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Arizona Power Authority

1810 W. ADAMS ST., PHOENIX, AZ 85007-2697

TELEPHONE (602) 542-4263 • FAX 253-7970

December 1, 1995

The Honorable Fife Symington
Governor of Arizona
State Capitol
Ninth Floor, West Wing
Phoenix, AZ 85007

Re: The Future Offers Options and Opportunity

Dear Governor Symington:

Last year, in the 50th Anniversary edition of the Arizona Power Authority (Authority) Annual Report, we saw that each decade had its milestone. The issue for the 1990s is the "defederalization" of the federal power marketing administrations (PMAs).

The sale of federal power marketing agencies and other federal assets has been a recurring theme in Congress over the past decade, primarily as a way to alleviate the federal debt. The fervor of this year's dialogue was influenced by an ideological shift to the position that the federal government does not belong in the power business.

Through the leadership of the Commission and the Authority's executive director Mark Mitchell, Arizona is helping to put a new face on this challenge by making it an opportunity. Rather than react after Congress acts, the Authority has aligned itself with allies throughout the western United States to create a climate for positive change. If the PMAs are defederalized, our goal is to acquire PMA assets in order to control the destiny of public power customers.

While PMA defederalization has been a major issue in the past year, the Authority has also continued to work directly with the Bureau of Reclamation (Reclamation) and Western Area Power Administration (Western) to gain control of increasing power production and delivery costs. In addition, we are directly involved in the development of a Habitat Conservation Plan for the lower Colorado River with the goal of structuring a sound environmental program, while, at the same time, protecting power interests.

In this report, we discuss the Authority's proactive role in these issues, the possible outcome and its significance for Arizona and our customers.

Sincerely,

Arizona Power Authority

Jewell M. Lewis, Chair

190104

COMMISSION

JEWELL LEWIS
CHAIRPERSON

J. S. FRANCIS, JR.

RICHARD WALDEN

JAMES HENNESS
VICE-CHAIRMAN

ROBERT CASILLAS

STAFF

MARK S. MITCHELL
EXECUTIVE DIRECTOR

RITA K. GALLANT
SECRETARY

REPORT OF THE COMMISSION

*Chair Jewell Lewis
Highlights Leadership
Activities*

COMMITMENT

The Commission is pleased to report the Authority has taken a leadership role among public power agencies in the West to ensure the lowest electric rates possible. Largely through the initiative of executive director Mark Mitchell, who joined the Authority on January 9, 1995, we have witnessed a change of attitude among power users who formerly responded with "just say no" to any changes on the horizon. Mr. Mitchell has helped win a major victory for public power through his leadership in forging an alliance to analyze proposed changes and then to confront the challenges with a united voice.

Although it appears Congress has tabled the defederalization of the power marketing adminis-

trations until next year, we stand committed to gaining cost control of the federal assets vital to the production and delivery of Hoover power. Authority customers will benefit from stabilized electric rates. All Arizona will profit from a stable agricultural base.

The potentially devastating impact on rural economies has been a primary consideration in the Authority's decision to work to ensure cost control over PMA assets. Our focus is the economic preservation of the irrigation districts and municipal economies served by our 39 electric customers. We are committed to promoting improved irrigation methods to conserve both water and power, and to assisting our customers in planning long-range resource conservation to meet evolving needs.

MEMBERS OF THE COMMISSION

LEADERSHIP

Commissioners' Vision and Vigilance Enable the Authority to Offer Customers Reliable Power at Fair Prices.

Jewell M. Lewis Chair

Dr. Lewis was appointed to the Commission in 1986. Formerly a teacher for 20 years in the Florence



and Coolidge, Arizona, school systems, she is chairperson of the board of MAC Communications, which owns KTVK Channel 3, Phoenix Magazine, KESZ Radio, and Desert Production Center in Arizona. Dr. Lewis is a member of the Arizona Perinatal Board of Trustees, the NAU Center for Excellence in Education Advisory Board, the D.O.A.R. Advisory Board, and co-chair of the Orpheum Theatre Renovation Foundation.

James K. Hennes Vice-Chair

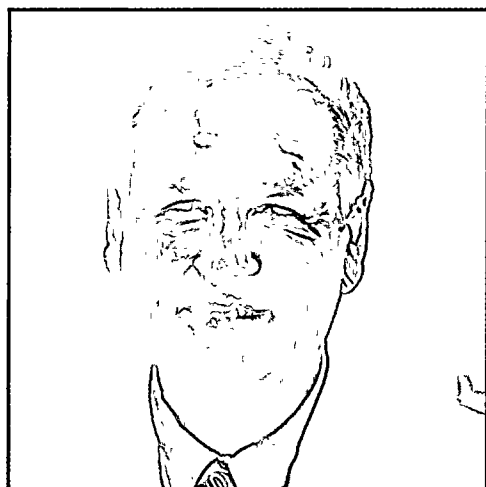
Jim Hennes has served on the Commission for 13 years and was chairman

from 1984 to 1986. He was reappointed to a third term which ends in January of 2000. A cotton farmer from Casa Grande, Arizona, Mr. Henness is active in many agribusiness, environmental and community organizations. He is past president of the Agri-Business Council of Arizona, chairman of the State Agricultural



1990 to 1992. Mr. Walden heads the Farmers Investment Co., a family-owned pecan and cotton growing and processing firm headquartered in Sahuarita, Arizona. He is a director of the First Interstate Bank, and chairman of the National Pecan Shellers Association.
J. S. Francis, Jr.

Jack Francis was appointed to the Commission in 1984 and served as its chair-



founded C.C. Foods, Inc., a tortilla manufacturing and distributing firm in Phoenix. He served as a Gila County supervisor for eight years, and was chairman three of those years. He is a former director of the Globe Lions Club and is a member of the Globe-Miami Economic Development Committee.

Richard S. Walden

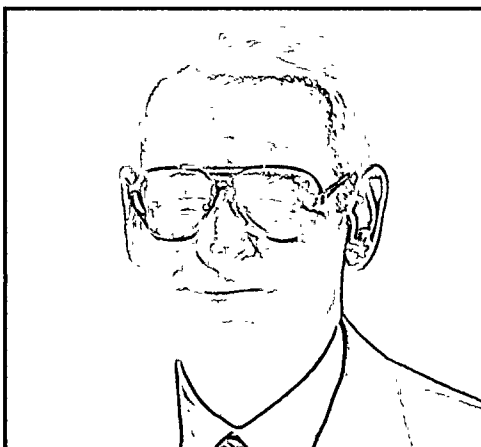
Appointed to the Commission in June of 1984,



Stabilization Conservation Service Commission, and a member of the National Association of Conservation Districts, and the Arizona Cotton Growers Association.

Robert P. Casillas

Bob Casillas served as chairman from February 1992 through January 1994. First appointed to the Commission in 1985, he was reappointed in 1990 for a second term. A native of Miami, Arizona, Mr. Casillas, along with his brother,



Dick Walden is serving his second consecutive six-year term which ends in 1998. He served as chairman from

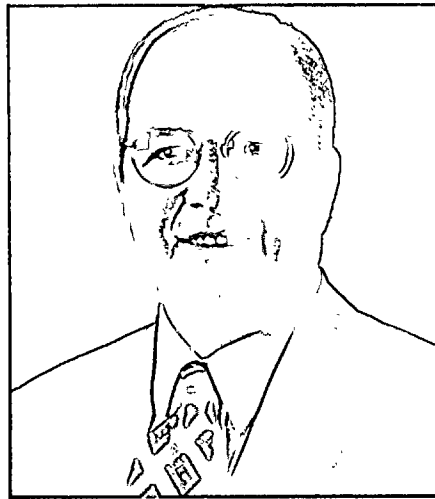
man from 1988 to 1990. He is also serving a second six-year term. Mr. Francis is chairman of the board of Valley Industries, a family-owned cotton ginning company in Glendale, Arizona, which has recently leased its westside ginning facilities to Anderson Clayton. He serves on the boards of the National Cotton Council, the Arizona Cotton Growers Association, and the SuPima Association of America.

THE AUTHORITY STAFF

Mark S. Mitchell Takes the Authority Helm and Brings Together Public Power Interests in the West

COMMUNICATION

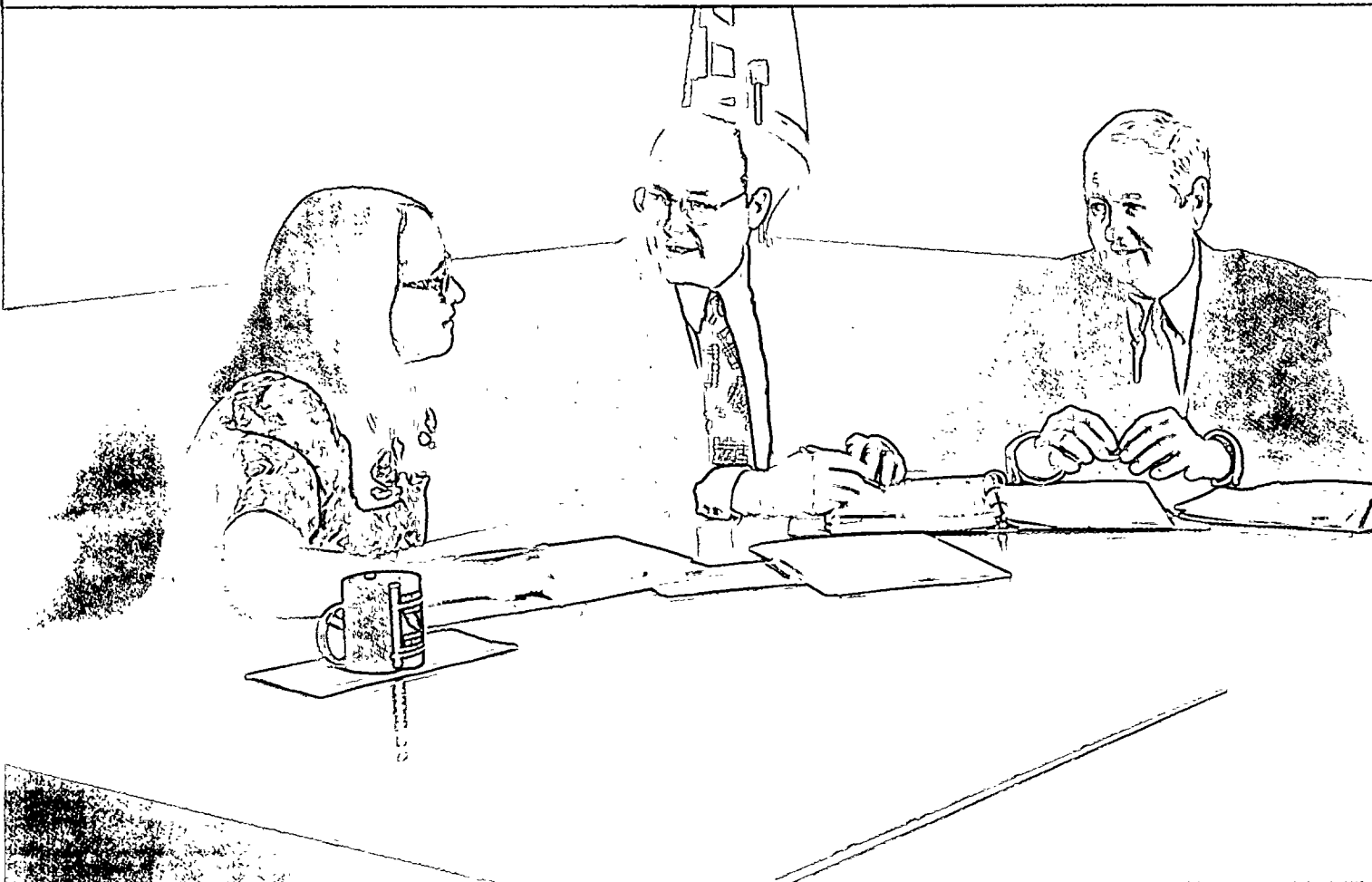
Executive director Mark S. Mitchell, P.E., is a strong communicator who enjoys people and sincerely believes that "work should be fun." After all, when things are going well, he contends, everyone is happy. So why not strive for doing things right the first time and the satisfaction it brings.



