

SALT RIVER PROJECT
ANNUAL
REPORT
1986-87

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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 public power 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.

Purpose of Salt River Project:

Provide a reliable and adequate supply of water and electricity at the lowest reasonable cost



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& Public Affairs Department
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On the cover—Another beautiful Arizona sunset silhouettes part of SRP's Kyrene Receiving Station in Tempe.

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Highlights

REVENUES/EXPENSES (See Page 20)

Total operating revenues (\$000)	888,506	848,618
Total operating expenses (\$000)	706,377	642,963
Net operating revenues (\$000)	182,129	205,655
Financing costs (less AFUDC) (\$000)	105,293	42,337
Other expenses, net (\$000)	2,075	5,002
Reinvested (\$000)	74,761	158,316

Fiscal 1987

Fiscal 1986

POWER OPERATIONS (See Page 27)

Energy customers at year end	487,321	457,489
Total kilowatt-hour sales (000)	15,566,478	14,503,982
Average annual kWh usage per res. customer	12,440	12,175
Avg. annual kWh revenue/res. customer (cents)	7.54	7.56

WATER OPERATIONS (See Page 26)

Assessed water accounts	181,894	181,645
Water runoff (acre-feet)	1,070,214*	1,774,667
Water in storage, Dec. 31 (acre-feet)	1,691,741	1,671,535
Water deliveries (acre-feet)	870,658	1,016,612

Calendar 1986

Calendar 1985

SELECTED OTHER DATA (See Page 26)

Gross plant investment (\$000)	4,814,087	4,481,667
Long-term debt (\$000-See Page 19)	2,986,737	2,880,407
Taxes & tax equivalents (\$000)	103,097	83,864
Electric-revenue contributions to support water operations (\$000)	15,975	12,384
Employees at year end	5,735**	5,468**

Fiscal 1987

Fiscal 1986

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

To Our Shareholders and Bondholders:

This past year we witnessed our 50th anniversary as the Salt River Project Agricultural Improvement and Power District. We've seen a lot of changes in the past 50 years. Through it all we've continued to supply a reliable source of energy and water at the lowest reasonable cost.

Research shows our customers are happy with our service. One of last year's goals was to achieve an overall quality of service rating of 90 percent from our customers. We received a 97 percent rating.

Customers saw a small decrease in their electric bills as we passed on a decrease in fuel costs. For residential customers, the average cost per kilowatt-hour (kWh) was 7.54 cents compared to 7.56 cents per kWh in the previous year.

During the year, we added 29,832 new electric customers for a total of 487,321 customers in all classes. The new customers contributed to a new system peak of 2,785 megawatts (MW) on August 20.

However, plenty of power is available. The first two units of the Palo Verde Nuclear Generating Station have begun commercial operation, providing SRP with 444 MW of generating capacity. Future power supplies are being developed at St. Johns, where the third 350 MW unit of the coal-fired Coronado Generating Station is under construction.

On a per-customer basis, our operations and maintenance costs dropped to \$1,422. That is \$114 less than our Project goal of \$1,536.

As the number of customers increased, many located near the outer edges of the SRP service area. To better accommodate customers on the east and west sides of the Valley, we opened the Tolleson Service Center and broke ground for the Mesa Service Center. Regional service centers enhance operations by reducing travel time and expense of reaching the customer.

In an effort to eliminate use of leased office space and to consolidate administrative functions, we broke ground for a new corporate headquarters. Eventually, the

headquarters will consist of five buildings on 40 acres west of the present headquarters. The first component, the Information Systems Building, is scheduled for completion in late 1988. In addition to the corporate headquarters, 484 surrounding acres of SRP-owned land will be available for lease and development by others and will be called Papago Park Center. Income from this development will be used to supplement electric revenues, offset operating expenses and hold down electric bills.

Water supplies were sufficient and remarkably well managed. Although inflows from the Salt and Verde rivers were only 87 percent of average, heavy summer rains kept reservoirs fuller than normal. Storage at the end of 1986 totaled 1,691,741 acre-feet (af) or 84 percent of capacity. This was 139 percent of normal.

For the third time in four years, plenty of water in storage reduced groundwater pumping to less than 7 percent of deliveries. Project groundwater pumping totaled only 65,538 af, aiding our efforts to conserve this essential resource.

Total water deliveries hit a 10-year low of only 870,658 af, compared to 1,016,612 in 1985. Agricultural use was less than normal due to land sales and government set-aside programs which reduced the quantity of crops grown. Municipal use was less due to summer rains which curtailed the usual amount of lawn watering.

Land and water use continued to shift. A total of 7,165 acres was converted from agricultural use to urban use. By year's end, 68.6 percent of the 238,170 acres in SRP was urbanized, while 31.4 percent remained in agriculture.

SRP's Water Group faced a major reorganization. Reid W. Teeple retired as head of the Water Group after 39 years with SRP. He was succeeded by D.S. Wilson, Jr. A reorganization of three departments was completed to increase efficiency and to provide better service to customers.

A new department was formed, the Water Quality and Geohydrology Department. SRP staff will monitor water

quality and institute practices to ensure that SRP water meets all applicable standards. We initiated meetings with all cities we serve to seek solutions to mutual water problems. As population increases, the cities will be faced with an increasing demand for water. By working with the cities, we can share information and avoid costly duplication of efforts.

Under the Safety of Dams Act, preliminary engineering and excavation work began on Theodore Roosevelt Dam and Stewart Mountain Dam. During 1986, we entered into agreements with the U.S. Bureau of Reclamation to add several maintenance items to necessary dam safety modifications scheduled at Stewart Mountain Dam. The proposed changes will enhance operating and maintenance facilities at the dam.

Financially, it was another good year for SRP. Careful management of SRP resources, healthy financing opportunities and a strong local economy contributed to the success. Our debt service coverage increased from 1.85 to 2.0, aided by a 4.7 percent increase in gross revenues. Hot weather and the almost 30,000 new customers helped to build an increase in gross revenues to \$888.5 million, up from the previous year's revenues of \$848.6 million.

Net revenues totaled \$74.8 million during fiscal year 1986-87. As a public power utility, our net revenues are reinvested to replace equipment and to help finance construction of new facilities.

Maintaining a healthy financial status resulted in our bonds continuing to receive high investment-grade ratings of AA and Aa by the nation's leading rating services. We have sold investment-grade bonds for more than 20 years.

For the first time in five years, we sold bonds on a competitive bid basis. In October 1986, SRP sold \$100 million in tax-free electric system revenue bonds. The bonds were sold in \$5,000 denominations at an effective interest rate of 7.34 percent.

Mini-bonds retained their popularity. Mini-bonds are bonds sold for \$500 or less, which makes them appealing to the investor with

a small amount of capital for investment.

After the end of the fiscal year, approximately \$22.3 million in mini-bonds were sold. Some were interest-bearing mini-bonds for \$500 each and, for the first time, we sold capital appreciation bonds for \$200 each. These bonds will pay \$488.05 if held to maturity in 2002.

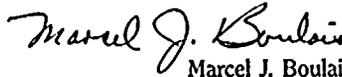
Our employees were the strength of this year's corporate theme, "The People Behind the Spirit." Their commitment to excellence was shown in their work and in their many volunteer activities in their communities.

Their efforts are, in large measure, the reason this past year was successful for Salt River Project. Through our employees' talents, expertise and dedication, we expect to be able to meet the challenges of the coming year.

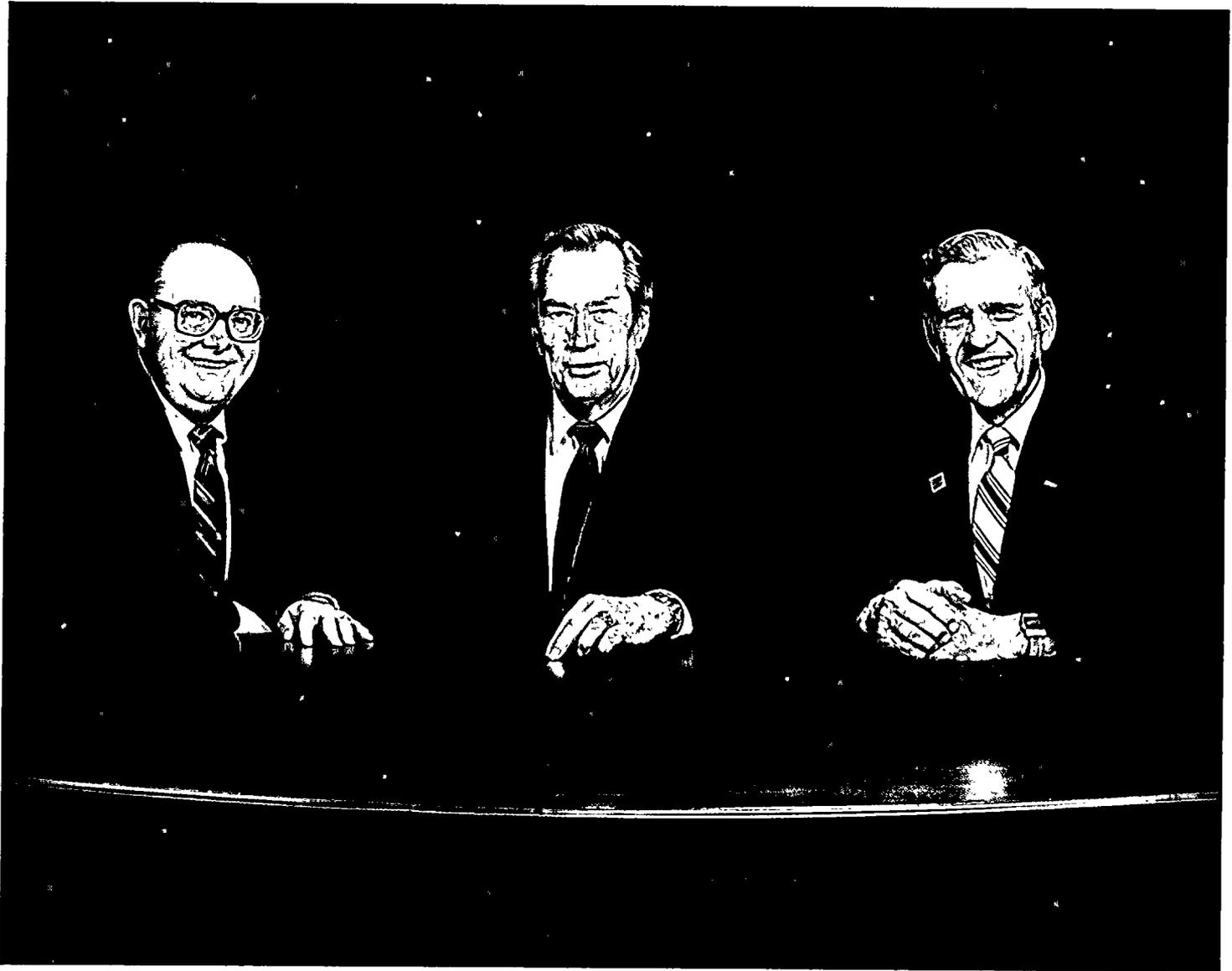
Challenges will include meeting financial capital requirements caused by new construction. These capital requirements are expected to cause our debt ratio to rise.

However, through all of the year's activities we'll be working closely with Valley communities and all levels of government, continuing to be a strong presence in the Valley we serve. We'll be here, providing a reliable supply of water and electricity for our customers, for another 50 years to come.


John R. Lassen


Marcel J. Boulais


A.J. Pfister



(From left) Salt River Project General Manager A.J. Pfister, President John R. Lassen and Vice President Marcel J. Boulais.

