ORIGINAL NEW APPLICATION

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BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
Chairman
WILLIAM A. MUNDELL
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner

IN THE MATTER OF THE APPLICATION OF SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT FOR AN ORDER AUTHORIZING ITS ISSUANCE OF REVENUE BONDS AND REFUNDING REVENUE BONDS	DOCKET NO. E-02217A-06-0489 **APPLICATION**

TO THE HONORABLE ARIZONA CORPORATION COMMISSION:

This Application of the Salt River Project Agricultural Improvement and Power District (the "District"), for an order authorizing the issuance of revenue bonds and refunding revenue bonds, respectfully shows that:

Introduction

1. The District is a political subdivision of the State of Arizona pursuant to Article 13, Section 7 of the Arizona Constitution, and an agricultural improvement district duly organized and existing under Title 48, Chapter 17 of the laws of the State of Arizona, A.R.S. §48-2301, *et seq*. Its principal place of business is 1521 North Project Drive, Tempe, Arizona, and its post office address is Box 52025, Phoenix, Arizona 85072-2025.

2. The District is principally engaged in the purchase and sale of electricity in the Counties of Maricopa, Pinal and Gila, in the State of Arizona, and the generation of electricity in the States of Arizona, New Mexico, Nevada and Colorado, primarily for sale in Arizona.

3. The attorneys for the District in this proceeding are:

Jessica J. Youle
Senior Principal Counsel for Regulatory Policy
Kelly J. Barr
Manager, Regulatory Affairs & Contracts
Salt River Project, PAB 207
P.O. Box 52025
Phoenix, Arizona 85072-2025

4. Title 48, Chapter 17, Article 7 of the Arizona Revised Statutes (the "Act") authorizes the Board of Directors of the District to issue and sell revenue bonds for any undertaking, as that term is defined in A.R.S. §48-2462(2), and to issue and sell revenue bonds to refund outstanding revenue bonds.

5. A.R.S. §48-2465.B provides that the District may not issue revenue bonds until it first secures an order from the Commission authorizing the issuance of such bonds in accordance with those provisions of A.R.S. §40-302 pertaining to the issuance of bonds. The District last requested and obtained such approval in 2003 for the issuance of not to exceed $580,000,000 in revenue bonds and not to exceed $640,000,000 in refunding revenue bonds, as set forth in the Commission's Decision No. 66469, dated October 27, 2003, in Docket No. E-02217A-03-0232.

6. On March 30, 2006, the Board of Directors of the District adopted resolutions (the "2006 Board Resolutions") authorizing (i) the issuance of not exceeding $1,500,000,000 Salt River Project Electric System Revenue Bonds for the purposes authorized pursuant to the Act including, without limitation, paying or reimbursing the cost of construction of improvements, replacements, additions, extensions and betterments of the electric system (the "Revenue Bonds"), (ii) the issuance of not exceeding $1,650,000,000 Salt River Project Electric System Refunding Revenue Bonds to provide monies to refund any revenue bonds theretofore or thereafter issued by the District and to pay expenses incurred in connection therewith (the "Refunding Bonds"), and (iii) the filing of an application with the Commission for an order authorizing the issuance of the Revenue Bonds and the Refunding

Bonds, in such amounts as management of the District shall determine to be necessary to meet the financial needs of the District. True copies of the 2006 Board Resolutions, authenticated by certification of the District's Corporate Secretary, are attached hereto as Exhibits A, B and C. There have been no amendments to the 2006 Board Resolutions.

7. The purpose of this Application is to secure, pursuant to A.R.S. §48-2465(B), an order of this Commission authorizing the issuance of the Revenue Bonds and the Refunding Bonds consistent with the 2006 Board Resolutions.

8. The Board of Directors of the District, pursuant to its statutory authority, has the responsibility to determine that the issuance of revenue bonds and refunding revenue bonds is compatible with sound financial practices, constitutes the proper performance of the District's duties, will not impair its ability to provide service to its ratepayers, and is within its lawful powers as an agricultural improvement district.

Revenue Bond Issuance

9. Because of the development of the District's business in recent years and further growth that is reasonably expected, the District requires additional funds for the purpose of paying the cost of construction, acquisition and installation of improvements, replacements, additions, extensions and betterments of its electric system including, but not limited to the purchase, construction, acquisition and installation of electric generating facilities (such as the Springerville Unit 4 coal-fired generating station), power supplies, transmission lines, distribution lines, substations and related facilities, assets (including fuel and fuel related assets), and equipment necessary therefore, and financing costs related thereto. Exhibit D hereto, "Estimated Capital Expenditures for Fiscal Years 2007-2012," sets forth the District's estimated capital needs during its Fiscal Year 2007 Financial Plan period (fiscal years 2007-2012), which needs are significantly in excess of the requested authorization.

10. The District, in consultation with the District's financial advisor, Public Financial Management, has determined that the best means of obtaining the additional capital which the District estimates will be needed through fiscal year 2012, in light of present market conditions and other relevant factors, would be either privately negotiated sales of revenue bonds, either through purchasers or underwriters, or, at the option of the District, public sales of revenue bonds, in an amount not to exceed $1,200,000,000 (the Revenue Bonds).

Refunding of Revenue Bonds

11. The Revenue Bonds will be issued and sold for the purposes of paying the costs of construction and acquisition of improvements, additions, replacements, extensions and betterments to the District's electric system including, but not limited to the purchase, construction, acquisition, and installation of electric generating facilities, power supplies, transmission lines, distribution lines, substations, and related facilities, assets (including fuel and fuel related assets), and equipment necessary therefore, and financing costs related thereto.

12. Due to a variety of factors, the general level of borrowing costs for the District fluctuates substantially from time to time. As an example, interest rates for District revenue bonds (as well as for similarly rated issuers of tax-exempt debt securities) generally rose during the late 1970's and remained above 9% through the mid 1980's. Interest rates then began to fall and generally were in the 7% range during the late 1980's. Interest rates then fell again in the early 1990's to levels in the 6% range. During the early 2000's, interest rates fell even further to historically low levels, but appear to be trending back up. From time to time, due to temporary reductions in the general level of interest rates, the District has marketed its revenue bonds at interest rates below the previous high levels. This fluctuation in borrowing costs of the District is illustrated by the fact that while the effective interest rate of the District's $55,000,000 Electric System Revenue Bonds, 1981 Series B, dated October

1, 1981, was 14.3641%, the effective interest rate of the District's $327,090,000 Electric System Revenue Bonds, 2005 Series A, dated August 19, 2005, was 4.6385%.

13. When market conditions improve so as to permit an overall savings in debt service, the District refunds bonds issued at high rates of interest through the issuance of refunding revenue bonds. A.R.S. §48-2471, and Section 2.05 of the Resolution referred to in Paragraph 19 of this Application, specifically authorize the District to issue refunding revenue bonds. The refunding techniques described in this Application have been generally accepted and recognized as proper and legitimate methods by which tax-exempt issuers of bonds may take advantage of market conditions to reduce debt service costs. Exhibits E and F, attached hereto and by this reference incorporated herein, utilize the District's 2004 Series A Refunding Revenue Bonds to illustrate how refunding can reduce debt service. The 2004 Series A Refunding Revenue Bonds, which refunded prior bond issues, reduced future debt service by approximately $23.7 million.

14. The District makes refunding decisions based on a number of criteria including, but not limited to, (i) the interest rates on outstanding bonds, (ii) current market interest rates, (iii) the costs of funding an escrow, (iv) call provisions on refunding candidates and (v) potential debt service savings. As part of the refunding process, the District, in association with its lead underwriter and financial advisor, utilizes present value analyses to identify potential refunding candidates. A present value savings figure is calculated for each issue and maturity. An overall net present value savings figure is also calculated. The aggregate net present value savings that could be realized through the refunding is then stated as a percentage of the par amount of the bonds to be refunded. This calculation serves as the primary decision making criterion (or hurdle rate) for a refunding. The District historically has not refunded long maturity debt unless the savings is seven percent or greater. The District in recent years has also considered refunding shorter maturity debt with savings as low as three percent.

15. The District, in consultation with the District's financial advisor, Public Financial Management, has concluded that due to the fluctuation in interest rates, in the future it may be possible to sell the Refunding Bonds to refund the Revenue Bonds at interest rates which will result in substantial debt service savings to the District. In addition, the District has determined that when interest rates are low, it must be able to proceed quickly in order to take advantage of the low interest rates frequently afforded by the market. In order to be able to proceed quickly to refund the Revenue Bonds, it is necessary to have previously obtained the authorization to issue and sell, by public sale, or by private sale to purchasers or through underwriters, the Refunding Bonds in an amount not to exceed $1,300,000,000. The Refunding Bonds will be secured in the same manner as any previously issued Revenue Bonds.

16. A substantial portion of the proceeds from the sale of the Refunding Bonds will be invested in obligations of, or obligations the principal of which and interest thereon are guaranteed by, the United States of America, which are scheduled to mature and bear interest at such times and in such amounts so that the principal, interest, and call premium, if any, on the Revenue Bonds will be paid when due or redeemed. The Revenue Bonds will no longer be secured by net revenues from the District's electric system, but will be secured and payable solely from the above-described investments. Under the Resolution referred to in Paragraph 19 of this Application, and upon issuance of the Refunding Bonds, the Revenue Bonds would no longer be considered outstanding debt of the District. Depending on market conditions, other alternatives include crossover refundings and economic defeasance.

General Discussion

17. The sales of the Revenue Bonds and the Refunding Bonds may be in several increments subsequent to the date the Commission Order authorizing the issuance of the Revenue Bonds and the Refunding Bonds becomes final. The timing, frequency and

amount of the sale of each such increment of the Revenue Bonds and the Refunding Bonds will be determined by the District, depending upon construction needs and/or upon capital market conditions. It is proposed that the Revenue Bonds and the Refunding Bonds will mature within fifty years from the date of the bonds, as provided by A.R.S. §48-2466(A), and will be subject to redemption provisions determined by the District. The District will determine the interest to be borne for each increment, and the purchase price received by the District will be determined either at private sale by negotiations between the District and purchasers or underwriters, or at a publicly advertised, competitive sale on the basis of the best bid received. Pursuant to A.R.S. §48-2470(D), if the Board of Directors of the District determines that the sale of any increment of the Revenue Bonds or the Refunding Bonds will be privately negotiated, such sale will be subject to prior approval of a majority of the members of the Council of the District.

18. In the District's opinion, the purposes to which the proceeds of the Revenue Bonds and the Refunding Bonds are to be applied are generally set forth herein, and as specifically set forth in Paragraphs 9 through 16 of this Application, are in accordance with the lawful purposes for which the District was established under Title 48, Chapter 17, A.R.S., are within its power under such laws, are based on sound financial practices and are compatible with the public interest and with the proper performance by the District of service as an agricultural improvement district, and will not impair but will improve its ability to perform the service for which it was established. The District is further of the opinion that the issuance of the Revenue Bonds and the Refunding Bonds as herein contemplated is reasonably necessary and appropriate for the aforementioned purposes.

19. In connection with the issuance of the Revenue Bonds and the Refunding Bonds, the Board of Directors of the District has adopted an Amended and Restated Resolution Concerning Revenue Bonds, dated September 10, 2001, which became effective as of January 11, 2003 (the "Resolution"), relating to the exercise of powers granted

by the Act. The Resolution pledges certain electric revenue of the District for the payment of the principal of and interest on revenue bonds, including refunding revenue bonds, and, subject to the applicable provisions thereof, on additional revenue bonds issued in the future. A.R.S. §48-2468(A)(6) and Section 5.09 of the Resolution permit the District to issue subordinate lien bonds, should such be necessary or advisable in connection with the issuance of the Revenue Bonds or the Refunding Bonds. Any Revenue Bonds or Refunding Bonds issued by the District would be issued pursuant to the Resolution (as it may be modified from time to time) or a different resolution providing for a subordinate lien on the District's electric revenue. A true copy of the Resolution, authenticated by certification of the Secretary of the District, is attached hereto as Exhibit G.

20. With regard to the sale of each increment of the Revenue Bonds or the Refunding Bonds, which sales may occur in fiscal year 2007 and thereafter, the District proposes to file with the Commission, contemporaneously with each sale, the resolution adopted by its Board of Directors specifically authorizing the sale of each increment, and, in the event of a private sale, the form of underwriting agreement, if any, and the resolution adopted by its Council, approving such sale.

21. The District competes with many other governmental bodies for capital funds in the tax-exempt market. Market access is subject to change due to economic and political events and psychological perceptions. The District needs flexibility in structuring the sale, terms and conditions of the Revenue Bonds and the Refunding Bonds to be able to successfully raise capital during periods of reduced market access. The District has statutory authority to sell, tender for or exchange bonds under contractual terms determined by its Board of Directors to be in the best interest of the District, including bonds having variable interest rates and put features, and bonds that carry with them an optional warrant to purchase additional bonds on similar terms and conditions in the future. The District will consider these and other techniques, if deemed in the best interest of the District, and if recommended

by the District's financial advisors. The District considers it essential that such financing techniques and structures be available to it at a time when such techniques hold promise of considerable benefit to the District and its customers. To the extent the procedures set forth herein are found by the Commission to be reasonable and proper, the District requests that it be authorized to issue (i) the Revenue Bonds in an aggregate principal amount of not to exceed $1,200,000,000, and (ii) the Refunding Bonds to refund the Revenue Bonds, in an aggregate principal amount of not to exceed $1,300,000,000, and to pay expenses incurred in connection therewith, all in the manner described herein without necessity of seeking further Commission approval.

22. To assist the Commission in its consideration of this Application, the District has attached to this Application Exhibits H through M, which provide additional background information. Exhibit H summarizes all outstanding bonds of the District as of July 13, 2006. Exhibit I explains how the District has used existing authorization to issue revenue bonds. Exhibit J explains how the District used existing authorization to issue refunding revenue bonds in fiscal years 2004 through 2006. Exhibit K is a copy of the audited combined financial statement of the District and the Salt River Valley Water Users' Association ("Association") as of April 30, 2006. Exhibit L is the District's most recent Official Statement, dated June 29, 2006, that has been filed with nationally recognized municipal securities information repositories. Exhibit M provides copies of (a) Standard and Poor's credit profile of the District, dated June 21, 2006 and (b) Moody's Investors Service credit report of the District, dated June 13, 2006.

23. The District requests that notice of the filing of this Application be given in conformity with A.R.S. §40-302. If requested to do so by or on behalf of the Commission, the District, pursuant to A.R.S. §48-2465(B), will reimburse the Commission for any additional costs necessarily incurred by it in preparing and distributing such notice or

any other additional costs which are necessarily incurred by the Commission in connection with securing the order for which this Application is made.

24. The District requests that the order for which this Application is herewith made be promptly issued and become effective immediately upon the issuance thereof, because of the current monetary requirements to provide certain improvements needed to carry out its service responsibilities, the current status of financial market conditions in general, which make timing a critical factor in proper and successful marketing of the Revenue Bonds and the Refunding Bonds, and the timing of informational filings with the bond rating agencies. The District requests, should the Commission deem it appropriate, summary disposition of this Application.

WHEREFORE, the District asks that this Commission:

Cause notice of the filing of this Application to be given as above requested; determine a hearing is not necessary and make summary disposition of this Application pursuant to A.R.S. §40-302(A) or, in the alternative, hold such hearing or hearings and make such inquiry or investigation as the Commission may deem of assistance; or make the finding as required by A.R.S. §40-302, relative to the issuance of the Revenue Bonds and the Refunding Bonds as herein discussed; and thereafter make an immediately effective order authorizing the District to issue (i) the Revenue Bonds for construction purposes in an amount not exceeding $1,200,000,000, and (ii) the Refunding Bonds to refund the Revenue Bonds in an amount not exceeding $1,300,000,000; to sell same in the manner herein contemplated and to pay financing costs and expenses related thereto.

DATED at Tempe, Arizona this 28 day of July, 2006.

SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER DISTRICT

By Dean K. Yee

Dean K. Yee
Manager, Financial Services

STATE OF ARIZONA)
) ss
County of Maricopa)

Dean K. Yee, being first duly sworn, deposes and says that he is the Manager, Financial Services of Salt River Project Agricultural Improvement and Power District, that he has read the foregoing Application and knows the contents thereof, and that the same is true in substance and in form, except as to matters therein stated on information and belief, and as to those he believes them to be true.

Dean K. Yee

Dean K. Yee, Manager, Financial Services

Subscribed and sworn to before me this 28 day of July 2006.

Linda Desiderio

Notary Public

My Commission expires:

3/22/07

LINDA DESIDERIO
Notary Public - Arizona
Maricopa County
My Comm. Expires Mar 22, 2007

Original and thirteen (13) copies of the foregoing were filed this 28th day of July, 2006, with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

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APPLICATION EXHIBITS

Exhibit A	**2006 District Board Resolution Authorizing Revenue Bond Issuance**
Exhibit B	**2006 District Board Resolution Authorizing Refunding Revenue Bond Issuance**
Exhibit C	**2006 District Board Resolution Authorizing Application to the Arizona Corporation Commission**
Exhibit D	**Estimated Capital Expenditures for Fiscal Years 2007-2012**
Exhibit E & F	**Examples of How Refunding Bonds Reduce Debt Service**
Exhibit G	**A true copy of the 2001 Resolution, authenticated by certification of the Secretary of the District**
Exhibit H	**Summary of Outstanding Bonds of the District as of July 15, 2006**
Exhibit I	**The District's Use of Existing Authorization to Issue Revenue Bonds**
Exhibit J	**The District's Use of Existing Authorization to Issue Refunding Revenue Bonds**
Exhibit K	**Copy of the Audited Combined Financial Statement for the District and Association as of April 30, 2006**
Exhibit L	**The District's most recent Official Statement, dated June 29, 2006**
Exhibit M	**Copies of (a) Standard and Poor's Credit Profile of the District, dated June 21, 2006, and (b) Moody's Investors Service Credit Report of the District, dated June 13, 2006.**

Exhibit A

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 true and correct copy of a resolution adopted by the District Board at a meeting duly held on March 30, 2006, 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 19th day of July 2006.

Terrill A. Lonon

Terrill A. Lonon
Corporate Secretary

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

A SERIES RESOLUTION AUTHORIZING THE ISSUANCE OF NOT EXCEEDING $1,500,000,000 SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS OF THE SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT

WHEREAS, the Board of Directors (the "Board") of the Salt River Project Agricultural Improvement and Power District (the "District"), by its Supplemental Resolution Dated September 10, 2001 Authorizing an Amended and Restated Resolution Concerning Revenue Bonds, which became effective January 11, 2003 (the "Resolution"), has created and established an issue of Salt River Project Electric System Revenue Bonds ("Revenue Bonds"), and

WHEREAS, the Resolution authorizes the issuance of such Revenue Bonds in one or more series pursuant to a "Series Resolution" authorizing such series, and

WHEREAS, as of March 30, 2006, there are outstanding approximately $2,207,800,000 in Revenue Bonds, and

WHEREAS, Title 48, Chapter 17, Article 7 of the Arizona Revised Statutes (the "Act") authorizes the Board of Directors of the District to issue and sell revenue bonds.

WHEREAS, the Board, has determined that it is necessary and required that the District be authorized to issue, from time to time, an additional not to exceed $1,500,000,000 in Revenue Bonds, pursuant to the Resolution or pursuant to a different resolution providing for a subordinate lien on the District's Revenues, to provide monies to carry out the purposes of the District;

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

ARTICLE I

Authority and Definitions

SECTION 1. Series Resolution. This Series Resolution is adopted in accordance with the provisions of Article II of the Resolution and pursuant to the authority contained in the Act.

SECTION 2. Definitions. All terms which are defined in Article I of the Resolution shall have the same meanings in this Series Resolution as such terms are given in Article I of the Resolution.

ARTICLE II

Authorization of Revenue Bonds

SECTION 1. Principal Amount and Series. Pursuant to the provisions of the Resolution, a series of bonds is hereby authorized in the aggregate principal amount of not exceeding $1,500,000,000 (the "Bonds"). The Bonds shall be designated as "Salt River Project Electric System Revenue Bonds." The Bonds may have a subordinate or parity lien on the Revenues of the District as shall be provided by subsequent resolutions of the Board of Directors of the District.

SECTION 2. Purposes. The Bonds are being issued for the purpose or purposes authorized pursuant to the Act including, without limitation, paying or reimbursing the Cost of Construction of improvements, replacements, additions, extensions and betterments of the Electric System.

SECTION 3. Maturities, Interest Rates, Redemption Provisions and Other Details. The Bonds shall be dated, shall mature not more than fifty years from the date thereof, shall bear interest at such rate or rates, or discounted interest, not in excess of the legal rate, shall be secured by either a parity or subordinated lien on the Revenues of the District, shall be subject to redemption or tender prior to maturity, shall be numbered, shall be payable at such place or places, within or without the state, shall have such parity and reserve requirements, shall be in such denominations, shall be sold at public or private sale and in such manner, at such times and in such amounts, shall be executed, shall be in such form and shall contain such other provisions, all as authorized by law and as provided by subsequent resolutions of the Board of Directors of the District.

ARTICLE III

Miscellaneous

SECTION 1. Effective Date. This Series Resolution shall take effect immediately.

Exhibit B

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 true and correct copy of a resolution adopted by the District Board at a meeting duly held on March 30, 2006, 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 19th day of July 2006.

Terrill A. Lonon

Terrill A. Lonon
Corporate Secretary

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

RESOLUTION AUTHORIZING APPLICATION TO THE ARIZONA CORPORATION COMMISSION FOR THE AUTHORITY TO ISSUE NOT EXCEEDING $1,500,000,000 SALT RVER PROJECT ELECTRIC SYSTEM REVENUE BONDS AND NOT EXCEEDING $1,650,000,000 SALT RIVER PROJECT ELECTRIC SYSTEM REFUNDING REVENUE BONDS

WHEREAS, the A.R.S. 348-2462, Title 48, Chapter 17, Article 7 of the Arizona Revised Statutes (the "Act") authorizes the Board of Directors of the District to issue and sell revenue bonds and to issue and sell revenue bonds to refund outstanding revenue bonds, and

WHEREAS, the Board of Directors of the Salt River Project Agricultural Improvement and Power District (the "District"), by its Supplemental Resolution Dated September 10, 2001 Authorizing an Amended and Restated Resolution Concerning Revenue Bonds, which became effective January 11, 2003 (the "Resolution"), has created and established an issue of Salt River Project Electric System Revenue Bonds (the "Revenue Bonds"), and

WHEREAS, the Resolution authorizes the issuance of such Revenue Bonds in one or more series pursuant to a "Series Resolution" authorizing such series, and

WHEREAS, the Board of Directors, at the special meeting held on March 30, 2006 reviewed a need for and approved the issuance of not exceeding $1,500,000,000 Salt River Project Electric system Revenue Bonds and not exceeding $1,650,000,000 Salt River Project Electric System Refunding Revenue Bonds, and

WHEREAS, such Revenue Bonds and Refunding Revenue Bonds may be issued pursuant to the Resolution Concerning Revenue Bonds or pursuant to a different resolution providing for a subordinate lien on the District's Revenues, and

WHEREAS, pursuant to Title 48, Chapter 17, Article 7 of the Arizona Revised Statutes, Section 48-2465.B, the District must secure an order from the Arizona Corporation Commission (the "ACC") authorizing the issuance of revenue bonds and refunding revenue bonds;

NOW, THEREFORE, BE IT RESOLVED, that the Board of Directors of the Salt River Project Agricultural Improvement and Power District hereby authorizes the filing of an application by the Chief Financial Executive and Associate General Manager, Commercial and Customer Services, or the Manager of Financial Services, with the ACC for an order authorizing the issuance of (i) $1,500,000,000 Salt River Project Electric System Revenue Bonds and (ii) $1,650,000,000 Salt River Project Electric System Refunding Revenue Bonds, or such lesser amounts as they shall determine to be necessary to meet the financial needs of the District.

Exhibit C

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 true and correct copy of a resolution adopted by the District Board at a meeting duly held on March 30, 2006, 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 19th day of July 2006.

Terrill A. Lonon
Corporate Secretary

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

A SERIES RESOLUTION AUTHORIZING THE ISSUANCE OF NOT EXCEEDING $1,650,000,000 SALT RIVER PROJECT ELECTRIC SYSTEM REFUNDING REVENUE BONDS OF THE SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT

WHEREAS, the Board of Directors of the Salt River Project Agricultural Improvement and Power District (the "District"), by its Supplemental Resolution Dated September 10, 2001 Authorizing an Amended and Restated Resolution Concerning Revenue Bonds, which became effective January 11, 2003 (the "Resolution"), has created and established an issue of Salt River Project Electric System Revenue Bonds (the "Revenue Bonds"), and

WHEREAS, the Resolution authorizes the issuance of such Revenue Bonds in one or more series pursuant to a "Series Resolution" authorizing such series, and

WHEREAS, as of March 30, 2006, there are outstanding approximately $2,207,800,000 in Revenue Bonds, and

WHEREAS, Title 48, Chapter 17, Article 7 of the Arizona Revised Statutes (the "Act") authorizes the Board of Directors of the District to issue and sell revenue bonds to refund outstanding revenue bonds, and

WHEREAS, the Board of Directors of the District has determined that it is necessary and required that the District be authorized to issue, from time to time, an additional not to exceed $1,650,000,000 in Refunding Revenue Bonds, pursuant to the Resolution or pursuant to a different resolution providing for a subordinate lien on the District's Revenues, to provide monies to refund any of the District's outstanding Bonds heretofore or hereafter issued pursuant to the Resolution;

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

ARTICLE I

Authority and Definitions

SECTION 1. Series Resolution. This Series Resolution is adopted in accordance with the provisions of Article II of the Resolution and pursuant to the authority contained in the Act.

SECTION 2. Definitions. All terms which are defined in Article I of the Resolution shall have the same meanings in this Series Resolution as such terms are given in Article I of the Resolution.

ARTICLE II

Authorization of Refunding Revenue Bonds

SECTION 1. Principal Amount and Series. Pursuant to the provisions of the Resolution, a series of bonds is hereby authorized in the aggregate principal amount of not exceeding $1,650,000,000 (the "Refunding Bonds"). The Refunding Bonds shall be designated as "Salt River Project Electric System Refunding Revenue Bonds." The Refunding Bonds may have a subordinate or parity lien on the Revenues of the District as shall be provided by subsequent resolutions of the Board of Directors of the District.

SECTION 2. Purposes. The Refunding Bonds are being issued to provide monies to refund any Bonds heretofore or hereafter issued and to pay expenses incurred in connection therewith.