That is the philosophy and tone he brings to the Authority in the new "executive director" position. Mitchell faced many immediate challenges upon joining the Authority team earlier this year. He immedi-

ately threw himself into the task of learning the issues and players involved in the renewed congressional bid to rid the federal government of the power marketing administrations (PMAs).

This has meant weeks of crisscrossing the U.S. and the western states to meet with other federal power customers, leaders of various public power organizations, and Washington decision makers. He, along with many others in the Southwest, is working for greater control over public power rates.



The Authority staff understands the urgent mission requiring their new leader's energy and time. They appreciate the confidence Mitchell has demonstrated in their ability to carry out their responsibilities in his absence.

"Extremely challenging" is how Mitchell describes the effort to ensure that existing customers of the power marketing administrations maintain control of the use and cost of these vital resources. The challenge wasn't even on the horizon when the Commission con-

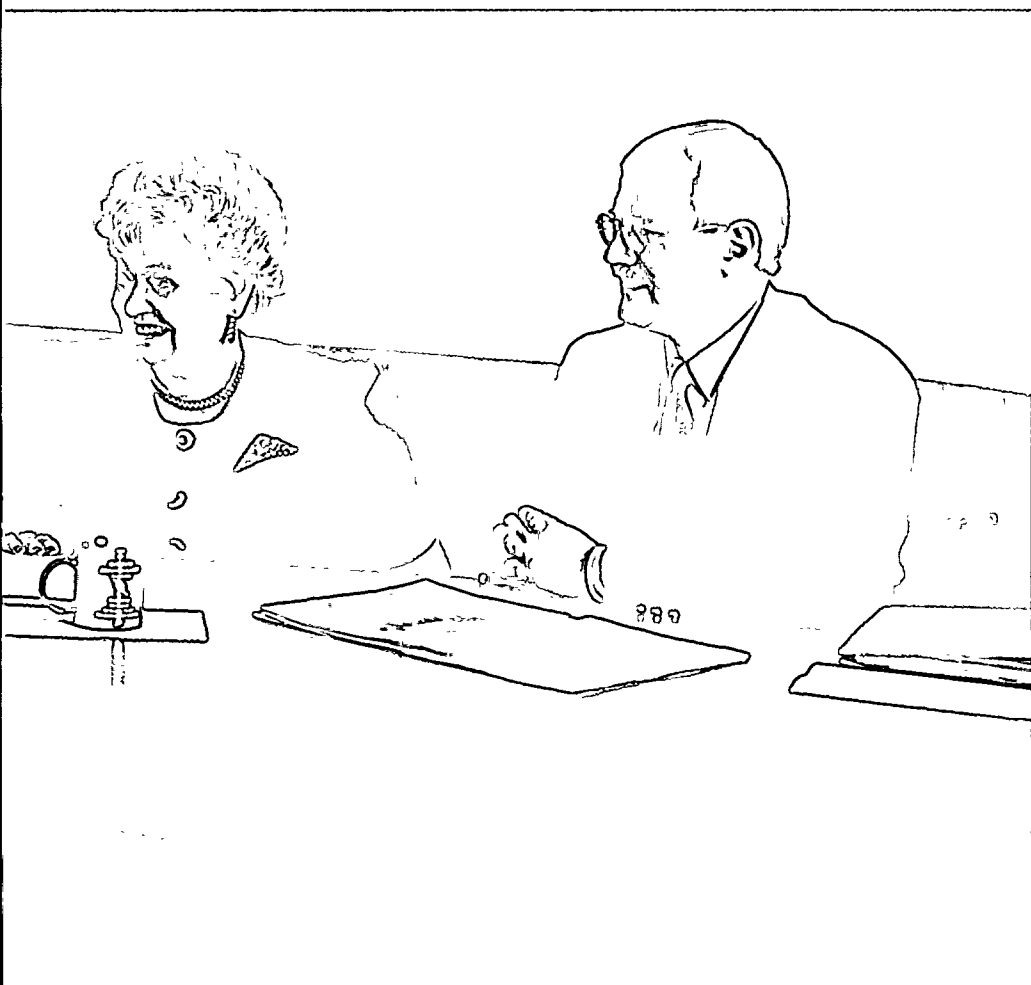
firmed Mitchell's appointment on December 20, 1994. Nevertheless, Mitchell's career to date has prepared him to face challenges head-on, and he quickly went into high gear to help orchestrate a united front in favor of public power acquisition of the PMAs.

A registered professional engineer, Mitchell holds a B.S. in Electrical Engineering from New Mexico State University and a Master of Engineering Management from the University of Colorado. He served for 12 years as a

system planning engineer for the Salt River Project and two electric cooperatives prior to joining the Authority. In these positions, he worked with other organizations on the development of transmission projects and the administration of transmission and resource agreements.

Significantly, Mitchell helped negotiate the bylaws for the Southwest Regional Transmission Association (SWRTA) and the Western Regional Transmission Association (WRTA). He has detailed knowledge of Title 7 of the Energy Policy Act of 1992 and FERC policies and activities related to the Act.

A native of New Mexico, Mitchell is active in community affairs in Gilbert, Arizona, where he lives with his wife Mary and their children Melissa and Matthew.



Left to right: Elizabeth Story, Administrator, Tonopah Irrigation District; Mark Mitchell, Authority Executive Director; Jim Henness, Commission Vice-Chair; Jewell Lewis, Commission Chair; Jim Trangsrud, Salt River Project Contracts Department Supervisor.

THE AUTHORITY STAFF

*New Tools and Training
Revitalize Essential Duties*

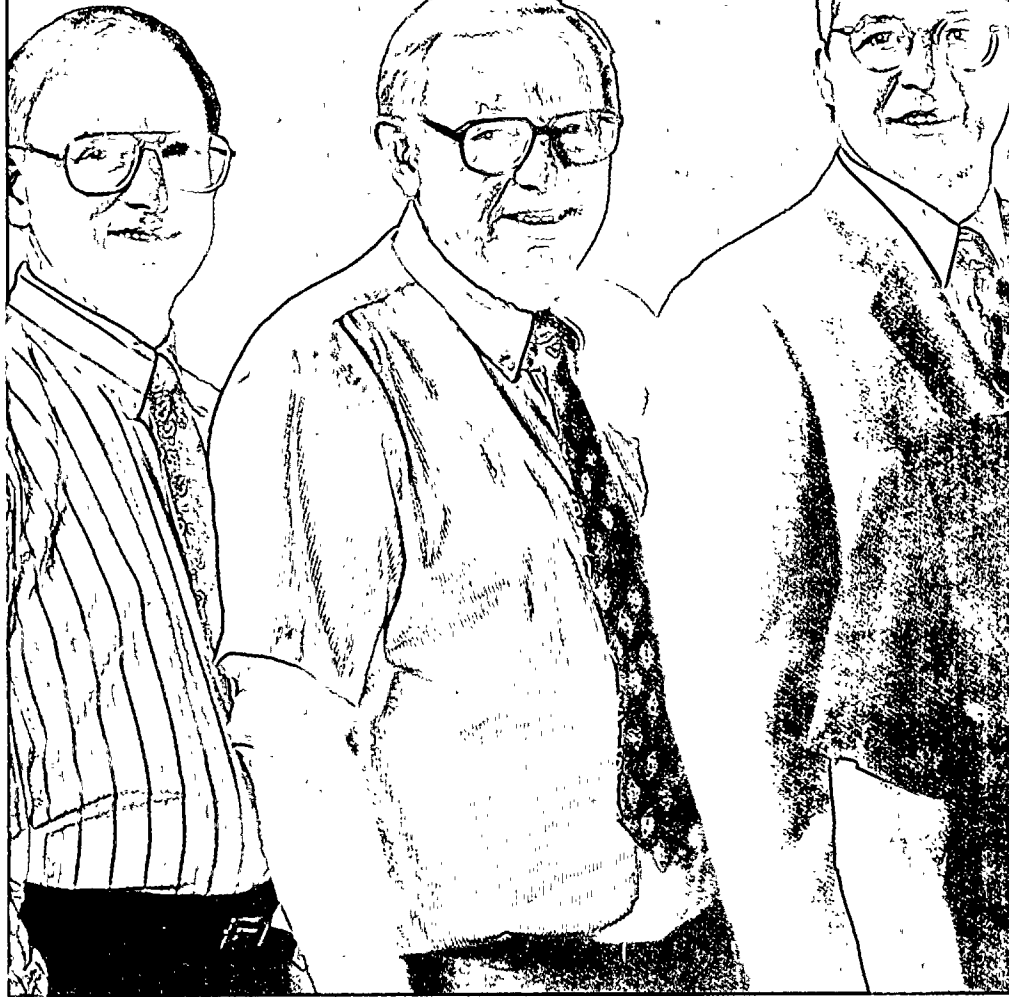
AUTOMATION

By bringing a fresh, new outlook to the Authority, executive director Mark Mitchell complements two enduring strengths of the Authority staff: stability and hard work.

Excluding the new director and Authority attorney James Bartlett, who has served the agency more than 25 years, the average tenure of the seven Authority staff members is 11 years. This fact speaks untold stories about dedication, loyalty, experience and know-how.

Despite its limited staff, the Authority carries a heavy responsibility for scheduling and accounting for the sales of electric power, which, in the last fiscal year, produced revenues of nearly \$18 million.

Only five years ago, the Authority operated on two computers. Payroll and accounts payable were calculated and recorded manually as were most budgeting activities. Monthly



Left to right: Theodore Moss, Utilities Consultant Supervisor; Donald Esgar, Utilities Controller; Rita Gallant, Authority Secretary; Frank Bonfili, Assistant Administrator, Finance

billing for more than three dozen power customers was a staggering undertaking before automation. The Authority began catching up quickly in the late 1980s. Today every staff member has a computer.

