

SALT RIVER PROJECT

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The power and water people

ANNUAL REPORT 1985-86

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Salt River Project is an Equal Opportunity Employer

Background

Salt River Project is named for the major river which supplies water to the Phoenix metropolitan area. SRP plays a significant part in the growth of the Salt River Valley, providing water and power to residents through two organizations—the Salt River Valley Water Users' Association (the Association) and the Salt River Project Agricultural Improvement and Power District (the District).

The Association is a private Arizona corporation. It administers water rights of SRP's 240,000-acre area and operates and maintains the irrigation transmission and distribution system which carries water to municipal, industrial, agricultural and residential users. In cooperation with the U.S. Forest Service, it participates in the management of the 13,000-square-mile watersheds of the Salt and Verde rivers.

The District is a municipal-type utility and a political subdivision of Arizona. It operates under contracts with the United States and provides electricity to residential, commercial, industrial and agricultural power users in a 2,900-square-mile service area in parts of Maricopa, Gila and Pinal counties.

In line with the long-standing reclamation principle, SRP uses a portion of its electric revenues to help support its water operations. This practice helps keep water-delivery charges to cities, farmers and homeowners at reasonable levels. At the same time, SRP maintains electric rates that are competitive with those of other utilities in the area.

Highlights

REVENUES/EXPENSES (See Page 20)

	Fiscal 1986	Fiscal 1985
Total operating revenues (\$000).....	848,618	785,032
Total operating expenses (\$000).....	(642,963)	(559,504)
Net operating revenues (\$000)	205,655	225,528
Financing costs (less AFUDC) (\$000)	(42,337)	(16,674)
Total other revenues (deductions) (\$000)	(5,002)	6,823
Reinvested (\$000)	158,316	215,677

POWER OPERATIONS (See Page 27)

Energy customers at year end	457,489	422,774
Total kilowatt-hour sales (000)	14,503,982	14,130,952
Average annual kWh usage per res. customer	12,175	12,963
Avg. annual kWh revenue/res. customer (cents)	7.56	7.11

WATER OPERATIONS (See Page 26)

	Calendar 1985	Calendar 1984
Assessed water accounts	181,645	181,083
Water runoff (acre-feet).....	2,020,059*	1,107,736
Water in storage, Dec. 31 (acre-feet)	1,671,535	1,781,671
Water deliveries (acre-feet)	1,016,612	881,009

SELECTED OTHER DATA (See Page 26)

	Fiscal 1986	Fiscal 1985
Gross plant investment (\$000)	4,481,667	4,185,919
Long-term debt (\$000-See Page 19)	2,880,407	2,743,688
Taxes & tax equivalents (\$000)	83,864	75,028
Electric-revenue contributions to support water operations (\$000)	12,384	9,866
Employees at year end.....	5,468**	5,568

* Based on U.S.G.S. provisional records and subject to adjustment.
 ** Does not include temporary employees.

Officers

Elected Officers

John R. Lassen *President*
 Marcel J. Boulais *Vice President*

Principal Officers and Other Executives

A.J. Pfister *General Manager*
 John R. McNamara *Associate General Manager, Corporate Engineering and Power Group*
 Robert J. Conlon *Assistant General Manager, Corporate Engineering*
 Trent O. Meacham *Assistant General Manager, Power Construction & Maintenance*
 John O. Rich *Assistant General Manager, Power Operations*
 Reid W. Teeples *Associate General Manager, Water Group*
 Richard Juetten *Assistant General Manager, Water Resources & Services*
 Robert W. Mason *Director, Water Group Management Staff*

Don G. Parlett *Associate General Manager, Corporate Services Group*
 Paul G. Ahler *Assistant General Manager, Human Resources*
 James L. Swartz *Assistant General Manager, Operations Services*
 Carroll M. Perkins *Associate General Manager, Customer, Financial & Information Services Group*
 John D. Jacobs *Assistant General Manager, Information Systems*
 Oren D. Thompson *Assistant General Manager, Customer Services*
 Mark B. Bonsall *Corporate Treasurer, Treasurer's Office*
 Leroy Michael Jr. *Associate General Manager, Planning & Resources*
 Arnold L. Schwalb *Director, Corporate Planning*
 Darrell E. Smith *Director, Resource Planning*

Stanley E. Hancock *Assistant General Manager, Communications & Public Affairs*
 D. Michael Rappoport *Assistant General Manager, Government Affairs*
 Richard H. Silverman *Assistant General Manager, Law & Land*
 C.A. Howlett *Assistant General Manager, Special Projects*
 Paul D. Rice *Corporate Secretary*

Consultants

Legal Advisers Jennings, Strouss & Salmon
 Auditors Arthur Andersen & Co.
 Bond Counsel Mudge Rose Guthrie Alexander & Ferdon
 Financial Consultant Lazard Freres & Co.



To Our Shareholders and Bondholders:

"Keeping the spirit strong." There are only four words in our corporate theme, but they say a great deal about Salt River Project's contributions to Central Arizona growth. The theme serves as our pledge to exemplify the same character concerning today's challenges that SRP's founders showed when they united to construct Theodore Roosevelt Dam.

During the past year, employees from almost every work group helped produce a fitting tribute for the dam's 75th anniversary. That spirit of cooperation was reflected in numerous endeavors:

SRP designed, installed and serviced energy systems for a record 34,715 new customers, bringing the total to 457,489 electric users in all classes. The growth contributed to a new system peak of 2,658 megawatts Aug. 29.

To meet the new demand, crews added more than 1,580 circuit miles of underground conductor to the electric distribution system, eight miles of overhead distribution lines, another eight miles of high-voltage transmission lines and constructed nine new substations. In order to maintain quality customer service, a \$3.5 million modification program improved electric service to east Valley customers, and we broke ground for the Tolleson Regional Center on the west side.

Despite the tremendous demands on our employees, only one publicly owned electric utility in the nation had a better lost-time accident rate.

We welcomed new power sources during the year. Completion of Palo Verde Nuclear Generating Station Unit 1, and an exchange involving Palo Verde and our coal-fired Coronado Generating Station, help meet our customers' energy needs. The exchange with the Los Angeles Department of Water & Power allowed us to recapture the remaining 30 percent ownership of the Coronado station, which will net SRP \$181 million based on differential installed costs plus interest at each facility.

Still, we'll need new power sources to accommodate an estimated 700,000 electric customers by the year 2000. A

portion of the new power generation will come from a third unit under construction at the Coronado station, which will begin satisfying electric demand in 1991.

Water supplies were exceptional. Almost 2 million acre-feet (af) of water stored in our six reservoirs ensured a good short-term surface supply. It also meant we could hold down expensive groundwater pumping.

The 1 million af of water we delivered reflected the area's continued shift from agricultural to urban lands. Urban water uses exceeded agricultural uses by 14,888 af. Farming accounted for only 82,000 acres of SRP's 238,000 acres of member lands, and it's expected there will be no agricultural production by the year 2015.

During the year, SRP concerned itself with the need to protect the quality and quantity of our limited water supplies. We offered in-depth input into successful legislation to create a new state environmental protection agency. SRP also cooperated with local organizations exploring groundwater recharge.

We promoted much-needed flood control protection in the Valley, dam safety and increased water storage through active support of Plan 6. Plan 6—selected after an extensive five year public-involvement process—includes New Waddell Dam on the Agua Fria River to store Central Arizona Project (CAP) water, construction of Cliff Dam on the Verde River, an enlarged Theodore Roosevelt Dam and modifications to Stewart Mountain Dam on the Salt River.

Secretary of the Interior Donald Hodel accepted assurances of \$371 million in local funds in exchange for a federal commitment to complete all elements of Plan 6 by 1997. SRP will contribute \$52 million toward dam-safety modifications. Local pledges include \$2 million in state funds for bald eagle habitat protection.

Arizonans await Plan 6, but long-anticipated CAP water supplies are here. Colorado River water first flowed into the Phoenix area Nov. 1, and construction of the federally funded canal system continued toward its ultimate end south of Tucson. Because

farm land is decreasing in the Valley, SRP declined a CAP agricultural water supply freeing that water for reallocation by the State of Arizona.

Our finances remained strong. An electric rate increase averaging 4 percent—the first increase since April 1, 1983—plus higher water use fees helped offset the rising costs of operation. The fiscal year ended with an 8.1 percent gain in gross revenues to \$848.6 million, though expenses rose 14.9 percent to \$643.0 million.

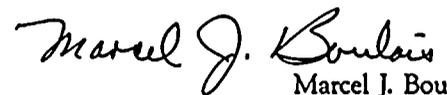
Net revenues totaled \$158.3 million. As a not-for-profit improvement district, SRP's net revenues are reinvested to replace equipment and to help finance construction of new facilities.

In the past year, we took advantage of our excellent bond ratings and favorable interest rates to issue \$681.6 million in tax-exempt electric system revenue bonds. The issues included more than \$608 million in refunding revenue bonds, which are expected to save our customers more than \$240 million in debt-service costs during the next 39 years. Arizona residents purchased another \$24.6 million of our \$500 denomination "minibonds."

As detailed in this report, Salt River Project experienced a productive year. We continued to attract and retain the best employees available, and offered these men and women avenues to excel. Through their continued hard work and our willingness to capitalize on opportunities we expect economic health in the new year. Our successes will enable us to maintain our goal of providing reliable supplies of power and water at reasonable rates.



John R. Lassen



Marcel J. Boulais



A.J. Pfister



SRP electricity helps
brighten any home.

Electric System Additions Will Help Meet Customer Needs A Decade Ahead

Salt River Project took significant steps throughout the year to ensure ready supplies of electricity for its customers today and tomorrow.

Employees tackled myriad challenges, from keeping pace with phenomenal customer growth to planning new facilities to meet energy needs far in the future. In no other business is the impact of corporate planning more pronounced than in the electric utility industry, where decisions to construct major facilities must be made today to meet expected customer needs more than a decade ahead.

Ten years after breaking ground, the first of three units at the Palo Verde Nuclear Generating Station began commercial operation. Salt River Project is one of seven participants and owns 17.49 percent of Palo Verde's three 1,270-megawatt (MW) units.

Arizona Public Service Co., Palo Verde operating agent, also completed construction of Unit 2 in 1985, and hot-functional testing occurred shortly after the close of the fiscal period. APS expected commercial operation of Unit 2 in late 1986 and Unit 3 in 1987.

Completion of Palo Verde Unit 1 added 214 megawatts to SRP's total generating capacity, a 6 percent increase. The company also recaptured the remaining 30 percent, or 210 MW, of the coal-fired Coronado Generating Station in northeast Arizona. This transaction resulted from a 1977 agreement with the Los Angeles Department of Water & Power to exchange some of SRP's interest in Palo Verde. By August 1986, when final payment is made, SRP will net \$181 million, based on differential installed costs plus interest at each facility.

The new power sources represented timely additions to the electric system.

Growth in the number of electric customers continued at a high rate in fiscal 1985-86, but SRP stayed in step with this ongoing trend.

