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BEFORE THE ARIZONA CORPORATION COMMISSION

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MARC SPITZER
Commissioner
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Commissioner
KRISTIN K. MAYES
Commissioner

IN THE MATTER OF THE APPLICATIONS OF SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT FOR ORDERS AUTHORIZING ITS ISSUANCE OF REVENUE BONDS	DOCKET NO. E-02217A-01-0183 DECISION NO. 64253 **NOTICE OF SALE OF REVENUE BONDS (2005 Series A)**

TO THE HONORABLE ARIZONA CORPORATION COMMISSION:

On September 1, 2005, Salt River Project Agricultural Improvement and Power District (the "District") issued $327,090,000 of its Salt River Project Electric System Revenue Bonds, 2005 Series A (the "2005 Series A Bonds"). Authority for $749,710 of the 2005 Series A Bonds was derived from Decision No. 56381 of the Arizona Corporation Commission (the "Commission"), dated March 9, 1989, in Docket No. E-2117-88-131, authorizing the District to issue Revenue Bonds in an aggregate principal amount not to exceed $630,000,000 for construction purposes as described therein. Authority for $40,995,000 of the 2005 Series A Bonds was derived from Decision No. 58625 of the Commission, dated May 2, 1994, in Docket No. E-2217-94-012, authorizing the District to issue Revenue Bonds in an aggregate principal amount not to exceed $2,300,000,000 for refunding purposes as described therein. Authority for $2,000,000 of the 2005 Series A Bonds was derived from Decision No. 64253 of the Commission, dated December 4, 2001, in Docket No. E-02217A-01-0183, authorizing the

District to issue Revenue Bonds in an aggregate principal amount not to exceed $500,000,000 for construction purposes as described therein. Authority for the balance of the 2005 Series A Bonds, $283,345,290, was derived from Decision No. 66469, dated October 27, 2003, in Docket No. E-02217A-03-0232, authorizing the District to issue Revenue Bonds in an aggregate principal amount not to exceed $580,000,000 for construction purposes as described therein. A summary of the Revenue Bonds issued pursuant to these four Decisions is attached hereto as Exhibit 1.

Decisions Nos. 56381, 64253 and 66469 include orders that the District file with the Commission certain documents and information upon the sale of any of the Revenue Bonds authorized thereby. In accordance with such orders, the District hereby submits the following documents in connection with its sale of the 2005 Series A Bonds:

1. A certified copy of the August 19, 2005, resolution of the Board of Directors of the District authorizing the sale of the 2005 Series A Bonds (Exhibit 2);

2. A certified copy of the August 19, 2005, resolution of the Council of the District ratifying and confirming the sale of the 2005 Series A Bonds (Exhibit 3);

3. A copy of the Purchase Contract, dated August 19, 2005, between the District and Bear, Stearns & Co. Inc., as representative of the purchasers identified therein (Exhibit 4);

4. An original copy of the Official Statement, dated August 19, 2005, distributed in connection with the sale of the 2005 Series A Bonds (Exhibit 5); and

5. A copy of the Report of Independent Financial Advisor, dated August 18, 2005, prepared by the PFM Group showing that the bonds were issued at competitive market rates (Exhibit 6).

These documents include the requested information pertaining to the date of issuance, interest rates, maturities, amount of discount or premium, and issuance expenses.

RESPECTFULLY submitted this 15th day of September 2005.

SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT

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The original and 13 copies hand delivered this 15th day of September 2005, to:

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By April L. Sheatz

1

EXHIBIT 1

ATTRIBUTION OF 2005 SERIES A BONDS TO PRIOR DECISIONS OF THE COMMISSION

Commission Decision No.	Revenue Bonds Authorized	Previously Issued Bonds	2005 Series A Bonds	Remaining Authorization
56381	$ 630,000,000[1]	$629,250,289.85	$ 749,710	$ 0.15
58625	2,300,000,000[2]	947,963,778.00	40,995,000	1,311,041,222.00
64253	500,000,000[1]	498,000,000.00	2,000,000	0.00
66469	580,000,000[1]	0.00	283,345,290	296,654,710.00
Total			$ 327,090,000	

[1]For construction purposes.

[2] For refunding purposes.

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CERTIFICATE

I, TERRILL A. LONON, the duly appointed, qualified, and acting Corporate Secretary of the Salt River Project Agricultural Improvement and Power District (the District) a special district under Title 48 of the Arizona Revised Statutes, DO HEREBY CERTIFY that attached hereto is a true and correct copy of a resolution entitled: **"RESOLUTION AUTHORIZING THE ISSUANCE AND SALE OF $327,090,000 SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS, 2005 SERIES A OF THE SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, AND PROVIDING FOR THE FORM, DETAILS AND TERMS THEREOF"** as adopted by a majority of the SRP Board of Directors at a meeting held on August 19, 2005, at which a quorum was present and voted, and that no change, revision, amendment, or addendum has been made subsequent thereto.

IN WITNESS WHEREOF, I have set my hand and seal of the Salt River Project Agricultural Improvement and Power District, this 12th day of September 2005.

Terrill A. Lonon

Terrill A. Lonon
Corporate Secretary

SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT
MARICOPA COUNTY
(SEAL)
SEAL
ARIZONA

RESOLUTION AUTHORIZING THE ISSUANCE AND SALE OF $327,090,000 SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS, 2005 SERIES A OF THE SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, AND PROVIDING FOR THE FORM, DETAILS AND TERMS THEREOF.

WHEREAS, the members of the Board of Directors of the Salt River Project Agricultural Improvement and Power District (the "Board of Directors"), by resolution entitled "Supplemental Resolution Dated September 10, 2001 Authorizing an Amended and Restated Resolution Concerning Revenue Bonds," which became effective January 11, 2003, as amended and supplemented (the "Resolution"), have created and established an issue of Salt River Project Electric System Revenue Bonds (the "Bonds"), which may be authorized from time to time pursuant to Series Resolutions; and

WHEREAS, the District's Financial Consultant, Public Financial Management, Inc. (hereinafter referred to as the "Financial Consultant"), has advised the District that substantial financial benefits will accrue to the District upon the refunding of the Bonds To Be Refunded (as defined in Section 2 hereof); and

WHEREAS, the District, upon the refunding of the Bonds To Be Refunded, will realize a net present value savings of approximately $2,639,386.68 using a discount rate equal to the reoffering yield of the 2005 Series A Bonds (as defined in Section 2 hereof) and adjusted for the present value of certain money sources and uses of funds; and

WHEREAS, the Arizona Corporation Commission (the "Commission") has approved by its Opinions and Orders described in Exhibit A hereto the issuance of $327,090,000 2005 Series A Bonds to refund the Bonds To Be Refunded, to finance the costs of acquisition and construction of various capital improvements and additions to the District's Electric System and to pay certain costs of issuance of the 2005 Series A Bonds; and

WHEREAS, the Board of Directors has determined to use the construction authorization applicable to the Commission's Opinions and Orders described in Exhibit A hereto to issue its 2005 Series A Bonds and to use a portion of the proceeds of the 2005 Series A Bonds to finance said capital improvements and additions to its Electric System and to pay certain costs of issuance of the 2005 Series A Bonds and to use a portion of the proceeds of the 2005 Series A Bonds and other available moneys, to defease the Bonds To Be Refunded, as provided in Section 10 hereof; and

WHEREAS, the Bonds To Be Refunded will not be considered Outstanding as that term is defined in the Resolution; and

WHEREAS, the Board of Directors has been presented with a Purchase Contract, dated August 19, 2005 (the "Purchase Contract"), by and among the District and a group of purchasers represented by and including Bear, Stearns & Co., Inc., Morgan Stanley & Co. Incorporated, Citigroup, Goldman, Sachs & Co., and J.P. Morgan Securities Inc. (hereinafter collectively

referred to as the "Purchasers"), providing for the purchase of $327,090,000 2005 Series A Bonds; and

WHEREAS, the Board of Directors desires to sell $327,090,000 2005 Series A Bonds to the Purchasers pursuant to the terms and conditions of said Purchase Contract to provide moneys to carry out the aforesaid purposes of the District; and

WHEREAS, Title 48, Chapter 17, Article 7, of the Arizona Revised Statutes requires that the private sale of Bonds be subject to prior approval by a majority of the members of the Council of the District and that no Bonds be issued unless the Council, by resolution adopted by an affirmative vote of a majority of its members, ratifies and confirms the amount of the Bonds authorized to be issued by the Board of Directors (together the "Council Approval and Ratification Requirement"); and

WHEREAS, the Board of Directors desires to approve the preparation, distribution and execution of an Official Statement for the 2005 Series A Bonds; and

WHEREAS, the Board of Directors desires to authorize the proper officers of the District to take all necessary steps to complete the issuance, sale and delivery as aforesaid of the $327,090,000 2005 Series A Bonds;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT AS FOLLOWS:

SECTION 1. Series Resolution. This series resolution (hereinafter referred to as "Resolution Authorizing the Issuance and Sale of $327,090,000 2005 Series A Bonds" or as "2005 Series A Resolution") is adopted in accordance with the provisions of the Resolution and pursuant to the authority contained in Chapter 17, Title 48, Arizona Revised Statutes, as amended.

SECTION 2. Definitions. This 2005 Series A Resolution and the Resolution are herein collectively referred to as the "Resolutions." All terms which are defined in the Resolution shall have the same meanings, respectively, in this 2005 Series A Resolution, as such terms are given in the Resolution. In this 2005 Series A Resolution:

"Bonds To Be Refunded" shall mean the Outstanding Electric System Revenue Bonds of the District, particularly, the 1992 Series D Bonds and the 1993 Series B Bonds, as described in Exhibit C hereto.

"Code" shall mean the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder.

"DTC" shall mean The Depository Trust Company or any successor thereto.

"Escrow Deposit Agreement" shall mean the Letter of Instructions and Escrow Deposit Agreement As To Payment Of Refunded Bonds, attached as Exhibit B hereto and authorized by Section 15 hereof, relating to the Bonds To Be Refunded.

"Information Services" shall mean Financial Information, Inc.'s Daily Called Bond Service, 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302; Kenny Information Service's Called Bond Service, 65 Broadway, 16th Floor, New York, New York 10006; Moody's Municipal and Government, 99 Church Street, 8th Floor, New York, New York 10007, attention: Municipal News Report; and Standard & Poor's Called Bond Record, 25 Broadway, New York, New York 10004; or to such other addresses and/or such other national information services providing information or disseminating notices of redemption of obligations similar to the 2005 Series A Bonds.

"Interest Payment Date" shall mean each January 1 and July 1 of each year so long as 2005 Series A Bonds are Outstanding, commencing January 1, 2006.

"2005 Series A Bonds" shall mean the Bonds authorized by Section 3 hereof.

"Refunded 1992 Series D Bonds" shall mean the Outstanding Electric System Revenue Bonds, 1992 Series D of the District maturing in the years 2027, 2028, 2029 and 2030, as described in Exhibit C hereto.

"Refunded 1993 Series B Bonds" shall mean the Outstanding Electric System Revenue Bonds, 1993 Series B of the District maturing in the years 2028 and 2029, as described in Exhibit C hereto.

"Representation Letter" shall mean the DTC Blanket Letter of the Representation among the District, the Trustee and DTC, attached as Exhibit D hereto.

"Securities Depositories" shall mean The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax - (516) 227-4039 or 4190; Midwest Securities Trust Company, Capital Structures-Call Notification, 440 South LaSalle Street, Chicago, Illinois 60605, Fax - (312) 663-2343; or to such other addresses and/or such other registered securities depositories holding substantial amounts of obligations of types similar to the 2005 Series A Bonds.

"Trustee" shall mean U.S. Bank National Association, Phoenix, Arizona, appointed pursuant to Article IX of the Resolution, and its successor or successors and any other corporation which may at any time be substituted in its place pursuant to the Resolution.

SECTION 3. Principal Amount, Designation, Series and Allocations. Pursuant to the provisions of the Resolutions, the District is hereby authorized to issue and sell Bonds in the aggregate principal amount of $327,090,000. Such Bonds shall be designated as "Salt River Project Electric System Revenue Bonds, 2005 Series A." In order to comply with the Opinions and Orders of the Commission, the District reserves the right, and shall, if necessary to comply with such Opinions and Orders, change the allocations to such Opinions and Orders of the Bonds To Be Refunded, as set forth in Exhibit A hereto. The amount of 2005 Series A Bonds designated for acquisition and construction purposes is $286,095,000.

SECTION 4. Purpose. The purposes for which the 2005 Series A Bonds are issued are: 1) to provide a portion of the moneys required for the payment of the principal of, Redemption Price of and the interest on the Bonds To Be Refunded as provided in Exhibit C hereto and herein, for the purpose of realizing present value debt service savings; 2) to provide moneys for the costs of acquisition and construction of various capital improvements and additions to the District's Electric System, including reimbursing the District for amounts spent relating thereto; and 3) to pay certain costs of issuance of the 2005 Series A Bonds.

SECTION 5. Dates, Maturities and Interest. (a) The 2005 Series A Bonds shall be dated, and shall bear interest from, their date of delivery.

(b) The 2005 Series A Bonds shall bear interest at the following rates per annum and shall mature on January 1 in the following years in the following principal amounts:

Year of Maturity	Principal Amount	Interest Rate
2027	$ 10,890,000	5.000 %
2028	13,050,000	5.000
2029	17,055,000	5.000
2035	246,095,000	5.000
2035	40,000,000	4.750

(c) Interest on the 2005 Series A Bonds shall be payable on January 1, 2006, and semiannually thereafter on July 1 and January 1 of each year to maturity, to the registered owner of the 2005 Series A Bonds as of the immediately preceding December 15 or June 15.

SECTION 6. Denominations, Numbers and Letters. The 2005 Series A Bonds shall be issued only as fully registered bonds without coupons, subject to the provisions regarding a book-entry only system as described in Section 7 hereof, and the 2005 Series A Bonds shall be issued in the denomination of $5,000, or any integral multiple thereof, in all cases not exceeding the aggregate principal amount of 2005 Series A Bonds maturing on the maturity date of the bond for which the denomination is to be specified.

SECTION 7. Book Entry 2005 Series A Bonds. (a) Beneficial ownership interests in the 2005 Series A Bonds will be available in book-entry form only. Purchasers of beneficial ownership interests in the 2005 Series A Bonds will not receive certificates representing their interests in the 2005 Series A Bonds and will not be Bondholders or owners of the Bonds under the Resolution. DTC, an automated clearinghouse for securities transactions, will act as the Securities Depository for the 2005 Series A Bonds. The 2005 Series A Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for each maturity of the 2005 Series A Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC holds securities that its participants ("Participants") deposit with DTC. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations ("Direct Participants"). Access to the DTC system is also available to others, such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants").

Purchases of the 2005 Series A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2005 Series A Bonds on DTC's records. The ownership interest of each actual purchaser of each 2005 Series A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmation providing details of the transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2005 Series A Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2005 Series A Bonds, except in the event that use of the book-entry system for the 2005 Series A Bonds is discontinued.

To facilitate subsequent transfers, all 2005 Series A Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of 2005 Series A Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2005 Series A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2005 Series A Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners, will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2005 Series A Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2005 Series A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2005 Series A Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Trustee, on each payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities

held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the District or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2005 Series A Bonds at any time by giving reasonable notice to the District. Under such circumstances, in the event that a successor securities depository is not obtained, the 2005 Series A Bond certificates are required to be printed and delivered. The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the 2005 Series A Bond certificates will be printed and delivered.

Beneficial Owners will not be recognized by the Trustee as registered owners for purposes of this 2005 Series A Resolution, and Beneficial Owners will be permitted to exercise the rights of registered owners only indirectly through DTC and the Direct and Indirect Participants.

(b) In the event definitive 2005 Series A Bonds are issued, the provisions of the Resolution, including but not limited to Sections 304 and 305 of the Resolution, shall apply to, among other things, the transfer and exchange of such definitive 2005 Series A Bonds and the method of payment of principal of and interest on such definitive 2005 Series A Bonds. Whenever DTC requests the District and the Trustee to do so, the Trustee and the District will cooperate with DTC in taking appropriate action after reasonable notice (i) to make available one or more separate definitive 2005 Series A Bonds evidencing the Bonds to any DTC participant having 2005 Series A Bonds credited to its DTC account or (ii) to arrange for another securities depository to maintain custody of definitive 2005 Series A Bonds.

(c) Notwithstanding any other provision of the Resolution to the contrary, so long as any 2005 Series A Bond is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to the principal of and interest on such 2005 Series A Bond and all notices with respect to such 2005 Series A Bond shall be made and given to Cede & Co., as nominee of DTC, as provided in the Representation Letter. All of the provisions of the Representation Letter shall be deemed to be a part of this 2005 Series A Resolution as fully and to the same extent as if incorporated verbatim herein, with such changes, amendments, modifications, insertions, omissions or additions, as may be approved by the President, or the Vice President, or the General Manager, or the Associate General Manager, Commercial & Customer Services and Chief Financial Executive, or the Corporate Treasurer or any Assistant Treasurer of the District. Execution by said President, or Vice President, or General Manager, or Associate General Manager, Commercial & Customer Services and Chief Financial Executive, or Corporate Treasurer or any Assistant Treasurer of the Representation Letter shall be deemed to be conclusive evidence of approval of any such changes, amendments, modifications, insertions, omissions or additions.

(d) In connection with any notice or other communication to be provided to Bondholders pursuant to the Resolutions by the District or the Trustee with respect to any consent or other

action to be taken by Bondholders, the District or the Trustee, as the case may be, shall, to the extent possible, establish a record date for such consent or other action and give DTC notice of such record date not less than 15 calendar days in advance of such record date.

SECTION 8. Paying Agent. Subject to the provisions of Section 7 hereof, the principal of the 2005 Series A Bonds shall be payable at the designated corporate trust office of the Trustee under the Resolutions (or at the principal office of any successor Trustee appointed pursuant to the Resolutions) or at any other place which may be provided for such payment by the appointment of any other Paying Agent or Paying Agents as authorized by the Resolutions. The Trustee is hereby appointed the Paying Agent for the 2005 Series A Bonds. The interest on the 2005 Series A Bonds will be payable by check mailed by the Trustee on each Interest Payment Date.

SECTION 9. Redemption Terms and Prices. (a) Mandatory Redemption - 2005 Series A Bonds. The 2005 Series A Bonds maturing on January 1, 2035 shall be subject to redemption prior to maturity, upon random selection within a maturity by the Trustee, by operation of the Debt Service Fund to satisfy the Sinking Fund Installments set forth in Section 10 hereof, on and after January 1, 2033, at 100% of the principal amount of the 2005 Series A Bonds to be redeemed, together with accrued interest up to but not including the redemption date.

(b) Optional Redemption - 2005 Series A Bonds. The 2005 Series A Bonds are subject to redemption at the option of the District prior to maturity, at any time on or after January 1, 2016, as a whole or in part by random selection by the Trustee within a maturity with the same coupon from maturities selected by the District, at the Redemption Price of 100% of the principal amount of the 2005 Series A Bonds or portions thereof to be redeemed, together with accrued interest up to but not including the redemption date.

(c) Notice of Redemption. Notice to Bondholders of such redemption shall be given by mail to the registered owners of the 2005 Series A Bonds to be redeemed, postage prepaid, not less than 25 days nor more than 50 days prior to the redemption date.

(d) Further Notice. In addition to the foregoing notice, further notice shall be given by the Trustee as set forth in this subsection (d), but no defect in said further notice nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of a call for redemption if notice thereof is given as prescribed in subsection (c) above. Each further notice of redemption given hereunder shall be dated and shall state: (i) the redemption date, (ii) the Redemption Price, (iii) if fewer than all Outstanding 2005 Series A Bonds are to be redeemed, the Bond numbers (and, in the case of partial redemption, the respective principal amounts) of the 2005 Series A Bonds to be redeemed, (iv) that on the redemption date the Redemption Price will become due and payable upon each such 2005 Series A Bond or portion thereof called for redemption, and that interest with respect thereto shall cease to accrue from and after said date, (v) the CUSIP numbers of the 2005 Series A Bonds to be redeemed, (vi) the place where such 2005 Series A Bonds are to be surrendered for payment of the Redemption Price, (vii) the original date of execution and delivery of the 2005 Series A Bonds; (viii) the rate of interest payable with respect to each 2005 Series A Bond being redeemed; (ix) the maturity date of each 2005 Series A Bond being redeemed; and (x) any other

descriptive information needed to identify accurately the 2005 Series A Bonds being redeemed. Each further notice of redemption shall be sent, not less than 25 days nor more than 50 days prior to the redemption date, by electronic, telecopy, registered, certified or overnight mail to all Securities Depositories and to the Information Services. Upon the payment of the Redemption Price of 2005 Series A Bonds being redeemed, each check or other transfer of funds, issued for such purpose shall, to the extent practicable, bear or indicate the CUSIP number identifying, by issue and maturity, the 2005 Series A Bonds being redeemed with the proceeds of such check or other transfer.

(e) Except with respect to the unredeemed portion of any 2005 Series A Bond being redeemed in part, neither the Trustee nor any agent of the Trustee shall be obligated to register the transfer or exchange of any 2005 Series A Bond during the 15 days preceding the date on which notice of redemption of a 2005 Series A Bond is to be given on any Bond that has been called for redemption except the unredeemed portion of any 2005 Series A Bond being redeemed in part.

SECTION 10. Sinking Fund Installments. (a) Sinking Fund Installments are hereby established for the 2005 Series A Bonds maturing on January 1, 2035 and bearing interest at the rate of 5.000%. Such Installments shall become due on each of the dates set forth in the following table in the respective amounts set forth opposite such dates in said table:

Sinking Fund Payment Date (January 1)	Principal Amount
2033	$ 78,340,000
2034	52,190,000
2035 (final maturity)	115,565,000

(b) Sinking Fund Installments are hereby established for the 2005 Series A Bonds maturing on January 1, 2035 and bearing interest at the rate of 4.750%. Such Installments shall become due on each of the dates set forth in the following table in the respective amounts set forth opposite such dates in said table:

Sinking Fund Payment Date (January 1)	Principal Amount
2033	$ 13,000,000
2034	8,500,000
2035 (final maturity)	18,500,000

(c) The Sinking Fund Installments may be satisfied by the District delivering to the Trustee, no later than 45 days in advance of the date of such Sinking Fund Installment, 2005 Series A Bonds of such maturities theretofore purchased or redeemed by the District otherwise than by operation of the sinking fund redemption provided for in this Section 10.

SECTION 11. Application of the Proceeds of 2005 Series A Bonds, Transfer of Funds in the Debt Reserve Account, Transfer of General Fund Moneys. In accordance with the Resolution, the proceeds of the 2005 Series A Bonds, moneys in the Debt Reserve Account and moneys transferred from the District's general fund as an equity contribution of the District (subject to adjustment as below provided) shall be applied simultaneously with the delivery of the 2005 Series A Bonds, as follows:

(a) From the proceeds of the 2005 Series A Bonds, $300,375,158.59 shall be deposited in the Construction Fund and (i) $300,005,158.59 thereof shall be used to pay Costs of Construction and (ii) $370,000.00 thereof shall be used to pay costs of issuance of the 2005 Series A Bonds.

(b) From the proceeds of the 2005 Series A Bonds, $43,468,985.36 shall be deposited with the Trustee (as Escrow Agent) for the purchase of Investment Securities by the Trustee (as Escrow Agent) and to provide cash, for deposit in the Escrow Fund, as provided in paragraph 3 of the Escrow Deposit Agreement.

(c) The balance of said 2005 Series A Bond proceeds in the amount of $1,780,023.95 shall be used for the payment of the Underwriter's discount.

(d) The District shall transfer from its general fund $361,666.67 for deposit with the Trustee which amount shall be used for the purchase of Investment Securities by the Trustee (as Escrow Agent) for deposit in the Escrow Fund, as provided in paragraph 3 of the Escrow Deposit Agreement.

The principal of and the interest on the Investment Securities so purchased and on deposit in the Escrow Fund are sufficient when due to pay the principal, Redemption Price and interest on the Bonds To Be Refunded when due and payable.

The President, or the Vice President, or the Associate General Manager, Commercial & Customer Services and Chief Financial Executive or the Corporate Treasurer of the District be and are hereby each authorized and directed to increase or decrease the above deposits or to make such other deposits as may be necessary in order to effect the defeasance of the Bonds To Be Refunded in compliance with the law generally and specifically with the Resolutions and Section 148 of the Code. Any adjustments made to the above deposits shall be reflected in the tax certificate of the District and the Escrow Deposit Agreement.

SECTION 12. The Bonds To Be Refunded Escrow Deposit Fund. The Bonds To Be Refunded Escrow Deposit Fund shall be established under the Escrow Deposit Agreement. Such Fund shall be held by the Trustee, as Escrow Agent, and the amounts in such Fund shall be applied pursuant to the Escrow Deposit Agreement for the payment of the Bonds To Be Refunded.

SECTION 13. Form of 2005 Series A Bonds. Subject to the provisions of the Resolutions, the 2005 Series A Bonds and the Certificate of Authentication shall be in substantially the form of Exhibit E hereto.

SECTION 14. Notice of Redemption and Notice of Defeasance of the Bonds To Be Refunded. The District hereby irrevocably elects and directs the Trustee to redeem from the amounts deposited with the Trustee pursuant to Section 12 hereof the Bonds To Be Refunded in the amounts, on the dates and at the redemption prices set forth on Exhibit C hereto. The District directs the Trustee to give notice of redemption and notice of defeasance as required by Section 12.01 of the Resolution. In addition to the foregoing notice, further notice shall be given by the Trustee as set forth below, but no defect in said further notice nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of a call for redemption if notice thereof is given as prescribed above. Each further notice of redemption given hereunder shall be dated and shall state: (i) the redemption date, (ii) the Redemption Price, (iii) the Bond numbers (and, in the case of partial redemption, the respective principal amounts) of the Bonds To Be Refunded to be redeemed, (iv) that on the redemption date the Redemption Price will become due and payable upon each of such Bonds To Be Refunded called for redemption, and that interest with respect thereto shall cease to accrue from and after said date, (v) the CUSIP numbers of the Bonds To Be Refunded to be redeemed, (vi) the place where such Bonds To Be Refunded are to be surrendered for payment of the Redemption Price, (vii) the original date of execution and delivery of the Bonds To Be Refunded; (viii) the rate of interest payable with respect to each of the Bonds To Be Refunded being redeemed; (ix) the maturity date of each of the Bonds to be Refunded being redeemed; and (x) any other descriptive information needed to identify accurately the Bonds To Be Refunded being redeemed. Each further notice of redemption shall be sent, not less than 25 days nor more than 50 days prior to the redemption date, by electronic, telecopy, registered, certified or overnight mail to all Securities Depositories and to the Information Services. Upon the payment of the Redemption Price of the Bonds To Be Refunded being redeemed, each check or other transfer of funds, issued for such purpose shall, to the extent practicable, bear or indicate the CUSIP number identifying, by issue and maturity, the Bonds To Be Refunded being redeemed with the proceeds of such check or other transfer. For the purpose of satisfying the publication and/or mailing requirement of redemption and defeasance notices set forth in the Resolution, the Trustee may combine into one or more notices the notices required under the Resolution and may add to such notice or notices the information listed in (i) through (x) above as it deems necessary.

SECTION 15. Escrow Deposit Agreement. Upon the issuance of the 2005 Series A Bonds, the District intends to enter into the Escrow Deposit Agreement. The form of the Escrow Deposit Agreement in substantially the form attached hereto as Exhibit B is hereby approved. The President, or the Vice President, or the General Manager, or the Associate General Manager, Commercial & Customer Services and Chief Financial Executive or the Corporate Treasurer or any Assistant Treasurer of the District are hereby each authorized and directed to execute the

Escrow Deposit Agreement and to deliver the Escrow Deposit Agreement to the Trustee as the Escrow Agent. All of the provisions of the Escrow Deposit Agreement, when executed and delivered by the District as authorized herein and when duly authorized and executed by the Trustee as Escrow Agent, shall be deemed to be a part of this 2005 Series A Resolution as fully and to the same extent as if incorporated verbatim herein, with such changes, amendments, modifications, insertions, omissions or additions, including the date of such Agreement, as may be approved by the President, or the Vice President, or the General Manager, or the Associate General Manager, Commercial & Customer Services and Chief Financial Executive or the Corporate Treasurer or any Assistant Treasurer of the District. Execution by said President or Vice President, or General Manager, or Associate General Manager, Commercial & Customer Services and Chief Financial Executive or the Corporate Treasurer or any Assistant Treasurer of the Escrow Deposit Agreement shall be deemed to be conclusive evidence of approval of any such changes, amendments, modifications, insertions, omissions or additions.

SECTION 16. Execution, Delivery and Authentication. The 2005 Series A Bonds shall be executed by imprinting thereon the manual or facsimile signature of the President or Vice President of the District and by affixing thereto the corporate seal of the District or facsimile thereof and said signature and seal shall be attested by the manual or facsimile signature of the Secretary or an Assistant Secretary of the District. The President or the Corporate Treasurer of the District or their designees are hereby authorized and directed to deliver the 2005 Series A Bonds executed in the foregoing manner to the Purchasers upon payment of the purchase price specified in Section 17 hereof pursuant to the terms and conditions of the Purchase Contract. There is hereby authorized to be printed or otherwise reproduced on the back of, or attached to, each of the 2005 Series A Bonds the approving opinion of McCarter & English, LLP, Bond Counsel, the tax opinion of Nixon Peabody LLP, Special Tax Counsel, and a certification executed by the manual or facsimile signature of the Secretary or an Assistant Secretary of the District with respect to the form and delivery of said opinion. All Officers of the District and employees designated by Officers are authorized to sign and execute all certificates and documents required for the sale and delivery of the 2005 Series A Bonds and the refunding and defeasance of the Bonds To Be Refunded.

The Trustee (or its duly designated agent) as Authenticating Agent is hereby authorized and directed to manually execute the Certificate of Authentication appearing on the 2005 Series A Bonds. No 2005 Series A Bond shall be issued and delivered hereunder without the manual signature of an authorized representative of the Trustee or its Authenticating Agent appearing on such Certificate of Authentication.

SECTION 17. Purchase Contract. The Purchase Contract, which is attached hereto as Exhibit F, is hereby approved. The 2005 Series A Bonds are hereby sold to the Purchasers, pursuant to the terms and conditions of the Purchase Contract, at an aggregate purchase price of $343,844,143.95 calculated as follows: $327,090,000 aggregate principal amount of 2005 Series A Bonds, plus Original Issue Premium of $18,534,167.90, and less Underwriters' Discount in the amount of $1,780,023.95; and the President, or the Vice President, or the General Manager, or the Associate General Manager, Commercial & Customer Services and Chief Financial Executive or the Corporate Treasurer or any Assistant Treasurer of the District are each hereby authorized and directed to execute the Purchase Contract and to deliver the same for and on behalf of the District to the Purchasers.

SECTION 18. Amortization of Financing Costs and Accounting Loss on Defeasance. In order to provide accurate accounting records and reports, (i) the issuance costs of approximately $370,000 resulting from the issuance of the 2005 Series A Bonds shall be amortized monthly over the life of the 2005 Series A Bonds, and (ii) the accounting loss of approximately $1,600,000 on the defeasance of the Bonds To Be Refunded shall be amortized monthly over the life of the Bonds To Be Refunded.

SECTION 19. Investment of Good Faith Deposit. The proceeds of the good faith deposit in the amount of $3,270,900 received by the District from the Purchasers shall be deposited by the District with a depositary in a special account established by the Corporate Treasurer of the District. Pending the application of the moneys so deposited in said special account, such moneys, or so much thereof as may be practicable, shall be invested by such depositary on behalf of the District in direct obligations of or obligations guaranteed by the United States or in repurchase agreements with banks or brokerage houses fully secured by such obligations, all as the Corporate Treasurer of the District shall specify or direct in writing.

SECTION 20. Approval of Final Official Statement and Continuing Disclosure Agreement. The preparation and distribution of the Preliminary Official Statement dated August 1, 2005, attached hereto as Exhibit G, is hereby ratified and confirmed and the Preliminary Official Statement is hereby deemed "final" as of its date for purposes of Securities and Exchange Commission Rule 15c2-12(b)(l), except for certain omissions permitted thereunder and except for changes permitted by other applicable law. Authorized Officers and staff of the District are authorized to prepare and deliver to the Purchasers an Official Statement, dated the date hereof, relating to the 2005 Series A Bonds substantially in the form attached hereto as Exhibit H. The form of the Continuing Disclosure Agreement attached hereto as Exhibit I is hereby approved. The President, or the Vice President, or the General Manager, or the Associate General Manager, Commercial & Customer Services and Chief Financial Executive or the Corporate Treasurer or any Assistant Treasurer of the District are hereby each authorized and directed to execute and deliver the Official Statement, for and on behalf of the District, to the Purchasers, and the Continuing Disclosure Agreement to the Trustee. The Secretary or an Assistant Secretary of the District are each hereby authorized to attest signatures, if required.

SECTION 21. Arbitrage Covenant. The District covenants and agrees that it shall not direct or permit any action which would cause any 2005 Series A Bond to be an "arbitrage bond" within the meaning of Section 148 of the Code or direct or permit any action inconsistent with the applicable regulations thereunder as amended from time to time and as applicable to the 2005 Series A Bonds. The provisions of this Section 21 shall survive any defeasance of the 2005 Series A Bonds pursuant to the Resolution.

SECTION 22. Tax Exemption. In order to maintain the exclusion from Federal gross income of interest on the 2005 Series A Bonds, the District shall comply with the provisions of the Code applicable to the 2005 Series A Bonds, including without limitation the provisions of the Code relating to the computation of the yield on investments of the gross proceeds of the 2005 Series A Bonds, reporting of earnings on the gross proceeds of the 2005 Series A Bonds, and rebate of excess earnings to the Department of the Treasury of the United States of America and shall not take any action or permit any action that would cause the interest on the 2005

Series A Bonds to be included in gross income under Section 103 of the Code or cause interest on the 2005 Series A Bonds to be an item of tax preference under Section 57 of the Code. In furtherance of the foregoing, the District shall comply with the Tax Certificate as to Arbitrage and the Provisions of Sections 141-150 of the Internal Revenue Code of 1986, to be executed by the President, or the Vice President, or the General Manager, or the Associate General Manager, Commercial & Customer Services and Chief Financial Executive, or the Corporate Treasurer or any Assistant Treasurer of the District at the time the 2005 Series A Bonds are issued, as such Tax Certificate may be amended from time to time, as a source of guidance for achieving compliance with the Code, and such officers are hereby authorized and directed to execute and deliver such Tax Certificate for and on behalf of the District. The provisions of this Section 22 shall survive any defeasance of the 2005 Series A Bonds pursuant to the Resolution.

SECTION 23. Severability. If any one or more of the covenants or agreements provided in this 2005 Series A Resolution on the part of the District or any Fiduciary to be performed should be contrary to law, then such covenant or covenants or agreement or agreements shall be deemed severable from the remaining covenants and agreements, and shall in no way affect the validity of the other provisions of this 2005 Series A Resolution, so long as this 2005 Series A Resolution as so modified continues to express, without material change, the original intentions of the District or any Fiduciary as to the subject matter of this 2005 Series A Resolution and the deletion of such portion of this 2005 Series A Resolution will not substantially impair the respective benefits or expectations of the District or any Fiduciary.

SECTION 24. Effective Date. This 2005 Series A Resolution shall take effect immediately upon adoption.

Exhibit E

Form of Bond

Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the issuer or its agent for registration of transfer, exchange or payment, and any certificate issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

As provided in the Resolutions referred to herein, until the termination of the system of book-entry-only transfers through DTC and notwithstanding any other provision of the Resolutions to the contrary, a portion of the principal amount of this bond may be paid or redeemed without surrender hereof to the Paying Agent. DTC or a nominee, transferee or assignee of DTC of this bond may not rely upon the principal amount indicated hereon as the principal amount hereof outstanding and unpaid. The principal amount hereof outstanding and unpaid shall for all purposes be the amount determined in the manner provided in the Resolutions.

Number R- $

UNITED STATES OF AMERICA
STATE OF ARIZONA COUNTY OF MARICOPA
SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER DISTRICT
SALT RIVER PROJECT ELECTRIC SYSTEM
REVENUE BOND, 2005 SERIES A

Interest Rate	Maturity Date	Dated Date	CUSIP
		_____, 2005	

Registered Owner Cede & Co.

Principal Sum

SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, Maricopa County, Arizona (herein called the "District"), a political subdivision and body politic and corporate organized and existing under the Constitution and laws of the State of Arizona, acknowledges itself indebted to, and for value received hereby promises to pay, solely from the revenues and special funds of the District pledged therefor as hereinafter provided, to the registered owner identified above or registered assigns, on the maturity date set forth above, upon presentation and surrender of this 2005 Series A Bond (as hereinafter defined) at the designated corporate trust office of U.S. Bank National Association (such bank and any successor thereto being herein called the "Paying Agent"), at the option of the registered owner,

the principal sum set forth above in any coin or currency of the United States of America which at the time of payment is legal tender for payment of public and private debts, and to pay solely from such revenues and special funds pledged therefor to the registered owner hereof interest on such principal sum from the dated date set forth above or from the most recent interest payment date to which interest has been paid or duly provided for, at the interest rate shown above per annum, payable by check mailed by the Trustee (hereinafter defined), on the first days of January and July (beginning January 1, 2006) in each year to the person in whose name this 2005 Series A Bond is registered as of the close of business on the immediately preceding December 15 or June 15 until the District's obligation with respect to the payment of such principal sum shall be discharged.

This Bond is one of a duly authorized series of Bonds of the District in the aggregate principal amount of $327,090,000 designated as its "Salt River Project Electric System Revenue Bonds, 2005 Series A" (herein called the "2005 Series A Bonds"), issued to finance the costs of acquisition and construction of various capital improvements and additions to the District's Electric System and for refunding certain outstanding Electric System Revenue bonds (referred to in the hereinafter defined Resolutions) pursuant to the Constitution and laws of the State of Arizona, including Article 7, Chapter 17, Title 48 of the Arizona Revised Statutes (herein called the "Act"), and under and pursuant to a resolution of the Board of Directors of the District, entitled "Supplemental Resolution Dated September 10, 2001 Authorizing an Amended and Restated Resolution Concerning Revenue Bonds," which became effective January 11, 2003 as amended and supplemented, and a resolution of the Board of Directors of the District, dated as of August 19, 2005 entitled "Resolution Authorizing The Issuance And Sale of $327,090,000 Salt River Project Electric System Revenue Bonds, 2005 Series A of the Salt River Project Agricultural Improvement and Power District, and Providing For the Form, Details and Terms Thereof" (herein collectively called the "Resolutions"). Each capitalized term not defined herein shall have the meaning set forth in the Resolutions. As provided in the Resolutions, the 2005 Series A Bonds, and the outstanding Electric System Revenue Bonds heretofore issued pursuant to the Resolution Concerning Revenue Bonds, as to principal and interest thereon are payable from and secured by a pledge of the revenues of the District's Electric System referred to in the Resolutions and other funds held or set aside under the Resolutions. Such pledge is subject and subordinate in all respects to the payment of operating expenses and to the prior pledge of such revenues to the repayment of certain federal loan agreements heretofore or hereafter entered into by the District. Copies of the Resolutions are on file at the office of the District and at the designated corporate trust office of U.S. Bank National Association, Phoenix, Arizona, as Trustee under the Resolutions, or its successor as Trustee (herein called the "Trustee"), and reference to the Resolutions and any and all supplements thereto and modifications and amendments thereof and to the Act is made for a description of the pledge and covenants securing the Bonds, the nature, extent and manner of enforcement of such pledge, the rights and remedies of the registered owners of the Bonds with respect thereto and the terms and conditions upon which the Bonds are issued and may be issued thereunder.

The 2005 Series A Bonds are being issued by means of a book-entry system, with no physical distribution of bond certificates to be made except as provided in the Resolutions. One bond certificate for each maturity, registered in the name of the Securities Depository nominee, Cede & Co., is being issued for deposit with the Securities Depository and immobilized in its custody. The book-entry system will evidence positions held in the 2005 Series A Bonds by the

Securities Depository's participants; beneficial ownership of the 2005 Series A Bonds, in the principal amount of $5,000 or any integral multiple thereof, shall be evidenced in the records of such participants. Transfers of ownership shall be effected on the records of the Securities Depository and its participants pursuant to rules and procedures established by the Securities Depository and its participants. The District and the Trustee will recognize the Securities Depository nominee, while the registered owner of this 2005 Series A Bond, as the owner of this 2005 Series A Bond for all purposes, including payments of principal of and interest on, this 2005 Series A Bond, notices and voting. Transfers of principal and interest payments to participants of the Securities Depository will be the responsibility of the Securities Depository, and transfers of principal and interest payments to beneficial owners of the 2005 Series A Bonds by participants of the Securities Depository will be the responsibility of such participants and other nominees of such beneficial owners. The District will not be responsible or liable for such transfers of payments or for maintaining, supervising or reviewing the records maintained by the Securities Depository, the Securities Depository nominee, its participants or persons acting through such participants. While the Securities Depository nominee is the owner of this 2005 Series A Bond, notwithstanding any provisions herein contained to the contrary, payments of principal of and interest on this 2005 Series A Bond shall be made in accordance with existing arrangements among the Trustee, the District and the Securities Depository.

This 2005 Series A Bond is transferable as provided in the Resolutions; provided, however, that such transfer may be made only upon books kept for that purpose at the above mentioned office of the Trustee and at the office of any Paying Agent then acting as agent of the Trustee for such purpose, by the registered owner hereof in person, or by his duly authorized attorney, upon surrender of this 2005 Series A Bond together with a written instrument of transfer satisfactory to the Trustee duly executed by the registered owner or his duly authorized attorney, and thereupon a new registered Bond or Bonds, in authorized denominations and for the same aggregate principal amounts, shall be issued to the transferee in exchange therefor as provided in the Resolutions, and upon payment of the charges therein prescribed. The District and the Trustee may deem and treat the person in whose name this 2005 Series A Bond is registered as the absolute owner hereof for the purpose of receiving payment of, or on account of, the principal hereof and interest due hereon and for all other purposes.

The 2005 Series A Bonds are issuable in the form of registered Bonds in the denomination of $5,000 or any integral multiple of $5,000. The 2005 Series A Bonds, upon surrender thereof at the designated corporate trust office of the Trustee or at the office of any Paying Agent then acting as agent for the Trustee for such purpose at the option of the registered owner thereof, may be exchanged for an equal aggregate principal amount of 2005 Series A Bonds of any other authorized denomination, of the same stated maturity, in the same manner, subject to the conditions, and upon the payment of the charges, if any, provided in the Resolutions.

As provided in the Resolutions, Bonds of the District may be issued from time to time pursuant to supplemental resolutions in one or more series, in various principal amounts, may mature at different times, may bear interest at different rates and may otherwise vary. The aggregate principal amount of Bonds which may be issued under the Resolution Concerning Revenue Bonds is not limited except as provided in the Resolution Concerning Revenue Bonds,

and all Bonds heretofore issued and to be issued under the Resolution Concerning Revenue Bonds are and will be equally secured by the pledge and covenants made therein.

The 2005 Series A Bonds maturing on January 1, 2035, are subject to redemption prior to maturity, upon random selection within a maturity by the Trustee, upon notice as hereinafter provided, by operation of the Debt Service Fund established under the Resolutions to satisfy Sinking Fund Installments, on and after January 1, 2033 at 100% of the principal amount of 2005 Series A Bonds to be redeemed, together with accrued interest up to but not including the redemption date. The Sinking Fund Installments may be satisfied by the District delivering to the Trustee, no later than 45 days in advance of the date of such Sinking Fund Installment, 2005 Series A Bonds of such maturities theretofore purchased or redeemed by the District otherwise than by operation of the sinking fund redemption described herein.

The 2005 Series A Bonds are subject to redemption at the option of the District prior to maturity, at any time on or after January 1, 2016, upon notice as hereinafter provided, as a whole or in part by random selection by the Trustee within a maturity with the same coupon from maturities selected by the District, at the Redemption Price of 100% of the principal amount of the 2005 Series A Bonds or portions thereof to be redeemed, together with accrued interest up to but not including the redemption date.

Notice of redemption shall be mailed to the registered owners of the 2005 Series A Bonds not less than 25 days nor more than 50 days prior to the redemption date, all in the manner and upon the terms and conditions set forth in the Resolutions. If notice of redemption shall have been mailed as aforesaid, the 2005 Series A Bonds or portions thereof specified in said notice shall become due and payable on the redemption date therein fixed, and if, on the redemption date, moneys for the redemption of all the 2005 Series A Bonds or portions thereof to be redeemed, together with interest to the redemption date, shall be available for such payment on said date, then from and after the redemption date interest on such Bonds or portions thereof so called for redemption shall cease to accrue and be payable.

This 2005 Series A Bond shall not be entitled to any benefit under the Resolutions or be valid or become obligatory for any purpose until this 2005 Series A Bond shall have been authenticated by the manual signature of a duly authorized signatory of the Trustee or its duly authorized agent on the Certificate of Authentication.

It is hereby certified and recited that all conditions, acts and things required by law and the Resolutions to exist, to have happened and to have been performed precedent to and in the issuance of this 2005 Series A Bond, exist, have happened and have been performed and that the 2005 Series A Bonds, together with all other indebtedness of the District, are within every debt and other limit prescribed by the laws of the State of Arizona.

IN WITNESS WHEREOF, SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, by authority of the Act, has caused this 2005 Series A Bond to be executed by the manual or facsimile signature of its President or Vice President thereunto duly authorized and the corporate seal of said District or facsimile thereof to be hereunto affixed and attested by the manual or facsimile signature of its Secretary or Assistant Secretary, all as of September 1, 2005.

(SEAL)

SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT

Attest:

By _____

President

By _____

Secretary

CERTIFICATE OF AUTHENTICATION

This is one of the Bonds delivered pursuant to the Resolutions mentioned within.

DATED: September 1, 2005

U.S. Bank National Association,
as Trustee

By _____
Authorized Signatory

The undersigned Secretary of the Salt River Project Agricultural Improvement and Power District hereby certifies that the following are full, true and correct copies of the original legal opinions of (i) McCarter & English, LLP, Newark, New Jersey, as to the validity and security of the Series of Bonds of which the within Bond is one and (ii) Nixon Peabody LLP, as to certain tax matters with respect to the Bonds, each dated as of the date of delivery of said Bonds and delivered as of said date.

_____

Secretary

FOR VALUE RECEIVED the undersigned hereby sells, assigns and transfers unto
PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS OF TRANSFEREE, ADDRESS AND SOCIAL SECURITY NUMBER OR OTHER FEDERAL TAX IDENTIFICATION NUMBER OF TRANSFEREE

the within Bond and all rights thereunder, and hereby irrevocably constitutes and appoints _____ Attorney to transfer the within Bond on the books kept for registration thereof, with full power of substitution in the premises.

Dated:

Signature Guaranteed by:

Signature guarantee should be made by guarantor institution participating in the Securities Transfer Agents Medallion Program or in such other guarantee program acceptable to the Trustee.

NOTICE: The signature(s) on this assignment must correspond with the name(s) as written on face of the within bond in every particular, without alteration or enlargement or any change whatsoever.

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CERTIFICATE

I, TERRILL A. LONON, the duly appointed, qualified, and acting Corporate Secretary of the Salt River Project Agricultural Improvement and Power District (the District) a special district under Title 48 of the Arizona Revised Statutes, DO HEREBY CERTIFY that attached hereto is a true and correct copy of a resolution entitled: **"RESOLUTION OF THE COUNCIL APPROVING THE PRIVATE SALE BY THE SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT AND RATIFYING AND CONFIRMING TERMS AND CONDITIONS OF $327,090,000 SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS, 2005 SERIES A"** as adopted by a majority of the SRP Council Members at a meeting held on August 19, 2005, at which a quorum was present and voted, and that no change, revision, amendment, or addendum has been made subsequent thereto.

IN WITNESS WHEREOF, I have set my hand and seal of the Salt River Project Agricultural Improvement and Power District, this 12th day of September 2005.

Terrill A. Lonon

Terrill A. Lonon
Corporate Secretary

SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT
MARICOPA COUNTY
SEAL
ARIZONA

RESOLUTION OF THE COUNCIL APPROVING THE PRIVATE SALE BY THE SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT AND RATIFYING AND CONFIRMING TERMS AND CONDITIONS OF $327,090,000 SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS, 2005 SERIES A

WHEREAS, The Board of Directors (the "Board") of the Salt River Project Agricultural Improvement and Power District (the "District"), by resolution entitled "Supplemental Resolution Dated September 10, 2001 Authorizing an Amended and Restated Resolution Concerning Revenue Bonds," which became effective January 11, 2003, as amended and supplemented, has created and established an issue of Salt River Project Electric System Revenue Bonds (the "Bonds"), which Bonds may be authorized from time to time pursuant to Series Resolutions; and

WHEREAS, the Board adopted on this date its RESOLUTION AUTHORIZING THE ISSUANCE AND SALE OF $327,090,000 SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS, 2005 SERIES A OF THE SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, AND PROVIDING FOR THE FORM, DETAILS AND TERMS THEREOF (the "2005 Series A Resolution") (the form of which is attached hereto as Exhibit A), that, among other things, fixes the form, terms and conditions of the 2005 Series A Bonds, authorizes the issuance of the 2005 Series A Bonds and the private sale of the 2005 Series A Bonds to purchasers represented by and including Bear, Stearns & Co., Inc., Morgan Stanley & Co. Incorporated, Citigroup, Goldman, Sachs & Co., and J.P. Morgan Securities Inc. (hereinafter collectively referred to as the "2005 Series A Purchasers") pursuant to the terms and conditions of a Purchase Contract, dated August 19, 2005 by and among the District and the 2005 Series A Purchasers (the "2005 Series A Purchase Contract") (the form of which is attached hereto as Exhibit B); and

WHEREAS, pursuant to the requirements of Title 48, Chapter 17, Article 7, of the Arizona Revised Statutes, no bonds may be issued by the District unless the Council, by resolution adopted by an affirmative vote of a majority of its members, ratifies and confirms the amount of the bonds authorized to be issued by the Board and, if the Board determines to sell bonds at private sale, such sale shall be subject to prior approval by a majority of the members of the Council;

NOW, THEREFORE, BE IT RESOLVED, by the members of the Council of the Salt River Project Agricultural Improvement and Power District as follows:

(i) The maturities, redemption provisions and other terms and conditions of the 2005 Series A Bonds, as contained in the 2005 Series A Resolution, are hereby ratified, confirmed and approved.

(ii) The private sale of $327,090,000 2005 Series A Bonds to the 2005 Series A Purchasers, pursuant to the 2005 Series A Resolution and the 2005 Series A Purchase Contract at an aggregate price of $343,844,143.95, calculated as follows: $327,090,000 aggregate principal amount of 2005 Series A Bonds, plus $18,534,167.90 Original Issue Premium, less Underwriters' Discount in the amount of $1,780,023.95 is hereby ratified, confirmed and approved.

(iii) This resolution shall take effect immediately.

68939-00013

4

$327,090,000
SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER DISTRICT, ARIZONA

Salt River Project Electric System Revenue Bonds,
2005 Series A

PURCHASE CONTRACT

August 19, 2005

Salt River Project Agricultural
Improvement and Power District
PAB 215
Post Office Box 52025
Phoenix, Arizona 85072-2025

Ladies and Gentlemen:

The undersigned, acting on behalf of themselves and the dealers listed in Annex A attached hereto, as said list may from time to time be changed by the undersigned at or prior to the Closing (herein collectively called the "Purchasers"), offer to enter into the following agreement with Salt River Project Agricultural Improvement and Power District (herein sometimes called the "District"), which, upon your acceptance of this offer, will be binding upon you and upon the Purchasers. The undersigned need not advise you of any change in such list but in no event shall any of the undersigned be eliminated from such list. The offer made hereby is subject to your acceptance thereof by execution of this Purchase Contract and its delivery to the undersigned at or prior to 2:00 P.M., Phoenix time, on the date first above written.

1. (a) Upon the terms and conditions and upon the basis of the representations hereinafter set forth, the Purchasers, jointly and severally, hereby agree to purchase from you, and you hereby agree to sell to the Purchasers, all (but not less than all) of the $327,090,000 aggregate principal amount of your Salt River Project Electric System Revenue Bonds, 2005 Series A (herein called the "Bonds"), dated their date of delivery, at an aggregate price of $343,844,143.95, which reflects an original issue premium of $18,534,167.90 and an underwriters' discount of $1,780,023.95. The Bonds shall bear interest payable January 1, 2006, and thereafter semi-annually in each year on January 1 and July 1, at the rate or rates and shall mature on the dates and in the principal amounts set forth on the inside front cover of the Official Statement relating to the Bonds, dated August 19, 2005 (the "Official Statement"). Capitalized terms used herein which are not otherwise defined have the meaning given such terms in the Official Statement.

(b) The Bonds shall be as described in, and shall be issued pursuant to, the Supplemental Resolution Authorizing an Amended and Restated Resolution Concerning Revenue Bonds adopted by the Board of Directors of the District as of September 10, 2001,

which became effective January 11, 2003, as amended and supplemented (the "Amended and Restated Resolution Concerning Revenue Bonds"), and the Resolution Authorizing The Issuance and Sale of $327,090,000 Salt River Project Electric System Revenue Bonds, 2005 Series A of the Salt River Project Agricultural Improvement and Power District and Providing for the Form, Details and Terms Thereof adopted by the Board of Directors of the District on August 19, 2005, with only such changes as shall be mutually agreed upon in writing between you and the undersigned. Such resolution in the form adopted by the Board of Directors of the District (including any such change so made) is herein called the "Supplemental Resolution," and such Amended and Restated Resolution Concerning Revenue Bonds, as theretofore amended and supplemented and as further amended by the Supplemental Resolution, is hereinafter called the "Resolution." The Bonds are subject to redemption at the times, in the manner and upon the terms provided in the Resolution. Pursuant to the Resolution, U.S. Bank National Association (herein called the "Trustee"), has been appointed trustee.