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*
D.S. Wilson, Jr. *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, Financial Services*

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*

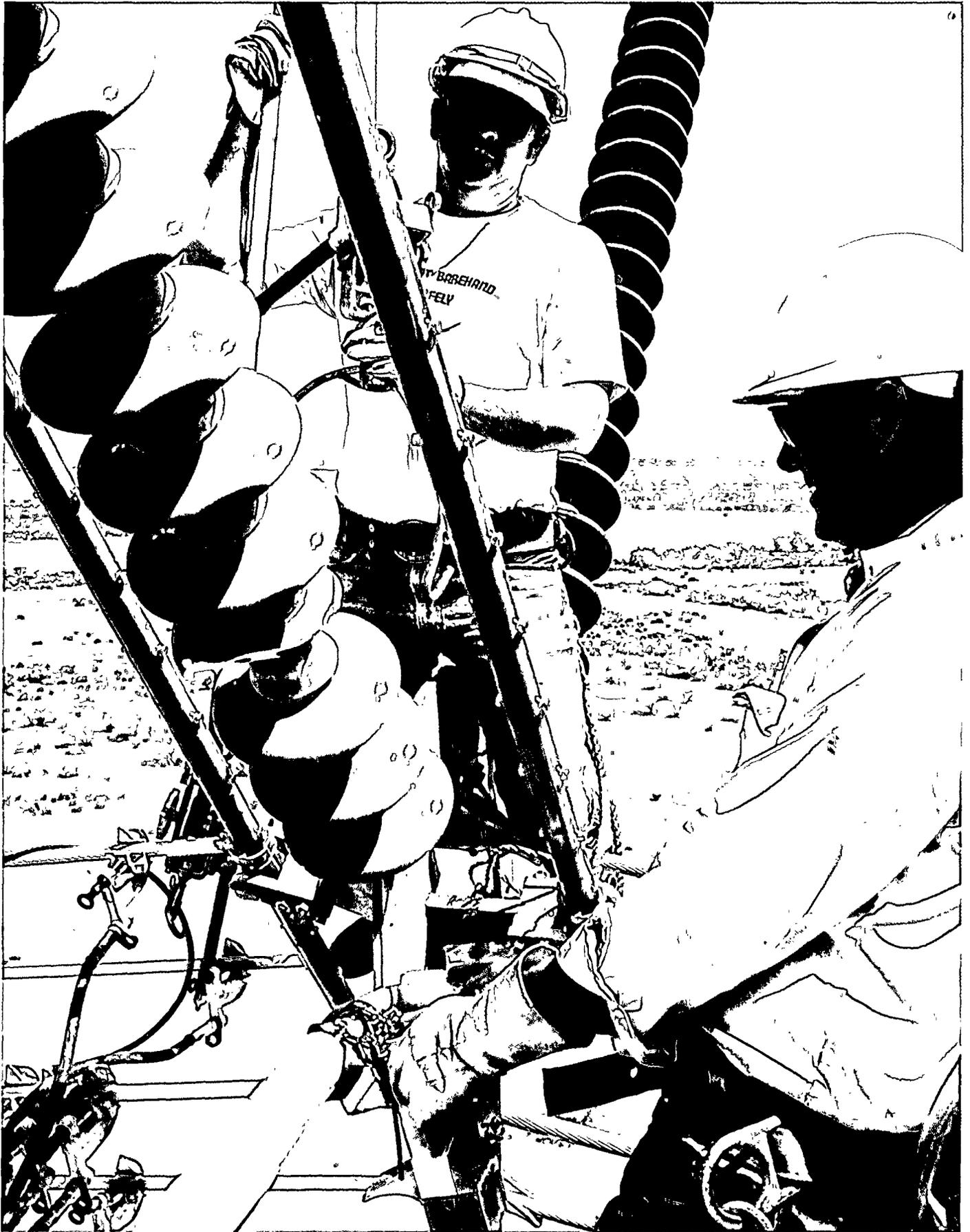
Consultants

Legal Advisers Jennings, Strouss & Salmon

Auditors Arthur Andersen & Co.

Bond Counsel Mudge Rose Guthrie Alexander & Ferdon

Financial Consultant Lazard Freres & Co.



SRP linemen continually upgrade and repair SRP's power lines, such as this high voltage line between Kyrene and Silver King receiving stations.

Electric customers benefit from decreased fuel costs, increased power

It was a golden year for SRP's Power District.

In the 50th year since the formation of the Salt River Project Agricultural Improvement and Power District, the District:

- Added nearly 30,000 new electric customers, including several major industrial customers
- Passed on a slight decrease in fuel costs to customers, reducing their cost of electricity
- Began receiving low-cost power from the second unit of Palo Verde Nuclear Generating Station
- Completed the Palo Verde transmission system to the Phoenix Metropolitan area, on-time and under budget
- Brought on-line a new computer, the Energy Management System, to control SRP's electric system
- And continued construction of the third coal-fired unit of the Coronado Generating Station.

Further luster was added to the golden jubilee when SRP's District improved service to our customers by building a new regional service center; established a demand side implementation program; and formulated a balanced strategy approach to resource planning.

SRP's service area remains a high-growth area

The number of SRP customers continued to grow. Electric customers totaled 487,321 at year's end, compared to 457,489 the year before. SRP has added about 30,000

customers in each of the past four years including a record 34,715 customers in fiscal year 1985-86. Because of continuing growth, the number of customers by the end of the next fiscal year is expected to easily surpass the 500,000 mark.

Of the increase in last year's customers, 27,153 were residential and 2,245 were commercial and industrial. Other electric users, including municipal street light contracts and irrigation pumps, increased by 434.

Several new industrial customers, including B.F. Goodrich, Hamilton-Avnet, Parker Hannifin and Hexcel, accounted for about 8,000 kilowatts (kW) in new load, nearly 800,000 square feet of manufacturing space and more than 1,000 new jobs in the area.

Each new customer increased demand on the electric system. Electric customer use reached a peak of 2,785 megawatts (MW) on August 20, 1986. This peak demand surpassed the previous high of 2,658 MW reached on August 29, 1985. Total kilowatt-hour (kWh) sales to customers during the year increased by 1.06 billion kWh to 15.56 billion kWh from 14.50 billion kWh the previous fiscal year.

Electric bills drop slightly

During the year, SRP was able to pass on to customers a slight decrease in fuel costs, thereby lowering the cost of electricity.

For residential customers, the average cost per kWh was 7.54 cents, compared to 7.56 cents per kWh the previous year. The reduction was due to a decrease in the fuel cost adjustment factor applied to bills. SRP's electric

rates contain a basic amount for fuel, but fuel costs can change on a daily basis. Fluctuations between the amount paid for fuel and the amount collected from customers are refunded or recovered on bills through periodic fuel cost adjustments.

SRP starts receiving low cost power from Unit 2 of Palo Verde

Some of the power requirements of customers were met with electricity from the first two units of Palo Verde Nuclear Generating Station. Both began commercial operation in calendar year 1986, the first unit on January 30, 1986 and the second unit on September 20, 1986.

SRP is one of seven owners of the nuclear powered station 50 miles west of Phoenix. SRP owns 17.49 percent of Palo Verde's three 1,270 MW units. With the commercial operation of the first two units, SRP gained 444 MW of generating capacity.

The third unit of Palo Verde Nuclear Generating Station is expected to be in commercial operation by the end of 1987. This unit will provide another 222 MW of capacity to SRP. The U.S. Nuclear Regulatory Commission issued an operating license for the unit in March 1987. That license allows plant operator Arizona Public Service Company to load nuclear fuel and begin the prescribed testing process.

Transmission system completed under budget

SRP's work on the Palo Verde Nuclear Generating Station's transmission system was completed ahead of schedule and \$3 million under budget. The 13-year project was completed in October 1986, at a cost of \$95 million.

The high-voltage transmission system includes 165 miles of 500 kilovolt (kV) power lines which

PROJECT ENERGY SOURCES

Year Ending April 30	Hydro	Gas	Oil	Coal	Nuclear	Misc. Purch.
1984	15.8	3.9	0.5	78.6	0	1.2
1985	12.8	8.9	0.4	76.2	0	1.7
1986	11.0	10.3	0	68.3	1.0	9.4
1987	10.0	8.6	0	58.4	12.4	10.6
1992 (projected)	6.3*	5.1	0	67.6	21.0	0

* includes hydro purchases
(All numbers in percentages)

link Palo Verde Nuclear Generating Station with Phoenix and other major cities and the electrical grid connecting the Western states.

Meanwhile, construction began on the Papago Buttes-Pinnacle Peak 230-kV transmission line. The line will strengthen SRP's transmission system and increase electric reliability to the growing number of customers in the Scottsdale and Tempe area. The line is expected to be completed in early 1989.

During the fiscal year, SRP added a total of 15 miles of 69 kV subtransmission line and 39 miles of overhead distribution lines. SRP also installed 1,403 miles of primary underground

distribution lines and 513 miles of secondary underground distribution lines. Also, five new residential distribution substation sites were opened and 15 new substations were installed.

Energy Management System is installed

SRP's ability to control its power network increased dramatically with the arrival and installation of the Energy Management System (EMS), a new computer system installed in February 1987. EMS is a power network control system with which dispatchers monitor and direct the flow of power from generating facilities to customers. Thus far, about 70 SRP substations are operated by the new system. All 170 substations in the SRP electric system are projected to be on EMS by late 1987.

The new system is far more advanced and efficient in every respect from the old control system, which SRP had outgrown. In addition to features of the old system, the EMS has powerful state-of-the-art computer analysis capabilities designed to help power dispatchers react faster to system disturbances and make better decisions regarding allocation of generation resources.

Besides the ability to quickly identify, analyze and determine the cause of power outages, EMS' other advantages include an increased ability to analyze the best time to buy and sell electricity, and to quickly analyze demand on the system. As a result, the new system increases SRP's reliability and cost effectiveness.

SRP sent nine engineers and their families to Minneapolis for three years to supervise the building of the computer and its software. Including installation, the new system cost \$28 million.

Construction continues on Coronado 3

In January 1986, construction resumed on the third 350 MW unit of the Coronado Generating Station at St. Johns, Arizona. By the end of May 1987, construction was 8 percent complete. The

unit is expected to begin commercial operation by 1991.

SRP expects to spend about \$670 million in direct costs for the unit, about \$50 million less than the 1985 estimate. SRP is one of a few U.S. utility companies building a generating unit of this size and is benefitting from competitive prices for equipment and materials. Supervision of

Generating Station.

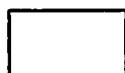
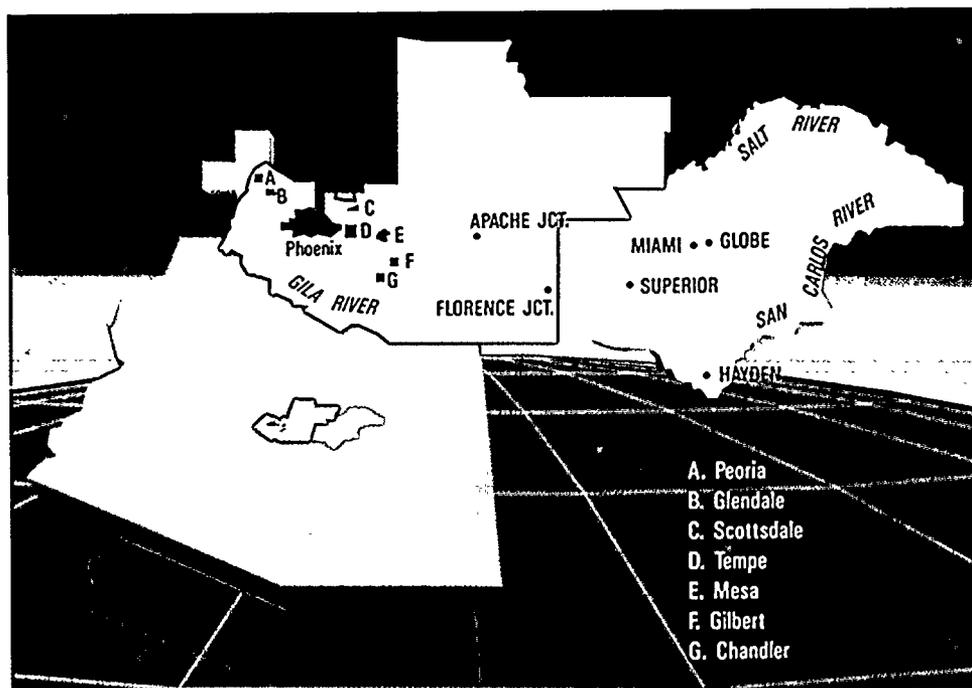
SRP completed the first phase of its statewide study of potential locations for a new coal-fired generating station. However, since current projections show that another large, coal-fired generating station won't be needed until after the year 2000, and it takes about 10 years to plan and build a large coal-fired

areas are evaluating the potential benefits, including deferral of new generating units, improved efficiency, enhanced reliability and better system coordination.

