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1988-89 ANNUAL REPORT

Our Purpose

is to be the low-cost supplier among our competitors of high-value energy and water services.

Background

Salt River Project is named for the Salt River, which supplies water to the Phoenix metropolitan area.

We are the nation's third-largest public power utility and Arizona's largest water supplier.

The Project consists of two compatible organizations — the Salt River Valley Water Users' Association and the Salt River Project Agricultural Improvement and Power 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. This system carries water to municipal, industrial, agricultural and residential users.

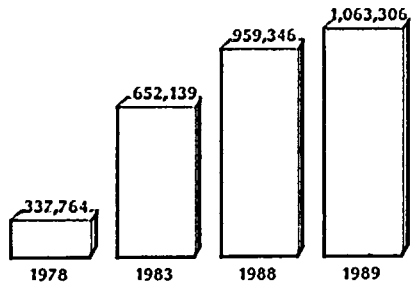
The District is a public power utility and a political subdivision of Arizona. It provides electricity to approximately 500,000 residential, commercial, industrial and agricultural power users in a 2,900-square-mile service area in parts of Maricopa, Gila and Pinal counties.

HIGHLIGHTS

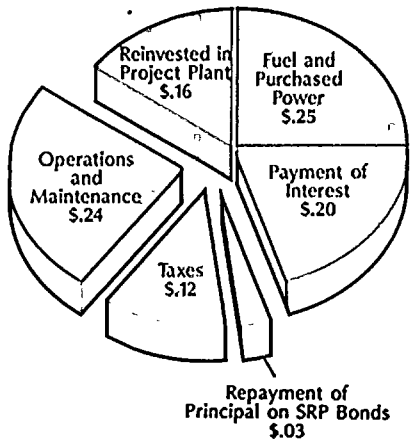
REVENUES/EXPENSES *(See Page 16)*	Fiscal 1989	Fiscal 1988
Total operating revenues ($000)	1,063,306	959,346
Total operating expenses ($000)	832,316	790,972
Net operating revenues ($000)	230,990	168,374
Other income ($000)	4,571	39,265
Net financing costs ($000)	223,798	191,378
Net revenues ($000)	11,763	16,261
POWER OPERATIONS *(See Page 17)*		
Energy customers at year end	518,889	505,618
Total kilowatt-hour sales (000)	17,789,940	16,335,115
Average annual kilowatt-hour use/residential customer	12,988	12,824
Average annual residential revenues/kilowatt-hour (cents)	8.03	7.65
WATER OPERATIONS *(See Page 16)*	Calendar 1988	Calendar 1987
Assessed water accounts	182,226	182,110
Water runoff (acre-feet)	1,136,727*	1,120,034
Water in storage, Dec. 31 (acre-feet)	1,598,989	1,624,272
Water deliveries (acre-feet)	951,693	997,324
SELECTED OTHER DATA *(See Page 16)*	Fiscal 1989	Fiscal 1988
Gross plant investment ($000)	5,560,160	5,335,784
Long-term debt ($000)	3,505,163	3,251,724
Taxes & tax equivalents ($000)	125,171	121,154
Electric-revenue contributions to support water operations ($000)	34,069	29,227
Employees at year end	5,599	5,805

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

Total Operating Revenues ($000)



Electric Dollar



CONTENTS

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SALT RIVER PROJECT

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On the cover—This abstract of SRP's new Information Systems Building in Tempe represents our efforts to provide top-of-the-line customer service and to meet future industry challenges in an efficient manner.

To Our Bondholders and Shareholders

John R. Lassen *President*

Marcel J. Boulais *Vice President*

A.J. Pfister *General Manager*

While Salt River Project's accounting ledger will record moderate results for fiscal year 1988-89, it was, nonetheless, an extremely important year for the Project.

We passed the $1 billion mark in revenues from electric and water operations in fiscal 1988-89. Total operating revenues were $1.06 billion compared to $959.3 million in 1987-88. After operating, financing and other expenses, we realized total net revenues of $11.8 million in fiscal 1988-89, compared to $16.3 million in 1987-88.

While cash flow remained particularly strong, net revenues were lower than last year's, partially due to the added expenses of a companywide reorganization.

A $32.7 million "unusual" expense was recorded against income in fiscal 1988-89 due to the reorganization — a top to bottom review of SRP's organizational structure, staffing levels, practices and procedures which consumed much of the fiscal year and will be wrapped up in the next. We believe the reorganization is critically important for us to continue providing high-value power and water services to our customers and shareholders in the future.

By effecting improvements in organizational structure and work practices, and reflecting moderate growth compared to historical standards, the reorganization will eliminate 791 positions companywide, and will result in estimated cash flow savings of $50 million each year.

Ultimately, several hundred employees will be affected, but we're going to great lengths to ensure they are treated fairly. The bulk of the $32.7 million expense was for enhanced severance packages and professional career continuation services offered to displaced employees. Some relatively minor, subsequent expenses of the reorganization may occur in the next fiscal year, though they will be more than offset by the savings of the program.

We see the reorganization as an opportunity to grow stronger in the increasingly competitive utility industry. Utilities are merging, and independent power producers and cogeneration facilities are gaining a stronger foothold in the energy business generally. We recognize the importance of being prepared for the challenges of this changing environment.

Such changes are the reason that "complacency" is not in our vocabulary. Employing a theme of "Maximum Effectiveness," we are reprioritizing our work duties, eliminating what we feel are unnecessary functions, modifying our management structure and systems, and redirecting our services to better match customer and shareholder needs.

We are continuing to regionalize our offices to locate service employees closer to the customers they serve. We are emphasizing incentive programs which shift the SRP energy load to off-peak hours and save our customers money on their electric bills.

Our staff monitors the market to obtain competitive coal prices. Recently, we ended a contract with the Kaiser Coal Co., which will save our customers $200 million during the next 16 years.

SRP also conforms to the Arizona Groundwater Management Act to reduce water consumption. We continue to support conservation efforts and to develop methods of supplementing our water supplies.

Streamlining our activities will help hold down costs, which will enable us to delay the need for an electric rate increase. We haven't had a rate increase since October 1987 when electric rates went up an average of 5.6 percent.

To the extent that we hold the line on the costs of electricity and efficiently manage our water resources, we can benefit the central Arizona economy. It's no secret that our state's economy is in a down cycle, and it behooves us to do what we can to help keep Arizona an economically attractive place to do business.

Our goal is to devote appropriate resources, time and money to economic development for a more prosperous future.

We are working to build on our positive standing in the public power industry. Currently, the American Public Power Association (APPA) ranks SRP third in terms of electric customers. Last fiscal year, we served 518,889 customers, an increase of 13,271 customers from 1987-88.

APPA also ranks SRP third in kilowatt-hours (kWh) sold. During fiscal 1988-89, we sold almost 17.8 billion kWh, up from 16.3 billion kWh the previous year.

We delivered 951,693 acre-feet (af) of water to the irrigators and eight Valley cities in our 240,000-acre area in 1988, compared to 997,324 af in 1987.

The next decade holds exciting prospects for Salt River Project. Through our internal restructuring, we feel ready to tackle the challenges of the changing utility industry in the 1990s.

John Lassen Marcel J. Boulais Jack Pfister

POWER

Competition in the energy business is driving Salt River Project's future. We have been gearing up for the new challenges through enhanced planning, increased research and development efforts, and a companywide reorganization. At the same time, we're keeping our customers' needs and demands foremost in our minds.

SRP Tackles Future Challenges Today

Throughout the 1980s, we proceeded with construction of a third unit at Coronado Generating Station in St. Johns, Ariz., and participated in construction of the Palo Verde Nuclear Generating Station west of Phoenix. Our goal was to ensure an adequate and reliable energy supply for our rapidly growing customer population.

Then we began experiencing a slowdown in customer growth. For example, in fiscal year 1988-89, we added 13,271 electric customers for a system total of 518,889 customers. This was 5,000 fewer than the 18,297 customers added in fiscal year 1987-88 and about 17,000 fewer than the 30,000 customers added each of the previous four years.

Not only did customer growth slow, but the increasingly dynamic utility industry shifted to a buyer's market. An abundance of excess generation became available at attractive prices. So in February 1988, we deferred the in-service date of the Coronado Generating Station Unit III until 2004. The most recent Loads and Resources Study indicates that Coronado Unit III will be completed in 2005.

We signed power purchase contracts for 50 megawatts (MW) each from Tucson Electric Power Co. (TEP) and Arizona Electric Power Cooperative (AEPCO) beginning in 1990. The power purchases will increase to 100 MW from each utility in 1991. The contracts are expected to save SRP $185 million between now and 2011, and defer about $420 million in construction costs.

Buying power from other utilities also means SRP will borrow less for construction during the next five years, and we will be able to maintain a favorable financial position.

Even with the slowdown in new customer accounts, we expect to add 200,000 more electric customers by 2000. That's an average of 16,600 customers per year.

To accommodate growth, last year we built two new distribution substations, added capacity at 10 existing substations and installed 630 miles of new distribution lines.

Coal is Still Top Energy Source

Coal provided 61.7 percent of our electric generation last year. The majority of our coal-generated power comes from the Navajo Generating Station in Page, Ariz., and the Coronado Generating Station. We also participate in four coal-fired plants in Colorado, New Mexico and Nevada.

At Coronado Generating Station, we began a priority coal burn in July 1988. This inventory stabilization program was designed to limit the coal stockpile growth by burning, at a minimum, the coal delivered each year. The stockpile had grown substantially during the past three years.

By burning at least the annual deliveries of coal at Coronado, SRP will save $62 million in the next 15 years. Money will be saved on the expenses necessary to maintain a large stockpile including:

- interest on money used to buy the coal
- taxes on coal in the stockpile

Line Working Foreman Robert Booth is supervisor of a four-member crew which constructs and maintains 12 kilovolt (kV) power lines and installs transformers. He is one of 850 Power Construction and Maintenance employees who ensure that SRP customers have electricity when they need it.

▽ physical loss of the coal from the pile — a small portion blows away and the quality diminishes as it is exposed to the environment

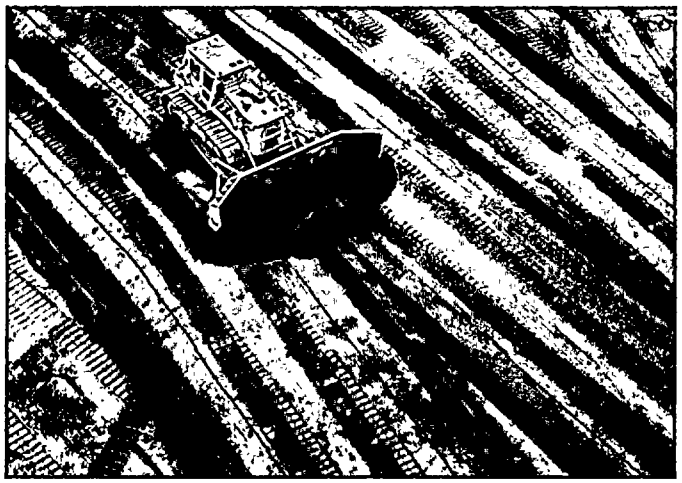
▽ fuel handling costs.