Record residential customer growth offers challenges

Electric users totaled 457,489 at year's end, compared to 422,774 the year before. SRP added a record 32,050 residential electric customers and 2,465 commercial and industrial customers. Other electric users, including municipal street light contracts and irrigation pumps, increased by 200.

Demand on the electric system grew with each new customer. Electric use reached a peak of 2,658 MW on Aug. 29, surpassing the previous high of 2,623 MW set just 49 days before. Peak electric demand the previous fiscal year totaled 2,487 MW on Aug. 30, 1984. Total kilowatt-hour (kWh) sales to customers during the year increased by nearly 200 million kWh to 14.5 billion kWh.

SRP maintains its commitment to quality for all customers

To help meet the increased demand for electricity, SRP energized two new high-voltage receiving stations in the Phoenix area. Employees added eight circuit miles of 69,000-volt transmission line, constructed eight residential substations and one industrial substation. SRP also installed about eight miles of overhead electric distribution line and a whopping 1,587 circuit miles of underground conductor.

Still, SRP maintained its commitment to quality for existing customers.

Engineering and construction/maintenance employees completed a \$3.5 million program to improve electric system reliability for customers in the

fast-growing Mesa-Apache Junction service area. Rapid growth, combined with winter cold snaps, increased energy demand there and at times overloaded portions of the electric distribution system. SRP resolved the problem with a new substation, additions to three existing substations and 21 miles of new distribution lines.

Despite the heavy workload, often under potentially hazardous conditions, employee safety efforts excelled. SRP ranked second in the country in the American Public Power Association's annual safety competition. The APPA is an electric utility trade organization representing 1,750 public utilities nationwide.

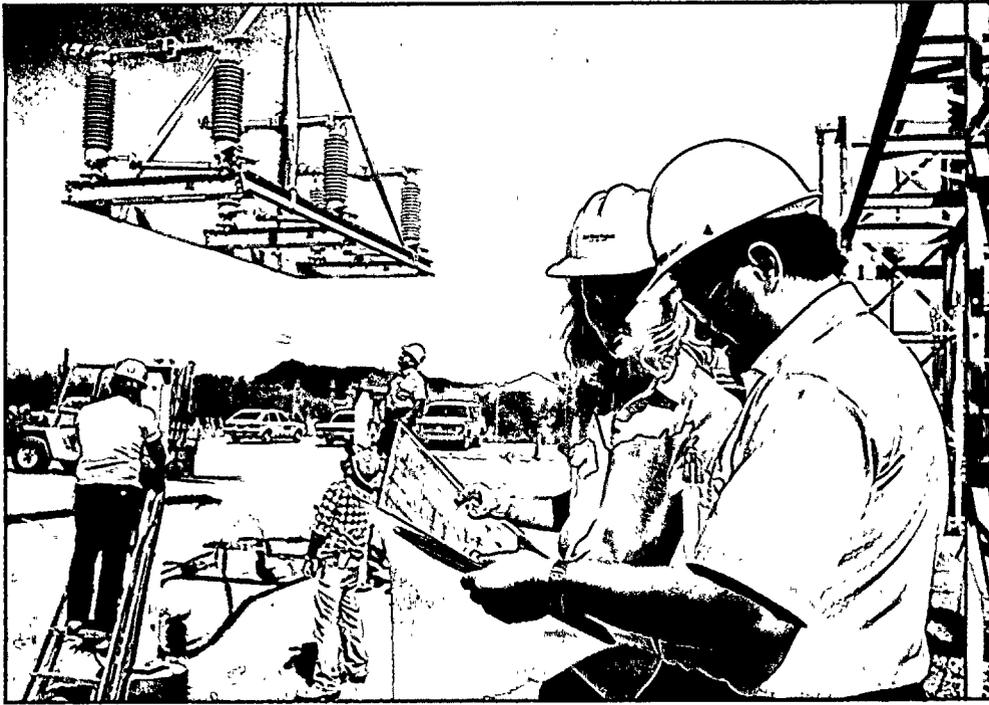
A significant construction effort will ensure continued quality service as the Valley grows.

Forecasters expect Maricopa County population to exceed 3,000,000 by the year 2000. Because of competitive electric rates and top-notch customer service, planners indicate the number of SRP customers will exceed 700,000 at the turn of the century—an average of more than 3 percent yearly growth.

To place service employees closer to the areas they serve, SRP broke ground on its second full-scale customer service facility, located about 10 miles west of downtown Phoenix. About 275 employees will staff the Tolleson Regional Center, which will be the hub of service activity in the west Valley.

SRP set plans in motion to break ground on a third multi-million dollar regional center in the extreme eastern end of the metropolitan area in mid-1986.

In addition, design continued for a planned Information Systems building to meet SRP's growing computer needs. A 300,000-square-foot facility will be constructed just west of SRP's main administration building on the Tempe-Phoenix border. A proposed



SRP employees designed and contracted eight residential substations during the year to keep pace with record customer growth.

master plan for the area includes eventual construction of four other administrative facilities.

An aggressive maintenance program improves productivity

It's vital for SRP to maintain sufficient power generation reserves to satisfy customers' energy needs in the event of crisis. For instance, in June 1985, a steam line ruptured at the Mohave Generating Station in Nevada. Because SRP is a 10 percent owner of Mohave's two units, the accident eliminated 158 MW of generating capability for nearly seven months.

SRP paid about \$3.9 million in repair work and other expenses associated with the Mohave accident. Further, an inspection of the Four Corners Generating Station Units 4 and 5—SRP owns 10 percent—revealed the need for steam line repairs.

On top of its scheduled maintenance inspections, the day after the Mohave accident SRP launched a special intensive examination and engineering review program of critical steam piping at its own power plants. Inspections revealed a few weld cracks in piping systems at the Navajo Generating Station. Completed ac-

tions should minimize the potential for pipe failures.

SRP is proud of its vigorous power plant maintenance efforts, which produced significant results during the year.

In fiscal year 1985-86, management fully implemented the Power Plant Maintenance Information System. This computerized system helped track maintenance work by initiating, planning, scheduling and recording repairs. The program could mean lower costs through reduced unit downtime.

Navajo units set in-service power records

Engineering quality, plus improvements in preventive maintenance, paid an immediate return when SRP's three 750-MW Navajo station units set records for continuous service. Unit 1 ran 128 consecutive days at 97.8 percent of its generating capacity; Unit 2 ran 112

days at 98.3 percent capacity; and Unit 3 completed 124 days of continuous service to SRP customers at 98.4 percent capacity.

SRP explores power supply options needed a decade ahead

Electricity from the Palo Verde and Coronado generating stations represented only part of the energy required to meet customers' needs. During the year, employees addressed specifics about supply options a decade ahead—new power plants, generating station additions and other energy sources.

To help make critical decisions, management employed the Generation Resource Plan, which provided an overall guide to power supply options.

The plan included four major elements: identification of future power sources; issues, policies and alternatives which could affect the attractiveness of the options; determination of time frames for completion; and a table of comparisons among the choices.

Options included building a new coal-fired generating station in Arizona to help meet future customer electric demand. As part of its contingency planning, in 1979 the company began a search for suitable locations for a new generating station. SRP identified 69 study areas and gradually narrowed the list to 31 sites. During the year, SRP selected nine areas for detailed evaluations when an in-service date for the next power plant is established.

On a more immediate basis, construction activity accelerated for a third 350-MW unit at the Coronado Generating Station in northeast Arizona. This state-of-the-art, coal-fired unit will be ready for commercial operation to meet peak electric demand in the summer of 1991.

Simultaneously, SRP proceeded with steps to verify new sources of coal for fuel.

Employees began a test-burn program for coal from a small mine on 500 acres of SRP-leased land in New Mexico. SRP shipped about 15 tons of coal from the Fence Lake site to a California testing facility.

Plans include a test-burn of about 80,000 tons at the Coronado Generating Station in early 1987. Depending on results, the coal could

be used to supplement supplies for Coronado Units 1 and 2, just 40 miles west, or it could be used to fuel future SRP generating units.

Future hydroelectric projects hold economic promise

Ongoing studies will reveal if other energy sources are economically feasible.

One choice would boost hydroelectric generating capacity at Theodore Roosevelt Dam on the Salt River from 36 MW to 100 MW when that dam is enlarged to meet federal Safety of Dams Act criteria. Preliminary cost versus benefits studies indicated that upgrading Roosevelt Dam generation for use in the yearly 1990s would be a sound financial option.

SRP joined the planning phase of the federal Spring Canyon Pumped Storage Project. Pumped storage is similar to conventional hydroelectric generation in that falling water is used to produce energy. However, during hours when customer energy demand is low, the unit is reversed using low-cost energy to pump water back into the upper reservoir. In this way, the water is used repeatedly to produce electricity when customers need it most.

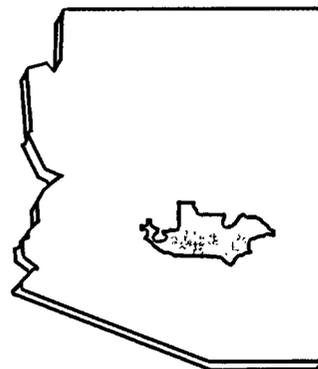
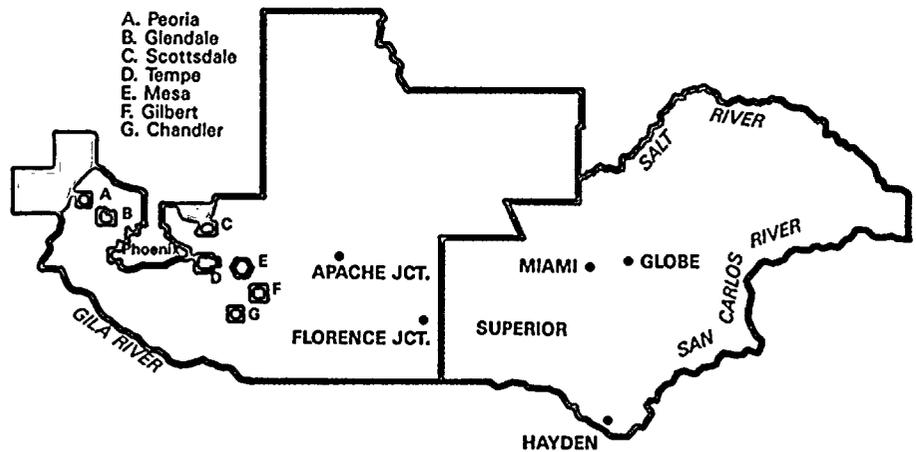
The Spring Canyon Project would have a 1,000 MW to 4,000 MW pumped storage facility at Lake Mead on the Colorado River—ready in the late 1990s. The U.S. Bureau of Reclamation began a three-year study in 1985 to explore environmental impact, licensing requirements and transmission needs, plus produce detailed cost estimates.