2. The Purchasers agree to make a bona fide public offering of all of the Bonds at not in excess of an initial public offering price or prices (or yields less than the offering yields) set forth on the cover of the Official Statement.

3. You hereby acknowledge receipt from the Purchasers of a good faith deposit delivered to the District by wire transfer, or at the discretion of the District, by certified or official bank check or checks, in the aggregate amount of $3,270,900, which you agree to hold as security for the performance by the Purchasers of their obligation to accept and pay for the Bonds at the Closing (as such term is defined in Section 6(b) hereof), and in the event of their compliance with such obligation such funds shall be applied to the purchase price of the Bonds as provided in Section 6(a) hereof. Pending the application of such funds to such purpose, such funds may be invested by the District and the District shall be entitled to any income from any such investment. If you do not accept this offer, such funds shall be immediately returned to the undersigned. In the event of your failure to deliver the Bonds at the Closing, or if you shall be unable at or prior to the date of the Closing to satisfy the conditions to the obligations of the Purchasers contained herein, or if the obligations of the Purchasers shall be terminated for any reason permitted by this Purchase Contract, such funds, without interest, shall be immediately returned to the undersigned. The return of such funds shall constitute a full release and discharge of all claims and damages against the District for such failure to deliver the Bonds at the Closing. If the Purchasers fail (other than for a reason permitted hereunder) to accept and pay for the Bonds upon tender thereof by you at the Closing as herein provided, such funds shall be retained by you as and for full liquidated damages for such failure and for any and all defaults hereunder on the part of the Purchasers, and the retention of such funds shall constitute a full release and discharge of all claims and damages against the Purchasers for such failure and for any and all such defaults.

4. (a) The District has previously delivered to the Purchasers the Preliminary Official Statement dated August 1, 2005 (the "Preliminary Official Statement"), which the District has deemed "final" as of its date for purposes of Securities and Exchange Commission Rule 15c2-12(b)(1), except for certain omissions permitted thereunder and except for changes permitted by other applicable law. The District hereby ratifies, confirms and approves the use of the Preliminary Official Statement for distribution to prospective purchasers and investors.

(b) As soon as practicable after its preparation, but in no event later than seven business days after the District's acceptance of this Purchase Contract and in order to comply with Rule 15c2-12 and other applicable securities laws, rules or regulations, you shall deliver to the undersigned: (i) six executed copies of the Official Statement which is a "final official statement" for purposes of Rule 15c2-12(e)(3), which copies of the Official Statement were executed on behalf of the District by its President or Vice President and its General Manager or Associate General Manager, Commercial & Customer Services and Chief Financial Executive, or its Corporate Treasurer or any Assistant Treasurer, and include as an Appendix thereto the combined financial statements of the Salt River Project as of and for the fiscal years ended April 30, 2005 and 2004, together with the report of PricewaterhouseCoopers LLP, dated June 7, 2005, signed and delivered by that firm with respect to the fiscal year ended April 30, 2005; and (ii) a sufficient quantity of conformed copies of the Official Statement to enable the Purchasers to comply with the rules of the Securities and Exchange Commission and the Municipal Securities Rulemaking Board.

(c) At the time of your acceptance hereof, you shall deliver to the undersigned six certified copies (one copy at the time of such acceptance and five copies as soon as practicable thereafter) of the Resolution in the form referred to in Section 1(b) hereof.

(d) You hereby authorize any and all of this material (including specifically copies of the Official Statement, the Resolution and the information therein contained) to be used in connection with the public offering and sale of the Bonds.

5. (a) You represent and warrant to each of the Purchasers that (i) at its date, the statements and information contained in the Preliminary Official Statement were true and correct and such Preliminary Official Statement did not omit any statement or information which should be included therein for the purposes for which the Preliminary Official Statement is to be used or which is necessary to make the statements and information contained therein not misleading; and (ii) both at its date and at the time of the Closing, the statements and information contained in the Official Statement (as the same may be supplemented or amended with our approval) will be true and correct and such Official Statement will not omit any statement or information which should be included therein for the purposes for which the Official Statement is to be used or which is necessary to make the statements and information contained therein not misleading.

(b) For a twenty-five day period after the date of the Closing, if any event shall occur that would cause the Official Statement, as then supplemented or amended, to contain any untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and if in the Purchasers' opinion or that of the District such event requires the preparation and publication of a supplement or amendment to the Official Statement, the District will cause the Official Statement to be amended or supplemented in a form approved by the Purchasers. The Purchasers shall pay the cost of any such supplement or amendment.

6. (a) At 10:00 A.M., New York time, on September 1, 2005, or at such other time as shall have been mutually agreed upon by you and the undersigned, you will deliver, or cause to be delivered, the Bonds, to the undersigned through The Depository Trust Company, New York, New York ("DTC"), in definitive form, bearing proper CUSIP numbers, duly executed on

your behalf, together with the other documents hereinafter mentioned as delivered to the undersigned, and the undersigned, on behalf of the Purchasers, will accept such delivery and pay the balance of the purchase price of the Bonds as set forth in Section 1(a) hereof (after deducting the portion of the purchase price paid by the funds referred to in Section 3 hereof) by delivering to the District a wire transfer, or at the discretion of the District, a certified or official bank check or checks, for such balance payable in federal funds to the order of the District. The District shall apply the funds referred to in Section 3 hereof and in this Section 6(a) for the purpose stated in the Official Statement.

(b) Payment for the delivery of the Bonds as aforesaid shall be made at such place as agreed to by you and the Purchasers. Such payment and delivery is herein called the "Closing." The Bonds shall be prepared in fully registered, book-entry-only form and delivered to DTC in denominations of one Bond for each stated maturity in the aggregate principal amount thereof as set forth on the inside front cover of the Official Statement, and shall be made available to Bear, Stearns & Co. Inc., as representative of the Purchasers, at least one (1) business day prior to the Closing for purposes of inspection.

7. The obligations of the Purchasers hereunder shall be subject to the performance by the District of its obligations to be performed hereunder at and prior to the Closing, to the accuracy of the representations and warranties of the District herein as of the date hereof and the date of the Official Statement and as of the time of the Closing, and, in the discretion of the undersigned, to the following conditions:

(a) At the Closing, the Resolution shall be in full force and effect and shall not have been changed from the forms theretofore delivered to the undersigned except as may have been agreed to in writing by the undersigned, and you shall have adopted and there shall be in full force and effect such additional resolutions as shall, in the opinion of McCarter & English, LLP, as Bond Counsel, be necessary in connection with the transactions contemplated hereby.

(b) The Purchasers shall have the right to terminate their obligations under this Purchase Contract to purchase, to accept delivery of and to pay for the Bonds by notifying the District of their election to do so if, after the execution hereof and prior to the Closing:

(i) the marketability of the Bonds or the market price thereof, in the opinion of the undersigned, has been materially adversely affected by (A) an amendment to the Constitution of the United States; (B) any legislation (1) enacted by the United States, (2) recommended to the Congress or otherwise endorsed for passage, by press release, other form of notice or otherwise, by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or (3) presented as an option for consideration by either such Committee, by the staff of such Committee or by the staff of the Joint Committee on Taxation of the United States Congress, or favorably reported for passage to either House of the Congress by any Committee of such House or by a Conference Committee of both Houses to which such legislation has been referred for consideration; or (C) any decision of any court of the United States or by any ruling or regulation (final, temporary or proposed) on behalf of

the Treasury Department of the United States, the Internal Revenue Service or any other authority of the United States or any comparable legislative, judicial or administrative development affecting the federal tax status of the District, its property or income, or the interest on its bonds (including the Bonds);

(ii) there shall occur any outbreak of hostilities or any national or international calamity, crisis or emergency or other calamity or crisis, or an escalation of any thereof, the effect of which on the financial markets of the United States is, in the reasonable judgment of the undersigned, after consultation with the District, to materially adversely affect the market for the Bonds;

(iii) a general banking moratorium shall have been declared by federal, New York or Arizona authorities or a major financial crisis or a material disruption in commercial banking or securities settlement or clearances services shall have occurred which, in the reasonable judgment of the undersigned, would make the marketing of municipal revenue bonds generally impractical;

(iv) there shall have been any downgrading, suspension or withdrawal, or any official statement as to a possible downgrading, suspension or withdrawal of any rating by Moody's Investors Service Inc. or Standard & Poor's Rating Group of any securities issued by the District, including the Bonds;

(v) there shall exist any event which, in the reasonable judgment of the undersigned, either (A) makes untrue or incorrect in any material respect any statement or information contained in the Official Statement or (B) is not reflected in the Official Statement but should be reflected therein in order to make the statements and information contained therein, under the circumstances in which made, not misleading in any material respect; or

(vi) there shall be in force a general suspension of trading, minimum or maximum prices for trading shall have been fixed and be in force or maximum ranges for prices for securities shall have been required and be in force on the New York Stock Exchange or other national stock exchange.

(c) At the Closing, the undersigned shall receive the unqualified approving opinion of McCarter & English, LLP, as Bond Counsel, addressed to the undersigned and dated the day of the Closing, in substantially the same form attached as Appendix C to the Official Statement.

(d) At the Closing, the undersigned shall receive the unqualified opinion of McCarter & English, LLP, as Bond Counsel to the District, dated the date of Closing, to the effect that:

(i) the District has duly performed all obligations to be performed by it necessary for the issuance of the Bonds on or prior to the date of the Closing pursuant to the Resolution;

(ii) the terms and provisions of the Bonds and the Resolution conform as to form and tenor with the summary in the Official Statement;

(iii) this Purchase Contract, the Letter of Instructions and Escrow Deposit Agreement dated as of the date of Closing between the District and U.S. Bank National Association (the "Escrow Agreement"), and the Continuing Disclosure Agreement have been duly authorized, executed and delivered by the District and constitute valid and legally binding agreements upon the part of the District, in accordance with their terms;

(iv) the refunding of the Bonds To Be Refunded (being those bonds so defined in the Supplemental Resolution) is authorized by and complies with the terms of the Resolution and the Supplemental Resolution. Provision having been made for the payment of the Bonds To Be Refunded and the payment of interest thereon in accordance with the terms of the Supplemental Resolution, the Bonds To Be Refunded are no longer entitled to any lien on Revenues (as defined in the Resolution) under the Supplemental Resolution or the Amended and Restated Resolution Concerning Revenue Bonds. In rendering such opinion, Bond Counsel may rely on the letter of Bond Resource Partners, LP (the "Verification Agent") as set forth in Section 7(i) hereof;

(v) the Bonds are exempted securities within the meaning of Section 3(a)(2) of the Securities Act of 1933, as amended, and Section 304(a)(4) of the Trust Indenture Act of 1939, as amended, to the extent provided in such Acts, respectively; and it is not necessary in connection with the sale of the Bonds to the public to register the Bonds under the Securities Act of 1933, as amended, or to qualify the Resolution under the Trust Indenture Act of 1939, as amended; and

(vi) on the basis of the documents which have been reviewed, to the best of their knowledge, information contained in the Preliminary Official Statement and the Official Statement under the captions "INTRODUCTION," "PLAN OF FINANCE," "THE 2005 SERIES A BONDS" (as contained in the Preliminary Official Statement), "SECURITY FOR 2005 SERIES A BONDS" (as contained in the Preliminary Official Statement), "THE 2005 SERIES A BONDS" (as contained in the Official Statement), "SECURITY FOR 2005 SERIES A BONDS" (as contained in the Official Statement), "LEGALITY OF REVENUE BONDS FOR INVESTMENT," "TAX MATTERS" and the first paragraph under the caption "CONTINUING DISCLOSURE" and "Appendix B - Summary of the Resolution," with respect to legal matters relating to the District and its powers, and the statutes referred to therein, and legal and governmental proceedings, contracts and other documents, did not, as of the respective dates thereof and, with respect to the Official Statement, on the date of the Closing does not, contain any untrue statement of material fact and is not materially misleading and does not omit any statement which should be included or referred to therein in order to make the statements made, in light of the circumstances under which they are made, not misleading.

In rendering the foregoing opinions, it is understood that such counsel need express no opinion as to engineering, financial, technical or statistical information contained in the Preliminary Official Statement and the Official Statement, including the Appendices thereto.

(e) At the Closing, the undersigned shall receive the unqualified opinion of Jane D. Alfano, Corporate Counsel, dated the day of the Closing, to the effect that:

(i) the District has duly performed all obligations to be performed by it necessary for the issuance of the Bonds on or prior to the day of the Closing pursuant to the Resolution;

(ii) neither the execution or delivery by the District of this Purchase Contract, the Resolution, the Escrow Agreement or the Continuing Disclosure Agreement, nor the compliance by the District with the terms and conditions thereof, conflicts with or results in a breach of, or will conflict with or result in a breach of, any of the terms or provisions of any Arizona or federal law particularly applicable to the authority or powers of the District with respect thereto (but not including any provisions of Arizona law applicable to tax or securities matters or federal law applicable to tax or securities matters), in force on the date of such opinion, or (so far as is known to such counsel after inquiry with respect thereto) any regulation, order, writ, injunction or decree applicable to the District of any Arizona or federal court or governmental instrumentality, or results or will result in a breach of any of the terms or provisions of the petition for creation, as amended, of the District or any agreement or instrument to which the District is a party or by which the District is bound, or in any such case constitutes or will constitute a default thereunder, or results or will result in the creation or imposition of any mortgage, charge, pledge or other lien or encumbrance upon any of the properties or assets of the District other than the pledge contemplated by the Resolution;

(iii) all consents, approvals or other actions by or filings with any Arizona or federal governmental authority required for the execution and delivery by the District of this Purchase Contract, the Resolution, the Escrow Agreement and the Continuing Disclosure Agreement, and for the performance by the District of the transactions required thereby, have been duly obtained or made and are in full force and effect; and

(iv) on the basis of the documents which have been reviewed, to the best of her knowledge, the information in the Preliminary Official Statement and the Official Statement with respect to statutes, regulations (but not including any provisions of Arizona law applicable to tax or securities matters or federal law applicable to tax or securities matters), legal and governmental proceedings and contracts, did not, as of the respective dates thereof and, with respect to the Official Statement, as of the date of Closing does not, contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they are made, not misleading.

In rendering the foregoing opinions, it is understood that such counsel need express no opinion as to engineering, financial, technical or statistical information contained in the Preliminary Official Statement and the Official Statement, including the Appendices thereto.

(f) At the Closing, the undersigned shall receive the unqualified opinion of Jennings, Strouss & Salmon, P.L.C., legal advisors to the District, dated the day of the Closing, to the same effect as the certificate described in Section 7(j) hereof and to the effect that:

(i) the District owns and operates the Electric System (as defined in the Resolution and as existing on the date of Closing) and has good title to, or other valid

property rights necessary for the operation of the Electric System in, all properties comprising the Electric System, subject only to certain rights of the United States, the rights, if any, of the holders of Prior Lien Bonds (as defined in the Resolution) and certain other rights, none of which substantially impair the operation of the Electric System by the District or the security for the Bonds;

(ii) the District had the lawful power and authority to adopt the Resolution and the Supplemental Resolution and the provisions and covenants contained therein for the payment and security of the Bonds are valid and binding upon the District; and

(iii) no legislation has been enacted by the Arizona legislature adversely affecting in any manner the power and authority of the District to authorize, issue, execute and deliver the Bonds, the Continuing Disclosure Agreement, the Escrow Agreement or this Purchase Contract.

(g) At the time of the execution of this Purchase Contract and at the Closing, the undersigned shall receive a letter, dated the date of delivery thereof, of PricewaterhouseCoopers LLP, in substantially the form attached hereto as Annex B.

(h) At the Closing, the undersigned shall receive a letter, dated within five business days of the Closing, of PricewaterhouseCoopers LLP, stating that they consent to the use of their report dated June 7, 2005 for inclusion in Appendix A of the Preliminary Official Statement and the Official Statement.

(i) At the Closing, the undersigned shall receive a letter, dated the date of delivery thereof, of Bond Resource Partners, LP, the Verification Agent, stating that they have reviewed the accuracy of the mathematical computations (i) of the adequacy of the maturing principal of and interest earned on the government obligations held in escrow and invested cash, if any, to make timely payment of all the principal and redemption premium, if any, of and interest due with respect to the Refunded Bonds (as defined in the Official Statement), and (ii) relied upon by Bond Counsel in its determination of compliance with Section 148 of the Internal Revenue Code of 1986, as amended, and the applicable regulations and rulings promulgated thereunder or under Section 103(c) of the Internal Revenue Code as in effect prior to the Tax Reform Act of 1986.

(j) At the Closing, the undersigned shall receive a certificate, dated the date of the Closing, signed by the President or the Vice President and the General Manager or the Associate General Manager, Commercial & Customer Services and Chief Financial Executive, to the effect that, except as disclosed in the Official Statement, no litigation or other proceedings are pending or, to the knowledge of any of the signers of such certificate, threatened in any court or other tribunal of competent jurisdiction, State or Federal, in any way (i) restraining or enjoining the issuance, sale or delivery of any of the Bonds, or (ii) questioning or affecting the validity of this Purchase Contract, the Bonds, the Escrow Agreement, the Continuing Disclosure Agreement, the Resolution or the pledge by the District to the Trustee of any moneys or security provided under the Resolution, or (iii) questioning or affecting the validity of the proceedings for the authorization, sale, execution, registration or delivery of the Bonds, or (iv) questioning or affecting the organization of the Board of Directors of the District in office at any time on or prior to the date of the Closing or the legal or corporate existence of the District, or the title to

office of the directors or officers thereof, or materially adversely affecting any powers of the District under the statutes of the State of Arizona, including, without limitation, the power of the District to construct and operate its Electric System and to fix and collect rates, fees and other charges in connection therewith.

(k) At the Closing, the undersigned shall receive a certificate, dated the date of the Closing, signed by the President or the Vice President and the General Manager or the Associate General Manager, Commercial & Customer Services and Chief Financial Executive, to the effect that the statements and information contained in the Official Statement are true and correct in all material respects and the Official Statement does not omit any statement or information which should be included therein for the purpose for which the Official Statement is to be used or which is necessary to make the statements and information contained therein not misleading.

(l) Subsequent to the respective dates as of which information is given in the Official Statement and except as contemplated by the Official Statement, there shall not have been any change in the long-term debt of the District, or any decreases in the net current assets or accumulated net revenues of the District, or any decreases in the operating revenues or net revenues of the District, or any other change in the financial position or results of operations of the District, which, in the opinion of the undersigned, materially affects the market for the Bonds or the sale, at the contemplated offering price, by the Purchasers of the Bonds to be purchased by them.

(m) At or prior to the Closing, the undersigned shall have received evidence that the Bonds have received credit ratings of "Aa2" and "AA" from Moody's Investors Service, Inc. and Standard and Poor's Rating Group, respectively.

(n) At the Closing, the undersigned shall receive the opinion, dated the date of the Closing, of Winston & Strawn LLP, counsel for the Purchasers, with respect to the Bonds, the Official Statement and other related matters as the undersigned may reasonably require. In rendering such opinion, Winston & Strawn may rely as to all matters governed by Arizona law, including the creation and powers of the District, upon the opinion of Bond Counsel.

(o) At the Closing, the undersigned shall receive the opinion of Nixon Peabody LLP, as Special Tax Counsel to the District, addressed to the undersigned and dated the day of the Closing, in substantially the same form attached as Appendix C to the Official Statement.

(p) At the Closing, the Purchasers shall deliver an issue price certificate relating to the Bonds, dated the date of Closing, in form and substance satisfactory to Nixon Peabody LLP, Special Tax Counsel to the District.

(q) At the Closing, the undersigned shall receive a certificate, dated the date of the Closing, signed by an Authorized Officer (as defined in the Resolution) of the District, evidencing full compliance with the provisions of clauses (a) and (b) of subsection 1 of Section 2.04 of the Amended and Restated Resolution Concerning Revenue Bonds.

(r) At the Closing, the undersigned shall receive such additional certificates and other evidence as the undersigned may deem necessary to evidence the truth and accuracy as of the time of the Closing of the representations and warranties of the District herein contained and the

due performance and satisfaction by the District at or prior to such time of all agreements then to be performed and all conditions then to be satisfied by it, including a certificate or certificates as to the matters referred to in Section 7(1) hereof.

The Official Statement and the opinions and certificates and other evidence referred to above shall be in form and substance satisfactory to the undersigned.

If the District shall be unable to satisfy the conditions to the obligations of the Purchasers contained in this Purchase Contract, or if the obligations of the Purchasers shall be terminated for any reason permitted by this Purchase Contract, this Purchase Contract shall terminate and neither the Purchasers nor the District shall be under further obligation hereunder, except as provided in Section 8 hereof and except that the funds referred to in Section 3 hereof shall be returned to the undersigned by the District.

8. The Purchasers shall be under no obligation to pay any expenses incident to the performance of the obligations of the District hereunder. The District shall pay the fees and disbursements of Jennings, Strouss & Salmon, P.L.C., of McCarter & English, LLP, of PricewaterhouseCoopers LLP, of Public Financial Management, financial consultant to the District, and of any consultant or engineer in respect of any matters contemplated by this Purchase Contract not directly retained by the undersigned; the cost of printing or otherwise preparing and furnishing to the undersigned the documents specified in Section 4 hereof; the cost of preparation and issuance of the Bonds and any charges made by rating agencies for the rating of the Bonds. The District shall be under no obligation to pay any expenses incident to the performance of the obligations of the Purchasers hereunder. The Purchasers shall pay the cost of printing any supplement or amendment to the Official Statement made in accordance with Section 5(b) hereof, the cost of printing the Agreement Among Underwriters and Purchase Contract; the cost of all Blue Sky memoranda used by them; all advertising expenses in connection with the public offering of the Bonds; and the fees and disbursements of Winston & Strawn, counsel to the Purchasers.

9. Any notice or other communication to be given to the District under this Purchase Contract may be given by delivering the same in writing at its address set forth above, and any notice or other communication to be given to the Purchasers under this Purchase Contract may be given by delivering the same in writing to Bear, Stearns & Co. Inc., 383 Madison Avenue, 11th Floor, New York, New York 10179.

[*REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK*]

10. This Purchase Contract is made solely for the benefit of the District and the Purchasers (including the successors or assigns of any Purchaser) and no other person shall acquire or have any right hereunder or by virtue hereof. All the representations, warranties and agreements of the District and of the Purchasers in this Purchase Contract shall remain operative and in full force and effect and shall survive delivery of and payment for the Bonds hereunder and regardless of any investigation made by or on behalf of the Purchasers. The agreements in Sections 3 and 8 hereof shall survive any termination of this Purchase Contract.

BEAR, STEARNS & CO. INC.
MORGAN STANLEY & CO. INCORPORATED
CITIGROUP
GOLDMAN, SACHS & CO.
J.P. MORGAN SECURITIES INC.

By: Bear, Stearns & Co. Inc.,
as representative of the Purchasers

By: _____

Accepted by resolution adopted at
Tempe, Arizona, on August 19, 2005.

SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER DISTRICT

By: _____

NY:962050.3

Annex A to Purchase Contract

The Purchasers

BEAR, STEARNS & CO. INC.

MORGAN STANLEY & CO. INCORPORATED

CITIGROUP

GOLDMAN, SACHS & CO.

J.P. MORGAN SECURITIES INC.

Annex B to Purchase Contract

Procedures Letter of PricewaterhouseCoopers LLP

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NEW ISSUE **FULL BOOK-ENTRY**

In the opinion of Special Tax Counsel, under existing law and assuming compliance with the tax covenants described herein, and the accuracy of certain representations and certifications made by the District, interest on the 2005 Series A Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Special Tax Counsel is also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the 2005 Series A Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations. Special Tax Counsel is further of the opinion that, under existing law, interest on the 2005 Series A Bonds is exempt from income taxes imposed by the State of Arizona. See "TAX MATTERS" herein regarding certain other tax considerations.

$327,090,000
Salt River Project Agricultural Improvement and Power District, Arizona
Salt River Project Electric System Revenue Bonds, 2005 Series A

Dated: Date of Delivery **Due: January 1, as shown on inside cover**

The 2005 Series A Bonds are being issued pursuant to the Supplemental Resolution Dated September 10, 2001, which became effective January 11, 2003, Authorizing an Amended and Restated Resolution Concerning Revenue Bonds (the "Resolution"). The 2005 Series A Bonds, together with heretofore and hereafter issued Revenue Bonds, are payable from and secured by a pledge of and lien on all Revenues of the District from the ownership and operation of the Electric System after the payment of Operating Expenses.

The 2005 Series A Bonds will be issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2005 Series A Bonds. Individual purchases of interests in the 2005 Series A Bonds may be made in book-entry form only, in the principal amount of $5,000 or any integral multiple thereof. Purchasers of such interests will not receive certificates representing their interests in the 2005 Series A Bonds. Interest with respect to the 2005 Series A Bonds is payable January 1 and July 1 of each year, commencing January 1, 2006.

The principal of, redemption price, if any, and interest on the 2005 Series A Bonds are payable by U.S. Bank National Association, as Trustee, and interest will be payable by check mailed by the Trustee to the registered owner of each 2005 Series A Bond as of the immediately preceding December 15 and June 15. So long as Cede & Co. is the registered owner, the Trustee will pay such principal and redemption price, if any, of and interest on the 2005 Series A Bonds to DTC, which will remit such principal, redemption price, if any, and interest to its Direct Participants for subsequent disbursement to the Beneficial Owners of the 2005 Series A Bonds. The 2005 Series A Bonds are subject to optional and mandatory redemption as described herein. See "THE 2005 SERIES A BONDS — Redemption" herein.

The 2005 Series A Bonds do not constitute general obligations of the District or obligations of the State of Arizona, and no holder of any of the 2005 Series A Bonds has the right to compel the exercise of the taxing powers of the District to pay the 2005 Series A Bonds or the interest thereon.

This cover page contains certain information for quick reference only. It is not intended to be a summary of all factors relating to an investment in the 2005 Series A Bonds. Investors should read this Official Statement in its entirety before making an investment decision.

The 2005 Series A Bonds are offered when, as and if issued, and subject to the approval of legality by McCarter & English, LLP, Newark New Jersey, Bond Counsel. Certain legal matters will be passed upon for the District by Nixon Peabody LLP, Washington, D.C., Special Tax Counsel, and for the Underwriters by Winston & Strawn LLP, New York, New York. It is expected that the 2005 Series A Bonds will be available for delivery to DTC in New York, New York, on or about September 1, 2005.

Bear, Stearns & Co. Inc.
Goldman, Sachs & Co.

Morgan Stanley
Morgan Stanley & Co. Incorporated

Citigroup
JPMorgan

Dated: August 19, 2005

SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS
2005 Series A

$327,090,000

$40,995,000 Serial Bonds

Maturity (January 1)	Principal Amount	Interest Rate	Yield	CUSIP Number*
2027	$10,890,000	5.000%	4.170%**	79575DUF5
2028	$13,050,000	5.000%	4.190%**	79575DUG3
2029	$17,055,000	5.000%	4.210%**	79575DUH1

$246,095,000	5.000% Term Bonds Due January 1, 2035 — Yield 4.270%**	79575DUJ7
$40,000,000	4.750% Term Bonds Due January 1, 2035 — Yield 4.470%**	79575DUK4

* The CUSIP numbers shown above have been assigned to this issue by an organization not affiliated with the District and are included for the convenience of the holders of the 2005 Series A Bonds only. The District is not responsible for the selection of CUSIP numbers, nor is any representation made as to their correctness on the 2005 Series A Bonds or as indicated herein.

** Priced to the par call on January 1, 2016

MANAGEMENT OF THE DISTRICT

BOARD OF DIRECTORS

Larry D. Rovey	Robert G. Kempton
Clarence C. Pendergast, Jr.	Dale C. Riggins, Jr.
Elvin E. Fleming	Dwayne E. Dobson
Gilbert R. Rogers	William W. Arnett
Carl E. Weiler	Fred J. Ash
John M. White, Jr.	Wendy M. Hancock
Keith B. Woods	David Rousseau

PRINCIPAL OFFICERS AND OTHER EXECUTIVES

William P. Schrader	*President*
John M. Williams, Jr.	*Vice President*
Richard H. Silverman	*General Manager*
Terrill A. Lonon	*Corporate Secretary*
Steven J. Hulet	*Corporate Treasurer*
David G. Areghini	*Associate General Manager, Power, Construction & Engineering Services*
Mark B. Bonsall	*Associate General Manager, Commercial & Customer Services and Chief Financial Executive*
D. Michael Rappoport	*Associate General Manager, Public & Communications Services*
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Jane D. Alfano	*Corporate Counsel*
Richard M. Hayslip	*Manager, Environmental, Land and Risk Management*

CONSULTANTS

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Bond Counsel	*McCarter & English, LLP*
Special Tax Counsel	*Nixon Peabody LLP*
Financial Consultant	*Public Financial Management*

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy the 2005 Series A Bonds described herein in any jurisdiction to any person to whom it is unlawful to make such an offer. No dealer, broker, salesman or other person has been authorized by the Salt River Project Agricultural Improvement and Power District (the "District") or the Underwriters to give any information or to make any representations with respect to the 2005 Series A Bonds other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the District or the Underwriters.

The information set forth herein has been furnished by the District and other sources which are believed to be reliable. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or the Electric System since the date hereof.

THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

IN CONNECTION WITH THE OFFERING OF THE 2005 SERIES A BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2005 SERIES A BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME WITHOUT PRIOR NOTICE. THE UNDERWRITERS MAY OFFER AND SELL THE 2005 SERIES A BONDS TO CERTAIN DEALERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

This Official Statement contains forward-looking statements within the meaning of the federal securities laws. Such statements are based on currently available information, expectations, estimates, assumptions and projections, and management's judgment about the power utility industry and general economic conditions. Such words as expects, intends, plans, believes, estimates, anticipates or variations of such words or similar expressions are intended to identify forward-looking statements. The forward-looking statements are not guarantees of future performance. Actual results may vary materially from what is contained in a forward-looking statement. Factors which may cause a result different from those expected or anticipated include, among other things, new legislation, increases in suppliers' prices, particularly prices for fuel in connection with the operation of the Electric System, changes in environmental compliance requirements, acquisitions, changes in customer power use patterns, natural disasters and the impact of weather on operating results. The District assumes no obligation to provide public updates of forward-looking statements.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as they apply to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

SUMMARY STATEMENT

THIS SUMMARY STATEMENT IS SUBJECT IN ALL RESPECTS TO THE MORE COMPLETE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT AND SHOULD NOT BE CONSIDERED A COMPLETE STATEMENT OF THE FACTS MATERIAL TO MAKING AN INVESTMENT DECISION. THE OFFERING OF THE 2005 SERIES A BONDS TO POTENTIAL INVESTORS IS MADE ONLY BY MEANS OF THE ENTIRE OFFICIAL STATEMENT. CERTAIN TERMS USED HEREIN ARE DEFINED IN THIS OFFICIAL STATEMENT.

District: 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, plus mine loads in an adjacent 2,400 square mile area in Gila and Pinal Counties.

The 2005 Series A Bonds: The 2005 Series A Bonds are being offered in the principal amount per maturity and bearing interest at the rates set forth on the inside cover page of this Official Statement. The 2005 Series A Bonds are authorized pursuant to the Constitution and laws of the State of Arizona and in particular Article 7, Chapter 17, Title 8, Arizona Revised Statutes (the "Act") and the Amended and Restated Resolution Concerning Revenue Bonds, dated as of September 10, 2001, which became effective January 11, 2003 (the "Resolution").

Purpose of the 2005 Series A Bonds: The 2005 Series A Bonds are being issued to refund certain outstanding Revenue Bonds of the District and to finance capital improvements to the Electric System pursuant to the District's Capital Improvement Program (as hereinafter defined). The proceeds of the 2005 Series A Bonds also will be used to pay costs of issuing the 2005 Series A Bonds. See "PLAN OF FINANCE" and "SOURCES AND USES OF PROCEEDS" herein.

Security for the 2005 Series A Bonds: The 2005 Series A Bonds and all Revenue Bonds heretofore and hereafter issued will be payable from and secured by a pledge of lien on all Revenues derived by the District from the ownership and operation of the Electric System after the payment of Operating Expenses and payments required to be made under United States Government Loans heretofore and hereafter incurred by the District. Such pledge created by the Resolution is subject only to the provisions of the Resolution permitting the application of Revenues for the purposes and upon the terms and conditions set forth in the Resolution.

The District has covenanted in the Resolution not to issue any bonds or other obligations or create any additional indebtedness, which will have priority over the charge and lien on the Revenues pledged to the Revenue Bonds, except for United States Government Loans heretofore and hereafter incurred. The District currently has no United States Government Loans outstanding.

The District has covenanted in the Resolution to maintain the Debt Reserve Account at the Debt Reserve Requirement. In the past, the District, though not required to do so, has followed the practice of increasing the Debt Reserve Requirement at the time of

the issuance of additional Revenue Bonds to the Debt Reserve Requirement. At April 30, 2005, the balance in the Debt Reserve Account was $67,706,036. Upon the issuance of the 2005 Series A Bonds, the Debt Reserve Requirement will be approximately one-half the average annual interest on all outstanding Revenue Bonds.

The District has covenanted in the Resolution that, among other things, it will at all times maintain rates, fees or charges sufficient for the payment of Operating Expenses of the District and to pay the Debt Service on all Revenue Bonds.

The financial statements of the District and the Association (together "SRP") are presented on a combined basis. Management believes the financial information presented is not materially different from the presentation of the District on a stand-alone basis.

The 2005 Series A Bonds do not constitute general obligations of the District or obligations of the State of Arizona, and no holder of any of the 2005 Series A Bonds has the right to compel the exercise of the taxing powers of the District to pay the 2005 Series A Bonds or the interest thereon. See "SECURITY FOR 2005 SERIES A BONDS" herein.

Outstanding Indebtedness:

As of April 30, 2005, the District had a total of $3,020,526,000 outstanding long-term debt, computed without deducting the unamortized bond discount/premium, consisting of $2,244,446,000 Revenue Bonds and general fund debt of $776,081,000 consisting of $475,000,000 promissory notes sold in the tax-exempt commercial paper market and rental payments totaling $282,680,000, plus interest, to be made by the District pursuant to a Lease Purchase Agreement with Desert Basin Independent Trust. The promissory notes and the rental payments are payable from the District's general funds and do not have a lien on Revenues of the Electric System. See "SELECTED OPERATIONAL AND FINANCIAL DATA — Additional Financial Matters" herein.

The District has entered into certain long-term power purchase contracts that secure the Debt Service payments on certain bonds issued by another Arizona political subdivision. The amount thus secured at May 31, 2005 was $159.6 million.

Limitation on Additional Indebtedness:

The District is authorized to issue parity Revenue Bonds upon compliance with the provisions of the Resolution. See "Appendix B — Summary of the Resolution" attached hereto. The District may also issue at any time, or from time to time, evidences of indebtedness, which are payable out of Revenues and which may be secured by a pledge of Revenues, provided, however, that such pledge shall be, and shall be expressed to be, subordinate in all respects to the pledge of the Revenues created by the Resolution.

Authority to Set Electric Prices:

Under Arizona law, the District is authorized to set electric rates ("prices"). Although the Articles of Incorporation of the Association provide that the Secretary of the Interior may revise

such prices, the Secretary of the Interior has never requested any such revision. See "ELECTRIC PRICES" herein.

Service Area: The District's service area includes the major populated sections of Maricopa County, as well as portions of Pinal and Gila Counties. The District serves approximately 53% of the population living in the Phoenix-Mesa Metropolitan Statistical Area (the "Phoenix-Mesa MSA") and had an historic peak load of approximately 5,665 MW in August 2004. Nearly 50% of annual retail electric revenues are received from residential customers.

Transmission and Distribution Facilities: The District owns transmission and distribution systems in order to deliver electricity. These systems include both overhead and underground lines with voltage levels ranging from 12kV to 500kV. In addition, the District also has acquired rights on transmission systems owned by others. See "THE ELECTRIC SYSTEM — Existing and Future Resources" herein.

Power Supply Resources: The District's power supply resources are diversified and include generating facilities owned solely by the District, generating facilities in which the District has an ownership interest, and various power purchase contracts. See "THE ELECTRIC SYSTEM — Existing and Future Resources" herein.

Retail Competition: The District opened its entire service area to generation competition by electricity suppliers who had been approved by the Arizona Corporation Commission ("ACC") in June 2000 and opened the entire service area to competition in the areas of billing, collection, metering and meter reading on December 31, 2000. There has been no material adverse effect on the District as a result of such actions and there is no active retail competition within the District's service territory at this time. See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY — Competition in Arizona — *The Arizona Corporation Commission*" herein.

Continuing Disclosure: The District has covenanted in the Resolution to provide certain financial information and operating data relating to the Electric System and to provide notices of certain occurrences of certain enumerated events, if material, pursuant to the Continuing Disclosure Agreement. See "CONTINUING DISCLOSURE" herein and "Appendix D — Form of Continuing Disclosure Agreement" attached hereto.

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SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, ARIZONA

OFFICIAL STATEMENT

RELATING TO

$327,090,000

SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS, 2005 Series A

INTRODUCTION

General

The purpose of this Official Statement, which includes the cover page and the Appendices hereto, is to furnish certain information with respect to the Salt River Project Agricultural Improvement and Power District (the "District") and its Salt River Project Electric System Revenue Bonds, 2005 Series A (the "2005 Series A Bonds") to be issued by the District. The mailing address of the District's administrative offices is The Office of the Secretary, PAB215, Post Office Box 52025, Phoenix, Arizona 85072-2025 (telephone number 602-236-5900).

The following material is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this Official Statement and the Appendices hereto. Capitalized terms not defined in this introduction have the meaning ascribed thereto herein.

Authorization

Revenue Bonds, which include the 2005 Series A Bonds, are authorized pursuant to the Constitution and laws of the State of Arizona and, in particular, Article 7, Chapter 17, Title 48, Arizona Revised Statutes (the "Act") and the Amended and Restated Resolution Concerning Revenue Bonds, dated as of September 10, 2001, which became effective January 11, 2003 (the "Resolution"). Prior to the delivery of the 2005 Series A Bonds, the District's Board will have authorized the issuance of the 2005 Series A Bonds and the District's Council will have ratified and confirmed the District's action. See "THE 2005 SERIES A BONDS" herein and "Appendix B — Summary of the Resolution" attached hereto.

PLAN OF FINANCE

The District will issue the 2005 Series A Bonds to refund certain outstanding Revenue Bonds and to finance capital improvements to the Electric System pursuant to the District's Capital Improvement Program. The 2005 Series A Bonds will be issued under the Resolution. See "Appendix B — Summary of the Resolution" attached hereto. A portion of the proceeds of the 2005 Series A Bonds will be used to refund the outstanding Revenue Bonds of the District listed in "Appendix F — The Refunded Bonds" attached hereto (collectively, the "Refunded Bonds"). A portion of the proceeds of the 2005 Series A Bonds also will be used to pay the cost of issuance. See "SOURCES AND USES OF PROCEEDS" herein. The Refunded Bonds will be redeemed on the applicable redemption dates and at the applicable redemption prices, as shown in Appendix F attached hereto.

Upon delivery of the 2005 Series A Bonds, a portion of the proceeds of the 2005 Series A Bonds will be deposited, together with other available moneys, pursuant to an escrow deposit agreement (the "Escrow Deposit Agreement"), between the District and U.S. Bank National Association, as escrow agent (the "Escrow Agent"), to provide for the defeasance of all of the Refunded Bonds. The Escrow Deposit Agreement will create an irrevocable trust fund (the "Escrow Fund") to be held by the Escrow Agent and applied to the payment of the Refunded Bonds. Pursuant to the Escrow Deposit Agreement, amounts on deposit in the Escrow Fund will be either held as cash or invested in permitted Investment Securities, as such term is defined in the Escrow Deposit Agreement, which will mature as to principal and interest at such times and in such

amounts as will be sufficient, together with the cash on deposit in the Escrow Fund, to pay the redemption price of the Refunded Bonds and to pay interest on all the Refunded Bonds on and prior to the applicable Redemption Dates as set forth in Appendix F attached hereto. The Escrow Fund, including the principal of and interest earned on such Investment Securities, will be pledged solely for the benefit of the holders of the applicable series of Refunded Bonds. The Investment Securities and cash on deposit in the Escrow Fund will not secure the 2005 Series A Bonds and will not be available to pay the principal of or interest on the 2005 Series A Bonds.

Upon issuance of the 2005 Series A Bonds, the Refunded Bonds to be redeemed prior to maturity will be irrevocably designated for redemption as described above and will not be subject to redemption prior to the applicable redemption dates set forth in Appendix F attached hereto.

THE 2005 SERIES A BONDS

General

The 2005 Series A Bonds will be issued in the principal amount of $327,090,000 and will be dated and bear interest from the date of delivery. The 2005 Series A Bonds will mature on the dates and in the principal amounts, and bear interest, payable on January 1 and July 1 of each year, commencing January 1, 2006, at the respective rates shown on the inside cover page of this Official Statement. The principal of, redemption price, if any, and interest on the 2005 Series A Bonds are payable by U.S. Bank National Association (the "Trustee"), and interest thereon will be payable by check mailed by the Trustee to the registered owner of each 2005 Series A Bond as of the immediately preceding December 15 or June 15.

Book-Entry Only System

The 2005 Series A Bonds will be issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2005 Series A Bonds. Individual purchases of interests in the 2005 Series A Bonds will be made in book-entry form only, in the principal amount of $5,000 or any integral multiple thereof. Purchasers of such interests will not receive certificates representing their interests in the 2005 Series A Bonds. So long as Cede & Co. is the registered owner of the 2005 Series A Bonds, the Trustee will make payments of principal and redemption price, if any, of and interest on the 2005 Series A Bonds directly to DTC, which will remit such principal, redemption price, if any, of and interest to the Beneficial Owners (as hereinafter defined in "Appendix D — Form of Continuing Disclosure Agreement") of the 2005 Series A Bonds, as described herein. See "Appendix E — Book-Entry Only System" attached hereto.

Redemption

Mandatory Sinking Fund Redemption — 2005 Series A Bonds. The 5.00% 2005 Series A Bonds maturing on January 1, 2035 are subject to mandatory redemption prior to maturity, upon random selection within a maturity by the Trustee, by operation of the Debt Service Fund to satisfy the Sinking Fund Installments required by the Series Resolution, on and after January 1, 2033 at 100% of the principal amount of such 2005 Series A Bonds to be redeemed together with accrued interest up to, but not including,

the redemption date. Such Sinking Fund Installments will be sufficient to redeem such 5.00% 2005 Series A Bonds on the dates and in the principal amounts shown below.

Sinking Fund Payment Date (January 1)	Principal Amount
2033	$78,340,000
2034	$52,190,000
2035	$115,565,000*

The 4.75% 2005 Series A Bonds maturing on January 1, 2035 are subject to mandatory redemption prior to maturity, upon random selection within a maturity by the Trustee, by operation of the Debt Service Fund to satisfy the Sinking Fund Installments required by the Series Resolution, on and after January 1, 2033 at 100% of the principal amount of such 2005 Series A Bonds to be redeemed together with accrued interest up to, but not including, the redemption date. Such Sinking Fund Installments will be sufficient to redeem such 4.75% 2005 Series A Bonds on the dates and in the principal amounts shown below.

Sinking Fund Payment Date (January 1)	Principal Amount
2033	$13,000,000
2034	$8,500,000
2035	$18,500,000*

* Payment at Maturity

The District may satisfy the Sinking Fund Installments by delivering to the Trustee 2005 Series A Bonds of such maturities theretofore purchased or redeemed by the District otherwise than by sinking fund redemptions.

Optional Redemption. The 2005 Series A Bonds are subject to redemption prior to their stated maturity, at the election of the District, in whole or in part, by random selection within a maturity with the same coupon by the Trustee from maturities selected by the District, at any time on or after January 1, 2016 at the redemption price of 100% of the principal amount of the 2005 Series A Bonds, or portion thereof to be redeemed, together with accrued interest on, but not including the redemption date.

Notice of Redemption. Notice of redemption will be given to the Bondholders by mail to the registered owners as of the date of the notice of the 2005 Series A Bonds to be redeemed, postage prepaid, not less than 25 days nor more than 50 days prior to the redemption date.

Registration and Transfer Upon Discontinuation of Book-Entry Only System

U.S. Bank National Association will act as bond registrar ("Bond Registrar"), transfer and paying agent for the 2005 Series A Bonds. If the book-entry only system were discontinued, the following provisions would apply. A 2005 Series A Bond may be transferred on the bond register maintained by the Bond Registrar upon surrender of the 2005 Series A Bond at the principal corporate trust office of the Bond Registrar, accompanied by a written instrument of transfer, in form satisfactory to the Bond Registrar, signed by the registered owner or a duly authorized attorney for the registered owner. Upon surrender for transfer at the principal corporate trust office of the Bond Registrar, any 2005 Series A Bond may be exchanged for 2005 Series A Bonds of the same aggregate principal amount, maturity date and interest rate, of any authorized denomination. The Bond Registrar will not be obligated to transfer or exchange any 2005 Series A Bonds during the 15 days preceding the date on which notice of redemption of a 2005 Series A Bond is to be mailed or any 2005 Series A Bond

that has been called for redemption except the unredeemed portion of any 2005 Series A Bond being redeemed in part.

SOURCES AND USES OF PROCEEDS

The sources and uses of funds with respect to the 2005 Series A Bonds, are as follows:

Sources of Funds	
Principal Amount of 2005 Series A Bonds	$327,090,000.00
Original Issue Premium	18,534,167.90
Equity	361,666.67
Total Sources of Funds	$345,985,834.57
Uses of Funds	
Construction Fund	$300,005,158.59
Deposit in the Escrow Fund for payment of the Refunded Bonds	43,830,652.03
Cost of Issuance (including Underwriters' Discount)	2,150,023.95
Total Uses of Funds	$345,985,834.57

SECURITY FOR 2005 SERIES A BONDS

General

The Revenue Bonds, including the 2005 Series A Bonds, are payable from and secured by a pledge of and lien on Revenues. Revenues are defined in the Resolution as (i) all revenues, income, rents and receipts derived by the District from the ownership and operation of the Electric System and the proceeds of any insurance covering business interruption loss relating to the Electric System and (ii) interest received on any moneys or securities (other than in the Construction Fund) held pursuant to the Resolution and paid into the Revenue Fund, but not including any such income or receipts attributable directly or indirectly to the ownership or operation of any Separately Financed Project and not including any federal or state grant monies the receipt of which is conditioned upon their expenditure for a particular purpose.

In addition, the Revenue Bonds, including the 2005 Series A Bonds, are also secured by all funds held under the Resolution. Such pledge created by the Resolution is subject only to the provisions of the Resolution permitting the application of Revenues for the purposes and upon the terms and conditions set forth in the Resolution.

The 2005 Series A Bonds will not constitute general obligations of the District or obligations of the State of Arizona, and no holder of Revenue Bonds, including the 2005 Series A Bonds, will ever have the right to compel any exercise of the taxing powers of the District to pay the Revenue Bonds or the interest thereon.

SRP's financial statements are presented on a combined basis. Management believes the financial information presented is not materially different from the presentation of the District on a stand-alone basis.

Debt Reserve Account

The Debt Reserve Account is a reserve fund for the equal benefit of all Revenue Bonds Outstanding under the Resolution. Moneys in the Debt Reserve Account (except any excess over the Debt Reserve Requirement that the District may allocate and apply in the same manner as Revenues) will be used solely for the purpose of curing any deficiency in the Debt Service Fund for the payment of principal, interest or sinking fund payments pursuant to the Resolution.

In the past, the District, though not required to do so, has followed the practice of increasing the Debt Reserve Requirement at the time of issuance of additional Revenue Bonds to equal the Debt Reserve

Requirement. At April 30, 2005, the balance in the Debt Reserve Account was $67,706,036. Upon issuance of the 2005 Series A Bonds, the Debt Reserve Requirement will be approximately one-half the average annual interest on all outstanding Revenue Bonds.

Rate Covenant

The District covenants in the Resolution that it will charge and collect rates, fees and other charges for the sale of electric power and energy and other services, facilities and commodities of the Electric System as shall be required to provide revenues and income (including investment income) at least sufficient in each fiscal year for the payment of the sum of (i) Operating Expenses during such fiscal year, including reserves, if any, provided therefor in the Annual Budget for such year; (ii) an amount equal to the Aggregate Debt Service for such fiscal year; (iii) the amount, if any, to be paid during such fiscal year into the Debt Reserve Account in the Debt Service Fund; and (iv) all other charges or liens whatsoever payable out of revenues and income during such fiscal year and, to the extent not otherwise provided for, all amounts payable on Subordinated Indebtedness. See "ELECTRIC PRICES" herein.

Limitations on Additional Indebtedness

The District has covenanted in the Resolution not to issue any bonds or other obligations or create any additional indebtedness, which would have priority over the charge and lien on the Revenues pledged to the Revenue Bonds except for U.S. Government Loans heretofore or hereafter incurred. The Resolution does not restrict the amount of U.S. Government Loans the District may incur, which would have a prior lien on Revenues. There are no outstanding U.S. Government Loans.

The District may issue additional parity Revenue Bonds in compliance with the Resolution if, among other things, (i) Revenues Available for Debt Service, as the same may be adjusted, of any 12 consecutive calendar months out of the 24 calendar months next preceding the issuance of such additional Revenue Bonds are not less than 1.10 times the maximum total Debt Service for any succeeding fiscal year on all Revenue Bonds that will be outstanding immediately prior to the issuance of the additional Revenue Bonds, and (ii) estimated Revenues Available for Debt Service, as the same may be adjusted, for each of the five fiscal years immediately following the issuance of such additional Revenue Bonds are not less than 1.10 times the total Debt Service for each such respective fiscal year on all Revenue Bonds outstanding immediately subsequent to the issuance of such additional Revenue Bonds.

Subordinated Indebtedness

The District may, at any time, or from time to time, issue evidences of indebtedness which are payable out of Revenues and which may be secured by a pledge of Revenues provided, however, that such pledge shall be and shall be expressed to be, subordinate in all respects to the pledge of the Revenues, moneys, securities and funds created by the Resolution. See "Appendix B — Summary of the Resolution" attached hereto.

Other Covenants

In addition to the rate covenant described above, the Resolution includes covenants by the District with respect to the sale and/or lease of the Electric System, the operation and maintenance of the Electric System, and certain other matters. See "Appendix B — Summary of the Resolution" attached hereto.

THE DISTRICT

General

The District is an agricultural improvement district organized in 1937 under the laws of the State of Arizona. It operates the Salt River Project (the "Project"), a federal reclamation project, under contracts with the Salt River Valley Water Users' Association (the "Association") by which it has assumed the obligations of the Association to the United States of America for the care, operation and maintenance of the Project. The District owns and operates an electric system (hereinafter described) which generates, purchases, transmits and distributes electric power and energy, and provides electric service to residential, commercial, industrial and agricultural power users in a 2,900 square mile service territory in parts of Maricopa, Gila and Pinal Counties, plus mine loads in an adjacent 2,400 square mile area in Gila and Pinal Counties. The Association operates an irrigation system as the District's agent.

History

The Association, predecessor of the District, was incorporated under the laws of the Territory of Arizona in February 1903 to represent the owners and occupants of lands to be benefited by the Project, which was one of the first projects authorized under the Federal Reclamation Act of 1902. In 1904, the Association and the United States entered into a contract in which the United States agreed to construct and operate dams, power plants and other facilities incident to the operation of irrigation and power works and improvements, and the Association agreed to repay the cost thereof. Initially, the United States constructed, operated and maintained Roosevelt Dam and Granite Reef Dam, which diverted impounded water into a canal system to supply irrigation water to the irrigable lands within the Project. In 1917, the Association entered into a contract with the United States to assume the care, operation and maintenance of the Project (the "1917 Agreement").

On January 25, 1937, the District was formed to secure for the Project the rights, privileges and exemptions granted to political subdivisions of the State of Arizona. Pursuant to a contract approved by the Secretary of Interior in 1937 (the "1937 Agreement"), the Association transferred all of its right, title and interest in and to the works and facilities of the Project to the District. The District agreed to assume the debt of the Association and to issue District bonds to finance capital improvements. The Association agreed to continue to operate and maintain the water supply and irrigation system and the Electric System. In 1949, the 1937 Agreement was amended to provide that the District would assume responsibility for the construction, operation and maintenance of the Electric System and the irrigation and water supply system. The District delegated to the Association, as agent of the District, the direct operation and maintenance of the irrigation system of the Project.

The United States retains a paramount right or claim in the Project that arises from the original construction and operation of certain of the Project's electric and water facilities as a federal reclamation project. Although title to a substantial portion of the District's property, including those properties acquired pursuant to the 1917 Agreement, resides in the United States, the District possesses contractual rights to the use, possession and revenues of these properties through its agreement with the Association, the 1917 Agreement, subsequent contractual arrangements with the United States, and applicable federal reclamation law. From time to time, the Department of Interior performs audits of the Project. In addition, the District seeks approval from the Department of Interior for certain transactions such as the issuance of revenue bonds and the payment of in-lieu taxes.

