a full-year basis.

The Department is now operating in full compliance with the standards promulgated by the President's Council on Wage and Price Stability.

The Power System's electric rates ordinance contains an energy cost adjustment formula, under which the cost to the Department of fuel for generation of electric energy and purchased energy costs are recovered by direct adjustment to customers' bills. The amount of the adjustment is determined for each monthly billing cycle. The adjustment thereunder added 3.082 cents per kilowatt-hour of customer energy use to bills of August 1980.

Department customers' bills are subject to a City Electricity Users Tax, collected by the Department for the City, of 10% on commercial and industrial services and 5% on other classes of service. Exemption from the tax is granted to elderly low-income individuals upon application. In addition, all customers' bills are subject to a State Energy Resources Surcharge of 0.015 cents per kilowatt-hour of energy use under provisions of the State Energy Resources Surcharge Law.

Emergency Energy Curtailment Plan and Conservation

In 1973 Los Angeles enacted an Emergency Energy Curtailment Plan which mandated certain designated electricity conservation measures. The implementation of this plan was suspended in 1974 when the Department's fuel situation improved. However, the plan remains as part of the Municipal Code for possible future use. In addition, earlier this year the Department revised and supplemented the Plan and redesignated it as the Emergency Energy and Capacity Curtailment Plan. The revised plan has not yet been acted upon by the City Council.



The City Charter was recently amended to authorize the Department to engage in and finance activities related to the conservation of electricity and water.

Constitutional Limitation on Governmental Spending

Article XIII B of the California Constitution (adopted by a vote of the people in November 1979) limits the annual appropriations of State and local governmental entities to the amount of appropriations of the entity for the prior fiscal year, as adjusted for changes in the cost of living, changes in population and changes in services rendered by the entity.

Pending clarification of certain of its provisions by the courts or by the Legislature, the full impact of this Article upon the Department is not clear. However, to the extent moneys in the Power Revenue Fund are used to pay the costs of maintaining and operating the Power System and to pay debt service on the Notes and on the Bonds (including funding the respective Reserve Funds and the Sinking Fund, as described under Authorization for Issues), such moneys should not, under the terms of the Article as supplemented by recent legislation and based upon the official ballot argument supporting the measure at the November 1979 election, be held to be subject to the appropriation limit.

TYPICAL MONTHLY ELECTRIC BILLING COMPARISON — RATES EFFECTIVE ON JUNE 30, 1980

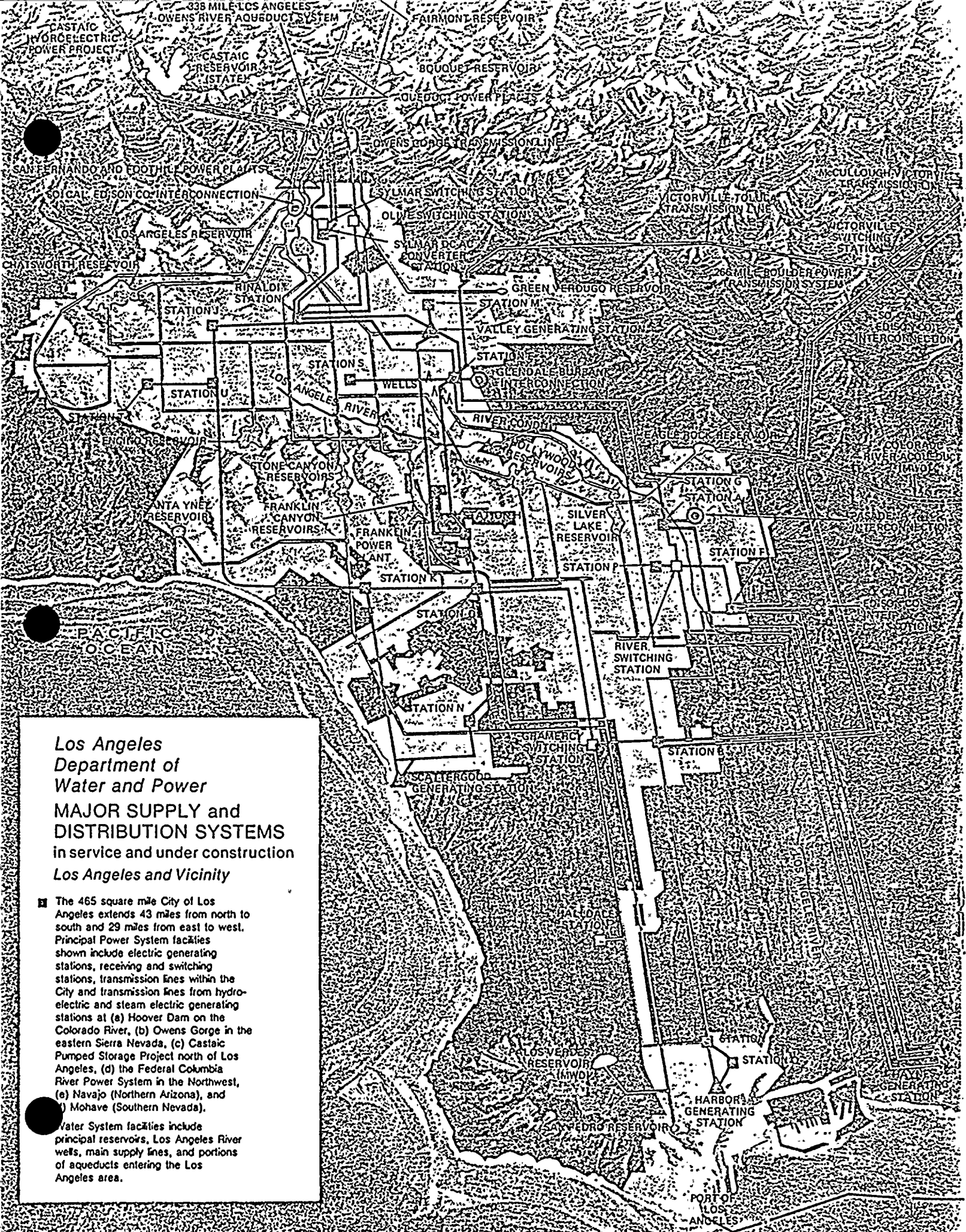
16 Largest U.S. Cities	Residential		Commercial and Industrial			
	100 Kwh	250 Kwh	6 Kw 750 Kwh	30 Kw 6,000 Kwh	150 Kw 60,000 Kwh	300 Kw 120,000 Kwh
New York	\$14.59	\$31.17	\$102.83	\$774.74	\$5,554	\$11,109
Boston.....	10.85	22.44	92.50	614.74	4,392	8,576
Chicago.....	8.37	19.33	62.21	500.20	3,450	6,574
Philadelphia	7.48	18.69	28.18	576.55	4,561	9,115
Los Angeles.....	7.27	18.18	52.74	400.92	3,728	7,450
Houston	10.50	18.08	55.62	342.32	2,578	5,118
Cleveland (Private Utility).....	8.83	17.49	49.81	416.52	3,207	6,025
Dallas	9.24	17.31	51.74	335.75	2,571	5,006
San Diego.....	7.89	16.67	67.89	527.43	4,431	8,851
Detroit.....	8.04	16.12	53.56	389.94	3,658	7,308
Baltimore.....	6.02	15.05	73.08	481.54	3,700	7,044
San Antonio	7.24	14.34	42.15	312.61	2,444	4,528
Washington, D.C.....	6.20	13.41	67.82	504.39	3,832	7,537
Indianapolis	7.21	12.73	44.10	293.66	2,139	4,278
San Francisco.....	5.79	12.09	54.72	426.78	3,678	7,344
Milwaukee.....	6.24	12.03	43.57	297.65	2,327	4,427

Cities are arranged according to the amount of the 250 Kwh bill.

Load conditions are chosen from those established by the Federal Power Commission.

Relationships between cities' bills may be different for other load conditions.



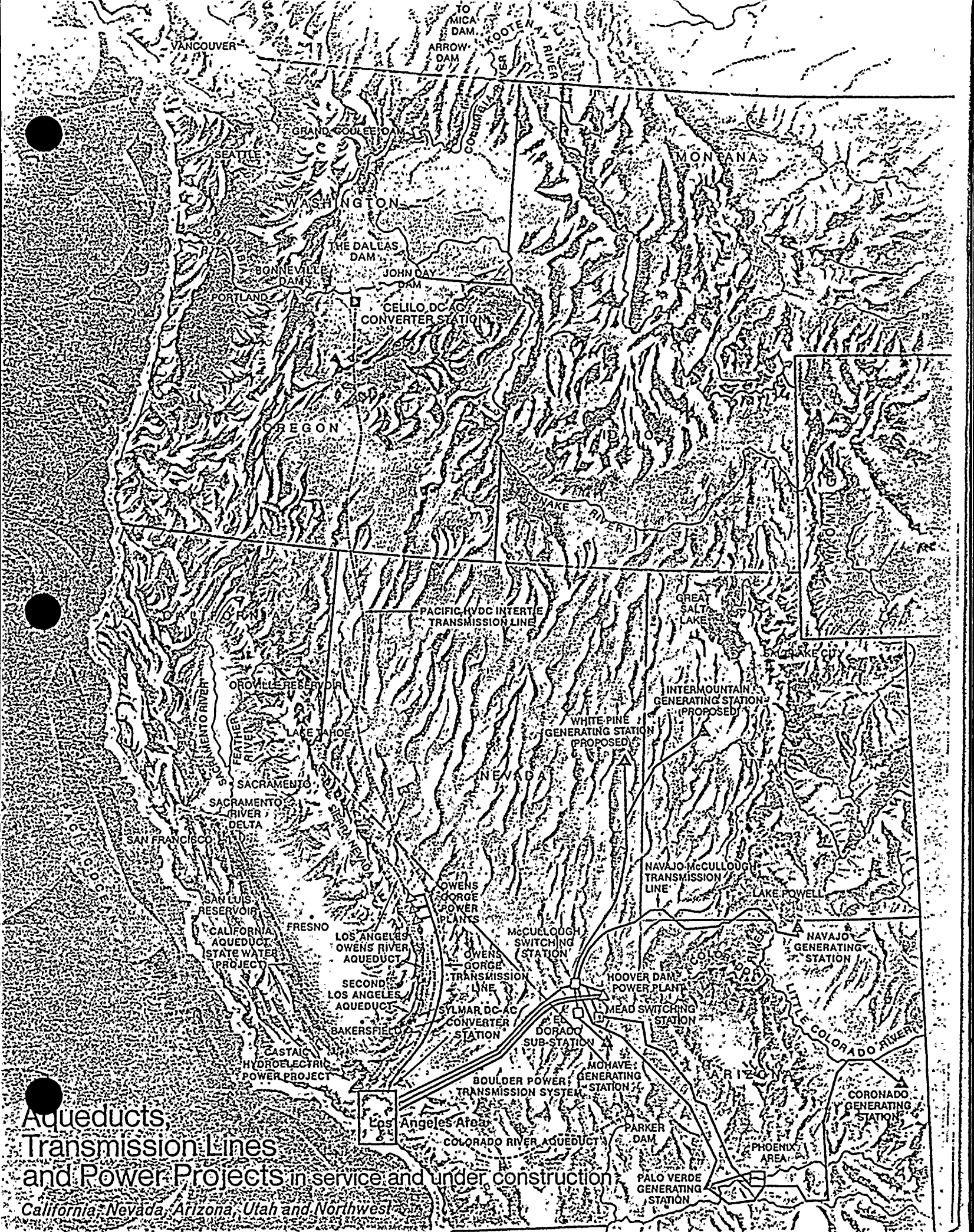


**Los Angeles
Department of
Water and Power**
**MAJOR SUPPLY and
DISTRIBUTION SYSTEMS**
 in service and under construction
Los Angeles and Vicinity

1 The 465 square mile City of Los Angeles extends 43 miles from north to south and 29 miles from east to west. Principal Power System facilities shown include electric generating stations, receiving and switching stations, transmission lines within the City and transmission lines from hydro-electric and steam electric generating stations at (a) Hoover Dam on the Colorado River, (b) Owens Gorge in the eastern Sierra Nevada, (c) Castaic Pumped Storage Project north of Los Angeles, (d) the Federal Columbia River Power System in the Northwest, (e) Navajo (Northern Arizona), and (f) Mohave (Southern Nevada).

Water System facilities include principal reservoirs, Los Angeles River wells, main supply lines, and portions of aqueducts entering the Los Angeles area.





**Aqueducts,
 Transmission Lines
 and Power Projects in service and under construction**
California, Nevada, Arizona, Utah and Northwest



OPERATIONS

Sales and Revenue

The Department's service area consists of Los Angeles City, where over a million customers are now served, and certain areas of Inyo and Mono counties in California, where 3,900 customers are served. In the twelve months ended March 31, 1980, approximately 27% of the total energy sales were to residential customers, 69% to commercial and industrial customers, and the remainder to miscellaneous minor classifications. Revenues from the two major customer classes were in the proportions of approximately 31% and 65%, respectively.

Operating Statistics	Twelve Months Ended March 31, 1980	Fiscal Year Ended June 30			
		1979	1978	1977	1976
Net Energy for Load (Thousands of kwh)	19,510,113	19,543,089	18,984,644	18,553,186	18,328,901
Net Hourly Peak Demand (kw).....	4,090,000	4,144,000	3,778,000	3,744,000	3,809,000
Annual Load Factor (%).....	54.5	58.1	57.8	56.5	54.8
Electric Energy Generation, Purchases and Interchanges (Thousands of kwh)					
Generation.....	19,713,036	19,504,931	18,635,094	18,143,196	16,290,525
Purchases.....	1,278,286	531,880	943,147	1,194,924	2,997,985
Interchange Receipts.....	5,364,448	6,097,189	6,897,076	6,248,629	6,466,661
Total Available Energy(1).....	26,355,770	26,134,000	26,475,317	25,586,749	25,755,171
Less:					
Interchange Deliveries.....	5,560,449	5,183,447	6,357,232	5,755,798	6,198,914
Losses and System Uses.....	2,558,451	2,768,295	2,667,025	2,493,647	2,836,492
On-System Sales.....	18,236,870	18,182,258	17,451,060	17,337,304	16,719,765
Transactions Among Other Utilities for Department (Thousands of kwh)					
Purchases.....	1,019,763	2,172,947	1,509,573	1,253,244	814,471
Deliveries.....	1,019,763	2,172,947	1,509,573	1,253,244	814,471
Sales of Energy (Thousands of kwh)					
Residential.....	4,871,375	4,932,227	4,633,806	4,578,006	4,469,313
Commercial and Industrial.....	12,510,107	12,410,470	12,026,783	11,809,978	11,266,727
All Other.....	855,499	839,556	757,558	949,320	983,725
Total.....	18,236,981	18,182,253	17,418,147	17,337,304	16,719,765
Number of Customers — Average:					
Residential.....	1,023,159	1,012,757	995,642	977,674	966,981
Commercial and Industrial.....	165,573	156,707	148,814	146,923	146,012
All Other.....	5,906	5,790	5,658	5,582	5,497
Total.....	1,194,638	1,175,254	1,150,114	1,130,179	1,118,490
Operating Revenues:					
Residential.....	\$ 273,683,171	\$ 250,814,962	\$ 223,154,143	\$ 189,922,747	\$ 172,423,596
Commercial and Industrial.....	567,414,782	503,346,688	460,352,071	377,690,675	328,915,893
Street Lighting and Other.....	30,687,950	27,186,757	27,592,343	27,859,304	21,116,450
Total.....	871,785,903	781,348,407	711,098,557	595,472,726	522,455,939
Miscellaneous Revenues.....	3,451,601	2,526,293	1,572,528	1,570,056	1,674,094
Total.....	\$ 875,237,504	\$ 783,874,700	\$ 712,671,085	\$ 597,042,782	\$ 524,130,033
Average Revenue per kwh Sold:					
Residential.....	5.62¢	5.09¢	4.82¢	4.15¢	3.86¢
Commercial and Industrial.....	4.54¢	4.06¢	3.83¢	3.20¢	2.92¢
Average Annual kwh Use per Residential Customer.....	4,761	4,870	4,654	4,683	4,622

(1) Not including energy generated at Hoover Power Plant for plant use, and for the use of the Water and Power Resources Service, and the cities of Boulder City, Burbank, Glendale and Pasadena.



SUMMARY OF OPERATIONS AND DEBT SERVICE COVERAGE

	Twelve Months Ended March 31, 1980	Fiscal Year Ended June 30			
		1979	1978	1977	1976
Operating Revenues					
Sales of Electric Energy:					
Residential.....	\$ 273,683,171	\$ 250,814,962	\$ 223,154,143	\$ 189,922,747	\$ 172,423,596
Commercial and Industrial.....	567,414,782	503,346,688	460,352,071	377,690,675	328,915,893
Street lighting and other.....	30,687,950	27,186,757	27,592,343	27,859,304	21,116,450
Miscellaneous.....	3,451,601	2,526,293	1,572,528	1,570,056	1,674,094
Total Operating Revenues.....	875,237,504	783,874,700	712,671,085	597,042,782	524,130,033
Operating Expenses					
Production:					
Fuel.....	369,623,505	297,638,385	315,477,005	235,554,513	189,737,094
Purchased power.....	72,648,964	48,829,529	34,201,916	26,019,127	22,816,487
Energy Cost.....	442,272,469	346,467,914	349,678,921	261,573,640	212,553,581
Other Production.....	16,325,495	14,970,957	14,940,883	13,281,165	11,346,931
Transmission and distribution.....	29,116,686	27,354,833	26,732,587	26,793,945	26,051,100
Maintenance.....	72,145,512	60,874,159	58,334,670	50,918,682	43,291,523
General.....	44,708,580	41,573,982	34,986,368	24,608,930	22,052,908
Less — Expenses charged to construction.....	(4,452,047)	(4,497,244)	(4,256,711)	(3,722,506)	(3,961,608)
Customer accounting.....	17,654,491	17,561,578	17,390,455	17,980,890	19,972,502
Customer services.....	3,938,705	3,577,923	3,952,815	3,886,028	3,289,409
Taxes on property outside the City.....	4,758,556	6,617,365	7,168,233	6,952,840	5,925,067
Contributions to retirement plan funds.....	39,583,259	37,082,469	33,830,064	30,319,798	26,759,011
Less — Contributions charged to construction	(8,862,124)	(9,386,764)	(7,824,364)	(8,154,634)	(7,920,040)
Total Operating Expenses (Except Depreciation).....	657,189,582	542,197,172	534,933,921	424,438,778	359,360,384
Operating Income before Depreciation.....	218,047,922	241,677,528	177,737,164	172,604,004	164,769,649
Other Income					
Allowance for funds used during construction(1)	13,978,834	12,402,135	10,140,405	12,032,692	15,693,739
Other — net.....	10,054,909	7,967,348	4,357,133	4,377,653	3,987,258
Total other income.....	24,033,743	20,369,483	14,497,538	16,410,345	19,680,997
Income before Depreciation and Interest ...	242,081,665	262,047,011	192,234,702	189,014,349	184,450,646
Debt Service					
Interest.....	85,580,544	81,789,353	74,974,261	68,077,371	64,225,573
Principal.....	34,386,000	58,346,000	55,641,000	53,486,000	55,266,000
Total Debt Service on Bonds.....	119,966,544	140,135,353	130,615,261	121,563,371	119,491,573
Balance.....	122,115,121	121,911,658	61,619,441	67,450,978	64,959,073
Transfers to the City.....	38,304,500	35,634,000	29,852,000	26,207,000	22,639,000
Balance Available for Construction.....	\$ 83,810,621	\$ 86,277,658	\$ 31,767,441	\$ 41,243,978	\$ 42,320,073
Depreciation.....	\$ 71,450,602	\$ 67,048,728	\$ 62,393,367	\$ 57,945,781	\$ 52,976,813
Debt Service Coverage.....	2.02	1.87	1.47	1.55	1.54

(1) Funds for this purpose are derived from charges to Construction (Bond) Funds.



GENERAL FINANCIAL STATISTICS

Year Ended June 30	Revenue and Other Income(1)	Operating Expenses (except Depreciation)	Operating Ratio %	Income before Depreciation and Interest	Debt Service	Percent of Revenue	Transfer to City	Percent of Revenue	Balance Available for Construction	Percent of Revenue
1960	\$ 73,142,597	\$ 43,939,033	60.1	\$ 29,203,564	\$ 11,219,776	15.3	\$ 3,259,000	4.5	\$ 14,724,788	20.1
1965	115,256,559	66,331,055	57.5	48,925,504	21,648,000	18.8	4,844,000	4.2	22,433,504	19.5
1970	161,410,014	91,306,206	56.6	70,103,808	29,376,117	18.2	7,186,000	4.4	33,541,691	20.8
1975	213,267,957	124,628,297	58.4	88,639,660	50,622,551	23.7	9,256,000	4.4	28,761,109	13.5
1976	472,403,393	292,008,971	61.8	180,394,422	113,645,112	24.1	19,029,000	4.0	47,720,310	10.1
1977	543,811,030	359,360,384	66.1	184,450,646	119,491,573	22.0	22,639,000	4.1	42,320,073	7.8
1978	613,453,127	424,438,778	69.2	189,014,349	121,563,371	19.8	26,207,000	4.3	41,243,978	6.7
1979	727,168,623	534,933,921	73.6	192,234,702	130,615,261	18.0	29,852,000	4.1	31,767,441	4.4
1980(2)	804,244,183	542,197,172	67.4	262,047,011	140,135,353	17.4	35,634,000	4.4	86,277,658	10.7
1980(2)	899,271,247	657,189,582	73.1	242,081,665	119,966,544	13.3	38,304,500	4.3	83,810,621	9.3

(1) Includes allowance for funds used during construction and other income — net.

(2) Twelve months ended March 31, 1980.

Bonded Indebtedness

Bonded indebtedness payable from the Power Revenue Fund as of March 31, 1980 was comprised of 62 issues of Electric Plant Revenue Bonds and three issues of Electric Plant Revenue Notes. Not included in the following table are \$75,000,000 Electric Plant Revenue Bonds, Second Issue of 1980, sold May 7, 1980.



BONDS AND NOTES OUTSTANDING — March 31, 1980

Designation	Date of Issue	Last Maturity	Effective Interest Rate for the Issue	Amount Issued	Amount Outstanding March 31, 1980
Revenue Bonds and Notes					
1949 issue.....	May 1, 1949	1989	2.357	\$ 40,000,000	\$ 10,000,000
1950 issue.....	Nov. 1, 1950	1990	1.776	10,000,000	2,750,000
1952 issue.....	June 1, 1952	1992	2.288	17,000,000	5,525,000
1952 refunding issue.....	June 1, 1952	1988	2.318	5,775,000	2,079,000
1953 issue.....	Oct. 1, 1953	1983	2.602	20,000,000	2,660,000
1954 issue.....	Apr. 1, 1954	1984	2.421	15,000,000	2,500,000
1954 second issue.....	Sept. 1, 1954	1984	2.259	19,500,000	3,250,000
1955 issue.....	Feb. 1, 1955	1985	2.474	18,000,000	3,000,000
1955 second issue.....	Oct. 1, 1955	1985	2.511	18,000,000	3,600,000
1956 issue.....	Mar. 1, 1956	1986	2.476	24,000,000	4,800,000
1956 second issue.....	Aug. 1, 1956	1986	2.880	4,500,000	1,050,000
1956 third issue.....	Nov. 1, 1956	1986	3.379	13,500,000	3,150,000
1957 second issue.....	Oct. 1, 1957	1987	3.522	18,000,000	4,800,000
1958 issue.....	Apr. 1, 1958	1988	3.135	13,500,000	4,050,000
1958 second issue.....	July 1, 1958	1988	3.295	21,000,000	6,300,000
1959 issue.....	Jan. 1, 1959	1989	3.608	18,000,000	5,400,000
1960 issue.....	June 1, 1960	1990	3.684	15,000,000	5,500,000
1961 issue.....	Sept. 1, 1961	1991	3.501	18,000,000	7,200,000
1962 issue.....	Mar. 1, 1962	1992	3.153	16,000,000	6,460,000
1962 second issue.....	Aug. 1, 1962	1992	3.184	21,000,000	9,100,000
1962 refunding issue.....	Aug. 1, 1962	1986	3.050	12,300,000	3,570,000
1963 issue.....	Apr. 1, 1963	1993	2.970	21,000,000	9,800,000
1963 second issue.....	Dec. 1, 1963	1993	3.345	24,000,000	11,200,000
1964 issue.....	Apr. 1, 1964	1994	3.346	22,000,000	11,025,000
1964 second issue.....	Oct. 1, 1964	1994	3.351	24,000,000	12,000,000
1965 issue.....	Mar. 1, 1965	1995	3.248	24,000,000	12,000,000
1965 refunding issue.....	Mar. 1, 1965	1989	3.167	11,845,000	4,635,000
1965 second issue.....	Nov. 1, 1965	1995	3.466	24,000,000	12,800,000
1966 issue.....	Apr. 1, 1966	1996	3.701	24,000,000	13,600,000
1966 second issue.....	Oct. 1, 1966	1996	4.479	30,000,000	17,000,000
1967 issue.....	Feb. 1, 1967	1997	3.611	15,000,000	8,500,000
1967 second issue.....	Aug. 1, 1967	1997	4.002	15,000,000	9,000,000
1967 third issue.....	Dec. 1, 1967	1997	4.450	24,000,000	14,400,000
1968 issue.....	Mar. 1, 1968	1998	4.709	24,000,000	14,400,000
1968 second issue.....	Sept. 1, 1968	1998	4.316	24,000,000	15,200,000
1968 third issue.....	Dec. 1, 1968	1998	4.799	30,000,000	19,000,000
1969 issue.....	June 1, 1969	1999	5.904	39,000,000	26,000,000
1969 second issue.....	Nov. 1, 1969	1999	6.216	39,000,000	26,000,000
1970 second issue.....	May 1, 1970	2010	6.855	33,000,000	31,250,000
1970 third issue.....	Sept. 1, 1970	2010	6.245	39,000,000	37,000,000
1970 fourth issue.....	Dec. 1, 1970	2010	5.526	39,000,000	37,000,000
1971 issue.....	May 1, 1971	2011	5.762	39,000,000	37,650,000
1971 second issue.....	Sept. 1, 1971	2011	5.901	39,000,000	37,650,000
1971 third issue.....	Nov. 1, 1971	2011	4.859	50,000,000	48,050,000
1972 issue.....	Mar. 15, 1972	2012	5.293	40,000,000	38,350,000
1972 second issue.....	June 1, 1972	2012	5.229	40,000,000	39,100,000
1972 third issue.....	Oct. 15, 1972	2012	5.232	50,000,000	48,950,000
1973 refunding issue.....	Jan. 1, 1973	2010	5.081	30,845,000(2)	26,795,000
1973 issue.....	Feb. 15, 1973	2013	5.252	50,000,000	48,950,000
1973 second issue.....	June 1, 1973	2013	5.298	47,000,000	46,600,000
1973 third issue.....	Nov. 15, 1973	2013	5.367	50,000,000	49,600,000
1974 issue.....	May 15, 1974	2014	6.201	50,000,000	50,000,000
1974 second issue.....	Nov. 15, 1974	2014	6.690	50,000,000	50,000,000
1975 issue.....	June 15, 1975	2015	6.934	50,000,000	50,000,000
1975 second issue.....	Nov. 15, 1975	2015	7.151	50,000,000	50,000,000
1976 issue.....	Feb. 15, 1976	2016	6.501	50,000,000	50,000,000
1976 second issue.....	Dec. 1, 1976	2016	6.105	50,000,000	50,000,000
1977 issue.....	Apr. 15, 1977	2017	5.664	50,000,000	50,000,000
1977 notes.....	Apr. 15, 1977	1982	3.996	50,000,000	50,000,000
1977 second issue.....	Dec. 15, 1977	2017	5.478	50,000,000	50,000,000
1977 second notes.....	Dec. 15, 1977	1982	4.343	50,000,000	50,000,000
1978 issue.....	Apr. 1, 1978	2018	5.792	100,000,000	100,000,000
1978 second issue.....	Nov. 1, 1978	2018	6.151	40,000,000	40,600,000
1979 issue.....	Apr. 15, 1979	2019	6.307	60,000,000	60,000,000
1979 notes.....	Nov. 15, 1979	1985	6.954	50,000,000	50,000,000
1980 issue.....	Feb. 1, 1980	2020	7.963	75,000,000	75,000,000
Total Revenue Bonds and Notes issued and outstanding at March 31, 1980.....				<u>\$2,144,765,000</u>	<u>\$1,685,249,000</u>

See footnotes — next page



Bonds and Notes Outstanding

March 31, 1980

- (1) Bonds and Notes maturing April 1, 1980 to September 3, 1980, inclusive, amount to \$40,651,000.
- (2) Not included are \$68,955,000 Electric Plant Refunding Revenue Bonds, Issue of 1973, sold December 13, 1972, dated January 1, 1973, issued to refund the callable portions of Electric Plant Revenue Bonds, Second Issue and Third Issue of 1970. (See Appendix A, Note C)
- (3) Not included are \$114,120,000 Electric Plant Refunding Revenue Bonds, Issue of 1977, sold January 19, 1977, dated February 1, 1977, issued to refund a portion of the callable portion of Electric Plant Revenue Bonds, Issue of 1975 and 1976 and Second Issue of 1975.
- (4) Not included are \$47,580,000 Electric Plant Refunding Revenue Bonds, Second Issue of 1977, sold April 13, 1977, dated April 15, 1977 issued to refund the callable portion of Electric Plant Revenue Bonds, Second Issue of 1974.
- (5) Not included are \$75,000,000 Electric Plant Revenue Bonds, Second Issue of 1980, sold May 7, 1980, dated May 15, 1980.



Principal and Interest Requirements on Bonded Indebtedness

Year Ending June 30	Outstanding Indebtedness			New Note Issue		New Bond Issue		Grand Total Debt Service
	Revenue Bonds and Notes		Total Debt Service(2)	Principal	Interest(3)	Principal(1)	Interest(4)	
	Principal(1)	Interest						
1981	\$ 65,611,000	\$ 94,384,123	\$ 159,995,123	\$	\$ 2,322,917	\$	\$ 2,951,042	\$ 165,269,082
1982	67,261,000	91,375,131	158,636,131		2,787,500		3,541,250	164,964,881
1983	70,111,000	88,236,851	158,347,851		2,787,500		3,541,250	164,676,601
1984	71,811,000	84,651,726	156,462,726		2,787,500		3,541,250	162,791,476
1985	74,126,000	80,549,337	154,675,337	5,000,000	2,506,250		3,541,250	165,722,837
1986	49,996,000	76,550,243	126,546,243	35,000,000	408,333		3,541,250	165,495,826
1987	51,226,000	73,893,286	125,119,286			300,000	3,518,125	128,937,411
1988	52,316,000	71,396,191	123,712,191			600,000	3,467,250	127,779,441
1989	52,845,000	68,830,772	121,675,772			700,000	3,415,417	125,791,189
1990	51,230,000	66,266,838	117,496,838			700,000	3,363,150	121,559,988
1991	52,080,000	63,678,423	115,758,423			800,000	3,303,733	119,862,156
1992	53,130,000	61,061,327	114,191,327			800,000	3,241,600	118,232,927
1993	52,935,000	58,377,854	111,312,854			800,000	3,177,867	115,290,721
1994	52,735,000	55,642,152	108,377,152			900,000	3,106,450	112,383,602
1995	51,600,000	52,873,885	104,473,885			1,200,000	3,011,800	108,685,685
1996	50,900,000	50,124,991	101,024,991			1,200,000	2,911,300	105,136,291
1997	49,500,000	47,380,297	96,880,297			1,200,000	2,809,500	100,889,797
1998	48,400,000	44,664,145	93,064,145			1,200,000	2,706,500	96,970,645
1999	46,770,000	41,980,614	88,750,614			1,200,000	2,602,300	92,552,914
2000	43,870,000	39,364,075	83,234,075			1,200,000	2,496,900	86,930,975
2001	41,250,000	36,897,737	78,147,737			1,200,000	2,390,300	81,738,037
2002	41,250,000	34,446,013	75,696,013			1,300,000	2,273,646	79,269,659
2003	41,250,000	31,989,823	73,239,823			1,300,000	2,155,021	76,694,844
2004	41,250,000	29,533,633	70,783,633			1,300,000	2,036,396	74,120,029
2005	41,250,000	27,077,443	68,327,443			1,300,000	1,917,771	71,545,214
2006	41,250,000	24,621,253	65,871,253			1,300,000	1,799,146	68,970,399
2007	41,250,000	22,165,063	63,415,063			1,300,000	1,680,521	66,395,584
2008	41,250,000	19,708,873	60,958,873			1,300,000	1,561,896	63,820,769
2009	41,250,000	17,252,683	58,502,683			1,300,000	1,443,271	61,245,954
2010	41,250,000	14,796,493	56,046,493			1,300,000	1,324,646	58,671,139
2011	38,820,000	12,403,483	51,223,483			1,300,000	1,206,021	53,729,504
2012	36,220,000	10,131,395	46,351,395			1,300,000	1,087,396	48,738,791
2013	30,670,000	8,101,490	38,771,490			1,300,000	968,771	41,040,261
2014	25,800,000	6,327,413	32,127,413			1,300,000	850,146	34,277,559
2015	20,800,000	4,801,364	25,601,364			1,300,000	731,521	27,632,885
2016	16,300,000	3,588,264	19,888,264			1,300,000	612,896	21,801,160
2017	16,300,000	2,530,039	18,830,039			1,300,000	494,271	20,624,310
2018	13,100,000	1,549,014	14,649,014			1,300,000	375,646	16,324,660
2019	8,300,000	778,455	9,078,455			1,300,000	257,021	10,635,476
2020	5,000,000	272,526	5,272,526			1,300,000	138,396	6,710,922
2021						1,300,000	19,770	1,319,770
	<u>\$1,732,263,000</u>	<u>\$1,620,254,718</u>	<u>\$3,352,517,718</u>	<u>\$40,000,000</u>	<u>\$13,600,000</u>	<u>\$40,000,000</u>	<u>\$89,113,653</u>	<u>\$3,535,231,371</u>

(1) Includes mandatory sinking fund payments.

(2) Amounts shown include principal and interest requirements on bonded indebtedness to September 3, 1980 and reflect the net effect on principal, interest and total debt service resulting from the provisions of \$99,800,000 Electric Plant Refunding Revenue Bonds, Issue of 1973, dated January 1, 1973, \$114,120,000 Electric Plant Refunding Revenue Bonds, Issue of 1977, dated February 1, 1977 and \$47,580,000 Electric Plant Refunding Revenue Bonds, Second Issue of 1977, dated April 15, 1977.

(3) Interest computed at 7.126%.

(4) Interest computed at 9.072%.



Utility Plant

The increasing capital investment in the Power System is illustrated in the accompanying table. Total utility plant (at cost) was over \$3.0 billion on March 31, 1980, representing more than an eight-fold increase in plant investment since 1950. During the same period, long-term debt increased from 50.9% to 65.7% of net plant investment.

Long-term Debt and Utility Plant

<u>Date</u>	<u>Long-Term Debt*</u>	<u>Utility Plant (at cost)</u>	<u>Net Plant (Depreciated)</u>	<u>Debt as a % of Net Plant</u>
June 30				
1950	\$ 135,542,978	\$ 343,938,472	\$ 266,335,391	50.9
1955	208,022,890	532,251,480	432,226,759	48.1
1960	329,826,591	746,386,416	597,132,995	55.2
1965	425,827,292	1,039,897,447	821,742,757	51.8
1970	673,482,000	1,506,076,672	1,196,756,360	56.3
1971	760,811,000	1,627,419,906	1,299,223,257	58.6
1972	900,080,000	1,780,840,059	1,429,504,436	63.0
1973	1,017,315,000	1,968,486,073	1,592,136,094	63.9
1974	1,087,474,000	2,145,746,418	1,739,518,345	62.5
1975	1,158,031,273	2,276,943,107	1,834,123,621	63.1
1976	1,226,811,583	2,406,266,642	1,924,013,065	63.8
1977	1,298,697,933	2,520,817,881	1,990,384,793	65.2
1978	1,417,816,034	2,734,185,065	2,148,162,433	66.0
1979	1,484,080,209	2,902,587,129	2,257,624,031	65.7
March 31, 1980.....	1,533,260,910	3,026,575,202	2,333,547,911	65.7

* Excluded are revenue notes and advance refunding revenue bonds.



