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BEFORE THE ARIZONA CORPORATION COMMISSION

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- 2 KRISTIN K. MAYES  
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- 3 GARY PIERCE  
Commissioner
- 4 SANDRA D. KENNEDY  
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- 5 PAUL NEWMAN  
Commissioner
- 6 BOB STUMP  
Commissioner

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ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL

Arizona Corporation Commission

DOCKETED

MAR 13 2009

DOCKETED BY	<i>[Signature]</i>
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7 IN THE MATTER OF THE APPLICATION )  
 8 OF SALT RIVER PROJECT AGRICULTURAL )  
 9 IMPROVEMENT AND POWER DISTRICT FOR )  
 10 AN ORDER AUTHORIZING ITS ISSUANCE )  
 11 OF REVENUE BONDS AND REFUNDING )  
 12 REVENUE BONDS )

DOCKET NO. E-02217A-06-0489,  
DECISION NO. 69422

**NOTICE OF SALE OF  
REVENUE BONDS  
(2009 Series A)**

14 TO THE HONORABLE ARIZONA CORPORATION COMMISSION:

15 On January 28, 2009, Salt River Project Agricultural Improvement and Power  
 16 District (the "District") issued \$744,180,000 of its Salt River Project Electric System Revenue  
 17 Bonds, 2009 Series A (the "2009 Series A Bonds"). Authority for \$384,004,710 of the 2009  
 18 Series A Bonds was derived from Decision No. 69422 of the Commission, dated April 16, 2007,  
 19 in Docket No. E-02217A-06-0489, authorizing the District to issue additional Revenue Bonds in  
 20 an amount not to exceed \$1,200,000,000 for construction purposes, as described therein.  
 21 Authority for \$93,750,000 of the 2009 Series A Bonds was derived from Decision No. 55209 of  
 22 the Arizona Corporation Commission (the "Commission"), dated September 18, 1986, in Docket  
 23 No. U-2217-86-127, authorizing the District to issue Revenue Bonds up to \$375,000,000 for  
 24 retirement of the District's Commercial Paper, as discussed therein. Authority for the remaining  
 25 \$266,425,290 of the 2009 Series A Bonds was derived from Decision No. 70611 of the  
 26 Commission, dated November 19, 2008, in Docket No. E-02217A-08-0159, authorizing the

1 District to issue additional Revenue Bonds in an amount not to exceed \$1,900,000,000 for  
2 construction purposes and to refund Commercial Paper, as described therein. A breakout of the  
3 Revenue Bonds issued pursuant to these three Decisions is attached hereto as Exhibit 1.

4 Decision Nos. 69422, 55209, and 70611 require that the District file with the  
5 Commission certain documents and information after issuance of any of the Revenue Bonds  
6 authorized thereby. In accordance with such orders, the District hereby submits the following  
7 documents in connection with its sale of the 2009 Series A Bonds:

8 1. A certified copy of the January 15, 2009, resolution of the Board of  
9 Directors of the District authorizing the sale of the 2009 Series A Bonds (Exhibit 2);

10 2. A certified copy of the January 15, 2009, resolution of the Council of the  
11 District ratifying and confirming the sale of the 2009 Series A Bonds (Exhibit 3);

12 3. A copy of the January 15, 2009, Purchase Contract between the District  
13 and Goldman, Sachs & Co., as representative of the Purchasers (Exhibit 4);

14 4. A copy of the Official Statement, dated January 15, 2009, distributed in  
15 connection with the marketing and sale of the 2009 Series A Bonds (Exhibit 5); and

16 5. A copy of the Report of the Independent Financial Advisor dated January  
17 27, 2009, together with the Post-Pricing Book dated January 28, 2009, prepared by The PFM  
18 Group, describing the issuance and showing that the bonds were issued at competitive market  
19 rates (Exhibit 6).

20 These documents include, as requested, explanations and summaries of the transaction as well as  
21 details on the date of issuance, interest rates, maturities, amount of discount or premium,  
22 issuance expenses, and other pertinent information.

23 RESPECTFULLY submitted this 13<sup>th</sup> day of March 2009.

24 SALT RIVER PROJECT AGRICULTURAL  
25 IMPROVEMENT AND POWER DISTRICT

26 W. Gary Hull  
Salt River Project  
P.O. Box 52025, PAB207

Phoenix, AZ 85072-2025  
Telephone: (602) 236-3277  
Attorney for Applicant

By W. Gary Hull  
W. Gary Hull

The original and 13 copies hand delivered  
this 13<sup>th</sup> day of March 2009, to:

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With copies to:

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Carmel Hood  
Utilities Division, Compliance Section  
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1200 W. Washington St.  
Phoenix, AZ 85007

By Capt. L. Steady

**LIST OF EXHIBITS**

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- EXHIBIT 1            ATTRIBUTION OF 2009 SERIES A BONDS TO PRIOR  
DECISIONS OF THE COMMISSION**
- EXHIBIT 2            RESOLUTION OF THE DISTRICT'S BOARD OF DIRECTORS**
- EXHIBIT 3            RESOLUTION OF THE DISTRICT'S COUNCIL**
- EXHIBIT 4            PURCHASE CONTRACT**
- EXHIBIT 5            OFFICIAL STATEMENT FOR THE 2009 SERIES A BONDS**
- EXHIBIT 6            FINAL REPORT OF INDEPENDENT FINANCIAL ADVISOR  
AND POST-PRICING BOOK**

EXHIBIT 1

ATTRIBUTION OF 2009 SERIES A BONDS  
TO PRIOR DECISIONS OF THE COMMISSION

Commission Decision No.	Revenue Bonds Authorized	Previously Issued Bonds	2009 Series A Bonds	Remaining Authorization
55209	\$375,000,000	-0-	\$93,750,000 <sup>1</sup>	\$281,250,000
69422	\$1,200,000,000	\$815,995,290	\$384,004,710 <sup>2</sup>	-0-
70611	\$1,900,000,000	-0-	<u>\$266,425,290<sup>2</sup></u>	\$1,633,574,710
Total			<u>\$744,180,000</u>	

<sup>1</sup> Used for purposes of retiring Commercial Paper.

<sup>2</sup> Used for construction purposes.

**EXHIBIT 2**

**RESOLUTION OF THE DISTRICT'S BOARD OF DIRECTORS**

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CERTIFICATE

I, TERRILL A. LONON, the duly appointed, qualified, and acting Corporate Secretary of the Salt River Project Agricultural Improvement and Power District (the District) a special district under Title 48 of the Arizona Revised Statutes, DO HEREBY CERTIFY that attached hereto is a true and correct copy of a resolution entitled: **“RESOLUTION AUTHORIZING THE ISSUANCE AND SALE OF \$744,180,000 SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS, 2009 SERIES A OF THE SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, AND PROVIDING FOR THE FORM, DETAILS AND TERMS THEREOF”** as adopted by a majority of the SRP Board of Directors at a meeting held on January 15, 2009, 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 10<sup>th</sup> day of March 2009.



A handwritten signature in cursive script that reads "Terrill A. Lonon". The signature is written in black ink and is positioned above a horizontal line.

Terrill A. Lonon  
Corporate Secretary

**RESOLUTION AUTHORIZING THE ISSUANCE AND SALE OF \$744,180,000 SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS, 2009 SERIES A OF THE SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, AND PROVIDING FOR THE FORM, DETAILS AND TERMS THEREOF**

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

**WHEREAS**, the Arizona Corporation Commission (the "Commission") has approved by its Opinions and Orders described in **Exhibit A** hereto the issuance of \$744,180,000 2009 Series A Bonds to finance the costs of acquisition and construction of various capital improvements and additions to the District's Electric System and to pay certain costs of issuance of the 2009 Series A Bonds; and

**WHEREAS**, the Board of Directors has determined to use the construction authorization applicable to the Commission's Opinions and Orders described in **Exhibit A** hereto to issue its 2009 Series A Bonds and to use a portion of the proceeds of the 2009 Series A Bonds to finance said capital improvements and additions to its Electric System and to pay certain costs of issuance of the 2009 Series A Bonds; and

**WHEREAS**, the Board of Directors has determined to use a portion of the proceeds of the 2009 Series A Bonds to retire \$100,000,000 of the District's Promissory Notes, Series B (Commercial Paper); and

**WHEREAS**, the Board of Directors has been presented with a Purchase Contract, dated January 15, 2009 (the "Purchase Contract"), by and among the District and a group of purchasers represented by and including Goldman, Sachs & Co., Morgan Stanley & Co. Incorporated, J.P. Morgan Securities Inc. and Citi (hereinafter collectively referred to as the "Purchasers"), providing for the purchase of \$744,180,000 2009 Series A Bonds; and

**WHEREAS**, the Board of Directors desires to sell \$744,180,000 2009 Series A Bonds to the Purchasers pursuant to the terms and conditions of said Purchase Contract to provide moneys to carry out the aforesaid purposes of the District; and

**WHEREAS**, Title 48, Chapter 17, Article 7, of the Arizona Revised Statutes requires that the private sale of Bonds be subject to prior approval by a majority of the members of the Council of the District and that no Bonds be issued unless the Council, by resolution adopted by an affirmative vote of a majority of its members, ratifies and

confirms the amount of the Bonds authorized to be issued by the Board of Directors (together the "Council Approval and Ratification Requirement"); and

**WHEREAS**, the Board of Directors desires to approve the preparation, distribution and execution of an Official Statement for the 2009 Series A Bonds; and

**WHEREAS**, the Board of Directors desires to authorize the proper officers of the District to take all necessary steps to complete the issuance, sale and delivery as aforesaid of the \$744,180,000 2009 Series A Bonds;

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

**SECTION 1. Series Resolution.** This series resolution (hereinafter referred to as "Resolution Authorizing the Issuance and Sale of \$744,180,000 2009 Series A Bonds" or as "2009 Series A Resolution") is adopted in accordance with the provisions of the Resolution and pursuant to the authority contained in Title 48, Chapter 17 of the Arizona Revised Statutes, as amended.

**SECTION 2. Definitions.** This 2009 Series A Resolution and the Resolution are herein collectively referred to as the "Resolutions." All terms which are defined in the Resolution shall have the same meanings, respectively, in this 2009 Series A Resolution, as such terms are given in the Resolution. In this 2009 Series A Resolution:

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

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

"Information Services" shall mean Financial Information, Inc.'s Daily Called Bond Service, 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302; Kenny Information Service's Called Bond Service, 65 Broadway, 16th Floor, New York, New York 10006; Moody's Municipal and Government, 99 Church Street, 8th Floor, New York, New York 10007, attention: Municipal News Report; and Standard & Poor's Called Bond Record, 25 Broadway, New York, New York 10004; or to such other addresses and/or such other national information services providing information or disseminating notices of redemption of obligations similar to the 2009 Series A Bonds.

"Interest Payment Date" shall mean each January 1 and July 1 of each year so long as 2009 Series A Bonds are Outstanding, commencing July 1, 2009.

"2009 Series A Bonds" shall mean the Bonds authorized by Section 3 hereof.

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

"Securities Depositories" shall mean The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax - (516) 227-4039 or 4190; Midwest Securities Trust Company, Capital Structures-Call Notification, 440 South LaSalle Street, Chicago, Illinois 60605, Fax - (312) 663-2343; or to such other addresses and/or such other registered securities depositories holding substantial amounts of obligations of types similar to the 2009 Series A Bonds.

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

**SECTION 3. Principal Amount, Designation, Series and Allocations.** Pursuant to the provisions of the Resolutions, the District is hereby authorized to issue and sell Bonds in the aggregate principal amount of \$744,180,000. Such Bonds shall be designated as "Salt River Project Electric System Revenue Bonds, 2009 Series A." In order to comply with the Opinions and Orders of the Commission, the District reserves the right, and shall, if necessary to comply with such Opinions and Orders, change the allocations to such Opinions and Orders as set forth in Exhibit A hereto.

**SECTION 4. Purpose.** The purposes for which the 2009 Series A Bonds are issued are: 1) to provide moneys for the costs of acquisition and construction of various capital improvements and additions to the District's Electric System, including reimbursing the District for amounts spent relating thereto; 2) to provide moneys for the retirement of \$100,000,000 of the District's Promissory Notes, Series B (Commercial Paper); and 3) to pay certain costs of issuance of the 2009 Series A Bonds.

**SECTION 5. Dates, Maturities and Interest.** (a) The 2009 Series A Bonds shall be dated, and shall bear interest from, their date of delivery.

(b) The 2009 Series A Bonds shall bear interest at the following rates per annum and shall mature on January 1 in the following years in the following principal amounts:

Year of Maturity	Principal Amount	Interest Rate
2011	\$ 6,095,000	3.000 %
2011	12,655,000	5.000
2012	5,560,000	2.750
2012	6,335,000	4.000
2012	6,855,000	5.000
2013	2,180,000	2.750
2013	7,995,000	4.000
2013	8,575,000	5.000
2014	2,700,000	2.750
2014	8,380,000	3.000
2014	3,480,000	4.000

2014	4,190,000	5.000	
2015	3,615,000	3.000	
2015	7,695,000	4.000	
2015	7,440,000	5.000	
2016	\$ 4,185,000	3.000	%
2016	4,850,000	4.000	
2016	9,140,000	5.000	
2017	750,000	3.250	
2017	7,310,000	4.000	
2017	4,950,000	5.000	
2018	7,860,000	3.250	
2018	8,985,000	4.000	
2018	8,605,000	5.000	
2020	3,660,000	3.500	
2020	14,920,000	5.000	
2021	2,770,000	3.800	
2021	16,685,000	5.000	
2022	6,545,000	4.000	
2022	13,850,000	5.000	
2023	3,490,000	4.200	
2023	17,850,000	5.000	
2024	990,000	4.300	
2024	21,405,000	5.000	
2025	23,480,000	5.000	
2026	24,715,000	5.000	
2027	25,830,000	5.000	
2028	27,355,000	5.000	
2029	2,775,000	4.700	
2029	25,485,000	5.000	
2030	30,580,000	5.000	
2031	30,290,000	4.875	
2032	35,410,000	5.000	
2033	29,880,000	5.000	
2034	45,980,000	5.000	
2039	189,850,000	5.000	

(c) Interest on the 2009 Series A Bonds shall be payable on July 1, 2009, and semiannually thereafter on January 1 and July 1 of each year to maturity, to the registered owner of the 2009 Series A Bonds as of the immediately preceding December 15 or June 15.

**SECTION 6. Denominations, Numbers and Letters.** The 2009 Series A Bonds shall be issued only as fully registered bonds without coupons, subject to the provisions regarding a book-entry only system as described in Section 7 hereof, and the 2009 Series A Bonds shall be issued in the denomination of \$5,000, or any integral multiple thereof, in all cases not exceeding the aggregate principal amount of 2009 Series A Bonds maturing on the maturity date of the bond for which the denomination is to be specified.

**SECTION 7. Book Entry 2009 Series A Bonds.** (a) Beneficial ownership interests in the 2009 Series A Bonds will be available in book-entry form only. Purchasers of beneficial ownership interests in the 2009 Series A Bonds will not receive certificates representing their interests in the 2009 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 2009 Series A Bonds. The 2009 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 (or, if applicable, each interest rate within a maturity) of the 2009 Series A Bonds, in the aggregate principal amount of such maturity (or, if applicable, such interest rate within a maturity), and will be deposited with DTC.

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

Purchases of the 2009 Series A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2009 Series A Bonds on DTC's records. The ownership interest of each actual purchaser of each 2009 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 2009 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 2009 Series A Bonds, except in the event that use of the book-entry system for the 2009 Series A Bonds is discontinued.

To facilitate subsequent transfers, all 2009 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 2009 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 2009 Series A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2009 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 2009 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 2009 Series A Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2009 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 2009 Series A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2009 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 2009 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 2009 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 2009 Series A Bond certificates will be printed and delivered.

Beneficial Owners will not be recognized by the Trustee as registered owners for purposes of this 2009 Series A Resolution, and Beneficial Owners will be permitted to exercise the rights of registered owners only indirectly through DTC and the Direct and Indirect Participants.

(b) In the event definitive 2009 Series A Bonds are issued, the provision of the Resolution, including but not limited to Sections 304 and 305 of the Resolution, shall

apply to, among other things, the transfer and exchange of such definitive 2009 Series A Bonds and the method of payment of principal of and interest on such definitive 2009 Series A Bonds. Whenever DTC requests the District and the Trustee to do so, the Trustee and the District will cooperate with DTC in taking appropriate action after reasonable notice (i) to make available one or more separate definitive 2009 Series A Bonds evidencing the Bonds to any DTC participant having 2009 Series A Bonds credited to its DTC account or (ii) to arrange for another securities depository to maintain custody of definitive 2009 Series A Bonds.

(c) Notwithstanding any other provision of the Resolution to the contrary, so long as any 2009 Series A Bond is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to the principal of and interest on such 2009 Series A Bond and all notices with respect to such 2009 Series A Bond shall be made and given to Cede & Co., as nominee of DTC, as provided in the Representation Letter. All of the provisions of the Representation Letter shall be deemed to be a part of this 2009 Series A Resolution as fully and to the same extent as if incorporated verbatim herein, with such changes, amendments, modifications, insertions, omissions or additions, as may be approved by the President, or the Vice President, or the General Manager, or the Associate General Manager, Commercial & Customer Services and Chief Financial Executive, or the Corporate Treasurer or any Assistant Treasurer of the District. Execution by said President, or Vice President, or General Manager, or Associate General Manager, Commercial & Customer Services and Chief Financial Executive, or Corporate Treasurer or any Assistant Treasurer of the Representation Letter shall be deemed to be conclusive evidence of approval of any such changes, amendments, modifications, insertions, omissions or additions.

(d) In connection with any notice or other communication to be provided to Bondholders pursuant to the Resolutions by the District or the Trustee with respect to any consent or other action to be taken by Bondholders, the District or the Trustee, as the case may be, shall, to the extent possible, establish a record date for such consent or other action and give DTC notice of such record date not less than 15 calendar days in advance of such record date.

**SECTION 8. Paying Agent.** Subject to the provisions of Section 7 hereof, the principal of the 2009 Series A Bonds shall be payable at the designated corporate trust office of the Trustee under the Resolutions (or at the principal office of any successor Trustee appointed pursuant to the Resolutions) or at any other place which may be provided for such payment by the appointment of any other Paying Agent or Paying Agents as authorized by the Resolutions. The Trustee is hereby appointed the Paying Agent for the 2009 Series A Bonds. The interest on the 2009 Series A Bonds will be payable by check mailed by the Trustee on each Interest Payment Date.

**SECTION 9. Redemption Terms and Prices.** (a) Mandatory Redemption - 2009 Series A Bonds. The 2009 Series A Bonds maturing on January 1, 2039 shall be subject to redemption prior to maturity, upon random selection within a maturity by the Trustee, by operation of the Debt Service Fund to satisfy the Sinking Fund Installments

set forth in Section 10 hereof, on and after January 1, 2035, at 100% of the principal amount of the 2009 Series A Bonds to be redeemed, together with accrued interest up to but not including the redemption date.