Generation and sale of electrical power and energy represent the major portion of the District's investment and revenues. Following a long-standing reclamation principle, a portion of electric revenues available after the payment of Operating Expenses and Debt Service required under the Resolution is used to provide partial support for water and irrigation operations, thereby keeping water storage, distribution and delivery charges at reasonable levels.

Organization, Management and Employees

The District and the Association are each governed by a Board and a Council. The Boards establish the policies for management and conduct of the business affairs of the District and the Association. The Councils enact and amend by-laws relating to management and act as a liaison with the landowners. The General Manager of the District has management responsibilities for both the District and the Association.

The Board of Governors of the Association, elected from among the shareholders (landowners), consists of the President, Vice President and ten members, half being elected biennially for four-year terms. The Board of Directors of the District, elected from among the electors (landowners) for four-year terms, consists of the President and Vice President and fourteen members, half being elected biennially for four-year terms. The President and Vice President are elected at large by electors of the District. Ten of the District's Board members, the President, and the Vice President are elected by votes weighted in proportion to the amount of land owned by each elector. The remaining four Board members are elected at large, with each elector (landowner) being entitled to one vote.

The Councils for both the Association and the District each consist of thirty members. Three Council members from each of the ten district areas of the Association, and three Council members from each of the ten division areas of the District, are elected biennially for four-year terms. One half of each of the Association and the District Councils are elected biennially. All Council members are elected by votes weighted in proportion to the amount of land owned by each shareholder (Association) or elector (District).

As of April 30, 2005, District and Association full-time employees (full-time equivalent) totaled approximately 4,336, including approximately 1,882 hourly employees represented by the International Brotherhood of Electrical Workers, Local 266. The present labor contracts expire on November 15, 2005. The District expects to commence negotiations in September 2005.

Economic and Customer Growth in the District's Service Area

The District serves approximately 55% of the population living in the Phoenix-Mesa Metropolitan Statistical Area ("Phoenix-Mesa MSA"). As the governmental and economic center of Arizona, the Phoenix-Mesa MSA continues to attract the largest percentage of the state's residents, businesses, and income. It contains approximately 64% of the state's population, and over two-thirds of its total employment and total personal income.

The Phoenix-Mesa MSA has experienced strong economic growth since the recession of the early 1990's. The 2000 Census revealed that growth was higher than previously estimated. From 1990 to 2000, population in Maricopa County increased by 950,000, a 45% growth rate. This growth was fueled by positive net migration due to the area's healthy growth in jobs. While there was some slowing in job growth during 2001 and 2002, the Phoenix-Mesa MSA continues to benefit from strong population growth, with an estimated additional 430,000 people moving to Maricopa County between 2002 and 2004. Although the Phoenix-Mesa MSA experienced declines in total employment growth in 2002, positive growth returned in 2003 and in 2004, job growth accelerated to 3.4% per year and is expected to continue to strengthen in 2005. Average population growth is expected to decline gradually to approximately 3.0% annually from the 3.5% to 4.0% range reached in the mid 1990's.

Table 1 summarizes several key economic statistics over recent years.

TABLE 1 — Historical Growth Statistics

Year	State of Arizona Population (thousands) (1)	Phx-Mesa MSA Population (thousands) (1)	Phx-Mesa MSA Non-Agricultural Wage & Salary Employment (thousands) (2)	Phx-Mesa MSA Residential Permits (3)	Phx-Mesa MSA Personal Income ($ billions) (4)
1999	4,924	3,079	1,525	47,713	83.9
2000	5,131	3,252	1,578	45,310	93.0
2001	5,320	3,379	1,598	46,100	97.1
2002	5,473	3,489	1,596	47,899	101.4
2003	5,630	3,598	1,620	54,860	106.3
2004	5,834	3,744	1,675	64,259	NA

(1) State of Arizona, Department of Economic Security and Maricopa County Association of Governments, as of July 1 of each year, except for 2000, which are April Census numbers. Population numbers for 1997-1999 and 2001-2004 are estimated.

(2) State of Arizona, Department of Economic Security.

(3) U.S. Census Bureau, "Housing Units Authorized By Building Permits"; 2004 is preliminary.

(4) U.S. Bureau of Economic Analysis

As shown above, from 1999 through 2004, 149,900 new jobs were created in the Phoenix-Mesa MSA, an increase of approximately 10%, or 2.0% per year. Employment growth has been healthy as evidenced by the employment sectors below:

Phoenix-Mesa MSA Employment

Year	Construction	Manufacturing	Trade	Professional and Business Services	Leisure and Hospitality
1999	118,300	161,400	253,600	248,000	146,800
2000	123,300	161,100	264,000	264,100	149,700
2001	128,300	153,200	265,800	259,400	152,500
2002	126,100	137,500	266,400	253,500	153,500
2003	129,300	130,900	269,500	258,600	156,000
2004	140,100	130,600	279,300	270,900	160,600

Source: State of Arizona, Department of Economic Security.

For 2004, the largest sectors were trade at 17% and professional and business services at 16% of total employment. Government's share was 13%. The education and health services sector and leisure and hospitality sector made up 10% each. The construction, manufacturing and financial activities were 8% each. Other services, transportation, warehousing, and utilities, information, and mining and natural resources made up the remaining 10%.

Employment growth in the area has historically compared favorably to national figures. From 1999 through 2004 employment increased an estimated 10% for the Phoenix-Mesa MSA and the state, while the national figure was 2%. Unemployment rates for the Phoenix-Mesa MSA are typically below the national

average. Seasonally adjusted unemployment rates for the Phoenix-Mesa MSA, Arizona, and the United States are listed below:

Comparative Unemployment Rates

	December 2004	December 2003
Phoenix-Mesa MSA	4.0%	4.8%
Arizona	4.5%	5.3%
United States	5.4%	5.7%

Source: US Department of Labor, Bureau of Labor Statistics. Rates are seasonally adjusted.

Strong population growth continues to drive the retail market. Retail space vacancy rates declined from 16.3% for 1990 to 5.3% for 2000. Vacancy rates rose to approximately 7.4% in 2003 due to mergers in the grocery industry and closures of some big-box retailers. Vacancy rates dropped during 2004 to 6%. The District anticipates that retail construction and net absorption will continue to be strong in 2005 as the local economy continues to improve. Office vacancy rates dropped below 11% in 2000 from highs in the mid-twenty percent range in the early 1990s. The slowing economy raised office vacancy rates to approximately 20% in 2002. Rates have fallen since 2002, with 2005 seeing a significant improvement in the office market. In the first quarter of 2005, vacancy rates fell to 15%, with some submarkets experiencing rates as low as 13%. Industrial real estate activity was also strong in 2004, with high levels of absorption and activity, and falling vacancy rates. During the first quarter of 2005, vacancy rates fell to below 8% for the first time since 2001.

The Phoenix-Mesa MSA is home to several corporate headquarters: America West Holding Corporation (America West Airlines), ASARCO, Allied Waste, AVNET, Best Western International, Del Webb Corporation, Insight Enterprises, PETsMart, Phelps Dodge, U-Haul, and Viad. In addition, American Express Company, The Prudential Insurance Company of America, State Farm Mutual, Sentry Insurance Co. and Southwest Airlines have regional offices in the Phoenix-Mesa MSA.

The Phoenix economy is still recovering from the recent recession, with job growth remaining below historical averages. Despite this fact, the Phoenix-Mesa MSA ranked fourth in the nation for total job creation in 2004 and third for total housing permits. This strong comparative performance, combined with a relatively affordable cost of living, continues to drive local population growth. During the first quarter of 2005, job growth accelerated to approximately 4%, bringing the economy back to average growth rates.

The District's customer growth and energy sales are driven by population growth and regional economic health. For the six-year planning horizon, customer growth is forecasted to slow gradually to 2.7% annually from the 3.3% experienced over the last several years. This equates to a growth rate of approximately 27,000 customers annually, with most of the growth occurring in the residential and commercial classes.

See "SELECTED OPERATIONAL AND FINANCIAL DATA — Customers, Sales, Revenues and Expenses" herein.

Irrigation and Water Supply System

A historic and continuing justification of the Project lies in providing a stable and economic water supply. Agriculture in the plains and valleys of south-central Arizona almost wholly depends upon irrigation due to the low annual rainfall.

The major portion of the revenue of the District's Electric System is derived from within the boundary of the water service area of the Project. The Project provides the water supply for an area of approximately 248,200 acres located within the major portions of the Cities of Phoenix, Avondale, Glendale, Mesa, Tempe, Chandler, Gilbert, Peoria, Scottsdale and Tolleson.

The surface water supply for the water service area of the Project is runoff from a watershed consisting of 13,000 square miles and is stored in six reservoirs operated by the Association, four of which are located on

the Salt River and two on the Verde River. Additional water is provided by the Association's deep-well pumps located within the boundaries of the Project's water service area.

The available water supply is important due to its influence on the economy in the area. Since the construction of the dam and reservoir system, the Project has always had sufficient water supply to meet the demands for urban, industrial and agricultural uses within its boundaries. The District's management believes that under established water rights relating to water use and assuming a continuation of historical precipitation and usage patterns, the area within the Project water service boundaries has a dependable and assured water supply.

Water from underground sources is important in Arizona, and in periods of lower runoff on the watershed more groundwater must be pumped to meet demand. Due to well location, timing of demands, groundwater contamination, and pump maintenance requirements, delivery capability is limited to 300,000 to 350,000 acre-feet per year. Over the past 15 years, annual pumping has ranged from 44,500 acre-feet to 318,100 acre-feet. The Association has a contingency plan to manage its supply and demand in periods of water shortage, which includes increased pumping and reductions in water allocations. Additionally, during the current drought, the Association has been able to supplement its water supplies through the use of water from the Central Arizona Project, which has been available for purchase or exchange. Even so, due to the severity of the drought in the Southwest, the Association had reduced the allocation of water to its shareholders and to the valley cities by one-third for calendar years 2003 and 2004. For 2005, abundant winter watershed precipitation and runoff has refilled reservoirs sufficiently to allow the Association to make full surface water-only deliveries to its shareholders; however, some projections indicate continued drought.

The Association operates 250 wells under a federal permit issued by the U.S. Environmental Protection Agency ("EPA") pursuant to the permit program for the National Pollutant Discharge Elimination System. The permit restricts the use of wells having organic chemical contamination above the permit levels. The number of restricted wells may vary by two or three each year as the contamination plume moves away or new contamination is discovered. Approximately 5% of the wells are not in operation for various reasons, including permit restrictions, and voluntary agreements to facilitate the study and remediation of contaminated groundwater in the area.

See "THE ELECTRIC SYSTEM — Existing and Future Resources — Jointly Owned Generation Facilities — Palo Verde Nuclear Generating Station," and "LITIGATION — Water Rights" for a discussion of additional matters relating to irrigation and water supply.

Telecommunication Facilities

The District has installed or acquired through exchanges with other utilities and telecommunications carriers approximately 45,000 strand-miles of fiber optic cable to support communication activities for its water and electric utility operations. Approximately 60% of the available capacity in this system is surplus to its needs. The District has entered into license agreements with telecommunications carriers, such as Electric Lightwave, LLC, SBC Communications and MCI, among others, to market this excess capacity and receives approximately $4.5 million per year in revenue from this activity.

Because the District has an extensive electrical distribution system, it has numerous locations that are of interest to wireless telecommunication providers for transmitter sites. The District actively pursues this business opportunity and now has approximately 130 sites where antennae, ground facilities or other telecommunication equipment have been located. These sites generate approximately $4.5 million per year in revenue.

Papago Park Center

Papago Park Center is a mixed-use commercial development located on land owned by the District adjacent to its administrative offices. The District accumulated this land over a number of years for use by the District. The District constructed a 360,000 square foot facility in Papago Park Center, which is utilized principally by personnel and equipment in the information systems, planning, marketing and financial services

departments of the District. The 2006 through 2011 Capital Improvement Program does not include funds for additional office buildings. The District's long-range plan includes the private development of portions of Papago Park Center (the "Private Development Area").

The District has entered into a 100-year lease of a portion of the Private Development Area with Papago Park Center, Inc. ("PPCI"), a wholly-owned, incorporated, and taxable subsidiary of the District. Payments under the lease are related to the development and performance of the Private Development Area. Private development activity in the Private Development Area has steadily increased since 1996. Lease payments to the District were $2.02 million and $1.86 million in fiscal years 2005 and 2004, respectively.

New West Energy Corporation

In 1997, the District established a wholly-owned, taxable subsidiary, New West Energy Corporation ("New West Energy"), to market, at retail, energy available to the District that was surplus to the needs of its retail customers, and energy that might have been rendered surplus in Arizona by retail competition in the supply of generation. However, as a result of the turmoil in the western energy markets, New West Energy discontinued marketing excess energy in 2001, although it may resume this activity in the future. New West Energy now primarily supports the District's energy services activities in Arizona.

New West Energy abides by the same laws and regulations as similarly situated entities. Changes in laws and regulations related to implementation of retail competition in Arizona are referred to in "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY — Competition in Arizona" herein. The District's Board has authorized $15 million in capital contributions to New West Energy, all of which have been funded. The financial statements of New West Energy and the District are consolidated. The District is authorized to issue guarantees on behalf of New West Energy in connection with certain sales up to an aggregate amount of $70 million. No guarantees are in place as of the date of this Official Statement. See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY — District's Position Regarding Utility Industry Developments — Energy Risk Management Program" herein.

THE ELECTRIC SYSTEM

Area Served

The District provides electrical service to major populated sections of Maricopa County, as well as portions of Pinal and Gila Counties. Except the City of Mesa, all of the cities within the District's service areas are served in part by the District and in part by Arizona Public Service Company ("APS"). By agreement between the District and APS, the urban areas and the adjacent suburban areas now served by the District's distribution system will continue to be so served even though the latter may be annexed to a city in the future. The District also provides power directly for mining load requirements, principally in Pinal and Gila Counties.

See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY — Competition in Arizona" herein for a discussion of legislation permitting competition in generation service, billing, metering, and meter reading.

Projected Peak Loads and Resources

The District annually estimates its future sales of energy by taking into account customer growth, changes in customer usage patterns and historic, as well as projected, weather data. The resource portfolio is examined to determine the expected sources of power and energy that may be used to supply the estimated system requirements.

The projections in Table 2 represent the District's estimate of the most probable components of system peak loads and resources for fiscal years 2006 through 2011. The projections reflected therein are consistent with industry-wide experience and provide the basis for the District's current year operating budget. However, they are based on certain assumptions that, if not realized, may adversely affect such projections.

The projections shown in Table 2 do not reflect any sales of excess capacity other than sales pursuant to existing agreements. The resources in excess of peak load are expected to be generally gas- and oil-fired resources, which are the District's most expensive resources to operate.

TABLE 2 — Projected Peak Loads and Resources (MW)

	Fiscal Years Ending April 30,					
	2006	2007	2008	2009	2010	2011
Annual Peak: (MW)(1)(2)						
Retail System Requirements(3)(4)(5)	5,880	6,100	6,320	6,540	6,770	7,010
Sales for Resale	724	734	594	606	619	448
Total Peak Load(6)	6,604	6,834	6,914	7,146	7,389	7,458
Resources:						
Hydroelectric	271	271	271	271	271	271
Thermal						
Gas and/or Oil	2,635	2,910	2,910	2,910	2,910	2,910
Coal(7)	2,069	1,789	1,789	1,789	2,069	2,069
Nuclear	645	657	657	672	672	672
Solar and Renewables	4	4	4	4	4	4
Purchased:						
Federal Hydro Power	245	245	245	245	245	218
CAWCD/Navajo Surplus(8)	699	697	695	695	695	695
AEPCO	100	100	100	100	100	100
TEP	100	100	100	100	100	100
Tri-State — Tri-State Generation and Transmission Association, Inc.(9)	0	0	100	100	100	100
Purchased Renewables	76	76	86	86	61	61
Other Existing	192	293	129	129	129	29
Other New	300	425	600	850	850	1,075
Total Resources	7,325	7,567	7,686	7,951	8,206	8,304
Total Resources in Excess of Total peak Load	721	733	772	805	817	846
Planned Reserve Percentage(10)	12.2	12.1	12.3	12.3	12.0	12.1

(1) The forecasts were made in the fall of 2004, which was the beginning of the annual planning period.

(2) Peak normally occurs in the June through September months of the prior calendar year (the beginning months of the fiscal year).

(3) The non-discriminatory access language in the Electric Power Competition Act requires the District to be able to meet all distribution area loads under 100,000 kWh, even if some retail customers elect to be served by others. No District retail customers are being served by others.

(4) Peak demand has been reduced by the cumulative impact of conservation programs that the District has sponsored for more than a decade.

(5) Interruptible loads are not included in retail system requirements or in the reserves calculation because these loads are not expected to be on line during the peak.

(6) The peak load value is the total peak load occurring coincident with the District's system peak requirements.

(7) The coal value assumes that the Mohave Generating Station is not available to provide peaking capacity for the peak projected in fiscal year 2007 through 2009. Solely for purposes of this table, Mohave is projected to return to service in July 2009. See "THE ELECTRIC SYSTEM — Existing and Future

Resources — *Mohave Generating Station*" for a discussion of matters relating to the Mohave Generating Station.

(8) Navajo Surplus is electrical capacity and energy made available to the District from the entitlement in Navajo Generating Station that the United States Bureau of Reclamation holds for the purpose of supplying the power requirements of the Central Arizona Project when such amount is surplus. See "SELECTED OPERATIONAL AND FINANCIAL DATA — Customers, Sales, Revenues and Expenses — *Contractual Obligations Relating to Bonds of Other Political Subdivisions*" for a further discussion of this arrangement.

(9) The District entered into a 30-year agreement with Tri-State to purchase 100 MW of capacity from Springerville Unit 3 once it is in service.

(10) Cannot be derived solely from the information set forth in Table 2.

Reserve Targets

The District plans the addition of new generation based on a 12% reserve target. Because of the restructuring of the electric utility industry and the significant financial exposure associated with carrying excess reserves, the District has decided that a 12% reserve target represents an optimal planning target that balances both economics and reliability.

Existing and Future Resources

The District has various resources available to it that permit it to provide electricity in its service area. The resources include the generating facilities owned solely by the District, generating facilities in which the District has an ownership interest, and the District's ability to enter into agreements with others to purchase power.

Economic Viability of Existing Generation Assets. The existing generation assets have been and will continue to be an integral part of the District's long-term resource plans. These generating stations historically have achieved high availability and low forced outage rates as compared to industry averages. This performance can largely be attributed to prudent operational and maintenance practices. Sustaining and improving this performance will be achieved by continuing a focused effort on preventative, predictive and corrective maintenance activities. By combining these practices with the ongoing application of engineering and technology improvements the District will ensure that the future economic and operational value of existing assets is maintained.

Summary of Existing Power Sources during the fiscal year ended April 30, 2005. The District's largest source of energy during the fiscal year ended April 30, 2005 was thermal generating facilities, which supplied 66.9% of the District's total production. Hydroelectric generation provided 2.3% of production with 1.0% coming from the District's own hydroelectric plants and 1.3% coming from purchases from the Arizona Power Authority ("APA"), and the United States Department of Energy, Western Area Power Administration ("WAPA"). The remaining 30.8% came from various other purchases and renewable resources. Table 3 provides more detail on District power sources.

TABLE 3 — Fiscal Year 2005 District Power Sources

	Capability (MW) (1)	Net Production Amount (MWh) (2)	Net Production % of Total
District Generation:			
One Hundred Percent Entitlement — Hydroelectric:			
Roosevelt Dam	36	39,049	0.1
Mormon Flat Dam	68	104,506	0.3
Horse Mesa Dam	149	218,315	0.6
Stewart Mountain Dam	13	23,927	0.1
Canal Plant (Crosscut)	3	1,200	0.0
Canal Plant (South Consolidated)	1	323	0.0
Arizona Falls	1	2,378	0.0
Subtotal	271	389,698	1.0
One Hundred Percent Entitlement — Thermal:			
Kyrene (steam)	106	4,952	0.0
Kyrene (Gas Turbine)	165	7,466	0.0
Kyrene (Combined Cycle)	250	913,658	2.4
Agua Fria (steam)	407	262,618	0.7
Agua Fria (Gas Turbine)	219	21,390	0.1
Santan (Combined Cycle)	368	655,331	1.7
Desert Basin (Combined Cycle)	570	2,589,218	6.8
Coronado Generating Station	773	5,703,279	15.1
Subtotal	2,858	10,157,912	26.8
One Hundred Percent Entitlement — Solar:			
Solar	—(3)	554	0.0
Alternative Fuels — Tri-cities landfill	4	15,233	0.0
Subtotal	4	15,787	0.0
Participation Entitlements — Thermal:			
Navajo Generating Station	489	3,825,774	10.1
Four Corners Generating Station Units 4 & 5	148	1,167,363	3.1
Mohave Generating Station	280	2,178,461	5.8
Hayden Generating Station Unit No. 2	131	964,236	2.5
Craig Generating Station Units 1 & 2	248	2,062,181	5.4
Palo Verde Nuclear Generating Station	647	4,950,737	13.1
Subtotal	1,943	15,148,752	40.0
Purchases and Receipts(4):			
APA — Arizona Power Authority	68(5)	107,140	0.3
WAPA — Colorado River Storage Project	67(6)	253,233	0.7
WAPA — Parker-Davis Dams	32(7)	149,069	0.4
WAPA — CAWCD/Navajo Surplus	691(8)	2,447,067	6.5
AEPCO — Arizona Electric Power Cooperative	100	812,460	2.1
TEP — Tucson Electric Power Company	100	785,253	2.1
Others	1,276(9)	7,588,335	20.0
Subtotal	2,334	12,142,557	32.1
TOTAL(10)	7,410	37,854,706	100.0

(1) Load capability during summer system peak. Winter capability may be greater.

(2) Actual net production during the fiscal year ended April 30, 2005. Energy for pumped storage operation is not deducted.

(3) Solar (photovoltaic) units have a combined, nominal capability of 375kW.

(4) Purchase and receipt capabilities vary month to month. Listed are the capabilities for the peak month.

(5) Includes 35 MW wheeled for certain electrical/irrigation districts.

(6) Includes 10 MW wheeled for certain electrical/irrigation districts.

(7) 32 MW available from March through September and 23 MW available from October through February.

(8) Net of Central Arizona Water Conservation District ("CAWCD") pumping load and losses totaling 48 MW that occurred coincident with system peak.

(9) Short term purchases.

(10) Totals may not add correctly due to rounding.

Desert Basin Generating Station. The District had a ten-year Power Purchase Agreement ("PPA") that commenced on or about November 2001 with Reliant Energy Desert Basin, LLC ("Reliant") for the purchase of 575 MW of capacity produced at the Desert Basin Generating Station ("Desert Basin") located in central Arizona. The PPA provided the District with certain options to extend the agreement beyond the initial ten-year term. In December 2003, the District transferred title to Desert Basin Independent Trust ("DBIT"), a Delaware statutory trust, pursuant to a Lease Purchase Agreement (the "Lease Purchase Agreement") to provide a portion of the permanent financing for Desert Basin. In a concurrent transaction, DBIT issued $282,680,000 aggregate principal amount of Certificates of Participation ("Certificates") evidencing direct undivided interests in rental payments made by the District pursuant to the Lease Purchase Agreement. A portion of the proceeds from the sale of the Certificates was used to satisfy the bridge loan used to acquire Desert Basin. The acquisition of Desert Basin resulted in the cancellation of the PPA and the District operates Desert Basin consistent with its other thermal resources. The District projects that the acquisition of Desert Basin will provide savings to the District through a net reduction in annual fixed costs related to the plant. See "SELECTED OPERATIONAL AND FINANCIAL DATA — Additional Financial Matters" for further discussion of the financing of Desert Basin.

Jointly Owned Generation Facilities. The District has an ownership interest in six generating facilities. The percent participation of the District and the other participants in these facilities is set forth in Table 4. Additional information about each facility follows Table 4.

TABLE 4 — District Participation Interests in Existing Generating Facilities (1)

	Navajo Generating Station	Four Corners Generating Station Units 4 & 5	Mohave Generating Station	Hayden Generating Station Unit 2	Craig Generating Station Units 1 & 2	Palo Verde Nuclear Generating Station
Project Capabilities						
Total Continuous Load Capabilities (MW)	2,250	1,570(2)	1,580(3)	262	856	3,825(4)
Project Participants						
The District	21.7%	10.0%	20.0%(5)	50.0%	29.0%	17.5%
Arizona Public Service Company ("APS")	14.0	15.0	—	—	—	29.1
Department of Water & Power, Los Angeles ("LADWP")	21.2	—	10.0(5)	—	—	5.7
El Paso Electric Company ("El Paso")	—	7.0	—	—	—	15.8
Nevada Power Company ("NPC")	11.3	—	14.0	—	—	—
Platte River Power Authority	—	—	—	—	18.0	—
PacifiCorp.	—	—	—	12.6	19.3	—
Public Service Company of Colorado ("PSCo")	—	—	—	37.4	9.7	—
Public Service Company of New Mexico ("PNM")	—	13.0	—	—	—	10.2
Southern California Edison Company ("SCE")	—	48.0	56.0	—	—	15.8
Southern California Public Power Authority ("SCPPA")	—	—	—	—	—	5.9
Tri-State Generation and Transmission Association, Inc. ("Tri-State")	—	—	—	—	24.0	—
Tucson Electric Power Company ("TEP")	7.5	7.0	—	—	—	—
U.S. Bureau of Reclamation ("USBR")	24.3(6)	—	—	—	—	—
Total Percentage	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Generally, if a default by any participant in the payment or performance of an obligation under a participation agreement continues without having been cured or without the participant having commenced and continued to cure the default, then the non-defaulting participants may suspend the right of the defaulting participant to receive its capacity entitlement. In case of default, (1) each non-defaulting participant will bear a portion of the operation and maintenance costs otherwise payable by the defaulting participant in the ratio of the non-defaulting participant's respective capacity entitlement to the total capacity entitlement of all non-defaulting participants, and (2) the defaulting participant will be liable to the non-defaulting participants for all costs incurred by the non-defaulting participants pursuant to (1) and for all costs in operating the project at a reduced level of generation brought about by the reduction of the capacity entitlement of the defaulting participant. USBR's participation interest in the Navajo Generating Station is not subject to these suspension procedures, but USBR is obligated to bear its proportionate share of the operation and maintenance costs of any defaulting participant in the Navajo Generating Station. Currently there are no defaulting participants.

(2) Amount shown is maximum capability. Normal continuous load capability is 1,480 MW.

(3) Amount shown is maximum capability. Normal continuous load capability is 1,400 MW.

(4) Amount shown is maximum capability. Normal continuous load capability is 3,705 MW.

(5) The District on November 30, 2001, acquired half (10%) of LADWP's share of the Mohave Generating Station increasing its ownership share to 20%.

(6) The District holds legal title to this percentage of the Navajo Generating Station for the use and benefit of USBR.

Craig Generating Station Units 1 & 2. The District owns 29% of Craig Generating Station Units 1 & 2, which are operated by Tri-State. The two 428 MW coal-fired generating units commenced operations in 1981 and 1979, respectively. The Craig Generating Station Units 1 & 2 are located in the Yampa Valley near the City of Craig in northwestern Colorado. The District's entitlement to power and energy from Craig Generating

Station Units 1 & 2, like the power and energy from Four Corners Generating Station Units 4 & 5 and Hayden Generating Station Unit 2, is subject to a displacement arrangement with WAPA. Power and energy is delivered to WAPA and used for WAPA's customers located in Colorado, New Mexico, Utah and Wyoming. WAPA delivers a similar amount of power and energy to the District from the Glen Canyon Hydroelectric Generating Station. This is a displacement arrangement that reduces transmission investment, operating expenses and energy losses both for WAPA and for the District.

Four Corners Generating Station Units 4 & 5. The Four Corners Generating Station Units 4 & 5, operated by APS, are located on the Navajo Indian Reservation near Shiprock, New Mexico. The District owns 10% of Units 4 and 5, two 785 MW (maximum capability) coal-fired generating units, which commenced operations in 1969 and 1970, respectively. Coal comes from area mines located on the Navajo Indian Reservation.

See "THE ELECTRIC SYSTEM — Existing and Future Resources — Fuel Supply — Coal, Oil and Natural Gas" for comments relating to the coal supply for the Four Corners Generating Station Units 4 & 5.

See "THE ELECTRIC SYSTEM — Environmental Matters — Navajo Generating Station and Four Corners Generating Station Units 4 & 5" for a discussion of administration of federal environmental laws by Indian tribes.

See "LITIGATION — Environmental Issues" for a discussion of certain Navajo environmental laws.

Hayden Generating Station Unit 2. The District owns 50% of Hayden Generating Station Unit 2, a 262 MW coal-fired generating unit, which commenced operations in 1976 and is located in Hayden, Colorado. Public Service Company of Colorado ("PSCo") is the operating agent. PSCo is an operating company within Xcel Energy.

See "THE ELECTRIC SYSTEM — Existing and Future Resources — Fuel Supply — Coal, Oil and Natural Gas" for comments relating to the coal supply for the Hayden Generating Station Unit 2.

Navajo Generating Station. The Navajo Generating Station ("NGS"), located on the Navajo Indian Reservation near Page in Northern Arizona, consists of three 750 MW coal-fired, steam-electric generating units. The units commenced commercial operations in 1974, 1975 and 1976, respectively. The facility also includes an electric railroad for fuel delivery and 500 kV transmission lines and switching stations to deliver the power and energy to the various participants. The District owns 21.7% of NGS and is the operating agent of the generating station and the railroad. The NGS coal supply is surface-mined and delivered from the Kayenta Mine, which is located on the Navajo and Hopi Indian Reservations in Northern Arizona.

See "THE ELECTRIC SYSTEM — Environmental Matters — Navajo Generating Station and Four Corners Generating Station Units 4 & 5" for a discussion of environmental considerations with respect to NGS, and administration of federal environmental laws by Indian tribes.

See "THE ELECTRIC SYSTEM — Existing and Future Resources — Fuel Supply — Coal, Oil and Natural Gas", "LITIGATION — Coal Supply" for discussions relating to the NGS coal supply, and "LITIGATION — Environmental Issues" for a discussion of certain Navajo environmental laws.

Mohave Generating Station. The District owns 20% of the Mohave Generating Station ("Mohave"), which is operated by SCE and which consists of two 790 MW coal-fired units. Mohave commenced operations in 1971 and is located in Clark County, Nevada, on the Colorado River. Fuel is supplied by a slurry pipeline from the Black Mesa Mine located on the Navajo and Hopi Indian Reservations in Northern Arizona.

In 1999, SCE, the District, NPC, and LADWP (the "Mohave Participants") entered into a settlement with the Sierra Club that requires the installation of certain pollution abatement equipment by the end of 2005 for the plant to be operated as a coal-fired electric generating facility. In addition, the initial term of the agreement to supply coal to Mohave will expire at the end of 2005 and the Hopi Tribe has demanded that the pumping of water for the slurry pipeline serving Mohave cease. The Mohave Participants have refused to commit to install the pollution abatement equipment without reasonable assurance that water will be available to enable the delivery of coal to the plant. Consequently, the plant will cease operations at the end of 2005 for

some extended period of time. The federal government and other interested parties have executed a memorandum of understanding providing funding for a feasibility study and environmental report for an alternative water supply. See "THE ELECTRIC SYSTEM — Projected Peak Loads and Resources — Table 2, Footnote 7" for a discussion of matters relating to Mohave.

The District has included approximately $243 million in its Capital Improvement Program to cover the costs of such equipment or alternate resources, if necessary. Although the Mohave Participants and the Tribe are trying to reach a settlement, it is not certain if, and when, a resolution will be reached. The District has already replaced a portion of the energy and is considering several options for replacing the balance of the capacity if Mohave is not reopened.

If the negotiations are not successful and the Mohave Participants are unable to secure an extension for the life of Mohave, the Board has authorized the recovery of the balance of the District's investment in Mohave in its revenue requirements over the remainder of the scheduled useful life of the plant. Consequently, it was determined that the plant's carrying value would not be realized through future revenues and a write-down of its carrying value of $66.2 million was recorded in fiscal year ended April 30, 2003, and an additional $5.2 million and $6.6 million of impairment was recorded in fiscal years ended April 30, 2005 and April 30, 2004, respectively. In accordance with accounting standards for rate-regulated enterprises (SFAS No. 71), a regulatory asset was established for $78.0 million, based on the District's expectation that any unrecovered book value at the end of calendar 2005 would be recovered in future rates, pursuant to the aforementioned Board resolution.

See "THE ELECTRIC SYSTEM — Existing and Future Resources — Fuel Supply — Coal, Oil and Natural Gas" and "LITIGATION — Coal Supply" for a discussion of matters relating to the coal supply for Mohave.

Palo Verde Nuclear Generating Station. The District owns 17.49% of the Palo Verde Nuclear Generating Station ("PVNGS"), located near Wintersburg, Arizona, which consists of three approximately 1,270 MW pressurized water nuclear generating units. APS is the project manager and operating agent. The District declared Units 1, 2 and 3 in commercial operation in 1986, 1986, and 1988, respectively.

The steam generators in Unit 2 were replaced in 2003. Replacement steam generators have been purchased for Units 1 and 3 and are expected to be installed in the fall of 2005 and 2007, respectively. The District has included approximately $50 million for the Unit 1 and 3 replacements in its current Capital Improvement Program. The installation of the steam generators is expected to produce a 55 MW net upgrade (9.5 MW SRP share) to each of the three units at PVNGS.

See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY — Nuclear Plant Matters" for a discussion of liability issues.

Purchased Power. The District supplies a portion of its energy and demand requirements with purchased power from several sources as shown in Table 3. In fiscal year 2005, approximately 12.1% of the District's energy requirements were met with long-term power purchases. An additional 20.0% was met with short-term purchases.

The District has multiple long-term contracts to purchase WAPA power. The expiration dates of these contracts span the period from September 30, 2008 to September 30, 2024. In fiscal year 2005, a total of 858 MW peak capacity was available under various contracts with APA, CRSP, the Parker-Davis Project, and the CAWCD.

The District has long-term power purchase contracts with AEPCO and TEP. Each contract provides for the District to purchase 100 MW of firm power. The expiration dates of these contracts are in fiscal years 2011 and 2012, respectively.

See "SELECTED OPERATIONAL AND FINANCIAL DATA — Customers, Sales, Revenues and Expenses — Contractual Obligations Relating to Bonds of Other Political Subdivisions" herein.

See "LITIGATION — Gas Supply" for a discussion of fuel supply issues.

Future Resources. The District evaluates its options for obtaining reliable resources on a lowest possible cost basis. In addition to the potential future resource options described below, the District balances short-term and long-term energy purchases, refinements to its conservation programs, building its own new generation and ventures with other plant developers to acquire the output from other plants being constructed. Arizona and many other western states have either deferred or reexamined the implementation of deregulation of the electric industry. As a result, certain merchant generators are seeking buyers for sales of power from, or purchases of, their plants, both in operation or under construction. Consistent with its acquisition of the Desert Basin Project, the District continues to evaluate these developments, which could potentially include the acquisition of other existing generation facilities.

Santan Generating Station. In 2001, the Arizona Corporation Commission ("ACC") approved a certificate of environmental compatibility ("CEC") for a proposed expansion of the District's Santan Generating Station in the Town of Gilbert. The first phase was placed into commercial operation in April 2005 and will provide approximately 550MW of energy to meet District energy requirements. The second phase currently under construction is scheduled to be operational in the summer of 2006, and will bring the total capacity of the expansion project to 825MW.

Springerville Generating Station. In 2001 the District entered into an agreement with UniSource Energy Development Company ("UniSource") for the joint development of two additional coal-fired generating units (Units 3 and 4), approximately 400 MW each in size, to be located at the existing Springerville (Arizona) Generating Station. Under an amendment to such agreement, dated October 20, 2003, the District entered into a 30-year power purchase agreement (the "PPA") to purchase 100 MW of capacity from Unit 3, which is being developed by Tri-State. Unit 3 is anticipated to be placed in service during the latter half of 2006. In addition, the District received the right to construct the fourth unit (Unit 4) at any time during the term of the PPA. The District holds such rights in a wholly-owned, taxable limited liability company, Springerville Four, LLC. However, if the District has not issued a construction notice by December 31, 2015, and for so long as the District has not issued a construction notice thereafter, UniSource and Tri-State each have the right to repurchase the development rights from the District at an established price. UniSource's affiliate, TEP, will operate both units.

Transmission. Electricity from the District's diversified generation resource mix is delivered to customers over a complex and reliable transmission system, which is integrated into the grid that connects transmission lines in the West. The District owns transmission systems that deliver electricity from its generating resources to its loads. However, when it was not prudent to build a new transmission system, the District has acquired contract rights on transmission systems owned by others. In addition to utilizing its transmission system to deliver electricity from its generating resources, the District uses its transmission system to access generation resources produced by others when the District's load is greater than its resource capability, to sell excess electricity, and to transmit energy for others when surplus transmission capacity is available.

The District worked with other utilities in Arizona, New Mexico, Colorado, Wyoming and Texas to develop a regional transmission organization ("RTO") known as WestConnect RTO, LLC ("WestConnect"). In 2004, the District and other WestConnect utilities decided to put RTO development on hold and instead focus on development and implementation of regional wholesale market enhancements that improve the market for wholesale energy and transmission as it exists today. The WestConnect utilities include both Federal Energy Regulatory Commission ("FERC") jurisdictional and non-jurisdictional entities in Southern California, Arizona, New Mexico, Colorado, Wyoming and far West Texas. Wholesale market enhancements developed and implemented to date include wesTTrans.net, a common Western OASIS platform that is now used by 20 transmission providers throughout the Western Interconnection, a formalized subregional transmission planning process, and a process for periodic stakeholder review of transmission providers' total transfer capability and available transfer capability methodology and calculations.

The District and other Arizona utilities initiated a regional transmission study known as CATS (Central Arizona Transmission System) to evaluate the mid and long-term high voltage transmission facility needs in central Arizona. The District is involved in specific projects resulting from the study, and plans to seek licenses

for those transmission projects that provide direct benefits to the District's customers. In May 2004, the District received a Certificate of Environmental Compatibility ("CEC") from the Arizona Corporation Commission for the Palo Verde to Pinal West Project, a 51-mile long 500kV transmission line and associated terminations. The CEC provides the District with the authority to acquire right-of-way and construct the transmission line. The District applied for a CEC from the Arizona Corporation Commission for another project, Pinal West to Browning, a 100 mile long 500kV transmission line, in October 2004. Public hearings have been held and the District anticipates receiving a CEC on the second project in the third quarter of 2005.

Fuel Supply. The District's projected use of fuel and other energy sources by type is shown on the following table, which summarizes the District's various sources of energy assuming the most efficient utilization of the facilities expected to be available for the dates indicated.

TABLE 5 — Summary of Projected Energy Sources
(expressed as a percentage of total sources)

Fiscal Year Ending April 30,	Hydro(1)	Gas/Oil	Coal	Nuclear	Renewables	Long Term Purchases	Other Purchases
2006	4.2%	18.1%	43.8%	14.5%	0.1%	11.6%	7.7%
2007	4.0%	19.8%	39.6%	14.8%	0.1%	11.1%	10.5%
2008	4.0%	20.9%	38.5%	14.2%	0.1%	10.7%	11.6%
2009	4.0%	22.6%	37.1%	14.4%	0.1%	10.0%	11.8%
2010	3.7%	22.7%	39.7%	13.7%	0.1%	9.4%	10.8%
2011	3.5%	23.0%	40.4%	13.5%	0.1%	8.6%	10.9%

(1) Includes hydro purchases.

Coal. Hayden Generating Station Unit 2, NGS, Four Corners Generating Station Units 4 & 5, Mohave, and Craig Generating Station Units 1 & 2 are coal-fired generating units. The coal supply contract for the Four Corners Generating Station has been extended to July 2016. The coal supply contract for Mohave expires at the end of 2005, for NGS in April 2011, and for the Hayden Generating Station at the end of 2011. The two coal supply contracts for the Craig Generating Station expire July 1, 2014 and December 31, 2017, respectively. The District believes it will be able to obtain coal from these or other sources for the remainder of the depreciable life of each plant. Approximately 20% of the coal requirements for Units 1 & 2 of the Craig Generating Station are purchased periodically through spot market solicitations. See "THE ELECTRIC SYSTEM — Existing and Future Resources — *Mohave Generating Station*" for further discussion of the Mohave Generating Station.

For calendar years 2005 and 2006, coal for the Coronado Generating Station ("CGS") will be supplied equally under the two agreements, one with Kennecott Coal Sales Company ("Kennecott"), which expires at the end of 2015, and the other with Pittsburg & Midway Coal Mining Co. ("P&M"), which expires at the end of 2006. For years 2007 through 2015, Kennecott will provide the coal required by CGS up to an 81% capacity factor, with anything above that being obtained from the spot market. The District is assessing further coal supply options in the future and believes it can continue to meet the coal requirements for CGS. The stockpiles of coal for all coal-fired generating stations are at or above acceptable levels for normal operations.

There are a number of disputes involving either litigation or arbitration concerning the coal supply agreements at the NGS and Mohave. The District does not believe that these disputes will have material adverse effects on its operations or financial condition. However, final resolution of any of these disputes cannot be predicted at this time. See "LITIGATION — Coal Supply" for additional discussion of coal supply litigation or arbitration.

Oil and Natural Gas. The District utilizes natural gas almost exclusively to fuel its oil or gas-fired units in the Phoenix-Mesa MSA and plans to continue to do so as long as natural gas remains available at costs that are economically favorable over other alternatives. The District purchases natural gas pursuant to energy risk

management policies and trading strategies. These policies and strategies are designed to minimize price, credit and operational risk while ensuring that gas is available in sufficient quantity to meet demands of the retail and wholesale electricity customers of the District.

Natural gas price hedging is primarily accomplished through the use of financial instruments such as exchange-traded futures and options contracts and "over the counter" swaps and options contracts. Hedging activities focus on a rolling two to three year period into the future relative to the District's retail customer demand. See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY — District's Position Regarding Utility Industry Developments — Energy Risk Management Program" herein, for a discussion of the District's Risk Management Program.

Natural gas is purchased on the forward and spot markets. Natural gas storage contracts are utilized to balance supply and demand as well as help manage price risk and ensure reliable delivery. Natural gas is delivered to the District's generating facilities via a transportation contract with El Paso Natural Gas Company ("El Paso"). See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY — Natural Gas" and "LITIGATION — Natural Gas Supply" for matters relating to natural gas contracts.

Nuclear. The nuclear fuel cycle for PVNGS is comprised of the following stages: the mining and milling of uranium ore to produce uranium concentrates; the conversion of uranium concentrates to uranium hexafluoride; the enrichment of uranium hexafluoride; the fabrication of fuel assemblies; the utilization of fuel assemblies in reactors; and the storage and disposal of spent fuel. APS, on behalf of APS, the District, EPE, SCE, PNM, SCPPA, and LADWP (the "Palo Verde Participants"), has procured under contract 100% of the materials and services required to provide uranium concentrates through the year 2008, 100% of the requirements for conversion services through 2008, 100% of the requirements for the enrichment services through 2010, and 100% of the requirements for fabrication services through 2016. APS is examining uranium supplies and fuel conversion and enrichment services to reduce future risks associated with any single component of the supply chain and to better position the Palo Verde Participants when the existing contracts begin to expire.

See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY — Nuclear Plant Matters" herein, which includes further discussion on spent nuclear fuel.

Insurance and Liability Matters

The liability exposure of electric utilities has generally increased over time as the diversity and number of claims and resulting awards have increased. Electric utility insurance needs have increased accordingly in the areas of coverage and policy limits. In general, over the long-term, the commercial insurance market has not satisfied these increased needs. The commercial insurance market is highly cyclical, with cycles characterized by periods of increasing limits and coverage with lower deductibles, followed by periods of coverage and limit restrictions, higher deductibles and, in some cases, non-renewals or cancellations. As a result, several industry mutual companies have been formed to serve the coverage and limit requirements of the industry, and the District has placed a majority of its liability and directors and officers insurance with such mutual carriers to ensure long-term stability of its insurance programs. The District does continue to place some liability coverages in the commercial market.

Insurance for boiler and machinery and property risks in the past was obtained primarily from the commercial market, but an increasing portion of that coverage is now being placed with industry mutual companies. The District believes it has adequate coverage and limits, although insurer competition in the commercial market has been declining due to increasing utility loss experience, consolidation of insurers and declining investment income. These factors, as well as losses in connection with the destruction of the World Trade Center, have resulted in higher premiums and deductibles and restricted limits and coverage. The District intends to continue the use of commercial carriers to insure machinery and property risks and to expand the use of industry mutual insurance companies to the extent adequate capacity is available. In response to the tragic events at the World Trade Center in New York on September 11, 2001, the District has taken security measures beyond those normally in effect to protect its Electric System and other assets.

Environmental Matters

General. The District's policy is to conduct its operations in compliance with all applicable federal, state, tribal, and local laws, regulations, and rules relating to the environment.

See "THE ELECTRIC SYSTEM — Environmental Matters — Navajo Generating Station and Four Corners Generating Station Units 4 & 5" below for a discussion of administration of federal environmental laws by Indian tribes.

Waste Management. Many normal activities in connection with the operation of the Project generate hazardous and non-hazardous wastes. Federal, state, and local laws and regulations governing waste management impose strict liability for cleanup costs and damages resulting from hazardous substance release or contamination, regardless of time or location, on those who generate, transport, store, treat, or dispose of hazardous wastes. At any given time, various Project facilities may be subject to inspection by federal, state, or local regulatory authorities to determine compliance with laws and regulations pertaining to hazardous and non-hazardous waste management, and Project facilities may be included in studies of contaminated sites by federal and state regulatory authorities. The District has established a plan for managing hazardous waste to ensure compliance with applicable laws and regulations, and independently assesses its facilities to determine whether there is any contamination resulting from its activities. From time to time the District and the Association receive inquiries from regulatory authorities about the status of various contaminants at the District's facilities, and respond as appropriate.

Water Quality. Arizona has an extensive regulatory system governing water quality, including a permit program for discharges, that could affect groundwater, and a superfund program to clean up groundwater contamination. Eight state superfund sites have been established within the greater Phoenix metropolitan area. Preliminary reports have identified District facilities as possible sources of contamination for some of these sites. The impact, in terms of cost and operational problems, to the District of the reports or laws and regulations pertaining to water quality cannot be quantified at this time.

See "THE DISTRICT — Irrigation and Water Supply System" above for a discussion of well remediation activities.

See "THE ELECTRIC SYSTEM — Environmental Matters — Navajo Generating Station and Four Corners Generating Station Units 4 & 5" below for a discussion of administration of federal environmental laws by Indian tribes.

See "LITIGATION — Environmental Issues — *Superfund Site*" for discussion of the Motorola 52nd Street Superfund site.

Air Quality. In common with other electric utilities and industries, the District is subject to federal, state, and local standards to control air quality. These standards substantially increase the cost of, and add to the difficulty of siting, constructing, and operating electric generating units. At the locations of the principal generating units now in operation, the relatively high quality of the air and proximity to large national parks, monuments, wilderness areas and Indian reservations may subject the District to particularly stringent control standards. Visibility issues may also impact operations at District facilities and are being closely monitored by the District. The full significance of air quality standards to the District in terms of cost and operational problems is difficult to predict, but it is possible that costly equipment will have to be added to units now in operation. In addition, permit fees may increase significantly.

See "THE ELECTRIC SYSTEM — Environmental Matters — Navajo Generating Station and Four Corners Generating Station Units 4 & 5" below for a discussion of administration of federal environmental laws by Indian tribes.

Navajo Generating Station and Four Corners Generating Station Units 4 & 5. Certain environmental laws, including the Clean Air Act (the "CAA"), the Clean Water Act, and the Safe Drinking Water Act, contain provisions pursuant to which Indian tribes may be treated as states for purposes of administering programs under those acts. The EPA has issued rules for approval of various tribal programs, which allow tribes to seek approval to regulate all lands within the exterior boundaries of the tribe's reservation. The

Navajo Nation has obtained EPA approval to administer programs under some of these laws. The EPA has not included NGS or the Four Corners Generating Station in the lands covered by approved tribal programs because of a dispute over the effect of covenants in the Leases between the Navajo Nation and the plants, which state that the Navajo Nation will not regulate the plants. The EPA has published a notice in the Federal Register stating that it will give the plants notice and an opportunity to be heard if the Navajo Nation requests authority to regulate either of the plants. The Arizona Department of Environmental Quality has advised the District and APS that it is no longer regulating environmental matters relating respectively to NGS and the Four Corners Generating Station since the two plants are located on the Navajo Indian Reservation. NGS and the Four Corners Generating Station are regulated by EPA Region IX in San Francisco, California, and comply with applicable federal regulations. See "LITIGATION — Environmental Issues — *Navajo Environmental Laws*," for further discussion of the Navajo Nation's environmental laws.

See "LITIGATION — Environmental Issues — Navajo Environmental Laws" for a discussion of related lawsuits.

ELECTRIC PRICES

Under Arizona law, the District's publicly elected Board has the authority to establish electric prices. While the Articles of Incorporation of the Association provide that the Secretary of the Interior may revise electric prices, the Secretary of the Interior has never requested any revision of the District's electric prices. The District is required to follow certain public notice and special Board meeting procedures before implementing any changes in the standard electric price plans.

The District is a summer peaking utility and for many years has made an effort to balance the summer-winter load relationships through seasonal price differentials. In addition, the District prices on a time-of-day basis for large commercial and industrial, and certain residential and small commercial, users.

In 1998, in accordance with the provisions of the Electric Power Competition Act, enacted by the Arizona Legislature in 1998 (the "Competition Act"), relating to retail electric prices, the District unbundled all retail price plans. The Competition Act capped the price plans in effect on December 30, 1998 during the collection of the competitive transition charge ("CTC"). The CTC collection period ended June 1, 2004. See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY — Competition in Arizona" and "— District's Position Regarding Utility Industry Developments" for further discussion.

On April 26, 2004, the District Board approved the implementation of price plans effective June 1, 2004 that eliminated the CTC as a portion of price, unbundled fuel and purchased power as a separate component of price, and resulted in no overall change in customer prices. The District Board also approved a 1.5% price increase effective November 1, 2004 and later confirmed that decision on September 13, 2004. Other changes included a modification of the Fuel and Purchased Power Adjustment Mechanism ("FPPAM") to allow semi-annual changes in the price of fuel and purchased power to reflect the recovery of actual fuel costs and the introduction of a Transmission Cost Adjustment Factor to recover certain transmission related costs.

On October 4, 2004, the District Board approved the implementation of an adjustment to fuel and purchased power prices under the FPPAM, effective November 1, 2004. The adjustment recovered $60.3 million in fuel and purchased power costs and remained in effect for the winter season (November 2004 - April 2005). The adjustment resulted in an average annual increase in retail customer bills of 3.7%. The District continues to monitor fuel and purchased power costs and anticipates changes to the price of fuel and purchased power every May 1 and November 1.

On April 11, 2005, the District Board approved the operating budget for fiscal year 2006, and based on that budget, approved fuel related prices under the FPPAM for the upcoming fiscal year 2006. The fuel and purchased power prices established will be higher in the Summer, but lower for the upcoming Winter Season and result in an average annual increase in retail customer bills of 1.3%.

On April 28, 2005, the District Board also authorized the funding of the Rate Stabilization Fund in the amount of $55,000,000 to be used in concert with the FPPAM to cover fuel related expenses and to stabilize future prices related to fuel during fiscal years 2006 and 2007.

On July 15, 2005, District management proposed a 2.9% general price increase. If approved, this increase would become effective November 1, 2005. Management will present its proposal to the District Board on September 12, 2005 and the Board is expected to consider action on the proposal in October 2005.

CAPITAL IMPROVEMENT PROGRAM

The Capital Improvement Program is a moving six-year forecast of all District construction expenditures, and is subject to change from time to time for several reasons, including changes in construction costs, projects being added, deleted, deferred or completed and changes in the period covered by the forecast.

The 2006 through 2011 Capital Improvement Program totals approximately $4.1 billion. Of this total, approximately $3.8 billion is for construction (including contingencies), $107.1 million is for capitalized administrative and general expenses, $1.3 million is for capitalized voluntary contributions in lieu of taxes, and $119.3 million is for capitalized interest. In the past, the District has paid a portion of the cost of the Capital Improvement Program from internally generated funds and a portion from the proceeds of Revenue Bonds. The District anticipates funding approximately 68% of the 2006 through 2011 Capital Improvement Program from internally generated funds. The remainder is anticipated to be funded by Revenue Bonds, other forms of indebtedness and third party contributions.

The Capital Improvement Program is driven by the need to expand the generation, transmission and distribution systems of the District in order to meet growing customer electricity needs and to maintain a satisfactory level of service reliability. Of the approximately $4.1 billion Capital Improvement Program, approximately $1.1 billion is directed to generating projects. These include the expansion of the Santan Generating Station and the addition of steam generators at PVNGS and partial construction of Springerville Unit 4 Generating Station, with the remaining construction expenditures for the unit occurring beyond 2011. Approximately $1.2 billion is planned for expansion of the electrical distribution system to meet new growth and to replace aging underground cable. The addition of new 69kV transmission facilities and the construction of a new high voltage transmission line account for part of the $228 million planned expenditures for transmission.