CAPITAL PROGRAM

Future Power Needs

A comprehensive program of planning and construction to satisfy current power requirements and to meet future needs is continually being reviewed, updated and extended. Estimates by the Department's Power System indicate that net generating capacity will remain at the present 6,751 megawatts until 1985. Approximately 36.5% of the present capability is obtained from hydroelectric generating resources. The portion of this hydroelectric generating capability that can be depended upon for carrying system load is determined by water flow conditions and system load characteristics. Current estimates indicate that the Department will invest approximately \$941 million in power generating and distributing facilities in the 5-year period which began July 1, 1980. The Power System estimates that capital expenditures for the fiscal year 1980-81 will amount to \$152 million.

Major components of the capital program over the 1980-81 through 1984-85 period include the following:

- Payments to SRP in connection with the Coronado/Palo Verde Projects totaling approximately \$26 million. (See Power System Generation Resources Additions.)
- Transmission system improvements related to required base load generation additions totaling approximately \$23 million, including the Victorville-Rinaldi Transmission Line. (See Transmission and Distribution.)
- Completion of the energy control system totaling approximately \$38 million. The energy control system is a project designed to provide a sophisticated computer-based control system for Power System operation. The control system utilizes mathematical modeling techniques which will enable load dispatchers, who direct the hour-by-hour operation of the Power System, to monitor the condition of the entire Power System as well as interconnected utilities, and to provide the most economical flow of energy from all available sources. The energy control system is scheduled to commence limited operation late in 1982, and to achieve full operation in 1984.
- Improvements to basin steam generating plants required to meet recently adopted reduced NOx emission standards totaling approximately \$141 million. Plans for these improvements are currently being formulated for submission to the regulatory agencies. (See Environmental and Regulatory Factors and Litigation.)
- Continuing system additions and betterments and load-related distribution system improvements averaging approximately \$88 million annually (1980 dollars).

During this period, relatively low levels of expenditures are required in connection with other base-load generation projects previously discussed.

Following is a summary of the currently projected Power System capital program for the fiscal years 1980-81 through 1984-85 and the projected external financing requirements over that period.

SUMMARY OF POWER SYSTEM CAPITAL PROGRAM AND EXTERNAL FINANCING REQUIREMENTS (Millions of Dollars)

Fiscal Year Ending June 30	Capital Program*	Revenue Bonds
1981	\$152	\$110
1982	154	100
1983	171	100
1984	231	150
1985	233	150
Total.....	\$941	\$610

* Net of reimbursements



The summary does not include an anticipated cost overrun on the Coronado/Palo Verde Projects. As such cost factors become known, they will undoubtedly add to the capital programs after 1980-81, and hence the need for additional external financing.

State Assembly Bill 1790 was recently enacted into law, which will increase the authority of public agencies under joint powers agreements to issue revenue bonds to pay the costs and expenses of constructing and operating facilities for the generation and transmission of electrical energy. This legislation may be utilized by the Department and others in financing the municipal utilities' share of the proposed California Coal Project and the full development of the Brawley Geothermal Field if, in fact, these attain project status (See Projects in Preliminary Study Stage).

Research and Development

In recognition of the need for increased industry-wide research and development efforts, the Power System expended in excess of \$3.8 million for outside research activities during fiscal year 1978-79. Planned expenditures for subsequent years reflect the Power System's increasing commitment to needed research and development. The principal use of research funds was in support of programs sponsored by the Electric Power Research Institute, demonstration projects for the development of solar energy, and for an electric rate structure evaluation study.

An additional \$2.1 million was expended on in-house research activities, including air and water quality investigations, particulate emission controls, thermal discharge studies, and a broad range of studies required for the efficient and environmentally acceptable production, transmission and distribution of electricity.

The Department, Edison and the Department of Energy have entered into a contract for a ten-megawatt solar-thermal pilot plant to be located at Daggett, California. The plant is now under construction and is scheduled to begin operation in December 1981. The Department's share of the cost is approximately \$4.9 million.

Environmental and Regulatory Factors

Environmental considerations and regulatory restrictions relative to the operation of the Department's existing facilities, and to the location, design and construction of new facilities, may adversely affect the adequacy of electric service in the future.

It is anticipated that significant expenditures by the Department will be required to meet environmental quality standards imposed by various governmental agencies. For the 1980-81 fiscal year, it is estimated that capital expenditures of over \$12 million will be required in order to meet these new standards and minimize any adverse impact of the Department's operations upon the environment. The South Coast Air Quality Management District (SCAQMD) has adopted an "Emergency Episode Plan" which defines three so-called Emergency Episode Stages and requires the Department to submit a plan demonstrating measures it will take during Stage II and Stage III episodes to use (i) natural gas as fuel and (ii) to the extent gas is not available, 0.25% sulfur content fuel oil: As discussed earlier under "Fuel Supply", the Department is already required to use natural gas for fuel when it is available, and is required to use 0.25% sulfur oil when natural gas is not available. The Plan also requires the Department to set forth measures it will take to burn 0.1% sulfur oil after December 31, 1980, during such stages when natural gas is not available, but the Department will be excused from using such fuel oil when it is not available. During a Stage III Episode, the Department plan must also demonstrate measures to reduce generation in power plants using fuel oil within the Los Angeles air basin by shifting generation to plants outside the basin to the extent consistent with health, safety and welfare. The air basin has never experienced a Stage III Episode.

In March 1980, the California State Air Resources Board (ARB) adopted a new rule providing for the reduction of emissions of nitrogen oxides ("NOx") from utility power plants in the South Coast Air Basin. This new rule supersedes a previously existing NOx emission control rule, and provides utilities with four options from which to select a method of achieving NOx reduction. Each option requires a 90% reduction in NOx emissions on or before 1990, but provides different methods for achieving such reductions. The rule mandates that NOx reduction control equipment

be installed by the utilities on an accelerated schedule, commencing with scheduled outages of generating units after January 1, 1982. In addition, the rule mandates that generating units be operated to produce minimum NOx emissions. This is expected to add approximately \$3 million per year to the Department's fuel costs beginning this year. The Department is now studying the costs and the impact on system reliability of each of the four options. Depending upon the NOx reduction option selected, the estimated expenditures through 1990 for compliance with this rule are between \$370 million and \$1.2 billion in capital costs, and between \$25 million and \$86 million per year in operating costs.

As discussed in Litigation, the Department has joined Edison's lawsuit against the ARB challenging this new rule. The implementation and enforcement of the rule has been stayed temporarily by the ARB, which has announced its intention to hold hearings in September or October 1980 to reconsider its decision adopting this rule.

The SCAQMD has been considering whether electric utilities in the South Coast Air Basin, including the Department, should be required to burn ultra-low sulfur fuel oil with sulfur content by weight in the range of .05 to .1%. If adopted, such a rule presumably could be met either by installing sulfur dioxide scrubbers at each Department oil-fired generating facility at an estimated cost of \$650 million, or by desulfurizing the fuel oil itself at an estimated additional cost of about \$2 per barrel (both estimates in 1978 dollars). Recently the SCAQMD tabled further discussion of this proposal indefinitely.

The Department participated with other public agencies in the Southern California Releveling Project, a study funded by the United States Geological Survey to determine the extent and exact contours of variations in the elevation of the earth's crust which have occurred since 1961 in the Southern California area, centered in the Antelope Valley, a phenomenon referred to as the "Palmdale Bulge". Scientists sought to determine the geological significance of such variations but the study failed to pinpoint either its causes or its prospects. The principal earthquake fault in the area of the "Bulge" is the San Andreas Fault, which extends an estimated 600 miles southerly from the San Francisco area and lies about 35 miles north of the Los Angeles Civic Center at its nearest point. Two Department transmission facilities and both Los Angeles aqueducts pass through this area.

THE SERVICE AREA

General

The City of Los Angeles, encompassing an area of 465 square miles, is served exclusively by the Department. The population of the service area has risen from 102,479 at the turn of the century to an estimated 2.8 million residents as of December 31, 1979, to become the third largest city in the United States and the nucleus of the second most populous Standard Metropolitan Statistical Area (Los Angeles County).

Contributing to this growth are such factors as a mild climate, abundant natural resources, varied recreational activities and educational and employment opportunities. These have stimulated the demand for goods and services which in turn has fostered the development of a very broad and varied economic base within the City. The cycle produced a phenomenal rise in trade, manufacturing, finance and a complete range of service industries.

Major transportation facilities serving Los Angeles are listed among the largest and finest in the world.

The Port of Los Angeles, one of the world's major man-made harbors, includes 205 berths and 28 miles of other facilities capable of accommodating 85 vessels at one time. In addition to its enormous cargo-handling capacity, the port boasts the largest commercial fishing fleet and fish processing center in the United States.

Los Angeles International Airport ranks third in the Nation in commercial airline operations. There are 52 scheduled airlines serving the airport. These airlines accommodated 30.8 million passengers for the twelve months ended May 31, 1980. Total air cargo handled by both passenger and air freight lines amounted to 1.6 billion pounds during the same period.



Three transcontinental railway systems — Santa Fe, Southern Pacific, and Union Pacific — provide freight service, while passenger accommodations are furnished by National Railway Passenger Corporation (Amtrak). Seven major inter-city bus lines serve Los Angeles and the greater metropolitan area (Los Angeles County), as do numerous steamship lines and other smaller transportation agencies.

An extensive freeway system, linking the greater metropolitan area with downtown Los Angeles, has permitted the construction of extensive suburban residential areas. Passenger car registration in the metropolitan area totaled 3,710,936 in 1980; up 33.8% since 1960. Commercial registration, which includes trucks, amounted to 690,795 in 1980 — 24% of California's total. Regional planning has situated major highways near commercial/industrial sites, facilitating the flow of goods by truck to and from customers and suppliers.

Higher education facilities have also expanded rapidly. Within the Metropolitan Area are five California State University campuses, the University of California (Los Angeles), the University of Southern California, the California Institute of Technology, Loyola University, Pepperdine University, Pomona, Occidental and Whittier Colleges, and almost two dozen other institutions of higher education.

Growth in service industries has had a major impact on the economic spectrum of the Metropolitan Area. Professional, business, hospital, medical and personal services as well as hotel enterprises, have all experienced tremendous growth. Approximately one-fifth of the City's labor force is employed by service industries. While the entertainment industry, mostly centered in Los Angeles, is only a minor source of direct employment, it considerably affects service industry business by attracting many thousands of tourists each year. An estimated \$2.4 billion is spent annually by visitors to Southern California.

Cultural and recreational growth has been keeping pace with economic and population growth. Los Angeles has an outstanding Music and Theatre Arts Center, Art Museum, and Zoo, as well as a number of attractive sports arenas, among the many facilities available to the community.

During this period of rapid growth, the Department, through long-range planning, provided its citizen-owners and customers with reliable, reasonably priced water and electrical service. This historically was a factor in attracting major industrial, commercial, and financial businesses and their headquarters to Los Angeles with resultant additions to the economic base of the City.

A report published in May 1980, by the Los Angeles Times, based on Fortune Magazine's annual survey of the Nation's 500 leading industrial companies, indicates Los Angeles is the leading headquarters city of the West. That report lists major corporations headquartered in Los Angeles as including:

1. Thirty-one industrial firms with total annual sales and revenues in excess of \$60 billion.
2. Three transportation companies (airline) with total annual revenues in excess of \$2.7 billion.
3. Four merchandising firms with total annual sales in excess of \$4.0 billion.
4. Six banks with total assets in excess of \$64.3 billion.
5. Three savings and loan associations with total assets exceeding \$20.8 billion.
6. Six financial holding corporations and mortgage firms with total assets in excess of \$89.7 billion.
7. Five insurance firms with total assets in excess of \$8.4 billion.

Population

For most of this century, the growth rate of the City of Los Angeles has outpaced the growth rate of the Nation. Although the total population has now leveled at approximately 2.8 million, one out of every seven Californians resides in the City of Los Angeles. Moreover, the City is the business center of a surrounding metropolitan area with a population of approximately 7.0 million, the second most populous SMSA in the United States.

POPULATION ESTIMATES FOR THE NATION'S LEADING CITIES AND STANDARD METROPOLITAN STATISTICAL AREAS AS OF DECEMBER 31, 1978

<u>Rank</u>	<u>Cities</u>		<u>Rank</u>	<u>SMSA's</u>	
1.	New York	7,311,400	1.	New York	9,386,700
2.	Chicago.....	2,962,700	2.	Los Angeles.....	7,112,200
3.	Los Angeles.....	2,783,700	3.	Chicago	7,016,500
4.	Philadelphia	1,775,700	4.	Philadelphia	4,792,300
5.	Houston	1,675,800	5.	Detroit.....	4,384,600
6.	Detroit.....	1,244,600	6.	Boston.....	3,914,600
7.	Dallas	853,800	7.	San Francisco.....	3,217,900
8.	San Antonio	813,500	8.	Washington	3,062,400
9.	San Diego	812,500	9.	Dallas-Fort Worth	2,711,100
10.	Baltimore	799,400	10.	Nassau-Suffolk	2,704,400

Source: Sales Marketing Management Magazine
Survey of Buying Power — July 23, 1979.

Population Growth

<u>December 31 Year</u>	<u>City of Los Angeles</u>	<u>Metropolitan Area (Los Angeles County)</u>
1900	102,479	170,298
1910	319,198	510,131
1920	576,673	936,455
1930	1,238,048	2,208,492
1940	1,504,277	2,785,643
1950	1,970,358	4,151,687
1960	2,481,595	6,042,431
1970	2,809,967	7,040,335
1974	2,735,600	6,925,800
1975	2,739,140	6,963,609
1976	2,761,805*	7,042,538
1977	2,780,800*	7,091,000
1978	2,787,900*	7,077,000
1979	2,817,800*	7,163,100

* Does not include approximately 400,000 undocumented alien residents according to recent survey by the Los Angeles City Planning Commission.

Source: Los Angeles County Regional Planning Agency, California Department of Finance, and U.S. Bureau of the Census.



Manufacturing and Industry

Industrial progress in the Los Angeles Standard Metropolitan Statistical Area is well documented by the latest figures released by the U.S. Department of Commerce in the 1976 Annual Survey of Manufacturers. This source reported 759,900 persons employed in manufacturing, equivalent to about one-fourth of the area's labor force. Value added by manufacturers aggregated over \$21 billion, ranking the Los Angeles area as the Nation's second largest SMSA in this respect, having moved up from fifth place in 1947. During the interval since 1947, a net gain of \$18.9 billion in value added by manufacturing was achieved. This 939% increase enabled Los Angeles to overtake New York, Detroit and Philadelphia. Among the Nation's leading industrial SMSA's, Los Angeles has by far the greatest area, being almost twice as large in square miles as the combined total of the other five metropolitan areas.

Value Added by Manufacture in Major SMSA's (Millions of Dollars)

	1947	1954	1963	1974	1976	1977	1977 as a % over 1947
Chicago.....	\$4,965	\$6,979	\$10,293	\$22,133	\$24,077	\$17,566	254
Los Angeles	2,022	4,939	8,980	18,641	21,000	15,234	653
New York.....	5,984	8,133	11,419	15,933	16,819	13,188	120
Detroit.....	2,913	4,713	6,690	13,218	15,428	11,792	305
Philadelphia.....	2,773	4,024	6,032	10,998	11,646	7,985	188
Cleveland	1,570	2,444	3,379	6,789	7,347	2,000	27

Source: U.S. Department of Commerce, Bureau of the Census

Prosperity in Los Angeles is not dependent upon a limited industry or group since there is hardly a major branch of industry for which the City does not have important production facilities. It is the site of the largest industrial concentration in the West, not only serving the local area and the region, but also participating in the national markets. Following, in alphabetical order, are the names of 41 of the largest industrial customers of the Department.

Airesearch Mfg. Co., Division of The Garrett Corporation	Litton Industries, Inc.
Anheuser-Busch, Inc.	Lockheed Aircraft Corporation
Atlantic Richfield Company	Marquardt Co., Division of C.C.I. Aerospace Corp
Bendix Corporation	Martin Marietta Aluminum, Inc.
Bethlehem Steel Corporation	McDonnell Douglas Corporation
California Milling Corporation	Occidental Petroleum Corporation
Carnation Company	Paramount Pictures
Champlin Petroleum Company	Price-Pfister
Chevron USA Inc.	Rachelle Laboratories
Coca-Cola Bottling Company of L.A.	Radio Corporation of America
Continental Can Company, Inc.	Rockwell International Corp.
Eastman Kodak Company	Superior Oil Company
Exxon Co. — U.S.A.	Technicolor, Inc.
Foremost Foods Company	Teledyne Systems, Division of Teledyne, Inc.
General Motors Corporation	Texaco, Inc.
Goodyear Tire & Rubber Company	Times-Mirror
Great Lakes Carbon Corporation	Todd Shipyards Corporation
Hughes Aircraft Company	Union Carbide Corporation
Interpace	Union Oil Co. of California
Jos. Schlitz Brewing Company	U.S. Borax & Chemical Corp.
Knudsen Corporation	



Retail Sales

In retail sales Los Angeles ranks second nationally as a city and as a metropolitan area, as shown in the accompanying table. The City's 1979 retail sales of \$11.88 billion represents an increase of 139% since 1960.

Retail Sales in the Nation's Major Cities and Standard Metropolitan Statistical Areas (Billions of Dollars)

<u>Cities</u>		<u>SMSA's</u>	
New York	20.40	Chicago	30.39
Los Angeles	11.88	Los Angeles	29.80
Chicago	11.43	New York	28.59
Houston	10.21	Detroit	17.64
Philadelphia	5.32	Philadelphia	17.14
Dallas	4.92	Boston	14.66
Detroit	4.31	Houston	13.70
Indianapolis	3.69	San Francisco	13.28
San Diego	3.45	Washington	12.52
San Francisco	3.07	Dallas-Fort Worth	12.14

Source: Sales Marketing Management Magazine — July 23, 1979

Financial

With over 810 banks and branches, the Los Angeles SMSA is the leading financial center in the West. The Nation's seven largest savings and loan associations are all headquartered in the Los Angeles SMSA. In addition, Los Angeles leads in employment and payrolls of banks, savings and loan associations, insurance carriers and agents, and security and commodity brokers.

Bank debits constitute the best measure of overall banking activity as they reflect the gross volume of banking transactions, including those not handled by the clearing houses. Bank debits of the Los Angeles SMSA, as shown in the accompanying table, totaled \$1.1 trillion on June 30, 1977; up 39% over 1973.

Bank Debits in the Nation's Leading SMSA Financial Centers (Billions of Dollars)

	Seasonally adjusted — Annual Rate December 31				
	<u>*1977</u>	<u>1976</u>	<u>1975</u>	<u>1974</u>	<u>1973</u>
New York	15,516.4	13,835.0	10,970.9	9,931.8	8,097.7
Chicago	2,251.1	2,066.2	1,808.4	1,840.6	1,613.4
Los Angeles	1,103.0	1,101.3	854.1	877.2	791.2
San Francisco	915.8	969.1	805.3	974.0	664.0
Philadelphia	729.5	643.7	579.8	544.1	521.7
Boston	649.9	611.4	482.5	440.1	431.6
Pittsburgh	513.7	529.9	449.0	503.8	304.3
Detroit	563.8	525.4	418.3	476.5	411.1
St. Louis	406.3	401.0	310.6	287.5	243.3
Minneapolis	438.9	400.2	317.0	279.7	301.3

* 12 Months Ending June 1977

Source: Federal Reserve System Bank Debits to Demand Deposit Accounts, Except Interbank and U.S. Government Accounts



NOTE AND BOND RATINGS

Moody's Investor's Service, Inc. and Standard & Poor's Corporation have assigned the Electric Plant Revenue Notes, Issue of 1980, and the Electric Plant Revenue Bonds, Third Issue of 1980 the respective ratings shown on the cover page hereof. Such ratings reflect only the view of the rating agencies, and an explanation of the significance of such ratings may be obtained only from such agencies. There is no assurance that the ratings will remain in effect for any given period of time or that they will not be revised, either downward or upward, or withdrawn entirely, by said rating agencies if, in their judgment, circumstances so warrant.

MISCELLANEOUS

The covenants and agreements of the Department for the benefit of the holders of the Notes and the Bonds are set forth in the Final Resolutions, and reference is made to those documents for a statement of the rights and obligations of the Department, the Noteholders and the Bondholders. Neither this Official Statement, nor any statements which may have been made orally or in writing, are to be construed as a contract with the holders of any of the Notes or Bonds.

A brief description of the Final Resolutions is included in this Official Statement. Such description does not purport to be comprehensive or definitive; all references herein to the Final Resolution are qualified in their entirety by reference to such document; and all references to the Notes or Bonds are qualified in their entirety to the definitive forms thereof and the information with respect thereto included in the Final Resolution for the respective issue.

Any statements in this Official Statement involving matters of opinion and all estimates, whether or not expressly so stated, are intended as such and not as representations of facts and are not to be construed as representations that they will be realized.

The execution and delivery of this Official Statement by its President and General Manager and Chief Engineer have been duly authorized by the Board of Water and Power Commissioners of The City of Los Angeles.

/s/ RICARDO R. GUTIERREZ
President
Board of Water and Power Commissioners
of The City of Los Angeles

/s/ LOUIS H. WINNARD
General Manager and Chief Engineer



APPENDIX A

Report of Independent Accountants

Price
Waterhouse & Co.

606 SOUTH OLIVE STREET
LOS ANGELES, CALIFORNIA 90014
213-625-4400

September 14, 1979

To the Board of Water and Power Commissioners
Department of Water and Power
City of Los Angeles

In our opinion, the accompanying balance sheet and the related statements of income, retained income reinvested in the business and changes in financial position present fairly the financial position of the Power System of the Department of Water and Power of the City of Los Angeles at June 30, 1979, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles consistently applied. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

DEPARTMENT OF WATER AND POWER — CITY OF LOS ANGELES
POWER SYSTEM

STATEMENT OF INCOME

	Twelve months ended March 31, 1980 (Unaudited)	Year ended June 30, 1979
Operating revenues:		
Sales of electric energy (Note D).....	\$ 871,785,903	\$ 781,348,407
Other operating revenues.....	3,451,601	2,526,293
Total operating revenues.....	875,237,504	783,874,700
Operating expenses:		
Fuel for generation.....	369,623,505	297,638,385
Purchased power.....	72,648,964	48,829,529
Energy costs.....	442,272,469	346,467,914
Other operation.....	138,013,045	128,237,734
Maintenance.....	72,145,512	60,874,159
Provision for depreciation (Note B).....	71,450,602	67,048,728
Taxes on property outside the City.....	4,758,556	6,617,365
Total operating expenses.....	728,640,184	609,245,900
Operating income.....	146,597,320	174,628,800
Other income — net.....	10,054,909	7,967,348
Income before long-term debt expenses.....	156,652,229	182,596,148
Long-term debt expenses:		
Interest on long-term debt.....	85,887,434	82,021,769
Allowance for borrowed funds used during construction....	(13,978,834)	(12,402,135)
Net long-term debt expenses.....	71,908,600	69,619,634
Net income.....	\$ 84,743,629	\$ 112,976,514

STATEMENT OF RETAINED INCOME REINVESTED IN THE BUSINESS

	Twelve months ended March 31, 1980 (Unaudited)	Year ended June 30, 1979
Balance at the beginning of year.....	\$ 936,217,413	\$ 868,441,511
Net income for the year.....	84,743,629	112,976,514
	1,020,961,042	981,418,025
Less — Payments to the reserve fund of the City.....	38,304,500	35,634,000
Balance at the end of year (Note H).....	\$ 982,656,542	\$ 945,784,025

See accompanying Notes to Financial Statements.



DEPARTMENT OF WATER AND POWER — CITY OF LOS ANGELES
POWER SYSTEM
BALANCE SHEET

	<u>March 31, 1980</u> (Unaudited)	<u>June 30, 1979</u>
ASSETS		
Utility plant, at original cost:		
Production.....	\$ 1,296,381,092	\$ 1,132,893,502
Transmission.....	361,371,919	335,270,508
Distribution.....	1,052,473,378	1,023,824,836
General.....	132,886,402	127,622,853
Construction work in progress.....	183,462,411	282,975,430
	<u>3,026,575,202</u>	<u>2,902,587,129</u>
Less — Accumulated provision for depreciation (Note B).....	693,027,291	644,963,098
	<u>2,333,547,911</u>	<u>2,257,624,031</u>
Construction and note funds:		
Short-term investments, at cost, and cash deposited with City Treasurer.....	28,611,607	49,795,997
Less — Amount payable to revenue fund (see below).....	28,611,607	49,795,997
	<u>—</u>	<u>—</u>
Current assets:		
Deposits with City Treasurer —		
Revenue fund (including short-term investments of \$49,945,851 and \$28,920,661 at cost)...	56,326,828	36,030,914
Bond redemption and interest funds.....	11,297,786	8,481,908
Amount receivable from construction and note funds (see above).....	28,611,607	49,795,997
Cash on hand and revolving funds.....	828,538	646,639
Customer and other accounts receivable, less \$2,000,000 allowance for losses.....	102,017,047	71,622,849
Materials and supplies (Note A).....	39,508,593	31,818,032
Fuel for generation (Note A).....	125,258,229	79,011,590
Deferred energy costs (Notes A and D).....	200,797,000	95,801,000
Prepayments and other current assets.....	7,017,658	6,888,554
	<u>571,663,286</u>	<u>383,097,483</u>
Deferred debits:		
Unamortized nuclear project costs (Note G).....	18,782,959	23,500,759
Unamortized debt expenses.....	1,694,703	1,690,257
	<u>20,477,662</u>	<u>25,191,016</u>
	<u>\$ 2,925,688,859</u>	<u>\$ 2,665,912,530</u>
LIABILITIES AND EQUITY		
Equity:		
Retained income reinvested in the business, per accompanying statement.....	\$ 982,656,542	\$ 945,784,025
Contributions in aid of construction.....	38,847,858	38,999,647
	<u>1,021,504,400</u>	<u>984,783,672</u>
Long-term debt, excluding advance refunding bonds (Note C):		
Revenue bonds, less \$1,985,590 and \$1,711,291 unamortized discounts and premiums.....	1,533,260,910	1,484,005,209
General obligation bonds.....	—	75,000
	<u>1,533,260,910</u>	<u>1,484,080,209</u>
Revenue notes, less \$572,184 unamortized discounts at March 31, 1980.....	149,427,816	100,000,000
	<u>1,682,688,726</u>	<u>1,584,080,209</u>
Less — Long-term debt due within one year (see below).....	73,661,000	60,236,000
	<u>1,609,027,726</u>	<u>1,523,844,209</u>
Current liabilities:		
Long-term debt due within one year (see above).....	73,661,000	60,236,000
Accrued interest on bonds.....	33,400,724	22,471,943
Accounts payable and accrued expenses.....	183,370,105	71,797,488
Extension and other deposits.....	3,373,893	1,312,907
	<u>293,805,722</u>	<u>155,818,338</u>
Deferred income — advance rent of plant facilities received from other cities, being amortized to 1987.....	1,351,011	1,466,311
	<u>\$ 2,925,688,859</u>	<u>\$ 2,665,912,530</u>

See accompanying Notes to Financial Statements.



DEPARTMENT OF WATER AND POWER — CITY OF LOS ANGELES
POWER SYSTEM

STATEMENT OF CHANGES IN FINANCIAL POSITION

	<u>Twelve months ended March 31, 1980 (Unaudited)</u>	<u>Year ended June 30, 1979</u>
Financial resources provided by:		
Operations		
Net income.....	\$ 84,743,629	\$ 112,976,514
Charges and credits to income not affecting working capital —		
Provision for depreciation (Note B)	75,265,474	70,217,934
Amortization of nuclear project costs (Note G)	6,371,700	5,340,300
Other, net	<u>154,377</u>	<u>85,537</u>
Resources provided by operations	166,535,180	188,620,285
Sale of revenue bonds and notes	183,751,853	99,529,515
Contributions in aid of construction.....	<u>1,342,302</u>	<u>4,423,569</u>
	<u>351,629,335</u>	<u>292,573,369</u>
Financial resources used for:		
Expenditures for plant and equipment (including cost of removing facilities retired from service).....	185,165,256	185,320,243
Reduction of long-term debt.....	73,661,000	60,236,000
Payments to the reserve fund of the City.....	38,304,500	35,634,000
Expense of issuing bonds and notes.....	<u>159,775</u>	<u>95,287</u>
	297,290,531	281,285,530
Increase (decrease) in working capital	<u>\$ 54,338,804</u>	<u>\$ 11,287,839</u>
Increase (decrease) in components of working capital:		
Deposits with City Treasurer —		
Revenue fund.....	\$ 21,994,740	\$ 15,385,003
Construction and note funds.....	(16,332,032)	(4,822,983)
Bond redemption and interest funds	840,106	(1,192,147)
Cash on hand and revolving funds.....	2,616,712	(96,095)
Customer and other accounts receivable	14,168,558	5,115,980
Materials and supplies	2,065,898	1,776,989
Fuel for generation	60,824,931	(24,177,296)
Advances to supplier for fuel oil	—	(4,566,480)
Deferred energy costs	89,477,061	32,244,383
Prepayments and other current assets	<u>238,849</u>	<u>1,023,262</u>
Net change in current assets	175,894,823	20,690,616
Long-term debt due within one year	39,275,000	1,890,000
Accrued interest on bonds	3,744,899	116,262
Accounts payable and accrued expenses	77,886,178	6,995,442
Extension and other deposits	<u>649,942</u>	<u>401,073</u>
Net change in current liabilities	121,556,019	9,402,777
Increase (decrease) in working capital	<u>\$ 54,338,804</u>	<u>\$ 11,287,839</u>

See accompanying Notes to Financial Statements.



DEPARTMENT OF WATER AND POWER — CITY OF LOS ANGELES
POWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

(Data subsequent to June 30, 1979 are unaudited)

NOTE A — Summary of significant accounting policies:

The financial statements of the Power System are presented in conformity with generally accepted accounting principles, and substantially in conformity with accounting principles and methods prescribed by the Federal Energy Regulatory Commission and other regulatory commissions except for the method of accounting for contributions in aid of construction described below. The Department is not subject to regulations of such commissions.

Utility plant and depreciation — The cost of additions to utility plant and replacements of retirement units of property is capitalized. Cost includes labor, materials and allocated indirect charges such as engineering, supervision, construction and transportation equipment, retirement plan contributions, and other fringe benefits, and certain administrative and general expenses. The Department also capitalizes an allowance for funds used during construction equivalent to the cost of long-term debt incurred to finance plant under construction. Research and development costs directly related to current and future construction projects are capitalized and all other such costs are charged to income as incurred. The cost of relatively minor replacements is included in maintenance expense. The original cost of property retired, together with removal cost, less salvage, is charged to accumulated depreciation at such time as property is removed from service.

Depreciation of utility plant is provided for the major portion of the facilities by the 5% sinking fund method based on the estimated service lives. The straight-line method is used for major projects completed subsequent to July 1, 1973 and for office and shop structures and related furniture and equipment. Depreciation of transportation and construction equipment is based upon hours of use.

Materials and supplies and fuel for generation — Materials and supplies and coal inventories are stated at average cost. Fuel oil inventories are stated at last-in first-out cost commencing in September 1979.

Contributions in aid of construction — Under the provisions of the Charter of the City of Los Angeles, amounts received from customers and others for construction of utility plant are combined with retained income reinvested in the business to represent equity for purposes of computing the Power System's borrowing limitations. Accordingly, contributions in aid of construction are shown in the accompanying balance sheet as an equity account and are not offset against utility plant; depreciation provided for the related utility plant is charged against income.

Revenues — Revenues are recognized as billed to customers. Billings are on a cyclical basis and the Department does not accrue revenues for energy sold but not billed at the end of a fiscal period. Residential and the smaller commercial accounts are billed on a bi-monthly basis; all others are billed monthly.

Energy costs — Billable energy costs are deferred until they are actually billed to customers through the energy cost adjustment formula (Note D).

Shared operating expenses — The Power System shares certain administrative functions with the Water System of the Department. Generally, the cost of these functions is allocated on the basis of benefits provided to the Systems.

Debt expenses — Debt premium, discount and issue expenses are deferred and amortized to income over the lives of the related issues.



Employees' retirement plan — See Note F for policy relating to the employees' retirement plan.

Payments to the reserve fund of the City — Under the provisions of the Charter of the City of Los Angeles, the Power System transfers funds at its discretion to the reserve fund of the City. Such payments are not in lieu of taxes and are recorded as distributions of retained income.

NOTE B — Depreciation:

Provision for depreciation for the twelve months ended March 31, 1980 and the year ended June 30, 1979 was \$75,265,474 and \$70,217,934, respectively, of which \$71,450,602 and \$67,048,728 was charged directly to income and the balance was charged through clearing accounts to construction and operating expense accounts. These aggregate provisions approximated 2.87% and 2.83%, respectively, of average depreciable plant for such two periods.

NOTE C — Long-term debt:

Long-term debt outstanding at June 30, 1979 comprised sixty-five issues of revenue bonds and notes and general obligation bonds due serially in varying annual amounts through 2019. Interest rates, which vary among individual maturities, average approximately 5.57%. Revenue bonds are callable generally ten years after the date of issue. Scheduled principal maturities during the five years succeeding June 30, 1979 are \$60,236,000, \$65,611,000, \$67,261,000, \$70,111,000 and \$46,811,000, respectively.

In 1972 and 1977 the Power System sold advance refunding bonds totaling \$99,800,000 and \$161,700,000, respectively. Until the bonds to be refunded are called, interest on the advance refunding bonds is payable from interest earned on securities of the United States government purchased out of the proceeds of the sales and held in escrow accounts with Citibank, N.A., New York; \$230,657,000 of said escrow accounts has been offset against the advance refunding bonds in the accompanying balance sheet at March 31, 1980 and June 30, 1979. After the moneys in the escrow accounts are applied to redeem the bonds to be refunded (\$223,950,000 to be refunded in 1980 through 1986), the outstanding advance refunding bonds will be payable from Power System revenues.

The Power System sold the following notes and bonds since June 30, 1979: November 14, 1979, \$50,000,000 Electric Plant Revenue Notes, Issue of 1979; February 6, 1980, \$75,000,000 Electric Plant Revenue Bonds, Issue of 1980; May 7, 1980, \$75,000,000 Electric Plant Revenue Bonds, Second Issue of 1980.

NOTE D — Sales of electric energy:

Effective December 10, 1978 under the provisions of a restructured electric rate ordinance, rates were adjusted to provide additional revenues of approximately 4.6%. One of the provisions of this rate ordinance allows the recovery of all fuel costs incurred in the generation of electric energy and all purchased power costs through the energy cost adjustment formula. Deferred energy costs at June 30, 1979 increased approximately \$22 million as a result of the change in the energy cost adjustment formula.

The Power System sells electric energy to other departments of the City of Los Angeles at regular rates provided in the rate ordinance.

NOTE E — Operational expenses:

Operating expenses shared with the Water System amounted to \$108,040,000 and \$97,582,000 for the twelve months ended March 31, 1980 and the year ended June 30, 1979, respectively, of which \$69,867,000 and \$64,915,000 was allocated to the Power System. Amounts due the Water System for shared operating expenses were \$50,274,000 and \$1,260,000 at



March 31, 1980 and June 30, 1979, respectively. Research and development costs amounted to \$3,346,000 and \$3,505,000 for the twelve month period ended March 31, 1980 and the year ended June 30, 1979, respectively, substantially all of which was charged to income.