SECTION 3. Maturities, Interest Rates, Redemption Provisions and Other Details. The Refunding Bonds shall be dated, shall mature not more than fifty years from the date thereof, shall bear interest at such rate or rates, or discounted interest, not in excess of the legal rate, shall be secured by either a parity or subordinated lien on the Revenues of the District, shall be subject to redemption or tender prior to maturity, shall be numbered, shall be payable at such place or places, within or without the state, shall have such parity and reserve requirements, shall be in such denominations, shall be sold at public or private sale and in such manner, at such times and in such amounts, shall be executed, shall be in such form and shall contain such other provisions, all as authorized by law and as provided by subsequent resolutions of the Board of Directors of the District.

ARTICLE III

Miscellaneous

SECTION 1. Effective Date. This Series Resolution shall take effect immediately.

Exhibit D

Exhibit D
Estimated Capital Expenditures for Fiscal Years 2007-2012
($000)

	2007	2008	2009	2010	2011	2012	Total 2007-12
Electric Construction:							
Generation	$ 178,648	$ 370,653	$ 336,498	$ 99,657	$ 53,628	$ 20,430	$ 1,059,514
Transmission	94,759	96,080	47,358	24,737	30,971	28,012	321,917
Distribution	226,362	210,426	212,253	206,679	216,860	219,780	1,292,360
Retail Sales and Services	37,440	30,238	19,926	16,291	16,395	17,581	137,871
Operational Support	73,080	86,278	64,078	51,908	52,445	47,187	374,975
Subtotal -- Electric Construction	$ 610,289	$ 793,675	$ 680,112	$ 399,273	$ 370,299	$ 332,989	$ 3,186,637
Contingency Allowance & Risk Portfolio	80,073	186,655	288,883	295,208	248,742	208,699	1,308,261
Subtotal	690,363	980,330	968,995	694,481	619,041	541,688	4,494,898
Capitalized Administrative and General Expenses	16,668	17,051	17,465	17,879	18,308	18,308	105,679
Capitalized Voluntary Contributions	209	214	219	224	230	230	1,326
Capitalized Interest	9,748	20,865	43,009	49,331	24,691	22,986	170,630
Total (1)	$ 716,988	$ 1,018,460	$ 1,029,688	$ 761,915	$ 662,270	$ 583,211	$ 4,772,533

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

Major Generation, Transmission and Distribution Projects
($000)

Generation	
Springerville	$ 648,685
Gas Peaking Units	114,117
Palo Verde	62,436
Betterments	110,536
Other Generation	123,741
	$ 1,059,514
Transmission	
Southeast Valley Transmission Project	$ 103,596
69 kV Projects	68,120
Receiving Stations	43,926
Other Transmission Projects	106,275
	$ 321,917
Distribution	
Residential New Business	$ 353,200
Commercial New Business	120,578
Other Distribution Lines	318,489
Distribution Stations	159,744
Underground Cable Replacement	255,949
Other Distribution	84,400
	$ 1,292,360

Exhibit E

Exhibit E

SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT
EXAMPLE OF REFUNDING BOND SALE – 2004 SERIES A

Sources:

2004 Series A, Electric System Revenue Bonds	$122,110,000
Original Issue Premium (Net)	10,701,562
Net Debt Service Release	5,130,000
TOTAL	$137,941,562

Uses:

Restricted Escrow	$136,991,642
Underwriter's Discount	695,832
Cost of Issuance	254,088
TOTAL	$137,941,562

Exhibit F

Exhibit F

Salt River Project Agricultural Improvement & Power District
Summary of Reduction in Debt Service Requirements
An Example of Refunding Bonds – 2004 Series A

Refunded Debt Service*	2004 Series A Refunding Debt Service	Savings
$213,468,109	$189,791,154	$23,676,955

***Revenue Bonds Refunded**

	Principal Refunded
1986 Series C, Term Bond	$ 27,485,000
1993 Series A, Term Bonds	10,875,000
1991 Series A, Serial and Term Bonds	61,565,000
1993 Series B, Serial and Term Bonds	74,910,000
Total Principal	$ 134,870,000

Exhibit G

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 true and correct copy of a resolution adopted by the District Board at a meeting duly held on September 10, 2001, 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 19th day of July 2006.

Terrill A. Lonon

Terrill A. Lonon
Corporate Secretary

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

SUPPLEMENTAL RESOLUTION DATED SEPTEMBER 10, 2001 AUTHORIZING AN AMENDED AND RESTATED RESOLUTION RELATING TO THE EXERCISE OF POWERS GRANTED BY ARIZONA REVISED STATUTES, ARTICLE 7, CHAPTER 17, TITLE 48; CREATING AND ESTABLISHING AN ISSUE OF SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS OF SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT; PROVIDING FOR THE ISSUANCE FROM TIME TO TIME OF SAID BONDS; PROVIDING FOR THE PAYMENT OF PRINCIPAL AND INTEREST ON SAID BONDS AND PROVIDING FOR THE RIGHTS OF THE HOLDERS THEREOF.

WHEREAS, Salt River Valley Water Users' Association (hereinafter called the "Association") was duly incorporated February 9, 1903, under the General Corporation Laws of the Territory of Arizona to furnish water for irrigation, power for domestic and ordinary purposes, and to provide drainage to and for the lands appurtenant to the shares held by the members of said Association, and was authorized to construct and operate, or to contract with the United States of America for the construction and operation of dams, power plants, transmission lines, roads, canals, and other facilities incident to the storage, production, distribution and operation of irrigation, water, power and drainage works for the benefit of said lands, the area including all said lands served and benefited by such works and improvements being known as the Salt River Project; and

WHEREAS, said Association by contract entered into with the United States of America agreed to act as Agent for the United States of America to collect from the owners of said lands in the Salt River Project moneys due the United States of America for the construction and operation of the works constructed and operated in connection with said Salt River Project and further agreed as Agent for the United States of America to maintain, operate, complete, improve and extend such works, and said Association, in furtherance of the objects for which it was incorporated, expended and undertook the payment of certain amounts of money for the construction, by it and by the United States of America, of dams, power plants, canals, ditches, pumping plants, pipe lines and other properties and improvements, and for said purposes issued its bonds and assumed the payment of bonds issued by certain underlying agricultural improvement districts therefor and thereafter incurred further indebtedness for the improvements and replacements of the structures and equipment necessary and useful for providing power for the use of the owners and occupants of said lands within the exclusion lines of the Salt River Project; and

WHEREAS, all of the lands subscribed to the Articles of Incorporation of said Salt River Valley Water Users' Association and within the exclusion lines of the Salt River Project were organized on January 25, 1937 under the laws of the State of Arizona as an agricultural improvement district and as a political

subdivision and body politic and corporate known and designated as Salt River Project Agricultural Improvement and Power District (hereinafter called the "District"); and

WHEREAS, said District, pursuant to authority of law, entered into that certain Agreement with said Association dated March 22, 1937, whereby said Association agreed to perform and comply with all of its contracts with the United States of America and to act as Agent of the United States of America in operating the Salt River Project for the benefit of this District; and

WHEREAS, by virtue of an amendment dated September 12, 1949, to that certain Agreement with said Association dated March 22, 1937, said District assumed the direct operation of the electric system of the Salt River Project, including all works on Salt River and its tributaries above Granite Reef Dam, and all property used or useful in the generation, transmission, and distribution of electrical power and energy, and all facilities used or useful solely in the operation and maintenance of said works and property, and the Association under said amendment assumed as Agent of said District the direct operation and maintenance of the irrigation and drainage system of the Salt River Project, including all canals and laterals used in delivery of water, all works for the diversion of water into said canals and laterals, all irrigation and drainage wells and pumping plants, and all other facilities used or useful exclusively in the operation and maintenance of said works and property, all to promote and assure further economy and efficiency in the operation and maintenance of said electric system of the Salt River Project, and to insure adequate and proper service of water to the users thereof within Salt River Project; and

WHEREAS, under Chapter 17, Title 48, Arizona Revised Statutes said District has the general power and authority to finance improvements and replacements of structures and equipment necessary and useful for providing power for the use of owners and occupants of the lands within the Salt River Project and to reduce the cost of irrigation, drainage and power to the owners of lands within the Salt River Project by the sale of surplus water or power, and to issue its bonds to accomplish such financing when deemed proper for the interest of said District and to pledge its revenues as security for the payment of said bonds; and

WHEREAS, it is determined necessary and in the best interests of the District to adopt a resolution relating to the exercise of powers granted by Article 7, Chapter 17, Title 48 of Arizona Revised Statutes, and to issue bonds at such times and in such amounts as the Board of Directors shall determine; and

WHEREAS, the District adopted its resolution entitled "RESOLUTION RELATING TO THE EXERCISE OF POWERS GRANTED BY ARIZONA REVISED STATUTES, ARTICLE 7, CHAPTER 17, TITLE 48; CREATING AND ESTABLISHING AN ISSUE OF SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS OF SALT RIVER PROJECT AGRICULTURAL

IMPROVEMENT AND POWER DISTRICT; PROVIDING FOR THE ISSUANCE FROM TIME TO TIME OF SAID BONDS; PROVIDING FOR THE PAYMENT OF PRINCIPAL AND INTEREST ON SAID BONDS AND PROVIDING FOR THE RIGHTS OF THE HOLDERS THEREOF" dated as of November 1, 1972, as amended through October 14, 1993 (the "Bond Resolution"); and

WHEREAS, the District desires to amend and restate the Bond Resolution in order to modernize the Bond Resolution so that it can efficiently operate in a changing electric utility industry and to provide the District with greater flexibility in the exercise of its powers thereunder; and

WHEREAS, pursuant to Section 11.02 of the Bond Resolution the District has the power and authority to amend the Bond Resolution by adoption of a supplemental resolution in accordance with the provisions of Section 11.03 of the Bond Resolution; and

WHEREAS, it is determined necessary and in the best interests of the District to adopt a supplemental resolution amending and restating the Bond Resolution in accordance with the provisions hereof; and

WHEREAS, this supplemental resolution shall become effective only upon satisfaction of the provisions for adoption of a supplemental resolution as set forth in Section 11.03 hereof;

NOW, THEREFORE, BE IT AND IT IS HEREBY RESOLVED by the Board of Directors of Salt River Project Agricultural Improvement and Power District that the Bond Resolution is hereby amended and restated as follows:

ARTICLE I
DEFINITIONS AND STATUTORY AUTHORITY

1.01 **Definitions**. The following terms shall, for all purposes of the Resolution, have the following meanings:

Accountant's Report shall mean an opinion signed by an independent public accountant of recognized national standing or a firm of public accountants of recognized national standing, selected by the District, who may be the accountant or firm of accountants who regularly examine the financial statements of the District and the Association.

Accounting Practice shall mean generally accepted accounting principles appropriate to the electric utility industry.

Act shall mean Chapter 17, Title 48, Arizona Revised Statutes, as amended and supplemented from time to time.

Aggregate Debt Service for any Fiscal Year shall mean, as of any date of calculation, the sum of the amounts of Debt Service for such year with respect to all Series.

Annual Budget shall mean the annual budget of the District, as amended or supplemented, adopted or in effect for a particular Fiscal Year.

Authorized Newspapers shall mean two newspapers printed in the English language, one of which is customarily published at least once a day for at least five days (other than legal holidays) in each calendar week and of general circulation in the City of Phoenix, Arizona, and the other of which is The Daily Bond Buyer, a newspaper specializing in financial matters published in the Borough of Manhattan, City and State of New York or in lieu of such publication in The Daily Bond Buyer, in some other newspaper of general circulation specializing in financial matters published in the Borough of Manhattan, City and State of New York.

Authorized Officer of the District shall mean the President, Vice President, Treasurer, Secretary or General Manager of the District or any officer or employee of the District authorized to perform specific acts or duties by resolution duly adopted by the District.

Bond or Bonds shall mean any bond or bonds delivered under and pursuant to the Resolution.

Bondholder or Holder of Bonds shall mean any person who shall be the bearer of any Bond or the registered owner of any Bond.

Construction Fund shall mean the Salt River Project Electric System Construction Fund established in Section 5.02.

Cost of Construction shall mean 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, costs 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 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 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.

Counsel's Opinion shall mean an opinion signed by an attorney or firm of attorneys (who may be counsel to the District) selected by the District.

Debt Reserve Account Credit Facility shall mean 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 shall mean, as of any date of calculation, an amount equal to one-half of the average annual interest cost for all Outstanding 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 shall mean, 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 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 Bond proceeds, 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 shall 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 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.

Debt Service Fund shall mean the Salt River Project Electric System Debt Service Fund established in Section 5.02, including the Debt Service Account and Debt Reserve Account created therein.

Defeasance Securities shall mean and include 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.

Depositary shall mean any bank or trust company selected by the District as a depositary of moneys and securities held under the provisions of the Resolution, and may include the Trustee.

District shall mean the Salt River Project Agricultural Improvement and Power District, a body politic and corporate organized and existing under the laws of the State of Arizona, including the Act.

Electric System shall mean properties and assets to which legal title is vested in the District and was so vested on the date of adoption of this 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.

Event of Default shall have the meaning given to such term in Section 8.01.

Fiduciary or Fiduciaries shall mean the Trustee, the Paying Agents, or any or all of them, as may be appropriate.

Fiscal Year shall mean 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.

General Fund shall mean the Salt River Project Agricultural Improvement and Power District General Fund which has been created and maintained pursuant to the Act.

Investment Securities shall mean any securities if and to the extent the same are at the time legal for investment of District funds.

Irrigation Plant shall mean all land and land rights, structures, 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 shall mean 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 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.

Outstanding when used with reference to Bonds, shall mean, as of any date, Bonds theretofore or thereupon being authorized and delivered under the Resolution except:

(i) Any Bonds cancelled by the Trustee at or prior to such date;

(ii) Bonds (or portions of Bonds) for the payment or redemption of which moneys, equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, shall be held in trust under the Resolution and set aside for such payment or redemption (whether at or prior to the maturity or redemption date), provided that if such Bonds (or portions of Bonds) are to be redeemed, notice of such redemption shall have been given as in Article IV provided or provisions satisfactory to the Trustee shall have been made for the giving of such notice;

(iii) Bonds in lieu of or in substitution for which other Bonds shall have been delivered pursuant to Article III or Sections 4.06 or 11.06; and

(iv) Bonds deemed to have been paid as provided in subsection 2 of Section 12.01.

Paying Agent shall mean any bank or trust company designated as paying agent for the Bonds of any Series, and its successor or successors hereafter appointed in the manner provided in the Resolution.

Principal Installment shall mean, as of any date of calculation and with respect to any Series, so long as any Bonds thereof are Outstanding, (i) the principal amount of 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 the sinking fund redemption premiums, if any, which would be applicable upon redemption of such Bonds on such future date in a principal amount equal to said unsatisfied balance of such Sinking Fund Installments, or (iii) if such future dates coincide as to different Bonds of such Series, the sum of such principal amount of Bonds and of such unsatisfied balance of Sinking Fund Installments due on such future date plus such applicable redemption premiums, if any.

Project shall mean 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 shall mean 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 shall mean the Salt River Project Electric System Rate Stabilization Fund established in Section 5.02.

Redemption Price shall mean, with respect to any Bond, the principal amount thereof plus the applicable premium, if any, payable upon redemption thereof pursuant to such Bond or the Resolution.

Refunding Bonds shall mean all Bonds, whether issued in one or more Series, issued and delivered pursuant to Section 2.05 and thereafter delivered in lieu of or in substitution for such Bonds pursuant to Article III or Sections 4.06 or 11.06.

Resolution shall mean this Amended and Restated Resolution Concerning Revenue Bonds as from time to time amended or supplemented by Supplemental Resolutions in accordance with the terms hereof.

Revenue Fund shall mean the Salt River Project Electric System Revenue Fund established in Section 5.02.

Revenues shall mean (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.

Separately Financed Project means any project described as such in Section 2.06.

Series shall mean all of the Bonds issued pursuant to a Series Resolution, and any Bonds thereafter delivered in lieu of or in substitution for such Bonds pursuant to Article III or Sections 4.06 or 11.06, regardless of variations in maturity, interest rate, Sinking Fund Installments, or other provisions. If a Series of Bonds is sold in installments, Series shall mean all the Bonds of such installment.

Series Resolution shall mean a resolution of the District authorizing the issuance of a Series of Bonds adopted by the District in accordance with Article II and any subsequent resolution of the District which provides for the sale of all or part of such Series of Bonds.

Sinking Fund Installment shall mean an amount so designated which is established pursuant to subsection (11) of Section 2.02.

Subordinated Indebtedness shall mean any evidence of debt referred to in, and complying with the provisions of, Section 5.09.

Supplemental Resolution shall mean any resolution supplemental to or amendatory of the Resolution, adopted by the District in accordance with Article X.

Trustee shall mean the trustee appointed pursuant to Article IX, and its successor or successors and any other corporation which may at any time be substituted in its place pursuant to the Resolution.

Except where the context otherwise requires, words importing the singular number shall include the plural number and vice versa, and words importing persons shall include firms, associations, corporations and governmental entities.

1.02 **Authority for the Resolution**. The Resolution is adopted pursuant to the provisions of the Act.

1.03 **Resolution to Constitute Contract**. In consideration of the purchase and acceptance of any and all of the Bonds authorized to be issued hereunder by those who shall hold the same from time to time, the Resolution shall be deemed to be and shall constitute a contract between the District and the Holders from time to time of the Bonds and the pledge made in the Resolution and the covenants and agreements therein set forth to be performed on behalf of the District shall be for the equal benefit, protection and security of the Holders of any and all of the Bonds, all of which, regardless of the time or times of their authentication and delivery or maturity, shall be of equal rank without preference, priority or distinction of any of the Bonds over any other thereof except as expressly provided in or permitted by the Resolution.

ARTICLE II
AUTHORIZATION AND ISSUANCE OF BONDS

2.01 **Authorization of Bonds**. There is hereby established and created an issue of Bonds of the District to be known and designated as "Salt River Project Electric System Revenue Bonds", which Bonds may be issued as hereinafter provided without limitation as to amount except as provided in the Resolution or as may be hereafter limited by law. The Bonds shall not constitute general obligations of the District, and no Holder or Holders of any of the Bonds shall ever have the right to compel any exercise of the taxing powers of the District to pay the Bonds or the interest thereon, and each Bond issued pursuant to this Resolution shall recite in substance that said Bond, including interest thereon, is payable from the Revenues and other funds pledged to the payment thereof. All Bonds shall be equally and ratably secured without priority by reason of Series designation, number, date of Bonds, date of sale, execution, maturity, or delivery, by a lien on the Revenues and other funds pledged to the payment thereof, all in accordance with the provisions of the Act and this Resolution.

2.02 **Provisions for Issuance of Bonds**. The issuance of the Bonds may be authorized by a Series Resolution or Series Resolutions of the District adopted subsequent hereto, in one or more Series. The Bonds of each Series may be sold in one or more installments. The Bonds of each Series shall, in addition to the Title "Salt River Project Electric System Revenue Bonds", contain an appropriate Series designation. If a Series of Bonds is sold in one or more installments it shall, in addition to its Series designation, contain a designation distinguishing it from other installments of said Series.

Each Series Resolution authorizing the issuance of a Series of Bonds shall also specify or provide the manner of determining:

(1) the authorized principal amount of such Series of Bonds;

(2) the purposes for which the Bonds of such Series are being issued, which shall be only the payment or reimbursement of the Cost of Construction of a Project for the Electric System, or the refunding of obligations previously issued with respect to a Project for the Electric System, which obligations to be refunded shall be specified in such Series Resolution, or any other lawful purpose;

(3) the date or dates, maturity date or dates and the interest payment date or dates, or the manner of determining the same;

(4) the interest rate or rates, if any, or the manner of determining such rate or rates;

(5) the denomination or denominations of the Bonds of such Series, provided that each Bond shall be in the denomination of $5,000 or an integral multiple thereof, not exceeding the aggregate principal amount of the Bonds of such Series, or in the case of the sale of a Series of Bonds in installments such installment, maturing in the year of maturity of the Bond for which the denomination is to be specified or, in such other denominations as shall be provided in the Series Resolution;

(6) the premiums, if any, to be paid upon the redemption of the Bonds of such Series, and the terms of such redemption;

(7) the place or places of payment of the principal of and interest and redemption premium, if any, on the Bonds of such Series:

(8) provisions for the sale or other disposition of the Bonds of such Series;

(9) the forms of the Bonds of such Series, and if the Bonds are Put Bonds, provisions regarding the tender for purchase thereof and payment of the purchase price thereof;

(10) the officers of the District directed to execute the Bonds of such Series by either manual or facsimile signature;

(11) the amount and due date of each Sinking Fund Installment for the Bonds of such Series, if any; and

(12) any other provisions deemed advisable by the District not in conflict with the provisions of this Resolution.

When a Series of Bonds is sold in installments, each such installment may have details, terms and provisions which differ from other installments of the same Series of Bonds, all as provided by Series Resolution.

Bonds shall be delivered in accordance with a Series Resolution but only upon receipt by the Trustee of:

(1) A Counsel's Opinion to the effect that (a) the District has the right and power under the Act to adopt the Series Resolution, and the Series Resolution has been duly and lawfully adopted by the District, is in full force and effect, and is valid and binding upon the Authority, and enforceable in accordance with its terms, and no other authorization for the Series Resolution is required; (b) the Series Resolution creates the valid pledge which it purports to create in the manner and to the extent provided therein; (c) the Bonds are valid, binding, direct and general obligations of the District, enforceable in accordance with their terms and the terms of the Series Resolution and entitled to the benefits of the Act, and such Bonds have been duly and validly authorized and issued in accordance with law and the Series Resolution; and (d) the District has good right and lawful authority under the Act to effectuate the purposes for which the proceeds of such Bonds will be utilized, subject, in the case of Bonds issued for other than refunding purposes, to obtaining such licenses, orders or other authorizations, if any, as, at the date of such Counsel's Opinion, may be required to be obtained from any agency or regulatory body having lawful jurisdiction in order to effectuate such purposes;

(2) A certified copy of the Series Resolution and certificate of determination of an Authorized Officer of the District, if any, authorizing such Bonds;

(3) A written order of the District as to the delivery of the Bonds, signed by an Authorized Officer of the District;

(4) Such further documents and moneys as are required by the Series Resolution authorizing such Bonds; and

(5) A certificate of an Authorized Officer of the District to the effect that, upon the delivery of the Bonds, the District will not be in default in the performance of the terms and provisions of the Resolution.

2.03 **Dates, Form of Bonds and Bond Proceeds**. 1. Each Series of Bonds shall mature on such dates and in such amounts, bear interest at such rate or rates payable on such dates, and be subject to redemption upon such terms all as provided in the Series Resolution authorizing the issuance of such Series of Bonds. All Bonds of each installment of a Series of like maturity shall be identical in all respects except as to denominations and numbers and in fully registered form without coupons.

2. The proceeds, including accrued interest, of the Bonds of each Series shall be applied simultaneously with the delivery of such Bonds, as follows:

(1) There shall be deposited in the Debt Service Account (i) an amount equal to the accrued interest on such Bonds to the date of such delivery, and (ii) if and to the extent provided in the Series Resolution authorizing such Bonds, such additional amount as may be necessary so that the sum deposited in such Account shall equal the unpaid interest accrued and to accrue on all Bonds issued for such Project to a date not later than the estimated date of completion of such Project, or such longer period as may be provided by the Series Resolution authorizing the issuance of such Series of Bonds;

(2) There shall be deposited in the Debt Reserve Account the amount, if any, provided for by the Series Resolution authorizing the issuance of such Series of Bonds; and

(3) The remaining balance shall be deposited in the Construction Fund.

2.04 **Additional Bonds**. 1. 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, only if, (a) Revenues Available For Debt Service, adjusted as provided in paragraph 3 hereof, 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 10/100ths) 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 paragraph 4 hereof, 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 10/100ths) 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.

2. 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 clauses (a) and (b) of subsection 1 of this Section.

3. In determining the amount of Revenues Available For Debt Service for the purposes of clause (a) of subsection 1 of this Section, 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 clause (a) of subsection 1 of this Section, 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 clause (a) of subsection 1 of this Section, 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 clause (a) of subsection 1 of this Section.

4. In determining the amount of estimated Revenues Available For Debt Service for the purpose of clause (b) of subsection 1 of this Section, 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.

5. The certificate required by subsection 2 of this Section shall be conclusive evidence and the only evidence required to show compliance with the provisions and requirements of this Section.

2.05 **Refunding Bonds**. 1. 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 the provisions of this Section or by the provisions of the Series Resolution authorizing such Bonds.

2. 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 in Section 12.01 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 of subsection 2 of Section 12.01 and any moneys required pursuant to said subsection 2, which Defeasance Securities and moneys shall be held in trust and used only as provided in subsection 2.05(c)(i) above; and

(d) Either (i) a certificate of an Authorized Officer of the District as required by paragraph 2 of Section 2.04 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.

3. Any balance of the proceeds of Refunding Bonds not needed for the purposes provided in this Section 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.

2.06 **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.

ARTICLE III
GENERAL TERMS AND PROVISIONS OF BONDS

3.01 **Execution and Authentication**. 1. Bonds of each Series shall be signed by the President or Vice President and the Secretary or Assistant Secretary of the District, either manually or by their printed, engraved or lithographed facsimile signatures, with the seal of the District or a facsimile thereof affixed thereto, as fixed by a Series Resolution. Each Bond of each Series shall be numbered and shall bear the date of its issue as provided by Series Resolution, so as to be distinguished from every other Bond. Bonds shall express on their faces that they are signed by authority of Article 7 of the Act. Bonds shall be valid and binding obligations notwithstanding that before the delivery thereof and payment therefor either or both of the persons whose signatures appear thereon shall have ceased to be such officers of the District.

All Bonds shall be payable as to interest, principal and premium, if any, in any coin or currency which, on the respective dates of payment thereof, shall be legal tender for the payment of public and private debts.

2. Except as otherwise provided in a Series Resolution with respect to the Series of Bonds authorized thereunder, Bonds shall bear thereon a certificate of authentication, in the form set forth in the Series Resolution authorizing such Series of Bonds, executed manually by the Trustee. Except as otherwise provided in a Series Resolution with respect to the Series of Bonds authorized thereunder, no Bond shall be entitled to any right or benefit under the Resolution or shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Trustee. Such certificate of the Trustee upon any Bond executed on behalf of the District shall be conclusive evidence that the Bond so authenticated has been duly authenticated and delivered under the Resolution and that the Owner thereof is entitled to the benefits hereof.