To provide for uncertainties in construction costs (including possible schedule changes, and other factors that may affect construction costs) and to provide a scope allowance for projects that may be needed in the future but are not yet identified, the District has included a general contingency allowance in the 2006 through 2011 Capital Improvement Program in addition to specific contingency allowances provided for major construction projects. No assurance is given that the estimated costs and contingency allowance will be adequate for their purposes.

Table 6 summarizes the District's 2006 through 2011 Capital Improvement Program.

TABLE 6 — 2006 through 2011 Capital Improvement Program
($000's)

	2006	2007	2008	2009	2010	2011	Total 2006-11
Electric Construction:							
Generation	$103,394	$ 26,630	$ 44,330	$200,957	$411,718	$318,078	$1,105,106
Transmission	45,846	62,537	42,186	31,912	19,930	25,549	227,960
Distribution	201,534	197,779	195,231	195,585	200,783	205,522	1,196,433
Retail Sales and Services	18,641	27,653	23,495	12,715	7,265	7,340	97,109
Operational Support	77,974	43,117	44,596	44,633	43,440	45,717	299,477
Subtotal — Electric Construction	447,388	357,716	349,837	485,802	683,136	602,206	2,926,085
Contingency Allowance & Risk Portfolio	48,944	101,147	141,739	211,975	231,050	172,598	907,452
Subtotal	496,332	458,863	491,576	697,776	914,186	774,804	3,833,537
Capitalized Administrative and General Expenses	16,824	17,219	17,614	18,042	18,470	18,914	107,083
Capitalized Voluntary Contributions	204	209	214	219	224	230	1,300
Capitalized interest	13,679	9,696	8,238	15,127	30,466	42,077	119,283
Total(1)	$527,039	$485,987	$517,642	$731,164	$963,346	$836,025	$4,061,203

(1) Totals may not exactly equal the sum of the above entries due to rounding.

SELECTED OPERATIONAL AND FINANCIAL DATA

Customers, Sales, Revenues and Expenses

Classification of Customers. The District has a diversified customer base. No one retail customer represents more than 1.4% of operating revenues. The classifications of the District's electric customers are shown in Table 7.

Unless otherwise indicated, the financial information included below pertains solely to the District and is not prepared on a combined basis consisting of the District and the Association.

TABLE 7 — 2005 Customer Accounts, Sales, and Revenues
Fiscal Year Ended April 30, 2005

	Customer Accounts At April 30, 2005	Total Sales (GWh)	%	Sales Revenue ($000's)	%
Residential	778,123	11,218	31.6	$ 919,903	42.1
Commercial and Small Industrial	69,312	8,852	24.9	603,969	27.6
Large Industrial	21	1,526	4.3	74,647	3.4
Mines	26	1,184	3.4	51,093	2.3
Pumps	266	46	0.1	2,932	0.1
Street Lights	8,278	173	0.5	18,762	0.9
Municipal	2,230	505	1.4	31,798	1.5
Interdepartmental	1	145	0.4	9,709	0.4
Subtotal/Retail	858,257	23,649	66.6	$1,712,813	78.4
Electric Utilities/Wholesale	55	11,867	33.4	472,727	21.6
Total	858,312	35,516	100.0	$2,185,540	100.0

As has been historically the case, the residential group of customers accounted for the largest energy consumption. With 778,123 customers at April 30, 2005, this group serves as a solid base, bringing in approximately 40% of total retail electric revenues.

The second largest retail customer classification is the commercial and small industrial group; these customers numbered 69,312 at April 30, 2005 against 66,973 twelve months earlier. The commercial and small industrial group represents a highly diverse customer base, which includes businesses such as newspapers, dentists, cosmetics, fast food, repair shops, schools, apartments, and grocery stores.

The District has a Full Electric Service Requirements Rider ("FESR") for its large industrial and mine customers. The FESR provides a 3% discount for customers who signed an agreement to buy all energy requirements from the District for a certain period. Approximately one-half of the FESR Agreements expired at the end of 2004 and the remaining agreements will expire at the end of 2005. Upon expiration of the FESR Agreements, the customers will be served under the District's standard price plans.

The remaining customer categories span a wide range of customers and industries, which include manufacturers, government contractors, gas and chemical producers, agricultural interests, and municipalities.

Historical Operating Statistics. The following table shows certain historical operating statistics of the District for the five years ended April 30, 2005.

TABLE 8 — Historical Operating Statistics

	2005	2004	2003	2002	2001
SERVICE:					
Total Customers at Year-End	858,312	824,416	796,171	772,791	746,368
Total Sales (million kWh)	35,516	33,806	35,166	36,534	36,323
Average Revenue per kWh (cents)	6.56	6.18	5.60	6.07	8.32
District Only: (excludes sales for resale and affiliated retail)					
Sales (millions kWh)	23,649	23,935	22,529	22,952	22,643
Increase in Sales (%)	-1.2	6.2	-1.8	1.4	7.4
TOTAL OPERATING REVENUES: (000's omitted)(1)(8)	$2,252,827	$2,072,837	$1,886,611	$2,206,033	$3,020,348
OPERATING EXPENSES (000's omitted):					
Fuel and Purchased Power(2)(8)	$ 782,349	$ 713,780	$ 687,205	$1,132,280	$1,422,384
Operating and Maintenance(3)	563,222	577,267	485,019	445,249	574,998
Payroll Taxes	24,208	23,948	21,757	19,689	20,225
Ad Valorem Taxes(4)	7,444	10,187	7,022	5,220	4,475
Total Operating Expenses	$1,377,223	$1,325,182	$1,201,003	$1,602,438	$2,022,082
NET OPERATING REVENUES	$ 875,604	$ 747,655	$ 685,608	$ 603,595	$ 998,266
VOLUNTARY CONTRIBUTIONS IN LIEU OF TAXES (000's omitted):(5)					
Expensed	$ 72,100	$ 64,818	$ 59,847	$ 59,617	$ 56,048
Capitalized	80	317	77	299	201
Total	$ 72,180	$ 65,135	$ 59,924	$ 59,916	$ 56,249
OTHER STATISTICS:					
Annual Peak (MW):					
System Requirements	5,665	5,673	5,296	5,164	5,002
Total Peak Load(6)	6,669	6,771	6,343	6,350	6,205
System Load Factor (%)(7)	49.1	50.0	53.4	53.3	53.3
Residential Statistics:					
Fiscal Year-End Residential Customers	778,123	747,019	721,425	700,010	676,673
Annual Sales (million kWh)	11,218	11,402	10,273	10,561	10,211
Average Annual Usage (kWh)	14,687	15,549	14,425	15,295	15,299
Average Sales Price per kWh (cents)	8.20	7.65	7.53	7.34	7.33

(1) Includes inter-company sales and other electric revenue.

(2) Excludes charges for water for power, depreciation on generation and railroad facilities, ad valorem taxes and voluntary contributions in lieu of taxes on railroad facilities.

(3) Excludes depreciation on generation, transmission, distribution and general plant.

(4) Applies to out-of-state properties owned by the District.

(5) See "SELECTED OPERATIONAL AND FINANCIAL DATA — Customers, Sales, Revenues and Expense — Voluntary Contributions in Lieu of Taxes."

(6) Includes sales for resale, remote losses and interruptible load transactions.

(7) System load factor is the ratio of system energy requirements in kWh to the product of the system requirements times the number of hours in a year. These percentages reflect in major part the wide differential between the extreme summer cooling season and the moderate winter heating season.

(8) Total operating revenues and fuel and purchased power have been adjusted for the effects of EITF 03-11 starting in fiscal year 2003 and FAS 133 beginning in fiscal year 2002.

Voluntary Contributions in Lieu of Taxes. In accordance with permissive legislation, the District makes voluntary contributions each year to the State of Arizona, school districts, cities, counties, towns and other political subdivisions of the State of Arizona, for which property taxes are levied and within whose boundaries the District has property devoted to furnishing electric service. As a political subdivision of the State of Arizona, the District is exempt from property taxation. The amount paid is computed on the same basis as ad valorem taxes paid by a private utility corporation with allowance for certain deductions. Contributions based on the costs of construction work in progress are capitalized, and those based on plant-in-service are expensed.

The Arizona Department of Revenue (the "DOR") challenged the exclusion of contributions in aid of construction ("CIAC") in calculating the total value of the District's property for purposes of computing "in lieu" property taxes paid by the District. While the District obtained a favorable ruling from the Arizona State Board of Equalization, on appeal the Arizona Tax Court subsequently rendered a decision favorable to the DOR. The District has appealed the decision to the Court of Appeals and cannot predict the outcome at this time. If the District is unsuccessful in its appeal, it would be liable for up to approximately $13.8 million in additional assessments for fiscal years 2003, 2004 and 2005, in the aggregate, plus interest. The District believes it has adequate reserves for this potential liability. For calendar years 2005 and forward, legislation has been enacted that removes the value of CIAC from the "in lieu" contribution formula and the District has received a revised Notice of Property Valuation for calendar year 2005 reflecting the revised valuation. The legislation saves the District approximately $7.3 million per year.

The Arizona Legislature also passed legislation that reduces the assessment ratio for calculation of the "in-lieu" contributions in Arizona beginning in calendar year 2006. The current rate of 25% will be reduced to 20% over a 10-year period. Because the tax year is based on the calendar year, the first reduction for "in-lieu" contributions will include only four months of the District's fiscal year 2006. The estimated reduction for fiscal year 2006 is $520,000. The reduction for fiscal year 2007, the first full fiscal year for the District, is estimated to be $2.2 million. The reduction will continue to accumulate through fiscal year 2016, when the assessment ratio reaches 20%.

Contractual Obligations Relating to Bonds of Other Political Subdivisions. The District has payment obligations under certain long-term contracts that secure Debt Service payable on bonds issued by another Arizona political subdivision. The District entered into power sales contracts in 1990 and 1991 with WAPA, USBR and CAWCD for the purchase of a total of 350 MW of peaking power. CAWCD's rights to receive payments from the District under these power sales contracts have been assigned to secure the payment of debt service on certain contract revenue bonds issued by CAWCD at varying interest rates per maturity and with a final maturity of 2011. The outstanding principal amount of these CAWCD bonds at May 31, 2005, was approximately $107.6 million. The District anticipates that as of May 31, 2005 payment by the District for the remainder of the power sales contracts with CAWCD will total $159.6 million. Payments under the power sales contracts will be made on a monthly basis for power available through September 30, 2011. The District is obligated under the power sales contracts with WAPA, USBR and CAWCD to pay each month for its allocated capacity at a capacity charge of $6 per kilowatt per month for the period beginning on the date of initial service and ending September 30, 2011. The power sales contracts provide that this obligation of the District is absolute and unconditional and constitutes a general obligation of the District and not a special charge, lien, or pledge of the revenues of the Electric System. The power sales contracts also provide that the District may pay the capacity charge from the revenues of the Electric System as an operating expense so long as no "long-term forced outage" (as defined in the power sales contracts, being an outage or curtailment which reduces the District's contract capacity to 70% or less for an uninterrupted period exceeding 30 days)

occurs and is continuing. During a long-term forced outage, the power sales contracts provide that the District will make the payments from its General Fund.

See "The ELECTRIC SYSTEM — Existing and Future Resources — Purchased Power" herein.

Additional Financial Matters

Management's Discussion of Operations — Fiscal Year 2005. SRP's Combined Net Revenues for the fiscal year ended April 30, 2005, were $362.5 million compared to $112.2 million for the previous year. Operating revenues were $2.3 billion for fiscal year 2005, compared to $2.1 billion for fiscal year 2004. The increase in operating revenues this past fiscal year was primarily due to continued growth in the District's service territory, a strong wholesale electricity market and the District's recovery of previously uncollected fuel and purchased power expenses. Operating expenses were $1.8 billion for fiscal year 2005, compared with $1.9 billion for fiscal year 2004. The increased cost of fuel and purchased power expenses were offset by a 28% reduction in depreciation expense. The termination of the capital lease for Desert Basin, as well as the completed amortization of the CTC regulatory asset in May of 2004, also contributed to the decrease over the prior year. See "Appendix A — Report of Independent Auditors" for further discussion.

Short-Term Promissory Notes and Credit Agreement Borrowings. The District's Board has authorized the issuance of up to $475 million in short-term promissory notes (the "Promissory Notes"). The Promissory Notes are being sold in the tax-exempt commercial paper market. The Promissory Notes mature no more than 270 days from the date of issuance. The Promissory Notes are issued in minimum denominations of $100,000 in bearer or registered form without coupons, and bear interest from their date at an annual interest rate not in excess of 15%.

The District has a revolving credit agreement (the "Agreement"), which may be used to support the Promissory Notes. The indebtedness of the District evidenced by the Promissory Notes or borrowings under the Agreement are unsecured obligations of the District payable from the general funds of the District lawfully available therefor, subject in all respects to the prior lien of U.S. Government Loans, if any, revenue bonds and other indebtedness of the District secured by revenues or assets of the District. No specific revenues or assets of the District are pledged to the payment of the Promissory Notes or borrowings under the Agreement, and the Promissory Notes and such borrowings are not payable from taxes. Outstanding Promissory Notes and borrowings under the Agreement are accounted for by the District as long-term debt. The Agreement expires on December 7, 2009. At April 30, 2005, the District had no outstanding borrowings under the Agreement or prior credit agreements and had $475 million of the Promissory Notes outstanding. The District has limited the total amount of indebtedness which may be outstanding at one time under the Agreement, or any agreement in substitution or replacement therefore, and in the tax-exempt commercial paper market to an aggregate of $475 million. However, the District has the right to issue commercial paper in excess of $475 million if it obtains additional liquidity/credit facility equal to such additional commercial paper.

On December 18, 2003, DBIT issued $282,680,000 aggregate principal amount of Certificates of Participation (the "Certificates") evidencing direct undivided interests in rental payments made by the District pursuant to a Lease Purchase Agreement with DBIT for Desert Basin (the "Finance Lease"). The Certificates are unsecured obligations of the District, payable from lease payments to be made by the District from general funds of the District lawfully available therefor, subject in all respects to the prior lien of U.S. Government Loans, if any, revenue bonds and other indebtedness of the District secured by revenues or assets of the District. See "THE ELECTRIC SYSTEM — Existing and Future Resources — *Desert Basin Generating Station*" for further discussion of the funding of Desert Basin.

No Default. The District is not in default in the payment of the principal of or interest on any of its bonds, notes, or other debt obligations.

Outstanding Revenue Bond Long-Term Indebtedness. As of April 30, 2005, the District had outstanding, net of current portion, approximately $1,969,668,000 of Revenue Bonds.

The following table presents total Revenue Bond Debt Service Requirements and the District's payment obligation under the Finance Lease immediately succeeding the issuance of the 2005 Series A Bonds.

TABLE 9 — Total Revenue Bond Requirements and Finance Lease Liability(1)

Years Ending April 30,(2)	Total Revenue Bond Debt Service Requirements	Total Finance Lease Payments	Total Revenue Bond Debt Service & Finance Lease Payments
2006	$318,982,011	$18,939,207	$337,921,218
2007	229,715,749	29,182,279	258,898,028
2008	248,291,478	29,182,472	277,473,950
2009	237,074,207	29,184,104	266,258,311
2010	201,948,533	29,183,163	231,131,696
2011	189,538,829	29,184,772	218,723,601
2012	172,533,304	29,182,429	201,715,733
2013	147,590,575	29,182,319	176,772,894
2014	135,025,195	29,182,688	164,207,883
2015	113,093,334	29,182,354	142,275,688
2016	85,256,269	29,182,438	114,438,707
2017	94,386,006	29,184,521	123,570,527
2018	98,981,613	29,183,146	128,164,759
2019	106,726,396	29,182,563	135,908,959
2020	100,756,788		100,756,788
2021	99,389,438		99,389,438
2022	98,826,438		98,826,438
2023	101,812,938		101,812,938
2024	103,369,054		103,369,054
2025	103,702,038		103,702,038
2026	105,317,185		105,317,185
2027	104,798,079		104,798,079
2028	106,020,942		106,020,942
2029	108,549,608		108,549,608
2030	110,038,025		110,038,025
2031	111,557,858		111,557,858
2032	122,508,600		122,508,600
2033	93,816,583		93,816,583
2034	93,814,167		93,814,167
2035	93,814,667		93,814,667

(1) Totals may not add due to rounding.

(2) Debt Service and Finance Lease payment amounts are for the years in which they accrue, not for the years in which they are paid, except for Capital Appreciation Bonds.

The following table shows the actual application of revenues and coverage of Debt Service requirements for fiscal years 2002, 2003, 2004 and 2005.

TABLE 10 — Historical Application of Revenues and Coverage of Debt Service Requirement ($000's)

	Fiscal Years Ended April 30 Actuals			
	2005(1)	2004(1)	2003(1)	2002
Electric Revenues(5)	$2,400,410	$2,156,754	$1,967,576	$2,217,640
Operating Expenses(2)(3)(5)	1,559,973	1,437,865	1,304,043	1,557,615
Revenues from Operations	840,437	718,889	663,533	660,025
Interest and Other Income (Net)	29,443	18,803	10,096	40,401
Revenues Available for Debt Service	869,880	737,692	673,629	700,426
Rate Stabilization Funds	55,000	—	—	—
Revenues Available for Debt Service on Revenue Bonds and Subordinated Debt	814,880	737,692	673,629	700,426
Debt Service Requirements Revenue Bonds	322,383	360,704	298,846	222,862
Debt Service Requirements Subordinate Debt	18,733	8,278	7,265	11,995
Total Debt Service	341,116	368,982	306,111	234,857
Coverage of Total Revenue Bond Debt Service by Revenues Available for Debt Service	2.70	2.05	2.25	3.14
Coverage of Total Debt Service by Revenues Available for Debt Service	2.39	2.00	2.20	2.98
Balance after Debt Service	473,764	368,710	367,518	465,569
Plus: Interest on Construction Fund	107	988	1,793	1
Less: Contribution in Lieu of Taxes	72,100	64,818	59,847	59,617
Less: Contributions to Water Operations	56,672	62,925	44,222	32,219
Less: Falling Water Charges(4)	6,870	2,747	4,101	9,397
Balance Available for Corporate Purposes	$ 338,229(6)	$ 239,208	$ 261,141	$ 364,337

(1) Includes inter-company sales.

(2) Includes ad valorem taxes applicable to out-of-state properties owned by the District and payroll taxes. Excludes depreciation, voluntary contributions in lieu of taxes and inter-company charge for water for power and includes price increases.

(3) Operating expenses include costs on an accrual basis for post-retirement medical benefits and demand charges related to the contract for Navajo Surplus.

(4) The charges by the Association for water used in hydroelectric generation.

(5) Electric Revenues and Operating Expenses do not include the effects of EITF 03-11 and FAS 133.

(6) May be reconciled with combined net revenues for 2005 (shown on page A4) as follows (in thousands):

BALANCE AVAILABLE FOR CORPORATE PURPOSES	$ 338,229
Bond principal repayment	204,957
Rate Stabilization Funds	55,000
Capitalized Interest	24,189
Amortization of regulatory assets	(14,721)
Depreciation and amortization	(287,435)
Fuel related depreciation (reflected in fuel costs)	(1,775)
Amortization of bond accretion	(803)
Amortization of bond discount/premium, issuance, and refinancing expenses	9,642
Net Revenues before impact of SFAS No. 133 implementation	327,283
Impact of SFAS No. 133 implementation	35,167
Impact of SFAS No. 143 implementation	—
COMBINED NET REVENUES	$ 362,450

CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

General

The electric utility industry in general has been, and in the future may be, affected by a number of factors which could impact upon the business affairs, financial condition and competitiveness of an electric utility and the level of utilization of generating facilities, such as those of the District. One of the most significant of these factors is the effort on national and local levels to restructure the electric utility industry from a heavily regulated monopoly to an industry in which there is open competition for power supply on both the wholesale and retail level. (For a description of the competition in the electric utility industry in Arizona and the response of the District thereto, see "Competition in Arizona" and "District's Position Regarding Utility Industry Developments" herein.)

In addition, such factors include, among others, (i) effects of compliance with rapidly changing environmental, safety, licensing, regulatory and legislative requirements, (ii) changes resulting from conservation and demand-side management programs on the timing and use of electric energy, (iii) changes that might result from a national energy policy, (iv) increased competition from independent power producers, (v) "self-generation" by certain industrial and commercial customers, (vi) issues relating to the ability to issue tax-exempt obligations, (vii) severe restrictions on the ability to sell to nongovernmental entities electricity from generation projects financed with outstanding tax-exempt obligations, (viii) changes from projected future electricity requirements, (ix) increases in costs, (x) shifts in the availability and relative costs of different fuels and (xi) effects of the financial difficulties confronting the power marketers. Any of these factors (as well as other factors) could have an effect on the financial condition of any given electric utility and likely will affect individual utilities in different ways.

The District cannot predict what effects these factors will have on its business, operations and financial condition, but the effects could be significant. The following is a brief discussion of certain of these factors. However, this discussion does not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date of this Official Statement. Extensive information on the electric utility industry is, and will be, available from sources in the public domain, and potential purchasers of the securities of the District should obtain and review such information.

Certain FERC Initiatives

In 1996, FERC, which regulates the electric utility industry under the authority of various statutes, issued rules effecting significant changes in the regulation of transmission services provided by "public utilities" (as defined in the Federal Power Act), which own, operate or control interstate transmission facilities used to transmit power in interstate commerce. The rules require public utilities to provide nondiscriminatory transmission services to entities seeking to effect wholesale power transactions, and to grant equal access to information concerning the pricing and availability of transmission services. The District is not a public utility under the Federal Power Act but FERC has applied the principles set forth in these rules to consumer-owned and other non-public utilities, by requiring such utilities to provide non-discriminatory open-access transmission service as a condition to securing transmission service from public utilities under FERC's jurisdiction. See "District's Position Regarding Utility Industry Developments" herein.

In December 1999, FERC issued Order No. 2000, which, among other things, created a collaborative process for utilities to facilitate the creation of RTOs. FERC encouraged participation in RTOs by non-public utilities. The District is participating in a number of voluntary, cost-effective initiatives designed to enhance the wholesale market in the West and is cooperating with other organizations and market participants in the Western Interconnection to coordinate and implement the enhancements on a broad regional basis. See "THE ELECTRIC SYSTEM — Existing and Future Resources — Transmission" herein.

FERC has indicated that it wants to reopen Orders 888 and 889 (establishing open access transmission) because it believes that the current rules fail to properly encourage investment in transmission assets. FERC also wants to address issues of transmission market power. The District expects FERC to issue a formal notice within the next six months.

Federal Legislation

For the last several years the United States Congress has tried unsuccessfully to pass an energy bill, including a section which would affect the electric utility industry. This year an energy bill passed the House and Senate and has been signed by the President. There are provisions in the energy bill that may affect the District including the extension of limited FERC jurisdiction, known as "FERC-Lite", over public power entities like the District which own transmission lines, and which give FERC authority to establish mandatory reliability standards for operation of the nation's transmission system. The District has operated its electric system under the reliability standards for many years, so does not anticipate any problems with FERC's reliability standards; however, the District will not know the impact of FERC-Lite until such time as FERC issues implementing rules.

Competition in Arizona

The Electric Power Competition Act. In May 1998, the Arizona Legislature enacted the Competition Act, which applies to public power entities, like the District. The Competition Act authorized competition in the retail sale of electric generation, recovery of stranded costs, and competition in billing, collection, metering and meter reading. The Competition Act allows a temporary surcharge on prices for electric distribution service to pay for all or a portion of unmitigated stranded costs of electric generation service that were incurred as a direct result of the onset of competition and occurred prior to December 26, 1996 to serve customers in Arizona. Effective June 1, 2004, the District ceased collection of this surcharge.

The Arizona Corporation Commission. The ACC regulates investor-owned utilities, called public service corporations in Arizona. The Arizona Legislature in the Competition Act directed the ACC to adopt rules for competition similar to what the Arizona Legislature had enacted for public power entities.

In 1999, the ACC issued its final rules for retail electric competition, which allowed customers to be eligible for competitive electric service based on certain phased-in schedules set by the ACC. The District Board had already adopted a resolution in December 1998 allowing electric service providers certificated by the ACC to market in the District's service territory. The rules and other aspects of competition by investor-owned utilities were challenged in the courts, and in January 2004, the Arizona Court of Appeals found numerous provisions of the ACC's rules to be invalid. One of the plaintiffs in the action filed a petition for review with the Arizona Supreme Court. The court denied the petition for review in January 2005. The ACC has taken no action to modify its electric competition rules to address the ruling of the Court of Appeals. As a result, there is no active retail competition within the District's service territory or within the State of Arizona at this time.

District's Position Regarding Utility Industry Developments

Federal and State Deregulation. In response to FERC's open access rules, the District filed a comparable open access transmission tariff in order to ensure reciprocal access to the transmission systems of public utilities. The District did so pursuant to rules that FERC had developed for non-jurisdictional entities like the District. The District has also entered into an agreement with nine other utilities in Southern California, Arizona, New Mexico, far west Texas, Colorado and Wyoming, to facilitate development and implementation of wholesale market enhancements that would improve transmission and wholesale energy markets. See "THE ELECTRIC SYSTEM — Existing and Future Resources — Transmission."

Effective December 31, 1998, the District introduced unbundled pricing plans. For retail customers who were unable or unwilling to choose competitive electric generation, prices reflected a decrease of at least 10% over a 10-year period, apportioned among customer classes. For a more detailed discussion of pricing issues, see "ELECTRIC PRICES".

Strengths of the District/Competitive Business Strategy. The District has several strengths as well as a competitive business strategy, which positions it well to deal with the effects of the restructuring of the utility industry. The District has retained its existing vertically integrated infrastructure; it has retained 100% of its existing generation assets and is developing additional resources to keep up with its load growth. The fuel sources for existing generation are diversified, and planned additions include coal as well as gas resources. See "THE ELECTRIC SYSTEM — Existing and Future Resources" and "THE ELECTRIC SYSTEM — Projected Peak Loads and Resources" herein.

The District has taken steps to prepare for increased competition in the utility industry for well over a decade. These results have been achieved through initiatives that included extensive debt refinancing, renegotiation of fuel supply agreements, staff reductions, implementation of numerous operating efficiencies and enhancing services provided to the District's customers. The District also has a diversified customer base and no single customer provides more than 1.4% of its operating revenues. See "SELECTED OPERATIONAL AND FINANCIAL DATA — Customers, Sales, Revenues and Expenses" herein.

The District is regulated by an independent, publicly-elected Board of Directors who approves its capital budgets and electric price structure. Together the Board and management have developed various initiatives in response to the restructuring in the industry. See "THE DISTRICT — Organization, Management and Employees" herein.

The District has conducted studies, which have shown that customers with high loyalty rates are less likely to select another generation provider. Consequently, the District has implemented projects and programs geared towards enhancing "customer loyalty" by offering them a range of pricing and service options. Moreover, the District is one of the low-cost price leaders in the Southwest. See the discussion of price initiatives under "ELECTRIC PRICES". The District received the J.D. Powers Award in 1999, 2000, 2002 and 2003 for the highest score for residential customer satisfaction in the West. The District also scored highest in customer satisfaction for business electric service among electricity providers in the western United States for 2005 and 2004.

Energy Risk Management Program. The cornerstone of the District's risk management approach is its mission to serve its retail customers. This means that the District builds or acquires resources to serve retail customers, not the wholesale market. The District has an Energy Risk Management Program to limit exposure to risks inherent in normal energy business operations by measuring and minimizing exposure to market risks, credit risks, and operational risks. Specific goals of the program include reducing the impact of market fluctuations on energy commodity prices associated with customer energy requirements, excess generation and fuel expenses; meeting customer pricing needs; and maximizing the value of physical generating assets. To meet the goals of the Energy Risk Management Program, the District uses various physical and financial instruments, including forward contracts, futures, swaps, and options. Certain of these activities are accounted for under Statement of Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended ("SFAS No. 133"). Under SFAS No. 133, derivative instruments are recorded in the balance sheet as either an asset or liability measured at their fair value. The standard also requires that changes in the fair value of the derivative be recognized each period in current earnings or other comprehensive income depending on the purpose for using the derivative and/or its qualification, designation and effectiveness as a hedging transaction. Most of the District's contractual agreements qualify for the normal purchases and sales exception allowed under SFAS No. 133 and are not recorded at market value.

The Energy Risk Management Program is managed according to a policy approved by the Board. The policy covers areas such as strategies; specific market and operational risk issues; and credit policy that the District applies to its wholesale counterparties. The credit policy provides for continuous monitoring of credit exposures, routine assessment of the financial strength of its counterparties, and minimization of credit risk by dealing primarily with creditworthy counterparties, and by requiring letters of credit, parent guarantees or other collateral when the financial strength of a counterparty is not considered sufficient. In addition, the District has established a credit reserve for its activity in wholesale markets.

During the past years, the financial stability and creditworthiness of some major participants in the wholesale energy markets has deteriorated. The District believes that its existing wholesale credit policies and procedures are appropriate and that its exposures are adequately covered by existing reserves.

Environmental

Electric utilities are subject to continuing environmental regulation. Federal, state and local standards and procedures that regulate the environmental impact of electric utilities are subject to change. These changes may arise from continuing legislative, regulatory and judicial action regarding such standards and procedures. Consequently, there is no assurance that facilities owned by the District will remain subject to the regulations currently in effect, will always be in compliance with future regulations, or will always be able to obtain all required operating permits. An inability to comply with environmental standards could result in additional capital expenditures to comply, reduced operating levels, or the complete shutdown of individual electric generating units not in compliance.

Congress is considering legislation, including amendments to the Clean Air Act ("CAA"), which could affect the cost of generating and purchasing power. While it is too early to determine whether the legislation will be enacted, and in what form, or what its effect would be, the changes may materially impact the cost of power generated at affected generating units. The Clear Skies Act, had it been enacted, would have achieved substantial reductions of sulfur dioxide, oxides of nitrogen and mercury emissions in a coordinated and phased manner, and would have provided the electric power generating industry with regulatory certainty while maintaining fuel supply diversity. Although the prospect for new CAA legislation in 2005 is low, the District is planning on future emission reductions at its coal-fired power plants as a result of legislative and regulatory initiatives.

The EPA issued final regulations for the control of mercury emissions from coal-fired utility boilers on May 18, 2005. The District is evaluating the impact of the final regulations, which could require the installation of new emission controls at some coal-fired power plants. Eleven states have filed a lawsuit challenging the EPA mercury rule claiming it is not protective enough of public health and contrary to the CAA. The District is monitoring developments associated with the lawsuit and its implication on the control requirements. The specific level of reduction and compliance cost will not be known until new legislation is passed or the EPA and the states finalize regulatory programs under the CAA.

On June 15, 2005, the EPA issued final amendments to its July 1999 regional haze rule. These amendments apply to the provisions of the regional haze rule that require emission controls known as Best Available Retrofit Technology ("BART") for coal-fired power plants and other industrial facilities that emit air pollutants that reduce visibility. The amendments include final guidelines for states to use in determining which facilities must install controls and the types of controls that facilities must use. States must complete the BART determinations for eligible facilities by 2007. BART controls must be installed five years after the EPA approves a state's BART determination. The District has financial interests in several coal-fired power plants that may be subject to the new BART requirements.

The District is also closely monitoring global warming policy developments at both a federal and regional level. Federal legislation has been proposed which would cap emissions of carbon dioxide from fossil fuel power plants. There have also been several regional initiatives aimed at curbing utility carbon dioxide emission levels. The District is assessing the risk of these policy initiatives on its generation assets and is developing contingency plans to comply with any future laws and regulations restricting carbon dioxide emissions.

Nuclear Plant Matters

In accordance with the Nuclear Waste Policy Act of 1982, APS contracted with the United States Department of Energy ("DOE") for waste and spent fuel disposal services. DOE was to have initiated these services by January 1998. Because of the significant delays in DOE's schedule, it cannot be determined when DOE will accept waste from PVNGS or from other owners of spent nuclear fuel. It is unlikely, due to PVNGS' position in DOE's queue for receiving spent fuel, that APS will be able to initiate shipments to DOE during the licensed life of the PVNGS. Accordingly, APS has constructed an on-site dry cask storage facility

to receive and store PVNGS spent fuel. The facility stored its first cask in March 2003 and, as of July 1, 2005, has 28 casks in storage.

The Nuclear Regulatory Commission ("NRC") has adopted decommissioning rules which require reactor operators to certify that sufficient funds will be available for decommissioning the contaminated portion of nuclear plants in the form of prepayments or external sinking funds, either of which must be segregated from the licensee's assets and outside its administrative control, or by the surety of insurance payable to a trust established for decommissioning costs. The District is collecting funds through its price plans to decommission its share of PVNGS Units 1, 2 and 3. The District projects that it will accumulate $371.4 million in 2004 dollars over the life of PVNGS for this purpose. The decommissioning funds are maintained in an external trust in compliance with NRC regulations. The District anticipates being able to continue to collect decommissioning funds in a competitive generation market.

Summary

As discussed above, the electric utility industry is experiencing problems in a number of areas. The District is unable to predict the extent to which its construction programs and operations will be affected by such factors, but they could result in incurrence of substantial additional costs and could adversely affect its revenues.

LITIGATION

At the time of delivery of and payment for the Certificates, the law firm of Jennings, Strouss & Salmon, P.L.C., Phoenix, Arizona, legal advisors to the District, will deliver a no-litigation opinion stating substantially that, no litigation is now pending or, to its knowledge threatened, affecting or questioning the organization of the District or the titles or manner of election of the officers or directors of the District to their terms of office, respectively; and no litigation is now pending or, to its knowledge threatened, affecting or questioning the power and authority of the District to issue, execute and deliver the 2005 Series A Bonds or the pledge or application of any moneys or security provided for the payment thereof.

In the normal course of business the District is a defendant in various legal actions. In management's opinion, except as otherwise noted below, the ultimate resolution of these matters will not have a significant adverse effect on the District's financial position or operations.

Environmental Issues

Endangered Species Act. Several species listed under the Endangered Species Act ("ESA") have been discovered in and around Roosevelt and Horseshoe Dams. To obtain an Incidental Take Permit ("ITP") under the ESA, the District entered into formal consultation with the United States Fish and Wildlife Service ("USFWS"), and developed a Habitat Conservation Plan, which allows full operation of Roosevelt Dam and Reservoir, provided the District mitigates for the "taking" of species by the establishment of habitat for the species in other areas or through other measures. The USFWS issued the District an ITP for operation of Roosevelt Dam in 2003. The District has reserved funds, which it believes will be sufficient to implement the Plan.

The District is engaged in similar consultations with the USFWS to obtain an ITP for operation of Horseshoe and Bartlett Dams on the Verde River by January 2006. On April 21, 2005, the USFWS granted a one-year permit, known alternately as a "research and recovery permit" or an "enhancement of survival permit," pursuant to the ESA. While there is indication the permit could be challenged, the risk of a "take" of any species has been eliminated for 2005 due to the lowering of the reservoir.

The USFWS has proposed a rule to designate "critical habitat" for one of the species affected by SRP reservoir operations, the Southwestern Willow Flycatcher. To the extent the final designation encompasses lands in or near the SRP reservoirs, the USFWS could reopen consultation on the Roosevelt ITP or the Verde River ITP.

Navajo Environmental Laws. In 1995, the District, on behalf of the Navajo Generating Station Participants (the "NGS Participants"), filed a lawsuit in the Navajo Nation Tribal Court against the Navajo Nation, its Environmental Protection Agency and the Agency's Director as a result of the defendants' attempts to apply three of the Navajo Nation's environmental laws against NGS and the NGS Participants. These laws are the Navajo Nation Air Pollution Prevention and Control Act, the Navajo Nation Safe Drinking Water Act, and the Navajo Nation Pesticide Act. The District contends that the NGS Plant Site Lease, the Section 323 Grants by the United States for the NGS Plant Site and Railroad, and federal law preclude application of these laws to NGS and the NGS Participants. APS, on behalf of the Four Corners Participants, filed a lawsuit challenging the same laws on similar grounds. Both actions have been served on the defendants; however, all parties have agreed to stay the litigation so settlement discussions may occur. The agreements become effective upon the EPA's delegation of authority to the Navajo Nation in accordance with specific terms of the agreements. The Navajo Nation and the EPA are negotiating that delegation of authority.

In July 2000, the District filed a separate action in the Navajo Nation Supreme Court, requesting that the Court review final regulations that were issued by the Navajo Nation Environmental Protection Agency pursuant to the Navajo Air Quality Statute. APS filed a similar petition in a separate action with the Navajo Nation Supreme Court. The District, APS, and the Navajo Nation have filed a stipulation to stay these proceedings under the same terms as the stay in the actions regarding the laws. The Court has approved the stays and settlement discussions are continuing.

On May 18, 2005 the District and APS, as operating agents for the NGS and Four Corners Participants, entered into Voluntary Compliance Agreements with the Navajo Nation to resolve those portions of the above lawsuits relating to air pollution regulation. The agreements establish contractual authority for the Navajo Nation to regulate air emissions and issue air permits at NGS and Four Corners under rules not stricter than the EPA air rules. See "THE ELECTRIC SYSTEM — Environmental Matters — *Navajo Generating Station and Four Corners Generating Station Units 4 & 5*" for further discussion of Navajo Nation environmental laws.

Superfund Site. In September of 2003, the District received notice from the EPA that it is potentially liable under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") as an owner and operator of a facility (the 16th St. facility) within the Motorola 52nd Street Superfund Site. The District is potentially liable for past costs incurred and for future work to be conducted within the Superfund Site. Investigation and evaluation of this potential liability are in the preliminary stages, and the District is unable at this time to predict the outcome, but believes that it has adequate reserves for this potential liability.

New Source Review. The EPA is continuing its national enforcement initiative under the New Source Review ("NSR") provisions of the CAA. This initiative is focused on determining whether companies had failed to disclose major repairs or alterations to facilities that would have required the installation of new pollution control equipment. As part of this initiative, the District received three (3) letters from Region IX of the EPA, under the authority of Section 114 of the CAA, requesting information on Coronado (the "Section 114 Letters"). However, in March 2004, the EPA suspended its last request to enter into negotiations with the District regarding possible additional control technology to reduce emission levels from District generating units. To date, EPA Region IX has taken no enforcement action against the District for alleged violations of NSR regulations at Coronado. The District is unable to predict the outcome of the Section 114 Letters or negotiations with EPA Region IX with respect to potential impacts on District generating units, but is optimistic that it will reach a mutually satisfactory agreement with the EPA regarding control technology and emission limits at District facilities.

In June 2005, a U.S. District Court and a U.S. Court of Appeals each issued rulings in favor of utilities, significantly undermining the theories upon which the EPA has been pursuing the industry for alleged NSR violations.

Water Rights

Gila River Adjudication. The District and the Association are parties to a state water rights adjudication proceeding encompassing the entire Gila River System (the "Gila River Adjudication"). This

proceeding is pending in the Superior Court for the State of Arizona, Maricopa County, and will eventually result in the determination of all conflicting rights to water from the Gila River and its tributaries, including the Salt and Verde Rivers. The District and the Association are unable to predict the ultimate outcome of the proceeding.

Gila River Indian Community. The United States on behalf of the Gila River Indian Community ("GRI Community") filed a lawsuit in 1982 in the Federal District Court, District of Arizona, to protect the water right claims of the GRI Community. The Association is among the many defendants named in this lawsuit. The lawsuit claims that the defendants' use of surface water and groundwater violates the GRI Community's rights to water in certain specified areas, and requests a decree specifying the GRI Community's rights, injunctive relief to stop the alleged illegal use of water by the defendants, and damages for increased costs to the GRI Community from, among other things, having to deepen its wells. This lawsuit has been stayed pending the outcome of the Gila River Adjudication.

In 2004, the U.S. Congress enacted the Arizona Water Rights Settlement Act, which, when fully implemented, will resolve the claims of the GRI Community listed above as well as many of the claims in the Gila River Adjudication. However, there are many conditions precedent to the full effectiveness and enforceability of the act and its associated agreements.

Little Colorado River Adjudication. In 1978, a water rights adjudication was initiated in the Apache County Superior Court with regard to the Little Colorado River System. The District has filed its claim to water rights in this proceeding, which includes a claim for groundwater being used in the operation of CGS. The District is unable to predict the ultimate outcome of this proceeding, but believes an adequate water supply for CGS will remain available.

Coal Supply

Navajo Nation v. Peabody (U.S. District Court, D.C. District). In June 1999, the Navajo Nation filed a lawsuit in the United States District Court in Washington D.C., alleging that the coal supplier for NGS and Mohave ("Peabody"), SCE (operating agent for Mohave), the District (operating agent for NGS), and certain individual defendants, had induced the United States to breach its fiduciary duty to the Navajo Nation, and had violated federal racketeering statutes. The lawsuit arises out of negotiations that culminated in 1987 with amendments to the coal supply agreements (including royalty and leases) for mining coal for NGS and Mohave. The suit alleges $600 million in damages. The plaintiffs also seek treble damages against the corporate defendants, including the District, measured by amounts awarded under the racketeering statutes. In addition, the plaintiffs claim punitive damages of not less than $1 billion. In March 2001, the Hopi Tribe intervened in the suit. However, the claims of both the Navajo Nation and the Hopi Tribe have been dismissed in their entirety with respect to the District. The Navajo Nation and Hopi Tribe may appeal the dismissals.

On February 9, 2005, the U.S. District Court granted a motion to stay the litigation until further order of the court. The Navajo Nation, the Hopi Tribe, Peabody and the Participants in both Mohave and NGS are in mediation with respect to this litigation and related business issues.

Navajo Nation v. United States (Court of Federal Claims). Previously, the Navajo Nation had filed a lawsuit against the United States Government based on allegations similar to those raised in the Navajo Nation lawsuit described above. That lawsuit had been dismissed, but on appeal, it was reinstated and in August 2001, the Federal Circuit Court of Appeals held that the United States had breached its fiduciary duty to the Navajo Nation and that a claim for damages was within the jurisdiction of the Court of Federal Claims. In March 2003, the United States Supreme Court reversed the decision of the Court of Appeals and remanded the case to the Court of Appeals for further proceedings consistent with its opinion. In October 2003, the Court of Appeals remanded the case to the Court of Federal Claims and ordered that court to determine if the Navajo Nation waived any claims with respect to statutes and regulations other than those the Court of Appeals concluded were at issue before the Supreme Court. If the Court of Federal Claims determines that there was not a waiver, it will determine if such other statutes and regulations impose

enforceable fiduciary duties upon the United States in connection with Peabody's leases, and if so, whether the United States breached such duties.

Peabody Legal Fees Cases. Peabody claims it is entitled to reimbursement under both the NGS Coal Supply Agreement and the Mohave Coal Supply Agreement for its costs associated with the defense of the challenges by the Navajo Nation and Hopi Tribe to these coal supply agreements. (See above matters.) Peabody has filed two separate lawsuits against the NGS and Mohave Participants, respectively, seeking recovery of these fees. The Mohave and NGS Participants dispute Peabody's attempt to recover its legal costs under the coal supply agreements. As for the Mohave fees, the District has been dismissed from the litigation and awarded its attorneys fees. Peabody is appealing this dismissal and the award of attorney fees. The District and the NGS Participants received a favorable ruling dismissing all of Peabody's claims for reimbursement. Peabody can appeal this ruling. In the NGS fees case, the District is unable to predict the likely outcome of these matters at this time but does not believe that these disputes will have material adverse effects on its operations or financial condition.

Peabody v. SRP. Peabody has also filed suit in St. Louis, Missouri against the District and the other owners of NGS asserting claims against both the Participants and against the District relating to liability issues associated with the Navajo Nation v. Peabody case, alleged breach of the NGS Coal Supply Agreement and breach of indemnity obligations owed to Peabody as the alleged agent of the NGS Participants, and claims of tortuous interference with contracts and tortuous interference with business expectancies against the District. The claim seeks $500 million and unspecified compensatory damages, prejudgment interest, attorney's fees and costs.

Final Reclamation and Retiree Medical Benefits. The agreements for the coal supplies for Mohave and NGS are scheduled to expire in 2005 and 2011, respectively, subject to the rights of the participants in Mohave and NGS to extend the agreements. The coal supplier, Peabody, has advised the District that upon expiration of the initial or extended terms, Peabody intends to stop mining coal at the Black Mesa and Kayenta Mines and to start final reclamation work as required by law. Peabody contends that the Mohave and NGS are liable for the costs of the final reclamation work, for retiree health care benefits for employees at the two mines, even after cessation of mining operations, and other closing costs.

In June 2002, Peabody and the Mohave Participants participated in mediation of the issue of final reclamation and retiree medical benefits through which a settlement was reached. The Mohave Participants agreed to pay Peabody approximately $45.7 million, including royalties, taxes and interest. In November 2002, the District paid a lump sum of $8.0 million including tax to fulfill its share of this obligation.

The NGS Participants continue to dispute their alleged liability to Peabody for these costs, which according to Peabody estimates in 1995, totaled approximately $54 million for the Navajo Project. Although the NGS Participants and Peabody are litigating and arbitrating disputes, the parties initiated settlement discussions and a stay of the litigation is in place. If NGS Participants are found liable for these expenses, Peabody will seek either to establish an escrow account to be funded immediately, or to spread the funding over the remaining term of the coal supply agreement. The actual expenses for reclamation will run for 15 to 20 years after mining ceases, and the actual retiree health care costs are projected to continue for decades. Thus the actual amounts to be claimed by Peabody as due from the NGS Participants would undoubtedly be much higher today than the 1995 estimate. In early 2003 the NGS Participants and Peabody embarked upon a path of litigation to resolve the retiree medical benefits dispute; however, that litigation is on hold while the parties attempt to settle both the retiree medical benefits and the final reclamation issues. Discussions to effect such a settlement are ongoing.

Natural Gas Supply

Effective September 1, 2003, FERC converted the full requirement contracts of the District and other entities in Arizona with El Paso Natural Gas Company for the transportation of natural gas to contract demand status with monthly limits for natural gas transportation service. The District has prepared a gas transportation plan that should provide the District with sufficient gas to meet its retail electric demands. As part of the gas transportation plan, the District is considering alternatives, including gas storage and taking gas

transportation service from firms that have proposed new pipelines into or through Arizona. This plan is to provide alternatives to the current environment where there is a single provider of gas transportation service to the District. See "ELECTRIC SYSTEM — Existing and Future Resources — Fuel Supply" for a discussion of other fuel supply issues.

Nuclear Fuel Supply

The Energy Policy Act provides, among other things, that utilities with nuclear reactors will contribute an aggregate total of $150 million annually, based upon an assessment, for a period of 15 years, up to a total of $2.25 billion (in 1992 dollars), for the costs of the decommissioning and decontamination ("D&D") of nuclear fuel enrichment facilities. To date, the PVNGS Participants have paid approximately $46 million, and for the entire fifteen-year period, it is estimated that they will ultimately pay $53 million into the D&D Fund. The District's share will amount to approximately $9.3 million, which will be expensed over a fifteen-year period and recovered through its price plans.

California Energy Market Litigation and Investigations

A number of lawsuits have been filed concerning various aspects of the California energy market. In addition, the State of California and federal authorities are conducting investigations and other proceedings concerning various aspects of the energy market. Several of the proceedings involve potential refunds. Because the District bought and sold power into the California energy market, the District has been drawn into many of the proceedings. However, the District was a net buyer in the California market during periods being scrutinized, and believes it is entitled to refunds if any are ordered, and in fact, has received approximately $7.7 million in refunds to date.

Other

In November 2004, Arizona voters approved Proposition 200, Arizona Taxpayer and Citizen Protection Act, which requires state and local government employees to verify the immigration status of people applying for "public benefits" and to report violators to immigration authorities. There are challenges to Proposition 200 in both the Federal District Court and the Maricopa County Superior Court. As a non-tax supported agricultural improvement district, the District does not believe that it is subject to the law. However, if the law were found to apply to the District, the District could have to verify immigration status of electric customers prior to providing service.

Taxes

See "SELECTED OPERATIONAL FINANCIAL DATA — Customers, Sales, Revenues and Expenses — Voluntary Contributions in Lieu of Taxes" for a discussion of a challenge by the Arizona Department of Revenue to the District's computation of total property value for purposes of its voluntary contributions in lieu of taxes.

LEGALITY OF REVENUE BONDS FOR INVESTMENT

Under the Act, the 2005 Series A Bonds constitute legal investments for savings banks, banks, savings and loan associations, trust companies, executors, administrators, trustees, guardians and other fiduciaries in the State of Arizona and for any board, body, agency or instrumentality of the State of Arizona, or of any county, municipality or other political subdivision of the State of Arizona, and constitute securities which may be deposited by banks, savings and loan associations or trust companies as security for deposits of state, county, municipal and other public funds.

UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase all, but not less than all, of the 2005 Series A Bonds from the District at an aggregate purchase price, of $343,844,143.95

reflecting an original issue premium of $18,534,167.90, and an underwriters' discount of $1,780,023.95 from the initial public offering prices set forth on the inside cover page of this Official Statement.

TAX MATTERS

Federal Income Taxes

The Internal Revenue Code of 1986 (the "Code") imposes certain requirements that must be met at and subsequent to the issuance and delivery of the 2005 Series A Bonds for interest thereon to be and remain excluded from gross income for federal income tax purposes. Noncompliance with such requirements could cause the interest on the 2005 Series A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issue of the 2005 Series A Bonds. The District has covenanted to comply with the provisions of the Code applicable to the 2005 Series A Bonds, and has covenanted not to take any action or permit any action that would cause the interest on the 2005 Series A Bonds to be included in gross income under Section 103 of the Code applicable to the 2005 Series A Bonds. In addition, the District has made certain representations and certifications in the Tax Certificate as to Arbitrage and the Provisions of Sections 141-150 of the Internal Revenue Code of 1986. Special Tax Counsel will not independently verify the accuracy of those certifications and representations.

In the opinion of Nixon Peabody LLP, Special Tax Counsel, under existing law and assuming compliance with the aforementioned covenants and the accuracy of certain representations and certifications made by the District described above, interest on the 2005 Series A Bonds is excluded from gross income for federal income tax purposes under section 103 of the Code. Special Tax Counsel is also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the 2005 Series A Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

State Taxes

Special Tax Counsel is also of the opinion that, under existing law, interest on the 2005 Series A Bonds is exempt from income taxes imposed by the State of Arizona.

Original Issue Premium

The 2005 Series A Bonds are being offered at prices in excess of their principal amounts. An initial purchaser with an initial adjusted basis in 2005 Series A Bond in excess of its principal amount will have amortizable bond premium which is not deductible from gross income for federal income tax purposes. The amount of amortizable bond premium for a taxable year is determined actuarially on a constant interest rate basis over the term of each 2005 Series A Bond based on the purchaser's yield to maturity (or, in the case of 2005 Series A Bonds callable prior to their maturity, over the period to the call date, based on the purchaser's yield to the call date and giving effect to any call premium). For purposes of determining gain or loss on the sale or other disposition of a 2005 Series A Bond, an initial purchaser who acquires such obligation with an amortizable bond premium is required to decrease such purchaser's adjusted basis in such 2005 Series A Bond annually by the amount of amortizable bond premium for the taxable year. The amortization of bond premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining various other tax consequences of owning such Bonds. Owners of the 2005 Series A Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such 2005 Series A Bonds.

Ancillary Tax Matters

Ownership of the 2005 Series A Bonds may result in other Federal tax consequences to certain taxpayers, including, without limitation, certain S corporations, foreign corporations with branches in the United States, property and casualty insurance companies, individuals receiving Social Security or Railroad

Retirement benefits, individuals seeking to claim the earned income credit, and taxpayers (including banks, thrift institutions and other financial institutions) who may be deemed to have incurred or continued indebtedness to purchase or to carry the 2005 Series A Bonds. Special Tax Counsel is not rendering any opinion as to any federal tax matters other than those described under the caption "Tax Matters." Prospective investors, particularly those who may be subject to special rules, are advised to consult with their own tax advisors regarding the federal tax consequences of owning and disposing of the 2005 Series A Bonds, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

Changes in Federal Tax Law and Post Issuance Events

From time to time proposals are introduced in Congress that, if enacted into law, could have an adverse impact on the potential benefits of the exclusion from gross income for federal income tax purposes of the interest on the 2005 Series A Bonds, and thus on the economic value of the 2005 Series A Bonds. This could result from reductions in federal income tax rates, changes in the structure of the federal income tax rates, changes in the structure of the federal income tax or its replacement with another type of tax, repeal of the exclusion of the interest on the 2005 Series A Bonds from gross income for such purposes, or otherwise. It is not possible to predict whether any legislation having an adverse impact on the tax treatment of holders of the 2005 Series A Bonds may be proposed or enacted.

Special Tax Counsel has not undertaken to advise in the future whether any events after the date of issuance and delivery of the 2005 Series A Bonds may affect the tax status of interest on the 2005 Series A Bonds. Special Tax Counsel expresses no opinion as to any federal, state or local tax law consequences with respect to the 2005 Series A Bonds, or the interest thereon, if any action is taken with respect to the 2005 Series A Bonds or the proceeds thereof upon the advice or approval of other counsel.

APPROVAL OF LEGAL MATTERS

Legal matters incident to the authorization and issuance of the 2005 Series A Bonds are subject to the approval of McCarter & English, LLP, Bond Counsel, whose final approving opinion will be delivered with the 2005 Series A Bonds in substantially the form attached hereto as Appendix C. Certain legal matters in connection with the 2005 Series A Bonds will be passed upon for the District by Jennings, Strouss & Salmon, P.L.C. and by Nixon Peabody LLP, Special Tax Counsel. Certain legal matters will be passed upon for the Underwriters by Winston & Strawn LLP, counsel to the Underwriters.