Kaiser Coal Contract Ended

On Sept. 29, 1988, we terminated our contract with the Kaiser Coal Co. through which coal was supplied to the Coronado Generating Station. Ending the contract will save our customers approximately $200 million during the next 16 years. The contract, negotiated in 1978, provided for minimum annual purchases of 475,000 tons of coal through 2004.

Under the termination agreement, we continued to purchase coal from Kaiser until the end of calendar year 1988. Our payments to Kaiser totaled $59 million.

A bulldozer moves coal at the Coronado Generating Station in St. Johns, Ariz. The plant burns up to 8,000 tons of coal per day. Currently, we are limiting the coal stockpile growth to save approximately $4 million each year until 2004.



Fence Lake is Possible Future Coal Source

To secure possible future coal supplies for the Coronado Generating Station, we are studying coal deposits in the Fence Lake, N.M., area. Fence Lake is located about 40 miles east of Coronado and contains approximately 117 million tons of surface mineable coal.

SRP already has state and private leases for 11,000 acres in the Fence Lake area.

In September 1988, we filed an application for a federal coal lease in the area adjacent to the state leases. The application will undergo review and public comment before it can be approved.

In October, as a part of the review process, we selected Dames and Moore to conduct an environmental impact study. This study will result in an Environmental Impact Statement (EIS). This is another step in SRP's possible acquisition of federal coal leases on an additional 6,840 acres.

We have successfully burned 100,000 tons of Fence Lake coal at Coronado Generating Station to test the coal for heat, sulfur content and handling characteristics.

SRP has developed a new Corporate Municipal Aesthetics Policy which enables cities to actively participate in decisions about the location and appearance of new electric facilities. The policy specifies that we will spend up to 1 percent of our gross revenues each year to respond to municipal requests in excess of our normal standards, based upon a selection process in concert with the cities. We also will, based upon our financial ability, match city funds made available for this purpose.

Palo Verde Sets Records, Experiences Outages

We own 17.49 percent of Palo Verde Nuclear Generating Station, which is operated by Arizona Public Service Co. (APS). Last year nuclear power provided 19.9 percent of our electric supply.

Palo Verde Unit I began commercial operation on Jan. 30, 1986, and Unit II, on Sept. 20, 1986. Unit III, the final of the three 1,270 MW electric generating units, began operating on Feb. 1, 1988.

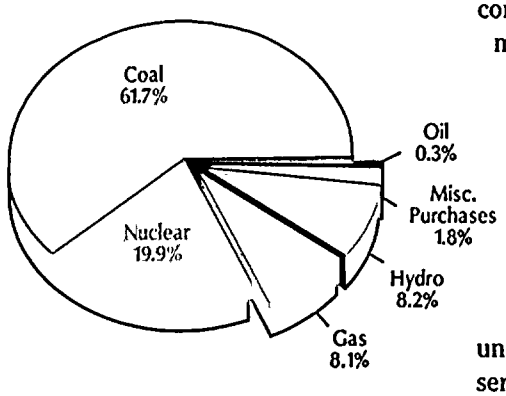
Unit III had a spectacular year in 1988, setting an industry record for the longest continuous run — the greatest number of days on line — by an American-manufactured nuclear plant in the world during its first year of operation. Unit III exceeded the 181.5-day record by operating 214 consecutive days until Aug. 1, 1988.

In late March, the Arizona Corporation Commission released the results of an Ernst and Whinney prudency audit of Palo Verde construction costs. The report concluded that costs due to poor management totaled $60 million, while benefits due to exceptional management totaled almost $293 million, or a net benefit of about $233 million.

We receive more than 600,000 kilowatts (kW) of power when all three Palo Verde units are operating. In March 1989, however, all three Palo Verde units went out of service.

Fuel Sources

1988-89
Fiscal Year



Units I and III are in refueling outages. Unit II has been out of service, pending completion of several work tasks including modification and testing of atmospheric dump valves, which are used to vent excess steam.

The units will be out of service until refueling has been completed and Nuclear Regulatory Commission (NRC) approval for restart has been obtained. Although the NRC recently has been critical of Palo Verde, SRP is optimistic that APS is taking the steps necessary to improve operations at Palo Verde and to regain the confidence of the NRC.

We estimate the need for purchases of up to 300,000 kW of power from other utilities to ensure adequate power reserves while Palo Verde is off line.

When a generating unit is out of service, we replace the lost power with the lowest cost alternate resource available. This may be from either our own system or other utilities in the Southwest.

Our older Phoenix generating stations are regularly used for system peak load operation in order to supply the system requirements in the most economical combination available.

We arranged short-term contracts with several utilities to provide substitute capacity for the Palo Verde units while they were out of service during the summer of 1989. Our participation in the Western Systems Power Pool made it easier to arrange the contracts.

SRP's goal is to have a reserve generating capacity of 20 percent — a standard used by many utilities.

Corporate Aesthetics Policy Beautifies Cities

With the urbanization of our service area, Valley cities are making increased demands for improved appearances around electric facilities. Cities also are offering input about the location of our new facilities.

In response, our Board of Directors in December 1988, approved a new Corporate Municipal Aesthetics Policy.

This highly participative policy will provide approximately $10 million annually to be shared by the cities for aesthetics.

Photovoltaics Research Under Way

SRP is participating in a research program which could turn photovoltaics technology into a commercial state by the mid-1990s. The Photovoltaics for Utility Scale Applications project is designed to compare and evaluate photovoltaic systems in a utility setting.

We are working on this endeavor with the Department of Energy, the Electric Power Research Institute (EPRI), several other research organizations and a number of utilities. SRP is a member of the Technical Review Committee and will provide $100,000 in funding during the next four years.

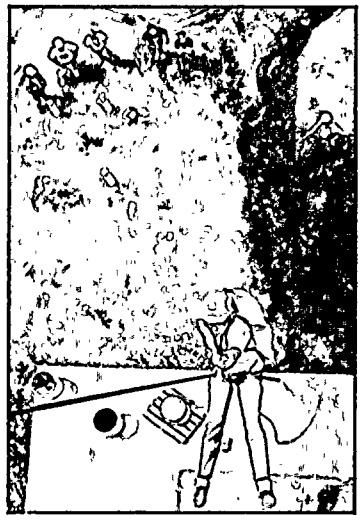
SRP views the photovoltaic research as an important way to increase our understanding of new technology and its value to our customers.

In other areas of research, we developed a task force to investigate superconductivity. We also set goals to develop a longer range, strategic research and development (R&D) program and to continue participation in wide-ranging R&D activities through EPRI.

Transmission Access Enhances Competitive Edge

In recent years, bulk supply power markets have become more vital. In addition

Tradeshelper Karen Boyle rappels off the coal control building at Coronado Generating Station. An emergency medical technician (EMT), she teaches SRP employees how to get into hard-to-reach areas during possible emergency situations. EMT training occurs each month at the coal-fired plant. Such efforts help us meet our No. 1 corporate objective of safety first.



Plant Mechanics Alfonso Mannie and Ed Reed work on a Combined Reheat Valve (CRV) at the Navajo Generating Station in Page, Ariz. High-pressure steam flows through the valve into the turbine generator which produces electricity.

to the traditional function of providing a short-term balance in power supply among a few utilities, today's bulk power supply markets can provide a less expensive, long-term supply for utilities. If we are to enhance our competitive positions in bulk power markets, we must expand our transmission access.

We are continuing to participate in the Mead-Phoenix Project, which initially was envisioned as a direct current (DC) line, proposed to extend from west Phoenix to near Boulder City, Nev.

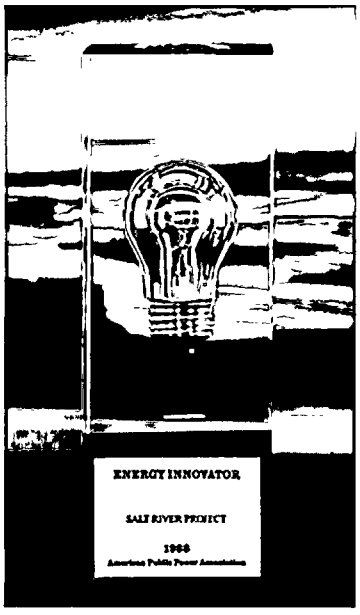
We completed a feasibility study, and the Western Area Power Administration prepared a draft environmental impact study. We identified a transmission line corridor and obtained a Certificate of Environmental Compatibility from the state of Arizona. The participating utilities currently are working toward the initial construction of the project as an alternating current (AC) line, convertible to DC in the future. A decision to build the line could be reached in the early 1990s.

We also are considering participation in Western Area upgrades of the Colorado River Storage Project transmission system, which is the transmission system connecting hydroelectric dams on the lower Colorado River to the bulk power grid.

Finally, we are considering contracts for use of other utility transmission systems from the Four Corners region to our load center.

Our objective is to gain additional access to regional markets, including the ability to increase bulk power transfers with the Pacific Northwest.

SRP received the American Public Power Association's Energy Innovator of the Year Award for the development of thermal mass block. The block contains a polyurethane foam which helps to insulate homes.



East Valley Service Center Opens

Service to our customers is the driving force behind the East Valley Service Center. We completed the center in the summer of 1988 as part of an ongoing plan to locate SRP's service employees closer to the customers they support.

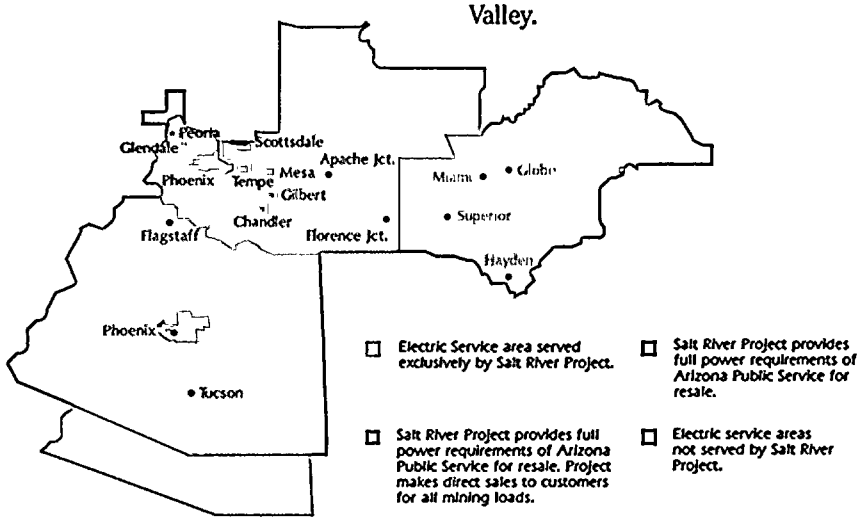
The center is a 64-acre site with four major buildings, totaling more than 178,000 square feet of floor space.

At the center, customers can turn on or off electric service, make billing inquiries, pay electric and irrigation bills, and establish new service.