3.02 **Form, Ownership and Transfer of Bonds**. Bonds of each Series may be issued in the form of fully registered Bonds without coupons, all as provided by the Series Resolution authorizing each Series. The District, the Trustee, the Paying Agents and any other person may treat the registered owner of any registered Bond, as the absolute owner of such Bond for the purpose of making payment thereof and for all other purposes, and neither the District nor the Trustee nor the Paying Agents shall be bound by any notice or knowledge to the contrary, whether such Bond shall be overdue or not. All payments of or on account of interest to any registered owner of any registered Bond (or to his registered assigns), and all payments of or on account of principal to the registered owner of any registered Bond, shall be valid and effectual and shall be a discharge of the District, the Trustee and the Paying Agents, in respect of the liability upon the Bond or claim for interest, as the case may be, to the extent of the sum or sums so paid.

3.03 **Book-Entry-Only System.** Notwithstanding any other provision of the Resolution, the District may employ a book-entry-only system of registration with respect to any Series of Bonds. The procedures regarding such registration shall be set forth in the Series Resolution authorizing such Series of Bonds and the District may, if necessary, amend the Resolution pursuant to Section 10.01 to achieve such book-entry-only registration system. Notwithstanding the foregoing, any provisions of the Resolution inconsistent with book-entry-only Bonds shall not be applicable to such book-entry-only Bonds.

3.04 **Transfer of Registered Bonds**. The Trustee shall keep, as Bond Registrar (hereinafter referred to as the "Registrar") at all times while any of the Bonds containing provisions for registration and transfer shall be outstanding and unpaid, books for the registration and transfer of such Bonds. Any registered Bond containing provisions for transfer may be transferred pursuant to the

provisions thereof at the principal office of the Registrar by surrender of such Bond for cancellation, accompanied by a written instrument of transfer, in form satisfactory to the Registrar, duly executed by the registered owner in person or by his duly authorized agent, and thereupon the District will issue and deliver at the office of the Registrar (or send by registered mail to the owner thereof at the owner's expense), in the name of the transferee or transferees, a new registered Bond, of like Series, form, interest rate, principal amount and maturity, dated so that there shall result no gain or loss of interest as a result of such transfer. To the extent of denominations authorized in respect of any such Bond by the terms thereof, or by the terms of this Resolution, one such registered Bond may be transferred for several such registered Bonds of like Series, form, interest rate and maturity, and for a like aggregate principal amount, and several such registered Bonds may be transferred for one or several such registered Bonds, respectively, of like Series, form, interest rate and maturity and for a like aggregate principal amount. If so provided in the Series Resolution, the District or the Bond Registrar shall not be obligated to transfer or exchange any registered Bonds of such Series during the 15 days preceding the date on which notice of redemption of a Bond is to be given or any Bond that has been called for redemption except the unredeemed portion of any Bond being redeemed in part.

3.05 Exchange of Bonds. 1. The registered owner of any registered Bond may at any time (provided such Bond shall not have been called for redemption) surrender the same at the principal office of the Registrar, with instruments of transfer satisfactory to the Registrar, and shall be entitled to receive in exchange therefor an equal aggregate principal amount of Bonds of the same Series, interest rate and maturity, of any one or more of the forms, the issue of which has been provided for with respect to such Series: and the District will issue and deliver at the principal office of the Registrar (or send by registered mail to the owner thereof at the owner's expense) the Bonds necessary to make such exchange.

2. Upon the issue of any registered Bond, the serial number or numbers covering a Bond or Bonds of the same Series, interest rate and maturity and an equal aggregate principal amount may be reserved. The serial number or numbers so reserved shall be endorsed on such registered Bond, which may also bear such endorsement or legend satisfactory to the Registrar as may be required to conform to usage or law with respect thereto.

3. Whenever registered Bonds with proper instruments of transfer shall be surrendered to the Registrar for exchange for Bonds of like Series, interest rate and maturity, the District shall issue and deliver at the principal office of the Registrar (or send by registered mail to the owner thereof at the owner's expense) in exchange a like principal amount of Bonds of the same Series, interest rate and maturity, bearing the serial number or numbers so

reserved upon the issuance of the registered Bond or Bonds so surrendered, so that no gain or loss of interest shall result from such exchange.

3.06 Charges for and Validity of Bonds Exchanged. 1. As a condition of any exchange or of any registration or transfer, the District at its option may require the payment of a sum sufficient to reimburse it for any stamp tax or other governmental charge that may be imposed thereon. All Bonds executed and delivered in exchange for or upon transfer of Bonds so delivered shall be valid obligations of the District evidencing the same obligation as the Bonds surrendered, and shall be entitled to all the benefits and protection of this Resolution and of the Series Resolution authorizing the issuance of such Bond to the same extent as the Bonds in exchange for or upon transfer of which they were executed and delivered.

2. Anything herein to the contrary notwithstanding, the cost of preparing each new registered Bond upon each exchange or transfer, and any other expenses of the District, or the Trustee, incurred in connection therewith (except any applicable governmental transfer or stamp tax or other charge) shall be paid by the District from the Revenue Fund as an Operating Expense.

3.07 Mutilated, Destroyed and Lost Bonds. In case any Bond shall at any time become mutilated or be lost or destroyed, the District in its discretion may execute and deliver a new Bond of like tenor and effect in exchange or substitution for and upon the surrender and cancellation of such mutilated Bond; or in lieu of or in substitution for such destroyed or lost Bond, or if such lost Bond shall have matured, instead of issuing a substitute therefor, the District may at its option pay the same without the surrender thereof. No such substitute Bond shall be issued unless the applicant for the issuance thereof shall furnish to the District evidence satisfactory to it of the destruction or loss of the original Bond, and the ownership thereof, and also an indemnity bond satisfactory to the District in an amount equal to twice the amount of each such Bond, and the applicant for the issuance thereof shall reimburse the District for the expenses incurred by the District in connection with the preparation, execution, issuance and delivery of the substitute Bond, and any such substitute Bond shall be equally and proportionately entitled to the security of this Resolution with all other Bonds issued. Notwithstanding anything to the contrary contained in this Section 3.07, the District may at its option waive the requirement of an indemnity bond and the payment expenses incurred by the District in connection with the delivery of a substitute Bond for any mutilated, destroyed or lost Bond.

3.08 Temporary Bonds. 1. Until the definitive Bonds of any Series are prepared, the District may execute, in the same manner as is provided in Section 3.01, and deliver, in lieu of definitive Bonds, but subject to the same provisions, limitations and conditions as the definitive Bonds except as to the denominations thereof and as to exchangeability for registered Bonds, one or more temporary Bonds (which may be registrable as to principal and interest) substantially of the

tenor of the definitive Bonds in lieu of which such temporary Bond or Bonds are issued, without coupons, in denominations of $5,000 or any multiples thereof authorized by the District, and with such omissions, insertions and variations as may be appropriate to temporary Bonds. The District at its own expense shall prepare and execute and, upon the surrender of such temporary Bonds, for exchange and the cancellation of such surrendered temporary Bonds, the Trustee shall authenticate and, without charge to the Holder thereof, deliver in exchange therefor, definitive registered Bonds, of the same aggregate principal amount and series and maturity as the temporary Bonds surrendered. Until so exchanged, the temporary Bonds shall in all respects be entitled to the same benefits and security as definitive Bonds issued pursuant to the Resolution.

2. All temporary Bonds surrendered in exchange either for another temporary Bond or Bonds or for a definitive Bond or Bonds shall be forthwith cancelled by the Trustee.

3.09 **Cancellation and Destruction of Bonds**. All Bonds paid or redeemed, either at or before maturity, shall be delivered to the Trustee when such payment or redemption is made, and such Bonds, together with all Bonds purchased by the Trustee, shall thereupon be promptly cancelled. Bonds so cancelled may at any time be cremated or otherwise destroyed by the Trustee, who shall execute a certificate of cremation or destruction in duplicate by the signature of one of its authorized officers describing the Bonds so cremated or destroyed, and one executed certificate shall be filed with the District and the other executed certificate shall be retained by the Trustee.

ARTICLE IV
REDEMPTION OF BONDS

4.01 **Privilege of Redemption and Redemption Price**. Bonds subject to redemption prior to maturity pursuant to any Series Resolution shall be redeemable, upon published notice as provided in this Article IV, at such times, at such Redemption Prices and upon such terms in addition to the terms contained in this Article IV as may be specified in this Resolution or in the Series Resolution authorizing such Series.

4.02 **Redemption at the Election or Direction of the District**. In the case of any redemption of Bonds at the election or direction of the District, the District shall give written notice to the Trustee of its election or direction so to redeem, of the redemption date, of the Series, and of the principal amounts of the Bonds of each maturity of such Series to be redeemed (which Series maturities and principal amounts thereof to be redeemed shall be determined by the District in its sole discretion, subject to any limitations with respect thereto contained in the Resolution). In the event notice of redemption shall have been given as in Section 4.05 provided, there shall be paid prior to the redemption date to the appropriate Paying Agents an amount in cash which, in addition to

other moneys, if any, available therefor held by such Paying Agents, will be sufficient to redeem on the redemption date at the Redemption Price thereof, plus interest accrued and unpaid to the redemption date, all of the Bonds to be redeemed. The District shall promptly notify the Trustee in writing of all such payments by it to a Paying Agent.

4.03 **Redemption Otherwise Than at District's Election or Direction**. Whenever by the terms of the Resolution the Trustee is required or authorized to redeem Bonds otherwise than at the election or direction of the District, the Trustee shall select the Bonds to be redeemed, give the notice of redemption and pay out of moneys available therefor the Redemption Price thereof, plus interest accrued and unpaid to the redemption date to the appropriate Paying Agents in accordance with the terms of this Article IV and, to the extent applicable, Section 5.07.

4.04 **Selection of Bonds to be Redeemed**. If less than all of the Bonds of like maturity of any Series shall be called for prior redemption, the particular Bonds or portions of Bonds to be redeemed shall be selected at random by the Trustee in such manner as the Trustee in its discretion may deem fair and appropriate; provided, however, that the portion of any Bond of a denomination of more than $5,000 to be redeemed shall be in the principal amount of $5,000 or an integral multiple thereof, and that, in selecting portions of such Bonds for redemption, the Trustee shall treat each such Bond as representing that number of Bonds of $5,000 denomination which is obtained by dividing the principal amount of such Bond to be redeemed in part by $5,000.

4.05 **Notice of Redemption**. 1. When the Trustee shall receive notice from the District of its election or direction to redeem Bonds pursuant to Section 4.02, and when redemption of Bonds is authorized or required pursuant to Section 4.03, the Trustee shall give notice, in the name of the District, of the redemption of such Bonds, which notice shall specify the Series and maturities of the Bonds to be redeemed, the redemption date and the place or places where amounts due upon such redemption will be payable and, if less than all of the Bonds of any like Series and maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds so to be redeemed and in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed, and, if applicable, that such notice is conditional and the conditions that must be satisfied. Such notice shall further state that on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of Bonds to be redeemed in part only, together with interest accrued to the redemption date, and that from and after such date interest thereon shall cease to accrue and be payable. Such notice shall be given by publication once a week for at least two successive weeks in the Authorized Newspapers, the first such publication to be not less than 30 days nor more than 60 days prior to the

redemption date. If so provided in the Series Resolution, the Trustee shall also mail a copy of such notice, postage prepaid, not less than 25 days before nor more than 50 days prior to the redemption date to the registered owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books. If, at the time of giving notice of redemption, no Bonds of the Series to be redeemed are outstanding except fully registered Bonds, publication of such notice shall not be required.

2. The Trustee shall in the case of redemption pursuant to Section 4.02 hereof give notice required by this Section, regardless of whether it has on deposit sufficient funds to effect such redemption. Any notice of optional redemption given pursuant to this Section may state that it is conditional upon receipt by the Trustee of moneys sufficient to pay the Redemption Price of such Bonds or upon the satisfaction of any other condition, or that it may be rescinded upon the occurrence of any other event, and any conditional notice so given may be rescinded at any time before payment of such Redemption Price if any condition so specified is not satisfied or if any such other event occurs. Notice of such rescission shall be given by the Trustee to the registered owners of any Bonds so affected as promptly as practicable upon the failure of such condition or the occurrence of such event.

4.06 **Payment of Redeemed Bonds**. Notice having been given by publication in the manner provided in Section 4.05, the Bonds or portions thereof so called for redemption shall become due and payable on the redemption date so designated at the Redemption Price, plus interest accrued and unpaid to the redemption date, and, upon presentation and surrender thereof at the office specified in such notice, such Bonds, or portions thereof, shall be paid at the Redemption Price, plus interest accrued and unpaid to the redemption date. If there shall be drawn for redemption less than all of a Bond, the District shall execute and the Paying Agent shall deliver, upon the surrender of such Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered, registered Bonds of like Series and maturity in any of the authorized denominations. If, on the redemption date, moneys for the redemption of all the Bonds or portions thereof of any like Series and maturity to be redeemed, together with interest to the redemption date, shall be held by the Paying Agents so as to be available therefor on said date and if notice of redemption shall have been published as aforesaid, then, from and after the redemption date interest on the Bonds or portions thereof of such Series and maturity so called for redemption shall cease to accrue and become payable. If said moneys shall not be so available on the redemption date, such Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

ARTICLE V
ESTABLISHMENT OF FUNDS AND APPLICATION THEREOF

5.01 **The Pledge Effected by the Resolution**. 1. The Bonds are special obligations of the District payable from and secured by the funds pledged therefor. There are hereby pledged for the payment of the principal and Redemption Price of, and interest on, the Bonds in accordance with their terms and the provisions of the Resolution, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution, (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.

2. Such proceeds of sale of the Bonds, the Revenues (subject to the transfers permitted under Section 5.06 hereof) and the other moneys and securities hereby pledged shall immediately be subject to the lien of this pledge without any physical delivery thereof or further act, and the lien of this pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the District, irrespective of whether such parties have notice thereof.

5.02 **Establishment of Funds**. The following Funds and Accounts are hereby created and established:

(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.

5.03 **Construction Fund**. 1. 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.

2. 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.

3. 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.

4. Notwithstanding any of the other provisions of this Section, 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.

5. 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.

5.04 **Revenues and Revenue Fund**. The Revenue Fund is hereby created and established and there shall be promptly deposited by the District to the credit of the Revenue Fund all Revenues.

5.05 **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.

5.06 **Payments Into Certain Funds**. 1. The District shall out of the moneys in the Revenue Fund not retained therein pursuant to Section 5.05, 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.

2. The District may out of the moneys in the Revenue Fund not retained therein pursuant to Section 5.05 or applied pursuant to paragraph 1 of this Section 5.06, 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.

5.07 **Debt Service Fund**. *Debt Service Account*. 1. 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.

2. 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 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 subsection 2 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, 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.

3. 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. 1. 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.

2. 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 Section 5.06.

3. 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.

4. 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.

5.08 **Rate Stabilization Fund**. 1. 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 in Section 5.06) 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.

5.09 **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.

5.10 **Redemption Fund**. There shall be deposited in the Redemption Fund amounts required to be deposited therein pursuant to Sections 7.07 and 7.13 hereof. 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.

ARTICLE VI
DEPOSITARIES OF MONEYS, SECURITY FOR DEPOSITS AND INVESTMENT OF FUNDS

6.01 **Depositaries**. All moneys held by the Trustee under the provisions of the Resolution shall be deposited with the Trustee, including one or more

Depositaries in trust for the Trustee. All moneys held by the District under the Resolution shall be deposited in one or more Depositaries in the name of the District. All moneys deposited under the provisions of the Resolution with the Trustee or any Depositary shall be held in trust and applied only in accordance with the provisions of the Resolution, and each of the Funds established by the Resolution shall be a trust fund for the purposes thereof.

6.02 **Deposits**. 1. All Revenues and other moneys held by any Depositary under the Resolution may be placed on demand or time deposit, if and as directed by the District, provided that such deposits shall permit the moneys so held to be available for use at the time when needed. The Depositary shall not be liable for any loss or depreciation in value resulting from any, investment made pursuant to the Resolution. Any such deposit may be made in the commercial banking department of any Fiduciary which may honor checks and drafts on such deposit with the same force and effect as if it were not such Fiduciary. All moneys held by any Fiduciary, as such, may be deposited by such Fiduciary, unless the District otherwise instructs, in its banking department on demand or, if and to the extent directed by the District and acceptable to such Fiduciary, on time deposit, provided that such moneys on deposit be available for use at the time when needed. Such Fiduciary shall allow and credit on such moneys such interest, if any, as it customarily allows upon similar funds of similar size and under similar conditions or as required by law.

2. All moneys deposited with the Trustee and each Depositary shall be credited to the particular Fund or account to which such moneys belong.

6.03 **Investment of Certain Funds**. Money held in the Debt Service Account and Debt Reserve Account shall be invested and reinvested by the Trustee to the fullest extent practicable in Investment Securities which mature not later than such times as shall be necessary to provide moneys when needed for payments to be made from such Accounts. The Trustee shall make such investment in accordance with any instructions received from an Authorized Officer of the District.

Amounts in the Revenue Fund shall be invested and reinvested in Investment Securities which mature not later than such times as shall be necessary to provide moneys when needed for payments to be made from such Fund.

Amounts in the Rate Stabilization Fund shall be invested as set forth in Section 5.08.

Net interest earned on any moneys or investments in such Funds and Accounts shall be paid into the Revenue Fund.

6.04 **Valuation and Sale of Investments**. Obligations purchased as an investment of moneys in any Fund created under the provisions of the Resolution shall be deemed at all times to be a part of such Fund and any profit realized from the liquidation of such investment shall be credited to such Fund and any loss resulting from the liquidation of such investment shall be charged to the respective Fund.

In computing the amount in any Fund created under the provisions of the Resolution for any purpose provided in the Resolution, obligations purchased as an investment of moneys therein shall be valued at cost or the principal amount thereof, whichever is lower, exclusive of accrued interest.

Except as otherwise provided in the Resolution, the Trustee shall sell at the best price obtainable, or present for redemption, any obligation so purchased as an investment whenever it shall be requested in writing by an Authorized Officer of the District so to do or whenever it shall be necessary in order to provide moneys to meet any payment or transfer from any Fund held by it. The Trustee shall not be liable or responsible for making any such investment in the manner provided above or for any loss resulting from any such investment.

ARTICLE VII
PARTICULAR COVENANTS OF THE DISTRICT

The District covenants and agrees with the Trustee and the Bondholders as follows:

7.01 **Payment of Bonds**. The District shall duly and punctually pay or cause to be paid, but solely from the Revenues and the proceeds of the Bonds pledged therefor by the Resolution, the principal or Redemption Price, if any, of every Bond and the interest thereon, at the dates and places and in the manner mentioned in the Bonds, according to the true intent and meaning thereof.

7.02 **Extension of Payment of Bonds**. The District shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or claims for interest by the purchase or funding of such Bonds, claims for interest or by any other arrangement and in case the maturity of any of the Bonds or claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Resolution, to the benefit of the Resolution or to any payment out of Revenues of Funds established by the Resolution, including the investments, if any, thereof, pledged under the Resolution or the moneys (except moneys held in trust for the payment of particular Bonds or claims for interest pursuant to the Resolution) held by the Fiduciaries, except subject to the prior payment of the principal of all Bonds Outstanding the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extended

claims for interest. Nothing herein shall be deemed to limit the right of the District to issue Refunding Bonds and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

7.03 **Offices for Servicing Bonds**. Unless otherwise provided by a Series Resolution with respect to Bonds of such Series, the District shall maintain one or more agencies as the District may so designate from time to time where Bonds may be presented for payment and shall maintain one or more agencies in the City of New York, New York where Bonds may be presented for registration, transfer or exchange, and where notices, demands and other documents may be served upon the District in respect to the Bonds or to the Resolution. The District hereby appoints the Trustee as its agent to maintain such agency for the registration, transfer or exchange of Bonds, and for the service upon the District of such notices, demands and other documents and the Trustee shall continuously maintain or make arrangements for an office in the City of New York to perform such agency. The District may by Series Resolution appoint Paying Agents as its agents to maintain such agencies for the payment or redemption of Bonds of such Series.

7.04 **Further Assurance**. At any and all times the District shall, so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, pledging, assigning and confirming all and singular the rights, Revenues and other moneys, securities and funds hereby pledged or assigned, or intended so to be, or which the District may become bound to pledge or assign.

7.05 **Power to Issue Bonds and Pledge Revenues and Other Funds**. The District is duly authorized under all applicable laws to create and issue the Bonds and to adopt the Resolution and to pledge the Revenues and other moneys, securities and funds purported to be pledged by the Resolution in the manner and to the extent provided in the Resolution. Except to the extent otherwise provided in Section 5.01, the Revenues and other moneys, securities and funds so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by the Resolution, and all corporate or other action on the part of the District to that end has been and will be duly and validly taken. The Bonds and the provisions of the Resolution are and will be the valid and legally enforceable obligations of the District in accordance with their terms and the terms of the Resolution. The District shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenues and other moneys, securities and funds pledged under the Resolution and all the rights of the Bondholders under the Resolution against all claims and demands of all persons whomsoever.

7.06 **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.

7.07 **Creation of Liens; Sale and Lease of Property**. 1. 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.

2. 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 Section 5.09, 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.

3. 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 in Section 7.10, 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.

7.08 **Reserved.**

7.09 **Reserved**.

7.10 **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 Section 7.07 (3); 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 of paragraph 3 of Section 7.07 and any proceeds therefrom shall be treated as Revenues.

7.11 **Rates and Fees**. 1. 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.

2. 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 said subsection 1, 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 Section 7.11, 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.

3. 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.

4. The failure in any Fiscal Year to comply with the covenant in subsection 1 of this Section shall not constitute an Event of Default under the Resolution, if the District shall comply with subsection 2 of this Section.

7.12 **Maintenance of 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.

7.13 **Reconstruction; Application of Insurance Proceeds**. 1. 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.

2. The proceeds of business interruption loss insurance, if any, shall be paid into the Revenue Fund.

7.14 **Accounts and Reports**. 1. 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.

2. 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.

3. 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 and its agent, the Association, 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 Fiscal 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 in Section 8.01 of the Resolution, insofar as they pertain to accounting matters, and if so, the nature of such default.

4. The reports, statements and other documents required to be furnished to the Trustee pursuant to this Section 7.14 shall be available for the inspection of the Bondholders at the office of the Trustee and shall be mailed to each Bondholder who shall file a written request therefor with the District.

7.15 **Payment of Taxes and Charges**. The District shall from time to time duly pay and discharge, or cause to be paid and discharged all taxes, assessments and other governmental charges, or required payments in lieu thereof, lawfully imposed upon the properties of the District or upon the rights, revenues, income, receipts, and other moneys, securities and funds of the District when the same shall become due (including all rights, moneys and other property transferred, assigned or pledged under the Resolution), and all lawful claims for labor and material and supplies, except those taxes, assessments, charges or claims which the District shall in good faith contest by proper legal proceedings if the District shall in all such cases have set aside on its books reserves deemed adequate with respect thereto.

7.16 **Reserved**.

7.17 **Transfer From General Fund**. In the event there is a deficiency in the Debt Service Account established herein and if such a deficiency is not paid from other sources the District hereby covenants to transfer money in the General Fund to said Debt Service Account an amount sufficient to make up such deficiency.

7.18 **Reserved**.

ARTICLE VIII
REMEDIES OF BONDHOLDERS

8.01 **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 in Section 7.11,

(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.

8.02 **Accounting and Examination of Records After Default**. 1. 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 Section 8.03.

2. 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.

8.03 **Application of Revenues and other Moneys After Default**. 1. 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.

2. 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 this Article;

(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, 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.

(b) 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.

3. 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. No such payment over to the District by the Trustee or resumption of the application of Revenues as provided in Article V shall extend to or affect any subsequent default under the Resolution or impair any right consequent thereon.

8.04 **Proceedings Brought by Trustee**. 1. 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.

2. 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.

3. 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.

4. 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.

5. 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.

8.05 **Restriction on Bondholder's Action**. 1. 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 this Article, 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.

2. 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.

8.06 **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.

8.07 **Effect of Waiver and Other Circumstances**. 1. 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 this Article 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.

2. Prior to the declaration of maturity of the Bonds as provided in Section 8.01, 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.

8.08 **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 of subsection 1 of Section 7.11, 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.

ARTICLE IX
CONCERNING THE FIDUCIARIES

9.01 **Trustee; Appointment and Acceptance of Duties**. The Trustee shall be appointed by resolution of the District prior to the issuance of any Bonds authorized hereunder. The Trustee shall signify its acceptance of the duties and obligations imposed upon it by the Resolution by written acceptance filed with the District prior to the issuance of any Bonds authorized hereunder and by filing such written acceptance the Trustee shall be deemed to have accepted such duties and obligations with respect to all the Bonds to be issued, but only, however, upon the terms and conditions set forth in the Resolution.

9.02 **Paying Agents; Appointment and Acceptance of Duties**. 1. The District shall appoint one or more Paying Agents for the Bonds of each Series, and may at any time or from time to time appoint one or more other Paying Agents having the qualifications set forth in Section 9.12 for a successor Paying Agent. The Trustee may be appointed a Paying Agent.

2. Each Paying Agent shall signify its acceptance of the duties and obligations imposed upon it by the Resolution by executing and delivering to the District and to the Trustee a written acceptance thereof.

3. Unless otherwise provided, the principal offices of the Paying Agents are designated as the offices or agencies of the District for the payment of the interest on and principal or Redemption of the Bonds.

9.03 **Responsibilities of Fiduciaries**. 1. 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 subsection 2 of this Section 9.03, no Fiduciary shall be liable in connection with the performance of its duties hereunder except for its own negligence, misconduct or default.

2. 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 Section 9.03.

9.04 **Evidence on Which Fiduciaries May Act**. 1. Each Fiduciary, upon receipt of any notice, resolution, request, consent, order, certificate, report, opinion, bond, or other paper or document furnished to it pursuant to any provision of the Resolution, shall examine such instrument to determine whether it conforms to the requirements of the Resolution and shall be protected in acting upon any such instrument believed by it to be genuine and to have been signed or presented by the proper party or parties. Each Fiduciary may consult with counsel, who may or may not be of counsel to the District, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Resolution in good faith and in accordance therewith.

2. Whenever any Fiduciary shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Resolution, such matter (unless other evidence in respect thereof be therein specifically prescribed) may be deemed to be conclusively proved and established by a certificate of an Authorized Officer of the District, and such certificate shall be full warrant for any action taken or suffered in good faith under the provisions of the Resolution upon the faith thereof; but in its discretion the Fiduciary may in lieu thereof accept other evidence of such fact or matter or may require further or additional evidence as to it as may seem reasonable.

3. Except as otherwise expressly provided in the Resolution, any request, order, notice, or other direction required or permitted to be furnished pursuant to any provision thereof by the District to any Fiduciary shall be sufficiently executed if executed in the name of the District by an Authorized Officer of the District.