The various legal opinions and/or certification to be delivered concurrently with the delivery of the 2005 Series A Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion and/or certification, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or the future performance of parties to the transaction. Nor does the rendering of an opinion and/or certification guarantee the outcome of any legal dispute that may arise out of the transaction.

RATINGS

Moody's Investor Service and Standard & Poor's Corporation have given the ratings of Aa2 and AA, respectively, to the 2005 Series A Bonds. Such ratings reflect only the view of such organizations, and an explanation of the significance of such rating may be obtained only from the respective rating agency. There is no assurance that such ratings will be maintained for any given period of time, or that they will not be revised downward, or be withdrawn entirely by the respective rating agency if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2005 Series A Bonds.

CONTINUING DISCLOSURE

Pursuant to the Continuing Disclosure Agreement, the District will covenant for the benefit of the holders and Beneficial Owners of the 2005 Series A Bonds to provide certain financial information and operating data relating to the District by not later than 180 days after the end of each of the District's fiscal years (presently, each April 30), commencing with the fiscal year ending April 30, 2006 (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events with respect to the 2005 Series A Bonds, if material. The Continuing Disclosure Agreement provides that the Annual Report and any notices of such material events will be filed by or on behalf of the District with each nationally recognized municipal securities information repository and with the State information repository, if any, established by the State of Arizona. Under the Continuing Disclosure Agreement, the sole remedy for any Bondholder upon an event of default is a lawsuit for specific performance in a court of competent jurisdiction. See "Appendix D — Form of Continuing Disclosure Agreement".

The District's covenant is being made in order to assist the Underwriters in complying with the secondary market disclosure requirements of Rule 15(c)2-12 of the Securities and Exchange Commission (the "Rule"). The District has never failed to comply in any material respect with any previous undertaking with regard to the Rule to provide annual reports or notices of material events.

INDEPENDENT ACCOUNTANTS

The financial statements as of April 30, 2005 and April 30, 2004 and for the years then ended, included in this Official Statement, have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing herein. SRP's financial statements are presented on a combined basis including the financial information of both the District and the Association. Management believes the financial information presented is not materially different from the presentation of the District on a standalone basis.

FINANCIAL ADVISOR

The District has retained Public Financial Management ("PFM") as its financial advisor. Although PFM has assisted in the preparation of this Official Statement, PFM is not obligated to undertake and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The mathematical accuracy of (i) the computation of the adequacy of the maturing principal and interest earned on the direct obligations of the United States of America held by the Escrow Agent to pay, when due, the principal of, the redemption premium and interest on the Refunded Bonds and (ii) certain computations made supporting the conclusion by Bond Counsel that the 2005 Series A Bonds are not "arbitrage bonds" under Section 148 of the Code have been verified by BondResource Partners, LP. Such verifications are based upon certain information supplied to BondResource Partners, LP by the Underwriters.

OTHER AVAILABLE INFORMATION

SRP prepares an annual report with respect to each fiscal year ending April 30, which typically becomes available in September of the following fiscal year. The annual report includes information relating to SRP's staff, legal and financial services, operations and audited financial statements for the fiscal year ending April 30. SRP's financial statements are presented on a combined basis including the financial information of both the District and the Association.

The annual report with audited financial statements for the year ended April 30, 2005 is not yet available. When available, copies of the annual report and audited financial statements may be obtained by writing to Salt River Project Agricultural Improvement and Power District, Corporate Communications,

PAB340, P.O. Box 52025, Phoenix, AZ 85072-2025. Copies of the Annual Report can also be obtained by contacting 602-236-2598 or by sending a request to **investor@srpnet.com**.

MISCELLANEOUS

References herein to the Act, the Resolution and certain other statutes, resolutions and contracts are brief discussions of certain provisions thereof. Such discussions do not purport to be complete, and reference is made to such documents for full and complete statements of such provisions.

Any statements made in this Official Statement involving matters of opinion or of projections, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the projections will be realized.

The District has authorized the execution and delivery of this Official Statement.

Salt River Project Agricultural Improvement and Power District

/s/ WILLIAM P. SCHRADER
President

/s/ RICHARD H. SILVERMAN
General Manager

Attest:

/s/ TERRILL A. LONON
Corporate Secretary

APPENDIX A — Report of Independent Auditors and Combined Financial Statements as of April 30, 2005 and 2004

REPORT OF INDEPENDENT AUDITORS

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

In our opinion, the accompanying combined balance sheets and related combined statements of net revenues and comprehensive income (loss) and of cash flows present fairly, in all material respects, the financial position of Salt River Project Agricultural Improvement and Power District and its subsidiaries and the Salt River Valley Water Users' Association (collectively, the Company) at April 30, 2005 and 2004, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. 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 of these statements in accordance with auditing standards generally accepted in the United States of America. 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the combined financial statements, the Company changed the manner in which it accounts for asset retirement costs as of May 1, 2003.

PricewaterhouseCoopers LLP
Los Angeles, California
June 7, 2005

SALT RIVER PROJECT

COMBINED BALANCE SHEETS
April 30, 2005 and 2004

	2005	2004
	(Thousands)	
ASSETS		
UTILITY PLANT		
Plant in service —		
Electric	$ 7,899,197	$ 7,262,819
Irrigation	267,928	252,595
Common	418,716	417,006
Total plant in service	8,585,841	7,932,420
Less — Accumulated depreciation on plant in service	(3,925,661)	(3,720,539)
	4,660,180	4,211,881
Plant held for future use	3,076	14,341
Construction work in progress	414,626	739,295
Nuclear fuel, net	39,834	40,503
	5,117,716	5,006,020
OTHER PROPERTY AND INVESTMENTS		
Non-utility property and other investments	112,326	131,507
Segregated funds, net of current portion	490,518	437,919
	602,844	569,426
CURRENT ASSETS		
Cash and cash equivalents	288,429	280,962
Rate Stabilization Fund	55,000	—
Temporary investments	135,081	60,750
Current portion of segregated funds	131,000	96,756
Receivables, net of allowance for doubtful accounts	220,820	177,664
Fuel stocks	34,583	33,257
Materials and supplies	80,278	72,875
Other current assets	78,659	62,166
	1,023,850	784,430
DEFERRED CHARGES AND OTHER ASSETS	322,273	303,977
	$ 7,066,683	$ 6,663,853
CAPITALIZATION AND LIABILITIES		
LONG-TERM DEBT	$ 2,727,348	$ 2,912,849
ACCUMULATED NET REVENUES AND OTHER COMPREHENSIVE INCOME	2,714,561	2,381,390
TOTAL CAPITALIZATION	5,441,909	5,294,239
CURRENT LIABILITIES		
Current portion of long-term debt	274,778	170,029
Accounts payable	172,001	126,651
Accrued taxes and tax equivalents	68,974	67,177
Accrued interest	44,000	45,796
Customers' deposits	53,547	49,659
Other current liabilities	171,400	151,999
	784,700	611,311
DEFERRED CREDITS AND OTHER NON-CURRENT LIABILITIES	840,074	758,303
COMMITMENTS AND CONTINGENCIES (Notes 5, 7, 8, 9, 10, 11 and 12)		
	$ 7,066,683	$ 6,663,853

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

SALT RIVER PROJECT

COMBINED STATEMENTS OF NET REVENUES AND COMPREHENSIVE INCOME (LOSS)
For the Years Ended April 30, 2005 and 2004

	2005	2004
	(Thousands)	
OPERATING REVENUES		
Retail Electric	$1,709,213	$1,622,305
Water	12,786	11,818
Other	529,724	443,191
Total Operating Revenues	2,251,723	2,077,314
OPERATING EXPENSES		
Power purchased	358,697	310,019
Fuel used in electric generation	425,880	406,034
Other operating expenses	429,799	436,541
Maintenance	193,489	196,588
Depreciation and amortization	302,198	417,522
Taxes and tax equivalents	105,475	100,693
Total operating expenses	1,815,538	1,867,397
Net operating revenues	436,185	209,917
OTHER INCOME (EXPENSES)		
Interest income	25,241	23,573
Other income (expenses), net	6,661	5,042
Total other income (expenses), net	31,902	28,615
Net revenues before financing costs	468,087	238,532
FINANCING COSTS		
Interest on bonds, net of capitalized interest	118,229	131,264
Capitalized interest	(24,189)	(23,327)
Amortization of bond discount/premium and issuance expenses	(9,642)	(9,386)
Interest on other obligations	21,239	17,054
Net financing costs	105,637	115,605
NET REVENUES BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	362,450	122,927
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	—	(10,707)
NET REVENUES	362,450	112,220
OTHER COMPREHENSIVE INCOME (LOSS)	(29,279)	65,242
COMPREHENSIVE INCOME	$ 333,171	$ 177,462

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

SALT RIVER PROJECT

COMBINED STATEMENTS OF CASH FLOWS
For the Years Ended April 30, 2005 and 2004

	2005	2004
	(Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net revenues	$ 362,450	$ 112,220
Adjustments to reconcile net revenues to net cash provided by operating activities:		
Depreciation, amortization and accretion	313,727	428,283
Post-retirement benefits expense	43,409	43,800
Amortization of provision for loss on long-term contracts	(13,280)	(13,281)
Amortization of net bond discount/premium and issuance expenses	(9,642)	(9,386)
Amortization of spent nuclear fuel storage	1,826	1,641
Gain on sale of capital assets	(7,610)	(8,211)
Cumulative effect of change in accounting principle	—	10,707
Decrease (increase) in —		
Fuel stocks and materials & supplies	(8,729)	(5,764)
Receivables, including unbilled revenues, net	(43,156)	(8,694)
Other assets	(50,497)	(6,883)
Increase (decrease) in —		
Accounts payable	45,350	(15,970)
Accrued taxes and tax equivalents	1,797	3,003
Accrued interest	(1,796)	(8,602)
Current liabilities	23,289	13,760
Deferred credits and other non-current liabilities	41,657	65,916
Net cash provided by operating activities	698,795	602,539
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to utility plant, net	(414,530)	(607,174)
Proceeds from disposition of assets	23,923	8,487
Purchases of investments	(336,822)	(213,586)
Sales and maturities of securities	202,636	174,851
Investment in Rate Stabilization Fund	(55,000)	—
Decrease (increase) in segregated funds	(80,807)	138,610
Net cash used for investing activities	(660,600)	(498,812)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of Revenue Bonds	—	122,110
Proceeds from Desert Basin finance lease	—	282,680
Proceeds from issuance of commercial paper	100,000	—
Repayment of long-term debt, including refundings	(171,334)	(377,484)
Payment of capital lease obligations	—	(251,365)
Other proceeds from financing activities	40,606	3,653
Net cash used for financing activities	(30,728)	(220,406)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,467	(116,679)
BALANCE AT BEGINNING OF YEAR IN CASH AND CASH EQUIVALENTS	280,962	397,641
BALANCE AT END OF YEAR IN CASH AND CASH EQUIVALENTS	$ 288,429	$ 280,962
SUPPLEMENTAL INFORMATION		
CASH PAID FOR INTEREST (Net of capitalized interest)	$ 117,075	$ 133,593
NON-CASH FINANCING ACTIVITIES		
Loss on defeasance	$ —	$ (3,990)

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

(1) Basis of Presentation:

The Company

The Salt River Project Agricultural Improvement and Power District (the District) is an agricultural improvement district organized in 1937 under the laws of the State of Arizona. It operates the Salt River Project (the Project), a federal reclamation project, under contracts with the Salt River Valley Water Users' Association (the Association), by which it has assumed the obligations of the Association to the United States of America for the care, operation and maintenance of the Project. The District owns and operates an electric system that generates, purchases, transmits and distributes electric power and energy, and provides electric service to residential, commercial, industrial and agricultural power users in a 2,900 square mile service territory in parts of Maricopa, Gila and Pinal Counties, plus mine loads in an adjacent 2,400 square mile area in Gila and Pinal Counties. The Association, incorporated under the laws of the Territory of Arizona in 1903, operates an irrigation system as the agent of the District.

In 1997, the District established a wholly-owned, taxable subsidiary, New West Energy Corporation (New West Energy), to market, at retail, energy available to the District that was surplus to the needs of its retail customers, and energy that might have been rendered surplus in Arizona by retail competition in the supply of generation. However, as a result of the turmoil in the Western energy markets, New West Energy discontinued marketing excess energy in 2001, although it may resume this activity in the future. New West Energy now primarily supports the District's energy services activities in Arizona.

Possession and Use of Utility Plant

The United States of America retains a paramount right or claim in the Project that arises from the original construction and operation of certain of the Project's electric and water facilities as a federal reclamation project. Rights to the possession and use of, and to all revenues produced by, these facilities are evidenced by contractual arrangements with the United States of America.

Principles of Combination

The accompanying combined financial statements reflect the combined accounts of the Association and the District (together referred to as SRP). The District's financial statements are consolidated with its four wholly-owned taxable subsidiaries: New West Energy, SRP Captive Risk Solutions, Limited (CRS), Papago Park Center, Inc. (PPC) and Springerville Four, LLC (Springerville Four). PPC is a real estate management company. CRS is a domestic captive insurer incorporated in January 2004 to access property/boiler and machinery insurance coverage under the Federal Terrorism Risk Insurance Act of 2002 for certified acts of terrorism. Springerville Four is a limited liability company that holds the rights to construct a fourth unit at Springerville Generating Station. All material inter-company transactions and balances have been eliminated.

Regulation and Pricing Policies

Under Arizona law, the District's publicly elected Board of Directors (the Board) has the authority to establish electric prices. The District is required to follow certain public notice and special Board meeting procedures before implementing any changes in the standard electric price plans.

(2) Significant Accounting Policies:

Basis of Accounting

The accompanying combined financial statements are presented in conformity with accounting principles generally accepted in the United States of America (GAAP) and reflect the pricing policies of the

Board. The District's "regulated" operations apply Statement of Financial Accounting Standards No. 71, *"Accounting for the Effects of Certain Types of Regulation"* (SFAS No. 71), while "non-regulated" operations follow GAAP for enterprises in general. Classification of regulated and non-regulated operations is determined in accordance with applicable GAAP accounting guidelines.

By virtue of SRP operating a federal reclamation project under contract, with the federal government's pre-emptive rights, asset ownership and certain approval rights, SRP is considered for financial reporting purposes to follow accounting standards as set forth by the Federal Accounting Standards Advisory Board (FASAB). Entities reporting in accordance with the standards issued by the Financial Accounting Standards Board (FASB) prior to October 19, 1999 (the date the American Institute of Certified Public Accountants (AICPA) designated the FASAB as the accounting standard setting body for entities under the federal government) are permitted to continue to report in accordance with those standards. Consequently, SRP's financial statements are reported in accordance with FASB standards.

The preparation of financial statements in compliance with GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and disclosures of contingencies. Actual results could differ from the estimates.

Utility Plant

Utility plant is stated at the historical cost of construction, less any impairment losses. Capitalized construction costs include labor, materials, services purchased under contract, and allocations of indirect charges for engineering, supervision, transportation and administrative expenses and capitalized interest or an allowance for funds used during construction (AFUDC). AFUDC is the estimated cost of funds used to finance plant additions and is recovered in prices through depreciation expense over the useful life of the related asset. The cost of property that is replaced, removed or abandoned, together with removal costs, less salvage, is charged to accumulated depreciation.

Composite rates of 4.42% and 4.56% were used in fiscal years 2005 and 2004 to calculate interest on funds used to finance construction work in progress, resulting in $24.2 million and $23.3 million of interest capitalized, respectively.

Depreciation expense is computed on the straight-line basis over the estimated useful lives of the various classes of plant assets. The following table reflects the District's average depreciation rates on the average cost of depreciable assets, for the fiscal years ended April 30:

	2005	2004
Average electric depreciation rate	3.49%	3.57%
Average irrigation depreciation rate	2.44%	2.61%
Average common depreciation rate	5.52%	4.38%

Bond Expense

Bond discount/premium and issuance expenses are amortized using the effective interest method over the terms of the related bond issues.

Allowance for Doubtful Accounts

The District has provided for an allowance for doubtful accounts of $16.7 million and $17.9 million as of April 30, 2005 and 2004, respectively.

Nuclear Fuel

The District amortizes the cost of nuclear fuel using the units of production method. The nuclear fuel amortization and the disposal expense are components of fuel expense. Accumulated amortization of nuclear fuel at April 30, 2005 and 2004 was $373.4 million and $354.8 million, respectively.

Asset Retirement Obligation

The District adopted Statement of Financial Accounting Standards No. 143, *"Accounting for Asset Retirement Obligations"* (SFAS No. 143), on May 1, 2003. SFAS No. 143 requires the recognition and measurement of liabilities for legal obligations associated with the retirement of tangible long-lived assets. Under the standard, these liabilities are recognized at fair value as incurred and capitalized as part of the cost of the related tangible long-lived assets. Accretion of the liabilities, due to the passage of time, is an operating expense and the capitalized cost is depreciated over the useful life of the long-lived asset. Retirement obligations associated with long-lived assets included within the scope of SFAS No. 143 are those for which a legal obligation exists under enacted laws, statutes, and written or oral contracts, including obligations arising under the doctrine of promissory estoppel.

The District has identified retirement obligations for the Palo Verde Nuclear Generating Station (PVNGS), Navajo Generating Station (NGS), Four Corners Generating Station and certain other assets. On May 1, 2003, the District recorded a liability of $173.7 million for asset retirement obligations, including the accretion impacts, a $63.3 million increase in the carrying amount of the associated assets, a net decrease of $99.7 million in accumulated decommissioning liability related to the reversal of the previously recorded accumulated decommissioning and a charge to earnings as a cumulative effect of $10.7 million.

Amounts recorded under SFAS No. 143, are subject to various assumptions and determinations, such as determining whether an obligation exists to remove assets, estimating the fair value of the costs of removal, estimating when final removal will occur, and determining the credit-adjusted risk-free interest rates to be utilized on discounting future liabilities. Changes that may arise over time with regard to these assumptions and determinations will change amounts recorded in the future as expense for asset retirement obligations.

A summary of the asset retirement obligation activity of the District for the year ended April 30, 2005, is included below (in millions):

Balance, May 1, 2004	$186.9
Accretion Expense	11.6
Balance, April 30, 2005	$198.5

In accordance with regulations of the Nuclear Regulatory Commission, the District maintains a trust for the decommissioning of PVNGS. Decommissioning funds of $150.1 million and $137.1 million, stated at market value, as of April 30, 2005 and 2004, respectively, are held in the trust and are classified as segregated funds in the accompanying Combined Balance Sheets. Unrealized gains on decommissioning fund assets of $33.5 million and $30.2 million at April 30, 2005 and 2004, respectively, are included in deferred credits and other non-current liabilities in the accompanying Combined Balance Sheets.

Accounting for Energy Risk Management Activities

The District has an energy risk management program to limit exposure to risks inherent in normal energy business operations. The goal of the energy risk management program is to measure and minimize exposure to market risks, credit risks and operational risks. Specific goals of the energy risk management program include reducing the impact of market fluctuations on energy commodity prices associated with

customer energy requirements, excess generation and fuel expenses, in addition to meeting customer pricing needs, and maximizing the value of physical generating assets. The District employs established policies and procedures to meet the goals of the energy risk management program using various physical and financial instruments, including forward contracts, futures, swaps and options.

Certain of these transactions are accounted for under Statement of Financial Accounting Standards No. 133, *"Accounting for Derivative Instruments and Hedging Activities,"* as amended (SFAS No. 133). Under SFAS No. 133, derivatives are recorded in the balance sheet as either an asset or liability measured at their fair value. The standard also requires changes in the fair value of the derivative be recognized each period in current earnings or other comprehensive income depending on the purpose for using the derivative and/or its qualification, designation and effectiveness as a hedging transaction. Many of the District's contractual agreements qualify for the normal purchases and sales exception allowed under SFAS No. 133 and are not recorded at market value. For further explanation of the effects of SFAS No. 133 on the District's financial results, see Note (3) Accounting for Derivative Instruments and Hedging Activities.

Concentrations of Credit Risk

The use of contractual arrangements to manage the risks associated with changes in energy commodity prices creates credit risk exposure resulting from the possibility of nonperformance by counterparties pursuant to the terms of their contractual obligations. In addition, volatile energy prices can create significant credit exposure from energy market receivables and mark-to market valuations. The District has a credit policy for wholesale counterparties, and continuously monitors credit exposures, routinely assesses the financial strength of its counterparties, minimizes credit risk by dealing primarily with creditworthy counterparties, entering into standardized agreements which allow netting of exposures to and from a single counterparty and by requiring letters of credit, parent guarantees or other collateral when it does not consider the financial strength of a counterparty sufficient.

Income Taxes

The District is exempt from federal and Arizona state income taxes. Accordingly, no provision for income taxes has been recorded for the District in the accompanying combined financial statements.

The District has four wholly-owned taxable subsidiaries; New West Energy, CRS, PPC and Springerville Four. The tax effect of these subsidiaries' operations on the combined financial statements is immaterial.

Cash Equivalents

The District treats short-term temporary cash investments with original maturities of three months or less as cash equivalents.

Rate Stabilization Fund

On April 29, 2005, the District transferred $55 million into the Rate Stabilization Fund to be used in concert with the Fuel and Purchased Power Adjustment Mechanism to cover fuel related expenses and to stabilize future prices related to fuel, as well as for any other purposes required or permitted by the Board's Supplemental Resolution dated September 10, 2001 authorizing an Amended and Restated Resolution Concerning Revenue Bonds (Bond Resolution), during fiscal years 2006 and 2007. (See Note (10) Regulatory Issues, *The Changing Regulatory Environment*, for additional information on the Rate Stabilization Fund.)

Revenue Recognition

The District recognizes revenue when billed and accrues estimated revenue for electricity delivered to customers that has not yet been billed. Other operating revenue consists primarily of revenue from marketing and trading electricity.

Materials and Supplies, and Fuel Stocks

Materials and supplies are stated at lower of market or average cost. Fuel stocks are stated at lower of market or weighted average cost.

Reclassifications

For comparative purposes, certain prior year amounts have been reclassified to conform to the current year presentation. The reclassifications had no impact on net revenues or cash flows.

Recently Issued Accounting Standards

FASB has issued the following Statement of Financial Accounting Standards (SFAS), Staff Positions (FSP), and Interpretations (FIN) that may have financial impacts on the District:

SFAS No. 132(R), *"Employers' Disclosures about Pensions and Other Postretirement Benefits"* (SFAS No. 132(R)), was issued in December of 2003 and replaces SFAS No. 132, *"Employers' Disclosures about Pensions and Other Postretirement Benefits"* (SFAS No. 132). This statement revises employers' disclosures about pension plans and other postretirement benefit plans. The disclosures required beyond those in the original SFAS No. 132 include additional information regarding plan assets, the accumulated benefit obligations, projected benefit payments, estimated expected contributions, assumptions used in the calculations and the measurement date of the plans. It does not change the measurement or recognition of those plans. This statement is effective for financial statements with fiscal years ending after December 15, 2003 and interim periods beginning after December 15, 2003. The disclosure regarding estimated future benefit payments will be effective for fiscal years ending after June 15, 2004. The District has adopted the revised standard. See Note (7) Employee Benefit Plans and Incentive Programs.

FIN No. 46, *"Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51"* (FIN No. 46), provides guidance on the identification and consolidation of entities for which control is achieved through means other than voting rights (variable interest entities). FIN No. 46 also requires additional disclosure describing transactions with variable interest entities in which consolidation is not required. In December 2003, the FASB revised FIN No. 46 (FIN No. 46R) to defer the implementation date for preexisting variable interest entities (VIEs) that are not special purpose entities (SPEs) until the end of the first interim or annual period ending after December 31, 2003. For VIEs that are not SPEs, companies must apply FIN No. 46R no later than the end of the first reporting period ending after March 15, 2004. SRP adopted FIN No. 46R as required. The adoption did not have a material impact on the accompanying combined financial statements. See also Notes (5) and (9) regarding the lease purchase of the Desert Basin Generating Station (Desert Basin).

FSP 106-1 and FSP 106-2, *"Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003"* were released in January and May 2004, respectively. The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Medicare Act) was signed into law in December 2003 and establishes a prescription drug benefit, as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a prescription drug benefit that is at least actuarially equivalent to Medicare's prescription drug coverage. FSP 106-2 provides guidance on the accounting for the effects of the Medicare Act for employers that sponsor postretirement health care plans that provide prescription drug benefits and requires those employers to provide certain disclosures regarding

the effect of the federal subsidy provided by the Medicare Act. In August 2004, SRP retroactively adopted the provisions of FSP 106-2, resulting in the re-measurement of our postretirement benefit plans' accumulated postretirement benefit obligation as of May 1, 2004. The impact of the federal subsidy is a decrease in the accumulated projected benefit obligation of approximately $29.0 million and a decrease of approximately $4.5 million in the net periodic postretirement benefit cost for fiscal year 2005.

(3) Accounting for Derivative Instruments and Hedging Activities:

The District follows SFAS No. 133, as amended, which requires that entities recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. Changes in the fair value of derivative financial instruments are either recognized periodically in net revenues or accumulated net revenues (as a component of other comprehensive income), depending on whether or not the derivative meets specific hedge accounting criteria. The criteria include a requirement for hedge effectiveness, which is measured based on the relative changes in fair value between the derivative contract and the hedged item over time. Changes in the fair value resulting from ineffectiveness are recognized immediately in net revenues.

The District enters into contracts for electricity, natural gas and other energy commodities to meet the expected needs of its retail customers. The District sells excess capacity during periods when it is not needed to meet retail requirements. The District's energy risk management program uses various physical and financial contracts to hedge exposures to fluctuating commodity prices. The District examines contracts at inception to determine the appropriate accounting treatment. If a contract does not meet the derivative criteria, or if it qualifies for the SFAS No. 133 normal purchases and sales scope exception, the District accounts for the contract using settlement accounting (costs and revenues are recorded when physical delivery occurs). Contracts that qualify as a derivative but do not meet the SFAS No. 133 normal purchases and sales scope exception are further examined by the District to determine if they qualify for hedge accounting. If a contract does not meet the hedging criteria in SFAS No. 133, the District recognizes the changes in the fair value of the derivative instrument in net revenues each period (mark to market). If the contract does qualify for hedge accounting, changes in the fair value are recorded in accumulated net revenues and other comprehensive income (as a component of other comprehensive income).

The District formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to the forecasted transactions. The District also formally assesses (both at the hedge's inception and on an ongoing basis) whether the derivatives used in hedging transactions have been effective in offsetting changes in cash flow of hedged items and whether those derivatives may be expected to remain effective in future periods. When it is determined that a derivative is not (or has ceased to be) effective as a hedge, the District discontinues hedge accounting prospectively, as discussed below.

The District discontinues hedge accounting when: (1) it determines that the derivative is no longer effective in offsetting changes in cash flows of a hedged item; (2) the derivative expires or is sold, terminated or exercised; (3) it is no longer probable that the forecasted transaction will occur; or (4) management determines that designating the derivative as a hedging instrument is no longer appropriate.

When the District discontinues hedge accounting because it is no longer probable that the forecasted transaction will occur in the originally expected period, the gain or loss on the derivative is reclassified into net revenues. If the derivative remains outstanding, the District will carry the derivative at its fair value in the Combined Balance Sheets, recognizing changes in the fair value in current-period net revenues.

As of April 30, 2005 and 2004, the valuation of the District's energy risk management contracts resulted in an increase (decrease) in electric revenues of $(4.9) million and $7.3 million, respectively, and a decrease in fuel expenses of $40.1 million and $21.5 million, respectively. The impact to combined net revenues for fiscal years 2005 and 2004 was an unrealized gain of $35.2 million and $28.8 million, respectively.

Accumulated net revenues and other comprehensive income (as a component of other comprehensive income) were unchanged as of April 30, 2005 and April 30, 2004. The following table summarizes the District's derivative-related assets and liabilities at April 30 (in thousands):

	2005	2004
Other Current Assets	$ 65,485	$ 40,195
Deferred Charges and Other Assets	65,915	41,020
Other Current Liabilities	(37,900)	(37,783)
Deferred Credits and Other Non-Current Liabilities	(82,398)	(31,747)
Net Asset	$ 11,102	$ 11,685

The electric industry engages in an activity called "book-out," under which some energy purchases are netted against sales, and power does not actually flow in settlement of the contract. As a result of these transactions, the District nets the impacts of these financially settled contracts, which reduced revenues and purchase power expense by $142.7 million and $91.2 million for fiscal years 2005 and 2004, respectively, but which did not impact net revenues or cash flows.

In November 2003, the FASB revised its derivative guidance on Issue No. C15, *"Normal Purchases and Normal Sales Exception for Option-Type Contracts and Forward Contracts in Electricity."* The new guidance, which is effective for the District on May 1, 2004, affects the criteria for the normal purchases and sales exception for purchase power and sales agreements. The implementation of this change did not impact its financial statements.

(4) Accumulated Net Revenues and Other Comprehensive Income:

The following table summarizes accumulated net revenues and other comprehensive income (in thousands):

	Accumulated Net Revenues	Accumulated Other Comprehensive Income (Loss)	Accumulated Net Revenues And Other Comprehensive Income
BALANCE, April 30, 2003	$2,312,256	$(108,328)	$2,203,928
Net revenues	112,220	—	112,220
Minimum pension liability	—	48,500	48,500
Reclassification of realized loss to income	—	(2,477)	(2,477)
Net unrealized gain on available-for-sale securities	—	19,219	19,219
BALANCE, April 30, 2004	$2,424,476	$ (43,086)	$2,381,390
Net revenues	362,450	—	362,450
Minimum pension liability	—	(35,300)	(35,300)
Net unrealized gain on available-for-sale securities	—	6,021	6,021
BALANCE, April 30, 2005	$2,786,926	$ (72,365)	$2,714,561

The majority of net unrealized gain on available-for-sale securities originates from segregated fund investments. Net unrealized gain on available-for-sale securities consists of gross unrealized gain on equity funds of $6.0 million and $20.4 million, and gross unrealized gain (loss) on debt funds of $.02 million and

$(1.2) million, at April 30, 2005 and 2004, respectively. Accumulated Other Comprehensive Income (Loss) consists of minimum pension liability of $(114,700) and $(79,400), and net unrealized gain on available-for-sale securities of $42,335 and $36,314, at April 30, 2005 and 2004, respectively.

(5) Long-Term Debt:

Long-term debt consists of the following at April 30 (in thousands):

	Interest Rate	2005	2004
Revenue bonds (mature through 2032)	3.5 - 6.5%	$2,204,217	$2,375,550
Unamortized bond (discount) premium		40,229	49,648
Total revenue bonds outstanding		2,244,446	2,425,198
Finance Lease (FL)	2.0 - 5.3%	282,680	282,680
Commercial paper	2.0 - 3.1%	475,000	375,000
Total long-term debt		3,002,126	3,082,878
Less — current portion		(274,778)	(170,029)
Total long-term debt, net of current portion		$2,727,348	$2,912,849

The annual maturities of long-term debt (excluding commercial paper and unamortized bond discount/premium) as of April 30, 2005, due in fiscal years ending April 30, are as follows (in thousands):

	Revenue Bonds	Finance Lease
2006	$ 274,778	$ 16,300
2007	115,046	16,015
2008	135,475	17,780
2009	153,297	16,790
2010	115,855	19,950
Thereafter	1,409,766	195,845
	$2,204,217	$282,680

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 amended and restated bond resolution, effective in January 2003, the District is no longer required to make monthly deposits to an externally trusteed debt service fund for the payment of future principal and interest. However, the District is continuing to make debt service deposits to a non-trusteed segregated fund. Included in segregated funds in the accompanying Combined Balance Sheets is $198.7 million and $164.5 million of debt service related funds as of April 30, 2005 and 2004, respectively.

The District has $52.1 million of mini-revenue bonds outstanding which are redeemable at the option of the bondholder under certain circumstances. Based on historical redemptions made on these bonds, management believes there are sufficient funds available to cover potential redemptions in any year.

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, 2005 and 2004, the debt service coverage ratio was 2.39 and 2.00, respectively.

Interest and the amortization of the bond discount, premium and issue expense on the various issues results in an effective rate of 5.03% over the remaining term of the bonds.

The District has authorization to issue additional Electric System Revenue Bonds totaling $1.2 billion principal amount and Electric System Refunding Revenue Bonds totaling $2.9 billion principal amount. No Electric System Revenue Bonds were issued in fiscal year 2005.

Finance Lease

In December 2003, the District entered into a lease-purchase agreement (Desert Basin Lease-Purchase Agreement) with Desert Basin Independent Trust (DBIT) to finance the acquisition of Desert Basin located in Central Arizona. In a concurrent transaction, $282.7 million in fixed-rate Certificates of Participation (COPs) were issued pursuant to a Trust Indenture, between Wilmington Trust Company, as trustee, and DBIT, to fund the acquisition of Desert Basin and other electric system assets of the District. Investors in the COPs obtained an interest in the lease payments made by the District to DBIT under the Desert Basin Lease-Purchase Agreement. Due to the nature of the Desert Basin Lease-Purchase Agreement, the District has recorded a lease-finance liability to DBIT with the same terms as the COPs.

In connection with the issuance of the COPs, the District entered into an interest rate swap transaction with Morgan Stanley Capital Services. This transaction consisted of a 6-year, $75 million fixed-to-floating swap (annual $25 million notional maturities expiring on December 1, 2007 through 2009, respectively) versus the Bond Market Association (BMA) Municipal Index. The fixed-receiver rate on the swap is 3.001%. Through the swap, the District was able to create synthetic variable rate debt and take advantage of the relationship between intermediate-term, tax-exempt borrowing costs and BMA-based, fixed-receiver swap rates. In addition, the swap to variable rate also enables the District to increase its short-term, variable rate debt portfolio. The interest rate swap is accounted for as a derivative and qualifies for hedge accounting. For further explanation of the effects of SFAS No. 133 on the District's financial results see Note (3) Accounting for Derivative Instruments and Hedging Activities.

Commercial Paper

The District has outstanding $475.0 million of commercial paper consisting of $375.0 million Series B Commercial Paper and as of December 2004, $100 million Series C Commercial Paper. The issues have an average weighted interest rate to the District of 2.28%.

The commercial paper matures not more than 270 days from the date of issuance and is an unsecured obligation of the District. The District has the ability to refinance the outstanding commercial paper on a long-term basis in connection with its revolving line of credit that supports the commercial paper and is available through December 7, 2009. As such, the District has classified the commercial paper as long-term debt in the Combined Balance Sheets as of April 30, 2005.

While the revolving credit agreement contains covenants that could prohibit borrowing under certain conditions, management believes financing would be available. The District has never borrowed under the agreement and management 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.

Line-of-Credit Agreements

The District has a $475.0 million revolving line-of-credit agreement that supports the $475.0 million commercial paper program. The agreement has various covenants, with which the District was in compliance at April 30, 2005.

(6) Fair Value of Financial Instruments:

The following methods and assumptions were used to estimate the fair value of each class of financial instruments identified in the following items in the accompanying Combined Balance Sheets.

Investments in Marketable Securities

The District invests in U.S. government obligations, certificates of deposit and other marketable investments. Such investments are classified as other investments, segregated funds, cash and cash equivalents or temporary investments in the accompanying Combined Balance Sheets depending on the purpose and duration of the investment. The fair value of marketable securities with original maturities greater than one year is based on published market data. The carrying amount of marketable securities with original maturities of one year or less approximates their fair value because of their short-term maturities.

Long-Term Debt

The fair value of the District's revenue bonds, including the current portion, was estimated by using pricing scales from independent sources. The carrying amount of commercial paper approximates the fair value because of its short-term maturity.

Other Current Assets and Liabilities

The carrying amounts of receivables, accounts payable, customers' deposits and other current liabilities in the accompanying Combined Balance Sheets approximate fair value because of their short-term maturities.

The estimated carrying amounts and fair values of the District's financial instruments, at April 30, are as follows (in thousands):

	2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investments in marketable securities:				
Other investments	$ 35,765	$ 35,406	$ 50,910	$ 50,787
Segregated funds	621,518	622,100	535,944	537,344
Rate Stabilization Fund	55,000	55,000		
Temporary investments	135,081	134,822	60,750	60,750
Long-term debt	$3,020,526	$3,143,934	$3,103,367	$3,151,902

Accounting for Debt and Equity Securities

The District's investments in debt securities are reported at amortized cost if the intent is to hold the security to maturity. At April 30, 2005, the District's investments in debt securities have maturity dates ranging from May 20, 2005 to February 28, 2012. Other debt and equity securities are reported at market, with unrealized gains or losses included as a separate component of Accumulated Net Revenues and Other Comprehensive Income. The District's investments in debt and equity securities are included in temporary investments, segregated funds and non-utility property and other investments in the accompanying Combined Balance Sheets.

(7) Employee Benefit Plans and Incentive Income:

Defined Benefit Pension Plan and Other Post-retirement Benefits

SRP's Employees' Retirement Plan (the Plan) covers substantially all employees. The Plan is funded entirely from SRP contributions and the income earned on invested Plan assets. The District made a contribution of $75.0 million and $10.0 million in fiscal years 2005 and 2004, respectively.

SRP provides a non-contributory defined benefit medical plan for retired employees and their eligible dependents (contributory for employees hired January 1, 2000 or later) and a non-contributory defined benefit life insurance plan for retired employees. Employees are eligible for coverage if they retire at age 65 or older with at least five years of vested service under the Plan (ten years for those hired January 1, 2000 or later), or any time after attainment of age 55 with a minimum of ten years of vested service under the Plan (20 years for those hired January 1, 2000 or later). The funding policy is discretionary and is based on actuarial determinations. The unrecognized transition obligation is being amortized over 20 years, beginning in 1994.

The following tables outline changes in benefit obligations, plan assets, the funded status of the plans and amounts included in the combined financial statements as of April 30, based on January 31 valuation dates (in thousands):

	Pension Benefits		Post-Retirement Benefits	
	2005	2004	2005	2004
Change in benefits obligation:				
Benefit obligation at beginning of year	$ 889,000	$ 779,000	$ 392,700	$ 312,000
Service cost	27,100	22,600	8,800	8,500
Interest cost	54,600	51,600	22,500	22,900
Actuarial loss	82,200	68,600	30,400	59,700
Benefits paid	(35,900)	(32,800)	(12,200)	(10,400)
Benefit obligations at end of year	$1,017,000	$ 889,000	$ 442,200	$ 392,700
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 670,000	$ 545,600	$ —	$ —
Actual return on plan assets	76,200	157,200	—	—
Employer contributions	85,000	—	12,200	10,500
Benefits paid	(35,900)	(32,800)	(12,200)	(10,500)
Fair value of plan assets at end of year	$ 795,300	$ 670,000	$ —	$ —
Funded status	$ (221,700)	$(219,000)	$(442,200)	$(392,700)
Unrecognized transition obligation	—	—	32,900	37,000
Unrecognized net actuarial loss	270,200	214,800	184,600	162,000
Unrecognized prior service cost	20,300	22,800	500	600
Post January 31 contributions	—	10,000	3,100	2,900
Net asset (liability) recognized	$ 68,800	$ 28,600	$(221,100)	$(190,200)
Amounts recognized in Combined Balance Sheets:				
Prepaid benefit cost	$ 68,800	$ 28,600	$ —	$ —
Additional minimum liability	(135,000)	(102,200)	—	—
Net additional minimum liability	(66,200)	(73,600)	—	—
Accrued benefit liability	—	—	(221,100)	(190,200)
Intangible asset	20,300	22,800	—	—
Accumulated other comprehensive income	114,700	79,400	—	—
Net asset (liability) recognized	$ 68,800	$ 28,600	$(221,100)	$(190,200)

The following table outlines the projected benefit obligation and accumulated benefit obligation in excess of Plan assets as of April 30, based on January 31 valuation dates (in thousands):

	2005	2004
Projected benefit obligation	$1,017,000	$889,000
Accumulated benefit obligation	861,500	753,600
Fair value of Plan assets	795,300	670,000

The District internally funds its other post-retirement benefits obligation. At April 30, 2005 and 2004, $253.9 million and $196.1 million of segregated funds, respectively, were designated for this purpose.

The weighted average assumptions used to calculate actuarial present values of benefit obligations at April 30 were as follows:

	Pension Benefits		Post Retirement	
	2005	2004	2005	2004
Discount rate	5.75%	6.25%	5.75%	6.25%
Rate of compensation increase	4.0%	4.0%	4.0%	4.0%

Weighted average assumptions used to calculate net periodic benefit costs were as follows:

	Pension Benefits		Post Retirement	
	2005	2004	2005	2004
Discount rate	6.25%	6.75%	6.25%	6.75%
Expected return on Plan assets	7.75%	8.25%	N/A	N/A
Rate of compensation increase	4.0%	4.0%	4.0%	4.0%

For employees who retire at age 65 or younger, for measurement purposes, a 9.0% annual increase before attainment of age 65 and 11.0% annual increase on and after attainment of age 65 in per capita costs of health care benefits were assumed during 2005; these rates were assumed to decrease uniformly until equaling 5.0% in all future years.

Components of net periodic benefit (gain) costs for the years ended April 30, are as follows (in thousands):

	Pension Benefits		Post Retirement	
	2005	2004	2005	2004
Service cost	$ 27,100	$ 22,500	$ 8,800	$ 8,500
Interest cost	54,600	51,600	22,500	22,900
Expected return on Plan assets	(57,000)	(57,700)	—	—
Amortization of transition obligation	—	—	4,100	4,100
Recognized net actuarial loss	7,600	—	7,800	8,300
Amortization of prior service cost	2,500	2,700	100	—
Net periodic benefit cost	$ 34,800	$ 19,100	$43,300	$43,800

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage-point change in the assumed health care cost trend rates would have the following effect (in thousands):

	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on total service cost and interest cost components	$ 5,200	$ (4,500)
Effect on post-retirement benefit obligation	$66,000	$(58,600)

Plan Assets

The Board has established an investment policy for Plan assets and has delegated oversight of such assets to a compensation committee (the Committee). The investment policy sets forth the objective of providing for future pension benefits by targeting returns consistent with a stated tolerance of risk. The investment policy is based on analysis of the characteristics of the Plan sponsors, actuarial factors, current Plan condition, liquidity needs, and legal requirements. The primary investment strategies are diversification of assets, stated asset allocation targets and ranges, and external management of Plan assets. The Committee determines the overall target asset allocation ratio for the Plan and defines the target asset allocation ratio deemed most appropriate for the needs of the Plan and the risk tolerance of the District.

The Plan's weighted-average asset allocations at April 30, based on January 31 valuations, are as follows:

	Target Allocations	2005	2004
Equity Securities	65.0%	65.8%	67.2%
Debt Securities	25.0%	25.2%	22.8%
Real Estate	10.0%	9.0%	10.0%
Total	100.0%	100.0%	100.0%

The investment policy allows for a tolerance range of plus or minus 5% from the stated target asset allocation.

Long Term Rate of Return

The expected return on Plan assets is based on a review of the Plan asset allocations and consultations with a third-party investment consultant and the Plan actuary, considering market and economic indicators, historical market returns, correlations and volatility, and recent professional or academic research. As history has demonstrated, markets may decline and increase dramatically; however, the expected rate of return on the Plan assets is reasonable given its asset allocation in relation to historical and expected future performance.

Employer Contributions

The District expects to contribute $60 million to the Plan over the next valuation period.

Benefits Payments

The District expects to pay benefits in the amounts as follows (in thousands):

2006	$ 34,900
2007	37,000
2008	39,700
2009	43,000
2010	46,600
2011 through 2015	289,300

Defined Contribution Plan

SRP's Employees' 401(k) Plan (the 401(k) Plan) covers substantially all employees. The 401(k) Plan receives employee pre-tax and post-tax contributions and partial employer matching contributions. Employer matching contributions to the 401(k) Plan were $9.7 million and $9.1 million during fiscal years 2005 and 2004, respectively.

Employee Incentive Compensation Program

SRP has an incentive compensation program covering substantially all regular employees. The incentive compensation amount is based on achievement of pre-established targets. An accrual of $26.4 million and $24.7 million for fiscal years ended April 30, 2005 and 2004, respectively, is included in other current liabilities in the accompanying Combined Balance Sheets. This liability is stated net of receivables from participants in jointly-owned electric plants of $2.7 million and $2.4 million at April 30, 2005 and 2004, respectively.

(8) 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 accompanying Combined Statements of Net Revenues.

The following table reflects the District's ownership interest in jointly-owned electric utility plants as of April 30, 2005 (in thousands):

Generating Station	Ownership Share	Plant in Service	Accumulated Depreciation	Construction Work in Progress
Four Corners (NM) (Units 4 & 5)	10.00%	$ 103,601	$ (92,836)	$ 5,759
Mohave (NV) (Units 1 & 2)	20.00%	131,900	(123,146)	10
Navajo (AZ) (Units 1, 2 & 3)	21.70%	346,906	(253,929)	10,279
Hayden (CO) (Unit 2)	50.00%	115,424	(78,538)	440
Craig (CO) (Units 1 & 2)	29.00%	262,465	(152,826)	4,257
PVNGS (AZ) (Units 1, 2 & 3)	17.49%	1,239,219	(857,450)	40,545
		$2,199,515	$(1,558,725)	$61,290

(9) Finance Lease:

In October 2003, the District acquired a 100% interest in Desert Basin plant from Reliant Energy Desert Basin, LLC (Reliant) for $282.5 million and assumed operations, thereby terminating the long-term purchase power agreement with Reliant and the District's capital lease asset and obligation. The purchase was financed through the Desert Basin Lease-Purchase Agreement, via a transfer of the assets to DBIT, and the issuance of COPs. For further explanation of the Desert Basin Lease-Purchase Agreement see Note (5) Long-term Debt. The District will continue to operate Desert Basin at its own risk through the term of the lease-purchase agreement and upon transfer of ownership to the District at the end of the lease term. Continuing involvement in Desert Basin precluded the use of sale-leaseback accounting. GAAP requires the District to report the proceeds under the Desert Basin Lease-Purchase Agreement as a liability, continue to report the facility as a utility plant asset, and continue to depreciate the property. The sales proceeds have been recorded as a liability of $282.7 million and are included in long-term debt in the accompanying Combined Balance Sheets as of April 30, 2005 and April 30, 2004.

(10) Regulatory Issues:

Fundamental Changes in the Electric Utility Industry

The District historically operated in a highly regulated environment in which it had an obligation to deliver electric service to customers within its service area. In 1998, the Arizona Electric Power Competition Act (the Act) authorized competition in the retail sales of electric generation, recovery of stranded costs and competition in billing, metering and meter reading.

Similarly, in 1999, the Arizona Corporation Commission (the Commission), which regulates public service corporations, approved final rules for retail electric competition.

While retail competition was available to all customers by 2001, there were only a few customers who chose an alternative energy provider. Those customers have since returned to their incumbent utilities. At this time, there is no active retail competition within the District's service territory or, to the knowledge of the District, within the State of Arizona.

As provided for in the Act, the District assessed a temporary surcharge on electric distribution service prices to pay for all or a portion of unmitigated stranded costs of electric generation service incurred as a direct result of the onset of competition. The Act required that such costs, in order to be recovered, must have been incurred to serve customers in Arizona before December 26, 1996, and that the surcharge must not have caused prices to exceed the prices that were in effect on December 30, 1998. Effective June 1, 2004, the District ceased collection of this surcharge.

In January 2004, the Arizona Court of Appeals found numerous provisions of the Commission's retail electric competition rules to be invalid. Specifically, the court concluded that the Certificates of Convenience and Necessity awarded by the Commission to fifteen competitive electric service providers were invalid due to the Commission's failure to determine the fair value of the utility's Arizona property in setting rates. Other rules affected included the requirement to create an independent scheduling administrator and billing and collection practices. One of the plaintiffs in the action, Trico Electric Cooperative, Inc., filed a petition for review with the Arizona Supreme Court. The court denied the petition for review in January 2005. At this time, the Commission has taken no action to modify its electric competition rules to address the ruling of the Court of Appeals.

The Federal Energy Regulatory Commission (FERC) regulates the electric utility industry under the authority of various statutes. FERC issued rules in 1996 mandating, among other things, open nondiscriminatory access to transmission lines. The rules require comparable transmission service in order to use the transmission systems of utilities under FERC jurisdiction (jurisdictional utilities). The District has filed a comparable open access transmission tariff to ensure reciprocal access, pursuant to rules FERC developed for non-jurisdictional utilities like the District. Also, FERC has issued procedures for jurisdictional utilities that own, control or operate electric transmission facilities to use for interconnecting generating facilities. The District jointly owns with jurisdictional utilities certain transmission facilities, which arguably would be subject to FERC's rules.

In December 1999, FERC issued its Order No. 2000, which, among other things, created a collaborative process for utilities to facilitate the creation of regional transmission organizations (RTOs). FERC encouraged participation in RTOs by non-public utilities. The District is participating in a number of voluntary, cost-effective initiatives designed to enhance the wholesale market in the West. The District is working cooperatively with other organizations and market participants in the Western Interconnection to coordinate and implement the enhancements on a broad regional basis.

The Changing Regulatory Environment

The District has fully opened its service area to competition in generation and billing, metering and meter reading. The District's electric distribution area remains regulated by its Board and the District will not provide distribution services in the distribution areas of other utilities.

The District's price plans have been unbundled since 1999. The Board approved a 1.5% overall price increase for the District that became effective on November 1, 2004. Certain changes to the various components of the existing price plans took effect on June 1, 2004, but had no impact on the overall price levels. Among other things, the Board approved a new Fuel and Purchased Power Adjustment Mechanism that permits the District to implement automatic changes in this mechanism on a seasonal basis subject to a 2-mill dead-band and implemented a Transmission Cost Adjustment Factor. The Fuel and Purchase Power Adjustment Mechanism provides for a true-up between related costs and expenses every six months and provides for the prospective collection of amounts for fuel and purchase power costs above predetermined levels. The Transmission Cost Adjustment Factor provides for a collection of new costs resulting from the establishment of regional or other entities to oversee transmission operations, regional planning and wholesale markets for electricity or the establishment of new operating rules for wholesale markets. The District prices its electric generation based upon market and cost of service factors.

The Board has approved two fuel and purchased power increases under the new Fuel and Purchased Power Adjustment Mechanism. The first change increased annual bills by an amount of 3.7% and became effective coincident with the November 1, 2004 price increase. The second increase, approved in April 2005, became effective for the fiscal year beginning May 1, 2005, and will increase customer bills on average by 1.3%. The Rate Stabilization Fund that was created in April 2005 will be used in concert with the Fuel and Purchased Power Adjustment Mechanism to stabilize future prices related to fuel during the upcoming fiscal years 2006 and 2007. (See Note (2) Significant Accounting Policies, *Rate Stabilization Fund*, for additional information on the Rate Stabilization Fund.)

Since December 31, 1998, the District has been recovering stranded costs through a competitive transition charge (CTC) paid by all distribution customers. In fiscal year 2001 management determined, based upon projections using current economic conditions that the full CTC of $795.0 million might not be collected. Management, therefore, reduced the amount of the CTC asset and took a charge to depreciation and amortization expense of $85.0 million as of April 30, 2001. Further, as part of the November 2001 price plans review, the District reviewed the level of its CTC associated with stranded cost recovery and elected to retain the CTC at its current level until June 1, 2004. The remaining $10.6 million, recorded as a current asset as of April 30, 2004, was fully collected in May 2004. Effective June 2004, the District stopped collecting the CTC.

Through a surcharge to the District's transmission and distribution customers, the District recovers the costs of programs benefiting the general public, such as discounted rates for the elderly or impoverished, efficiency programs, demand-side management measures, renewable energy programs, economic development, research and development and nuclear decommissioning, including the cost of spent fuel storage. In its recent pricing approval, the Board approved additional funding for renewable energy programs, energy efficiency and energy conservation. These surcharges continue to be separately identified and included in the District's price plans for the regulated portion of its operations.

Regulatory Accounting

The District accounts for the financial effects of the regulated portion of its operations in accordance with the provisions of SFAS No. 71, which requires cost-based, rate-regulated utilities to reflect the impacts of regulatory decisions in their financial statements.

As a result of the Board actions in August 1998 to open the District's service area to competition in generation, the District discontinued the application of SFAS No. 71 to its electric generation operations in fiscal year 1999. From that time forward, the provisions of SFAS No. 101, *"Regulated Enterprises: Accounting for the Discontinuation of Application of FASB Statement No. 71,"* have been applied to the portion of its business no longer meeting the provisions of SFAS No. 71.

In fiscal year 1999, the District evaluated the carrying amounts of its generation operations in relation to future cash flows, expected to be generated from their use in a competitive environment, and determined that $850.2 million of these assets were impaired. Impairment of $631.8 million was attributable to generation operations, and $163.7 million was attributable to long-term energy contracts. Of the total impairment, a maximum of $795.0 million could be recovered through the CTC, and such amount was recorded as a regulatory asset (CTC regulatory asset). The CTC regulatory asset was recovered through the competitive transition charge over the period beginning December 31, 1998, and continuing through May 31, 2004. Since December 31, 1998, the District has amortized or charged $784.9 million of the CTC asset to depreciation and amortization expense and recovered $758.3 million through CTC revenue.

Regulatory assets for spent nuclear fuel storage are amortized over the life of the nuclear plant. Bond defeasance regulatory assets are amortized over different periods, beginning in fiscal year 1997 and ending in fiscal year 2031. Regulatory assets are included in deferred charges and other assets on the accompanying Combined Balance Sheets.

