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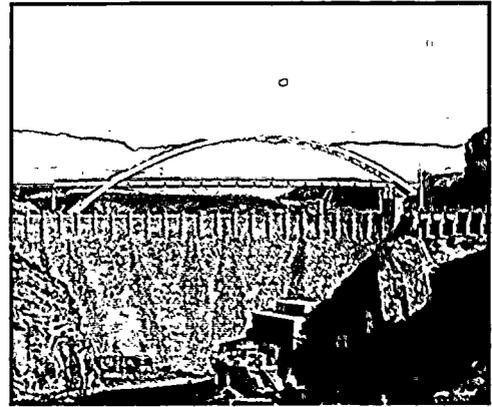


Publisher: SRP Public & Communications Services
P.O. Box 52025
Phoenix, Arizona 85072-2025
(602) 236-2598

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Cover: This embossed image is of Theodore Roosevelt Dam, the cornerstone of SRP's reservoir system.

Our report: The paper stock used throughout this report meets U.S. Environmental Protection Agency requirements for recycled paper.



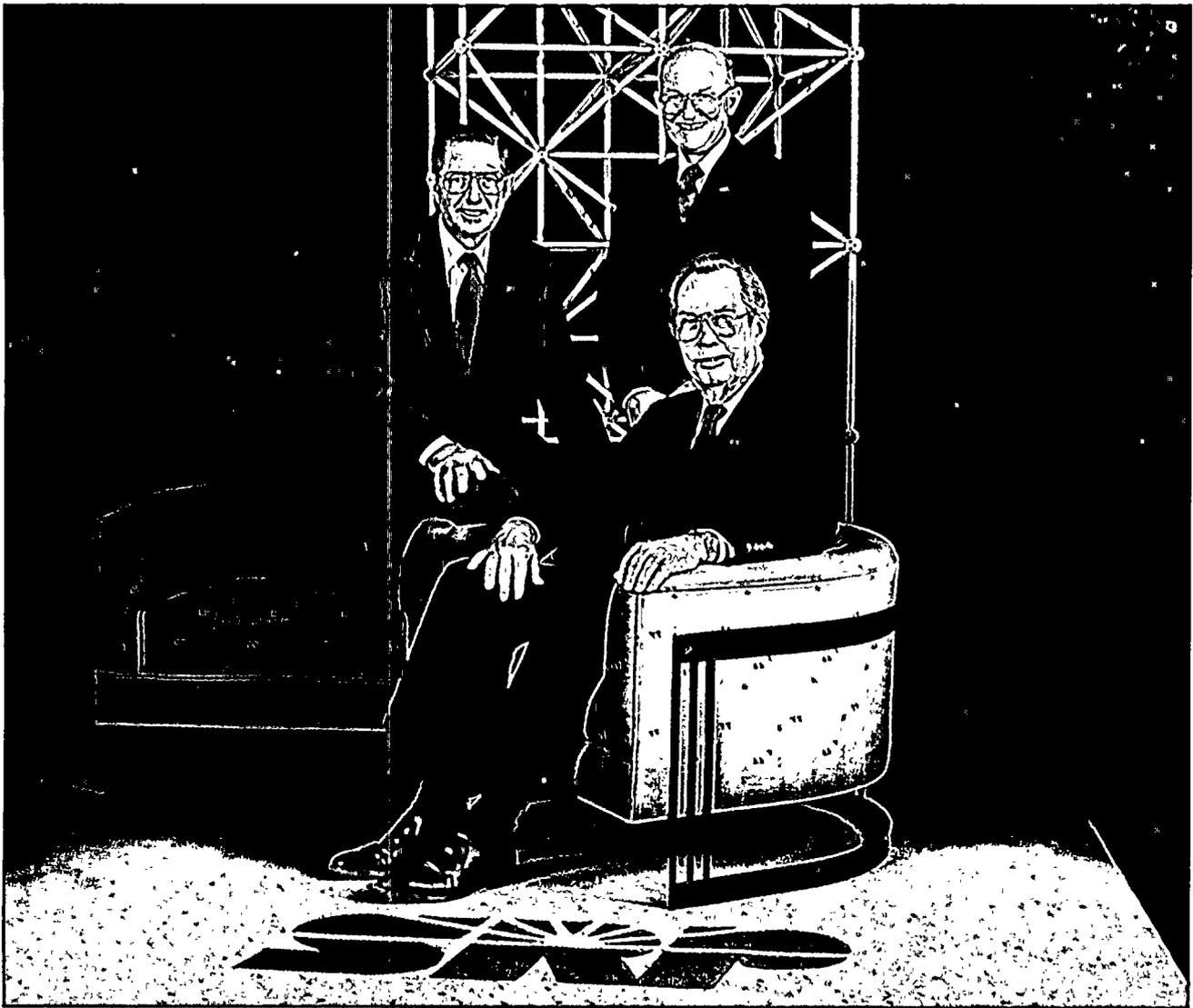
Why we are in business

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

Our business direction for the 1990s can be described with four Cs:

Customer Service, Competition, Commitment and Cost.

- We are dedicated to serving our customers by providing reliable services that ensure customer satisfaction.
- We provide economically reliable services tailored to the needs of our customers and we do so in a way that is superior to similar efforts by our competition.
- We are committed to fulfill our corporate community responsibility in matters involving the environment, safety, local concerns, and workplace and family issues.
- We provide our services at the lowest possible cost, maintaining our competitive edge while benefiting our customers.



(From left) Vice President William P. Schrader, General Manager C. M. Perkins (standing) and President John R. Lassen

STATEMENT TO BONDHOLDERS AND SHAREHOLDERS

"If you want to succeed you should strike out on new paths rather than travel the worn paths of accepted success."

— John
D. Rockefeller

We stepped out on a bold new path in 1903 when the Salt River Valley Water Users' Association was founded to provide a reliable water supply to struggling pioneer communities in the Phoenix area. The communities grew and prospered. To meet their changing needs, we improved our service, expanded our water system and embarked on a new venture of supplying electric power.

During our 88-year journey, we combined our power business and water

business to form the Salt River Project. SRP is Arizona's largest water supplier and the nation's second largest public power entity in terms of customers. Our customer base continues to grow as the local economy outpaces the national economy.

SRP is committed to add more value to power and water services. We will maintain and improve our already strong commitment to the communities in which we do business. To sharpen our

competitive edge, we will continue to develop creative ways to manage workplace and utility industry issues.

The most visible efforts to position ourselves competitively were two intensive companywide budget reviews and reorganizations during the last several years. Projected rate increases were trimmed to levels substantially less than the rate of inflation. This past fiscal year we pared capital budgets by \$500 million, and operating and maintenance budgets by \$285 million through fiscal year 1995-96.

We reduced the company's work force by about 18 percent during the past two years. Most recent changes eliminated an entire layer of middle and executive management. Besides controlling costs, such actions place us closer to our customers and employees, allowing us to be more responsive to their needs.

SRP was responsive in the late 1980s by taking advantage of a changing resource picture to benefit customers. We terminated a contract with one of our major coal suppliers and decided to defer the in-service date of a third unit at Coronado Generating Station in eastern Arizona. Concurrently, we negotiated contracts for low-cost alternative energy sources, actions which resulted in substantial savings for our electric customers.

A related move this past year was to write down \$203.7 million of SRP's investment in Coronado Unit III. Company forecasts indicate Unit III will not be needed for 15 to 20 years. As a result, we took the write-down — a one-time, non-cash allowance against net revenues. Bond rating agencies and our auditors supported the decision. The "AA" and "Aa" ratings for our electric system revenue bonds remain among the highest in the industry.

SRP customer satisfaction ratings also

are among the highest, according to a service quality survey conducted in the summer of 1990. We received high satisfaction ratings of about 93 percent from our power customers and 87 percent from our water customers regarding our overall ability to meet their needs. More encouraging: Employees surveyed in a parallel effort said additional improvement is possible and suggested a number of ways SRP can better meet customers' needs.

In affirming our commitment to the environment we broke new ground with a memorandum of understanding for the Navajo Generating Station and the Grand Canyon visibility issue. The agreement comes after extensive negotiations with the U.S. Environmental Protection Agency and other parties.

In the late 1980s, Navajo, located in northern Arizona near Lake Powell, became the focus of debate about visibility impairment within the Grand Canyon National Park. While many uncertainties remain about the extent of Navajo's effect on visibility at the Grand Canyon, there is no uncertainty about the park's importance to everybody. We have to be the best neighbor possible.

The agreement, when implemented through EPA regulation, offers environmental benefits at reasonable costs for utility customers in the Southwest. Terms call for the installation of sulfur dioxide scrubbers on Navajo's three units to reduce annual emissions by 90 percent. SRP will install the scrubbers during a three-year period beginning in 1997. To minimize effects on customers, SRP will have operational leeway to shut down the scrubbers for maintenance or repairs.

Our employees served our customers well in June and July of 1990 when the Valley endured an unprecedented heat wave. Coronado and Navajo generating stations set new levels of operational

We have to be the best neighbor possible.

SRP has a legacy of converting challenge to opportunity.

excellence, and SRP's three main generating facilities in the Valley produced additional power to meet summer customer needs. The Palo Verde Nuclear Generating Station, of which we are part owner, also established a number of industry performance records.

Meanwhile, business was brisk for the water side of SRP. Federally funded dam safety improvements on our reservoir system continue as scheduled. We worked with a number of parties, including the Fort McDowell Indian Community, the San Carlos Apache Tribe and the city of Tempe, to fashion important water rights agreements and water exchanges. We continue to work with Valley cities to explore canal beautification and multiple-use proposals to make our canals more of an aesthetic asset to our community.

Our financial strength remains healthy and cash flows strong. This past fiscal year our debt service coverage ratio increased from 1.85 to 1.98. Excluding the unusual items, our combined net revenues were \$13.3 million. Allowances for the write-down of Coronado Unit III, and voluntary severance and early retirement programs resulted in negative net revenues of \$218.3 million for fiscal year 1990-91.

Finally, one of the most notable events of the year was our management transition. SRP's Board of Directors selected as new general manager C. M. Perkins, who most recently served as our chief financial officer. He succeeds Jack Pfister, who retired after 15 years as SRP's general manager.

SRP has a legacy of converting challenge to opportunity. Our founders overcame widespread indifference in the nation's capitol to fund and build the initial parts of our reservoir and canal systems. We withstood the Depression's economic difficulties. The Association and District were totally overhauled in the late 1940s and 1950s. SRP weathered, then prospered after the energy crisis of the mid-1970s.

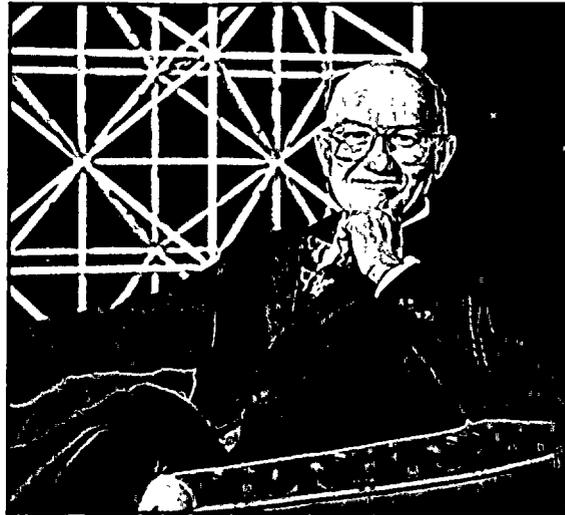
We have completed two major reorganizations and an extensive executive transition. SRP has put in place improvements in customer service and new efficiencies in operations. Equipped with sound financial and business plans, we are confident that Salt River Project will find new paths to success in the 1990s.


John R. Lassen
President
Salt River Project


William P. Schrader
Vice President
Salt River Project


C. M. Perkins
General Manager
Salt River Project

C. M. Perkins assumed the duties of general manager for the Salt River Project May 1. Perkins, a 35-year veteran of SRP, holds a doctorate in economics from Arizona State University. He has been the treasurer for the American Public Power Association since 1982. In 1985, Institutional Investor magazine named him one of the 10 best public finance professionals. The article stated he earned Wall Street's respect for his management, his marketing and his tough financial bargaining. Perkins outlines his basic strategies for SRP:



General Manager C. M. Perkins

Following my appointment as general manager, I spent considerable time looking at the organizational structure and employee skills needed to manage SRP. I want to preserve the continuity of SRP's purpose and those historic characteristics which have made this organization what it is today.

It is important to have a team of managers who can respond to the constantly changing conditions in our operating environment. While it is essential to have the right management team, it is critical that all employees be well-equipped for the jobs they perform.

Our recent organizational changes reduced layers in our management. Employees now are closer to customers and to management, improving information flow, decision making and accountability. Managers are able to take a more "corporate" view within the organization and in the community. Likewise, employees are vested with greater responsibility, which acts to accelerate the development process. This is crucial, since they are SRP's future leaders.

To build a sound, responsive organization, you must select good

people, delegate responsibility to them and recognize them for their achievements. At SRP, we are trying to nurture the feeling among all employees that "this is my business, this is my company." We look for our employees to demonstrate the same entrepreneurial spirit that our founders did in the early 1900s.

By simplifying and fine-tuning management processes, we are better able to achieve real results. It is our corporate goal to be the low-cost supplier of high-value energy and water services. As we seek to fulfill this mission, our decisions will be driven by an emphasis on economic and service value provided to our customers, shareholders and investors, by maintaining our record of community responsibility, and by adapting the workplace to meet our employees' needs.