9.05 **Compensation**. The District shall pay to each Fiduciary from time to time reasonable compensation for services rendered under the Resolution, and also reasonable expenses, charges, counsel fees and other disbursements, including those of its attorneys, agents, and employees, incurred in and about the performance of their powers and duties under the Resolution in accordance with agreements made from time to time by and between the District and the Trustee.

Subject to the provisions of Section 9.03, the District further agrees to indemnify and save each Fiduciary harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder, and which are not due to its negligence, misconduct or default.

9.06 **Certain Permitted Acts**. Any Fiduciary may become the owner of any Bonds, with the same rights it would have if it were not a Fiduciary. To the extent permitted by law, any Fiduciary may act as depository for, and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bondholders or to effect or aid in any reorganization growing out of the enforcement of the Bonds or the Resolution, whether or not any such committee shall represent the Holders of a majority in principal amount of the Bonds then Outstanding.

9.07 **Resignation of Trustee**. The Trustee may at any time resign and be discharged of the duties and obligations created by the Resolution by giving not less than 60 days' written notice to the District, and publishing notice thereof, specifying the date when such resignation shall take effect, once in each week for two successive calendar weeks in the Authorized Newspapers, and such resignation shall take effect upon the day specified in such notice unless previously a successor shall have been appointed by the District or the Bondholders as provided in Section 9.09, in which event such resignation shall take effect immediately on the appointment of such successor.

9.08 **Removal of Trustee**. The Trustee shall be removed by the District if at any time so requested by an instrument or concurrent instruments in writing, filed with the Trustee and the District, and signed by the Holders of a majority in principal amount of the Bonds then Outstanding or their attorneys-in-fact duly authorized, excluding any Bonds held by or for the account of the District. The District may remove the Trustee at any time, except during the existence of an Event of Default as defined in Section 8.01 hereof, for such cause as shall be determined in the sole discretion of the District by filing with the Trustee an instrument signed by an Authorized Officer of the District.

9.09 **Appointment of Successor Trustee**. 1. In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, a successor may be appointed by the District, and if the District does not appoint a successor within 30 days then by the Holders of a majority in principal amount of the Bonds then outstanding, excluding any Bonds held by or for the account of the District, by an instrument or concurrent instruments in writing signed and acknowledged by such Bondholders or by their attorneys-in-fact duly authorized and delivered to such successor Trustee, notification thereof being given to the District and the predecessor Trustee. The District shall publish notice of any

such appointment made by it or the Bondholders once in each week for two successive calendar weeks, in the Authorized Newspapers, the first publication to be made within 20 days after such appointment.

2. If in a proper case no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Section within 60 days after the Trustee shall have given to the District written notice as provided in Section 9.07 or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, the Trustee or the Holder of any Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper, appoint a successor Trustee.

3. Any Trustee appointed under the provisions of this Section in succession to the Trustee shall be a bank or trust company or national banking association, and having capital stocks and surplus aggregating at least $100,000,000, if there be such a bank or trust company or national banking association willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by this Resolution.

9.10 **Transfer of Rights and Property to Successor Trustee**. Any successor Trustee appointed under the Resolution shall execute, acknowledge and deliver to its predecessor Trustee, and also to the District, an instrument accepting such appointment, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become fully vested with all moneys, estates, properties, rights, powers, duties and obligations of such predecessor Trustee, with like effect as if originally named as Trustee, but the Trustee ceasing to act shall nevertheless, on the written request of the District, or of the successor Trustee, execute, acknowledge and deliver such instruments of conveyance and further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor Trustee all the right, title and interest of the predecessor Trustee in and to any property held by it under the Resolution; and shall pay over, assign and deliver to the successor Trustee any money or other property subject to the trust and conditions herein set forth. Should any deed, conveyance or instrument in writing from the District be required by such successor Trustee for more fully and certainly vesting in and confirming to such successor Trustee any such estates, rights, powers and duties, any and all such deeds, conveyances and instruments in writing shall, on request, and so far as may be authorized by law, be executed, acknowledged and delivered by the District. Any such successor Trustee shall promptly notify the Paying Agents of its appointment as Trustee.

9.11 **Merger or Consolidation**. Any company into which any Fiduciary may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall

be a party or any company to which any Fiduciary may sell or transfer all or substantially all of its corporate trust business, provided such company shall be a bank or trust company organized under the laws of any state of the United States or a national banking association, and shall be authorized by law to perform all the duties imposed upon it by the Resolution, shall be the successor to such Fiduciary without the execution or filing of any paper or the performance of any further act.

9.12 Resignation or Removal of Paying Agent and Appointment of Successor. 1. Any Paying Agent may at any time resign and be discharged of the duties and obligations created by the Resolution by giving at least 60 days' written notice to the District, the Trustee, and the other Paying Agents. Any Paying Agent may be removed at any time by an instrument filed with such Paying Agent and the Trustee and signed by the District. Any successor Paying Agent shall be appointed by the District and shall be a bank or trust company organized under the laws of any state of the United States or a national banking association and willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the Resolution.

2, In the event of the resignation or removal of any Paying Agent, such Paying Agent shall pay over, assign and deliver any moneys held by it as Paying Agent to its successor, or if there be no successor, to the Trustee. In the event that for any reason there shall be a vacancy in the office of any Paying Agent, the Trustee shall act as such Paying Agent.

ARTICLE X
SUPPLEMENTAL RESOLUTIONS

10.01 **Supplemental Resolutions Effective Upon Filing With the Trustee**. 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, 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.

10.02 **Supplemental Resolutions Effective With Consent of Trustees**. 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, 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.

10.03 **General Provisions**. 1. 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 this Article X and Article XI. Nothing in this Article X or Article XI 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 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.

2. Any Supplemental Resolution referred to and permitted or authorized by Section 10.01 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.

3. The Trustee is hereby authorized to accept the delivery of a certified copy of any Supplemental Resolution referred to and permitted or authorized by Sections 10.01 or 10.02 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.

4. No Supplemental Resolution shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto.

ARTICLE XI
AMENDMENTS

11.01 **Mailing and Publication**. 1. Any provision in this Article for the mailing of a notice or other paper to Bondholders shall be fully complied with if it is mailed postage prepaid only (i) to each registered owner of Bonds then Outstanding at his address, if any, appearing upon the registry books of the District or the Trustee, and (ii) to the Trustee.

2. Any provision in this Article for publication of a notice or other matter shall require the publication thereof only in the Authorized Newspapers.

11.02 **Powers of Amendment**. 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 Section 11.03(i) 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 Section. 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 Section, 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.

11.03 **Consent of Bondholders**. The District may at any time adopt a Supplemental Resolution making a modification or amendment permitted by the provisions of Section 11.02, to take effect when and as provided in this Section. 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 in this Section provided). 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 Section 11.02 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 hereinafter in this Section 11.03 provided. 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. 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 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 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 hereinafter in this Section 11.03 provided for 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. 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 Section 11.03, 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 in this Section 11.03 provided) 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 Section 11.03 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.

11.04 **Modifications by Unanimous Consent**. The terms and provisions of the Resolution and the rights and obligations of the District and of the Holders of the Bonds thereunder may be modified or amended in any respect upon the adoption and filing by the District of a Supplemental Resolution and the consent of the Holders of all the Bonds then Outstanding, such consent to be given as provided in Section 11.03 except that no notice to Bondholders either by mailing or publication shall be required: provided, however, that no such modification or amendment shall change or modify any of the rights or obligations of any Fiduciary without the filing with the Trustee of the written assent thereto of such Fiduciary in addition to the consent of the Bondholders.

11.05 **Exclusion of Bonds**. Bonds owned or held by or for the account of the District shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds provided for in this Article XI, and the District shall not be entitled with respect to such Bonds to give any consent or take any other action provided for in this Article. At the time of any consent or other action taken under this Article, the District shall furnish the Trustee a certificate of an Authorized Officer of the District, upon which the Trustee may rely, describing all Bonds so to be excluded.

11.06 **Notation on Bonds**. Bonds delivered after the effective date of any action taken as in Article X or this Article XI provided may, and, if the Trustee so determines, shall bear a notation by endorsement or otherwise in form approved by the District and the Trustee as to such action, and in that case upon demand of the Holder of any Bond Outstanding at such effective date and presentation of his Bond for the purpose at the principal office of the Trustee or upon any transfer or any Bond Outstanding at such effective date, suitable notation shall be made on such Bond or upon any Bond issued upon any such

transfer by the Trustee as to any such action. If the District shall so determine, new Bonds so modified as in the opinion of the District to conform to such action shall be prepared and delivered, and upon demand of the Holder of any Bond then Outstanding shall be exchanged, without cost to such Bondholder, for Bonds of the same Series and maturity then Outstanding, upon surrender of such Bonds.

ARTICLE XII
MISCELLANEOUS

12.01 **Defeasance**. 1. 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.

2. 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 subsection 1 of this Section. 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 subsection 1 of this Section 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 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 Section 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 Section 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.

3. 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.

12.02 **Evidence of Signatures of Bondholders and Ownership of Bonds**. 1. Any request, consent, revocation of consent or other instrument which the Resolution may require or permit to be signed and executed by the Bondholders may be in one or more instruments of similar tenor, and shall be signed or executed by such Bondholders in person or by their attorneys appointed in writing. Proof of (i) the execution of any such instrument, or of an instrument appointing any such attorney, or (ii) the holding by any person of the Bonds shall be sufficient for any purpose of the Resolution (except as otherwise therein expressly provided) if made in the following manner, or in any other manner satisfactory to the Trustee, which may nevertheless in its discretion require further or other proof in cases where it deems the same desirable:

(1) The fact and date of the execution by any Bondholder or his attorney of such instruments may be proved by a guarantee of the signature thereon by a bank or trust company or by the certificate of any notary public or other officer authorized to take acknowledgments of deeds, that the person signing such request or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer. Where such execution is by an officer of a corporation or association or a member of a partnership, on behalf of such corporation, association or partnership, such signature guarantee, certificate or affidavit shall also constitute sufficient proof of his authority.

(2) The amount of Bonds transferable by delivery held by any person executing any instrument as a Bondholder, the date of his holding such Bonds, and the numbers and other identification thereof, may be proved by a certificate, which need not be acknowledged or verified, in form satisfactory to the Trustee, executed by the Trustee or by a member of a financial firm or by an officer of a bank, trust company, insurance company, or financial corporation or other depositary wherever situated, showing at the date therein mentioned that such person exhibited to such member or officer or had on deposit with such depositary the Bonds described in such certificate. Such certificate may be given by a member of a financial firm or by an officer of any bank, trust company, insurance company or financial corporation or depositary with respect to Bonds owned by it, if acceptable to the Trustee. In addition to the foregoing provisions, the Trustee may from time to time make such reasonable regulations as it may deem advisable permitting other proof of holding of Bonds transferable by delivery.

2. The ownership of Bonds and the amount, numbers and other identification, and date of holding the same shall be proved by the registry books.

3. Any request or consent by the owner of any Bond shall bind all future owners of such Bond in respect of anything done or suffered to be done by the District or any Fiduciary in accordance therewith.

12.03 **Prior Obligations Not Affected**. Nothing contained in the Resolution shall be construed as impairing or destroying the obligation of the District in connection with any franchise, contract, agreement, lease or other arrangement entered into by the District in connection with the operation of the properties of the District prior to the adoption of the Resolution, or to release any person, firm or corporations, public or private, from any debt or other obligation to the District pursuant to any such franchise, contract, agreement, lease or other arrangement.

12.04 **Change of Corporate Name**. Nothing herein contained shall prevent the District from changing its corporate name from time to time as provided by law, and the District expressly reserves the right to effect such change as may be determined by its Board of Directors.

12.05 **Moneys Held for Particular Bonds**. The amounts held by any Fiduciary for the payment of the interest, principal or Redemption Price due on any date with respect to particular Bonds shall, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Holders of the Bonds entitled thereto.

12.06 **Preservation and Inspection of Documents**. All documents received by any Fiduciary under the provisions of the Resolution shall be retained in its possession and shall be subject at all reasonable times to the inspection of the District, any other Fiduciary, and any Bondholder and their agents and their representatives, any of whom may make copies thereof.

12.07 **Parties Interested Herein**. Nothing in the Resolution expressed or implied is intended or shall be construed to confer upon, or to give to, any person or corporation, other than the District, the Fiduciaries and the Holders of the Bonds, any right, remedy or claim under or by reason of the Resolution or any covenant, condition or stipulation thereof; and all the covenants, stipulations, promises and agreements in the Resolution contained by and on behalf of the District shall be for the sole and exclusive benefit of the District, the Fiduciaries, and the Holders of the Bonds.

12.08 **No Recourse on the Bonds**. No recourse shall be had for the payment of the principal of or interest on the Bonds or for any claim based thereon or on the Resolution against any member or officer of the District or any person executing the Bonds.

12.09 **Publication of Notice; Suspension of Publication**. 1. Any publication to be made under the provisions of the Resolution in successive

weeks or on successive dates may be made in each instance upon any business day of the week and need not be made in the same Authorized Newspapers for any or all of the successive publications but may be made in different Authorized Newspapers.

2. If, because of the temporary or permanent suspension of the publication or general circulation of any of the Authorized Newspapers or for any other reason, it is impossible or impractical to publish any notice pursuant to the Resolution in the manner herein provided, then such publication in lieu thereof as shall be made with the approval of the Trustee shall constitute a sufficient publication of such notice.

12.10 **Reserved**.

12.11 **Severability of Invalid Provisions**. If any one or more of the covenants or agreements provided in the 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 the Resolution, so long as the 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 the Resolution and the deletion of such portion of the Resolution will not substantially impair the respective benefits or expectations of the District or any Fiduciary.

12.12 **Effective Date**. This Resolution shall take effect in accordance with the provisions of Section 11.03 hereof; provided, however, that any modification or amendment affecting the form, ownership, transfer, registration, exchange, cancellation, redemption or payment of any coupon Bond shall not take effect with respect to such coupon Bond so long as any coupon Bonds remain Outstanding.

Exhibit H

EXHIBIT H

Salt River Project Agricultural Improvement and Power District
Schedule of Outstanding Debt
As of July 15, 2006

1992 Series D **Original Issue $511,895,000**

		Unamortized Amount
	Issue Expense	$ 22,427.00
	Discount	$ 1,289,837.00

Maturity Date	Issue Amount	Current Outstanding	Interest Rate	
2007	$ 9,015,000.00	$ 9,015,000.00	6.000%	fixed
2008	$ 7,890,000.00	$ 7,890,000.00	6.000%	fixed
2009	$ 19,275,000.00	$ 19,275,000.00	6.000%	fixed
	$ 36,180,000.00	$ 36,180,000.00		

1993 Series A **Original Issue $281,065,000**

		Unamortized Amount
	Issue Expense	$ 26,918.00
	Discount	$ 486,724.00

Maturity Date	Issue Amount	Current Outstanding	Interest Rate	
2007	$ 26,625,000.00	$ 19,375,000.00	5.750%	fixed
2008	$ 23,925,000.00	$ 23,925,000.00	5.750%	fixed
2009	$ 5,995,000.00	$ 5,995,000.00	5.750%	fixed
2010	$ 4,000,000.00	$ 4,000,000.00	5.750%	fixed
	$ 60,545,000.00	$ 53,295,000.00		

1993 Series B **Original Issue $571,385,000**

		Unamortized Amount
	Issue Expense	$ 23,179.00
	Discount	$ 431,213.00

Maturity Date	Issue Amount	Current Outstanding	Interest Rate	
2007	$ 16,115,000.00	$ 16,115,000.00	5.150%	fixed
2008	$ 28,080,000.00	$ 28,080,000.00	5.200%	fixed
	$ 44,195,000.00	$ 44,195,000.00		

1993 Series C **Original Issue $726,380,000**

	Unamortized Amount
Issue Expense	$ 54,202.00
Discount	$ 676,979.00

Maturity Date	Issue Amount	Current Outstanding	Interest Rate	
2007	$ 32,245,000.00	$ 21,955,000.00	4.800%	fixed
2008	$ 36,765,000.00	$ 17,380,000.00	4.900%	fixed
2009	$ 40,840,000.00	$ 40,840,000.00	6.500%	fixed
2010	$ 43,045,000.00	$ 43,045,000.00	5.500%	fixed
2011	$ 53,400,000.00	$ 15,800,000.00	5.050%	fixed
	$ 206,295,000.00	$ 139,020,000.00		

1994 Series A **Original Issue $43,833,500**

	Unamortized Amount
Issue Expense	$ 41,743.00
Discount	$ -

Maturity Date	Issue Amount	Current Outstanding	Interest Rate	
2009	$ 43,833,500.00	$ 38,757,000.00	5.150%	fixed
	$ 43,833,500.00	$ 38,757,000.00		

1994 Series B **Original Issue $7,634,800**

	Unamortized Amount
Issue Expense	$ 5,290.00
Discount	$ -

Maturity Date	Issue Amount	Current Outstanding	Interest Rate	
2008	$ 7,634,800.00	$ 6,730,600.00	5.150%	fixed
	$ 7,634,800.00	$ 6,730,600.00		

1997 Series A **Original Issue $256,005,000**

	Unamortized Amount
Issue Expense	$ 97,908.00
Discount	$ 182,920.00

Maturity Date	Issue Amount	Current Outstanding	Interest Rate	
2007	$ 3,390,000.00	$ 3,390,000.00	6.000%	fixed
2008	$ 7,355,000.00	$ 4,855,000.00	6.000%	fixed
2009	$ 7,825,000.00	$ 6,580,000.00	5.500%	fixed
2010	$ 8,315,000.00	$ 5,000,000.00	5.125%	fixed
2011	$ 4,720,000.00	$ 2,840,000.00	5.000%	fixed
2018	$ 26,000,000.00	$ 1,795,000.00	5.125%	fixed
2020	$ 110,985,000.00	$ 34,355,000.00	5.000%	fixed
	$ 168,590,000.00	$ 58,815,000.00		

1997 Series B **Original Issue $29,811,500**

	Unamortized Amount
Issue Expense	$ 3,931.00
Discount	$ -

Maturity Date	Issue Amount	Current Outstanding	Interest Rate	
2007	$ 4,804,500.00	$ 4,741,000.00	4.550%	fixed
	$ 4,804,500.00	$ 4,741,000.00		

2001 Series A **Original Issue $580,570,000**

	Unamortized Amount
Issue Expense	$ 430,308.00
Premium	$ (3,307,792.00)

Maturity Date	Issue Amount	Current Outstanding	Interest Rate	
2009	$ 3,035,000.00	$ 3,035,000.00	4.125%	fixed
2009	$ 10,745,000.00	$ 10,745,000.00	5.000%	fixed
2010	$ 42,660,000.00	$ 42,660,000.00	5.000%	fixed
2011	$ 12,420,000.00	$ 11,420,000.00	5.000%	fixed
	$ 68,860,000.00	$ 67,860,000.00		

2002 Series A **Original Issue $432,560,000**

	Unamortized Amount
Issue Expense	$ 2,455,669.00
Premium	$ (5,768,663.00)

Maturity Date	Issue Amount	Current Outstanding	Interest Rate	
2010	$ 1,450,000.00	$ 1,450,000.00	4.125%	fixed
2011	$ 915,000.00	$ 915,000.00	4.250%	fixed
2011	$ 23,710,000.00	$ 23,710,000.00	5.000%	fixed
2012	$ 37,110,000.00	$ 37,110,000.00	5.000%	fixed
2013	$ 26,175,000.00	$ 26,175,000.00	5.250%	fixed
2014	$ 560,000.00	$ 560,000.00	4.500%	fixed
2014	$ 24,025,000.00	$ 24,025,000.00	5.250%	fixed
2015	$ 260,000.00	$ 260,000.00	4.600%	fixed
2015	$ 28,940,000.00	$ 28,940,000.00	5.250%	fixed
2016	$ 550,000.00	$ 550,000.00	4.750%	fixed
2017	$ 2,855,000.00	$ 2,855,000.00	5.250%	fixed
2018	$ 21,665,000.00	$ 21,665,000.00	5.250%	fixed
2019	$ 380,000.00	$ 380,000.00	4.875%	fixed
2019	$ 33,925,000.00	$ 33,925,000.00	5.250%	fixed
2020	$ 4,160,000.00	$ 4,160,000.00	5.250%	fixed
2021	$ 17,155,000.00	$ 17,155,000.00	5.000%	fixed
2022	$ 5,640,000.00	$ 5,640,000.00	5.000%	fixed
2023	$ 33,765,000.00	$ 33,765,000.00	5.000%	fixed
2023	$ 10,000,000.00	$ 10,000,000.00	5.125%	fixed
2027	$ 61,010,000.00	$ 61,010,000.00	5.125%	fixed
2031	$ 98,310,000.00	$ 98,310,000.00	5.000%	fixed
	$ 432,560,000.00	$ 432,560,000.00		

2002 Series B **Original Issue $570,000,000**

	Unamortized Amount
Issue Expense	$ 3,142,265.00
Premium	$ (5,853,755.00)

Maturity Date	Issue Amount	Current Outstanding	Interest Rate	
2016	$ 3,080,000.00	$ 3,080,000.00	4.000%	fixed
2017	$ 18,185,000.00	$ 18,185,000.00	5.000%	fixed
2020	$ 28,495,000.00	$ 28,495,000.00	5.000%	fixed
2021	$ 21,960,000.00	$ 21,960,000.00	5.000%	fixed
2022	$ 32,960,000.00	$ 32,960,000.00	5.000%	fixed
2024	$ 55,675,000.00	$ 55,675,000.00	4.800%	fixed
2025	$ 58,095,000.00	$ 58,095,000.00	5.000%	fixed
2026	$ 17,075,000.00	$ 17,075,000.00	5.000%	fixed
2031	$ 222,985,000.00	$ 222,985,000.00	5.000%	fixed
2031	$ 111,490,000.00	$ 111,490,000.00	4.750%	fixed
	$ 570,000,000.00	$ 570,000,000.00		

2002 Series C **Original Issue $202,385,000**

	Unamortized Amount
Issue Expense	$ 992,286.00
Premium	$ (11,772,458.00)

Maturity Date	Issue Amount	Current Outstanding	Interest Rate	
2010	$ 17,750,000.00	$ 17,750,000.00	5.000%	fixed
2011	$ 43,835,000.00	$ 43,835,000.00	5.000%	fixed
2012	$ 51,625,000.00	$ 51,625,000.00	5.000%	fixed
2013	$ 39,005,000.00	$ 39,005,000.00	5.000%	fixed
2014	$ 30,030,000.00	$ 30,030,000.00	5.000%	fixed
2015	$ 20,140,000.00	$ 20,140,000.00	5.000%	fixed
	$ 202,385,000.00	$ 202,385,000.00		

2002 Series D **Original Issue $104,065,000**

	Unamortized Amount
Issue Expense	$ 262,721.00
Premium	$ (2,874,267.00)

Maturity Date	Issue Amount	Current Outstanding	Interest Rate	
2007	$ 40,445,000.00	$ 40,445,000.00	5.000%	fixed
2008	$ 36,755,000.00	$ 36,755,000.00	5.000%	fixed
2009	$ 26,855,000.00	$ 26,855,000.00	5.000%	fixed
	$ 104,065,000.00	$ 104,065,000.00		

2004 Series A **Original Issue $122,110,000**

		Unamortized Amount
Issue Expense		$ 773,284.00
Premium		$ (8,501,625.00)

Maturity Date	Issue Amount	Current Outstanding	Interest Rate	
2008	$ 2,000,000.00	$ 2,000,000.00	4.000%	fixed
2008	$ 2,600,000.00	$ 2,600,000.00	5.000%	fixed
2009	$ 1,150,000.00	$ 1,150,000.00	4.000%	fixed
2010	$ 1,950,000.00	$ 1,950,000.00	4.000%	fixed
2011	$ 2,000,000.00	$ 2,000,000.00	4.000%	fixed
2011	$ 7,960,000.00	$ 7,960,000.00	5.000%	fixed
2012	$ 14,695,000.00	$ 14,695,000.00	5.000%	fixed
2013	$ 13,315,000.00	$ 13,315,000.00	5.000%	fixed
2014	$ 13,255,000.00	$ 13,255,000.00	5.000%	fixed
2015	$ 13,515,000.00	$ 13,515,000.00	5.000%	fixed
2016	$ 13,575,000.00	$ 13,575,000.00	5.000%	fixed
2017	$ 11,210,000.00	$ 11,210,000.00	5.000%	fixed
2018	$ 2,875,000.00	$ 2,875,000.00	4.000%	fixed
2021	$ 6,700,000.00	$ 6,700,000.00	5.000%	fixed
2022	$ 7,150,000.00	$ 7,150,000.00	5.000%	fixed
2023	$ 7,295,000.00	$ 7,295,000.00	5.000%	fixed
2024	$ 865,000.00	$ 865,000.00	5.000%	fixed
	$ 122,110,000.00	$ 122,110,000.00		

2005 Series A **Original Issue $327,090,000**

		Unamortized Amount
Issue Expense		$ 2,140,212.00
Premium		$ (18,088,521.00)

Maturity Date	Issue Amount	Current Outstanding	Interest Rate	
2027	$ 10,890,000.00	$ 10,890,000.00	5.000%	fixed
2028	$ 13,050,000.00	$ 13,050,000.00	5.000%	fixed
2029	$ 17,055,000.00	$ 17,055,000.00	5.000%	fixed
2035	$ 246,095,000.00	$ 246,095,000.00	5.000%	fixed
2035	$ 40,000,000.00	$ 40,000,000.00	4.750%	fixed
	$ 327,090,000.00	$ 327,090,000.00		

Salt River Project Agricultural Improvement and Power District
2006 Series A Issue
July 13, 2006

		Unamortized Amount
Issue Expense		$ 2,005,014.62
Premium		$ (5,582,560.00)

Maturity Date	Issue Amount	Current Outstanding	Interest Rate	
2037	$ 296,000,000.00	$ 296,000,000.00	5.000%	fixed

Exhibit I

Exhibit I

SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT
USAGE OF REVENUE BOND AUTHORITZATION
As of April 4, 2006

New Money Bond Authorization Available at October 27, 2003	$ 2,749,710
New Money Bond Authorization (Order 66469)	580,000,000
Total New Money Bond Authorization Available	$ 582,749,710
Less: New Money Revenue Bonds Issued[1]	286,095,000
New Money Bond Authorization Available at April 4, 2006	$ 296,654,710

[1]New Money Revenue Bonds Issued	
2005 Series A	286,095,000
Total New Money Bonds Issues	$ 286,095,000

*Excludes authorization issued expressly to refund the District's commercial paper program.