(b) Optional Redemption - 2009 Series A Bonds. The 2009 Series A Bonds maturing on and after January 1, 2020 are subject to redemption at the option of the District prior to maturity, at any time on or after January 1, 2019, as a whole or in part by random selection by the Trustee within a maturity with the same coupon from maturities selected by the District, at the Redemption Price of 100% of the principal amount of the 2009 Series A Bonds or portions thereof to be redeemed, together with accrued interest up to but not including the redemption date.

For so long as book entry only system of registration is in effect with respect to the 2009 Series A Bonds if less than all of the 2009 Series A Bonds of a particular maturity (and, if applicable, interest rate within a maturity) is to be redeemed, the particular Beneficial Owner(s) to receive payment of the redemption price with respect to beneficial ownership interests in such 2009 Series A Bonds shall be selected by DTC and the Direct Participants and/or the Indirect Participants.

(c) Notice of Redemption. Notice to Bondholders of such redemption shall be given by mail to the registered owners of the 2009 Series A Bonds to be redeemed, postage prepaid, not less than 25 days nor more than 50 days prior to the redemption date. 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.

(d) Further Notice. In addition to the foregoing notice, further notice shall be given by the Trustee as set forth in this subsection (d), but no defect in said further notice nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of a call for redemption if notice thereof is given as prescribed in subsection (c) above. Each further notice of redemption given hereunder shall be dated and shall state: (i) the redemption date, (ii) the Redemption Price, (iii) if fewer than all Outstanding 2009 Series A Bonds are to be redeemed, the Bond numbers (and, in the case of partial redemption, the respective principal amounts) of the 2009 Series A Bonds to be redeemed, (iv) that on the redemption date the Redemption Price will become due and payable upon each such 2009 Series A Bond or portion thereof called for redemption, and that interest with respect thereto shall cease to accrue from and after said date, (v) the CUSIP numbers of the 2009 Series A Bonds to be redeemed, (vi) the place where such 2009 Series A Bonds are to be surrendered for payment of the Redemption Price, (vii) the original date of execution and delivery of the 2009 Series A Bonds; (viii) the rate of interest payable with respect to each 2009 Series A Bond being redeemed; (ix) the maturity date of each 2009 Series A Bond being redeemed; and (x) any other descriptive information needed to identify accurately the 2009 Series A Bonds being redeemed. Each further notice of redemption shall be sent, not less than 25 days nor more than 50 days prior to the redemption date, by electronic, telecopy, registered, certified or overnight mail to all Securities Depositories and to the Information Services. Upon the payment of

the Redemption Price of 2009 Series A Bonds being redeemed, each check or other transfer of funds, issued for such purpose shall, to the extent practicable, bear or indicate the CUSIP number identifying, by issue and maturity, the 2009 Series A Bonds being redeemed with the proceeds of such check or other transfer.

(e) Except with respect to the unredeemed portion of any 2009 Series A Bond being redeemed in part, neither the Trustee nor any agent of the Trustee shall be obligated to register the transfer or exchange of any 2009 Series A Bond during the 15 days preceding the date on which notice of redemption of a 2009 Series A Bond is to be given on any Bond that has been called for redemption except the unredeemed portion of any 2009 Series A Bond being redeemed in part.

**SECTION 10. Sinking Fund Installments.** (a) Sinking Fund Installments are hereby established for the 2009 Series A Bonds maturing on January 1, 2039 and bearing interest at the rate of 5.000%. Such Sinking Fund Installments shall become due on each of the dates set forth in the following table in the respective amounts set forth opposite such dates in said table:

Sinking Fund Payment Date ( <u>January 1</u> )	Principal <u>Amount</u>
2035	\$ 19,065,000
2036	40,935,000
2037	38,670,000
2038	41,180,000
2039 (final maturity)	50,000,000

(b) The Sinking Fund Installments may be satisfied by the District delivering to the Trustee, no later than 45 days in advance of the date of such Sinking Fund Installment, 2009 Series A Bonds of such maturities theretofore purchased or redeemed by the District otherwise than by operation of the sinking fund redemption provided for in this Section 10.

**SECTION 11. Application of the Proceeds of 2009 Series A Bonds.** In accordance with the Resolution, the proceeds of the 2009 Series A Bonds shall be applied simultaneously with the delivery of the 2009 Series A Bonds, as follows:

(a) From the proceeds of the 2009 Series A Bonds, (i) \$580,605,693.65 shall be deposited in the Construction Fund and (A) \$480,000,000.00 thereof shall be used to pay Costs of Construction; (B) \$100,000,000.00 thereof shall be used to retire \$100,000,000 of the District's Promissory Notes, Series B (Commercial Paper); and (C) \$605,693.65 thereof shall be used to pay costs of issuance of the 2009 Series A Bonds; and (ii) \$180,000,000.00 thereof shall be deposited in the General Fund to reimburse the District for previously incurred Costs of Construction.

(b) Reserved.

(c) The balance of the proceeds of the 2009 Series A Bonds in the amount of \$3,999,137.50 shall be used for the payment of the Underwriter's discount.

The President, or the Vice President, or the Associate General Manager, Commercial & Customer Services and Chief Financial Executive or the Corporate Treasurer of the District be and are hereby each authorized and directed to increase or decrease the above deposits.

**SECTION 12. Reserved.**

**SECTION 13. Form of 2009 Series A Bonds.** Subject to the provisions of the Resolutions, the 2009 Series A Bonds and the Certificate of Authentication shall be in substantially the form of **Exhibit E** hereto.

**SECTION 14. Reserved.**

**SECTION 15. Reserved.**

**SECTION 16. Execution, Delivery and Authentication.** The 2009 Series A Bonds shall be executed by imprinting thereon the manual or facsimile signature of the President or Vice President of the District and by affixing thereto the corporate seal of the District or facsimile thereof and said signature and seal shall be attested by the manual or facsimile signature of the Secretary or an Assistant Secretary of the District. The President or the Corporate Treasurer of the District or their designees are hereby authorized and directed to deliver the 2009 Series A Bonds executed in the foregoing manner to the Purchasers upon payment of the purchase price specified in Section 17 hereof pursuant to the terms and conditions of the Purchase Contract. There is hereby authorized to be printed or otherwise reproduced on the back of, or attached to, each of the 2009 Series A Bonds, the approving opinion of Drinker Biddle & Reath LLP, Bond Counsel, the tax opinion of Nixon Peabody LLP, Special Tax Counsel, and a certification executed by the manual or facsimile signature of the Secretary or an Assistant Secretary of the District with respect to the form and delivery of said opinion. All Officers of the District and employees designated by Officers are authorized to sign and execute all certificates and documents required for the sale and delivery of the 2009 Series A Bonds.

The Trustee (or its duly designated agent) as Authenticating Agent is hereby authorized and directed to manually execute the Certificate of Authentication appearing on the 2009 Series A Bonds. No 2009 Series A Bond shall be issued and delivered hereunder without the manual signature of an authorized representative of the Trustee or its Authenticating Agent appearing on such Certificate of Authentication.

**SECTION 17. Purchase Contract.** The Purchase Contract, which is attached hereto as **Exhibit F**, is hereby approved. The 2009 Series A Bonds are hereby sold to the Purchasers, pursuant to the terms and conditions of the Purchase Contract, at an

aggregate purchase price of \$760,605,693.65 calculated as follows: \$744,180,000.00 aggregate principal amount of 2009 Series A Bonds, plus net Original Issue Premium of \$20,424,831.15, and less Underwriters' Discount in the amount of \$3,999,137.50; and the President, or the Vice President, or the General Manager, or the Associate General Manager, Commercial & Customer Services and Chief Financial Executive or the Corporate Treasurer or any Assistant Treasurer of the District are each hereby authorized and directed to execute the Purchase Contract and to deliver the same for and on behalf of the District to the Purchasers.

**SECTION 18. Amortization of Financing Costs.** In order to provide accurate accounting records and reports, (i) the issuance costs of approximately \$605,693.65 resulting from the issuance of the 2009 Series A Bonds shall be amortized monthly over the life of the 2009 Series A Bonds.

**SECTION 19. Good Faith Deposit.** The good faith deposit in the amount of \$7,500,000.00 received by the District from the Purchasers shall be held by the District in accordance with the terms of the Purchase Contract.

**SECTION 20. Approval of Final Official Statement and Continuing Disclosure Agreement.** The preparation and distribution of the Preliminary Official Statement dated January 6, 2009, attached hereto as Exhibit G, is hereby ratified and confirmed and the Preliminary Official Statement is hereby deemed "final" as of its date for purposes of Securities and Exchange Commission Rule 15c2-12(b)(1), except for certain omissions permitted thereunder and except for changes permitted by other applicable law. Authorized Officers and staff of the District are authorized to prepare and deliver to the Purchasers an Official Statement, dated the date hereof, relating to the 2009 Series A Bonds substantially in the form attached hereto as Exhibit H. The form of the Continuing Disclosure Agreement attached hereto as Exhibit I is hereby approved. The President, or the Vice President, or the General Manager, or the Associate General Manager, Commercial & Customer Services and Chief Financial Executive or the Corporate Treasurer or any Assistant Treasurer of the District are hereby each authorized and directed to execute and deliver the Official Statement, for and on behalf of the District, to the Purchasers, and the Continuing Disclosure Agreement to the Trustee. The Secretary or an Assistant Secretary of the District are each hereby authorized to attest signatures, if required.

**SECTION 21. Arbitrage Covenant.** The District covenants and agrees that it shall not direct or permit any action which would cause any 2009 Series A Bond to be an "arbitrage bond" within the meaning of Section 148 of the Code or direct or permit any action inconsistent with the applicable regulations thereunder as amended from time to time and as applicable to the 2009 Series A Bonds. The provisions of this Section 21 shall survive any defeasance of the 2009 Series A Bonds pursuant to the Resolution.

**SECTION 22. Tax Exemption.** In order to maintain the exclusion from Federal gross income of interest on the 2009 Series A Bonds, the District shall comply with the provisions of the Code applicable to the 2009 Series A Bonds, including without limitation the provisions of the Code relating to the computation of the yield on investments of the gross proceeds of the 2009 Series A Bonds, reporting of earnings on the gross proceeds of the 2009 Series A Bonds, and rebate of excess earnings to the

Department of the Treasury of the United States of America and shall not take any action or permit any action that would cause the interest on the 2009 Series A Bonds to be included in gross income under Section 103 of the Code or cause interest on the 2009 Series A Bonds to be an item of tax preference under Section 57 of the Code. In furtherance of the foregoing, the District shall comply with the Tax Certificate as to Arbitrage and the Provisions of Sections 141-150 of the Internal Revenue Code of 1986, to be executed by the President, or the Vice President, or the General Manager, or the Associate General Manager, Commercial & Customer Services and Chief Financial Executive, or the Corporate Treasurer or any Assistant Treasurer of the District at the time the 2009 Series A Bonds are issued, as such Tax Certificate may be amended from time to time, as a source of guidance for achieving compliance with the Code, and such officers are hereby authorized and directed to execute and deliver such Tax Certificate for and on behalf of the District. The provisions of this Section 22 shall survive any defeasance of the 2009 Series A Bonds pursuant to the Resolution.

**SECTION 23. Severability.** If any one or more of the covenants or agreements provided in this 2009 Series A Resolution on the part of the District or any Fiduciary to be performed should be contrary to law, then such covenant or covenants or agreement or agreements shall be deemed severable from the remaining covenants and agreements, and shall in no way affect the validity of the other provisions of this 2009 Series A Resolution, so long as this 2009 Series A Resolution as so modified continues to express, without material change, the original intentions of the District or any Fiduciary as to the subject matter of this 2009 Series A Resolution and the deletion of such portion of this 2009 Series A Resolution will not substantially impair the respective benefits or expectations of the District or any Fiduciary.

**SECTION 24. Effective Date.** This 2009 Series A Resolution shall take effect immediately upon adoption.



of this 2009 Series A Bond (as hereinafter defined) at the designated corporate trust office of U.S. Bank National Association (such bank and any successor thereto being herein called the "Paying Agent"), at the option of the registered owner, the principal sum set forth above in any coin or currency of the United States of America which at the time of payment is legal tender for payment of public and private debts, and to pay solely from such revenues and special funds pledged therefor to the registered owner hereof interest on such principal sum from the dated date set forth above or from the most recent interest payment date to which interest has been paid or duly provided for, at the interest rate shown above per annum, payable by check mailed by the Trustee (hereinafter defined), on the first days of January and July (beginning July 1, 2009) in each year to the person in whose name this 2009 Series A Bond is registered as of the close of business on the immediately preceding December 15 or June 15 until the District's obligation with respect to the payment of such principal sum shall be discharged.

This Bond is one of a duly authorized series of Bonds of the District in the aggregate principal amount of \$744,180,000 designated as its "Salt River Project Electric System Revenue Bonds, 2009 Series A" (herein called the "2009 Series A Bonds"), issued to finance the costs of acquisition and construction of various capital improvements and additions to the District's Electric System pursuant to the Constitution and laws of the State of Arizona, including Article 7, Chapter 17, Title 48 of the Arizona Revised Statutes (herein called the "Act"), and under and pursuant to a resolution of the Board of Directors of the District, entitled "Supplemental Resolution Dated September 10, 2001 Authorizing an Amended and Restated Resolution Concerning Revenue Bonds," which became effective January 11, 2003 as amended and supplemented, and a resolution of the Board of Directors of the District, dated as of January 15, 2009 entitled "Resolution Authorizing The Issuance And Sale of \$744,180,000 Salt River Project Electric System Revenue Bonds, 2009 Series A of the Salt River Project Agricultural Improvement and Power District, and Providing For the Form, Details and Terms Thereof" (herein collectively called the "Resolutions"). Each capitalized term not defined herein shall have the meaning set forth in the Resolutions. As provided in the Resolutions, the 2009 Series A Bonds, and the outstanding Electric System Revenue Bonds heretofore issued pursuant to the Resolution Concerning Revenue Bonds, as to principal and interest thereon are payable from and secured by a pledge of the revenues of the District's Electric System referred to in the Resolutions and other funds held or set aside under the Resolutions. Such pledge is subject and subordinate in all respects to the payment of operating expenses and to the prior pledge of such revenues to the repayment of certain federal loan agreements heretofore or hereafter entered into by the District. Copies of the Resolutions are on file at the office of the District and at the designated corporate trust office of U.S. Bank National Association, Phoenix, Arizona, as Trustee under the Resolutions, or its successor as Trustee (herein called the "Trustee"), and reference to the Resolutions and any and all supplements thereto and modifications and amendments thereof and to the Act is made for a description of the pledge and covenants securing the Bonds, the nature, extent and manner of enforcement of such pledge, the rights and remedies of the registered owners of the Bonds with respect thereto and the terms and conditions upon which the Bonds are issued and may be issued thereunder.

The 2009 Series A Bonds are being issued by means of a book-entry system, with no physical distribution of bond certificates to be made except as provided in the Resolutions. One bond certificate for each maturity (or, if applicable, each interest rate within a maturity), registered in the name of the Securities Depository nominee, Cede & Co., is being issued for deposit with the Securities Depository and immobilized in its custody. The book-entry system will evidence positions held in the 2009 Series A Bonds by the Securities Depository's participants; beneficial ownership of the 2009 Series A Bonds, in the principal amount of \$5,000 or any integral multiple thereof, shall be evidenced in the records of such participants. Transfers of ownership shall be effected on the records of the Securities Depository and its participants pursuant to rules and procedures established by the Securities Depository and its participants. The District and the Trustee will recognize the Securities Depository nominee, while the registered owner of this 2009 Series A Bond, as the owner of this 2009 Series A Bond for all purposes, including payments of principal of and interest on, this 2009 Series A Bond, notices and voting. Transfers of principal and interest payments to participants of the Securities Depository will be the responsibility of the Securities Depository, and transfers of principal and interest payments to beneficial owners of the 2009 Series A Bonds by participants of the Securities Depository will be the responsibility of such participants and other nominees of such beneficial owners. The District will not be responsible or liable for such transfers of payments or for maintaining, supervising or reviewing the records maintained by the Securities Depository, the Securities Depository nominee, its participants or persons acting through such participants. While the Securities Depository nominee is the owner of this 2009 Series A Bond, notwithstanding any provisions herein contained to the contrary, payments of principal of and interest on this 2009 Series A Bond shall be made in accordance with existing arrangements among the Trustee, the District and the Securities Depository.

This 2009 Series A Bond is transferable as provided in the Resolutions; provided, however, that such transfer may be made only upon books kept for that purpose at the above mentioned office of the Trustee and at the office of any Paying Agent then acting as agent of the Trustee for such purpose, by the registered owner hereof in person, or by his duly authorized attorney, upon surrender of this 2009 Series A Bond together with a written instrument of transfer satisfactory to the Trustee duly executed by the registered owner or his duly authorized attorney, and thereupon a new registered Bond or Bonds, in authorized denominations and for the same aggregate principal amounts, shall be issued to the transferee in exchange therefor as provided in the Resolutions, and upon payment of the charges therein prescribed. The District and the Trustee may deem and treat the person in whose name this 2009 Series A Bond is registered as the absolute owner hereof for the purpose of receiving payment of, or on account of, the principal hereof and interest due hereon and for all other purposes.

The 2009 Series A Bonds are issuable in the form of registered Bonds in the denomination of \$5,000 or any integral multiple of \$5,000. The 2009 Series A Bonds, upon surrender thereof at the designated corporate trust office of the Trustee or at the office of any Paying Agent then acting as agent for the Trustee for such purpose at the option of the registered owner thereof, may be exchanged for an equal aggregate

principal amount of 2009 Series A Bonds of any other authorized denomination, of the same stated maturity, in the same manner, subject to the conditions, and upon the payment of the charges, if any, provided in the Resolutions.

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

The 2009 Series A Bonds maturing on January 1, 2039, are subject to redemption prior to maturity, upon random selection within a maturity by the Trustee, upon notice as hereinafter provided, by operation of the Debt Service Fund established under the Resolutions to satisfy Sinking Fund Installments, on and after January 1, 2035 at 100% of the principal amount of 2009 Series A Bonds to be redeemed, together with accrued interest up to but not including the redemption date. The Sinking Fund Installments may be satisfied by the District delivering to the Trustee, no later than 45 days in advance of the date of such Sinking Fund Installment, 2009 Series A Bonds of such maturities theretofore purchased or redeemed by the District otherwise than by operation of the sinking fund redemption described herein.

The 2009 Series A Bonds maturing on and after January 1, 2020 are subject to redemption at the option of the District prior to maturity, at any time on or after January 1, 2019, upon notice as hereinafter provided, as a whole or in part by random selection by the Trustee within a maturity with the same coupon from maturities selected by the District, at the Redemption Price of 100% of the principal amount of the 2009 Series A Bonds or portions thereof to be redeemed, together with accrued interest up to but not including the redemption date.