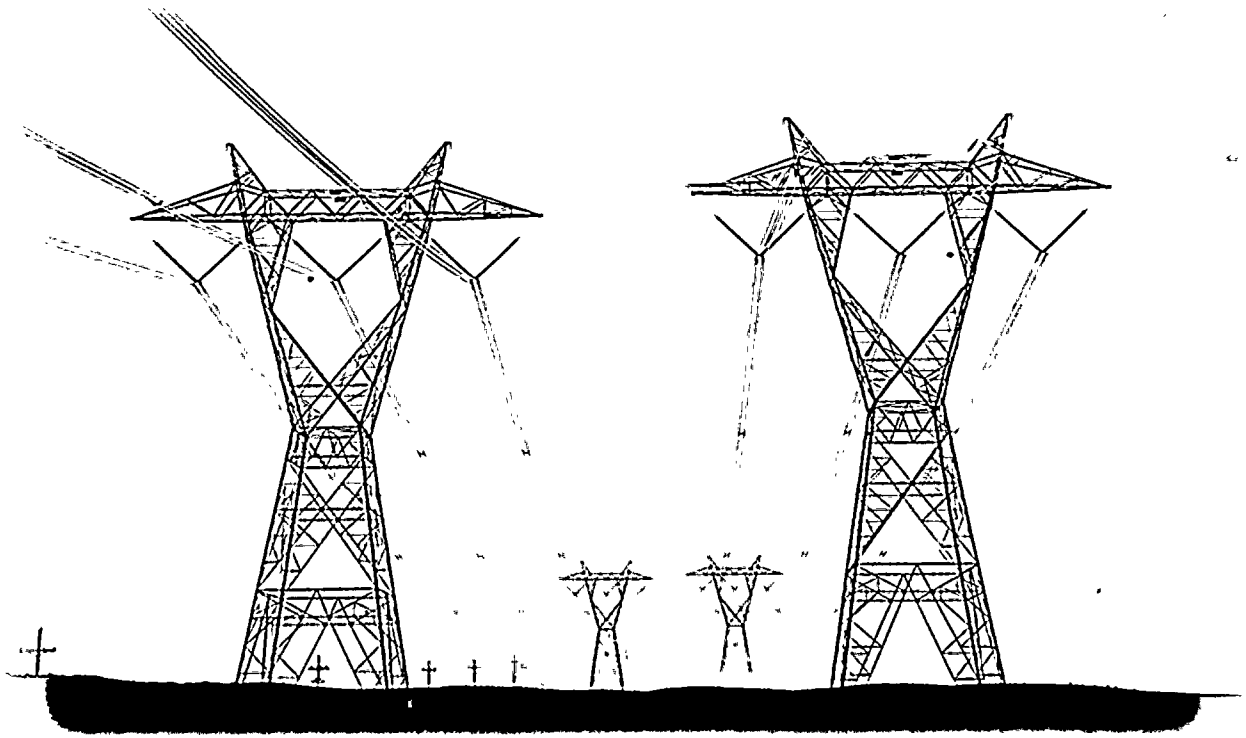
And now, as change continues to accelerate, how does the Authority intend to keep up? More of

the same?

Not exactly the same, but definitely more. More responsibility, more change, more output. But according to Mitchell, "improved productivity through the implementation of new tools, techniques and teamwork will allow us to meet the challenges."

Modernized tools and

ARIZONA POWER AUTHORITY 37TH ANNUAL REPORT 1994-95



A NEW HORIZON FOR PUBLIC POWER

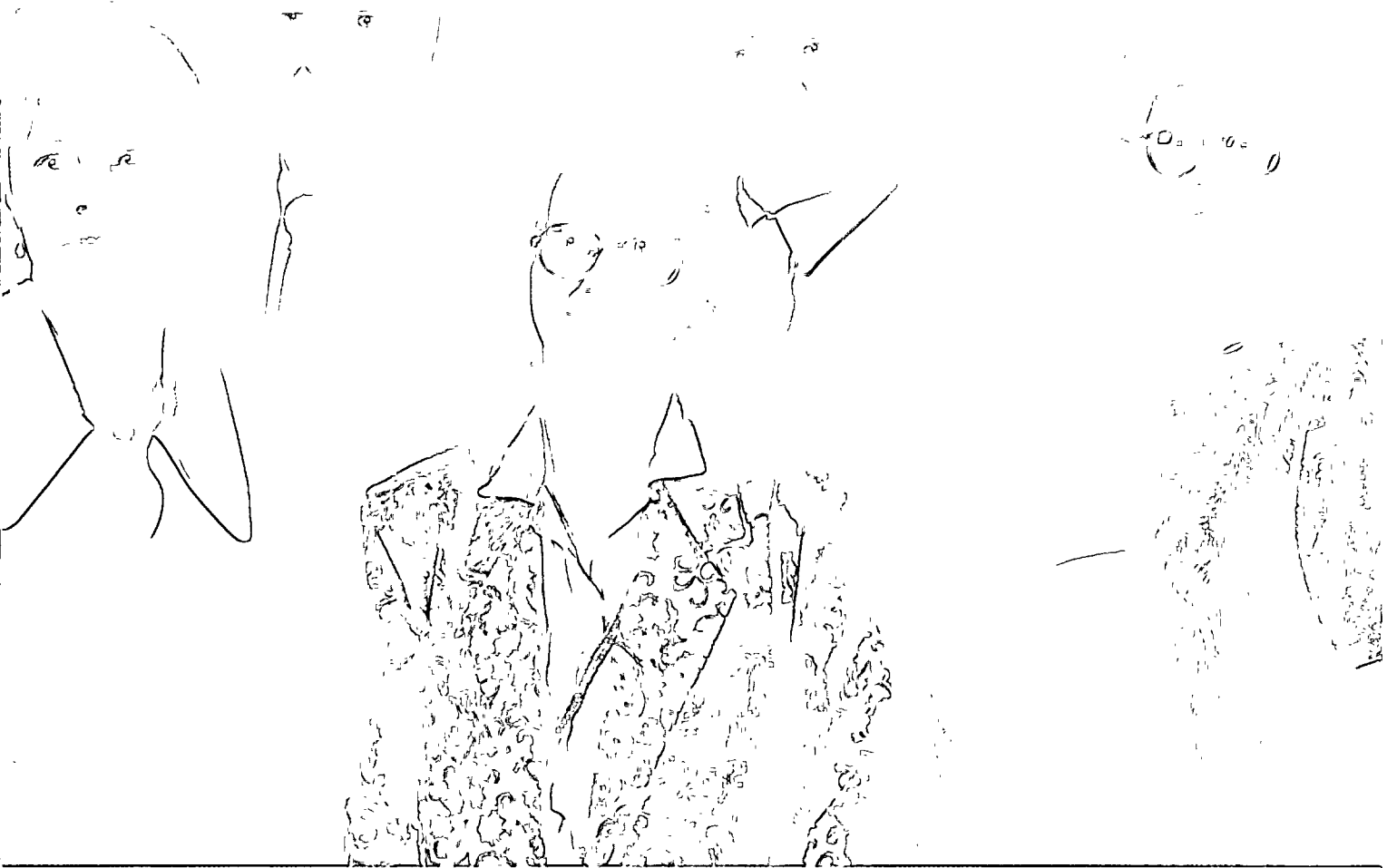
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MISSION

- To be a leader in managing resources in a safe and environmentally prudent manner
- To provide active representation on behalf of the state of Arizona at federal, state and local forums on issues that impact the public power community as a whole and issues that specifically involve Arizona and the Authority's power resources
- To serve as an information resource for its customers on topics that impact the customers' electric resources and utilization of those electric resources
- To maintain regular communications with its customers so that customers are aware of current Authority activities and upcoming issues of importance
- To pursue generation or transmission projects that are within the Authority's legislative mandate when these projects are in the best interests of the state of Arizona
- To ensure that customer billings are prepared accurately and rendered on a timely basis

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stant Supervisor; Mark Mitchell, Executive Director; Rosemary Anhalt, Fiscal Services Specialist; James Bartlett, Authority Affairs; and Evelyn Magnusson, Power Manager.. Missing from the photo is Donna Robins, Administrative Secretary.

training, plus greater understanding of the broad issues facing the industry, will position Authority staff as well-versed team members valued for specialized knowledge and flexibility.

Rather than continue as isolated divisions, staff will begin learning new skills through cross training and the introduction of new

technology. Thus, Mitchell said, he expects to see greater job satisfaction, and value added on behalf of both customers and employees.

"My job is more interesting now because computer software allows us to track so many more trends," confided assistant administrator Frank Bonfili,

who joined the Authority in 1986. "I can handle more and plan better for the future."

The Authority is implementing a program to upgrade office equipment, computers, and computer software.

*Congress Postpones
Decision on Future Control
of PMA Assets*

OPPORTUNITY

Expectations and emotions ran high this year as Congress considered the sale of the federal power system. During the past decade, Congress has proposed several times to sell federal power facilities. Previously, its strategy had been to reduce the federal deficit by selling federal assets. This year, however, saw an ideological shift. Rather than basing their decision on purely economic arguments, members of Congress also focused on reducing the size of the government. Some argued that the federal government does not belong in the power business.

Closure on the power marketing administration (PMA) issue was anticipated as part of the federal budget reconciliation process.

However, although the outcome is uncertain, it appears that any action will be postponed for another year.

Public power entities in the desert Southwest and elsewhere saw the proposed sale as an opportunity to gain better control of the costs of the generation and transmission on which they rely. Working with other public power entities, the Authority helped draft legislative language that was broad enough to allow all existing federal power customers to purchase or lease the generation and transmission assets of the PMAs.

The issues involved with defederalization of the PMAs are complex and will require a concerted effort for successful conversion to customer control. The Authority will continue to work to ensure any legislation enacted transfers PMA control to existing customers in the region.