Exhibit J

Exhibit J

Outstanding Refunding Revenue Bond Authorization
(As of January 2, 2006)

Commission Decision No.	Date of Decision	Outstanding Authorization April 27, 2003	Authorization Used 2004 Series A	Authorization Used 2005 Series A	Balance
53806	11/22/1983	$ 31,173,705	$ -	$ -	$ 31,173,705
56381	3/9/1989	208,850	-	-	$ 208,850
58386	9/1/1993	29,574	-	-	$ 29,574
58625	4/28/1994	1,474,146,222	122,110,000	40,995,000	$ 1,311,041,222
64253	12/4/2001	550,000,000	-	-	$ 550,000,000
66469	10/27/2003	660,000,000	-	-	$ 660,000,000
TOTAL		$ 2,715,558,351	$ 122,110,000	$ 40,995,000	$ 2,552,453,351

This Exhibit summarizes the amount of usable outstanding authorization for refunding bonds (excluding commercial paper) under prior Orders of the Commission. Note that many of the Orders restrict the issues that can be refunded under the Order and in several cases there are no outstanding bonds that meet the required restrictions.

Exhibit K

SALT RIVER PROJECT

COMBINED FINANCIAL STATEMENTS AS OF APRIL 30, 2006 AND 2005 TOGETHER WITH REPORT OF INDEPENDENT AUDITORS

SALT RIVER PROJECT
COMBINED BALANCE SHEETS
APRIL 30, 2006 AND 2005

(Thousands)

Assets

	2006	2005
UTILITY PLANT		
Plant in service -		
Electric	$ 8,311,459	$ 7,899,197
Irrigation	274,029	267,928
Common	443,533	418,716
Total plant in service	9,029,021	8,585,841
Less - Accumulated depreciation on plant in service	(4,167,664)	(3,925,661)
	4,861,357	4,660,180
Plant held for future use	3,283	3,076
Construction work in progress	309,674	414,626
Nuclear fuel, net	42,156	39,834
	5,216,470	5,117,716
OTHER PROPERTY AND INVESTMENTS		
Non-utility property and other investments	121,313	112,326
Segregated funds, net of current portion	677,652	490,518
	798,965	602,844
CURRENT ASSETS		
Cash and cash equivalents	465,947	288,429
Rate Stabilization Fund	56,892	55,000
Temporary investments	152,604	135,081
Current portion of segregated funds	79,010	131,000
Receivables, net of allowance for doubtful accounts	189,013	220,820
Fuel stocks	28,540	34,583
Materials and supplies	92,543	80,278
Other current assets	62,668	78,659
	1,127,217	1,023,850
DEFERRED CHARGES AND OTHER ASSETS	306,321	322,273
	$ 7,448,973	$ 7,066,683

Capitalization and Liabilities

	2006	2005
LONG-TERM DEBT	$ 2,893,017	$ 2,727,348
ACCUMULATED NET REVENUES AND OTHER COMPREHENSIVE INCOME	3,140,862	2,714,561
TOTAL CAPITALIZATION	6,033,879	5,441,909
CURRENT LIABILITIES		
Current portion of long-term debt	131,346	274,778
Accounts payable	162,804	172,001
Accrued taxes and tax equivalents	72,757	68,974
Accrued interest	45,407	44,000
Customers' deposits	65,522	53,547
Other current liabilities	217,409	171,400
	695,245	784,700
DEFERRED CREDITS AND OTHER NON-CURRENT LIABILITIES	719,849	840,074
COMMITMENTS AND CONTINGENCIES (Notes 5,7,8,9,10, and 11)		
	$ 7,448,973	$ 7,066,683

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

SALT RIVER PROJECT
COMBINED STATEMENTS OF NET REVENUES AND COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED APRIL 30, 2006 AND 2005

(Thousands)

	2006	2005
OPERATING REVENUES		
Retail Electric	$ 1,885,912	$ 1,709,213
Water	12,036	12,786
Other	624,022	529,724
Total operating revenues	2,521,970	2,251,723
OPERATING EXPENSES		
Power purchased	453,549	358,697
Fuel used in electric generation	605,078	425,880
Other operating expenses	461,367	429,799
Maintenance	205,193	193,489
Depreciation and amortization	313,562	302,198
Taxes and tax equivalents	100,953	105,475
Total operating expenses	2,139,702	1,815,538
Net operating revenues	382,268	436,185
OTHER INCOME (EXPENSES)		
Interest income	53,807	25,241
Gain on Sale of Available for Sale Securities	97,041	-
Other income (expenses), net	8,118	6,661
Total other income (expenses), net	158,966	31,902
Net revenues before financing costs	541,234	468,087
FINANCING COSTS		
Interest on bonds	117,069	118,229
Capitalized interest	(11,971)	(24,189)
Amortization of bond discount/premium and issuance expenses	(7,932)	(9,642)
Interest on other obligations	28,668	21,239
Net financing costs	125,834	105,637
NET REVENUES	415,400	362,450
OTHER COMPREHENSIVE INCOME (LOSS)	10,901	(29,279)
COMPREHENSIVE INCOME	$ 426,301	$ 333,171

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, 2006 AND 2005

(Thousands)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net revenues	$ 415,400	$ 362,450
Adjustments to reconcile net revenues to net cash provided by operating activities		
Depreciation, amortization and accretion	325,274	313,727
Postretirement benefits expense	51,124	43,409
Amortization of provision for loss on long-term contracts	(13,280)	(13,280)
Amortization of net bond discount/premium and issuance expenses	(7,933)	(9,642)
Amortization of spent nuclear fuel storage	1,959	1,826
Loss (gain) on sale of capital assets	(8,124)	(7,610)
Decrease (increase) in -		
Fuel stocks and materials & supplies	(6,222)	(8,729)
Receivables, including unbilled revenues, net	31,807	(43,156)
Other assets	17,320	(50,497)
Increase (decrease) in -		
Accounts payable	(9,197)	45,350
Accrued taxes and tax equivalents	3,783	1,797
Accrued interest	1,407	(1,796)
Current liabilities	57,984	23,289
Deferred credits and other non-current liabilities	(51,098)	41,657
Net cash provided by operating activities	810,204	698,795
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to utility plant, net	(432,027)	(414,530)
Proceeds from disposition of assets	10,731	23,923
Purchases of investments	(391,162)	(336,822)
Sales and maturities of securities	304,404	202,636
Investment in Rate Stabilization Fund	(1,892)	(55,000)
Proceeds from sale of available-for-sale securities	97,041	-
Increase in segregated funds	(262,697)	(80,807)
Net cash used for investing activities	(675,602)	(660,600)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of revenue bonds	343,844	-
Proceeds from issuance of commercial paper	-	100,000
Repayment of long-term debt, including refundings	(312,144)	(171,334)
Other proceeds from financing activities	11,216	40,606
Net cash used for financing activities	42,916	(30,728)
NET INCREASE IN CASH AND CASH EQUIVALENTS	177,518	7,467
BALANCE AT BEGINNING OF YEAR IN CASH AND CASH EQUIVALENTS	288,429	280,962
BALANCE AT END OF YEAR IN CASH AND CASH EQUIVALENTS	$ 465,947	$ 288,429
SUPPLEMENTAL INFORMATION		
Cash Paid for Interest (Net of capitalized interest)	$ 132,359	$ 117,075
Non-cash Financing Activities		
Loss on bond retirement	$ (1,951)	$ -

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

SALT RIVER PROJECT

NOTES TO COMBINED FINANCIAL STATEMENTS

APRIL 30, 2006 AND 2005

(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 and assets of the Association, including its obligations 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.

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 primarily 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 certain 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 4.51% and 4.42% were used in fiscal years 2006 and 2005 to calculate interest on funds used to finance construction work in progress, resulting in $12.0 million and $24.2 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:

	2006	2005
Average electric depreciation rate	3.51%	3.49%
Average irrigation depreciation rate	2.07%	2.44%
Average common depreciation rate	5.36%	5.52%

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 $12.7 million and $16.7 million as of April 30, 2006 and 2005, 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, 2006 and 2005 was $389.1 million and $373.4 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 adopted FASB Interpretation No. 47 (FIN 47), on April 30, 2006. FIN 47 clarifies the meaning of conditional asset retirement obligations under SFAS No. 143, and provides further clarification of when sufficient information is available to provide a reasonable retirement obligation estimate. The District has evaluated existing asset retirement obligations as provided

for under this new guidance and has determined that the liabilities recorded are sufficient at this time.

The District has identified retirement obligations for the Palo Verde Nuclear Generating Station (PVNGS), Navajo Generating Station (NGS), Four Corners Generating Station (Four Corners) and certain other assets. 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, 2006, is included below (in millions):

Balance, May 1, 2005	$ 198.5
Liabilities Incurred	(26.2)
Accretion Expense	11.7
Balance, April 30, 2006	$ 184.0

In accordance with regulations of the Nuclear Regulatory Commission, the District maintains a trust for the decommissioning of PVNGS. Decommissioning funds of $172.8 million and $150.1 million, stated at market value, as of April 30, 2006 and 2005, 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 $5.6 million and $33.5 million at April 30, 2006 and 2005, 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

In April 2005, the District transferred $55 million into the Rate Stabilization Fund (RSF) to be used in concert with the Fuel and Purchased Power Adjustment Mechanism (FPPAM) 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. A special Board meeting was held on March 30, 2006, at which the Board approved the transfer of the $55 million, plus interest earnings back to the General Fund on May 1, 2006 to help cover undercollected fuel costs, thereby reducing the need for an upward increase in the FPPAM. (See Note (9) REGULATORY ISSUES, *The Changing Regulatory Environment,* for additional information on the FPPAM.)

Exhibit L

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 2006 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 2006 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 2006 Series A Bonds is exempt from income taxes imposed by the State of Arizona. See "TAX MATTERS" herein regarding certain other tax considerations.

$296,000,000
Salt River Project Agricultural Improvement and Power District, Arizona
Salt River Project Electric System Revenue Bonds, 2006 Series A

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

The 2006 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 2006 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 2006 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 2006 Series A Bonds. Individual purchases of interests in the 2006 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 2006 Series A Bonds. Interest with respect to the 2006 Series A Bonds is payable January 1 and July 1 of each year, commencing January 1, 2007.

The principal of, redemption price, if any, and interest on the 2006 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 2006 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 2006 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 2006 Series A Bonds. The 2006 Series A Bonds are subject to optional and mandatory redemption as described herein. See "THE 2006 SERIES A BONDS — Redemption" herein.

The 2006 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 2006 Series A Bonds has the right to compel the exercise of the taxing powers of the District to pay the 2006 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 2006 Series A Bonds. Investors should read this Official Statement in its entirety before making an investment decision.

The 2006 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 2006 Series A Bonds will be available for delivery to DTC in New York, New York, on or about July 13, 2006.

Bear, Stearns & Co. Inc. **Morgan Stanley & Co. Incorporated**
Goldman, Sachs & Co. **JPMorgan** **Citigroup**

Dated: June 29, 2006

SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS
2006 Series A

$296,000,000 Term Bond

$296,000,000	5.000% Term Bond Due January 1, 2037 — Yield 4.750%* — CUSIP Number 79575 DVC1**

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

** 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 2006 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 2006 Series A Bonds or as indicated herein.

MANAGEMENT OF THE DISTRICT

BOARD OF DIRECTORS

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

PRINCIPAL OFFICERS AND OTHER EXECUTIVES

John M. Williams, Jr.	*President*
David Rousseau	*Vice President*
Richard H. Silverman	*General Manager*
Terrill A. Lonon	*Corporate Secretary*
Steven J. Hulet	*Corporate Treasurer*
Jane D. Alfano	*Corporate Counsel*
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*
L. J. U'Ren	*Associate General Manager, Operations, Information & Human Resources Services*
Richard M. Hayslip	*Assistant General Manager, Environmental, Land and Risk Management*

CONSULTANTS

Legal Advisors	*Jennings, Strouss & Salmon, P.L.C.*
Independent Accountants	*PricewaterhouseCoopers LLP*
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 2006 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 2006 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 2006 SERIES A BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2006 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 2006 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 2006 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 2006 Series A Bonds: The 2006 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 2006 Series A Bonds are authorized pursuant to the Constitution and laws of the State of Arizona and in particular Title 48, Chapter 17, Article 7, 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 2006 Series A Bonds: The 2006 Series A Bonds are being issued to finance capital improvements to the Electric System pursuant to the District's Capital Improvement Program (as hereinafter defined). The proceeds of the 2006 Series A Bonds also will be used to pay costs of issuing the 2006 Series A Bonds. See "PLAN OF FINANCE" and "SOURCES AND USES OF PROCEEDS" herein.

Security for the 2006 Series A Bonds: The 2006 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. At April 30, 2006, the balance in the Debt Reserve Account was $67,706,036. Upon the issuance of the 2006 Series A Bonds, the

Debt Reserve Account will be funded in excess of the Debt Reserve Requirement.

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 due to the relationship between the two. The District's revenues support the operations of the water and irrigation system as needed. See "THE DISTRICT — General" and "— History" and "INDEPENDENT ACCOUNTANTS" for a further discussion of the relationship between the District and the Association.

The 2006 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 2006 Series A Bonds has the right to compel the exercise of the taxing powers of the District to pay the 2006 Series A Bonds or the interest thereon. See "SECURITY FOR 2006 SERIES A BONDS" herein.

Outstanding Indebtedness:

As of April 30, 2006, the District had a total of $2,965,457,100 outstanding long-term debt, computed without deducting the unamortized bond discount/premium, consisting of $2,207,777,100 Revenue Bonds and general fund debt of $757,680,000 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 1, 2006 was $96 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 55% of the population living in the Phoenix-Mesa Metropolitan Statistical Area (the "Phoenix-Mesa MSA") and had an historic peak retail load of approximately 6,038MW in July 2005. Approximately 43% 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: In 2000, the District opened its entire service area to competition in the areas of generation, billing, metering and meter reading by electricity suppliers who had been approved by the Arizona Corporation Commission ("ACC"). 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

$296,000,000

SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS, 2006 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, 2006 Series A (the "2006 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 2006 Series A Bonds, are authorized pursuant to the Constitution and laws of the State of Arizona and, in particular, Title 48, Chapter 17, Article 7, 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 2006 Series A Bonds, the District's Board will have authorized the issuance of the 2006 Series A Bonds and the District's Council will have ratified and confirmed the District's action. See "THE 2006 SERIES A BONDS" herein and "Appendix B — Summary of the Resolution" attached hereto.

PLAN OF FINANCE

The District will issue the 2006 Series A Bonds to finance capital improvements to the Electric System pursuant to the District's Capital Improvement Program. The 2006 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 2006 Series A Bonds also will be used to pay the cost of issuance. See "SOURCES AND USES OF PROCEEDS" herein.

THE 2006 SERIES A BONDS

General

The 2006 Series A Bonds will be issued in the principal amount of $296,000,000 and will be dated and bear interest from the date of delivery. The 2006 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, 2007, 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 2006 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 2006 Series A Bond as of the immediately preceding December 15 or June 15.

Book-Entry Only System

The 2006 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 2006 Series A Bonds. Individual purchases of interests in the 2006 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 2006 Series A Bonds. So long as Cede & Co. is the registered owner of the 2006 Series A Bonds, the Trustee will make payments of principal and redemption price, if any, of and interest on the 2006 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 2006 Series A Bonds, as described herein. See "Appendix E — Book-Entry Only System" attached hereto.

Redemption

Mandatory Sinking Fund Redemption — 2006 Series A Bonds. The 2006 Series A Bonds maturing on January 1, 2037 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 2006 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 2006 Series A Bonds on the dates and in the principal amounts shown below.

Sinking Fund Payment Date (January 1)	Principal Amount
2033	$ 18,760,000
2034	$ 19,705,000
2035	$ 20,685,000
2036	$115,535,000
2037	$121,315,000*

* Payment at Maturity

The District may satisfy the Sinking Fund Installments by delivering to the Trustee 2006 Series A Bonds of such maturities purchased by the District. In addition, the District may specify the Sinking Fund Installments to be credited if there is any redemption or purchase of 2006 Series A Bonds for which sinking fund installments have been established other than with amounts on deposit in the Debt Service Account.

Optional Redemption. The 2006 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 2006 Series A Bonds, or portion thereof to be redeemed, together with accrued interest on, but not including the redemption date.

For so long as book-entry only system of registration is in effect with respect to the 2006 Series A Bonds, if less than all of the 2006 Series A Bonds of a particular maturity (and, if applicable, interest rate within a maturity) is to be redeemed, the particular Beneficial Owner(s) (as defined in Appendix E hereto) to receive payment of the redemption price with respect to beneficial ownership interests in such 2006 Series A Bonds shall be selected by DTC and the Direct Participants and/or the Indirect Participants (as defined in Appendix E hereto). See "Book-Entry Only System" in Appendix E hereto.

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 2006 Series A Bonds to be redeemed, postage prepaid, not less than

25 days nor more than 50 days prior to the redemption date. Notice having been given in the manner provided in the Resolution, on the redemption dates so designated, then the District's 2006 Series A Bonds or portions thereof so called for redemption shall become due and payable on such redemption date at the redemption price, plus interest accrued and unpaid to, but not including, the redemption date.

Any notice of optional redemption given pursuant to the Resolution may state that it is conditional upon receipt by the Trustee of monies sufficient to pay the redemption price of the 2006 Series A Bonds or upon the satisfaction of any other condition, or that it may be rescinded upon the occurrence of any other event, and any conditional notice so given may be rescinded at any time before payment of such redemption price if any condition so specified is not satisfied or if any such other event occurs. Notice of such rescission shall be given by the Trustee to the registered owners of any 2006 Series A Bonds so affected as promptly as practicable upon the failure of such condition or the occurrence of such event. Failure to give notice of redemption by mail, or any defect in such notice, will not affect the validity of the proceedings for the redemption of any other Electric System Revenue Bonds.

Registration and Transfer Upon Discontinuation of Book-Entry Only System

U.S. Bank National Association will act as bond registrar ("Bond Registrar") and transfer and paying agent for the 2006 Series A Bonds. If the book-entry only system were discontinued, the following provisions would apply. A 2006 Series A Bond may be transferred on the bond register maintained by the Bond Registrar upon surrender of the 2006 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 2006 Series A Bond may be exchanged for 2006 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 2006 Series A Bonds during the 15 days preceding the date on which notice of redemption of a 2006 Series A Bond is to be mailed or any 2006 Series A Bond that has been called for redemption except the unredeemed portion of any 2006 Series A Bond being redeemed in part.

SOURCES AND USES OF PROCEEDS

The sources and uses of funds with respect to the 2006 Series A Bonds, are as follows:

Sources of Funds	
Principal Amount of 2006 Series A Bonds	$296,000,000.00
Original Issue Premium	$ 5,582,560.00
Total Sources of Funds	$301,582,560.00
Uses of Funds	
Construction Fund	$299,577,545.38
Cost of Issuance (including Underwriters' Discount)	
Total Uses of Funds	$ 2,005,014.62
	$301,582,560.00

SECURITY FOR 2006 SERIES A BONDS

General

The Revenue Bonds, including the 2006 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 2006 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 2006 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 2006 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. Monies 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 Installments 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, 2006, the balance in the Debt Reserve Account was $67,706,036. Upon issuance of the 2006 Series A Bonds, the Debt Reserve Account will be funded in excess of the Debt Reserve Requirement.

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, monies, 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 and assets of the Association, including its obligations 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, 2006, District and Association full-time employees (full-time equivalent) totaled approximately 4,365, including approximately 1,881 hourly employees represented by the International Brotherhood of Electrical Workers, Local 266. The present labor contracts expire on November 15, 2009.

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 619,000 people moving to the metropolitan area between 2000 and 2005. The Valley weathered the most recent recession relatively well, with employment growth dipping by only a tenth of a percent in 2002, and positive growth returning in 2003. Job growth has accelerated from 2003's 1.5% to 6.2% in 2005, and is expected to remain strong in 2006. Population growth is expected to decline gradually to approximately 3.2% annually from the 3.6% range seen in the past few years.

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)
2000..	5,131	3,252	1,578	45,310	93.0
2001..	5,320	3,379	1,598	46,100	97.1
2002..	5,471	3,489	1,596	47,899	100.8
2003..	5,643	3,598	1,620	54,860	106.4
2004..	5,845	3,742	1,684	65,259	115.6
2005..	6,045	3,895	1,787	62,617	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 2001-2005 are estimated.

(2) State of Arizona, Department of Economic Security; 2005 is preliminary.

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

(4) U.S. Bureau of Economic Analysis.

As shown above, from 2000 through 2005, 209,000 new jobs were created in the Phoenix-Mesa MSA, an increase of approximately 13%, or 2.6% per year. Employment growth has been healthy as evidenced by the employment sectors below:

Phoenix-Mesa MSA Employment

Year	Trade	Professional and Business Services	Government	Education and Health Services	Leisure and Hospitality
2000	264,000	264,100	195,700	137,500	149,700
2001	265,800	259,400	203,400	143,700	152,500
2002	266,400	253,500	212,700	153,000	153,500
2003	269,600	258,600	216,500	163,300	156,000
2004	280,200	273,800	220,800	173,600	161,900
2005	299,900	299,400	225,500	182,900	169,700

Source: State of Arizona, Department of Economic Security.

For 2005, the largest sectors were trade and professional and business services, both at approximately 17% of total employment. The government share was 13%. The education and health services sector and leisure and hospitality sector made up 10% each. Construction had 9% of total employment, followed by manufacturing and financial activities at 8% each. Other services, transportation, warehousing, and utilities, information, and mining and natural resources made up the remaining 8%.

Employment growth in the area has historically compared favorably to national figures. From 2000 through 2005 employment increased an estimated 11% for the Phoenix-Mesa MSA and 12% for the state, while the national figure was only slightly over 1%. 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 2005	December 2004	December 2003
Phoenix-Mesa MSA	4.0%	4.0%	4.9%
Arizona	4.7%	4.5%	5.4%
United States	4.9%	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 during the recession, but have dropped again during the past couple of years to 5.1%. The District anticipates that retail construction and net absorption will continue to be strong in 2006 as the local economy continues to grow. 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 for a few years, but the rates have since fallen, with 2006 seeing a significant improvement in the office market. In the first quarter of 2006, vacancy rates fell to 11.3%, with some submarkets experiencing rates as low as 10%. Industrial real estate activity was also strong in 2005, with high levels of absorption and activity, and falling vacancy rates. During the first quarter of 2006, vacancy rates fell to 6.0%, nearly the lowest rate since records have been kept.

The Phoenix-Mesa MSA is home to several corporate headquarters: US Airways Group, Inc., 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 has recovered from the last recession, with job growth returning to pre-recession levels. In 2005, the Phoenix-Mesa MSA ranked fourth in the nation for total job creation, second for percent job growth, and third for total housing permits. This strong comparative performance, combined with a relatively affordable cost of living, continues to drive local population growth.

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 2.9% annually from the 3.2% experienced over the last several years. This equates to a growth rate of approximately 28,000 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 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 water supply for the water service area of the Project is primarily runoff from a watershed consisting of 13,000 square miles which 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.

For the past several years, the Southwest, including the Project's watershed, has experienced serious drought conditions. Under its contingency plan to manage supply and demand in periods of water shortage, the Association has utilized increased groundwater 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 reduced the allocation of water to its shareholders and to the valley cities by one-third for calendar years 2003 and 2004. In 2005, abundant winter watershed precipitation and runoff refilled reservoirs sufficiently to allow the Association to make full surface water-only deliveries to its shareholders. However, winter rain and snow failed to materialize in the winter of 2006 indicating that drought conditions are continuing as anticipated.

The Association also 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 — *Mohave Generating Station*" and "LITIGATION — Water Rights" for a discussion of additional matters relating to irrigation and water supply.

Telecommunication Facilities

The District has installed approximately 53,000 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 also acquired, through exchanges with other utilities and telecommunications carriers, other fiber optic capacity and has entered into license agreements with telecommunications carriers, such as Qwest, Electric Lightwave, LLC, SBC Communications, MCI and AboveNet, among others, to market this excess capacity, and receives approximately $5.8 million per year in revenue from this activity.

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 2007 through 2012 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. Development activity in the Private Development Area has steadily increased since 1996. Lease payments to the District were $2.02 million in fiscal years 2006 and 2005, 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 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 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 2007 through 2012. 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,					
	2007	2008	2009	2010	2011	2012
Annual Peak: (MW)(1)(2)						
Retail System Requirements(3)(4)(5)	6,210	6,430	6,650	6,890	7,120	7,360
Sales for Resale	643	495	504	501	352	357
Total Peak Load(6)	6,853	6,925	7,154	7,391	7,472	7,717
Resources:						
Hydroelectric	271	271	271	271	271	271
Thermal						
Gas and/or Oil	2,917	2,917	2,917	3,067	3,067	3,167
Coal(7)	1,791	1,791	1,791	1,791	2,507	2,507
Nuclear	671	671	689	689	689	689
Solar and Renewables	6	6	106	123	123	123
Purchased:						
Federal Hydro Power	209	209	209	209	191	191
CAWCD/Navajo Surplus(8)	698	698	699	699	699	699
AEPCO	100	100	100	100	100	0
Tucson Electric Power Company ("TEP")(9)	100	100	100	100	100	0
Tri-State Generation and Transmission Association, Inc. ("Tri-State")(10)	0	100	100	100	100	100
Purchased Renewables	75	75	85	60	60	60
Other Existing	266	101	101	251	201	1
Other New	500	650	800	750	200	825
Total Resources	7,604	7,689	7,968	8,210	8,308	8,633
Total Resources in Excess of Total peak Load	751	764	814	819	836	916
Planned Reserve Percentage(11)	12.3	12.0	12.4	12.2	12.2	12.2

(1) The forecasts were made in the fall of 2005, 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 2010. Solely for purposes of this table, Mohave is projected to return to service in January 2010. 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 current TEP 100 MW long-term contract expires May 31, 2011. The parties are in negotiations to extend the contract to May 31, 2016, with a further extension to May 31, 2021, if certain conditions are met. These possible extensions are not reflected in this table.

(10) The District has a 30-year agreement with Tri-State to purchase 100 MW of capacity from Springerville Unit 3 once Unit 3 is placed in service. While the table reflects the capacity first becoming available for peak loads in fiscal year 2008, the expected commercial operation date of Unit 3 has been moved up to July 2006.

(11) 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, 2006. The District's largest source of energy during the fiscal year ended April 30, 2006 was thermal generating facilities, which supplied 72% of the District's total production. Hydroelectric generation provided 2.7% of production with 1.3% coming from the District's own hydroelectric plants and 1.4% coming from purchases from the Arizona Power Authority ("APA") and the United States Department of Energy, Western Area Power Administration ("WAPA"). The remaining 25.3% came from various other purchases and renewable resources. Table 3 provides more detail on District power sources.