NOTE F — Employees' retirement plan:

The Department has a funded contributory retirement, disability and death benefit insurance plan covering substantially all of its employees. Costs of the plan to the Power System for the twelve months ended March 31, 1980 and the year ended June 30, 1979 amounted to \$43,442,094 and \$40,565,888, respectively, which includes amortization of prior service costs generally over a 30-year period ending June 30, 2003. The Department's policy is to fund all accrued retirement plan costs. The actuarially computed value of vested benefits in excess of plan assets, as indicated in the current actuarial valuation, is approximately \$379,000,000, of which \$272,000,000 has been allocated to the Power System.

NOTE G — Nuclear project costs:

In March 1978, the Department decided not to proceed with the San Joaquin Nuclear Project following an advisory election in which the residents of Kern County voted against locating the project there. The Department had planned to construct a two-unit 2,600,000 kilowatt nuclear generating station in Kern County, California, to be owned by the Department and several other utilities. Prior to this decision, \$27,420,000 had been expended on the Project, including payments of \$4,290,000 for future nuclear fuel enrichment services from the United States Department of Energy. Of these expenditures, \$23,130,000 was identified in fiscal 1978 as being of no continuing value and is being amortized against income over a sixty-month period which began March 1978.

The Department in September 1979 sold its rights to nuclear enrichment services for a net realizable value of \$2,930,000. The \$1,360,000 decline in the market value is being amortized over the remaining amortization period for other San Joaquin Nuclear Project costs.

In May 1978, San Diego Gas & Electric Company, the Project Manager, advised the Department of its decision to suspend the Sundesert Nuclear Project, a proposed 1,900,000 kilowatt generating station which would have been jointly owned by San Diego Gas & Electric Company, the Department, and several other utilities. The Department invested \$5,762,000 in the feasibility studies for the Project of which \$1,464,000 was identified as having no continuing value and amortization over a sixty-month period was commenced as of May 1978. Developments during 1979 indicated that the Department's remaining investment of \$4,298,000 was also of no continuing value, and accordingly such amount is being amortized over the remaining amortization period for other Sundesert Nuclear Project costs.

NOTE H — Commitments and contingencies:

The Department has authorized payments totaling \$39,194,000 for the fiscal year 1979-1980 from the revenue fund of the Power System of the reserve fund of the City.

The Department's budget for the fiscal year 1979-1980 provides for capital expenditures of approximately \$223,000,000 in the Power System and substantial commitments have been made in connection therewith. Also, the Department has entered into a number of fuel supply and energy and capacity contracts which involve substantial commitments.

A number of claims and suits are pending against the Department for alleged damages to persons and property and for other alleged liabilities arising out of matters usually incident to the operation of a utility business such as that of the Department. In the opinion of management, the uninsured liability under these claims and suits would not materially affect the financial position of the Power System as of March 31, 1980.



APPENDIX B

PROPOSED FORM OF LEGAL OPINION

September, 1980

Board of Water and Power Commissioners
of The City of Los Angeles

[Managing Underwriters]

Gentlemen:

(Description of the Issue)

1. The proceedings have been taken in accordance with the laws and Constitution of the State of California and the charter of the City and that said bonds (notes), having been issued in duly authorized form and executed by the proper officials and delivered to and paid for by said purchasers, constitute legally valid and binding obligations of said Department, payable out of the Power Revenue Fund established by the charter of said City and not out of any other fund or moneys of the Department or the City, but said provision for such payment out of said fund does not preclude payment from certain other sources mentioned in Section 7 of said Resolution and subdivision (b) of subsection 4 of Section 229 of said charter.

2. Said Board of Water and Power Commissioners has power and is obligated to fix rates, subject to the approval of the Council of The City of Los Angeles, and collect charges for service from the electric works of said City such as to provide revenues at least sufficient to pay, as the same shall become due, the principal of and interest on said bonds (notes), including (sinking fund payments and) premiums, if any, due upon redemption, in addition to paying, as the same shall become due, the necessary expenses of operating and maintaining such electric works and all other obligations and indebtedness payable out of said Power Revenue Fund, and the Council of said City is required to approve, by ordinance, rates so fixed by said Board for such service sufficient for the purposes aforesaid.

3. No revenue bonds, notes, certificates or other evidences of indebtedness of said Department or general bonds of The City of Los Angeles payable out of said Power Revenue Fund, whether heretofore issued or hereafter to be issued, have or will have any priority over bonds (notes) of this issue with respect to payment of principal or interest out of said Power Revenue Fund.

4. The agreements and covenants contained in said Resolution No. 4042 (4027) are authorized by the charter of said City and are valid and binding.

The agreements, covenants, and obligations described in the foregoing paragraphs, however, may be limited by bankruptcy, insolvency, or other laws affecting the enforcement of creditors' rights.

We are further of the opinion that interest on said bonds (notes) is exempt from income taxes of the United States of America under present federal income tax laws and such interest is also exempt from personal income taxes of the State of California under present state income tax laws.

Respectfully submitted,



APPENDIX 1C





Financial Statements

June 30, 1980

Department of Water and Power
City of Los Angeles

With report by
Price Waterhouse & Co.
Simpson & Simpson





Board of Water and Power Commissioners

RICARDO R. GUTIERREZ
President

JOHN J. GUARRERA
Vice President

JAMES K. MURPHY

SARA C. STIVELMAN

HERBERT C. WARD

JUDITH K. DAVISON
Secretary

Department of Water and Power

LOUIS H. WINNARD
General Manager and Chief Engineer

PAUL H. LANE
Chief Engineer of Water Works
and Assistant Manager

JAMES L. MULLOY
Chief Electrical Engineer
and Assistant Manager

WILLIAM D. SACHAU
Chief Financial Officer

EDWARD C. FARRELL
Chief Assistant City Attorney
for Water and Power



Price Waterhouse & Co.
Simpson & Simpson

Los Angeles, California

September 11, 1980

To the Board of Water and Power Commissioners
Department of Water and Power
City of Los Angeles

In our opinion, the accompanying balance sheet and the related statements of income, retained income reinvested in the business and changes in financial position present fairly the financial position of the Water System of the Department of Water and Power of the City of Los Angeles at June 30, 1980 and 1979, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

*Price Waterhouse & Co.
Simpson & Simpson*

DEPARTMENT OF WATER AND POWER - CITY OF LOS ANGELES

WATER SYSTEM

BALANCE SHEET

	<u>June 30</u>	
	<u>1980</u>	<u>1979</u>
<u>ASSETS</u>		
<u>Utility plant, at original cost:</u>		
Source of water supply	\$204,184,100	\$203,783,583
Pumping	20,236,483	19,694,091
Purification	5,453,926	5,388,447
Distribution	677,565,235	651,164,820
General	60,183,057	57,082,093
Construction work in progress	<u>15,506,669</u>	<u>14,123,835</u>
	983,129,470	951,236,869
<u>Less - Accumulated provision for depreciation (Note B)</u>	<u>326,614,503</u>	<u>308,873,387</u>
	<u>656,514,967</u>	<u>642,363,482</u>
<u>Long-term receivables (Note G)</u>	<u>3,664,661</u>	<u>4,012,500</u>
<u>Current assets:</u>		
Deposits with City Treasurer -		
Revenue fund (including short-term investments of \$17,631,980 and \$45,343,071 at cost which approximates market)	18,908,205	47,319,692
Bond redemption and interest funds	6,202,103	1,361,200
Cash on hand and revolving funds	159,421	136,076
Customer and other accounts receivable, less \$300,000 allowance for losses	48,598,394	15,634,683
Materials and supplies, at average cost	7,851,329	7,615,945
Deferred purchased water costs (Note A)	1,288,600	984,500
Prepayments and other current assets	<u>1,627,303</u>	<u>1,757,345</u>
	<u>84,635,355</u>	<u>74,809,441</u>
<u>Unamortized debt expenses</u>	<u>648,137</u>	<u>250,560</u>
	<u>\$745,463,120</u>	<u>\$721,435,983</u>
<u>LIABILITIES AND EQUITY</u>		
<u>Equity:</u>		
Retained income reinvested in the business, per accompanying statement	\$230,347,082	\$219,670,540
Contributions in aid of construction	<u>215,449,701</u>	<u>204,468,954</u>
	<u>445,796,783</u>	<u>424,139,494</u>
<u>Long-term debt, excluding advance refunding bonds (Note C):</u>		
Revenue bonds, less \$594,689 and \$632,081 unamortized discounts	262,955,311	273,202,919
<u>Less - Long-term debt due within one year (see below)</u>	<u>12,490,000</u>	<u>10,715,000</u>
	<u>250,465,311</u>	<u>262,487,919</u>
<u>Current liabilities:</u>		
Long-term debt due within one year (see above)	12,490,000	10,715,000
Accrued interest on bonds	4,103,623	4,676,485
Accounts payable and accrued expenses	20,863,194	11,677,329
Customer deposits	<u>11,744,209</u>	<u>7,739,756</u>
	<u>49,201,026</u>	<u>34,808,570</u>
	<u>\$745,463,120</u>	<u>\$721,435,983</u>

See accompanying Notes to Financial Statements.



DEPARTMENT OF WATER AND POWER - CITY OF LOS ANGELES

WATER SYSTEM

STATEMENT OF CHANGES IN FINANCIAL POSITION

	<u>Year ended June 30</u>	
	<u>1980</u>	<u>1979</u>
<u>Financial resources provided by:</u>		
Operations -		
Net income	\$16,231,542	\$22,862,118
Charges and credits to income not affecting working capital -		
Provision for depreciation (Note B)	19,067,876	17,765,309
Noncurrent portion of water rights settlement (Note G)	-	(4,012,500)
Other, net	<u>417,654</u>	<u>53,318</u>
Resources provided by operations	35,717,072	36,668,245
Amount received from escrow account (Note C)	16,430,000	-
Contributions in aid of construction	<u>10,980,747</u>	<u>14,565,599</u>
	<u>63,127,819</u>	<u>51,233,844</u>
<u>Financial resources used for:</u>		
Expenditures for plant and equipment (including cost of removing facilities retired from service)	33,219,361	29,119,899
Reduction of long-term debt	12,490,000	10,715,000
Long-term debt refunded, including call premium (Note C)	16,430,000	-
Payments to the reserve fund of the City	<u>5,555,000</u>	<u>-</u>
	<u>67,694,361</u>	<u>39,834,899</u>
Increase (decrease) in working capital	<u>(\$ 4,566,542)</u>	<u>\$11,398,945</u>
<u>Increase (decrease) in components of working capital:</u>		
Deposits with City Treasurer -		
Revenue fund	(\$28,411,487)	\$ 7,928,299
Bond redemption and interest funds	4,840,903	52,903
Cash on hand and revolving funds	23,345	(2,341)
Customer and other accounts receivable	32,963,711	4,253,293
Materials and supplies	235,384	(401,198)
Deferred purchased water costs	304,100	(715,500)
Prepayments and other current assets	<u>(130,042)</u>	<u>247,751</u>
Net change in current assets	<u>9,825,914</u>	<u>11,363,207</u>
Long-term debt due within one year	1,775,000	250,000
Accrued interest on bonds	(572,862)	(65,220)
Accounts payable and accrued expenses	9,185,865	(976,175)
Customer deposits	<u>4,004,453</u>	<u>755,657</u>
Net change in current liabilities	<u>14,392,456</u>	<u>(35,738)</u>
Increase (decrease) in working capital	<u>(\$ 4,566,542)</u>	<u>\$11,398,945</u>

See accompanying Notes to Financial Statements.

DEPARTMENT OF WATER AND POWER - CITY OF LOS ANGELES

WATER SYSTEM

NOTES TO FINANCIAL STATEMENTS

NOTE A - Summary of significant
accounting policies:

The financial statements of the Water System are presented in conformity with generally accepted accounting principles, and substantially in conformity with accounting principles and methods prescribed by the California Public Utilities Commission except for the method of accounting for contributions in aid of construction described below. The Department is not subject to regulations of such commission.

Utility plant and depreciation - The cost of additions to utility plant and replacements of retirement units of property is capitalized. Cost includes labor, materials and allocated indirect charges such as engineering, supervision, construction and transportation equipment, retirement plan contributions and other fringe benefits, and certain administrative and general expenses. The Department also capitalizes an allowance for funds used during construction equivalent to the cost of long-term debt incurred to finance plant under construction. Research and development costs directly related to current and future construction projects are capitalized and all other such costs are charged to income as incurred. The cost of relatively minor replacements is included in maintenance expense. The original cost of property retired, together with removal cost, less salvage, is charged to accumulated depreciation at such time as property is removed from service.

Depreciation of utility plant is provided by the straight-line method based on the estimated service lives of the properties, except for transportation and construction equipment on which depreciation is based upon hours of use.

NOTE A - Summary of significant
accounting policies: (Continued)

Contributions in aid of construction - Under the provisions of the Charter of the City of Los Angeles, amounts received from customers and others for construction of utility plant are combined with retained income reinvested in the business to represent equity for purposes of computing the Water System's borrowing limitations. Accordingly, contributions in aid of construction are shown in the accompanying balance sheet as an equity account and are not offset against utility plant; depreciation provided for the related utility plant is charged against income.

Revenues - Revenues are recognized as billed to customers. Billings are on a cyclical basis and the Department does not accrue revenues for water sold but not billed at the end of a fiscal period. Residential and the smaller commercial accounts are billed on a bi-monthly basis; all others are billed monthly.

Purchased water costs - Billable purchased water costs are deferred until they are actually billed to customers through the cost of purchased water adjustment formula (Note D).

Shared operating expenses - The Water System shares certain administrative functions with the Power System of the Department. Generally, the cost of these functions is allocated on the basis of benefits provided to the Systems.

Debt expenses - Debt premium, discount and issue expenses are deferred and amortized to income over the lives of the related issues.

Employees' retirement plan - See Note F for policy relating to the employees' retirement plan.

Payments to the reserve fund of the City - Under the provisions of the Charter of the City of Los Angeles, the Water System transfers funds at its discretion to the reserve fund of the City. Such payments are not in lieu of taxes and are recorded as distributions of retained income.

NOTE B - Depreciation:

Provision for depreciation for the years ended June 30, 1980 and June 30, 1979 was \$19,067,876 and \$17,765,309, respectively, of which \$17,266,030 and \$16,662,871 was charged directly to income and the balance was charged through clearing accounts to construction and operating expense accounts. These aggregate provisions approximated 2.13% and 2.06%, respectively, of average depreciable plant for such two fiscal years.

NOTE C - Long-term debt:

Long-term debt outstanding at June 30, 1980 comprised thirty-two issues of revenue bonds due serially in varying annual amounts through 2016. Interest rates, which vary among individual maturities, average approximately 5.34% (5.31% at June 30, 1979). The revenue bonds are callable generally ten years after the date of issue. Scheduled principal maturities during the five years succeeding June 30, 1980 are \$12,490,000, \$12,540,000, \$12,690,000, \$12,625,000 and \$12,375,000, respectively.

In 1972 and 1977 the Water System sold advance refunding bonds totaling \$16,430,000 and \$33,625,000, respectively. Until the bonds to be refunded are called, interest on the advance refunding bonds is payable from interest earned on securities of the United States government purchased out of the proceeds of the sales and held in escrow accounts with Citibank, N.A., New York; \$33,625,000 and \$50,055,000 of said escrow accounts has been offset against the advance refunding bonds in the accompanying balance sheet at June 30, 1980 and 1979. After the moneys in the escrow accounts are applied to redeem the bonds to be refunded (\$32,650,000 to be redeemed in 1985), the outstanding advance refunding bonds will be payable from Water System revenues. On February 1, 1980, the Issue of 1970, \$16,000,000, was redeemed.

NOTE D - Sales of water:

Rates charged customers are established by ordinance of the City of Los Angeles, the most recent of which became effective December 1977. One provision of this rate ordinance allows the recovery of all purchased water costs by direct adjustment of billings to customers.

The Water System sells water to other departments of the City of Los Angeles at regular rates provided in the rate ordinance.

NOTE E - Operational expenses:

Operating expenses shared with the Power System amounted to \$111,943,000 and \$97,582,000 for the years ended June 30, 1980 and June 30, 1979, respectively, of which \$38,603,000 and \$32,667,000 was allocated to the Water System. Amounts due from the Power System for materials and supplies purchased and shared operating expenses were \$37,189,229 and \$1,260,000 at June 30, 1980 and 1979, respectively. Research and development costs amounted to \$201,940 and \$323,141 for the years ended June 30, 1980 and June 30, 1979, respectively, substantially all of which was charged to construction.

NOTE F - Employees' retirement plan:

The Department has a funded contributory retirement, disability and death benefit insurance plan covering substantially all of its employees. Costs of the plan to the Water System for the years ended June 30, 1980 and June 30, 1979 amounted to \$17,445,284 and \$15,332,746, respectively, which includes amortization of prior service costs generally over a 30-year period ending June 30, 2003. The Department's policy is to fund all accrued retirement plan costs. The actuarially computed value of vested benefits in excess of plan assets, as indicated in the current actuarial valuation, is approximately \$365,000,000 of which \$102,000,000 has been allocated to the Water System.

NOTE G - Settlement of water litigation:

In January 1979 the Department settled litigation regarding groundwater pumping in the San Fernando water basin for \$6,000,000 to be received by the Department in ten equal annual instalments without interest commencing October 1979. The discounted amount of this settlement was recorded as Other Income in the year ended June 30, 1979.

NOTE H - Commitments and contingencies:

The Department has budgeted payments totaling \$5,805,000 for the fiscal year 1980-81 from the revenue fund of the Water System to the reserve fund of the City.

The Department's budget for the fiscal year 1980-1981 provides for capital expenditures of approximately \$59,871,500 in the Water System and substantial commitments have been made in connection therewith.

A number of claims and suits are pending against the Department for alleged damages to persons and property and for other alleged liabilities arising out of matters usually incident to the operations of a utility business such as that of the Department. In the opinion of management, the uninsured liability under these claims and suits would not materially affect the financial position of the Water System as of June 30, 1980.





Power System





Price Waterhouse & Co.
Simpson & Simpson

Los Angeles, California

September 11, 1980

To the Board of Water and Power Commissioners
Department of Water and Power
City of Los Angeles

In our opinion, the accompanying balance sheet and the related statements of income, retained income reinvested in the business and changes in financial position present fairly the financial position of the Power System of the Department of Water and Power of the City of Los Angeles at June 30, 1980 and 1979, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

*Price Waterhouse & Co.
Simpson & Simpson*

DEPARTMENT OF WATER AND POWER - CITY OF LOS ANGELES

POWER SYSTEM

STATEMENT OF INCOME

	<u>Year ended June 30</u>	
	<u>1980</u>	<u>1979</u>
Operating revenues:		
Sales of electric energy (Note D)	\$931,378,437	\$781,348,407
Other operating revenues	<u>4,856,681</u>	<u>2,526,293</u>
Total operating revenues	<u>936,235,118</u>	<u>783,874,700</u>
Operating expenses:		
Fuel for generation	431,824,159	297,638,385
Purchased power	<u>80,426,709</u>	<u>48,829,529</u>
Energy costs	512,250,868	346,467,914
Other operation	141,051,241	128,237,734
Maintenance	76,104,122	60,874,159
Provision for depreciation (Note B)	73,387,868	67,048,728
Taxes on property outside the City	<u>5,255,067</u>	<u>6,617,365</u>
Total operating expenses	<u>808,049,166</u>	<u>609,245,900</u>
Operating income	128,185,952	174,628,800
Other income - net	<u>8,879,761</u>	<u>7,967,348</u>
Income before long-term debt expenses	<u>137,065,713</u>	<u>182,596,148</u>
Long-term debt expenses:		
Interest on long-term debt	88,310,974	82,021,769
Allowance for borrowed funds used during construction	<u>(12,076,620)</u>	<u>(12,402,135)</u>
Net long-term debt expenses	<u>76,234,354</u>	<u>69,619,634</u>
Net income	<u>\$ 60,831,359</u>	<u>\$112,976,514</u>

STATEMENT OF RETAINED INCOME REINVESTED IN THE BUSINESS

Balance at beginning of year	\$ 945,784,025	\$868,441,511
Net income for the year	<u>60,831,359</u>	<u>112,976,514</u>
	1,006,615,384	981,418,025
Less - Payments to the reserve fund of the City (Note A)	<u>39,194,000</u>	<u>35,634,000</u>
Balance at end of year (Note H)	<u>\$ 967,421,384</u>	<u>\$945,784,025</u>

See accompanying Notes to Financial Statements.

DEPARTMENT OF WATER AND POWER - CITY OF LOS ANGELES

POWER SYSTEM

BALANCE SHEET

June 30

1980

1979

ASSETS

Utility plant, at original cost:

Production	\$1,297,865,824	\$1,132,893,502
Transmission	408,133,681	335,270,508
Distribution	1,063,152,022	1,023,824,836
General	135,571,471	127,622,853
Construction work in progress	167,116,264	282,975,430

Less - Accumulated provision for depreciation (Note B)

3,071,839,262	2,902,587,129
<u>709,951,754</u>	<u>644,963,098</u>

<u>2,361,887,508</u>	<u>2,257,624,031</u>
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Construction and note funds:

Short-term investments, at cost which approximates market, and cash deposited with City Treasurer	5,030,392	49,795,997
Less - Amount payable to revenue fund (see below)	<u>5,030,392</u>	<u>49,795,997</u>

Current assets:

Deposits with City Treasurer - Revenue fund (including short-term investments of \$17,755,019 and \$28,920,661 at cost which approximates market)	28,238,602	36,030,914
Bond redemption and interest funds	19,048,986	8,481,908
Amount receivable from construction and note funds (see above)	5,030,392	49,795,997
Cash on hand and revolving funds	973,905	646,639
Customer and other accounts receivable, less \$2,000,000 allowance for losses	90,764,832	71,622,849
Materials and supplies (Note A)	39,591,365	34,818,032
Fuel for generation (Note A)	172,000,268	79,011,590
Deferred energy costs (Notes A and D)	145,777,000	95,801,000
Prepayments and other current assets	8,566,726	6,888,554

<u>509,992,076</u>	<u>383,097,483</u>
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Deferred debits:

Unamortized nuclear project costs (Note G)	17,240,928	23,500,759
Unamortized debt expenses	2,643,242	1,690,257

<u>19,884,170</u>	<u>25,191,016</u>
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<u>\$2,891,763,754</u>	<u>\$2,665,912,530</u>
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LIABILITIES AND EQUITY

Equity:

Retained income reinvested in the business, per accompanying statement	\$ 967,421,384	\$ 945,784,025
Contributions in aid of construction	40,878,426	38,999,647

<u>1,008,299,810</u>	<u>984,783,672</u>
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Long-term debt, excluding advance refunding bonds (Note C):

Revenue bonds, less \$2,419,314 and \$1,711,291 unamortized discounts and premiums	1,599,055,686	1,484,080,209
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Revenue notes, less \$536,974 unamortized discounts at June 30, 1980	124,463,026	100,000,000
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Less - Long-term debt due within one year (see below)	1,723,518,712	1,584,080,209
	<u>65,611,000</u>	<u>60,236,000</u>

<u>1,657,907,712</u>	<u>1,523,844,209</u>
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Current liabilities:

Long-term debt due within one year (see above)	65,611,000	60,236,000
Accrued interest on bonds	25,316,645	22,471,943
Accounts payable and accrued expenses	133,025,698	73,263,799
Extension and other deposits	1,602,889	1,312,907

<u>225,556,232</u>	<u>157,284,649</u>
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<u>\$2,891,763,754</u>	<u>\$2,665,912,530</u>
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See accompanying Notes to Financial Statements.



DEPARTMENT OF WATER AND POWER - CITY OF LOS ANGELES

POWER SYSTEM

STATEMENT OF CHANGES IN FINANCIAL POSITION

	<u>Year ended June 30</u>	
	<u>1980</u>	<u>1979</u>
Financial resources provided by:		
Operations -		
Net income	\$ 60,831,359	\$112,976,514
Charges and credits to income not affecting working capital -		
Provision for depreciation (Note B)	78,017,742	70,217,934
Amortization of nuclear project costs (Note C)	6,259,831	5,340,300
Other, net	<u>324,250</u>	<u>85,537</u>
Resources provided by operations	145,433,182	188,620,285
Sale of revenue bonds and notes	198,563,340	99,529,515
Amount received from escrow account (Note C)	31,569,500	
Contributions in aid of construction	<u>1,878,779</u>	<u>4,423,569</u>
	<u>377,444,801</u>	<u>292,573,369</u>
Financial resources used for:		
Expenditures for plant and equipment (including cost of removing facilities retired from service)	182,281,219	185,320,243
Reduction of long-term debt	65,611,000	60,236,000
Long-term debt refunded, including call premium (Note C)	31,569,500	-
Payments to the reserve fund of the City	39,194,000	35,634,000
Expense of issuing bonds and notes	<u>166,072</u>	<u>95,287</u>
	<u>318,821,791</u>	<u>281,285,530</u>
Increase in working capital	<u>\$ 58,623,010</u>	<u>\$ 11,287,839</u>
Increase (decrease) in components of working capital:		
Deposits with City Treasurer -		
Revenue fund	(\$ 7,792,312)	\$ 15,385,003
Construction and note funds	(44,765,605)	(4,822,983)
Bond redemption and interest funds	10,567,078	(1,192,147)
Cash on hand and revolving funds	327,266	(96,095)
Customer and other accounts receivable	19,141,983	5,115,980
Materials and supplies	4,773,333	1,776,989
Fuel for generation	92,988,678	(24,177,296)
Advances to supplier for fuel oil	-	(4,566,480)
Deferred energy costs	49,976,000	32,244,383
Prepayments and other current assets	<u>1,678,172</u>	<u>1,023,262</u>
Net change in current assets	<u>126,894,593</u>	<u>20,690,616</u>
Long-term debt due within one year	5,375,000	1,890,000
Accrued interest on bonds	2,844,702	116,262
Accounts payable and accrued expenses	59,761,899	6,995,442
Extension and other deposits	<u>289,982</u>	<u>401,073</u>
Net change in current liabilities	<u>68,271,583</u>	<u>9,402,777</u>
Increase in working capital	<u>\$ 58,623,010</u>	<u>\$ 11,287,839</u>

See accompanying Notes to Financial Statements.

DEPARTMENT OF WATER AND POWER - CITY OF LOS ANGELES

POWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

NOTE A - Summary of significant accounting policies:

The financial statements of the Power System are presented in conformity with generally accepted accounting principles, and substantially in conformity with accounting principles and methods prescribed by the Federal Energy Regulatory Commission and the California Public Utilities Commission except for the method of accounting for contributions in aid of construction described below. The Department is not subject to regulations of such commissions.

Utility plant and depreciation - The cost of additions to utility plant and replacements of retirement units of property is capitalized. Cost includes labor, materials and allocated indirect charges such as engineering, supervision, construction and transportation equipment, retirement plan contributions, and other fringe benefits, and certain administrative and general expenses. The Department also capitalizes an allowance for funds used during construction equivalent to the cost of long-term debt incurred to finance plant under construction. Research and development costs directly related to current and future construction projects are capitalized and all other such costs are charged to income as incurred. The cost of relatively minor replacements is included in maintenance expense. The original cost of property retired, together with removal cost, less salvage, is charged to accumulated depreciation at such time as property is removed from service.

Depreciation of utility plant is provided for the major portion of the facilities by the 5% sinking fund method based on the estimated service lives. The straight-line method is used for



NOTE A - Summary of significant
accounting policies: (Continued)

major projects completed subsequent to July 1, 1973 and for office and shop structures and related furniture and equipment. Depreciation of transportation and construction equipment is based upon hours of use.

Materials and supplies and fuel for generation - Materials and supplies and coal inventories are stated at average cost. Fuel oil inventories are stated at last-in, first-out cost commencing in September 1979. This change had no material effect on income for the year ended June 30, 1980.

Contributions in aid of construction - Under the provisions of the Charter of the City of Los Angeles, amounts received from customers and others for construction of utility plant are combined with retained income reinvested in the business to represent equity for purposes of computing the Power System's borrowing limitations. Accordingly, contributions in aid of construction are shown in the accompanying balance sheet as an equity account and are not offset against utility plant; depreciation provided for the related utility plant is charged against income.

Revenues - Revenues are recognized as billed to customers. Billings are on a cyclical basis and the Department does not accrue revenues for energy sold but not billed at the end of a fiscal period. Residential and the smaller commercial accounts are billed on a bi-monthly basis; all others are billed monthly.

Energy costs - Billable energy costs are deferred until they are actually billed to customers through the energy cost adjustment formula (Note D).

Shared operating expenses - The Power System shares certain administrative functions with the Water System of the Department. Generally, the cost of these functions is allocated on the basis of benefits provided to the Systems.

NOTE A - Summary of significant
accounting policies: (Continued)

Debt expenses - Debt premium, discount and issue expenses are deferred and amortized to income over the lives of the related issues.

Employees' retirement plan - See Note F for policy relating to the employees' retirement plan.

Payments to the reserve fund of the City - Under the provisions of the Charter of the City of Los Angeles, the Power System transfers funds at its discretion to the reserve fund of the City. Such payments are not in lieu of taxes and are recorded as distributions of retained income.

NOTE B - Depreciation:

Provision for depreciation for the years ended June 30, 1980 and June 30, 1979 was \$78,017,742 and \$70,217,934, respectively, of which \$73,387,868 and \$67,048,728 was charged directly to income and the balance was charged through clearing accounts to construction and operating expense accounts. These aggregate provisions approximated 2.92% and 2.83%, respectively, of average depreciable plant for such fiscal years.

NOTE C - Long-term debt:

Long-term debt outstanding at June 30, 1980 comprised sixty-six issues of revenue bonds and notes due serially in varying annual amounts through 2020. Interest rates, which vary among individual maturities, average approximately 5.85% (5.57% at June 30, 1979). The revenue bonds are callable generally ten years after the date of issue. Scheduled principal maturities during the five years succeeding June 30, 1980 are \$65,611,000, \$67,261,000, \$70,111,000, \$71,811,000 and \$74,126,000, respectively.

NOTE C - Long-term debt: (Continued)

In 1972 and 1977 the Power System sold advance refunding bonds totaling \$99,800,000 and \$161,700,000, respectively. Until the bonds to be refunded are called, interest on the advance refunding bonds is payable from interest earned on securities of the United States government purchased out of the proceeds of the sales and held in escrow accounts with Citibank, N.A., New York; \$199,085,000 and \$230,657,500 of said escrow accounts has been offset against the advance refunding bonds in the accompanying balance sheet at June 30, 1980 and 1979. After the moneys in the escrow accounts are applied to redeem the bonds to be refunded (\$193,300,000 to be refunded in 1980 through 1986), the outstanding advance refunding bonds will be payable from Power System revenues. On May 1, 1980, the Issue of 1970, \$30,650,000, was redeemed.

On September 3, 1980 the Power System sold \$40,000,000 Electric Plant Revenue Bonds, Third Issue of 1980 and \$40,000,000 Electric Plant Revenue Notes, Issue of 1980.

NOTE D - Sales of electric energy:

Effective December 10, 1978 under the provisions of a restructured electric rate ordinance, rates were adjusted to provide additional revenues of approximately 4.6%. One of the provisions of this rate ordinance allows the recovery of all fuel costs incurred in the generation of electric energy and all purchased power costs through the energy cost adjustment formula. Deferred energy costs at June 30, 1979 increased approximately \$22 million as a result of the change in the energy cost adjustment formula.

The Power System sells electric energy to other departments of the City of Los Angeles at regular rates provided in the rate ordinance.

NOTE E - Operational expenses:

Operating expenses shared with the Water System amounted to \$111,943,000 and \$97,582,000 for the years ended June 30, 1980 and June 30, 1979, respectively, of which \$73,341,000 and \$64,915,000 was allocated to the Power System. Amounts due the Water System for materials and supplies purchased and shared operating expenses were \$37,189,229 and \$1,260,000 at June 30, 1980 and 1979, respectively. Research and development costs amounted to \$3,918,758 and \$3,505,350 for the years ended June 30, 1980 and June 30, 1979, respectively, substantially all of which was charged to income.

NOTE F - Employees' retirement plan:

The Department has a funded contributory retirement, disability and death benefit insurance plan covering substantially all of its employees. Costs of the plan to the Power System for the years ended June 30, 1980 and June 30, 1979 amounted to \$43,617,545 and \$40,565,888, respectively, which includes amortization of prior service costs generally over a 30-year period ending June 30, 2003. The Department's policy is to fund all accrued retirement plan costs. The actuarially computed value of vested benefits in excess of plan assets, as indicated in the current actuarial valuation, is approximately \$365,000,000, of which \$263,000,000 has been allocated to the Power System.

NOTE G - Nuclear Project costs:

In 1978 the San Joaquin Nuclear Project and the Sundesert Nuclear Project were canceled. The Department had invested \$33,182,000 in these projects, \$30,252,000 of which was identified as having no continuing value and is being amortized over sixty-month periods which began in 1978. In September 1979, the Department sold certain rights to nuclear enrichment services which had been acquired in connection with the San Joaquin Nuclear Project.

NOTE H - Commitments and contingencies:

The Department has budgeted payments totaling \$47,140,000 for the fiscal year 1980-1981 from the revenue fund of the Power System to the reserve fund of the City.

The Department's budget for the fiscal year 1980-1981 provides for capital expenditures of approximately \$171,891,000 in the Power System and substantial commitments have been made in connection therewith. Also, the Department has entered into a number of fuel supply and energy and capacity contracts which involve substantial commitments.

A number of claims and suits are pending against the Department for alleged damages to persons and property and for other alleged liabilities arising out of matters usually incident to the operation of a utility business such as that of the Department. In the opinion of management, the uninsured liability under these claims and suits would not materially affect the financial position of the Power System as of June 30, 1980.

SECTION 2

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY

Question 1.

Provide a detailed statement of the projected sources of funds for each municipal applicant's capital contribution to the subject project showing both the timing and amounts that will be financed and advanced to the lead applicant for the acquisition of the respective ownership interest of the facility. State in detail all other construction expenditures that are projected to be incurred during the acquisition period, including other capital requirements such as sinking fund requirements and redemptions of maturing bond issues. Indicate the expected breakdown between internally-generated funds and external financing during the acquisition period in the meeting of the total capital requirements. Provide a detailed explanation of the assumptions upon which the projected sources of funds statement is based.

Answer:

It is expected that all necessary funds for the acquisition by the Southern California Public Power Authority (SCPPA) of a 5.91% undivided interest in PVNGS will be obtained from revenue bonds. The following was assumed for calculating the costs to SCPPA:

Buy-in Date:	2/1/82
Bond Coupon Rate:	11.48% Average
Bond Discount:	3%
Reinvestment Rate:	11.48% Average
Commerical Operation Dates:	PVNGS 1 - 5/1/83 PVNGS 2 - 5/1/84 PVNGS 3 - 5/1/86

The estimated construction cash flow for PVNGS was provided by Arizona Public Service Company (APS), as Project Manager for PVNGS.

Utilizing the above assumptions and "buy-in" costs as provided for in the "Palo Verde Nuclear Generating Station Assignment Agreement between Salt River Project Agricultural Improvement and Power District and Southern California Public



Power Authority" (Assignment Agreement), attached hereto as Appendix 2A, the total multiple bond issue amount is estimated to be \$541,000,000. SCPPA currently contemplates financing this amount by issuing three separate series of bonds. The bond issues are currently estimated to be sized and timed as follows: (1) \$350,000,000, at or around February 1, 1982; (2) \$100,000,000, at or around August 1, 1982; and (3) \$91,000,000, at or around February 1, 1983. The above estimate of \$541,000,000 includes an estimate for financing the acquisition by SCPPA of an entitlement in the Arizona Nuclear Power Project Transmission System, as defined in the Assignment Agreement, from the Salt River Project Agricultural Improvement and Power District (SRP).

The amount that SCPPA will pay to SRP at the closing under the Assignment Agreement is estimated to be \$212,505,449. This amount excludes the acquisition by SCPPA of transmission services from SRP.

Table 2-1 lists the amounts expected to be advanced by SCPPA to APS after the close of the sale.