Regional service centers provide faster service to customers

Regional service centers, newly opened or now under con-

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.

construction by SRP engineers also is keeping costs down.

Meanwhile, SRP is testing a potential source of new coal for Coronado Generating Station. SRP has acquired leases for coal-bearing properties in western New Mexico. Testing of 100,000 tons of coal will help SRP decide if that coal could be a future source of fuel for Coronado

station, the study probably won't be resumed until the early 1990s. SRP will continue to study several options for meeting its customers' electric demand.

One option under study is a high voltage transmission line to connect the Desert Southwest and the Pacific Northwest. SRP and 26 other utilities in the two

construction, are bringing SRP closer to its customers. Service centers in the western and eastern part of the Salt River Valley enhance operations by reducing travel time and expenses. When customers need service, construction or repair, crews are able to respond quickly because they are closer to the work site.

The new Tolleson Service Center, opened in January 1987, is headquarters for 300 employees who serve the growing west Valley. By 1995, SRP projects that it will be serving 200,000 electric customers in that area.

SRP is building a similar regional service center in east Mesa to serve the growing east Valley. About 350 SRP employees will work at the center when it opens in 1988, with approximately 150,000 electric customers expected to benefit.

Customer service centers in Glendale and in the southeast Valley are also planned. SRP opened its first service center in Tempe in September 1983.

SRP emphasizes demand-side planning

SRP continually is looking for ways to reduce its costs and pass along its savings in the form of lower electric bills to its customers. To provide customers with more opportunities to reduce their electric bills and to bring about beneficial changes to the pattern of system demand, SRP established the Demand-Side Implementation Department last year.

Demand-side programs can moderate the rate of growth in peak demand and bring about a more constant demand for electricity throughout the year. This lower rate of growth means SRP does not have to build as many new generating plants, thus keeping down rising costs associated with new construction. More constant demand means SRP can make more efficient use of its existing generating system.

Last year the new department, in cooperation with other departments, continued a program evaluating customers' responses to the time-of-day program. Within the time-of-day program, begun in March 1980, participating customers pay lower rates during off-peak hours. Conversely, they pay higher rates during on-peak hours, when electricity demand is great. Results from the study will help SRP plan rate alternatives that



New electric customers, such as Westcourt in the Buttes hotel manager (right), receive personal assistance about their power needs from an SRP commercial customer representative.

allow customers to take greater control over the cost of their electricity.

SRP's Board of Directors voted in March 1987 to allow an additional 10,000 SRP customers to participate in the time-of-day program, increasing the number of potential customers in the program from 3,000 to 13,000.

Other demand-side programs include a cash incentive program for businesses, schools, or churches which install thermal energy storage systems, rather than conventional air conditioners. A thermal energy storage system uses electricity at night to form ice or liquid which is used to cool the building during the day, instead of a conventional refrigeration system.

Customers who replaced gas furnaces with high efficiency heat pumps last year received \$200 from SRP for the switch. The \$200 incentive was boosted from a \$100 incentive offered when the program began in March 1985. Another incentive offered was to customers who replaced old, inefficient air condi-

tioners or heat pumps with new high-efficiency air conditioners or heat pumps. SRP offered cash incentives of between \$50 and \$100 a ton for the new equipment.

SRP's Energy Efficient Home (EEH) program achieved new heights in market penetration last year. Currently, six out of 10 new homes in SRP's service area are built by contractors in the EEH program. The program requires builders to meet 12 building specifications for a total-electric home.

EEH homes are more energy efficient and thus cost less to operate for the owner.

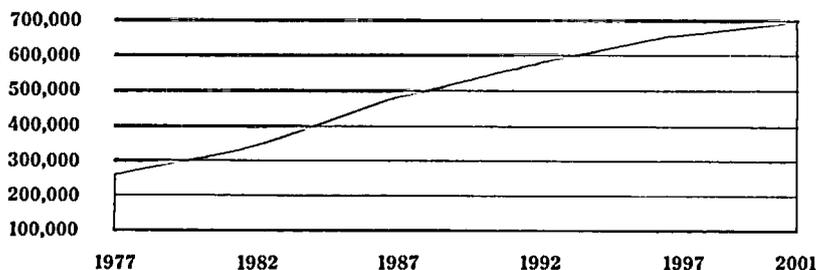
Resource planning aimed at reducing cost

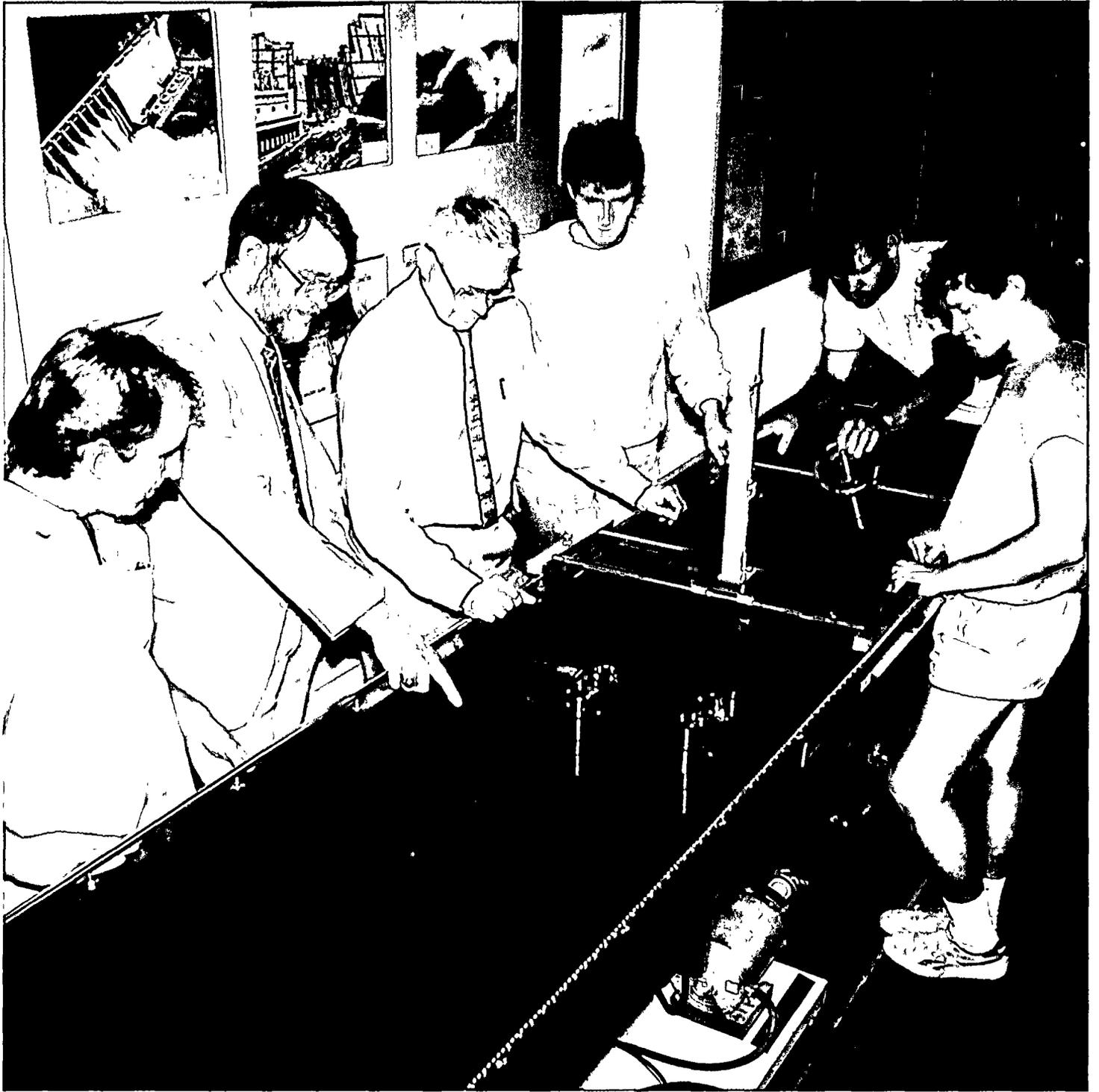
During the fiscal year, SRP used a new approach, called

balanced strategy planning, to plan methods of meeting projected electric demand. This approach reflects SRP's least-cost planning philosophy. Its goal is to find the best combination of demand-side load reductions and future power additions resulting in the lowest possible cost, while maintaining SRP's high level of customer service.

The balanced strategy plan calls for commercial operation of the third unit of Coronado Generating Station by 1991, a 200 MW purchase and a sales contract recapture, plus a reduction in projected peak load up to 400 MW by the year 2006 through demand-side programs. This plan allows SRP to delay construction of additional uncommitted coal units until after the turn of the century.

ELECTRIC CUSTOMERS (ALL CLASSES)





SRP demonstrates a vital interest in hydraulic engineering projects at Arizona State University's SRP Hydraulic Engineering Laboratory.

Water Group reorganization reflects changing needs of the Salt River Valley

SRP's Water Group underwent major changes last year to satisfy changes in laws, community attitudes and the needs of water customers.

Last year, SRP's Water Group:

- saw retirement of its top executive
- formed a new department and reorganized three others
- participated in several city and SRP long-range water planning forums
- completed canal maintenance work to decrease water losses
- and worked with Valley cities to build an intertie between SRP canals and the Central Arizona Project canal.

Urban land use increases in water service area

The character of the area served by SRP continued to change during the past year. A total of 7,165 acres was converted from agricultural use to urban use. By year's end, 68.6 percent of the 238,170 acres of SRP member lands was urbanized while 31.4 percent was used for agriculture.

SRP estimates that essentially all acreage within SRP boundaries will be out of agricultural production by the year 2015.

Water deliveries also have reflected the changes in land use. During the past year deliveries for urban uses totaled 395,158 acre-feet (af) while deliveries for agricultural purposes totaled 290,572 af. During the previous year, urban use totaled 396,228 af and agricultural use was 381,341 af.



Reid W. Teeple

Reid Teeple retires

In January, Reid W. Teeple retired after 15 years as the head of the Project's Water Group. Teeple, who joined SRP in 1948, was replaced by D.S. Wilson, Jr.

During his tenure, Teeple coordinated the largest well-drilling program in SRP's history and established the Project's Groundwater Department. He also was responsible for standardizing many of SRP's practices while heading the Civil Engineering Department.

In addition to his work at SRP, he served in various leadership capacities with the Colorado River Water Users' Association, the National Water Reclamation Association and various other groups.

Wilson joined SRP in 1967. He was manager of Water Resource Operations for eight years before being named to succeed Teeple.

New department formed

Arizona's Environmental Quality Act, passed last year, placed stringent water quality requirements on the water use

practices of industry, agriculture and municipalities.

In response to the act and other laws and regulations relating to water quality, SRP formed its Water Quality and Geohydrology Department. Members of the department will monitor the quality of SRP's water resources and institute practices to ensure water managed by SRP meets all applicable standards.

SRP's Water Group also reorganized three departments to provide better service related to water rights administration and water construction and maintenance.