TABLE 3 — Fiscal Year 2006 District Power Sources

	Capability (MW) (1)	% of Total	Net Production Amount (MWh) (2)	Net Production % of Total
District Generation:				
One Hundred Percent Entitlement — Hydroelectric:				
Roosevelt Dam	36	0.4%	99,889	0.3%
Mormon Flat Dam	68	0.8	98,872	0.3
Horse Mesa Dam	149	1.8	195,636	0.6
Stewart Mountain Dam	13	0.2	36,761	0.1
Canal Plant (Crosscut)	3	0.0	4,887	0.0
Canal Plant (South Consolidated)	1	0.0	2,400	0.0
Arizona Falls	1	0.0	2,960	0.0
Subtotal	271	3.3	441,405	1.3
One Hundred Percent Entitlement — Thermal				
Kyrene (Steam)	106	1.3	−1,413	0.0
Kyrene (Gas Turbine)	165	2.0	1,197	0.0
Kyrene (Combined Cycle)	250	3.1	714,286	2.1
Agua Fria (Steam)	407	5.0	132,563	0.4
Agua Fria (Gas Turbine)	219	2.7	5,752	0.0
Santan Combined Cycle	918	11.3	2,667,384	7.7
Desert Basin Combined Cycle	577	7.1	1,990,660	5.7
Coronado Generating Station	773	9.5	5,922,206	17.0
Subtotal	3,415	42.1	11,432,635	32.8
One Hundred Percent Entitlement — Renewable				
Solar	1		1,431	0.0
Fuel Cells	0(3)		1,344	0.0
Alternative Fuels — Tri-cities Landfill	4	0.0	15,237	0.0
Subtotal	5	0.1	18,012	0.1
Participation Plants				
Navajo Generating Station	489	6.0	3,966,748	11.4
Four Corners Generating Station Units 4&5	150	1.9	1,165,569	3.3
Mohave Generating Station	280	3.5	1,464,273	4.2
Hayden Generating Station	131	1.6	1,055,946	3.0
Craig Generating Station	248	3.1	1,956,956	5.6
Palo Verde Nuclear Generating Station	650	8.0	4,023,112	11.6
Subtotal	1,948	24.0	13,632,604	39.2
Purchases and Receipts(4):				
APA — Arizona Power Authority	79(5)	1.0	98,351	0.3
WAPA — Colorado River Storage Project	95(6)	1.2	244,925	0.7
WAPA — Parker-Davis Dams	49(7)	0.6	145,538	0.4
WAPA — CAWCD/Navajo Surplus	636(8)	7.8	2,290,403	6.6
AEPCO — Arizona Electric Power Cooperative	100	1.2	840,825	2.4
TEP — Tucson Electric Power Company	100	1.2	822,425	2.4
Wind Power	50	0.6	61,600	0.2
Geothermal Power	25	0.3	218,975	0.6
Others	1,334(9)	16.5	4,560,432(9)	13.1
Subtotal	2,468	30.4	9,283,474	26.7
TOTAL(10)	8,107	100.0	34,808,130	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, 2006. Energy for pumped storage is not deducted.

(3) Fuel Cell capacity is 250 kW.

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

(5) Includes 44 MW wheeled for certain electrical/irrigation districts.

(6) Includes 40 MW wheeled for certain electrical/irrigation districts.

(7) Includes 17 MW wheeled for SCIP.

(8) Net of CAWCD pumping load and losses totaling 103 MW that occurred coincident with system peak.

(9) Short term purchases excluding 350 MW and 4,218,233 MWh of bookouts.

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

Desert Basin Generating Station. The District had a ten-year Power Purchase Agreement ("DBPPA") 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. In 2003, the District acquired Desert Basin and 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 DBPPA 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.

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 provides approximately 550MW of energy to meet the District's energy requirements. The second phase became operational in March 2006, bringing the total nominal capacity of the expansion project to 825MW.

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(2)	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(3)	1,580(4)	262	856	3,875(5)
Project Participants						
District	21.7	10.0	20.0(6)	50.0	29.0	17.5
APS	14.0	15.0	—	—	—	29.1
Department of Water & Power, Los Angeles ("LADWP")	21.2	—	10.0(6)	—	—	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	—	—	—	—	24.0	—
TEP	7.5	7.0	—	—	—	—
U.S. Bureau of Reclamation ("USBR")	24.3(7)	—	—	—	—	—
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) Mohave Generating Station ceased operations at the end of 2005, pending installation of new environmental controls and resolution of other operating issues. See "THE ELECTRIC SYSTEM — Existing and Future Resources — *Mohave Generating Station*" for additional discussion of matters relating to Mohave.

(3) Amount shown is maximum capability. Normal continuous load capability is 1,500 MW.

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

(5) Amount shown is maximum capability. Normal continuous load capability is 3,861 MW.

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

(7) 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.

See "THE ELECTRIC SYSTEM — Existing and Future Resources — *Coal*" for comments relating to the coal supply for the Craig Generating Station Units 1 & 2.

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 — *Coal*" 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 — *Coal*" 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 — *Coal*" and "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. Peabody Western Coal Company ("Peabody") operates the mine under leases with both tribes.

In 1999, SCE, the District, NPC, and LADWP (the "Mohave Participants") entered into a settlement with the Sierra Club, the Grand Canyon Trust and the National Parks Conservation Association that required the installation of certain pollution abatement equipment by the end of 2005 for the plant to continue operating as a coal-fired electric generating facility. In addition, the initial term of the agreement with Peabody to supply coal to Mohave expired at the end of 2005 and the Hopi Tribe has demanded that the pumping of water from the Navajo Aquifer 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 suspended operations at the end of 2005. The Mohave Participants, the Navajo Nation, the Hopi Tribe and Peabody have been participating in mediation regarding the use of an alternative source of water for the mine and the slurry pipeline and to resolve other pending issues. However, SCE has recently advised the District that it does not intend to proceed with efforts to extend the life of Mohave. The District will evaluate the impact, if any, of SCE's recent decision on the District's efforts to extend Mohave operations. See "LITIGATION — Coal Supply" for a discussion of the other pending issues. 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 $211 million in its Capital Improvement Program to cover the costs of such equipment or alternate resources, if necessary. Although the parties 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.

In case the negotiations were not successful and the Mohave Participants were unable to secure reasonable terms for the supply of coal and water, the Board authorized the recovery of the balance of the District's investment in Mohave in its revenue requirements prior to the closure of the plant. Consequently, a write-down of the plant's 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.

See "THE ELECTRIC SYSTEM — Existing and Future Resources — *Coal*" 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 and in Unit 1 in the fall of 2005. Replacement steam generators have been purchased for Unit 3 and are expected to be installed in the fall of 2007. The District has included funds for the Unit 3 replacement in its 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.

In March 2006, after an outage for refueling and to replace the steam generator, Unit 1 was removed from service to conduct testing to identify the cause of high vibration in a safety related shutdown cooling line. Unit 1 will remain off-line until a permanent fix to the vibration has been implemented. Unit 1 is expected to return to service in July 2006.

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, 2024 to September 30, 2028. 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 individual long-term power purchase contracts with AEPCO and TEP. Each contract provides for the District to purchase 100 MW of firm power. These contracts will expire in fiscal years 2011 and 2012, respectively. The District is in negotiations with TEP for a five-year extension of its contract to 2016 with a further extension to 2021, if certain conditions are met.

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 include the acquisition of other existing generation facilities.

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 the 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 in July 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. The District has determined to build Unit 4 and expects it to be in service by the end of calendar year 2009. Construction plans and financing have not been finalized yet. 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, whenever it was not prudent to build a new transmission system, the District 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 to sell excess electricity, and to transmit energy for others when surplus transmission capacity is available.

The District, along with other utilities in Arizona, New Mexico, Colorado, Wyoming, Nevada, Southern California and West Texas, has developed a regional transmission organization known as WestConnect to focus on the design and implementation of regional wholesale market and transmission enhancements. The utilities in WestConnect include both Federal Energy Regulatory Commission ("FERC") jurisdictional and non-jurisdictional entities. They have developed and implemented wesTTrans.net, a common computer web site for transmission reservation used by 23 utilities throughout the West, an extensive regional transmission planning process, and a process for periodic review of transmission providers' transmission transfer capability methodology and calculations.

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(2)
2007	4.0%	19.5%	36.8%	14.0%	0.1%	9.9%	15.7%
2008	3.9%	17.7%	36.4%	13.8%	0.1%	10.4%	17.7%
2009	4.0%	17.3%	35.3%	14.2%	0.1%	9.4%	19.7%
2010	3.7%	19.7%	35.6%	13.5%	0.1%	9.1%	18.3%
2011	3.3%	18.2%	44.2%	12.5%	0.1%	7.7%	14.1%
2012	3.4%	21.1%	44.4%	12.7%	0.1%	2.6%	15.8%

(1) Includes hydro purchases.

(2) Includes renewable energy 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 NGS will expire 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. The District expects to solicit proposals for coal supplies for Springerville Unit 4 sometime during the second half of 2006. 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 almost equally under 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 future coal supply options and believes it can continue to meet the coal requirements for CGS.

Except for Mohave, whose coal supply contract expired at the end of 2005, 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 designed to minimize financial and operational risk while ensuring that sufficient gas is available to serve the 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 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 transportation contracts with El Paso Natural Gas Company. In addition, the District has entered into a fifteen-year transportation contract with Transwestern Pipeline Company ("Transwestern") and will start transporting a portion of the District's natural gas supply under that contract when Transwestern's pipeline expansion has been completed in 2008. Additionally, the District encourages parties to consider development of natural gas storage fields in Southern Arizona.

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 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. Additionally, in 2004 the District established SRP Captive Risk Solutions, Limited, a wholly-owned subsidiary, to provide insurance coverage for claims in excess of $1,000,000, and for terrorist risks.

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 additional security measures 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 Navajo Nation has obtained EPA approval to administer programs under some of these laws. However, 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 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. In general, NGS and the Four Corners Generating Station are regulated by EPA Region IX in San Francisco, California, and comply with applicable federal regulations. However, the District and APS, as operating agents for these plants, have entered into Voluntary Compliance Agreements with the Navajo Nation that establish contractual authority for the Navajo Nation to issue permits and regulate air emissions at NGS and Four Corners under rules not stricter than those of the EPA. 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 procedures and a special Board meeting 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 (the "Competition Act"), relating to retail electric prices, the District unbundled its 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. In addition, in 2000 the District opened its entire service area to competition by electricity suppliers who had been approved by the ACC in the areas of generation, billing, collection, metering and meter reading. 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" and "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY — District's Position Regarding Utility Industry Developments" herein.

In May 2002, the District implemented a Fuel & Purchased Power Adjustment Mechanism ("FPPAM") to allow for semi-annual rate adjustments to recover increases in actual fuel costs. The District has had several increases in the price of fuel and purchased power since the FPPAM was implemented. In June 2004, the District introduced a Transmission Cost Adjustment Factor ("TCAF") to recover costs the District would incur if the District were required to participate in regional transmission organizations. To date, no costs have been incurred or recovered through the TCAF.

On April 28, 2005, the District Board also authorized the funding of the Rate Stabilization Fund ("RSF") in the amount of $55 million 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 May 5, 2006, the District transferred the $55 million amount, plus interest earned of $2.1 million, from the RSF to the District's General Fund for the purpose of addressing a portion of fuel and purchased power expenses during fiscal year 2007. It is anticipated that additional funding of the RSF will take place in fiscal year 2007.

On October 3, 2005, the District Board approved a 2.9% system average price increase beginning on November 1, 2005. The increase was needed to help fund a portion of the Capital Improvement Program.

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 2007 through 2012 Capital Improvement Program totals approximately $4.8 billion. Of this total, approximately $4.5 billion is for construction (including contingencies), $105.7 million is for capitalized administrative and general expenses, $1.3 million is for capitalized voluntary contributions in lieu of taxes, and $170.6 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 65% of the 2007 through 2012 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 $4.8 billion Capital Improvement Program, approximately $1.1 billion is directed to generating projects. These include the addition of steam generators at PVNGS and construction of Springerville Unit 4 Generating Station. Approximately $1.3 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 $322 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 2007 through 2012 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 2007 through 2012 Capital Improvement Program.

TABLE 6 — 2007 through 2012 Capital Improvement Program
($000's)

	2007	2008	2009	2010	2011	2012	Total 2007-12
Electric Construction:							
Generation	$178,648	$ 370,653	$ 336,498	$ 99,657	$ 53,628	$ 20,430	$1,059,514
Transmission	94,759	96,080	47,358	24,737	30,971	28,012	321,917
Distribution	226,362	210,426	212,253	206,679	216,860	219,780	1,292,360
Retail Sales and Services	37,440	30,238	19,926	16,291	16,395	17,581	137,871
Operational Support	73,080	86,278	64,078	51,908	52,445	47,187	374,975
Subtotal — Electric Construction	610,289	793,675	680,112	399,273	370,299	332,989	3,186,637
Contingency Allowance & Risk Portfolio	80,073	186,655	288,883	295,208	248,742	208,699	1,308,261
Subtotal	690,363	980,330	968,995	694,481	619,041	541,688	4,494,898
Capitalized Administrative and General Expenses	16,668	17,051	17,465	17,879	18,308	18,308	105,679
Capitalized Voluntary Contributions	209	214	219	224	230	230	1,326
Capitalized interest	9,748	20,865	43,009	49,331	24,691	22,986	170,630
Total(1)	$716,988	$1,018,460	$1,029,688	$761,915	$662,270	$583,211	$4,772,533

(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 1.2% 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 — 2006 Customer Accounts, Sales, and Revenues
Fiscal Year Ended April 30, 2006

	Customer Accounts at April 30, 2006	Total Sales (GWh)	%	Sales Revenue ($000)	%
Residential	809,235	12,077	32.8	1,037,962	42.6
Commercial and Small Industrial	72,598	9,426	25.6	659,050	27.1
Large Industrial	21	1,584	4.3	79,201	3.3
Mines	26	1,140	3.1	49,617	2.0
Pumps	158	38	0.1	2,861	0.1
Street Lights	8,716	181	0.5	20,234	0.8
Municipal	2,051	518	1.4	33,282	1.4
Interdepartmental	1	88	0.2	6,085	0.2
Subtotal/Retail	892,806	25,052	67.9	1,888,292	77.5
Electric Utilities/Wholesale	69	11,824	32.1	547,564	22.5
Total(1)	892,875	36,876	100.0	2,435,856	100.0

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

As has been historically the case, the residential group of customers accounted for the largest energy consumption. With 809,235 customers at April 30, 2006, this group serves as a solid base, bringing in approximately 43% of total retail electric revenues.

The second largest retail customer classification is the commercial and small industrial group; these customers numbered 72,598 at April 30, 2006 against 69,312 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 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, 2006.

TABLE 8 — Historical Operating Statistics

	2006	2005	2004	2003	2002
SERVICE:					
Total Customers at Year-End	892,875	858,312	824,416	796,171	772,791
Total Sales (million kWh)	36,876	35,516	33,806	35,166	36,534
Average Revenue per kWh (cents)	7.39	6.56	6.18	5.60	6.07
District Only: (excludes sales for resale and affiliated retail)					
Sales (millions kWh)	25,052	23,649	23,935	22,529	22,952
Increase in Sales(%)	5.9	-1.2	6.2	-1.8	1.4
TOTAL OPERATING REVENUES: (000's omitted)(1)(8)	$2,512,559	$2,252,827	$2,072,837	$1,886,611	$2,206,033
OPERATING EXPENSES (000's omitted):					
Fuel and Purchased Power(2)(8)	$1,056,645	$ 782,349	$ 713,780	$ 687,205	$1,132,280
Operating and Maintenance(3)	605,525	563,222	577,267	485,019	445,249
Sales and Payroll Taxes	25,407	24,208	23,948	21,757	19,689
Ad Valorem Taxes(4)	4,275	7,444	10,187	7,022	5,220
Total Operating Expenses	$1,691,852	$1,377,223	$1,325,182	$1,201,003	$1,602,438
NET OPERATING REVENUES	$ 820,707	$ 875,604	$ 747,655	$ 685,608	$ 603,595
VOLUNTARY CONTRIBUTIONS IN LIEU OF TAXES (000's omitted):(5)					
Expensed	$ 69,220	$ 72,100	$ 64,818	$ 59,847	$ 59,617
Capitalized	598	80	317	77	299
Total	$ 69,818	$ 72,180	$ 65,135	$ 59,924	$ 59,916
OTHER STATISTICS:					
Annual Peak (MW):					
System Requirements	6,044	5,665	5,673	5,296	5,164
Total Peak Load(6)	7,297	6,669	6,771	6,343	6,350
System Load Factor(%)(7)	49.3	49.1	50.0	53.4	53.3
Residential Statistics:					
Fiscal Year-End Residential Customers	809,235	778,123	747,019	721,425	700,010
Annual Sales (million kWh)	12,077	11,218	11,402	10,273	10,561
Average Annual Usage (kWh)	15,211	14,687	15,549	14,425	15,295
Average Sales Price per kWh (cents)	8.59	8.20	7.65	7.53	7.34

(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 Expenses — *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 water-related 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 (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 to the Arizona Court of Appeals. The Court of Appeals ruled in the District's favor on January 19, 2006. The ADOR filed a petition for review of this decision with the Arizona Supreme Court. If the Supreme Court accepts the petition and overturns the Court of Appeals decision, the District would be liable for approximately $13.8 million plus interest for fiscal years 2003 (four 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 rate of 25% that was in effect prior to calendar year 2006 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 affect only four months of the District's fiscal year 2006. Fiscal year 2007 will be the first full fiscal year for the District, with a continual reduction through fiscal year 2016, when the assessment ratio reaches 20%. The legislation reducing the assessment ratio to 20% is expected to produce a cumulative savings of approximately $1.5 million per year.

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 1, 2006, was approximately $96.0 million. As of May 1, 2006, payment by the District for the remainder of the power sales contracts with CAWCD totaled $136.5 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

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, 2006, 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.

Management's Discussion of Operations — Fiscal Year 2006. SRP's Combined Net Revenues for the fiscal year ended April 30, 2006, were $415.4 million compared to $362.5 million for the previous year. Operating revenues were $2.5 billion for fiscal year 2006, compared to $2.3 billion for fiscal year 2005. See "Appendix A — Report of Independent Auditors" for further discussion.

Outstanding Revenue Bond Long-Term Indebtedness. As of April 30, 2006, the District had outstanding approximately $2,207,777,100 of Revenue Bonds, computed without deducting the unamortized bond discount/premium.

The following table shows total Revenue Bond Debt Service Requirements and the District's payment obligation under the Finance Lease immediately succeeding the issuance of the 2006 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
2007	$222,945,273	$28,077,957	$251,023,230
2008	263,025,348	29,182,472	292,207,820
2009	251,806,210	29,184,104	280,990,314
2010	216,748,533	29,183,163	245,931,695
2011	204,338,829	29,184,772	233,523,601
2012	187,333,304	29,182,429	216,515,732
2013	162,390,575	29,182,319	191,572,894
2014	149,825,195	29,182,688	179,007,883
2015	127,893,334	29,182,354	157,075,688
2016	100,056,269	29,182,438	129,238,706
2017	109,186,006	29,184,521	138,370,527
2018	113,781,613	29,183,146	142,964,758
2019	121,526,396	29,182,563	150,708,958
2020	115,556,788		115,556,788
2021	114,189,438		114,189,438
2022	113,626,438		113,626,438
2023	116,612,938		116,612,938
2024	118,169,054		118,169,054
2025	118,502,038		118,502,038
2026	120,117,185		120,117,185
2027	119,598,079		119,598,079
2028	120,820,942		120,820,942
2029	123,349,608		123,349,608
2030	124,838,025		124,838,025
2031	126,357,858		126,357,858
2032	143,561,933		143,561,933
2033	127,378,917		127,378,917
2034	127,379,417		127,379,417
2035	158,648,333		158,648,333
2036	127,378,583		127,378,583
2037	84,920,500		84,920,500

(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 2003, 2004, 2005 and 2006.

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

	Fiscal Years Ended April 30 Actuals			
	2006(1)	2005(1)	2004(1)	2003(1)
Electric Revenues(5)	$2,794,025	$2,400,410	$2,156,754	$1,967,576
Operating Expenses(2)(3)(5)	1,948,830	1,559,973	1,437,865	1,304,043
Revenues from Operations	845,195	840,437	718,889	663,533
Interest and Other Income (Net)	55,459	29,443	18,803	10,096
Revenues Available for Debt Service	900,654	869,880	737,692	673,629
Rate Stabilization Funds	1,892	55,000	—	—
Revenues Available for Debt Service on Revenue Bonds and Subordinated Debt	898,762	814,880	737,692	673,629
Debt Service Requirements Revenue Bonds	337,980	322,383	360,704	298,846
Debt Service Requirements Subordinate Debt	33,844	18,733	8,278	7,265
Total Debt Service	371,824	341,116	368,982	306,111
Coverage of Total Revenue Bond Debt Service by Revenues Available for Debt Service	2.66	2.70	2.05	2.25
Coverage of Total Debt Service by Revenues Available for Debt Service on Revenue Bonds and Subordinate Debt	2.42	2.39	2.00	2.20
Balance after Debt Service	526,938	473,764	368,710	367,518
Plus: Interest on Construction Fund	3,388	107	988	1,793
Less: Contribution in Lieu of Taxes	69,220	72,100	64,818	59,847
Less: Contributions to Water Operations	34,161	56,672	62,925	44,222
Less: Falling Water Charges(4)	18,273	6,870	2,747	4,101
Balance Available for Corporate Purposes	$ 408,672(6)	$ 338,229	$ 239,208	$ 261,141

(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 2006 (shown on page A4) as follows (in thousands):

BALANCE AVAILABLE FOR CORPORATE PURPOSES	$ 408,672
Bond principal repayment	221,534
Subordinated Debt principal payment	6,790
Rate Stabilization Funds	1,892
Capitalized Interest	11,971
Amortization of regulatory assets	(6,757)
Depreciation and amortization	(306,763)
Fuel related depreciation (reflected in fuel costs)	(1,801)
Amortization of bond accretion	(623)
Amortization of bond discount/premium, issuance, and refinancing expenses	7,932
Net Revenues before impact of SFAS No. 133 and gain on sale of available-for-sale securities	342,847
Impact of SFAS No. 133 implementation	(24,488)
Gain on sale of available-for-sale securities	97,041
COMBINED NET REVENUES	$ 415,400

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 significant factor 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 and transmission. Other 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 national energy policies, (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, (xi) effects of the financial difficulties confronting the power marketers, and (xii) costs resulting from attempts to change the way the transmission providers operate. Any of these factors (as well as other factors) could affect 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 and Federal Legislation

In 1996, FERC, which regulates the wholesale electric utility industry under the authority of various statutes, issued Orders 888 and 889 requiring transmitting "public utilities" (as defined in the Federal Power Act), 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 historically has complied with these requirements voluntarily. The Energy Policy Act of 2005 (the "Energy Policy Act") expanded FERC jurisdiction by granting FERC discretionary authority to regulate the non-rate terms and conditions, and to a lesser extent, rates, under which unregulated transmitting utilities (including the District) provide wholesale transmission services. The Energy Policy Act explicitly prohibits FERC from requiring unregulated transmitting utilities to take actions that would violate a private activity bond rule. The extent to which FERC will exercise its authority over unregulated transmitting utilities is unknown at this time. However, FERC has initiated a number of regulatory actions that could affect the District's transmission and wholesale sales activities including a Notice of Proposed Rule-Making to revise and update Order 888. The District is monitoring these actions but does not expect them to result in significant adverse impacts on its operations. See "District's Position Regarding Utility Industry Developments" herein.

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 recovery of stranded costs, and competition in the retail sale of electric generation, billing, 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. There has been no material adverse affect on the District as a result of such actions.

The Arizona Corporation Commission. The ACC regulates investor-owned and cooperatively-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. 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 rule for nondiscriminatory access to transmission, the District filed with FERC a transmission tariff which would ensure the District's access to the transmission systems of public utilities. The District has also entered into an agreement with other utilities in Southern California, Arizona, New Mexico, Nevada, far west Texas, Colorado and Wyoming, to facilitate development 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 1.2% 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 which approves its capital budgets and electric price structure. Together the Board and management 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, 2003, 2004 and 2005 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 2004, 2005 and 2006.

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.

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. Although the prospect for new Clean Air Act ("CAA") legislation in 2006 is low, as a result of legislative and regulatory initiatives the District is planning emission reductions at its coal-fired power plants.

The EPA issued final regulations for the control of mercury emissions from coal-fired utility boilers in 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 regulations give states until November 2006 to either adopt the federal program, as described in the final EPA regulations, or establish an alternative regulatory program. Arizona has not yet decided whether to opt in to the federal program or establish its own program under the CAA. The specific level of reduction and compliance cost will not be known until the state finalizes its regulatory program.

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 May 31, 2006, has 41 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 $393.6 million in 2005 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 challenges 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 2006 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 "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 its Habitat Conservation 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 December 2007.

The USFWS designated "critical habitat" for one of the species affected by operation of the SRP Reservoir, the Southwestern Willow Flycatcher. The final designation does not encompass lands in or near the SRP Reservoirs.

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 agreed to stay the litigation pending settlement discussions.

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 Court stayed these proceedings pending settlement discussions.

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 and dismiss those portions of the above lawsuits relating to regulation of air pollution. 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 may be 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 may be 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, but initial soil vapor investigations indicate some contamination on site. Further soil and groundwater investigations will take place during 2006. 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 four (4) letters from Region IX of the EPA, under the authority of Section 114 of the CAA, requesting information on Coronado (the "Section 114 Letters"). In March 2004, the District entered into negotiations with the EPA 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.

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 Peabody (the coal supplier for NGS and Mohave), SCE (operating agent for Mohave), the District (operating agent for NGS), and certain individual defendants, induced the United States to breach its fiduciary duty to the Navajo Nation, and violated federal racketeering statutes. The lawsuit arises out of negotiations culminating in 1987 with amendments to the coal leases and related agreements. The suit alleges $600 million in damages. The plaintiffs also seek treble damages against the defendants, 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. The claims of both the Navajo Nation and the Hopi Tribe were dismissed in their entirety with respect to the District, but the dismissal is appealable.

On February 9, 2005, the U.S. District Court granted a motion to stay the litigation until further order of the court. The parties have been in mediation with respect to this litigation and related business issues. See "THE ELECTRIC SYSTEM — Existing and Future Resources — *Mohave Generating Station*" for additional discussion of matters relating to Mohave.