For so long as book entry only system of registration is in effect with respect to the 2009 Series A Bonds if less than all of the 2009 Series A Bonds of a particular maturity (and, if applicable, interest rate within a maturity) is to be redeemed, the particular Beneficial Owner(s) to receive payment of the redemption price with respect to beneficial ownership interests in such 2009 Series A Bonds shall be selected by DTC and the Direct Participants and/or the Indirect Participants.

Notice of redemption shall be mailed to the registered owners of the 2009 Series A Bonds not less than 25 days nor more than 50 days prior to the redemption date, all in the manner and upon the terms and conditions set forth in the Resolutions. If notice of redemption shall have been mailed as aforesaid, the 2009 Series A Bonds or portions thereof specified in said notice shall become due and payable on the redemption date therein fixed, and if, on the redemption date, moneys for the redemption of all the 2009 Series A Bonds or portions thereof to be redeemed, together with interest to the

redemption date, shall be available for such payment on said date, then from and after the redemption date interest on such Bonds or portions thereof so called for redemption shall cease to accrue and be payable.

This 2009 Series A Bond shall not be entitled to any benefit under the Resolutions or be valid or become obligatory for any purpose until this 2009 Series A Bond shall have been authenticated by the manual signature of a duly authorized signatory of the Trustee or its duly authorized agent on the Certificate of Authentication.

It is hereby certified and recited that all conditions, acts and things required by law and the Resolutions to exist, to have happened and to have been performed precedent to and in the issuance of this 2009 Series A Bond, exist, have happened and have been performed and that the 2009 Series A Bonds, together with all other indebtedness of the District, are within every debt and other limit prescribed by the laws of the State of Arizona.

IN WITNESS WHEREOF, SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, by authority of the Act, has caused this 2009 Series A Bond to be executed by the manual or facsimile signature of its President or Vice President thereunto duly authorized and the corporate seal of said District or facsimile thereof to be hereunto affixed and attested by the manual or facsimile signature of its Secretary or Assistant Secretary, all as of January 28, 2009.

(SEAL)

SALT RIVER PROJECT  
AGRICULTURAL IMPROVEMENT  
AND POWER DISTRICT

Attest:

By: \_\_\_\_\_  
President

By: \_\_\_\_\_  
Secretary

CERTIFICATE OF AUTHENTICATION

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

DATED: January 28, 2009

U.S. Bank National Association, as  
Trustee

By: \_\_\_\_\_

\_\_\_\_\_  
Authorized Signatory

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

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Secretary

FOR VALUE RECEIVED the undersigned hereby sells, assigns and transfers unto

**PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS OF TRANSFEREE,  
ADDRESS AND SOCIAL SECURITY NUMBER OR OTHER FEDERAL TAX  
IDENTIFICATION NUMBER OF TRANSFEREE**

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

Dated:

Signature Guaranteed by:

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

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

**EXHIBIT 3**

**RESOLUTION OF THE DISTRICT'S COUNCIL**

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CERTIFICATE

I, TERRILL A. LONON, the duly appointed, qualified, and acting Corporate Secretary of the Salt River Project Agricultural Improvement and Power District (the District) a special district under Title 48 of the Arizona Revised Statutes, DO HEREBY CERTIFY that attached hereto is a true and correct copy of a resolution entitled: **“RESOLUTION OF THE COUNCIL APPROVING THE PRIVATE SALE BY THE SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT AND RATIFYING AND CONFIRMING TERMS AND CONDITIONS OF \$744,180,000 SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS, 2009 SERIES A”** as adopted by a majority of the SRP Council Members at a meeting held on January 15, 2009, 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 10<sup>th</sup> day of March 2009.



A handwritten signature in cursive script that reads "Terrill A. Lonon". The signature is written over a horizontal line.

Terrill A. Lonon  
Corporate Secretary

**RESOLUTION OF THE COUNCIL APPROVING THE PRIVATE SALE BY THE SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT AND RATIFYING AND CONFIRMING TERMS AND CONDITIONS OF \$744,180,000 SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS, 2009 SERIES A**

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

**WHEREAS**, the Board adopted on this date its RESOLUTION AUTHORIZING THE ISSUANCE AND SALE OF \$744,180,000 SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS, 2009 SERIES A OF THE SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, AND PROVIDING FOR THE FORM, DETAILS AND TERMS THEREOF (the "2009 Series A Resolution") (the form of which is attached hereto as **Exhibit A**), that, among other things, fixes the form, terms and conditions of the 2009 Series A Bonds, authorizes the issuance of the 2009 Series A Bonds and the private sale of the 2009 Series A Bonds to purchasers represented by and including Goldman, Sachs & Co., Morgan Stanley & Co. Incorporated, J.P. Morgan Securities Inc. and Citi (hereinafter collectively referred to as the "2009 Series A Purchasers") pursuant to the terms and conditions of a Purchase Contract, dated January 15, 2009, by and among the District and the 2009 Series A Purchasers (the "2009 Series A Purchase Contract") (the form of which is attached hereto as **Exhibit B**); and

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

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

- (i) The maturities, redemption provisions and other terms and conditions of the 2009 Series A Bonds, as contained in the 2009 Series A Resolution, are hereby ratified, confirmed and approved.

- (ii) The private sale of \$744,180,000 2009 Series A Bonds to the 2009 Series A Purchasers, pursuant to the 2009 Series A Resolution and the 2009 Series A Purchase Contract at an aggregate price of \$760,605,693.65, calculated as follows: \$744,180,000.00 aggregate principal amount of 2009 Series A Bonds, plus \$20,424,831.15 net Original Issue Premium, less Underwriters' Discount in the amount of \$3,999,137.50 is hereby ratified, confirmed and approved.
- (iii) This resolution shall take effect immediately.

**EXHIBIT 4**

**PURCHASE CONTRACT**

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\$744,180,000  
SALT RIVER PROJECT AGRICULTURAL  
IMPROVEMENT AND POWER DISTRICT, ARIZONA

Salt River Project Electric System Revenue Bonds,  
2009 Series A

PURCHASE CONTRACT

January 15, 2009

Salt River Project Agricultural  
Improvement and Power District  
PAB 215  
Post Office Box 52025  
Phoenix, Arizona 85281

Ladies and Gentlemen:

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

1. (a) Upon the terms and conditions and upon the basis of the representations hereinafter set forth, the Purchasers, jointly and severally, hereby agree to purchase from you, and you hereby agree to sell to the Purchasers, all (but not less than all) of the \$744,180,000 aggregate principal amount of your Salt River Project Electric System Revenue Bonds, 2009 Series A (herein called the "Bonds"), dated their date of delivery, at an aggregate price of \$760,605,693.65, which reflects a net original issue premium of \$20,424,831.15 and an underwriters' discount of \$3,999,137.50. The Bonds shall bear interest payable July 1, 2009, and thereafter semi-annually in each year on January 1 and July 1, at the rate or rates and shall mature on the dates and in the principal amounts set forth on the inside front cover of the Official Statement relating to the Bonds, dated January 15, 2009 (the "Official Statement"). Capitalized terms used herein which are not otherwise defined have the meaning given such terms in the Official Statement.

(b) The Bonds shall be as described in, and shall be issued pursuant to, the Supplemental Resolution dated as of September 10, 2001, Authorizing an Amended and Restated Resolution Concerning Revenue Bonds adopted by the Board of Directors of the District, which became effective January 11, 2003, as amended and supplemented (the "Amended and Restated Resolution Concerning Revenue Bonds"), and the Resolution Authorizing The Issuance and Sale of \$744,180,000 Salt River Project Electric System Revenue Bonds, 2009 Series A of the Salt River Project Agricultural Improvement and Power District and Providing for the Form, Details and Terms Thereof adopted by the Board of Directors of the District on January 15, 2009, with only such changes as shall be mutually agreed upon in writing between you and the undersigned. Such resolution in the form adopted by the Board of Directors of the District (including any such change so made) is herein called the "Supplemental Resolution," and such Amended and Restated Resolution Concerning Revenue Bonds, as theretofore amended and supplemented and as further amended by the Supplemental Resolution, is hereinafter called the "Resolution." The Bonds are subject to redemption at the times, in the manner and upon the terms provided in the Resolution. Pursuant to the Resolution, U.S. Bank National Association (herein called the "Trustee"), has been appointed trustee.

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

3. Delivered herewith by Goldman, Sachs & Co. (the "Representative"), on behalf of the Purchasers, is a corporate check payable to the order of the District in the amount equal to \$7,500,000 (the "Check"), which the District agrees to hold uncashed as security for the performance by the Purchasers of their obligation to accept and pay for the Bonds at the Closing (as such term is defined in Section 6(b) hereof), and in the event of their compliance with such obligation the Check shall be returned to the Representative. In the event of your failure to deliver the Bonds at the Closing, or if you shall be unable at or prior to the date of the Closing to satisfy the conditions to the obligations of the Purchasers contained herein, or if the obligations of the Purchasers shall be terminated for any reason permitted by this Purchase Contract, the Check, shall be immediately returned to the undersigned. The return of the Check shall constitute a full release and discharge of all claims and damages against the District for such failure to deliver the Bonds at the Closing. If the Purchasers fail (other than for a reason permitted hereunder) to accept and pay for the Bonds upon tender thereof by you at the Closing as herein provided, the Check held by the District shall be retained by the District as and for full liquidated damages for such failure and for any and all defaults on the part of the Purchasers, and the retention of such moneys shall constitute a full release and discharge of all claims and damages for such failure and for any and all such defaults for the Bonds.

4. (a) The District has previously delivered to the Purchasers the Preliminary Official Statement dated January 6, 2009 (the "Preliminary Official Statement"), which the District has deemed "final" as of its date for purposes of Securities and Exchange Commission Rule 15c2-12(b)(1), except for certain omissions permitted thereunder and except for changes permitted by other applicable law. The District hereby ratifies, confirms and approves the use of the Preliminary Official Statement for distribution to prospective purchasers and investors.

(b) As soon as practicable after its preparation, but in no event later than seven business days after the District's acceptance of this Purchase Contract and in order to comply with Rule 15c2-12 and other applicable securities laws, rules or regulations, you shall deliver to the undersigned: (i) four executed copies of the Official Statement which is a "final official statement" for purposes of Rule 15c2-12(e)(3), which copies of the Official Statement were executed on behalf of the District by its President or Vice President and its General Manager or Associate General Manager, Commercial & Customer Services and Chief Financial Executive, or its Corporate Treasurer or any Assistant Treasurer, and include as an Appendix thereto the combined financial statements of the Salt River Project as of and for the fiscal years ended April 30, 2008 and 2007, together with the report of PricewaterhouseCoopers LLP, dated June 12, 2008, signed and delivered by that firm with respect to the fiscal year ended April 30, 2008 and the unaudited combined financial statements of the Salt River Project for the period from May 1, 2008 through and including October 31, 2008; (ii) a sufficient quantity of conformed copies of the Official Statement to enable the Purchasers to comply with the rules of the Securities and Exchange Commission and the Municipal Securities Rulemaking Board.

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

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

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

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

6. (a) At 11:00 A.M., New York time, on January 28, 2009, or at such other time as shall have been mutually agreed upon by you and the undersigned, you will deliver, or cause to be delivered, the Bonds, to the undersigned through The Depository Trust Company, New York,

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(iii) this Purchase Contract and the Continuing Disclosure Agreement have been duly authorized, executed and delivered by the District and constitute valid and legally binding agreements upon the part of the District, in accordance with their terms;

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

(v) on the basis of the documents which have been reviewed, to the best of their knowledge, information contained in the Preliminary Official Statement and the Official Statement under the captions "INTRODUCTION," "PLAN OF FINANCE," "THE 2009 SERIES A BONDS" (as contained in the Preliminary Official Statement), "SECURITY FOR 2009 SERIES A BONDS" (as contained in the Preliminary Official Statement), "THE 2009 SERIES A BONDS" (as contained in the Official Statement), "SECURITY FOR 2009 SERIES A BONDS" (as contained in the Official Statement), "LEGALITY OF REVENUE BONDS FOR INVESTMENT" and the first paragraph under the caption "CONTINUING DISCLOSURE" and "Appendix B - Summary of the Resolution," with respect to legal matters relating to the District and its powers, and the statutes referred to therein, and legal and governmental proceedings, contracts and other documents, did not, as of the respective dates thereof and, with respect to the Official Statement, on the date of the Closing does not, contain any untrue statement of material fact and is not materially misleading and does not omit any statement which should be included or referred to therein in order to make the statements made, in light of the circumstances under which they are made, not misleading.

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

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

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

(ii) neither the execution or delivery by the District of this Purchase Contract, the Resolution or the Continuing Disclosure Agreement, nor the compliance by the District with the terms and conditions thereof, conflicts with or results in a breach of, or will conflict with or result in a breach of, any of the terms or provisions of any Arizona or federal law particularly applicable to the authority or powers of the District with respect thereto (but not including any provisions of Arizona law applicable to tax or securities matters or federal law applicable to tax or securities matters), in force on the date of such opinion, or (so far as is known to such counsel after inquiry with respect thereto) any

regulation, order, writ, injunction or decree applicable to the District of any Arizona or federal court or governmental instrumentality, or results or will result in a breach of any of the terms or provisions of the petition for creation, as amended, of the District or any agreement or instrument to which the District is a party or by which the District is bound, or in any such case constitutes or will constitute a default thereunder, or results or will result in the creation or imposition of any mortgage, charge, pledge or other lien or encumbrance upon any of the properties or assets of the District other than the pledge contemplated by the Resolution;

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

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

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

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

(i) to our knowledge, the District owns and operates the Electric System (as defined in the Resolution and as existing on the date of Closing) and, to our knowledge, has good title to, or other valid property rights necessary for the operation of the Electric System, subject only to certain rights of the United States, the rights, if any, of the holders of Prior Lien Bonds (as defined in the Resolution) and certain other rights, none of which substantially impair the operation of the Electric System by the District or the security for the Bonds;

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

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

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

(h) At the Closing, the undersigned shall receive a letter, dated within five business days of the Closing, of PricewaterhouseCoopers LLP, stating that they consent to the use of their report dated June 12, 2008 for inclusion in Appendix A of the Preliminary Official Statement and the Official Statement.

(i) At the Closing, the undersigned shall receive a certificate, dated the date of the Closing, signed by the President or the Vice President and the General Manager or the Associate General Manager, Commercial & Customer Services and Chief Financial Executive, to the effect that, except as disclosed in the Official Statement, no litigation or other proceedings are pending or, to the knowledge of any of the signers of such certificate, threatened in any court or other tribunal of competent jurisdiction, State or Federal, in any way (i) restraining or enjoining the issuance, sale or delivery of any of the Bonds, or (ii) questioning or affecting the validity of this Purchase Contract, the Bonds, the Continuing Disclosure Agreement, the Resolution or the pledge by the District to the Trustee of any moneys or security provided under the Resolution, or (iii) questioning or affecting the validity of the proceedings for the authorization, sale, execution, registration or delivery of the Bonds, or (iv) questioning or affecting the organization of the Board of Directors of the District in office at any time on or prior to the date of the Closing or the legal or corporate existence of the District, or the title to office of the directors or officers thereof, or materially adversely affecting any powers of the District under the statutes of the State of Arizona, including, without limitation, the power of the District to construct and operate its Electric System and to fix and collect rates, fees and other charges in connection therewith.

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

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

(l) At or prior to the Closing, the undersigned shall have received evidence that the Bonds have received credit ratings of "Aa1" and "AA" from Moody's Investors Service, Inc. and Standard and Poor's Rating Group, respectively.

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

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

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

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

(q) At the Closing, the undersigned shall receive such additional certificates and other evidence as the undersigned may deem necessary to evidence the truth and accuracy as of the time of the Closing of the representations and warranties of the District herein contained and the due performance and satisfaction by the District at or prior to such time of all agreements then to be performed and all conditions then to be satisfied by it, including a certificate or certificates as to the matters referred to in Section 7(k) hereof.

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

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

8. The Purchasers shall be under no obligation to pay any expenses incident to the performance of the obligations of the District hereunder. The District shall pay the fees and disbursements of Jennings, Strouss & Salmon, P.L.C., of Drinker Biddle & Reath LLP, of PricewaterhouseCoopers LLP, of Public Financial Management, financial consultant to the District, and of any consultant or engineer in respect of any matters contemplated by this Purchase Contract not directly retained by the undersigned; the cost of printing or otherwise preparing and furnishing to the undersigned the documents specified in Section 4 hereof; the cost of preparation and issuance of the Bonds and any charges made by rating agencies for the rating

of the Bonds. The District shall be under no obligation to pay any expenses incident to the performance of the obligations of the Purchasers hereunder. The Purchasers shall pay the cost of printing any supplement or amendment to the Official Statement made in accordance with Section 5(b) hereof, the cost of printing the Agreement Among Underwriters and Purchase Contract; the cost of all Blue Sky memoranda used by them; all advertising expenses in connection with the public offering of the Bonds; and the fees and disbursements of Winston & Strawn, counsel to the Purchasers.

9. Any notice or other communication to be given to the District under this Purchase Contract may be given by delivering the same in writing at its address set forth above, and any notice or other communication to be given to the Purchasers under this Purchase Contract may be given by delivering the same in writing to Goldman, Sachs & Co., 85 Broad Street, New York, New York 10004.

*[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]*

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

GOLDMAN, SACHS & CO.  
MORGAN STANLEY & CO. INCORPORATED  
JPMORGAN  
CITI

By: Goldman, Sachs & Co.,  
as Representative of the Purchasers

By: Goldman, Sachs & Co.

Accepted by resolution adopted at  
Tempe, Arizona, on January 15, 2009.

SALT RIVER PROJECT AGRICULTURAL  
IMPROVEMENT AND POWER DISTRICT

By: John M. Williams

Annex A to Purchase Contract

The Purchasers

GOLDMAN, SACHS & CO.

MORGAN STANLEY & CO. INCORPORATED

J.P. MORGAN SECURITIES INC.

CITI

Annex B to Purchase Contract

Procedures Letter of PricewaterhouseCoopers LLP

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**EXHIBIT 5**  
**OFFICIAL STATEMENT FOR THE 2009 SERIES A BONDS**

*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 2009 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 2009 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 2009 Series A Bonds is exempt from income taxes imposed by the State of Arizona. See "TAX MATTERS" herein regarding certain other tax considerations.*

**\$744,180,000**

**Salt River Project Agricultural  
Improvement and Power District, Arizona  
Salt River Project Electric System Revenue Bonds, 2009 Series A**

**Dated: Date of Delivery**

**Due: January 1, as shown on inside cover**

The 2009 Series A Bonds are being issued pursuant to the Supplemental Resolution Dated September 10, 2001, authorizing an Amended and Restated Resolution Concerning Revenue Bonds, which became effective January 11, 2003, as amended and supplemented (the "Resolution"). The 2009 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 2009 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 2009 Series A Bonds. Individual purchases of interests in the 2009 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 2009 Series A Bonds. Interest with respect to the 2009 Series A Bonds is payable January 1 and July 1 of each year, commencing July 1, 2009.