*General Manager
Salt River Project*

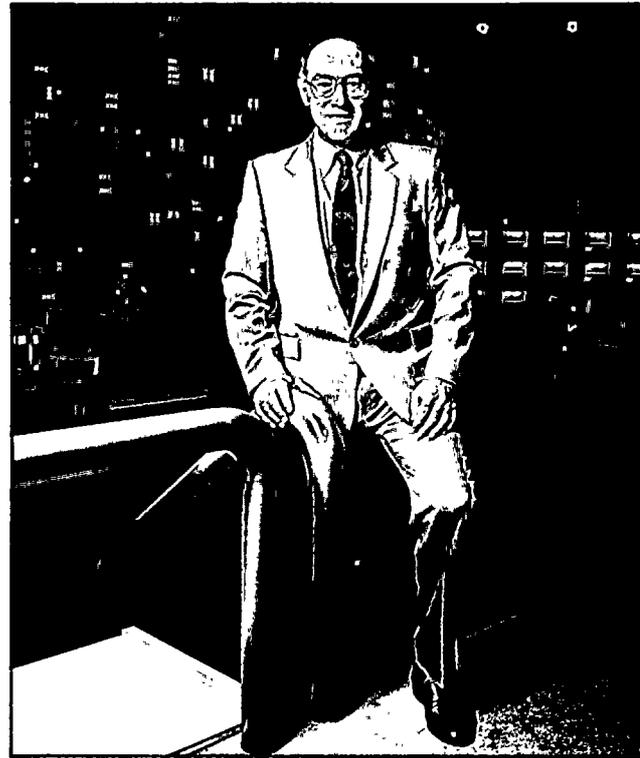
SALT RIVER PROJECT MANAGEMENT

Our new management team collectively enjoys nearly 120 years of utility experience. Their experience, combined with their leadership, will prove invaluable as they guide SRP, its customers and shareholders into a new era of utility excellence.

David G. Areghini is associate general manager of Power, Construction & Engineering Services. He oversees power system operation, maintenance and construction, as well as all engineering functions. One of SRP's newest executives, Areghini brings 17 years of experience with Southern California Edison Co. where he handled various engineering, operations and customer service assignments.



D. Michael Rappoport is associate general manager for Public & Communications Services. Formerly with the National Association of Electric Companies, Rappoport has been SRP's senior government relations executive since 1973. He directs communications, community, consumer, government and international relations as well as philanthropic, education and advertising activities.



Mark B. Bonsall is associate general manager of Financial, Information & Planning Services. A 14-year SRP veteran, he is the main architect of the company's highly successful commercial paper and mnlbond programs. As SRP's chief financial executive, he oversees corporate information systems, strategic and resource planning, and corporate financial planning and services.

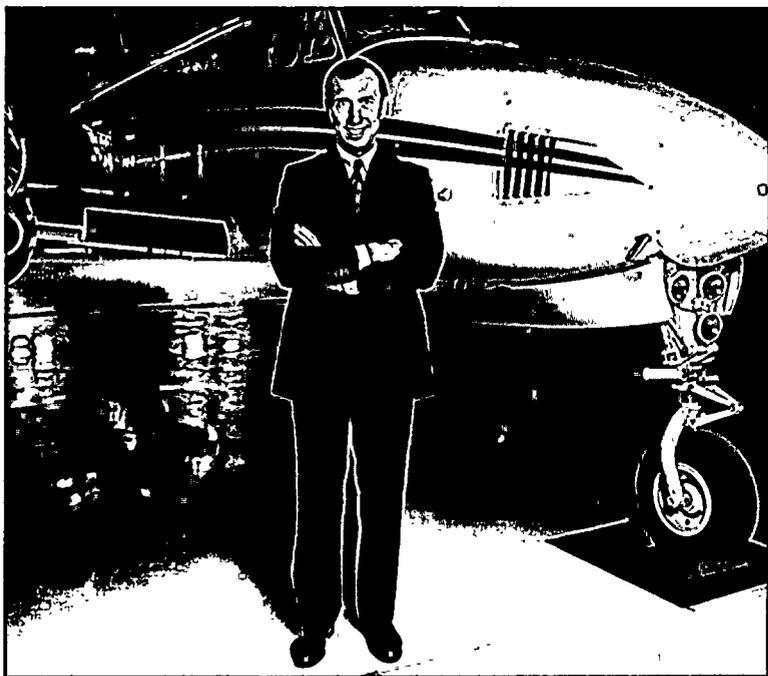




Richard H. Silverman is associate general manager of Law & Administrative Services. SRP's chief legal executive since 1976, Silverman now oversees environmental services, land management, legal services, risk management, litigation and third-party claims, and the Papago Park Center. He's the past chairman of the American Public Power Association's Legal Committee.



Oren D. Thompson is associate general manager of Water & Customer Services. He is responsible for all water business operations and power customer services, including marketing and demand-side programs. Thompson is a 31-year SRP employee, with experience in most major areas of company operations, including strategic planning, business information management, and corporate and public relations.



L. J. "Chip" U'Ren is associate general manager of Operations & Human Resources Services. His area includes human resource responsibilities, building and office services, flight operations, corporate supply, and transportation services. Before joining SRP in 1990, he was president of a management consulting firm, and worked in the banking industry for 10 years.



Our facilities operationally are among industry leaders.



THE POWER BUSINESS

"Let us show, not merely in great crises, but in every day affairs of life, qualities of practical intelligence, of hardihood and endurance, and, above all, the power of devotion to a lofty ideal."

—Theodore Roosevelt

Practical intelligence, endurance and devotion to a lofty ideal are qualities that contributed to the growth and success of our power business. What once was a frail, 25-cycle distribution system and a collection of generators has evolved into one of the leading electric utilities in the West.

SRP demonstrated its leadership in June 1990 when the Valley endured an unprecedented heat wave. June 25, a record high temperature of 120 degrees produced a peak energy demand of 3,281 megawatts (MW). With a new high the next day of 122 degrees, our customers needed a record 3,373 MW of power.

To ensure an adequate power supply, we asked customers to set their thermostats higher, shut off swimming

pool pumps during peak hours, and, where possible, reduce commercial demands. Our customers were up to the task. June 27, with the temperature at 118 degrees, peak demand dropped to 3,232 MW.

Our system, our employees and our customers endured and met the challenge. All of the SRP operated generating stations performed reliably and safely. Navajo Generating Station's three units and Coronado Generating Station's two units were on line throughout the entire period. Our generating units in three Valley locations also operated reliably to help meet customer demands.

In fiscal year 1990-91, Navajo and Coronado established impressive

numbers in two major categories. One was net capacity factor (NCF), which measures the actual amount of electricity generated for customer use. Another was the equivalent availability factor (EAF), which measures the amount of electricity a unit could have produced, if required.

Navajo's units had an NCF of 82.8 percent and an EAF of 83.9 percent, putting the facility in the top 10 percent of similar power plants nationwide.

Coronado's units had a combined EAF of 88.1 percent, also placing the facility among industry leaders.

Meanwhile, our generation resources were bolstered by a banner year at Palo Verde Nuclear Generating Station. Last year, Palo Verde produced 21.9 million megawatt-hours (MWh), more than any other commercial nuclear power plant in the United States. The entire facility placed 13th in free-world generation and was among three American nuclear plants in the world's top 20. SRP owns 17.49 percent of Palo Verde.

SRP maintains competitive edge

To improve our competitive abilities, management reorganized and divided the electric system into three areas. The power generation system includes all of the generating stations. The power system includes the transmission system through 69/12 kilovolt (kV) substations. The distribution system includes the 12kV system that delivers electricity to our customers.

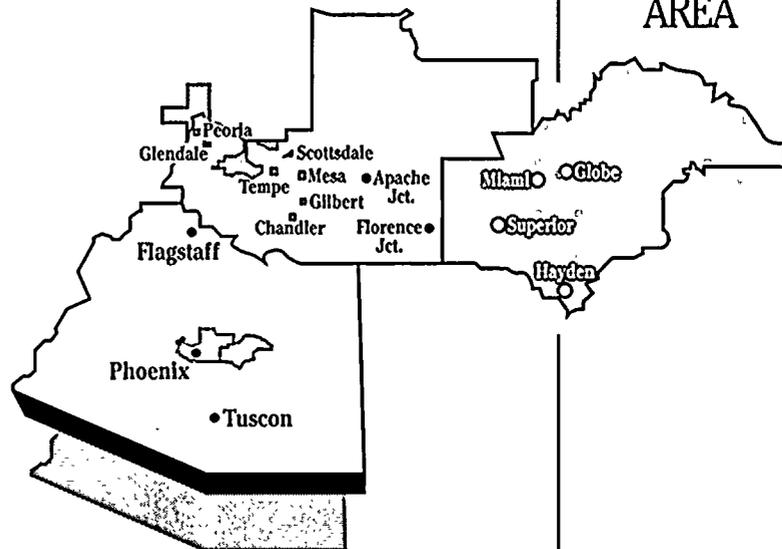
To increase organizational efficiency, we combined engineering functions with the power and distribution systems' construction and maintenance functions. Our management structure was revamped, streamlined and compressed to simplify decision making, and to improve and expedite customer service.

SRP will load the existing electric system closer to its limits before expanding. Management will continue to

study the system and identify ways to maintain high-reliability performance for the next five years. SRP budgeted funds for selected system improvements to handle projected customer growth, but these funds are limited. Maintaining flexibility to reallocate funds for improvements is imperative.

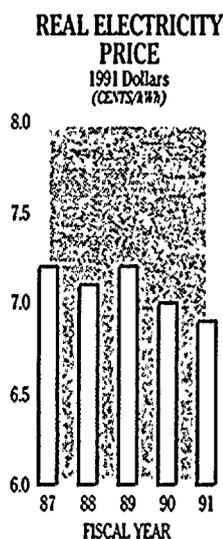
Management deleted a significant amount from SRP's six-year capital program, and will continue to evaluate staffing and expenditure levels. We are trimming maintenance costs in ways that should not affect plant reliability. For example, Coronado management changed from a three-year cycle to a four-year cycle for major overhauls. Navajo management eliminated a minor overhaul each year and is moving to a four-year cycle for major overhauls.

SRP's ELECTRIC SERVICE AREA



- Electric service area served exclusively by Salt River Project.
- SRP provides full power requirements of APS for resale.
- SRP provides full power requirements of APS for resale. Project makes direct sales to customers for all mining loads.
- Electric service areas not served by SRP.

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.



SRP will continue to rely on nuclear and coal units to generate more than 80 percent of our customers' total electric requirements. These units, for the most part, are newer and more economical than our Valley oil- and gas-fired units. The Valley units, together with the hydroelectric units at the dams we operate, will continue to provide power during critical peak demand periods. All units that are in SRP's system should be available for at least the next 20 years.

We also will rely on transmission access to improve our competitive edge. To improve our transmission network, we will participate in the Mead-Phoenix Project, which will increase our access to the Pacific Northwest and its supply of inexpensive hydroelectric power. A project agreement is pending.

Through balanced strategy planning we are re-evaluating potential demand-side and supply-side resource options. We seek a combination which simultaneously minimizes our costs, minimizes rate increases to our customers and maintains the direction outlined in our six-year financial plan. SRP will continue to provide reliable service consistent with industry standards. We also will enhance customer satisfaction, increase our flexibility in response to changing conditions, and minimize environmental effects.

Driving forces that could affect our competitive ability include transmission access issues and additional independent power producers. New wheeling agreements, mergers and power pools also could impact SRP and its customers.

Meanwhile, the electric utility environment in the West remains dynamic. In early 1990, Oregon-based PacifiCorp offered first to purchase Arizona Public Service Co., then to purchase Pinnacle West Capital Corp., APS' parent company. In response, APS

negotiated a settlement with PacifiCorp that benefits both utilities.

Other signs of competition were Southern California Edison's attempt to merge with San Diego Gas & Electric, and Tucson Electric Power's financial problems. To the north, Colorado-Ute Electric Association went into bankruptcy last year. We own portions of Craig and Hayden generating stations in Colorado. Both plants, operated by Colorado-Ute, continue to be reliable resources for us.

Improvements still possible

We improved our competitive abilities with information received from our customers through our Service Quality survey. SRP effectively moved resources from one area to meet the needs of another.

For example, management added customer service representatives in our customer telephone center (CTC) to improve responsiveness to customer calls during peak hours. We also installed an electronic voice-response unit in the CTC to accommodate routine account inquiries. Management changed CTC and business office hours of operation to coincide with periods of maximum customer use.

SRP continues to score very high on customer satisfaction. The Service Quality survey conducted in the summer of 1990 indicated that 93 percent of residential and 92 percent of our commercial/industrial customers are highly satisfied with our overall ability to meet their power needs. Similarly, 92 percent of residential and 89 percent of commercial/industrial customers surveyed expressed high satisfaction with the quality and reliability of our electric service.

Employees, though, think SRP can provide even better customer service. When employees were surveyed, they thought customer satisfaction ratings would be about 16 percent lower and

identified a number of ways we could improve service. We intend to use information from this employee survey to maintain and improve our customer service efforts.

Our Service Quality goal is to focus on elements that primarily drive customer satisfaction. In this competitive environment, with its financial pressures, we cannot afford exceptional effort for services of marginal interest to customers. Setting priorities for the most valued elements of service is a cost-effective approach that makes the best use of our resources.