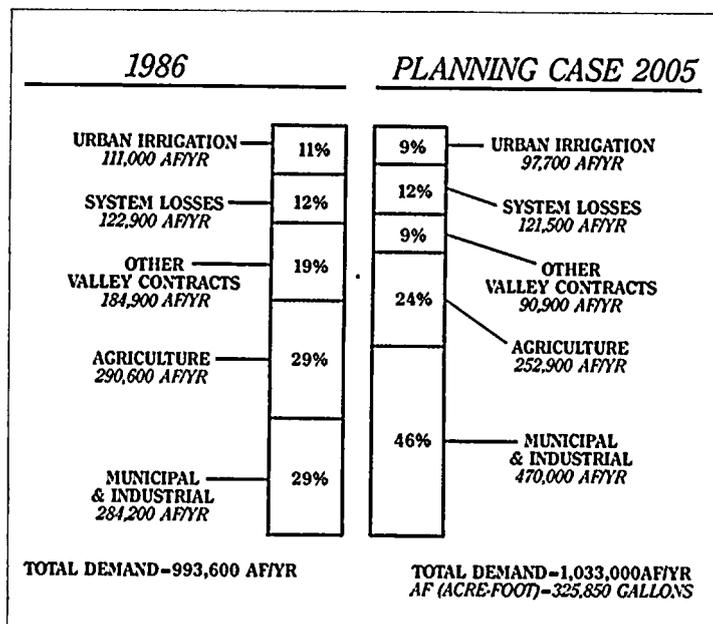
Water rights administration is expected to be particularly important during coming years as the Gila River Water Rights Adjudication progresses through the courts. The adjudication will

determine the relative water rights of all lands within the Gila River basin, including SRP member lands, and the land on the watersheds of the Salt and Verde rivers.

One of SRP's primary duties is to ensure protection of water rights for lands within the SRP water service territory. Those rights were established under the Kent Decree in 1910 and other court actions. By protecting the water rights, lands in the SRP water service area are assured a portion of the water in SRP reservoirs. As a result, the water supply of lands within SRP boundaries is more secure than the water supply for many other portions of the Valley.

The Project also was involved in discussions over a potential joint groundwater storage and recovery project, meeting with

COMPONENTS OF SRP WATER DEMAND



the City of Mesa and the Arizona Municipal Water Users Association (AMWUA). SRP is considering groundwater storage to recharge Salt and Verde river waters during above-normal runoff years. The underground stored water would then be recovered for use during below-normal runoff years.

SRP increases efforts to assist cities with water planning

As the number of people living in the Valley continues to grow, the cities here are faced with an increasing demand for water. During the past year, SRP continued its meetings with the City of Phoenix and expanded those meetings to include other cities in its water service area to seek solutions to mutual problems. By working with the cities, individually and as a group, all involved can share information and avoid costly duplication of efforts in planning ways to meet water demand.

Among the efforts worked on by SRP was institution of a Valley-wide water conservation effort. SRP, along with other members of AMWUA encouraged the cooperation of local broadcasters, under the leadership of KPHO Television, on an extensive campaign called "Water Wise." Each month a water conservation tip is communicated through public service announcements carried by local television and radio stations. A printed version of the tip is distributed through ABCO Markets Inc., Bashas and Lucky grocery stores.

By working together toward the common goal of conserving water, customers can be assured

of adequate supplies now and in the future throughout the Valley. Also, the cities and other providers will find it easier to comply with the conservation requirements of Arizona's Groundwater Management Act.

During the year SRP organized a regional water planning forum with the cities it serves, to identify and address long-range water planning issues. Four water planning groups were established, each led by an SRP facilitator, to inform each other about the cities' and SRP's needs and limitations and to avoid duplication of efforts.



SRP is a recognized world authority on water systems. These Egyptians were among nearly 600 visitors from 58 countries who toured SRP facilities in 1986. During SRP visits, Egyptian participants received hands-on training in the operations, maintenance and management of the Project's irrigation system.

Water storage above normal

SRP began the year with 1,671,535 af of water in storage. Inflows from the 13,000-square-mile watershed to the SRP reservoirs totaled 1,070,214 af during the year, which was 87.0 percent of average. Inflows during 1985 totaled 1,774,667 af. Unusually heavy summer rainfall on the Salt and Verde watersheds contributed to runoff that kept reservoirs fuller than normal. Storage at year-end totaled 1,691,741 af or 84 percent of capacity. This total was 139 percent of normal.

For the third time in four

years, an abundance of surface water allowed SRP to keep groundwater pumping to less than 7 percent of deliveries. Total Project groundwater use was 65,538 af.

Combined surface and groundwater produced for Project use totaled 993,591 af, which was 90 percent of the median for the last 10 years. Depending on surface water supplies, groundwater historically has satisfied between 5 percent and 40 percent of SRP customers' annual water demand, or 55,000 af to 440,000 af each year. Reduced pumping helps eliminate over-

drafting supplies. The Arizona Groundwater Management Act calls for pumping to be limited to the quantity recharged by January 1, 2025.

Total water deliveries hit a 10-year low. Deliveries totaled 870,658 af compared to 1,016,612 af in 1985 and 881,009 in 1984. Agricultural use was less than usual due to government set-aside programs which reduced the quantity of crops grown. Summertime municipal use declined because of greater than normal summer rainfall which reduced lawn irrigation.

Total water deliveries to the cities during the year totaled 284,192 af, an increase of slightly less than one percent from 1985's total of 281,464 af.

SRP coordinates construction with cities

As more and more streets and freeways are built, the rights of way often conflict with those of SRP waterways. In 1986 SRP met with Valley cities, the Arizona Department of Transportation, and the Maricopa County Highway Department to discuss ongoing design and construction projects. More than 30 meetings were held resulting in improved coordination between SRP and the agencies on irrigation-related projects where facilities of two or more entities are involved.

Interagency coordination saved time and money by reducing the impact of residential and freeway construction on SRP's ability to supply water to homes, businesses, municipalities and farms.

SRP continued its commitment to water conservation by lining 7.4 miles of canals and installing 98 lateral structures last year. Lining canals decreases water system losses for a savings of thousands of acre-feet of water each year.

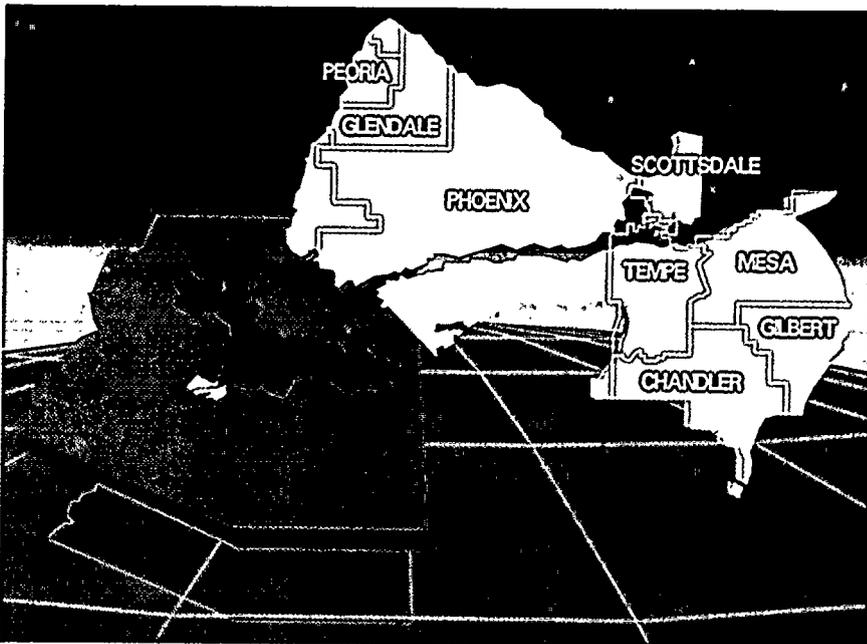
SRP also completed a beautification project along part of the Arizona Canal which included improving the appearance of the canal by extensive brush and tree removal, and tree trimming. Similar projects are planned for other canals.

Congress funds dam improvements

Under the Safety of Dams Act, Congress appropriated \$3.1 million for safety improvements at Theodore Roosevelt Dam and \$3.9 million for work at Stewart Mountain Dam.

Shortly after the end of the fiscal year, Arizona's congressional delegation negotiated an agreement with environmental groups concerning Plan 6. Under the agreement, Cliff Dam will not be built. In return, environmen-

SALT RIVER PROJECT IRRIGATED AREA



Salt River Project
Irrigated Area

13,000 Sq. Mile
Project Watershed

tal groups agreed not to oppose the remaining elements of Plan 6.

The plan will provide Central Arizona Project water storage and regional flood control and dam-safety modifications. Other elements are an enlarged Theodore Roosevelt Dam and modifications to Stewart Mountain Dam on the Salt River. Construction outside the SRP reservoir system included New Waddell Dam on the Agua Fria River.

During 1986 SRP entered into agreements with the U.S. Bureau of Reclamation to add several maintenance items to necessary dam safety modifications scheduled at Stewart Mountain Dam. The proposed changes will enhance operating and maintenance facilities at the dam.

For 1987 SRP contributed about \$1.5 million in safety modifications. SRP is prepared to contribute an additional \$5 million to the U.S. Treasury in fiscal 1988. The Project's involvement is through a local cost-share agreement for completion of Plan 6.

The federal government has accepted \$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.

Work to be performed on Theodore Roosevelt Dam includes raising the overall height of the dam by 77 feet. The modifications to the dam will enable it to provide flood control, dam safety and additional water conservation storage on the Salt River.

Modifications to Theodore Roosevelt and Stewart Mountain dams are included in the Plan 6 agreement.

The Arizona Department of Transportation will begin constructing a bridge on the upstream side of Roosevelt dam in 1987 to be finished by 1990. The bridge will remove the

traffic from the top of the dam.

Intertie will link SRP canals and CAP

Locally, SRP worked with six Valley cities to obtain agreement on a plan to build a \$3.1 million structure that would link SRP's canal system with the Central Arizona Project (CAP) aqueduct. The intertie, which will carry up to 800 cubic-feet-per-second of water, will transport water from the CAP aqueduct near Granite Reef Diversion Dam to SRP's main canals for delivery to CAP users.

The Central Arizona Project is a water-delivery system being constructed by the Bureau of Reclamation to deliver water from Lake Havasu on Arizona's western border to Maricopa, Pinal, and Pima counties in central and southern Arizona. Currently, construction is complete to just north of Tucson.

Although SRP hasn't contracted for CAP water, SRP may need the intertie to receive CAP water for use when Roosevelt Lake is drawn down for construction of the federally mandated safety modifications.

CAP received record levels of funding from the 99th Congress, despite the pressure of the Gramm-Rudman deficit reduction law. For fiscal year 1987, CAP received \$202.8 million.

ASU dedicates student laboratory

Continuing its longtime tradition of supporting higher education, SRP provided grants to Arizona State University's SRP Hydraulic Engineering Laboratory. The joint endeavor between SRP and ASU's College

DOMESTIC WATER DELIVERIES

	1986	1985	change
Chandler	7,936	6,700	+ 10.39%
Gilbert	4,357	3,125	+ 39.44%
Glendale	25,222	23,982	+ 5.17%
Mesa	44,391	41,476	+ 7.03%
Peoria	4,028	4,351	+ 7.47%
Phoenix	156,412	160,876	- 2.77%
Scottsdale	3,478	3,843	- 9.50%
Tempe	38,367	37,172	+ 3.38%
Total	284,192	281,464	+ 1.00%

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

of Engineering and Applied Science exemplifies the business-education partnership SRP strives to maintain. The new equipment in the laboratory will be used by students to study the mechanics and engineering problems associated with water and other fluids.

Work with representatives from countries around the world was continued through SRP's Office of International Affairs. The office hosted nearly 600 visitors from 58 countries, held 20 on-the-job training programs and conducted seminars for 160 representatives of 15 nations.

Through efforts coordinated by the office, SRP helped install four radial gate structures in Egypt. The installation was part of the ongoing Professional Employee Exchange Program (PEEP) with Egypt's Ministry of Irrigation. Also, a seminar on telemetry was presented to the Ministry of Irrigation by SRP personnel.

Also under PEEP, two Cairo University students completed a 15-week summer study program. One student worked in SRP's Civil Engineering Department and the other in Water Resources and Services' Hydrology Division.