DC power transmission lines could be ready in the early 1990s

Feasibility studies continued for a high-voltage, direct current (DC) transmission system which would link the Phoenix area with existing bulk transmission facilities in southern Nevada. The 500-kilovolt Mead-Phoenix DC Project is being studied by a group of southern and central California utilities; the Western Area Power Administration, marketing agent for federal hydroelectric power; and SRP.

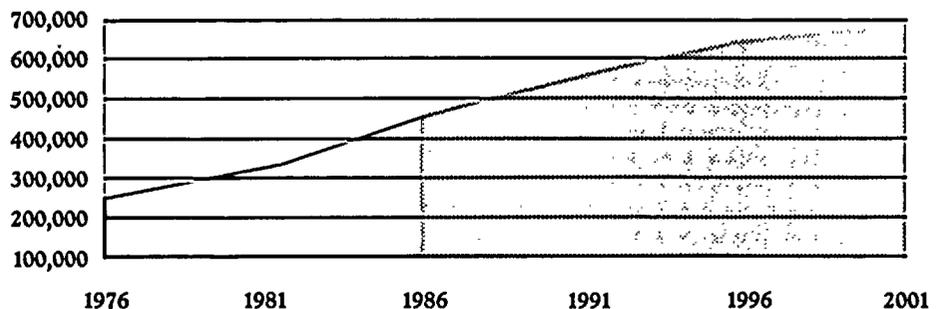
The system would carry energy 240 miles between Phoenix and the Mead

SALT RIVER PROJECT ELECTRIC SERVICE AREA



-  Electric Service Area Served Exclusively by Salt River Project.
-  Salt River Project Provides Full Power Requirements of Arizona Public Service for Resale. Project Makes Direct Sales to Customers for All Mining Loads.
-  Salt River Project Provides Full Power Requirements of Arizona Public Service for Resale.
-  Electric Service Areas Not Served by Salt River Project.

ELECTRIC CUSTOMERS (ALL CLASSES)



Receiving Station near Hoover Dam on the Colorado River. The project could be in-service in the early 1990s.

High-voltage DC transmission offers attractive benefits compared to conventional alternating current transmission. Advantages include better control of power flow, more compact transmission construction with less potential for line losses, and enhanced system reliability.

Planners also began studies of an

additional high-voltage DC transmission link with the Pacific Northwest. Four Southwest electric utilities and seven Pacific Northwest utilities began preliminary investigations of the proposed Inland Intertie.

If completed, the system would supplement existing regional transmission facilities in the late 1990s. It would increase SRP's ability to exchange energy to meet seasonal customer energy needs.



Retirees enjoy the Valley of the Sun with a little help from SRP water supplies.

Groundwater Pumping Is Minimized

Wet Weather Nearly Doubles Inflows Into SRP's Water Storage System

The cup literally ran over in a year of plentiful water supplies.

Precipitation on SRP's 13,000-square-mile watershed averaged 21 inches, or 124 percent of normal. The wet weather resulted in nearly a two-fold increase in runoff into SRP's reservoirs for a total of 2,020,059 acre-feet* during 1985, compared with 1,107,736 af in 1984.

The heavy inflows into nearly full reservoirs forced low-volume water releases into the lower Salt River from Jan. 1 through May 31, and again from Dec. 9 through Dec. 31. Flows past Granite Reef Diversion Dam totaled 870,892 af at a peak release of 15,000 cubic feet per second.**

High runoff ensured a good supply of surface water in the coming year. Calendar year 1985 began with 1,781,671 af of surface water in storage. Water stored in the six reservoirs declined slightly the last quarter to satisfy SRP water users' demand and make room for additional runoff. The year ended with 1,671,535 af of water in storage, which is 83 percent of capacity and 161 percent of normal.

Reduced groundwater pumping helps ease expenses

For the second time in three years, the abundance of surface water enabled SRP to reduce groundwater pumping to less than 6 percent of the potential production.

The reduced pumping helped hold down operating expenses. It also allowed area residents to move closer to the 1987 goals to balance groundwater pumping and water recharge. Public interest now is focused on ar-

tificial recharge and water quality.

Depending on available surface water supplies, groundwater satisfies from 5 percent to 40 percent of SRP customers' annual water demand, or 55,000 af to 440,000 af each year. Artificial recharge may help ensure groundwater pumping does not exceed acceptable rates.

With that in mind, employees shared technical expertise with community agencies exploring methods of putting water into underground aquifers. Water sources could include storm runoff, reservoir releases, sewage effluent and surplus water, such as excess Colorado River water from the Central Arizona Project.

During the new fiscal year, a broad spectrum of local and state representatives came to terms on landmark legislation to protect groundwater quality in Arizona. The bill was backed by \$8.9 million in state funding. After significant input from SRP, the agreement placed authority to protect groundwater quality with a new state environmental protection agency and allows citizen lawsuits to enforce the law.

Management hailed the legislation as the best-possible compromise between private and public interests to ensure quality water supplies.

Urban water usage continues upward trend

Urban water uses continued to increase while agricultural water uses decreased within the SRP service territory. Urban deliveries on SRP lands totaled 396,228 af, compared to agricultural deliveries of 381,340 af.

The Salt River Project service area is being urbanized at the rate of 3,500 to 7,000 acres a year. Projections indicate at least 80 percent of the land essentially will be urbanized by the year 2005, and the entire region will

be out of agricultural production by 2015. Crops produced on SRP lands during 1985 decreased in value to \$86.5 million from \$92.3 million primarily due to lost agricultural acreage.

Water supplied to municipal, industrial and agricultural users during the year, including decreed deliveries to non-member lands, totaled 1,016,612 af, which was slightly more than the 10-year average. SRP delivered a total of 881,009 af in 1984, below average due to record rainfall.

Deliveries to the cities totaled 281,464 af, an increase of only 25 af from 1984's total.

Computer program lends electronic hand to water operations

Timely and successful water operations procedures began on the watershed in Arizona's central and eastern mountains. During the year, SRP installed a computerized information program called the Hydromet Data Management System. A personal computer collected information from five remote computers. Hydrological and meteorological information then was updated instantly in the mainframe computer for use by decision-makers managing the water system.

To help make critical downstream operations decisions, SRP employees developed a computer model to simulate reservoir system operation. This planning tool served two purposes: It helped determine the magnitude and duration of flood releases; and it aided long-range planning by calculating effects of specific changes in the reservoir system.

Still, operations decisions are only as good as the people who make them. To ensure continued top-quality management, SRP created the Water Group Resource Management Plan, a long-range program to help

* An acre-foot is the amount of water needed to cover one acre to a depth of one foot. It is equivalent to 325,850 gallons.

** A cubic foot of water is equal to 7.48 gallons.



SRP water helped make the day for these youngsters, seen at one of the many municipal lakes dotting the Valley.

select and develop tomorrow's leaders. The program will build a resource pool of qualified candidates within the Water Group for leadership positions.

SRP also began installation of a hydraulics laboratory in cooperation with Arizona State University. The lab will benefit the community through study of water delivery structures, reservoir facilities and water measurement tools and methods.

Water conservation draws top consideration

SRP remained committed to effective water conservation.

To prevent losses of precious water supplies, crews used concrete materials to line a total of 5.5 miles of major canals at a cost of \$2.5 million, while field crews closely monitored water deliveries. Since 1976, water system losses have been reduced to 11 percent from 27 percent for a savings of thousands of acre-feet of water each year.

Key employees also worked closely with the City of Phoenix and the Arizona Municipal Water Users' Association to promote responsible uses of water supplies. Brochures and news media messages brought attention to the need to eliminate water

waste and offered suggestions about how to get the best use out of residential supplies. In addition, SRP and the City of Mesa planned to unveil a promotional program in the summer of 1986 to encourage proper usage of residential irrigation to avoid street flooding.

Employees demonstrated SRP's commitment to excellence in the Valley by upgrading the appearance of about 16 miles of the Arizona Canal right-of-way. Work involved extensive brush and tree removal, and tree trimming.

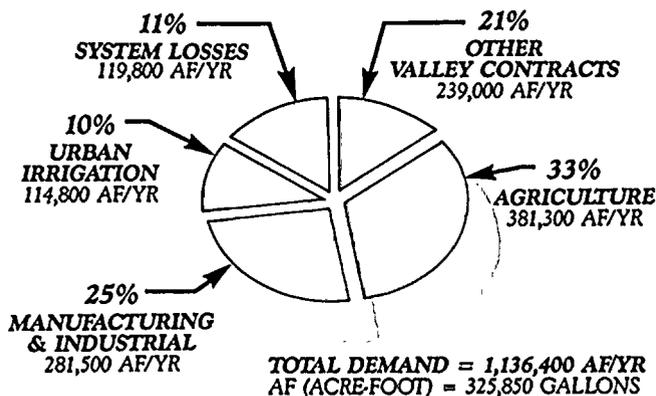
Central Arizona Project comes to fruition

Nov. 15, 1985 will live as the day Central Arizona's modern water dream came true. On that day, officials pushed a button to symbolically activate a pump to bring Colorado River water into the Phoenix area. The Central Arizona Project, first approved by Congress in 1968, came to fruition.

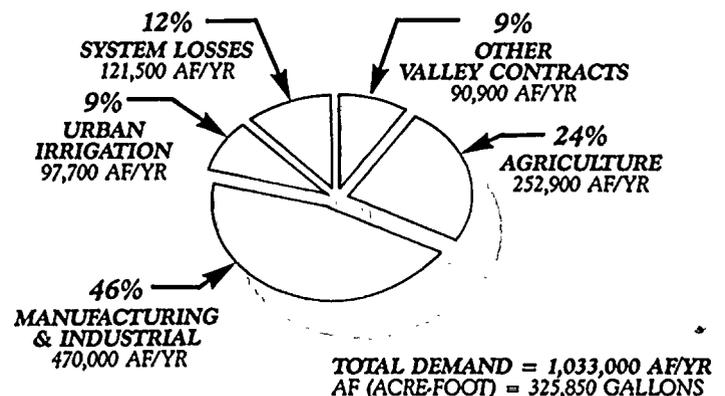
Because farm land is decreasing in the Valley, SRP's board of governors declined a CAP agricultural allocation, freeing that water for other needs. As a result, eligible Valley cities will receive CAP water through SRP's water-delivery system. An 800 cfs turn-out structure on the CAP canal is complete and interconnection into the Valley canal system is scheduled to be ready in early 1989.

Tremendous strides were taken toward completion of Plan 6—the

COMPONENTS OF SRP WATER DEMAND 1985



COMPONENTS OF SRP WATER DEMAND PLANNING CASE 2005



preferred choice among nine options to provide Central Arizona Project water storage, regional flood control and implement dam-safety modifications.

Plan 6 moves closer to completion

Plan 6—selected after an exhaustive five-year public involvement process—includes construction of New Waddell Dam on the Agua Fria River outside the SRP system. Elements within the SRP reservoir system include Cliff Dam on the Verde River, an enlarged Theodore Roosevelt Dam and modifications to Stewart Mountain Dam on the Salt River.