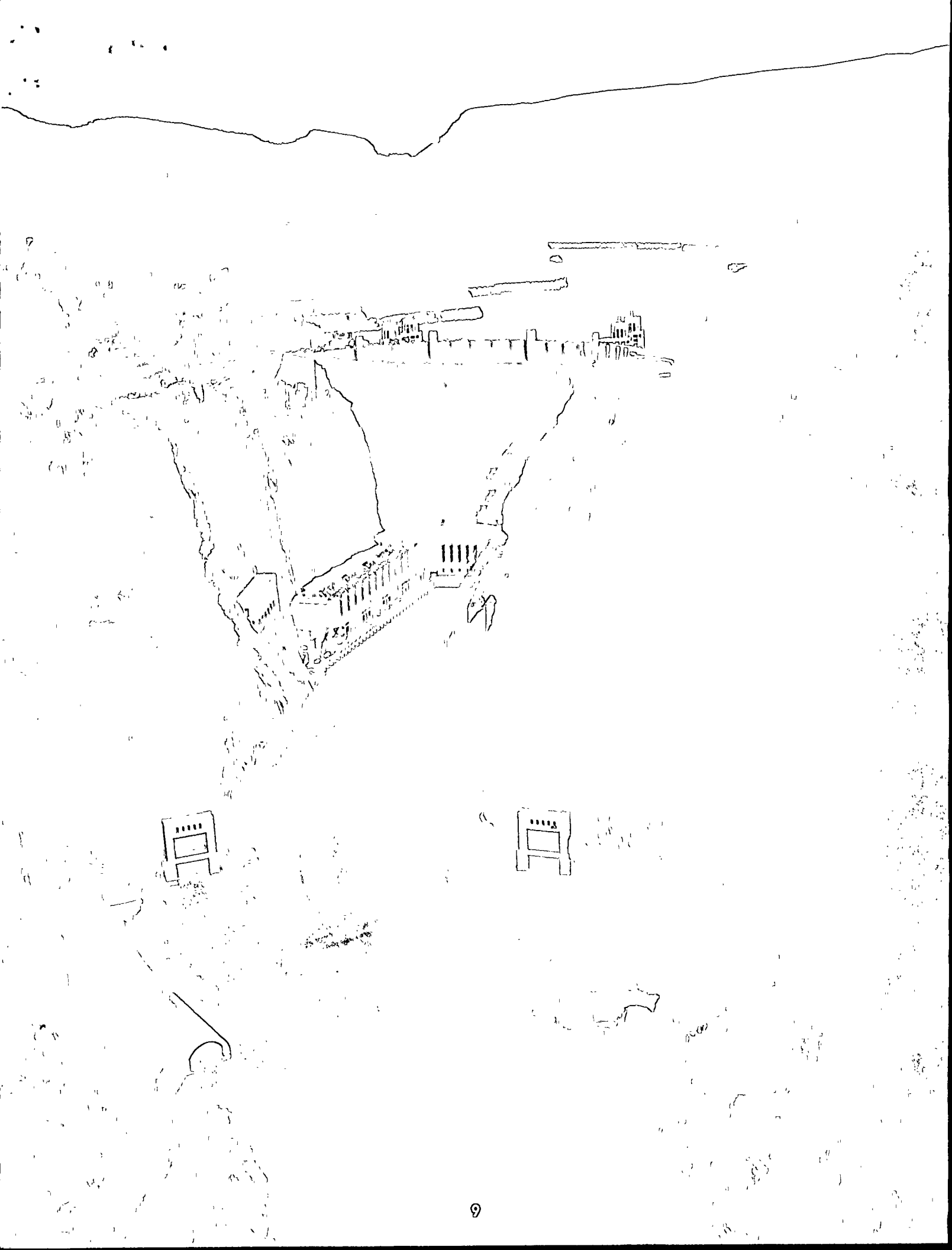
Says executive director Mark Mitchell of the postponement: "We've been given time to further consider our options and refine our proposal. We will be

prepared when this issue returns."

The Authority and its customers depend on federal power delivered over federal transmission facilities. Cost-based rates provide electricity at prices which help Arizona agriculture remain competitive and aid economic development in small communities. It is vital that cost control of these assets remain with the existing customers who rely on and have paid for these facilities.

The road ahead is anything but smooth, but the consequences of failure to maintain control should propel these federal power customers and like-minded decision makers to victory.

The challenges and their outcome will do much to carve the new visage of public power.



*Habitat Conservation Plan
Provides Hope for
Achieving Dual Goals*

ENVIRONMENT

Learning to live with environmental and economic imperatives—saving a river and its original inhabitants while preserving the investment represented by power facilities on the river—requires a commitment to cooperation.

Continued economical operation of Hoover Dam and other electric generating facilities on the Colorado River hinges on the reasonable implementation of the 1973 Endangered Species Act (ESA) in the Upper Basin. Federal agencies have announced proposals for two alterations in the flow of the Colorado River into the Lower Basin that could significantly impact operations at Glen Canyon Dam. Both proposals are, in one way or another, measures designed to comply with the Grand Canyon Protection Act.

The first proposal deals with the maximum allowable water releases at Glen Canyon. The second proposes a "spring spike" release down river from

Glen Canyon in an effort to use sediment to rebuild beaches in the Grand Canyon.

Currently, the maximum allowable flow from Glen Canyon is 20,000 cubic feet/second, down from the 31,000 cfs allowed prior

U.S. Department of Interior had not yet rendered a decision.

The Authority questions the U.S. Geological Survey proposal for a spring spike of 45,000 cfs because it would exceed the Glen Canyon power plant capaci-



to 1990. Of the six alternatives proposed in the final Environmental Impact Statement, the power users prefer the one increasing the flows to an allowable maximum of 25,000 cfs.

At 25,000 cfs, the power users will be able to realize a greater value from their investment in the Glen Canyon generating plant, which was formerly operated as a peaking facility. At the time of publication, the

ty by 15,000 cfs, thus allowing water to flow down river unused. This experimental approach is intended to repair beaches by forcing onto them the sediment abundant in the river following the snow melt.

The U.S. Fish and Wildlife Service (USFWS) has designated "critical habitat" areas for four endangered big fish in the Colorado River. The critical habitat designation encom-

passes nearly 2,000 river miles. The Bureau of Reclamation is studying biological effects that power facility operations have on two of these native fish in the Lower Colorado. Based on these findings, scientists will determine what can be done to mitigate impacts. The Authority is concerned about how the outcome would affect the use of Hoover Dam as a peaking source.

The Authority has taken a proactive stance by participating with Nevada, California and local Indian tribes in the development of a Habitat Conservation Plan. Through a memorandum of agreement with the USFWS, the group has three years to develop a

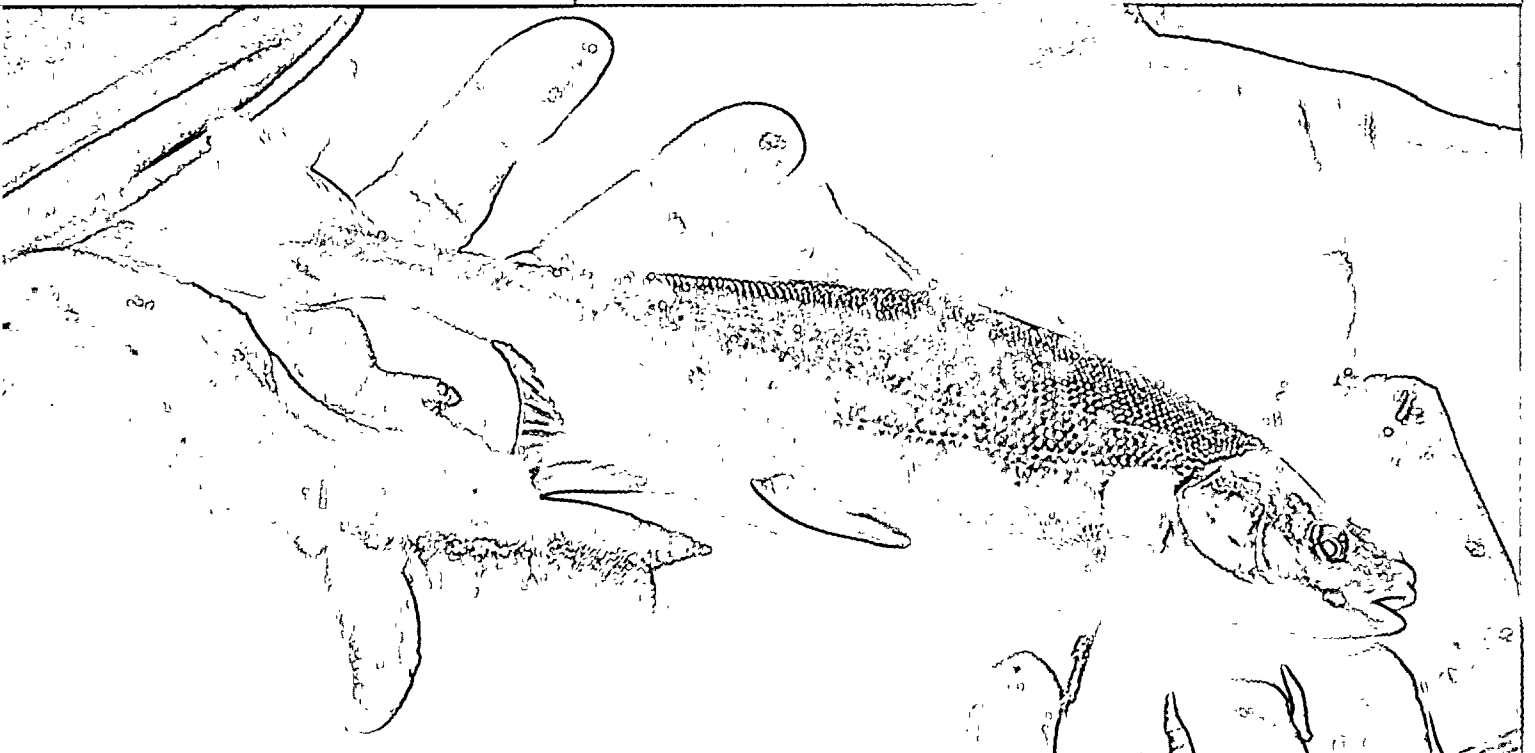
plan that will mitigate today's problems and make recommendations to handle future problems.

One option might be to build hatcheries to spawn the endangered fish. While difficult to fund as a federal

expense, such a solution might be feasible when financed by water and power and recreational users, said Authority legal consultant Tom Hine, who serves on a Habitat Conservation work group.

Although restoring an endangered species still is more art than science, the ESA has been effective. Since the act took effect in 1973, 912 species have been listed as threatened or endangered. About 40 percent of the 912 U.S. species on the list (422 animals, 490 plants) have either stabilized or begun to improve. Another 30 percent continue to decline but more slowly than before. Thirteen species have been removed, of which seven are now extinct and six have been saved.

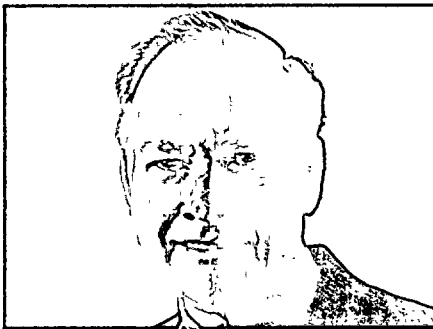
The Razorback Sucker, Bonytail Chub, Colorado Squawfish, Humpback Chub—and potentially 80 other plant and wildlife species in the Lower Basin being considered as endangered—may too be saved through such creative initiatives as the Habitat Conservation Plan.



*Authority Legal Counsel
James Bartlett Discusses
Dramatic Changes in the
Management of Hoover
Powerplant Operations and
Maintenance*

AGREEMENT

**Q: What is the
Implementation
Agreement?**



Bartlett: It's a forum to break down communication barriers. In recent years, a number of controversies have arisen between the Western Area Power Administration (Western), the Bureau of Reclamation (Reclamation) and the Hoover Contractors with respect to a variety of Hoover issues. The Boulder Canyon Project (Hoover) Implementation Agreement "implements" recommendations for resolving the 11 controversial issues identified in the June 22, 1993, "Report of the Negotiating Group." The Implementation Agreement

serves as a practical vehicle for resolving conflicts between Hoover Contractors and the federal agencies, without costly and time-consuming administrative proceedings and litigation.