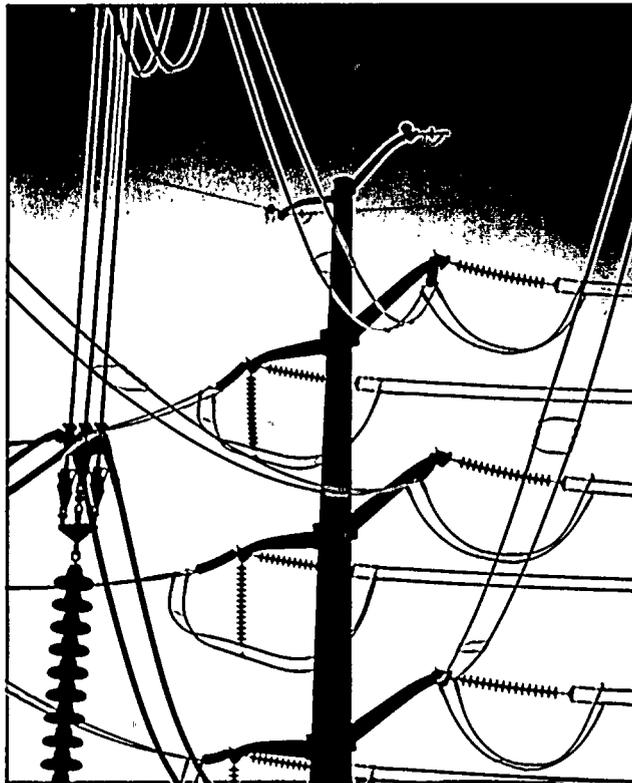
Marketing strategy multifaceted

Since 1982, inflation has raised prices by 31.1 percent, while SRP electric rates have risen 20.8 percent. In short, the real price of our electricity has decreased in the past 10 years. We intend to continue to reduce real prices of electricity for the next six years. Price-sensitive customers will have an opportunity to further lower their costs by choosing among various services.

We anticipate steady growth in most sectors of the local economy for the next six years. Our forecast is for Maricopa County population to increase about 2.3 percent annually. In general, industrial and commercial sectors should continue to expand. The copper industry's prosperity is expected to continue, while the financial and real estate sectors should improve gradually.

SRP expects to add more than 82,000 new electric customers in the next six years, an increase of about 15 percent for the period. Annual energy sales to retail customers (system sales) should increase by nearly 19 percent.

Our primary market strategy is to add value by providing services and choices that customers want. By offering more responsive services than our competitors, we can avoid competing solely on the



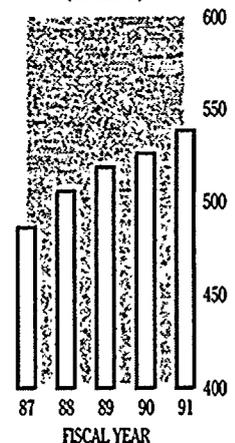
We are trimming maintenance costs, yet maintaining reliability.

basis of price and improve SRP's operating economics. Our second major strategy is to build lasting, trusting relationships with our customers. Quality service is the key to building relationships. Encouraging efficient use of electricity helps build trust.

Our demand-side strategy provides a diverse portfolio of commercial and residential customer programs to produce peak reductions of 242 MW in six years and 607 MW at the end of the 20-year planning period. Some peak-reducing programs are of the load-shifting type — they encourage customers to shift demand from on-peak to off-peak times when production costs are lower. Electric Savings Time, a "time-of-day" rate, is an example of a load-shifting program. It provides value by allowing customers to save money on their bills and by offering them a rate choice.

Other programs are conservation-based — they reduce total energy consumption and peak demand. An example of this strategy is the Climate Crafted Home program. Climate Crafted

ELECTRIC CUSTOMER GROWTH
(THOUSANDS)



homes are less expensive to heat and cool than conventional total-electric or dual-energy homes.

Our market research indicated that energy efficiency is a secondary factor to customers buying a house. In response, we developed the Home Stretch Mortgage feature within the Climate Crafted Home program. This helps link energy efficiency to decisions about home purchase by allowing lenders to take reduced utility bills into consideration when qualifying a buyer for a mortgage. Net result: Energy efficiency is a means for customers to qualify for more home, or a means to qualify more easily.

The Climate Crafted Home program achieved a 70 percent market share in little more than a year largely because of this new approach. It required that we accept the challenge of learning and servicing a new market, the mortgage-lending business.

We will place a greater emphasis on our commercial and industrial customers as we move forward. A good example of what we will do is the Energy Partnership

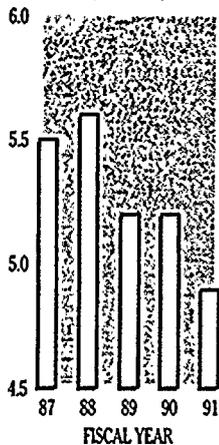
program, which debuted last year. Energy Partnership is targeted to our largest, most valuable industrial customers.

Through this program, SRP gets involved on the customers' side of the meter by suggesting ways to make their plants and manufacturing processes more efficient.

We are on target with our demand-side efforts. Since the strategy was implemented in fiscal year 1988-89, SRP reduced peak demand by almost 70 MW. This represents 99 percent of the cumulative goal for all of our demand-side programs. By the end of the next fiscal year, we expect to reduce our peak load by about 100 MW. This means we will have deferred building the equivalent of a small, combustion-turbine generating facility.

Current marketing programs have a net benefit of \$234 million to SRP during the next 20 years. Benefits to SRP are the savings from delaying construction of new units and from shifting demand to off-peak times when production costs are lower. Benefits to customers include lower bills, more options and choices, and a cleaner environment.

REAL DISTRICT COSTS PER kWh
1991 Dollars
(CENTS/kWh)



COSTS AND BENEFITS TO SRP OF MARKETING PROGRAMS

(NET PRESENT VALUES IN \$MILLIONS)

PROGRAMS	CLIMATE CRAFTED	ELECTRIC SAVINGS TIME	CASH BACK	COMMERCIAL LIGHTING	THERMAL ENERGY STORAGE	FUTURE PROGRAMS	TOTAL SRP INTEGRATED PROGRAMS
TOTAL BENEFITS	139	121	106	112	69	240	787
LESS TOTAL COSTS	72	67	100	115	54	145	553
NET BENEFITS	67	54	6	3	15	95	234
BENEFIT/COST RATIO	1.9	1.8	1.1	1.0	1.3	1.7	1.4



Our watershed is in the mountains north and east of the Phoenix area.

THE WATER BUSINESS

Early in this century, a group of Salt River Valley leaders dreamed of building a dam and taming the vagaries of the Salt River. They imagined uniting the various networks of canals in the Valley and later of building more dams for increased water storage. Then came the vision of importing water from the Colorado River to supplement the Valley's water supply.

With these dreams realized, SRP now advances to new visions. We envision a time when water rights and water resource challenges are of a bygone era. SRP looks forward to completing safety modifications to Salt and Verde river dams. We picture a

metropolitan Phoenix area featuring miles of canals with aesthetic features that draw commerce and recreation.

Images such as these have sustained SRP's water business, an endeavor which, in turn, has sustained the Valley for most of this century.

Supply fed by watershed

Our water supply begins on a 13,000-square-mile natural drainage area in the mountains north and east of metropolitan Phoenix. This watershed feeds the Salt and Verde rivers, which, in turn, flow into a series of six reservoirs we maintain.

"If one advances confidently in the direction of his dreams, and endeavors to live the life which he has imagined, he will meet with a success unexpected in the common hours."

— Henry
David Thoreau

These reservoirs feed the 133 miles of canals that, along with other smaller waterways, make up our water transmission and distribution system. The system serves eight cities, as well as agricultural and urban irrigators.

Our charge is to capture as much water as possible and carefully manage this supply. More than two years of below-normal precipitation led to less than average runoff. We began 1990 with 990,011 acre-feet (af) of water stored in the reservoirs. We ended the year with 833,936 af of water in storage. This was 69 percent of median and 41 percent of capacity. (An acre-foot is enough water to cover one acre of land to a depth of one foot—about 325,850 gallons.)

SRP's water supply included 541,347 af of surface water, 318,052 af of groundwater and 2,138 af of Central Arizona Project water for a total of 861,537 af. For the first time, CAP water was added to Project supplies as exchange water from the cities of Tempe and Scottsdale to repay water debts incurred in prior years.

We delivered the least amount of water in two decades during 1990 because of improved conservation and increased municipal use of CAP water. Total deliveries in 1990 were 767,855 af, compared to 939,921 af in 1989. Out of this

total, 397,653 af went for non-agricultural uses, including municipal and industrial contracts, parks, churches, schools and residential irrigation. Agricultural uses accounted for 240,906 af of our deliveries, while 129,296 af went to decreed and contract deliveries, including Indian reservations.

Water resource planning critical

SRP worked with state agencies and municipalities to help the Arizona Department of Water Resources develop a comprehensive statewide water resources assessment. The study will identify water supplies and demands by service area, and will provide a framework for state water policy development. It also will provide information that can be used for local planning efforts.

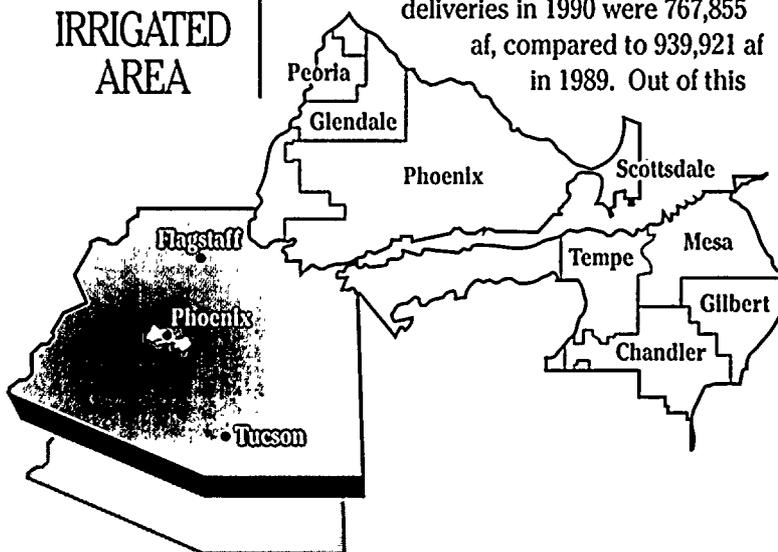
In a related effort, SRP completed the first long-term well utilization plan in 1990. It provides us with a vision of what the water demands will be in 2007 for our groundwater wells and will help us manage our water and financial resources to meet those demands.

Groundwater resource planning and conservation is critical to Arizona. This past year we entered into an agreement with the city of Tempe to use CAP water instead of groundwater, allowing the city to be totally free from groundwater pumping in 1990. This, in turn, helped reduce SRP's groundwater pumping for the year. The agreement is an excellent example of the cooperative efforts among SRP and the cities to conserve groundwater.

Groundwater conservation is the CAP's primary purpose. This is achieved by importing Colorado River water for municipal, agricultural and industrial use. The CAP should considerably offset groundwater overdraft and help the state comply with the Groundwater Management Act, a law designed to control groundwater use.

To facilitate CAP water delivery, we designed and developed the CAP/SRP

SRP's IRRIGATED AREA



Interconnection Facility Data Network. This network will improve the way cities order CAP and SRP water for delivery to their treatment plants. The system allows for faster, more accurate ordering and for better accounting. In addition to placing water orders, the cities can view reports on their orders and communicate with SRP.

To better manage our water resources, we are working to improve our company resources. We are using the results of the Service Quality surveys conducted in summer 1990 to help us identify more ways to provide better customer service.

Negotiation reaps benefits

Throughout the century, SRP has worked diligently with various parties to clearly define the water rights of customers and shareholders in relation to those of other communities. Because of our closed water service territory, we do not compete directly for water supplies. Instead, we focus on protecting and maintaining our shareholders' long-established water rights.

Statewide competition for water rights is more complex. Cities, developers and agriculture compete for limited water supplies. Any plan to improve one party's water situation is examined carefully by many others looking for ways to tap the same resource.

Water rights issues clarified somewhat in 1990 when SRP and other parties agreed to settle the claims of the Fort McDowell Indian Community. In November, President Bush signed into law the Fort McDowell Indian Community Water Rights Settlement Act of 1990. The settlement grants the Indian community a maximum entitlement of 36,350 af of water from several sources.

We continued progress with the San Carlos Apache Tribe water rights negotiations with formulation of a settlement agreement that went to Congress last year. Passage of

appropriate legislation is expected in 1991.

The Gila River Adjudication moved forward with the appointment of a special master in the case who will review evidence, hear testimony and rule on contested cases in the Gila and Little Colorado river adjudications. Negotiations with the Gila River Indians continued in 1990 as part of this process. Central issues included defining water requirements and water sources. The adjudication will

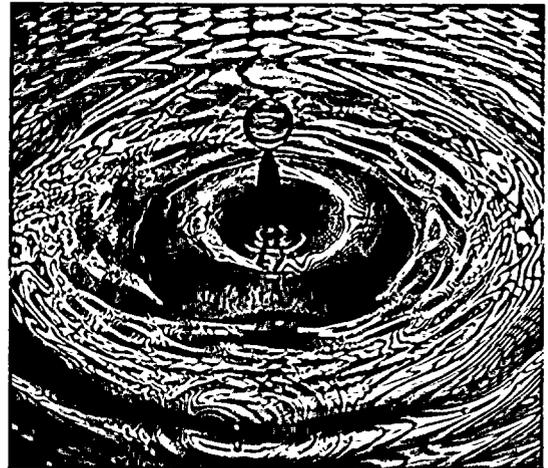
quantify and set priorities for the rights of all water users — including those of SRP shareholders, Indian communities and cities — in central Arizona's Gila River Basin.

Precedent established in the Little Colorado River Adjudication will affect significantly the Gila River Adjudication. The Little Colorado case involves water resources in northern Arizona. This case, which is proceeding faster than the Gila River case, will clarify water availability for Coronado Generating Station.