Plan 6 will ensure Salt River Valley flood control and dam safety protection for the first time. Existing SRP dams provide water conservation, but will not safely withstand the newly identified worst-case flood or earthquake. There is the added benefit of a 500,000 af increase in water conservation storage on the Salt and Verde rivers, which will be shared by Valley cities to meet future water needs.

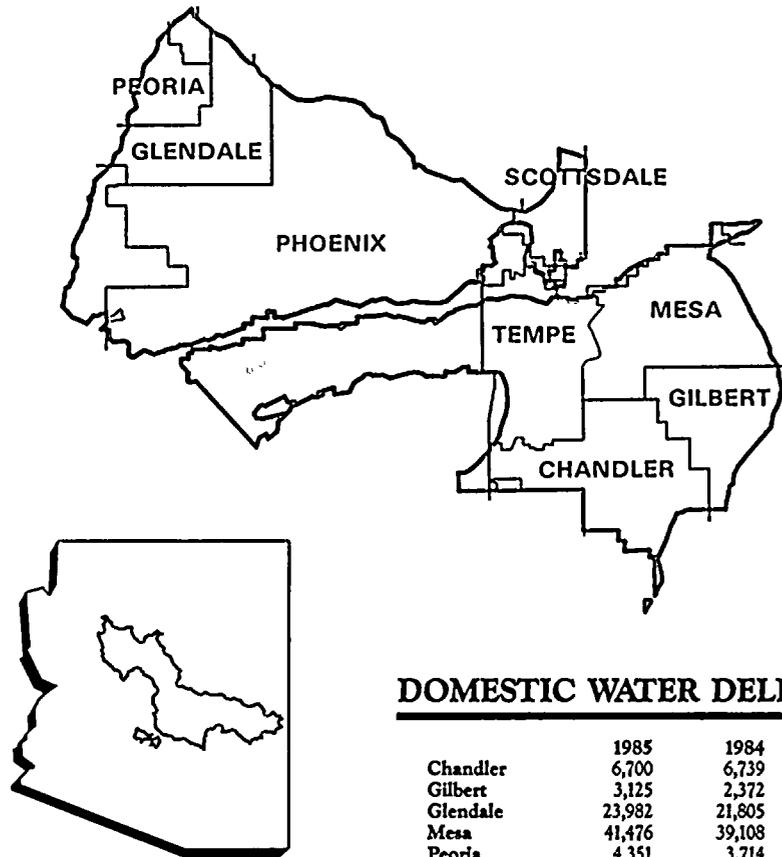
A dramatic increase in camping and picnic sites along the three rivers is included in Plan 6.

Despite an environmental lawsuit challenging Cliff Dam, Secretary of the Interior Donald Hodel in April formally accepted assurances of \$371 million in local funds in exchange for a federal commitment to complete all elements of Plan 6 by 1997. SRP pledged \$52 million of the local funds as its share of dam-safety modifications. The federal government is responsible for the balance of the \$1.2 billion project.

Critical water rights proceedings begin

SRP pooled its resources with six Valley irrigation districts and nine cities to help the Arizona Department of Water Resources notify residents about upcoming water rights proceedings. The agencies helped reach property owners to explain a state Superior Court action which will determine specific rights to waters of the Gila River Basin. That system includes water supplied to the Salt River Valley by the Salt, Verde and Agua Fria rivers.

SALT RIVER PROJECT IRRIGATED AREA



Salt River Project Irrigated Area
 13,000 Sq. Mile Project Watershed

DOMESTIC WATER DELIVERIES

	1985	1984	change
Chandler	6,700	6,739	-0.6%
Gilbert	3,125	2,372	+31.7%
Glendale	23,982	21,805	+10.0%
Mesa	41,476	39,108	+6.1%
Peoria	4,351	3,714	+17.2%
Phoenix	160,876	171,732	-6.3%
Scottsdale	3,843	4,253	-9.6%
Tempe	37,172	31,716	+17.0%
Total	281,464	281,439	---

All numbers are in acre-feet, except percents of change.

SRP will represent its shareholders in what is expected to be a lengthy court action. Such involvement is critical to protect their water rights. A similar court action will determine historic water entitlements within the Little Colorado River Basin in northeast Arizona.

SRP shares expertise at home and abroad

Employees continued the tradition of sharing technical knowledge as well as management expertise with interested agencies at home and abroad. The Office of International Affairs, in only its second year of operation, conducted and coordinated on-the-job training programs for 112 people representing 34 countries. In total, 500 visitors from 69 nations toured SRP facilities.

The Professional Employee Exchange Program (PEEP) between Egypt's Ministry of Irrigation and SRP shined as the gem of the global effort. Under the auspices of the U.S. Agency for International Development, the program culminated with employees overseeing the installation of four radial gates within the Egyptian water-delivery system. During the year, six Egyptian officials traveled to the Valley through PEEP. Two Cairo University students also completed a 10-week summer informational exchange program, and two more are scheduled during 1986.

Other major projects included presentation of an executive management seminar in Egypt, participation in a United Nations seminar in Hungary and exploration of a possible water-system information exchange between Pakistan and SRP.



START



The annual S.H.A.R.E. Affair 10-K benefit run produced \$7,737 to help needy Arizonans with energy expenses.

Employees 'Keep The Spirit Strong'

Arizonans Cheer Roosevelt Dam's Contributions In Its First 75 Years

Salt River Project's community-enhancement programs are as solid as the rock in Theodore Roosevelt Dam. In a fitting tribute to both, employees joined Arizonans from around the state in mid-March to celebrate the 75th anniversary of the dedication of Roosevelt Dam.

Foot-stomping music, dancing children, speeches from prominent Arizonans and historic displays celebrated Roosevelt Dam's unique contribution to central Arizona's growth. The rededication ceremonies capped an extensive public-awareness campaign entitled: Keeping the spirit strong. SRP unveiled its historic theme in late-1985 along with a new corporate logo featuring bold SRP letters with sun rays radiating from the center.

Employees show they care

Besides company efforts, many individuals gave their time and talents to improve their communities. Achievements included donations of 875 pints of blood to a statewide blood service and a pledge of more than \$297,000 in employee funds for Arizona charitable organizations. Four loaned executives helped local United Way campaigns cap multimillion-dollar funding campaigns.

Employee contributions and SRP matching funds resulted in more than \$25,000 to help restore and maintain the Statue of Liberty and Ellis Island.

In addition, a citizens' advisory panel picked 15 employees to receive Karl F. Abel Volunteer Recognition Awards. Abel awards, named after the retired SRP president, are presented annually to individuals who distinguish themselves through community efforts.

The list of successful community endeavors goes on:

□ Thanks in part to an SRP "Litter Luger" campaign, which included weekly clean-up efforts by volunteers, the Keep America Beautiful committee selected Phoenix as 1985's outstanding city in the United States. Employees also helped coordinate the annual Page Attacks Trash clean-up day, when about 4,000 volunteers in that community lugged away more than 8,000 bags of trash.

□ One-thousand joggers in SRP's third-annual 10-kilometer "S.H.A.R.E. Affair" contributed \$7,737 to help needy residents with energy expenses. The Salvation Army administers donations from SRP and Arizona Public Service Co. customers for this Service to Help Arizonans with Relief on Energy. Contributions from SRP electric customers alone totaled \$119,664 during the fiscal year.

□ The sixth-annual Coronado Generating Station benefit run attracted 508 participants. Participant fees resulted in a \$660 donation to the St. Johns Senior Citizens Association.

□ SRP hosted representatives from 40 non-profit organizations in a Volunteer Fair. Under a big top tent, community service agencies in need of volunteer labor entertained and informed employees. The program spawned a waiting list of agencies wishing to participate the next time around.

□ Employees donated hundreds of toys, books, containers of food and articles of clothing in a Christmas benefits drive.

□ SRP and Arizona Public Service Co. co-sponsored the annual Energy

Fair. The utilities honored 140 young inventors who helped celebrate more than a decade of energy achievements since Thomas Alva Edison invented the incandescent light bulb.

□ Recognizing the value of encouraging today's youths, SRP honored 65 Arizona high school seniors for academic excellence through the annual Spotlight on Excellence program. And, a 16-year-old blind high school student received the second-annual Young Adult Volunteer Award for outstanding community service.

Community-involvement programs excel

Community involvement included active information programs for school-age children. Employees worked closely with Arizona teachers through such organizations as the Education Advisory Council, which helps tailor SRP programs to meet educators' needs.

Water and power safety presentations and energy education programs reached 119,594 schoolchildren during the year. In addition, 13,088 visitors toured the Time Machine, a mobile museum which pays tribute to the Valley's past, present and future.

Civic groups interested in company activities contacted the all-volunteer SRP Speakers' Bureau, the largest such organization in the state. During the year, about 150 employees reached 47,631 residents about topics ranging from Salt River Valley history to the need to complete such critical central Arizona water projects as Cliff Dam on the Verde River.

There's another vitally important method of benefiting the communities SRP serves—taxes. Many communities

depend on taxes to support education and emergency services programs. In-lieu tax payments to eight Arizona counties containing power and water facilities totaled \$33,257,807. In effect, this made SRP the state's third-largest property taxpayer.

The commitment to quality included finding and developing top-notch employees.

Prospective engineers, for instance, gained valuable research experience through the Electric Power Research Lab, a three-year-old cooperative venture between SRP and Arizona State University. In 1985, six of ASU's brightest undergraduate engineering students accepted salaried, full-time summer positions within the company.

In addition, employees administered a highly successful rotational program for newly hired engineers. Classroom instruction supplemented four six-month rotational assignments. New engineers obtained an overview of SRP functions for a better understanding of operating areas.

In January, management introduced "Project Discovery," a program of intense training and orientation for new employees. While much of the material covered was safety-oriented to reduce risks in the workplace, the program also helped employees be better informed and more productive.

Professional development opportunities help prepare qualified employees to move up the ranks.

Career counseling and educational assistance programs such as tuition refunds attracted 695 employees during the year. The staff at SRP's Skills Training Center conducted 426 classes for 3,279 employees and certified 660 employees for various equipment operation. After work hours, approximately 10 percent of the 5,400 employees attended evening classes at Arizona State University, the University of Phoenix, Grand Canyon College or one of several community colleges in the state.

Employees intent on developing management skills competed for placement in the Management Development Rotational Program. This two-year program provides supervisory or corporate-level, six-month rotations. Although there were no guarantees for the six men and four women participants, they will be better prepared to contend for management positions that become available.

Expert instructors helped teach supervisory techniques to 107 employees enrolled in the New Supervisor's Institute, and polish the skills of 168 employees who participated in such supplemental management development programs as Manager Reinforcement, Performance Appraisal Review and Meeting Dynamics. The Experienced Supervisors Institute helped meet the needs of more than 160 leaders.