Table 2-1

SCPPA

ESTIMATE OF EXPENDITURES TO APS (\$1000)

YEAR (July 1 - June 30)

	<u>1981-82</u>	<u>1982-83</u>	<u>1983-84</u>	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
Acquisition of 5.91% Ownership of PVNGS	13,256	22,742	13,232	9,220	3,497	804
Sewage Effluent Payments	17	17	13	9	8	1
Preoperation Staffing and Training	359	762	0	0	0	0
5.91% Share of PVNGS Startup Costs	951	3,010	2,409	1,600	2,223	0
5.91% Share of Uranium Oxide Pro- curement, Con- version, Enrichment and Fabrication for PVNGS	2,200	5,982	2,263	5,317	2,120	0



Question 2.

If any municipal applicant is to finance its ownership share with bonds, indicate the source of funds for payment of interest charges and principal. Indicate the legal authority by which each municipal applicant can issue bonds to provide financial support for the subject project. Show the effect of any restrictions on both project and total financing ability stating the amount of financing that may be presently performed under such restrictions.

Answer:

SCPPA proposes to finance its ownership share of PVNGS with revenue bonds. The security for such revenue bonds is provided by Power Sales Contracts between SCPPA and those of its members who enter into Power Sales Contracts with SCPPA to acquire the right or entitlement to participate in the capacity and energy output associated with SCPPA's ownership interest in PVNGS. Attached hereto as Appendix 2B is a form of such Power Sales Contract. SCPPA will enter into Power Sales Contracts with some or all of its members will sell 100% of the capacity and energy output associated with its ownership interest in PVNGS. The total amounts payable by the SCPPA members participating in PVNGS will be equivalent to SCPPA's debt service requirements and its share of the PVNGS operating and maintenance costs. The Power Sales Contracts between SCPPA and its members are anticipated to be executed in September, 1981. Pursuant to Section 5.7 of the Power Sales Contract, the source of payments which would be utilized by the SCPPA member in paying its obligations to SCPPA would be limited to revenues which such member derives from the operation of its electric system.

The legal authority for SCPPA to issue revenue bonds to acquire an ownership interest in PVNGS is contained in Sections 6500 et seq. of the California Government Code. SCPPA is authorized by Section 6546 of the California Government Code to issue revenue bonds to pay the cost and expense of acquiring or constructing a facility for the generation or transmission of electrical energy and all rights, properties and improvements necessary therefor, including fuel and water facilities and resources.

SCPPA is not aware of any legal restrictions on project or total financing ability at the present time.



Question 3.

Describe the nature, amount, ratings and success of each municipal applicant's most recent revenue and general obligation bond sales. Indicate the current total outstanding indebtedness in each category for each entity.

Answer:

SCPPA is an entity which was created as of November 1, 1980, and at the present time has not issued any revenue or general obligation bonds.



Question 4.

Provide copies of the official statement for the most recent bond issue. Provide copies of the preliminary statement for any pending security issue.

Answer:

SCPPA has not issued any revenue or general obligation bonds (see answer to Question 3) and, therefore, has not yet prepared any official statements or preliminary statements.



Question 5.

Provide copies of the most recent annual financial report and the most recent interim financial statements for each municipal applicant. Continue to submit copies of the annual financial report for each year thereafter as required by 10 CFR Part 50.71(b).

Answer:

To date, SCPPA has not prepared any annual financial reports or any interim financial statements.



Question 6.

Is each participant's percentage ownership share in the facility equal to its percentage entitlement in the electrical capacity and output of the plant? If not, explain the difference(s) and any resultant effect on any participant's obligation to provide its share of design, construction and operating costs.

Answer:

SCPPA's percentage ownership interest in PVNGS is equal to its Generation Entitlement Share, as defined in the ANPP Participation Agreement.



Question 7.

Describe the rate-setting authority of each municipal applicant and how that authority may be used to ensure the satisfaction of financial obligations related to both capital and operating costs of the facility. Describe any restrictions on such rate-setting authority and how this may affect the applicant's ability to satisfy its obligations to the project. Describe the nature and amount of each municipal applicant's most recent rate relief action and the anticipated effect on revenues. Indicate the nature and amount or any pending rate relief action(s).

Answer:

Each member of SCPPA which enters into a Power Sales Contract would be obligated to share in the payment of SCPPA's debt service requirements and operating and maintenance costs in proportion to such member's entitlement of use in the electrical capacity and energy output of PVNGS. It is not contemplated that the members of SCPPA would contribute construction funds to SCPPA.

The members of SCPPA are the California cities of Anaheim, Azusa, Banning, Burbank, Colton, Glendale, Los Angeles, Pasadena, Riverside and Vernon and the Imperial Irrigation District. The City Council of each city either establishes or approves the electrical rates which are charged to customers of the city's electrical utility. In general, the cities are required by applicable charter provisions, bond covenants or policies of their city councils or boards to establish rates sufficient to recover revenues to pay for the costs of service of providing electrical service to their customers. The Board of Directors of the Imperial Irrigation District establishes and approves electrical rates for customers of the District. Specific descriptions of the rate-setting authority and the most recent rate relief action for each member of SCPPA follow.

City of Anaheim

Section 1221 of the Charter of the City of Anaheim provides that the City Council shall establish rates, rules and regulations for the water and electric utilities. This Section further provides that the rates shall be based upon cost of service and shall be sufficient to pay: (a) for operations and maintenance of the system; (b) for payment of principal and interest on debt; (c) for creation and maintenance of financial reserves adequate to assure debt service on bonds outstanding; (d) for capital construction for new facilities and improvement of existing facilities, or main-



tenance of a reserve fund for that purpose. The Charter of the City of Anaheim requires rates to be established in amounts adequate to pay for both capital and operating costs of any facilities which are part of Anaheim's electric utility. Anaheim's rights pursuant to its Power Sales Contract with SCPPA in PVNGS would be a part of the Anaheim electrical utility. Thus, Anaheim believes that its financial position with respect to payment of its obligations pursuant to its Power Sales Contract with SCPPA relating to PVNGS is sound and that the financial obligations of the City with respect to those matters may be met. Anaheim is not aware of any restrictions on its rate-setting authority which might interfere with its ability to satisfy its obligations to pay its costs associated with PVNGS.

The City of Anaheim's most recent rate relief action, effective July 1, 1981, increased expected annual revenue by 10.3% (approximately \$11.0 million). The increase affected each customer approximately as follows:

<u>Customer Class</u>	<u>Percentage Change</u>
Residential	16.5%
Small Commercial	10.1
Large Commercial	7.7
Industrial	8.6
Agricultural and Pumping	14.7
Street lights	11.6
Municipal	7.8

The increase was undertaken because of increases in the cost of purchased power.

City of Azusa

The City of Azusa is a general law city; as such, the powers of its City Council are limited, in large part, by California state law.

General law cities are specifically empowered, in Article 11, Section 9 of the California Constitution, to establish, purchase and operate public works to furnish its inhabitants with power. Section 39732 of the California Government Code further provides that legislative bodies (city councils) may, "(a)cquire, own, construct, maintain, and operate . . . works for light, power, and heat . . .". Finally, Section 10002 of the California Public Utilities Code provides that any municipal corporation may acquire, construct, own, operate, or lease any public utility.

More specifically, Azusa Municipal Code Section 13.08.010 provides that the City Council is empowered to set the electrical rates, and Azusa Municipal Code Section 13.08.030 further permits the Council to change those rates when it deems a change is necessary to cover its energy costs. Rates are therefore established in amounts adequate to recover capital and operating costs of any facilities included in Azusa's electrical utility system and to recover costs of purchased power such as its obligation to pay SCPPA in connection with Azusa's obligations pursuant to its Power Sales Contract. Thus, Azusa believes that its financial position with respect to payment of its obligations related to PVNGS is sound and that the financial obligations of the City with respect to those those matters may be met. Azusa is not aware of any restrictions on its rate-setting authority which might interfere with its ability to satisfy its obligations to pay its costs associated with PVNGS.

The City of Azusa's most recent rate relief action was adopted on June 16, 1980, and went into effect in July, 1980. The action was undertaken to increase revenues by a total of approximately 5.6% (including Fuel Cost Adjustment and California surcharge), as follows:

<u>Customer Class</u>	<u>Increase</u>	
	<u>Annual Amount</u>	<u>Percent</u>
Residential	(\$119,439)	(5.12%)
General - Rate G-1	24,528	4.05%
General - Rate G-2	130,523	8.03%
Large General	356,748	12.41%
Municipal - Rate G-1	15,773	57.90%
Municipal - Rate G-2	9,965	13.90%
Street Lighting	14,915	8.30%
Outdoor Area Lighting	<u>368</u>	<u>8.20%</u>
TOTAL	\$433,381	5.61%

The action was undertaken in order to provide revenues adequate to meet the costs of service.



Fuel cost adjustments are made monthly, as necessary.

City of Banning

Banning is a general law city, and thus is empowered to operate public works. See the discussion of California state law set forth above under "City of Azusa".

While there are no specific provisions in the City's Code regarding rate-setting, the City Council has and will continue to change the rates charged to electric utility customers, when necessary, to ensure that adequate revenue is received. Those rates are not subject to review by any other governmental entity. In this manner, the City sets and alters rates based upon cost of service and sufficient to pay for the operating (including purchased power) and capital costs of any facilities which are part of Banning's electric utility. Banning's rights pursuant to its Power Sales Contract with SCPA related to PVNGS would be a part of the Banning electrical utility. Thus, Banning believes that its financial position with respect to payment for its obligations related to costs of PVNGS is sound and that the financial obligations of the City with respect to those matters may be met. Banning is not aware of any restrictions on its rate-setting authority which might interfere with its ability to satisfy its obligations to pay its costs associated with PVNGS.

The City of Banning's most recent rate relief action became effective July 15, 1981. That action, undertaken because of increases in the cost of purchased power, represented a 1.5% rate increase, and an increase in annual revenues of approximately \$63,265.

In addition, fuel cost adjustments are made when necessary.

City of Burbank

The City of Burbank is governed by Charter. Section 3 of that Charter provides that the City of Burbank shall have and may exercise all powers necessary or appropriate to a municipal corporation which are not prohibited by the California Constitution. As noted above (see discussion under "City of Azusa"), the Constitution of the State of California expressly empowers cities to operate and maintain an electrical utility.



Chapter 12, Article 3, Section 39 of the Burbank Municipal Code, enacted on August 30, 1977, requires that the Public Service Department of the City conduct a rate review at least biennially and prepare a report which includes a determination of the Public Service Department's revenue requirements, provides a cost-of-service analysis by customer class, and reviews the adequacy of existing electric rates. The report is provided to the City Council with recommendations as to the need for rate changes, if any. The City's rates are not reviewable by other governmental agencies.

Furthermore, the City has made covenants with holders of its Electric Revenue Bonds (as expressed in the Official Statement Relating to the Electric Revenue Bonds issued in 1971) which require the City to prescribe, revise and collect charges for services, facilities and electricity furnished by the electrical system and facilities of the City which shall provide revenues at least sufficient to pay: (1) Interest and principal on the bonds and parity revenue bond issues; (2) any other payments required by the Bond Resolution including sums required to be paid to the City's Reserve Account; (3) the necessary and reasonable maintenance and operation costs of the City's system and facilities; and (4) all other payments required to meet other obligations of the City which are payable from the revenues of the City's system and facilities.

Burbank's rights in its Power Sales Contract with SCPPA relating to PVNGS would be a part of the Burbank electrical utility. Thus, Burbank believes that its financial position with respect to payment for its obligations relating to PVNGS is sound and that the financial obligations of the City with respect to those matters may be met. Burbank is not aware of any restrictions on its rate-setting authority which might interfere with its ability to satisfy its obligations to pay its costs associated with PVNGS.

On August 28, 1979, the City of Burbank enacted an ordinance adjusting electric utility rates. However, that ordinance had less than a 1% effect on revenues; it was enacted to simplify and restructure rate schedules.

Burbank utilizes a monthly fuel cost adjustment factor, when and as necessary.

The City of Burbank is currently in the process of an elective rate study. To date, the study indicates that an overall electric rate increase is unnecessary.



City of Colton

The City of Colton is a general law city, and, therefore, is empowered to own and operate public works. See the discussion under "City of Azusa". In addition, Colton City Ordinance No. 119, enacted on October 17, 1895, specifically entitles the City to own, operate and maintain an electric utility.

While there are no specific provisions regarding rate-setting in the City's Code, the City Council has and will continue to change the rates charged to electric utility customers, when necessary, to ensure that adequate revenues are received. Those rates are not subject to review by any other governmental entity. The City sets and alters rates based upon cost of service and sufficient to pay for the operating and capital costs of any facilities which are part of Colton's electric utility. Colton's rights in its Power Sales Contract with SCPPA relating to PVNGS would be a part of the Colton electrical utility. Thus, Colton believes that its financial position with respect to payment of its obligations relating to the costs of PVNGS is sound and that the financial obligations of the City with respect to those matters may be met. Colton is not aware of any restrictions on its rate-setting authority which might interfere with its ability to satisfy its obligations to pay its costs associated with PVNGS.

The City of Colton's most recent rate relief action took effect on July 8, 1981, and was necessary to offset an increase in the cost of purchased power. The overall percentage rate increase was 10% broken down as follows:

<u>Class</u>	<u>Increase</u>	
	<u>Annual Amount</u>	<u>Percentage</u>
Residential	\$229,124	11.9%
Commercial	214,690	7.95%
Industrial	149,579	13.4%
Municipal Accounts	24,030	6.4%
	<hr/>	<hr/>
	\$617,423	10.0%



In addition, fuel cost adjustments are made when and as necessary.

City of Glendale

The City of Glendale is a charter city, and the City Council's authority for setting rates for electric utility service is reserved by the City Charter to that body (Article III, Section 2; Article VI, Section 4; Article XXIII, Section 26.) Furthermore, Glendale's rates are not subject to review by any other governmental authority.

The City Council must establish rates which generate sufficient revenue to pay for both capital and operating costs of any facilities including purchased power costs which are part of Glendale's electric utility. Glendale's rights in its Power Sales Contract with SCPA in the Palo Verde Nuclear Generating Station Units 1, 2 and 3 would be a part of the Glendale electrical utility. Thus, Glendale believes that its financial position with respect to payment of its obligations related to the Palo Verde Nuclear Generating Station Units 1, 2 and 3 is sound and that the financial obligations of the City with respect to those matters may be met. Glendale is not aware of any restrictions on its rate-setting authority which might interfere with its ability to satisfy its obligations to pay its costs associated with Palo Verde Nuclear Generating Station Units 1, 2 and 3.

The City of Glendale's most recent rate relief action became effective on January 1, 1978. The overall rate increase of 11.38% was comprised of the following class changes:

Residential	9.6%
Commercial	12.75%
Industrial	11.51%

The above-described increase, plus an additional increase in revenue of \$252,000.00 in street light revenues, resulted in a net increase to the Public Service Department of \$3,400,000.00 in fiscal 1977-1978. The increase was necessary in order to offset increases in the price of purchased power. Rates are subject to adjustment on a kilowatt-hour basis for variation of fuel costs.



Imperial Irrigation District

Imperial Irrigation District's rate-setting authority derives from the California Water Code. More particularly, Section 22115 of that Code empowers an irrigation district to acquire and operate electrical facilities; Section 22117 vests officers, agents and employees of irrigation districts with the same powers, duties, and liabilities respecting electric power as they have respecting irrigation; and Section 22280 provides that an irrigation district may fix and collect charges for services rendered by the district, including the sale of electric power.

Imperial Irrigation District's financial obligations relating to both capital and operating costs, including purchased power, have been and will continue to be satisfied by rates set by the Board of Directors, pursuant to their authority granted by state law as set forth above, for the sale of electric energy to Imperial Irrigation District's consumers. Imperial Irrigation District's rights in its Power Sales Contract with SCPPA related to PVNGS would be a part of the Imperial Irrigation District electrical utility. Thus, Imperial Irrigation District believes that its financial position with respect to payment of its obligations related to the costs of PVNGS is sound and that the financial obligations of the District with respect to those matters may be met.

As expressly permitted by California Water Code Section 22120, Imperial Irrigation District provides electric service to several areas outside the District's boundaries. Pursuant to Section 22123 of the Water Code, the District is therefore subject to reasonable rules, regulations, and orders of the governing body of the city or county area being served (provided, however, that such rules, regulations and orders may be no more restrictive than the rules, regulations and orders of the California Public Utilities Commission as applied to electric utilities). In addition, Section 22123 also provides that no district may impose rates, rules, regulations or orders outside its boundaries which are different from those imposed within its boundaries. Imperial Irrigation District's rates are uniformly charged to its customers, regardless of location.

Two of the cities within Imperial Irrigation District's service area, but outside its boundaries (Indio and Coachella) have enacted ordinances granting them the authority to approve rate changes. Those ordinances also require 60 days' notice before rates may be changed.



These ordinances may exceed the authority granted such cities pursuant to Water Code Section 22123 and this matter has not been litigated. However, to date, all rates approved by Imperial Irrigation District's Board of Directors have subsequently been approved by Indio and Coachella. Imperial Irrigation District's rate increase approved on April 14, 1981, and effective October 1, 1981, has been approved by Indio, and approval from Coachella is expected shortly.

Imperial Irrigation District is not aware of any other restrictions on its rate-setting authority which might interfere with its ability to satisfy its obligations to pay its costs associated with PVNGS.

On April 14, 1981, the Board of Directors approved a general rate increase of 2.3 mills per KWH to become effective October 1, 1981. This is an approximate 5.5% increase and will generate approximately \$3 million of additional revenue annually. Fuel cost adjustments are made when and as necessary.

City of Los Angeles

Refer to the information provided in Section 1 for the Los Angeles Department of Water and Power.

City of Pasadena

Section 1403 of the Charter of the City of Pasadena provides that the rates for electrical energy shall be prescribed by City Council ordinance. Those rates are not subject to review or approval by any other governmental entity. Furthermore, Section 1413 of the Charter provides that an ordinance authorizing the issuance of bonds should contain rates to be charged by the affected utility sufficient to provide revenue at least adequate to pay principal and interest of such bonds, all other obligations payable from the Revenue Fund of the affected utility, and the necessary expenses of maintaining and operating such public works. Therefore, the City of Pasadena is obligated to establish rates adequate to pay for both capital and operating costs, including purchased power costs, of any facilities which are part of Pasadena's electric utility. Pasadena's rights in its Power Sales Contract with SCPA related to PVNGS would be a part of the Pasadena electrical utility. Thus, Pasadena believes that its financial position with respect to payment for its obligations related to the cost of PVNGS is sound and that the financial obligations of the City with respect to those matters may be met. Pasadena is not aware of any restrictions on its rate-



setting authority which might interfere with its ability to satisfy its obligations to pay its costs associated with PVNGS.

The City of Pasadena's most recent rate relief action became effective in February, 1979, and involved a 4-5% increase to all customer classes except for General Service, corresponding to an \$800,000 increase in annual revenues. The increase was necessary to counteract increased costs of purchased power. Fuel cost adjustments are made monthly when and as necessary.

City of Riverside

Section 1302(e) of the Charter of the City of Riverside provides that the Public Utilities Board of the City of Riverside has the power to establish rates for the electric utility owned and operated by the City subject to approval of the City Council. Section 1304 of the Charter of the City of Riverside provides that the revenues of the electrical utility shall be kept separate and apart from all other monies of the City in the appropriate revenue fund and shall be used for the purposes of paying operating and maintenance expenses of the utility, for the payment of principal and interest on revenue bonds issued by the City of Riverside to finance additions to its electric utility and for capital expenditures of the electrical utility. The Public Utilities Board thus is empowered to set electric rates to recover capital and operating costs, including purchased power costs, in its electric rates sufficient to pay for its obligations incurred pursuant to its Power Sales Contract related to PVNGS. Riverside is not aware of any restriction on its ability to satisfy its obligations related to PVNGS.

The City of Riverside has recently implemented an electric rate increase. A public hearing was held on May 18, 1981, and the Board of Public Utilities established new rates on June 5, 1981. The new rates were approved by the City Council on June 16, 1981, and became effective at that time. The rate increase will generate \$7.2 million additional revenues annually and represents an 11% overall increase. Customer classes will be affected as follows:

<u>Class</u>	<u>Increase</u>
Domestic	11.5%
Small General Service	5.5%



Medium General Service	10.5%
Large General Service	12.0%
Large Industrial	12.0%
Power Pumping	8.0%
Wind Machines	.15%
Street Lights	7.0%
Traffic Control	1.8%

City of Vernon

The City of Vernon is a general law city, and, therefore, is empowered to own and operate an electrical utility. See the discussion under "City of Azusa".

While there are no specific provisions in the City's Code regarding rate-setting, the City Council has and will continue to change the rates charged to electric utility customers, when necessary, to ensure that adequate revenue is received. Those rates are not subject to review by any other governmental entity. The City sets and alters rates based upon cost of service and receives revenue sufficient to pay for the operating costs, including purchased power costs, and capital costs of any facilities which are part of Vernon's electric utility. Vernon's rights in its Power Sales Contract related to PVNGS would be a part of the Vernon electrical utility. Thus, Vernon believes that its financial position with respect to payment for its obligations concerning PVNGS is sound and that the financial obligations of the City with respect to those matters may be met. Vernon is not aware of any restrictions on its rate-setting authority which might interfere with its ability to satisfy its obligations to pay its costs associated with PVNGS.

The City of Vernon's most recent rate relief action became effective on July 6, 1981. The increase was necessary to offset an increase in the cost of purchased power. The overall increase was 8.1%, amounting to approximately \$5,547,984 annually. The increases for each customer class are as follows:



<u>Class</u>	<u>Increase</u>	
	<u>Annual Amount</u>	<u>Percentage</u>
General Service - 1,000+ kw/mo.	\$3,542,128	8.2
General Service - 200 - 1,000 kw/mo.	1,215,428	8.1
General Service - 20 - 200 kw/mo.	669,522	8.1
General Service - Less than 20 kw/mo	48,146	8.0
Domestic Service	379	8.1
Street Lighting - Utility-Owned	18,870	8.1
Street Lighting - Customer-Owned	765	8.1
Outdoor Area Lighting	15,801	8.1
General Power Service	2,726	35.7
Power-Agricultural & Pumping Connected Load Basis	21,779	8.1
Power-Agricultural & Pumping Demand Basis	9,781	8.1
Traffic Control	<u>2,659</u>	<u>8.1</u>
	\$5,547,984	8.1



Question 8.

What is the estimated dollar amount that will be payable by the applicant at the date of closing the sale? What is the total estimated dollar amount that the applicant will pay to the lead applicant after closing the sale and through completion of the units?

Answer:

Assuming that bonds are sold and funds therefor delivered to SCPPA on February 1, 1982, the following estimated amounts will be paid to SRP:

	<u>Estimated Costs</u>
Plant Construction Costs (including AFUDC)	\$203,749,778
Estimated Carrying Costs	338,132
Administrative Charge (Actual)	<u>8,367,539</u>
Total	\$212,505,449

The remaining construction and nuclear fuel costs to be paid by SCPPA to APS, as Project Manager, excluding associated interest and transmission services to be acquired from SRP, are estimated to be \$92,003,551. These estimated costs include nuclear fuel payments through commercial operation of each unit and all other capital costs.



Question 9.

Provide copies of the joint ownership agreement. The Staff will require copies of the executed agreement as a condition of the Construction Permit Amendment.

Answer:

A copy of the Assignment Agreement in substantially the form anticipated to be executed is provided in Appendix 2A. A copy of the executed Assignment Agreement will be provided as soon as available. A form of the Power Sales Contract is provided in Appendix 2B. A copy of the ANPP Participation Agreement is provided in the "Palo Verde Nuclear Generating Station Units 1, 2 and 3 (Docket Nos. STN 50-528/529/530), General Information, Construction Permit Application," Appendices 1A and 1B.



Question 10.

If a membership organization is participating in the joint ownership, explain the contractual arrangement among the members that assures that funds will be available to meet the entity's obligations to the project. Provide copies of the Power Sales Contract.

Answer:

A copy of the form of a Power Sales Contract is provided in Appendix 2B. Pursuant to Sections 5.1, 12.1, 12.2 and 12.3 of the Power Sales Contract, SCPA has obligated itself to issue bonds to provide assurance that funds will be available to meet its obligation to pay for its share of the cost of construction of PVNGS. Moreover, Section 5.11 of the Power Sales Contract requires the member of SCPA which is contracting with SCPA for an entitlement to participate in SCPA's Generation Entitlement Share in PVNGS to establish, maintain and collect rates and charges for electric service so as to provide revenues sufficient to pay all amounts when due under the Power Sales Contract. These amounts include amounts adequate to enable SCPA to pay its debt service and its operating costs relating to PVNGS. See Sections 7.2 and 7.3 of the Power Sales Contract.

The members of SCPA will not contribute construction funds to SCPA for the purpose of paying for the ownership share of SCPA. Rather, it is contemplated that, upon the first to occur of (1) the date to which all interest is capitalized with respect to all Bonds and Bond Anticipation Notes, (2) the date which is one year prior to the first principal installment date for any Bonds, or (3) the Date of Firm Operation of the first generating unit of PVNGS, the members would pay a monthly power cost pursuant to Sections 7.1 and 7.2 of the Power Sales Contract. Monthly power costs would include amounts sufficient for SCPA to pay debt service on its bonds and the cost of operation and maintenance of the SCPA share of PVNGS. The payment to SCPA by those of its members who enter into Power Sales Contracts for an entitlement of use is an unconditional obligation without respect to whether or not PVNGS is in fact operating or operable. See Section 8 of the Power Sales Contract.



Question 11.

Explain the procedure to be used by the lead applicant for billing the municipals for construction progress payments subsequent to closing the sale. This may be answered by reference to pertinent portions of the joint ownership agreement that is submitted to the Staff.

Answer:

The procedure used by the Participants in PVNGS respecting the advancement of funds for the construction of PVNGS is set forth in Section 12 of the ANPP Participation Agreement.



APPENDIX 2A



[EXECUTION COPY]

SALT RIVER PROJECT - AUTHORITY

PALO VERDE NUCLEAR GENERATING STATION

ASSIGNMENT AGREEMENT

BETWEEN

SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT
AND POWER DISTRICT

AND

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY

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SALT RIVER PROJECT - AUTHORITY
PALO VERDE NUCLEAR GENERATING STATION
ASSIGNMENT AGREEMENT

1. PARTIES:

The parties to this Salt River Project - Authority, Palo Verde Nuclear Generating Station Assignment Agreement (hereinafter referred to as "this Assignment Agreement") are: SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, an agricultural improvement district organized and existing under and by virtue of the laws of the State of Arizona, hereinafter referred to as "Salt River Project", and SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY, a public entity organized and existing under and by virtue of the laws of the State of California, hereinafter referred to as "Authority" (such parties being sometimes referred to individually as "Party" and collectively as "Parties").

2. RECITALS:

- 2.1. Salt River Project, subject to the transaction described in Section 2.2 hereof, owns (i) a 29.1% Generation Entitlement Share and a 29.1% undivided ownership interest as a tenant in common in the Palo Verde Nuclear Generating Station, the Project Agreements and certain other property and rights provided for, contemplated by or resulting from the Project Agreements, all collectively hereinafter referred to as "Salt River Project's ANPP Interest", (ii) a 29.1% partnership interest in PVUV (hereinafter referred to as "Salt River Project's PVUV Interest") and (iii) a 29.1% undivided ownership interest in that portion of the ANPP High Voltage Switchyard described in Section I. 2.1 of Appendix I of the ANPP Participation Agreement (hereinafter referred to as "Salt River Project's Switchyard Interest").
- 2.2. Salt River Project and the Department of Water and Power of The City of Los Angeles, hereinafter referred to as "Los Angeles", have entered into an agreement which provides, among other matters, that contingent upon (i) receipt of the required approvals of the United States Nuclear Regulatory Commission ("NRC") and (ii) the date of firm operation of the first generating unit of the Palo Verde Nuclear Generating Station having occurred,

Salt River Project will transfer a 5.7% Generation Entitlement Share and undivided ownership interest in Palo Verde Nuclear Generating Station, a 5.7% undivided ownership interest in that portion of the ANPP High Voltage Switchyard described in Section I. 2.1 of Appendix I of the ANPP Participation Agreement, and a 5.7% partnership interest in PVUV, respectively.

- 2.3. Salt River Project desires to transfer and assign to Authority a portion of Salt River Project's ANPP Interest, Salt River Project's PVUV Interest and Salt River Project's Switchyard Interest in the amounts and on the terms and conditions hereinafter stated.
- 2.4. The ANPP Participation Agreement provides that Salt River Project may assign all or a portion of Salt River Project's ANPP Interest and Salt River Project's Switchyard Interest without the prior written consent of any other Participant, to any person, partnership, corporation, or government corporation or agency engaged in the generation, transmission or distribution of electric energy; and the PVUV Agreement provides that Salt River Project may assign all or a portion of Salt River Project's PVUV Interest without the prior written consent of any other Member, to any person, partnership, corporation or governmental corporation or agency, who is or becomes a Participant.
- 2.5. Authority is a public entity of the State of California, created as of November 1, 1980, pursuant to the California Joint Exercise of Powers Act and the Joint Powers Agreement among the members of Authority, and is authorized to engage in the generation and/or transmission of electric energy.
- 2.6. Authority desires to acquire a portion of Salt River Project's ANPP Interest, Salt River Project's PVUV Interest and Salt River Project's Switchyard Interest in the amounts and on the terms and conditions hereinafter stated.
- 2.7. Neither Authority nor Salt River Project will be required to construct any new transmission or interconnections in order to effect the transfer of the interest or rights contemplated by this Assignment Agreement or to accommodate the transmission of electric power and energy

contemplated by this Assignment Agreement or the Transmission Agreement.

3. DEFINITIONS:

In addition to the other terms defined herein, the following terms, whether in the singular or in the plural, when used herein and initially capitalized, shall have the meanings specified:

- 3.1. The following terms used herein shall have the meanings given thereto in the ANPP Participation Agreement: ANPP, ANPP High Voltage Switchyard, Generation Entitlement Share, Operating Agent, Palo Verde Nuclear Generating Station, Participant and Project Agreements.
- 3.2. Agency Agreement means the Palo Verde Nuclear Generating Station Agency Agreement between Los Angeles and Authority.
- 3.3. Agent means Los Angeles as agent for Authority pursuant to the Agency Agreement.
- 3.4. ANPP Participation Agreement means the Arizona Nuclear Power Project Participation Agreement, dated August 23, 1973, as heretofore amended by the Amendment Nos. 1 through 5 and as hereafter amended from time to time.
- 3.5. ANPP Transmission System shall have the meaning set forth in the Transmission Agreement.
- 3.6. Closing Date means the business day designated by Authority in writing to Salt River Project upon which the transfers and assignments contemplated by Section 6.1 hereof and the payment contemplated by Section 7.3 hereof are to be made, which day shall be no later than the date which is the first business day following the expiration of 90 days after the date on which the written statement provided for by Section 7.2 hereof is received. Upon either Party's request made in writing to the other Party at any time prior to the expiration of the 90-day period referred to in this Section 3.6, said 90-day period shall be extended to 270 days (without further action by either Party). Notwithstanding the foregoing, the Parties may at any time agree in writing to a different Closing Date.

- 3.7. Cost means, with respect to the property and interests to be transferred or assigned pursuant to this Assignment Agreement and as of any date of determination, the sum of (i) the actual recorded cost (including AFUDC) of such property and interests on the accounting records of Salt River Project on such date, (ii) a one-time administrative charge of \$8,367,539 and (iii) a carrying cost for each month after May 1981 and prior to the date of determination equal to (a) the portion of the actual cost referred to in clause (i) above paid by Salt River Project during such month, multiplied by (b) one-twelfth of 60% of the announced annual Prime Interest Rate of Bank of America National Trust and Savings Association in effect on the last day of such month.
- 3.8. Member shall have the meaning given thereto in the PVUV Agreement.
- 3.9. Project Manager means the Project Manager under the Participation Agreement, the project manager under Section I.3.1. of Appendix I to such Agreement or the Managing Member under the PVUV Agreement, as the case may be.
- 3.10. PVUV means the Palo Verde Uranium Venture, a partnership consisting of the Participants or their respective subsidiary companies, organized and established by the PVUV Agreement.
- 3.11. PVUV Agreement means the Palo Verde Uranium Venture Agreement dated as of January 7, 1977, as heretofore amended by Amendment No. 1 and as hereafter amended from time to time.
- 3.12. Termination Date means the date one year following the later of (i) the effective date of this Assignment Agreement, or (ii) the date on which the initial filing is made with the NRC with respect to the approval of the NRC contemplated by Section 8.1 hereof; provided, however, that the Termination Date may, by written agreement between Salt River Project and Authority, be extended at any time and from time to time.
- 3.13. Transmission Agreement means the transmission agreement, substantially in the form included herein as Exhibit 2, to be executed and delivered by the Parties.

3.14. Uniform System of Accounts means the "Uniform System of Accounts prescribed for Class A and B Public Utilities and Licensees" as prescribed and, from time to time, as amended or modified by the Federal Energy Regulatory Commission or its successor.

4. AGREEMENT:

In consideration of the premises and the mutual covenants contained herein, the Parties agree as follows:

5. EFFECTIVE DATE AND TERM:

This Assignment Agreement shall become effective on the date set forth in Section 20 hereof and shall continue in full force and effect thereafter, except as terminated pursuant to Section 8.3 hereof.

6. ASSIGNMENT AND TRANSFER OF INTERESTS:

6.1. Subject to the terms and conditions of this Assignment Agreement, on the Closing Date Salt River Project shall deliver to Authority:

6.1.1. An instrument, in a form recordable under Arizona law, which, subject to the provisions of Section 15.5 of the ANPP Participation Agreement, has the effect of making Authority a Participant and conveys to Authority as a tenant in common portions of Salt River Project's ANPP Interest and Salt River Project's Switchyard Interest, each in an amount equal to (i) a 5.91% Generation Entitlement Share and undivided ownership interest in Palo Verde Nuclear Generating Station, the Project Agreements and the other property and rights provided for, contemplated by or resulting from the Project Agreements, and (ii) a 5.91% undivided ownership interest in that portion of the ANPP High Voltage Switchyard described in Section I. 2.1 of Appendix I of the ANPP Participation Agreement.

- 6.1.2. An instrument which, subject to the provisions of Section 11.4 of the PVUV Agreement, has the effect of making Authority a Member and conveys to Authority a portion of Salt River Project's PVUV Interest, in an amount equal to a 5.91% interest in PVUV.
- 6.1.3. Each of the instruments referred to in this Section 6.1 shall convey to Authority all of Salt River Project's right, title and interest in the portions of Salt River Project's ANPP Interest, Salt River Project's Switchyard Interest and Salt River Project's PVUV Interest so to be transferred. Each such instrument shall contain a covenant by Salt River Project to indemnify and hold harmless Authority against all liens, charges and encumbrances ("Liens") relating to the interests so to be transferred arising by, through or as a result of (i) any indenture, resolution, or other debt instrument to which Salt River Project is a party or to which any of its properties is subject, or (ii) any agreement or other instrument assigning, transferring or encumbering, in whole or in part, any of the interests so to be transferred, except for the assignment and transfer contemplated hereby, and except and to the extent of the transaction described in Section 2.2 hereof. Notwithstanding the foregoing, such covenant shall not indemnify and hold harmless Authority against any Liens created by, through or as a result of the ANPP Participation Agreement, the PVUV Agreement or any other Project Agreement.
- 6.2. Notwithstanding any other provision of this Assignment Agreement, the ANPP Transmission System shall be excluded from the interests transferred and assigned pursuant to this Section 6.
- 6.3. Subject to the terms and conditions of this Assignment Agreement, on the Closing Date Authority shall accept the transfer and assignment made pursuant to Section 6.1 hereof and on and after the Closing Date shall be entitled to all rights and

benefits, and shall assume and agree to perform and discharge all of the obligations, of a Participant with a 5.91% Generation Entitlement Share under the ANPP Participation Agreement and of a Member with a 5.91% partnership interest under the PVUV Agreement, to the same extent (and with respect to the interests so transferred and assigned) as if it had been a Participant, Member or joint owner in Palo Verde Nuclear Generating Station and PVUV since their respective inceptions.