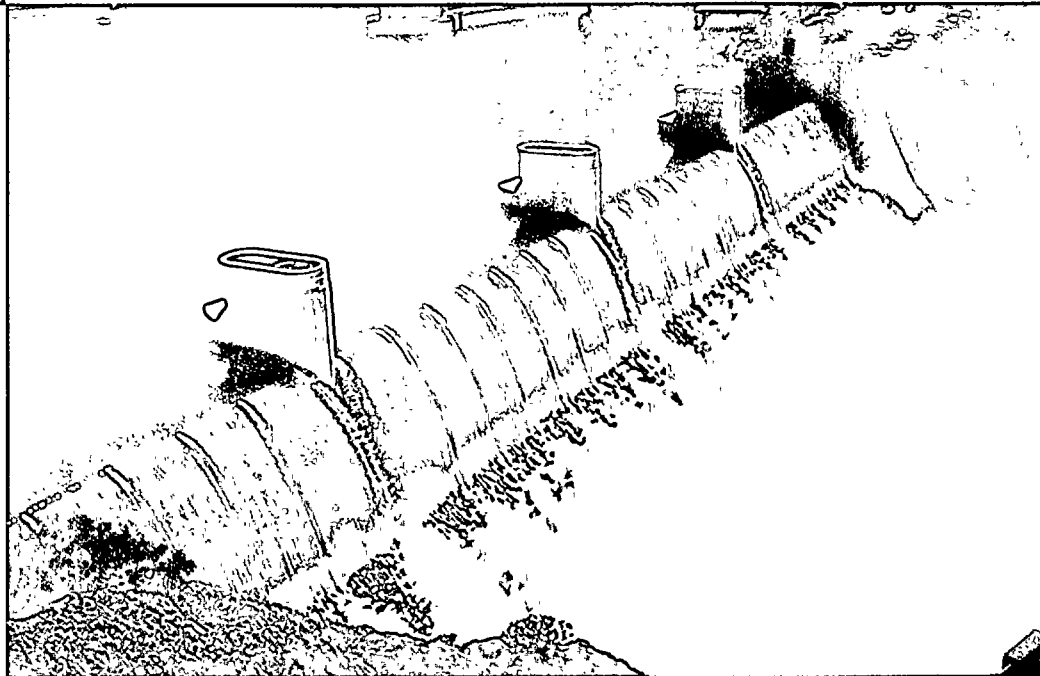
Q: How does it work?

Bartlett: Perhaps the single most important achievement of the Agreement is the establishment of an Engineering and Oversight Committee (E&OC) to act in conjunction with a Coordinating Committee. These committees provide for an exchange of facts

capacity and energy charges remain the lowest possible consistent with sound business principles. The committees represent a significant departure from previous dealings among the parties. Before, discussions were often marred by unwillingness or inability to cooperate and exchange information which, in turn, bred unhappiness and distrust.

Q: Who is involved?

Bartlett: Prior to 1987, the City of Los Angeles Department of Water and Power and the Southern



and information and ensure that the Boulder Canyon Project will be operated, maintained, marketed and kept in good repair so that

California Edison Company operated and maintained the Hoover powerplant under an agreement with the United States. When

the original 50-year contracts for the sale of hydroelectric power produced at

sibility for water releases and the physical operations of Hoover Dam.

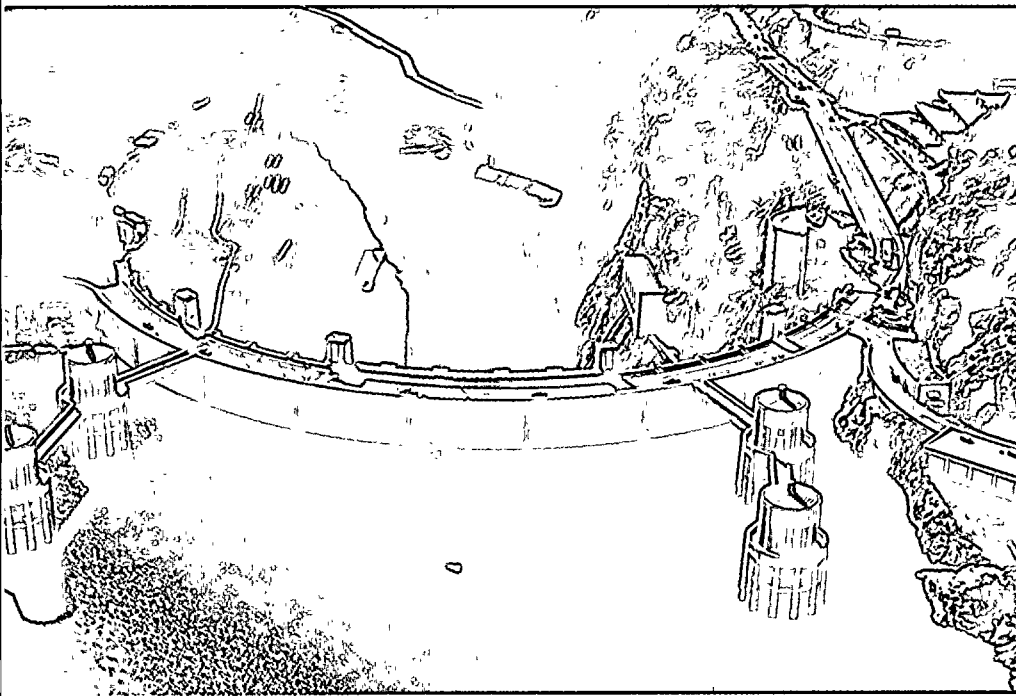
during construction. The Agreement recommends several avenues for raising additional funds to defray the cost overrun.

Q: What are the expected results?

Bartlett: As I stated earlier, the E&OC and Coordinating Committee were formed to exchange information and resolve disputes. Although representatives from Western, Reclamation and the Contractors are still trying to attain the results intended by the Agreement, all parties believe they can resolve various technical and administrative difficulties within the next year, to the mutual advantage of all participants.

Q: Where do we go from here?

Bartlett: It is unlikely that all problems will disappear as a result of the Agreement, but now a cooperative forum has been established with adequate assurances that such problems can be resolved in a timely and amicable way. The Agreement is truly a milestone on the road to more efficient and cost-effective generation of hydropower at the Boulder Canyon Project.



the Boulder Canyon Project expired in 1987, new 30-year contracts were signed by Western and 15 purchasers, including the Arizona Power Authority. Pursuant to a change in the federal law, Western took over the operation of the generating facility and also became the marketing agent for power produced at Hoover and various other federal power projects. Reclamation continued to carry out its respon-

Q: What are the issues?

Bartlett: Some of the major concerns are identifying and controlling the costs of replacements, identifying the costs and benefits shared by various federal power projects, and implementing the agreed-on methodology for establishing future charges for Hoover power. The Agreement also attempts to soften the financial impact of the Hoover Visitor's Facility on Hoover ratepayers, who alone must bear costs that have ballooned from an original \$32 million to more than \$120 million, including interest

*Access to Nation's Electric
Transmission System
Promises Lower-Cost
Electricity*

EXPANSION

The Authority's energy resource options are expanding as a result of the "open access" to electric transmission mandated by the Federal Energy Regulatory Commission (FERC).

When the U.S. Congress passed the Energy Policy Act of 1992, it, among other things, directed FERC to develop a means of providing open access to the electric transmission systems to all potential users.

Currently, most public power entities rely on major transmitting utilities for access to the generation markets. Nondiscriminatory access to the nation's electric transmission system will allow formerly captive utilities the opportunity to tap into lower cost electricity supplies. The Authority, its customers, and other similar entities soon will be able to operate more independently and competitively.

As might be expected, developing a process to fairly provide open access is not simple. There are significant

differences in the way transmission systems across the country are developed and operated. The Authority has taken a leadership position by participating in the creation of regional transmission groups to work through these complex issues. The Authority is an active member of the Southwest Regional Transmission Association (SWRTA), approved by FERC in October of 1995.

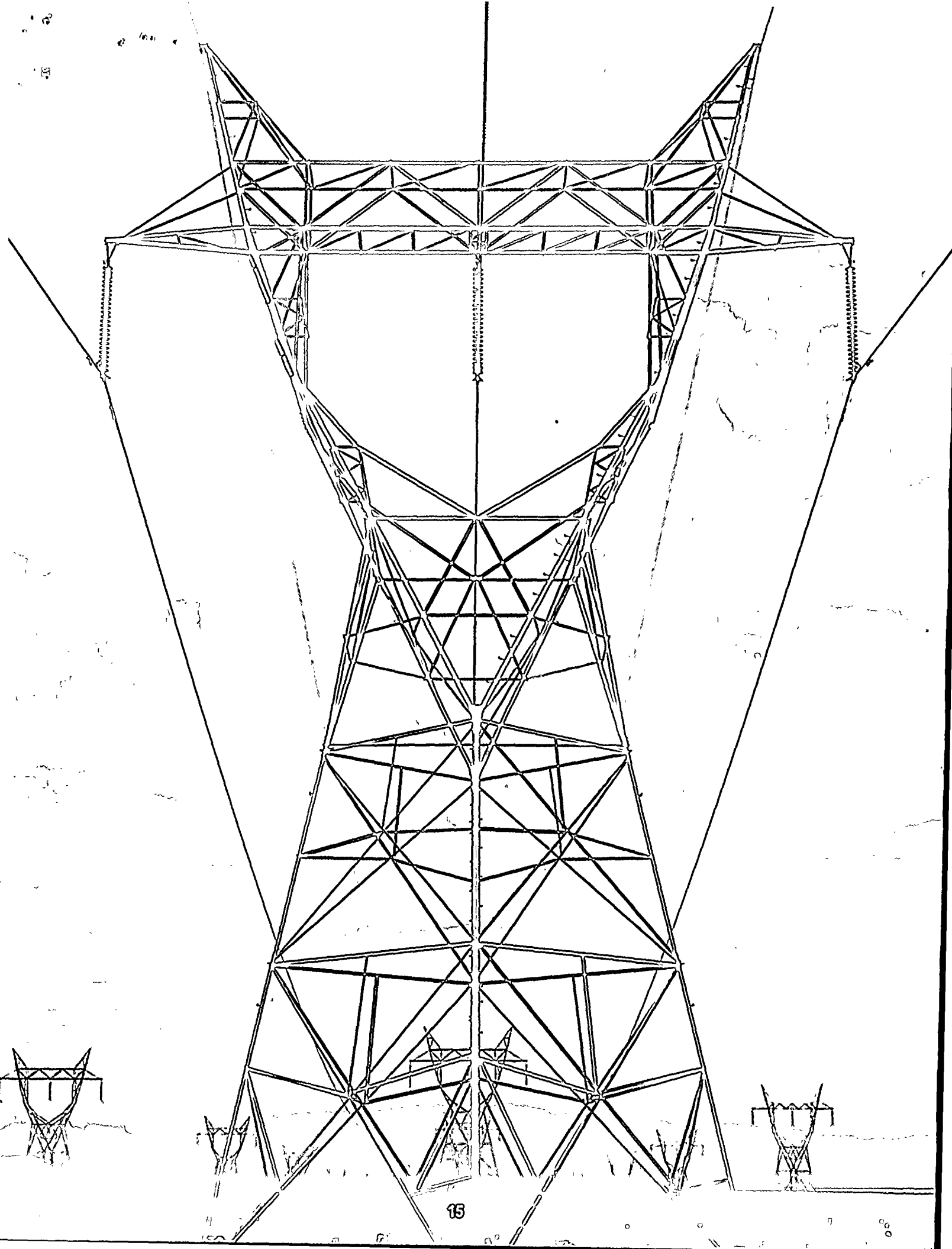
Earlier in 1995, FERC issued a "notice of proposed rulemaking" to serve as a framework for how transmission owners must offer access to their systems. Owners are required to offer prices and terms comparable to their own usage. The rule-making document describes the comparable rate tariffs to be filed by transmission owning utilities. It also discusses a method for making system information known to all potential users by means of electronic bulletin boards or real-time information networks.