The principal of, redemption price, if any, and interest on the 2009 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 2009 Series A Bond as of the immediately preceding December 15 or 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 2009 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 2009 Series A Bonds. The 2009 Series A Bonds are subject to optional and mandatory redemption as described herein. See "THE 2009 SERIES A BONDS — Redemption" herein.

**The 2009 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 2009 Series A Bonds has the right to compel the exercise of the taxing powers of the District to pay the 2009 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 2009 Series A Bonds. Investors should read this Official Statement in its entirety before making an investment decision.

The 2009 Series A Bonds are offered when, as and if issued, and subject to the approval of legality by Drinker Biddle & Reath LLP, Bond Counsel. Certain legal matters will be passed upon for the District by Nixon Peabody LLP, Special Tax Counsel, and for the Underwriters by Winston & Strawn LLP. It is expected that the 2009 Series A Bonds will be available for delivery to DTC in New York, New York, on or about January 28, 2009.

**Goldman, Sachs & Co.**

**Morgan Stanley & Co. Incorporated**

**JPMorgan**

**Citi**

Dated: January 15, 2009

**SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS  
2009 Series A**

**Serial Bonds**

<b>Maturity (January 1)*</b>	<b>Principal Amount*</b>	<b>Interest Rate</b>	<b>Yield</b>	<b>CUSIP Number**</b>
2011	\$6,095,000	3.000%	1.560%	79575DYS3
2011	12,655,000	5.000%	1.560%	79575DYT1
2012	5,560,000	2.750%	1.780%	79575DYU8
2012	6,335,000	4.000%	1.780%	79575DYV6
2012	6,855,000	5.000%	1.780%	79575DYW4
2013	2,180,000	2.750%	2.010%	79575DYX2
2013	7,995,000	4.000%	2.010%	79575DYY0
2013	8,575,000	5.000%	2.010%	79575DYZ7
2014	2,700,000	2.750%	2.210%	79575DZC7
2014	8,380,000	3.000%	2.210%	79575DZA1
2014	3,480,000	4.000%	2.210%	79575DZB9
2014	4,190,000	5.000%	2.210%	79575DZD5
2015	3,615,000	3.000%	2.420%	79575DZE3
2015	7,695,000	4.000%	2.420%	79575DZF0
2015	7,440,000	5.000%	2.420%	79575DZG8
2016	4,185,000	3.000%	2.610%	79575DZH6
2016	4,850,000	4.000%	2.610%	79575DZJ2
2016	9,140,000	5.000%	2.610%	79575DZK9
2017	750,000	3.250%	2.820%	79575DZL7
2017	7,310,000	4.000%	2.820%	79575DZM5
2017	4,950,000	5.000%	2.820%	79575DZN3
2018	7,860,000	3.250%	3.040%	79575DZP8
2018	8,985,000	4.000%	3.040%	79575DZQ6
2018	8,605,000	5.000%	3.040%	79575DZR4
2020	3,660,000	3.500%	3.550%	79575DZS2
2020	14,920,000	5.000%	3.550%*	79575DZT0
2021	2,770,000	3.800%	3.830%	79575DZU7
2021	16,685,000	5.000%	3.830%*	79575DZV5
2022	6,545,000	4.000%	4.010%	79575DZW3
2022	13,850,000	5.000%	4.010%*	79575DZX1
2023	3,490,000	4.200%	4.200%	79575DZY9
2023	17,850,000	5.000%	4.200%*	79575DZZ6
2024	990,000	4.300%	4.330%	79575DA26
2024	21,405,000	5.000%	4.330%*	79575DA34
2025	23,480,000	5.000%	4.450%*	79575DA42
2026	24,715,000	5.000%	4.540%*	79575DA59
2027	25,830,000	5.000%	4.630%*	79575DA67
2028	27,355,000	5.000%	4.710%*	79575DA75
2029	2,775,000	4.700%	4.770%	79575DA83
2029	25,485,000	5.000%	4.770%*	79575DA91
2030	30,580,000	5.000%	4.830%*	79575DB25
2031	30,290,000	4.875%	4.930%	79575DB33
2032	35,410,000	5.000%	4.970%*	79575DB41
2033	29,880,000	5.000%	5.010%	79575DB58
2034	45,980,000	5.000%	5.030%	79575DB66

**Term Bonds**

\$189,850,000    5.000%    Term Bond due January 1, 2039    Yield: 5.080%    79575DB74

\* Priced to the par call on January 1, 2019

\*\* 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 2009 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 2009 Series A Bonds or as indicated herein.

## MANAGEMENT OF THE DISTRICT

### BOARD OF DIRECTORS

Larry D. Rovey  
Mario J. Herrera  
Lloyd E. Banning  
Carl E. Weiler  
John M. White, Jr.  
Keith B. Woods  
Wayne A. Hart

Deborah S. Hendrickson  
Arthur L. Freeman  
Dwayne E. Dobson  
Carolyn Pendergast  
William W. Arnett  
Fred J. Ash  
Wendy L. Marshall

### PRINCIPAL OFFICERS AND OTHER EXECUTIVES

John M. Williams, Jr. ....	<i>President</i>
David Rousseau .....	<i>Vice President</i>
Richard H. Silverman .....	<i>General Manager</i>
Terrill A. Lonon.....	<i>Corporate Secretary</i>
Steven J. Hulet.....	<i>Corporate Treasurer</i>
Jane D. Alfano .....	<i>Corporate Counsel</i>
David G. Areghini .....	<i>Associate General Manager, Power, Construction &amp; Engineering Services</i>
Mark B. Bonsall.....	<i>Associate General Manager, Commercial &amp; Customer Services and Chief Financial Executive</i>
Richard M. Hayslip.....	<i>Associate General Manager, Environmental, Human Resources, Land and Risk Management</i>
D. Michael Rappoport .....	<i>Associate General Manager, Public &amp; Communications Services</i>
Barbara M. Hoffnagle.....	<i>Assistant General Manager, Information Technology and Operations Services &amp; Support</i>

### CONSULTANTS

Legal Advisors.....	<i>Jennings, Strouss &amp; Salmon, P.L.C.</i>
Independent Accountants.....	<i>PricewaterhouseCoopers LLP</i>
Bond Counsel .....	<i>Drinker Biddle &amp; Reath LLP</i>
Special Tax Counsel .....	<i>Nixon Peabody LLP</i>
Financial Consultant .....	<i>Public Financial Management</i>

**This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy the 2009 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 2009 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 2009 SERIES A BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2009 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 2009 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 2009 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 2009 Series A Bonds:**

The 2009 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 2009 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 Supplemental Resolution dated September 10, 2001, authorizing an Amended and Restated Resolution Concerning Revenue Bonds, which became effective January 11, 2003, as amended and supplemented (the "Resolution").

**Purpose of the 2009 Series A Bonds:**

The 2009 Series A Bonds are being issued to finance capital improvements to the Electric System pursuant to the District's Capital Improvement Program. See "CAPITAL IMPROVEMENT PROGRAM" herein. At the pricing of the 2009 Series A Bonds, the District may determine to apply a portion of the proceeds to the repayment of a portion of its \$475,000,000 commercial paper. See "CAPITAL IMPROVEMENT PROGRAM - Additional Financial Matters". The proceeds of the 2009 Series A Bonds also will be used to pay costs of issuing the 2009 Series A Bonds. See "PLAN OF FINANCE" and "SOURCES AND USES OF PROCEEDS" herein.

**Security for the 2009 Series A Bonds:**

The 2009 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 October 31, 2008 the balance in the Debt Reserve Account was approximately \$81 million, which exceeded the Debt Reserve Requirement. Upon the issuance of the 2009 Series A Bonds, the Debt Reserve Account will continue to exceed 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. See "THE DISTRICT — General" and "— History" and "INDEPENDENT ACCOUNTANTS" for a further discussion of the relationship between the District and the Association.

The 2009 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 2009 Series A Bonds has the right to compel the exercise of the taxing powers of the District to pay the 2009 Series A Bonds or the interest thereon. See "SECURITY FOR 2009 SERIES A BONDS" herein.

**Outstanding Indebtedness:**

As of October 31, 2008, the District had a total of \$3,800,252,000 in outstanding long-term debt, computed without deducting the unamortized bond discount/premium, consisting of \$3,074,877,000 in Revenue Bonds and general fund debt of \$725,365,000 consisting of \$475,000,000 in promissory notes sold in the tax-exempt commercial paper market and rental payments totaling \$250,365,000, 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 October 31, 2008 was \$41.2 million. See "SELECTED OPERATIONAL AND FINANCIAL DATA — Customers, Sales, Revenues and Expenses — Contractual Obligations Relating to Bonds of Other Political Subdivisions" herein.

**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 reached a peak retail load of approximately 7,324 MW in July 2008. Approximately 43.0% of fiscal year 2008 retail electric revenues was 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**

**\$744,180,000**

**SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS,  
2009 Series A**

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**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, 2009 Series A (the "2009 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 2009 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, as amended and supplemented (the "Resolution"). Prior to the delivery of the 2009 Series A Bonds, the District's Board will have authorized the issuance of the 2009 Series A Bonds and the District's Council will have ratified and confirmed the District's action. See "THE 2009 SERIES A BONDS" herein and "Appendix B — Summary of the Resolution" attached hereto.

**PLAN OF FINANCE**

The District will issue the 2009 Series A Bonds to finance capital improvements to the Electric System pursuant to the District's Capital Improvement Program. At the pricing of the 2009 Series A Bonds, the District may determine to apply a portion of the proceeds to the repayment of a portion of its \$475,000,000 commercial paper. See "CAPITAL IMPROVEMENT PROGRAM — Additional Financial Matters". Proceeds of the 2009 Series A Bonds also will be used to pay a portion of the costs of issuance of the 2009 Series A Bonds. The 2009 Series A Bonds will be issued under the Resolution. See "Appendix B — Summary of the Resolution" attached hereto. See "SOURCES AND USES OF PROCEEDS" herein.

**THE 2009 SERIES A BONDS**

**General**

The 2009 Series A Bonds will be issued in the principal amount of \$744,180,000 and will be dated and bear interest from the date of delivery. The 2009 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 July 1, 2009, 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 2009 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 2009 Series A Bond as of the immediately preceding December 15 or June 15.

### **Book-Entry Only System**

The 2009 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 2009 Series A Bonds. Individual purchases of interests in the 2009 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 2009 Series A Bonds. So long as Cede & Co. is the registered owner of the 2009 Series A Bonds, the Trustee will make payments of principal and redemption price, if any, of and interest on the 2009 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 2009 Series A Bonds, as described herein. See “Appendix E — Book-Entry Only System” attached hereto.

### **Redemption**

**Mandatory Sinking Fund Redemption — 2009 Series A Bonds.** The 2009 Series A Bonds maturing on January 1, 2039 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, 2035 at 100% of the principal amount of such 2009 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 2009 Series A Bonds on the dates and in the principal amounts shown below.

<b>Sinking Fund Payment Date (January 1)</b>	<b>Principal Amount</b>
2035	\$19,065,000
2036	40,935,000
2037	38,670,000
2038	41,180,000
2039	50,000,000*

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\* Payment at Maturity

The District may satisfy the Sinking Fund Installments by delivering to the Trustee 2009 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 2009 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 2009 Series A Bonds maturing on and after January 1, 2020 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, 2019 at the redemption price of 100% of the principal amount of the 2009 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 2009 Series A Bonds, if less than all of the 2009 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 2009 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 2009 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 2009 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 2009 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 2009 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 2009 Series A Bonds. If the book-entry only system were discontinued, the following provisions would apply. A 2009 Series A Bond may be transferred on the bond register maintained by the Bond Registrar upon surrender of the 2009 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 2009 Series A Bond may be exchanged for 2009 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 2009 Series A Bonds during the 15 days preceding the date on which notice of redemption of a 2009 Series A Bond is to be mailed or any 2009 Series A Bond that has been called for redemption except the unredeemed portion of any 2009 Series A Bond being redeemed in part.

**SOURCES AND USES OF PROCEEDS**

The sources and uses of funds with respect to the 2009 Series A Bonds, are as follows:

<b>Sources of Funds</b>	
Principal Amount of 2009 Series A Bonds.....	\$744,180,000
Original Issue Premium .....	<u>\$20,424,831</u>
Total Sources of Funds .....	<u>\$764,604,831</u>
 <b>Uses of Funds</b>	
Deposit to District General Fund .....	\$180,000,000
Series B Commercial Paper Repayment .....	\$100,000,000
Construction Fund .....	\$480,000,000
Cost of Issuance (including Underwriters' Discount) .....	<u>\$4,604,831</u>
Total Uses of Funds .....	<u>\$764,604,831</u>

**SECURITY FOR 2009 SERIES A BONDS**

**General**

The Revenue Bonds, including the 2009 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 2009 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 2009 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 2009 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 has followed the practice of depositing moneys into the Debt Reserve Account at the time of issuance of additional Revenue Bonds to equal the Debt Reserve Requirement. At October 31, 2008, the balance in the Debt Reserve Account was approximately \$81 million, which exceeded the Debt Reserve Requirement. Upon issuance of the 2009 Series A Bonds, the account will continue to exceed 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 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 and ten other 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 fourteen other 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 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 November 1, 2008, District and Association full-time employees (full-time equivalent) totaled approximately 4,587, including approximately 1,935 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 65% 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 957,000 people moving to the metropolitan area between 2000 and 2007. The Valley weathered the 2001 recession relatively well, with employment growth dipping by only a tenth of a percent in 2002, and positive growth returning in 2003. Job growth was strong in 2005 and 2006, growing 6.2% and 6.0% respectively.

The Phoenix-Mesa MSA's job growth slowed to 1.3% in 2007, reflecting reduced economic growth locally and nationally. For the 12 months ended August 2008, non-agricultural wage and salary employment in the area decreased by 2.2%. While official 2008 population growth estimates have not been updated, it is likely that the population growth rate fell below the 2% level during such time period, and future growth is anticipated to remain at levels below prior forecasts while the current economic downturn continues.

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)
2002.....	5,471	3,486	1,596	47,899	100.8
2003.....	5,643	3,609	1,620	54,860	105.5
2004.....	5,845	3,755	1,684	65,259	126.8
2005.....	6,078	3,928	1,788	62,617	126.8
2006.....	6,305	4,093	1,884	44,280	138.4
2007.....	6,500	4,235	1,909	37,272	146.3

(1) Arizona Department of Economic Security and Maricopa County Association of Governments; numbers are estimates as of July 1<sup>st</sup> each year.

(2) Arizona Department of Economic Security; 2007 revised.

(3) U.S. Census Bureau, "Housing Units Authorized by Building Permits"; 2007 preliminary.

(4) U.S. Bureau of Economic Analysis; 2007 preliminary.

The slowdown in the metropolitan Phoenix area is concentrated in the construction and real estate sectors. Although the Phoenix-Mesa MSA usually outperforms the national economy, the recent economic weakness is more pronounced than for the nation as a whole. Through September 2008, employment in the Phoenix-Mesa MSA decreased 2.3% on a year-over-year basis, the second largest decline posted among the nation's large metropolitan areas (nonfarm employment greater than 750,000).

Employment growth in the area has historically compared favorably to national figures. From 2000 through 2007, employment increased an estimated 24% for the Phoenix-Mesa MSA and 21% for the state, while the national figure was only 4.7%. Unemployment rates for the Phoenix-Mesa MSA are typically below the national average. The Phoenix-Mesa MSA's unemployment rate was 5.3% in September 2008, which compared favorably with the 6.1% U.S. average. Seasonally adjusted unemployment rates for the Phoenix-Mesa MSA, Arizona, and the United States are listed below:

### Comparative Unemployment Rates

	<u>September 2008</u>	<u>September 2007</u>	<u>September 2006</u>
Phoenix-Mesa MSA.....	5.3%	3.3%	3.3%
Arizona .....	5.9%	3.8%	3.9%
United States .....	6.1%	4.7%	4.5%

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

While the sectors of professional and business services, trade, transportation, and utilities, and government make up the majority of local employment, construction and financial activities accounted for a large percent of job growth over the real estate boom the past few years. In 2007, this employment growth dramatically slowed, ending the year with negative growth in the construction sector. The District expects to see continued weakness in these areas, along with softness in the manufacturing and information sectors.

### Phoenix-Mesa MSA Employment (thousands)

<u>Year</u>	<u>Natural Resources &amp; Mining</u>	<u>Construction</u>	<u>Manufacturing</u>	<u>Trade, Transportation, &amp; Utilities</u>	<u>Information</u>	<u>Financial Activities</u>
2002 .....	2.2	126.1	137.5	325.5	39.4	131.2
2003 .....	2.0	129.3	130.9	328.9	37.4	134.5
2004 .....	2.1	141.6	131.9	340.6	34.6	138.7
2005 .....	2.2	163.9	136.5	362.1	33.3	147.0
2006 .....	2.7	180.1	139.9	379.5	32.4	153.4
2007 .....	3.1	168.7	137.2	388.8	31.3	153.6

<u>Year</u>	<u>Professional &amp; Business Services</u>	<u>Education &amp; Health Services</u>	<u>Leisure &amp; Hospitality</u>	<u>Other Services</u>	<u>Government</u>
2002 .....	253.5	153.0	153.5	61.6	212.7
2003 .....	258.6	163.3	156.0	62.5	216.5
2004 .....	273.8	173.6	161.9	64.2	220.8
2005 .....	296.8	184.1	170.4	66.0	225.5
2006 .....	319.2	196.3	180.5	71.0	229.2
2007 .....	324.2	204.9	186.4	70.4	239.8

Source: State of Arizona, Department of Economic Security.

The Phoenix-Mesa MSA is home to several corporate headquarters: US Airways Group, Inc., Allied Waste, AVNET, Best Western International, Insight Enterprises, PetSmart, Freeport-McMoRan, U-Haul, and Viad. In addition, The Prudential Insurance Company of America, State Farm Mutual, Sentry Insurance Co. and Southwest Airlines have regional offices in the Phoenix-Mesa MSA.

Strong population growth has been the traditional driver for the retail market although the slowdown in population growth is leading to increased vacancy rates. Retail space vacancy rates declined from 16.3% for 1990 to 5.3% for 2000. Vacancy rates rose during the recession, dropped to another low around 2006, and now stand at about 6.5% (second quarter 2008). Retail construction and net absorption were strong in 2007, but at a slightly slower pace than in the past couple of years. Office vacancy rates dropped below 10% in 2000 from highs in the mid-twenty percent range in the early 1990s. The slowing economy has raised office vacancy rates again. By the

second quarter of 2008, the office vacancy rate was 16.3%. Industrial real estate activity was also strong in recent years, with high levels of absorption and activity, and vacancy rates around 6.0%. In the second quarter of 2008, vacancy rates rose to 11.1%.