- 6.4. From time to time as either Party may reasonably request in writing, the Parties shall execute and deliver such documents as may be appropriate to implement this Assignment Agreement, to comply with the ANPP Participation Agreement or the PVUV Agreement, or to satisfy requirements established by law or by any mortgage, trust indenture or other financing or security arrangements of either Party.

7. FINANCIAL CONSIDERATION:

- 7.1. Based on currently available information, Salt River Project's best estimates of the Cost of the interests to be assigned and transferred pursuant to Section 6 hereof, as of various assumed Closing Dates, are set forth in Exhibit 1 hereto. On or about the last day of March, June, September and December of each year, until the Closing Date, Salt River Project will provide to Authority a revised Exhibit 1, setting forth its then best estimates of such Cost, based on then available information, assuming Closing Dates on the last day of each of the seven consecutive calendar months beginning with the calendar month ended most recently before the providing of said revised Exhibit 1.
- 7.2. Not more than fifteen business days after the approvals contemplated by Section 8.1 hereof have been issued and become final and non-appealable, Salt River Project shall provide Authority with a written statement of Salt River Project's then best estimate of the Cost of the interests to be assigned and transferred pursuant to Section 6 hereof, broken down into major categories and calculated as of the then anticipated Closing Date.
- 7.3. Subject to adjustment pursuant to Sections 7.4, 7.5 and 7.6 hereof, as full compensation, satisfaction

and payment for the assignment and transfer contemplated by Section 6 hereof, Authority agrees to pay and Salt River Project agrees to accept, the amount specified in Salt River Project's written statement provided pursuant to Section 7.2 hereof, said amount to be payable in full on the Closing Date.

- 7.4. Not more than 20 days following the end of the calendar month in which the Closing Date occurs, Salt River Project shall furnish Authority and Agent a written statement showing Salt River Project's Cost for the interests assigned and transferred on the Closing Date, to the Closing Date, broken down into major categories, and such statement shall also include a certificate of the Treasurer of Salt River Project stating that such cost has been computed in accordance with the definition of Cost set forth in Section 3.7 hereof and that Salt River Project keeps its books generally as provided for in the Uniform System of Accounts.
- 7.5. As promptly as practicable after receipt by Authority and Agent of such statement, Agent shall review such statement in detail with Salt River Project. For purposes of such review, Salt River Project shall provide Agent with access to Salt River Project's accounting records relevant to such statement, at such reasonable times as Agent shall request. For purposes of such review, it shall be conclusively assumed that all costs shown in such accounting records which agree with the billings (and adjustments thereto) under the Participation Agreement and PVUV Agreement provided to Salt River Project from time to time by the Project Manager are true and correct. If, upon completion of such review, Agent shall disagree with any item set forth in such statement, it shall notify Salt River Project of such disagreement and Salt River Project and Agent shall proceed to resolve, as promptly as practicable, such disagreement, making such adjustments to such statement as shall be appropriate to accurately reflect the Cost of the interests assigned and transferred on the Closing Date pursuant to Section 6 hereof. It is understood that the portion of the Cost which reflects the administrative charge specified in Section 3.7 (ii) hereof is not subject to review or adjustment.
- 7.6. As promptly as practicable after completion of the procedures described in Section 7.5 hereof, if

(i) such statement (adjusted, as appropriate) specifies a Cost in excess of the amount paid by Authority on the Closing Date, Authority shall pay the amount of such excess to Salt River Project or
(ii) such statement (adjusted, as appropriate) specifies a Cost less than the amount paid by Authority on the Closing Date, Salt River Project shall pay the amount of the difference to Authority.

8. REGULATORY AND OTHER APPROVALS:

- 8.1. Consummation of the transfers and assignments contemplated by this Assignment Agreement is subject to receipt of (i) in the case of both Parties, the approval, authorization or consent of the NRC, and any other governmental body whose approval may be required as a result of legislation enacted after the effective date of this Assignment Agreement and (ii) in the case of Authority, the authorization by each member of the Authority of the issuance of indebtedness by the Authority contemplated by Section 10.8 hereof and the approval by the governing body of each member purchasing output of the Authority's interest in Palo Verde Nuclear Generating Station of the contract with the Authority under which such purchase will be made.
- 8.2. Salt River Project and Authority each represent and warrant to the other that, as of the effective date of this Assignment Agreement, no approval, authorization or consent of any entity not identified in Section 8.1 hereof is required with respect to it for it to perform its obligations under this Assignment Agreement or the Transmission Agreement.
- 8.3. In the event either (i) the regulatory and other approvals contemplated by Section 8.1 hereof have not been received and become final and non-appealable by the Termination Date or (ii) the transfers and assignments contemplated by Section 6.1 hereof and the payment contemplated by Section 7.3 hereof has not occurred by the latest Closing Date permitted under Section 3.6. hereof, then this Assignment Agreement shall terminate and be of no further force or effect.

- 8.4. Each Party agrees it shall use its best efforts to assure that all filing and data collection requirements that are necessary to obtain the approvals contemplated by Section 8.1 hereof and that are within the control of such Party shall be completed in an expedient manner as soon as possible so as not to impede the normal processes involved in obtaining such regulatory approvals.

9. TRANSMISSION ARRANGEMENTS:

On or prior to the Closing Date, the Parties will execute and deliver the Transmission Agreement.

10. GENERAL PROVISIONS:

- 10.1. Salt River Project hereby represents and warrants to Authority that as of the date hereof: -

10.1.1. Salt River Project is an agricultural improvement district duly organized and validly existing under the laws of the State of Arizona, and has the power and authority to own Salt River Project's ANPP Interest, Salt River Project's Switchyard Interest and Salt River Project's PVUV Interest and to perform its obligations under the ANPP Participation Agreement, the Project Agreements and the PVUV Agreement.

10.1.2. The ANPP Participation Agreement, the Project Agreements and the PVUV Agreement have been duly authorized, executed and delivered by Salt River Project, and are legal, valid and binding agreements.

10.1.3. Salt River Project is not in any materially adverse respect in breach of, or default under, any of the terms of the ANPP Participation Agreement, the Project Agreements, or the PVUV Agreement and to the best of Salt River Project's knowledge no event has occurred and is continuing which with the passage of time or giving of notice, or both, would result in Salt River Project being in any materially adverse



respect in such breach or default. Salt River Project has not received notice (i) that any other Participant is in breach of, or default under, any of such Agreements or (ii) that any event has occurred and is continuing which with the passage of time or the giving of notice, or both, would result in any such Participant being in such breach or default.

10.1.4. Except for the assignment and transfer to Authority contemplated hereby and except and to the extent of the transaction described in Section 2.2 hereof, Salt River Project has not assigned, transferred, or encumbered or agreed to assign, transfer or encumber, in whole or in part, any of the interests to be transferred and assigned hereunder.

10.1.5. The execution, delivery and performance of this Assignment Agreement and the Transmission Agreement by Salt River Project have been duly and effectively authorized by all requisite action of the Board of Directors of Salt River Project.

10.2. Authority hereby represents and warrants to Salt River Project that as of the date hereof:

10.2.1. Authority is a legal entity duly organized and validly existing under the laws of the State of California, and has the power and authority to (i) subject to the receipt of the approvals contemplated by Section 8.1 hereof, own the portions of Salt River Project's ANPP Interest, Salt River Project's Switchyard Interest, and Salt River Project's PVUV Interest, respectively, contemplated to be transferred and assigned pursuant to this Assignment Agreement and to perform its obligations under the ANPP Participation Agreement, the PVUV Agreement and the Transmission Agreement and (ii) sell the output of the Palo Verde Nuclear Generating Station so acquired to members of Authority.

- 10.4. Until the Closing Date, Salt River Project shall consult with Authority as to all matters which, in Salt River Project's judgment, have a significant impact on the costs of and/or schedule for Palo Verde Nuclear Generating Station. Salt River Project shall have the right and duty to perform the obligations set forth in the ANPP Participation Agreement and the Project Agreements with respect to its total ownership and membership interest and shall treat the interest to be assigned and transferred to Authority in the same manner as it treats its interest not so assigned and transferred to Authority. Subject to the foregoing, Salt River Project shall have the right to execute and deliver (a) new Project Agreements and (b) amendments to the ANPP Participation Agreement and any Project Agreements. Nothing herein shall be construed to require Salt River Project to obtain the consent of Authority to any action required to be taken by Salt River Project under either the ANPP Participation Agreement or the Project Agreements. Authority has been advised that the Participants, as of the effective date of this Assignment Agreement, are contemplating execution of an Amendment No. 6 to the ANPP Participation Agreement, a copy of which is attached hereto as Annex A. Nothing herein shall preclude Salt River Project from executing said Amendment No. 6, in substantially the form attached as Annex A, and Authority expressly recognizes Salt River Project may execute Amendment No. 6 prior to the Closing Date.
- 10.5. Agreement No. 13904 - Option and Purchase of Effluent, dated April 23, 1973, is a Project Agreement. However, nothing in this Assignment Agreement shall give Authority any right or interest in such agreement or in any other agreement which may be entered into by Salt River Project for the purchase of effluent, or in any effluent as may become available for purchase thereunder in excess of that required for operation of the Palo Verde Nuclear Generating Station.
- 10.6. At the effective date of this Assignment Agreement, each Party shall furnish to the other Party an opinion of counsel satisfactory to the other Party which states that the furnishing Party has the authority to enter into this Assignment Agreement and the Transmission Agreement, that each is fully enforceable against the furnishing Party in

accordance with its terms (except as the provisions of this Assignment Agreement and the Transmission Agreement may be limited by usury, bankruptcy, insolvency, reorganization or other laws relating to or affecting the enforcement of creditors' rights and other laws of general application affecting the rights and remedies of creditors, and except that the availability of the remedy of specific enforcement or of injunctive relief is subject to the discretion of the court before which any proceeding therefor may be brought) and that the representations and warranties of the furnishing Party contained in this Assignment Agreement are, as to matters of law, true and correct.

- 10.7. At the Closing Date, Authority, pursuant to this Assignment Agreement, shall be assigned a 5.91% interest in PVUV. In the event the Operating Agent advises in writing, pursuant to Section 8.1 of the PVUV Agreement, that all, or any part, of the ores or concentrates produced from the joint venture established by said PVUV Agreement are not required for the Palo Verde Nuclear Generating Station, and the management committee established under said PVUV Agreement shall have determined that disposition of such ores or concentrates shall be by sale by any or all of the Members, then, subject to Section 8.2 of the PVUV Agreement, Salt River Project shall have the preferential right and option to purchase all or a part of said ores or concentrates from Authority in the manner provided as follows:

If Authority receives a bona fide offer which it is willing to accept for the purchase of any part or all of the ore or concentrates referred to above from a third party, ready, willing and able to purchase the same, Authority shall immediately give written notice thereof to Salt River Project. The notice shall include the name and address of the offeror, the price offered and all other pertinent terms and conditions of the offer and be accompanied by a copy of the offer if available. Such offer must not be tied in with, enhanced, or otherwise encumbered by any trade or transaction that could not be equally fulfilled by Salt River Project. Salt River Project shall then have an optional prior right, for a period of sixty (60) days after receipt of the notice, to

elect by written notice duly served to purchase said ore or concentrates on the same terms and conditions of said offer. If Salt River Project exercises its option to purchase, the sale shall be consummated in accordance with said terms and conditions. If Salt River Project shall not exercise its option, then Authority may accept said offer in accordance with said terms and conditions after the expiration of the sixty (60) day period.

- 10.8. Authority agrees to use its best efforts to issue, at public or private sale, its revenue bonds or notes or any combination thereof, in an aggregate principal amount at least sufficient to make available to it on or before the Closing Date the amount of the payment to be made on the Closing Date pursuant to Section 7.3 hereof and to use its best efforts to take, in each case on a timely basis, all steps necessary to the accomplishment of such financing.

11. ACCESS TO INFORMATION:

- 11.1. Salt River Project has provided to Authority copies of the ANPP Participation Agreement and the PVUV Agreement. On and after the effective date of this Assignment Agreement, Salt River Project will provide to Authority and Agent, and their representatives and consultants, access at all reasonable times requested by Authority or Agent to (i) each of the other Project Agreements in the possession of Salt River Project, (ii) all written information in the possession of Salt River Project relating to licensing, engineering, acquisition, construction, operation or maintenance of the Palo Verde Nuclear Generating Station and (iii) all other Project Agreements and information of the character described in (i) or (ii) not in the possession of Salt River Project but in the possession of the Project Manager to which Salt River Project has a right to access under the Participation Agreement, the PVUV Agreement or any other Project Agreement or arrangement. Salt River Project will provide to Authority and Agent, and their representatives and consultants, the opportunity, at all reasonable times requested by Authority or Agent, to discuss with representatives of Salt River Project familiar

with, and to make extracts and duplicates of, any of the foregoing Agreements and information.

- 11.2. Authority agrees to treat the Agreements and information provided pursuant to Section 11.1 hereof as proprietary and not disclose such Agreements and information without the prior consent of Salt River Project, except (i) as required by law or (ii) in the reasonable judgment of Authority as is necessary or advisable in connection with the issuance of Authority's securities. In either such case Authority shall notify Salt River Project in advance of any such disclosure.

12. CONDITIONS PRECEDENT TO SALT RIVER PROJECT OBLIGATION HEREUNDER:

The obligation of Salt River Project under this Assignment Agreement to make the transfers and assignments on the Closing Date, as contemplated by Section 6 hereof, is subject to the fulfillment, prior to or on the Closing Date, of each of the conditions that: (i) Authority's representations and warranties contained in this Assignment Agreement shall be deemed to have been made again at and as of the time of the Closing Date and shall then be true in all material respects; (ii) Authority shall have performed and complied with all agreements, covenants and conditions required by this Assignment Agreement to be performed or complied with by it prior to or concurrent with the Closing Date; (iii) Salt River Project shall have been furnished with a certificate of the President of Authority, dated the Closing Date, certifying in such detail as Salt River Project may reasonably request to the fulfillment of the foregoing conditions and to the further effect that (a) there are no actions, suits or proceedings pending or, to such officer's knowledge, threatened against or affecting Authority before any court or administrative body or agency which could, if adversely determined, materially adversely affect the transfers and assignments contemplated by this Assignment Agreement, (b) the performance of this Assignment Agreement and the Transmission Agreement by Authority have been duly and effectively authorized by all requisite action of the Board of Directors of Authority and (c) Authority has legal power and authority to perform its obligations under the Project Agreements; (iv) Salt River Project shall have been furnished with an opinion of counsel to Authority substantially in the form of Exhibit 3 hereto, dated the Closing Date; (v) Authority shall execute and deliver to Salt River Project the instruments contemplated by Section 15.5 of the ANPP Participation Agreement and by Section 11.4 of the PVUV Agreement; and (vi) all regulatory approvals contemplated by Section 8.1(i) hereof shall have been received and shall have become final and non-appealable.

13. CONDITIONS PRECEDENT TO AUTHORITY OBLIGATION HEREUNDER:

The obligation of Authority under this Assignment Agreement to pay the purchase price on the Closing Date, as contemplated by Section 7.1 hereof, is subject to the fulfillment, prior to or on the Closing Date, of each of the following conditions:

- 13.1. Salt River Project's representations and warranties contained in this Assignment Agreement shall be deemed to have been made again at and as of the time of the Closing Date and shall then be true in all material respects; Salt River Project shall have performed and complied with all agreements, covenants and conditions required by this Assignment Agreement to be performed or complied with by it prior to or concurrent with the Closing Date; and Authority shall have been furnished with a certificate of the President of Salt River Project, dated the Closing Date, certifying in such detail as Authority may reasonably request to the fulfillment of the foregoing conditions and to the further effect that (i) since the effective date of this Assignment Agreement there has been no adverse change in the condition or status of the Palo Verde Nuclear Generating Station (or if there shall have been such a change such certificate shall describe such change in detail satisfactory to Authority) and (ii) there are no actions, suits or proceedings pending or, to such officer's knowledge, threatened against or affecting Salt River Project before any court or administrative body or agency which could, if adversely determined, materially adversely affect the transfers and assignments contemplated by this Assignment Agreement.
- 13.2. Authority shall have been furnished with an opinion of counsel to Salt River Project substantially in the form of Exhibit 4 hereto, dated the Closing Date.
- 13.3. All regulatory and other approvals contemplated by Section 8.1 hereof shall have been received and shall have become final and non-appealable.
- 13.4. Authority shall have issued and sold its revenue bonds or its notes, or any combination thereof, in an aggregate principal amount at least sufficient to make available to it the amount of the payment to be made on the Closing Date pursuant to Section 7.3 hereof.

14. BINDING OBLIGATION:

This Assignment Agreement and the terms and conditions contained herein shall bind and inure to the benefit of the respective successors, assigns, trustees and/or representatives of the Parties hereto.

15. WAIVERS:

Any waiver by a Party of its rights with respect to a default under this Assignment Agreement or with respect to any other matter arising in connection with this Assignment Agreement shall not be deemed a waiver with respect to any subsequent default or matter. No delay, short of the statutory period of limitations, in asserting or enforcing any right hereunder, shall be deemed a waiver of such right.

16. SURVIVAL:

The representations and warranties of the Parties contained herein shall survive the consummation of the assignment and transfer contemplated hereby.

17. NOTICE:

Any notice, demand or request provided for in this Assignment Agreement shall be in writing and shall be deemed properly served, given or made if delivered in person or sent by registered or certified mail, postage prepaid, to the persons specified below:

Salt River Project Agricultural Improvement and Power
District
c/o Secretary
P.O. Box 1980
Phoenix, Arizona 85001

Southern California Public Power Authority
c/o Executive Director
Room 1149
Los Angeles Department of Water and Power
111 North Hope Street
Los Angeles, California 90012

Los Angeles Department of Water and Power, as Agent
P.O. Box 111
Los Angeles, California 90051
Attn: Chief Electrical Engineer and Assistant Manager

Either Party or the Agent may, at any time, by written notice to the other Party and/or the Agent, as the case may be, designate different or additional persons or different addresses for giving of notices hereunder.

18. JOINT PLANNING:

The Parties agree to engage, from time to time, in joint planning and study projects with a view toward the evaluation of and future construction of jointly owned transmission or generation facilities.

19. GOVERNING LAW:

This Assignment Agreement shall be governed and construed and enforceable in accordance with the laws of the State of Arizona.

20. EXECUTION:

IN WITNESS WHEREOF, Salt River Project and Authority have executed and delivered this Assignment Agreement as of _____, 1981.

SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER DISTRICT

By _____

Its _____

ATTEST AND COUNTERSIGN:

SOUTHERN CALIFORNIA PUBLIC
POWER AUTHORITY

By _____

Its _____

ATTEST:



STATE OF CALIFORNIA)

County of)

On this ____ day of _____, 1981, before me, the undersigned Notary Public, personally appeared _____ and _____ who acknowledged themselves to be the _____ and _____ of SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY, a legal entity formed under the laws of California, and that they as such officers, being authorized so to do, executed the foregoing instrument for the purposes therein contained by signing the name of SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY by themselves as such _____ and _____.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

My Commission Expires:

Notary Public

STATE OF ARIZONA)

County of)

:ss

On this ____ day of _____, 1981, before me, the undersigned Notary Public, personally appeared _____ and _____ who acknowledged themselves to be the _____ and _____ of SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, an agricultural improvement district organized under the laws of Arizona, and that they as such officers, being authorized so to do, executed the foregoing instrument for the purposes therein contained by signing the name of SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT by themselves as such _____ and _____.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

My Commission Expires

Notary Public

EXHIBIT 1 TO
ASSIGNMENT AGREEMENT

ESTIMATED COST AT CLOSING DATE OF INTERESTS
TO BE ASSIGNED AND TRANSFERRED
(ESTIMATED AS IF CLOSING DATE WILL OCCUR ON MAY 31, 1981)

Salt River Project's Estimated Sunk Cost plus AFUDC from Project Inception through 5/31/81.....	\$162,893,778
Administrative Charge (Actual).....	8,367,539
Carrying Cost.....	<u>-0-</u>
Estimated Total Cost.....	<u>\$171,261,317</u>

ESTIMATED COST AT CLOSING DATE OF INTERESTS TO BE
ASSIGNED AND TRANSFERRED
(ESTIMATED AS IF CLOSING DATE WILL OCCUR
ON VARIOUS DATES AFTER MAY 31, 1981)

Closing Date	Estimated Additional Sunk Cost (including AFUDC) for Month	Estimated Carrying Cost for Month(a)	Estimated Total Cost
5/31/81	not applicable	not applicable	\$171,261,317
6/30/81	4,430,000	42,085	175,733,402
7/31/81	4,643,000	44,108	180,420,510
8/31/81	4,159,000	39,511	184,619,021
9/30/81	4,420,000	41,990	189,081,011
10/31/81	4,297,000	40,821	193,418,832
11/30/81	4,270,000	40,565	197,729,397
12/31/81	8,174,000	77,653	205,981,050
1/31/82	6,463,000	61,399	212,505,449
2/28/82	5,103,000	48,478	217,656,927
3/31/81	5,484,000	52,098	223,193,025
4/30/82	4,403,000	41,829	227,637,854

(a) Assumes a Bank of America National Trust and Savings Association announced Prime Interest Rate of 19% per annum.



TRANSMISSION AGREEMENT

This Transmission Agreement is agreed upon as a part of the Salt River Project-Authority Palo Verde Nuclear Generating Station Assignment Agreement ("Assignment Agreement") between SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT ("Salt River Project") and SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY ("Authority"), hereinafter referred to collectively as "Parties" and individually as "Party."

1. **PURPOSE:** The purpose of this Transmission Agreement is to provide the terms and conditions whereby Salt River Project shall provide transmission service for Authority's ANPP Generation Entitlement Share.

2. **RECITALS:**

2.1. Pursuant to Section 9 of the Assignment Agreement, Salt River Project will provide transmission service to Agent on behalf of Authority, in order that Authority may take delivery of its ANPP Generation Entitlement Share assigned and transferred to Authority pursuant to the Assignment Agreement.

2.2. The Authority, Salt River Project and Western Area Power Administration are now engaged in discussing principles for a direct-current transmission line between the Phoenix area and Mead Substation near Boulder City, Nevada. This proposed facility is not required for transmission of the Authority's ANPP Generation Entitlement Share and is subject to studies of its environmental impact and economic feasibility. The transmission line would allow the proposed participants to operate their electric systems more efficiently and would allow the Authority to transmit its ANPP Entitlement over the new facility. It is in the interest of Salt River Project and the Authority that such facility be constructed and the Authority has indicated that it is the Authority's present intention to use its best efforts to participate in the proposed Mead-Phoenix transmission line, or some equivalent alternative transmission facility.

2.3. Under the Agency Agreement, Authority has authorized Agent to administer, on behalf of Authority, certain activities under this Transmission Agreement. Pursuant to the Agency Agreement, Agent will perform certain services for Authority under this Transmission Agreement, including receipt of the power and energy delivered by Salt River

Project at the points of delivery specified herein, receipt of all bills rendered by Salt River Project pursuant hereto, processing and transmitting of such bills to Authority for payment, and otherwise coordinating with Salt River Project in performance of this Transmission Agreement.

3. **AGREEMENT:** In consideration of the premises and the mutual covenants contained herein, the Parties agree as follows:

4. **EFFECTIVE DATE AND TERMINATION OF OBLIGATION:**

4.1. Upon execution by the Parties hereto, this Transmission Agreement shall become effective as of the Closing Date.

4.2. The obligation of Salt River Project to make available Authority's ANPP Generation Entitlement Share to Agent, pursuant to the terms and conditions of this Transmission Agreement, shall continue throughout Phase One and Phase Two. Phase One shall begin on the Date of Firm Operation of the first generating unit of the Palo Verde Nuclear Generating Station and shall terminate (i) on the in-service date of either the Mead-Phoenix Transmission Line or participation in other



appropriate transmission facilities obtained by Authority and available to replace in full the transmission service provided for in this Transmission Agreement (other than transmission service to be provided on the ANPP Transmission System), (ii) upon the expiration of one year after date of written notice of termination by Authority to Salt River Project, or (iii) upon termination of the ANPP Participation Agreement, whichever occurs first.

- 4.3. Phase Two shall begin upon termination of Phase One and shall terminate (i) on the expiration of one year after date of written notice of termination by Authority to Salt River Project, or (ii) upon termination of the ANPP Participation Agreement, whichever occurs first.

5. DEFINITIONS:

- 5.1. The following terms used herein shall have the meanings given thereto in the ANPP Participation Agreement: ANPP, ANPP High Voltage Switchyard, Date of Firm Operation, Generation Entitlement Share, Palo Verde Nuclear Generating Station, Operating Work, Participant(s), Net Energy Generation and Start-Up Period.

- 5.2. Agent means Los Angeles as agent for Authority pursuant to the Palo Verde Nuclear Generating Station Agency Agreement ("Agency Agreement") between Los Angeles and Authority.
- 5.3. ANPP Participation Agreement means the Arizona Nuclear Power Project Participation Agreement, dated August 23, 1973, as heretofore amended by Amendments Nos. 1 through 5 and as hereafter amended from time to time.
- 5.4. ANPP Transmission System means the transmission system installed for the transfer of ANPP Generation Entitlement Shares, consisting of: Palo Verde-Westwing 500 kV Transmission Line, Palo Verde-Kyrene 500 kV Transmission Line, Palo Verde-East 500 kV Transmission Line, Westwing 500 kV Switchyard as expanded, East 500 kV Switchyard as constructed or expanded, the Kyrene 230 kV Switchyard as expanded and the Kyrene 500/230 kV Switchyard.
- 5.5. Closing Date means the date as determined in accordance with the provisions of the Assignment Agreement.
- 5.6. Eldorado System means the transmission system consisting of the Mohave-Eldorado 500 kV Transmission Line, two (2) Eldorado-Mead 220 kV Transmission Lines and the Eldorado 500 kV Substation.

- 5.7. Mead-Phoenix Transmission Line means a high voltage transmission line currently under study to be constructed from the Mead 230 kV Switchyard to a termination point in the Phoenix area with an anticipated in-service date of 1987.
- 5.8. Palo Verde-East 500 kV Transmission Line means a 500 kV transmission line currently under study by certain of the ANPP Participants, to be constructed from the ANPP High Voltage Switchyard to a termination point (referred to herein as the East 500 kV Switchyard or East Switchyard) east of the ANPP High Voltage Switchyard.
- 5.9. Phase One means that period as described in Section 4.2 hereof and during which Salt River Project is to provide to Authority transmission services pursuant to Section 6 hereof.
- 5.10. Phase Two means that period as described in Section 4.3 hereof and during which Salt River Project is to provide to Authority transmission services pursuant to Section 7 hereof.
- 5.11. Point(s) of Interconnection means mutually agreed upon point(s) of interconnection between the electrical transmission systems of the Salt River Project and either the Authority or the Agent which are either physical interconnections or interconnections which exist, or will exist, by

virtue of agreement between the Parties and third parties.

6. PHASE ONE TRANSMISSION ARRANGEMENTS:

- 6.1. Throughout Phase One the transmission arrangements provided for in this Section 6 shall be in effect.
- 6.2. Salt River Project shall receive a portion of the power and energy associated with Authority's 5.91% Generation Entitlement Share, assigned and transferred under the Assignment Agreement, at the 500 kV bus of the ANPP High Voltage Switchyard and shall make an equivalent amount of power and energy available to Agent at the 500 kV bus of the Navajo Switchyard.
- 6.3. Salt River Project, in addition to the provisions of Section 6.2 hereof, shall receive a separate and additional portion of the power and energy associated with the Authority's 5.91% Generation Entitlement Share, assigned and transferred under the Assignment Agreement, at the 500 kV bus of the ANPP High Voltage Switchyard and shall make an equivalent amount of power and energy available to Agent at the 500 kV bus of the Mohave Generating Station.

- 6.4. The sum of the portions of power and energy referred to in Sections 6.2 and 6.3 hereof shall in no case exceed the total power and energy associated with Authority's 5.91% Generation Entitlement Share.
- 6.5. Salt River Project shall schedule the portion of the power and energy described in Section 6.3 hereof, for delivery to Agent on behalf of Authority at the 500 kV bus of the Eldorado Substation or the 230 kV bus of the Mead Substation. Energy associated with transmission losses shall be returned by the Agent and shall be scheduled to Salt River Project at mutually agreeable times. The amount of such losses shall be deemed to be three tenths percent (0.3%).
- 6.6. The portion of power and energy to be wheeled over the Eldorado System pursuant to this Transmission Agreement shall in no case exceed the amounts of power and energy available from time to time to Salt River Project at the 500 kV bus of the Mohave Generating Station.
- 6.7. Subject to Section 6.11 hereof and the transmission service available to Salt River Project pursuant to Section 6.12 hereof, the portion of Authority's 5.91% Generation Entitlement Share delivered to the Navajo Switchyard plus the portion of such



Generation Entitlement Share delivered to the Eldorado Substation plus the portion of such Generation Entitlement Share delivered to the Mead Substation shall be equal to the total power and energy associated with Authority's 5.91% Generation Entitlement Share.

6.8. Authority shall cause the Agent to accept delivery of power and energy associated with Authority's 5.91% Generation Entitlement Share at the points of delivery referred to in this Transmission Agreement.

6.9. As compensation for the right to use, until termination of this Transmission Agreement, the ANPP Transmission System for the delivery by Salt River Project of power and energy associated with Authority's 5.91% Generation Entitlement Share, Authority shall be obligated to pay and Agent shall be obligated to, in accordance with Section 8.3 hereof, cause payments to be made by Authority to Salt River Project. Such payments shall be determined as follows:

6.9.1. On the Closing Date, seven percent (7%) of the total installed actual recorded cost (including AFUDC) on the accounting records of Salt River Project as of the Closing Date of the ANPP Transmission

System and that portion of the ANPP High Voltage Switchyard described in Section I.2.2 of Appendix I of the ANPP Participation Agreement, plus a one-time administrative charge of \$378,533 (it is understood and agreed that the administrative charge is not subject to review or audit). The basis of calculation of the seven percent (7%) referred to in this Section 6.9.1 is the same as that for the seven percent (7%) referred to in Section 6.9.2 hereof.

$$6.9.2. \text{ Monthly Charge} = A \times \left(B + \frac{C}{12} + \frac{D}{12} \right) + E$$

Where:

A = $\frac{225 \text{ MW}}{3810 \text{ MW} - 600 \text{ MW}} = 0.07$, calculated on the basis of the ANPP Participants utilizing the ANPP Transmission System for the transfer of their ANPP Generation Entitlement Shares

B = Actual monthly construction costs (including AFUDC) and/or Capital Improvement costs (including AFUDC) after the Closing Date, associated with the development and construction of the

ANPP Transmission System and that portion of the ANPP High Voltage Switchyard described in Section I.2.2 of the ANPP Participation Agreement.

C = Annual property taxes and insurance for the ANPP Transmission System and that portion of the ANPP High Voltage Switchyard described in Section I.2.2 of the ANPP Participation Agreement.

D = Annual expenses associated with Operating Work for the ANPP Transmission System and that portion of the ANPP High Voltage Switchyard described in Section I.2.2 of the ANPP Participation Agreement.

E = A scheduling and dispatching charge of \$2,300 which will be applied starting with the month in which power and energy is first delivered pursuant to this Transmission Agreement. The amount of such charge may be reviewed at two (2) year intervals and may be revised, if necessary, as determined by Salt River Project.

6.10. As compensation for the delivery over the Eldorado System by Salt River Project of that portion of

power and energy associated with Authority's 5.91% Generation Entitlement Share referenced in Section 6.3 hereof, Authority shall be obligated to pay and Agent shall be obligated to, in accordance with Section 8.3 hereof, cause monthly payments to be made by Authority to Salt River Project. Such payments shall be determined as follows:

$$6.10.1 \text{ Monthly Charge} = 1/12 \times \$1.59/\text{kW-yr.} \times A \times \frac{B}{C}$$

Where:

A = The maximum hourly amount of power and energy associated with Authority's Generation Entitlement Share wheeled over the Eldorado System as determined in Section 6.5 hereof (in kilowatts) during the month to which the charge is applicable

B = The most recent Handy Whitman Index of Public Utility Construction, Total Transmission Plant Index for the Plateau Region

C = The Handy Whitman Index of Public Utility Construction, Total Transmission Plant Index for the

10.2.2. The execution and delivery of this Assignment Agreement and the Transmission Agreement by Authority have been duly and effectively authorized by all requisite action of the Board of Directors of Authority.

10.2.3. Pursuant to the Agency Agreement, Authority has authorized the Agent to perform the functions, duties and obligations to be performed by the Agent under this Assignment Agreement and the Transmission Agreement and the Agency Agreement is a legal, valid and binding agreement of Authority.

10.2.4. It is not necessary to seek a judicial determination of legislative or constitutional authority of Authority to consummate the transfer and assignment contemplated in Section 6 hereof or the financing thereof by Authority.

10.3. Salt River Project has not made, and does not hereby make, and Authority has not relied, and does not rely, upon any representations or warranties, other than those set forth in Sections 8.2, 10.1, 10.6 and 13 hereof and other than the covenant contained in each of the instruments delivered pursuant to Section 6.1 hereof, respecting this transaction, the value of any interest to be transferred and assigned hereunder either at the effective date of this Assignment Agreement or at the Closing Date, the validity or enforceability of any Project Agreement, the title, right or interest to any property comprising the Palo Verde Nuclear Generating Station, PVUV, or the ANPP High Voltage Switchyard, the status of any of such project or the existence or absence of any claims by any vendors, contractors or subcontractors providing equipment or services for the construction or operation of the Palo Verde Nuclear Generating Station or for the business of PVUV or for the construction of ANPP High Voltage Switchyard. It is the intent of the Parties that Authority shall assume its pro rata share of all risks associated with the Palo Verde Nuclear Generating Station, PVUV and the ANPP High Voltage Switchyard from and after the Closing Date.



Pleateau Region for the month of July
1981

6.10.2 In the event the ratio $\frac{B}{C}$ is determined to be numerically less than one (1.0), then for the purpose of Section 6.10.1 hereof, the ratio shall be set equal to one (1.0).

6.11. Salt River Project's obligation hereunder to deliver or make available to Agent the power and energy referred to in Sections 6.2 and 6.3 hereof shall be firm, except for:

6.11.1. Interruptions or reductions at the ANPP Transmission System, ANPP High Voltage Switchyard, Eldorado System, Navajo Generating Station and/or Mohave Generating Station due to uncontrollable forces, as defined in Section 10.1 hereof.

6.11.2. Temporary interruptions or reductions at the ANPP Transmission System, ANPP High Voltage Switchyard, Eldorado System, Navajo Generating Station and/or Mohave Generating Station which are necessary or desirable in sole judgment of Salt River Project for the purposes of maintenance, repairs, replacements, installations, investigations and

inspections of equipment and facilities.

6.11.3. Salt River Project, except in cases of emergencies, shall give Agent advance notice of temporary interruptions or reductions.

6.12. Except for interruptions or reductions at the ANPP Transmission System and/or High Voltage Switchyard, during occasions of interruptions or reductions as specified in Sections 6.11.1 and 6.11.2 hereof, Salt River Project, upon request of Agent, shall provide back-up service pursuant to which Salt River Project shall receive a portion of the power and energy associated with the Authority's 5.91% Generation Entitlement Share, assigned and transferred hereunder, up to the transmission quantities determined to be available by Salt River Project, at the 500 kV bus of the ANPP High Voltage Switchyard and shall make such power and energy available to Agent at the 230 kV bus of the Mead Substation. Energy associated with transmission losses shall be returned by the Agent and shall be scheduled to Salt River Project at mutually agreeable times. The amount of such losses for energy made available to Authority under the provisions of this Section 6.12 shall be deemed to be five tenths

percent (0.5%) for the ANPP Transmission System plus other applicable losses deemed to be three and eight-tenths percent (3.8%).