The Salt River Pete water safety program teaches water safety to school children. The award-winning program has reached more than half a million children in 20 years.

Salt River Project's service extends beyond water and power

SRP employees—"The People Behind the Spirit"—continued to put their customers and their communities first. And it showed.

In fiscal year 1986-87:

- 97 percent of customers rated SRP service as "good" or "excellent"
- Volunteer work by SRP employees reached new heights
- Business offices were moved, improving customer service
- And SRP's Better Way and Quality Circle programs meant savings for SRP and its customers.

SRP receives high marks

"The People Behind the Spirit" kept up SRP's tradition of giving first-rate customer service. Nearly all of SRP's electric and water customers polled last year were very satisfied with the quality of service they received from the Project, according to monthly surveys. SRP's goal was for 90 percent of its customers to rate overall quality of service good or excellent. The Project exceeded that goal with the 97 percent rating.

Employees' community involvement remains high

SRP employees showed pride in their communities by donating their time, money and energy to community-related projects. Project employees pledged a total of \$326,772 to 52 non-profit agencies. And Project employees donated approximately 480 pints of blood last year to a statewide blood service.

Thanks to the volunteer ef-

forts of SRP employees, Valley teenagers last year learned more about the free-enterprise system through SRP-sponsored Junior Achievement companies.

Employees helped raise \$106,000 during February 1987's Junior Achievement Telephone Campaign. A total of 97 volunteers, representing 33 companies, called area businesses requesting donations for Junior Achievement. SRP volunteers raised \$12,242, the second highest amount of any business during the telephone campaign. The money went toward programs and operational support for the organization.

In a joint effort, SRP and Arizona Public Service Company (APS) raised more than \$8,700 for needy citizens in the fourth annual S.H.A.R.E. Affair 10-kilometer run January 10. A record 835 people participated in the fund-raising event, which also included a two-mile fun run and a five-mile walk.

Proceeds were donated to the Salvation Army, which administers the Service to Help Arizonans with Relief on Energy (S.H.A.R.E.). Formed by SRP and APS in 1982, Project S.H.A.R.E. provides funds through the Salvation Army for energy-related bills and home repairs of needy families.

SRP customers donated \$114,313 to the S.H.A.R.E. program last year. Customers donate through their monthly electric bills.

Meanwhile at St. Johns, the seventh annual Coronado Generating Station benefit run

attracted 440 participants and resulted in a donation of \$1,640 to the St. Johns Senior Citizens Association.

The annual Page Attacks Trash program received first place in the statewide "Take Pride in America" competition sponsored by the Commission on Arizona's Environment and second place in the national competition sponsored by the U.S. Department of Interior. Each year, the community effort has involved more than 75 percent of Page's 6,500 residents.

Page Attacks Trash started in 1981 as a city-wide cleanup program sponsored by SRP's Navajo Generating Station (NGS) and the Glen Canyon National Recreational Area. The Page Kiwanis Club and Elks Lodge have helped to coordinate the event in recent years with help from NGS employees. Last year's participants collected 212 tons of trash.

SRP's organizational and monetary involvement in Page Attacks Trash, along with other anti-litter efforts, was honored by an award from Arizona Clean and Beautiful, the state arm of the national Keep America Beautiful campaign. SRP was distinguished as the most outstanding business in the state with regard to its anti-litter efforts.

The Delta Gamma National Foundation for the Blind honored SRP with an award recognizing the Project's support of the Foundation for Blind Children. The award recognized SRP as a long-time supporter of the organization through employee volunteering, financial

donations and in-kind services. Employees also hold key positions on the foundation board.

SRP recognizes the value of excellence in education. Last year, SRP honored 61 seniors during its fifth annual Spotlight on Excellence program. Honored students were graduating seniors from Maricopa County, Page and St. Johns — areas in which SRP has electric facilities. Honorees were selected by their school principals for academic achievement and all-around excellence.

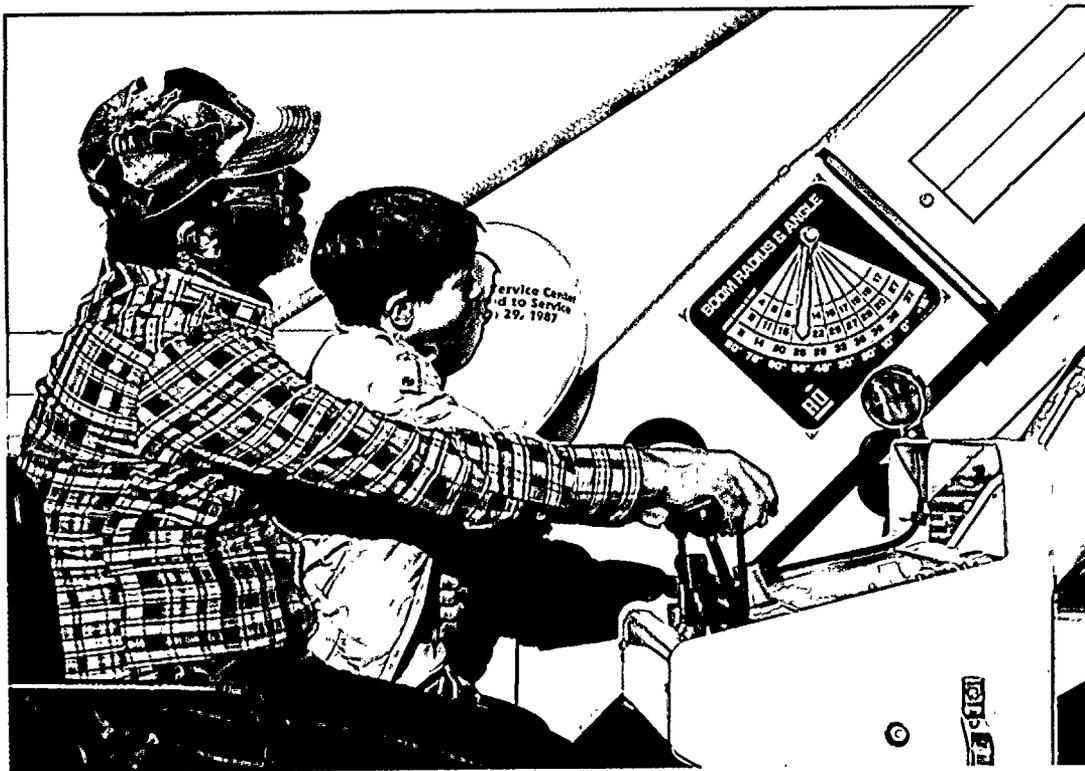
For younger students, SRP and APS co-sponsored the annual Energy Fair. The fair attracted 200 entries for "Energy Changes and Challenges." Kindergarten through 12th grade students participated. Russell Moreland of Willis Junior High School, Chandler, made the winning entry.

Ten outstanding employees and one retiree were honored for their service to civic and community organizations in Arizona with SRP's Karl F. Abel Volunteer awards. Named for SRP's immediate past president, these awards are presented each year to employees who devote their time and energy to their communities.

Sandra Reedy, administrative assistant at Coronado Generating Station, was named St. John's Outstanding Chamber of Commerce member in 1986. She was honored for her efforts in several Chamber of Commerce activities promoting the St. Johns area.

SRP honored for two safety programs

SRP received two major safety awards last year. They were



An SRP employee shows the tools of his trade to his son during an open house at the new Tolleson Regional Service Center. The regional service center is designed to speed service to customers.

third place in the American Public Power Association's (APPA) Electric Safety Award contest and the Arizona Safety Association's Howard Pyle Award.

APPA is a national organization representing more than 1,750 publicly owned electric utilities. APPA conducts the an-

nual safety contest to draw attention to the importance of safe working habits in the electric utility industry, and to recognize excellence in that area.

The Arizona Safety Association is a chapter of the National Safety Council. The Howard Pyle Award recognizes safety promo-

tion in the community. SRP is the first utility to receive this honor.

SRP's public safety programs extend to construction workers, school children, professional law enforcement officers, firefighters and others.

Additional public service pro-

Customer service representative Elaine Spencer is one of several SRP employees who volunteer their time to needy organizations throughout the state.



grams include SRP's Speakers' Bureau, where employees volunteer to make presentations to organizations or groups. Topics range from the early beginning of the Project through the most up-to-date activities of the utility.

During fiscal year 1986-87, SRP made about 2,300 presentations to audiences totaling 87,343 persons.

SRP also conducted programs about microwave cooking, computer equipment safety, and energy conservation.

SRP's Power Saver Store opened last year at Westridge Mall. Nothing is for sale. Instead, employees offered free, expert advice about the efficient use of water and power.

Customer business offices moved for greater convenience

Two customer business offices were moved for greater speed and more ease in helping customers. The Mesa Business office was moved in May to a larger facility, and customers in the Fountain Hills area found it more convenient to receive help at the Fountain Hills office's new location.

Courteous, helpful and quick replies to customer inquiries are goals at SRP. To increase the number of calls handled, SRP's phone center began opening at 7:00 a.m. instead of 7:30 a.m. The phone center was remodeled and expanded to provide 12 additional work positions. By rescheduling existing personnel to work during peak periods, an additional 90,437 calls were answered without hiring additional people. Last year Project employees received more than 1.2 million calls.

A major billing system change was implemented in February 1987 to bill accounts by route instead of by billing districts. Regionalized billing has leveled the flow of customer traffic into the business offices, reducing customer lines and thereby providing faster service. Reduced travel time to customers' meters also has resulted in increased



SRP's newly remodeled History Center appeals to all ages. Through displays and videos, the Center depicts the development of water usage in the Phoenix area from prehistoric times to the present.

productivity and reduction of current and future costs.

Continuation of that excellent customer service was enhanced last year when SRP and Local Union 266 of the International Brotherhood of Electrical Workers signed a three-year labor agreement. This longer-term contract enables management to more accurately predict future labor costs, provides employees with greater stability in wages and benefits, and provides SRP customers with reduced exposure to a work stoppage.

Counties get monetary boost from SRP

SRP contributed \$35.8 million of in-lieu property taxes to seven Arizona counties during fiscal year 1986-87. In effect, SRP is the state's third-largest property taxpayer.

Under special legislation passed in 1963, SRP, as a political subdivision of the state, makes voluntary contributions in lieu of property taxes to school districts, cities, special districts, counties and the state.

Employee programs save money

Sixty-seven ideas from entrepreneurial employees saved the Project \$423,000 in first-year savings through the Better Way program. The Better Way program uses employee suggestions that deliver real dollar savings to SRP. Once a dollar savings is established, a percentage of the savings is paid to the employee who submitted the idea. Last year employees received \$34,000 in awards.

The potential for savings to SRP and its customers is virtual-

ly unlimited through the Better Way program. As long as SRP employees continue to think creatively and submit suggestions, the Project will continue to realize greater savings and employees will be rewarded for their creativity.

SRP's Quality Circle program uses a group approach to problem solving. Employee groups develop consensus and report to management. Since 1983, SRP's Quality Circle program has saved \$3 million and improved service to customers. Also, the program helps develop problem-solving skills and an enhanced sense of value for individual employees.

Research and development projects at SRP provide technical information that could benefit SRP's customers. More than \$3

million in research activity, involving dozens of SRP employees, went toward 29 major research and development products. Projects included studies of thermal energy storage and solar resources, which could help customers save on their electric bills. Projects also included improved precipitation forecasting, which could help assure adequate water supplies and reduce potential for floods.

A program at Arizona State University has meant multiple benefits for SRP and the community. SRP sponsors the Electric Power Research Laboratory (EPRL), which is in its third year at ASU. SRP contributes \$100,000 per year to EPRL to fund research for power generation projects conducted by ASU students, professors and SRP engineers.



SRP mini-bonds are proving to be popular investments. Some bonds can be purchased for only \$200.

Management, economy combine to produce strong financial position

Careful management of Salt River Project resources, healthy financing opportunities and a strong local economy contributed to another good financial year for SRP.