The real estate market in the Phoenix-Mesa MSA has been a large driver of economic activity over the past several years. Permits for new homes hit a peak in 2004, and have since retreated as builders work through existing inventories. Foreclosures accelerated in the region during 2008, which created downward pressure on home prices and curbed new development. The District predicts that the housing market will remain soft through 2009 before returning to a period of gradual recovery. When the housing recovery begins, lower housing prices in the Phoenix-Mesa MSA will encourage population inflows as regional job growth improves. See "SELECTED OPERATIONAL AND FINANCIAL DATA — Customers, Sales, Revenues and Expenses" herein.

### **Irrigation and Water Supply System**

An 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.

SRP acquired the Blue Ridge Reservoir (renamed C. C. Cragin Reservoir) from Phelps Dodge Corporation (now Freeport McMoRan), and immediately transferred ownership of the dam to the Bureau of Reclamation, thereby making it part of the SRP Reservoir System. Water from this relatively small 16,000 acre foot reservoir on the East Clear Creek Watershed is pumped to the Mogollon Rim where it then flows by gravity into the Verde River System. SRP intends to use the water rights associated with this reservoir to supplement Project water resources and to resolve several water supply and rights disputes with communities in the Verde River Watershed.

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. Winter rain and snow failed to materialize in the winter of 2006 and 2007, suggesting that drought conditions were continuing as anticipated; however, the winter of 2008 provided abundant rain and snow which resulted in full surface water storage and deliveries to Association shareholders once again. Whether drought conditions will return in subsequent winters remains to be seen.

See "LITIGATION – Water Rights – Verde River" for discussion of the dispute with respect to plans of the cities of Prescott, Prescott Valley and the Town of Chino Valley, to withdraw groundwater from the Big Chino Groundwater Sub-Basin.

The Association also operates about 250 wells under a permit issued by the Arizona Department of Environmental Quality (ADEQ) pursuant to the permit program for the Arizona Pollutant Discharge Elimination System. The permit restricts the use of wells having chemical contamination above the permit levels. The number of restricted wells may vary by two or three each year as contamination plumes move or new contamination is discovered. Eleven of the 250 Association wells are not in operation for various reasons, including permit restrictions, and pursuant to a voluntary agreement to cease pumping 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, Integra Telecom, AT&T, Level 3 and AboveNet, among others, as well as with certain enterprise customers to market this excess capacity, and receives approximately \$8.2 million per year in revenue from this activity.

Additionally, the District makes available certain electric facilities for the purpose of co-locating wireless antenna systems of commercial wireless communications service providers. The District also provides a number of related services to such service providers in conjunction with this activity. The District generates approximately \$5.6 million per year 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 has entered into a 100-year lease of most portions of the development with Papago Park Center, Inc. ("PPCI"), a wholly-owned, incorporated, and taxable subsidiary of the District. Most of the land in Papago Park Center has been developed. Lease payments to the District were \$2.27 million and \$2.18 million in fiscal years 2008 and 2007, 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, and is now largely inactive.

## **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, which operates its own system, 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 2009 through 2014. The projections reflected therein are consistent with industry-wide experience and provide the basis for the District's current year operating budget, May 2008 through April 2009. However, they are based on certain assumptions that, if not realized, may adversely affect such projections. These projections are reassessed annually during the winter, as part of the District's annual budget process. If projections of economic and customer growth were to decline as a result of the current weakness in the economies of the nation or in the Phoenix – Mesa MSA, the projections in Table 2 would be revised downward. See "THE DISTRICT – Economic and Customer Growth in the District's Service Area."

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,					
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Annual Peak:(MW)(1)(2)						
Service Territory System Requirements(3)(4)(5).....	6,896	7,178	7,424	7,679	7,908	8,171
Sales for Resale.....	390	396	94	84	21	21
Total Peak Load(6).....	7,286	7,574	7,518	7,763	7,929	8,192
Resources:						
Hydroelectric .....	271	271	271	271	271	271
Thermal						
Gas and/or Oil .....	2,951	2,951	2,951	2,951	3,576	4,426
Coal.....	1,791	1,791	2,191	2,191	2,191	2,191
Nuclear.....	688	688	688	688	688	688
Solar and Renewables.....	5	5	5	5	5	5
Purchased:						
Federal Hydro Power .....	155	154	154	154	154	154
CAWCD/Navajo Surplus (7).....	696	694	694	694	300	300
AEPSCO — Arizona Electric Power Cooperative.....	100	100	100	0	0	0
TEP — Tucson Electric Power Company ("TEP") (8).....	100	100	100	100	100	100
Tri-State — Tri-State Generation and Transmission Association, Inc. ("Tri-State") (9) .....	100	100	100	100	100	100
Coolidge Power LLC (10).....	0	0	0	551	551	551
Committed Renewables .....	135	120	120	120	120	120
Other Existing.....	650	925	625	225	75	0
New Purchases.....	401	426	318	618	743	268
Total Resources .....	8,043	8,325	8,317	8,668	8,874	9,174
Total Resources in Excess of Total Peak Load .....	757	751	799	905	945	982
Planned Reserve Percentage(11).....	12.3	12.2	12.3	12.4	12.4	12.3

(1) The forecasts were made in the fall of 2007, 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) Arizona law requires the District 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 Service Territory 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) 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. The current contract term extends through September 30, 2011. A new long-term contract for 300 MW has been executed that will extend the contract 20 years. The 300 MW contract extension is included in the forecast shown.
- (8) An agreement is in place with TEP to extend the 100 MW long-term contract to May 31, 2016. The 100 MW contract extension is included in the forecast shown.
- (9) The District has a 30-year agreement with Tri-State to purchase 100 MW of capacity from Springerville Unit 3. Commercial operation of Unit 3 began on September 1, 2006.
- (10) The District has a 20-year agreement with Coolidge Power LLC to purchase approximately 551 MW of nominal capacity from the Coolidge Generating Station, which is expected to be commercially operational in May 2011. The District has an option for a 10-year extension of the agreement.
- (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 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, 2008.*** The District's largest source of energy during the fiscal year ended April 30, 2008 was thermal generating facilities, which supplied approximately 70.7% of the District's total production. Hydroelectric generation provided approximately 2.4% of production with 1.0% 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 26.9% came from various other purchases and renewable resources. Table 3 provides more detail on District power sources.

**TABLE 3 — Fiscal Year 2008 District Power Sources**

	Capability (MW)(1)	% of Total	Net Production	
			Amount (MWh)(2)	% of Total
<b>District Generation:</b>				
<b>One Hundred Percent Entitlement — Hydroelectric:</b>				
Roosevelt Dam .....	36	0.4%	82,334	0.2%
Mormon Flat Dam .....	68	0.8	73,959	0.2
Horse Mesa Dam .....	149	1.8	149,538	0.4
Stewart Mountain Dam.....	13	0.2	41,120	0.1
Canal Plant (Crosscut).....	3	0.0	5,226	0.0
Canal Plant (South Consolidated).....	1	0.0	2,201	0.0
Arizona Falls.....	<u>1</u>	<u>0.0</u>	<u>2,541</u>	<u>0.0</u>
Subtotal.....	271	3.3	356,919	1.0
<b>One Hundred Percent Entitlement — Thermal</b>				
Kyrene (Steam).....	106	1.3	(1,035)	-0.0
Kyrene (Gas Turbine).....	165	2.0	4,288	0.0
Kyrene (Combined Cycle).....	250	3.1	930,514	2.6
Agua Fria (Steam).....	407	5.0	195,675	0.5
Agua Fria (Gas Turbine).....	219	2.7	9,767	0.0
Santan Combined Cycle .....	1,227	15.2	4,341,279	12.0
Desert Basin Combined Cycle.....	577	7.1	1,762,619	4.9
Coronado Generating Station.....	<u>773</u>	<u>9.6</u>	<u>5,794,720</u>	<u>16.0</u>
Subtotal.....	3,724	46.0	13,037,827	36.0
<b>One Hundred Percent Entitlement — Renewable</b>				
Solar.....	1	0.0	1,538	0.0
Fuel Cells.....	0(3)	0.0	1,710	0.0
Alternative Fuels — Tri-cities Landfill .....	<u>4</u>	<u>0.0</u>	<u>16,289</u>	<u>0.0</u>
Subtotal.....	5	0.1	19,537	0.0
<b>Participation Plants - Coal</b>				
Navajo Generating Station.....	489	6.0	3,933,928	10.9
Four Corners Generating Station Units 4 &5 .....	147	1.8	977,272	2.7
Mohave Generating Station.....	0(4)	0.0	(2,338)	-0.0
Hayden Generating Station.....	131	1.6	1,004,618	2.8
Craig Generating Station .....	<u>248</u>	<u>3.0</u>	<u>2,021,760</u>	<u>5.6</u>
Subtotal.....	<u>1,015</u>	<u>12.5</u>	<u>7,935,240</u>	<u>21.9</u>
<b>Participation Plants - Nuclear</b>				
Palo Verde Nuclear Generating Station.....	<u>672</u>	<u>8.3</u>	<u>4,639,664</u>	<u>12.8</u>
Subtotal.....	672	8.3	4,639,664	12.8
<b>Purchases and Receipts(5):</b>				
APA — Arizona Power Authority.....	80(6)	1.0	109,002	0.3
WAPA — Colorado River Storage Project .....	97(7)	1.2	255,344	0.7
WAPA — Parker-Davis Dams .....	49(8)	0.6	146,393	0.4
WAPA — CAWCD/Navajo Surplus.....	680(9)	8.4	2,232,393	6.2
AEPCO — Arizona Electric Power Cooperative .....	100	1.2	862,971	2.4
TEP — Tucson Electric Power Company .....	100	1.2	796,038	2.3
TSGT — Tri-State Generation & Transmission.....	100	1.2	796,038	2.2
Wind Power .....	50	0.6	60,800	0.2
Geothermal Power .....	25	0.3	219,600	0.6
Renewables - Other.....	50	0.6	342,800	0.9
Others .....	<u>1,075(10)</u>	<u>13.3</u>	<u>4,377,266</u>	<u>12.1</u>
Subtotal.....	<u>2,407</u>	<u>29.7</u>	<u>10,248,297</u>	<u>28.3</u>
TOTAL(13).....	<u>8,094</u>	<u>100.0</u>	<u>36,237,484</u>	<u>100.0</u>

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

(2) Actual net production during the fiscal year ended April 30, 2008. Energy for pumped storage is not deducted.

(3) Fuel cell capacity is 250 kW.

(4) Mohave suspended operations at the end of 2005. It is unlikely that the plant will return to service as a coal-fired facility. See "THE ELECTRIC SYSTEM – Existing and Future Resources – Mohave Generating Station" for additional discussion

of matters relating to Mohave.

- (5) Purchase and receipt capabilities vary month to month. Listed are the capabilities for the peak month.
- (6) Includes 47 MW wheeled for certain electrical/irrigation districts.
- (7) Includes 43 MW wheeled for certain electrical/irrigation districts.
- (8) Includes 17 MW wheeled for SCIP.
- (9) Net of CAWCD pumping load and losses totaling 59 MW that occurred coincident with system peak.
- (10) Short term purchases excluding 104 MW and 2,840,683 MWh of bookouts.
- (11) 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. 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 of the two additional units was placed into commercial operation on April 1, 2005, and the second unit became commercial on March 1, 2006. The total, combined capability of these units is a nominal 825 MW.

***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)**

	<u>Navajo Generating Station</u>	<u>Four Corners Generating Station Units 4 &amp; 5</u>	<u>Mohave Generating Station(2)</u>	<u>Hayden Generating Station Unit 2</u>	<u>Craig Generating Station Units 1 &amp; 2</u>	<u>Palo Verde Nuclear Generating Station</u>
<b>Project Capabilities</b>						
Total Continuous Load Capabilities (MW) .....	2,250	1,570(3)	1,580(4)	262	856	3,942(5)
<b>Project Participants</b>						
District .....	21.7	10.0	20.0	50.0	29.0	17.5
APS .....	14.0	15.0	—	—	—	29.1
Department of Water & Power, Los Angeles ("LADWP") .....	21.2	—	10.0	—	—	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(6)	—	—	—	—	—
<b>Total Percentage</b> .....	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 suspended operations at the end of 2005 and it is unlikely the plant will return to service as a coal-fired facility. 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 3,942 MW.
- (6) The District holds legal title to this percentage of the Navajo Generating Station for the use and benefit of USBR.

**Craig Generating Station Units 1 & 2.** The District owns 29% of Craig Generating Station Units 1 & 2, which are operated by Tri-State. The two 428 MW coal-fired generating units commenced operations in 1981 and 1979, respectively. The Craig Generating Station Units 1 & 2 are located in the Yampa Valley near the City of Craig in northwestern Colorado. The District's entitlement to power and energy from Craig Generating Station Units 1 & 2, like the power and energy from Four Corners Generating Station Units 4 & 5 and Hayden Generating Station Unit 2, is subject to a displacement arrangement with WAPA. Power and energy is delivered to WAPA and used for WAPA's customers located in Colorado, New Mexico, Utah and Wyoming. WAPA delivers a similar amount of power and energy to the District from the Glen Canyon Hydroelectric Generating Station. This is a displacement arrangement that reduces transmission investment, operating expenses and energy losses both for WAPA and for the District.

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 consists of two 790 MW coal-fired units. Mohave commenced operations in 1971 and is located in Clark County, Nevada, on the Colorado River. SCE is the operating agent. 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 Navajo Nation and the Hopi Tribe demanded that the pumping of water from the Navajo Aquifer for the slurry pipeline serving Mohave cease. The Mohave Participants refused to commit to install the pollution abatement equipment without reasonable assurance that water would 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 participated in mediation for an alternative source of water for the mine and the slurry pipeline if the life of Mohave were extended, and to resolve

other related issues. However, SCE, as well as the other two participants, LADWP and NPC, advised the District in June 2006 that they did not intend to proceed with efforts to extend the life of Mohave. The mediation efforts continued, but subsequent efforts of SCE to sell the plant as a coal-fired plant, and the District's efforts to acquire the other participants' interests in the plant, were unsuccessful. Although the District continues to evaluate its options, it is unlikely that the plant could return to service as a coal-fired generation source. See "LITIGATION — Coal Supply" for a discussion of the other pending issues.

The District has included funding in its Capital Improvement Program to cover the costs of alternate resources and has already replaced a portion of the energy it would have received had Mohave continued operations. The District is considering several options for replacing the balance of its energy supply from Mohave including self-build options and purchases from others.

During fiscal year 2003, faced with the complex and contentious issues involved in extending the life of Mohave, and the potential closure of the plant at the end of 2005, 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. In accordance with accounting standards for rate-regulated enterprises (SFAS No. 71), a regulatory asset for Mohave was established for \$78.0 million during the fiscal years ended April 30, 2003, 2004 and 2005, and is being recovered over a ten-year period which began in fiscal year 2006. At April 30, 2008, the net regulatory asset for Mohave was \$59.8 million.

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. PVNGS originally consisted of three nominally sized 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 Nuclear Regulatory Commission (the "NRC") has reviewed the operations at PVNGS and, in a public meeting held at the plant in December 2007, reported that the plant needs improvement in several areas following a decline in performance since 2003. In February 2008, the NRC issued its final Inspection Report documenting the areas of degraded performance and a revised Confirmatory Action Letter ("CAL") detailing the corrective actions needed by PVNGS to return the plant to normal regulatory oversight. It may take an additional 18 – 24 months for these actions to be completed to the point that the NRC will close the CAL and return the plant to normal oversight. In the mean time, PVNGS will remain one of the most regulated nuclear plants in the country and will continue to face increased NRC oversight and inspections.

The steam generators have been replaced in all three units resulting in an increase of about 55 MW net output (9.5 MW as the District share) in each unit.

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 2008, approximately 16.2% of the District's energy requirements were met with long-term power purchases. An additional 12.1% was met with short-term purchases.

The District has multiple long-term contracts to purchase power from WAPA including a new contract executed September 28, 2007, to purchase Navajo Surplus Power with deliveries to begin June 1, 2012. Navajo Surplus Power is electrical capacity and energy made available from the entitlement in the Navajo Project which 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. This purchase is for 300 MW during the eight super-peak hours of every day, June through August, and the term runs through September 30, 2031. This purchased power agreement is included in the "Purchased: CAWCD/Navajo Surplus" category of Table 2. The expiration dates of these contracts span the period from September 30, 2011 to September 30, 2031. In fiscal year 2008, a total of 906 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 has an agreement with TEP for a five-year extension of its contract to 2016 with a further extension to 2021, if certain conditions are met.

The District has entered into a 20-year power purchase agreement with Coolidge Power LLC for the development, construction, and operation of a simple cycle combustion turbine electric peaking plant with a nominal capacity rating of approximately 551 MW. The agreement, effective May 8, 2008, is for the purchase of all the electrical capacity, energy and ancillary services available from Coolidge Generating Station, which is located in Pinal County and is expected to be commercially operational in May 2011. The District has an option for a 10-year extension of the agreement.

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 re-examined 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 was developed by Tri-State and placed in service in 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 originally held such rights in a wholly-owned, taxable limited liability company, Springerville Four, LLC, but such rights were assigned to the District on February 1, 2007 and Springerville Four was dissolved in April 2007. The District has begun construction of Unit 4 and expected it to be in service by the end of calendar year 2009. Construction of Unit 4 is anticipated to cost approximately \$1 billion. UniSource's affiliate, TEP, operates Units 1, 2 and 3 and will operate Unit 4 upon completion. (See "Capital Improvement Program.")

On December 31, 2008, a fire started in an auxiliary transformer unit and was shortly contained. The cause of the fire is under investigation. Although the cause and extent of the damages have not been fully determined, the District expects the damages will be covered by insurance, subject to a \$1 million deductible. Although the accident could delay the expected end of 2009 in-service date, the District believes it can still meet the scheduled in-service date of Unit 4.

**Peaking/Intermediate Generation Siting.** In 2006 the District initiated a process to identify locations for up to 2,500 MW of natural gas peaking/intermediate generation to be operational by 2022. The process has identified three locations which are appropriate locations for such generation resources. The District has elected to move forward with the permitting for eventual construction of generation facilities on two of these sites, reserving the third for possible later development. The two sites are the "Abel" site, adjacent to the Abel Substation in northwest Florence (Arizona), and the "Pinal Central" site, adjacent to the Pinal Central Substation site south of Coolidge (Arizona). In addition to these two new facilities in Pinal County, the District is also considering power-purchase agreements and ownership interests in existing or new generation facilities to meet its needs. The District plans to construct at the Abel site a simple-cycle peaking-power plant that can provide up to 850 MW of summer capacity. That generating facility will become operational in stages, beginning as early as 2012, with full operating capacity

available in 2016. The District will concurrently seek to permit a combined-cycle intermediate power plant at the Pinal Central site of up to 1,150 MW of summer capacity. That facility will also become operational in stages, and will be placed in service as dictated by need between 2014 and 2022. The District has commenced the public process for siting and permitting these facilities which will culminate with a hearing before the Arizona Power Plant and Transmission Line Siting Committee. A final decision on whether to grant a Certificate of Environmental Compatibility for any power plant and its associated transmission lines will be decided by the Arizona Corporation Commission.