More than 300 employees work at the service center. They are responsible for designing, building, maintaining and repairing SRP's electric distribution systems for the entire East Valley, including SRP's system of hydroelectric facilities extending up the Salt River to Theodore Roosevelt Dam.

Similar service centers are in Fountain Hills, Scottsdale, Tempe and the West Valley.

SRP's Electric Service Area



The Salt River Project agricultural Improvement and Power District provides electricity to power users in a 2,900-square-mile service area in parts of Maricopa, Gila and Pinal counties.

Programs Save Customers Money

We strive for a mutually beneficial relationship between our customers' electricity usage patterns and our generating capability. Several SRP incentive programs help shift electricity use to off-peak hours and help residential, commercial and industrial customers save money.

Load shifting also helps reduce the need to build expensive, new generating stations.

Some of these programs are Electric Savings Time, the Energy Efficient Lighting Program and the Thermal Energy Storage Program.

WATER

Water distribution within the Salt River Project water service territory has changed during the past 20 years. Back then, we supplied 70 percent of our water to agricultural accounts and 30 percent to urban users. Today, those numbers have flip-flopped.

Water demands, however, have not declined: High density urban housing, plus business and industry demands have caused water demands to remain comparable to those associated with agriculture. We recognize the need for innovation to ensure an adequate water supply to meet future demand.

Valley Residents Enjoy Wet Year in 1988

Thanks to Salt River Project's reservoir system and careful planning, Valley residents enjoyed an ample water supply last year while much of the nation was reeling from drought.

Our water originates from a 13,000-square-mile watershed (a natural drainage area) that drains into the Salt and Verde rivers.

Water is stored behind six dams and released as needed through 133 miles of main canals. Another 1,132 miles of smaller canals called laterals branch off the main canals to deliver water to users.

The Salt River Valley Water Users' Association operates our water system. Eight cities receive most of the water, treat it and deliver it to Valley residents. The Association also provides irrigation water to farmers and urban irrigators.

Runoff from snowmelt and rain into Salt River Project reservoirs totaled 1,136,727 acre-feet (af) during calendar year 1988. (An acre-foot is enough water to cover one acre of land to a depth of one foot, or approximately 325,850 gallons.)

Last year, runoff was 14 percent above normal and 16,693 af more than in 1987. As a result, SRP's six reservoirs contained 1,598,989 af on Dec. 31, 1988, which was 79 percent of capacity but 25 percent above normal. Total Project water supplied to the Valley in 1988 was 1,053,717 af. Of this amount, 1,001,247 af was surface water and 52,470 af was groundwater.

After losses to evaporation, seepage and other factors, we delivered 951,693 af to the Valley, compared to 997,324 af in 1987. Of this total, 428,146 af were used for non-agricultural purposes such as municipal and industrial contracts, parks, churches and residential irrigation. Agriculture accounts received 311,338 af; decreed deliveries including Indian reservations totaled 54,537 af; and off-Project and non-member deliveries totaled 157,673 af.

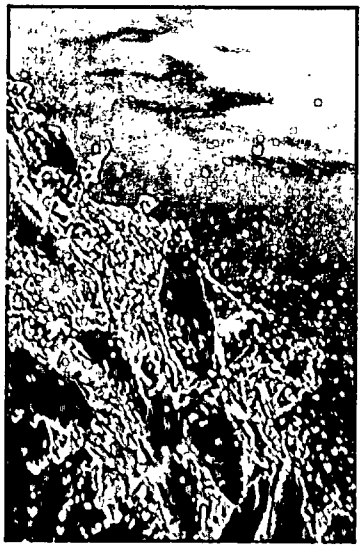
Following the trend toward urbanization, 2,070 acres of land were converted from agricultural use to urban use in 1988. This amount, however, was less than the 3,501 acres converted in 1987.

SRP Plans for Future Water Supplies

SRP continually looks to the future of Arizona's water supplies. Staff hydrologists, for example, reviewed and suggested changes to the Second Management Plan of the Arizona Groundwater Management Act. The act is designed to reduce groundwater consumption throughout the state. The second plan will begin in 1990 and run through 2000.

Staff Chemist David McKinney tests water samples in the SRP Water Quality Laboratory. He performs three to four tests on the samples; each covers up to 30 organic compounds. Six to 10 other tests each cover up to 20 inorganic compounds. Last year the lab received 3,860 water samples for analysis. Testing helps ensure a quality water supply.

In January 1989, we put 1,788 sterile, triploid white amur fish into portions of the Tempe and New Crosscut canals. The fish are part of a pilot program to control aquatic weeds without using chemicals. The fish can eat twice their weight in weeds each day. The Arizona Legislature last year approved the use of sterile white amur fish for weed control. Weed control saves water and helps keep it clean.



Charlie Ester and Cecil Pendergast are part of a five-member hydrology staff which monitors watershed conditions to better manage the Valley's water supply. Last year we added eight new measurement sites to enhance our precipitation and soil moisture monitoring. Hydrology staff evaluate impacts to watershed yield through water planning studies of drought frequency, forest fire policy and water yield patterns.

We are participating in site construction plans for the Granite Reef Underground Storage and Recovery Project. Underground storage is a method of water management.

The project entails injecting between 30,000 and 70,000 af of water into the riverbed three miles below Granite Reef Diversion Dam. If the pilot program is successful, SRP and others may recharge up to 200,000 af of water at Granite Reef within the next two or three years.

Other participants are the Salt River Pima-Maricopa Indian Community and the Arizona Municipal Water Users' Association (AMWUA).

Staff also developed a groundwater model for water resource management planning at the Coronado Generating Station and worked with a statewide group of representatives to draft legislation concerning in-state water transfers.

During 1988, SRP coordinated research to determine improvements for landscape flood irrigation practices. Employees studied 44 subdivisions and 16 other urban irrigation accounts in office records and field surveys. Employees are analyzing data to determine whether customers are using water efficiently. Findings will be used to develop policy aimed at improved water conservation and customer service.

SRP Supports Water Conservation

In addition to recharge activities and conforming to legislative requirements, SRP supports community water conservation programs. One project is a demonstration garden at Mesa Community College. Completed in April 1989, the garden teaches students and the public about low water-use plants. The garden also will provide SRP with data about water usage of plants and turf.

Working with the city of Phoenix, SRP helped fund the preliminary design of a demonstration house to be built at the Desert Botanical Garden. The house will be used for water conservation experiments and load management testing. SRP and the city of Phoenix each donated $16,000 to University of Arizona architecture students who designed the house.

Cooperation Helps Government Organizations

SRP cooperates with local cities and state organizations to maintain the water system. For example, in 1988 SRP completed design of the $28 million Tempe Canal Relocation Project. The project will make space for construction of the Price Road Freeway being built by the Arizona Department of Transportation.

The project consists of two and a half miles of twin, 10-foot diameter, concrete pipelines to replace the existing Tempe Canal from the north side of the Superstition Freeway to the head of the Western Canal. Staff will build several major facilities to assure reliable deliveries to SRP water users.

SRP has coordinated an intergovernmental agreement for joint participation in the construction, operation and maintenance of the Central Arizona Project/Salt River Project interconnection. The interconnection connects the two water delivery systems at the Granite Reef Diversion Dam.

Water Quality: An Important Objective

SRP works to ensure that Valley cities and irrigators receive both the quantity and quality of water they require.

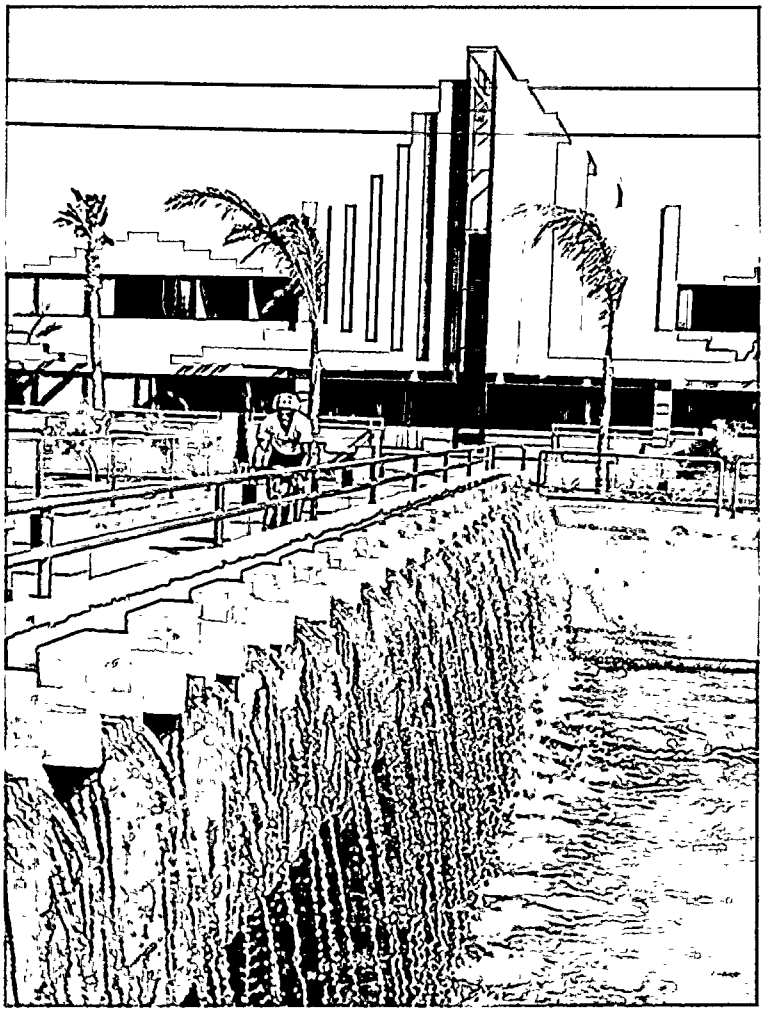
In 1988, we conducted a comprehensive water quality monitoring study. Research concluded that to measure the adequacy of SRP's water supplies for municipal and industrial uses, additional laboratory tests would have to be performed on water samples.

We sampled 190 groundwater wells for selected chemical compounds in 1988. Analyses were conducted for inorganic constituents, metals, volatile organic compounds, herbicides, pesticides and chlorinated herbicides.

The Salt River Valley Well Rehabilitation Program was developed in 1988 and work is under way now. Through the program, we are striving to attain our goal of providing adequate and reliable water supplies from our Valley wells.

In addition to well testing, we have been developing a well utilization plan. The plan will provide a process for determining long-term and interim use of SRP wells during normal and drought conditions. The plan also will determine future use of wells as the SRP agricultural area becomes urbanized.

SRP supports canal beautification and multiple-use-of-canals projects. In April 1988, our staff drafted guidelines for interested organizations. The first multiple-use projects are a business park in Scottsdale (pictured below) and a park in Tempe which used sculpture to beautify canal property. Future beautification projects are being planned.



President Reagan Signs Water Rights Settlement Act

President Reagan signed the Salt River Pima-Maricopa Indian Community Water Rights Settlement Act of 1988 into law on Oct. 20, 1988. The signing came about after the act received congressional approval last year. SRP, Valley cities and other involved parties had signed the agreement on Feb. 12, 1988.