Employee tips to save SRP about \$210,000

Many employee development opportunities are paying dividends. SRP retooled its suggestion program and renamed it "A Better Way." Employees earned \$26,000 for first-year cost savings to the company of about \$210,000. Savings are indirectly passed on to SRP customers.

Another 165 employees participated in 22 Quality Circles teams throughout the company. Workers at-

tended weekly meetings to help find answers to work-place questions. Employee-generated solutions resulted in savings to the tune of \$148,000—a 138 percent increase from the year before.

Quality customer service comes first

When customers called for assistance to turn on or turn off power, to ask questions about billing or to report that occasional disruption in service, courteous representatives responded. SRP received a record 1,038,788 calls, or a 12 percent increase from fiscal year 1984-85. The calls marked the first time volume exceeded the million mark.

In-person contacts peaked, as well. The Project's six area business offices served 950,000 walk-in customers in fiscal 1985-86, an increase of 15 percent. Field service employees responded to 349,000 requests for service, such as turning on electricity for new customers—an increase of 14 percent from the previous year.

Management recognized that the business of serving people continued beyond providing power. Thanks to Project Outreach, trained credit counselors traveled to SRP neighborhood business offices, met



More than 1,600 SRP electric customers benefited from incentives to replace inefficient heating and cooling equipment.

with customers experiencing money problems and helped find ways to keep their electricity on.

During the year, SRP credit counselors helped 7,500 customers receive more than \$600,000 in available energy assistance funds.

SRP employees also provided direction about where to find food, clothing and other necessities. Sometimes, for instance, those on fixed incomes experienced sudden, temporary increases in medical bills. Counselors worked out extensions on electric payments to help ease their financial burdens.

Many electric customers took a positive step toward saving money, too. More than 1,600 customers received an average of \$225 each to replace inefficient cooling and heating equipment with new high-efficiency heat pumps and air conditioners. This retrofit incentive program helped these customers reduce peak system load by about 1,900 kilowatts. Decreased peak energy demand will result in long-term savings for all SRP customers.

Research & development show return on investment

Since the mid-1970s, SRP has received a 400 percent cumulative financial return on its contributions to the Electric Power Research Institute, the research arm of the electric utility industry. This means electric customers saved more than \$51 million for corporate contributions of about \$12 million.

A study of EPRI research and payback to utilities showed SRP customers will save more than \$38 million alone in design improvements at Coronado Generating Station Unit 3, under construction in northeastern Arizona. EPRI technology will help improve the reliability of the unit's steam generator and increase the performance of the coal-fired unit's highly efficient emissions equipment.

The study indicated a continuing annual benefit of \$9 million in design enhancements at the Palo Verde Nuclear Generating Station and about \$2.3 million at the Mohave Generating Station—SRP participation plants.

Additionally, EPRI research produced cost savings by repairing rather than replacing decayed wood power poles. Poles are injected with an



Young volunteers took time out after the SRP-sponsored Page Attacks Trash clean-up to generate supplies for the next year. Actually, the grounds—like the rest of the community—were spotless at the end of the day.

epoxy-type filler for internal strength and wrapped in a steel case at the base. SRP repairs produced savings of up to \$1,000 per pole in replacement costs.

SRP involvement in the American Public Power Association's research and development program also paid off.

The APPA's Demonstration of Energy Efficient Developments (DEED) program, begun in 1980, produced \$63,000 in SRP research grants and scholarship funding at a cost to SRP of \$21,000 in dues payments. SRP benefits from DEED-funded research conducted by 215 electric utilities throughout the country.

Shortly before the close of the fiscal year, SRP received a \$25,000 DEED grant in support of a heat pump field-test program. The tests will determine the effect of regular comprehensive service and maintenance on unit efficiency and operating costs.

SRP is involved in ongoing solar energy studies of photovoltaic-produced power, including participation in an Arizona Corporation Commission task force on solar energy. In

cooperation with the engineering firm of Black & Veatch, employees concentrated on cogeneration power potential for commercial and industrial electric customers, with excess energy for sale to the utility. The preliminary work resulted in a special handbook, or planning tool, for conducting evaluations of customer-produced power.

A follow-up investigation through 1986 will explore specifics about how on-site power generation sources can be economically implemented for select customers.



Treasurer Mark Bonsall (center) discusses SRP's healthy financial status with Assistant Treasurer Mike Lowe and Supervisor Debbie Kimberly.

Refunding Revenue Bonds To Save \$\$

Attractive Financing Opportunities Contribute To A Healthy Fiscal Year

A robust local economy, combined with attractive financing opportunities, contributed to a solid year for Salt River Project finances.

Despite a warmer than usual winter which reduced energy demand, the fiscal year ended with an 8.1 percent increase in gross revenues to \$848.6 million. The costs of doing business

increased, as well. Largely because of fuel cost increases and power purchased to replace generating units down for repairs, operating expenses climbed 14.9 percent to \$643.0 million.

Net revenues totaled \$158.3 million—down, as expected, from \$215.7 million in fiscal year 1984-85. The previous year's record net revenues included \$16.9 million from

the sale of part ownership of a railroad line serving the Coronado Generating Station. Additionally, when Palo Verde Nuclear Generating Station Unit 1 entered commercial operation in January, depreciation expense on the unit commenced and SRP ceased Allowance for Funds Used During Construction (AFUDC), an offset to interest expense during the construction period.

Despite the decline in net revenues, SRP's debt-to-total capitalization ratio improved to 68.1 percent.

Unlike investor-owned utilities, SRP does not issue stock or pay dividends. Net revenues are reinvested to help replace equipment and finance construction of new facilities.

SRP's debt service coverage ratio stayed within a healthy range, ending at 1.85 compared to last year's 2.09 ratio. The ratio measures the number of times the sum of principal and interest due on outstanding debt during the year is covered by revenues available after payment of operating expenses.

"Minibond" sales again prove popular

The Treasurer's Office took advantage of a favorable downward trend in bond market interest rates to issue \$681.6 million in tax-exempt electric system revenue bonds. The issues included more than \$608 million in refunding revenue bonds at considerable savings to SRP customers.

The refunding revenue bonds created present-value savings of \$71.6 million, and will save SRP customers more than \$240 million in gross debt service costs during the next 39 years. The bonds, which closed April 1 at an effective interest rate of 7.24 percent, refunded issues between 1980 and 1985 bearing interest of 9.25 percent to 10 percent.

Sale of the \$500 denomination "minibonds" again proved popular. SRP received \$24.6 million for minibonds with a face value of \$43.5 million.

Minibond sales—sold at an interest rate of 8.25 percent— included \$19.38 million in interest-bearing bonds and \$5.26 million of zero-coupon bonds with a face value of \$24.1 million. The zero-coupon bonds, first introduced by SRP in 1984, pay no semi-annual interest as other bonds do. Instead, they are purchased at a discount and the return to the investor is included in the face value received at maturity.

Bond ratings remained high. SRP maintained a rating of AA by Standard & Poor's and Aa by Moody's Investor Services, Inc. Outstanding General Obligation bonds, which have not been issued since 1972, continued to be rated AAA and Aa1, respectively.

Increased rates help offset rising costs

SRP electric and water rates increased slightly during the year to help offset the effects of increased expenses.

An average 4 percent electric rate increase took effect Oct. 15. It was the first increase since April 1, 1983 when rates rose an average of 5.5 percent. On an annual basis, the latest increase is expected to produce an additional \$26.9 million.

To help keep rates in line with the costs of service, residential electric rates increased 4.4 percent; commercial and industrial rates rose 3.3 percent and 4.0 percent, respectively; and agricultural pumping rates increased 5.0 percent. Summer electric rates increased more than winter rates to accurately reflect the seasonal differences in SRP's operating expenses.

SRP's fuel cost adjustment factor increased twice during the fiscal year due to significant undercollections for fuel expenses. The publicly elected SRP Board of Directors, which regulates business activities, reviews actual fuel costs. Fluctuations between the amount paid for fuel and the amount collected from customers are recovered or refunded through periodic fuel cost adjustments.

On Oct. 15, the fuel cost adjustment factor rose to 0.4620 cents from 0.3954 cents per kilowatt-hour (kWh). The increase occurred because of undercollections of about \$10.7 million for fuel expenses early in the fiscal year. Undercollections continued to rise to about \$13.5 million, which prompted an increase to 0.5581 cents per kWh on March 1.

The average annual cost of electricity for residential customers rose to 7.56 cents per kWh, compared to 7.11 cents the year before.

Water rates increased Jan. 1. SRP's Board of Governors raised the annual water assessment rate by 6.3 percent to \$17 per acre. Payment of the assessment entitled landowners to use two acre-feet of water per acre during the year. (An acre-foot equals 325,850 gallons.)

Water delivery fees increased 10.7 percent to \$33.72 per account, plus payment of 23 cents per acre. The eight Valley cities that receive water under contract with SRP act as agents for landowners within their boundaries. Account fees for the cities

increased 6 percent to \$2.26 per account, plus 23 cents per acre.

In addition, rates for agricultural accounts eligible to receive a third acre-foot of reservoir water increased 6.3 percent to \$8.50, and special pump water rates increased 7 percent to \$30 per acre-foot.

\$2.5 million is set aside for compensation program

A comparison of 1985 Salt River Project and Arizona Public Service Co. electric bills indicated some shareholders paid APS at least 15 percent more than if they had paid SRP for the same amount of energy.

SRP is obligated to offset the cost differential for qualified APS customers because of a 1928 amendment to the Articles of Incorporation of the Salt River Valley Water Users' Association. The amendment protects residential landowners within SRP's water service area who are served power by APS from paying "substantially" more for electricity. In 1967, the courts defined *substantial* as 15 percent or more.

As a result, the SRP board set aside \$2.5 million for the 1985 compensation program. Eligible APS customers received \$3,654,133 for shareholder compensation accrued during 1969-81, 1983 and 1984. Payments to customers ranged from a low of \$1.89 to a high of \$4,580 depending on their energy usage.

In 1984, shareholders voted to end the compensation program in 1994.

1986 Information Program showcases SRP

Salt River Project put its best foot forward when it hosted 50 commercial bankers and investors from around the nation at the 1986 Information Program. SRP conducts these informative programs periodically.

The April program helped showcase the company for leading bankers, investors and credit-rating agency representatives associated with SRP's tax-exempt commercial paper program. Previous programs are credited with helping maintain excellent bond and commercial paper ratings, as well as keeping free-flowing dialog between SRP and the financial community.