6.13. Salt River Project shall be the sole judge regarding its ability to provide the back-up service referred to in Section 6.12 hereof without impairing reliability of service or hindering ability to fulfill its obligations to its firm customers.

6.14. As compensation to Salt River Project for providing back-up service referred to in Section 6.12 hereof, Authority shall be obligated to pay and Agent shall be obligated to, in accordance with Section 8.3 hereof, cause payments to be made by Authority to Salt River Project. Such payments shall be determined as follows:

$$6.14.1. \text{ Daily Charge} = \frac{1}{365} \times \$6.46/\text{kW-yr.} \times A \times \frac{B}{C}$$

Where:

A = The maximum hourly amount of power and energy associated with Authority's Generation Entitlement Share made available to Agent at the 230 kV bus of the Mead Substation pursuant to Section 6.12 hereof (in kilowatts) during the day to which the charge is applicable



B = The most recent Handy Whitman Index of Public Utility Construction, Total Transmission Plant Index for the Plateau Region

C = The Handy Whitman Index of Public Utility Construction, Total Transmission Plant Index for the Plateau Region for the month of July 1981

6.14.2 In the event the ratio $\frac{B}{C}$ is determined to be numerically less than (1.0), then for the purpose of Section 6.14.1 hereof, the ratio shall be set equal to one (1.0).

6.14.3 If back-up transmission service is provided pursuant to Section 6.12 hereof during any fractional part of a day, the full daily charge referred to in Section 6.14.1 hereof shall apply.

6.15. The losses referred to in this Section 6 shall be reviewed at one (1) year intervals by the Operating Representatives commencing one year after the Date of Firm Operation of the first generating unit of the Palo Verde Nuclear Generating Station and shall be revised, if necessary, as determined by Salt River Project.

6.16. Notwithstanding other provisions of this Transmission Agreement, Salt River Project shall provide transmission service as specified in this Section 6 to make available on a non-firm basis Authority's Generation Entitlement Share of Net Energy Generation during any Start-Up Period. The charges and billings for such transmission service shall be on a basis as applicable pursuant to the terms and conditions contained in Sections 6.9, 6.10 and 6.14 and in Section 8 hereof.

7. PHASE TWO TRANSMISSION ARRANGEMENTS:

- 7.1. Throughout Phase Two the transmission arrangements provided for in this Section 7 shall be in effect.
- 7.2. Salt River Project shall receive the power and energy associated with Authority's 5.91% Generation Entitlement Share at the 500 kV bus of the ANPP High Voltage Switchyard and shall transmit said power and energy over the ANPP Transmission System and shall wheel over Salt River Project's 230 kV transmission system, if necessary, for delivery to Agent at Point(s) of Interconnection. Energy associated with transmission losses shall be returned by the Agent and shall be scheduled to Salt River Project at mutually agreeable times. The amount of

such losses shall be determined by Salt River Project.

7.3. Authority shall cause the Agent to accept delivery of power and energy associated with Authority's 5.91% Generation Entitlement Share at the Point(s) of Interconnection.

7.4. As compensation for the delivery by Salt River Project of power and energy referred to in Section 7.2 hereof, Authority shall be obligated to pay and Agent shall be obligated to, in accordance with Section 8.3 hereof, cause monthly payments to be made by Authority to Salt River Project. Such payments shall include:

7.4.1. Charges determined in accordance with Section 6.9.2 hereof, plus

7.4.2. A charge, if applicable, for the 230 kV portion of the Salt River Project system based on Salt River Project's charges for such service being offered or available to other new like customers at that time.

7.5. The losses referred to in this Section 7 shall be reviewed at one (1) year intervals by the Operating Representatives commencing one year after the termination of Phase One and shall be revised, if necessary, as determined by Salt River Project.



8. BILLING:

- 8.1. Except for the payments to be made pursuant to Section 6.9 hereof, the first payment pursuant to Sections 6 or 7 hereof shall be due and payable in the month following the month in which power and energy is first delivered pursuant to this Transmission Agreement. For a fractional part of the month, if any, at the beginning or end of the term of Phase One or Phase Two hereunder, the monthly payment shall be proportionately adjusted.
- 8.2. In the event (as permitted by Section 6.11.1 hereof) Salt River Project does not transmit power and energy, corresponding pro rata reductions in payments for charges pursuant to Section 6.10 hereof shall be made.
- 8.3. All bills for payments by Authority pursuant to this Transmission Agreement shall be submitted to Agent. Bills for payment submitted to Agent pursuant to this Transmission Agreement shall be rendered in such detail as may be reasonably required by Agent on or before the tenth (10th) day of the month following each billing period. Agent will process each such bill for payment by Authority on a prompt basis. Bills shall be due and payable twenty (20) days immediately after the date of mailing of the bill.

8.4. In the event the Salt River Project shall become liable for any tax, tariff, duty, toll, fee, impost, charge or other exaction or the amount equivalent thereto and any increase thereof is imposed, levied or assessed by any governmental authority upon, measured by, incident to or as a result of the transaction herein provided for, such amounts shall be submitted to Agent on behalf of Authority for payment pursuant to Section 8.3 hereof.

8.5. Bills submitted to Agent and not paid on or before the due date specified in Section 8.3 hereof shall bear a charge of one and one-half percent (1.5%) per month, or the maximum legal rate, whichever is less, on the unpaid principal prorated by days until payment is received. Such charge shall also apply to any unpaid bill or portion thereof which is disputed and thereafter determined to be proper.

8.6. In the event any portion of any bill is disputed on behalf of Authority, the disputed amount shall be paid by Authority under protest when due and shall be accompanied by a written statement indicating the basis for the protest. If the protested portion of the payment is found to be incorrect, Agent, on behalf of Authority, shall be refunded



any over-payment plus interest, accrued at one and one-half percent (1.5%) per month, or the maximum legal rate, whichever is less, prorated by days from date of payment to the date the refund check is mailed.

9. OPERATING REPRESENTATIVES:

- 9.1. As a means of establishing operating procedures and of dealing in a prompt and orderly manner with various technical and operating problems which may arise in connection with this Transmission Agreement, Salt River Project and Agent shall designate "Operating Representatives" to act on their behalf with respect to those matters herein provided.
- 9.2. The functions and responsibilities of the Operating Representatives shall be to establish operating procedures and standard practices, consistent with the provisions herein, for the guidance of operating employees of Salt River Project and Agent as to matters which affect operations of Salt River Project and Agent pursuant to this Transmission Agreement.
- 9.3. The Operating Representatives shall have the authority to develop a mutually agreed upon

composite rate for the billing of all charges under this Transmission Agreement. Such composite rate shall be for convenience in billing and shall be based on the charges defined herein and shall not be intended to increase or decrease charges otherwise due hereunder.

9.4. Except as specifically provided herein, the Operating Representatives shall have no authority to modify any of the provisions of this Transmission Agreement.

10. UNCONTROLLABLE FORCES:

10.1. No Party shall be considered to be in default in the performance of any of its obligations under this Transmission Agreement (other than obligations of the Parties to make payment of costs and expenses) if failure of performance shall be due to an uncontrollable force. The term "uncontrollable force" shall mean any cause beyond the control of the Party affected, including but not limited to, failure of or threat of failure of facilities, flood, earthquake, tornado, volcanic eruption, storm, fire, lightning, epidemic, war, riot, civil disturbance or disobedience, strike, labor dispute, labor or material shortage, sabotage, restraint by

court order or public authority and action or nonaction by or failure to obtain authorizations or approvals from any governmental agency or authority, which by exercise of due diligence and foresight such Party could not reasonably have been expected to avoid, and which by exercise of due diligence it has been unable to overcome. Nothing contained herein shall be construed so as to require a Party to settle any strike or labor dispute in which it may be involved. Any Party rendered unable to fulfill any obligation under this Transmission Agreement by reason of an uncontrollable force shall give prompt notice of such fact to the other Party and shall exercise due diligence to remove such inability with all reasonable dispatch.

- 10.2. For the purposes of this Section 10, the term Party shall include the Agent acting in its capacity as such.

11. LIABILITY, COVENANT NOT TO EXECUTE:

- 11.1. Except for any judgment debt for damage resulting from Willful Action and except to the extent any judgment debt is collectible from valid insurance of the other Party, each Party hereby extends to



the other Party, and their respective directors, officers, agents and employees its covenant not to execute on any judgment obtained against the other Party for direct, indirect or consequential loss, damage, cost, charge or expense, whether or not resulting from the negligence of either Party, its directors, officers, agents, employees or any other person or entity whose negligence would be imputed to such Party, arising from physical damage to its property resulting from performance or nonperformance of the obligations of another Party under this Transmission Agreement.

11.2. In the event any insurer providing insurance to a Party refuses to pay any judgment obtained by a Party, or any of its directors, officers or employees, on account of liability referred to in Section 11.1 hereof, the Party or any of its directors, officers or employees against whom the judgment is obtained shall execute, at the request of the Party obtaining the judgment and in consideration of the covenant given in Section 11.1 hereof, such documents as may be necessary to effect an assignment of its or their contractual rights against the nonpaying insurer.

11.3. Each Party shall be responsible for any direct, indirect or consequential damage, loss, claim,

cost, charge, or expense that is not covered by any insurance and results from its own Willful Action as defined in Section 11.7.2 hereof and shall indemnify and hold harmless the other Party, their directors or members of its governing body, officers and employees, from any such damage, loss, claim, cost, charge or expense.

11.4. Except as provided in Section 11.3 hereof, no Party shall be obligated to discharge any liability to any other Party in excess of \$500,000 per occurrence for any uninsured, indirect or consequential damage, loss, claim, cost, charge or expense resulting from Willful Action. Each Party releases each other Party, its directors and other governing body, officers, and employees from any such liability in excess of \$500,000 per occurrence.

11.5. Except for liability resulting from Willful Action, any Party whose electric customer shall make a claim or bring an action against it or the other Party for any death, injury, loss or damage arising out of or in connection with the delivery of, interruptions to or curtailment of electric service to such customer shall indemnify and hold harmless such other Party, its directors, officers, agents and employees, from and against any liability for such death, injury, loss or damage.

11.6. The provisions of this Transmission Agreement shall not be construed so as to relieve any insurer of its obligation to pay any insurance proceeds in accordance with the terms and conditions of valid and collectible insurance policies of either Party.

11.7. The term "Willful Action" as used in this Transmission Agreement is defined as follows:

11.7.1. Action taken or not taken by a Party at the direction of its directors, officers, agents or employees having management or administrative responsibility affecting its performance under this Transmission Agreement, which action is knowingly or intentionally taken or not taken with conscious indifference to the injurious consequences thereof, or with intent that injury or damage would result or would probably result therefrom. Willful Action does not include any act or failure to act which is merely involuntary, accidental or negligent.

11.7.2. Action taken or not taken by a Party at the direction of its directors, officers, agents or employees having

management or administrative responsibility affecting its performance under this Transmission Agreement, which action has been determined by arbitration award or final judgment or judicial decree to be a material default under this Transmission Agreement and which occurs or continues beyond the time specified in such arbitration award or judgment or judicial decree for curing such default, or, if no time to cure is specified therein, occurs or continues thereafter beyond a reasonable time to cure such default.

11.7.3. Action taken or not taken by a Party at the direction of its directors, officers, agents, or employees having management or administrative responsibility affecting its performance under this Transmission Agreement, which action is knowingly or intentionally taken or not taken with the knowledge that such action taken or not taken is a material default under this Transmission Agreement.

11.7.4. The phrase "employees having management or administrative responsibility" as used in this Section 11.7 means employees of a Party who are responsible for one or more of the executive functions of planning, organizing, coordinating, directing, controlling and supervising such Party's performance under this Transmission Agreement.

11.8. For the purposes of this Section 11, the term Party shall include the Agent acting in its capacity as such.

12. **SIGNIFICANT CHANGE IN CIRCUMSTANCES:** If at any time a Party believes that, due to any significant change in circumstances, compliance with this Transmission Agreement by such Party would produce a gross inequity resulting in financial hardship of extraordinary magnitude, such Party may by written notice call on the other Party to review and discuss the effects of such change of circumstances. Within 30 days of such notice the Parties shall meet to consider how to deal with such inequity or hardship in a manner which is equitable to both Parties in view of all changes and surrounding circumstances, and shall attempt to eliminate promptly any such inequity or hardship through good faith negotiations. If the Parties agree on a method to eliminate such inequity or hardship then this Transmission Agreement

shall be amended, as appropriate. In the event the Parties are unable to agree on such method, this Transmission Agreement shall remain in full force and effect pursuant to its terms.

13. **ASSIGNMENT OF AGREEMENT:** Neither Party shall voluntarily assign this Transmission Agreement or any part thereof without the prior written consent of the other Party, which consent will not be unreasonably withheld, except that this Transmission Agreement may be assigned without such prior written consent by either Party in connection with the sale or merger of all or substantially all of such Party's properties.

14. **OTHER AGREEMENTS:** Notwithstanding the provisions of Section 13 hereof, the Authority may use and employ all or any portion of its rights to transmission service hereunder to deliver capacity and energy of its ANPP Generation Entitlement Share to members of Authority contracting with Authority, and to other entities contracting with Authority pursuant to Section 14.2 of the Power Sales Contracts entered into by Authority as of July 1, 1981, to purchase an entitlement to capacity and energy of Authority's ANPP Generation Entitlement Share.

15. **NONDEDICATION OF FACILITIES:** No undertaking by one Party to another under any provision of this Transmission Agreement shall constitute the dedication of the system or any portion thereof of either Party to the public or to the other Party, and it is understood and agreed that any such undertaking by either Party shall cease upon the termination by such Party of its obligations hereunder.

16. **NOTICE:**

16.1. All notices, demands or requests required or authorized by this Transmission Agreement shall be in writing and made or sent by either Party to the other. Such notices shall be deemed to have been fully given, made or sent when made and deposited in the United States mail, by registered or certified mail, postage prepaid, and addressed as follows:

To AUTHORITY: Southern California Public
Power Authority
c/o Executive Director
Room 1149
Department of Water and Power
111 N. Hope Street
Los Angeles, CA 90012

To SALT RIVER PROJECT: Salt River Project
Agricultural Improvement and
Power District
c/o The Secretary
P. O. Box 13180
Phoenix, Arizona 85001

To AGENT: Department of Water and Power
of the City of Los Angeles

c/o Chief Electrical Engineer
and Assistant General Manager
P. O. Box 111
Los Angeles, CA 90051

16.1.1. The designation of any person specified in Section 16.1 hereof or the address of any such person may be changed at any time by ten (10) days' notice given in the same manner as provided in Section 16.1 hereof for other notices.

17. **WAIVER:** The waiver by either Party of any breach of any term, covenant or condition herein contained shall not be deemed a waiver of any other term, covenant or condition, or any subsequent breach of the same or any other term, covenant or condition herein contained.

18. **GOVERNING LAW:** This Transmission Agreement shall be governed by and construed and enforceable in accordance with the laws of the State of Arizona.

19. REGULATORY AUTHORITY: This Transmission Agreement shall be subject to filing with, and to changes or modifications as may from time to time be directed by competent regulatory authority in the exercise of its jurisdiction.

IN WITNESS WHEREOF, the Parties hereto have caused this Transmission Agreement to be executed as of the ____ day _____, 1981.

SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER
DISTRICT

By _____
President

ATTEST AND COUNTERSIGN: -

SOUTHERN CALIFORNIA PUBLIC
POWER AUTHORITY

By _____

ATTEST:

Salt River Project Agricultural Improvement and Power District
[Address]

Dear Sirs:

We have acted as counsel for Southern California Public Power Authority ("Authority") in connection with the execution and delivery by Authority of the Salt River Project - Authority Palo Verde Nuclear Generating Station Assignment Agreement (the "Assignment Agreement") between Authority and Salt River Project Agricultural Improvement and Power District ("Salt River Project"), and the related Transmission Agreement (the "Transmission Agreement") between Salt River Project and Authority. Except as otherwise defined herein, the terms used herein shall have the meanings set forth in the Assignment Agreement.

In this connection, we have examined originals or copies, certified or otherwise identified to our satisfaction, of such documents, records and other instruments, and have made such examination of law, as we have deemed necessary or advisable for the purposes of rendering this opinion.

Based on the foregoing, we are of the opinion that:

1. Authority is a legal entity duly organized and validly existing under the laws of the State of California, and has the power and authority to (i) own the portions of Salt River Project's ANPP Interest, Salt River Project's Switchyard Interest, and Salt River Project's PVUV Interest, respectively, contemplated to be transferred and assigned pursuant to the Assignment Agreement and to perform its obligations under the ANPP Participation Agreement, the Project Agreements, the PVUV Agreement and the Transmission Agreement and (ii) sell the output of the Palo Verde Nuclear Generating Station so acquired to members of Authority.
2. The execution, delivery and performance of the Assignment Agreement and the Transmission Agreement by Authority have been duly and effectively authorized by all requisite official action of Authority and each such Agreement is a legal, valid and binding agreement of, and (except as the provisions of the Assignment



Agreement and the Transmission Agreement may be limited by usury, bankruptcy, insolvency, reorganization or other laws relating to or affecting the enforcement of creditors' rights and other laws of general application affecting the rights and other remedies of creditors, and except that the availability of the remedy of specific enforcement or of injunctive relief is subject to the discretion of the court before which any proceeding therefor may be brought) enforceable in accordance with its terms against, Authority.

Very truly yours,

Rourke & Woodruff

By _____



Southern California Public Power Authority
[Address]

Dear Sirs:

I am Director, Law and Land, and the Chief Legal Executive of Salt River Project Agricultural Improvement and Power District ("Salt River Project") in connection with the execution and delivery by Salt River Project of the Salt River Project - Authority Palo Verde Nuclear Generating Station Assignment Agreement (the "Assignment Agreement") between Salt River Project and Southern California Public Power Authority ("Authority"), and the related Transmission Agreement (the "Transmission Agreement") between Salt River Project and Authority. I have examined originals or copies, certified or otherwise identified to my satisfaction, of such documents, records and other instruments; certificates of certain officers and management of Salt River Project as to certain factual matters pertaining to indentures, agreements, resolutions or instruments under which Salt River Project is a party or is obligated; the legal opinions of Messrs. Mudge Rose Guthrie & Alexander pertaining to conformity of the Assignment Agreement with certain resolutions of the Board of Directors of Salt River Project; and have made such examination of laws of the State of Arizona as I have deemed necessary or advisable for the purposes of rendering this opinion. Except as otherwise defined herein, the terms used herein shall have the meanings set forth in the Assignment Agreement.

Based on the foregoing, I am of the opinion that:

1. Salt River Project is an agricultural improvement district duly organized and validly existing under the laws of the State of Arizona, and has the power and authority to own Salt River Project's ANPP Interest, Salt River Project's Switchyard Interest and Salt River Project's PVUV Interest and to perform its obligations under the ANPP Participation Agreement, the Project Agreements and the PVUV Agreement.
2. The ANPP Participation Agreement, the Project Agreements and the PVUV Agreement have been duly authorized, executed and delivered by Salt River Project and, assuming due authorization, execution and delivery by the other parties thereto, are legal, valid and binding agreements of, and enforceable in



accordance with their terms against, Salt River Project.

3. The execution and delivery of the Assignment Agreement and the Transmission Agreement and compliance with the provisions thereof by Salt River Project will not constitute a material breach of or material default under any indenture, agreement, resolution, or other instrument to which Salt River Project is a party or by which Salt River Project is bound, nor will such execution, delivery or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the property or interests assigned or transferred to Authority under the Assignment Agreement.
4. The execution, delivery and performance of the Assignment Agreement and the Transmission Agreement by Salt River Project have been duly and effectively authorized by all requisite official action of Salt River Project, each such Agreement is a legal, valid and binding agreement of, and (except as the provisions of the Assignment Agreement and the Transmission Agreement may be limited by usury, bankruptcy, insolvency, reorganization or other laws relating to or affecting the enforcement of creditors' rights and others laws of general application affecting the rights and remedies of creditors, and except that the availability of the remedy of specific enforcement or of injunctive relief is subject to the discretion of the court before which any proceeding therefor may be brought) enforceable in accordance with its terms against, Salt River Project.
5. With regard to the [Section 6.1.1. instrument], (i) Salt River Project has taken the actions required of it, subject to actions required of Authority, to place said instrument in a form recordable under Arizona law, (ii) Salt River Project has taken the actions required of it, subject to actions required of Authority pursuant to the provisions of Section 15.5 of the ANPP Participation Agreement, to make Authority a Participant and (iii) Salt River Project conveys, assigns and transfers to Authority as a tenant in common all of Salt River Project's right, title and interest in (a) a 5.91% Generation Entitlement Share and undivided ownership interest in Palo Verde Nuclear Generating Station, the Project Agreements and the other property and rights provided for, contemplated by or resulting from the Project Agreements, and (b) a 5.91% undivided ownership interest in that portion of

the ANPP High Voltage Switchyard described in Section I.2.1 of the Appendix I of the ANPP Participation Agreement.

6. With regard to the [Section 6.1.2 instrument] (i) Salt River Project has taken the actions required of it, subject to actions required of Authority pursuant to the provisions of Section 11.4 of the PVUV Agreement, to make Authority a Member and (ii) Salt River Project conveys, assigns and transfers to Authority all of Salt River Project's right, title and interest in a 5.91% interest in PVUV.

The opinions herein expressed are limited in all respects to the laws of the State of Arizona as in effect as of the date hereof, and the undersigned undertakes no responsibility to advise you of any change in such laws occurring after the date hereof.

Very truly yours,

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AMENDMENT NO. 6 TO THE
ARIZONA NUCLEAR POWER PROJECT
PARTICIPATION AGREEMENT
DATED _____

APS Contract No: 4172-419.00

1st Draft

May 13, 1981

AMENDMENT NO. 6 TO THE
ARIZONA NUCLEAR POWER PROJECT
PARTICIPATION AGREEMENT

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4 1. PARTIES:

5 The Parties to this Amendment No. 6 are: ARIZONA PUBLIC SERVICE
6 COMPANY, a corporation organized and existing under and by virtue
7 of the laws of the State of Arizona, hereinafter referred to as
8 "Arizona", SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER
9 DISTRICT, an agricultural improvement district organized and
10 existing under and by virtue of the laws of the State of Arizona,
11 hereinafter referred to as "Salt River Project", SOUTHERN
12 CALIFORNIA EDISON COMPANY, a corporation organized and existing
13 under and by virtue of the laws of the State of California, here-
14 inafter referred to as "Edison", PUBLIC SERVICE COMPANY OF NEW
15 MEXICO, a corporation organized and existing under and by virtue
16 of the laws of the State of New Mexico, hereinafter referred to
17 as "PNM" and EL PASO ELECTRIC COMPANY, a corporation organized
18 and existing under and by virtue of the laws of the State of
19 Texas, hereinafter referred to as "El Paso."

20 2. EFFECTIVE DATE: July 1, 1981

21 3. RECITALS:

22 3.1 Arizona, Salt River Project, Edison, PNM, and El Paso are
23 parties to a certain agreement entitled Arizona Nuclear
24 Power Project Participation Agreement, dated as of August
25 23, 1973, as amended by Amendment No. 1, dated as of
26 January 1, 1974, Amendment No. 2, dated as of August 28,



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1975, Amendment No. 3, dated as of July 22, 1976, Amendment No. 4, dated as of December 15, 1977, and Amendment No. 5, dated as of December 5, 1979, (hereinafter as so amended "Participation Agreement").

3.2 Because of recent experiences and developments in the electric power industry, the Participants desire to limit liability due to Willful Action, whether or not it results from or arises out of a nuclear incident.

4. AGREEMENT:

The Parties agree that the Participation Agreement be and is hereby amended as follows:

4.1 Section 3.56.4 shall be deleted in its entirety and a new Section 3.56.4 shall be added to read as follows:

3.56.4 The phrase "employees having management or administrative responsibility" as used in this Section 3.56 means any employee of a Participant, including without limitation the Project Manager and Operating Agent, who is responsible for one or more of the functions of planning, organizing, coordinating, directing, controlling and supervising such Participant's performance under any of the Project Agreements; provided, however, that with respect to employees of the Operating Agent, such

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phrase shall refer only to (i) any employee of the Operating Agent designated as the PVNGS station superintendent (or such other title designation as the Operating Agent shall determine), and during his absence, the Operating Agent's employee who has been designated to act and is acting for said station superintendent, and (ii) anyone in the organizational structure of the Operating Agent between such station superintendent and an officer.

4.2 Section 21. LIABILITY, composed of subsections 21.1 through 21.6 inclusive, shall be deleted in its entirety and a new Section 21 shall be added to read as follows:

21. LIABILITY

21.1 Except for liability resulting from Willful Action, and subject to the provisions of Sections 21.4, 21.5, and 21.6 hereof, no Participant, its directors or other governing body, officers or employees shall be liable to any other Participant for any uninsured loss, damage, claim, cost, charge or expense of any kind or nature incurred by the other Participants (including direct, indirect or consequential loss, damage, claim, cost, charge or

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expense; and whether or not resulting from the negligence of a Participant, its directors or other governing body, officers, employees, or any person or entity whose negligence would be imputed to such Participant from (i) Construction Work, Operating Work and the making, operation and maintenance of Capital Improvements, use or ownership of ANPP or (ii) the performance or non-performance of the obligations of a Participant under the Project Agreements other than the obligation to pay sums which have become due, and each Participant releases each other Participant, its directors or other governing body, officers and employees, from any such liability.

21.2 Except as provided in Sections 21.4, 21.5, and 21.6 hereof, the costs and expenses of discharging all Work Liability imposed upon one or more of the Participants for which payment is not made by Project Insurance, shall be shared among and paid by all Participants in proportion to their respective Generation Entitlement Shares.

21.3 In the event the public liability, as defined in the Atomic Energy Act of 1954 as amended, arising from any nuclear incident, as defined in said act, involving ANPP exceeds in the aggregate the total

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amount of protection provided or is not covered by the insurance and any indemnity agreement required by Section 19.3 hereof, then any such excess or uncovered public liability assessed and collectible against any Participant and all costs and expenses incurred by such Participant in the investigation, settlement and defense of claims arising from such nuclear incident and not recovered under such insurance or indemnity agreement shall be shared by all Participants in accordance with their respective Generation Entitlement Shares.

21.4 Each Participant shall be responsible for any direct, indirect or consequential damage, loss, claim, cost, charge or expense that is not covered by Project Insurance and results from its own Willful Action as defined in Section 3.56.2 of the Participation Agreement and shall indemnify and hold harmless the other Participants, their directors or members of its governing body, officers and employees from any such damage, loss, claim, cost, charge or expense.

21.5 Except as provided in Section 21.4 hereof, the aggregate liability of any Participant to all other Participants for all uninsured, damages, losses, claims, costs, charges or expenses, whether indirect or consequential, resulting from Willful Action of such Participant and not arising out of or in connection



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with a nuclear incident as defined in the Atomic Energy Act of 1954 as amended, shall not exceed \$10,000,000 per occurrence. Each Participant releases each other Participant, its directors or other governing body, officers and employees from any such aggregate liability in excess of \$10,000,000 per occurrence.

21.6 Except as provided in Section 21.4 hereof, the aggregate liability of any Participant to all other Participants for all uninsured damages, losses, claims, costs, charges or expenses, whether direct, indirect or consequential, resulting from Willful Action of such Participant and arising out of or in connection with a nuclear incident as defined in the Atomic Energy Act of 1954 as amended, shall not exceed \$2,000,000 per occurrence. Each Participant releases each other Participant, its directors or other governing body, officers and employees from any such aggregate liability in excess of \$2,000,000 per occurrence.

21.7 Except for liability resulting from Willful Action, and subject to the provisions of Sections 21.5 and 21.6 hereof, any Participant whose electric customer shall have a claim or bring an action against any other Participant for any death, injury, loss or damage arising out of or in connection with interrup-

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tions to or curtailment of electric service to such customer caused by the operation or failure of operation of ANPP or any portion thereof shall indemnify and hold harmless such other Participant, its directors, officers and employees from and against any liability for such death, injury, loss or damage.

21.8 The provisions of this Section 21 shall not be construed so as to relieve any insurer of its obligation to pay any insurance proceeds in accordance with the terms and conditions of valid and collectible Project Insurance policies.

4.3 Except as provided herein, the Participation Agreement, as amended by this Amendment No. 6, shall remain in full force and effect.

5. EXECUTION:

The parties have executed this Amendment No. 6 as of the date first set forth above.

ARIZONA PUBLIC SERVICE COMPANY

By _____

Its _____

1		SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT
2	ATTEST AND COUNTERSIGN:	
3	_____	By _____
4	Its _____	Its _____
5		
6		SOUTHERN CALIFORNIA EDISON COMPANY
7		
8		By _____
9		Its _____
10		
11		PUBLIC SERVICE COMPANY OF NEW MEXICO
12	ATTEST:	
13	_____	By _____
14	Its _____	Its _____
15		
16		EL PASO ELECTRIC COMPANY
17	ATTEST:	
18	_____	By _____
19	Its _____	Its _____
20		
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APPENDIX 2B



PALO VERDE NUCLEAR GENERATING STATION

#48

#50

POWER SALES CONTRACT

#52

between

#54

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY

#56

and

#58

F7

#60

#62

Dated as of July 1, 1981

#64

[SRP]

#67

#69



FIELDS FOR SALT RIVER/PALO VERDE POWER SALES CONTRACTS

#20

- E1 - Defined term for the purchaser (without parentheses or quotes) - #23
e.g., Anaheim. #(23)
- E2 - Full name of purchaser, its correct corporate designation and #24
the defined term for such purchase - e.g., City of Anaheim, #25
California, a municipal corporation existing under the laws of #26,27
the State of California ("Anaheim"). #(27)
- E3 - Possessive form of defined term for the purchaser - e.g., #28
Anaheim's. #(28)
- E4 - Address of Project Participant for purpose of notices - e.g., #30
City of Anaheim, California #(30)
200 S. Anaheim Boulevard #32
Anaheim, California #33
Attention: City Clerk #34
- E5 - Full name of Project Participant without corporate designation - #36
e.g., City of Anaheim, California. #(36)
- E6 - Corporate designation of Project Participant - e.g., a municipal #37
corporation of the State of California. #38
- E7 - Full name of Project Participant without corporate designation #39
and in capital letters - e.g., CITY OF ANAHEIM, CALIFORNIA #40



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POWER SALES CONTRACT

#73

1. PARTIES: This Contract, made and entered into as of July 1, 1981, by and between SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY, established pursuant to the laws of the State of California (hereinafter referred to as the "Authority"), and F2.
 - #76
 - #77
 - #78
 - #79, 80

2. RECITALS: This contract is made with reference to the following facts among others:
 - #82
 - #83

 - 2.1. The Authority, together with F1 and certain suppliers of electric energy in California, have discussed the desirability of the Authority financing, pursuant to the California Joint Exercise of Powers Act, all or a portion of the costs of acquisition and constructing the Project.
 - #86
 - #87
 - #88
 - #89
 - #90
 - #: (90)

 - 2.2. The Authority has heretofore entered into an Agency Agreement with Los Angeles which provides for Los Angeles to undertake on behalf of the Authority certain work related to the Project, including studies and estimates and such other activities as are necessary to the securing of regulatory approvals and the meeting of environmental requirements to acquire the Project and to determine the cost of the Project and other activities relating to the acquisition, construction, operation and maintenance of the Project.
 - #92, 93
 - #94, 95
 - #96, 97
 - #98
 - #99
 - #100
 - #101
 - #: (101)
 - #102
 - #: (102)

 - 2.3. The Project Participants listed on Appendix A hereto have each elected to take the percentage of the output of the Project listed next to their respective names on Appendix A hereto as their Project Entitlement Shares.
 - #104, 1
 - #106, 1
 - #: (107)
 - #: (107)

 - 2.4. The Authority has, in accordance with the terms of the Agency Agreement, completed for execution this contract, the Assignment Agreement, the Transmission Agreement, and the Bond Indenture.
 - #109, 1
 - #: (110)
 - #111, 1
 - #: (112)

 - 2.5. F1 is interested in participating in the Project in order to meet the future power needs of its customers and to realize the savings in capital and operating costs and economies of scale of large electric generating units and to lessen its dependence on oil-fired generation.
 - #114
 - #115
 - #116
 - #117, 1
 - #119
 - #: (119)

 - 2.6. The Authority will, to the extent not already done, cause to be undertaken all steps necessary to secure such governmental permits, licenses, and approvals as are necessary for the Project, and will proceed as appropriate to undertake or cause to be undertaken the financing, acquisition, construction, equipping and operation of the
 - #121
 - #122
 - #123
 - #124
 - #: (124)
 - #125

- Project. The Authority will sell the output attributable to the Project to F1 and to the other entities contracting with the Authority therefor pursuant to the Power Sales Contracts.
- 2.7. The Authority intends to issue Bonds under the Act sufficient to pay the costs of acquiring, constructing and equipping the Project. The Authority may also issue Bond Anticipation Notes to provide temporary financing for such costs. In order to enable the Authority to issue such Bonds or Bond Anticipation Notes, or both, it is necessary for the Authority to have binding contracts with Project Participants, and all payments required to be made in accordance with the provisions of such contracts, including payments required to be made under this contract, are to be pledged by the Authority as security for the payment of such Bonds, and the interest thereon, and the interest on any such Bond Anticipation Notes subject to the application thereof to such purposes and on such terms as provided in the Bond Indenture herein defined.
3. **AGREEMENT:** For and in consideration of the premises and the mutual covenants and agreements hereinafter set forth, and in order to pay the Authority for its costs of F3 share of the capacity and energy from the Project furnished under this contract, it is agreed by and between the parties hereto as follows:
4. **DEFINITIONS:**
- 4.1. **Act:** The Joint Exercise of Powers Act, being Sections 6500 through 6579.5, inclusive, of the Government Code of the State of California, as amended and supplemented.
- 4.2. **Agency Agreement:** That certain Palo Verde Nuclear Generating Station Agency Agreement dated as of July 1, 1981 between the Authority and the Agent.
- 4.3. **Agency Costs:** The term Agency Costs shall have the meaning ascribed thereto in the Agency Agreement.
- 4.4. **Agent:** Los Angeles, as Agent under the Agency Agreement.
- 4.5. **Aggregate Debt Service:** The term Aggregate Debt Service shall have the meaning ascribed thereto in the Bond Indenture.