Navajo Nation v. United States (Court of Federal Claims). Previously, the Navajo Nation had filed suit against the United States Government based on allegations similar to those raised in the Navajo Nation lawsuit described above. That lawsuit was 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 under certain specific statutes 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 for further proceedings consistent with its opinion. Instead of dismissing the case, the Court of Appeals remanded the case to the Court of Federal Claims and ordered that court to determine whether 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 leases. (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 leases.

As for the Mohave fees, the District had been dismissed from the litigation based on a defense that by statute parties with claims against the District are required to provide notice of those claims within a certain time period. On appeal, however, the case was remanded to determine whether the District should remain in the lawsuit based on a theory that may have waived its rights under the notice of claim statute.

The Mohave Participants and Peabody executed a settlement agreement pursuant to which Peabody granted the Mohave Participants a waiver for fees incurred prior to January 2006. However, as described above, the lawsuit for fees arising after December 2005 continues.

Peabody's claims against the NGS Participants were dismissed. Peabody has appealed this ruling. 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.

See "THE ELECTRIC SYSTEM — Existing and Future Resources — *Mohave Generating Station*" for additional discussion of matters relating to Mohave.

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 NGS Participants and the District relating to liability issues associated with the Navajo Nation v. Peabody case; alleged breach of the NGS Coal Supply Agreement; breach of indemnity obligations owed to Peabody as the alleged agent of the NGS Participants; and claims of tortious interference with contracts and tortious 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 Mohave coal supply agreements expired in 2005. The NGS coal supply agreement is scheduled to expire in 2011, subject to the rights of the NGS Participants to extend the agreement. Peabody contends that the Mohave and NGS Participants 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 mediated the issue of final reclamation and retiree medical benefits and reached a settlement. 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. 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 1996, the NGS Participants sued Peabody to resolve this 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

The District had a contract with El Paso Natural Gas Transportation Company for the transportation of natural gas on a full requirements basis. FERC converted the full requirements contract to a contract with monthly limits. A Phoenix area shipper, whose full requirements contract was also converted, asked FERC to reallocate transportation costs among all Phoenix area shippers. FERC has denied this request. The shipper may appeal the decision, and if successful, the approximate impact to the District could be as much as $20 million.

California Energy Market Litigation and Investigations

Numerous FERC proceedings are addressing various aspects of the California energy market "crisis" of 2000 through 2001. Several of these 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 $18.8 million in refunds to date.

On March 17, 2006, the three California public utilities and the California Energy Oversight Board (collectively "the California Parties") filed lawsuits in California federal court against numerous public power utilities, including the District, that made energy sales into the California Market in 2000 and 2001. The California Parties' Notice of Claim preceding this lawsuit, alleged estimated damages of $62.3 million, without consideration of offsets due to the District. Additionally, on December 30, 2005, the District received a Notice of Claim from the California Attorney General and the California Department of Water Resources with similar allegations and alleged damages of $8.5 million, without consideration of offsets due to the District. No lawsuit on this Notice of Claim has been filed. The District believes it has offsets as a net buyer in the California Power Market which exceed the amount of the claims asserted against it. The California Parties, as well as the California Attorney General and the California Department of Water Resources, have executed a stand-still agreement with the District that resulted in a dismissal of the claims against the District, without prejudice, and preclude filing of litigation by the California Attorney General and the California Department of Water Resources.

Other

In November 2004, Arizona voters approved Proposition 200, Arizona Taxpayer and Citizen Protection Act ("Prop. 200"), which, among other things, requires state and local government employees to verify the immigration status of people applying for certain "public benefits" and to report violators to immigration authorities. The Arizona Attorney General issued an opinion in 2004 supporting a narrow interpretation of the public benefits subject to this requirement. In November 2004, a group called "Yes on Proposition 200" filed suit against the State of Arizona (the "State") in the Maricopa County Superior Court arguing that the covered benefits were much broader. The court ruled in favor of the State and the matter was appealed to the Arizona Court of Appeals where it has been under advisement since January 2006. As a non-tax supported agricultural improvement district, the District does not believe that it is subject to this aspect of Prop. 200. However, if it were found to apply to the District and if "Yes on Proposition 200" is successful in its appeal, the District could have to verify immigration status of electric customers prior to providing service.

Prop. 200 also required that voters provide identification at the polls. The District implemented this requirement effective with its April 2006 elections. Recently, Hispanic organizations filed a lawsuit seeking injunctions against implementation of voter identification requirements enacted pursuant to Prop 200. The District has received the approval of the U.S. Department of Justice of its voter identification requirements as has the State. The District is not a party to the recent lawsuit and no one is seeking to enjoin application of the voter identification requirements in District elections.

Taxes

See "SELECTED OPERATIONAL AND 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 2006 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 2006 Series A Bonds from the District at an aggregate purchase price, of $299,962,545.38, reflecting an original issue premium of $5,582,560.00 and an underwriters' discount of $1,620,014.62 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 2006 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 2006 Series A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issue of the 2006 Series A Bonds. The District has covenanted to comply with the provisions of the Code applicable to the 2006 Series A Bonds, and has covenanted not to take any action or permit any action that would cause the interest on the 2006 Series A Bonds to be included in gross income under Section 103 of the Code applicable to the 2006 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 2006 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 2006 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 2006 Series A Bonds is exempt from income taxes imposed by the State of Arizona.

Original Issue Premium

The 2006 Series A Bonds are being offered at prices in excess of their principal amounts. An initial purchaser with an initial adjusted basis in a 2006 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 2006 Series A Bond based on the purchaser's yield to maturity (or, in the case of 2006 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 2006 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 2006 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 2006 Series A Bonds. Owners of the 2006 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 2006 Series A Bonds.

Ancillary Tax Matters

Ownership of the 2006 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 2006 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" above. 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 2006 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 2006 Series A Bonds, and thus on the economic value of the 2006 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 2006 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 2006 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 2006 Series A Bonds may affect the tax status of interest on the 2006 Series A Bonds. Special Tax Counsel expresses no opinion as to any federal, state or local tax law consequences with respect to the 2006 Series A Bonds, or the interest thereon, if any action is taken with respect to the 2006 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 2006 Series A Bonds are subject to the approval of McCarter & English, LLP, Bond Counsel, whose final approving opinion will be delivered with the 2006 Series A Bonds in substantially the form attached hereto as Appendix C. Certain legal matters in connection with the 2006 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, whose tax opinion will be delivered with the 2006

Series A Bonds in substantially the form attached hereto as Appendix C. 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 2006 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 Aa1 and AA, respectively, to the 2006 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 2006 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 2006 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 2006 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

SRP's financial statements as of April 30, 2006 and April 30, 2005 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. The financial statements are presented on a combined basis including the financial information of both the District and the Association due to the relationship between the two. The District's revenues support the operations of the water and irrigation system as needed. See "THE DISTRICT — General" and "— History" for a further discussion of the relationship between the District and the Association.

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.

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, 2006 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/ John M. Williams, Jr.
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, 2006 and 2005

REPORT OF INDEPENDENT AUDITORS

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

In our opinion, the accompanying combined balance sheets and the related combined statements of net revenues and comprehensive income (loss), and 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, "SRP") at April 30, 2006 and 2005, 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 SRP'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.

PricewaterhouseCoopers LLP

June 15, 2006

SALT RIVER PROJECT

COMBINED BALANCE SHEETS
April 30, 2006 and 2005

	2006	2005
	(Thousands)	
ASSETS		
UTILITY PLANT		
Plant in service —		
Electric	$ 8,311,459	$ 7,899,197
Irrigation	274,029	267,928
Common	443,533	418,716
Total plant in service	9,029,021	8,585,841
Less — Accumulated depreciation on plant in service	(4,167,664)	(3,925,661)
	4,861,357	4,660,180
Plant held for future use	3,283	3,076
Construction work in progress	309,674	414,626
Nuclear fuel, net	42,156	39,834
	5,216,470	5,117,716
OTHER PROPERTY AND INVESTMENTS		
Non-utility property and other investments	121,313	112,326
Segregated funds, net of current portion	677,652	490,518
	798,965	602,844
CURRENT ASSETS		
Cash and cash equivalents	465,947	288,429
Rate Stabilization Fund	56,892	55,000
Temporary investments	152,604	135,081
Current portion of segregated funds	79,010	131,000
Receivables, net of allowance for doubtful accounts	189,013	220,820
Fuel stocks	28,540	34,583
Materials and supplies	92,543	80,278
Other current assets	62,668	78,659
	1,127,217	1,023,850
DEFERRED CHARGES AND OTHER ASSETS	306,321	322,273
	$ 7,448,973	$ 7,066,683
CAPITALIZATION AND LIABILITIES		
LONG-TERM DEBT	$ 2,893,017	$ 2,727,348
ACCUMULATED NET REVENUES AND OTHER COMPREHENSIVE INCOME	3,140,862	2,714,561
TOTAL CAPITALIZATION	6,033,879	5,441,909
CURRENT LIABILITIES		
Current portion of long-term debt	131,346	274,778
Accounts payable	162,804	172,001
Accrued taxes and tax equivalents	72,757	68,974
Accrued interest	45,407	44,000
Customers' deposits	65,522	53,547
Other current liabilities	217,409	171,400
	695,245	784,700
DEFERRED CREDITS AND OTHER NON-CURRENT LIABILITIES	719,849	840,074
COMMITMENTS AND CONTINGENCIES (Notes 5, 7, 8, 9, 10, and 11)	$ 7,448,973	$ 7,066,683

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

SALT RIVER PROJECT

COMBINED STATEMENTS OF NET REVENUES AND COMPREHENSIVE INCOME (LOSS)
For the Years Ended April 30, 2006 and 2005

	2006	2005
	(Thousands)	
OPERATING REVENUES		
Retail Electric	$1,885,912	$1,709,213
Water	12,036	12,786
Other	624,022	529,724
Total operating revenues	2,521,970	2,251,723
OPERATING EXPENSES		
Power purchased	453,549	358,697
Fuel used in electric generation	605,078	425,880
Other operating expenses	461,367	429,799
Maintenance	205,193	193,489
Depreciation and amortization	313,562	302,198
Taxes and tax equivalents	100,953	105,475
Total operating expenses	2,139,702	1,815,538
Net operating revenues	382,268	436,185
OTHER INCOME (EXPENSES)		
Interest income	53,807	25,241
Gain on Sale of Available for Sale Securities	97,041	—
Other income (expenses), net	8,118	6,661
Total other income (expenses), net	158,966	31,902
Net revenues before financing costs	541,234	468,087
FINANCING COSTS		
Interest on bonds	117,069	118,229
Capitalized interest	(11,971)	(24,189)
Amortization of bond discount/premium and issuance expenses	(7,932)	(9,642)
Interest on other obligations	28,668	21,239
Net financing costs	125,834	105,637
NET REVENUES	415,400	362,450
OTHER COMPREHENSIVE INCOME (LOSS)	10,901	(29,279)
COMPREHENSIVE INCOME	$ 426,301	$ 333,171

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, 2006 and 2005

	2006	2005
	(Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net revenues	$ 415,400	$ 362,450
Adjustments to reconcile net revenues to net cash provided by operating activities		
Depreciation, amortization and accretion	325,274	313,727
Postretirement benefits expense	51,124	43,409
Amortization of provision for loss on long-term contracts	(13,280)	(13,280)
Amortization of net bond discount/premium and issuance expenses	(7,933)	(9,642)
Amortization of spent nuclear fuel storage	1,959	1,826
Loss (gain) on sale of capital assets	(8,124)	(7,610)
Decrease (increase) in —		
Fuel stocks and materials & supplies	(6,222)	(8,729)
Receivables, including unbilled revenues, net	31,807	(43,156)
Other assets	17,320	(50,497)
Increase (decrease) in —		
Accounts payable	(9,197)	45,350
Accrued taxes and tax equivalents	3,783	1,797
Accrued interest	1,407	(1,796)
Current liabilities	57,984	23,289
Deferred credits and other non-current liabilities	(51,098)	41,657
Net cash provided by operating activities	810,204	698,795
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to utility plant, net	(432,027)	(414,530)
Proceeds from disposition of assets	10,731	23,923
Purchases of investments	(391,162)	(336,822)
Sales and maturities of securities	304,404	202,636
Investment in Rate Stabilization Fund	(1,892)	(55,000)
Proceeds from sale of available-for-sale securities	97,041	—
Increase in segregated funds	(262,697)	(80,807)
Net cash used for investing activities	(675,602)	(660,600)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of revenue bonds	343,844	—
Proceeds from issuance of commercial paper	—	100,000
Repayment of long-term debt, including refundings	(312,144)	(171,334)
Other proceeds from financing activities	11,216	40,606
Net cash used for financing activities	42,916	(30,728)
NET INCREASE IN CASH AND CASH EQUIVALENTS	177,518	7,467
BALANCE AT BEGINNING OF YEAR IN CASH AND CASH EQUIVALENTS	288,429	280,962
BALANCE AT END OF YEAR IN CASH AND CASH EQUIVALENTS	$ 465,947	$ 288,429
SUPPLEMENTAL INFORMATION		
Cash paid for interest (Net of capitalized interest)	$ 132,359	$ 117,075
Non-cash financing activities		
Loss on bond retirement	$ (1,951)	$ —

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 and assets of the Association, including its obligations 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.

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 primarily 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 certain 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 4.51% and 4.42% were used in fiscal years 2006 and 2005 to calculate interest on funds used to finance construction work in progress, resulting in $12.0 million and $24.2 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:

	2006	2005
Average electric depreciation rate	3.51%	3.49%
Average irrigation depreciation rate	2.07%	2.44%
Average common depreciation rate	5.36%	5.52%

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 $12.7 million and $16.7 million as of April 30, 2006 and 2005, 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, 2006 and 2005 was $389.1 million and $373.4 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 adopted FASB Interpretation No. 47 (FIN 47), on April 30, 2006. FIN 47 clarifies the meaning of conditional asset retirement obligations under SFAS No. 143, and provides further clarification of when sufficient information is available to provide a reasonable retirement obligation estimate. The District has evaluated existing asset retirement obligations as provided for under this new guidance and has determined that the liabilities recorded are sufficient at this time.

The District has identified retirement obligations for the Palo Verde Nuclear Generating Station (PVNGS), Navajo Generating Station (NGS), Four Corners Generating Station (Four Corners) and certain other assets. 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, 2006, is included below (in millions):

Balance, May 1, 2005	$198.5
Liabilities Incurred	(26.2)
Accretion Expense	11.7
Balance, April 30, 2006	$184.0

In accordance with regulations of the Nuclear Regulatory Commission, the District maintains a trust for the decommissioning of PVNGS. Decommissioning funds of $172.8 million and $150.1 million, stated at market value, as of April 30, 2006 and 2005, 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 $5.6 million and $33.5 million at April 30, 2006 and 2005, 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

In April 2005, the District transferred $55 million into the Rate Stabilization Fund (RSF) to be used in concert with the Fuel and Purchased Power Adjustment Mechanism (FPPAM) 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. A special Board meeting was held on March 30, 2006, at which the Board approved the transfer of the $55 million, plus

interest earnings back to the General Fund on May 1, 2006 to help cover undercollected fuel costs, thereby reducing the need for an upward increase in the FPPAM. (See Note (9) REGULATORY ISSUES, *The Changing Regulatory Environment,* for additional information on the FPPAM.)

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:

FIN No. 47, *"Accounting for Conditional Asset Retirement Obligations,"* clarifies the meaning of conditional asset retirement obligations under SFAS No. 143, and provides further clarification of when sufficient information is available to provide a reasonable retirement obligation estimate. The District adopted FIN No. 47 on April 30, 2006, and has evaluated existing asset retirement obligations as provided for under this new guidance and determined that the liabilities recorded are sufficient.

(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 cash flow 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 as assets or liabilities and 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, 2006 and 2005, the valuation of the District's energy risk management contracts resulted in an increase (decrease) in electric revenues of $9.0 million and ($4.9) million, respectively, and an increase (decrease) in fuel expenses of $33.5 million and ($40.1) million, respectively. The impact to combined net revenues for fiscal years 2006 and 2005 was an unrealized gain (loss) of ($24.5) million and $35.2 million, respectively. Accumulated net revenues and other comprehensive income (as a component of other comprehensive income) were unchanged as of April 30, 2006 and April 30, 2005. The following table summarizes the District's derivative-related assets and liabilities at April 30 (in thousands):

	2006	2005
Other Current Assets	$ 45,901	$ 65,485
Deferred Charges and Other Assets	50,323	65,915
Other Current Liabilities	(63,937)	(37,900)
Deferred Credits and Other Non-Current Liabilities	(38,976)	(82,398)
Net Asset	$ (6,689)	$ 11,102

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 $290.5 million and $142.7 million for fiscal years 2006 and 2005, respectively, but which did not impact net revenues or cash flows.

(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, 2004	$2,424,476	$(43,086)	$2,381,390
Net revenues	362,450	—	362,450
Minimum pension liability	—	(35,300)	(35,300)
Reclassification of realized loss to income			
Net unrealized gain on available-for-sale securities	—	6,021	6,021
BALANCE, April 30, 2005	$2,786,926	$(72,365)	$2,714,561
Net revenues	415,400	—	415,400
Minimum pension liability	—	41,400	41,400
Reclassification of realized gain to income	—	(55,162)	(55,162)
Net unrealized gain on available-for-sale securities	—	24,663	24,663
BALANCE, April 30, 2006	$3,202,326	$(61,464)	$3,140,862

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 $28.7 million and $6.0 million, and gross unrealized gain (loss) on debt funds of ($4.1) million and ($0.02) million, at April 30, 2006 and 2005, respectively. Accumulated Other Comprehensive Income (Loss) consists of minimum pension liability of ($73,300) and ($114,700), and net unrealized gain on available-for-sale securities of $11,836 and $42,335, at April 30, 2006 and 2005, respectively.

(5) Long-Term Debt:

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

	Interest Rate	2006	2005
Revenue bonds (mature through 2035)	4.0 - 6.0%	$2,213,584	$2,204,217
Unamortized bond (discount) premium		53,099	40,229
Total revenue bonds outstanding		2,266,683	2,244,446
Finance Lease	2.0 - 5.3%	282,680	282,680
Commercial paper	3.1 - 3.8%	475,000	475,000
Total long-term debt		3,024,363	3,002,126
Less — current portion		(131,346)	(274,778)
Total long-term debt, net of current portion		$2,893,017	$2,727,348

The annual maturities of long-term debt (excluding commercial paper and unamortized bond discount/premium) as of April 30, 2006, due in fiscal years ending April 30, are as follows (in thousands):

Calendar Year	Revenue Bonds	Finance Lease
2006	$ —	$ 16,300
2007	115,046	16,015
2008	136,023	17,780
2009	153,205	16,790
2010	115,855	19,950
2011	108,480	17,455
Thereafter	1,584,975	178,390
	$2,213,584	$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 are $146.7 million and $198.7 million of debt service related funds as of April 30, 2006 and 2005, respectively.

The District has $49.9 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, 2006 and 2005, the debt service coverage ratio was 2.42 and 2.39, respectively.

Interest and the amortization of the bond discount, premium and issue expense on the various issues results in an effective rate of 4.95% over the remaining term of the bonds.

The District has authorization to issue additional Electric System Revenue Bonds totaling $722 million principal amount and Electric System Refunding Revenue Bonds totaling $2.9 billion principal amount.

In September 2005, the District issued $327.1 million Electric System Revenue Bonds. $301.9 million of the net proceeds from these bonds are being used to fund distribution capital requirements and $43.7 million of the net proceeds were used to retire outstanding revenue bonds with an aggregate par amount of $41.0 million. The bond retirement is expected to reduce total debt payments over the life of the bonds by $5.2 million and is expected to result in present value savings of approximately $2.6 million. This transaction resulted in a net loss for accounting purposes of approximately $2.0 million, which was deferred and will be amortized over the life of the bonds to be refunded.

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 the Desert Basin Generating Station (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 $100 million Series C Commercial Paper. The issues have an average weighted interest rate to the District of 3.34%.

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, 2006.

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 management believes the District was in compliance at April 30, 2006.

(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):

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investments in marketable securities:				
Other investments	$ 45,000	$ 44,490	$ 35,765	$ 35,406
Segregated funds	756,662	755,957	621,518	622,100
Rate Stabilization Fund	56,892	56,892	55,000	55,000
Temporary investments	152,604	152,217	135,081	134,822
Long-term debt	$3,024,363	$3,054,834	$3,002,126	$3,143,934

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, 2006, the District's investments in debt securities have maturity dates ranging from May 2, 2006 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 Programs:

Defined Benefit Pension Plan and Other Postretirement 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 $60.0 million and $75.0 million in fiscal years 2006 and 2005, 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		Postretirement Benefits	
	2006	2005	2006	2005
Change in benefits obligation:				
Benefit obligation at beginning of year	$1,017,000	$ 889,000	$ 442,200	$ 392,700
Service cost	31,800	27,100	11,300	8,800
Interest cost	57,500	54,600	25,100	22,500
Amendments	—	—	200	—
Actuarial loss	24,500	82,200	45,600	30,400
Benefits paid	(34,100)	(35,900)	(13,700)	(12,200)
Benefit obligations at end of year	$1,096,700	$1,017,000	$ 510,700	$ 442,200
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 795,300	$ 670,000	$ —	$ —
Actual return on plan assets	107,700	76,200	—	—
Employer contributions	60,000	85,000	13,600	12,200
Benefits paid	(34,100)	(35,900)	(13,600)	(12,200)
Fair value of plan assets at end of year	$ 928,900	$ 795,300	$ —	$ —
Funded status	$ (167,800)	$ (221,700)	$(510,700)	$(442,200)
Unrecognized transition obligation	—	—	21,800	32,900
Unrecognized net actuarial loss	239,200	270,200	219,200	184,600
Unrecognized prior service cost	18,000	20,300	7,600	500
Post January 31 contributions	—	—	3,800	3,100
Net asset (liability) recognized	$ 89,400	$ 68,800	$(258,300)	$(221,100)
Amounts recognized in Combined Balance Sheets:				
Prepaid benefit cost	$ 89,400	$ 68,800	$ —	$ —
Additional minimum liability	(91,300)	(135,000)	—	—
Net additional minimum liability	(1,900)	(66,200)	—	—
Accrued benefit liability	—	—	(258,300)	(221,100)
Intangible asset	18,000	20,300	—	—
Accumulated other comprehensive income	73,300	114,700	—	—
Net asset (liability) recognized	$ 89,400	$ 68,800	$(258,300)	$(221,100)

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):

	2006	2005
Projected benefit obligation	$1,096,700	$1,017,000
Accumulated benefit obligation	930,800	861,500
Fair value of Plan assets	928,900	795,300

The District internally funds its other postretirement benefits obligation. At April 30, 2006 and 2005, $339.5 million and $253.9 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		Postretirement Benefits	
	2006	2005	2006	2005
Discount rate	5.75%	5.75%	5.75%	5.75%
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		Postretirement Benefits	
	2006	2005	2006	2005
Discount rate	5.75%	6.25%	5.75%	6.25%
Expected return on Plan assets	8.25%	7.75%	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% annual increase before attainment of age 65 and an 11% annual increase on and after attainment of age 65 in per capita costs of health care benefits were assumed during 2006; 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		Postretirement Benefits	
	2006	2005	2006	2005
Service cost	$ 31,800	$ 27,100	$11,300	$ 8,800
Interest cost	57,500	54,600	25,100	22,500
Expected return on Plan assets	(66,400)	(57,000)	—	—
Amortization of transition obligation	—	—	4,100	4,100
Recognized net actuarial loss	14,200	7,600	11,000	7,800
Amortization of prior service cost	2,300	2,500	100	100
Net periodic benefit cost	$ 39,400	$ 34,800	$51,600	$43,300

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	$ 6,000	$ (5,300)
Effect on postretirement benefit obligation	$75,600	$(67,000)

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	2006	2005
Equity Securities	65.0%	66.0%	65.8%
Debt Securities	25.0%	25.3%	25.2%
Real Estate	10.0%	8.7%	9.0%
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 $70 million to the Plan over the next valuation period.

Benefits Payments

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

2007	$ 37,820
2008	$ 40,271
2009	$ 43,573
2010	$ 47,383
2011	$ 51,154
2012 through 2016	$315,556

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 $11.2 million and $9.7 million during fiscal years 2006 and 2005, 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 $28.6 million and $26.4 million for fiscal years ended April 30, 2006 and 2005, 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 $2.7 million at April 30, 2006 and 2005, 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, 2006 (in thousands):

Generating Station	Ownership Share	Plant in Service	Accumulated Depreciation	Construction Work In Progress
Four Corners (NM) (Units 4 & 5)	10.00%	$ 105,554	$ (94,064)	$ 4,694
Mohave (NV) (Units 1 & 2)	20.00%	131,804	(129,263)	—
NGS (AZ) (Units 1, 2 & 3)	21.70%	348,066	(271,056)	10,658
Hayden (CO) (Unit 2)	50.00%	116,089	(84,639)	1,059
Craig (CO) (Units 1 & 2)	29.00%	267,561	(163,919)	1,631
PVNGS (AZ) (Units 1, 2 & 3)	17.49%	1,252,081	(877,354)	28,714
		$2,221,155	$1,620,295	$46,756

The Mohave Generating Station (Mohave) ceased operations on December 31, 2005, pending installation of new environmental controls and resolution of other operating issues. (See Note (9), REGULATORY ISSUES, *Mohave Generating Station*, for a discussion of matters pertaining to Mohave.) There remains approximately $2.5 million in net plant value at Mohave for the Switchyard and Transmission Line still used to route power to other inter-tied systems.

(9) 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. At this time, the Commission has taken no action to modify its electric competition rules to address the ruling of the Court of Appeals.

In 1996, the Federal Energy Regulatory Commission (FERC), which regulates the wholesale electric utility industry under the authority of various statutes, issued Orders 888 and 889 requiring transmitting "public utilities" (as defined in the Federal Power Act), 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 historically has complied with these requirements voluntarily. The Energy Policy Act of 2005 (the "Energy Policy Act") expanded FERC jurisdiction by granting FERC discretionary authority to regulate the non-rate terms and conditions, and to a lesser extent, rates, under which unregulated transmitting utilities (including the District) provide wholesale transmission services. The Energy Policy Act explicitly prohibits FERC from requiring unregulated transmitting utilities to take actions that would violate a private activity bond rule. The extent to which FERC will exercise its authority over unregulated transmitting utilities is unknown at this time. However, FERC has initiated a number of regulatory actions that could affect the District's transmission and wholesale sales activities including a Notice of Proposed Rule-Making to revise and update Order 888. The District is monitoring these actions but does not expect them to result in significant adverse impacts on its operations.