FERC has requested the industry to establish standards for "what" information should be posted on these electronic systems and "how" the computer systems should be structured.

The Authority is one of 25 industry representatives working to establish standards for what should be posted. The Authority and its customers, to become astute users of expanded transmission options, need to understand the alternatives for accessing the resource markets. Authority executive director Mark Mitchell, who played a key role in the development of SWRTA, feels strongly that by helping to forge the access mechanisms, the Authority will be in a better position to make beneficial use of the system.

Implementation of nondiscriminatory mechanisms for transmission access will radically alter historical electric utility relationships. While use of the transmission system will become more regulated, there will be greater competition among generation suppliers. At the same time, nontraditional suppliers such as independent power producers and power marketers will play more significant roles.

The exciting news is that this increased competition should translate into savings for public power users.



ARIZONA POWER AUTHORITY

(An Agency of the State of Arizona)

SCHEDULE OF CAPACITY AND ENERGY SALES YEAR ENDING JUNE 30, 1995

For Period of July 1, 1994 through June 30, 1995	Average Billing Demand (kW)	Energy Delivered (kWh)	Amount	Mills Per kwh
Sale of Hydro Power				
Agula Irrigation District	6,292	11,642,000	\$ 317,090	27.24
Avra Valley Irrigation & Drainage District	511	2,288,000	45,401	19.84
Buckeye Water Conservation District	2,624	6,694,000	159,808	23.87
C.A.W.C.D.	133,673	152,408,000	5,372,735	35.25
Chandler Heights Citrus Irrigation District	672	2,136,000	46,895	21.95
Cortaro-Marana Irrigation District	3,368	16,350,000	325,950	19.94
Electrical District No. 1, Pinal	0	0	0	0.00
Electrical District No. 2, Pinal	16,296	75,631,000	1,484,770	19.63
Electrical District No. 3, Pinal	16,018	60,483,000	1,254,283	20.74
Electrical District No. 4, Pinal	6,949	22,715,000	517,612	22.79
Electrical District No. 5, Pinal	5,170	18,080,000	401,944	22.23
Electrical District No. 5, Maricopa	284	1,373,000	26,830	19.54
Electrical District No. 6, Pinal	6,419	19,098,000	430,001	22.52
Electrical District No. 7, Maricopa	10,379	16,633,000	486,150	29.23
Electrical District No. 8, Maricopa	20,219	49,546,000	1,207,219	24.37
Harquahala Valley Power District	3,090	7,627,000	183,338	24.04
Maricopa County Municipal Water District #1	8,707	14,560,000	415,970	28.57
McMullen Valley Water Conservation & Drainage District	6,290	13,978,000	352,292	25.20
Ocotillo Water Conservation District	1,052	3,318,000	74,828	22.55
Queen Creek Irrigation District	1,070	3,747,000	79,676	21.26
Roosevelt Irrigation District	4,431	9,515,000	241,798	25.41
Roosevelt Water Conservation District	6,106	28,979,000	565,865	19.53
Salt River Project	34,922	208,850,000	3,816,136	18.27
San Tan Irrigation District	313	1,346,000	27,411	20.36
Silverbell Irrigation & Drainage District	479	2,318,000	46,079	19.88
Tonopah Irrigation District	1,998	4,721,000	115,653	24.50
Wellton-Mohawk Irrigation & Drainage District	2,539	11,703,000	230,168	19.67
City of Mesa	0	0	0	0.00
City of Page	976	1,051,000	38,197	36.34
City of Safford	2,480	2,227,000	90,164	40.49
Town of Thatcher	976	1,063,000	38,430	36.15
Town of Wickenburg	1,358	2,438,000	68,135	27.95
Ak-Chin Indian Community	0	0	0	0.00
Arizona Electric Power Cooperative	0	0	0	0.00
Arizona Public Service Co.	0	0	0	0.00
Citizens Utilities Co	0	0	0	0.00
Tohono O'odham Utilities Authority	376	0	8,483	0.00
San Carlos Project	0	0	0	0.00
Tucson Electric Power Co	0	0	0	0.00
Total Hydro Power Sales	306,037	772,518,000	\$18,469,312	23.91
Sale of Thermal Power				
Total Thermal Power Sales	9,728	65,072,000	\$1,421,735	
Other Electric Sales			\$ 26,448	
Total Sales			\$19,917,495	

ARIZONA POWER AUTHORITY
(An Agency of the State of Arizona)

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INDEPENDENT AUDITORS' REPORT

Arizona Power Authority Commission

We have audited the accompanying combined financial statements of Arizona Power Authority (an Agency of the State of Arizona) ("APA") and the separate financial statements of the APA General Fund and the Hoover Uprating Fund of APA as of June 30, 1995 and 1994 and for the years then ended, listed in the Table of Contents. These financial statements are the responsibility of the management of APA. 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, such financial statements present fairly, in all material respects, the combined financial position of APA and the financial positions of the APA General Fund and the Hoover Uprating Fund of APA at June 30, 1995 and 1994 and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule listed in the Table of Contents, which is also the responsibility of the management of APA, is presented for purposes of additional analysis and is not a required part of the basic financial statements of APA. Such supplemental schedule has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

DELOITTE & TOUCHE LLP.

Phoenix, Arizona

July 28, 1995

ARIZONA POWER AUTHORITY
(An Agency of the State of Arizona)

**APA GENERAL FUND, HOOVER UPRATING FUND AND COMBINED BALANCE SHEETS
JUNE 30, 1995 AND 1994**

ASSETS	APA General Fund		Hoover Up-rating Fund		Combined	
	1995	1994	1995	1994	1995	1994
PROPERTY, PLANT AND EQUIPMENT - Net (Note 3)	\$ 388,090	\$440,439			\$388,090	\$ 440,439
ADVANCES FOR HOOVER UPRATING PROJECT (Notes 2 and 5)			\$53,863,368	\$54,618,439	\$3,863,368	\$4,618,439
CURRENT ASSETS:						
Cash (Note 4)	4,932,921	4,775,555	4,836,987	4,326,001	9,769,908	9,101,556
Accounts receivable - customers' power purchases	289,155	167,628	1,865,132	1,887,995	2,154,287	2,055,623
Interest receivable	24,274	44,195	228,463	243,492	252,737	287,687
Prepaid purchased power and other	52,793	19,343	1,659,157	2,183,687	1,711,950	2,203,030
Total current assets	5,299,143	5,006,721	8,589,739	8,641,175	13,888,882	13,647,896
TOTAL	\$5,687,233	\$5,447,160	\$62,453,107	\$63,259,614	\$68,140,340	\$68,706,774
FUND EQUITY AND LIABILITIES						
FUND EQUITY:						
Contributed capital	\$9,000	\$9,000			\$9,000	\$9,000
Retained earnings (Note 8):						
Allocated:						
Investment in property, plant and equipment	388,090	440,438			388,090	440,438
Property replacement reserve	785,888	717,903			785,888	717,903
General reserves	4,000,000	4,000,000			4,000,000	4,000,000
Unallocated	217,414	112,448	\$236,216	\$344,242	453,630	456,690
Total fund equity	5,400,392	5,279,789	236,216	344,242	5,636,608	5,624,031
BONDS PAYABLE (Note 7)			79,105,000	80,295,000	79,105,000	80,295,000
DISCOUNT ON BONDS PAYABLE			(2,096,934)	(2,191,178)	(2,096,934)	(2,191,178)
LESS INVESTMENTS HELD BY TRUSTEE - Including unamortized premium (discounts) on investments of \$71,862 and \$75,791 in 1995 and 1994, respectively (Note 6)			(18,088,997)	(18,385,118)	(18,088,997)	(18,385,118)
Bonds payable - net			58,919,069	59,718,704	58,919,069	59,718,704
CURRENT LIABILITIES:						
Accounts payable	1,964	2,492	35,958	22,433	37,922	24,925
Power contracts payable	284,877	164,879	1,037,548	1,017,114	1,322,425	1,181,993
Accrued interest payable			1,034,316	1,042,121	1,034,316	1,042,121
Bonds payable (Note 7)			1,190,000	1,115,000	1,190,000	1,115,000
Total current liabilities	286,841	167,371	3,297,822	3,196,668	3,584,663	3,364,039
COMMITMENTS AND CONTINGENCIES (Note 11)						
TOTAL	\$5,687,233	\$5,447,160	\$62,453,107	\$63,259,614	\$68,140,340	\$68,706,774

See notes to combined financial statements.

ARIZONA POWER AUTHORITY
(An Agency of the State of Arizona)

APA GENERAL FUND, HOOVER UPRATING FUND AND COMBINED STATEMENTS OF OPERATIONS
YEARS ENDED JUNE 30, 1995 AND 1994

	APA General Fund		Hoover Uprating Fund		Combined	
	1995	1994	1995	1994	1995	1994
OPERATING REVENUES	\$ 1,448,183	\$798,516	\$17,751,667	\$ 17,466,744	\$19,199,850	\$ 18,265,260
OPERATING EXPENSES:						
Purchased power (Note 2)	1,407,614	780,340	13,657,756	13,804,025	15,065,370	14,584,365
Western credits (Note 5)			(5,118,675)	(4,699,814)	(5,118,675)	(4,699,814)
Amortization of Hoover Upgrading Project costs			5,118,675	4,699,814	5,118,675	4,699,814
Transmission and distribution	6,721	1,800	3,273,051	3,020,117	3,279,772	3,021,917
Administrative and general	92,348	95,925	833,367	863,928	925,715	959,853
Depreciation	79,406	71,400			79,406	71,400
Allocation of depreciation	(55,186)	(56,741)	55,186	56,741		
Total operating expenses	1,530,903	892,724	17,819,360	17,744,811	19,350,263	18,637,535
OPERATING LOSS	(82,720)	(94,208)	(67,693)	(278,067)	(150,413)	(372,275)
OTHER INCOME (DEDUCTIONS):						
Interest expense (Note 7)			(4,239,313)	(4,523,258)	(4,239,313)	(4,523,258)
Deferred interest expense (Note 5)			3,020,457	2,921,861	3,020,457	2,921,861
Interest income	266,663	169,211	1,175,999	1,586,224	1,442,662	1,755,435
Gain on sale of investments				200,769		200,769
Other - net	(63,340)	(56,336)	2,524	2,307	(60,816)	(54,029)
Total other income (deductions)	203,323	112,875	(40,333)	187,903	162,990	300,778
NET INCOME (LOSS)	\$ 120,603	\$ 18,667	\$ (108,026)	\$ (90,164)	\$ 12,577	\$ (71,497)

See notes to combined financial statements.