System modifications continue

A new bridge upstream of Theodore Roosevelt Dam was completed in October 1990. The bridge reroutes traffic from the crest of the dam, allowing dam modification work to begin in 1991. Major modifications include raising the height of the dam. Construction of a low-level outlet for the dam also is progressing, with completion scheduled for late 1992.

We witnessed completion of a new



We have increased efforts to monitor and protect water quality.

By the turn of the century, SRP canal banks could be dotted with cafes, shops, parks and other aesthetic features.

auxiliary spillway and installation of new power and river outlet works for Stewart Mountain Dam last year. This concludes the second phase of safety modification work at the dam. The third and final phase of the project will begin in 1991 when cables will be installed in the dam to maintain its structural integrity. This work should be completed in early 1992.

SRP participated in an environmental assessment which determined that there are no significant impacts for scheduled modifications to the Verde River dams. Congress approved a report on safety modifications to Horseshoe and Bartlett dams. Work on the dams is scheduled to begin in mid-1993 and should be finished by 1996.

A number of major construction projects kept us busy in the Phoenix area. In December, after three and one-half years of development, planning and construction, we started operating the new Tempe Canal Pipeline. Because of limited right of way for the new Pima Road and Price Road freeways, Loop 101, the Arizona Department of Transportation (ADOT) contracted with us to replace a portion of the open canal with underground pipelines.

The new facility includes 13,500 feet of twin, 10-foot-diameter concrete pipes. We helped design the new facility, and participated by constructing bypass canals on the Tempe and Western canals, inlet and outlet facilities for the pipelines, and other related structures. SRP was responsible for more than a third of the design and construction work for this \$25 million project, which was funded by ADOT.

SRP also was awarded a \$988,000 contract by ADOT to design and build a diversion structure in the Old Crosscut Canal, which was relocated to accommodate construction of the Hohokam Freeway, State Route 143. We developed and installed a gate system that allows us to divert needed water

from the Old Crosscut Canal into the Grand Canal. The gate system also has the capability to channel storm water into the Salt River bed.

In eastern Arizona, we drilled six new seepage monitoring wells around Coronado Generating Station. The wells are used to monitor water level and quality, and will help ensure that operations at Coronado are environmentally sound. We also installed regional monitoring wells to provide assistance in limiting the effects of groundwater pumping for Coronado's operations.

Canals: aesthetics to amur

We would like to see our canals become more of an aesthetic asset to the Valley. We are overseeing efforts by cities in the area to design canal bank improvements. For example, Scottsdale is developing a conceptual plan for beautifying a portion of the Arizona Canal that runs through the city. By the turn of the century, SRP canal banks could be dotted with cafes, shops, parks and other aesthetic features.

We completed plans to expand our weed-control program that uses the triploid white amur. The amur is a type of carp that feeds on aquatic weeds. Stocking canals with the amur reduces the need to use chemicals for weed control. The triploid variety does not reproduce and will not threaten other fish populations.

We will stock portions of four SRP canals and install special grates to keep the fish in the canal system. About 8,200 white amur were delivered in early 1991. The city of Chandler will pay about one-fourth of the costs. The white amur program ensures cleaner canals, less chemicals in canal water and reduced canal dryups.



We exceeded federal requirements in our support of employees involved with Operation Desert Storm.

*S*HARED RESOURCES

Our worth depends upon the employees who work to serve our customers and shareholders. As the needs of SRP's customers and shareholders became more sophisticated, so have those of our employees.

We journey to the 21st century supported by a work force that is changing in many ways. We draw from a labor pool which is increasingly female, minority and middle-aged. This diversity translates into a new array of work and family issues. Our competitive abilities will be affected by how well we manage these issues.

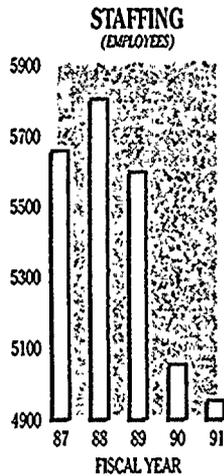
Last fall, SRP surveyed employees about work and family issues. Nearly 60

percent of our employees participated in the voluntary, confidential study. Survey participants helped us identify family issues affecting the work place, and employees' child care and elder care needs. Results, now being studied, will help us ensure that our business environment reflects changes taking place in Arizona, as well as in the nation.

In 1989, SRP and 10 other companies initiated a long-term, national study to gain a broad perspective of the changing work force and related issues. We also are developing new employee awareness programs that focus on cultural diversity, cross-cultural communications, employee assistance and employee development.

"The worth of a state, in the long run, is the worth of the individuals composing it."

— John
Stuart Mill



Because of our budget-cutting process, we must operate with fewer employees. To achieve our staffing goals, we offered enhanced early retirement benefits, a voluntary severance plan and hourly voluntary severance plan benefits for employees whose positions were eliminated. We also hired a career assistance firm to provide career counseling for those affected by budget cuts.

Another challenge is providing competitive benefits in the face of spiraling health care costs. SRP is re-evaluating employee benefits. Our goal is keeping SRP's health care costs at or below the market average. We will

represents our hourly employees. SRP also will consider incentives and design features to reinforce ways employees can manage their health care.

We supported employee needs during Operation Desert Storm by exceeding federal requirements and SRP's military leave policy. SRP provided benefits for employees called for duty and their dependents to help them gradually adjust to military pay, which generally is less than SRP's. One way was extending SRP base pay for 18 pay periods for those called to active duty for the Persian Gulf crisis. We also provided medical, dental and vision insurance coverage by allowing the employee's coverage to continue as usual until military benefits took effect. And we provided basic life insurance coverage (12 months base pay) for up to nine months for employees on active duty.

Our employees' safety remains a top priority. Our commitment is exemplified by our showing in the American Public Power Association's 1990 Electric Utility Safety Award. Our electric operations safety record was among the leaders nationwide for utilities that logged more than 1 million or more work hours.

We improved our performance in two of three safety categories we track yearly. In calendar year 1990, our Occupational Safety and Health Administration (OSHA) recordable accident rate was 3.94. In 1989 it was 4.12. The OSHA recordable rate is based on the number of recordable injuries per 200,000 work hours completed. SRP's preventable vehicular accident rate last year was 0.79. In 1989, it was 0.84. This category is based on the number of preventable accidents per 100,000 miles driven.

Although our lost-time accident rate of 0.72 exceeded our 1989 performance of 0.52, it was well below the industry average of 0.90. This category is based on the number of lost-time accidents per 200,000 work hours completed.



Child care and elder care needs are critical issues for employees.

examine our benefits package with input from the International Brotherhood of Electrical Workers Local Union 266, which

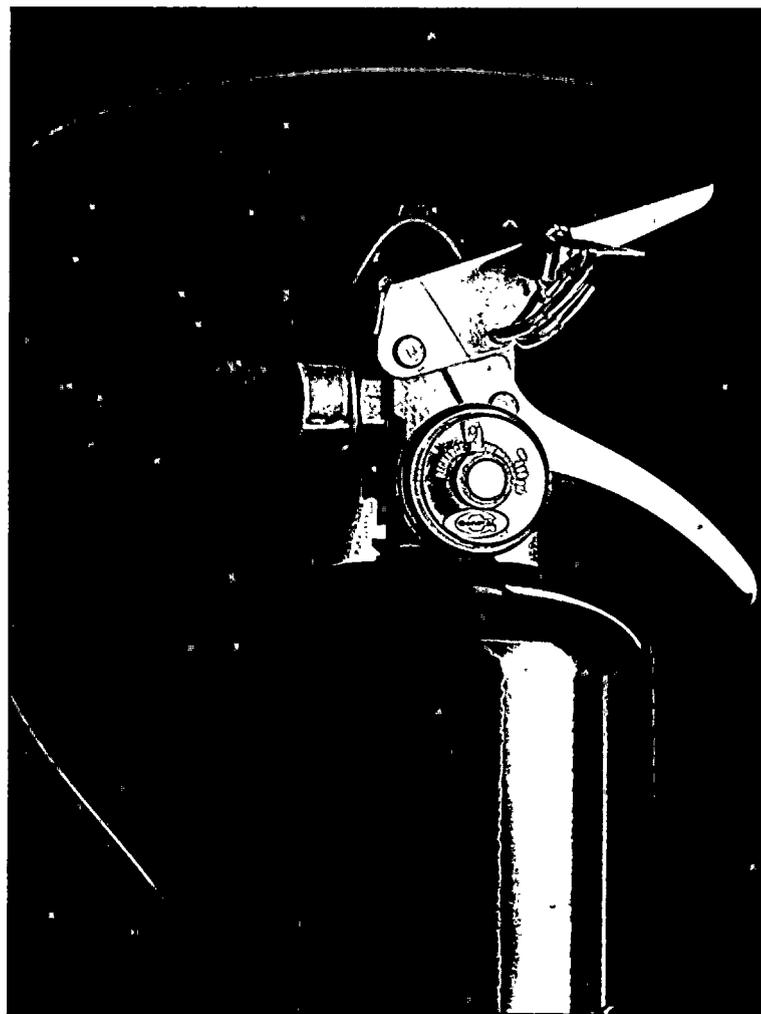
A safe workplace is one way to cultivate performance excellence. Another way is to recognize and reward outstanding work. Our Board approved the full implementation of a Special Recognition Award program for employees, which had been in a trial stage from November 1989 to April 1991. During that time, we awarded 1,855 employees \$371,900, in \$50 increments up to a maximum of \$500.

SRP's "Better Way" suggestion program had its best year in fiscal 1990-91, saving the company more than \$2.5 million. In the first month of this fiscal year, 28 suggestions were submitted, accounting for \$160,000 in savings. Our short-term goal is to increase employee participation in the program.

Quality Circles is another employee participation program supporting performance excellence. The program helps employees solve problems and improve productivity in their own work areas. Quality Circles improves customer service, safety and overall efficiency. There are 17 Quality Circles in operation at SRP. In fiscal year 1990-91, the program saved SRP more than \$800,000.

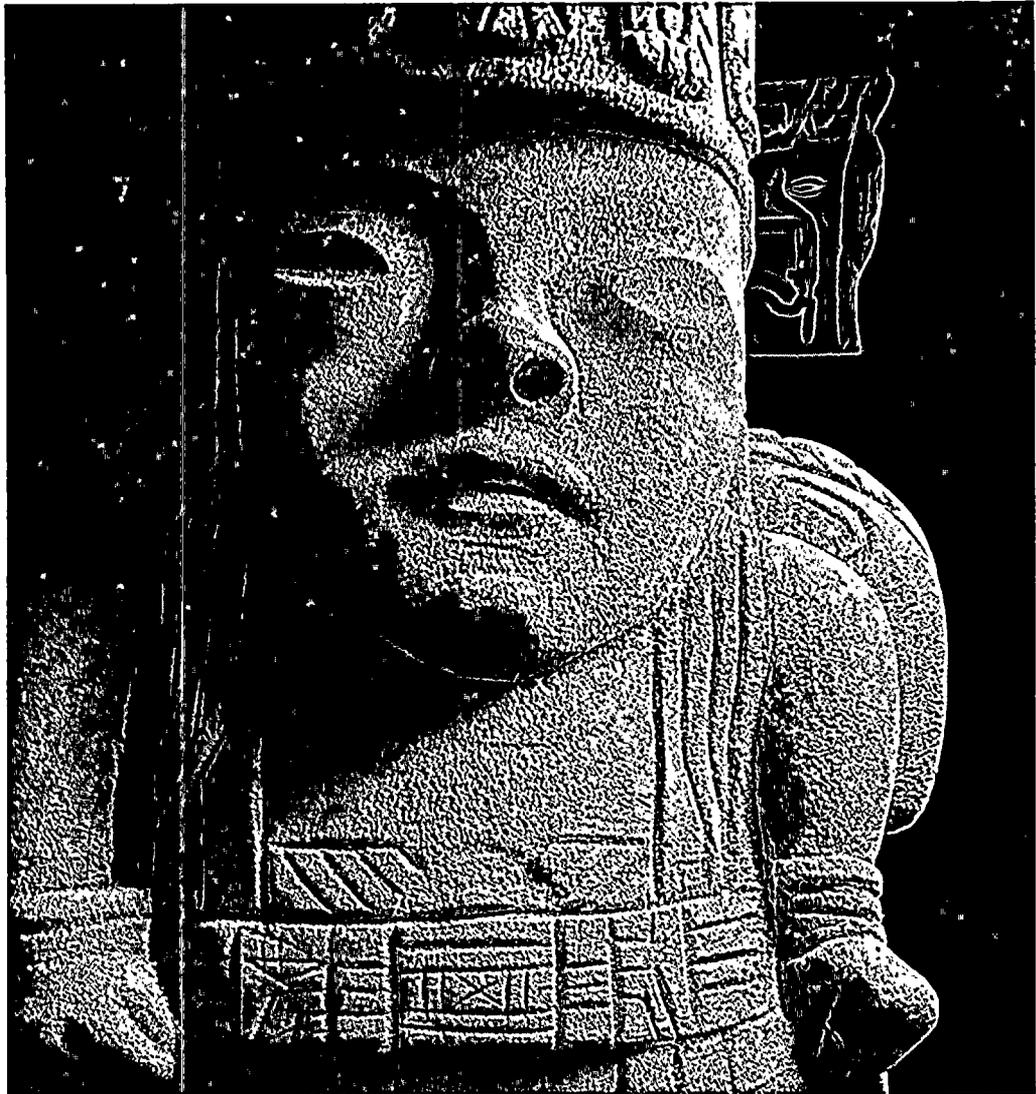
To recognize and reward employees with critical technical skills, SRP offers a new Career Ladders program. It provides an alternative to the traditional supervisory path of employee advancement. Five major work groups now have Career Ladder positions.