The settlement grants the community a maximum of 122,400 af of water per year from several sources.

The settlement also removes some of the uncertainty regarding future water supplies for SRP, seven Valley cities, the Roosevelt Irrigation District and the Roosevelt Water Conservation District.

Dam Safety Modifications Under Way

SRP continually supports dam safety and water storage measures. For example, modifications are occurring at two dams on the reservoir system.

At Stewart Mountain Dam, the U.S. Bureau of Reclamation during 1988 completed the engineering and about 21 percent of safety of dams modifications. Modifications will include a new spillway, a raised dam, concrete overlays, foundation drainage and grouting, power plant protection, penstock replacement and post-tensioned steel tendons. Work is scheduled for completion in January 1991.

For the past five years, SRP's Office of International Affairs (OIA) has shared knowledge of daily water operations with international visitors. Last year, our staff hosted a record 700 visitors from 59 countries.

The Arizona Department of Transportation last year engineered and built 30 percent of the new Roosevelt Lake Bridge. It is scheduled to be completed in 1990.

Theodore Roosevelt Dam is being modified for greater flood control, dam safety and additional water conservation storage on the Salt River. The changes to the

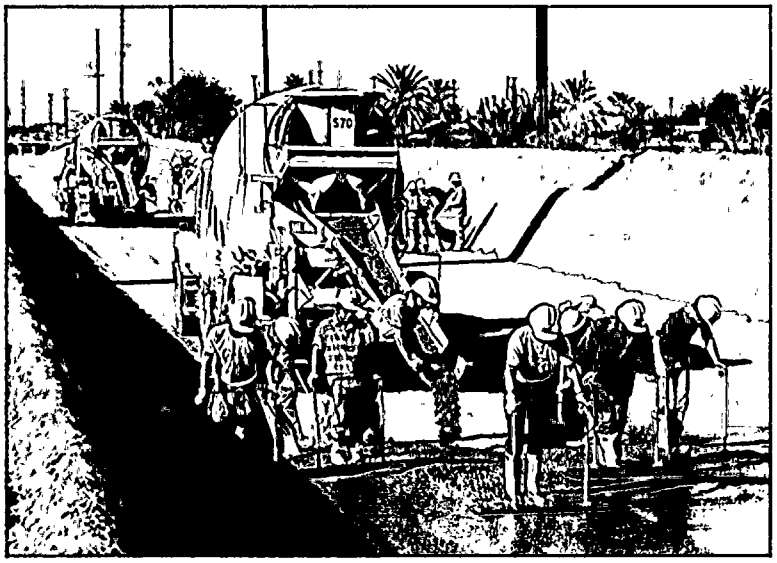
appearance and purpose of Roosevelt Dam are in accordance with Plan 6, the preferred choice of nine flood control and regulatory storage options developed by the Central Arizona Water Control Study.

Modifications to the Verde River dams may include new spillways to prevent dam failure in a "probable maximum flood" and dam stability improvements to prevent dam failure in a "maximum credible earthquake." Various alternatives are being studied. Work would occur in the 1990s.

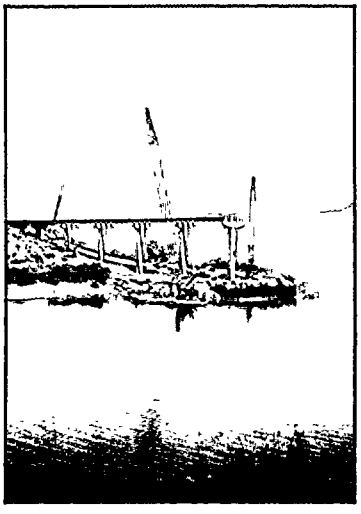
Canal lining is an important method of water conservation. SRP uses cement to line canals and reduce water loss due to seepage. Last year we lined 5.3 miles of canals and piped 7.9 miles of laterals.

Employees Share Knowledge Internationally

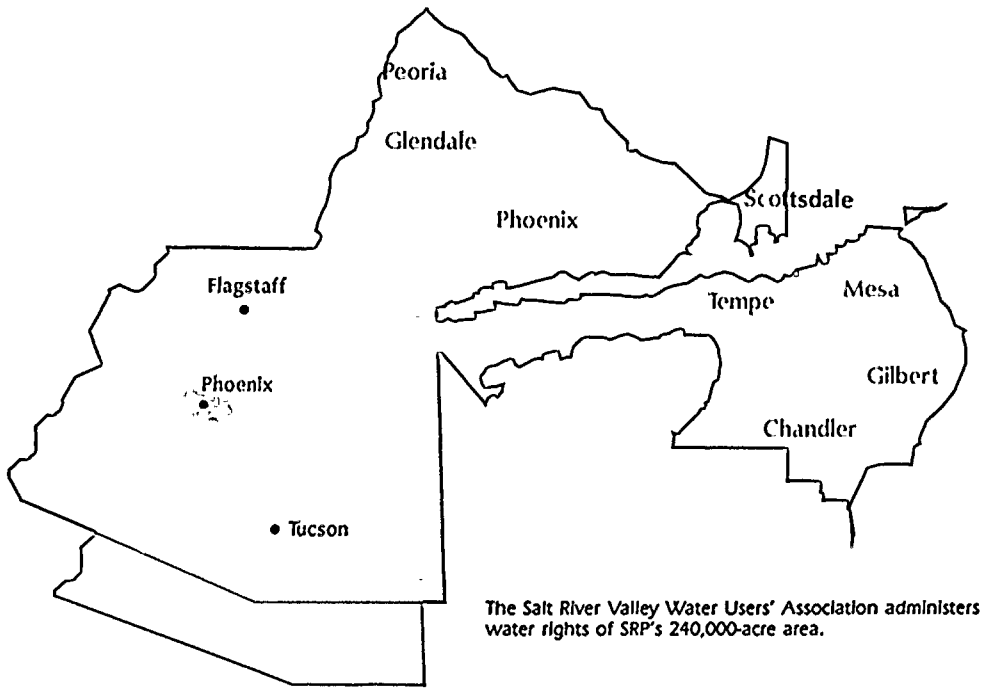
At SRP, we welcome visitors from all over the world. In addition to offering tours and discussing current water operations, we have hosted 400 foreign technical personnel in seven on-the-job training programs and eight seminars. Four engineers and two university students from Egypt participated in a technology transfer/share program at SRP under the Professional Employee Exchange Program (PEEP). PEEP has been extended through 1991.



Modifications are under way at Theodore Roosevelt Dam. Work will include a foundation drainage tunnel, modified outlet works, modified spillways and a plunge pool. The dam's height will be increased by about 77 feet. Modifications are scheduled to be finished by July 1994. A new bridge (pictured below) also is being constructed for better traffic flow.



SRP'S Irrigated Area



The Salt River Valley Water Users' Association administers water rights of SRP's 240,000-acre area.

COMMUNITY

Maintaining growth and quality of life in Arizona's communities is important to Salt River Project. We strive to make better places of the towns where our customers and employees live and work. Our efforts often begin with monetary gifts and are personalized through the volunteer efforts of our employees.

Contributions Benefit Communities

As a political subdivison of the state of Arizona, SRP makes contributions in-lieu of property tax payments each year to benefit the communities where its electric facilities are located. Recipients are school districts, cities, counties and the state. Contributions are made in accordance with legislation passed by the Arizona Legislature in 1963.

Last fiscal year, SRP's in-lieu of tax payments to the nine Arizona counties where the Project has facilities totaled $50 million. Nearly half of these monies will go directly to school and community college districts.

In effect, SRP is the state's third largest property taxpayer. Based on the value of SRP's electric facilities in each county, property tax payments are computed with the same formula used for investor-owned utilities.

SRP Keeps Communities Clean, Safe and Active

It was a corny idea, but somebody finally invented a better litterbag. As an environmentally concerned company, SRP had been involved in community cleanups for years. Through the cleanups and our own operations, we were adding 500,000 litterbags to Arizona landfills yearly.

Because ordinary plastic bags take between 100 and 400 years to degrade, we decided to take cleanups one step further when a new technology became available.

We contracted with a company in Illinois that had a cornstarch formula which, when mixed with plastic, would make a trash bag capable of decomposing in 18 months.

SRP bought more than a half million of the degradable bags to give to customers and other Arizonans throughout the year to help keep the state clean.

For the second year, SRP participated in the Valley's voluntary "Don't Drive One In Five" campaign. We placed first among large companies for having the greatest number of employees participating during a one-week "Business Challenge" contest. Nearly 17 percent of our employees found an alternate means of transportation.

Sponsored by the Regional Public Transportation Authority, the Clean Air Campaign was held during the high pollution season in the Valley, from October through January. The campaign encouraged motorists to leave their cars at home and use some other form of transportation, such as buses or car-pooling.

SRP not only emphasizes safety companywide, but also communitywide.

In an effort to make Phoenix and other communities safer places to work and live, SRP teamed up with three other utilities to form Arizona Community Watch.

Through the use of two-way radios or cellular telephones in their company vehicles, employees report crimes, suspicious activities, fires and other hazards in Valley area communities. This joint effort is designed to help police and fire agencies respond quicker and more frequently to accidents or crimes.

Arizonans Learn Through SRP Education Programs

SRP also devotes time and energy to education.

For 25 years, SRP's Educational Services Division has been conducting programs

Customer Service Representative Lupe Hidalgo emphasizes the importance of providing excellent service to the entire community. A two-year SRP employee, she received a monthly employee recognition award for her efforts. Last year, Customer Services answered 1,250,000 phone calls.

about water and electricity for teachers and students.

Last year more than 83,000 students and teachers learned from the educational services staff. Topics were: water safety, electric safety, electricity generation, and water and energy conservation.

Students illustrated their knowledge by entering 1,300 posters in SRP's annual water and electric safety poster contest.

Approximately 2,000 people from all over the world took part in 117 tours of SRP canals, dams, power plants and other Project facilities.

Last year, SRP's Speakers Bureau employee volunteers talked to nearly 160,000 members of community groups.

History Moves Forward

Last year we took 22,000 people back in time on SRP's Time Machine. This museum on wheels enables us to share our story across the state. The machine showcases SRP's history from the Hohokam people to modern day.

The SRP History Center featured a special display of artifacts, consisting of Hohokam tools, ceramics and ornaments dating as far back as 450 A.D. The artifacts were uncovered from an ancient Hohokam village at an electrical substation site. SRP's staff archaeologist in January 1988 led the full-scale excavation.

Six thousand people toured the History Center last year.

SRP Contributes to Good Causes

SRP contributes to many charities, educational institutes and civic groups throughout the state.

In support of higher education, we contributed $50,000 to the Maricopa Community Colleges Foundation to be used for scholarships during five years.

SRP also supports the arts and cultural community. Last year, the largest single grant went to the Phoenix Symphony. And, we have just completed a five-year pledge to the new Herberger Theater.

In the area of health and human services, SRP contributed $30,000 to the renovation of Tempe St. Luke's Hospital. We also contributed to a special trust fund established with the Arizona Community Foundation. The foundation helps impoverished, ill or abused children in Arizona. The SRP Board also approved a $10,000 contribution to the Crisis Nursery for a capital campaign.