- 4.6. Annual Budget: The budget adopted by the Board of Directors pursuant to Section 5.2 hereof not less than 30 nor more than 45 days prior to the beginning of each Power Supply Year, including any amendments thereto, which shall show a detailed estimate of the items for such Year upon which Monthly Power Costs for such Year are computed and all revenues, income, or other funds to be applied to such costs, for and applicable to such Power Supply Year. #173, #175, #176, #177, #178, #179, #179, #180, #181
- 4.7. Assignment Agreement: The Assignment Agreement between the Authority and SRP providing for the acquisition by the Authority from SRP of a portion of the interest of SRP in the Plant and the Plant Agreements, as such Agreement may be amended from time to time. #183, #184, #185, #186, #186
- 4.8. Authority Expenses: The costs, expenses and fees incurred by the Authority in carrying out its duties, responsibilities and obligations, and exercising its rights, under the Act and the Project Agreements. These costs, expenses and fees shall include the following: #188, #188, #189, #190, #191
- 4.8.1. Fees and expenses of the Authority's legal counsel. #193, #193
- 4.8.2. Agency Costs incurred or paid under the Agency Agreement. #195, #195
- 4.8.3. All reasonable costs and expenses incurred by the Authority pursuant to Section 20.3 of the Power Sales Contracts. #197, #198, #198
- 4.8.4. All reasonable costs and expenses (including those of the Authority's legal counsel) payable in accordance with Section 12.4 of the Power Sales Contracts. #200, #201, #202, #202
- 4.9. Authority Percentage: A percentage, equal to the percentage of the Authority's Generation Entitlement Share under the Assignment Agreement and the Participation Agreement. #204, #204, #205, #205
- 4.10. Available Generating Capability: The term Available Generating Capability shall have the meaning ascribed thereto in the Participation Agreement. #207, #208, #208
- 4.11. Base Load Period: The term Base Load Period shall have the meaning ascribed thereto in the Participation Agreement. #210, #211, #211



- 4.12. Billing Statement: The written statement prepared (or #213,
caused to be prepared) each Month by the Authority #215
pursuant to Section 7.4 which shall be based upon the #216
Annual Budget and which shall show for such Month the #217
amount to be paid to the Trustee by _____Fl_____ in accor- #218
dance with the provisions of Sections 8 and 11 hereof. #219
- 4.13. Board of Directors: The Board of Directors of the #221
Authority, as constituted from time to time. #(221)
- 4.14. Bonds: The parity bonds issued by the Authority and #223
outstanding pursuant to the provisions of the Bond #224
Indenture to finance or refinance the Cost of Acquisition #225
and Construction. Bonds shall include additional parity #226
Bonds issued pursuant to the provisions of Section 12.2 #227
hereof, and refunding Bonds issued pursuant to the provi- #228
sions of Section 12.5 hereof. #(228)
- 4.15. Bond Anticipation Notes: The term Bond Anticipation #230
Notes shall have the meaning ascribed thereto in the Bond #230
Indenture. #(230)
- 4.16. Bond Counsel: An attorney or firm of attorneys of rec- #232
ognized national standing in the field of law relating to #233
municipal bonds. #(233)
- 4.17. Bond Indenture: The Indenture of Trust dated as of #235-
July 1, 1981 between the Trustee and the Authority, as #236,2
from time to time amended and supplemented in conformity #238
with its provisions and the provisions of the Power Sales #238
Contracts. #(238)
- 4.18. Capital Improvements: The term Capital Improvements #240
shall have the meaning ascribed thereto in the #241
Participation Agreement. #(241)
- 4.19. Construction Costs: The term Construction Costs shall #243,2
have the meaning ascribed thereto in the Participation #244
Agreement. #(244)
- 4.20. Construction Fund: The term Construction Fund shall #246
have the meaning ascribed thereto in the Bond Indenture. #(246)
- 4.21. Construction Permit: The amendments to the construction #248
permit (heretofore obtained under the Participation #248
Agreement from the Nuclear Regulatory Commission) neces- #248
sary to effectuate the acquisition of the Project by the #249
Authority. #(249)
- 4.22. Cost of Acquisition and Construction: All costs and #251
expenses of planning, engineering, designing, acquiring, #252,2



constructing, installing, equipping and financing the Project, placing in operation or retiring, decommissioning or disposing of the Project, and obtaining governmental approvals, certificates, permits and licenses with respect thereto heretofore or hereafter paid or incurred by or on behalf of the Authority and not otherwise (i) previously paid as Agency Costs, (ii) paid from the proceeds of insurance, or (iii) included in Monthly Power Costs under the Power Sales Contracts. Such costs shall include amounts required to be paid under the Participation Agreement and the Assignment Agreement which are applied or are to be applied thereunder to the payment of the cost of acquiring or constructing the Project. There shall be applied, as a credit against the Cost of Acquisition and Construction, all receipts, revenues and other moneys received from the sale of surplus equipment, materials and supplies and interest earned on investments all if and to the extent held or paid into the Construction Fund. Subject to the foregoing restrictions, the Cost of Acquisition and Construction shall include, but shall not be limited to, funds required for the following:

- 4.22.1. Costs of preliminary investigation and development, the performance or acquisition of feasibility and planning studies, the securing of regulatory approvals, costs for initial fuel and reload fuel for the Project, land and land rights, engineering, contractors' fees, labor, materials, equipment, utility services and supplies, legal fees and working capital and reserves in such amounts as shall be required during construction of the Project and for placing the Project in operation; #276 #277 #278 #279 #280 #281 #281 #282 #282 #283
- 4.22.2. The purchase price or prices payable by the Authority pursuant to the Assignment Agreement; #285 #285 #286
- 4.22.3. Construction Costs of the Project; #288
- 4.22.4. Costs of acquisition of, and working capital and reserves for the acquisition of, resources, facilities and supplies for initial fuel and reload fuel for the Project, including, but not limited to, the cost of processing, fabrication, transportation, delivery, storage and disposal of such fuel, and working capital and reserves therefor; #290 #290 #291,2 #293 #293 #294 #294 #295

- 4.22.5. All costs incurred or associated with the salvage, discontinuance, decommissioning and disposition or sale of properties required to be paid by the Authority in accordance with the Participation Agreement; #297
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#(299)
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#306
#307
- 4.22.8. Subject to the requirements of the Act, interest accruing in whole or in part on Bonds prior to and during construction and for such additional period, consistent with the Act, as the Authority may reasonably determine to be necessary for the placing of the Project or any facility thereof in operation in accordance with the provisions of the Bond Indenture; #309
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- 4.22.9. Amounts, if any, required by the Bond Indenture to be paid from the proceeds of Bonds issued to finance the Cost of Acquisition and Construction into the Debt Service Reserve Account in the Debt Service Fund or the Reserve and Contingency Fund or into any other funds or accounts established pursuant to the Bond Indenture; #317
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#(322)
- 4.22.10. The payment of principal, premium, if any, and interest due (whether at the maturity of principal or at the due date of interest or upon redemption) of any note or evidence of indebtedness issued in anticipation of Bonds for the purpose of financing the Cost of Acquisition and Construction of the Project; and #324
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- 4.22.11. All other costs properly allocable to the acquisition and construction of the Project. #331
#332
- 4.23. Date of Firm Operation: The term Date of Firm Operation shall have the meaning ascribed thereto in the Participation Agreement. #334
#335
#(335)
- 4.24. Debt Service: With respect to any period, the aggregate of the amounts required by the Bond Indenture to be paid #337
#338

- during said period into any fund or account created by the Bond Indenture for the sole purpose of paying the principal (including sinking fund installments) of and premium, if any, and interest (net of any interest subsidy with respect to Bonds paid to or for the account of the Authority by any governmental body or agency) on all the Bonds from time to time outstanding as the same shall become due; provided, however, that Debt Service shall not include any acceleration of the maturity of the Bonds. #339
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#341,
#(342)
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#(348)
- 4.25. Federal Tax Exemption: The exemption from Federal income taxation of interest paid or to be paid on the Bonds or notes or other obligations issued by the Authority in respect of the Project. #350
#351
#352
#(352)
- 4.26. Fiscal Year: The twelve-month period commencing at 12:01 a.m. on July 1 of each year and ending at immediately prior to such time on the following July 1. #354
#355
#356
- 4.27. Fuel Expense: Fuel Expense shall have the meaning ascribed thereto in the Participation Agreement. #358
#359
- 4.28. Generation Station: The generation station for the Project. #361
#(361)
- 4.29. Los Angeles: The Department of Water and Power of The City of Los Angeles, a department organized and existing under the Charter of The City of Los Angeles, a municipal corporation of the State of California, and the successors of such department. #363
#364
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#366
#(366)
- 4.30. Minimum Generating Capability: The term Minimum Generating Capability shall have the meaning ascribed thereto in the Participation Agreement. #368
#369
#(369)
- 4.31. Month: A calendar month. #371
- 4.32. Monthly Power Costs: All of the Authority's costs to the extent not paid from the proceeds of Bonds, notes, or other evidence of indebtedness issued in anticipation of Bonds, resulting from the ownership, operation and maintenance of, and renewals and replacements to, the Project. There shall be applied, as a credit against Monthly Power Costs, all receipts, revenues and other moneys received from the sale of surplus equipment, materials and supplies and energy sold prior to the Date of Firm Operation, and interest earned on investments if and to the extent not credited against the Cost of Acquisition and Construction. Monthly Power Costs shall consist of a minimum cost component and a variable cost #373,3
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component attributable to the Project, and shall include, #386
 but not be limited to, the items of cost and expense #387
 referred to in this Section 4.32 that are attributable to #387
 the Project and are accrued or paid during each Month of #388
 each Power Supply Year. In the event any Power Supply #389
 Year shall embrace fewer than 12 Months, the fraction #390
 expressed in the following Sections 4.32.1.3, 4.32.1.4 #391
 and 4.32.1.5 shall be adjusted accordingly, and, in the #392
 event of any revision of the Annual Budget after the com- #393
 mencement of any Power Supply Year, the amount determined #394
 pursuant to the following Sections 4.32.1.3, 4.32.1.4 and #395
 4.32.1.5 shall be appropriately adjusted so that any #396
 increase or decrease in the portion of the Annual Budget #396
 applicable to said Sections shall be evenly apportioned #397
 over the remaining Months of such Power Supply Year. #398

4.32.1. The minimum cost component of the Monthly #400,
 Power Costs shall consist of: #402

4.32.1.1. The amount which is required under #404
 the Bond Indenture to be paid or #405
 deposited during such Month into any #405
 funds or accounts established by the #406
 Bond Indenture for Debt Service and #407
 for any reserve requirements for #407
 Bonds. #407

4.32.1.2. The amount which is required to be #409
 paid or deposited during such month #410
 into any fund or account established #410
 by the Bond Indenture or otherwise #411
 for the payment of interest (net of #412
 any interest subsidy with respect to #412
 Bonds paid to or for the account of #413
 the Authority by any governmental #413
 body or agency) on notes or on other #414
 evidences of indebtedness issued in #414
 anticipation of the issuance of #415
 Bonds. #415

4.32.1.3. One-twelfth of the amount (not other- #417
 wise included under any item in this #418
 Section 4.32.1 or in Section 4.32.2) #418
 which is required under the Bond #419
 Indenture to be paid or deposited #419
 during such Power Supply Year into #420
 any other fund or account established #421
 by the Bond Indenture, and shall #421
 include, without limitation, any #422
 amounts required to make up a #422
 deficiency in any fund required or #423

permitted by the Bond Indenture # (423);
whether or not resulting from a #424
default in payments by any Project # (424)
Participant of amounts due under any #425
Power Sales Contract. # (425)

4.32.1.4. One-twelfth of the costs of producing #427
and delivering capacity and energy #428
during such Power Supply Year, # (428)
including, but not limited to, (i) #429
Operation and Maintenance Costs and # (429)
costs of Operating Work incurred pur- # (429)
suant to the Participation Agreement, #430
administrative and general costs, #431
insurance costs (including amounts to #432
fund any self-insurance program), #433
overhead costs and any other costs # (433)
payable in connection with the output #434
of the Project and (ii) Authority # (434)
Expenses and all other costs related #435,4
to the conducting of the business of # (436)
the Authority with respect to the #437
Project including salaries, fees for # (437)
legal, engineering, financial and #438
other services, insurance costs # (438)
incurred pursuant to the Agency # (438)
Agreement and all other expenses #439
properly related to the conduct of # (439)
such business; provided, however, #440
that minimum costs included under # (440)
this Section 4.32.1.4 shall with #441
respect to fuel costs include only #442
the fixed costs of fuel incurred # (442)
under Appendix F to the Participation # (442)
Agreement. # (442)

4.32.1.5. One-twelfth of the amount necessary #444
during such Power Supply Year to pay #445
or provide reserves for all taxes #446,4
required to be paid by the Authority #448
with respect to its ownership inter- #449
ests in the Plant to the extent not # (449)
included in costs of Operating Work # (449)
or Construction Costs. # (449)

4.32.2. The variable cost component of the Monthly #451
Power Costs with respect to any Month shall #452
include: # (452)

4.32.2.1. The Authority's share of any payments #454
of fuel costs under the Participation #455



- Agreement not covered by Section # (455):
4.32.1.4. # (455):
- 4.32.2.2. The Authority's cost of transmission #457
under the Transmission Agreements. # (457):
- 4.33. Operating Agent: The term Operating Agent shall have #459
the meaning ascribed thereto in the Participation #460
Agreement and shall include the operating agent under # (460)
Section I.3.1 of Appendix I to such Agreement or the man- # (460)
aging member under the PVUV Agreement, as appropriate. #461
- 4.34. Operating Emergencies: The term Operating Emergencies #463
shall have the meaning ascribed thereto in the # (463)
Participation Agreement. #464
- 4.35. Operating Work: The term Operating Work shall have the #466
meaning ascribed thereto in the Participation Agreement. #467
- 4.36. Operation and Maintenance Costs: The operation and #469
maintenance costs described in Section 11 of the # (469)
Participation Agreement. #470
- 4.37. Outstanding: The term Outstanding shall have the mean- #472
ing ascribed thereto in the Bond Indenture. #473
- 4.38. Participation Agreement: The Arizona Nuclear Power #475
Project Participation Agreement, dated August 23, 1973, #476
as heretofore amended by Amendment Nos. 1 through 5 and # (476)
as hereafter amended from time to time. #477
- 4.39. Plant: The Palo Verde Nuclear Generating Station, the #479
ANPP High Voltage Switchyard and the ANPP Transmission # (479)
System and certain facilities related thereto, as more #480
fully described in Appendix A or Appendix I, as the case # (480)
may be, to the Participation Agreement, as such #481
Appendices may be revised from time to time. # (481)
- 4.40. Plant Agreements: The term Plant Agreements shall have #483
the meaning ascribed to the term Project Agreements in # (483)
the Participation Agreement. # (483)
- 4.41. Points of Delivery: The points of delivery to Project #485
Participants of output of the Project pursuant to #486
Section 9.8 hereof. #487
- 4.42. Power Sales Contract: This contract or any contract #489
with terms which shall be similar in substance to the #490
terms of this contract and which may contain such varia- #491
tions or differences from the terms of this contract as #492,4
shall be approved by the Authority as not deviating from #494

- the substance of this contract, together with amendments thereto, entered into by the Authority and a Project Participant. # (494)
#495
(495)
- 4.43. Power Supply Year: The Fiscal Year, except that the first Power Supply Year shall begin on the first to occur of (i) the date to which all interest is capitalized with respect to all Bonds and Bond Anticipation Notes, or (ii) the date which is one year prior to the first principal installment date for any Bonds, or (iii) the Date of Firm Operation of the first generating unit of the Project to be placed in service. #497
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- 4.44. Principal Installment: The term Principal Installment shall have the meaning ascribed thereto in the Bond Indenture. #505
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- 4.45. Project: The interest of the Authority in the Plant and the Plant Agreements acquired by the Authority pursuant to the Assignment Agreement. #508,5
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- 4.46. Project Agreements: Prior to the respective termination dates thereof, the Bond Indenture, the Power Sales Contracts, the Assignment Agreement, the Transmission Agreements, the Agency Agreement, the Plant Agreements, the Construction Permit and any other contract designated a Project Agreement by the Board of Directors. #511
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- 4.47. Project Entitlement Share: The percentage entitlement of each Project Participant in any Power Supply Year in the Project as set forth in Appendix A, as such Share may be revised in accordance with this contract. #518
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#519.1
- 4.48. Project Manager: The term Project Manager shall have the meaning ascribed thereto in the Participation Agreement and shall include the project manager under Section I.3.1 of Appendix I to such Agreement or the Managing Member under the PVUV Agreement, as appropriate. #521
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- 4.49. Project Participants: The Project Participants named in Appendix A, excluding any Project Participant who withdraws entirely from participation in the Project in accordance with this contract. #526
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- 4.50. Prudent Utility Practice: Any of the practices, methods and acts, which, in the exercise of reasonable judgment in the light of the facts (including but not limited to the practices, methods and acts engaged in or approved by a significant portion of the electrical utility industry prior thereto) known at the time the #530
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- decision was made, would have been expected to accomplish the desired result at the lowest reasonable cost consistent with good business practices, reliability, safety and expedition, taking into account the fact that Prudent Utility Practice is not intended to be limited to the optimum practice, methods or acts to the exclusion of all others, but rather to be a spectrum of possible practices, methods or acts which could have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition. Prudent Utility Practice includes due regard for manufacturers' warranties and requirements of governmental agencies of competent jurisdiction and shall apply not only to functional parts of the Project, but also to appropriate structures, landscaping, painting, signs, lighting, other facilities and public relations programs reasonably designed to promote public enjoyment, understanding and acceptance of the Project.
- 4.51. PVUV Agreement: The term PVUV Agreement shall mean the Palo Verde Uranium Venture Agreement dated as of January 7, 1977, as heretofore or hereafter amended from time to time.
- 4.52. Series: The term Series shall have the meaning ascribed thereto in the Bond Indenture.
- 4.53. SRP: Salt River Project Agricultural Improvement and Power District, an agricultural improvement district organized and existing under and by virtue of the laws of the State of Arizona.
- 4.54. Start-Up Period: The term Start-Up Period shall have the meaning ascribed thereto in the Participation Agreement.
- 4.55. Supplemental Indenture: The term Supplemental Indenture shall have the meaning ascribed thereto in the Bond Indenture.
- 4.56. Transmission Agreements: The Transmission Agreement between the Authority and SRP, entered into pursuant to Section 9 of the Assignment Agreement, together with any memoranda of agreement, letters of intent or definitive agreements providing for the transmission of output from the Generation Station to the Project Participants, as any such Agreement may be amended and supplemented from time to time.
- 4.57. Trustee: The Trustee, from time to time, under the Bond Indenture.

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- 4.58. Uncontrollable Forces: Any cause beyond the control of the party affected, including but not restricted to inability of the Authority to sell Bonds, failure of or threat of failure of facilities, flood, earthquake, tornado, storm, fire, lightning, epidemic, war, riot, civil disturbance or disobedience, labor dispute, labor or material shortage, sabotage, restraint by court order or public authority, and action or non-action by or failure to obtain the necessary authorizations or approvals from any governmental agency or authority, any of which by exercise of due diligence such party could not reasonably have been expected to avoid and which by exercise of due diligence it shall be unable to overcome. #577 #578 #579 #(579) #580 #581 #581 #582 #582 #583 #584 #584 #584 #585 #585 #585
- 4.59. Uniform System of Accounts: The "Uniform Systems of Accounts prescribed for Class A and B Public Utilities and Licensees" as prescribed and, from time to time, as amended or modified or substitution therefor made by the Federal Energy Regulatory Commission or its successor, whether or not the Authority is subject to Federal Energy Regulatory Commission jurisdiction. #587 #588 #589 #590 #591 #591 #592 #592 #592
- 4.60. Zero Net Load: The term Zero Net Load shall have the meaning ascribed thereto in the Participation Agreement. #594 #594
5. OBLIGATIONS OF THE AUTHORITY AND _____Fl_____ : #595
- 5.1. Obligation to Supply and Take Capacity and Energy; Authority to Cause Acquisition, Construction and Operation. The Authority has received elections from each Project Participant for its Project Entitlement Share. The Authority shall provide or cause to be provided and _____Fl_____ shall take its entire share of capacity and energy from the Project pursuant to the terms of this contract. The Authority will cause to be undertaken the planning, negotiating, designing, acquiring, constructing, insuring, contracting for, administering, operating, and maintaining the Project pursuant to the Project Agreements to effectuate the delivery and sale of such share of capacity and energy to _____Fl_____. #598 #598 #599 #599 #600 #600 #601 #601 #602 #602 #603 #603 #604 #604 #605,6 #605,6 #607 #607 #608 #608 #608
- 5.2. Adoption of Annual Budget. In each case reflecting the most recent available budgeting and other information provided to the Authority pursuant to the Participation Agreement (including Section 12 thereof) and the Transmission Agreements, the Authority will prepare or cause to be prepared, and submit to _____Fl_____ and the other Project Participants, at least 90 days prior to the beginning of each Power Supply Year, a proposed Annual #611 #611 #612 #612 #613 #613 #613 #613 #614 #614 #615 #615 #616,6 #616,6

Budget for such Power Supply Year. _____Fl_____ and the other Project Participants may submit to the Authority, at any time until the Annual Budget is adopted, any matters or suggestions relating to the Annual Budget. The Board of Directors shall adopt the Annual Budget not less than 30 nor more than 45 days prior to the beginning of such Power Supply Year and shall cause copies of such adopted Annual Budget to be delivered to _____Fl_____, the Trustee and other Project Participants; provided, however, the Annual Budget for the first Power Supply Year shall be prepared, considered, adopted and delivered in the most practicable manner available prior to the date upon which such first Power Supply Year begins. Each adopted Annual Budget for a particular Power Supply Year shall incorporate therein all items comprising a part of Monthly Power Costs for such Power Supply Year and other items required by Section 709 of the Bond Indenture. As required from time to time during any Power Supply Year after 30 days notice to _____Fl_____ and all other Project Participants, the Board of Directors may, pursuant to the foregoing provisions for adopting the Annual Budget, adopt an amended Annual Budget for and applicable to such Power Supply Year for the remainder of such Power Supply Year. In addition, the Authority shall comply with Section 709 of the Bond Indenture regarding quarterly review and amendments to the Annual Budgets. The Annual Budget shall establish the basis for the billing of the minimum cost components of Monthly Power Costs and shall establish the rate of billing for the variable cost component, all as hereinafter provided.

- 5.3. Reports. Subject to the provisions of the Plant Agreements, the Authority will prepare or cause to be prepared and issue to _____Fl_____ and the other Project Participants the following reports each Power Supply Year:
 - 5.3.1. Financial and operating statement relating to the Project.
 - 5.3.2. Status of Annual Budget.
 - 5.3.3. Status of construction budget of the Project during construction.
 - 5.3.4. Analysis of operations relating to the Project.
- 5.4. Records and Accounts. The Authority will keep or cause to be kept accurate records and accounts with

respect to the Project as well as of the operations of the Project in a manner similar to the Uniform System of Accounts. Said accounts shall be audited annually by an independent firm of certified public accountants experienced in electric utility accounting and selected by the Authority. Such audit shall be completed and submitted to the Authority within 120 days after the close of each Fiscal Year. Subject to the provisions of the Plant Agreements, all transactions of the Authority and the Project Manager and the Operating Agent relating to the Project with respect to each Fiscal Year shall be subject to such an audit. There shall be promptly furnished to _____ F1 _____ and the other Project Participants copies of annual and other audits. Subject to the provisions of the Plant Agreements, _____ F1 _____ shall have the right at its own expense to examine and copy the records and accounts referred to above on reasonable notice during regular business hours.

5.5. Adjustment of Billing. On or before 120 days after the end of each Power Supply Year, the Authority will submit (or cause to be submitted) to _____ F1 _____ and the other Project Participants a detailed statement of the actual aggregate Monthly Power Costs and other amounts payable hereunder, including credits thereto, for all of the Months of such Power Supply Year, and the adjustments of the aggregate Monthly Power Costs and other amounts payable hereunder, if any, for any prior Power Supply Year, based on the annual audit of accounts provided for in Section 5.4. If, on the basis of the statement submitted as provided in this Section 5.5, the actual aggregate Monthly Power Costs and other amounts payable for any Power Supply Year exceed the amount thereof which _____ F1 _____ and the other Project Participants have been billed, _____ F1 _____ shall promptly pay to the Trustee its share of such excess. If, on the basis of the statement submitted pursuant to this Section 5.5, the actual aggregate Monthly Power Costs or other amounts payable for any Power Supply Year are less than the amount therefor which _____ F1 _____ and the other Project Participants have been billed, the Authority shall credit such excess against _____ F3 _____ and the other Project Participants' next monthly payment. In the event that the failure of _____ F1 _____ to make its payments in accordance with this contract shall have resulted in the application of amounts in any reserve or working fund under the Bond Indenture to the payment of costs payable from such reserve or working fund and the other Project Participants shall have made up the deficiency created by such application or paid additional amounts into such reserve or working fund, amounts thereafter paid to the

Trustee by _____Fl_____ for application to such past due #708,
payments including interest shall be credited on the #710
Billing Statements of such other Project Participants in #711
the next Month or Months as shall be appropriate. #712

5.6. Disputed Monthly Billing Statement. In case any #714
portion of any Billing Statement received by _____Fl_____ #715
pursuant to this Contract shall be in bona fide dispute, # (715)
_____Fl_____ shall pay the Trustee the full amount of #716,
such Billing Statement, and, upon determination of the #718
correct amount, the difference between such correct #719
amount and such full amount, if any, including interest #720
at one percent per Month on any overpayment, will be #721
credited to _____Fl_____ by the Authority after such #722,
determination; provided, however that such interest shall #724
not accrue on any overpayment that is acknowledged by or #725
on behalf of the Authority and returned to _____Fl_____ #726
by the fifth day following the receipt by the Authority #727
of the disputed overpayment. In the event such Billing #728,
Statement is in dispute, the Authority will give consid- #730,
eration to such dispute and will advise _____Fl_____ with # (731)
regard to the position of the Authority relative thereto #732,
within 30 days following written notification by #734
_____Fl_____ of such dispute. # (734)

5.7. Source of Payments. The obligations of _____Fl_____ #736
to make the payments under this contract shall constitute #737
a cost of purchased electric capacity and energy and an #738
operating expense of the electric utility system of # (738)
_____Fl_____ payable solely from its electric revenue #739
funds. _____Fl_____ shall not be required to make any # (739)
such payment from tax revenues or its general or other #740
funds (except the aforesaid electric revenue funds). #741
_____Fl_____ will annually in each and every fiscal year #742
of _____Fl_____ during the term of this contract include #743
in its power system budget, whether or not any other #744
items are included, an appropriation from the revenues of #745
its electric system sufficient to satisfy all the pay- #746
ments required to be made in such year under this con- #747
tract until all payments required under this contract #748
have been paid in full. # (748)

5.8. Project Participant to Supply Information. #751
_____Fl_____ agrees to supply the Authority, upon #752
request, with such information and documentation as the #753
Authority shall reasonably determine to be requisite to #754,7
and necessary for the acquisition, construction, opera- #756
tion and maintenance of the Project including information #757
reasonably available to allow the Authority to respond to #758,7
requests for such information from the Project Manager, #760

the Operating Agent or any federal, state, or local regulatory or other authority. #761
#(761)

5.11. Rate Covenant. _____Fl_____ will establish, maintain and collect rates and charges for the electric service of its electric system so as to provide revenues sufficient, together with available electric system reserves, to enable _____Fl_____ to pay all amounts payable when due under this contract and to pay all other amounts payable from, and all lawful charges against or liens on, the revenues of its electric system. #764
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6. DUTIES AND RESPONSIBILITIES OF THE AUTHORITY AND BOARD OF DIRECTORS: #772
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6.1. Authority Duties and Responsibilities; Board of Directors. The rights and obligations of the Authority under the Project Agreements shall be subject to the control at all times of the Board of Directors. The Project Participants shall be entitled to participate in the decisions of the Board of Directors with respect to the Project in accordance with voting rights given to them, as members, under the Joint Powers Agreement creating the Authority. The Authority, through its Board of Directors, shall have the following duties and responsibilities, among others: #774
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6.1.1. Provide liaison among the Project Participants at the management level with respect to the construction and operation of the Project. #784
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6.1.2. Review, discuss and attempt to resolve any disputes among the Authority, the Project Participants, the Agent, and the Project Manager or the Operating Agent relating to the Project. #788
#789
#790,7
#(791)
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6.1.3. Review, modify and approve, the practices and procedures to be followed by the Project Participants for the scheduling and controlling of capacity and energy from the Project. #793
#794,7
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6.1.4. Review, modify and approve all amendments and supplements to the Project Agreements. #798
#(798)

6.1.5. Review, modify and approve all Capital Improvements and the budgets or other #800
#801



- provisions for the payment or financing thereof. #802
#(802)
- 6.1.6. Approve all consultants or advisors on financial and legal matters, including but not limited to financial advisors and legal Counsel. #804
#805,
#807
#(807)
- 6.1.7. Approve (i) each issuance of Bonds, (ii) each supplement to the Bond Indenture, (iii) the contract of purchase or notice of sale under which each series of Bonds is to be sold, (iv) the selection of managing underwriters for each series of Bonds (if such Bonds are to be sold upon a negotiated basis) and (v) the manner and timing of marketing (including the manner of sale), amount, interest rates and other terms of each series of Bonds. #809,
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- 6.1.8. Approve (i) each issuance of Bond Anticipation Notes, (ii) the proceedings authorizing such Bond Anticipation Notes, (iii) the contract of purchase or notice of sale and other documents under which such Notes are to be sold or issued, (iv) the selection of the managing underwriter (if such Notes are to be sold on a negotiated basis) or placement agent, if any, (v) the manner and time of marketing, amount, interest rates and other terms of such Notes. #819
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- 6.1.9. Review, modify and approve the Project's insurance program, including, without limitation, the establishment of a self-insurance program; provided that, at all times, such insurance program shall comply with the requirements of the Bond Indenture and the other Project Agreements. #827
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- 6.1.10. Perform such other functions and duties as may be provided for under this contract, and the other Project Agreements or as may otherwise be appropriate. #832
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#(834)
- 6.2. Audits of Project Manager, Operating Agent and Contractors. Subject to the provisions of the Plant Agreements, the Assignment Agreement and the Transmission Agreement, the Authority shall arrange for periodic (at least annually) audits of the books and cost records of the Project Manager, the Operating Agent, SRP and any cost reimbursable consultant or contractor relevant to #836
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the acquisition, construction or operation of the Project, except the Authority is not required to duplicate the audits conducted under Section 5.4. The Authority shall promptly furnish _____Fl_____ and the other Project Participants copies of such audits.

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7. CHARGES AND BILLINGS:

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7.1. Allocation of Monthly Power Costs. For the purpose of determining the payments to be made by _____Fl_____ pursuant to Section 7.2 and by each of the other Project Participants, the total amount of Monthly Power Costs attributable to the Project shall be allocated by the Authority as follows:

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7.1.1. Minimum cost component as determined in Section 4.32.1.

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7.1.2. Variable cost component as determined in Section 4.32.2.

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7.2. Computation of Monthly Payments. The amount of the Monthly Power Costs to be paid by _____Fl_____ for any Month shall be the sum of the following:

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7.2.1. The _____Fl_____ Project Entitlement Share times the minimum cost component for such Month.

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7.2.2. The variable cost component for such Month as determined in Section 4.32.2 times a fraction the numerator of which is the kilowatt hours scheduled from the Generating Station bus to _____Fl_____ during such Month and the denominator of which is the kilowatt hours scheduled from the Generating Station bus to all Project Participants under the Power Sales Contracts during such Month.

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7.3. Basis and Billing of Minimum and Variable Cost Component. For billing purposes, the amount of the minimum cost component of the Monthly Power Costs to be paid by _____Fl_____ each Month pursuant to Sections 7.2.1 shall be billed in advance and shall be based on the then current Annual Budget. The amount of the variable cost component of the Monthly Power Costs to be paid by _____Fl_____ each Month pursuant to Section 7.2.2 shall be billed the Month following the Month such variable cost was incurred and shall be based on the cost under Section 4.32.2 during such Month.

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- 7.4. Time of Billings and Payment Thereof; Billing Statement. #885
 By the fifth calendar day of each Month during each Power #886
 Supply Year, the Authority shall bill _____Fl_____ for #887
 the amount of the minimum cost component of the Monthly #888
 Power Costs to be paid by _____Fl_____ for the current #889
 Month and for the amount of the variable cost component #890
 of the Monthly Power Costs to be paid by _____Fl_____ for #891
 the preceding Month by providing to (or causing to be #892
 provided to) _____Fl_____ a Billing Statement in accor- # (892)
 dance with the charges established pursuant to the provi- #893
 sions of this contract. Such Billing Statement shall #894
 detail the matters covered in Section 4.32, and shall set #895
 forth, among other things, the amounts due for such #896
 Months by _____Fl_____ with respect to the items of #897
 Monthly Power Costs set forth in Section 7.2. Such #898,9
 Billing Statement shall be paid by _____Fl_____ on or # (899)
 before 20 days after receipt of such Billing Statement. #900
- 7.5. Interest on Unpaid Bills. If _____Fl_____ fails to #902
 pay any bill when due, interest shall accrue on the #903
 unpaid amount of the bill at the highest fixed legal rate # (903)
 (if one exists) or, if one does not exist, one and one- # (903)
 half percent per month. # (903)
- 7.6. Cost, Billing and Payment for Energy Delivered Prior to #905
 Date of Firm Operation. Energy delivered to # (905)
 _____Fl_____ and the other Project Participants from a #906
 generating unit of the Project prior to its Date of Firm # (906)
 Operation shall be paid for within 30 days after billing #907
 by the Authority at a rate per kilowatt-hour as deter- #908
 mined by the Operating Agent in accordance with the #909
 Participation Agreement. # (909)
8. COMMENCEMENT OF PAYMENT OBLIGATION; OBLIGATION UNCONDITIONAL: #911
- Beginning with the first to occur of (i) the date to which all #913,9
 interest is capitalized with respect to all Bonds and Bond #915
 Anticipation Notes, or (ii) the date which is one year prior to #916
 the first principal installment date for any Bonds, or (iii) the #917
 Date of Firm Operation of the first generating unit of the #918
 Project to be placed in service, _____Fl_____ shall pay directly #919
 to the Trustee the amounts of Monthly Power Costs set forth in #920,9
 the Billing Statements submitted to _____Fl_____ in accordance #922,9
 with the provisions of Section 7 hereof, whether or not the #924,9
 Project or any part thereof is operating or operable or its # (925)
 output is suspended, interfered with, reduced or curtailed or #926
 terminated in whole or in part, and such payments shall not be #927
 subject to reduction whether by offset or otherwise and shall #928
 not be conditional upon the performance or nonperformance by any #929
 party of any agreement for any cause whatever. #930

2. GENERATION STATION CAPACITY AND ENERGY ENTITLEMENTS: #931
- 2.1. Obligation to Take Energy During Start-Up Periods and Base Load Periods. #933
 During the Start-Up Period and any # (933)
 Base Load Period of any generating unit of the Project, # (933)
 _____Fl_____ shall schedule and be obligated to take #934
 delivery of its Project Entitlement Share of the product #935
 of (i) the Authority Percentage and (ii) the Net Energy # (935)
 Generation of such generating unit. #936
- 2.2. Participants Entitled to Schedule During Other Times. #938
 At all times after the Date of Firm Operation of each #939
 generating unit of the Project, other than those referred # (939)
 to in Section 9.1, _____Fl_____ shall be entitled to # (939)
 schedule for its account capacity and energy from such #940,9
 generating unit up to the amount obtained by multiplying # (941)
 its Project Entitlement Share by (i) the Authority #942
 Percentage and (ii) the Available Generating Capability #943
 of such generating unit. The provisions of this # (943)
 Section 9.2 shall not reduce the obligations of #944
 _____Fl_____ pursuant to Section 9.1. # (944)
- 2.3. Other Scheduling Matters. The delivery of capacity #946
 and energy from the Generating Station will be scheduled #947
 by (or on behalf of) the Authority and the other # (947)
 Participants in advance with the Operating Agent and #948
 accounted for on the basis of such advance schedules. #949
 The Authority will cause the Operating Agent to deliver #950
 capacity and energy from each generating unit of the #951
 Project at the high side of its main generator step-up #952
 transformer in accordance with the schedule submitted by #953
 or on behalf of the Authority to the Operating Agent or # (953)
 in accordance with any revisions thereto. Whenever any #954,9
 Project Participant schedules for its account capacity # (955)
 and energy from a generating unit of the Project, the #956
 Agent, acting on behalf of the Authority, unless other- # (956)
 wise established under the Participation Agreement, shall #957
 additionally schedule for each Project Participant a per- #958
 centage of the Zero Net Load as effective during the #959,9
 period that such generating unit is operated to meet such # (960)
 schedule, equal to the product of (i) the Project # (960)
 Participant's Project Entitlement Share and (ii) the # (960)
 Authority Percentage. # (960)
- 2.4. Operation Subject to Outages and Curtailments. #962
 Operation of any generating unit by the Operating Agent # (962)
 shall be subject to scheduled outages or curtailments, #963
 restrictions imposed by any regulatory authority or by #964
 Operating Emergencies. In the event of an Operating #965
 Emergency, the Project Participants shall, if necessary, #966
 revise their schedules to reflect the actual capacity and #967