SRP also implemented a new companywide compensation system for



Our electric operations safety record was among the leaders nationwide.

salariated jobs. The system allows us to retain competitive pay levels, yet bring our salary ranges closer to those found in the markets in which we compete for employees. We have a broader view of the job market and use non-utility companies as well as other utilities in our compensation comparisons.



This Mayan icon is part of the Hispanic culture that enriches the areas we serve.

COMMUNITY RESPONSIBILITY

*"Prosperity
cannot be divorced
from humanity."*

— Calvin
Coolidge

The continued prosperity of those we serve in the Salt River Valley depends, in part, on our ability to contribute to the resolution of community concerns. We consider our community responsibility to be as important as our duties as a power and water utility.

SRP's community responsibility is evident in a variety of ways. We fund charitable causes, lend skilled executives to assist in local projects, staff events and encourage employee volunteerism.

One example of our efforts is the

cleanup campaign we sponsor in the Page-Lake Powell area, home of the Navajo Generating Station. In May 1990, 4,300 people participated in the 10th annual Page Attacks Trash event — about two-thirds of the area's 7,000 residents. Participants gathered more than 200 tons of trash. This past year's efforts focused on recycling aluminum cans and large pieces of scrap metal, such as those from abandoned automobiles.

In fiscal year 1990-91, our employees recycled more than 7 million pounds of

metal, almost 700,000 pounds of paper products and eight tons of telephone books, including employees' books from home. As a matter of corporate policy, SRP recycles oil products, batteries and scrap tires. A recycling company reduces scrap wood items such as pallets, reels and tree-trimmings into animal bedding, mulch and other products. Our recycling efforts translate into less material occupying landfill space. By processing tree-trim material, for example, we remove about 22,000 cubic yards of matter from the waste stream.

From tree-trim material to trees: Mayor Paul Johnson proclaimed SRP a "city forester" as part of the Forestry for Phoenix program. The program is an outgrowth of the Global Re-Leaf campaign to plant more trees. We were recognized for our efforts to plant trees and other vegetation in and around our facilities. Mayor Johnson said our application of low-water-use desert vegetation is an example for local businesses, civic groups and other agencies.

Low-water-use desert vegetation is a prominent feature of the Papago Park Center, too. This commercial mixed-use development and SRP subsidiary, is one of the largest projects of its kind in the Southwest. Tempe Mayor Harry Mitchell termed Papago Park Center the crowning jewel in northern Tempe. Mayor Mitchell said the center will provide new business opportunities for the community well into the 21st century.

SRP sponsors Hispanic Day

In October 1990, SRP sponsored a cultural and historical exhibit honoring the state's Hispanic community at the Arizona State Fair. During this past fiscal year, we established an outreach program for Hispanic residents within our service territory to provide materials and information about SRP written in Spanish. We also added a Spanish-only telephone

line in our customer telephone center. Spanish-speaking customers now have direct access to information about billings, hookups, deposits and payment arrangements.

A community that does not invest in its youth has no future. We helped enrich the future of the communities we serve by honoring 65 high school seniors at SRP's eighth annual Spotlight on Excellence program in 1990. Graduating seniors in Maricopa County, Page and St. Johns were chosen for their academic achievement and all-around excellence.

A time-honored "community" we are helping preserve comprises the 28 known nesting pairs of southwestern bald eagles. Through participation in the Southwestern Bald Eagle Management Committee, we have helped protect these majestic raptors and their nesting sites. Last summer, the committee received the highest honor awarded in the U.S. Fish and Wildlife Service's Take Pride in America Program.

SRP helps clear the air

In the late 1980s, Navajo Generating Station became the focus of debate about visibility impairment within the Grand Canyon National Park. In fiscal year 1990-91, SRP representatives worked with state and federal agency officials, environmentalists and Navajo participants to resolve the issue of sulfur dioxide emissions from the plant. This summer we reached a memorandum of understanding about the Navajo Generating Station and the Grand Canyon visibility issue.

We all share the single goal of preserving and protecting the Grand Canyon. The agreement benefits everyone, environmentalists, state and federal regulatory agencies, SRP, the other Navajo plant participants, and the people of Arizona. It offers a constructive approach to dealing with the possible impacts of

A community that does not invest in its youth has no future.

Navajo emissions on visibility at the Grand Canyon, while providing cost-saving flexibility for the construction, operation and maintenance of new controls.

Reduced automobile use is another environmental goal for SRP. Fewer trips and fewer single-occupant automobiles mean cleaner air. Our employees demonstrated their leadership in the fight

traffic and pollution.

In another effort to reduce pollution, we purchased four electric vans for research and development purposes. Unlike internal combustion engines, electric vehicles produce virtually no emissions, and have great potential for reducing air quality problems in crowded urban areas and national parks. We want to be able to answer consumers' questions about electric van use, and to develop an infrastructure that can provide electricity to future electric vehicle owners.

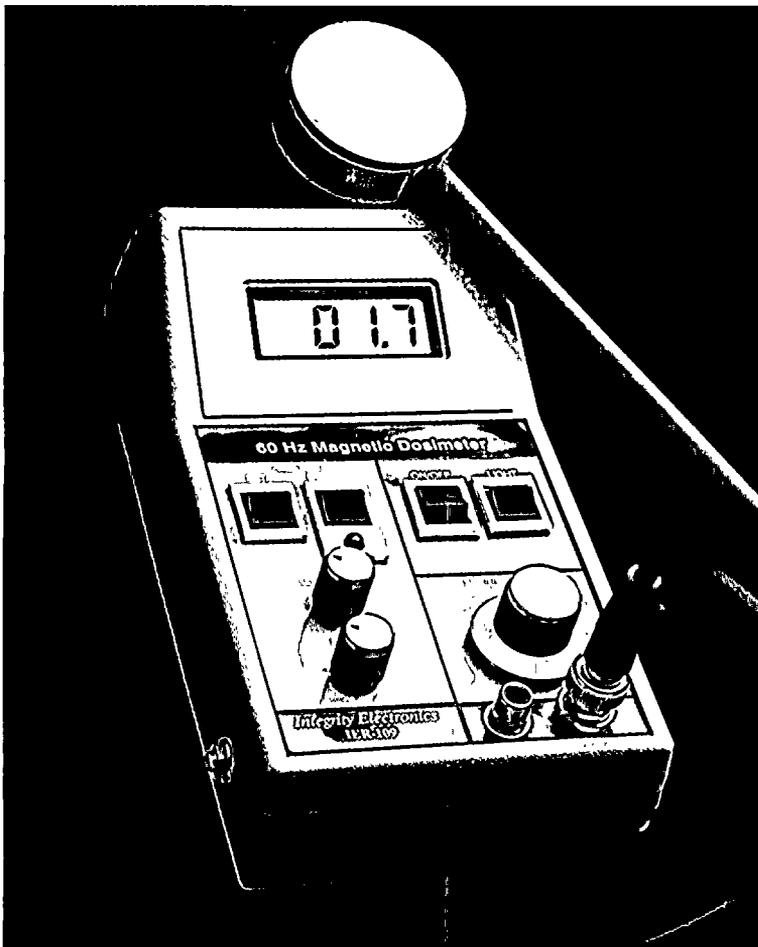
Public involvement crucial

We have found that communities in which we do business are best served by understanding electric and magnetic fields (EMF). Although there is no proven relationship between EMF and health effects, many people are concerned about the potential effects from existing or new electric facilities in their areas.

We address anxieties about electric facilities through an extensive public information effort which includes measuring the EMF in residences, schools and other public buildings. SRP supports EMF research within the company and through affiliations with the Electric Power Research Institute, Large Public Power Council, American Public Power Association and other groups.

Public participation and education continue to be an integral part of our municipal aesthetics program. In addition to building facilities with minimal visual impact, we conduct public meetings and surveys to identify perceptions and concerns about our projects, especially those involving new electric facilities.

When we plan new construction and system improvements, we do so in cooperation with municipal leaders. We integrate municipal and SRP projects to reduce costs of multiple-facility installations and match city-allocated funds for aesthetic improvement projects,



Gaussmeters help us measure electric and magnetic fields.

to reduce automobile emissions last winter. Competing against other major local employers, we placed first in our category of the Valleywide Clean Air Campaign. More than 16 percent of SRP employees carpooled, rode the bus, bicycled or used other alternative means of transportation to reduce the amount of

when possible. Our substations include features designed to help them blend in with surrounding neighborhoods. By encouraging cities to participate in our planning process, we are able to address problems before they occur.

SRP also is concerned about preserving Arizona's past. For years, we have conducted archaeological site assessments before starting major construction projects. In areas where significant findings exist, we postpone construction to allow archaeologists time to do appropriate studies. Artifacts found are preserved as archaeological resources.

New issues identified

Our system of reservoirs, canals and wells originally was designed to serve agricultural users. As more water goes for municipal uses, we have increased efforts to monitor and protect water quality. Cooperative efforts between SRP and municipalities have produced a number of solutions to water quality matters.

For instance, SRP is working to help certain Valley communities overcome problems with high nitrate concentrations in their groundwater supply. We blend water from affected wells with high-quality surface water to improve the water supplied to city treatment plants.

We also sponsored a cooperative

effort to identify needs of the publics we serve. To find out areas where more attention is needed, SRP surveyed Valley residents last summer about the company's role in addressing community concerns. We wanted to identify major community issues, to find out what the public expects, and to assess the public's perception of our efforts to resolve issues.

Participants' expectations were high, and overall opinions about SRP were quite good. For example, Valley residents are six times as likely to say SRP cares about solving community problems than to say the Project does not care. About 80 percent of the participants held favorable opinions of SRP at the outset of the survey. After discussing the Project and its community involvement, the number of participants having favorable opinions about SRP rose to 87 percent.

We are proud of our record of community involvement, and pledge to find new ways to improve the quality of life in places where we do business.

Cooperative efforts between SRP and municipalities have produced a number of solutions to water quality matters.

BOARD MEMBERS

Board members establish specific policies and, through SRP's management, conduct the business affairs of the Salt River Project in accordance with the Articles of Incorporation, bylaws and statutes.

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 comprises 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.

Often members of the Association Board seek and are elected to similar positions with the District Board.



Rudolph Johnson
District/Division 1
Association & District



John M. Williams Jr.
District/Division 5
Association & District



James L. Diller
District 6
Association



Thomas P. Hurley
Division 6
District



Olen Sharp
Division 9
District



Dwayne E. Dobson
District/Division 10
Association & District



Clarence C. Pendergast Jr.
District/Division 2
Association & District



Bruce B. Brooks
District/Division 3
Association & District



Gilbert R. Rogers
District/Division 4
Association & District



Ann M. Burton
District/Division 7
Association & District



Joe Bob Neely
District/Division 8
Association & District



Robert E. Hurley
District 9
Association



William W. Arnett
At-large
District



Fred J. Ash
At-large
District



Eldon Rudd
At-large
District



James R. Marshall
At-large
District



COUNCIL MEMBERS

SRP Council members set broad policy by enacting and amending 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 districts 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.

Often members of the Association Council seek and are elected to similar positions with the District Council.

Pictured from left to right, Front row: Martin Kempton, District/Division 8, Association & District Council Chairman, Levi H. Reed, District/Division 4, Association & District, Lester R. Mowry, District/Division 7, Association & District, Second row: David Rousseau, District/Division 6, Association & District, Lawrence P. Schrader, District/Division 10, Association & District, Emil M. Rovey, District/Division 1, Association & District, Howard W. Lydic, District/Division 1, Association & District, C. Dale Willis, District/Division 10, Association & District, Carl E. Weller, District/Division 5, Association & District, Third row: Dale C. Riggins, District/Division 9, Association & District, Clarence J. Duncan, District 6, Association, Wayne A. Marietta, Division 7, District, Elvin E. Fleming, District/Division 3, Association & District, Fourth row: Larry D. Rovey, District/Division 2, Association & District, Mark V. Pace, District/Division 8, Association & District, James M. Accomazzo, District/Division 3, Association & District, Council Vice Chairman, Dean W. Lewis, District 6, Association, Fifth row: John E. Anderson, District/Division 3, Association & District, Roy W. Cheatham, District/Division 5, Association & District, Sixth row: Lee L. Tregaskes, District/Division 9, Association & District, Dan C. McKinney Jr., District 7, Association, Wayne A. Hart, District/Division 2, Association & District, Seventh row: Edmund Navarro, District/Division 5, Association & District, George B. Willmoth, District/Division 7, Association & District, Orland R. Hatch, District/Division 10, Association & District, Michael K. Gantzel District/Division 8, Association & District.

Not shown: Robert L. Cook, District/Division 1, Association & District, John A. Vanderwey, District/Division 2, Association & District, Lloyd Lee Banning, District/Division 4, Association & District, Byron G. Williams, District/Division 4, Association & District, Ben Butler Division 6, District, Robert W. Warren, Division 6, District, W. Curtis Dana, District/Division 9, Association & District.

FINANCIAL OVERVIEW

SRP continually strives to improve the company's position as one of the financially healthier utilities in the West. Evidence of our financial health is record combined total operating revenues of \$1.152 billion for fiscal 1990-91. A 7.5 percent rate increase in May 1990 contributed to the 2.7 percent increase in revenues from fiscal 1989-90.