We recognized the volunteer efforts of Susan Marie Lord, a freshman at Saguaro High School in Scottsdale. She received the Young Adult Volunteer Award. Susan, 15, has volunteered for two years with the City of Scottsdale Recreation Division's Special Needs Program. This program is designed for developmentally disabled children, ages 6 to 22, who are enrolled in special education classes.

SRP also supports civic efforts such as the Futures Forum and the Arizona Town Hall. The Futures Forum gathers Phoenix citizens to discuss the future of their city. The Arizona Town Hall was established in 1962. Approximately 125 prominent Arizona citizens meet twice a year to discuss a topic of major concern to Arizona's future.

We provided seed money for the International Desert Cities Conference to be held

SRP's cornstarch litterbags made their debut at the annual Page Attacks Trash Cleanup in Page, Ariz. More than 5,000 people used about 43,000 of the 40-pound capacity litterbags to collect approximately 200 tons of trash. SRP and the degradable litterbag won first place in the national "Take Pride in America" program. SRP's entry was voted No. 1 of 457 entries from 44 states. The bag was a national entry after earning a first-place award in the "Take Pride in Arizona" competition sponsored by the Governor's Commission on Arizona Environment.

SRP's number one corporate objective is safety. As a result of this dedication to companywide safety, in 1988 we saw no significant increase in lost-time or preventable accidents. Our record earned us second place in the American Public Power Association's (APPA) annual safety contest. The APPA represents more than 1,750 utilities.

Historians at SRP's Silva House museum offered an arts and crafts program to school children. Students made turn-of-the-century toys and Christmas decorations. They also toured the home, which was built in 1900. The museum features early electric appliances and displays in homey settings. Last year 24,000 people took tours of the Silva House.

in Phoenix in 1991. The conference is designed to ensure the survival of desert communities into the 21st century.

For the past seven years, SRP has supported Project S.H.A.R.E. (Service to Help Arizonans with Relief on Energy). This cooperative effort of The Salvation Army, Salt River Project and Arizona Public Service Co. helps needy citizens pay their energy bills.

Last fiscal year, customers of SRP contributed $147,251 to Project S.H.A.R.E.

SRP employees also recognized the importance of being active and charitable citizens.

Through payroll deductions to the Employees Booster Associations, Project employees contributed $287,396 to 27 state and local organizations in Arizona last year.

At Coronado Generating Station, employees raised $1,700 for the St. Johns Senior Citizens through a 10,000-meter fun run. The event drew 700 participants.

SRP employees last year served their communities through 118 business and service clubs and non-profit organizations. Employees were members of 381 trade, technical and non-profit organizations.

In an effort to beautify the community in which they work, employees of the West Valley Service Center last November picked up 150 tons of trash during the Tolleson Cleanup.

Outstanding Students Recognized

Personal achievement and academic success are two areas which SRP actively promotes.

Each year we sponsor several scholarships to deserving students in Arizona communities. For example, the Coronado Generating Station engineering scholarship pays for all college expenses at the recipient's in-state university. The scholarship also includes an option for paid summer employment at the generating station.

Chosen by their principals as the top graduating seniors in their class, 62 high school seniors were honored at the sixth annual "Spotlight On Excellence" recognition dinner. The students were chosen from communities in which SRP owns or operates facilities.

Younger students learn through SRP's annual Energy Fair. Winners receive U.S. Savings Bonds. This year, students from 12 schools entered more than 100 projects.

Students interested in careers in science and engineering partake in the SRP-sponsored Explorer Post 170. Twice monthly, students hear guest speakers and take career-related field trips.

Last year, Explorer Post 170 earned two post achievement awards and two individual merit awards for growth, leadership, contributions to the community and outstanding club guidelines.

SRP's commitment to safety was exemplified this year when Salt River Pete's Water Safety Club inducted its 500,000th member. Nine-year-old Anthony Chavez, a third-grader at M.C. Cash School, received a plaque. The club's purpose is to educate children about water safety. Children learn from presentations on water rescue procedures, safe swimming tips, and the dangers of swimming in canals or strange places.

Last August SRP gave a cool welcome to the Valley's new professional football team, the Phoenix Cardinals. It was a fans-for-fans project. We distributed 140,000 colorful, hand-held fans to spectators at the first two games. Audience members stayed cool while waving the fans which touted, "I'm a Cardinal Fan." In line with an SRP advertising campaign, the back of the fan had a message supporting the Arizona Heat Pump Council. The council has 60 heat pump contractors and dealers in the Valley.

There Really is a Better Way

Making sure electricity and water are good values is a Project goal. In view of this goal, SRP strives to eliminate extra expenses when possible.

The Better Way Program is one such cost-saver. Since its inception in 1986, the program has saved us more than $2 million. Through employees' suggestions, we refine operations within the organization. By reducing operating costs, employees help hold down rates for SRP customers. Employees receive monetary awards for their ideas.

FINANCE

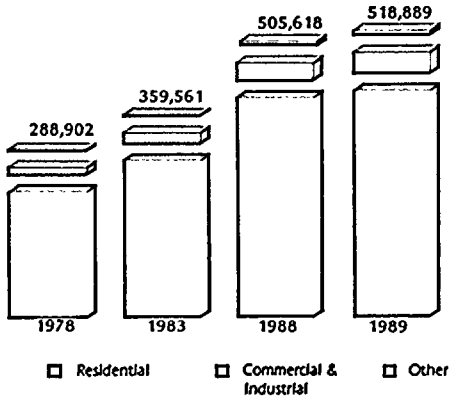
SRP Revenues Pass Billion Dollar Mark in 1988-89

For the first time, SRP passed the billion dollar mark in fiscal year 1988-89, with combined operating revenues of $1.06 billion. That compares to $959 million in 1987-88. After subtracting expenses, net revenues were $11.8 million, compared to $16.3 million last year.

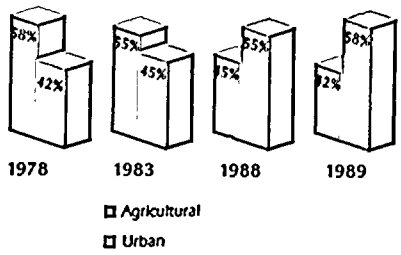
While net revenues declined, funds available for corporate purposes remained strong, climbing to $132.2 million, an increase of $19.2 million from the prior year.

An increase of 13,271 electric customers and above-average, hot weather during the peak summer months resulted in our electric revenues increasing by $102.9 million. This increase, however, was offset by the booking of $32.7 million for a major corporate reorganization program and an increase in operating expenses and financing costs.

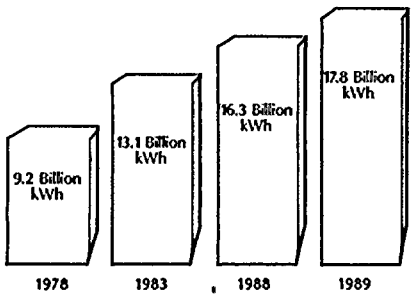
Electric Customers



Water Delivered Within Project Boundaries
Agricultural vs. Urban



Total Electric Sales



The American Public Power Association ranks SRP third in kilowatt hours (kWh) sold.

Reorganizing for a Strong Future

SRP's reorganization program eliminated 791 positions, 200 of which were unfilled slots. As a result, approximately 600 employees were eligible for an enhanced severance package. Management anticipates that cost reductions associated with the restructuring will save up to $50 million per year.

We restructured the organization to help retain a competitive edge in the utility industry. The program grew out of a corporate objective to improve management practices and processes to increase organizational efficiency.

The reorganization and a five-year financial plan are part of our strategic direction. Both will help us compete in the future.

The financial plan was designed to focus the Board's and management's attention on long-range operations. It has three principal targets:

- Rate increases which, when combined with adjustments to the fuel escalator, do not exceed the compound rate of inflation over time.
- A debt service coverage ratio of not less than 1.80. Our current ratio is 1.92.
- A debt ratio of 75 percent or less. We currently are at 71 percent. This ratio helps maintain an AA bond rating from Standard & Poors and Aa rating from Moody's Investor Service.

Why We Sell Bonds

As Congress looks for ways to balance the budget this year, one area it is examining is the use of tax-exempt financing by municipalities. A Supreme Court ruling in April 1988 gave Congress the green light to tax interest on state and local bonds.

SRP issues tax-exempt electric system revenue bonds to build and improve electrical facilities. We have raised $2.2 billion so far in the 1980s. Because these bonds are SRP's primary means of raising funds, and because public power systems — as do other infrastructure systems — require large amounts of external capital, SRP is joining the American Public Power Association (APPA), the Large Public Power Council, and others in urging Congress to preserve tax-exempt financing for local government entities.

We sell bonds to finance a $1.6 billion construction program which will occur during the next five years. We will build electric distribution facilities worth about $700 million during the five-year period.

SRP held three bond sales during 1988-89:

- a $100 million revenue bond sale at 7.5 percent in October
- a $21.8 million minibond sale at 7.2 percent in December
- a $150 million revenue bond sale, including $9.5 million of capital appreciation bonds

(CABS) at 7.7 percent in April. SRP has offered CABS as part of minibond sales, but this is the first time we have issued regular revenue bonds as CABS.

There were no refunding issues.

The Board approved the issuance of $25 million of commercial paper to the existing $350 million commercial paper program, and a $375 million line of credit with a consortium of banks led by First Interstate Bank of Arizona. Goldman Sachs & Co. is SRP's commercial paper dealer.

A $40 million credit line with Fuji Bank Limited of Tokyo is dedicated to support the minibond program.

SRP prepaid outstanding government loans on June 28, 1988, based on an offer made by the U.S. Bureau of Reclamation. A lump sum payment of $3.9 million removed $6.9 million of long-term debt and resulted in an extraordinary gain of $3.0 million.

At the end of April 1989, SRP had $3.5 billion in outstanding long-term debt, of which $3.1 billion was revenue bonds and $375 million was commercial paper.

Revenues available for debt service were $450.0 million, or 1.92 times the utility's debt service requirements of $234.4 million for the year.

SRP Examines Possible County and State Tax Increases

SRP paid $48 million last fiscal year in-lieu of property taxes to taxing authorities in the state and nine counties. More than half the payments benefit school districts.

As a political subdivision of Arizona, SRP makes voluntary contributions based on the value of our electric operating properties, under special legislation passed in 1963. The values of SRP electric operating properties in the counties are determined using the same formula that is used for private utilities.

In effect, SRP is the state's third largest taxpayer.