Mohave Generating Station

The District and the other Participants in the Mohave Generating Station ("Mohave") entered into a settlement with the Sierra Club that requires the installation of certain pollution abatement equipment by the end of 2005 if the plant will continue to be operated as a coal-fired electric generating facility. (See Note (12) Contingencies, for additional information on air quality issues.) In addition, the initial term of the agreement to supply coal to Mohave will expire at the end of 2005 and the Hopi Tribe has demanded that the pumping of water for the slurry pipeline serving Mohave cease. The Mohave Participants have refused to commit to install pollution abatement equipment without reasonable assurance that water will be available to enable the delivery of coal to the plant. Consequently, the plant will cease operations at the end of 2005 for some extended period of time. The federal government and other interested parties have executed a memorandum of understanding whereby the Mohave Participants are providing funding toward a feasibility study and environmental report for an alternative water supply. The District has included approximately $113.0 million in its Capital Improvement Program to cover the costs of such equipment or alternate resources, if necessary. Although the Mohave Participants and the Hopi Tribe are trying to reach a settlement, it is not certain if, and when, a resolution will be reached. The District has already replaced a portion of the energy and is considering several options for replacing the balance of the capacity in the event of a prolonged shutdown.

If the negotiations are not successful and the Mohave Participants are unable to secure the extension of the life of Mohave, the Board has authorized the recovery of the balance of the District's investment in Mohave in its revenue requirements over the remainder of the scheduled useful life of the plant. Consequently, it was determined that the plant's carrying value would not be realized through future revenues and a write-down of its carrying value of $66.2 million was recorded in fiscal year ended April 30, 2003, and an additional $5.2 million and $6.6 million of impairment was recorded in fiscal years 2005 and 2004, respectively. In accordance with accounting standards for rate-regulated enterprises (SFAS No. 71), a regulatory asset was established for $78.0 million, based on the District's expectation that any un-recovered book value at the end of 2005 would be recovered in future rates.

Deferred Charges and Deferred Credits

Deferred charges and other assets consist primarily of the following at April 30 (in thousands):

	2005	2004
Bond defeasance regulatory asset	$ 93,023	$ 98,278
Mohave Generating Station regulatory asset	78,006	72,836
Spent nuclear fuel storage regulatory asset	22,210	22,830
Derivatives market valuation	65,915	41,020
Pension intangible asset	20,300	22,800
Other	42,819	46,213
	$322,273	$303,977

If events were to occur making full recovery of these regulatory assets no longer probable, the District would be required to write off the remaining balance of such assets as a one-time charge to net revenues.

Deferred credits and other non-current liabilities consist primarily of the following at April 30 (in thousands):

	2005	2004
Asset retirement obligation	$198,450	$186,921
Accrued post-retirement benefit liability	221,100	190,200
Additional pension minimum liability	66,200	73,600
Accrued decommissioning costs	33,527	30,232
Provision for contract losses	79,619	92,900
Derivatives market valuation	82,398	31,747
Accrued spent nuclear fuel storage	24,486	25,328
Accrued Environmental Issues	76,959	80,348
Other	57,335	47,027
	$840,074	$758,303

(11) Commitments:

Subsidiary Guarantees

The District acts as guarantor for New West Energy's contractual obligations as necessary to satisfy performance security requirements under agreements with utility distribution companies, brokers and counterparties for financial hedge transactions and power purchasers and sellers. No payments were made under these guarantees during fiscal years 2005 and 2004. Existing guarantees were terminated May 31, 2003, and New West Energy has not entered into any agreements since then.

Improvement Program

The Improvement Program represents the District's six-year plan for major construction projects and capital expenditures for existing generation, transmission, distribution and irrigation assets. For the 2006-2011 period, the District estimates capital expenditures of approximately $4.2 billion. Major construction projects include possible construction of an additional unit at Springerville Generating Station, completion of the Santan Generating Station and other key generation, distribution and transmission projects.

Long-Term Power Contracts

The District entered into three contracts, collectively, with the United States Bureau of Reclamation (United States), the Western Area Power Administration and the Central Arizona Water Conservation District (CAWCD) for the long-term sale, through September 2011, of power and energy associated with the United States' entitlement to NGS. The amount of energy available to the District varies annually and is expected to decline over the life of the contracts. The District pays a fixed amount under the contracts, pays the cost of NGS generation and other related costs and supplies energy at cost to CAWCD for Central Arizona Project facilities. The fixed portion of the District's payment obligations under the three contracts totals $47.0 million annually through fiscal year 2010, and $66.5 million thereafter. Of the total obligation, $25.2 million annually through fiscal year 2010 and $35.7 million thereafter are unconditionally payable regardless of the availability of power. Payments under these contracts totaled $86.3 million and $65.3 million in fiscal years 2005 and 2004, respectively.

The District entered into two other long-term power purchase agreements to obtain a portion of its projected load requirements through 2011. Minimum payments under these contracts are $41.5 million annually through fiscal year 2010 and $34.8 million thereafter. Total payments under these two contracts, including the minimum payments, were $66.4 million and $66.1 million in fiscal years 2005 and 2004, respectively. In conjunction with the impairment analysis performed on generation-related operations, the District has recorded provisions for losses on these contracts. The provisions recorded in August 1998, of $163.7 million, are being amortized over the life of the contracts, commencing January 1, 1999. Amortization of $13.3 million has been reflected as a reduction in purchased power expense in fiscal years 2005 and 2004. The remaining liability at April 30, 2005 of $79.6 million is included in deferred credits and other non-current liabilities in the Combined Balance Sheets.

Fuel Supply

At April 30, 2005, minimum payments under long-term coal supply contract commitments are estimated to be $180.6 million in fiscal year 2006, $161.9 million in fiscal year 2007, $150.8 million in fiscal year 2008, $150.8 million in fiscal year 2009, $150.8 million in fiscal year 2010 and $660.9 million thereafter.

(12) Contingencies:

Nuclear Insurance

Under existing law, public liability claims arising from a single nuclear incident are limited to $10.8 billion. PVNGS Participants insure for this potential liability through commercial insurance carriers to the maximum amount available ($300.0 million) with the balance covered by an industry-wide retrospective assessment program as required by the Price-Anderson Act. If losses at any nuclear power plant exceed available commercial insurance, the District could be assessed retrospective premium adjustments. The maximum assessment per reactor per nuclear incident under the retrospective program is $100.6 million including a 5% surcharge, applicable in certain circumstances, but not more than $10.0 million per reactor may be charged in any one year for each incident.

Based on the District's ownership share of PVNGS, the maximum potential assessment would be $52.8 million, including the 5% surcharge, but would be limited to $5.2 million per incident in any one year.

Spent Nuclear Fuel

Under the Nuclear Waste Policy Act of 1982, the District pays $0.001 per kWh on its share of net energy generation at PVNGS to the U.S. Department of Energy (DOE). The DOE was responsible for the selection and development of repositories for permanent storage and disposal of spent nuclear fuel not later than December 31, 1998. Because of the significant delays in the DOE's schedule, it cannot be determined

when the DOE will accept waste from PVNGS or from the other owners of spent nuclear fuel. It is unlikely, due to PVNGS' position in DOE's queue for receiving spent fuel, that Arizona Public Service Company (APS), the operating agent of PVNGS, will be able to initiate shipments to DOE during the licensed life of PVNGS. Accordingly, APS has constructed an on-site dry cask storage facility to receive and store PVNGS spent fuel that is sufficient to provide storage for all three units for a 40-year operating life. The facility stored its first cask in March 2003. Twenty-eight casks are now stored on site.

The District's share of on-site interim storage at PVNGS is estimated to be $31.6 million for costs to store spent nuclear fuel from inception of the plant through fiscal year-end 2005, and $1.8 million per year going forward. These costs have been included in the District's regulated operations price plans for transmission and distribution.

Black Mesa Litigation

Navajo Nation v. Peabody (US Dist. Court, D.C. District) — In June 1999, the Navajo Nation filed a lawsuit in the United States District Court in Washington D.C. (the "U.S. District Court"), alleging that the coal supplier for the Navajo and Mohave Generating Stations (Peabody Coal Company), Southern California Edison Company (manager of the Mohave Generation Station ("MGS")), the District (manager of the Navajo Generating Station) and three individual defendants, had induced the United States to breach its fiduciary duty to the Navajo Nation and had violated federal racketeering statutes. The lawsuit arises out of negotiations that culminated in 1987 with amendments to the coal royalty and lease agreements for mining coal for the Navajo and Mohave Generating Stations. The suit alleges $600.0 million in damages. The plaintiffs also seek treble damages against the corporate defendants, including the District, measured by any amounts awarded under the racketeering statutes. In addition, the plaintiffs claim punitive damages of not less than $1.0 billion. In March 2001, the Hopi Tribe intervened in the suit. However, the claims of both the Navajo Nation and the Hopi Tribe have been dismissed in their entirety with respect to the District. The Navajo Nation and the Hopi Tribe may appeal the dismissals.

On February 9, 2005, the U.S. District Court granted a motion to stay the litigation until further order of the court. The Navajo Nation, the Hopi Tribe, Peabody and the Participants in both Mohave and NGS are in mediation with respect to this litigation and related business issues.

Navajo Nation v. United States (Court of Federal Claims) — Previously, the Navajo Nation had filed a lawsuit against the United States Government based on similar allegations. The lawsuit was dismissed, but on appeal, it was reinstated and the Court of Appeals, in August 2001, held that the United States had breached its fiduciary duty to the Navajo Nation, and that a claim for damages was within the jurisdiction of the Court of Federal Claims. Subsequently, the United States Supreme Court, in March 2003, reversed the decision of the Court of Appeals and remanded the case to the Court of Appeals for further proceedings consistent with its opinion. In October 2003, the Court of Appeals remanded the case to the Court of Federal Claims and ordered that court to determine if the Navajo Nation had waived any claims with respect to statutes and regulations other than those the Court of Appeals concluded were at issue before the Supreme Court. If the Court of Federal Claims determines that there was not a waiver, it will determine if such other statutes and regulations impose enforceable fiduciary duties upon the United States in connection with Peabody's leases and, if so, whether the United States breached such duties.

Peabody Legal Fees Cases — Peabody claims it is entitled to reimbursement under the coal supply agreements for its costs associated with the defense of the Navajo Nation and Hopi Tribe's challenge of the coal leases (see above matters). Peabody has filed two separate lawsuits against the NGS and MGS Participants, respectively, seeking recovery of these fees. The MGS and NGS Participants dispute Peabody's attempt to recover its legal costs under the coal supply agreements. As for the MGS fees, the District has been dismissed from the litigation and awarded its attorneys fees. Peabody is appealing this dismissal. In the NGS

fees case, the District and the NGS Participants received a favorable ruling dismissing all of Peabody's claims for reimbursement. Peabody is likely to appeal this ruling.

Peabody v. SRP — Peabody has also filed suit in St. Louis, Missouri against the District and the other owners of NGS asserting claims against both the Participants and against the District relating to liability issues associated with the Navajo Nation Lawsuit, alleged breach of the NGS Coal Supply Agreement and breach of indemnity obligations owed to Peabody as the alleged agent of the NGS Participants, and claims of tortuous interference with contracts and tortuous interference with business expectancies against the District. The claim seeks $500 million and unspecified compensatory damages, prejudgment interest, attorneys' fees and costs.

The District is unable to predict the likely outcome of these matters at this time but does not believe that these disputes will have material adverse effects on its operations or financial condition.

Environmental

SRP is subject to numerous legislative, administrative and regulatory requirements relative to air quality, water quality, hazardous waste disposal and other environmental matters. SRP conducts ongoing environmental reviews of its properties for compliance and to identify those properties it believes may require remediation. Such requirements have resulted, and will continue to result, in increased costs associated with the operation of existing properties.

In September 2003, the District received notice from the U.S. Environmental Protection Agency (EPA) that it is potentially liable under the Comprehensive Environmental Response, Compensation and Liability Act as an owner and operator of a facility (the 16th St. facility) within the Motorola 52nd Street Superfund Site. The District is potentially liable for past costs incurred and for future work to be conducted within the Superfund Site. Investigation and evaluation of this potential liability are in the preliminary stages and the District is unable at this time to predict the outcome, but believes that it has adequate reserves for this potential liability.

The EPA is continuing its national enforcement initiative under the New Source Review ("NSR") provisions of the Clean Air Act (CAA). This initiative is focused on determining whether companies had failed to disclose major repairs or alterations to facilities that have required the installation of new pollution control equipment. As part of this initiative, the District received three (3) letters from Region IX of the EPA, under the authority of Section 114 of the CAA, requesting information on Coronado Generating Station (CGS) (the "Section 114 Letters"). However, in March 2004, the EPA suspended its last request to enter into negotiations with the District regarding possible additional control technology to reduce emission levels from District generating units. To date, EPA Region IX has taken no enforcement action against the District for alleged violations of NSR regulations at CGS. The District is unable to predict the outcome of the Section 114 Letters or negotiations with EPA Region IX with respect to potential impacts on District generating units, but is optimistic that it will reach a mutually satisfactory agreement with the EPA regarding control technology and emission limits at District facilities.

Several species listed under the Endangered Species Act ("ESA") have been discovered in and around Roosevelt and Horseshoe Dams. To obtain an Incidental Take Permit ("ITP") under the ESA, the District entered into formal consultation with the United States Fish and Wildlife Service ("USFWS"), and developed a Habitat Conservation Plan ("Plan"), which allows full operation of Roosevelt Dam and reservoir, provided the District mitigates for the "taking" of species by the establishment of habitat for the species in other areas or through other measures. The USFWS issued the District an ITP for operation of Roosevelt Dam in 2003. The District has reserved funds, that it believes will be sufficient to implement the Plan.

The District engaged in similar consultations with the USFWS to obtain an ITP for operation of Horseshoe and Bartlett Dams on the Verde River. On April 21, 2005, the USFWS granted a permit, known

alternately as a "research and recovery permit" or an "enhancement of survival permit," pursuant to the ESA. While there is indication the permit could be challenged, the risk of a "take" of any species will diminish to near zero by early June 2005 as the reservoir is lowered.

The USFWS has proposed a rule to designate "critical habitat" for one of the species affected by SRP reservoir operations, the Southwestern Willow Flycatcher. To the extent the final designation encompasses lands in or near the SRP reservoirs, the USFWS could reopen consultation on the Roosevelt ITP or the Verde River ITP.

Indemnifications

From time to time the District enters into agreements that provide indemnifications relating to liabilities arising from or related to those agreements. Generally, a maximum obligation is not explicitly stated in the indemnifications and, therefore, the overall maximum amount of the obligations under such indemnifications cannot be reasonably estimated. Based on historical experience and evaluation of the specific indemnities, the District does not believe that any material loss related to such indemnifications is likely and, therefore, no related liability has been recorded.

Air Quality

The federal Clean Air Act as amended, among other things, requires reductions in sulfur dioxide and nitrogen oxide emissions from electric generating stations and regulates emissions of hazardous air pollutants by generating stations.

In December 1999, the participants in Mohave Generating Station settled a lawsuit alleging numerous and continuing violations of opacity and sulfur dioxide standards. Under the terms of the settlement, the participants must install by January 1, 2006, a sulfur dioxide scrubber and other pollution control equipment. Major plant modifications, including emissions controls, are required for continued operation as a coal-fired plant. Capital costs are estimated at $710.4 million, of which the District's share would be $142.1 million. These costs are included in capital contingencies portion of the 2005-2010 Improvement Program. However, as discussed in Note (10) Regulatory Issues, the uncertainty in post-2005 coal and water supply have caused the Mohave Participants to be unwilling to make the necessary investments at this time.

Congress is considering new legislation, including amendments to the Clean Air Act (CAA), which could affect the cost of generating and purchasing power. While it is too early to determine whether the legislation will be enacted, and in what form, or what their effect will be, the changes may materially impact the cost of power generated at affected generating units. Most recently, in March 2005, the Senate Environment and Public Works Committee held hearings on the Clear Skies Act, a bill that would have achieved substantial reductions of sulfur dioxide, oxides of nitrogen and mercury emissions in a coordinated and phased manner. The bill would have provided the electric power generating industry with regulatory certainty while maintaining fuel supply diversity. The bill was not reported out of Committee and the prospect for new CAA legislation in 2005 is low. The District is planning on future emission reductions at its coal-fired power plants as a result of legislative and regulatory initiatives.

The EPA issued final regulations for the control of mercury emissions from coal-fired utility boilers on May 18, 2005. The District is evaluating the impact of the final regulations, which could require the installation of new emission controls at some of its coal-fired power plants. Eleven states have filed a lawsuit challenging the EPA mercury rule claiming it is not protective enough of public health and contrary to the CAA. The District is monitoring developments associated with the lawsuit and its implications on the control requirements. The specific level of reduction and compliance cost will not be known until new legislation is passed, or the EPA and the states finalize regulatory programs under the CAA.

The District is also closely monitoring global warming policy developments at both a federal and regional level. Federal legislation has been proposed which would cap emissions of carbon dioxide from fossil fuel power plants. There have also been several regional initiatives aimed at curbing utility carbon dioxide emission levels. The District is assessing the risk of these policy initiatives on its generation assets and is developing contingency plans to comply with any future laws and regulations restricting carbon dioxide emissions.

Coal Mine Reclamation

In management's opinion, there are sufficient accruals in the accompanying combined financial statements for the District's obligation to reimburse certain coal providers for amounts due for certain coal reclamation costs. However, the District is contesting certain other coal mine reclamation costs. Neither the District's responsibility nor the ultimate amount of liability, if any, can be determined at this time. Management does not believe that the outcome of these matters will have a material adverse effect on the District's financial position or results of operations.

Gas Supply

Effective September 1, 2003, FERC converted the full requirement contracts of the District and other entities in Arizona with El Paso Natural Gas Company for the transportation of natural gas to contract demand status with monthly limits for natural gas transportation service. The District has prepared a gas transportation plan that should provide the District with sufficient gas to meet its retail electric demands. As part of the gas transportation plan, the District is considering alternatives, including gas storage and taking gas transportation service from firms that have proposed new pipelines into or through Arizona, in order to mitigate the impact of an adverse outcome. This plan would, therefore, provide alternatives to the current environment where there is a single provider of gas transportation service to the District.

Proposition 200

In November 2004, Arizona voters approved Proposition 200, Arizona Taxpayer and Citizen Protection Act, which requires state and local government employees to verify the immigration status of people applying for "public benefits" and to report violators to immigration authorities. There are challenges to Proposition 200 in both the Federal District Court and the Maricopa County Superior Court. As a non-tax supported agricultural improvement district, the District does not believe that it is subject to the law. However, if the law were found to apply to the District, District employees could be required to verify immigration status of electric customers prior to providing service.

Voluntary Contributions in Lieu of Taxes

The Arizona Department of Revenue (ADOR) challenged the District's exclusion of contributions in aid of construction (CIAC) in calculating the total value of District property for purposes of computing voluntary contributions in lieu of taxes ("in lieu contributions") paid by the District. While the District obtained a favorable ruling from the Arizona State Board of Equalization, the Arizona Tax Court subsequently rendered a favorable decision to the ADOR on appeal. The District appealed the decision of the Arizona Tax Court. If the District does not prevail on appeal, it would be liable for approximately $13.8 million plus interest for fiscal years 2003 (4 months), 2004, and 2005 (8 months). The District believes it has adequate reserves for this potential liability. For calendar years 2005 and forward, legislation has been passed that removes the value of CIAC from the in lieu contribution formula. The legislation codifies the exclusion of CIAC from computing in lieu contributions that could have had approximately $7.3 million per year effect for the District.

The Arizona Legislature also passed legislation that reduces the assessment ratio for calculation of in lieu contributions in Arizona beginning in calendar year 2006. The current rate of 25% will be reduced to 20%

over a 10-year period. Because the tax year is based on a calendar year, the first reduction for in lieu contributions will include only four months of the District's fiscal year 2006. The estimated reduction for fiscal year 2006 is $.52 million. The reduction for fiscal year 2007, the first full fiscal year for the District, is estimated to be $2.2 million. The reduction will continue to accumulate through fiscal year 2016, when the assessment ratio reaches 20%.

California Energy Market Issues

A number of lawsuits have been filed concerning aspects of the California energy market. In addition, the State of California and federal authorities are conducting investigations and other proceedings concerning various aspects of the energy market. Several of the proceedings involve potential refunds. Several of these investigations focus on the involvement of Enron in allegedly manipulating the market.

Because the District bought and sold power into the California energy market, the District has been drawn into many of the proceedings. However, the District was a net buyer in the California market during the time periods being scrutinized, and believes it is entitled to refunds if any are ordered and, in fact, has received approximately $7.7 million in refunds to date.

Indian Matters

From time to time, SRP is involved in litigation and disputes with various Indian tribes on issues concerning regulatory jurisdiction, royalty payments, taxes and water rights, among others (see Navajo Nation Lawsuit and Air Quality above). Resolution of these matters may result in increased operating expenses.

Water Rights

The District and the Association are parties to a state water rights adjudication proceeding encompassing the entire Gila River System (the "Gila River Adjudication"). This proceeding is pending in the Superior Court for the State of Arizona, Maricopa County, and will eventually result in the determination of all conflicting rights to water from the Gila River and its tributaries, including the Salt and Verde Rivers. The District and the Association are unable to predict the ultimate outcome of this proceeding.

The United States, on behalf of the Gila River Indian Community ("GRI Community"), filed a lawsuit in 1982 in the Federal District Court, District of Arizona, to protect the water right claims of the GRI Community. The Association is among the many defendants named in this lawsuit. The lawsuit claims that the defendants' use of surface water and groundwater violates the GRI Community's rights to water in certain specified areas, and requests a decree specifying the GRI Community's rights, injunctive relief to stop the alleged illegal use of water by the defendants, and damages for increased costs to the GRI Community from, among other things, having to deepen its wells. This lawsuit has been stayed pending the outcome of the Gila River Adjudication.

Recently, the U.S. Congress enacted the Arizona Water Rights Settlement Act of 2004, which, when fully implemented, will resolve the claims of the GRI Community listed above as well as many of the claims in the Gila River Adjudication. However, there are many conditions precedent to the full effectiveness and enforceability of the act and its associated agreements.

In 1978, a water rights adjudication was initiated in the Apache County Superior Court with regard to the Little Colorado River System. The District has filed its claim to water rights in this proceeding, which includes a claim for groundwater being used in the operation of CGS. The District is unable to predict the ultimate outcome of this proceeding, but believes an adequate water supply for CGS will remain available.

Other Litigation

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

Self-Insurance

The District maintains various self-insurance retentions for certain casualty and property exposures. In addition, the District has insurance coverage for amounts in excess of its self-insurance retention levels. The District provides reserves based on management's best estimate of claims, including incurred but not reported claims. In management's opinion, the reserves established for these claims are adequate and any changes will not have a material adverse effect on the District's financial position or results of operations.

APPENDIX B — Summary of the Resolution

SUMMARY OF THE RESOLUTION

The following is a summary of certain provisions of the Amended and Restated Bond Resolution. Such summary does not purport to be complete, and reference is made to the Resolution for full and complete statements of such provisions.

Certain Definitions

The following are definitions in summary form of certain terms contained in the Resolution and used herein and in the Official Statement:

Accounting Practice: Generally accepted accounting principles appropriate to the electric utility industry.

Aggregate Debt Service: For any fiscal year, and as of any date of calculation, the sum of the amounts of Debt Service for such year with respect to all Series.

Cost of Construction: The District's cost of physical construction, costs of acquisition by or for the District of a Project for the Electric System, and costs of the District incidental to such construction or acquisition, the cost of any indemnity and surety bonds and premiums on insurance during construction, engineering expenses, legal fees and expenses, cost of financing, audits, fees and expenses of the Fiduciaries, amounts, if any, required by the Resolution or any Series Resolution to be paid into the Debt Service Fund upon the issuance of any Series of Revenue Bonds, payments when due (whether at the maturity of principal or the due date of interest or upon redemption) on any indebtedness of the District (other than the Revenue Bonds) incurred for a Project for the Electric System, costs of machinery, equipment and supplies and initial working capital and reserves required by the District for the commencement of operation of a Project for the Electric System, and any other costs properly attributable to such construction or acquisition, as determined by Accounting Practice, and shall include reimbursement to the District for any such items of Cost of Construction theretofore paid by the District. Any Series Resolution may provide for additional items to be included in the aforesaid Cost of Construction.

Debt Reserve Account Credit Facility: A letter of credit, revolving credit agreement, surety bond, insurance policy or similar obligation, arrangement or instrument issued by a bank, insurance company or other financial institution, having a rating in the highest rating category from a nationally recognized rating agency, which shall be deposited in the Debt Reserve Account and which provides for the payment of all or a portion of the Debt Reserve Requirement.

Debt Reserve Requirement: As of any date of calculation, an amount equal to one-half of the average annual interest cost for all Outstanding Revenue Bonds, which may be satisfied by the deposit of cash or securities in the Debt Reserve Account or by the deposit of a Debt Reserve Account Credit Facility in the Debt Reserve Account in lieu of or in partial substitution for cash or securities on deposit therein. For purposes of determining the average annual interest cost for any Outstanding Bonds which bear interest at a variable rate, the District shall assume the same average interest cost applicable to such Outstanding Bonds for the previous Fiscal Year.

Debt Service: For any period, as of any date of calculation and with respect to any Series, an amount equal to the sum of (i) interest accruing during such period on Revenue Bonds of such Series (except to the extent that such interest is to be paid from deposits in the Debt Service Account in the Debt Service Fund made from Revenue Bond proceeds, as described in the Resolution), and (ii) that portion of each Principal Installment for such Series which would accrue during such period if such Principal Installment were deemed to accrue daily in equal amounts from the next preceding Principal Installment due date for such Series (or, if there be no such preceding Principal Installment due date, from a date one year preceding the due date of such Principal Installment). Such interest and Principal Installments for such Series shall be calculated on the assumption that no Revenue Bonds of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of each Principal Installment on the due date thereof.

Defeasance Securities: Any of the following securities, if and to the extent the same are at the time legal for investment of District funds:

(i) Any security which is (a) a direct obligation of or unconditionally guaranteed by, the United States of America or the State of Arizona or (b) an obligation of an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which is not callable or redeemable at the option of the issuer thereof;

(ii) Any depositary receipt issued by a bank as custodian with respect to any Defeasance Securities which are specified in clause (i) above and held by such bank for the account of the holder of such depository receipt, or with respect to any specific payment of principal or interest on any such Defeasance Securities which are so specified and held, by such bank for the account of the holder of such depositary receipt, or with respect to any specific payment of principal of or interest on any such Defeasance Securities which are so specified and held, provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depositary receipt from any amount received by the custodian in respect of the Defeasance Securities or the specific payment of principal or interest evidenced by such depositary receipt;

(iii) Certificates of deposit, whether negotiable or non-negotiable, and banker's acceptances whose maturity value shall not be greater than $^1/_{25}$ of the capital and surplus of the accepting bank or commercial paper issued by the parent holding company of any such bank which at the time of investment has an outstanding unsecured, uninsured and unguaranteed debt issue rated in the highest short term rating category by a nationally recognized rating agency;

(iv) Any obligation of any state or political subdivision of a state or of any agency or instrumentality of any state or political subdivision ("Municipal Bond") which Municipal Bond is fully secured as to principal and interest by an irrevocable pledge of moneys or direct and general obligations of, or obligations guaranteed by, the United States of America, which moneys or obligations are segregated in trust and pledged for the benefit of the holder of the Municipal Bond, and which Municipal Bond is rated in the highest rating category by at least two nationally recognized rating agencies, and provided, however, that such Municipal Bond is accompanied by (1) a Counsel's Opinion to the effect that such Municipal Bond will be required for the purposes of the investment being made therein and (2) a report of a nationally recognized independent certified account verifying that the moneys and obligations so segregated are sufficient to pay the principal of, premium, if any, and interest on the Municipal Bond; and

(v) Any other security designated in a Series Resolution as Defeasance Securities for purposes of defeasing the Bonds authorized by such Series Resolution.

Electric System: Properties and assets to which legal title is vested in the District and was so vested on the date of adoption of the Resolution and all properties and assets acquired by the District as renewals and replacements, additions and expansion, and improvements thereto, as recorded in the books of the District pursuant to Accounting Practices, but shall not include properties and assets that may be hereafter purchased, constructed or otherwise acquired by the District as a separate system or facility, the revenue of which may be pledged to the payment of bonds or other forms of indebtedness issued to purchase, construct or otherwise acquire such separate system or facility and shall not include properties or assets charged to Irrigation Plant or any Separately Financed Project.

Fiscal Year: The period commencing May 1 and ending April 30 for each twelve-month period or any other consecutive twelve month period designated by the District from time to time.

Investment Securities: Any securities if and to the extent the same are at the time legal for investment of District funds.

Irrigation Plant: All land and land rights, structure, facilities and equipment used or usable by the District or the Salt River Valley Water Users' Association solely for the development, storage, transportation,

distribution and delivery of water to the owners or occupants of the lands within the Salt River Project having rights thereto or to anyone acting on behalf thereof pursuant to contracts with the Salt River Valley Water Users' Association or the District.

Operating Expenses: The District's expenses of operating the Electric System, including, without limiting the generality of the foregoing, all costs of purchased power, operation, maintenance, generation, production, transmission, distribution, repairs, replacements, engineering and transportation required for the operation of the Electric System (including any payments made pursuant to a "take-or-pay" electric supply or energy contract that obligates the District to pay for fuel, energy or power, so long as fuel or energy is delivered or made available for delivery), administrative and general, audit, legal, financial, pension, retirement, health, hospitalization, insurance, taxes and any other expenses actually paid or accrued, without limitation, expenses of the District applicable to the Electric System, as recorded on its books pursuant to Accounting Practice and any other expenses of the District applicable to the Electric System, as recorded on its books pursuant to Accounting Practice, and any other expenses incurred or payments by the District under the provisions of the Resolution or in discharge of obligations required to be paid by local, state or federal laws, all to the extent properly allocable to the Electric System under Accounting Practice, including those expenses the payment of which is not immediately required, such as those expenses related to the funding of a reserve in the Operating Fund. Operating Expenses shall not include any costs or expenses for new construction, falling water used in hydroelectric operations of the District, charges for depreciation, voluntary payments in lieu of taxes and operation, maintenance, repairs, replacement and construction of the Irrigation Plant.

Principal Installment: As of any date of calculation, and with respect to any Series of Revenue Bonds, (i) the principal amount of Revenue Bonds of such Series due on a certain future date for which no Sinking Fund Installments have been established, or (ii) the unsatisfied balance of any Sinking Fund Installments due on a certain future date for bonds of such Series, plus the amount of sinking fund redemption premiums, if any, which would be applicable upon redemption of such Revenue Bonds in a principal amount equal to said unsatisfied balance of such Sinking Fund Installments or (iii) if such future dates coincide as to different Revenue Bonds of such Series, the sum of such principal amount of Revenue Bonds and of such unsatisfied balance of Sinking Fund Installments due on such future date plus such applicable redemption premiums, if any.

Project: The purchase, replacement, construction, leasing or acquisition of any real or personal property or interest therein, works or facilities which the District is authorized by law to purchase, replace, construct, lease or otherwise acquire, or the improvement, reconstruction, extension or addition to any real or personal property, works or facilities owned or operated by the District, or any program of development involving real or personal property, works or facilities which the District is authorized by law to purchase, replace, construct, lease or otherwise acquire or the improvement, reconstruction, extension or addition to such program.

Put Bonds: Bonds which, by their terms, may be tendered by and at the option of the owner thereof, or are subject to a mandatory tender, for payment or purchase prior to the stated maturity or redemption date thereof.

Rate Stabilization Fund: The Salt River Project Electric System Rate Stabilization Fund established in the Resolution.

Revenues: (i) All revenues, income, rents and receipts derived by the District from the ownership and operation of the Electric System and the proceeds of any insurance covering business interruption loss relating to the Electric System and (ii) interest received on any moneys or securities (other than in the Construction Fund) held pursuant to the Resolution and paid into the Revenue Fund, but not including any such income or receipts attributable directly or indirectly to the ownership or operation of any Separately Financed Project and not including any federal or state grant monies the receipt of which is conditioned upon their expenditure for a particular purpose.

Revenues Available for Debt Service: For any fiscal year or period of 12 calendar months shall mean all Revenues less Operating Expenses for such Fiscal Year or period.

Trustee: The Trustee is currently U.S. Bank National Association.

(Resolution, Section 1.01).

Pledge of Revenues and Funds

The payment of the principal and redemption price of, and interest on, the Revenue Bonds is secured by (i) the proceeds of sale of the Bonds, (ii) the Revenues, and (iii) all Funds (except the Rate Stabilization Fund) established by the Resolution, including the investments, if any, thereof.

(Resolution, Section 5.01).

Additional Bonds

The District may from time to time issue Bonds pursuant to a Series Resolution which will rank on a parity with and be secured by an equal charge and lien on the Revenues, upon satisfaction of the conditions to the issuance of Bonds contained in Section 2.02 of the Resolution, only if, (a) Revenues Available For Debt Service, adjusted as provided in this caption, of any 12 consecutive calendar months out of the 24 calendar months next preceding the issuance of such proposed additional Bonds, are not less than one and ten hundredths ($1^{10}/_{100}$) times the maximum total Debt Service for any succeeding year on all Bonds which will be outstanding immediately prior to the issuance of the proposed additional Bonds, and (b) the estimated Revenues Available For Debt Service, adjusted as provided in this caption, for each of the five (5) Fiscal Years immediately following the issuance of such proposed additional Bonds are not less than one and ten hundredths ($1^{10}/_{100}$) times the total, for each such respective Fiscal Year, of the Debt Service on all Bonds which will be outstanding immediately subsequent to the issuance of the proposed additional Bonds.

Prior to the issuance of any additional Bonds evidencing additional indebtedness, the payment of principal, interest and Redemption Price of which additional Bonds will be a lien on the Revenues on a parity with previously issued Series of Bonds, the District shall obtain a certificate of an Authorized Officer of the District evidencing full compliance with the provisions of this caption.

In determining the amount of Revenues Available For Debt Service for the purposes of this caption, the Authorized Officer of the District may adjust the Revenues Available For Debt Service by adding thereto the following:

(i) in the event the District shall have acquired an operating utility or facility subsequent to the beginning of the 12 month period selected pursuant to this caption, an estimate made by an Authorized Officer of the District of such additional Revenues Available For Debt Service for such 12 month period which would have resulted had such operating utility or facility been acquired at the beginning of such 12 month period;

(ii) in the event any adjustment of rates with respect to the Electric System shall have become effective subsequent to the beginning of the 12 month period selected pursuant to this caption, an estimate made by an Authorized Officer of the District of such additional Revenues Available For Debt Service for such 12 month period which would have resulted had such rate adjustment been in effect for the entire period; and

(iii) an estimate made by an Authorized Officer of the District of the amounts from the Rate Stabilization Fund which have been transferred to pay Debt Service for the 12 month period selected pursuant to this caption.

In determining the amount of estimated Revenues Available For Debt Service for the purpose of this caption, the Authorized Officer of the District may adjust the estimated Revenues Available For Debt Service by adding thereto any estimated increase in revenue resulting from any increase in electric rates or any amount on deposit in the Rate Stabilization Fund which is expected to be transferred by the District to pay Debt Service or to offset any increase in electric rates, which, in the opinion of the Authorized Officer of the District, are economically feasible, and reasonably considered necessary based on projected operations for such 5 year period.

The certificate required by this caption shall be conclusive evidence and the only evidence required to show compliance with the provisions and requirements of this caption.

(Resolution, Section 2.04).

Refunding Bonds

One or more Series of Refunding Bonds may be issued at any time to refund any part or all of the Bonds of any one or more Series then Outstanding. Refunding Bonds shall be issued in a principal amount sufficient, together with other moneys available therefor, to accomplish such refunding and to make the deposits in the Debt Service Fund required by this caption or by the provisions of the Series Resolution authorizing such Bonds.

Refunding Bonds of each Series issued to refund any part or all of the Bonds of any one or more Series then Outstanding may be delivered by the District upon receipt by the Trustee of:

(a) Irrevocable instructions to the Trustee, satisfactory to it, to give due notice of redemption of all the Bonds to be refunded on a redemption date specified in such instructions;

(b) If the Bonds to be refunded are not by their terms subject to redemption within the next succeeding 60 days, irrevocable instructions to the Trustee, satisfactory to it, to make due publication of the notice provided for under the caption entitled "Defeasance" to the Holders of the Bonds being refunded;

(c) Either (i) moneys in an amount sufficient to effect payment at the applicable Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds to the redemption date, which moneys shall be held by the Trustee or any one or more of the Paying Agents in a separate account irrevocably in trust for the benefit of such Refunding Bonds until such time as such amount shall be assigned to the respective Holders of the Bonds to be refunded for payment of the Redemption Price of the Bonds to be refunded, together with accrued interest, on the redemption date, or (ii) Defeasance Securities in such principal amounts, of such maturities, bearing such interest, and otherwise having such terms and qualifications, as shall be necessary to comply with the provisions under the caption entitled "Defeasance" and any moneys required pursuant to said caption, which Defeasance Securities and moneys shall be held in trust and used only as provided in subsection (c)(i) of this caption; and

(d) Either (i) a certificate of an Authorized Officer of the District as required by the caption entitled "Additional Bonds" or (ii) a certificate of an Authorized Officer of the District setting forth (1) the Aggregate Debt Service for the then current and each future Fiscal Year to and including the Fiscal Year next preceding the date of the latest maturity of any Bonds of any Series then Outstanding (A) with respect to the Bonds of all Series Outstanding immediately prior to the date of delivery of such Refunding Bonds, and (B) with respect to the Bonds of all Series to be Outstanding immediately thereafter, and (2) that the Aggregate Debt Service set forth for each Fiscal Year pursuant to (B) above is no greater than that set forth for such Fiscal Year pursuant to (A) above.

The proceeds, including accrued interest, of the Refunding Bonds of each such Series shall be applied simultaneously with the delivery of such Bonds in the manner provided in the Series Resolution authorizing such Bonds.

Any balance of the proceeds of Refunding Bonds not needed for the purposes provided in this caption or in the Series Resolution authorizing such Bonds may be used by the District, to the extent necessary, to pay any expenses incurred in connection with the issuance of such Refunding Bonds and, thereafter, any remaining balance not so needed by the District shall be deposited in the Revenue Fund.

(Resolution, Section 2.05).

Separately Financed Projects

Nothing in this Resolution shall prevent the District from authorizing and issuing bonds, notes or other obligations or evidences of indebtedness, other than Bonds, for any project authorized by the Act, or from financing any such project from other available funds (such project being referred to herein as a "Separately Financed Project"), if the debt service on such bonds, notes, or other obligations or evidences of indebtedness, if any, and the District's share of any operating expenses related to such Separately Financed Project, are payable solely from the revenues or other income derived from the ownership or operation of such Separately Financed Project.

(Resolution, Section 2.06).

Subordinated Indebtedness

The District may, at any time, or from time to time, issue evidences of indebtedness payable out of Revenues and which may be secured by a pledge of Revenues; provided, however, that such pledge shall be and shall be expressed to be, subordinate in all respects to the pledge of the Revenues, moneys, securities and funds created by the Resolution.

(Resolution, Section 5.09).

Establishment of Funds and Application Thereof

The Resolution creates and establishes the following Funds and Accounts:

(1) Salt River Project Electric System Construction Fund, to be held by the District,

(2) Salt River Project Electric System Revenue Fund, to be held by the District,

(3) Salt River Project Electric System Debt Service Account, to be held by the Trustee,

(4) Salt River Project Electric System Debt Reserve Account, to be held by the Trustee,

(5) Salt River Project Electric System Rate Stabilization Fund, to be held by the District, and

(6) Salt River Project Electric System Redemption Fund, to be held by the Trustee.

Construction Fund. There shall be paid into the Construction Fund the amounts required to be so paid by the provisions of the Resolution, and there may be paid into the Construction Fund, at the option of the District, any moneys received for or in connection with the Electric System by the District from any other source, unless required to be otherwise applied as provided by the Resolution.

The proceeds of insurance maintained pursuant to the Resolution against physical loss of or damage to a Project, or of contractors' performance bonds with respect thereto, pertaining to the period of construction thereof, shall be paid into the Construction Fund.

Unless otherwise provided herein, amounts in the Construction Fund shall be applied to the purpose or purposes specified in the Series Resolution authorizing the Bonds.

Notwithstanding any of the other provisions of this subheading, to the extent that other moneys are not available therefor, amounts in the Construction Fund shall be applied to the payment of principal of and interest on Bonds when due.

Amounts in the Construction Fund shall be invested by the District to the fullest extent practicable in Investment Securities maturing in such amounts and at such times as may be necessary to provide funds when needed to pay the Cost of Construction or such other purpose to which such moneys are applicable. The District may, and to the extent required for payments from the Construction Fund shall, sell any such Investment Securities at any time, and the proceeds of such sale, and of all payments at maturity and upon redemption of such investments, shall be held in the Construction Fund. Interest received on moneys or securities in the Construction Fund shall be deposited in the Construction Fund.

Revenues and Revenue Fund. The Resolution establishes a Revenue Fund and provides that there shall be promptly deposited by the District to the credit of the Revenue Fund all Revenues.

Payment of Operating Expenses. The District (a) shall out of the moneys in the Revenue Fund, pay, free and clear of any lien or pledge created by the Resolution, all amounts required for reasonable and necessary Operating Expenses, and (b) may at all times retain in the Revenue Fund amounts deemed by the District to be reasonable and necessary for working capital and reserves for Operating Expenses including expenses which do not recur annually; provided that the total amount of such reserves set aside during any year shall not exceed 20% of the amount of Operating Expenses for such year.

Payments Into Certain Funds. The District shall out of the moneys in the Revenue Fund not retained therein pursuant to this subheading, on or before each date for the payment of Debt Service, transfer and apply such amount to the Debt Service Fund (i) for credit to the Debt Service Account, to the extent required so that the balance in said Account shall equal the Aggregate Debt Service; provided that, for the purposes of computing the amount to be allocated to said Account, there shall be excluded the amount, if any, set aside in said Account which was deposited therein from the Rate Stabilization Fund or from the proceeds of Bonds less an amount equal to the interest accrued and unpaid and to accrue on Bonds (or any Refunding Bonds issued to refund Bonds) to the last day of the then current calendar month; and (ii) for credit to the Debt Reserve Account, an amount equal to one-twelfth of twenty percent ($^1/_{12}$ of 20%) of the amount necessary to make the total amount of moneys on deposit therein equal to the Debt Reserve Requirement; provided, however, that no deposits shall be required if the District shall deposit a Debt Reserve Account Credit Facility in the Debt Reserve Account in satisfaction of the Debt Reserve Requirement.

The District may out of the moneys in the Revenue Fund not retained therein pursuant to this subheading or applied pursuant to this subheading, upon a determination by an Authorized Officer of the District at any time prior to the next Debt Service payment date that sufficient funds are or will be available in the Debt Service Account to pay Debt Service on the next Debt Service payment date and that sufficient moneys, securities or a Debt Reserve Account Credit Facility equal to the Debt Reserve Requirement are or will be on deposit in the Debt Reserve Account to satisfy the Debt Reserve Requirement, transfer such amount as follows and in the following order:

(1) To the Rate Stabilization Fund, an amount deemed necessary by the District which may be used by the District for any lawful purpose; and

(2) To the General Fund, any such remaining balance in the Revenue Fund. Any amount so transferred to the General Fund of the District may be used by the District for any lawful purpose.

Provided, however, that so long as there shall be held in the Debt Service Fund an amount sufficient to fully pay all Outstanding Bonds in accordance with their terms (including principal or applicable sinking fund Redemption Price and interest thereon), no deposits shall be required to be made into the Debt Service Fund.

Debt Service Fund. Debt Service Account. The Trustee shall pay out of the Debt Service Account to the respective Paying Agents (i) on or before each interest payment date for any of the Bonds, the amount required for the interest payable on such date; (ii) on or before each Principal Installment due date, the amount required for the Principal Installment payable on such due date; and (iii) on or before the day preceding any redemption date for the Bonds, the amount required for the payment of interest on the Bonds then to be redeemed. Such amounts shall be applied by the Paying Agents on and after the due dates thereof. The Trustee shall also pay out of the Debt Service Account the accrued interest included in the purchase price of the Bonds purchased for retirement.

Amounts accumulated in the Debt Service Account with respect to any Sinking Fund Installment (together with amounts accumulated therein with respect to interest on the Bonds for which such Sinking Fund Installment was established) may and, if so directed by the District, shall be applied by the Trustee, on or prior to the 60th day preceding the due date of such Sinking Fund Installment, to (i) the purchase of Bonds of the Series for which such Sinking Fund Installment was established, or (ii) the redemption at the applicable sinking fund Redemption Prices pursuant to Article IV of the Resolution, of such Bonds, if then redeemable by their terms. After the 60th day but on or prior to the 40th day preceding the due date of such

Sinking Fund Installment, any amounts then on deposit in the Debt Service Account (exclusive of amounts, if any, set aside in said Account which were deposited therein from the proceeds of additional Bonds) may and, if so directed by the District, shall be applied by the Trustee to the purchase of Bonds of the Series for which such Sinking Fund Installment was established in an amount not exceeding that necessary to complete the retirement of the unsatisfied balance of such Sinking Fund Installment. All purchases of any Bonds pursuant to this subheading shall be made at prices not exceeding the applicable sinking fund Redemption Price of such Bonds plus accrued interest, and such purchases shall be made in such manner as the Trustee shall determine. The applicable sinking fund Redemption Price (or principal amount of maturing Bonds) of any Bonds so purchased or redeemed shall be deemed to constitute part of the Debt Service Account until such Sinking Fund Installment date, for the purpose of calculating the amount of such Account. As soon as practicable after the 40th day preceding the due date of any such Sinking Fund Installment, the Trustee shall proceed to call for redemption, by giving notice as provided in Section 4.05 of the Resolution, on such due date Bonds of the Series for which such Sinking Fund Installment was established (except in the case of Bonds maturing on a Sinking Fund Installment date) in such amount as shall be necessary to complete the retirement of the unsatisfied balance of such Sinking Fund Installment. The Trustee shall pay out of the Debt Service Account to the appropriate Paying Agents, on or before the day preceding such redemption date (or maturity date), the amount required for the redemption of the Bonds so called for redemption (or for the payment of such Bonds then maturing), and such amount shall be applied by such Paying Agents to such redemption (or payment). All expenses in connection with the purchase or redemption of Bonds shall be paid by the District from the Revenue Fund as an Operating Expense.

The amount, if any, deposited in the Debt Service Account from the proceeds of each Series of Bonds shall be set aside in such Account and applied to the payment of interest on the Bonds of such Series (or Refunding Bonds issued to refund such Bonds) as the same becomes due and payable.

Debt Reserve Account. If on the first working day of any month the amount on deposit in the Debt Reserve Account shall be less than the Debt Reserve Requirement, the Trustee shall apply amounts from the Debt Service Fund to the extent necessary to make good the deficiency. In the event that there is on deposit in the Debt Reserve Account moneys and a Debt Reserve Account Credit Facility, the Trustee shall withdraw moneys prior to making a draw or claim, as the case may be, on a Debt Reserve Account Credit Facility.

Whenever the amount on deposit in the Debt Reserve Account shall exceed the Debt Reserve Requirement, such excess shall be allocated and applied by the District in the same manner as Revenues pursuant to the subheading entitled "Payments Into Certain Funds" under the caption entitled "Establishment of Funds and Application Thereof".

Whenever the amount in the Debt Reserve Account, together with the amount in the Debt Service Account, is sufficient to fully pay all Outstanding Bonds in accordance with their terms (including principal or applicable sinking fund Redemption Price and interest thereon), the funds on deposit in the Debt Reserve Account shall be transferred to the Debt Service Account.

The District may cause to be delivered to the Trustee for deposit into the Debt Service Account, and the Trustee shall upon its receipt so deposit, a Debt Reserve Account Credit Facility for the benefit of the Bondholders, which Debt Reserve Account Credit Facility shall be payable or available to be drawn upon, as the case may be (upon the giving of notice as required thereunder), on any date on which a deficiency in the Debt Service Fund exists which cannot be cured by moneys in any other fund or account held hereunder and available for such purpose; provided, however, (i) if a disbursement is made under the Debt Reserve Account Credit Facility, the District shall either reinstate the maximum limits of such Debt Reserve Account Credit Facility within twelve (12) months following such disbursement equal to the Debt Reserve Requirement or deposit into the Debt Reserve Account moneys in the amount of the disbursement made under such Debt Reserve Account Credit Facility, or a combination of such alternatives as shall equal the Debt Reserve Requirement; (ii) if any such Debt Reserve Account Credit Facility for deposit in the Debt Service Reserve Fund is obtained and if six (6) months prior to the expiration thereof, the Debt Reserve Account is less than the Debt Reserve Requirement, the District shall cause the reinstatement of the maximum limits of such existing Debt Reserve Account Credit Facility, or shall obtain a substitute to the

extent necessary to fund the Debt Reserve Account at the Debt Reserve Requirement; and (v) if a nationally recognized rating agency shall downgrade the rating of the Bonds, if any, as a result of such deposit of any such Debt Reserve Account Credit Facility or the rating of the provider thereof drops below the highest rating category for a nationally recognized rating agency, then the District shall deliver to the Trustee for deposit in the Debt Reserve Account a replacement of such Debt Reserve Account Credit Facility, in like amount and form acceptable to the Trustee and such that the nationally recognized rating agency will not reduce or withdraw their ratings, if any, on the Bonds, or deposit moneys in an amount sufficient to fund the Debt Reserve Account in an amount equal to the Debt Reserve Requirement within twelve (12) months following such downgrade.

Rate Stabilization Fund. There may be deposited in the Rate Stabilization Fund any amounts deemed necessary by the District to be used for any lawful purpose of the District, including but not limited to making any deposits required by the Resolution to any Fund, as determined by the District; provided, however, that no such deposit to any such Fund shall be required; provided further, however, that if at any time the amounts in the Operating Fund or Debt Service Fund shall be less than the current requirements thereof, the District shall withdraw from the Rate Stabilization Fund and deposit in such other Funds the amount necessary (or all the moneys in the Rate Stabilization Fund, if less than the amounts necessary, applying available amounts in the order of priority and otherwise as specified under the subheading entitled "Payments Into Certain Funds" under the caption entitled "Establishment of Funds and Application Thereof") to make up such deficiency. Amounts on deposit in the Rate Stabilization Fund may be invested by the District to the fullest extent practicable in Investment Securities. The District may sell any such Investment Securities at any time, and the proceeds of such sale, and of all payments at maturity and upon redemption of such investments, shall be held in the Rate Stabilization Fund. Interest received on moneys or securities in the Rate Stabilization Fund shall be deposited in the Rate Stabilization Fund. Amounts in the Rate Stabilization Fund which the District may determine to be in excess of the amount required to be maintained therein shall be transferred to the Revenue Fund. Amounts on deposit in the Rate Stabilization Fund are not subject to the lien or pledge created by the Resolution.

Redemption Fund. There shall be deposited in the Redemption Fund amounts required to be deposited therein pursuant to the subheading entitled "Creation of Liens: Sale and Lease of Properties" under the caption entitled "Certain Other Covenants" and the caption entitled "Reconstruction; Application of Insurance Proceeds". Amounts in the Redemption Fund shall be used by the District for the purchase or redemption of any Bonds, and expenses in connection with the purchase or redemption of any Bonds.

(Resolution, Sections 5.02-5.08; 5.10).

Operation and Maintenance of Electric System.

The District shall at all times operate or cause to be operated the Electric System properly and in an efficient and economical manner, consistent with good business and utility operating practices, and shall maintain, preserve, reconstruct and keep the same or cause the same to be so maintained, preserved, reconstructed and kept, with the appurtenances and every part and parcel thereof, in good repair, working order and condition, and shall from time to time make, or cause to be made, all necessary and proper repairs, replacements and renewals so that at all times the operation of the Electric System may be properly and advantageously conducted; provided, however, that nothing contained herein shall prevent the District from exercising its powers under the subheading entitled "Creation of Liens: Sale and Lease of Properties" under the caption entitled "Certain Other Covenants"; provided further, however, that any sale-leaseback or lease-leaseback of any part of the Electric System or other similar contractual arrangements, the effect of which is that the District continues to retain the Revenues therefrom, shall not constitute a lease or disposition of such part of the Electric System for purposes described under the subheading entitled "Creation of Liens: Sale and Lease of Properties" under the caption entitled "Certain Other Covenants" and any proceeds therefrom shall be treated as Revenues.

(Resolution, Section 7.10).

Reconstruction; Application of Insurance Proceeds.

If any useful portion of the Electric System shall be damaged or destroyed, the District shall, as expeditiously as possible, continuously and diligently prosecute the reconstruction or replacement thereof, unless the District determines that such reconstruction and replacement is not in the interest of the District and the Bondholders. The proceeds of any insurance shall be paid on account of such damage or destruction, other than business interruption loss insurance, shall be held by the District in the Construction Fund and made available for, and to the extent necessary be applied to, the cost of such reconstruction or replacement, or shall be applied to the construction or acquisition of any properties or assets of the Electric System. Pending such application, such proceeds may be invested by the District in Investment Securities which mature not later than such times as shall be necessary to provide moneys when needed to pay such cost of reconstruction or replacement or acquisition. Interest earned on such investments shall be deposited in the Construction Fund. The proceeds of any such insurance not applied by the District to constructing or replacing damaged or destroyed property or in acquiring property or assets of the Electric System shall be paid to the Trustee for deposit in the Redemption Fund.

The proceeds of business interruption loss insurance, if any, shall be paid into the Revenue Fund.