During fiscal year 1986-87:

- The debt service coverage ratio increased from 1.85 to 2.00

- SRP bonds maintained their AA and Aa ratings

- Gross revenues increased; but net revenues fell reflecting accounting transactions related to the start-up of Palo Verde Nuclear Generating Station.

Debt service coverage rises

A 4.70 percent increase in gross revenues in fiscal year

1986-87 raised SRP's debt service coverage to 2.00. That compares with last year's ratio of 1.85. The debt service coverage 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.

Keeping healthy financially

allows SRP bonds to continue to be rated highly by the nation's leading rating agencies. SRP first issued Electric System Revenue Bonds in 1973. The bonds have been rated investment grade—those suitable for purchase by prudent investors—ever since. Currently, the bonds are rated AA by Standard & Poor's and Aa by Moody's Investor Services, Inc.

Gross revenues increase

Hot weather and nearly 30,000 new customers increased energy sales, helping to build a 4.7 percent increase in gross revenues to \$888.5 million, up from the previous year's revenues of \$848.6 million. Average annual use for residential customers increased from 12,175 kilowatt-hours (kWh) to 12,440 kWh.

Although gross revenues increased, so did the cost of doing business. Operating expenses increased 9.9 percent to \$706.4 million from \$643.0 million the previous year.

SRP produced \$74.8 million in net revenues during fiscal year 1986-87. That was a substantial decrease from the \$158.3 million in fiscal year 1985-86. The decrease resulted from accounting transactions related to the start-up of the Palo Verde Nuclear Generating Station.

Specifically, when the first unit of the Palo Verde Nuclear Generating Station began commercial operation in January 1986, SRP stopped making entries to record the allowance for funds used during construction. Instead, these finance costs were listed as expenses. At the same time, SRP began recording depreciation, operating and maintenance expenses for the unit. System sales did not increase commensurate with the commercial operation of the first unit, resulting in a decrease in net revenues.

Palo Verde's second unit was treated the same way when it began commercial operation. The same format will follow for the third unit when it goes into commercial operation.

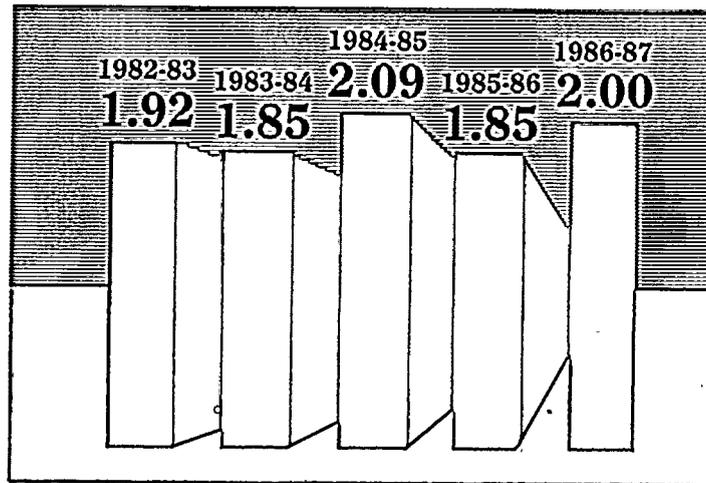
Commercial operation of the first Palo Verde unit also triggered an exchange of capacity with the Los Angeles Department of Water and Power (LADWP). In 1977, LADWP purchased 30 percent of SRP's Coronado Generating Station near St. Johns, Arizona. LADWP agreed to trade its share of the station for 5.70 percent of Palo Verde Nuclear Generating Station when

its first unit went into commercial operation.

With commercial operation of the first unit in January 1986, the trade took place. SRP reduced its share of Palo Verde to 17.49 percent and regained 100 percent ownership of Coronado Generating Station. At that time, LADWP also paid SRP a partial payment of \$90.65 million in recognition of the greater cost of Palo Verde. A second payment of \$74.75 million (including interest) was received during fiscal 1986-87.

Despite the decline in net revenues, SRP's debt ratio dipped slightly from 68.06 percent in the previous fiscal year to 67.67 percent.

DEBT SERVICE COVERAGE RATIO



As a public power utility, SRP does not issue stock or pay dividends. Net revenues are reinvested in SRP to help replace equipment and finance construction of new facilities. Such reinvestment reduces the need to issue bonds, thus keeping rates low.

Bonds sold on competitive basis

For the first time since 1981, SRP sold bonds on a competitive bid basis. For the past five years, SRP has used negotiated sales. In October 1986, SRP sold \$100 million in tax-free electric system revenue bonds. The bonds were sold in \$5,000 denominations at an effective interest rate of 7.34 percent.

The time was right for a competitive sale because interest rates were relatively low and stable and the then-current supply of municipal bonds was limited. Salomon Brothers, Inc., of New York placed the winning bid. Three other groups also offered bids.

SRP, as a special-purpose improvement district, sells tax-exempt revenue bonds to finance new construction and improvements to its electric system. Tax-exempt financing and SRP's solid credit ratings help keep financing costs relatively low. This, in turn, can help delay rate increases. Low financing costs could also minimize rate increases.

\$290 million by 1992 on the first two of the five buildings. The corporate headquarters will be the focal point of Papago Park Center, a business park on the adjacent 484 acres. SRP will coordinate development of the center which will be opened to private and commercial development. Revenues from the sale or lease of facilities in the center will help offset the costs of providing electricity to SRP customers.

In May, SRP estimated savings of \$30 million over a 20-year period due to the operating efficiencies gained through centralizing administrative operations.

Compensation funds set aside for APS customers

SRP set aside \$3 million last year to compensate certain Arizona Public Service Company (APS) electric customers who are SRP shareholders. Qualified SRP shareholders are those individuals who own and live on land within the boundaries of the Salt River Valley Water Users' Association. Some receive electricity from APS.

A comparison of 1986 electric bills from SRP and APS indicated that some SRP shareholders paid APS at least 15 percent more than they would have paid SRP for the same amount of electricity.

SRP's obligation to make payments to some APS customers is the result of a 1928 SRP bylaw which protects residential landowners residing within SRP boundaries, but served by APS, from paying substantially more for electricity than if they were served by SRP. In 1967, the courts defined substantial as 15 percent or more.

SRP shareholders in 1984 voted to grandfather the right to compensation to those shareholders who received electric service on or before Dec. 31, 1984, and also voted to end the compensation program in 1994.

Construction begins on corporate headquarters

In January 1987, SRP began construction on the first building of a planned five-building corporate headquarters in north Tempe. The corporate headquarters, on 40 acres, is expected to be completed by 2010.

SRP expects to invest about

Combined Balance Sheets

As of April 30, 1987 and 1986

Assets

	(\$000)	
	<u>1987</u>	<u>1986</u>
UTILITY PLANT, at historical cost (Notes 1, 2, 3 and 4):		
Plant in service-		
Electric	\$3,721,898	\$3,132,867
Irrigation	92,127	87,503
General	<u>166,559</u>	<u>143,021</u>
	3,980,584	3,363,391
Less - Accumulated depreciation on plant in service	<u>861,043</u>	<u>738,283</u>
	3,119,541	2,625,108
Construction work in progress	740,767	1,025,680
Nuclear fuel, net of amortization (Note 1)	<u>92,736</u>	<u>92,596</u>
	<u>3,953,044</u>	<u>3,743,384</u>
 SEGREGATED FUNDS, consisting of cash and U.S.		
Government obligations set aside in accordance with resolutions of bond issues:		
Debt service funds, excluding \$61,916,000 in 1987 and \$51,032,000 in 1986 for payment of accrued interest (Note 5)	99,318	94,769
Construction fund	<u>49,652</u>	<u>23,000</u>
	<u>148,970</u>	<u>117,769</u>
 CURRENT ASSETS:		
Cash and temporary investments, at cost	111,412	108,967
Deposit in debt service fund for payment of accrued interest on bonds	61,916	51,032
Trade and other accounts receivable, less reserves of \$1,207,000 in 1987 and \$1,120,000 in 1986 for doubtful accounts	46,754	61,071
Note receivable (Note 4)	28,969	90,653
Fuel stocks, at last-in, first-out cost	81,144	55,522
Materials and supplies, at average cost	69,297	47,095
Prepayments, interest receivable and other	<u>13,433</u>	<u>8,119</u>
	<u>412,925</u>	<u>422,459</u>
 DEFERRED CHARGES AND OTHER ASSETS		
(Notes 1 and 5)	<u>186,181</u>	<u>169,607</u>
	<u>\$4,701,120</u>	<u>\$4,453,219</u>

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

Capitalization and Liabilities

	(\$000)	
	<u>1987</u>	<u>1986</u>
LONG-TERM DEBT (Note 5):		
Electric system revenue bonds	\$2,626,709	\$2,541,383
Commercial paper and other (Note 8)	<u>360,028</u>	<u>339,024</u>
	<u>2,986,737</u>	<u>2,880,407</u>
 ACCUMULATED NET REVENUES:		
Balance, beginning of year	1,351,904	1,193,588
Net revenues for the year	<u>74,761</u>	<u>158,316</u>
	<u>1,426,665</u>	<u>1,351,904</u>
	<u>4,413,402</u>	<u>4,232,311</u>
 CURRENT LIABILITIES, excluding \$26,140,000 in 1987 and \$17,775,000 in 1986, representing current portion of long-term debt which is to be paid from segregated funds:		
Accounts payable	85,428	66,657
Accrued taxes and tax equivalents	41,434	36,142
Accrued interest	63,761	52,628
Customers' deposits	21,462	17,619
Other liabilities	<u>24,881</u>	<u>24,223</u>
	<u>236,966</u>	<u>197,269</u>
 DEFERRED CREDITS AND RESERVES (Note 7)	<u>50,752</u>	<u>23,639</u>
 COMMITMENTS AND CONTINGENCIES <i>(Notes 3, 5 and 7)</i>		
	<u>\$4,701,120</u>	<u>\$4,453,219</u>

Combined Statements of Net Revenues

For the Years Ended April 30, 1987 and 1986

	(\$000)	
	1987	1986
OPERATING REVENUES <i>(Note 1)</i> :		
Electric	\$ 881,340	\$ 841,936
Water and irrigation	7,166	6,682
Total operating revenues	<u>888,506</u>	<u>848,618</u>
OPERATING EXPENSES:		
Purchased power	49,086	49,151
Fuel used in electric generation	181,331	216,083
Other operating expenses	151,308	122,304
Maintenance	88,231	80,985
Depreciation and amortization <i>(Note 1)</i>	133,324	90,576
Taxes and tax equivalents	103,097	83,864
Total operating expenses	<u>706,377</u>	<u>642,963</u>
Net operating revenues	<u>182,129</u>	<u>205,655</u>
FINANCING COSTS:		
Interest on bonds	179,109	179,928
Amortization of bond discount, issue and refinancing expenses <i>(Note 1)</i>	6,089	2,387
Interest on other obligations	16,081	17,864
Interest earned on investments, deposits and other	(36,084)	(37,681)
Net financing costs	<u>165,195</u>	<u>162,498</u>
Less - Allowance for funds used during construction (AFUDC) <i>(Note 1)</i>	<u>(59,902)</u>	<u>(120,161)</u>
Financing costs less AFUDC	<u>105,293</u>	<u>42,337</u>
OTHER EXPENSES, net	<u>2,075</u>	<u>5,002</u>
NET REVENUES	<u>\$ 74,761</u>	<u>\$ 158,316</u>