ARIZONA POWER AUTHORITY

(An Agency of the State of Arizona)

**APA GENERAL FUND, HOOVER UPRATING FUND AND
COMBINED STATEMENTS OF CHANGES IN FUND EQUITY
YEARS ENDED JUNE 30, 1995 AND 1994**

	APA General Fund		Hoover Up rating Fund		Combined	
	1995	1994	1995	1994	1995	1994
UNALLOCATED RETAINED EARNINGS:						
Balance, beginning of year	\$ 112,448	\$ 145,621	\$ 344,242	\$ 434,406	\$ 456,690	\$ 580,027
Net income/(loss)	120,603	18,667	(108,026)	(90,164)	12,577	(71,497)
Net transfers to allocated retained earnings	(15,637)	(51,840)	_____	_____	(15,637)	(51,840)
Balance, end of year	<u>217,414</u>	<u>112,448</u>	<u>236,216</u>	<u>344,242</u>	<u>453,630</u>	<u>456,690</u>
ALLOCATED RETAINED EARNINGS:						
Balance, beginning of year	5,158,341	5,106,501			5,158,341	5,106,501
Net transfers from unallocated retained earnings	<u>15,637</u>	<u>51,840</u>	_____	_____	<u>15,637</u>	<u>51,840</u>
Balance, end of year	<u>5,173,978</u>	<u>5,158,341</u>	_____	_____	<u>5,173,978</u>	<u>5,158,341</u>
CONTRIBUTED CAPITAL	<u>9,000</u>	<u>9,000</u>	_____	_____	<u>9,000</u>	<u>9,000</u>
TOTAL FUND EQUITY	<u>\$5,400,392</u>	<u>\$5,279,789</u>	<u>\$ 236,216</u>	<u>\$ 344,242</u>	<u>\$5,636,608</u>	<u>\$5,624,031</u>

See notes to combined financial statements.

ARIZONA POWER AUTHORITY
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**APA GENERAL FUND, HOOVER UPRATING FUND AND
COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 1995 AND 1994**

	APA General Fund		Hoover Upgrading Fund		Combined	
	1995	1994	1995	1994	1995	1994
OPERATING ACTIVITIES:						
Net income (loss)	\$ 120,603	\$ 18,667	\$ (108,026)	\$ (90,164)	\$ 12,577	\$ (71,497)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:						
Depreciation	79,406	71,400			79,406	71,400
Gain on disposal	(2,001)				(2,001)	
Amortization of premiums and discounts on investments			3,933	59,077	3,933	59,077
Changes in assets and liabilities:						
Accounts receivable	(121,527)	(146,394)	22,863	17,331	(98,664)	(129,063)
Interest receivable	19,921	(17,492)	15,030	275,693	34,951	258,201
Prepaid purchased power and other	(33,450)	(17,932)	524,530	(1,191,973)	491,080	(1,209,905)
Accounts payable	(528)	(404)	13,525	(221,718)	12,997	(222,122)
Power contracts payable	119,998	150,639	20,434	(391,664)	140,432	(241,025)
Accrued interest payable			(7,805)	237,372	(7,805)	237,372
Net cash provided by (used in) operating activities	<u>182,422</u>	<u>58,484</u>	<u>484,484</u>	<u>(1,306,046)</u>	<u>666,906</u>	<u>(1,247,562)</u>
INVESTING ACTIVITIES:						
Cash from trustee funds			292,188	(26,883)	292,188	(26,883)
Acquisition of property, plant and equipment	(25,056)	(51,840)			(25,056)	(51,840)
Net cash (used in) provided by investing activities	<u>(25,056)</u>	<u>(51,840)</u>	<u>292,188</u>	<u>(26,883)</u>	<u>267,132</u>	<u>(78,723)</u>
FINANCING ACTIVITIES:						
Decrease (increase) in advances for Hoover Upgrading Project			755,070	(960,075)	755,070	(960,075)
Repayment of bond principal			(1,115,000)		(1,115,000)	
Discount on bonds issued			94,244	94,245	94,244	94,245
Net cash used in financing activities			<u>(265,686)</u>	<u>(865,830)</u>	<u>(265,686)</u>	<u>(865,830)</u>
NET INCREASE (DECREASE) IN CASH	157,366	6,644	510,986	(2,198,759)	668,352	(2,192,115)
CASH, BEGINNING OF YEAR	<u>4,775,555</u>	<u>4,768,911</u>	<u>4,326,001</u>	<u>6,524,760</u>	<u>9,101,556</u>	<u>11,293,671</u>
CASH, END OF YEAR	<u>\$ 4,932,921</u>	<u>\$ 4,775,555</u>	<u>\$ 4,836,987</u>	<u>\$ 4,326,001</u>	<u>\$ 9,769,908</u>	<u>\$ 9,101,556</u>
CASH PAID FOR INTEREST			<u>\$ 4,152,874</u>	<u>\$ 3,821,110</u>	<u>\$ 4,152,874</u>	<u>\$ 3,821,110</u>

See notes to combined financial statements.

ARIZONA POWER AUTHORITY

(An Agency of the State of Arizona)

NOTES TO COMBINED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 1995 AND 1994

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

System of Accounting - The accounting records of the Arizona Power Authority ("APA") are maintained in accordance with applicable provisions of the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission ("FERC").

Property and Depreciation - Property is stated at original cost. The costs of property additions and replacements are capitalized. Replacements of minor items of property are charged to expense as incurred. Costs of property retired are eliminated from plant accounts, and such costs plus removal expenses less salvage are charged to accumulated depreciation.

Depreciation is provided on the straight-line composite method based on the estimated useful lives of the property items, which range from 5 to 44 years.

Advances for Hoover Upgrading Project - Proceeds from bonds payable are advanced by APA for upgrading the Hoover Power Plant and are recorded as advances. Such advances, including debt issue costs, plus net interest expense incurred by APA are reimbursed in the form of credits on the monthly power bills rendered to APA by the Western Area Power Administration of the Department of Energy ("Western"). The credits are issued over the 30 year life of the bonds. Substantially, all net interest expense on the bonds is charged to the upgrading project as amounts to be recovered from future credits.

Reclassifications - Certain amounts in the 1994 financial statements have been reclassified to conform to the 1995 presentation.

2. FUND ACCOUNTING

Hoover Upgrading Fund - The Hoover Power Plant Act of 1984 ("Hoover Act") authorized the United States Government to increase the capacity of, i.e., "uprate", existing generating equipment at the Hoover Dam Power Plant ("Upgrading Project"). Instead of appropriating further federal funds for the Upgrading Project, Congress implemented an advancement of funds procedure whereby prospective non-federal purchasers of the uprated Hoover capacity and associated energy contribute to the financing of the Upgrading Project. APA financed a portion of the total Upgrading Project by issuing bonds (Note 7).

The Hoover Upgrading Fund accounts for advances by APA in connection with the Upgrading Project. Effective June 1, 1987, APA executed new power contracts with Western and APA customers which expire in 2017. The revenues and expenditures applicable to the sale and transmission of power and energy received by APA from Western under these contracts are accounted for in the Hoover Upgrading Fund.

APA General Fund - APA operations other than those applicable to the Hoover Upgrading Fund are accounted for in the APA General Fund. The purchase of steam power and the sale and transmission of such power to APA's customers comprise the majority of this fund.

3. PROPERTY, PLANT AND EQUIPMENT.

Property, plant and equipment of the APA General Fund at June 30 are as follows:

	1995	1994
Transmission and distribution plant	\$ 506,418	\$ 486,663
General plant	<u>667,560.</u>	<u>671,678</u>
Total	1,173,978	1,158,341
Less accumulated depreciation	<u>785,888</u>	<u>717,902</u>
Property, plant and equipment - net	<u>\$ 388,090</u>	<u>\$ 440,439</u>

The transmission and distribution plant is comprised of a substation and related equipment. Purchased power is delivered over transmission facilities owned by Western.

4. CASH

All cash balances of APA are maintained by State of Arizona Treasurer for pooled investment purposes. Statutes require the State Treasurer to invest these pooled funds in obligations of the United States Government. All investments are carried at cost.

5. ADVANCES FOR HOOVER UPRATING PROJECT

Advances for the Hoover Uprating Project were reimbursed by Western through credits on APA's power bills in the amounts of \$5,118,675 and \$4,699,814 for the years ended June 30, 1995 and 1994, respectively. During the years ended June 30, 1995 and 1994, interest expense on the bonds issued to finance the Uprating Project exceeded interest revenue and gain on sale of investments by \$3,020,457 and \$2,921,861, respectively. These amounts were charged to the cost of the Project.

6. INVESTMENTS

As of June 30, 1995 and 1994, investments are insured or collateralized with securities held by APA's agent in APA's name. Investments are carried at cost, which approximates fair value at June 30, except United States government bonds as of June 30, 1995. Due to an increase in interest rates, government bond market values have declined by \$494,000. APA intends to hold such bonds until maturity.

Investments as of June 30 are as follows:

	1995	1994
United States government securities	\$ 10,100,653	\$ 7,622,010
Repurchase agreements	7,445,535	8,716,313
Commercial paper		1,512,781
Money market	<u>542,809</u>	<u>534,014</u>
Total investments	<u>\$ 18,088,997</u>	<u>\$ 18,385,118</u>

On December 1, 1993, APA entered into a master repurchase agreement with Morgan Stanley & Co., Inc. ("Morgan Stanley"), wherein APA agreed to effect a series of repurchase transactions with Morgan Stanley in permitted investments. Permitted investments are defined as United States Treasury Securities, Government National Mortgage Association Securities, Federal Home Loan Mortgage Corporation Securities, Federal Housing Authority Securities and Student Loan Marketing Association Securities. The securities are held by Bank One of Arizona, N.A., as Trustee, for APA. If at any time the aggregate market value of all purchased securities is less than APA's aggregate margin amount (calculated using a percentage of 105%), then APA may require Morgan Stanley to transfer to APA cash or additional securities, at Morgan Stanley's option, so that the cash and aggregate purchased securities will equal or exceed APA's aggregate margin amount.

7. BONDS PAYABLE

In prior years, APA defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in APA's financial statements. On June 30, 1995, \$89,820,000 of bonds outstanding are considered defeased.