(Resolution, Section 7.13).

Transfer from General Fund

In the event there is a deficiency in the Debt Service Account and if such a deficiency is not paid from other sources, the District shall transfer money in the General Fund to the Debt Service Account an amount sufficient to make up such deficiency.

(Resolution, Section 7.17).

Electric System Rate Covenant

The District shall charge and collect rates, fees and other charges for the sale of electric power and energy and other services, facilities and commodities of the Electric System as shall be required to provide revenues and income (including investment income) at least sufficient in each Fiscal Year for the payment of the sum of:

(a) Operating Expenses during such Fiscal Year, including reserves, if any, therefor provided for in the Annual Budget for such year;

(b) An amount equal to the Aggregate Debt Service for such Fiscal Year;

(c) The amount, if any, to be paid during such Fiscal Year into the Debt Reserve Account in the Debt Service Fund; and

(d) All other charges or liens whatsoever payable out of revenues and income during such Fiscal Year and, to the extent not otherwise provided for, all amounts payable on Subordinated Indebtedness.

If, in any Fiscal Year, the revenues and income collected shall not have been sufficient to provide all of the payments and meet all other requirements as specified in the preceding paragraphs in this caption, the District shall as promptly as permitted by law establish and place in effect a schedule of rates, fees and charges which will cause sufficient revenues and income to be collected. For purposes of this caption, at any time, revenues and income collected shall include any amounts withdrawn or expected to be withdrawn thereafter in any Fiscal Year from the Rate Stabilization Fund which were on deposit therein prior to such Fiscal Year.

The failure in any Fiscal Year to comply with the Electric System Rate Covenant shall not constitute an Event of Default under the Resolution, if the District shall comply with the requirements of the immediately preceding paragraph.

(Resolution, Section 7.11).

Certain Other Covenants

No Free Service: The District will not furnish or supply power or energy free of charge to any person, firm or corporation, public or private, and the District shall promptly enforce the payment of any and all accounts owing to the District by reason of the ownership and operation of the Electric System, to the extent dictated by sound business practice.

(Resolution, Section 7.11-3).

Power to Operate Electric System and Collect Rates and Fees: The District has good right and lawful power to construct, reconstruct, improve, maintain, operate and repair the Electric System, and to fix and collect rates, fees, rents and other charges in connection therewith.

(Resolution, Section 7.06).

Creation of Liens: Sale and Lease of Properties: The District shall not hereafter issue any bonds or other evidences of indebtedness payable out of or secured by a pledge of any revenues or income of the Electric System, except as in this Resolution provided.

The District shall not issue any bonds or other evidences of indebtedness other than the Bonds, payable out of or secured by a pledge of any revenues or income of the Electric System or of the moneys, securities or funds held or set aside by the District or by the Fiduciaries under the Resolution and shall not create or cause to be created any lien or charge on any revenues or income of the Electric System, or such moneys, securities or funds; provided, however, that nothing contained in the Resolution shall prevent the District from issuing Subordinated Indebtedness as provided in the caption entitled "Subordinated Indebtedness", and provided further that the District may, for its authorized purposes, make or assume loans with the United States of America, which loans may be secured by lien on revenues and income of the Electric System prior to the lien of the Bonds issued hereunder.

The District may sell or exchange at any time and from time to time any property constituting part of the Electric System and may lease or make contracts or grant licenses for the operation of, or grant easements or other rights with respect to, any part of the Electric System if (i) in the sole judgment of the District it is advisable to take such action, (ii) such action shall not impair the ability of the District to make Debt Service payments, and (iii) such action does not materially impede or unduly restrict the operation by the District of the Electric System. Except as provided under the caption entitled "Operation and Maintenance of Electric System", any proceeds of any such sale, exchange, lease, contract or license shall at the discretion of the District be deposited in the Redemption Fund for application to the purchase or redemption of Bonds or be applied for any lawful purpose.

(Resolution, Section 7.07).

Insurance: The District shall provide protection for the Electric System in accordance with sound electric utility practice which may consist of insurance, self insurance and indemnities. Any insurance shall be in the form of policies or contracts for insurance with insurers of good standing, shall be payable to the District as its interest may appear, and may provide for such deductibles, exclusions, limitations, restrictions and restrictive endorsements customary in policies for similar coverage issued to entities operating properties similar to the properties of the Electric System. Any self insurance shall be in the amounts, manner and of the types provided by entities operating properties similar to the properties of the Electric System.

(Resolution, Section 7.12).

Accounts and Reports: The District shall keep, in accordance with Accounting Practice, proper books of record and account of its transactions relating to the Electric System and the Funds and Accounts established by the Resolution, together with all contracts for the sale of power and energy and all other books and papers of the District, including insurance policies, relating to the Electric System and such Funds and accounts.

The Trustee shall advise the District promptly after the end of each month of its transactions during such month relating to the funds and accounts held by it under the Resolution.

The District shall annually, within 180 days after the close of each fiscal year, file with the Trustee, and otherwise as provided by law, a copy of the annual report of the District for such year, accompanied by an Accountant's Report. In addition, the District will file with the Trustee a statement, or statements, accompanied by an Accountant's Report of each fund and account established under the Resolution, summarizing the receipts therein and disbursements therefrom during such year and the amounts held therein at the end of each year. Such Accountant's Report on the statement summarizing the transactions in the funds established under the Resolution shall state whether or not, to the knowledge of the signer, the District is in default with respect to any of the covenants, agreements or conditions as set forth under the subheading entitled "Events of Default" under the caption entitled "Events of Default and Remedies", insofar as they pertain to accounting matters and, if so, the nature of such default.

The reports, statements and other documents required to be furnished to the Trustee pursuant to this caption shall be available for the inspection of the Revenue Bondholders at the office of the Trustee and shall be mailed to each Revenue Bondholder who shall file a written request therefore with the District.

(Resolution, Section 7.14).

Defeasance

If the District shall pay or cause to be paid or there shall otherwise be paid, to the Holders of any Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Resolution, then the pledge of any Revenues, and other moneys and securities pledged under the Resolution and all covenants, agreements and other obligations of the District to the Bondholders, shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee shall cause an accounting for such period or periods as shall be requested by the District to be prepared and filed with the District and, upon the request of the District, shall execute and deliver to the District all such instruments as may be desirable to evidence such discharge and satisfaction, and the Fiduciaries shall pay over or deliver to the District all moneys or securities held by them pursuant to the Resolution which are not required for the payment of principal or Redemption Price, if applicable, on Bonds or payment of interest. If the District shall pay or cause to be paid, or there shall otherwise be paid, to the Holders of all Outstanding Bonds of a particular Series the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Resolution, such Bonds shall cease to be entitled to any lien, benefit or security under the Resolution, and all covenants, agreements and obligations of the District to the Holders of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

Bonds or the principal or interest installments or Redemption Price for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Paying Agents (through deposit by the District of funds for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed in the preceding paragraph. Any Outstanding Bonds of any Series shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in the preceding paragraph if (a) in case any of said Bonds are to be redeemed on any date prior to their maturity, the District shall have given to the Trustee in form satisfactory to it irrevocable instructions to publish as provided in Article IV of the Resolution notice of redemption of such Bonds on said date, (b) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance Securities the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient, to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on said Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (c) in the event said Bonds are not by their terms subject to redemption within the next succeeding 60 days, the District shall have given the Trustee in form satisfactory to it irrevocable instructions to publish, as soon as practicable, at least twice, at an interval of not less than seven days between publications, in the Authorized Newspapers a notice to the owners of such Bonds that the deposit required by (b) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this caption and stating such maturity or redemption date upon which moneys are

available for the payment of the principal or Redemption Price, if applicable, on said Bonds. Neither Defeasance Securities nor moneys deposited with the Trustee pursuant to this caption nor principal or interest payments on any such Defeasance Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if applicable, and interest on said Bonds; provided that any cash received from such principal or interest payments on such Defeasance Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Defeasance Securities maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if applicable, and interest to become due on said Bonds on and prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to the District, as received by the Trustee, free and clear of any trust, lien or pledge.

Anything in the Resolution to the contrary notwithstanding, any moneys held by a Fiduciary in trust for the payment and discharge of any of the Bonds which remain unclaimed for five years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for five years after the date of deposit of such moneys if deposited with the Fiduciary after the said date when such Bonds became due and payable, shall, at the written request of the District, be repaid by the Fiduciary to the District, as its absolute property and free from trust, and the Fiduciary shall thereupon be released and discharged with respect thereto and the Bondholders shall look only to the District for the payment of such Bonds; provided, however, that before being required to make any such payment to the District, the Fiduciary shall, at the expense of the District, cause to be published at least twice, at an interval of not less than seven days between publications, in the Authorized Newspapers, a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall be not less than 30 days after the date of the first publication of such notice, the balance of such moneys then unclaimed will be returned to the District.

(Resolution, Section 12.01).

Events of Default and Remedies

Events of Default: If one or more of the following events (in the Resolution called "Events of Default") shall happen, that is to say:

(i) if default shall be made in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity or by call for redemption, or otherwise,

(ii) if default shall be made in the due and punctual payment of any installment of interest on any Bond or the unsatisfied balance of any Sinking Fund Installment therefor (except when such Installment is due on the maturity date of such Bond), when and as such interest installment or Sinking Fund Installment shall become due and payable, and such default shall continue for a period of 30 days,

(iii) if default shall be made by the District in the performance or observance of the covenants, agreements and conditions on its part as provided under the caption entitled "Electric System Rate Covenant",

(iv) if default shall be made by the District in the performance or observance of any other of the covenants, agreements or conditions on its part in the Resolution or in the Bonds contained, and such default shall continue for a period of 60 days after written notice thereof to the District by the Trustee or to the District and to the Trustee by the Holders of not less than a majority in principal amount of the Bonds Outstanding, provided that if such default shall be such that it cannot be corrected within such sixty day period, it shall not constitute an Event of Default if corrective action is instituted within such period and diligently pursued until the failure is corrected, or

(v) if (1) a decree or order for relief is entered by a court having jurisdiction of the District adjudging the District a bankrupt or insolvent or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition in respect of the District in any involuntary case under the Federal bankruptcy laws, or under any other applicable law or statute of the United States of

America or of the State of Arizona; (2) a receiver, liquidator, assignee, custodian, trustee, sequestor or other similar official of the District or of any substantial portion of its property is appointed; or (3) the winding up or liquidation of its affairs is ordered and the continuance of any such decree or order unstayed and in effect for a period of sixty (60) consecutive days,

then, and in each and every such case, so long as such Event of Default shall not have been remedied, unless the principal of all the Bonds shall have already become due and payable, either the Trustee (by notice in writing to the District), or the Holders of not less than 25% in principal amount of the Bonds Outstanding (by notice in writing to the District and the Trustee), may declare the principal of all the Bonds then Outstanding and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and be immediately due and payable, anything in the Resolution or in any of the Bonds contained to the contrary notwithstanding. The right of the Trustee or of the Holders of not less than 25% in principal amount of the Bonds to make any such declaration as aforesaid, however, is subject to the condition that if, at any time after such declaration, but before the Bonds shall have matured by their terms, all overdue installments of interest upon the Bonds, together with interest on such overdue installments of interest to the extent permitted by law, and the reasonable and proper charges, expenses and liabilities of the Trustee, and all other sums then payable by the District under the Resolution (except the principal of, and interest accrued since the next preceding interest date on, the Bonds due and payable solely by virtue of such declaration) shall either be paid by or for the account of the District or provision satisfactory to the Trustee shall be made for such payment, and all defaults under the Bonds or under the Resolution (other than the payment of principal and interest due and payable solely by reason of such declaration) shall be made good or be secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, then and in every such case the Holders of a majority in principal amount of the Bonds Outstanding, by written notice to the District and to the Trustee, may rescind such declaration and annul such default in its entirety, or, if the Trustee shall have acted itself, and if there shall not have been theretofore delivered to the Trustee written direction to the contrary by the Holders of a majority in principal amount of the Bonds then Outstanding, then any such declaration shall ipso facto be deemed to be rescinded and any such default and its consequences shall ipso facto be deemed to be annulled, but no such rescission and annulment shall extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

Accounting and Examination of Records After Default: The District covenants that if an Event of Default shall have happened and shall not have been remedied, the books of record and account of the District and all other records relating to the Electric System shall at all times be subject to the inspection and use of the Trustee and of its agents and attorneys, including the engineer or firm of engineers appointed pursuant to the subheading entitled "Application of Revenues and other Moneys After Default" under this caption.

The District covenants that if an Event of Default shall happen and shall not have been remedied, the District, upon demand of the Trustee, will account, as if it were the trustee of an express trust, for all Revenues and other moneys, securities and funds pledged or held under the Resolution for such period as shall be stated in such demand.

Application of Revenues and other Moneys After Default: The District covenants that if an Event of Default shall happen and shall not have been remedied, the District, upon demand of the Trustee, shall pay over to the Trustee (i) forthwith, all moneys, securities and funds then held by the District in any Fund or Account under the Resolution, and (ii) all Revenues as promptly as practicable after receipt thereof.

During the continuance of an Event of Default, the Trustee shall apply such moneys, securities, funds and Revenues and the income therefrom as follows and in the following order:

(i) to the payment of the amounts required for reasonable and necessary Operating Expenses, and for reasonable renewals, repairs and replacements of the Electric System necessary to prevent loss of Revenues, as certified to the Trustee by an independent engineer or firm of engineers of recognized standing (who may be an engineer or firm of engineers retained by the District for other purposes) selected by the Trustee. For this purpose the books of record and accounts of the District relating to the Electric System shall at all times be subject to the inspection of such engineer or firm of engineers during the continuance of such Event of Default;

(ii) to the payment of the reasonable and proper charges, expenses and liabilities of the Trustee and of any engineer or firm of engineers selected by the Trustee pursuant to Article VIII of the Resolution;

(iii) to the payment of the interest and principal or Redemption Price then due on the Bonds, subject to the provisions of Section 7.02 of the Resolution, as follows:

(a) unless the principal of all of the Bonds shall have become or have been declared due and payable,

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and if the amount available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

(c) if the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bonds over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference.

If and whenever all overdue installments of interest on all Bonds, together with the reasonable and proper charges, expenses and liabilities of the Trustee, and all other sums payable by the District under the Resolution, including the principal and Redemption Price of and accrued unpaid interest on all Bonds which shall then be payable by declaration or otherwise, shall either be paid by or for the account of the District, or provision satisfactory to the Trustee shall be made for such payment, and all defaults under the Resolution or the Bonds shall be made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, the Trustee shall pay over to the District all moneys, securities, funds and Revenues then remaining unexpended in the hands of the Trustee (except moneys, securities, funds or Revenues deposited or pledged, or required by the terms of the Resolution to be deposited or pledged, with the Trustee), and thereupon the District and the Trustee shall be restored, respectively, to their former positions and rights under the Resolution, and all Revenues shall thereafter be applied as provided in Article V of the Resolution. No such payment over to the District by the Trustee or resumption of the application of Revenues as provided in Article V of the Resolution shall extend to or affect any subsequent default under the Resolution or impair any right consequent thereon.

Proceedings Brought by Trustee: If an Event of Default shall happen and shall not have been remedied, then and in every such case, the Trustee, by its agents and attorneys, may proceed, and upon written request of the Holders of not less than [a majority] in principal amount of the Bonds Outstanding shall proceed, to protect and enforce its right and the rights of the Holders of the Bonds under the Resolution forthwith by a suit or suits in equity or at law, whether for the specific performance of any covenant herein contained, or in aid of the execution of any power herein granted, or for an accounting against the District as if the District were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the Trustee, being advised by counsel, shall deem most effectual to enforce any of its rights or to perform any of its duties under the Resolution.

All rights of action under the Resolution may be enforced by the Trustee without the possession of any of the Bonds or the production thereof on the trial or other proceedings, and any such suit or proceedings instituted by the Trustee shall be brought in its name.

The Holders of not less than a majority in principal amount of the Bonds at the time Outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, provided that the Trustee shall have the right to decline to follow any such direction if the Trustee shall be advised by counsel that the action or proceeding so directed may not lawfully be taken, or if the Trustee in good faith shall determine that the action or proceeding so directed would involve the Trustee in personal liability or be unjustly prejudicial to the Bondholders not parties to such direction.

Upon commencing a suit in equity or upon other commencement of judicial proceedings by the Trustee to enforce any right under the Resolution, the Trustee shall be entitled to exercise any and all rights and powers conferred in the Resolution and provided to be exercised by the Trustee upon the occurrence of an Event of Default.

Regardless of the happening of an Event of Default, the Trustee shall have power to, but unless requested in writing by the Holders of a majority in principal amount of the Bonds then Outstanding, and furnished with reasonable security and indemnity, shall be under no obligation to, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient to prevent any impairment of the security under the Resolution by any acts which may be unlawful or in violation of the Resolution, and such suits and proceedings as the Trustee may be advised shall be necessary or expedient to preserve or protect its interest and the interest of the Bondholders.

Restriction on Bondholder's Action: No Holder of any Bond shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of the Resolution or the execution of any trust under the Resolution or for any remedy under the Resolution, unless such Holder shall have previously given to the Trustee written notice of the happening of an Event of Default, as provided in Article VIII of the Resolution, and the Holders of [not less than a majority] in principal amount of the Bonds then Outstanding shall have filed a written request with the Trustee, and shall have offered it reasonable opportunity, either to exercise the powers granted in the Resolution or by the Act or by the laws of Arizona or to institute such action, suit or proceeding in its own name, and unless such Holders shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused to comply with such request for a period of 60 days after receipt by it of such notice, request and offer of indemnity, it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the pledge created by the Resolution, or to enforce any right under the Resolution, except in the manner therein provided; and that all proceedings at law or in equity to enforce any provision of the Resolution shall be instituted, had and maintained in the manner provided in the Resolution and for the equal benefit of all Holders of the Outstanding Bonds, subject only to the provisions of Section 7.02 of the Resolution.

Nothing in the Resolution or in the Bonds contained shall affect or impair the obligation of the District, which is absolute and unconditional, to pay at the respective dates of maturity and places therein expressed the principal of and interest on the Bonds to the respective Holders thereof, or affect or impair the right of action, which is also absolute and unconditional, of any Holder to enforce such payment of his Bond.

Remedies Not Exclusive: No remedy by the terms of the Resolution conferred upon or reserved to the Trustee or the Bondholders is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Resolution or existing at law or equity or by statute on or after the date of adoption of this Resolution.

Effect of Waiver and Other Circumstances: No delay or omission of the Trustee or of any Bondholder to exercise any right or power arising upon the happening of an Event of Default shall impair any right or power or shall be construed to be a waiver of any such default or be an acquiescence therein; and every power

and remedy given by Article VIII of the Resolution to the Trustee or to the Bondholders may be exercised from time to time and as often as may be deemed expedient by the Trustee or by the Bondholders.

Prior to the declaration of maturity of the Bonds as provided under the subheading entitled "Events of Default" under this caption, the Holders of not less than 25% in principal amount of the Bonds at the time Outstanding, or their attorneys-in-fact duly authorized, may, on behalf of the Holders of all of the Bonds waive any past default under the Resolution and its consequences, except a default in the payment of interest on or principal of or premium (if any) on any of the Bonds. No such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

Notice of Default: The Trustee shall promptly mail to registered Holders of Bonds, and to all Bondholders who shall have filed their names and addresses with the Trustee for such purpose written notice of the occurrence of any Event of Default. If for any Fiscal Year the Revenues shall be insufficient to comply with the provisions under the caption entitled "Electric System Rate Covenant", the Trustee, on or before the 30th day after receipt of the annual audit, shall mail to such registered Holders and such Bondholders written notice of such failure.

Responsibilities of Fiduciaries: The recitals of fact herein and in the Bonds contained shall be taken as the statements of the District and no Fiduciary assumes any responsibility for the correctness of the same. No Fiduciary makes any representations as to the validity or sufficiency of the Resolution or of any Bonds issued thereunder or as to the security afforded by the Resolution, and no Fiduciary shall incur any liability in respect thereof. No Fiduciary shall be under any responsibility or duty with respect to the application of any moneys paid to the District or to any other Fiduciary. No Fiduciary shall be under any obligation or duty to perform any act, which would involve it in expense or liability, or to institute or defend any suit in respect hereof, or to advance any of its own moneys, unless properly indemnified. Subject to the provisions of the following paragraph, no Fiduciary shall be liable in connection with the performance of its duties hereunder except for its own negligence, misconduct or default.

The Trustee, prior to the occurrence of an Event of Default and after the curing of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in the Resolution. In case an Event of Default has occurred (which has not been cured) the Trustee shall exercise such of the rights and powers vested in it by the Resolution, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs. Any provision of the Resolution relating to action taken or to be taken by the Trustee or to evidence upon which the Trustee may rely shall be subject to the provisions of this subheading.

(Resolution, Sections 8.01-8.08, 9.03).

Supplemental Resolutions

For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution of the District may be adopted, which, upon the filing with the Trustee of a copy thereof certified by an Authorized Officer of the District, shall be fully effective in accordance with its terms:

(1) To close the Resolution against, or provide limitations and restrictions in addition to the limitations and restrictions contained in the Resolution on, the delivery of Bonds or the issuance of other evidences of indebtedness;

(2) To add to the covenants and agreements of the District in the Resolution, other covenants and agreements to be observed by the District which are not contrary to or inconsistent with the Resolution as theretofore in effect;

(3) To add to the limitations and restrictions in the Resolution, other limitations and restrictions to be observed by the District which are not contrary to or inconsistent with the Resolution as theretofore in effect;

(4) To authorize Bonds of a Series and, in connection therewith, specify and determine the matters and things referred to in Section 2.02 of the Resolution, and also any other matters and things

relative to such Bonds which are not contrary to or inconsistent with the Resolution as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first delivery of such Bonds;

(5) To confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the Resolution, of the Revenues or of any other moneys, securities or funds;

(6) To modify any of the provisions of the Resolution in any respect whatever, provided that (i) such modification shall be, and be expressed to be, effective only after all Bonds of any Series Outstanding at the date of the adoption of such Supplemental Resolution shall cease to be Outstanding, and (ii) such Supplemental Resolution shall be specifically referred to in the text of all Bonds of any Series delivered after the date of the adoption of such Supplemental Resolution and of Bonds issued in exchange therefor or in place thereof;

(7) To modify any of the provisions of the Resolution to permit compliance with any amendment to the Internal Revenue Code of 1986, as amended, or any successor thereto, as the same may be in effect from time to time, if, in the Opinion of Bond Counsel, failure to so modify the Resolution either would adversely affect the ability of the District to issue Bonds the interest on which is excludable from gross income for purposes of federal income taxation, or is necessary or advisable to preserve such exclusion with respect to any Outstanding Bonds;

(8) To comply with such regulations and procedures as are from time to time in effect relating to establishing and maintaining a book-entry-only system;

(9) To provide for the issuance of Bonds in coupon form payable to bearer;

(10) To comply with the requirements of any nationally recognized rating agency in order to maintain or improve a rating on the Bonds by such rating agency;

(11) To cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Resolution; or

(12) To insert such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable and are not contrary to or inconsistent with the Resolution as theretofore in effect.

Supplemental Resolutions Effective With Consent of Trustee: At any time or from time to time, a Supplemental Resolution may be adopted subject to consent by Bondholders in accordance with and subject to the provisions of Article XI of the Resolution, which Supplemental Resolution, upon the filing with the Trustee of a copy thereof certified by an Authorized Officer of the District and upon compliance with the provisions of said Article XI, shall become fully effective in accordance with its terms as provided in said Article XI.

General Provisions: The Resolution shall not be modified or amended in any respect except as provided in and in accordance with and subject to the provisions of Article X and Article XI of the Resolution. Nothing in Article X or Article XI of the Resolution contained shall affect or limit the right or obligation of the District to adopt, make, do, execute, acknowledge or deliver any resolution, act or other instrument pursuant to the provisions of Section 7.04 of the Resolution or the right or obligation of the District to execute and deliver to any Fiduciary any instrument which elsewhere in the Resolution it is provided shall be delivered to said Fiduciary.

Any Supplemental Resolution referred to and permitted or authorized by this caption may be adopted by the District without the consent of any of the Bondholders, but shall become effective only on the conditions, to the extent and at the time provided in said Sections, respectively. The copy of every Supplemental Resolution when filed with the Trustee shall be accompanied by a Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted in accordance with the provisions of the Resolution, is authorized or permitted by the Resolution, and is valid and binding upon the District and enforceable in accordance with its terms.

The Trustee is authorized to accept the delivery of a certified copy of any Supplemental Resolution referred to and permitted or authorized by this caption and subheading and to make all further agreements and stipulations which may be therein contained, and the Trustee, in taking such action, shall be fully protected in relying on an opinion of counsel (which may be a Counsel's Opinion) that such Supplemental Resolution is authorized or permitted by the provisions of the Resolution.

No Supplemental Resolution shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto.

(Resolution, Section 10.01-10.03).

Amendment with Consent of Bondholders

Any modification or amendment of the Resolution and of the rights and obligations of the District and of the Holders of the Bonds thereunder, in any particular, may be made by a Supplemental Resolution, with the written consent given as provided in the following paragraph of the Holders of at least two-thirds in principal amount of the Bonds Outstanding at the time such consent is given, and (ii) in case less than all of the several Series of Bonds then Outstanding or less than all the Bonds of a Series then Outstanding are affected by the modification or amendment, of the Holders of at least two-thirds in principal amount of the Bonds so affected and Outstanding at the time such consent is given, and (iii) in case the modification or amendment changes the terms of any Sinking Fund Installment, of Holders of at least two-thirds in principal amount of the Bonds entitled to such Sinking Fund Installment and Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this paragraph. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto. For the purpose of this paragraph, a Series shall be deemed to be affected by a modification or amendment of the Resolution if the same adversely affects or diminishes the rights of the Holders of Bonds of such Series.

The District may at any time adopt a Supplemental Resolution making a modification or amendment permitted by the preceding paragraph, to take effect when and as provided in this paragraph. A copy of such Supplemental Resolution (or brief summary thereof or reference thereto in form approved by Trustee, together with a request to Bondholders for their consent thereto in form satisfactory to the Trustee), shall be mailed by the District to Bondholders and shall be published in the Authorized Newspapers at least once a week for two successive weeks (but failure to mail such copy and request shall not affect the validity of the Supplemental Resolution when consented to as provided in this paragraph). Such Supplemental Resolution shall not be effective unless and until (i) there shall have been filed with the Trustee (a) the written consents of Holders of the percentages of Outstanding Bonds specified in the preceding paragraph and (b) a Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted and filed by the District in accordance with the provisions of the Resolution, is authorized or permitted by the Resolution, and is valid and binding upon the District and enforceable in accordance with its terms, and (ii) a notice shall have been published as provided in this paragraph. Each such consent shall be effective only if accompanied by proof of the holding, at the date of such consent, of the Bonds with respect to which such consent is given, which proof shall be such as is permitted by Section 12.02 of the Resolution. A certificate or certificates by the Trustee filed with the Trustee that it has examined such proof and such proof is sufficient in accordance with Section 12.02 of the Resolution shall be conclusive that the consents have been given by the Holders of the Bonds described in such certificate or certificates of the Trustee. Any such consent shall be binding upon the Holder of the Bonds giving such consent and, anything in Section 12.02 of the Resolution to the contrary notwithstanding, upon any subsequent Holder of such Bonds and of any Bonds issued in exchange therefor

(whether or not such subsequent Holder thereof has notice thereof) unless such consent is revoked in writing by the Holder of such Bonds giving such consent or a subsequent Holder thereof by filing with the Trustee, prior to the time when the written statement of the Trustee provided for in this paragraph is filed, such revocation and, if such Bonds are transferable by delivery, proof that such Bonds are held by the signer of such revocation in the manner permitted by Section 12.02 of the Resolution. The fact that a consent has not been revoked may likewise be proved by a certificate of the Trustee filed with the Trustee to the effect that no revocation thereof is on file with the Trustee. At any time after the Holders of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution, the Trustee shall make and file with the District and the Trustee a written statement that the Holders of such required percentages of Bonds have filed such consents. Such written statement shall be conclusive that such consents have been so filed. At any time thereafter notice, stating in substance that the Supplemental Resolution (which may be referred to as Supplemental Resolution adopted by the District on a stated date, a copy of which is on file with the Trustee) has been consented to by the Holders of the required percentages of Bonds and will be effective as provided in this paragraph, may be given to Bondholders by the District by mailing such notice to Bondholders (but failure to mail such notice shall not prevent such Supplemental Resolution from becoming effective and binding as provided in this paragraph) and by publishing the same in the Authorized Newspapers at least once not more than 90 days after the Holders of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution and the written statement of the Trustee hereinabove provided for is filed. The District shall file with the Trustee proof of the publication of such notice and, if the same shall have been mailed to Bondholders, of the mailing thereof. A record, consisting of the papers required or permitted by this paragraph to be filed with the Trustee, shall be proof of the matters therein stated. Such Supplemental Resolution making such amendment or modification shall be deemed conclusively binding upon the District, the Fiduciaries and the Holders of all Bonds at the expiration of 40 days after the filing with the Trustee of the proof of the first publication of such last mentioned notice, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Resolution in a legal action or equitable proceeding for such purpose commenced within such 40 day period; provided, however, that any Fiduciary and the District during such 40 day period and any such further period during which any such action or proceeding may be pending shall be entitled in their absolute discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Resolution as they may deem expedient.

(Resolution, Sections 11.02 and 11.03).

APPENDIX C — Form of Bond Opinion and Form of Special Tax Counsel Opinion

[FORM OF BOND COUNSEL OPINION]

September 1, 2005

Board of Directors
Salt River Project Agricultural
Improvement and Power District
Tempe, Arizona 85281

Ladies and Gentlemen:

We have examined the Constitution and statutes of the State of Arizona, certified copies of the proceedings of the Board of Directors of the Salt River Project Agricultural Improvement and Power District (the "District") and other proofs submitted to us relative to the issuance and sale by the District, a body politic and corporate and political subdivision of the State of Arizona, of

$327,090,000
Salt River Project
Electric System Revenue Bonds,
2005 Series A

The 2005 Series A Bonds consist of bonds bearing interest at fixed rates. The 2005 Series A Bonds are dated as shown on the cover of the Official Statement (as defined herein), mature and bear interest at the times, in the manner and upon the terms provided therein and in the Resolutions (as hereinafter defined). The 2005 Series A Bonds are subject to redemption prior to maturity as provided in the Resolutions.

We have also examined the form of said 2005 Series A Bonds.

We are of the opinion that such proceedings and proofs show lawful authority for the issuance and sale of the 2005 Series A Bonds pursuant to the Constitution and statutes of the State of Arizona, including particularly Article 7, Chapter 17, Title 48, Arizona Revised Statutes, and other applicable provisions of law, and pursuant and subject to the provisions, terms and conditions of a resolution, dated as of September 10, 2001, which became effective January 11, 2003, entitled "Supplemental Resolution Authorizing an Amended and Restated Resolution Concerning Revenue Bonds" as amended, and a resolution dated as of August 19, 2005, entitled "Resolution Authorizing The Issuance And Sale Of $327,090,000 Salt River Project Electric System Revenue Bonds, 2005 Series A" (collectively, the "Resolutions"), all duly adopted by the District and that the 2005 Series A Bonds are valid and legally binding special obligations of the District.

We are further of the opinion that the District, in the Resolutions, has lawfully covenanted and is legally obligated to charge and collect, and revise from time to time whenever necessary, such fees and other charges for the sale of electric power and energy which will be sufficient in each year to pay the necessary expenses of operating and maintaining the District's electric system, the principal of and interest on the 2005 Series A Bonds and all other indebtedness maturing and becoming due in such year, and all reserve or other payments required by the Resolutions in such year, subject to restrictions, if any, imposed by or on behalf of the United States of America, all in the manner provided in the Resolutions.

We are further of the opinion that the 2005 Series A Bonds, and the outstanding Electric System Revenue Bonds heretofore issued pursuant to the Resolutions, as to principal or redemption price thereof and interest thereon are payable on a parity from and secured by a valid and equal pledge of the revenues of the District's electric system and other funds held or set aside under the Resolutions. Such pledge is subject and subordinate to the pledges and liens created by United States of America loan agreements hereafter entered into by the District, all in the manner provided in the Resolutions.

We are further of the opinion that the District may, within the terms, limitations and conditions contained in the Resolutions, issue pari passu additional Electric System Revenue Bonds payable from the revenues derived from the District's electric system, ranking equally as to lien on and source and security for payment from the revenues derived from the District's electric system, with the 2005 Series A Bonds and any pari passu additional Electric System Revenue Bonds heretofore or hereafter issued, all in the manner provided in the Resolutions.

We are further of the opinion that the District has validly entered into further covenants and agreements with the holders of the 2005 Series A Bonds for the exact terms of which reference is made to the Resolutions.

The opinions set forth above are subject to the effect of, and restrictions and limitations imposed by or resulting from, bankruptcy, insolvency, debt adjustment, moratorium, reorganization or other similar laws affecting creditors' rights.

This opinion letter is dated as of the date hereof, and we assume no obligation to update this opinion letter to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law, or interpretations thereof, that may occur, or for any other reason.

Very truly yours,

[FORM OF SPECIAL TAX COUNSEL OPINION]

September 1, 2005

Board of Directors
Salt River Project Agricultural
Improvement and Power District
Tempe, Arizona 85281

Salt River Project Agricultural Improvement and Power District
$327,090,000 Electric System Revenue Bonds, 2005 Series A

Ladies and Gentlemen:

We have reviewed the record of proceedings related to the issuance by the Salt River Project Agricultural Improvement and Power District (the "District") of its $327,090,000 aggregate principal amount of Electric System Revenue Bonds, 2005 Series A (the "2005 Series A Bonds"), including a Tax Certificate as to Arbitrage and the Provisions of Sections 103 and 141-150 of the Internal Revenue Code of 1986 (the "Tax Certificate"), the statutes of the State of Arizona, certified copies of the proceedings of the Board of Directors of the District, the Supplemental Resolution Authorizing an Amended and Restated Resolution Concerning Revenue Bonds, dated as of September 10, 2001, which became effective January 11, 2003, as amended (the "Bond Resolution"), a Resolution Authorizing the Issuance and Sale of $327,090,000 Salt River Project Electric System Revenue Bonds, 2005 Series A adopted by the District dated August 19, 2005 (collectively with the Bond Resolution, the "Resolution"), and such other matters of fact and law as we have deemed necessary to enable us to render the opinions contained herein. In rendering the opinions set forth below, we have relied upon the approving opinion of McCarter & English, LLP, Bond Counsel, relating among other things to the validity of the 2005 Series A Bonds delivered on even date herewith.

The Internal Revenue Code of 1986 (the "Code") sets forth certain requirements which must be met subsequent to the issuance and delivery of the 2005 Series A Bonds for interest thereon to be and remain excluded from gross income for Federal income tax purposes. Noncompliance with such requirements could cause the interest on the 2005 Series A Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issue of the 2005 Series A Bonds. The District has covenanted to comply with the provisions of the Code applicable to the 2005 Series A Bonds and has covenanted not to take any action or permit any action that would cause the interest on the 2005 Series A Bonds to be included in gross income under Section 103 of the Code applicable to the 2005 Series A Bonds. In addition, the District has made certain certifications and representations in the Tax Certificate. We have not independently verified the accuracy of those certifications and representations.

Under existing law and assuming compliance with the tax covenants described herein, interest on the 2005 Series A Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Code. We are also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the 2005 Series A Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

We are also of the opinion that interest on the 2005 Series A Bonds is exempt from income taxes imposed by the State of Arizona.

Except as stated in the preceding three paragraphs, we express no opinion as to any other Federal or state tax consequences of the ownership or disposition of the 2005 Series A Bonds. Furthermore, we express no opinion as to any Federal, state or local tax law consequences with respect to the 2005 Series A Bonds, or the interest thereon, if any action is taken with respect to the 2005 Series A Bonds or the proceeds thereof upon the advice or approval of other bond counsel.

Very truly yours,

CONTINUING DISCLOSURE AGREEMENT

Between

SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT

and

U.S. BANK NATIONAL ASSOCIATION
as trustee

$327,090,000
Salt River Project Electric System Revenue Bonds, 2005 Series A

THIS CONTINUING DISCLOSURE AGREEMENT ("Agreement"), dated as of, September 1, 2005 by and between the Salt River Project Agricultural Improvement and Power District (the "District"), an agricultural improvement district duly organized and existing under Article 7, Title 48, Chapter 17 of the laws of the State of Arizona, A.R.S. sections 48-2301, *et seq.* (the "Act") and U.S. Bank National Association, Phoenix, Arizona, as trustee (the "Trustee") for the $327,090,000 Salt River Project Electric System Revenue Bonds, 2005 Series A to be issued by the District (the "Bonds");

W I T N E S S E T H:

WHEREAS, the District intends to issue the Bonds under and pursuant to (i) the Act and (ii) the District's Supplemental Resolution, dated as of September 10, 2001 Authorizing an Amended and Restated Resolution Concerning Revenue Bonds, which became effective January 11, 2003, including that supplemental resolution dated as of August 19, 2005 (the "Resolution").

WHEREAS, on November 10, 1994 the Securities and Exchange Commission (the "Commission") adopted Release Number 34-34961 (the "Release"), which amended Rule 15c2-12 ("Rule 15c2-12"), originally adopted by the Commission on June 28, 1989;

WHEREAS, Rule 15c2-12 requires that prior to acting as a broker, dealer or municipal securities dealer (the "Participating Underwriter") for the Bonds, a Participating Underwriter must comply with the provisions of Rule 15c2-12;

WHEREAS, Rule 15c2-12 further provides, among other things, that a Participating Underwriter shall not purchase or sell the District's Bonds unless the Participating Underwriter has reasonably determined that the District and any "obligated person" (within the meaning of Rule 15c2-12, as amended) have undertaken, either individually or in combination with others, in a written agreement for the benefit of Bondholders, to provide certain information relating to the District, any "obligated person" and the Bonds, to the Repositories described herein below;

WHEREAS, this Agreement is being executed and delivered by the District and the Trustee for the benefit of the Bondholders, the Beneficial Owners of the Bonds and the Trustee in order to comply with Rule 15c2-12 issued by the Commission;

WHEREAS, the District hereby agrees to provide the information described herein below with respect to itself;

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, the District and the Trustee agree as follows:

Section 1. Definitions

"Association" shall mean the Salt River Valley Water User's Association, predecessor of the District, duly incorporated February 9, 1903 under the laws of the Territory of Arizona.

"Annual Financial Information" shall mean the information specified in Section 3 hereof.

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any of the Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Bondholder" or "Holder" shall mean any registered owner of Bonds and any Beneficial Owner of Bonds who provides evidence satisfactory to the Trustee of such status.

"Central Post Office" shall mean the internet based electronic filing system run by the Municipal Advisory Council of Texas and recognized as such by the Commission and currently identified at www.DisclosureUSA.org.

"Independent Accountant" shall mean, with respect to the District, any firm of certified public accountants appointed by the District.

"Official Statement" shall mean the Official Statement of the District, dated August 19, 2005 relating to the issuance of the Bonds.

"Repository" shall mean, at any time, each then existing nationally recognized municipal securities information repository, as recognized from time to time by the Commission for the purposes referred to in Rule 15c2-12. Repositories currently are identified on the Commission website at: http://www.sec.gov/info/municipal/nrmsir.htm.

"Rule 15c2-12" shall mean Rule 15c2-12 under the Securities Exchange Act of 1934, as amended through the date of this Agreement.

"State" shall mean the State of Arizona.

"State Repository" shall mean any public or private repository or entity designated by the State as a state information depository for the purpose of Rule 15c2-12 and recognized as such by the Commission. As of the date of this Agreement, there is no State Repository.

Capitalized terms not otherwise defined herein shall have the meaning ascribed thereto in the Resolution.

Section 2. Obligation to Provide Continuing Disclosure

The District hereby undertakes for the benefit of the Holders of the Bonds to provide:

A. to each Repository and to the State Repository, if any, or to the Central Post Office, no later than 180 days after the end of each fiscal year, commencing with the fiscal year ending April 30, 2006:

1. the Annual Financial Information relating to such fiscal year together with audited financial statements of the District for such fiscal year if audited financial statements are then available; **provided, however**, that if audited financial statements of the District are not then available, the unaudited financial statements of the District shall be submitted with the Annual Financial Information and the audited financial statements shall be delivered to each Repository and to the State Repository, if any, when they become available (but in no event later than 350 days after the end of such fiscal year); or

2. notice to each Repository or to the Municipal Securities Rulemaking Board, and to the State Repository, if any, of the District's failure, if any, to provide any of the information described in Section A.1. hereinabove;

B. to each Repository or to the Municipal Securities Rulemaking Board, and to the State Repository, if any, or to the Central Post Office, in a timely manner, notice of any of the following events with respect to the Bonds, if material:

1. any Event of Default resulting from principal and interest payment delinquencies on the Bonds;

2. any non-payment related Event of Default;

3. unscheduled draws on the Debt Reserve Account under the Resolution reflecting financial difficulties;

4. unscheduled draws on credit enhancements, if any, reflecting financial difficulties under the Resolution;

5. substitution of credit or liquidity providers, if any, or their failure to perform;

6. adverse tax opinions or events affecting the tax-exempt status of the Bonds;

7. amendments of or modifications to the rights of Bondholders;

8. giving of notice of redemption of Bonds (which does not include regularly scheduled or mandatory sinking fund redemptions effectuated in accordance with the Resolution);

9. defeasance of the Bonds;

10. release, substitution, or sale of property, if any, securing repayment of the Bonds; and

11. rating changes on the Bonds.

The Trustee shall notify the District upon the occurrence of any of the eleven events listed in this Section 2.B. promptly upon becoming aware of the occurrence of any such event. The Trustee shall not be deemed to have become aware of the occurrence of any such event unless an officer in its corporate trust department actually becomes aware of the occurrence of any such event. The District shall notify the Trustee upon the transmittal of any such information.

Nothing in this Agreement shall prevent the District from disseminating any information in addition to that required hereunder. If the District disseminates any such additional information, nothing herein shall obligate the District to update such information or include it in any future materials disseminated.

Section 3. Annual Financial Information

Annual Financial Information shall include updated financial and operating information, in each case updated through the last day of the Salt River Project's prior fiscal year unless otherwise noted, relating to the following information contained in the Official Statement:

(i) information as to any changes in the District's projected peak loads and resources in substantially the same level of detail as found in Table 2 under the heading "Projected Peak Loads and Resources";

(ii) an update of the information listing District power sources and participation interests in power generating facilities in substantially the same level of detail found in Table 3 and Table 4 under the heading "Existing and Future Resources";

(iii) information as to any changes or proposed changes in the electric prices charged by the District in substantially the same level of detail as found under the heading "Electric Prices";

(iv) an update of the information relating to customer base and classification, electric power sales, and the District's revenues and expenses in substantially the same level of detail found in Table 7 and Table 8 under the heading "Customers, Sales, Revenues and Expenses";

(v) (a) an update summarizing the contractual payment obligations of the District on behalf of other political subdivisions which obligations secure debt service on bonds, other than bonds issued by the District, in substantially the same level of detail as found under the heading "Customers, Sales, Revenues and Expenses — Contractual Obligations Relating to Bonds of Other Political Subdivisions" and (b) a statement of any default in the payment of such obligations;

(vi) (a) information as to the authorization or issuance by the District of any notes, other obligations, minibonds or parity indebtedness in substantially the same level of detail as found under the heading "Additional Financial Matters" and (b) a statement of any default under such notes, minibonds or parity indebtedness;

(vii) (a) information as to the outstanding balances and required debt service on any United States Government Loans and (b) a statement of any default with respect to such loans;

(viii) (a) an update summarizing the District's discussions of operations in substantially the same level of detail as found under the heading "Additional Financial Matters — Management's Discussion of Operations" or an annual report;

(ix) (a) an update of the balance in the Debt Reserve Account and (b) an update of all information relating to actual debt service requirements and coverages for outstanding revenue bonds

and other prior and parity debt obligations in substantially the same level of detail as found in Tables 9 and 10 under the heading "SELECTED OPERATIONAL AND FINANCIAL DATA — Additional Financial Matters — Outstanding Revenue Bond Long-Term Indebtedness"; and

(x) such narrative explanation as may be necessary to avoid misunderstanding and to assist the reader in understanding the presentation of financial information and operating data concerning, and in judging the financial condition of, the District.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements pertaining to debt issued by the District, which have been submitted to each of the Repositories and the State Repository, if any, or the Commission. If the document incorporated by reference is a final official statement (within the meaning of Rule 15c2-12), it must also be available from the Municipal Securities Rulemaking Board. The District shall clearly identify each such other document so incorporated by reference. It is sufficient for the purposes of Rule 15c2-12 and this Agreement that the Annual Financial Information to be provided pursuant to Section 2.A. and Section 3 hereof be submitted to each of the Repositories, the State Repository, if any, or the Commission no more than once annually.

The requirements contained in this Section 3 are intended to set forth a general description of the type of financial information and operating data to be provided; such descriptions are not intended to state more than general categories of financial information and operating data; and where the provisions of this Section 3 call for information that no longer can be generated or is no longer relevant because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided.

Section 4. Financial Statements

The Salt River Project's annual financial statements for each fiscal year shall be prepared in accordance with generally accepted accounting principles in effect from time to time. Such financial statements shall be audited by an Independent Accountant. The annual financial statements are presented on a combined basis including the financial information of both the District and the Association. All or any portion of the Salt River Project's audited or unaudited financial statements may be incorporated by specific reference to any other documents which have been filed with (i) the Repositories and the State Repository, if any, or (ii) the Commission; **provided, however**, that if the document is an official statement, it shall have been filed with the Municipal Securities Rulemaking Board and need not have been filed elsewhere.

Section 5. Remedies

If the District shall fail to comply with any provision of this Agreement, then the Trustee or any Holder may, but shall not be obligated to, enforce, for the equal benefit and protection of all Holders similarly situated, by mandamus or other suit or proceeding at law or in equity, this Agreement against the District and any of the officers, agents and employees of the District, and may compel the District or any such officers, agents or employees to perform and carry out their duties under this Agreement; **provided, however**, that the sole remedy hereunder shall be limited to an action to compel specific performance of the obligations of the District hereunder and no person or entity shall be entitled to recover monetary damages hereunder under any circumstances; **provided, further**, that any challenge to the adequacy of any information provided pursuant to Section 2 shall be brought only by the Trustee or the Holders of 25% of the aggregate principal amount of the Bonds then outstanding which are affected thereby. Failure to comply with any provision of this Agreement shall not constitute an Event of Default under the Resolution.

Section 6. Parties in Interest

This Agreement is executed and delivered for the sole benefit of the Holders, the Beneficial Owners and the Trustee. No other person shall have any right to enforce the provisions hereof or any other rights hereunder.

Section 7. Termination

This Agreement shall remain in full force and effect until such time as all principal, redemption premiums, if any, and interest on the Bonds shall have been paid in full or legally defeased pursuant to the Resolution (a "Legal Defeasance"); **provided, however**, that if Rule 15c2-12 (or successor provision) shall be amended, modified or changed so that all or any part of the information currently required to be provided thereunder shall no longer be required to be provided thereunder, then this Agreement shall be amended to provide that such information shall no longer be required to be provided hereunder; and **provided, further**, that if and to the extent Rule 15c2-12 (or successor provision), or any provision thereof, shall be declared by a court of competent and final jurisdiction to be, in whole or in part, invalid, unconstitutional, null and void or otherwise inapplicable to the Bonds, then the information required to be provided hereunder, insofar as it was required to be provided by a provision of Rule 15c2-12 so declared, shall no longer be required to be provided hereunder. Upon any Legal Defeasance, the District shall provide notice of such defeasance to each Repository, the State Repository, if any, and the Municipal Securities Rulemaking Board. Such notice shall state whether the Bonds have been defeased to maturity or to redemption and the timing of such maturity or redemption. Upon any other termination pursuant to this Section 7, the District shall provide notice of such termination to each Repository or to the Municipal Securities Rulemaking Board, and to the State Repository, if any.

Section 8. Amendment; Change; Modification

Without the consent of any Holders (except to the extent expressly provided below), the District and the Trustee at any time and from time to time may enter into any amendments or changes to this Agreement for any of the following purposes:

(i) to comply with or conform to Rule 15c2-12 or any amendments thereto or authoritative interpretations thereof by the Commission or its staff (whether required or optional) which are applicable to this Agreement;

(ii) to add a dissemination agent for the information required to be provided hereby and to make any necessary or desirable provisions with respect thereto;

(iii) to evidence the succession of another person to the District and the assumption by any such successor of the covenants of the District hereunder;

(iv) to add to the covenants of the District for the benefit of the Holders, or to surrender any right or power herein conferred upon the District; or

(v) for any other purpose as a result of a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the District, or type of business conducted; provided that (1) this Agreement, as amended, would have complied with the requirements of Rule 15c2-12 at the time of the offering of the Bonds, after taking into account any amendments or authoritative interpretations of Rule 15c2-12, as well as any change in circumstances, (2) the amendment or change either (a) does not materially impair the interest of Holders, as determined by bond counsel or (b) is approved by the vote or consent of Holders of a majority in outstanding principal amount of the Bonds affected thereby at or prior to the time of such amendment or change and (3) the Trustee receives an opinion of bond counsel that such amendment is authorized or permitted by this Agreement.

The Annual Financial Information for any fiscal year containing any amendment to the operating data or financial information for such fiscal year shall explain, in narrative form, the reasons for such amendment and the impact of the change on the type of operating data or financial information in the Annual Financial Information being provided for such fiscal year. If a change in accounting principles is included in any such amendment, such Annual Financial Information, respectively, shall present a comparison between the financial statements or information prepared on the basis of the amended accounting principles. Such comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information. To the extent

reasonably feasible such comparison shall also be quantitative. A notice of any such change in accounting principles shall be sent to each Repository or to the Municipal Securities Rulemaking Board, and to the State Repository, if any.

Section 9. Duties of the Trustee

A. The duties of the Trustee under this Agreement shall be limited to those expressly assigned to it hereunder. The District agrees to indemnify and save harmless the Trustee and its officers, directors, employees and agents, for, from and against any loss, expense and liabilities that it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including reasonable attorneys' fees and expenses) of defending against any claim of liability, but excluding liabilities due to the Trustee's gross negligence or willful misconduct. The obligations of the District under this Section 9 shall survive resignation or removal of the Trustee, payment of the Bonds or termination of this Agreement.

B. No earlier than one day, nor later than 30 days, following the end of each fiscal year of the District (ending April 30, unless the District notifies the Trustee otherwise) the Trustee will notify the District of its obligation to provide the Annual Financial Information in the time and manner described herein; **provided, however**, that any failure by the Trustee to notify the District under this Section 9.B shall not affect the District's obligation hereunder, and the Trustee shall not be responsible in any way for such failure.

C. The Trustee shall be under no obligation to report any information to any Repository, any State Repository, if any, the Municipal Securities Rulemaking Board or any Holder. If an officer of the Trustee obtains actual knowledge of the occurrence of an event described in Section 2.B.1. through 2.B.11 hereunder, whether or not such event is material, the Trustee will notify the District of such occurrence; **provided, however**, that any failure by the Trustee to notify the District under this Section 9.C. shall not affect the District's obligation hereunder, and the Trustee shall not be responsible in any way for such failure.

Section 10. Governing Law

THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE DETERMINED WITHOUT REGARD TO PRINCIPLES OF CONFLICT OF LAW, AND THE LAWS OF THE UNITED STATES OF AMERICA, AS APPLICABLE. Any action for enforcement of this Agreement shall be taken in a state or federal court, as appropriate, located in Maricopa County, Arizona. To the fullest extent permitted by law, the District and the Trustee each hereby irrevocably waives any and all rights to a trial by jury, and covenants and agrees that it will not request a trial by jury, with respect to any legal proceeding arising out of or relating to this Agreement.

Section 11. No Previous Non-Compliance

The District represents that it has previously entered into written contracts or agreements of the type referenced in paragraph (b)(5)(i) of Rule 15c2-12 in relation to certain of its outstanding obligations, and is in compliance with such agreements.

Section 12. Counterparts

This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized officers as of the date first above written.

SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT

By: _____

Name: _____

Title: _____

_____
as Trustee

By: _____

Name: _____

Title: _____

APPENDIX E — Book-Entry Only System

General

Beneficial ownership interests in the 2005 Series A Bonds will be available in book-entry form only. Purchasers of beneficial ownership interests in the 2005 Series A Bonds will not receive certificates representing their interests in the 2005 Series A Bonds and will not be Bondholders or owners of the Bonds under the Resolution.

DTC, an automated clearinghouse for securities transactions, will act as the Securities Depository for the 2005 Series A Bonds. The 2005 Series A Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for each maturity of the 2005 Series A Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations ("Direct Participants"). DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, L.L.C., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others, such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of the 2005 Series A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2005 Series A Bonds on DTC's records. The ownership interest of each actual purchaser of each 2005 Series A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmation providing details of the transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2005 Series A Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2005 Series A Bonds, except in the event that use of the book-entry system for the 2005 Series A Bonds is discontinued.

To facilitate subsequent transfers, all 2005 Series A Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of 2005 Series A Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2005 Series A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2005 Series A Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners, will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2005 Series A Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2005 Series A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2005 Series A Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Trustee, on each payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the District or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2005 Series A Bonds at any time by giving reasonable notice to the District. Under such circumstances, in the event that a successor securities depository is not obtained, the 2005 Series A Bond certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the 2005 Series A Bond certificates will be printed and delivered.