Combined Balance Sheets

As of April 30, 1986 and 1985

Assets

	(\$000)	
	1986	1985
UTILITY PLANT, at original cost (Notes 1, 2, 3 and 4):		
Plant in service		
Electric	\$3,132,867	\$2,072,124
Irrigation	87,503	80,498
General	143,021	107,381
Total plant in service	3,363,391	2,260,003
Less - Accumulated depreciation on plant in service	738,283	616,008
	2,625,108	1,643,995
Construction work in progress	1,025,680	1,822,370
Nuclear fuel, net of amortization	92,596	103,546
	<u>3,743,384</u>	<u>3,569,911</u>
SEGREGATED FUNDS, consisting of cash and U.S.		
Government obligations set aside in accordance with resolutions of bond issues:		
Debt service funds, excluding \$51,033,000 in 1986 and \$59,718,000 in 1985 for payment of accrued interest (Note 5)	94,769	101,355
Construction fund	23,000	---
	<u>117,769</u>	<u>101,355</u>
CURRENT ASSETS:		
Cash and temporary investments, at cost	108,967	213,477
Deposit in debt service fund for payment of accrued interest on bonds	51,032	59,718
Trade and other accounts receivable, less reserves of \$1,120,000 in 1986 and \$1,298,000 in 1985 for doubtful accounts	61,071	49,439
Note receivable (Note 4)	90,653	---
Fuel stocks, at last-in, first-out cost	55,522	52,193
Materials and supplies, at average cost	47,095	36,190
Prepayments, interest receivable and other	8,119	8,019
	<u>422,459</u>	<u>419,036</u>
DEFERRED CHARGES AND OTHER ASSETS		
(Notes 1 and 5)	169,607	69,380
	<u>\$4,453,219</u>	<u>\$4,159,682</u>

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

Capitalization and Liabilities

	(\$000)	
	1986	1985
LONG-TERM DEBT (Note 5):		
Electric system revenue bonds	\$2,541,383	\$2,433,328
Commercial paper and other	339,024	310,360
	<u>2,880,407</u>	<u>2,743,688</u>
ACCUMULATED NET REVENUES:		
Balance beginning of year	1,193,588	977,911
Net revenues for the year	158,316	215,677
	<u>1,351,904</u>	<u>1,193,588</u>
Total capitalization	<u>4,232,311</u>	<u>3,937,276</u>
CURRENT LIABILITIES, excluding \$17,775,000 in 1986 and \$17,626,000 in 1985, representing current portion of long-term debt which is to be paid from segregated funds:		
Accounts payable	66,657	66,724
Accrued taxes and tax equivalents	36,142	34,361
Accrued interest	52,628	62,215
Customers' deposits	17,619	15,407
Other liabilities	24,223	25,000
	<u>197,269</u>	<u>203,707</u>
DEFERRED CREDITS AND RESERVES (Note 6)	<u>23,639</u>	<u>18,699</u>
COMMITMENTS AND CONTINGENCIES (Notes 3 and 6)		
	<u>\$4,453,219</u>	<u>\$4,159,682</u>

Combined Statements of Net Revenues

For the Years Ended April 30, 1986 and 1985

	(\$000)	
	1986	1985
OPERATING REVENUES:		
Electric	\$ 841,936	\$ 777,993
Water and irrigation	6,682	7,039
Total operating revenues	848,618	785,032
OPERATING EXPENSES:		
Power purchased	49,151	27,839
Fuel used in electric generation	216,083	201,645
Other operating expenses	122,304	116,792
Maintenance	80,985	68,359
Depreciation and amortization (Note 1)	90,576	69,841
Taxes and tax equivalents	83,864	75,028
Total operating expenses	642,963	559,504
Net operating revenues	205,655	225,528
FINANCING COSTS:		
Interest on bonds at coupon rates	179,928	171,979
Amortization of bond discount, issue and refinancing expenses	2,387	1,970
Interest on other obligations	17,864	18,646
Interest earned on investments, deposits and other (Note 9)	(37,681)	(52,024)
Net financing costs	162,498	140,571
Less - Allowance for funds used during construction (AFUDC) (Note 1)	(120,161)	(123,897)
Financing costs less allowance for funds used during construction	42,337	16,674
OTHER INCOME (DEDUCTIONS) net (Note 9)	(5,002)	6,823
NET REVENUES	\$ 158,316	\$ 215,677

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

Combined Statements of Changes in Financial Position

For the Years Ended April 30, 1986 and 1985

	(\$000)	
	1986	1985
SOURCES OF FUNDS:		
Funds generating from operations-		
Net operating revenues	\$ 205,655	\$ 225,528
Add-Depreciation and other charges not requiring current funds	92,899	77,661
Total funds generating from operations	298,554	303,189
Funds obtained from financing-		
Proceeds of bond issues	596,143	120,784
Other long-term borrowings, net of repayment	30,318	25,267
Total funds obtained from financing	626,461	146,051
Other items providing funds-		
Proceeds from sale of electric generating facilities	194,192	18,089
Contributions in aid of construction	19,181	16,528
Increase (decrease) in accrued taxes	1,781	(1,770)
Increase in other liabilities, net	6,375	10,175
Interest earned on investments, deposits and other	37,681	52,024
Miscellaneous revenues	1,214	1,915
Total funds obtained from other items	260,424	96,961
Total net funds available	1,185,439	546,201
APPLICATION OF FUNDS:		
Debt service-		
Defeasance of Electric System Revenue Bonds	472,692	---
Repayment of principal and interest on bonds and U.S. debt	198,845	186,008
Payment of interest on Commercial Paper and other	17,864	18,646
Decrease (increase) in accrued interest	9,587	(770)
Total application of funds for debt service	698,988	203,884
Other items requiring funds-		
Gross additions to utility plant, net of AFUDC	355,316	323,682
Gross additions to non-utility plant	658	---
Increase in note receivable	90,653	---
Increase (decrease) in fuel stocks and material and supplies	14,234	(15,084)
Increase in other assets, net	103,135	19,902
Other expenses	10,484	2,534
Decrease (increase) in accounts payable	67	(981)
Total application of funds for other items	574,547	330,053
Total net application of funds	1,273,535	533,937
(DECREASE) INCREASE IN CASH, TEMPORARY INVESTMENTS AND SEGREGATED FUNDS	(88,096)	12,264
BALANCE AT BEGINNING OF YEAR IN CASH, TEMPORARY INVESTMENTS AND SEGREGATED FUNDS	314,832	302,568
BALANCE AT END OF YEAR IN CASH, TEMPORARY INVESTMENTS AND SEGREGATED FUNDS	\$ 226,736	\$ 314,832

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

Notes To Combined Financial Statements

For The Years Ended April 30, 1986 and 1985

(1) Summary of significant accounting policies:

(a) Principles of Combination

The combined financial statements include the accounts of the Salt River Project Agricultural Improvement and Power District (the District) and the accounts of its agent, the Salt River Valley Water Users' Association (the Association), together referred to as the Salt River Project (the Project) and a wholly-owned subsidiary, Salt River Generating Company. All significant intercompany transactions have been eliminated. Certain 1985 amounts have been reclassified to conform to the current year presentation.

(b) The District's Board of Directors serves as its regulatory agent.

(c) Utility Plant, Depreciation and Maintenance

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

An allowance for funds used to finance construction work in progress (AFUDC) is capitalized as a part of the electric and general plant. This allowance is deducted from net financing costs in the combined statements of net revenues and added to utility plant. A capitalization rate of 9.7% was used in both 1986 and 1985.

Depreciation expense is computed on the straight-line basis over estimated useful lives of the various classes of plant. Rates in effect resulted in provisions approximating 3.31% and 3.28% for 1986 and 1985, respectively, on the average cost of depreciable electric plant, and 1.39% and 1.38% for 1986 and 1985, respectively, for depreciable irrigation plant. When property representing a retirement unit is replaced, removed, or abandoned, the cost of such property is credited to the appropriate utility plant account, and such cost, together with removal costs less salvage, is charged to accumulated depreciation.

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

(d) Bond Expense

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

(e) Employees' Retirement Plan

The Project has a retirement plan covering substantially all employees. The Plan is funded entirely

from employers' contributions and the earnings of the invested assets. Contributions to this plan totaled \$9,515,491 and \$7,933,647 in fiscal years 1986 and 1985, respectively. The Project recorded Retirement Plan expenses of \$6,264,699 and \$11,690,909 for fiscal years 1986 and 1985, respectively. A comparison of accumulated plan benefits and plan net assets is presented below:

	1986	January 1 1985
Actuarial present value of accumulated plan benefits:		
Vested	\$100,169,854	\$88,693,714
Nonvested	11,133,080	9,132,520
	<u>\$111,302,934</u>	<u>\$97,826,234</u>
Net assets available for benefits	<u>\$195,822,106</u>	<u>\$150,308,282</u>

The average assumed rate of return used in determining the actuarial present value of accumulated plan benefits as of January 1, 1986 and 1985 was 8.5%.

In addition to providing pension benefits, the Project provides certain health care and life insurance benefits for retired persons. Substantially all of the Project's employees may become eligible for those benefits if they reach normal retirement age while working for the company and are eligible for pension benefits. The cost of retiree health care and life insurance benefits is recognized as expense as the premiums and/or deposits to the Trustee are paid. For 1986 and 1985, those costs totaled \$1,172,077 and \$1,030,641, respectively.

(f) Revenues

Meters for residential, commercial and small industrial customers are read cyclically and sales recorded only when billed. This system of billing results in estimated earned but unbilled revenues which amounted to \$22,100,000 and \$17,300,000 on April 30, 1986 and 1985, respectively. For large industrial customers, meters are read near month-end and billings recorded on the accrual basis. Electric revenue billings are adjusted periodically for changes in costs of fuel and purchased power. Revenues from water and irrigation operations are recorded when earned.

(g) Electric Rates

Under Arizona law, the District Board of Directors has the exclusive authority to establish electric rates. The District is required to follow certain procedures, including certain public notice requirements and holding a special Board meeting, before implementing any changes in the standard electric rate schedules. A general rate increase of 4% effective October 15, 1985 was approved by the District's Board on September 9, 1985.

(h) Nuclear Fuel

The District amortizes nuclear fuel to fuel expense on a unit of production method.

Under the provisions of the Nuclear Waste Act of 1982, the District is charged one mill per kWh on its share of electricity produced by Palo Verde Nuclear Generating Station (PVNGS) Unit 1. The District records this charge as a current year expense.

(i) Decommissioning

The District began amortizing the cost of decommissioning PVNGS Unit 1 commencing with the date of commercial operation. The estimate to decommission the District's share of PVNGS Unit 1 of \$14 million is based upon an outside engineer's study. The estimated costs will be reviewed and adjusted periodically. Decommissioning funds collected from the ratepayers will be deposited in a separate bank account and accounted for in a separate reserve.

(j) Income Taxes

The District is exempt from Federal and State income taxes.

(2) Possession and use of utility plant:

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

(3) Construction program:

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

	(Millions)	
	1986	1985
Electric generating facilities	\$873	\$1,686
Transmission and distribution	80	75
Irrigation plant	12	12
Other construction	61	49
Total	\$1,026	\$1,822

Projected construction expenditures include contingency allowances to reflect potential cost increases.

PVNGS Unit 1 went into commercial operation in January, 1986. Units 2 and 3 are scheduled for commercial operation later in 1986 and in 1987, respectively.

On April 30, 1986, commitments had been entered into for delivery of materials and services on construction projects. In addition, various firm commitments exist under coal and fuel oil supply contracts.