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

Combined Statements of Cash Flows

For the Years Ended April 30, 1987 and 1986

	(\$000)	
	1987	1986
NET CASH FLOWS FROM OPERATING ACTIVITIES:		
Net revenues	\$ 74,761	\$ 158,316
Noncash items included in income:		
Depreciation and amortization	133,324	90,576
Amortization of bond related expenses	6,089	2,387
Increase in fuel stocks and materials and supplies	(47,824)	(14,234)
Increase in other assets, net	(8,897)	(21,967)
Increase (decrease) in accounts payable	18,771	(67)
Increase in accrued taxes and tax equivalents	5,292	1,781
Increase (decrease) in accrued interest	11,133	(9,587)
Increase in other liabilities, net	9,317	6,375
Gain on sale of property	(96)	(4,268)
Net cash provided from operating activities	<u>201,870</u>	<u>209,312</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES:		
Gross additions to utility plant, net of AFUDC	(309,356)	(352,993)
Allowance for funds used during construction	(59,902)	(120,161)
Gross additions to nonutility plant	(10,812)	(658)
Proceeds from sale of plant	972	194,192
Decrease (increase) in note receivable	61,684	(90,653)
Contributions in aid of construction	25,398	19,181
Net cash used by investing activities	<u>(292,016)</u>	<u>(351,092)</u>
NET CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds of bond issues	120,814	596,143
Other long-term borrowings, net of repayment	21,845	30,318
Repayment of principal on bonds and U.S. debt	(18,867)	(18,917)
Defeasance of revenue bonds	-	(472,692)
Deferred loss on defeasance of bonds	-	(81,168)
Net cash provided by financing activities	<u>123,792</u>	<u>53,684</u>
NET INCREASE (DECREASE) IN CASH AND TEMPORARY INVESTMENTS AND SEGREGATED FUNDS	33,646	(88,096)
BALANCE AT BEGINNING OF YEAR IN CASH AND TEMPORARY INVESTMENTS AND SEGREGATED FUNDS	226,736	314,832
BALANCE AT END OF YEAR IN CASH AND TEMPORARY INVESTMENTS AND SEGREGATED FUNDS	<u>\$ 260,382</u>	<u>\$ 226,736</u>

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

Notes to Combined Financial Statements

For The Years Ended April 30, 1987 and 1986

(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) and a wholly-owned subsidiary, Salt River Generating Company, together referred to as the Salt River Project (the Project). All significant intercompany transactions have been eliminated. The Project follows the accounting principles promulgated by the Financial Accounting Standards Board.

(b) Regulatory Agency

The District's Board of Directors serves as its regulatory agency.

(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. Capitalization rates of 10.7% and 9.7% were used in 1987 and 1986, respectively.

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 3.37% and 3.31% for 1987 and 1986, respectively, on the average cost of depreciable electric plant, and 1.42% and 1.39% for 1987 and 1986, 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 and replacement of minor items of property.

(d) Bond Expense

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

(e) 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 \$20,273,000 and \$22,100,000 at April 30, 1987 and 1986, 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.

(f) Electric Rates

Under Arizona law, the District's 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. The District is currently studying the need for an additional rate increase to be effective in October 1987. Such increase is anticipated to be approximately 6%. The current rates have been in place since October 1985.

(g) 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 kilowatt-hour (kWh) on its share of electricity produced by Palo Verde Nuclear Generating Station (PVNGS) Units 1 and 2. The District records this charge as a current year expense.

(h) Decommissioning

The District began reserving for the cost of decommissioning PVNGS Units 1 and 2 commencing with their dates of commercial operation. The estimate to decommission the District's share of PVNGS Units 1 and 2 of \$108 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 which is classified as part of the general fund.

(i) Income Taxes

The District is exempt from federal and state income taxes.

(j) Reclassifications

Certain 1986 amounts have been reclassified to conform to the current year presentation.

(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 (CWIP) represent expenditures for new facilities required to service anticipated customer needs, and consist of:

	(Millions)	
	1987	1986
Electric generating facilities	\$529	\$873
Transmission and distribution	124	80
Irrigation plant	16	12
Other construction	72	61
Total	\$741	\$1,026

Construction expenditures planned for fiscal years 1988 through 1992 are shown below.

	(Millions)		
	Construction	AFUDC	Total
1988	\$404	\$47	\$451
1989	629	34	663
1990	491	39	530
1991	360	39	399
1992	296	14	310

These expenditures will be financed primarily by funds currently on hand, future net revenues and the sale of revenue bonds.

Construction of PVNGS Unit 3 is proceeding on a schedule for commercial operation in late 1987. PVNGS Units 1 and 2 were placed into commercial operation in January and September of 1986, respectively.

Construction of Coronado Unit 3, a planned 350,000 kw coal-fired unit is proceeding on a schedule for commercial operation in the spring of 1991. The total estimated construction costs for Unit 3, including AFUDC, is approximately \$790 million.

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

At April 30, 1987, 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 had committed to spend approximately \$50 million over 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 provide water storage associated with the Central Arizona Project. Recent actions by legislators will result in significant changes to the project. Management has not yet been able to determine the impact upon the construction program, however it is not believed the previously committed amount will increase significantly.

(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 at April 30, 1987:

	(Millions)			
Plant Name	Ownership Share Percent	Plant In Service	Accumulated Depreciation	CWIP
Four Corners (New Mexico)	10.00%	\$ 81	\$ 16	\$ 4
Mohave (Nevada)	10.00	43	16	1
Navajo (Arizona)	21.70	212	77	7
Hayden (Colorado)	50.00	67	24	
Craig (Colorado)	29.00	225	50	
Palo Verde (Arizona)	17.49	1,106	42	414
		<u>\$1,734</u>	<u>\$225</u>	<u>\$426</u>

On January 29, 1986 the District exchanged 5.7% interest in PVNGS for the Los Angeles Department of Water and Power's (LADWP) 30% share of the Coronado Generating Station Units 1 and 2. Of the net cash settlement, \$162.4 million has been received by the District. The remaining due from LADWP of \$28.9 million (including accrued interest) has been withheld. LADWP claims that the amount of AFUDC charged to PVNGS construction is excessive. It is the opinion of management and legal counsel that the AFUDC amount is in agreement with the contract exchange agreement, Federal Energy Regulatory Regulations and past and current practices. At this time negotiations are continuing; however, legal action may be required to settle the matter.

The District acts as the operating agent for the participants in the Navajo Project. As operating agent, the District utilizes advanced billings to the participants, based on ownership percentage, to pay the cost of operations. A separate operating fund is maintained by the District to process Navajo transactions.

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

(5) Long-term debt:

	Interest Rate	(Millions)		Maturities
		1987	1986	
Electric System Revenue Bonds	4.7-11.5%	\$2,716	\$2,633	1988-2025
Unamortized Bond Discount		(89)	(92)	
Total Revenue Bonds Outstanding		2,627	2,541	
U.S. Government Non-Interest Bearing Debt		8	9	1987-2004
Commercial Paper	3.4-5.9%	350	325	
Other	6.5-7.7%	2	5	1988-1989
Total Long-Term Debt		<u>\$2,987</u>	<u>\$2,880</u>	

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 by the bond resolution, subject to amounts due the United States of \$7,768,532.

The debt service coverage ratio, as defined in the 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, 1987, and 1986, debt service coverage was as follows:

	(Millions, except for ratios)	
	1987	1986
Revenues Available for Debt Service	\$399	\$ 365
Total Debt Service Requirements	200	197
Debt Service Coverage Ratio	<u>2.00</u>	<u>1.85</u>

The annual maturities of long-term debt (excluding commercial paper) as of April 30, 1987, due in the fiscal years ending April 30, are as follows:

	(Millions)
1988	\$ 26
1989	29
1990	32
1991	31
1992	37
Thereafter	2,571
	<u>\$2,726</u>

Interest and amortization of discount on the various issues results in an effective rate of approximately 7.18% over the remaining terms of the bonds.

At April 30, 1987, The Project has authority to issue additional electric system revenue bonds totaling \$131,426,260 principal amount and electric system refunding revenue bonds totaling \$806,840,000 principal amount.

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 Statement of Financial Accounting Standards (SFAS) No. 71, the loss is being 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, 1987 the amount of defeased general obligation bonds outstanding was \$129,705,000.

(6) Employees' Retirement Plan

The Project has a retirement plan covering substantially all employees. The Plan is funded entirely from Project contributions and the income earned on invested assets. Contributions to the Plan were \$2,181,799 and \$9,515,491 in fiscal years 1987 and 1986, respectively. The Project recorded income of \$4,098,777 for fiscal year 1987 and expense of \$6,264,699 for 1986 related to the Plan. Plan assets consist primarily of common stocks, U.S. obligations and corporate bonds.

In 1987, the Project adopted Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions. Net periodic pension cost under that statement is made up of the components listed below as determined using the projected unit credit actuarial cost method. (No comparable analysis is required to be made for 1986):

	(Millions)
Service cost	\$ 8
Interest cost	13
Actual return on assets	(45)
Net amortization and deferral	20
	<u>\$ (4)</u>
Net periodic pension income	<u>\$ (4)</u>

The discount rate used in determining the actuarial present value of the projected benefit obligation was 9.0%. The rate of increase in future compensation levels used varies from 9.0% to 5.5%, on a graded scale, based on the age of the participant. The expected long-term rate of return on assets is 9.75%.

The following schedule reconciles the funded status of the Plan with amounts reported in the Project's combined financial statements as of April 30, 1987:

	(Millions)
Plan assets at fair value	\$ 259
Actuarial present value of projected benefit obligation:	
Vested benefit obligation	(111)
Nonvested benefit obligation	(12)
Accumulated benefit obligation	(123)
Excess of projected benefit obligation over accumulated benefit obligation	(45)
Projected benefit obligation	(168)
Plan assets in excess of projected benefit obligation	91
Unrecognized net assets	(65)
Unrecognized net gain	(21)
Prior service cost not yet recognized in net periodic pension cost	1
Prepaid Pension Cost	<u>\$ 6</u>

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 Project, retire from the Project, are eligible for pension benefits, and have completed a minimum of 5 years regular employment. 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 1987 and 1986, those costs totaled \$1,361,170 and \$1,172,077, respectively.

(7) 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 of these matters 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, 1987.

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 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.

(8) Revolving credit agreement/commercial paper program:

The District's Board has authorized the issuance of up to \$350,000,000 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 October 15, 1990. As of April 30, 1987, the District had \$350,000,000 of the Promissory Notes outstanding at an average interest rate to the District of 4.3%.

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 \$350,000,000 until October 14, 1988. If the agreement is not renewed prior to October 15, 1987, the District may continue to borrow but must reduce its outstanding borrowings to not more than \$250,000,000 by October 14, 1988 and to not more than \$150,000,000 by October 14, 1989. Following October 14, 1989, the District may not make additional borrowings and must repay all outstanding borrowings by October 15, 1990. As of April 30, 1987, 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 \$350,000,000.

(9) Irrigation and water operations:

Irrigation and water operations expenses, including depreciation, exceeded the assessments, delivery fees, and other revenues therefrom by approximately \$15,975,000 for 1987 and \$12,384,000 for 1986. These amounts do not include expenditures for additions and improvements to irrigation plant and for repayment of long-term debt.

(10) Subsequent events:

On May 26, 1987, the District entered into a revolving credit agreement with Fuji Bank, Limited to provide support for the District's mini-bond program. Under the terms of the agreement, the District may borrow up to \$30,000,000 at the Federal Funds Rate plus one-quarter to one-half percent, based on length of time outstanding. The agreement expires November 15, 1988.

On May 15, 1987, the District sold approximately \$22,300,000 of 1987 Series A and B Mini-Bonds. The proceeds were used to refund the costs of construction pursuant to the District's capital improvement program and to pay financing expenses.

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, 1987 and 1986 and the related combined statements of net revenues and cash flows 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, 1987 and 1986 and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

Phoenix, Arizona,
June 26, 1987.

Statistical Review

(\$000)

PROJECT GENERAL

	12 Months Ended April 30			12 Months Ended December 31
	1987	1986	1981	1976
Operating revenues	\$ 888,506	\$ 848,618	\$ 539,669	\$ 225,268
Electric	881,340	841,936	534,357	220,961
Water and irrigation	7,166	6,682	5,312	4,307
Operating expenses	706,377	642,963	400,323	182,662
Net financing costs less capitalized interest	105,293	42,337	47,460	31,060
Other deductions (revenues), net	2,075	5,002	(1,644)	259
Net revenues	74,761	158,316	93,530	11,287
Gross additions to plant, excluding allowances for funds used during construction	309,356	352,993	302,702	234,012
Utility plant, gross	4,814,087	4,481,667	2,843,247	1,229,617
Contributions of electric revenues to support water operations	15,975	12,384	4,870	7,341
Taxes and tax equivalents	103,097	83,864	58,134	30,869
Employees at year-end	5,735*	5,468*	4,580	3,325

*Does not include temporary employees.