**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.

In February 2006, the District entered into an agreement with various electrical districts in Pinal County, Southwest Transmission Cooperative, Inc., an Arizona non-profit rural electric cooperative and TEP (collectively the “Project Participants”) for the development of 150 miles of 500kV transmission lines, 80 miles of 230kV transmission lines and up to four new substations to serve the growing load in the Project Participants’ respective service areas. The new 500kV transmission line will originate at the Hassayampa Switchyard near PVNGS and terminate at the District’s Browning Substation. The anticipated cost of the project is approximately \$390 million, of which the District’s share is approximately \$280 million. Completion is scheduled for June 2011.

**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)**

<u>Fiscal Year Ending April 30,</u>	<u>Hydro(1)</u>	<u>Gas/Oil</u>	<u>Coal</u>	<u>Nuclear</u>	<u>Renewables</u>	<u>Long Term Purchases</u>	<u>Other Purchases(2)</u>
2009.....	3.1%	17.8%	34.3%	13.2%	0.1%	11.3%	20.2%
2010.....	3.0%	16.7%	35.2%	12.8%	0.1%	11.0%	21.2%
2011.....	2.9%	16.3%	40.0%	12.7%	0.1%	10.0%	18.0%
2012.....	2.8%	21.7%	39.1%	12.4%	0.1%	5.0%	18.9%
2013.....	2.8%	24.3%	38.9%	12.0%	0.1%	2.4%	19.5%
2014.....	2.7%	27.2%	36.8%	11.7%	0.1%	2.5%	19.0%

(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 has entered into a coal supply contract for Springerville Unit 4 which begins in 2009 and runs through 2012. See “THE ELECTRIC SYSTEM — Existing and Future Resources — Mohave Generating Station” for further discussion of the Mohave Generating Station.

For years 2007 through 2015, Rio Tinto Energy America formerly known as Kennecott Energy, will provide the coal required by the Coronado Generating Station (“CGS”), up to an 81% capacity factor, with anything above that being obtained from the spot market. The District 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.

**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 and will start transporting a portion of the District's natural gas supply under that contract in 2009. Additionally, the District encourages parties to consider development of natural gas storage fields in Southern Arizona.

In October 2007, the District entered into a 30-year gas purchase agreement with the Salt Verde Financial Corporation ("SVFC"), an Arizona nonprofit corporation, to purchase approximately 20% of its projected natural gas requirements needed to serve retail customers. The District is obligated to pay only for the gas delivered under this contract. To fulfill its obligation, SVFC entered into a 30-year prepaid gas agreement with Citigroup Energy Inc. SVFC financed the purchase by the issuance of its special obligation gas revenue bonds ("Gas Revenue Bonds"). The Gas Revenue Bonds do not constitute a debt, liability or obligation of the District.

**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 2010, 100% of the requirements for conversion services through 2011, 100% of the requirements for the enrichment services through 2013, 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.

### **Sustainable Resource Portfolio**

As the nation's oldest multi-purpose federal reclamation project, the Salt River Project was founded on the principles of resource stewardship. The District acknowledges the environmental challenges associated with supplying reasonably-priced power to a growing customer base and recognizes that environmental stewardship, resource conservation and efficiency create effective partnerships with its customers. The District believes that it

must pursue a portfolio of initiatives to meet current and future goals and has invested heavily in research and development. Since 1974, the District has spent over \$250 million on research and development and has partnered with the Electric Power Research Institute on groundbreaking demonstration projects. These include a study of technologies for capturing carbon emissions via a chilled ammonia process, a program to commercially deploy six hyper-efficient appliances and testing the means by which to enhance efficiencies of the District's transmission and distribution grid. The District has partnered with its customers to reduce greenhouse gas emissions and invest in renewable energy. The District offers a green pricing program called EarthWise Energy that thousands of the District's customers use to support renewable energy. The EarthWise Energy program provides incentives for customers to install solar photovoltaic and hot water systems, and the District also has a Trees for Change Program which allows customers to support tree planting. Evidence of the District's portfolio approach is the adoption by the Board of a Sustainable Portfolio Plan ("SPP"). The SPP, adopted in 2004 and amended in 2006, targets meeting 5% of expected retail energy requirements with sustainable resources through the year 2015. By 2025, the target increases to 15%. Sustainable resources are defined as all supply-side and demand-side resources that reduce reliance on traditional fossil fuels. This includes generation from renewable resources, including hydro-electric generation, as well as conservation, energy efficiency and pricing measures. The District is the leader in Arizona in terms of renewable resource ownership and purchase. Including nuclear power, 20 % of the electricity provided by the District is produced without creating any greenhouse gases. The District is pursuing the acquisition of additional, cost-effective renewable resources and is evaluating all options including nuclear.

In addition to supply-side resources, the District has increased its investment in energy efficiency and demand response programs. Through fiscal year 2014, the District has increased its planned investment in energy efficiency by over \$200 million. Examples include incentives for the construction of energy efficient homes and commercial buildings, retail partnerships to discount the cost of energy efficient appliances, an appliance recycling program that pays customers for the pick-up and recycling of inefficient refrigerators/freezers (the first of its kind in Arizona) and new commercial programs that provide incentives for standard and customized efforts to install efficient lighting and equipment. The District's award-winning M-Power® Pre-Pay Program has received national acclaim for its conservation effect and its use of real time technology to display usage information to customers inside the home. Currently, 70,000 customers are on the program, making it the largest pre-pay program in North America. Studies have consistently demonstrated an average 12% reduction in energy usage for customers who switch to the program; an added benefit is that over 90% of customers on the program are satisfied/very satisfied with the District. Augmenting programs that conserve energy, the District is adding to its portfolio of programs that shift peak demand. The District's time-of-use ("TOU") pricing plan is one of the largest in the nation. Last Spring, the District Board approved a pilot pricing plan (EZ-3) designed to reduce customer load during the summer hours between 3:00 and 6:00 pm. Initial results from the program are extremely encouraging – customers who have switched from both the standard and the TOU plan have consistently reduced energy consumption, with minimal offsetting effects seen in the pre- and post-peak hours. The District plans to expand this program, and is also looking at launching a commercial customer demand response program. See "ELECTRIC PRICES" for further discussion of the District's TOU and M-Power® Programs.

The portfolio of initiatives referenced above, coupled with many other activities and partnerships, will help meet the District's electrical needs while addressing some of the environmental issues facing the industry. See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – Environmental" for further discussion.

### **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 has 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 catastrophic losses such as the destruction of the World Trade Center and natural disasters such as Hurricane Katrina, have periodically 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. The District has implemented a comprehensive compliance assurance program, including audits, to meet that goal. However, due to continued changes resulting from legislative, regulatory and judicial actions, 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 regulations could result in additional capital expenditures to comply, reduced operating levels, or the complete shutdown of individual electric generating units not in compliance.

See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – Environmental" for further discussion of environmental issues.

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 permit programs for discharges to surface water and to groundwater, and a superfund program to clean up groundwater contamination. Twelve state superfund sites and seven federal superfund sites targeting contamination of groundwater have been established within the greater Phoenix metropolitan area. The Association has agreed with other responsible parties to clean up one federal superfund site, and preliminary reports have identified one District facility as a possible source of contamination for another federal superfund site. The full 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 emissions to protect air quality. At the locations of the principal coal-fired generating units now in operation, the federal agencies place a high emphasis on preserving air quality and visibility at large national parks, monuments, wilderness areas and Indian reservations; since many of the District’s coal-fired generating stations are located in the vicinity of these federal lands, those generating stations may be subject to particularly stringent control standards. These standards substantially increase the cost of, and add to the difficulty of siting, constructing, and operating electric generating units. Environmental requirements regarding air emissions have been changing and are anticipated to change substantially in the future. Possible future legislative or regulatory mandates related to the Clean Air Act and climate change initiatives may result in requirements for further reductions of emissions that are currently regulated, like SO<sub>2</sub>, NO<sub>x</sub>, particulate matter and mercury, as well as reductions of emissions of gases and substances not presently regulated, like CO<sub>2</sub>. Additionally, regional climate change initiatives may drive state-level regulation. For example, in February 2007, the Governor of Arizona, along with the governors of five other western states, as well as several Canadian provinces, launched the Western Climate Initiative (“WCI”) to establish a regional greenhouse gas reduction goal and develop market-based strategies to achieve emissions reductions. Membership in the WCI has increased to seven western states and four Canadian provinces. Management is aggressively pursuing strategies to develop facilities to provide renewable and low-carbon intensity generation capacity and continues to monitor legislative and regulatory developments and provide comments.

Based on currently available information, the District cannot estimate or predict its costs to comply with these proposals and goals, but believes that such costs could be material. See “CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – Environmental” and “LITIGATION – Environmental Issues – *New Source Review*” for a discussion of consent decree with the EPA concerning CGS.

See “THE ELECTRIC SYSTEM - Sustainable Resource Portfolio” and “CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – Environmental” for a discussion of the District’s efforts to address greenhouse gas emissions.

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 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 generally has not included NGS or the Four Corners Generating Station (“Four Corners”) in the lands covered by approved tribal programs because of a dispute over the effect of covenants in the Leases and Grants 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 that it is no longer regulating environmental matters relating to NGS since the plant is located on the Navajo Indian Reservation. In general, NGS and Four Corners 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 a Voluntary Compliance Agreement with the Navajo Nation that establishes contractual authority for the Navajo Nation to issue permits and regulate air emissions at NGS and Four Corners under certain rules not stricter than those of the EPA, and are working towards another voluntary compliance agreement for drinking water. See “LITIGATION — Environmental Issues — *Navajo Environmental Laws*,” for further discussion of the Navajo Nation’s environmental laws and the 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 procedures for public notice and a special Board meeting before implementing any changes in its 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.

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 "Competition Act") authorized competition in the retail sales of electric generation, recovery of stranded costs, and competition in billing, metering and meter reading. 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. However, during the past three years, two retail energy service providers, one meter reading service provider and one meter service provider have reapplied to the ACC for authorization to sell competitive services in Arizona. In September 2008, the ACC suspended consideration of the application of one of the retail energy service providers pending completion of public workshops on the policy issues underlying retail competition and receipt of ACC Staff's report and recommendations. The report to the ACC is due by the end of 2009. The ACC has not yet addressed the three other applications.

The District has a Fuel & Purchased Power Adjustment Mechanism ("FPPAM") to allow for semi-annual rate adjustments to recover increases in actual fuel costs and a Transmission Cost Adjustment Factor ("TCAF") to recover costs the District would incur if the District were required to participate in regional transmission organizations. On October 6, 2008, the District Board approved a change to the FPPAM to address undercollected fuel and purchased power expenses. The changes, effective November 1, increased average prices by approximately 5.9%. To date, no costs have been incurred or recovered through the TCAF.

In April 2005, the District Board authorized the creation of a Rate Stabilization Fund ("RSF") to be used in concert with the FPPAM to cover fuel related expenses and to stabilize future prices related to fuel. Since the time of initial authorization, the District has funded the RSF three times and transferred \$165 million, plus interest, from the RSF to the District's General Fund to address a portion of fuel and purchased power expenses for fiscal years 2007 and 2008.

On March 17, 2008, the District Board approved a 3.9% system average price increase effective May 1, 2008. The increase included a 2.1% increase related to a fuel and purchased power and a 1.8% increase to base prices. The increase is expected to generate \$91 million annually. The new price plans incorporate design changes that better reflect the District's underlying seasonal costs and promote energy efficiency and conservation.

The District has a long history of promoting price designs that provide customers with the appropriate price signals to reduce load during peak time periods and seasons and use electricity efficiently. All residential, commercial and industrial price plans have seasonally differentiated prices. The District has one of the largest Residential Time-of-Use (TOU) Programs in the United States. With commercial and industrial loads included, the District has nearly 50% of its retail load subject to a TOU Price Plan. The District also has the largest residential "pre-pay" program in the United States. Under this program customers pay in advance for their electricity. This program, also known as M-Power®, has had the effect of reducing electricity consumption by participating customers by approximately 12%.

The new price plan designs introduced in May 2008 provided an additional emphasis on conservation, peak load reduction and promoting energy efficiency. Key changes include:

1. The addition of a new higher priced summer peak pricing season for all residential commercial and industrial price plans applicable during the months of July and August.

2. The incorporation of an inclining block pricing structure for non-TOU residential customers during the summer and summer peak seasons to encourage conservation.
3. The addition of a new optional Residential TOU Program that charges significantly higher prices during the critical on-peak hours during the summer and summer peak seasons.
4. Modifications to the District's commercial TOU Program to make it attractive to a larger number of customers.

See "THE ELECTRIC SYSTEM – Sustainable Portfolio" for further discussion.

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 October 2005, the District Board approved additional funding for renewable energy programs, energy efficiency and energy conservation effective November 1, 2005. These surcharges continue to be separately identified and included in the District's price plans for the regulated portion of its operations.

### 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 projections for economic and customer growth, changes in construction costs, projects being added, deleted, deferred or completed and changes in the period covered by the forecast. See "THE DISTRICT – Economic and Customer Growth in the District's Service Area."

The 2009 through 2014 Capital Improvement Program totals approximately \$6.1 billion. Of this total, approximately \$5.8 billion is for construction (including contingencies), \$110.3 million is for capitalized administrative and general expenses, \$1.6 million is for capitalized voluntary contributions in lieu of taxes, and \$201.3 million is for capitalized interest. In the past, the District has paid a portion of the cost of the Capital Improvement Program from internally generated funds and a portion from the proceeds of Revenue Bonds. The District anticipates funding approximately 57% of the 2009 through 2014 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. A portion of the proceeds of the Series 2009A Bonds are expected to be applied to fund the costs of generation assets and improvements to both the distribution and generation systems.

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 \$6.1 billion Capital Improvement Program, approximately \$2.7 billion is directed to generating projects. These include the construction of Springerville Unit 4 Generating Station, the addition of a gas peaking plant and other future generation facilities. Approximately \$1.6 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 \$620 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 2009 through 2014 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.

The District updates its Capital Improvement Program annually in April of each year. When projected economic and customer growth declines, the District reviews its Capital Improvement Program to reflect revised demands on the Electric System. See "THE DISTRICT – Economic and Customer Growth in the District's Service Area."

Table 6 summarizes the District's 2009 through 2014 Capital Improvement Program.

**TABLE 6 — 2009 through 2014 Capital Improvement Program  
(\$000's – Unaudited)**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Total 2009-2014</u>
Electric Construction:							
Generation .....	\$ 593,657	\$ 351,159	\$ 240,813	\$ 842,903	\$ 585,402	\$ 78,082	\$ 2,692,016
Transmission .....	158,521	178,086	120,064	113,126	22,991	27,203	619,991
Distribution.....	251,092	251,341	261,964	274,569	287,244	293,837	1,620,047
Retail Sales and Services.....	38,337	30,769	24,915	20,380	20,615	4,631	139,647
Operational Support.....	80,120	57,418	48,219	47,840	46,590	48,434	328,621
Subtotal — Electric							
Construction .....	1,121,727	868,773	695,975	1,298,818	962,842	452,187	5,400,322
Contingency Allowance & Risk Portfolio.....	400	700	42,300	111,300	143,800	100,700	399,200
Subtotal.....	1,122,127	869,473	738,275	1,410,118	1,106,642	552,887	5,799,522
Capitalized Administrative and General Expenses.....	17,147	17,621	18,114	18,624	19,137	19,667	110,310
Capitalized Voluntary Contributions .....	257	262	267	273	278	284	1,621
Capitalized interest .....	46,120	53,392	30,542	27,441	31,709	12,112	201,316
Total(1).....	<u>\$1,185,651</u>	<u>\$ 940,748</u>	<u>\$ 787,198</u>	<u>\$1,456,456</u>	<u>\$1,157,766</u>	<u>\$ 584,950</u>	<u>\$ 6,112,769</u>

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

**SELECTED OPERATIONAL AND FINANCIAL DATA**

**Customers, Sales, Revenues and Expenses**

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

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

**TABLE 7 – Fiscal Year 2008 Customer Accounts, Sales, and Revenues**

	<b>Customer Accounts at</b>	<b>Total Sales</b>	<b>Sales Revenue</b>		
	<b>April 30, 2008</b>	<b>(GWh)</b>	<b>%</b>	<b>(\$000)</b>	<b>%</b>
Residential.....	836,637	13,393	36.4	1,213,512	43.0
Commercial and Small Industrial .....	82,620	10,963	29.8	802,787	28.4
Large Industrial .....	21	1,802	4.9	97,314	3.5
Mines.....	25	1,450	3.9	68,260	2.4
Pumps .....	133	32	0.1	3,454	0.1
Public/Private Lighting.....	9,487	202	0.5	23,818	0.8
Interdepartmental.....	1	105	0.3	7,604	0.3
Subtotal/Retail.....	928,924	27,947	75.9	2,216,749	78.5
Electric Utilities/Wholesale(1) .....	68	8,892	24.1	606,923	21.5
Total(2).....	<u>928,992</u>	<u>36,839</u>	<u>100.0</u>	<u>2,823,672</u>	<u>100.0</u>

(1) Wholesale figure shown is adjusted to exclude bookouts.

(2) 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 836,637 customers at April 30, 2008, this group serves as a solid base, bringing in approximately 43% of total electric revenues.

The second largest retail customer classification is the commercial and small industrial group; these customers numbered 82,620 at April 30, 2008 against 79,435 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, 2008.