The Project has committed to spend approximately \$50 million during the next eight years for its share of a project to build or modify dams on the Salt, Verde and Agua Fria rivers for flood control, to ensure dam safety and to provide water storage associated with the Central Arizona Project.

(4) Interests in jointly owned electric utility plants:

The District has entered into various agreements with other electric utilities for the joint ownership of electric generating and transmission facilities. Each participating owner in these facilities must provide for the cost of its ownership share. The following schedule reflects the District's ownership interest (at cost) in jointly owned electric utility plants on April 30, 1986:

Plant Name	Ownership Share Percent	Plant In Service	(Millions)	
			Accumulated Depreciation	Construction Work In Progress
Four Corners (New Mexico)	10.00%	\$74	\$14	\$6
Mohave (Nevada)	10.00	39	15	4
Navajo (Arizona)	21.70	208	70	9
Hayden (Colorado)	50.00	65	22	2
Craig (Colorado)	29.00	223	42	2
Palo Verde (Arizona) ..	17.49	661	8	765
		\$1,270	\$171	\$788

On January 29, 1986, the District exchanged 5.7% interest in PVNGS (\$465.7 million) for the Los Angeles Department of Water and Power's (LADWP) 30% share of the Coronado Generating Station Units 1 and 2 (\$284.4 million). Per the agreement, 50% of the approximate net cash settlement, or \$90.7 million, was received by the District on the above date. The remaining amount will be received in August, 1986. After the exchange, the District is sole owner of Coronado and has a 17.49% interest in Palo Verde.

The District acts as the operating agent for the participants in the Navajo Project, and, as operating agent, pays the costs of operations and bills each participant for their respective shares of costs.

The District's share of direct expenses of the jointly owned plants is included in operating expenses in the combined statements of net revenues.

Construction expenditures planned for fiscal years 1987 through 1991 are shown below:

	(Millions)		
	Construction	AFUDC	Total
1987	\$299	\$60	\$359
1988	330	34	364
1989	458	25	483
1990	508	42	550
1991	422	60	482

These expenditures will be financed in part from the proceeds of sale of certain of the District's properties, from funds currently on hand, from future net revenues, and from the sale of revenue bonds.

Construction of Coronado Unit 3, a planned 350,000 kW coal-fired unit, which is to be wholly-owned by the District, is proceeding on a schedule for commercial operation during the first half of calendar year 1991.

The total estimated construction cost for Unit 3, including AFUDC, is approximately \$872 million.

(5) Long-term debt:

	Interest Rate	(Millions)		Future Maturities
		1986	1985	
Electric System Revenue Bonds,	4.60-11.50%	\$2,633	\$2,474	1987-2025
Unamortized Bond Discount		(92)	(40)	
Total Revenue Bonds Outstanding		2,541	2,434	
U.S. Government Non-Interest Bearing Debt		9	9	1986-2004
Commercial Paper ..	4.00-5.38%	325	300	
Other	7.66-10.50%	5	1	1986-1988
Total Long-Term Debt		\$2,880	\$2,744	

Electric system revenue bonds are secured by a pledge of, and a lien on, the revenues of the electric system after deducting "operating expenses," as defined in the master bond resolution, subject to amounts due the United States of \$8,609,210.

The debt service coverage ratio as defined in the master bond resolution is used by bond rating agencies to help determine the financial health of the District and other bond issuers. For the years ended April 30, 1986, and 1985, debt service coverage was as follows:

	(Millions)	
	1986	1985
Revenues Available for Debt Service	\$365	\$391
Total Debt Service Requirements	197	187
Debt Service Coverage Ratio	<u>1.85</u>	<u>2.09</u>

On April 1, 1986, the District defeased \$486,150,000 of electric system revenue bonds, resulting in lower future debt service requirements as well as a loss of \$81,168,089. The District's Board of Directors determined that such loss should be recovered from the ratepayers during the period of reduced debt service requirements. Accordingly, under the provisions of Financial Accounting Standards Board statement FASB 71, the loss will be amortized on a monthly basis over the life of the Electric System Refunding Revenue Bond Issue, 1986 Series C.

On February 9, 1984, the District refunded its then outstanding General Obligation Bonds. Although the refunding constituted a legal defeasance of the prior lien on revenues which secured said bonds, the General Obligation Bonds continue to be general obligations of the District, secured by a lien upon the real property included in the District, a guarantee by the Salt River Valley Water Users' Association, and by the District's taxing authority. As of April 30, 1986 the amount of defeased general obligation bonds outstanding was \$143,320,000.

The annual maturities of electric system revenue bonds, equipment notes payable and U.S. Government debt outstanding (excluding commercial paper) as of April 30, 1986, due in each of the fiscal years ending April 30, 1987, through 1991 are \$23,224,000, \$31,857,000, \$26,461,000, \$31,118,000, and \$30,700,000, respectively.

Interest and amortization of discount on the various issues results in an effective rate of approximately 7.10% over the remaining terms of the bonds.

On May 1, 1986, the Project received authorization to issue \$230,000,000 of Electric System Revenue Bonds and \$230,000,000 of Electric System Refunding Revenue Bonds. Including such authorization, electric system revenue bonds totaling \$231,426,260 principal amount are authorized, but unissued and electric system refunding revenue bonds not to exceed \$456,840,000 principal amount are authorized, but unissued.

(6) Litigation and other contingencies:

Environmental:

Various pending litigation or administrative proceedings involving environmental matters could affect the Project and its present and proposed generating facilities. In general, these lawsuits seek to impose higher air quality standards for generating plants. If ultimately decided adversely to the interest of the Project, the lawsuits could result in increased construction costs, increased future operating costs or possible loss in the operational reliability of certain generating plants. Such increased costs would be passed on to customers through increased electric rates.

Other Litigation:

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

Payments to Certain Property Owners in the Association's Service Areas Now Provided Electric Power by Others:

The Articles of Incorporation of the Association provide for the indemnification of certain property owners in the Association's service areas now provided electric power by others if they are required to pay substantially more for power than they would if they were furnished electric power by the Association. A reserve for these payments has been established which, in the opinion of management, adequately covers the Project's liability as of April 30, 1986.

Insurance:

Due to the generally increasing difficulty of obtaining insurance at acceptable rates, the Project has elected to self insure for directors' and officers' liability, and environmental impairment liability.

In addition, the Project has elected to increase the self-insured portion of corporate liability. In management's opinion, adequate reserves have been established for known claims as of the balance sheet dates.

Navajo Taxes:

In 1977 and 1978 the Navajo Tribal Council promulgated three tax resolutions affecting electric generating stations, in which the District has an interest. The District and other participants in the affected generating stations filed lawsuits challenging the resolutions on the grounds the Tribal Council had previously approved generating station leases containing covenants not to tax. In 1981 the lawsuits were mooted

by the enactment of a Tribal Council Advisory Committee resolution reaffirming the covenant not to tax.

In the fall of 1984 the Navajo Tax Commission notified the District of its enactment of amended tax resolutions, which contained provisions purporting to repeal any prior waiver of the power to tax. The District responded by reminding the Commission of the prior resolution, reaffirming its tax covenants.

The District has recently received a ruling by the Commission, denying the contractual claim of immunity from taxation under the covenant not to tax contained in the Navajo Generating Station Lease. The District is unable to predict the ultimate outcome of this action. However, management believes that the District has a valid immunity from such taxation and if necessary will challenge the Navajo Tax Commission ruling. In addition, the Board of Directors of the District has approved an action allowing it to recover from its customers the amounts of such taxes if the payment thereof is ultimately required.

(7) Revolving credit agreement/commercial paper program:

The District's Board has authorized the issuance of up to \$325,000,000 of short-term promissory notes (the Promissory Notes), which are sold in the tax-exempt commercial paper market. The Promissory Notes will mature in no more than 270 days from the date of issuance and in no event after August 15, 1989. As of April 30, 1986, the District had \$325,000,000 of the Promissory Notes outstanding at an average interest rate to the District of 4.61%.

The District maintains a revolving credit agreement (the Agreement) with a consortium of twenty-two banks to provide liquidity support for the Promissory Notes. Under the terms of the Agreement, the District may borrow up to \$325,000,000 until August 14, 1987. If the Agreement is not renewed prior to August 15, 1986, the District may continue to borrow but must reduce its outstanding borrowings to not more than \$225,000,000 by August 14, 1987 and to not more than \$125,000,000 by August 14, 1988. Following August 14, 1988, the District may not make additional borrowings and must repay all outstanding borrowings by August 15, 1989.

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

We have examined the combined balance sheets of SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT (a political subdivision of the State of Arizona) and its agent, SALT RIVER VALLEY WATER USERS' ASSOCIATION, together referred to as the SALT RIVER PROJECT, as of April 30, 1986 and 1985 and the related combined statements of net revenues 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.

In our opinion, the financial statements referred to above present fairly the financial position of the Salt River Project as of April 30, 1986 and 1985 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 applied on a consistent basis.

Arthur Andersen & Co.
Phoenix, Arizona,
June 25, 1986

Borrowings under the Agreement initially bear interest at a rate equal to .70 times the weekly average rate for three month Certificates of Deposit, as published in the Wall Street Journal, plus certain adjustments. As of April 30, 1986, the District had no borrowings outstanding under the Agreement.

The indebtedness of the District evidenced by the Promissory Notes and/or borrowings under the Agreement is an unsecured obligation of the District payable from the general funds of the District lawfully available therefore, subject in all respects to the prior lien of the United States, the Revenue Bonds, and other indebtedness of the District secured by revenues or assets of the District. The Promissory Notes and borrowings under the Agreement are not payable from taxes.

The District's Board has limited the total amount of indebtedness evidenced by the borrowings under the Agreement and Promissory Notes to an aggregate of \$325,000,000.

(8) Irrigation and water operations:

Irrigation and water operations expenses, including depreciation, exceeded the assessments, delivery fees, and other revenues therefrom by approximately \$12,384,000 for 1986 and \$9,866,000 for 1985. These amounts do not include expenditures for additions and improvements to irrigation plant and for repayment of long-term debt.

(9) Sale of the Coronado railroad spur:

In December 1984, the District completed the sale of 50% of its 70% interest in the Coronado railroad spur which was initiated in 1979. Such sale had been delayed as a result of certain litigation. In February 1986, the District sold 50% of the remaining 30% interest in the spur which it obtained in January. The sales agreement provided for interest on the sales price from date of initiation in lieu of the transfer of sales proceeds to the District; however, interest income was not accrued due to the uncertainty caused by the litigation. The sales resulted in gains of \$413,434 and \$2,601,000 in 1986 and 1985, respectively, and interest income of \$7,197,613 and \$14,327,000 in 1986 and 1985, respectively.