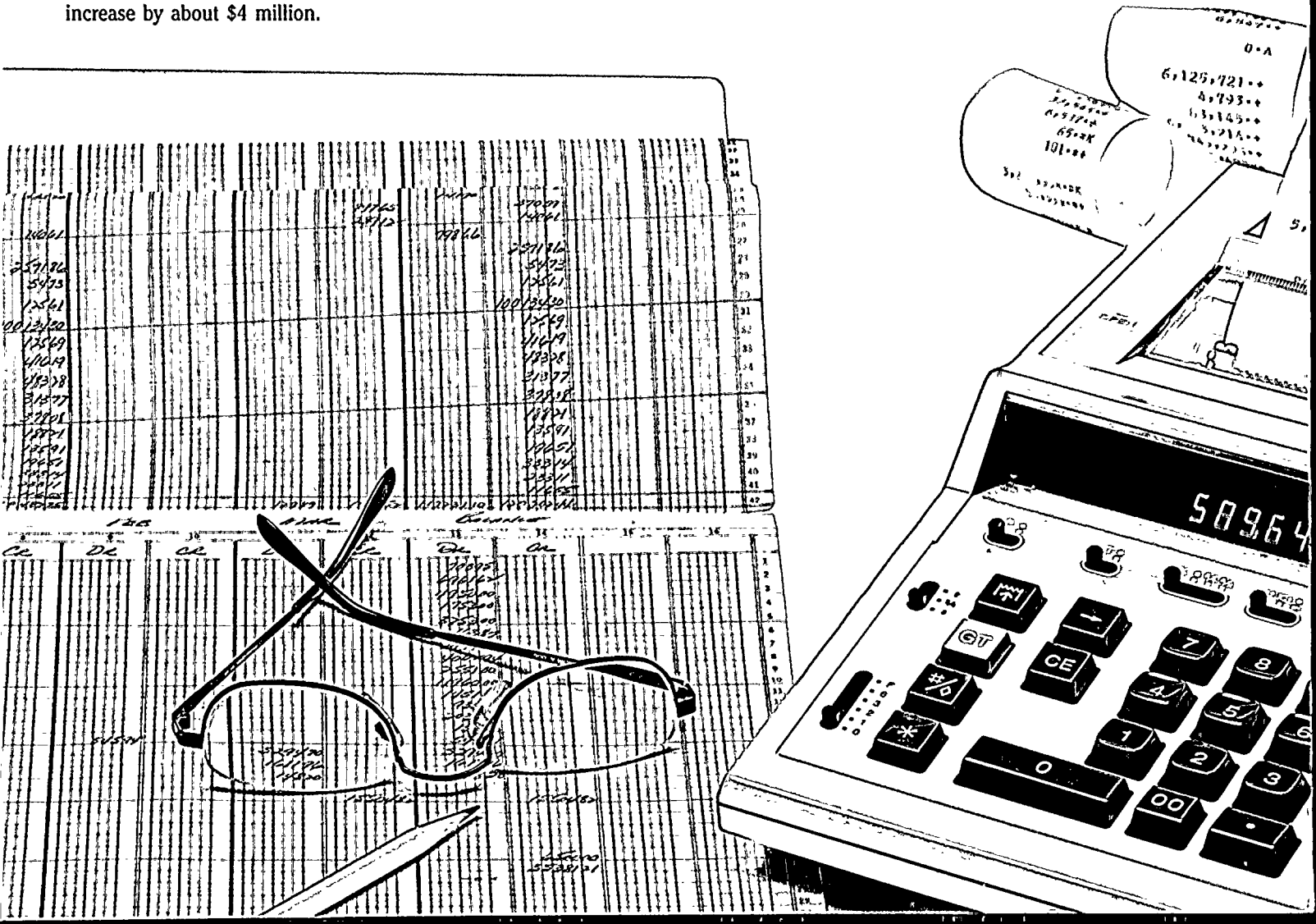
Due to legislation enacted this year to help resolve the state's budget problems, utilities will pay additional taxes. Studies show that SRP's in-lieu tax payments will increase by about $4 million.

Construction of the first phase of SRP's new corporate office complex, Papago Park Center, is complete. Information Systems employees and the mainframe computer relocated to the 320,000-square-foot Information Systems Building between March and June 1989.

Ground was broken for the building in January 1987. Additional SRP buildings are planned for the 530-acre site.

In November 1988, we filed articles of incorporation with the Arizona Corporation Commission for a wholly owned subsidiary named Papago Park Center Inc.

Operating through a $3.5 million capitalization plan, the subsidiary initially will sublease 203 acres of land at Papago Park Center for private, commercial development. We will use the net resulting revenues to help offset costs of providing electricity to SRP customers.



STATISTICAL REVIEW

PROJECT GENERAL

($000)

	12 Months Ended April 30			12 Months Ended December 31
	1989	1988	1983	1978
Operating revenues	$1,063,306	$959,346	$652,139	$337,764
Electric	1,055,042	952,133	645,171	333,329
Water and irrigation	8,264	7,213	6,968	4,435
Operating expenses	832,316	790,972	457,905	246,897
Other income	4,571	39,265	39,332	24,730
Net financing costs	223,798	191,378	73,611	49,804
Net revenues	11,763	16,261	159,955	65,793
Additions to plant, excluding allowances for funds used during construction	341,617	361,881	297,507	406,124
Utility plant, gross	5,560,160	5,335,784	3,386,983	1,912,139
Contributions of electric revenues to support water operations	34,069	29,227	8,337	7,507
Taxes and tax equivalents	125,171	121,154	60,426	38,339
Employees at year end	5,599*	5,805	5,179	4,226

**Does not include temporary employees.*

WATER*

	1988	1987	1983	1978
Total storage and pumping capacity (acre-feet)	2,880,369	2,881,972	2,838,906	2,811,600
Storage capacity (six reservoirs)	2,019,102	2,019,102	2,019,102	2,063,948
Installed pumping capacity	861,267	862,870	819,804	747,652
Water in storage Jan. 1 (acre-feet)	1,624,272	1,691,741	1,630,000	511,093
Project storage only	1,391,376	1,464,527	1,345,252	288,660
Runoff (acre-feet)	1,136,727**	1,120,034	2,829,617	3,389,051
Water in storage Dec. 31 (acre-feet)	1,598,989	1,624,272	1,717,407	1,839,399
Project storage only	1,329,773	1,391,376	1,455,375	1,548,742
Sources of water for deliveries (acre-feet)	1,053,717	1,094,601	1,171,097	1,050,647
Gravity supply	1,001,247**	1,039,457	1,124,554	977,988
Groundwater supply (pumping by SRP)	50,004	50,591	43,248	66,747
Groundwater supply (pumping by others)	2,466	4,553	3,295	5,912
Use of water (acre-feet)	951,693	997,324	1,118,166	1,050,647
Agricultural	311,338	336,527	454,516	400,707
Urban	428,146	417,914	364,435	291,549
City domestic	313,997	304,532	251,110	198,228
Subdivision irrigation	62,669	61,872	58,988	49,615
Other non-agricultural irrigation (schools, parks, churches, etc.)	51,480	51,510	54,338	43,706
Decreed deliveries	54,537	50,783	52,298	43,052
Contract deliveries	157,673	192,100	6,177	127,195
Seepage and evapotranspiration	102,024	97,277	156,325	188,144
Canals, total (miles)	133	133	132	131
Lined	96	97	71	62
Laterals, total (miles)	907	899	887	880
Lined and piped	817	807	766	738
Drainage and waste ditches (miles)	232	236	244	251
Lined and piped	88	88	70	58
Assessed area (acres)	238,266	238,170	238,172	238,220
Number of assessed accounts	182,226	182,110	180,455	171,875
Number of times water delivered to users	486,307	475,364	479,996	429,276

* 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
	1989	1988	1983	1978
Energy Sources (kWh)				
Net nuclear generation	3,864,274,000	2,714,798,000	-0-	-0-
Net steam generation*	12,691,834,000	11,599,545,000	11,399,943,000	7,221,663,000
Net gas turbine generation	28,239,000	4,694,000	16,206,000	59,793,000
Net combined cycle generation	875,447,000	762,125,000	287,629,000	385,269,000
Net run of river generation	348,404,000	357,928,000	613,694,000	367,924,000
Pumped storage generation	168,280,000	174,844,000	199,069,000	105,960,000
Total net generation*	17,976,478,000	15,613,934,000	12,516,541,000	8,140,609,000
Purchased	1,064,999,431	1,986,621,174	1,735,645,332	1,808,603,941
Interchange received	112,182,828	127,353,000	87,348,000	249,074,000
Wheeling received	244,548,617	10,572,500	8,154,668	7,725,059
Total energy sources*	19,398,208,876	17,738,480,674	14,347,689,000	10,206,012,000
Energy disposition (kWh)***				
Residential	6,095,740,065	5,755,597,879	3,982,669,563	3,278,867,939
Commercial & Industrial	7,201,161,575	6,806,397,526	4,386,224,953	3,945,048,976
Irrigation pumping	276,195,168	226,113,617	192,420,700	206,269,684
Street & highway lighting	106,249,527	103,537,571	46,948,183	39,400,289
Public authorities	314,981,553	293,322,023	338,755,364	289,204,179
Interdepartmental	95,397,871	85,065,218	61,423,824	66,240,885
Sales for resale	3,700,213,776	3,065,080,688	4,079,623,799	1,340,060,575
Total sales	17,789,939,535	16,335,114,522	13,088,066,386	9,165,092,527
Interchange delivered	70,079,883	130,817,000	74,340,000	124,787,000
Wheeling delivered	243,539,088	9,958,127	7,433,303	7,307,903
Energy losses	1,059,965,370	1,012,817,025	895,845,311	759,125,570
Energy for pumped storage operation	234,685,000	249,774,000	282,004,000	149,699,000
Total disposition of energy	19,398,208,876	17,738,480,674	14,347,689,000	10,206,012,000
Peak overall power system (kW)	3,476,000	3,234,000	2,619,000	2,196,000
Date and time (MST)	July 25, 5 p.m.	Aug. 4, 6 p.m.	Aug. 2, 6 p.m.	July 14, 3 p.m.
Peak Project customers (kW)	3,060,000	2,840,000	2,172,000	1,854,000
Date and time (MST)	July 25, 5 p.m.	Aug. 4, 6 p.m.	Aug. 20, 5 p.m.	July 20, 6 p.m.
Generating capability (kW)**				
Nuclear	641,190	427,460	-0-	-0-
Steam*	2,411,115	2,411,115	2,283,250	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*	3,966,705	3,752,975	3,196,250	2,448,250
Contract purchase at peak	237,544	517,744	329,547	461,813
Total resources*	4,204,249	4,270,719	3,525,797	2,910,063
Electric customers—year end***				
Residential	469,330	457,235	332,790	268,107
Commercial & Industrial	40,556	39,358	25,092	19,274
Other	9,003	9,025	1,679	1,521
Total	518,889	505,618	359,561	288,902
Average annual kWh use/ residential customer***	12,988	12,824	12,277	12,799
Average annual residential revenues/kWh (cents)	8.03	7.65	6.47	4.72

* 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.