**TABLE 8 — Historical Operating Statistics**

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>SERVICE:</b>					
Total Customers at Year-End .....	928,992	919,422	892,875	858,312	824,416
Total Sales (million kWh) .....	36,839	36,506	36,876	35,516	33,806
Average Revenue per kWh (cents) .....	7.66	7.33	7.39	6.56	6.18
District Only: (excludes sales for resale and affiliated retail) Sales					
(millions kWh).....	27,947	26,675	25,052	23,649	23,935
Increase in Sales(%) .....	4.8	6.5	5.9	-1.2	6.2
<b>TOTAL OPERATING REVENUES:</b>					
(000's omitted)(1)(9) .....	\$ 2,733,359	\$ 2,623,686	\$ 2,512,559	\$ 2,252,827	\$ 2,072,837
<b>OPERATING EXPENSES</b>					
(000's omitted):					
Fuel and Purchased Power(2)(9).....	\$ 1,161,669	\$ 1,089,333	\$ 1,056,645	\$ 782,349	\$ 713,780
Operating and Maintenance(3) .....	724,808	613,902	605,525	563,222	577,267
Sales and Payroll Taxes .....	27,931	27,156	25,407	24,208	23,948
Ad Valorem Taxes(4) .....	(2,290)	6,633	4,275	7,444	10,187
Total Operating Expenses (5) .....	\$ 1,912,118	\$ 1,737,024	\$ 1,691,852	\$ 1,377,223	\$ 1,325,182
<b>NET OPERATING REVENUES .....</b>	<b>\$ 821,241</b>	<b>\$ 886,662</b>	<b>\$ 820,707</b>	<b>\$ 875,604</b>	<b>\$ 747,655</b>
<b>VOLUNTARY CONTRIBUTIONS</b>					
<b>IN LIEU OF TAXES (000's omitted):(6)</b>					
Expensed.....	\$ 63,871	\$ 61,636	\$ 69,220	\$ 72,100	\$ 64,818
Capitalized .....	426	518	598	80	317
Total .....	\$ 64,297	\$ 62,154	\$ 69,818	\$ 72,180	\$ 65,135
<b>OTHER STATISTICS:</b>					
<b>Annual Peak (MW):</b>					
System Requirements .....	6,578	6,590	6,044	5,665	5,673
Total Peak Load(7) .....	7,324	7,649	7,297	6,669	6,771
System Load Factor%(8).....	49.5	47.7	49.3	49.1	50.0
<b>Residential Statistics:</b>					
<b>Fiscal Year-End Residential</b>					
Customers .....	836,637	830,735	809,235	778,123	747,019
Annual Sales (million kWh) .....	13,392	12,919	12,077	11,218	11,402
Average Annual Usage (kWh).....	15,980	15,695	15,211	14,687	15,549
Average Sales Price per kWh (cents) .....	9.06	8.80	8.59	8.20	7.65

(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) District operating expenses and net operating revenues as presented are not in accordance with generally accepted accounting principles ("GAAP") due to the exclusion of depreciation expense and voluntary contributions in lieu of taxes.

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

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

(8) 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.

(9) Total operating revenues and fuel and purchased power have been adjusted for the effects of EITF 03-11 starting in fiscal year 2003 and SFAS No. 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) tried unsuccessfully to include 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. At issue had been the District's liability for approximately \$13.8 million plus interest for fiscal years 2003 (four months), 2004 (12 months), and 2005 (8 months). For calendar years 2005 and forward, legislation was passed that codified the exclusion of CIAC from the in-lieu contributions formula.

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. 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 October 31, 2008, was approximately \$41.2 million. As of October 31, 2008, payment by the District for the remainder of the power sales contracts with CAWCD totaled approximately \$75 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. If, at pricing, the District determines to apply a portion of the 2009 Series A Bonds to the repayment of a portion of the Promissory Notes, the amount outstanding would be reduced by such amount. The amount authorized to be issued would not be permanently reduced below \$475 million. 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 were

accounted for by the District as long-term debt at April 30, 2008 and 2007 and for the interim period presented in Table 10 below. The Agreement expires on December 7, 2009 and as a result, the outstanding Promissory Note and borrowings under the agreement were reclassified to short-term beginning December 8, 2008. At October 31, 2008, 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, Desert Basin Independent Trust ("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 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. As of September 30, 2008, \$250,365,000 Certificates were outstanding. 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. The District is in compliance with all other covenants of its bonds, notes, or other debt obligations.

**Management's Discussion of Operations.** Over the last twelve months, electric customer growth slowed to less than 1 percent, a dramatic shift from the 3 to 4 percent growth the District has experienced in recent years. The District expects slower growth to continue in the short term.

Despite the slowdown, the District's total operating revenues for the first six months of fiscal year 2009 (FY09) were up 8 percent from the same period in fiscal year 2008 (FY08). Increases in electric prices contributed to a 7 percent increase in retail revenues. Total wholesale revenues were 27 percent better than the same period in FY08. The increased wholesale revenues were driven by greater generation unit availability for wholesale sales due to lower than expected retail usage and fewer plant outages. Higher average wholesale energy prices also contributed to the increase in wholesale revenues.

The increase in revenues was offset by an 18 percent increase in operating expenses. The prices of all forms of fuel were up on average during the first six months of FY09. Fuel expense grew 46 percent compared to the same period in FY08. Approximately \$169.7 million of the increased fuel expense resulted from changes in the fair value of fuel contracts.

A weak market for investments and low interest rates contributed to less-than-favorable investment performance. The District recorded a \$107.0 million loss in earnings (loss) on investments and deposits for the first six months of FY09, compared to a \$43.6 million gain for the same period in FY08. Beginning in the first quarter of FY09, the District adopted a new accounting standard which allows companies to report certain financial assets and liabilities at fair value instead of cost, which is how the District previously accounted for these items. Those changes in fair value are recognized in earnings, and the District's adoption of the new standard resulted in a loss of \$104.9 million.

The effects of the previously mentioned activities resulted in a net loss for the first six months of FY09 of \$16.4 million, compared with net revenues of \$243.2 million for the same period in FY08. Without the effects of the new accounting standard and the change in fair value of fuel and purchased power contracts, net revenues would have been \$280.0 million compared with net revenues of \$265.0 million for the same period in FY08.

In addition to the investment losses described above, the current market conditions have caused SRP's Employee's Retirement Plan assets to decline in value by 20.6% for the time period April 30, 2008 through October 31, 2008. Management realizes that the markets have been volatile and economic recovery will depend on many exogenous factors.

*Six Months Ended October 31, 2008 – Unaudited.*

**Table 9 – Summary Combined Financial Data (1)**  
**(\$000's – Unaudited)**  
**Summary Condensed Combined Statements of Net Revenues**

	Six Months Ended October 31,	
	2008	2007
Operating Revenues:		
Retail Electric.....	\$ 1,488,258	\$ 1,395,321
Water.....	5,636	6,949
Other .....	<u>241,105</u>	<u>199,126</u>
Total Operating Revenues(2).....	<u>1,734,999</u>	<u>1,601,396</u>
Operating Expenses:		
Fuel .....	591,208	403,916
Purchased Power .....	368,910	335,326
Operations(2) .....	250,660	231,532
Maintenance .....	121,839	127,712
Depreciation .....	190,850	182,460
Taxes and Tax Equivalents .....	<u>53,439</u>	<u>52,730</u>
Total Operating Expenses.....	<u>1,576,906</u>	<u>1,333,676</u>
Net Operating Revenues .....	<u>158,093</u>	<u>267,720</u>
Other Income:		
Earnings (loss) on Investments and Deposits, net .....	(107,001)	43,643
Other Income (deductions), net.....	<u>248</u>	<u>(4,141)</u>
Total Other Income.....	<u>(106,753)</u>	<u>39,502</u>
Financing Costs .....	<u>67,735</u>	<u>64,010</u>
NET REVENUES.....	<u>\$ (16,395)</u>	<u>\$ 243,212</u>

(1) The unaudited combined financial data reflect the combined net revenues of the District and the Association and should be read in conjunction with the Notes to the Combined Financial Statements attached hereto as Appendix A.

(2) Inter-company transactions eliminated.

**Table 10 – Summary Combined Financial Data (1)**  
**(\$000's – Unaudited)**

	October 31, <u>2008</u>	April 30, <u>2008</u>
<b>ASSETS</b>		
Utility Plant, at Original Cost .....	\$11,287,496	\$10,866,410
Less: Accumulated Depreciation .....	<u>4,838,387</u>	<u>4,687,090</u>
	<u>6,449,109</u>	<u>6,179,320</u>
Other Property and Investments .....	<u>1,039,430</u>	<u>1,348,703</u>
<b>Current Assets</b>		
Cash and Cash Equivalents .....	151,054	414,428
Temporary Investments .....	224,837	106,556
Current Portion, Segregated Funds .....	187,118	98,765
Receivables, net .....	301,409	241,626
Fuel Stocks .....	31,227	37,829
Materials and Supplies .....	126,912	124,160
Other .....	<u>59,776</u>	<u>115,527</u>
	<u>1,082,333</u>	<u>1,138,891</u>
Deferred Charges .....	<u>686,919</u>	<u>715,093</u>
<b>TOTAL ASSETS</b> .....	<u>\$9,257,791</u>	<u>\$9,382,007</u>
<b>CAPITALIZATION &amp; LIABILITIES</b>		
<b>CAPITALIZATION</b>		
Accumulated Net Revenues, beginning of year .....	\$3,838,835	\$3,606,896
Net Revenues year-to-date .....	(16,395)	257,103
Other Comprehensive Income .....	-	(25,164)
Accumulated Net Revenues, and Other Comprehensive Income .....	<u>3,822,440</u>	<u>3,838,835</u>
Long-term Debt .....	<u>3,677,552</u>	<u>3,679,929</u>
	7,499,992	7,518,764
<b>CURRENT LIABILITIES</b>		
Current Portion, Long-Term Debt .....	\$170,697	\$170,748
Accounts Payable .....	148,835	284,295
Accrued Taxes and Tax Equivalentts .....	56,910	72,600
Accrued Interest .....	58,976	49,122
Customers' Deposits .....	79,360	79,049
Other .....	<u>237,601</u>	<u>174,644</u>
	<u>752,379</u>	<u>830,458</u>
Deferred Credits .....	<u>1,005,420</u>	<u>1,032,785</u>
<b>TOTAL CAPITALIZATION AND LIABILITIES</b> .....	<u>\$9,257,791</u>	<u>\$9,382,007</u>

(1) The unaudited combined financial data reflect the combined balance sheet of the District and the Association and should be read in conjunction with the Notes to the Combined Financial Statements attached hereto as Appendix A.

**Outstanding Revenue Bond Long-Term Indebtedness.** As of October 31, 2008, the District had outstanding \$3,074,877,000 of Revenue Bonds, computed without deducting the unamortized bond discount/premium.

The following table shows total fiscal year Revenue Bond Debt Service Requirements and the District's fiscal year payment obligation under the Finance Lease subsequent to the issuance of the 2009 Series A Bonds.

**TABLE 11 — Total Revenue Bond Requirements and Finance Lease Liability(1)**

Years Ending <u>April 30,(2)</u>	<u>Total Revenue Bond Debt Service Requirements</u>	<u>Total Finance Lease Payments</u>	<u>Total Revenue Bond Debt Service &amp; Finance Lease Payments</u>
2009.....	301,702,749	29,184,104	330,886,853
2010.....	299,507,830	29,183,163	328,690,993
2011.....	299,326,260	29,184,772	328,511,032
2012.....	281,527,318	29,182,429	310,709,746
2013.....	255,815,722	29,182,319	284,998,041
2014.....	242,486,560	29,182,688	271,669,248
2015.....	224,790,715	29,182,354	253,973,069
2016.....	200,698,966	29,182,438	229,881,404
2017.....	200,696,329	29,184,521	229,880,850
2018.....	200,698,885	29,183,146	229,882,031
2019.....	205,706,935	29,182,563	234,889,498
2020.....	229,880,960		229,880,960
2021.....	229,881,373		229,881,373
2022.....	229,881,933		229,881,933
2023.....	229,878,123		229,878,123
2024.....	229,879,747		229,879,747
2025.....	229,882,433		229,882,433
2026.....	229,880,248		229,880,248
2027.....	229,879,725		229,879,725
2028.....	229,882,421		229,882,421
2029.....	229,880,196		229,880,196
2030.....	229,881,579		229,881,579
2031.....	229,882,450		229,882,450
2032.....	229,879,100		229,879,100
2033.....	229,881,583		229,881,583
2034.....	229,881,417		229,881,417
2035.....	229,882,583		229,882,583
2036.....	229,882,583		229,882,583
2037.....	229,880,500		229,880,500
2038.....	229,880,667		229,880,667
2039.....	35,000,000		35,000,000

(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 2005, 2006, 2007 and 2008.

**TABLE 12 – Historical Application of Revenues and Coverage of Debt Service Requirement  
(\$000's – Unaudited)**

	Fiscal Years Ended April 30			
	Actuals			
	<u>2008(1)</u>	<u>2007(1)</u>	<u>2006(1)</u>	<u>2005(1)</u>
Electric Revenues (2)	\$ 2,890,921	\$ 2,736,831	\$ 2,794,025	\$ 2,400,410
Operating Expenses (2) (3) (4)	<u>2,160,735</u>	<u>1,900,035</u>	<u>1,948,830</u>	<u>1,559,973</u>
Revenues from Operations	730,186	836,796	845,195	840,437
Interest and Other Income (Net)	<u>50,683</u>	<u>77,051</u>	<u>55,459</u>	<u>29,443</u>
Revenues Available for Debt Service	780,869	913,847	900,654	869,880
Rate Stabilization Funds	<u>81,922</u>	<u>(25,599)</u>	<u>(1,892)</u>	<u>(55,000)</u>
Revenues Available for Debt Service on Revenue Bonds and Subordinated Debt	862,791	888,248	898,762	814,880
Debt Service Requirements Revenue Bonds	260,830	241,546	337,980	322,383
Debt Service Requirements Subordinated Debt	<u>44,663</u>	<u>46,378</u>	<u>33,844</u>	<u>18,733</u>
Total Debt Service	305,493	287,924	371,824	341,116
Coverage of Total Revenue Bond Debt Service (5)	2.99	3.78	2.66	2.70
Coverage of Total Debt Service (6)	2.82	3.09	2.42	2.39
Balance after Debt Service	557,298	600,324	526,938	473,764
Plus: Interest on Construction Fund	3,873	11,705	3,388	107
Less: Contribution in Lieu of Taxes	63,871	61,636	69,220	72,100
Less: Contributions to Water Operations	47,018	34,792	34,161	56,672
Less: Falling Water Charges (7)	<u>16,380</u>	<u>21,192</u>	<u>18,273</u>	<u>6,870</u>
Balance Available for Corporate Purposes	<u>\$ 433,902(8)</u>	<u>\$ 494,409</u>	<u>\$ 408,672</u>	<u>\$ 338,229</u>

(1) Includes inter-company sales.

(2) Electric Revenues and Operating Expenses do not include the effects of EITF 03-11 and SFAS No. 133.

(3) 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.

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

(5) Figures derived by dividing line "Revenues Available for Debt Service" by line "Debt Service Requirements Revenue Bonds."

(6) Figures derived by dividing line "Revenues Available for Debt Service on Revenue Bonds and Subordinated Debt" by line "Total Debt Service."

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

(8) May be reconciled with combined net revenues for 2008 (shown on page A4) as follows:

(\$000's -Unaudited)

BALANCE AVAILABLE FOR CORPORATE PURPOSES .....	\$ 433,902
Bond principal repayment .....	137,824
Subordinated Debt principal payment .....	16,750
Rate Stabilization Funds.....	(81,922)
Capitalized Interest.....	23,552
Amortization of regulatory assets.....	(11,980)
Depreciation and amortization.....	(357,457)
Fuel related depreciation (reflected in fuel costs).....	(1,788)
Amortization of bond accretion.....	(449)
Amortization of bond discount/premium, issuance, and refinancing expenses.....	5,962
Net Revenues before impact of SFAS No. 133 and gain on sale of available-for-sale securities.....	164,394
Impact of SFAS No. 133 implementation.....	92,709
Gain on sale of available-for-sale securities.....	--
COMBINED NET REVENUES.....	<u>\$ 257,103</u>

## 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. Two significant factors are (i) the efforts 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, and (ii) the regulatory requirements related to the issues of climate change.

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, 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. In its Order 890, issued in February 2007, FERC declined to generically implement its discretionary authority over unregulated transmitting utilities (including the District). FERC determined the authority would be used on a case-by-case basis. The District does not expect Order 890 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 1998, Arizona enacted the Competition Act, which applies to public power entities, like the District. The Competition Act authorized competition in the retail sale of electric generation, recovery of stranded costs, and competition in billing, metering and meter reading. While retail competition was available to all customers in 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. See "ELECTRIC PRICES" for further discussion.

***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 rules for retail electric competition, which were challenged in the courts, and held to be invalid. The ACC has taken no action to reinstate its electric competition rules. Nevertheless, during the past three years, two retail energy service providers, one meter reading service provider, and one meter service provider have reapplied to the ACC for authorization to sell competitive services in Arizona. In September 2008, the ACC suspended consideration of the application of one of the retail energy service providers pending completion of public workshops on the policy issues underlying retail competition and receipt of ACC Staff's report and recommendations. The report to the ACC is due by the end of 2009. The ACC has not yet addressed the other applications.

### **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.*"

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

The District is regulated by an independent, publicly-elected Board of Directors 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 was recognized in 2008 by J.D. Power & Associates for scoring the highest in residential customer satisfaction among electricity providers in the West. The District has received this award nine out of the last ten years. 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. However, as a summer peaking utility, there are times during the year when the District's resources exceed its retail load, thus giving rise to wholesale activity. The District has an Energy Risk Management Program to limit exposure to risks inherent in retail and wholesale energy business operations by identifying,

measuring, reporting, and managing exposure to market, credit, and operational risks. 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 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 District's Board of Directors, and overseen by a Risk Oversight Committee. The Risk Oversight Committee is composed of senior executives. The District maintains an Energy Risk Management Department separate from the energy marketing area. The Energy Risk Management Department regularly reports to the Risk Oversight Committee. The policy established by the Risk Oversight Committee addresses market, credit and operational risks.

### **Environmental**

Electric utilities are subject to federal, state and local environmental regulations which continually change due to legislative, regulatory and judicial actions. 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. The need to comply with environmental regulations could result in additional capital expenditures to comply, reduced operating levels, or the complete shutdown of individual electric generating units not in compliance. In particular, the full significance to the District of air quality standards and emission reduction initiatives in terms of cost and operational problems is difficult to predict, but costly equipment may have to be added to units now in operation and that permit fees may increase significantly resulting in potentially material costs to the District.

As a result of legislative and regulatory initiatives, the District is planning reductions in emissions of mercury and other pollutants at its coal-fired power plants including plants located on the Navajo Reservation. The EPA issued regulations for the control of mercury emissions from coal-fired generating stations in 2005. Arizona opted into the federal mercury program in 2006 and imposed additional mercury emissions limitations which would require the District to install additional controls at CGS and Springerville Unit 4 to achieve 90% mercury removal. In addition, the District has been participating with the EPA in the development of a rule to regulate mercury emissions on the Navajo Reservation, where the District owns an interest in two generating stations, NGS and Four Corners. However, on February 7, 2008, the U.S. Court of Appeals, D.C. Circuit, vacated the EPA rules in response to a suit by 11 states that had challenged the rules as not protective enough of public health and contrary to the CAA. The EPA will promulgate new mercury rules in response to the court's decision. While the District is evaluating the implications of the decision, it is likely that additional controls will be required at all coal fired plants in which the District has an interest. The District is still evaluating compliance options and cannot yet estimate the associated costs.