WATER*

	1986	1985	1981	1976
Total storage and pumping capacity (acre-feet)	2,889,725	2,863,769	2,891,177	2,841,818
Storage capacity (six reservoirs)	2,019,102	2,019,102	2,063,948	2,072,050
Installed pumping capacity	870,623	844,667	815,229	769,768
Water in storage Jan. 1 (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
Runoff (acre-feet)	1,070,214**	1,774,667	566,245	817,419
Water in storage Dec. 31 (acre-feet)	1,691,741	1,671,535	1,116,338	976,725
Project storage only	1,464,978	1,445,710	895,118	711,353
Sources of water for deliveriers (acre-feet)	993,591	1,136,429	1,222,376	1,190,720
Gravity supply	928,053**	1,072,373	870,262	848,734
Groundwater supply (pumping by SRP)	50,482	46,593	337,424	335,988
Groundwater supply (pumping by others)	15,056	17,463	14,690	5,998
Use of water (acre-feet)	870,658	1,016,612	896,802	1,190,720
Agricultural	290,572	381,341	440,047	451,377
Urban	395,158	396,228	381,457	295,123
City domestic	284,192	281,464	265,002	187,044
Subdivision irrigation	60,877	60,263	62,908	56,753
Other non-agricultural irrigation (schools, parks, churches, etc.)	50,089	54,501	53,547	51,326
Decreed deliveries	47,963	52,410	64,431	58,464
Contract deliveries	136,965	186,634	108,358	82,467
Seepage and evapotranspiration	122,933	119,817	240,326	315,632
Canals, total (miles)	133	133	131	131
Lined	91	87	70	59
Laterals, total (miles)	892	890	884	878
Lined and piped	792	783	758	715
Drainage and waste ditches (miles)	240	240	243	251
Lined and piped	82	78	63	52
Assessed area (acres)	238,170	238,170	238,221	238,266
Number of assessed accounts	181,894	181,645	178,796	166,048
Number of times water delivered to water users	471,845	468,144	456,129	500,607

* 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 December 31
	1987	1986	1981	1976
Energy Sources (kWh)				
Net nuclear generation	1,955,479,000	149,186,614	-0-	-0-
Net steam generation*	9,667,574,000	10,957,903,000	10,385,225,000	5,637,595,000
Net gas turbine generation	2,287,000	45,396,000	62,336,000	93,811,000
Net combined cycle generation	991,739,000	813,684,000	4,110,000	459,155,000
Net run of river generation	410,679,000	451,783,000	468,174,000	243,951,000
Pumped storage generation	211,088,000	236,545,000	118,324,000	89,536,000
Total net generation*	13,238,846,000	12,654,497,614	11,038,169,000	6,524,048,000
Purchased	3,586,056,028	3,207,390,046	2,098,800,868	2,561,076,900
Interchange received	105,387,000	106,666,000	145,837,000	162,016,000
Wheeling received	15,091,962	11,912,340	9,793,314	13,389,100
Total energy sources*	16,945,380,990	15,980,466,200	12,292,600,000	9,260,530,000
Energy disposition (kWh)***				
Residential	5,333,601,362	4,889,987,668	3,674,758,035	2,931,444,260
Commercial & Industrial	6,252,344,184	5,931,148,985	4,430,656,608	3,594,531,963
Irrigation pumping	233,684,815	248,577,084	243,257,760	282,916,839
Street & highway lighting	98,746,120	88,327,881	43,203,039	36,456,046
Public authorities	270,239,264	257,127,813	351,055,276	288,417,414
Interdepartmental	82,902,577	72,022,538	80,008,412	186,729,026
Sales for resale	3,294,959,549	3,016,789,686	3,205,534,954	818,405,306
Total sales	15,566,477,871	14,503,981,655	12,028,474,084	8,138,900,854
Interchange delivered	104,549,000	93,772,000	245,224,000	384,440,000
Wheeling delivered	13,887,031	10,891,950	9,024,579	12,643,696
Energy losses	958,912,088	1,033,899,395	840,845,337	598,785,450
Energy for pumped storage operation	301,555,000	337,921,000	169,032,000	125,760,000
Total disposition of energy	16,945,380,990	15,980,466,000	13,292,600,000	9,260,530,000
Peak overall power system (kW)				
Date and time (MST)	3,264,000 Aug. 20, 5 p.m.	2,971,000 July 9, 5 p.m.	2,386,000 Aug. 11, 6 p.m.	2,089,000 July 7, 6 p.m.
Peak Project customers (kW)				
Date and time (MST)	2,785,000 Aug. 20, 5 p.m.	2,658,000 Aug. 29, 5 p.m.	2,057,000 July 28, 5 p.m.	1,732,000 July 7, 6 p.m.
Generating capability (kW)**				
Nuclear	213,730	-0-	-0-	-0-
Steam*	2,411,115	2,201,115****	1,919,250	1,548,250
Gas turbines	393,000	393,000	393,000	378,000
Combined cycle	288,000	288,000	288,000	288,000
Hydroelectric conventional	96,400	96,400	95,000	94,000
Hydroelectric pumped storage	137,000	137,000	137,000	140,000
Total operating capability*	3,539,245	3,329,245	2,832,000	2,448,250
Contract purchase at peak	605,547	410,547	329,547	325,563
Total resources*	4,144,792	3,739,792	3,161,797	2,773,813
Electric customers—year end***				
Residential	441,293	414,140	305,870	238,989
Commercial & Industrial	37,218	34,973	22,771	17,591
Other	8,810	8,376	1,610	1,361
Total	487,321	457,489	330,251	257,941
Average annual kWh use***				
Residential	12,440	12,175	12,310	12,597
Average annual kWh revenue***				
Residential (cents/kWh)	7.54	7.56	5.78	3.51

* 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

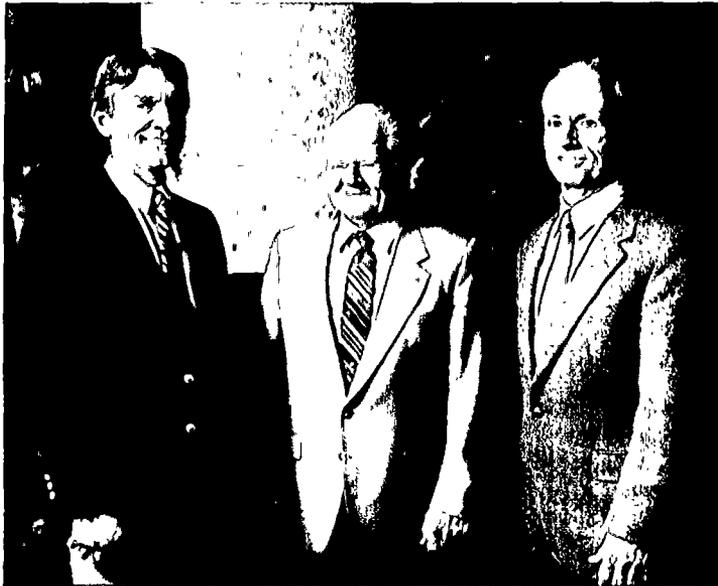
Improvement and Power District consists of 14 members who serve four-year terms. One District board member is elected from each of the 10 SRP voting divisions, and four members are elected at-large.

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



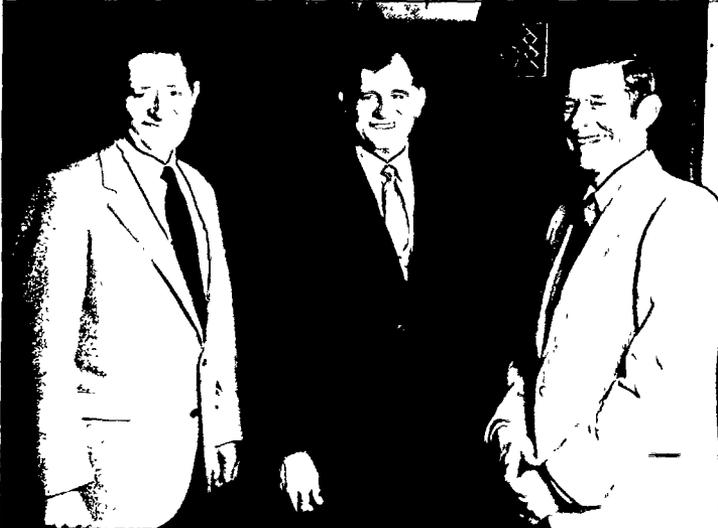
Pictured at right are SRP Board Members (top row from left) Joe Bob Neely, John L. Burton Jr., William W. Arnett, (bottom row from left) Olen Sharp and John M. Williams Jr.

Pictured below are SRP Board Members (left to right) Fred J. Ash, Rudolph Johnson and Thomas P. Hurley.



Salt River Project Board Members shown above are (left to right) Clarence C. Pendergast Jr., Stanford F. Hartman and Gilbert R. Rogers.

Pictured at left are SRP Board Members (left to right) William P. Schrader, Dwayne E. Dobson and Bruce B. Brooks.



- 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.

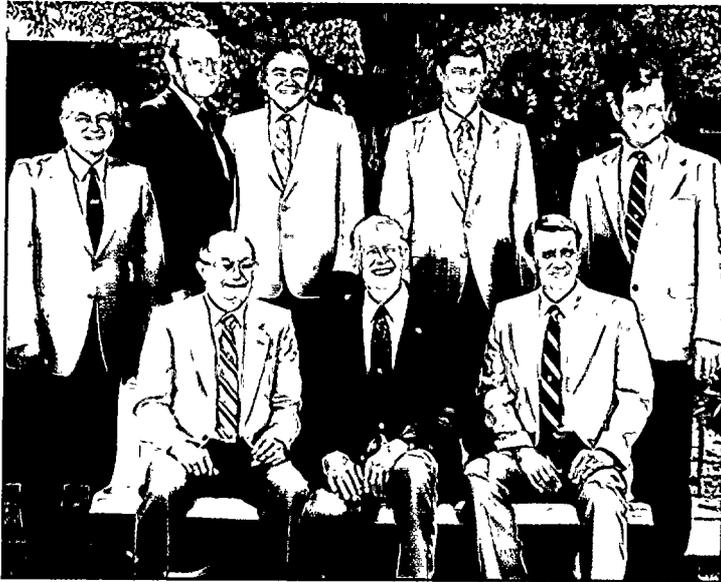
Three council members are elected by SRP shareholders to two-year terms in each of the 10 areas of the Salt River Valley

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 at left are (left to right) Roy W. Cheatham, John A. Vanderwey, Carl E. Weiler (*Chairman*), Wayne A. Hart, James L. Diller, George B. Willmoth, Robert E. Hurley and Levi H. Reed.

SRP Council Members pictured below are (top row from left) Martin Kempton (*Vice-chairman*), Lester R. Mowry, Wayne A. Marietta, (bottom row from left) Orland R. Hatch, C. Dale Willis, William P. Schrader Jr. and Larry D. Rovey.



SRP Council Members pictured above are (top row from left) Dean W. Lewis, James R. Marshall, Edmund Navarro, Michael K. Gantzel, Mark V. Pace, (bottom row from left) W. Curtis Dana, Emil M. Rovey and Lee L. Tregaskes.



SRP Council Members pictured above are (left to right) James M. Accomazzo, Elvin E. Fleming, John E. Anderson, Robert L. Cook, Byron Williams, Howard W. Lydic and Lloyd Lee Banning.

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
Byron G. Williams

District 5
Roy W. Cheatham
Edmund Navarro
Carl E. Weiler,
Chairman

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,
Vice-chairman
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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