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. In May 2002, the District implemented a Fuel & Purchased Power Adjustment Mechanism (FPPAM) to allow for semi-annual rate adjustments to recover increases in actual fuel costs. The District has had several increases in the price of fuel and purchased power since the FPPAM was implemented. (See Note (2) SIGNIFICANT ACCOUNTING POLICIES, *Rate Stabilization Fund*, for additional information.) In June 2004, the District introduced a Transmission Cost Adjustment Factor (TCAF) to recover costs the District would incur if the District were required to participate in regional transmission organizations. To date, no costs have been incurred or recovered through the TCAF.

On October 3, 2005 the District Board approved a 2.9% system average price increase beginning November 1, 2005. The increase was needed to help fund a portion of the Capital Improvement Program. The increase is expected to generate annual revenues of $55.8 million.

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.

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 Mohave entered into a settlement with the Sierra Club, the Grand Canyon Trust, and the National Parks Conservation Association, that required the installation of certain pollution abatement equipment by the end of 2005 to continue operating as a coal-fired electric generating facility. (See Note (11) CONTINGENCIES, *Air Quality*, for additional information on air quality issues.) In addition, the initial term of the agreement with Peabody Western Coal Company (Peabody) to supply coal to Mohave expired at the end of 2005 and the Hopi Tribe demanded that the pumping of water from the Navajo Aquifer 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 suspended operations at the end of 2005. The Mohave Participants, the Navajo Nation, the Hopi Tribe and Peabody have been participating in mediation for the right to use an alternative source of water for the mine and the slurry pipeline and to resolve other pending issues. However, Southern California Edison Company (SCE), operating agent for Mohave, has advised the District that it does not intend to proceed with efforts to extend the life of Mohave. The District will evaluate the impact, if any, of SCE's recent decision on the District's effort to extend Mohave operations. (See Note (11), CONTINGENCIES, *Black Mesa Litigation*, for a discussion of other related issues.) The District has included approximately $211.3 million in its Capital Improvement Program to cover the costs of such equipment or alternate resources, if necessary. Although the parties have been 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 reasonable terms for the supply of coal and water, the Board authorized the recovery of the balance of the District's investment in Mohave in its revenue requirements prior to the closure 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 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):

	2006	2005
Bond defeasance regulatory asset	$ 90,818	$ 93,023
Mohave Generating Station regulatory asset	75,406	78,006
Spent nuclear fuel storage regulatory asset	21,842	22,210
Derivatives market valuation	50,323	65,915
Pension intangible asset	18,001	20,300
Other	49,931	42,819
	$306,321	$322,273

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):

	2006	2005
Asset retirement obligation	$183,965	$198,450
Accrued postretirement benefit liability	258,065	221,100
Additional pension minimum liability	1,890	66,200
Accrued decommissioning costs	5,597	33,527
Provision for contract losses	66,339	79,619
Derivatives market valuation	38,976	82,398
Accrued spent nuclear fuel storage	24,245	24,486
Accrued Environmental Issues	78,511	76,959
Other	62,261	57,335
	$719,849	$840,074

(10) 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 2006 and 2005. 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 2007-2012 time period, the District estimates capital expenditures of approximately $5.0 billion. Major construction projects include construction of an additional unit at Springerville Generating Station, final completion of the Santan Generating Station, a new transmission line in the Southeast Valley, 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 2011, and $19.6 million thereafter. Of the total obligation, $25.2 million annually through fiscal year 2011 and $10.5 million thereafter are unconditionally payable regardless of the availability of power. Payments under these contracts totaled $91.5 million and $86.3 million in fiscal years 2006 and 2005, 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 $38.2 million annually through fiscal year 2011 and $1.9 million thereafter. Total payments under these two contracts, including the minimum payments, were $68.4 million and $66.4 million in fiscal years 2006 and 2005, 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 2006 and 2005. The remaining liability at April 30, 2006 of $66.3 million is included in deferred credits and other non-current liabilities in the Combined Balance Sheets.

In addition, beginning in the summer of 2006, the District will have 100 MW of capacity from Springerville Generating Station Unit 3, being developed by Tri-State Generation and Transmission Association, pursuant to a 30-year power purchase agreement.

Fuel Supply

At April 30, 2006, minimum payments under long-term coal supply contract commitments are estimated to be $173.2 million in fiscal year 2007, $161.3 million in fiscal year 2008, $161.3 million in fiscal year 2009, $161.3 million in fiscal year 2010, $162.3 million in fiscal year 2011 and $539.1 million thereafter.

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 the 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 Generation and Transmission Association, Inc. Unit 3 is anticipated to be placed in service in July 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 its wholly-owned subsidiary, Springerville Four. The District has determined to build Unit 4 and expects it to be in service by the end of calendar year 2009. Construction plans and financing have not been finalized yet. UniSource's affiliate, Tucson Electric Power Company, will operate both units.

(11) 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 $15.0 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 $7.9 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. The facility stored its first cask in March 2003. Forty-one casks are now stored on site.

The District's share of on-site interim storage at PVNGS is estimated to be $33.1 million for costs to store spent nuclear fuel from inception of the plant through fiscal year-end 2006, and $2.8 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 Peabody, Southern California Edison Company (operating agent for Mohave), the District (operating agent for NGS) and certain individual defendants, induced the United States to breach its fiduciary duty to the Navajo Nation, and violated federal racketeering statutes. The lawsuit arises out of negotiations culminating in 1987 with amendments to the coal leases and related agreements. The suit alleges $600.0 million in damages. The plaintiffs also seek treble damages against the defendants, 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. The claims of both the Navajo Nation and the Hopi Tribe were dismissed in their entirety with respect to the District, but the dismissal is appealable.

On February 9, 2005, the U.S. District Court granted a motion to stay the litigation until further order of the court. The parties 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 suit 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 under certain specific statutes 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 for further proceedings consistent with its opinion. Instead of dismissing the case, the Court of Appeals remanded the case to the Court of Federal Claims and ordered that court to determine whether 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 leases (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 leases.

As for the Mohave fees, the District has been dismissed from the litigation and awarded its attorney's fees. On appeal, however, the case was remanded to determine whether the District should remain in the lawsuit.

The Mohave Participants and Peabody executed a settlement agreement pursuant to which Peabody granted the Mohave Participants a waiver for fees incurred prior to January 2006. However, as described above, the lawsuit for fees arising after December 2005 continues.

Peabody's claims against the NGS Participants were dismissed. Peabody has appealed 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 the District relating to liability issues associated with the Navajo Nation Lawsuit, alleged breach of the NGS Coal Supply Agreement, 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 Black Mesa litigation 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 may be 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, but initial soil vapor investigations indicate some contamination on site. Further soil and groundwater investigations will take place during 2006. 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 would have required the installation of new pollution control equipment. As part of this initiative, the District received four (4) 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). In March 2004, the District entered into negotiations with the EPA 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 by December 2007.

The USFWS designated "critical habitat" for one of the species affected by SRP reservoir operations, the Southwestern Willow Flycatcher. The final designation does not encompass lands in or near the SRP reservoirs.

Air Quality

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 were required to 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 $1 billion, of which the District's share would be $211.3 million. These costs are included in capital contingencies portion of the 2007-2012 Improvement Program. However, as discussed in Note (10) REGULATORY ISSUES, *Mohave Generating Station*, 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.

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. Although the prospect for new Clean Air Act legislation in 2006 is low, as a result of the legislative and regulatory initiatives, the District is planning emission reductions at its coal-fired power plants.

The EPA issued final regulations for the control of mercury emissions from coal-fired utility boilers in May 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 regulations give states until November 2006 to either adopt the federal programs, as described in the final EPA regulations, or establish an alternative regulatory program. Arizona has not yet decided whether to opt into the federal program or establish its own program under the CAA. The specific level of reduction and compliance cost will not be known until the state finalizes its regulatory program.

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 emissions 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.

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.

Natural Gas Supply

The District had a contract with El Paso Natural Gas Company for the transportation of natural gas on a full-requirements basis. FERC converted the full requirements contract to a contract with monthly limits. A Phoenix area shipper, whose full-requirements contract was also converted, asked FERC to reallocate transportation costs among all of the Phoenix area shippers. FERC has denied this request. The shipper may appeal the decision and if successful, the approximate impact to the District could be as much as $20 million.

Proposition 200

In November 2004, Arizona voters approved Proposition 200, Arizona Taxpayer and Citizen Protection Act (Prop. 200), which, among other things, requires state and local government employees to verify the immigration status of people applying for certain "public benefits" and to report violators to immigration authorities. The Arizona Attorney General issued an opinion in 2004 supporting a narrow interpretation of the public benefits subject to this requirement. In November 2004, a group called "Yes on Proposition 200" filed suit against the State of Arizona (the State) in the Maricopa County Superior Court arguing that the covered benefits were much broader. The court ruled in favor of the State and the matter was appealed to the Arizona Court of Appeals where it has been under advisement since January 2006. As a non-tax supported agricultural improvement district, the District does not believe that it is subject to this aspect of Prop. 200. However, if it were found to apply to the District and if "Yes on Proposition 200" is successful in its appeal, the District employees could have to verify immigration status of electric customers prior to providing service.

Prop. 200 also required that voters provide identification at the polls. The District implemented this requirement effective with its April 2006 elections. Recently, Hispanic organizations filed a lawsuit seeking injunctions against implementation of voter identification requirements enacted pursuant to Prop. 200. The District has received the approval of the U.S. Department of Justice of its voter identification requirements as has the State. The District is not a party to the recent lawsuit and no one is seeking to enjoin application of the voter identification requirements in District elections.

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 to the Arizona Court of Appeals. The Court of Appeals ruled in the District's favor on January 19, 2006. The ADOR filed a petition for review of this decision with the Arizona Supreme Court. If the Arizona Supreme Court accepts the petition and overturns the Court of Appeals decision, the District would be liable for approximately $13.8 million plus interest for fiscal years 2003 (four 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 rate of 25% that was in effect prior to calendar year 2006 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 affect only four months of the District's fiscal year 2006. Fiscal year 2007 will be the first full fiscal year for the District, with a continual reduction through fiscal year 2016, when the assessment ratio reaches 20%. The legislation reducing the assessment ratio to 20% is expected to produce a cumulative savings of approximately $1.5 million per year.

California Energy Market Issues

Numerous FERC proceedings are addressing various aspects of the California energy market "crisis" of 2000 through 2001. Several of these proceedings involve potential refunds. Because the District bought from and sold power to 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 $18.8 million in refunds to date.

On March 17, 2006, the three California public utilities and the California Energy Oversight Board (CA Parties) filed lawsuits in California federal court against numerous public power utilities, including the District, that made energy sales into the California market in 2000 and 2001. The CA Parties' Notice of Claim preceding this lawsuit alleged estimated damages of $62.3 million without consideration of offsets due to the District. Additionally, on December 30, 2005, the Project received a Notice of Claim from the California Attorney General and the California Department of Water Resources with similar allegations and alleged damages of $8.5 million without consideration of offsets due to the District. No lawsuit on this Notice was filed. The District believes it has offsets as a net buyer in the California Power Market which exceed the amount of the claims asserted against it. The CA Parties, as well as the California Attorney General and the California Department of Water Resources, have executed a stand-still agreement with the District that

resulted in a dismissal of the claims against the District, without prejudice, and precludes filing of litigation by the California Attorney General and the California Department of Water Resources.

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.

In 2004, 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, sequester 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]

July 13, 2006

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

$296,000,000
Salt River Project
Electric System Revenue Bonds,
2006 Series A

The 2006 Series A Bonds consist of bonds bearing interest at fixed rates. The 2006 Series A Bonds are dated as shown on the inside front cover of the Official Statement dated June 29, 2006 relating to the 2006 Series A Bonds, mature and bear interest at the times, in the manner and upon the terms provided therein and in the Resolutions (as hereinafter defined). The 2006 Series A Bonds are subject to redemption prior to maturity as provided in the Resolutions.

We have also examined the form of said 2006 Series A Bonds.

We are of the opinion that such proceedings and proofs show lawful authority for the issuance and sale of the 2006 Series A Bonds pursuant to the Constitution and statutes of the State of Arizona, including particularly Title 48, Chapter 17, Article 7, 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 June 29, 2006, entitled "Resolution Authorizing The Issuance And Sale Of $296,000,000 Salt River Project Electric System Revenue Bonds, 2006 Series A" (collectively, the "Resolutions"), all duly adopted by the District and that the 2006 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 2006 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 2006 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 2006 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 2006 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]

July 13, 2006

Board of Directors
Salt River Project Agricultural
Improvement and Power District
Tempe, Arizona 85281

Salt River Project Agricultural Improvement and Power District
$296,000,000 Electric System Revenue Bonds, 2006 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 $296,000,000 aggregate principal amount of Electric System Revenue Bonds, 2006 Series A (the "2006 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 $296,000,000 Salt River Project Electric System Revenue Bonds, 2006 Series A adopted by the District on June 29, 2006 (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 2006 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 2006 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 2006 Series A Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issue of the 2006 Series A Bonds. The District has covenanted to comply with the provisions of the Code applicable to the 2006 Series A Bonds and has covenanted not to take any action or permit any action that would cause the interest on the 2006 Series A Bonds to be included in gross income under Section 103 of the Code applicable to the 2006 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.

We are of the opinion that, under existing law and assuming compliance with the tax covenants described herein, interest on the 2006 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 2006 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 2006 Series A Bonds is exempt from income taxes imposed by the State of Arizona.

Except as stated in the preceding two paragraphs, we express no opinion as to any other Federal or state tax consequences of the ownership or disposition of the 2006 Series A Bonds. Furthermore, we express no opinion as to any Federal, state or local tax law consequences with respect to the 2006 Series A Bonds, or the interest thereon, if any action is taken with respect to the 2006 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

$296,000,000
Salt River Project Electric System Revenue Bonds, 2006 Series A

THIS CONTINUING DISCLOSURE AGREEMENT ("Disclosure Agreement"), dated as of July 13, 2006 by and between the Salt River Project Agricultural Improvement and Power District (the "District"), an agricultural improvement district duly organized and existing under Title 48, Chapter 17, Article 7 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 $296,000,000 Salt River Project Electric System Revenue Bonds, 2006 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 June 29, 2006 (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 Disclosure 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

"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 June , 2006 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 Disclosure 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 Disclosure 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, 2007:

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 Disclosure 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 Disclosure 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 Disclosure 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 Disclosure 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 Disclosure 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 Disclosure Agreement shall not constitute an Event of Default under the Resolution.

Section 6. Parties in Interest

This Disclosure 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 Disclosure 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 Disclosure 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 Disclosure 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 Disclosure 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 Disclosure 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 Disclosure 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 Disclosure 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 Disclosure 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 DISCLOSURE 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 Disclosure 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 Disclosure 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 Disclosure 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 Disclosure 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: _____

U.S. BANK NATIONAL ASSOCIATION
as Trustee

By: _____

Name: _____

Title: _____

APPENDIX E — Book-Entry Only System

General

Beneficial ownership interests in the 2006 Series A Bonds will be available in book-entry form only. Purchasers of beneficial ownership interests in the 2006 Series A Bonds will not receive certificates representing their interests in the 2006 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 2006 Series A Bonds. The 2006 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 2006 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 2006 Series A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2006 Series A Bonds on DTC's records. The ownership interest of each actual purchaser of each 2006 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 2006 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 2006 Series A Bonds, except in the event that use of the book-entry system for the 2006 Series A Bonds is discontinued.

To facilitate subsequent transfers, all 2006 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 2006 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 2006 Series A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2006 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.

Redemption notices shall be sent to DTC. If less than all of the 2006 Series A Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such 2006 Series A Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2006 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 2006 Series A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2006 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 2006 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 2006 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 2006 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 2006 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 2006 Series A Bonds can be effected only through DTC, Direct Participants and Indirect Participants, the ability of a Beneficial Owner to pledge 2006 Series A Bonds to persons or entities that do not participate in the DTC system, or otherwise to take actions in respect of the 2006 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 2006 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 2006 Series A Bonds is generally settled in clearing-house or next-day funds. In contrast, the 2006 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 2006 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 2006 Series A Bonds.

Exhibit M

STANDARD & POOR'S

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Salt River Project Agriculture Improvement & Power District, AZ

Credit Profile

US$296. mil Salt River proj elec sys rev bnds ser 2006 A due 01/01/2036	AA
Sale date: 30-JUN-2006	

AFFIRMED

$80.200 mil. Salt River Agri Imp & Pwr Dist Elec Sys Mini Bnds	AA/A-1+
$2.623.271 bil. Salt River Agri Imp & Pwr Dist elec sys rev bnds	AA
$30.000 mil. Salt River Agri Imp & Pwr Dist elec sys rev bnds ser 1992AB dtd 01/01/92 due 2007	AA/A-1+
$256.005 mil. Salt River Proj Agri Imp & Pwr Dist elec sys rfdg ser 1997A dtd 10/01/1997 due 01/01/1999-2011 2018 2020	AAA
$726.380 mil. Salt River Proj Agri Imp & Pwr Dist rfdg rev bnds ser 1993C dtd 10/01/1993 due 01/01/2017	AAA
OUTLOOK:	STABLE

Rationale

Standard & Poor's Ratings Services assigned its 'AA' rating to Salt River Project (SRP) Agricultural Improvement and Power District's proposed issuance of $296 million of electric system revenue bonds (2006 series A). Standard & Poor's also affirmed all outstanding ratings for SRP. The outlook is stable. Proceeds of the issuance will be used to fund the Phoenix public utility's sizable construction program.

SRP benefits from a strong business profile, which is a '3' on a 10-point scale, (with '1' being the strongest). Strengths that support credit quality include:

- A fuel and purchased power escalator that ensures that SRP regularly adjusts rates to reflect changes in fuel and purchased power costs;
- A power supply portfolio that consists of coal, hydro, and nuclear generation resources, although natural gas cost increases and operational problems with Palo Verde units are affecting fuel and purchased power costs;

RatingsDirect
Publication Date
June 21, 2006

A fast-growing local economy that is experiencing significant in-migration, resulting in a 5.9% increase in energy sales in fiscal 2006, making it one of the fastest-growing markets in the country; and

- No retail competition in Arizona at this time.

These strengths are tempered by the following credit concerns:

- Significant wholesale sales activity, which was 32% of overall sales and 22% of district revenues in fiscal 2006. This reliance can create volatility in revenues, although with its 2005 retail rate increases, SRP does not overly rely on wholesale revenues to meet debt service;
- A sizable capital program, which is expected to total about $4.8 billion from fiscals 2007-2012, up from the $3.9 billion forecast for fiscals 2006 through 2011; and
- Increasing exposure to natural gas markets as a result of strong growth in its service territory. About 29% of its fiscal 2006 (ended April 30, 2006) supply portfolio came from owned gas plant and gas-based power purchases.

SRP consists primarily of an electric system (the district), and the Salt River Valley Water Users' Association, which operates an irrigation system as an agent of the district.

SRP's fiscal 2006 (ended April 30) consolidated debt service coverage (DSC) was 2.0x, which was in line with the company's forecast but lower than the 2.6x achieved in fiscal 2005. (Standard & Poor's calculates debt service coverage based on SRP's consolidated, audited financial statements, whereas SRP's calculations are based on its bond indenture, which utilizes standalone results for the electric system, which are not audited. As a result, there are appreciable differences between SRP's and Standard & Poor's calculations.) A significant driver of lower coverage in fiscal 2006 is that SRP was at the peak of a self-imposed accelerated retirement of maturities associated with its transmission system. Principal and interest paid in fiscal 2006 was about $372 million, about $100 million more than SRP is expected to face in fiscal 2007. Fixed charge coverage, which includes all of SRP's obligations, was about 1.6x.

About 29% of SRP's fiscal 2006 power generation and purchases are from natural gas-fired resources. (This statistic includes SRP's wholesale requirements. To meet retail load, SRP's reliance is closer to 9% of the total retail supply portfolio.) At the end of its mandated retail rate freeze in June 2004, SRP left in place a 0.61 cents per kilowatt-hour charge formerly associated with a competition transition charge (CTC), ensuring that about 9.8% of its rate structure remained in place. It has also raised rates an additional approximately 4.4% since then. In fiscal 2006, it expensed about $40 million in higher fuel and purchased power costs that it did not collect in retail rates. It did so in a year in which DSC was slightly weaker than it has achieved historically. On May 5, 2006, SRP transferred approximately $57 million from its rate stabilization fund to offset anticipated fuel and purchase power cost increases during the summer of fiscal 2007.

Near-term operational challenges relate primarily to SRP's large construction program and to ensuring that its plants operate as expected, particularly this summer. SRP owns a 17.5% share of Palo Verde. Unit 1 has been offline since March 2006, and is currently undergoing repairs to correct vibrations in one of the unit's shutdown cooling lines. The operator, Arizona Public Service (APS; BBB-/Stable/A-3), expects the unit to return to service sometime in late June or early July. SRP has acquired replacement power to cover the expected repair period, but continued problems or delayed return to service could result in the public utility incurring additional costs to purchase replacement power during this summer. This week, Southern California Edison (SCE; BBB+/Stable/A-2) announced it will not pursue the return to service of the Mohave coal facility, of which SRP owns 316 MW of nameplate capacity. SRP is expected to require additional resources after 2010 (it has procured power through this period) to replace this lost capacity.

Major construction projects include the construction of Springerville No. 4, which SRP expects to bring online in late 2009, the final completion of the Santan plant, and a new transmission line in the Southeast Valley. SRP's financial performance is expected to be enhanced in future years, with the district expected to raise retail rates to achieve future DSC in the range of 2.5x. SRP's large capital program will also drive the need for higher DSC needed to generate cash flow to self-fund an approximately 50% of its $4.8 billion in expected investments (which includes about $1.3 billion in contingency funds). While the current capital program is up by about $1 billion from last year's financial plan, although through the acceleration of existing debt and retail rate increases, SRP expects to continue to improve its capital structure over the next five years to about 42% debt to total capitalization, relative to the levels of approximately 48%.

Short-term credit factors

SRP's CP is rated 'A-1+' and is supported by its large general fund balance and the stability of its regulated utility operations. Owing to management's practice of fully utilizing its CP capacity, which was increased in capacity by $100 million to $475 million in fiscal 2005, SRP's consolidated liquidity is restricted to its ample cash balances.

At April 30, 2006, cash and cash equivalents totaled $466 million, relative to $288 million reported at fiscal year-end 2005 (April 30). SRP's cash position has been assisted by retail rate increases imposed in 2005, as well as a strong year for wholesale sales. In addition, SRP holds temporary investments of $153 million, as of April 30, and it had at this date $57 million in rate stabilization funds, which it has since tapped. This level is well above SRP's target of maintaining a minimum general fund balance of $200 million. Cash, cash equivalents, and temporary investments result in about 124 days' cash on hand to meet expenses.

A revolver that expires in December 2009 with no term-out provisions backstops SRP's CP program. The board's policy is to use the CP program as a form of long-term borrowing, and SRP typically has the full amount drawn, rolling over balances as they mature. CP outstanding as of April 30, 2006, was $475 million. Due mostly to its CP program and a $75 million fixed-to-variable-interest rate swap expiring in 2009, SRP's variable-rate debt exposure is about 17%, which is high for a public power entity. Similarly, its non-amortizing debt is about 14% of its overall debt obligations.

Outlook

The stable outlook reflects Standard & Poor's expectation that DSC will remain in line with historic performance. The outlook is also conditioned on SRP continuing to raise retail rates sufficient to preclude an over-reliance on wholesale sales to attain adequate DSC levels. An improvement in the ratings or the outlook is not expected, despite SRP's plans to increase its DSC, because higher margins will be required to fund a large capital expenditure program and maintain equity. The ratings or the outlook could be lowered if financial performance deteriorates.

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The McGraw-Hill Companies

Rating Update: Salt River Agriculture Impr.& Power Dist., AZ

MOODY'S UPGRADES TO Aa1 SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT REVENUE BONDS; OUTLOOK STABLE

RATING ACTION AFFECTS SALT RIVER PROJECT'S $2.3 BILLION RATED OUTSTANDING DEBT

Electric Utilities
AZ

Opinion

NEW YORK, Jun 13, 2006 -- Moody's Investors Service has upgraded to Aa1 from Aa2 the credit rating on the outstanding $2.3 billion of revenue bonds of the Salt River Project Agricultural Improvement and Power District, Arizona. Moody's considered the following factors in the rating upgrade: lessened deregulation risk; SRP's strong self-regulated governance including its timely rate setting process; SRP's historical and forecasted competitive pricing plan; strong debt service coverage margins and sound financial liquidity; a significant competitive rate advantage;

demonstrated well-defined and diversified power resource plan which allows for the management of risk exposures such as the shutdown of Mohave Generating Station and debt ratios that continue to moderate.

Moody's will be publishing a more detailed report on SRP in June 2006 prior to SRP's upcoming bond sale

LEGAL SECURITY: Bonds are secured by pledge of and lien on the net revenues of the electric system.

INTEREST RATE DERIVATIVES: SRP has a $75 million fixed to floating rate swap. The SRP board has a defined oversight process and swap policy. SRP's rates are unregulated and increased interest costs could be included in a SRP rate action..

STRENGTHS:

*Effective strategic planning which has historically met the challenges of demand growth in the Phoenix service area

*Unregulated rate setting and demonstrated record of timely rate setting process to recover costs

*Average sales price is very competitive within the region

*Largely residential customer base with no dominant customers

*Sound financial margins, strong liquidity given its risks and below average and declining debt ratio

CHALLENGES:

*Cost pressures related to ownership of nuclear generation including security, waste storage and decommissioning

*Potential future cost pressures related to SRP's coal-fired generation facilities and continued compliance with the federal clean air act

*Mohave Generating Station water supply and coal issues

*Additional gas units at Santan Generating Station have increased SRP's exposure to natural gas price risk

Outlook

Moody's has a stable credit outlook on SRP's revenue bonds given the utility's strong management of its operations and power supply requirements.

What Could Change the Rating-UP: SRP is the highest rated U.S. public power electric utility.

What Could Change the Rating-DOWN: The rating could be revised downward should SRP lose its competitive advantage or if its strong financial ratios weaken below the level expected at its current rating level.

KEY FACTS:

Peak Demand, 2005: 6,669 MW

Total Debt Service Coverage, 2005: 2.39 times

SRP Energy Sources, 2005:

Coal: 43.8%

Gas and Oil: 18.1%

Nuclear: 14.5%

Long-term purchases: 11.6%

Debt Ratio, 1999: 72.9%

2005: 52.8%

DEBT STATEMENT as of April 30, 2006:

Electric System Revenue Bonds $2,244,445,000

Lease Purchase Obligations 282,680,000

Commercial Paper Notes 475,000,000

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