Statistical Review

Project General	(\$000)			
	12 Months Ended April 30			12 Months Ended December 31
	1986	1985	1980	1975
Operating revenues	848,618	785,032	449,583	213,838
Electric	841,936	777,993	444,887	211,016
Water and irrigation	6,682	7,039	4,696	2,822
Operating expenses	642,963	559,504	324,507	180,048
Net financing costs less capitalized interest	42,337	16,674	30,996	23,821
Other deductions (revenues), net	5,002	(6,823)	493	(445)
Net revenues	158,316	215,677	93,587	10,414
Gross additions to plant, excluding allowances for funds used during construction	355,316	323,682	412,510	166,328
Utility plant, gross	4,481,667	4,185,919	2,493,501	984,756
Contributions of electric revenues to support water operations	12,384	9,866	10,779	7,248
Taxes and tax equivalents	83,864	75,028	45,199	26,278
Employees at year end	5,468*	5,568	4,990	3,205

*Does not include temporary employees.

Water*

	1985	1984	1980	1975
Total storage and pumping capacity (acre-feet)	2,863,769	2,853,519	2,891,711	2,869,649
Storage capacity (six reservoirs)	2,019,102	2,019,102	2,063,948	2,072,050
Installed pumping capacity	844,667	834,417	827,763	797,599
Water in storage Jan. 1 (acre-feet)	1,781,671	1,717,407	1,563,309	1,056,410
Project storage only	1,543,571	1,455,375	1,290,971	798,815
Runoff (acre-feet)	2,020,059**	1,107,736	2,897,443	870,511
Water in storage Dec. 31 (acre-feet)	1,671,535	1,781,671	1,480,332	1,040,000
Project storage only	1,445,710	1,543,571	1,227,055	771,440
Sources of water for deliveriers (acre-feet)	1,136,429	1,007,851	1,446,277	1,194,212
Gravity supply	1,072,373**	766,167	1,370,310	849,875
Groundwater supply (pumping by SRP)	46,593	221,165	65,648	337,516
Groundwater supply (pumping by others)	17,463	20,519	10,319	6,821
Use of water (acre-feet)	1,016,612	881,009	1,446,277	1,194,212
Agricultural	381,341	335,916	579,650	447,042
Urban	396,228	393,851	362,758	265,591
City domestic	281,464	281,439	247,190	160,998
Subdivision irrigation	60,263	61,019	57,831	54,252
Other non-agricultural irrigation (schools, parks, churches, etc.)	54,501	46,681	57,736	50,340
Decreed deliveries	52,410	51,704	67,762	55,236
Contract deliveries	186,634	82,029	192,909	59,255
Seepage and evapotranspiration	116,459	156,313	243,197	367,089
Canals, total (miles)	133	132	131	131
Lined	87	72	64	57
Laterals, total (miles)	890	890	880	876
Lined and piped	783	777	749	702
Drainage and waste ditches (miles)	240	240	247	254
Lined and piped	78	75	60	53
Assessed area (acres)	238,170	238,171	238,221	238,264
Number of assessed accounts	181,645	181,083	177,171	161,869
Number of times water delivered to water users	468,144	478,325	423,989	469,071

* Water statistics are computed on a calendar year basis.

** Based on U.S.G.S. provisional records and are subject to adjustment.

Power

	12 Months Ended April 30			12 Months Ended
	1986	1985	1980	December 31 1975
Energy Sources (kWh)				
Net nuclear generation.....	149,186,614	—	—	—
Net steam generation*.....	10,957,903,000	11,859,199,000	8,847,016,000	4,050,267,000
Net combustion turbine generation.....	45,396,000	52,209,000	43,497,000	144,899,000
Net combined cycle generation.....	813,684,000	657,328,000	87,963,000	706,469,000
Net run of river generation.....	451,783,000	594,515,000	511,526,000	297,858,000
Pumped storage generation.....	236,545,000	200,451,000	100,455,000	81,916,000
Total net generation*.....	12,654,497,614	13,363,702,000	9,590,447,000	5,281,409,000
Purchased.....	3,207,390,046	2,082,962,216	2,110,570,024	3,515,476,241
Interchange received.....	106,666,000	63,848,104	345,460,000	211,365,000
Wheeling received.....	11,912,340	15,419,880	7,772,976	38,378,759
Total energy sources*.....	15,980,466,200	15,525,932,200	12,054,250,000	9,046,629,000
Energy disposition (kWh)***				
Residential.....	4,889,987,668	4,783,148,400	3,533,960,873	2,878,957,582
Commercial & Industrial.....	5,931,148,985	5,764,993,287	4,413,323,586	3,387,045,196
Irrigation pumping.....	248,577,084	260,223,618	204,961,011	310,750,959
Street & highway lighting.....	88,327,881	83,646,296	42,781,200	39,259,768
Public authorities.....	257,127,813	241,468,602	297,550,699	260,297,826
Interdepartmental.....	72,022,538	114,109,620	63,612,338	176,855,758
Sales for resale.....	3,016,789,686	2,883,361,835	2,232,292,703	988,241,889
Total sales.....	14,503,981,655	14,130,951,658	10,788,482,410	8,041,408,978
Interchange delivered.....	93,772,000	82,226,000	330,956,000	279,381,000
Wheeling delivered.....	10,891,950	14,154,972	7,110,294	34,847,914
Energy losses.....	1,033,899,395	1,012,240,570	784,193,296	574,735,108
Energy for pumped storage operation.....	337,921,000	286,359,000	143,508,000	116,256,000
Total disposition of energy.....	15,980,466,000	15,525,932,200	12,054,250,000	9,046,629,000
Peak overall power system (kWh)				
Date and time (MST).....	2,971,000 July 9, 5 p.m.	2,967,000 July 5, 6 p.m.	2,337,000 Sept. 5, 6 p.m.	1,939,000 Aug. 6, 3 p.m.
Peak Project customer (kWh)				
Date and time (MST).....	2,658,000 Aug. 29, 5 p.m.	2,487,000 Aug. 30, 5 p.m.	1,911,000 June 27, 5 p.m.	1,634,000 Aug. 6, 3 p.m.
Generating capability (kW)**				
Nuclear.....	213,730	—	—	—
Steam*.....	2,201,115****	2,211,250	1,553,250	1,181,900
Combustion turbines.....	393,000	393,000	393,000	424,800
Combined cycle.....	288,000	288,000	288,000	292,000
Hydroelectric conventional.....	96,400	96,400	95,000	94,300
Hydroelectric pumped storage.....	137,000	137,000	137,000	147,200
Total operating capability*.....	3,329,245	3,125,650	2,466,250	2,140,200
Contract purchase at peak.....	410,547	329,547	328,661	450,500
Total resources*.....	3,739,792	3,455,197	2,794,911	2,590,700
Electric customers—year end***				
Residential.....	414,140	382,090	290,161	230,712
Commercial & Industrial.....	34,973	32,508	21,401	16,918
Other.....	8,376	8,176	1,573	1,296
Total.....	457,489	422,774	313,135	248,926
Average annual kWh use***				
Residential.....	12,175	12,963	12,557	12,843
Average annual kWh revenue***				
Residential (cents/kWh).....	7.56	7.11	5.28	3.29

* Includes SRP participation in jointly owned projects

** Unit capabilities during summer peak

*** Energy disposition kWh through total sales, electric customers year end, average kWh use and average annual revenue are estimated figures.

**** Decreased due to a rating change at Four Corners Units 4 and 5.

Board Members

Board members establish policies for the management and conduct of Salt River Project's business affairs.

The 10 members of the Board of Governors of the Salt River Valley Water Users' Association are elected every two years by the shareholders (property owners) of the Association.

The Board of Directors of the Salt River Project Agricultural Improvement and Power District consists of 14 members who serve four-year terms. One District board member is elected from each of the 10 SRP voting divisions, and four members are elected at-large.

Traditionally, members of the Association board are elected to similar positions on the District board.



Salt River Project Board Members shown above are (left to right) Clarence C. Pendergast Jr., Bruce B. Brooks, Joe Bob Neely and William P. Schrader. Not pictured is Dwayne E. Dobson.



Pictured above are SRP Board Members (top row from left) Thomas P. Hurley, Rudolph Johnson, (bottom row from left) Olen Sharp, John M. Williams Jr. and Gilbert R. Rogers.



Pictured above are SRP Board Members (top row from left) William W. Arnett, John L. Burton Jr., (bottom row from left) Stanford F. Hartman and Fred J. Ash.

District 1
Rudolph Johnson

District 2
Clarence C. Pendergast Jr.

District 3
Bruce B. Brooks

District 4
Gilbert R. Rogers

District 5
John M. Williams Jr.

District 6
Thomas P. Hurley

District 7
William P. Schrader

District 8
Joe Bob Neely

District 9
Olen Sharp

District 10
Dwayne E. Dobson

At-large
William W. Arnett
Fred J. Ash
John L. Burton Jr.
Stanford F. Hartman

Council Members

The councils enact and amend bylaws relating to the management and conduct of SRP's business affairs, and they approve negotiated revenue bond sales.

Three council members are elected by SRP shareholders to two-year terms in each of the 10 areas of the Salt River Valley Water Users' Association. Three council members are elected to staggered four-year terms in each of the 10 divisions of the Salt River Project Agricultural Improvement and Power District.

Traditionally, Association council members seek identical positions on the District council.



SRP Council Members pictured above are (top row from left) Lloyd Lee Banning, W. Curtis Dana, Robert E. Hurley, Wayne A. Hart, (former councilman) Wiley R. Baker, James M. Accomazzo, James R. Marshall, (bottom row from left) Levi H. Reed, C. Dale Willis, James L. Diller, Dean W. Lewis, Roy W. Cheatham and Michael K. Gantzel.



SRP Council Members pictured above are (top row from left) William P. Schrader Jr., Larry D. Rovey, Lee L. Tregaskes, Emil M. Rovey, Orland R. Hatch, Mark V. Pace, John E. Anderson, (bottom row from left) George B. Willmoth, Elvin E. Fleming, Lester Mowry, Howard W. Lydic, Wayne A. Marietta, John A. Vanderwey and Carl E. Weiler. Not pictured are Robert L. Cook, Edmund Navarro and Martin Kempton. District 4 Councilman Ivy Wilson Jr. passed away during the year. His position was to be filled early in the new fiscal year.

District 1

Robert L. Cook
Howard W. Lydic
Emil M. Rovey

District 2

Wayne A. Hart
Larry D. Rovey
John A. Vanderwey

District 3

James M. Accomazzo
John E. Anderson
Elvin E. Fleming

District 4

Lloyd Lee Banning
Levi H. Reed
(vacancy)

District 5

Roy W. Cheatham
Edmund Navarro
Carl E. Weiler

District 6

James L. Diller
Dean W. Lewis
James R. Marshall

District 7

Wayne A. Marietta
Lester Mowry
George B. Willmoth

District 8

Michael K. Gantzel
Martin Kempton
Mark V. Pace

District 9

W. Curtis Dana
Robert E. Hurley
Lee L. Tregaskes

District 10

Orland R. Hatch
William P.
Schrader Jr.
C. Dale Willis

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Communications & Public Affairs
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(602) 236-8240

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