Increased revenues, offset by increased operating expenses, resulted in \$13.3 million in net revenues before unusual items — a \$33 million increase from the previous year. Net revenues after unusual items were a negative \$218.3 million. Unusual items were writing down \$203.7 million of Coronado Generating Station Unit III assets, and expensing \$28 million for severance costs related to staffing reductions and corporate reorganization.

Staffing reductions were a major component of our budget reductions. Since 1989, we have eliminated more than 1,000 positions, or about 18 percent of our work force. No work force growth is expected through fiscal year 1996-97. Positions will be shifted within or among work groups as staffing needs change.

Our corporate reorganization also reduced operating and capital budgets by about \$200 million per year through fiscal year 1996-97.

Coronado Unit III was deferred in 1988; immediate power needs were met through long-term, lower-cost purchases from other utilities. Current forecasts suggest that Unit III will not be needed for at least 15 to 20 years. Because of concerns about the value of our investment that far into the future, we wrote Unit III down to net realizable value. We are actively marketing Unit III's assets.

We have developed a six-year financial plan to chart an economic course for achieving goals identified in our business plan. The business plan is our mechanism for integrating our goals, policies and major programs — in other words, defining our strategic direction.

Our financial plan predicts system sales and Maricopa County population will grow at 2.5 percent per year during the 1992-1997 time frame. Peak demand is forecast to increase more slowly, at about 1.6 percent per year, largely because of SRP's demand-side programs.

SRP's financial goals include:

- A debt ratio not to exceed 75 percent near-term and 60 percent to 65 percent long-term. The Coronado Unit III write-down was the main reason for the increased debt ratio of 74.9 percent this past fiscal year.

- A debt service coverage ratio of at least 1.80. This ratio was 1.98 for 1990-91, up from 1.85 for 1989-90.

- Limiting increases in operating expenses to less than the rate of inflation over time.

- Limiting electric rate increases, including those for fuel as reflected in the fuel cost adjustment factor, to 4 percent biennially through fiscal year 1994-95. We forecast inflation of about 5 percent per year. Thereafter, we will continue to limit rate increases, including those for fuel, to not more than the rate of inflation.

This means that electricity should consume an increasingly smaller share of our customers' incomes. The real price of electricity, which is the price after adjusting for inflation, has decreased about 11 percent since 1982.

Customer bills decreased by about 4.5 percent this year when we lowered the

"The three great essentials to achieve anything worth while are, first, hard work; second, stick-to-itiveness; third, common sense."

—Thomas
A. Edison

percent this year when we lowered the fuel cost adjustment factor in February and again in April. This was the result of decreased fuel costs attributable to Palo Verde Nuclear Generating Station's improved performance. The factor is a means of passing fuel cost increases or decreases to our customers.

We also chart our financial health by using funds available for corporate purposes (FACP). This represents cash remaining after paying operating expenses and debt service. Our FACP for fiscal 1990-91 was \$139 million, the highest in four years.

We expect to increase our debt by about \$55 million a year for the next few years. We anticipate one minibond sale each year; each sale should raise about \$30 million in cash. In March, for example, we sold about \$24 million in minibonds. The balance of the increase in debt may come from expanding our commercial

paper program.

In February, we sold \$200 million of our regular tax-exempt electric system revenue bonds at an effective interest rate of 6.85 percent. Besides helping finance our electric system improvements, bond sale proceeds defeased parts of three earlier bond issues carrying substantially higher interest rates. By calling our high-interest bonds, we lowered our debt-service coverage requirements.

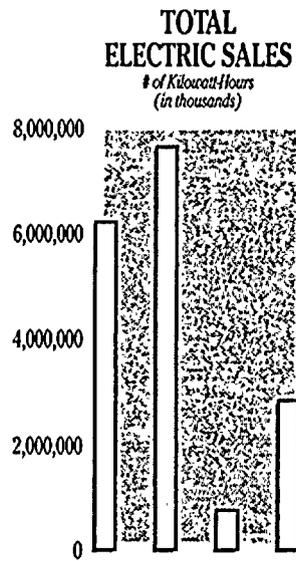
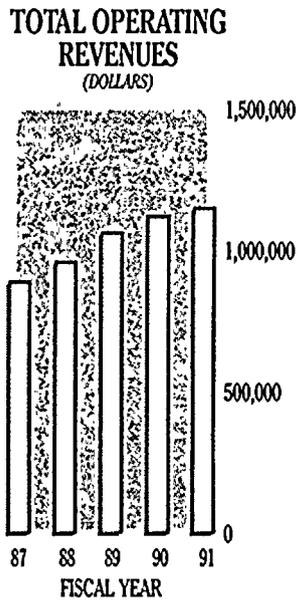
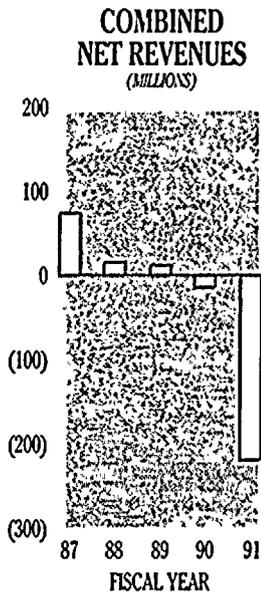
We have a contingency in our six-year financial plan for equipment needed at Navajo Generating Station. The estimated cost for installation and operation of the sulfur dioxide scrubbers is about \$2 billion. SRP is responsible for approximately one-fifth of those costs. Since the possibility of installing scrubbers had been incorporated into our financial plan, SRP is prepared to withstand the financial effects.

CONSULTANTS

Legal Advisers *Jennings, Strouss & Salmon*
Independent Public Accountants
Arthur Andersen & Co.

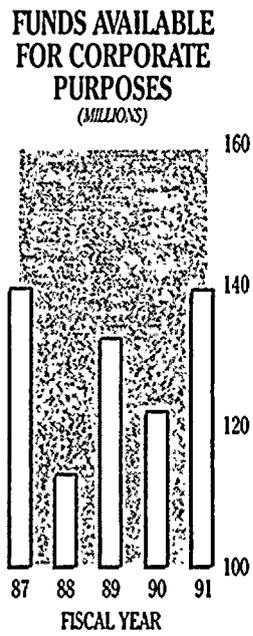
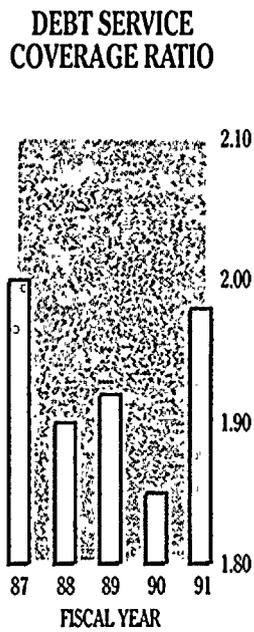
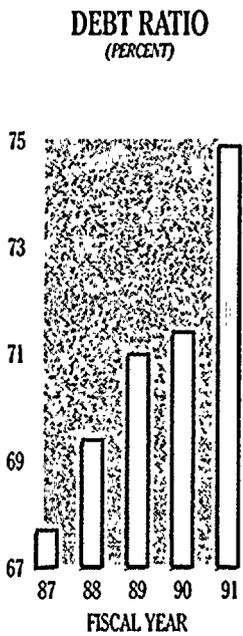
Bond Counsel
Mudge Rose Guthrie Alexander and Ferdon
Financial Consultant
Lazard Frères and Co.

REVENUES & SALES



- Residential
- Commercial/Industrial
- Other Sales
- Resales

KEY FINANCIAL INDICATORS



STATISTICAL REVIEW

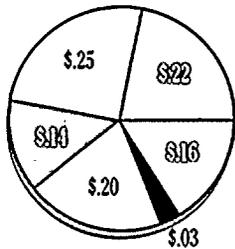
(thousands of dollars)	12 Months Ended April 30			
	1991	1990	1985	1980
PROJECT GENERAL				
Operating revenues	\$1,151,997	\$1,121,935	\$785,032	\$449,583
Electric	1,142,494	1,113,184	777,993	444,887
Water and irrigation	9,503	8,751	7,039	4,696
Operating expenses	924,787	918,058	559,504	324,507
Other income (deductions)*	(196,026)	30,044	58,847	29,430
Net financing costs*	249,526	247,113	68,698	60,919
Net revenues (loss)	(218,342)	(13,192)	215,677	93,587
Additions to plant, excluding allowances for funds used during construction	203,221	238,014	323,682	412,510
Utility plant, gross	5,668,212	5,712,380	4,185,919	2,493,501
Contributions of electric revenues to support water operations	41,529	33,850	9,866	10,779
Taxes and tax equivalents	163,118	138,609	75,028	45,199
Employees at year end**	4,953	5,055	5,163	4,457

*Items within these categories have been reclassified for 1980 and 1985 for consistent presentation with the current years.
**Does not include temporary employees.

	1990	1989	1985	1980
WATER*				
Total storage and pumping capacity (acre-feet)	2,851,171	2,886,832	2,863,769	2,891,711
Storage capacity (six reservoirs)	2,019,102	2,019,102	2,019,102	2,063,948
Installed pumping capacity	832,069	867,730	844,667	827,763
Water in storage Jan. 1 (acre-feet)	990,011	1,598,526	1,781,671	1,563,309
Project storage only	766,778	1,325,684	1,543,571	1,290,971
Runoff (acre-feet)	480,879**	453,610	2,020,059	2,897,443
Water in storage Dec. 31 (acre-feet)	833,936	990,838	1,671,535	1,480,332
Project storage	619,696	768,728	1,445,710	1,227,055
Sources of water for deliveries (acre-feet)	861,537	1,062,321	1,136,429	1,446,277
Gravity supply	541,347**	1,001,252	1,072,373	1,370,310
Groundwater supply (pumping by SRP)	313,516	53,894	46,593	65,648
Groundwater supply (pumping by others)	6,674	7,175	17,463	10,319
Use of water (acre-feet)	767,855	939,921	1,016,612	1,446,277
Agricultural	240,906	286,676	381,341	579,650
Urban	397,653	450,557	396,228	362,758
City domestic	291,149	330,854	281,464	247,190
Subdivision irrigation	60,406	66,386	60,263	57,831
Other non-agricultural irrigation (schools, parks, churches, etc.)	46,099	53,317	54,501	57,736
Decreed deliveries	50,949	58,106	52,410	67,762
Contract deliveries	78,347	144,582	186,634	192,909
Seepage and evapotranspiration	93,682	122,222	116,459	243,197
Canals, total (miles)	135	133	133	131
Lined	104	101	87	64
Laterals, total (miles)	916	912	890	880
Lined and piped	834	830	783	749
Drainage and waste ditches (miles)	229	230	240	247
Lined and piped	91	90	78	60
Assessed area (acres)	238,400	238,400	238,170	238,221
Number of assessed accounts	182,053	181,873	181,645	177,171
Number of times water delivered to users	470,840	508,068	468,144	423,989

*Water statistics are computed on a calendar year basis.
**Based on U.S.G.S. provisional records and are subject to adjustment.

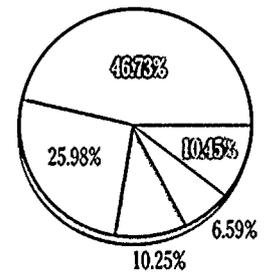
ELECTRIC DOLLAR



- Fuel & Purchased Power
- O & M
- Taxes
- Interest
- Principal
- Reinvested in Project Plant

	12 Months Ended April 30			
	1991	1990	1985	1980
POWER				
Energy sources (kWh)				
Net nuclear generation	4,319,603,000	1,185,427,000	-0-	-0-
Net steam generation*	11,920,255,000	13,758,883,000	11,859,199,000	8,847,016,000
Net combustion turbine generation	26,160,000	24,816,000	52,209,000	43,497,000
Net combined cycle generation	444,673,000	1,279,637,000	657,328,000	87,963,000
Net run of river generation	216,841,000	277,575,000	594,515,000	511,526,000
Pumped storage generation	177,622,000	44,344,000	200,451,000	100,455,000
Total net generation*	17,105,154,000	16,570,682,000	13,363,702,000	9,590,447,000
Purchased	1,521,784,970	1,542,602,292	2,082,962,216	2,110,570,024
Interchange received	492,429,064	522,820,660	63,848,104	345,460,000
Wheeling received	237,645,768	323,945,960	15,419,880	7,772,976
Total energy sources	19,357,013,802	18,960,050,912	15,525,932,200	12,054,250,000
Energy disposition (kWh)				
Residential	6,210,629,730	6,226,922,136	4,783,148,400	3,533,960,873
Commercial & Industrial	7,621,306,068	7,462,901,578	5,764,993,287	4,413,323,586
Irrigation pumping	143,902,088	181,530,135	260,223,618	204,961,011
Street & highway lighting	111,496,635	110,995,460	83,646,296	42,781,200
Public authorities	316,957,058	299,164,401	241,468,602	297,550,699
Interdepartmental	188,805,110	137,507,236	114,109,620	63,612,338
Sales for resale	2,834,223,162	2,590,193,220	2,883,361,835	2,232,292,703
Total sales	17,427,319,851	17,009,214,166	14,130,951,658	10,788,482,410
Interchange delivered	520,012,000	548,209,000	82,226,000	330,956,000
Wheeling delivered	230,728,411	314,323,069	14,154,972	7,110,294
Energy losses	937,788,540	1,019,922,677	1,012,240,570	784,193,296
Energy for pumped storage operation	241,165,000	68,382,000	286,359,000	143,508,000
Total disposition of energy	19,357,013,802	18,960,050,912	15,525,932,200	12,054,250,000
Peak overall power system (kW)				
Date and time (MST)	July 19, 4 p.m.	July 19, 6 p.m.	July 5, 6 p.m.	Sept. 5, 6 p.m.
Peak Project customers (kW)				
Date and time (MST)	June 26, 5 p.m.	July 19, 6 p.m.	Aug. 30, 5 p.m.	June 27, 5 p.m.
Generating capability (kW)**				
Nuclear	642,000	642,000	-0-	-0-
Steam*	2,396,000	2,428,000	2,211,250	1,553,250
Combustion turbines	397,000	397,000	393,000	393,000
Combined cycle	292,000	292,000	288,000	288,000
Hydroelectric conventional	94,000	94,000	96,400	95,000
Hydroelectric pumped storage	148,000	148,000	137,000	137,000
Total operating capability*	3,969,000	4,001,000	3,125,650	2,466,250
Contract purchase at peak	512,000	459,000	329,547	328,661
Total resources*	4,481,000	4,460,000	3,455,197	2,794,911
Electric customers — year-end***				
Residential	487,841	476,309	382,090	290,161
Commercial & Industrial	41,535	41,061	32,508	21,401
Other	8,938	8,963	8,176	1,573
Total	538,314	526,333	422,774	313,135
Average annual kWh use/residential customer**				
Average annual residential revenues/kWh (cents)	12,954	13,171	12,963	12,557
	8.47	8.27	7.11	5.28