COMBINED BALANCE SHEETS

Salt River Project

As of April 30, 1989 and 1988

ASSETS

($000)

	1989	1988
UTILITY PLANT, at historical cost *(Notes 1, 2, 3 and 4)*:		
Plant in service:		
Electric	$4,587,139	$4,305,817
Irrigation	107,119	101,122
Common	220,123	203,356
	4,914,381	4,610,295
Less—Accumulated depreciation on plant in service	1,135,244	995,525
	3,779,137	3,614,770
Plant held for future use	298,934	309,343
Construction work in progress	267,027	333,795
Nuclear fuel, net of amortization	79,818	82,351
	4,424,916	4,340,259
OTHER PROPERTY AND INVESTMENTS:		
Non-utility property and other investments	34,448	30,222
Segregrated funds, net of current portion	111,656	100,263
	146,104	130,485
CURRENT ASSETS:		
Cash and temporary investments, at cost	261,855	198,119
Current portion, segregated funds	82,145	77,026
Trade and other accounts receivable, net	57,960	50,824
Fuel stocks, at last-in, first-out cost	86,554	99,104
Materials and supplies, at average cost	80,509	71,575
Other current assets	24,809	20,763
	593,832	517,411
DEFERRED CHARGES AND OTHER ASSETS *(Notes 1 and 5)*	212,791	145,902
	$5,377,643	$5,134,057

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

CAPITALIZATION AND LIABILITIES

($000)

	1989	1988
LONG-TERM DEBT *(Notes 5 and 8):*		
Electric system revenue bonds, net of current portion	$3,129,380	$2,891,391
Commercial paper and other	375,783	360,333
	3,505,163	3,251,724
ACCUMULATED NET REVENUES:		
Balance, beginning of year	1,442,926	1,426,665
Net revenues for the year	11,763	16,261
Balance, end of year	1,454,689	1,442,926
TOTAL CAPITALIZATION	4,959,852	4,694,650
CURRENT LIABILITIES:		
Current portion, long-term debt	32,360	26,993
Accrued plant deferral costs, current portion *(Note 3)*	25,448	105,200
Accounts payable	93,076	79,326
Accrued taxes and tax equivalents	45,477	44,305
Accrued interest	74,425	70,381
Customers' deposits	23,765	24,647
Accrued reorganization costs	31,613	—
Other current liabilities	27,863	27,654
	354,027	378,506
DEFERRED CREDITS AND OTHER NON-CURRENT LIABILITIES *(Notes 3 and 7)*	63,764	60,901
COMMITMENTS AND CONTINGENCIES *(Notes 3, 5 and 7)*	—	—
	$5,377,643	$5,134,057

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

COMBINED STATEMENTS OF NET REVENUES

Salt River Project

For the years ended April 30, 1989 and 1988

	($000)	
	1989	**1988**
OPERATING REVENUES *(Note 1)*:		
Electric	$1,055,042	$ 952,133
Water and irrigation	8,264	7,213
Total operating revenues	1,063,306	959,346
OPERATING EXPENSES:		
Purchased power	15,327	26,626
Fuel used in electric generation	254,907	216,093
Other operating expenses	193,925	174,251
Maintenance	92,334	101,530
Depreciation and amortization *(Note 1)*	150,652	151,318
Taxes and tax equivalents	125,171	121,154
Total operating expenses	832,316	790,972
Net operating revenues	230,990	168,374
OTHER INCOME:		
Allowance for equity funds used during construction	4,694	20,005
Interest income	29,585	24,949
Other deductions, net	(45)	(5,689)
Total other income	34,234	39,265
Net revenues before financing costs	265,224	207,639
FINANCING COSTS:		
Interest on bonds	204,378	189,296
Amortization of bond discount, issue and refinancing expenses	7,005	6,096
Interest on other obligations	22,668	18,409
Less—Allowance for borrowed funds used during construction	(10,253)	(22,423)
Net financing costs	223,798	191,378
NET REVENUES BEFORE UNUSUAL AND EXTRAORDINARY ITEMS	41,426	16,261
UNUSUAL ITEM—Expenses of corporate reorganization program *(Note 10)*	(32,687)	—
NET REVENUES BEFORE EXTRAORDINARY ITEM	8,739	16,261
EXTRAORDINARY ITEM—Gain on extinguishment of debt *(Note 5)*	3,024	—
NET REVENUES	$ 11,763	$ 16,261

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

COMBINED STATEMENTS OF CASH FLOWS

Salt River Project

For the years ended April 30, 1989 and 1988

	($000)	
	1989	**1988**
NET CASH FLOWS FROM OPERATING ACTIVITIES:		
Net revenues	$ 11,763	$ 16,261
Noncash items included in net revenues:		
Depreciation and amortization	150,652	151,318
Amortization of bond related expenses	7,005	6,096
Gain on sale of plant and debt extinguishment	(4,390)	(242)
Decrease (increase) in fuel stocks and materials and supplies	3,616	(20,238)
Decrease (increase) in other assets, net	(19,694)	15,014
Increase (decrease) in accounts payable	13,750	(6,102)
Increases in: Accrued taxes and tax equivalents	1,172	2,871
Accrued interest	4,044	6,620
Accrued reorganization costs	31,613	—
Other liabilities, net	2,189	10,639
Termination of coal contract	(59,410)	—
Net cash provided by operating activities	142,310	182,237
NET CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to utility plant, net of AFUDC	(341,617)	(361,881)
Allowance for funds used during construction	(14,947)	(42,428)
Additions to non-utility property	(4,226)	(12,475)
Decrease in note receivable	—	28,969
Contributions in aid of construction	40,527	18,518
Proceeds from sale of plant	2,342	433
Net cash used by investing activities	(317,921)	(368,864)
NET CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds of bond issues	264,614	266,347
Proceeds of other long-term debt, net of repayments	22,333	1,191
Repayment of principal on bonds	(27,229)	(26,915)
Repayment of principal on U.S. debt *(Note 5)*	(3,859)	(886)
(Increase) decrease in segregated funds	(16,512)	34,318
Net cash provided by financing activities	239,347	274,055
NET INCREASE IN CASH AND TEMPORARY INVESTMENTS	63,736	87,428
BALANCE AT BEGINNING OF YEAR IN CASH AND TEMPORARY INVESTMENTS	198,119	110,691
BALANCE AT END OF YEAR IN CASH AND TEMPORARY INVESTMENTS	$261,855	$198,119

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

NOTES TO COMBINED FINANCIAL STATEMENTS

Salt River Project

For the Years Ended April 30, 1989 and 1988

(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 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 Agent

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

(c) Utility Plant, Depreciation and Maintenance

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

An allowance for funds used to finance construction work in progress (AFUDC) is capitalized as a part of the electric and general plant. This allowance is deducted from net financing costs in the combined statements of net revenues and added to utility plant. Capitalization rates of 6.70% and 8.75% were used in 1989 and 1988, respectively.

Depreciation expense is computed on the straight-line basis over the estimated useful lives of the various classes of plant. Rates in effect resulted in provisions approximating 3.10% and 3.42% for 1989 and 1988, respectively, on the average cost of depreciable electric plant, and 1.46% and 1.43% for 1989 and 1988, respectively, for depreciable irrigation plant.

As of May 1, 1988, the District prospectively revised its estimate of the depreciable life of the Palo Verde Nuclear Generating Station (PVNGS) from 27 years to 35 years. The revised life more closely approximates industry standards for nuclear plant depreciation. This change reduced depreciation expense for the year ended April 30, 1989, by approximately $12,000,000.

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 $26,415,000 and $23,743,000 at April 30, 1989 and 1988, 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 public notice requirements and holding a special Board meeting, before implementing changes in standard electric rate schedules. The current rates have been in place since October, 1987.

(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 kWh on its share of electricity produced by PVNGS. The District records this charge as a current year expense.

(h) Decommissioning

The District reserves for the cost of decommissioning PVNGS based on an outside engineer's study. The total estimate to decommission the District's share of PVNGS is $148 million. This estimate will be reviewed and adjusted periodically. Decommissioning funds collected from the ratepayers of approximately $6.4 million are maintained as a segregated fund. The corresponding liability is classified as an other noncurrent liability.

(i) Income Taxes

The District is exempt from federal and state income taxes.

(j) Reclassifications

Certain 1988 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 certain 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:

	(Thousands)	
	1989	1988
Electric generating facilities	$ 70,497	$ 49,280
Transmission and distribution	88,914	113,071
Irrigation plant	30,542	22,039
Other construction	77,074	149,405
	$267,027	$333,795

Construction expenditures planned for fiscal years 1990 through 1994 are shown below.

	(Thousands)
1990	$282,873
1991	289,454
1992	336,092
1993	349,967
1994	377,515

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

In 1988, the Board of Directors approved deferring the in-service date of Coronado Generating Station Unit 3. This action was taken as a result of a study which concluded that the deferral would allow SRP to realize savings in future revenue requirements. The unit is currently scheduled for commercial operation in 2005.

Coronado Unit 3 costs of $280.5 million were transferred to Plant Held for Future Use in accordance with a resolution approved by the Board of Directors on June 13, 1988. Costs incurred include both construction costs incurred to date plus an estimate of costs necessary to defer the in-service date of Coronado Unit 3. The resolution provided that these costs would be included in the amounts to be recovered from consumers over the depreciable life of Coronado Generating Station, subject to the rate adjustment procedures set forth in the Arizona Revised Statutes.

The District has entered into two long-term power purchase agreements to replace a portion of the power which would have been supplied by Coronado Unit 3. Each contract is for 50 MW of firm power starting June 1990, increasing to 100 MW beginning in June 1991 and expiring in the year 2011.

Minimum payments under these purchased power contracts are as follows for the fiscal years ending April 30:

	(Thousands)
1990	$ —
1991	12,507
1992	26,151
1993	27,288
1994	27,288
Thereafter	515,050
Total	**$608,284**

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

During the fiscal year ended April 30, 1989, the District paid approximately $59 million to terminate a contract with Kaiser Coal Company. The termination will result in substantial savings since the District will no longer be obligated to buy coal from Kaiser for Coronado Units 1 and 2. The termination cost is being amortized to fuel expense over the remaining 15 year life of the original contract.

At April 30, 1989, commitments had been entered into for delivery of materials and services on construction projects. In addition, minimum long-term commitments of approximately $1.8 billion exist under coal and fuel oil supply contracts.

The Project has committed to spend approximately $45 million over the next six years for its share of a project to build or modify dams on the Salt and Verde Rivers for flood control, to ensure dam safety and provide water storage associated with the Central Arizona Project.

(4) INTERESTS IN JOINTLY OWNED ELECTRIC UTILITY PLANTS:

The District has entered into various agreements with other electric utilities for the joint ownership of electric generating and transmission facilities. Each participating owner in these facilities must provide for the cost of its ownership share. The following schedule reflects the District's ownership interest (at cost) in jointly owned electric utility plants at April 30, 1989:

		(Thousands)		
Plant Name	Ownership Share Percent	Plant In Service	Accumulated Depreciation	CWIP
Four Corners (NM)	10.00%	$ 84,828	$ 21,890	$ 6,122
Mohave (NV)	10.00	46,202	18,456	1,276
Navajo (AZ)	21.70	216,958	91,364	7,430
Hayden (CO)	50.00	67,425	28,386	509
Craig (CO)	29.00	225,345	63,703	642
Palo Verde (AZ)	17.49	1,573,376	130,550	11,557
		$2,214,134	$354,349	$27,536

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 Project 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:

		(Thousands)		
	Interest Rate	1989	1988	Maturities
Electric System Revenue Bonds	4.9-11.5%	$3,257,583	$3,010,961	1990-2029
Unamortized Bond Discount		(95,843)	(92,577)	
Total Revenue Bonds Outstanding		3,161,740	2,918,384	
U.S. Government Non-Interest Bearing Debt		—	6,883	
Commercial Paper and Other	6.0-7.6%	375,783	353,450	
Total Long-Term Debt		**$3,537,523**	**$3,278,717**	

Electric system revenue bonds are secured by a pledge of, and a lien on, the revenues of the electric system after deducting operating expenses, as defined in the bond resolution.