The new bonds bear interest ranging from 2.8% to 5.6% and are due serially from 1995 through 2017 as follows:

1995	\$ 1,190,000
1996	1,280,000
1997	1,380,000
1998	1,495,000
1999	1,625,000
Thereafter	<u>73,325,000</u>
Total	80,295,000
Current portion of bonds payable	<u>1,190,000</u>
Long-term portion of bonds payable	<u>\$ 79,105,000</u>

8. RETAINED EARNINGS

Allocations of retained earnings for specified purposes are authorized by the Arizona Power Authority Commission (the "Commission"), APA's governing board, under provisions of the Arizona Power Authority Act of 1944, as amended. The general reserves shown on the accompanying balance sheets are comprised of the following at June 30:

APA General Fund	1995	1994
Resource Development	\$ 3,500,000	\$ 3,500,000
Operations fund	200,000	200,000
Power contracts	100,000	100,000
System improvement and repairs	<u>200,000</u>	<u>200,000</u>
Total	<u>\$ 4,000,000</u>	<u>\$ 4,000,000</u>

9. RETIREMENT AND PENSION PLANS

All APA full-time employees are required to participate in the Arizona State Retirement Plan (the "Plan"), a multiple-employer, cost-sharing pension plan administered by the Arizona State Retirement System (the "ASRS"). The payroll for employees covered by the Plan for the year ended June 30, 1995 and 1994 was \$275,233 and \$309,895, respectively; APA's total payroll was \$280,543 and \$313,015, respectively.

ASRS provides for retirement, disability, death and survivor benefits. Retirement benefits are calculated on the basis of age, final average salary and service credit. Members are eligible for retirement benefits on the first day of the calendar month following: 1) the attainment of age 65; 2) the attainment of age 62 and ten years of credited service; or 3) the date when age plus total credited service equals 80. The benefit is based on 2% of final average salary multiplied by the years of service credit. Final average salary is defined as the period of 36 consecutive months during which a participant receives the highest compensation within the last 120 months of service during which the employee made retirement contributions as required by law. The compensation does not include vacation or annual leave, sick leave, compensatory time or any other form of termination pay. Persons who have reached age 50 with at least five years of total credited service may take an early retirement which entitles them to a reduced retirement benefit. Retirement benefits vest after five years of service.

Effective July 1, 1988, members of ASRS became eligible for a disability benefit in the event they become unable to perform their work. A participant continues to earn credit of up to a total of 25 years of service during the period of disability.

Upon termination of employment, a member may withdraw contributions made to ASRS. The acceptance of a refund cancels the individual's rights and benefits in ASRS. Employers' contributions to the System are not refunded.

Covered employees were required by State statute to contribute 3.75% of their salary to the Plan during fiscal year 1994-1995 and 3.14% of their salary during fiscal year 1993-1994. APA is required to match their contribution. Total contributions made by APA and its covered employees were \$10,188 for each in 1995 and \$9,730 for each in 1994.

The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the public employees retirement system's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among such systems. The Plan does not make separate measurements of assets and the pension benefit obligation for individual employers. The pension benefit obligations at June 30, 1994, for the Plan as a whole, determined through an actuarial valuation performed as of that date, was \$9,629,857,553. The Plan's net assets available for benefits on that date (valued at market) were \$10,768,681,593. APA's 1994 contribution represented less than one percent of total contributions required of all participating entities, which were \$124,763,806 each for employers and employees in 1994 (1995 information not available).

Ten year historical trend information showing the Plan's progress in accumulating sufficient assets to pay benefits when due is presented in ASRS' June 30, 1994, comprehensive annual financial report.

10. ADDITIONAL BENEFITS

In addition to the pension benefits described, ASRS offers health care benefits to retired and disabled members that are no longer eligible for health care benefits through their former member employer's group health plan. This program is administered in accordance with ARS 38-781.03: Retired is defined as actively receiving an annuity benefit and disabled is defined as receiving a long-term disability ("LTD") benefit through the LTD program administered by ASRS. The ASRS provides the following monthly premium benefits:

Years of Credited Service	Percent of Premium Benefit	Member Only	<u>With Dependent(s)</u>		Member Only	<u>With Dependent(s)</u>	
		Not Medicare Eligible	Not Medicare Eligible	Medicare Eligible	Not Medicare Eligible	Medicare Eligible	Medicare Eligible
5.0 - 5.9	50%	\$ 47.50	\$ 87.50	\$ 72.50	\$ 32.50	\$ 72.50	\$ 57.50
6.0 - 6.9	60%	57.00	105.00	87.00	39.00	87.00	69.00
7.0 - 7.9	70%	66.50	122.50	101.50	45.50	101.50	80.50
8.0 - 8.9	80%	76.00	140.00	116.00	52.00	116.00	92.00
9.0 - 9.9	90%	85.50	157.50	130.50	58.50	130.50	103.50
10.0+	100%	95.00	175.00	145.00	65.00	145.00	115.00

The Arizona State Retirement System reimbursed approximately \$26,100,000 towards the cost of group health insurance coverage for the year. This figure represents an increase of 2.82% over the previous year.

11. COMMITMENTS AND CONTINGENCIES

In 1990, Western refunded to the Authority approximately \$4.6 million of over-collections related to the pre-1987 Hoover Electric Service Contracts. The Authority thereafter made a pro rata refund of this amount to its own pre-1987 customers. Subsequent to the refunds, the Los Angeles Department of Water and Power ("LADWP") and Southern California Edison Company ("Edison") have advised Western of their position that the refunds were incorrectly calculated and that they should have received a larger allocation of the total amount refunded. Based upon its percentage of the overall refund, the Authority might be exposed to a claim of approximately \$1,050,000. In the opinion of the Authority and its legal counsel, the refund calculations were entirely appropriate in the first instance and the Authority's risk of exposure is minimal.

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ARIZONA POWER AUTHORITY
 (An Agency of the State of Arizona)

**SUPPLEMENTAL SCHEDULE - STATEMENT OF OPERATIONS OF THE HOOVER UPRATING FUND -
 YEAR ENDED JUNE 30, 1995**

	Revenue Fund	Operating Account	Monthly Payment Reserve Account	Construction Fund
OPERATING REVENUES	<u>\$ 17,751,667</u>			
OPERATING EXPENSES:				
Purchased power		\$ 13,657,756		
Western credits		(5,118,675)		
Amortization of Hoover Uprating				
Project costs		5,118,675		
Transmission		3,273,051		
Administrative and general		833,367		
Allocation of depreciation		<u>55,186</u>		
Total operating expenses		<u>17,819,360</u>		
OPERATING GAIN (LOSS)	<u>17,751,667</u>	<u>(17,819,360)</u>		
OTHER INCOME (DEDUCTIONS):				
Interest expense				\$(94,244)
Deferred interest expense				
Interest income		124,391	\$164,331	356,259
Other - net		<u>2,524</u>		
Total other income (deductions)		<u>126,915</u>	<u>164,331</u>	<u>262,015</u>
NET INCOME (LOSS)	\$ 17,751,667	\$ (17,692,445)	\$ 164,331	\$ 262,015

INDIVIDUAL FUNDS AND ACCOUNTS

Debt Service Account	Debt Service Reserve Account	Power, Resource Development Fund	General Reserves Fund	Total
				<u>\$ 17,751,667</u>
				13,657,756 (5,118,675)
				5,118,675 3,273,051 833,367 <u>55,186</u>
				<u>17,819,360</u>
				<u>(67,693)</u>
\$ (4,145,069) 3,020,457 69,885 <hr/>	\$ 449,082 <hr/>	\$ 12,051 <hr/>		(4,239,313) 3,020,457 1,175,999 <u>2,524</u>
<u>(1,054,727)</u>	<u>449,082</u>	<u>12,051</u>		<u>(40,333)</u>
\$ (1,054,727)	\$ 449,082	\$ 12,051		\$ (108,026)

(Continued)

ARIZONA POWER AUTHORITY
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**SUPPLEMENTAL SCHEDULE - STATEMENT OF OPERATIONS OF THE HOOVER UPRATING FUND -
 YEAR ENDED JUNE 30, 1995**

	Revenue Fund	Operating Account	Reserve Account	Construction Fund
NET INCOME (LOSS)	\$17,751,667	\$(17,692,445)	\$ 164,331	\$ 262,015
ADJUSTMENTS TO INCOME (LOSS) UNDER THE POWER RESOURCE REVENUE BOND RESOLUTION:				
Add:				
Accrued interest income FY 1994		14,818	27,489	88,517
Accrued interest expense FY 1995				
Allocation of depreciation		55,186		
Accrued revenue FY 1994	1,887,995			
Accrued purchased power FY 1995		1,037,548		
Prepaid purchased power FY 1994		2,183,687		
Deduct:				
Accrued interest income FY 1995		7,098	14,853	82,604
Accrued interest expense FY 1994				
Accrued revenue FY 1995	1,865,132			
Accrued purchase power FY 1994		1,017,114		
Prepaid purchased power FY 1995		1,659,157		
Deferred interest expense				
INCOME (LOSS) AS DEFINED UNDER THE POWER RESOURCE REVENUE BOND RESOLUTION	<u>\$17,774,530</u>	<u>\$(17,084,575)</u>	<u>\$ 176,967</u>	<u>\$ 267,928</u>
JUNE 30, 1995 CASH AND INVESTMENT BALANCE		<u>\$ -1,616,987</u>	<u>\$3,000,000</u>	<u>\$8,075,751</u>

NOTE: The above supplemental schedule includes all funds and accounts, as defined by the APA Power Resource Revenue Bond Resolution.

INDIVIDUAL FUNDS AND ACCOUNTS

Service Account	Reserve Account	Development Fund	Reserves Fund	Total
\$(1,054,727)	\$ 449,082	\$ 12,051		\$ (108,026)
4,255	106,397	2,016		243,492
1,926,816				1,926,816
				55,186
				1,887,995
				1,037,548
				2,183,687
14,337	108,481	1,089		228,462
1,878,371				1,878,371
				1,865,132
				1,017,114
				1,659,157
<u>3,020,457</u>				<u>3,020,457</u>
<u>\$(4,036,821)</u>	<u>\$ 446,998</u>	<u>\$ 12,978</u>		<u>\$ (2,441,995)</u>
<u>\$ 1,949,751</u>	<u>\$7,991,633</u>	<u>\$220,000</u>		<u>\$22,854,122</u>

(Concluded)

ARIZONA POWER AUTHORITY

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DEBT SERVICE COVERAGE RATIO OF THE HOOVER UPRATING FUND YEAR ENDED JUNE 30, 1995 (UNAUDITED)

NET LOSS	\$ (108,026)
ADD:	
Interest Expense (1)	4,239,313
Depreciation (1)	55,186
Amortization of Upgrading Costs (1)	5,118,675
Interest Income (2)	<u>223,319</u>
Total Additions	<u>9,636,493</u>
DEDUCT:	
Interest Income (3)	(1,175,999)
Deferred Interest Expense	<u>(3,020,457)</u>
Total Deductions	<u>(4,196,456)</u>
INCOME AVAILABLE FOR DEBT SERVICE	<u>\$ 5,332,011</u>
DEBT SERVICE (4)	<u>\$ 5,316,318</u>
DEBT SERVICE COVERAGE RATIO	<u>1.00</u>

(1) Interest expense, depreciation expense and amortization of Upgrading Costs are not expenses under the Bond Resolution.

(2) Interest income on revenues on deposit in the Debt Service Account and Operating Account is income under the Bond Resolution.

(3) Interest income on proceeds of the 1985 and 1993 Series Bonds, other than such proceeds in the Operating Account, are not income under the Bond Resolution.

(4) Debt Service is the total of Interest Expense and Principal accrued between July 1, 1994 and June 30, 1995.

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