ELECTRIC SALES REVENUES



Residential

Commercial

Industrial

Mines

Other

(does not include interdepartmental sales)

*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, 1991 and 1990
(thousands of dollars)

	1991	1990
ASSETS		
UTILITY PLANT, at historical cost (Notes 2, 5 and 6):		
Plant in service:		
Electric	\$4,797,885	\$4,652,286
Irrigation	131,398	116,523
Common	348,703	338,634
Total plant in service	5,277,986	5,107,443
Less—Accumulated depreciation on plant in service	1,397,044	1,266,656
	3,880,942	3,840,787
Plant held for future use (Note 4)	90,727	298,904
Construction work in progress	241,062	229,414
Nuclear fuel, net of amortization	58,437	76,619
	4,271,168	4,445,724
OTHER PROPERTY AND INVESTMENTS:		
Non-utility property and other investments	55,168	36,273
Segregated funds, net of current portion (Notes 2 and 6)	123,232	117,892
	178,400	154,165
CURRENT ASSETS:		
Cash and temporary investments, at cost	301,079	227,317
Current portion, segregated funds (Note 6)	88,055	85,268
Trade and other accounts receivable, net, including unbilled revenue (Note 2)	84,658	105,033
Fuel stocks, at last-in, first-out cost	63,076	51,492
Materials and supplies, at average cost	89,850	86,476
Other current assets	11,099	11,759
	637,817	567,345
DEFERRED CHARGES AND OTHER ASSETS (Notes 2, 7 and 8)	257,659	246,069
	\$5,345,044	\$5,413,303

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

	1991	1990
CAPITALIZATION AND LIABILITIES		
LONG-TERM DEBT (Note 6):		
Electric system revenue bonds, net of current portion	\$3,278,324	\$3,222,689
Commercial paper and other	380,580	380,741
	3,658,904	3,603,430
ACCUMULATED NET REVENUES:		
Balance, beginning of year	1,441,497	1,454,689
Net loss for the year	(218,342)	(13,192)
Balance, end of year	1,223,155	1,441,497
TOTAL CAPITALIZATION	4,882,059	5,044,927
CURRENT LIABILITIES:		
Current portion, long-term debt (Note 6)	41,815	35,162
Accounts payable (Note 2)	97,776	68,664
Accrued taxes and tax equivalents	70,912	57,662
Accrued interest	75,598	76,523
Customers' deposits	32,596	26,945
Other current liabilities	37,714	35,801
Accrued reorganization costs (Note 10)	23,000	5,235
	379,411	305,992
DEFERRED CREDITS AND OTHER NON-CURRENT LIABILITIES (Notes 2, 8 and 9)	83,574	62,384
COMMITMENTS AND CONTINGENCIES (Notes 5, 8 and 9)	—	—
	\$5,345,044	\$5,413,303

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, 1991 and 1990 (thousands of dollars)	1991	1990
OPERATING REVENUES (Notes 1 and 2):		
Electric	\$1,142,494	\$1,113,184
Water and irrigation	9,503	8,751
Total operating revenues	1,151,997	1,121,935
OPERATING EXPENSES:		
Power purchased	38,428	30,681
Fuel used in electric generation	226,072	273,589
Other operation expenses	235,869	214,527
Maintenance	102,262	108,608
Depreciation and amortization	159,038	152,044
Taxes and tax equivalents	163,118	138,609
Total operating expenses	924,787	918,058
Net operating revenues	227,210	203,877
OTHER INCOME:		
Interest income	37,612	37,403
Other deductions, net	(1,954)	(14,054)
Total other income	35,658	23,349
Net revenues before financing costs	262,868	227,226
FINANCING COSTS:		
Interest on bonds	225,044	220,490
Amortization of bond discount, issue and refinancing expenses	7,459	7,254
Interest on other obligations	22,563	24,395
Less—Allowance for funds used during construction	(5,540)	(5,026)
Net financing costs	249,526	247,113
NET REVENUES (LOSS) BEFORE UNUSUAL ITEMS AND CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	13,342	(19,887)
UNUSUAL ITEMS:		
Write-down of Coronado Unit III (Note 4)	(203,684)	—
Expenses of corporate reorganization program (Note 10)	(28,000)	(6,927)
Settlement of litigation (Note 9)	—	(5,700)
NET LOSS BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	(218,342)	(32,514)
CUMULATIVE EFFECT ON PRIOR YEARS (TO APRIL 30, 1989) OF ACCRUING UNBILLED REVENUE (Note 2)	—	19,322
NET LOSS	\$ (218,342)	\$ (13,192)

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, 1991 and 1990 (thousands of dollars)	1991	1990
NET CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss before cumulative effect of accounting change	\$(218,342)	\$(32,514)
Noncash items included in net revenues (loss) —		
Depreciation and amortization	159,038	152,044
Amortization of bond related expenses	7,459	7,254
Gain on sale of plant	(683)	(959)
Write-down of Coronado Unit III	203,684	—
Decrease (increase) in —		
Fuel stocks and materials and supplies	(14,958)	29,095
Other assets, net	(1,217)	(67,367)
Increase (decrease) in —		
Accounts payable	29,112	(24,412)
Accrued taxes and tax equivalents	13,250	12,184
Accrued interest	(925)	2,098
Accrued reorganization costs	17,765	(26,378)
Other liabilities, net	31,190	22,886
Cumulative effect of accounting change (Note 2)	—	19,322
Net cash provided by operating activities	225,373	93,253
NET CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to utility plant, net	(203,221)	(238,014)
Allowance for funds used during construction	(5,540)	(5,026)
Additions to non-utility property	(3,198)	(1,825)
Contributions in aid of construction	18,063	28,486
Proceeds from sale of plant	779	6,500
Net cash used by investing activities	(193,117)	(209,879)
NET CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds of bond issues, net of offering costs	209,556	120,547
Borrowings (repayments) of other long-term debt, net	(1,959)	4,340
Repayment of principal on bonds	(25,445)	(33,440)
Increase in segregated funds	(8,127)	(9,359)
Deposits into escrow for bond defeasance	(132,519)	—
Net cash provided by financing activities	41,506	82,088
NET INCREASE (DECREASE) IN CASH AND TEMPORARY INVESTMENTS	73,762	(34,538)
BALANCE AT BEGINNING OF YEAR IN CASH AND TEMPORARY INVESTMENTS	227,317	261,855
BALANCE AT END OF YEAR IN CASH AND TEMPORARY INVESTMENTS	\$ 301,079	\$ 227,317

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

NOTES TO COMBINED FINANCIAL STATEMENTS

Salt River Project
As of April 30, 1991 and 1990

(1) BASIS OF PRESENTATION:

The Company

The Salt River Project Agricultural Improvement and Power District (the District) is an agricultural improvement district, organized under the laws of the state of Arizona, which provides electric service in a 2,900-square-mile service territory in parts of Maricopa, Gila and Pinal Counties in Arizona. The District provides electric service to mining customers and wholesale power in an additional area of 2,400 square miles in Pinal and Gila Counties.

The Salt River Valley Water Users' Association (the Association), predecessor of the District, was incorporated in Arizona in February 1903 as a result of passage of the National Reclamation Act. In 1937, the Association transferred all of its rights, title and interest in the Salt River Project to the District. In 1949, the original agreement was amended so that the District would assume construction, operation and maintenance responsibilities for both the electric and irrigation systems. The District then delegated to the Association operation and maintenance of the irrigation and water supply system of the Project.

Principles of Combination

The combined financial statements include the consolidated accounts of the District and its subsidiaries and the Association, together referred to as Salt River Project (SRP). The District's subsidiaries are Papago Park Center, Inc. (PPCI), a real estate management company, and Salt River Generating Company which is currently inactive. All significant intercompany transactions have been eliminated.

Electric Rates

Under Arizona law, the Board has the exclusive authority to establish electric rates. SRP is required to follow certain procedures, including public notice requirements and holding a special Board meeting, before implementing changes in standard electric rate schedules. In May 1990 a 7.5 percent standard rate increase became effective. Subsequent to April 30, 1991, the Board has authorized a process to be implemented to evaluate a 2.9 percent rate increase expected to be proposed by management to be effective January 1, 1992.

Regulation

Under Arizona law, the District's Board of Directors (the Board) serves as its regulatory and rate-setting agency.

(2) SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting

The accompanying combined financial statements are presented in accordance with generally accepted accounting principles promulgated by the Financial Accounting Standards Board and reflect the rate making policies of the Board.

Utility Plant, Depreciation and Maintenance

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.

AFUDC rates of 5.24 percent and 5.83 percent were used in 1991 and 1990.

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 2.95 percent for 1991 and 1990 on the average cost of depreciable electric plant and 2.49 percent for 1991 and 1990 for depreciable irrigation plant.

The cost of property that is replaced, removed or abandoned, together with removal costs less salvage, is charged to accumulated depreciation.

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

Bond Expense

Bond discount, issue and refinancing expenses are being amortized over the terms of the related bond issues. Losses associated with bond defeasance transactions are deferred and amortized over the lives of the defeased debt in accordance with the rate-making policies of the Board. Included in deferred charges and other assets are unamortized losses associated with bond defeasances of \$103,753,000 and \$93,660,000 as of April 30, 1991, and 1990, accordingly.

Nuclear Fuel

Under the provisions of the Nuclear Waste Act of 1982, the District is charged one mill per kilowatt-hour (kWh) on its share of net energy generation at Palo Verde Nuclear Generating Station (PVNGS) for the cost to dispose of the fuel.

The District amortizes the cost of nuclear fuel, including its disposal, to fuel expense using the unit of production method.

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 \$133 million in 1989 dollars. This estimate will be reviewed and adjusted periodically. Decommissioning funds of approximately \$12,730,000, stated at cost at April 30, 1991, are maintained in an external trust. This amount is classified as Segregated Funds in the accompanying combined balance sheet. The corresponding liability is classified in other noncurrent liabilities.

Fuel Costs

The District maintains a fuel adjustment clause balancing account to adjust operating revenues for variations between the recorded cost of fuel and purchased power and revenue designated for recovery of such costs. At April 30, 1991, and 1990, (overrecovered) unrecovered fuel costs totalled \$(36,326,000) and \$18,503,000, respectively, and are recorded as accounts payable and accounts receivable, respectively.

Income Taxes

The District is exempt from federal and state income taxes.

Statement of Cash Flows

The District treats short-term temporary cash investments as cash equivalents. Cash payments for interest were \$245,325,000 in 1991 and \$239,500,000 million in 1990.

Change in Accounting Principle

Prior to fiscal 1990, electric operating revenues were recognized when billed. In fiscal 1990, SRP began accruing estimated revenue for electricity delivered to customers that had

not yet been billed. Management believes this accounting change results in a better matching of revenues with expenses.

Reclassifications

Certain 1990 amounts have been reclassified to conform to the current year presentation.

(3) POSSESSION AND USE OF UTILITY PLANT:

The United States of America retains a paramount right or claim in SRP which arises from the original construction and operation of certain of SRP's facilities as a federal reclamation project. SRP'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.

(4) CORONADO UNIT III:

In 1988, the Board approved deferring the in-service date of Coronado Generating Station Unit III (Unit III). In accordance with the Board's resolution, Unit III costs were transferred to plant held for future use.

In 1991, management re-examined its long-range resource plans as a result of the increased availability of PVNGS, continued excess capacity in the Southwest and the reduced load growth in its service territory. As a result, management has determined that additional constructed baseload capacity should not be required until fiscal year 2010. Due to technological, environmental and economic concerns regarding the future construction of Unit III, SRP has written down its investment to its estimated net realizable value. SRP is currently attempting to find a buyer for the assets.

(5) INTERESTS IN JOINTLY OWNED ELECTRIC UTILITY PLANTS:

The District has entered into various agreements with other electric utilities for the joint ownership of electric generating and transmission facilities. Each participating owner in these facilities must provide for the cost of its ownership share. The District's share of expenses of the jointly owned plants is included in operating expenses in the combined statements of net revenues.

The following table reflects the District's ownership interest in jointly owned electric utility plants at April 30, 1991:

Plant Name	Ownership Share	Plant		CWIP
		In Service	Accumulated Depreciation	
(thousands of dollars)				
Four Corners (NM)	10.00%	\$87,180	\$29,564	\$9,936
Mohave (NV)	10.00	45,898	21,517	3,359
Navajo (AZ)	21.70	225,301	103,166	4,107
Hayden (CO)	50.00	68,168	32,012	141
Craig (CO)	29.00	226,052	76,019	1,046
Palo Verde Nuclear Generating Station (AZ)	17.49	1,600,930	218,913	30,507
		\$2,253,529	\$481,191	\$49,096

The District acts as the operating agent for the participants in the Navajo Project.