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. For the years ended April 30, 1989 and 1988, debt service coverage was as follows:

	(Thousands) (except for ratios)	
	1989	1988
Revenues available for debt service	$449,968	$408,442
Total debt service requirements	234,386	214,634
Debt service coverage ratio	1.92	1.90

The annual maturities of long-term debt (excluding commercial paper) as of April 30, 1989, due in the fiscal years ending April 30, are as follows:

	(Thousands)
1990	$ 32,360
1991	34,128
1992	39,368
1993	44,786
1994	50,554
Thereafter	3,057,170
	$3,258,366

Interest and amortization of discount on the various issues results in an effective rate of approximately 7.26% over the remaining terms of the bonds.

At April 30, 1989, the Project has authority to issue additional electric system revenue bonds totalling $488,976,593 principal amount and electric system refunding revenue bonds totalling $1,518,405,000 principal amount.

From time to time, the District defeases electric system revenue bonds, sometimes resulting in a loss. The District's Board of Directors has determined that such losses should be recovered from the ratepayers during the period of reduced debt service requirements. Accordingly, under the provisions of Statement of Financial Accounting Standards No. 71, the losses will be amortized on a monthly basis over the life of the refunded bonds. Included in Deferred Charges and Other Assets is $96,399,000 and $99,138,000 of unamortized defeasance losses, at April 30, 1989 and 1988, respectively.

In 1984, the District refunded its then outstanding general obligation bonds. Although the refunding constituted an in-substance defeasance of the prior lien on revenues which secured 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 Association, and by the District's taxing authority. As of April 30, 1989 the amount of defeased general obligation bonds outstanding was $105,735,000.

In fiscal year 1989, the Project extinguished approximately $6.9 million in outstanding debt with the United States Bureau of Reclamation with a payment of approximately $3.9 million. This transaction resulted in a $3 million gain which has been reflected as an extraordinary item in the combined statement of net revenues for the year.

(6) EMPLOYEE BENEFIT PLANS:

The Project has a retirement plan (the Plan) covering substantially all employees. The Plan is funded entirely from Project contributions and the income earned on invested assets. No contributions were required to be made to the Plan in fiscal years 1989 and 1988. Plan assets consist primarily of stocks, U. S. obligations, corporate bonds, real estate funds, and a guaranteed investment contract.

Net periodic pension cost as of the dates of the latest actuarial report (April 30) is made up of the components listed below as determined using the projected unit credit actuarial cost method:

	(Thousands) 1989	(Thousands) 1988
Service cost	$ 9,061	$ 8,902
Interest cost	15,735	14,751
Actual return on assets	(47,941)	1,345
Net amortization and deferral	18,911	(28,775)
Net periodic pension income	**$(4,234)**	**$(3,777)**

The discount rate used in determining the actuarial present value of the projected benefit obligation was 9.0% for both 1989 and 1988. The rate of increase used to determine future compensation levels was 5.5% for fiscal years 1989 and 1988. The expected long-term rate of return on assets is 9.75% for both 1989 and 1988.

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

	(Thousands) 1989	(Thousands) 1988
Plan assets at fair value	$293,451	$252,294
Actuarial present value of projected benefit obligation:		
Vested benefit obligation	(145,579)	(120,008)
Nonvested benefit obligation	(6,519)	(8,767)
Accumulated benefit obligation	(152,098)	(128,775)
Excess of projected benefit obligation over accumulated benefit obligation	(51,615)	(48,938)
Projected benefit obligation	(203,713)	(177,713)
Plan assets in excess of projected benefit obligation	89,738	74,581
Unrecognized net assets	(56,366)	(60,702)
Unrecognized net gain	(21,983)	(5,963)
Prior service cost not yet recognized in net periodic pension cost	2,175	1,415
Prepaid Pension Cost	**$ 13,564**	**$ 9,331**

The Project also has two defined contribution plans, the Salaried Employees' Thrift Plan and the Hourly 401(k) Plan. Both plans receive employee contributions and partial employer matching contributions. Employees are eligible for participation in the appropriate plan upon completion of one year of service. Employer contributions to these plans were $2,700,000 and $2,100,000 in the fiscal years ended April 30, 1989 and 1988.

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 1989 and 1988, those costs totalled $2,100,183 and $1,696,765, respectively.

(7) LITIGATION AND OTHER CONTINGENCIES:

Environmental:

At any given time, litigation or administrative proceedings or studies involving environmental matters could affect the Project and its present and proposed generating and operating facilities. Many normal activities in connection with the operation of the Project generate hazardous wastes, which in the last 10 years, have been the subject of substantial federal, state, and local legislation imposing strict liability on generators, transporters, storers, and disposers of hazardous waste for clean-up costs and damages which result from substance release or contamination, regardless of time or location. Increased operating expenses due to adverse environmental decisions would be passed on to customers through electric rates.

The District's principal generating stations, due to their proximity to large national parks, monuments and wilderness areas, may be subject to provisions relating to visibility

protection. Currently, the U.S. Environmental Protection Agency is evaluating whether the Navajo Generating Station is a source of visibility impairment requiring installation of environmental controls. Installation would require significant additional expenditures, which would be passed on to customers through increased electric rates.

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, 1989.

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.

Indian Matters:

From time to time, the District is involved in litigation and disputes with various Indian tribes on issues concerning royalty payments, taxes, and water rights, among others. Resolution of these matters may result in increased operating expenses which would be passed on to customers.

(8) REVOLVING CREDIT AGREEMENT/ COMMERCIAL PAPER PROGRAM:

The District's Board has authorized the issuance of up to $375,000,000 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 July 12, 1990. As of April 30, 1989, the District had $375,000,000 of the Promissory Notes outstanding at an average interest rate to the District of 6.96%.

The District maintains a revolving credit agreement (the Agreement) with a consortium of nineteen banks to provide liquidity support for the Promissory Notes. Under the terms of the Agreement, the District may borrow up to $375,000,000 through October 15, 1990. The District must repay all outstanding borrowings by October 15, 1990. Borrowings under the Agreement initially bear interest at a rate equal to 0.625% plus the weekly average rate for three-month Certificates of Deposit, as published in the Wall Street Journal, plus certain adjustments. As of April 30, 1989, 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.

The District also maintains a revolving credit agreement with Fuji Bank, Ltd to support the District's mini-bond program. Under its terms, the District may borrow up to $40,000,000 at the Federal Funds Rate plus one-quarter to one-half percent. The agreement expires on November 14, 1990. There were no borrowings outstanding under this agreement at April 30, 1989.

(9) ASSOCIATION OPERATIONS:

Association expenses exceeded revenues by approximately $34,069,000 for 1989 and $29,227,000 for 1988.

(10) SRP'S ORGANIZATIONAL ASSESSMENT AND RENEWAL:

In 1989, the Board of Directors approved a program to review the Project's organizational structure in conjunction with revised growth estimates for the Phoenix metropolitan area. This program will result in the elimination of approximately 800 salaried and hourly positions. The related severance benefits have been expensed in the current year.

Independent Auditor's Report

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

We have audited the accompanying combined balance sheets of SALT RIVER PROJECT as of April 30, 1989 and 1988, and the related combined statements of net revenues and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Salt River Project as of April 30, 1989 and 1988, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Phoenix, Arizona
June 15, 1989

Arthur Andersen & Co.

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

John O. Rich
Assistant General Manager
Power Operations

John H. Steffen
Assistant General Manager
Power Construction & Maintenance

D.S. Wilson Jr.*
Associate General Manager
Water Group

Richard Juetten
Assistant General Manager
Water Resources & Services

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
Financial & Information Services Group

Mark B. Bonsall
Corporate Treasurer
and Assistant General Manager
Financial Services

John D. Jacobs
Assistant General Manager
Information Systems

Leroy Michael Jr.*
Associate General Manager
Planning & Resources

C.A. Howlett
Assistant General Manager
Customer Services & Marketing

D. Michael Rappoport
Assistant General Manager
Government Affairs

Richard H. Silverman
Assistant General Manager
Law & Land

Oren D. Thompson*
Assistant General Manager
Communications & Public Affairs

Paul D. Rice
Corporate Secretary

CONSULTANTS

Legal Advisers Jennings, Strouss & Salmon

Auditors Arthur Andersen and Co.

Bond Counsel Mudge Rose Guthrie Alexander and Ferdon

Financial Consultant Lazard Freres and Co.

**Effective June 1, 1989, Oren Thompson was named Associate General Manager, Water Group; D.S. Wilson Jr. was named Associate General Manager, Planning and Resources; James L. Swartz now reports to the Corporate Engineering and Power Group; and Leroy Michael Jr. is an Associate General Manager on special assignment.*

BOARD MEMBERS

Rudolph Johnson
District 1

Clarence C. Pendergast Jr.
District 2

Bruce B. Brooks
District 3

Gilbert R. Rogers
District 4

John M. Williams Jr.
District 5

Thomas P. Hurley
District 6

William P. Schrader
District 7

Joe Bob Neely
District 8

Olen Sharp
District 9

Dwayne E. Dobson
District 10

William W. Arnett
At-large

Fred J. Ash
At-large

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 staggered 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 campaign for similar positions on the District board.

John L. Burton Jr.
At-large

Eldon Rudd
At-large

Robert L. Cook
District 1

Howard W. Lydic
District 1

Emil M. Rovey
District 1

Carl E. Weller
Council Chairman District 5

Wayne A. Hart
District 2

Larry D. Rovey
District 2

Martin Kempton
Council Vice Chairman District 8

James M. Accomazzo
District 3

John E. Anderson
District 3

John A. Vanderwey
District 2

Wayne A. Marletta
District 7

Lester R. Mowry
District 7

Elvin E. Fleming
District 3

Lloyd Lee Banning
District 4

Levi H. Reed
District 4

COUNCIL MEMBERS

George B. Willmoth
District 7

Michael K. Gantzel
District 8

Mark V. Pace
District 8

Byron G. Williams
District 4

Roy W. Cheatham
District 5

Edmund Navarro
District 5

W. Curtis Dana
District 9

Robert E. Hurley
District 9

Lee L. Tregaskes
District 9

James L. Diller
District 6

Dean W. Lewis
District 6

The councils enact and amend bylaws relating to the management and conduct of SRP's business affairs.

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.

Orland R. Hatch
District 10

William P. Schrader Jr.
District 10

James R. Marshall
District 6

C. Dale Willis
District 10