The information set forth above concerning DTC and DTC's book-entry system has been obtained from DTC and other sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

Issuance of the 2005 Series A Bonds in book-entry form may reduce the liquidity of such bonds in the secondary trading market since investors may be unwilling to purchase bonds for which they cannot obtain physical certificates. In addition, since transactions in the 2005 Series A Bonds can be effected only through DTC, Direct Participants and Indirect Participants, the ability of a Beneficial Owner to pledge 2005 Series A Bonds to persons or entities that do not participate in the DTC system, or otherwise to take actions in respect of the 2005 Series A Bonds, may be limited due to lack of a physical certificate. Beneficial Owners will not be recognized by the Trustee as registered owners for purposes of the Resolution, and Beneficial Owners will be permitted to exercise the rights of registered owners only indirectly through DTC and the Direct and Indirect Participants.

Same-Day Settlement and Payment

Settlement for the 2005 Series A Bonds will be made by the Underwriters in immediately available funds. All payment of principal and interest will be made by the Trustee on behalf of the District to DTC in immediately available funds.

Secondary trading in long-term principal obligations comparable to the 2005 Series A Bonds is generally settled in clearing-house or next-day funds. In contrast, the 2005 Series A Bonds will trade in DTC's Same-Day Fund Settlement System so long as DTC is the Securities Depository. Secondary market trading activity in the 2005 Series A Bonds will settle in immediately available funds. No assurance can be given as to the effect, if any, of settlement in immediately available funds on the trading activity in the 2005 Series A Bonds.

APPENDIX F — The Refunded Bonds

Series	Sinking Fund Payment Date	Interest Rate	Par Amount Refunded	Call Date	Call Price	Original CUSIP	Portion of Sinking Fund Payment Refunded
1992 Series D	1/1/2027	5.000%	$11,190,000	10/5/2005	100	79575DAX8	Partial
	1/1/2028	5.000%	12,435,000	10/5/2005	100	79575DAX8	Partial
	1/1/2029	5.000%	11,915,000	10/5/2005	100	79575DAX8	Partial
	1/1/2030*	5.000%	1,445,000	10/5/2005	100	79575DAX8	Partial
		Subtotal	***$36,985,000***				
1993 Series B	1/1/2028	5.000%	$ 1,295,000	10/5/2005	100	79575DFH8	Partial
	1/1/2029*	5.000%	5,120,000	10/5/2005	100	79575DFH8	Partial
		Subtotal	***$ 6,415,000***				
		Total	***$43,400,000***				

* Maturity Date.

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Salt River Project
Agricultural Improvement and Power District, AZ

$327,090,000 Electric System Revenue Bonds, 2005 Series A

August 18, 2005

presented by
Public Financial Management
60 Broad Street
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New York, NY 10004
(212) 809-4212

60 Broad Street
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PFM

Public Financial Management
Financial and Investment Advisors

Report of the Independent Financial Advisor
Regarding the Issuance of

Agricultural Improvement and Power District, Arizona
$327,090,000 Electric System Refunding Revenue Bonds, 2005 Series A

Introduction

This report is intended to summarize the plan of financing, market conditions and credit factors related to the issuance by Salt River Project Agricultural Improvement and Power District, AZ (the "District") of its $327,090,000 aggregate principal amount of Electric System Refunding Revenue Bonds, 2005 Series A (the "Bonds"). This report was prepared to assist the District in formulating an informed decision with respect to the acceptability of the Bond Purchase Agreement it entered into with Bear, Stearns on behalf of itself, Morgan Stanley, JP Morgan, Goldman, Sachs and Citigroup (collectively, the "Underwriters"). This report also serves as the basis for the formal recommendation from Public Financial Management, Inc. ("PFM"), the independent Financial Advisor to the District with respect to the sale of the Bonds.

Plan of Finance

Purpose: The District will issue the 2005 Series A Bonds in order to refund certain of the District's outstanding Revenue Bonds (the "Refunded Bonds") and to finance capital improvements to the Electric System pursuant to the District's Capital Improvement Program. The Refunded Bonds include the District's Electric System Refunding Revenue Bonds, 1992 Series D and Electric System Refunding Revenue Bonds, 1993 Series B. The proceeds of the 2005 Series A Bonds also will be used to pay costs of issuing the Bonds.

Sources and Uses of Funds: The sources and uses of funds in connection with the issuance of the Bonds are estimated to be as follows:

Sources of Funds	
Principal Amount of 2005 Series A Bonds	$327,090,000.00
Original Issue Premium	18,534,167.90
Equity	361,666.67
Total Sources of Funds	$345,985,834.57

Uses of Funds	
Construction Fund	$300,005,158.59
Deposit in the Escrow Fund	43,830,652.03
Cost of Issuance [1]	2,150,023.95
Total Uses of Funds	$345,985,834.57

[1] *Includes Underwriters' Discount*

Structure: The 2005 Series A Bonds will be issued in the principal amount of $327,090,000 and will be dated and bear interest from the date of delivery, September 1, 2005. The 2005 Series A Bonds will mature on January 1 of each year, commencing January 1, 2027 and ending January 1, 2035. The Bonds will bear interest, payable on January 1 and July 1 of each year, commencing January 1, 2006 and ending January 1, 2035. Individual purchases of interests in the Bonds will be made in book-entry form only, in the principal amount of $5,000 or any integral multiple thereof.

Original Issue Premium: The Bonds were structured to include original issue premiums ("OIPs") in order to improve their marketability and, therefore, produce a lower overall borrowing cost. Bonds with an OIP structure are sold at coupons or interest rates which are above current market interest rates. In order to give the investor an actual rate of return or "yield" which is equal to the current market interest rates, these maturities are sold at a premium above par amount. The net effect of the premium bonds was an original issue premium of $18,534,167.90.

Security and Source of Payment: The Bonds are payable from and secured by a pledge of and lien on Revenues. Revenues are defined as (i) all revenues, income, rents and receipts derived by the District from the ownership and operation of the Electric System and the proceeds of any insurance covering business interruption loss relating to the Electric System and (ii) interest received on any moneys or securities (other than in the Construction Fund) held pursuant to the Resolution and paid into the Revenue Fund, but not including any such income or receipts attributable directly or indirectly to the ownership or operation of any Separately Financed Project and not including any federal or state grant monies the receipt of which is conditioned upon their expenditure for a particular purpose. In addition, the Bonds are also secured by all funds held under the Resolution. Such pledge created by the Resolution is subject only to the provisions of the Resolution permitting the application of Revenues for the purposes and upon the terms and conditions set forth in the Resolution. The Bonds will not constitute general obligations of the District or obligations of the State of Arizona, and no holder of Revenue Bonds will ever have the right to compel any exercise of the taxing powers of the District to pay the Bonds or the interest thereon.

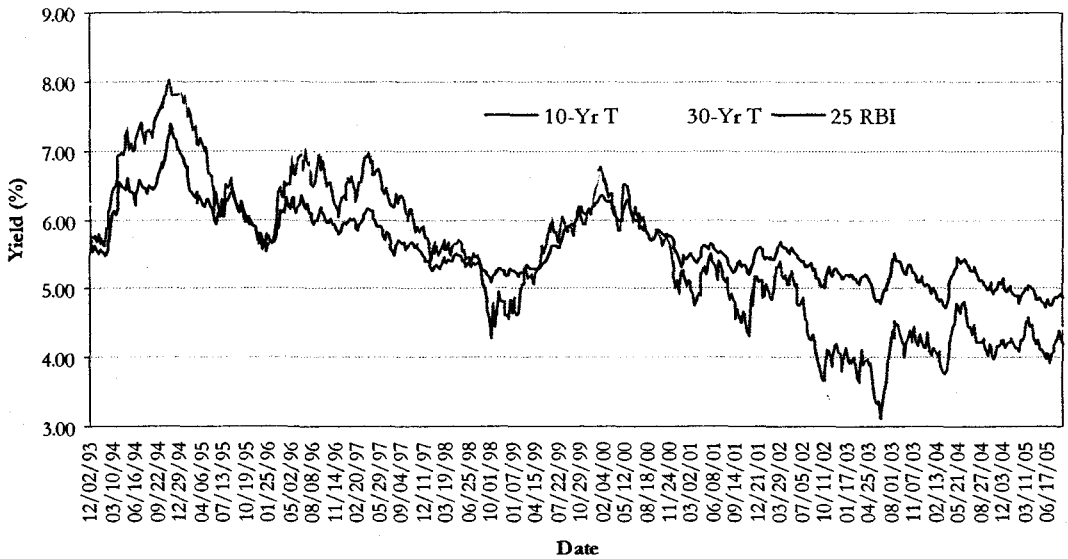
Bond Ratings: Moody's Investors Service and Standard & Poor's Corporation have assigned ratings to the Bonds of Aa2 and AA, respectively.

Redemption Provisions: The Bonds maturing on and after January 1, 2016 are subject to redemption prior to their stated maturity, at the election of the District, in whole or in part, by random selection within a maturity with the same coupon by the Trustee from maturities selected by the District, at any time on or after January 1, 2016 at the respective redemption price of 100% of the principal amount of the Bonds, or portion thereof to be redeemed, together with accrued interest to, but not including, the redemption date.

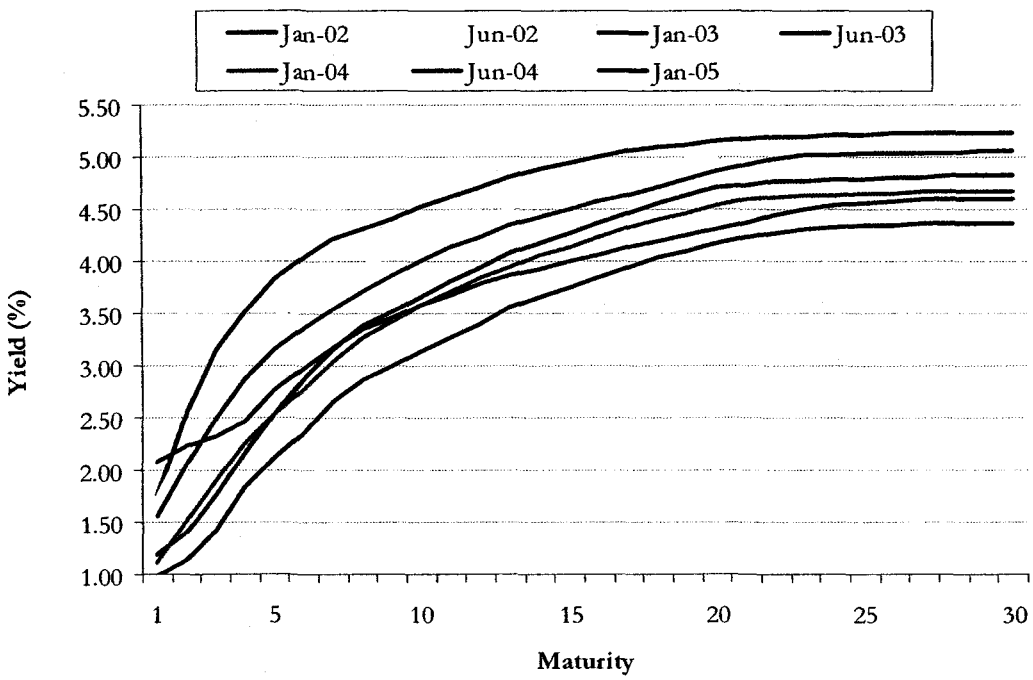
General Market Conditions

The graph below depicts the trends of the *Bond Buyer* 25 Revenue Bond Index (the "RBI"), the 30-year and the 10-year Treasury. The RBI is an index of the average yield to maturity of 25 revenue bonds with ratings of at least "A" and which mature in 30 years. On the following page, the historical trend of the MMD natural AAA index and the 30-day visible market supply are shown.

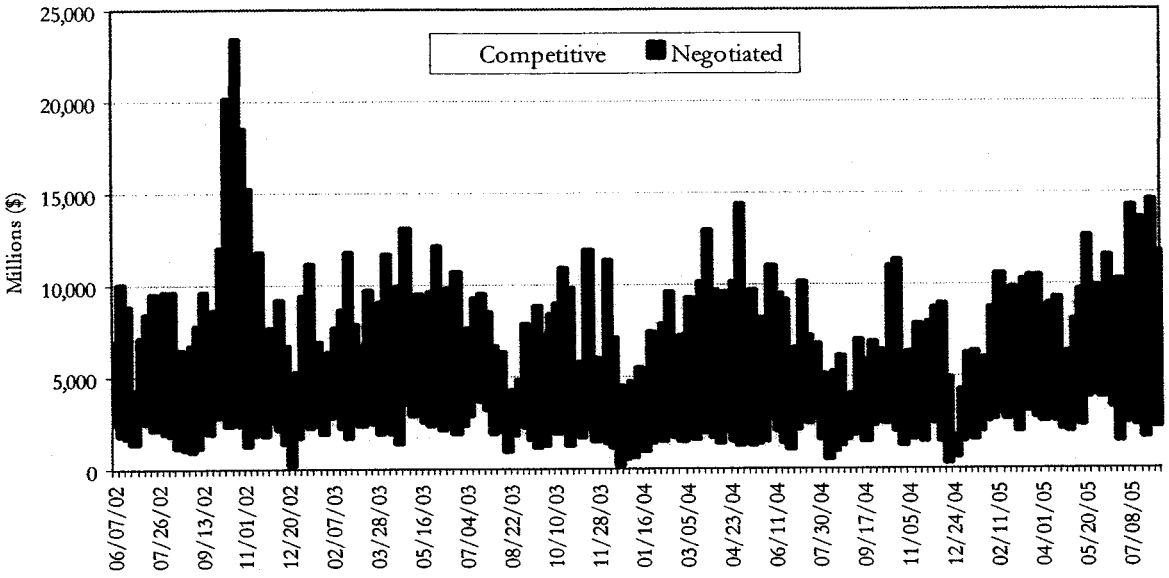
30-Year and 10-Year US Treasury and Revenue Bond Index



MMD Natural AAA Yield Curve Comparison



30-Day Visible Supply



Pricing of the Bonds

Background: To prepare for the pricing/sale process, PFM closely followed the recent trends of interest rates, municipal offerings and inventory and other matters we considered relevant to the pricing of the Bonds. Furthermore, we analyzed the interest rates, yields, and takedown levels of recently priced municipal utility issues as well as the historical interest rates and yields of municipal utility issues and compared them to the initial interest rates, yields, and takedown levels proposed by the Underwriters.

In order to provide an analytical context to assess the pricing of the Bonds, PFM performed a yield analysis on the following current and historical utility transactions, all of which are included in Appendix A:

- New York State Thruway Authority, Highway and Bridge Bonds, Series 2005B
- State of Washington, Motor Vehicle Fuel Tax General Obligation Bonds, Series 2006B
- University of North Carolina, General Revenue and Refunding Bonds, Series 2005A
- San Francisco Bay Area Rapid Transit District, Sales Tax Revenue Bonds, Series 2005A
- Arizona School Facilities Board, State School Improvement Bonds, Series 2005
- State of Ohio, Water Pollution Control Loan Revenue Bonds, Water Quality Series 2005B
- Florida Department of Environmental Protection, Revenue Bonds, Series 2005A
- City of Brownsville Texas, Utilities System Revenue and Refunding Bonds, Series 2005A
- Pennsylvania Turnpike Commission, Revenue Refunding Bonds, Series A of 2005
- JEA Electric System, Revenue Bonds, Series Three 2005D & Subordinated 2005 Series C

Priority of Orders: Prior to pricing the Bonds, the Priority of Orders and the Designation Policy were agreed upon as follows:

Priority of Orders

1. Group Net
2. Member

Designation Policy

Bear, Stearns & Co. Inc.	45%
Morgan Stanley	20%
Citigroup Global Markets Inc.	20%
Goldman, Sachs & Co.	7.5%
J.P. Morgan Securities, Inc.	7.5%

Municipal Market Data Indices: The MMD AAA G.O. scale was used to perform comparative pricing analyses. The AAA daily yield curve is a composite of uninsured AAA G.O. issues of $2 million or more that have a 10-year first call and have typical structures. It reflects the offer side of the market, determined from daily trading activity. PFM's analyses, provided in Appendix A, illustrate the interest rates/yields and corresponding spreads to the MMD AAA G.O. scale for each of the respective maturities sold and for each comparable bond issue listed above.

Bond Pricing: During the week of the sale, the bond market displayed moderate volatility due to activity in oil prices and economic data releases. Oil traded near the highs set the previous week and both inventories and demand in the month of July moved lower than expected. The day before the sale, Industrial Production and Capacity Utilization indicated that manufacturing slowed during the month of July while the Consumer Price Index showed that prices had held steady at their prior levels. On the day

of the pricing, the Producer Price Index signaled higher prices, prompting the bond market to move higher in yield throughout the day.

The Underwriters anticipated considerable investor demand for the bonds, given: (1) a positive response to the electronic "roadshow" conducted during the week prior to the sale, (2) the scarcity value of the District's paper, and (3) the coupon and maturity structure that would appeal to a broad investor base. One concern was that on the prior day the University of North Carolina, a higher rated credit at Aa1/AA+, had sold similarly structured bonds at spreads to MMD that were less favorable than the preliminary pricing levels for the District's Bonds. In spite of this investor reaction and a somewhat weak market tone, on Wednesday August 17th, the preliminary pricing scale was set aggressively as follows.

Preliminary Pricing Scale:

Maturity	Amount	Coupon	Yield	Price	AAA MMD 8/17/2005	Spread to MMD
2027	10,890	5.000%	4.170%	106.904	4.170%	0.00
2028	13,050	5.000%	4.190%	106.731	4.200%	(1.00)
2029	17,050	5.000%	4.210%	106.558	4.230%	(2.00)
2035	236,960	5.000%	4.280%	105.956	4.320%	(4.00)
2035	50,000	4.750%	4.480%	102.208	4.320%	16.00
Total	327,950					

The market response to the issue was very strong with over $730 million in orders, even though the spreads to MMD on the bonds were tighter than those of the University of North Carolina bonds from the previous day. Investor demand was strongest for both coupons in the 2035 term bonds. Due to the nearly 4 basis point increase in the US Treasury bond market, the Underwriters were initially reluctant to reduce yields on the bonds for fear that investors who entered orders prior to the market sell-off would take the opportunity to pull their orders. However, after some discussion between the District, PFM and Bear Stearns, the Underwriters agreed to reduce the yields on the two larger 2035 Term Bonds by one basis point. The reduction in the SRP yields, in combination with an increase in MMD interest rate indices, produced the following results.

Final Pricing Scale:

Maturity	Amount	Coupon	Yield	Price	AAA MMD 8/17/2005	Spread to MMD
2027	10,890	5.000%	4.170%	106.904	4.170%	0.00
2028	13,050	5.000%	4.190%	106.731	4.200%	(1.00)
2029	17,055	5.000%	4.210%	106.558	4.230%	(2.00)
2035	246,095	5.000%	4.270%	106.042	4.320%	(5.00)
2035	40,000	4.750%	4.470%	102.291	4.320%	15.00
Total	327,090					

Underwriter's Discount: Bear Stearns' Average Takedown was $5.00000 per $1,000 or $1,635,450.00. Expenses, detailed below, amounted to $0.44201 per $1,000 or $144,573.95.

Underwriting Expense Summary

	$/1000	Amount
Average Takedown	5.00000	1,635,450.00
Dalcomp	0.06000	19,625.40
BMA	0.03000	9,812.70
GASB	0.00500	1,635.46
Real Time System	0.01500	4,906.36
Underwriter's Counsel	0.24458	80,000.00
Day Loan	0.02920	9,551.23
Good Faith Wire Interest	0.01250	4,088.63
Dalnet	0.00061	200.00
DTC	0.00104	339.00
CUSIP	0.00056	184.00
Net Roadshow	0.01529	5,000.00
Closing Dinner	0.01338	4,375.00
Thomson Financial SRP Announcement	0.00262	856.17
Out of Pocket Expenses	0.01223	4,000.00
	5.44200	1,780,023.95

Costs of Issuance: The estimated costs of issuance for the transaction totaled $1.13119 per $1,000 or $370,000.00.

Conclusions and Recommendation

Based on the foregoing and our knowledge and experience in the issuance of tax-exempt debt, it is Public Financial Management's opinion that the coupon rates, yields and underwriting spread, all of which constitute the pricing of the Bonds, were fair and appropriate for the District. PFM endorses your decision to accept the terms of the transaction.

Appendix A

New York State Thruway Authority

8/17/2005

$2,783,230,000 Second General Highway and Bridge Trust Fund Bonds, Series 2005B

Ratings: Unins. NR / AA- / A+
Ins. NR / AAA / AAA
Delivery: 9/8/2005

		Bond Pricing								
Due	Par ($000)	Coupon	Yield		Price	MMD	Spread (BP)	Insurance	Yield to Maturity	Spread (BP)
4/1/06	2,500	4.000%	Sealed Bid							
4/1/07	13,070	3.000%	2.880%	NC	100.181	2.880%	0.00			
4/1/08	13,460	3.000%	3.020%	NC	99.949	2.990%	3.00			
4/1/09	13,865	3.200%	3.210%	NC	99.965	3.110%	10.00			
4/1/10	14,300	4.000%	3.290%	NC	102.984	3.220%	7.00			
4/1/11	20,455	3.375%	3.450%	NC	99.621	3.320%	13.00			
4/1/11	37,815	5.000%	3.450%	NC	107.783	3.320%	13.00			
4/1/12	13,170	3.500%	3.580%	NC	99.533	3.410%	17.00			
4/1/12	83,520	5.000%	3.580%	NC	108.238	3.410%	17.00			
4/1/13	10,290	3.625%	3.660%	NC	99.768	3.500%	16.00			
4/1/13	146,190	5.000%	3.660%	NC	108.781	3.500%	16.00			
4/1/14	5,560	3.700%	3.750%	NC	99.634	3.580%	17.00			
4/1/14	254,225	5.000%	3.750%	NC	109.081	3.580%	17.00			
4/1/15	8,565	3.750%	3.820%	NC	99.441	3.650%	17.00			
4/1/15	295,680	5.000%	3.820%	NC	109.376	3.650%	17.00			
4/1/16	306,600	5.000%	3.890%	PPC	109.168	3.720%	17.00		3.931%	21.00
4/1/17	18,305	4.000%	4.000%	C	100.000	3.780%	22.00			
4/1/17	295,205	5.000%	3.950%	PPC	108.647	3.780%	17.00		4.056%	28.00
4/1/18	50,000	4.000%	4.085%	C	99.168	3.820%	27.00			
4/1/18	259,635	5.000%	3.990%	PPC	108.301	3.820%	17.00		4.145%	33.00
4/1/19	50,000	4.125%	4.150%	C	99.740	3.860%	29.00			
4/1/19	231,605	5.000%	4.030%	PPC	107.957	3.860%	17.00		4.223%	36.00
4/1/20 (1)	285,280	5.500%	4.050%	NC	115.832	3.900%	15.00			
4/1/21	243,795	5.000%	4.080%	PPC	107.528	3.940%	14.00		4.330%	39.00
4/1/22	25,555	5.000%	4.100%	PPC	107.357	3.980%	12.00		4.371%	39.00
4/1/23	26,830	5.000%	4.110%	PPC	107.272	4.020%	9.00		4.401%	38.00
4/1/24	28,175	5.000%	4.120%	PPC	107.187	4.060%	6.00		4.428%	37.00
4/1/25	5,210	4.125%	4.200%	C	99.003	4.100%	10.00			
4/1/25	24,370	5.000%	4.130%	PPC	107.102	4.100%	3.00		4.452%	35.00
Total:	2,783,230									

Callable: 10/1/2015 @ 100 **NC** NonCallable **C** Callable **PPC** Premium Priced to Call

(1) *4/1/2020: No Optional Call*

State of Washington

8/16/2005

$197,000,000 Motor Vehicle Fuel Tax General Obligation Bonds, Series 2006B

Ratings: Unins. Aa1 / AA / AA
Ins. Aaa / AAA / AAA
Delivery: 8/30/2005

		Bond Pricing								
Due	Par ($000)	Coupon	Yield		Price	MMD	Spread (BP)	Insurance	Yield to Maturity	Spread (BP)
7/1/06	4,315	4.500%	NRO							
7/1/07	4,495	4.500%	NRO							
7/1/08	4,675	4.500%	NRO							
7/1/09	4,865	5.000%	NRO							
7/1/10	5,065	5.000%	NRO							
7/1/11	5,285	5.000%	NRO							
7/1/12	5,530	5.000%	NRO							
7/1/13	5,785	5.000%	NRO							
7/1/14	6,050	5.000%	NRO							
7/1/15	6,330	5.000%	NRO							
7/1/16	6,635	5.000%	NRO							
7/1/17	6,975	5.000%	NRO							
7/1/18	7,335	5.000%	NRO							
7/1/19	7,710	5.000%	NRO							
7/1/20	8,105	5.000%	NRO							
7/1/21	8,525	5.000%	NRO							
7/1/22	8,960	5.000%	NRO							
7/1/23	9,420	5.000%	NRO							
7/1/24	9,900	5.000%	NRO							
7/1/25	10,410	5.000%	4.200%	PPC	106.386	4.090%	11.00		4.509%	42.00
7/1/26	10,945	5.000%	4.220%	PPC	106.220	4.120%	10.00		4.535%	41.00
7/1/27	11,505	5.000%	4.230%	PPC	106.137	4.150%	8.00		4.553%	40.00
7/1/28	12,095	5.000%	4.240%	PPC	106.055	4.180%	6.00		4.570%	39.00
7/1/29	12,720	5.000%	4.250%	PPC	105.972	4.210%	4.00		4.585%	38.00
7/1/30	13,365	5.000%	4.270%	PPC	105.807	4.240%	3.00		4.605%	36.00
Total:	197,000									

Callable: 7/1/2015 @ 100

NC NonCallable **C** Callable **PPC** Premium Priced to Call

University of North Carolina at Chapel Hill

8/16/2005

$407,420,000 General Revenue and Revenue Refunding Bonds, Series 2005A

Ratings: Unins. Aa1 / AA+ / AA+

Delivery: 8/30/2005

		Bond Pricing								
Due	Par ($000)	Coupon	Yield		Price	MMD	Spread (BP)	Insurance	Yield to Maturity	Spread (BP)
12/1/05	480	3.000%	2.750%	NC	100.057					
12/1/06	145	3.000%	2.880%	NC	100.143	2.790%	9.00			
12/1/07	145	3.250%	3.000%	NC	100.537	2.880%	12.00			
12/1/08	890	3.250%	3.150%	NC	100.303	2.990%	16.00			
12/1/09	920	3.500%	3.270%	NC	100.902	3.110%	16.00			
12/1/10	945	4.000%	3.350%	NC	103.102	3.220%	13.00			
12/1/11	4,135	5.000%	3.450%	NC	108.645	3.320%	13.00			
12/1/12	4,335	5.000%	3.540%	NC	109.261	3.410%	13.00			
12/1/13	4,550	5.000%	3.620%	NC	109.763	3.490%	13.00			
12/1/14	4,795	5.000%	3.700%	NC	110.101	3.570%	13.00			
12/1/15	5,040	5.000%	3.780%	NC	110.284	3.640%	14.00			
12/1/16	5,295	5.000%	3.850%	PPC	109.660	3.710%	14.00		3.929%	22.00
12/1/17	5,570	4.250%	4.070%	PPC	101.491	3.770%	30.00		4.093%	32.00
12/1/18	5,055	4.250%	4.110%	PPC	101.156	3.810%	30.00		4.135%	33.00
12/1/19	5,275	4.250%	4.150%	PPC	100.822	3.850%	30.00		4.172%	32.00
12/1/20	5,340	4.500%	4.140%	PPC	102.977	3.890%	25.00		4.233%	34.00
12/1/21	1,475	4.500%	4.180%	PPC	102.640	3.930%	25.00		4.273%	34.00
12/1/22	1,545	4.500%	4.220%	PPC	102.305	3.970%	25.00		4.309%	34.00
12/1/27	3,395	4.250%	4.420%	C	97.601	4.150%	27.00			
12/1/34	308,090	5.000%	4.280%	PPC	105.918	4.300%	(2.00)		4.628%	33.00
12/1/34	25,000	4.750%	4.490%	PPC	102.111	4.300%	19.00		4.617%	32.00
12/1/34	15,000	4.375%	4.560%	C	97.021	4.300%	26.00			
Total:	407,420									

Callable: 12/1/2015 @ 100

NC NonCallable **C** Callable **PPC** Premium Priced to Call

San Francisco Bay Area Rapid Transit District

8/10/2005

$351,090,000 Sales Tax Revenue Bonds, Refunding Series 2005 A

Ratings: Unins. Aaa / AAA / AAA
Ins. Aa3 / AA- / AA
Delivery: 9/7/2005

		Bond Pricing								
Due	Par ($000)	Coupon	Yield		Price	MMD	Spread (BP)	Insurance	Yield to Maturity	Spread (BP)
7/1/06	12,695	3.000%	2.680%	NC	100.254	2.800%	(12.00)			
7/1/07	6,195	3.000%	2.860%	NC	100.243	2.910%	(5.00)			
7/1/07	7,480	5.000%	2.860%	NC	103.758	2.910%	(5.00)			
7/1/08	7,030	3.000%	2.980%	NC	100.051	3.060%	(8.00)	MBIA		
7/1/08	7,290	5.000%	2.980%	NC	105.414	3.060%	(8.00)	MBIA		
7/1/09	9,065	4.000%	3.160%	NC	102.994	3.180%	(2.00)	MBIA		
7/1/09	5,925	5.000%	3.160%	NC	106.562	3.180%	(2.00)	MBIA		
7/1/10	6,870	3.250%	3.290%	NC	99.820	3.290%	0.00	MBIA		
7/1/11	8,255	5.000%	3.440%	NC	108.155	3.410%	3.00	MBIA		
7/1/12	6,595	3.500%	3.600%	NC	99.396	3.520%	8.00	MBIA		
7/1/12	2,450	5.000%	3.600%	NC	108.390	3.520%	8.00	MBIA		
7/1/13	2,945	3.625%	3.690%	NC	99.558	3.600%	9.00	MBIA		
7/1/13	9,615	5.000%	3.690%	NC	108.820	3.600%	9.00	MBIA		
7/1/14	2,175	3.750%	3.770%	NC	99.847	3.680%	9.00	MBIA		
7/1/14	11,195	5.000%	3.770%	NC	109.148	3.680%	9.00	MBIA		
7/1/15	4,880	4.000%	3.860%	NC	101.130	3.760%	10.00	MBIA		
7/1/15	10,175	5.000%	3.860%	NC	109.236	3.760%	10.00	MBIA		
7/1/16	3,670	3.875%	3.940%	C	99.427	3.830%	11.00	MBIA		
7/1/16	12,170	5.000%	3.940%	PPC	108.555	3.830%	11.00	MBIA	4.016%	19.00
7/1/17	5,200	4.000%	3.990%	PPC	100.075	3.880%	11.00	MBIA	3.991%	11.00
7/1/17	11,735	5.000%	3.990%	PPC	108.131	3.880%	11.00	MBIA	4.123%	24.00
7/1/18	17,370	5.000%	4.040%	PPC	107.710	3.930%	11.00	MBIA	4.215%	28.00
7/1/19	9,125	5.000%	4.080%	PPC	107.374	3.970%	11.00	MBIA	4.287%	32.00
7/1/20	2,635	4.250%	4.250%	C	100.000	4.010%	24.00	MBIA		
7/1/20	6,945	5.000%	4.120%	PPC	107.040	4.010%	11.00	MBIA	4.350%	34.00
7/1/21	4,545	5.000%	4.140%	PPC	106.873	4.050%	9.00	MBIA	4.392%	34.00
7/1/22	4,770	5.000%	4.160%	PPC	106.707	4.090%	7.00	MBIA	4.430%	34.00
7/1/23	5,005	5.000%	4.190%	PPC	106.458	4.130%	6.00	MBIA	4.470%	34.00
7/1/24	18,395	5.000%	4.210%	PPC	106.292	4.170%	4.00	MBIA	4.500%	33.00
7/1/25	2,130	4.375%	4.480%	C	98.624	4.210%	27.00	MBIA		
7/1/25	17,180	4.250%	4.480%	C	96.994	4.210%	27.00	MBIA		
7/1/26	20,260	5.000%	4.250%	PPC	105.962	4.250%	0.00	MBIA	4.553%	30.00
7/1/30	1,650	4.500%	4.550%	C	99.255	4.370%	18.00	MBIA		
7/1/30	55,685	5.000%	4.300%	PPC	105.551	4.370%	(7.00)	MBIA	4.621%	25.00
7/1/34	31,785	5.000%	4.330%	PPC	105.305	4.420%	(9.00)	MBIA	4.663%	24.00
Total:	351,090									

Callable: 7/1/2015 @ 100

NC NonCallable **C** Callable **PPC** Premium Priced to Call

Arizona School Facilities Board

8/10/2005

$448,760,000 State School Improvement Revenue Refunding Bonds, Series 2005

Ratings: Unins. Aaa / AAA / AAA

Delivery: 8/24/2005

		Bond Pricing								
Due	Par ($000)	Coupon	Yield		Price	MMD	Spread (BP)	Insurance	Yield to Maturity	Spread (BP)
1/1/06	4,790	3.000%	Sealed Bid							
1/1/12	13,020	5.000%	3.540%	NC	108.236	3.520%	2.00			
7/1/12	13,355	5.000%	3.580%	NC	108.557	3.520%	6.00			
1/1/13	20,685	5.000%	3.640%	NC	108.699	3.600%	4.00			
7/1/13	21,220	5.000%	3.680%	NC	108.926	3.600%	8.00			
1/1/14	22,670	5.000%	3.720%	NC	109.113	3.680%	4.00			
7/1/14	23,255	5.000%	3.760%	NC	109.259	3.680%	8.00			
1/1/15	23,815	5.000%	3.800%	NC	109.366	3.760%	4.00			
7/1/15	24,420	5.000%	3.840%	NC	109.436	3.760%	8.00			
1/1/16	25,030	5.000%	3.870%	PPC	109.179	3.830%	4.00		3.913%	8.00
7/1/16	25,670	5.000%	3.910%	PPC	108.837	3.830%	8.00		3.988%	16.00
1/1/17	26,300	5.000%	3.940%	PPC	108.581	3.880%	6.00		4.049%	17.00
7/1/17	26,970	5.000%	3.960%	PPC	108.411	3.880%	8.00		4.097%	22.00
1/1/18	27,630	5.000%	4.000%	PPC	108.072	3.930%	7.00		4.157%	23.00
7/1/18	28,330	5.000%	4.020%	PPC	107.903	3.930%	9.00		4.198%	27.00
1/1/19	29,015	5.000%	4.040%	PPC	107.734	3.970%	7.00		4.235%	27.00
7/1/19	29,760	5.000%	4.060%	PPC	107.565	3.970%	9.00		4.270%	30.00
1/1/20	30,490	5.000%	4.070%	PPC	107.481	4.010%	6.00		4.296%	29.00
7/1/20	31,270	5.000%	4.080%	PPC	107.397	4.010%	7.00		4.320%	31.00
1/1/21	525	4.125%	4.240%	C	98.707	4.050%	19.00			
7/1/21	540	4.125%	4.240%	C	98.677	4.050%	19.00			
Total:	448,760									

Callable: 7/1/2015 @ 100

NC NonCallable **C** Callable **PPC** Premium Priced to Call

State of Ohio

8/9/2005

$361,520,000 Water Pollution Control Loan Fund Revenue Bonds
Water Quality Series 2005B

Ratings: Unins. Aaa / AAA / NR

Delivery: 8/25/2005

		Bond Pricing								
Due	Par ($000)	Coupon	Yield		Price	MMD	Spread (BP)	Insurance	Yield to Maturity	Spread (BP)
6/1/08	5,545	4.000%	3.110%	NC	102.338	3.060%	5.00			
12/1/08	3,660	4.000%	3.160%	NC	102.583	3.060%	10.00			
6/1/09	10,730	5.000%	3.280%	NC	106.042	3.190%	9.00			
12/1/09	8,430	5.000%	3.330%	NC	106.586	3.190%	14.00			
6/1/10	9,120	5.000%	3.390%	NC	107.026	3.300%	9.00			
12/1/10	9,405	5.000%	3.440%	NC	107.451	3.300%	14.00			
6/1/11	10,340	5.000%	3.510%	NC	107.712	3.420%	9.00			
12/1/11	10,175	5.000%	3.560%	NC	108.019	3.420%	14.00			
6/1/15	1,420	4.250%	3.900%	NC	102.815	3.770%	13.00			
12/1/17	12,725	5.000%	4.010%	PPC	107.929	3.890%	12.00		4.167%	28.00
6/1/18	14,035	5.000%	4.050%	PPC	107.594	3.940%	11.00		4.224%	28.00
12/1/18	13,270	5.000%	4.060%	PPC	107.510	3.940%	12.00		4.253%	31.00
6/1/19	14,875	5.000%	4.080%	PPC	107.343	3.980%	10.00		4.288%	31.00
12/1/19	14,515	5.000%	4.100%	PPC	107.177	3.980%	12.00		4.320%	34.00
6/1/20	16,445	4.500%	4.270%	PPC	101.815	4.020%	25.00		4.332%	31.00
12/1/20	16,120	4.500%	4.280%	PPC	101.735	4.020%	26.00		4.343%	32.00
6/1/21	17,000	4.500%	4.330%	PPC	101.336	4.060%	27.00		4.381%	32.00
12/1/21	12,350	5.000%	4.150%	PPC	106.762	4.060%	9.00		4.412%	35.00
12/1/21	5,000	4.375%	4.375%	C	100.000	4.060%	32.00			
6/1/22	17,715	5.000%	4.180%	PPC	106.513	4.100%	8.00		4.444%	34.00
12/1/22	17,840	5.000%	4.180%	PPC	106.513	4.100%	8.00		4.455%	35.00
6/1/23	22,055	5.000%	4.210%	PPC	106.266	4.140%	7.00		4.484%	34.00
12/1/23	19,160	5.000%	4.210%	PPC	106.266	4.140%	7.00		4.493%	35.00
6/1/24	18,085	5.000%	4.240%	PPC	106.019	4.180%	6.00		4.520%	34.00
12/1/24	21,570	4.750%	4.390%	PPC	102.828	4.180%	21.00		4.528%	35.00
6/1/25	6,035	5.000%	4.260%	PPC	105.855	4.220%	4.00		4.547%	33.00
6/1/25	12,945	4.750%	4.410%	PPC	102.668	4.220%	19.00		4.544%	32.00
12/1/25	20,955	4.750%	4.410%	PPC	102.668	4.220%	19.00		4.547%	33.00
Total:	361,520									

Callable: 6/1/2015 @ 100

NC NonCallable **C** Callable **PPC** Premium Priced to Call

Florida Department of Environmental Protection

8/9/2005

$92,420,000 Florida Forever Revenue Bonds, Series 2005A

Ratings: Unins. A1 / AA-/ AA-
Ins. Aaa / AAA / AAA
Delivery: 8/25/2005

Competitive

		Bond Pricing								
Due	Par ($000)	Coupon	Yield		Price	MMD	Spread (BP)	Insurance	Yield to Maturity	Spread (BP)
7/1/06	2,565	4.000%	NRO					AMBAC		
7/1/07	2,940	4.500%	NRO					AMBAC		
7/1/08	3,090	3.000%	3.100%	NC	99.726	3.060%	4.00	AMBAC		
7/1/09	3,245	5.000%	3.250%	NC	106.280	3.190%	6.00	AMBAC		
7/1/10	3,405	5.000%	NRO					AMBAC		
7/1/11	3,575	5.000%	NRO					AMBAC		
7/1/12	3,755	5.000%	NRO					AMBAC		
7/1/13	3,945	5.000%	NRO					AMBAC		
7/1/14	4,140	5.000%	NRO					AMBAC		
7/1/15	4,345	5.000%	NRO					AMBAC		
7/1/16	4,565	5.000%	NRO					AMBAC		
7/1/17	4,795	5.000%	4.000%	PPC	108.727	3.890%	11.00	AMBAC	4.064%	17.00
7/1/18	5,030	5.000%	4.060%	PPC	108.177	3.940%	12.00	AMBAC	4.171%	23.00
7/1/19	5,285	5.000%	NRO					AMBAC		
7/1/20	5,550	5.000%	4.120%	PPC	107.631	4.020%	10.00	AMBAC	4.299%	28.00
7/1/21	5,825	5.000%	4.140%	PPC	107.450	4.060%	8.00	AMBAC	4.344%	28.00
7/1/22	6,115	5.000%	4.160%	PPC	107.269	4.100%	6.00	AMBAC	4.385%	28.00
7/1/23	6,425	5.000%	4.190%	PPC	106.998	4.140%	5.00	AMBAC	4.428%	29.00
7/1/24	6,745	4.250%	4.370%	C	98.464	4.180%	19.00	AMBAC		
7/1/25	7,080	4.250%	4.400%	C	98.022	4.220%	18.00	AMBAC		
Total:	92,420									

Callable: 7/1/2015 @ 101
DTP: 7/1/2016

NC NonCallable **C** Callable **PPC** Premium Priced to Call

City of Brownsville, Texas

8/3/2005

$163,725,000 Utilities System Revenue Improvement and Refunding Bonds, Series 2005A

Ratings: Unins. Aaa / AAA / AAA
Ins. A2 / A / A
Delivery: 8/24/2005

		Bond Pricing								
Due	Par ($000)	Coupon	Yield		Price	MMD	Spread (BP)	Insurance	Yield to Maturity	Spread (BP)
9/1/09	880	3.500%	3.260%	NC	100.896	3.110%	15.00			
9/1/10	565	3.500%	3.380%	NC	100.549	3.220%	16.00			
9/1/11	580	3.500%	3.520%	NC	99.891	3.350%	17.00			
9/1/12	485	3.500%	3.650%	NC	99.077	3.460%	19.00	MBIA		
9/1/13	585	4.000%	3.760%	NC	101.647	3.540%	22.00	MBIA		
9/1/14	690	4.000%	3.870%	NC	100.981	3.620%	25.00	MBIA		
9/1/15	795	4.000%	3.950%	NC	100.409	3.700%	25.00	MBIA		
9/1/16	760	4.000%	4.020%	C	99.822	3.770%	25.00	MBIA		
9/1/17	710	4.000%	4.070%	C	99.339	3.820%	25.00	MBIA		
9/1/18	670	5.000%	4.120%	PPC	107.163	3.870%	25.00	MBIA	4.277%	41.00
9/1/19	625	5.000%	4.170%	PPC	106.740	3.920%	25.00	MBIA	4.353%	43.00
9/1/20	10,055	5.000%	4.210%	PPC	106.402	3.960%	25.00	MBIA	4.412%	45.00
9/1/21	10,490	5.000%	4.250%	PPC	106.066	4.010%	24.00	MBIA	4.466%	46.00
9/1/22	10,955	5.000%	4.270%	PPC	105.899	4.050%	22.00	MBIA	4.500%	45.00
9/1/23	11,445	5.000%	4.290%	PPC	105.732	4.090%	20.00	MBIA	4.531%	44.00
9/1/24	11,950	5.000%	4.310%	PPC	105.565	4.130%	18.00	MBIA	4.559%	43.00
9/1/25	12,485	5.000%	4.330%	PPC	105.398	4.170%	16.00	MBIA	4.585%	41.00
9/1/26	13,050	5.000%	4.350%	PPC	105.232	4.200%	15.00	MBIA	4.609%	41.00
9/1/27	13,735	5.000%	4.360%	PPC	105.149	4.230%	13.00	MBIA	4.625%	39.00
9/1/31	62,215	5.000%	4.410%	PPC	104.735	4.350%	6.00	MBIA	4.683%	33.00
Total:	163,725									

Callable: 9/1/2015 @ 100

NC NonCallable **C** Callable **PPC** Premium Priced to Call

Pennsylvania Turnpike Commission

8/2/2005

$234,135,000 Registration Fee Revenue Refunding Bonds
Series A of 2005

Ratings: Unins. A1 / A / A+
Ins. AAA / AAA / AAA
Delivery: 8/17/2005

		Bond Pricing								
Due	Par ($000)	Coupon	Yield		Price	MMD	Spread (BP)	Insurance	Yield to Maturity	Spread (BP)
7/15/06	7,025	3.750%	Sealed Bid					FSA		
7/15/07	5,330	3.250%	2.930%	NC	100.588	2.860%	7.00	FSA		
7/15/08	5,500	3.250%	3.090%	NC	100.440	2.990%	10.00	FSA		
7/15/09	5,685	3.500%	3.230%	NC	100.982	3.110%	12.00	FSA		
7/15/10	5,880	3.625%	3.370%	NC	101.143	3.220%	15.00	FSA		
7/15/11	6,095	5.000%	3.480%	NC	108.054	3.350%	13.00	FSA		
7/15/12	6,395	5.000%	3.590%	NC	108.559	3.460%	13.00	FSA		
7/15/13	6,720	5.000%	3.680%	NC	108.985	3.550%	13.00	FSA		
7/15/14	7,050	5.000%	3.780%	NC	109.153	3.640%	14.00	FSA		
7/15/15	7,410	5.000%	3.860%	NC	109.311	3.720%	14.00	FSA		
7/15/16	7,775	5.250%	3.930%	NC	111.617	3.790%	14.00	FSA		
7/15/17	8,185	5.250%	3.980%	NC	111.950	3.840%	14.00	FSA		
7/15/18	8,615	5.250%	4.020%	NC	112.290	3.890%	13.00	FSA		
7/15/19	9,070	5.250%	4.070%	NC	112.436	3.940%	13.00	FSA		
7/15/20	9,545	5.250%	4.120%	NC	112.492	3.980%	14.00	FSA		
7/15/21	10,045	5.250%	4.150%	NC	112.713	4.030%	12.00	FSA		
7/15/22	10,575	5.250%	4.180%	NC	112.877	4.070%	11.00	FSA		
7/15/23	11,125	5.250%	4.200%	NC	113.121	4.110%	9.00	FSA		
7/15/24	11,715	5.250%	4.220%	NC	113.323	4.150%	7.00	FSA		
7/15/25	12,330	5.250%	4.240%	NC	113.485	4.190%	5.00	FSA		
7/15/26	12,975	5.250%	4.250%	NC	113.760	4.230%	2.00	FSA		
7/15/27	13,660	5.250%	4.260%	NC	114.007	4.260%	0.00	FSA		
7/15/28	14,375	5.250%	4.280%	NC	114.070	4.290%	(1.00)	FSA		
7/15/29	15,130	5.250%	4.300%	NC	114.100	4.320%	(2.00)	FSA		
7/15/30	15,925	5.250%	4.320%	NC	114.100	4.350%	(3.00)	FSA		
Total:	234,135									

Non Callable 7/15/2031 @ 101 **NC** NonCallable **C** Callable **PPC** Premium Priced to Call

JEA

7/12/2005

$36,440,000 Electric System Revenue Bonds, Series Three 2005D

Ratings: Unins. Aa2 / AA- / AA-
Ins. Aaa / AAA / AAA

COMPETITIVE
(Merrill Lynch)

Delivery: 7/28/2005

Due[1]	Par ($000)	Coupon	Yield		Price	Late MMD [2]	Spread (BP)	Insurance	Take Down (per $1000)	Yield to Maturity	Spread (BP)
		Bond Pricing									
10/1/07	1,215	3.000%	2.700%	NC	100.627	2.740%	(4.00)	FSA	1.25		
10/1/08	1,300	3.000%	2.860%	NC	100.419	2.870%	(1.00)	FSA	1.25		
10/1/09	1,550	3.000%	3.000%	NC	100.000	2.990%	1.00	FSA	1.25		
10/1/10	1,550	3.000%	3.150%	NC	99.286	3.110%	4.00	FSA	1.25		
10/1/11	1,180	3.125%	3.260%	C	99.247	3.220%	4.00	FSA	1.25		
10/1/12	1,215	3.250%	3.370%	C	99.237	3.320%	5.00	FSA	1.25		
10/1/13	1,255	3.375%	3.480%	C	99.255	3.400%	8.00	FSA	2.50		
10/1/14	1,295	3.500%	3.560%	C	99.530	3.480%	8.00	FSA	2.50		
10/1/15	1,335	3.625%	3.720%	C	99.197	3.560%	16.00	FSA	2.50		
10/1/16	1,400	3.750%	3.810%	C	99.454	3.640%	17.00	FSA	5.00		
10/1/17	1,465	3.875%	3.880%	C	99.947	3.700%	18.00	FSA	5.00		
10/1/18	1,530	4.000%	3.940%	PPC	100.453	3.770%	17.00	FSA	5.00	3.955%	19.00
10/1/19	1,600	4.000%	4.000%	C	100.000	3.800%	20.00	FSA	5.00		
10/1/20	1,585	4.000%	4.060%	C	99.320	3.860%	20.00	FSA	5.00		
10/1/21	1,645	4.000%	4.120%	C	98.588	3.920%	20.00	FSA	5.00		
10/1/22	1,715	4.125%	4.180%	C	99.325	3.980%	20.00	FSA	5.00		
10/1/23	1,790	4.125%	4.240%	C	98.547	4.030%	21.00	FSA	5.00		
10/1/24	1,865	4.250%	4.290%	C	99.475	4.080%	21.00	FSA	5.00		
10/1/25	1,950	4.250%	4.330%	C	98.925	4.120%	21.00	FSA	5.00		
10/1/26	800	4.250%	4.360%	C	98.484	4.150%	21.00	FSA	5.00		
10/1/27	800	4.250%	4.390%	C	98.023	4.180%	21.00	FSA	5.00		
10/1/30	2,400	4.375%	4.508%	C	98.000	4.270%	24.00	FSA	5.00		
10/1/35	4,000	4.500%	4.530%	C	99.500	4.320%	21.00	FSA	3.75		
Total:	36,440										

Callable: 10/1/2010 @ 100 **NC** NonCallable **C** Callable **PPC** Premium Priced to Call

(1) *Maturities 2015-2019 Callable 10/1/2014 @ 100*

(2) *Assumes Late MMD rate from 2007 through 2018, thereafter, AAA MMD Scale*

JEA

7/12/2005

$25,040,000 Electric System Subordinated Revenue Bonds, 2005 Series C

Ratings: Unins. Aa3 / A+ / AA-
Ins. Aaa / AAA / AAA

COMPETITIVE
(Citigroup)

Delivery: 7/28/2005

		Bond Pricing									
Due[1]	Par ($000)	Coupon	Yield		Price	Late MMD [2]	Spread (BP)	Insurance	Take Down (per $1000)	Yield to Maturity	Spread (BP)
10/1/07	805	3.000%	2.710%	NC	100.606	2.740%	(3.00)	FSA	2.50		
10/1/08	865	3.000%	2.870%	NC	100.389	2.870%	0.00	FSA	2.50		
10/1/09	1,045	3.000%	3.000%	NC	100.000	2.990%	1.00	FSA	3.75		
10/1/10	1,045	3.000%	3.120%	NC	99.427	3.110%	1.00	FSA	5.00		
10/1/11	765	3.125%	3.280%	C	99.137	3.220%	6.00	FSA	5.00		
10/1/12	790	3.250%	3.390%	C	99.111	3.320%	7.00	FSA	6.25		
10/1/13	815	3.375%	3.500%	C	99.114	3.400%	10.00	FSA	7.50		
10/1/14	845	3.500%	3.600%	C	99.220	3.480%	12.00	FSA	7.50		
10/1/15	875	3.500%	3.700%	C	98.313	3.560%	14.00	FSA	7.50		
10/1/16	920	4.000%	3.810%	PPC	101.455	3.640%	17.00	FSA	7.50	3.838%	20.00
10/1/17	965	4.000%	3.880%	PPC	100.914	3.700%	18.00	FSA	7.50	3.905%	20.00
10/1/18	1,015	4.000%	3.940%	PPC	100.453	3.770%	17.00	FSA	7.50	3.955%	19.00
10/1/19	1,065	4.000%	4.000%	C	100.000	3.800%	20.00	FSA	7.50		
10/1/20	1,115	4.000%	4.060%	C	99.320	3.860%	20.00	FSA	7.50		
10/1/21	1,160	4.000%	4.170%	C	98.009	3.920%	25.00	FSA	7.50		
10/1/22	1,210	4.125%	4.230%	C	98.722	3.980%	25.00	FSA	7.50		
10/1/23	1,260	4.250%	4.290%	C	99.493	4.030%	26.00	FSA	7.50		
10/1/24	1,310	4.250%	4.330%	C	98.959	4.080%	25.00	FSA	7.50		
10/1/25	1,370	4.250%	4.350%	C	98.660	4.120%	23.00	FSA	7.50		
10/1/26	580	4.250%	4.370%	C	98.348	4.150%	22.00	FSA	7.50		
10/1/27	580	4.250%	4.380%	C	98.162	4.180%	20.00	FSA	7.50		
10/1/28	580	4.250%	4.388%	C	98.000	4.210%	18.00	FSA	10.00		
10/1/30	1,160	4.375%	4.430%	C	99.165	4.270%	16.00	FSA	7.50		
10/1/35	2,900	4.375%	4.496%	C	98.000	4.320%	18.00	FSA	5.00		
Total:	25,040										

Callable: 10/1/2010 @ 100 **NC** NonCallable **C** Callable **PPC** Premium Priced to Call

(1) *Maturities 2015-2019 Callable 10/1/2014 @ 100*

(2) *Assumes Late MMD rate from 2007 through 2018, thereafter, AAA MMD Scale*