SRP retains an option to repurchase up to an additional 5.7 percent interest in PVNGS which previously was sold to another participant. The repurchase price would be based on reproduction cost net less depreciation and can occur no sooner than 2001.

(6) LONG-TERM DEBT:

Long-term debt consists of the following:

	Interest Rate	1991	1990
(thousands of dollars)			
Revenue Bonds (mature through 2031)	4.9-10.6%	\$3,419,677	\$3,348,752
Unamortized Bond Discount		(99,557)	(92,718)
Total Revenue Bonds			
Outstanding		3,320,120	3,256,034
Commercial Paper	3.3-5.0%	375,000	375,000
Other	7.0%	5,599	7,558
Total Long-term Debt		\$3,700,719	\$3,638,592

The annual maturities of long-term debt (excluding commercial paper and unamortized bond discount) as of April 30, 1991, due in the fiscal years ending April 30, are as follows:

	(thousands of dollars)
1992	\$ 41,815
1993	52,221
1994	54,926
1995	59,525
1996	60,762
Thereafter	3,156,027
	\$3,425,276

Revenue Bonds

Revenue bonds are secured by a pledge of, and a lien on, the revenues of the electric system after deducting operating expenses, as defined in the bond resolution. Under the terms of the bond resolution, the District is required to maintain a debt-service fund for the payment of future principal and interest. Included in segregated funds is approximately \$188,186,000 and \$186,249,000 of debt-service related funds as of April 30, 1991, and 1990, respectively.

The District has \$195,668,000 of Mini-Revenue Bonds outstanding which can be redeemed at the option of the bondholder under certain circumstances. These bonds have been classified as long-term in connection with refinancing terms under an available line of credit with a commercial bank.

The debt service coverage ratio, as defined in the bond resolution, is used by bond rating agencies to help evaluate the financial viability of the District. For the years ended April 30, 1991, and 1990, debt service coverage was 1.98 and 1.85, respectively.

Interest and amortization of discount on the various issues results in an effective rate of approximately 7.33 percent over the remaining terms of the bonds.

At April 30, 1991, the Project has authority to issue additional electric system revenue bonds totaling \$281,378,000 principal amount and electric system refunding revenue bonds totaling \$1,379,325,000 principal amount.

In fiscal 1991, the District defeased \$123,080,000 of electric system revenue bonds resulting in lower future debt-service requirements as well as a loss of \$12,900,000. Consistent with the Board of Directors resolution, the loss has been deferred and is being amortized over the life of the defeased debt.

Commercial Paper

The District has issued \$375,000,000 of tax-exempt commercial paper at an average interest rate to the District of 4.41 percent. The commercial paper matures no more than 270 days from the date of issuance and in no event after July 10, 1992. The commercial paper has been classified as long-term in connection with refinancing terms under a revolving credit agreement (the Agreement) with a consortium of banks which supports the commercial paper. Under the terms of the Agreement, the District may borrow up to \$375,000,000 through October 29, 1993.

The Agreement, which went into effect on October 30, 1989, replaced the prior revolving credit agreement dated October 15, 1987, and included changes in the make-up of the bank consortium to improve credit quality. While the revolving credit agreement contains certain covenants which could prohibit borrowing, management is confident that financing will be available. The District has never borrowed under this Agreement and does not expect to do so in the future.

Alternative sources of funds to support the commercial paper program include existing funds on hand or the issuance of alternative debt, such as revenue bonds.

The commercial paper is an unsecured obligation of the District.

General Obligation Bonds

In 1984, the District refunded its then outstanding general obligation bonds. Although the refunding constituted an in-substance defeasance of the prior lien on revenues which secured said bonds, the general obligation bonds continue to be general obligations of the District, secured by a lien upon the real property of the District, a guarantee by the Association and the District's taxing authority. As of April 30, 1991, the amount of defeased general obligation bonds outstanding was \$81,005,000.

(7) EMPLOYEE BENEFIT PLANS:

Defined Benefit Plan

SRP has a defined benefit plan (the Plan) covering substantially all employees. The Plan is funded entirely from SRP contributions and the income earned on invested assets. No contributions were required to be made to the Plan in fiscal years 1991 and 1990. Plan assets consist primarily of stocks, U.S. obligations, corporate bonds, real estate funds and a guaranteed investment contract.

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

	1991	1990
	(thousands of dollars)	
Service cost	\$ 8,944	\$ 8,955
Interest cost	19,686	18,350
Actual return on assets	(28,654)	(18,399)
Net amortization and deferral	(5,193)	(13,762)
Net periodic pension income	\$(5,217)	\$(4,856)

The discount rate used in determining the actuarial present value of the projected benefit obligation was 9.0 percent for both 1991 and 1990. The rate of increase used to determine future compensation levels was 5.5 percent for fiscal years 1991 and 1990. The expected long-term rate of return on assets is 9.75 percent for both 1991 and 1990.

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

	1991	1990
	(thousands of dollars)	
Plan assets at fair value	\$318,045	\$ 301,655
Actuarial present value of projected benefit obligation:		
Vested benefit obligation	(193,501)	(167,548)
Nonvested benefit obligation	(6,706)	(6,970)
Accumulated benefit obligation	(200,207)	(174,518)
Excess of projected benefit obligation over accumulated benefit obligation	(50,146)	(49,555)
Projected benefit obligation	(250,353)	(224,073)
Plan assets in excess of projected benefit obligation	67,693	77,582
Unrecognized net assets	(47,695)	(52,030)
Unrecognized net gain	(1,442)	(7,958)
Prior service cost not yet recognized in net periodic pension cost	6,170	1,999
Prepaid Pension Cost	\$ 24,726	\$ 19,593

Defined Contribution Plans

SRP 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 employer matching contributions upon completion of one year of service. SRP contributions to these plans were \$2,831,000 and \$2,615,000 in the fiscal years ended April 30, 1991, and 1990, respectively.

Other Postemployment Benefits

SRP provides certain health care and life insurance benefits for retired employees. Employees are eligible for coverage if they retire at age 65 or older with at least five years of vesting service, or any time after age 55 with a minimum of 10 years of vested service. These benefits are subject to deductibles, copayment provisions and other limitations. SRP may amend or change the plan periodically. The cost of these benefits are currently recognized as expenses as the premiums and/or deposits to the trustee are paid. The total cost of postretirement benefits expensed was \$3,860,000 and \$2,867,000 for 1991, and 1990, respectively.

In December 1990, the Financial Accounting Standards Board issued a new standard on accounting for postretirement benefits other than pensions. This new standard requires that the expected cost of these benefits be charged to expense during the years that the employees render service. This is a significant change from SRP's current policy of recognizing the cost of these benefits as they are paid. SRP is required to adopt the new accounting and disclosure rules no later than fiscal year 1993-94, although earlier implementation is permitted. SRP may adopt the new standard ratably over future periods or through a cumulative catch-up adjustment.

Management has engaged an actuary who has made a preliminary review using 1990 data. Their estimates are subject to significant change based on a number of factors including possible changes in the assumed health care cost trend rate used in the calculations. Based on their preliminary review, the postretirement benefit obligation at Jan. 1, 1991, measured in accordance with the new standard, is estimated to be approximately \$106.6 million.

SRP has not decided when it will adopt the new standard or if it will adopt the new accounting method ratably or by recording a cumulative catch-up adjustment in the year of adoption. However, management expects that the annual postretirement benefit expense computed in accordance with the new standard will be significantly greater than the annual cash payments.

SRP continues to evaluate ways in which it can better manage postretirement benefits and control the costs. Any changes in the plan or revisions to assumptions that affect the amount of expected future benefit may have a significant effect on the amount of the obligation and annual expense.

(8) COMMITMENTS:

District Construction Program

Construction expenditures, including contingency allowances, planned for fiscal years 1992 through 1997 are shown as follows:

	(millions of dollars)
1992	\$206
1993	220
1994	245
1995	299
1996	320
1997	306

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

Association Construction Program

SRP is committed to spend approximately \$22.4 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.

Long-Term Power Contracts

The District has entered into three long-term power purchase agreements to supply a portion of its projected load requirements. The first two contracts provide the District with 50 megawatts (MW) each of firm power starting June 1990, increasing to 100 MW beginning in June 1991 and expiring in the year 2011.

The third contract, with a participant in the Navajo Generating Station (NGS), gives the District the right to acquire an additional percentage of the output of the station. Minimum payments under this contract, which has a maximum annual capacity factor of 8.7 percent, is based on 200,000 kilowatts (kW) of capacity. The minimum payments shown below assume that the contract will commence May 1, 1993, and expire September 30, 2011. However, it is possible that deliveries will not start until October 1, 1993. Minimum payments under this contract, of approximately \$14.4 million

per year, are unconditionally payable regardless of the ability of the District to obtain the power.

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

	(thousands of dollars)
1992	\$ 30,245
1993	31,690
1994	46,176
1995	46,408
1996	46,784
Thereafter	729,122
	<u>\$930,425</u>

In addition to the above, the District plans to enter into a fourth long-term purchased power agreement with the same participant. Under the proposed terms of this agreement, SRP will acquire an additional 150,000 kW of NGS peaking capacity under substantially the same terms and conditions of the contract discussed above. The contract would commence in May 1993.

Fuel Supply

At April 30, 1991, minimum long-term commitments of approximately \$2.3 billion exist under fuel supply contracts. During 1989, the District paid approximately \$59 million to terminate a contract with Kaiser Coal Company. The remaining termination cost of \$50,195,000 and \$54,157,000 at April 30, 1991, and 1990, respectively, is included in deferred charges and other assets and is being amortized to fuel expense over the remaining life of the original contract. The annual amortization of \$3,962,000 is being recovered through rates.

Papago Park Center

SRP currently is developing a 470-acre, mixed-use commercial park called Papago Park Center in Tempe, Arizona. In connection with the infrastructure development, the District and the City of Tempe have entered into an agreement whereby the District will pay a special annual assessment of approximately \$1.75 million per year for 19 years to the City of Tempe to pay for its share of street and infrastructure improvements and right of way acquisitions. The obligation of the District to make assessment payments is an unsecured obligation payable from District general funds. The present value of this obligation has been recorded as a noncurrent liability.

The District's wholly owned subsidiary, PPCI, will serve as the real estate management company in accordance with the terms of a 99-year lease on the property.

(9) CONTINGENCIES:

Nuclear Insurance

Under existing law, public liability claims that could arise from a single nuclear incident are limited to \$7.8 billion. PVNGS participants currently insure for this potential liability through commercial insurance carriers to the maximum amount available (\$200 million) with the balance covered by an industrywide retrospective assessment program which is required by the Nuclear Regulatory Commission. The maximum assessment per reactor per nuclear incident under the retrospective program is \$63 million but not more than \$10 million per reactor may be charged in any one year for each incident subject to a 5 percent surcharge which could be applicable in certain circumstances.

Based on SRP's ownership share in PVNGS, the maximum potential assessment would be \$34.7 million but would be limited to \$6.9 million per incident in any one year, including the 5 percent surcharge.

Environmental

At any given time, litigation or administrative proceedings or studies involving environmental matters could affect SRP and its present and proposed generating and operating facilities. Many normal activities in connection with SRP's operations generate hazardous wastes which in the last ten 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 has made a preliminary determination that Navajo Generating Station is a source of visibility impairment in the Grand Canyon National Park. The agency has proposed an emission limit for sulfur dioxide that would, if made final, require the installation of environmental equipment.

Installation would require significant additional expenditures, which would be passed on to customers through increased electric rates. The District has included a contingency allowance in the five-year construction program (Note 8) for the cost of new environmental controls should they be required.

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 which are 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 District. A reserve for these payments has been established which, in the opinion of management, adequately covers SRP's liability as of April 30, 1991.

The District reached a settlement of litigation related to the interpretation of the Articles of Incorporation. As a result of this settlement, an additional liability for previous periods of approximately \$5.7 million was established and has been presented as an unusual item in the combined statement of net revenues for the year ended April 30, 1990.

Indian Matters

From time to time, SRP 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.

Other Litigation

In the normal course of business, SRP 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 SRP's financial position or results of operations.

(10) SRP'S REDUCTION IN FORCE:

On November 5, 1990, the Board approved a cost reduction program which called for the elimination of approximately 450 positions. Each eliminated employee will be provided a severance package consisting of a cash severance payment equivalent to six to 104 weeks of salary, depending on age, tenure and certain other criteria. Also included in the package is accrued vacation and sick pay, health and medical insurance, career counseling and certain other benefits. The related estimated severance benefit expense has been recorded as an unusual item in the accompanying combined statement of net revenues.

Report of Independent Public Accountants

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

We have audited the accompanying combined balance sheets of SALT RIVER PROJECT as of April 30, 1991, and 1990, 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, 1991, and 1990, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

As explained in Note 2 to the financial statements, effective May 1, 1989, the Company changed its method of accounting for unbilled revenue.

Phoenix, Arizona,
June 25, 1991.

Arthur Andersen & Co.

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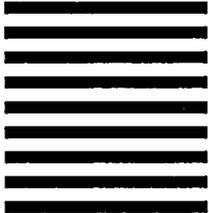
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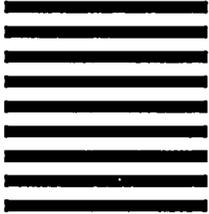


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