- energy available from the Generating Station during the period of the Operating Emergency. #968
#(968)
- 2.5. Scheduling Pursuant to Board of Directors Procedures. #970
The capacity and energy of the Project shall be scheduled #971
or controlled by the Project Participants under practices #972
and procedures approved by the Board of Directors, #(972)
subject to the provisions of the Participation #(972)
Agreement. #(972)
- 2.6. Generation Station Control Not to Diminish Participant's #974
Rights. Subject to the provisions of the Plant #(974)
Agreements, the capacity and energy of the Project shall #975
be controlled in a manner which shall not diminish the #976
rights of Fl to receive its entitlement of #(976)
capacity and energy. #977
- 2.7. Participant Obligated for Start-Up and Shut-Down Energy. #979
Fl shall be obligated, in proportion to its #(979)
Project Entitlement Share of the Authority Percentage, to #980
provide for capacity and energy requirements during shut- #981
downs and for starting up and shutting down each generat- #982
ing unit in compliance with procedures established under #983
the Participation Agreement. #(983)
- 2.8. Points of Delivery and Changes; Transmission From Point #985
of Delivery. In accordance with the Transmission #(985)
Agreements, the Points of Delivery by Authority of #985.1
F3 capacity and energy are the 500kV bus of the #985.
Navajo Switchyard, the 500kV bus of the Mohave Generating #986
Station, the 500kV bus of the Eldorado Substation and the #986
230kV bus of the Mead Substation. The Points of Delivery #986.1
may be changed from time to time in conformity with the #988,9
Transmission Agreements then in effect, provided that in #(989)
no event will any such change reduce the payment obliga- #990
tions of Fl hereunder. It is the obligation of #991
Fl to arrange for transmission of its capacity #(991)
and energy from the Points of Delivery to its system. #992
Notwithstanding anything to the contrary herein, each #993
Project Participant's entitlement to capacity and energy #(993)
associated with its Project Entitlement Share shall be #994
reduced by any line losses resulting from the delivery of #995
such capacity and energy to the Points of Delivery. #996
- 2.9. Sale of Energy by Participants. Nothing herein shall #998
prevent Fl from disposing of its energy under #999
this contract; provided, however, that such disposal #1000
shall not affect any of the obligations of Fl #1001
under this contract. #(1001)

10. SWITCHYARD ENTITLEMENTS: _____Fl_____ and each other Project #1005
Participant shall have the right to use the switchyard facilities #1006
of the Generation Station for its Project Entitlement Share #1007
of the Authority Percentage of the available capacity of the #1008
switchyard in accordance with Appendix I of the Participation #1009
Agreement. #(100)
11. PLEDGE OF PAYMENTS: All payments required to be made by #1012
_____Fl_____ in accordance with or pursuant to any provision of #1013
this contract, are pledged by the Authority to secure the pay- #1014
ment of the Bonds, and interest thereon, and interest on any #1015
Bond Anticipation Notes, subject to the application thereof to #1016
such purposes and on such terms as provided in the Bond #1017
Indenture and as required by the Act. The Authority hereby #1018,
assigns its rights to receive the payments mentioned in #1020
Section 8 of this contract to the Trustee and directs #(1020
_____Fl_____ to pay such amounts directly to the Trustee. #1021
12. ISSUANCE OF BONDS: #1022
- 12.1. Bonds for Cost of Acquisition and Construction and #1024
Payment of Notes. Bonds will be issued by the #1024
Authority in accordance with this contract and the provi- #1025
sions of the Bond Indenture for the purpose of financing #1026
the Cost of Acquisition and Construction of the Project #1027
including, to the extent not otherwise provided for, pay- #1027
ment of Bond Anticipation Notes. #(1027
- 12.2. Additional Bonds. Additional Bonds shall be issued by #1029
the Authority in accordance with this contract and the #1030
provisions of the Bond Indenture at any time and from #1031
time to time in the event funds are required for the pur- #1032
pose of financing the Project and the Authority #1033
Percentage of Capital Improvements. #1034
- 12.3. Obligation of Authority to Issue Bonds. The #1036
Authority hereby agrees that, upon the Assignment #1037
Agreement, and all Power Sales Contracts having been exe- #1037
cuted and delivered or adopted, as the case may be, by #1038
the respective parties thereto, it will, subject to the #1039
provisions hereof and of the Bond Indenture, issue Bonds #1040
or Bond Anticipation Notes, or both, in accordance with #1040
the Act and the Bond Indenture, in such amounts and at #1041
such times as shall be necessary to timely finance the #1042
costs of the Project, the costs of any improvements to #1043,
the Project which are necessary to meet the requirements #1045
of any governmental authority and the costs of any #1046
replacements in the Project occasioned by damage to, or #1047

- the destruction or taking of, all or any part of the Project. #1048
#(1048
- 12.4. Rights to Enforce Authority Obligations; Expenses of Defense. Each Project Participant shall be entitled as of right to the enforcement of the obligations of the Authority set forth in Section 12.3 of the Power Sales Contracts by mandamus or other suit, action or proceeding, including, without limitation, specific performance, at law or in equity to compel the Authority, its Board of Directors or other appropriate officer to perform such obligations. All reasonable costs and expenses of the Authority incurred in defending any action brought pursuant to this Section 12.4 shall be part of Authority Expenses. #1050
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- 12.5. Refunding Bonds. In the event the Monthly Power Costs may be reduced by the refunding of any of the Bonds or in the event it shall otherwise be advantageous, in the opinion of the Board of Directors, to refund any Bonds, the Authority shall issue and sell refunding Bonds. #1060
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- 12.6. Certain Provisions Regarding Bonds. Each Supplemental Indenture authorizing a Series of Bonds shall establish Principal Installments for such Series which comply with the provisions of this Section 12.6 and such requirement may not, except as provided herein, be changed by the Authority. Such Principal Installments shall commence not later than the later of (i) the first day of the eighth Fiscal Year following the end of the Fiscal Year of authentication and delivery of such Series or (ii) the first day of the fifth Fiscal Year following the end of the Fiscal Year in which the Project Manager under the Participation Agreement estimates that the last generating unit of the Project will first reach its Date of Firm Operation and shall terminate not later than the date on which the Power Sales Contracts terminate. Such Principal Installments shall result in either (A) Debt Service for the Bonds of such Series for the 12-month period immediately preceding the due date of the first such Principal Installment, and for each 12-month period thereafter to and including the final maturity date of such Series, such that the greatest Debt Service for the Bonds of such Series for any such 12-month period is not in excess of 110% of the smallest Debt Service for the Bonds of such Series for any such 12-month period, or (B) Aggregate Debt Service for all Outstanding Bonds, including such Series being issued, for the first Fiscal Year in which a Principal Installment becomes due on each Series of Bonds then Outstanding, including such Series being issued, and for each Fiscal Year thereafter to and #1066
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including the Fiscal Year immediately preceding the latest maturity of any Series of Bonds Outstanding immediately prior to the issuance of such Series being issued or the Fiscal Year immediately preceding the latest maturity of such Series being issued, whichever is earlier, such that the greatest Aggregate Debt Service for any such Fiscal Year is not in excess of 110% of the Aggregate Debt Service for any such preceding Fiscal Year (using in the case of any Series of Bonds sold by competitive bidding an average interest rate for the Bonds of such Series as estimated by the Authority); provided, that, if the first Principal Installment for any Series of Bonds shall be less than 12 months after the date of issuance thereof, it shall be assumed, for purposes of this calculation, that interest accrued on such Series for the entire 12-month period preceding the first Principal Installment at the same rate as interest accrued for the actual portion of such period during which such Series of Bonds was Outstanding. Notwithstanding anything herein to the contrary, the provisions of this Section 12.6, may be modified or waived with respect to any one or more Series of Bonds upon the prior written consent of _____ Fl _____, executed by the chief executive of its electric utility system.

12.7. Participants to Furnish Information. _____ Fl _____ agrees to supply the Authority, upon request, with such additional information and documentation, including opinions of counsel for _____ Fl _____, as the Authority, its financial advisor or Bond Counsel shall reasonably determine to be necessary to facilitate the issuance of Bonds, Bond Anticipation Notes, additional Bonds, or refunding Bonds for the purposes described in this Section 12.

13. ADJUSTMENT OF MONTHLY POWER COSTS: In the event the proceeds derived from the sale of any Bonds exceeds the aggregate required for the purposes for which such Bonds were issued, the amount of such excess shall be used to make up any deficiency existing in any funds or accounts under the Bond Indenture in the manner therein provided, and any balance shall be used to retire, by purchase or redemption, Bonds in advance of maturity, and in such event Monthly Power Costs shall be reduced as are necessary and appropriate.

14. DEFAULT: _____

14.1. Remedies. If _____ Fl _____ shall be unable to perform or shall default in the performance of any of its obligations under this contract, then the Authority shall _____



(i) in the event any payment due under this contract remains unpaid subsequent to the due date thereof, upon 120 days written notice to _____Fl_____, discontinue the delivery of capacity and energy and the use of all other Project facilities to _____Fl_____ under this contract during the period of such default, without reduction of the obligation of _____Fl_____ to make payments under this contract except to the extent provided in Section 14.2, (ii) bring any suit, action or proceeding at law or in equity as may be necessary or appropriate to enforce any covenant, agreement or obligation against _____Fl_____, or (iii) take any action permitted by law to enforce its rights under this contract or recover damages for breach thereof.

14.2. Transfer of Rights of Defaulting Project Participants. In the event of a default by a Project Participant and the discontinuance, pursuant to Section 14.1(i), of the delivery of capacity and energy and of the use of all other Project facilities, the Authority shall transfer on a pro rata basis to all requesting Project Participants which are not in default, the defaulting Project Participant's rights to the delivery of capacity and energy and the use of all other Project facilities which shall have been discontinued by reason of such default, and such requesting Project Participants shall assume the defaulting Project Participant's obligations with respect to such rights so transferred, and if any of the defaulting Project Participant's rights with respect to the Project is not so transferred, the Authority shall, to the extent possible, dispose of such remaining portion on the best terms readily available; provided, however, that the Authority may not transfer or dispose of such defaulting Project Participant's rights and obligations in such a manner as shall, in the opinion of Bond Counsel, adversely affect the Federal Tax Exemption, and provided, further, that the obligation of the defaulting Project Participant to make payments under its Power Sales Contract including the costs to the Authority related to such default, transfer and sale, shall be reduced to the extent that payments are received as provided herein for that portion of the defaulting Project Participant's rights with respect to the Project which are so transferred or disposed.

15. CHARACTER, CONTINUITY OF SERVICE AND INTERCONNECTIONS:

15.1. Curtailment for Emergencies or Repairs. The deliveries of capacity and energy to _____Fl_____ and the other Project Participants may be temporarily interrupted

or curtailed in proportion to their respective Project Entitlement Shares of the Authority Percentage if the Operating Agent determines that such interruption or curtailment is necessary in case of emergencies or in order to install equipment in or make repairs to or replacements, investigations, and inspections of or to perform other maintenance work on the Project facilities. After informing _____Fl_____ and the other Project Participants regarding any such planned interruption or curtailment, giving the reason therefor, and stating the probable duration thereof, the Authority will, to the best of its ability, cause the Operating Agent to schedule such interruption or curtailment at a time which will cause the least interference with the operations of _____Fl_____ and the other Project Participants.

15.2. Uncontrollable Forces. The Authority shall not be required to provide, and neither the Authority nor the Agent shall be liable for failure to provide, service under this contract when such failure or the cessation or curtailment of or interference with the service is caused by Uncontrollable Forces or by the inability of the Authority or the Agent to obtain any required governmental approvals to enable the Authority to acquire, construct or operate any facilities; provided, however, that _____Fl_____ and the other Project Participants shall not thereby be relieved of their obligations to make payments under the Power Sales Contracts.

15.3. Electric Interconnections Not to Cause Jeopardy. Where there is to be an electrical interconnection of the Project with the electric system of _____Fl_____, the design and construction with respect to such interconnection and the operating procedures adopted for the Project will not be such so as to jeopardize the electrical operation of the electric system of _____Fl_____; provided, however, that this provision shall have no application after the interconnection has been established where the jeopardy with respect to the electric system of _____Fl_____ shall be the result of changes made or to be made by _____Fl_____ in its system operation or facilities. The parties hereto shall use their best efforts to cooperate and coordinate their planning and actions so that such interconnection is operated in accordance with Prudent Utility Practice and the operations of the Project and those of the electric system of _____Fl_____ shall continue to be compatible.

16. SEVERAL LIABILITY; LIABILITY; EXCULPATION; INDEMNIFICATION: #1210

- 16.1. Participants' Obligation Several. _____F1_____ and #1212
each of the other Project Participants shall be solely #1213
responsible and liable for performance under their #1214
respective Power Sales Contracts and for the maintenance #1215
and operation of their respective properties not included #1216
as part of the Project. The obligation of _____F1_____ #1217
to make payments under this Power Sales Contract is a #1218
several obligation and not a joint obligation with those #1219
of the other Project Participants under the other Power #1219
Sales Contracts. #1219
- 16.2. No Liability of Authority, Directors, Officers, Etc. #1221
_____F1_____ agrees that neither the Authority nor any of #1222
its directors, officers, employees and agents shall be #1223
liable to _____F3_____ for direct or consequential loss #1224
or damage suffered by _____F3_____ as a result of (i) the #1225
performance or nonperformance by the Project Manager or #1226
the Operating Agent under any Plant Agreement (whether #1227
negligent or otherwise) or (ii) the performance or non- #1228
performance (whether negligent or otherwise) of the #1229
Authority under this contract. _____F1_____ releases the #1229
Authority and its directors, officers, employees and #1230
agents from any claim or liability (whether negligent or #1232
otherwise) as a result of any actions or inactions of the #1233
Authority under this contract or the performance or non- #1234
performance by the Project Manager or the Operating Agent #1235
under any Plant Agreement. The provisions of this #1236
Section 16.2 shall not be construed so as to relieve the #1238
Project Manager or Operating Agent from any obligations #1239
under any Plant Agreement. #1239
- 16.3. Extent of Exculpation; Enforcement of Rights in Equity. #1241
The exculpation provision set forth in Section 16.2 shall #1241
apply to all types of claims or actions including, but #1242
not limited to, claims or actions based on contract, #1243
tort, patent or trademark. Notwithstanding the forego- #1244
ing, _____F1_____ may protect and enforce its rights #1245
under this contract by a suit or suits in equity for spe- #1245
cific performance of any obligation or duty of the #1246
Authority and _____F1_____ shall at all times retain the #1247
right to recover, by appropriate legal proceedings, the #1248
amount determined to have been an overpayment by #1249
_____F1_____ in accordance with Section 5.6. #1249
- 16.4. No Relief from Insurer's Obligations. The provi- #1251
sions of this Section 16 shall not be construed so as to #1251
relieve any insurer of its obligation to pay any insur- #1252
ance claims in accordance with insurance policies #1253
applicable to the Project. #1253



16.5. Limitation of Liability of Authority, Employees, Etc. #1255
The obligations of the Authority under this contract as #1256
well as any costs or expenses of the Authority incurred #(1256
in respect of its obligations and duties hereunder shall #1257
never constitute a debt or indebtedness of the Authority #1258
within the meaning of any provision or limitation of the #(1258
Constitution or statutes of the State of California, #1259
shall not constitute or give rise to a pecuniary liabil- #1260
ity of the Authority or a charge against its general #(1260
credit and shall be payable solely from the funds pro- #1261,
vided therefor pursuant to this contract. It is hereby #1263,
recognized and agreed that neither the members of the #1264
Board of Directors nor any officer, employee or agent of #1265
the Authority shall be individually liable in respect of #1266
any undertakings by the Authority under this contract. #1267

17. RESTRICTIONS ON DISPOSITION: #1269

17.1. Restrictions on Disposition of Participant's Entire #1271
System. _____ Fl_____ shall not sell, lease or other- #1271
wise dispose of all or substantially all of its electric #1272
utility system except on 90 days prior written notice to #1273
the Authority and, in any event, shall not so sell, lease #1274
or otherwise dispose of the same unless the following #1275
conditions shall be met: (i) _____ Fl_____ shall assign #1276
this contract and its rights and interest hereunder to #1277
such purchaser or lessee of said electric system, and #1278
such purchaser or lessee shall assume all obligations of #1279
_____ Fl_____ under this contract; (ii) the senior debt of #1280
such purchaser or lessee is rated in one of the two high- #1281
est rating categories by at least one nationally- #1281
recognized bond rating agency; (iii) an independent engi- #1282
neer or engineering firm of national reputation generally #1283
recognized to be well qualified in matters relating to #1284
electric power and energy systems, selected by the #1285
Authority, shall deliver an opinion, which may be based #1286
on assumptions deemed reasonable by such engineer or #1287
engineering firm, that such purchaser or lessee is rea- #1288
sonably able to charge and collect rates and charges in #1289
the then current and each future year for the electric #1290
service of its electric system as shall be required to #1291
meet its obligations under this contract; (iv) the Board #1292
of Directors shall determine (which determination shall #(1292
not be unreasonably withheld) that such sale, lease or #1293
other disposition will not adversely affect the value of #1294
this contract as security for the payment of the Bonds #(1294
and the interest thereon; and (v) Bond Counsel shall #1295
render an opinion that such sale, lease or other disposi- #1296
tion will not adversely affect the Federal Tax #1296
Exemption. #1296

17.2. Restriction on Disposition of Project Entitlement Share. #1299
 Notwithstanding anything in this contract to the con- #1300
 trary, _____Fl_____ shall not sell, assign or otherwise #1301
 dispose of any portion of its Project Entitlement Share #1301
 except on 90 days prior written notice to the Authority #1302
 and, in any event, shall not sell, assign or otherwise #1303
 dispose of the same unless, in the opinion of Bond #1304
 Counsel, such sale, assignment or other disposition will #1305
 not adversely affect the Federal Tax Exemption. No such, #1307
 sale, assignment or other disposition shall release #1308
 _____Fl_____ from its obligations under this contract. #1309

18. ASSIGNMENT OF CONTRACT:

This contract shall inure to the benefit of and shall be binding #1314,
 upon the respective successors and assigns of the parties to #1316
 this contract; provided, however, that except as provided in #1317
 Sections 14 and 17, neither this contract nor any right or #1318
 interest herein shall be transferred or assigned by either party #1319
 hereto so long as any of the Bonds are outstanding or until ade- #1320
 quate provision for the payment thereof have been made in accor- #1321
 dance with the provisions of the Bond Indenture except that the #1322
 payments by _____Fl_____ under this contract shall be assigned #1323
 by the Authority to the Trustee to secure Bonds. #1324

19. EFFECTIVE DATE AND TERM:

19.1. Effective Date of Power Sales Contracts. This con- #1327
 tract shall become effective only when (i) it has been #1328
 duly executed and delivered on behalf of the Authority #1329
 and _____Fl_____, (ii) _____Fl_____ shall have delivered #1329
 to the Authority an opinion of an attorney or firm of #1330
 attorneys in substantially the form attached hereto as #1331
 Appendix B, (iii) Power Sales Contracts between the #1332,
 Authority and Project Participants covering the entire #1334
 output of the Project shall have been duly executed and #1335
 delivered by the parties hereto and approved by all nec- #1336
 essary regulatory agencies, (iv) the Assignment Agreement #1337
 shall have been duly executed and delivered by the par- #1338,
 ties thereto and approved by all necessary regulatory #1340
 agencies, (v) the Construction Permit shall have been #1341
 received and (vi) the first series of Bonds or Bond #1341
 Anticipation Notes shall have been issued. The term of #1341
 this contract shall begin and this contract shall consti- #1342
 tute a binding obligation of the parties hereto from and #1343
 after the effective date and the term of this contract #1344
 shall end on October 31, 2030 or such later date as all #1345,
 Bonds and the interest thereon shall have been paid in #1347.



full or adequate provision for such payment shall have been made. #1347
#1347

19.2. Forfeiture of Project Participation. #1349
Notwithstanding any provision of Section 19.1 to the con- #1349
trary, if on December 15, 1981 _____Fl_____ shall not #1350
have completed and delivered, as the case may be, the #1351
matters to be completed and delivered by it as described #1352
in clauses (i) and (ii) of Section 19.1, the rights of #1353
_____Fl_____ under this contract shall terminate and the #1354
Project Entitlement Share of _____Fl_____ shall be deemed #1354
a Forfeited Amount and shall be disposed of by the #1355
Authority in accordance with Section 19.3. #1355

19.3. Procedure for Disposal of Forfeited Amounts. The #1357
Project Entitlement Shares originally set forth in #1357
Appendix A shall constitute the Initial Project #1358
Entitlement Shares. In the event that a Forfeited Amount #1359
becomes available, then such Forfeited Amount shall be #1360
disposed of by the Authority as follows: #1360

19.3.1. The Authority shall give written notification #1362
to each Project Participant (other than a #1363
forfeiting Participant) that it may request #1363
to increase its Initial Project Entitlement #1364
Share by an amount of output of the Project, #1364
which amount shall not exceed such Forfeited #1365
Amount. All such Project Participants who #1366
request a Requested Amount shall become #1366
Requesting Project Participants. If the #1367
aggregate of the Requested Amounts of such #1367
Requesting Project Participants does not #1368
exceed such Forfeited Amount, then each such #1369
Requesting Project Participant shall have its #1369
Initial Project Entitlement Share increased #1370
by its Requested Amount and such increased #1370
amounts shall become such Participant's #1371
Project Entitlement Share. If the aggregate #1372
of such Requested Amounts shall exceed such #1372
Forfeited Amount, then the following proce- #1373
dures shall be used to determine the amounts #1373
of such Forfeited Amount to be assigned to #1374
each such Requesting Project Participant. #1375

19.3.1.1. Each such Requesting Project #1377
Participant requesting a Requested #1377
Amount equal to or less than such #1378
Participant's Proportionate Share #1378
shall be awarded its Requested Amount #1379
and shall have, as its Project #1379

Entitlement Share, the sum of its #1380
Initial Project Entitlement Share and #(1380
its Requested Amount. #1380

19.3.1.2. Each such Requesting Project #1382
Participant requesting a Requested #(1382
Amount in excess of its Proportionate #(1382
Share, but equal to or less than its #1383
Proportionate Share of the Remainder, #(1383
shall be awarded its Requested Amount #1384
and shall have, as its Project #(1384
Entitlement Share, the sum of its #1385
Initial Project Entitlement Share and #(1385
its Requested Amount. Each such #1386
Requesting Project Participant #(1386
requesting a Requested Amount in #1387
excess of its Proportionate Share and #1387
greater than its Proportionate Share #1388
of the Remainder shall be awarded an #1388
amount of the Forfeited Amount equal #1389
to the product obtained by multiply- #1389
ing the difference between the #1390
Forfeited Amount and all amounts #1390
thereof awarded pursuant to Section #1391
19.3.1.1 hereof and the preceding #(1391
provisions of this Section 19.3.1.2 #1392
by the ratio which its Initial #(1392
Project Entitlement Share bears to #1393
the Initial Project Entitlement #(1393
Shares of all Requesting Project #(1393
Participants so requesting amounts in #1394
excess of their Proportionate Share #(1394
of the Remainder and shall have, as #1394
its Project Entitlement Share, the #(1394
sum of its Initial Project #1394
Entitlement Share and the amount so #(1394
amended. #1394

19.3.1.3. As used in this Section 19.3.1, #1396
Proportionate Share shall mean, as to #(1396
any Requesting Project Participant #(1396
and as to any Forfeited Amount, the #1397
product obtained by multiplying such #(1397
Forfeited Amount by the ratio which #1398
such Participant's Initial Project #(1398
Entitlement Share bears to the aggre- #1399
gate Initial Project Entitlement #(1399
Shares of all Requesting Project #(1399
Participants. As used in this #1400, I
Section 19.3.1, Proportionate Share #(1401)



of the Remainder shall mean, as to #1402
 any Requesting Project Participant #(1402
 requesting a Requested Amount in #(1402
excess of its Proportionate Share and #1403
 as to any Forfeited Amount remaining #(1403
after the awarding of the Requested #1404
 Amounts pursuant to Section 19.3.1.1 #(1404
 hereof, the product obtained by #1405
 multiplying such remaining Forfeited #(1405
 Amount by the ratio which such #1406
 Participant's Initial Project #(1406
 Entitlement Share bears to the aggre- #1407
 gate of the Initial Project #(1407
 Entitlement Shares of all Requesting #1408
 Project Participants requesting in #(1408
 excess of their Proportionate #1408
 Shares. #1409

19.3.2. An election to take any Forfeited Amount #1411
 shall be communicated to the Authority within #1412
 30 days (or such longer period as shall be #(1412
 authorized by the Board of Directors) after #1413
 notice has been sent by the Authority of the #1414
 availability of such election. Any such #(1414
 election shall be accompanied by an opinion #1415
 of an attorney or firm of attorneys in sub- #(1415
 stantially the form attached hereto as #1416
 Appendix B, modified to reflect the increased #(1416
 Project Entitlement Share of such Project #1417
 Participant (assuming it is awarded its full #1417.
 Requested Amount) and all action required to #(1417
 appropriately amend such Project #1418
 Participant's Power Sales Contract in that #1419
 regard. Failure to elect or to notify in the #(1419
 manner provided in this Section shall be con- #1420
 clusively deemed for all purposes an irrevoc- #1421
 able determination not to exercise a right #(1421
 of election under this Section. #1422

19.4. Ownership by Authority; Disposition of Capacity after #1424
 Power Sales Contracts Expire. It is hereby recog- #(1424
 nized that ownership of the Project shall be, and remain, #1425,
 in the Authority during the term of the Power Sales #(1426
 Contracts. Upon the termination of the Power Sales #1427
 Contracts the Authority shall be free to deal with its #1428
 interest in the Project in whatever manner it chooses #(1428
 consistent with the requirements of law, including the #1429,
 provisions of law relating to the Federal Tax Exemption. #1431

20. SALE OF ENTIRE PROJECT OUTPUT; RELATIONSHIP TO AND COMPLIANCE WITH OTHER INSTRUMENTS: #1433
#(143)

20.1. Authority to Sell Entire Output. The Authority shall use its best efforts to enter into Power Sales Contracts for 100 percent of the output of the Project and, if it has not already done so, to enter into the Assignment Agreement. #1436
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20.2. Construction and Operation Subject to Bond Indenture, Licenses, Etc. It is recognized by the parties hereto that the Authority, in undertaking the planning, financing, construction, acquisition, operation and maintenance of the Project, must comply in all respects with the requirements of the Bond Indenture and the other Project Agreements and all licenses, permits and regulatory approvals necessary for such planning, financing, construction, acquisition, operation and maintenance and it is therefore agreed that this contract is made subject to the provisions of the Bond Indenture and the other Project Agreements and all such licenses, permits and regulatory approvals. #1441
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20.3. Authority to Comply with Bond Indenture, Licenses, Etc.; Expenses of Enforcement. The Authority covenants and agrees for the benefit of _____ Fl _____ to comply in all material respects with all terms, conditions and covenants of the Bond Indenture and the other Project Agreements and all licenses, permits and regulatory approvals relating to the Project, provided that the Authority shall not be prevented from contesting the validity or applicability of any thereof in good faith by appropriate proceedings. Except as otherwise provided herein, all reasonable costs and expenses of the Authority incurred in respect of enforcing or complying with any Project Agreement or in defending any action brought against the Authority under any Project Agreement shall be Authority Expenses and shall be paid or reimbursed to the Authority. #1451
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21. SEVERABILITY: #1464

In case any one or more of the provisions of this contract shall for any reason be held to be illegal or invalid by a court of competent jurisdiction, it is the intention of each of the parties hereto that such illegality or invalidity shall not affect any other provision hereof, but this contract shall be construed and enforced as if such illegal or invalid provision had not #1466,
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been contained herein unless a court holds that the provisions #1473
are not separable from all other provisions of this contract. #1474

22. TERMINATION OR AMENDMENT:

#1475

- 22.1. Limitation on Amendment Affecting Bond Security. So #1477
long as any Bonds are outstanding or until adequate pro- #1478
vision for the payment thereof have been made in accor- #1479
dance with the provisions of the Bond Indenture, this #1480
contract, except as specifically provided for herein, #1481
shall not be terminated, amended, modified, or otherwise #1482
altered in any manner which will reduce the payments #1483
pledged as security for the Bonds or extend the time of #1484
such payments provided herein or which will in any manner #1485
impair or adversely affect the rights of the holders from
time to time of the Bonds.
- 22.2. Limitation on Amendments Affecting Participants. #1487
Subject to Section 19.2, none of the Power Sales #1487
Contracts may be terminated as to any one or more of the #1488
Project Participants or be amended as to any one or more #1489
of the Project Participants so as to provide terms and #1490
conditions materially different from those herein con- #1491
tained except, subject to the provisions of Section 19.1. #1492
and consistent with the Bond Indenture, upon written #1493
notice to and written consent or waiver by each of the #1494
other Project Participants and upon similar amendment #1495
being made to the Power Sales Contract of any other #1496
Project Participant requesting such amendment after #1496
receipt by such Project Participant of notice of such
amendment.
- 22.3. Amendment of Power Sales Contract With Respect to #1498
Transmission Agreements. Notwithstanding anything in #1498
this contract to the contrary, any of the Power Sales #1499
Contracts may be amended to change any Project #1500
Participant's Points of Delivery in accordance with #1501
Section 9.8 hereof without notice to, consent or waiver #1502
by, or similar amendment being made to the Power Sales #1502
Contract of, any other Project Participant. Nothing in #1503
this contract or in the Bond Indenture shall be construed #1504
to prohibit such amendment or to require the giving of #1505
notice to or consent by the Trustee or any other person #1506
with respect to any such amendment. #1506
- 22.4. Limitation on Amendments to Bond Indenture. The #1508
Authority shall not, without the written consent of #1508
_____Fl_____ and each of the other Project Participants, #1509
amend, modify, supplement or otherwise change the Bond #1510

Indenture if such amendment, modification, supplement or change would affect the rights or obligations of _____Fl_____ or the other Project Participants under this contract or would be to the disadvantage of _____Fl_____ or the other Project Participants or would result in increased Monthly Power Costs to _____Fl_____ or the other Project Participants; provided that this Section 22.4 shall not limit the power or authority of the Authority to supplement the Bond Indenture to provide for the issuance of Bonds for any of the purposes permitted under Section 12.

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22.5. Termination of Power Sales Contract Under Certain Circumstances. Notwithstanding anything in this contract to the contrary, this contract may be terminated by either party upon written notice to the other if, prior to the date one year after the initial filing for the Construction Permit, (i) the Authority has been unable to enter into the Assignment Agreement and Power Sales Contracts for the purchase of 100 percent of the output of the Project, which Power Sales Contracts and Assignment Agreement shall have been duly executed and shall be in full force and effect and for which each Project Participant under such Power Sales Contracts shall have obtained all requisite governmental approvals and authorizations for its participation in the Project and (ii) the Authority has been unable to issue the first series of Bonds or Bond Anticipation Notes to finance the Project. In the event of such termination, the Authority shall not be obligated to _____Fl_____.

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23. GOVERNING LAW:

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This contract shall be interpreted, governed by and construed under the laws of the State of California.

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24. ARBITRATION:

#1539

If a dispute arises between the parties under this contract which is not resolved by the Board of Directors, the parties to such dispute may submit the dispute to arbitration.

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25. NOTICES: Any notice, demand, or request provided for in this contract shall be in writing and shall be deemed properly served, given, or made if delivered in person or sent by registered or certified mail, postage prepaid, to the persons specified below:

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#1550.

25.1. Southern California Public Power Authority #1553
c/o Executive Director #1553
Room 1149 #1553
Department of Water and Power of The City of Los Angeles #1553
111 North Hope Street #(1553
Los Angeles, California 90012 #1553

25.2. _____F4_____ #1556



26. HEADINGS NOT BINDING: The headings and captions in this con- #1559
tract are for convenience only and in no way define, limit or #1560
describe the scope or intent of any provisions or sections of #(1560
this contract. #1561

IN WITNESS WHEREOF, the parties hereto have duly caused this #1573
contract to be executed on their respective behalfs. #(1574

[Authority Seal]

SOUTHERN CALIFORNIA PUBLIC #1577
POWER AUTHORITY #(1578

Attest: _____
Secretary

By: _____
President

#1579
#1580

#1582

____ F5 _____

#1584

Attest: _____
[Title]

By: _____
[Title]

#1586
#1587



PARTICIPANTS AND PROJECT ENTITLEMENT SHARES #1597

<u>Project Participant</u>	<u>Project Entitlement Share</u>	#1601 #1602 #1603
City of Anaheim	7.500%	#1606
City of Azusa	1.000	#1607
City of Banning	1.000	#1608
City of Burbank	4.000	#1609
City of Colton	1.000	#1610
City of Glendale	4.000	#1611
Imperial Irrigation District	6.000	#1612
Department of Water and Power of The City of Los Angeles	62.000	#(1612 #1613 #(1613 #(1613
City of Pasadena	4.000	#1614
City of Riverside	5.000	#1615
City of Vernon	4.500	#1616,
- Total	100.000%	#1619

FORM OF OPINION OF COUNSEL

#1635

[Date] #1638

Dear Sirs:

#1641

I am acting as counsel to _____ F5 _____, as purchaser (the "Project Participant") under a Power Sales Contract dated _____ (the "Power Sales Contract") between the Project Participant and Southern California Public Power Authority (the "Authority"), and I have acted as counsel to the Project Participant in connection with the matters referred to herein. The Power Sales Contract provides for the sale to Project Participant of a _____ Project Entitlement Share (as defined therein). As such counsel I have examined and am familiar with (i) those documents relating to the existence, organization and operation of the Project Participant, (ii) all necessary documentation of the Project Participant relating to the authorization, execution and delivery of the Power Sales Contract and (iii) an executed counterpart of the Power Sales Contract.

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Based upon the foregoing and an examination of such other information, papers and documents as I deem necessary or advisable to enable me to render this opinion, I am of the opinion that:

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1. The Project Participant is _____ F6 _____, duly created, organized and existing under the laws of the State of California and duly qualified to furnish electric service within said State.

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2. The Project Participant has full legal right, power and authority to enter into the Power Sales Contract and to carry out and consummate all transactions contemplated thereby, and the Project Participant has complied with the provisions of applicable law in all matters relating to such transactions.

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3. The Power Sales Contract has been duly authorized, executed and delivered by the Project Participant, is in full force and effect and, assuming that the Authority has all the requisite power and authority, and has taken all

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necessary action, to execute and deliver such Power Sales Contract, constitutes the legal, valid and binding obligation of the Project Participant enforceable in accordance with its terms, except that the rights and remedies set forth therein may be limited by or resulting from bankruptcy, insolvency, reorganization or other laws affecting creditors' rights generally.

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4. No approval, consent or authorization of any governmental or public agency, authority or person is required for the execution and delivery by the Project Participant of the Power Sales Contract, or the performance by the Project Participant of its obligations thereunder or if any such approval, consent or authorization is required, it has been duly given or obtained and is in full force and effect.

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5. The authorization, execution and delivery of the Power Sales Contract and compliance with the provisions thereof will not conflict with or constitute a breach of, or default under, any instrument relating to the organization, existence or operation of the Project Participant, any commitment, agreement or other instrument to which the Project Participant is a party or by which it or its property is bound or affected, or any ruling, regulation, ordinance, judgment, order or decree to which the Project Participant (or any of its officers in their respective capacities as such) is subject or any provision of the laws of any state in which the Project Participant operates.

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6. There is no action, suit, proceeding, inquiry or investigation at law or in equity, or before any court, public board or body, pending or, to my knowledge, threatened against or affecting the Project Participant or any entity affiliated with the Project Participant or any of its officers in their respective capacities as such (nor to the best of my knowledge is there any basis therefor), which questions the powers of the Project Participant referred to in paragraph 2 above or the validity of the proceeding taken by the Project Participant in connection with the authorization, execution or delivery of the Power Sales Contract, or wherein any unfavorable decision, ruling or finding would materially adversely affect the transactions contemplated by the Power Sales Contract, or which, in any way, would adversely affect the validity or enforceability of the Power Sales Contract.

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7. The obligations of the Project Participant to make payments under the Power Sales Contract constitute a cost of purchased electric capacity and energy and an operating

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expense of the Project Participant payable solely from its
electric revenue funds.

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Very truly yours,

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