In June 2005, the EPA issued final amendments to its July 1999 regional haze rule. These amendments apply to the provisions of the 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 guidelines for states and tribes to use in determining which facilities must install controls and the types of controls that facilities must use. States and tribes were required to complete BART determinations for eligible facilities by the end of 2007, although Arizona did not meet that deadline and it is uncertain whether it will do so by the end of 2008 or 2009. BART controls must be installed five years after the EPA has approved 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 submitted a BART analysis to the EPA in November 2007 for NGS, and to the ADEQ in February 2008 for CGS. BART analyses have also been completed for several other coal fired plants in which the District has a financial interest. The District cannot predict whether the EPA will approve Arizona's BART determination, and if approved what its financial impact will be on the District.

The District is also closely monitoring climate change and global warming legislative and regulatory developments. Efforts to cap or tax emissions of carbon dioxide from fossil fuel power plants will substantially increase the cost of, and add to the difficulty of siting, constructing, and operating electric generating units. The District recognizes the growing importance of the issues concerning climate change (global warming) and the implications these issues could have on its operations, so it is closely monitoring related developments at the federal, state and regional levels. Efforts to cap or tax emissions of carbon dioxide from fossil fuel power plants will substantially increase the cost of, and add to the difficulty of siting, constructing and operating electric generating units.

To stay abreast of the latest developments and technology solutions, the District participates in a broad array of research that will lead to reductions in greenhouse gas emissions including the Department of Energy's Climate VISION Program, which establishes a voluntary framework for reducing the greenhouse gas (GHG) emissions intensity. Climate VISION participants will reduce their GHG emissions intensity by an equivalent of 3 to 5% below 2000-2002 baseline levels, as measured over the 2010-2012 period.

As part of the Climate VISION Program, the District is designing a GHG Inventory Management Plan and is committed to tracking and reporting greenhouse gas emissions. The District has reported its 2006 and 2007 GHG emissions to the California Climate Action Registry. Both of those emission inventories have been certified by an approved third party verifier. The District follows a rigorous protocol to quantify all direct and indirect emissions from its power generation operations and all other sources of greenhouse gasses from transportation and fugitive sources. These emission results are publically available.

The District has also joined The California Climate Action Registry, and plans to report 2008 and future emissions to that registry. The District follows a rigorous protocol to quantify all direct and indirect emissions from its power generation operations and all other sources of GHG from transportation and fugitive sources. These emission results are publically available. The District also joined The Climate Registry and plans to report 2008 and future emissions to that registry. The Climate Registry establishes consistent, transparent standards throughout North America for businesses and governments to calculate, verify and publicly report their carbon footprints in a single, unified registry.

See "ELECTRIC SYSTEM – Sustainable Resource Portfolio" for a further discussion of the District's climate change programs.

The District has partnerships with Arizona State University that emphasize the study of clean energy technologies and also works with the Electric Power Research Institute and the Department of Energy on research initiatives. In addition, the District is a partner in the West Coast Regional Carbon Sequestration Partnership (WESTCARB), which is exploring opportunities to remove CO<sub>2</sub> in a six-state region, including Arizona. The District is also a charter member of the EPA's Emission Reduction Partnership that is working to reduce sulfur hexafluoride (SF<sub>6</sub>), another potent GHG. Through a stakeholder process, the District will work with the Arizona Department of Environmental Quality in the development and implementation of mandatory GHG reporting protocols and rules. See "THE ELECTRIC SYSTEM - Sustainability Resource Portfolio" for a discussion of the District's planned resource additions to reduce GHG emissions.

As a result of legislative and regulatory initiatives, the district is planning emission reductions at its coal-fired power plants. In particular, under the terms of a consent agreement with the EPA, the District has agreed to install additional pollution control equipment at CGS. See "LITIGATION — Environmental Issues – *New Source Review*" herein. The full significance of air quality standards and emission reduction initiatives to the District in terms of costs and operational problems is difficult to predict, but it appears that costly equipment may have to be added to existing units and that permit fees may increase significantly resulting in potentially material cost to the District as well as reduced generation. The District is assessing the risk of policy initiatives on its generation assets and is developing contingency plans to comply with future laws and regulations restricting greenhouse gas emissions. There is no way to predict the impact of such initiatives on the District at this time.

The California Legislature has enacted laws that could impact the District. Under one such law, the California Public Utilities Commission (the "CPUC") and the California Energy Commission ("CEC") implemented a regulation that, among other things, prohibits procurement of electricity from a coal-fired power plant for five years

or longer and restricts investments in coal-fired plants. The Los Angeles Department of Water and Power ("LADWP"), one of the participants in NGS, and SCE, a participant in Four Corners Units 4 and 5, are subject to the regulation and may be precluded from approving certain expenditures at the plants, including capital improvements. The regulations except expenditures for "routine maintenance"; however, no definition is provided. SCE has petitioned the CPUC to exclude financial contributions required under pre-existing contract obligations for Four Corners. The petition is pending.

The California Air Resource Board ("CARB") is also developing a program to reduce California's emission of greenhouse gases, including an economy-wide cap-and-trade program for greenhouse gases. A preliminary recommendation from CARB included a requirement for California utilities to divest or mitigate portions of existing investments in coal-based generation. The regulations could impact the District's ability to sell excess generation into California. If the implementing regulations prohibit or penalize the sale of energy generated by a coal-fired plant, the District could lose California as a market for its wholesale generation; however, the District has other options for marketing its wholesale generation.

The District is monitoring and participating in the development of these regulations to determine the full extent of their impact on the District and the plants in which it has an interest. Based on available information, the District cannot estimate or predict the impact of the California laws on it at this time.

### **Nuclear Plant Matters**

In accordance with the Nuclear Waste Policy Act of 1982, APS contracted with the DOE for waste and spent fuel disposal services. The DOE was responsible for the selection and development of a repository for permanent storage and disposal of spent nuclear fuel not later than December 31, 1998. However, the DOE has delayed submitting an application to construct a permit repository at Yucca Mountain, Nevada until 2008. A decision on licensing is not expected until at least 2010 and the facility is unlikely to open until at least 2017. 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 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 through April 2008, has 53 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 \$359.1 million in 2007 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 2009 Series A Bonds, 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 2009 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. The District entered into formal negotiations for an Incidental Take Permit ("ITP") 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 engaged in similar negotiations with the USFWS to obtain an ITP for operation of Horseshoe and Bartlett Dams on the Verde River and was issued a permit in May 2008.

The USFWS designated "critical habitat" for the Southwest Willow Flycatcher (the "Flycatcher"), one of the species affected by operation of the SRP Reservoirs, in October 2005. The final designation does not encompass lands in or near the SRP Reservoirs, thus does not impact either of the ITPs issued to the District. On October 2, 2008 however, the Center for Biological Diversity ("CBD") sued the USFWS, challenging the designation of critical habitat for the Flycatcher. If the Federal District Court invalidates the designation, presumably the reservoir lands would again be considered for inclusion in the designation. In that event, it is still not likely there would be any adverse impact on the District's ITPs as the ITPs, and supporting HCPs, cover this eventuality and provide that the District will not be expected to contribute additional funding or resources.

**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 District 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. As a result the District and APS have sought dismissal of the Navajo Nation Supreme Court Cases and the air quality counts of the Navajo Nation Tribal Court Cases. 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 EPA notified the District that it might 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 Operable Unit 3. The District may be liable for past costs incurred and for future work to be conducted within the Superfund Site. The District's investigation and evaluation indicate minimal contamination on site. The District has completed the soil investigation and modeling for the site and has submitted the Remedial Investigation Report to the EPA for comment and approval. 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 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 under the CAA. As part of this initiative, the District was contacted by the EPA and, in March 2004, the District began negotiations with the EPA regarding possible additional control technology to reduce emission levels from CGS. On August 11, 2008, the District executed an agreement (called a consent decree) with the EPA that will result in a significant reduction in emissions from CGS.

Under the agreement with the EPA, the District will install new state-of-the-art emission control technology at a cost of approximately \$400 million to further reduce emissions of sulfur dioxide (SO<sub>2</sub>), nitrogen oxide (NO<sub>x</sub>) and particulate matters (PM). These controls are consistent with expected BART requirements for the generating stations, and the costs have already been included in the District's six-year capital improvement plan. In addition, the District will pay a \$950,000 penalty and spend \$4 million on supplemental environmental projects. By negotiating a settlement with the EPA, the District avoided litigation alleging that it had violated the CAA by conducting maintenance at CGS that the EPA considered modifications. In addition to the reductions in emissions, the new controls will further protect visibility in national parks and wilderness areas, facilitating CGS's meeting of regional haze requirements. Regulations dealing with regional haze are expected to become effective over the next few years. The consent decree therefore provides certainty for the District for capital and resource planning.

**Springerville Air Permit.** On May 6, 2008, pursuant to the citizen suit provision of the CAA, the Sierra Club challenged the issuance of the air permit for Units 3 and 4 of the Springerville Generating Station. The Sierra Club stated that the owners of the units had violated the CAA by having received a permit without a determination of the maximum achievable control technology ("MACT") standards. While it is too soon to predict the outcome of this matter, the District believes that all necessary environmental permits and determinations have been obtained, including the required MACT determination.

## **Water Rights**

**Gila River Adjudication.** The District and the Association are parties to a state water rights adjudication proceeding initiated in 1976 which encompasses 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 was among the many defendants named in this lawsuit. The lawsuit claimed that the defendants' use of surface water and groundwater violated the GRI Community's rights to water in certain specified areas, and requested 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 dismissed under the terms of the Arizona Water Rights Settlement Act, which resolves not only the claims of GRI Community but also many of the claims in the Gila River Adjudication.

**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.

**Verde River.** The cities of Prescott and Prescott Valley, together with the Town of Chino Valley, have announced plans to withdraw groundwater from the Big Chino Groundwater Sub-Basin and transport the water to their respective service areas for municipal and industrial uses. The District opposes these plans because it believes that such pumping would deplete the base flow of the Verde River, which is captured and stored by two reservoirs on the Verde River for delivery to Association shareholders. This dispute is still in its early stages and the District cannot predict the outcome at this time. However, the District does not believe the dispute will have a significant financial impact on the District or the Association.

## **Coal Supply**

**Navajo Nation v. Peabody (U.S. District Court, D.C. District - RICO Case).** In 1999, the Navajo Nation filed a lawsuit in the United States District Court in Washington D.C. (the "U.S. District Court"), in which the Hopi Tribe later was joined as a plaintiff. The lawsuit arises out of negotiations culminating in 1987 with amendments to the coal leases and related agreements. The Navajo Nation and the Hopi tribe allege that Peabody (the coal supplier for NGS and Mohave), SCE (operating agent for Mohave), the District (operating agent for NGS), and certain individual defendants had, in violation of the federal racketeering statutes, improperly induced the Department of the Interior ("DOI") to not approve the coal royalty rate proposed by the Navajo Nation. They further alleged that the DOI's failure to approve the rate caused the tribes to negotiate and settle upon a substantially lower royalty rate. 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 2001, 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.

In 2005, the U.S. District Court granted a motion to stay the litigation until further order of the court while the parties were in mediation with respect to this litigation and related business issues. Although the litigation had been stayed for several years, the lawsuit has been restored to the Court's active docket.

In an earlier case filed in the Federal Court of Claims against the United States Government and based on similar allegations, the U. S. Court of Appeals for the Federal Circuit held that the Navajo Nation had a cognizable money-mandating claim against the United States for breach of trust and that the government had breached its duties. The Court of Appeals remanded the case to the Court of Claims for proceedings consistent with its ruling. The Court of Claims again found that the U.S. Government had not breached any compensable duty of trust owed to the Navajo Nation. On appeal, the Court of Appeals again reversed the Court of Claims. The U.S. Government then sought, but was denied, rehearing of the order of the Court of Appeals. On October 1, 2008, the U.S. Supreme Court granted the petition for a writ of certiorari that had been filed by the United States seeking reversal of the decision of the Federal Circuit Court of Appeals, and the matter is pending.

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

**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 the coal leases. (See the *RICO Case*, above.) Peabody filed two separate lawsuits in the Superior Court of Arizona against the NGS and Mohave Participants, respectively, seeking recovery of these fees. The Mohave and NGS Participants dispute Peabody's attempt to recover its legal costs under the coal supply agreements.

In the NGS legal fees case, the Maricopa County Superior Court dismissed Peabody's claims for legal fees against the NGS Participants. The Arizona Court of Appeals affirmed the dismissal, and petition for review to the Arizona Supreme Court was denied. Thus the decision is final.

As for the Mohave legal fees case, the Mohave Participants and Peabody had executed a settlement agreement pursuant to which Peabody granted the Mohave Participants a waiver for fees incurred prior to January 2006. However, the lawsuit for fees arising after December 2005 remained until December 17, 2007, when the court ruled, among other matters, that the Mohave Participants were not responsible for Peabody's legal fees incurred in the

*RICO Case*. The District has agreed to dismiss without prejudice its counterclaims relating to Peabody's alleged agency until the *RICO Case* has been completed.

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

***Peabody v. SRP (the St. Louis Case)***. In October 2004, Peabody also filed suit in St. Louis, Missouri against the District and the other owners of NGS. Peabody asserted claims against the District and claims against all NGS Participants for reimbursement of any damages relating to liability associated with the *Rico Case*; alleged breach of the NGS Coal Supply Agreement; and breach of indemnity obligations owed to Peabody as the alleged agent of the NGS Participants.; Peabody sought \$500 million in damages for the breach of contract claim and unspecified compensatory damages, prejudgment interest, attorneys' fees and costs on the other claims. While this case was still in its discovery phase, the parties entered into a tolling agreement whereby the suit was dismissed. The claims of tortious interference against the District and the claim for breach of indemnity obligations owed to Peabody were dismissed with prejudice. All other claims were dismissed without prejudice pending completion of the *RICO Case*.

Except as indicated, the District is unable to predict the likely outcome of these coal supply litigation matters at this time, but does not believe that the final resolution of these matters will have material adverse effects on its operations or financial condition.

### **California Energy Market Litigation**

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. The District has received approximately (\$26) million in refunds to date.

### **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 2009 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 2009 Series A Bonds from the District at an aggregate purchase price of \$760,605,693.65, reflecting an original issue premium of \$20,424,831.15 and an underwriters' discount of \$3,999,137.50 from the initial public offering prices set forth on the inside cover page of this Official Statement. J.P. Morgan Securities Inc., one of the underwriters of the 2009 Series A Bonds, has entered into an agreement (the "Distribution Agreement") with UBS Financial Services Inc. for the retail distribution of certain municipal securities offerings including the 2009 Series A Bonds, at the original issue prices. Pursuant to the Distribution Agreement, J.P. Morgan Securities Inc. will share a portion of its underwriting compensation with respect to the 2009 Series A Bonds with UBS Financial Services Inc.

## 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 2009 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 2009 Series A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issue of the 2009 Series A Bonds. The District has covenanted to comply with the provisions of the Code applicable to the 2009 Series A Bonds, and has covenanted not to take any action or permit any action that would cause the interest on the 2009 Series A Bonds to be included in gross income under Section 103 of the Code applicable to the 2009 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 2009 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 2009 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 2009 Series A Bonds is exempt from income taxes imposed by the State of Arizona.

### Original Issue Discount

Special Tax Counsel is further of the opinion that the difference between the principal amount of the 2009 Series A Bonds maturing January 1, 2020 with an interest rate of 3.5 percent, January 2021 with an interest rate of 3.8 percent, January 1, 2022 with an interest rate of 4 percent, January 1, 2024 with an interest rate of 4.3 percent, January 1, 2029 with an interest rate of 4.7 percent, January 1, 2031 and on January 1, 2033 through January 1, 2039; (collectively the "Discount Bonds") and the initial offering price to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of such Discount Bonds of the same maturity was sold constitutes original issue discount which is excluded from gross income for federal income tax purposes to the same extent as interest on the Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each Discount Bond and the basis of each Discount Bond acquired at such initial offering price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount. The accrual of original issue discount may be taken into account as an increase in the amount of tax-exempt income for purposes of determining various other tax consequences of owning the Discount Bonds, even though there will not be a corresponding cash payment. Owners of the Discount Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Discount Bonds.

### Original Issue Premium

The 2009 Series A Bonds maturing on January 1, 2011 through January 1, 2018, January 1, 2020 with an interest rate of 5 percent, January 1, 2021 with an interest rate of 5 percent, January 1, 2022 with an interest rate of 5 percent, January 1, 2023 with an interest rate of 5 percent, January 1, 2024 with an interest rate of 5 percent, January 1, 2025 through January 1, 2028, January 1, 2029 with an interest rate of 5 percent, January 1, 2030, and on January 1, 2032 (collectively, the "Premium Bonds") are being offered at prices in excess of their principal amounts. An initial purchaser with an initial adjusted basis in a 2009 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 2009 Series A Bond based on the purchaser's yield to maturity (or, in the case of 2009 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 2009 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 2009 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 2009 Series A Bonds. Owners of the 2009 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 2009 Series A Bonds.

### **Ancillary Tax Matters**

Ownership of the 2009 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 Bonds.

Commencing with interest paid in 2006, interest paid on tax-exempt obligations such as the Bonds is subject to information reporting to the Internal Revenue Service (the "IRS") in a manner similar to interest paid on taxable obligations. In addition, interest on the 2009 Series A Bonds may be subject to backup withholding if such interest is paid to a registered owner that (a) fails to provide certain identifying information (such as the registered owner's taxpayer identification number) in the manner required by the IRS, or (b) has been identified by the IRS as being subject to backup withholding.

Special Tax Counsel is not rendering any opinion on any federal tax matters other than those described under the caption "Tax Matters". Prospective investors, particularly those who may be subject to special rules described above, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the 2009 Series A Bonds, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

### **Changes in Law and Post Issuance Events**

Legislative or administrative actions and court decisions, at either the federal or state level, could have an adverse impact on the potential benefits of the exclusion from gross income of the interest on the 2009 Series A Bonds for federal or state income tax purposes, and thus on the value or marketability of the 2009 Series A Bonds. This could result from changes to federal or state income tax rates, changes in the structure of federal or state income taxes (including replacement with another type of tax), repeal of the exclusion of the interest on the Bonds from gross income for federal or state income tax purposes, or otherwise. It is not possible to predict whether any legislative or administrative actions or court decisions having an adverse impact on the federal or state income tax treatment of holders of the 2009 Series A Bonds may occur. Prospective purchasers of the 2009 Series A Bonds should consult their own tax advisers regarding such matters.

Special Tax Counsel has not undertaken to advise in the future whether any events after the date of issuance and delivery of the 2009 Series A Bonds may affect the tax status of interest on the Bonds. Special Tax Counsel expresses no opinion as to any federal, state or local tax law consequences with respect to the 2009 Series A Bonds, or the interest thereon, if any action is taken with respect to the 2009 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 2009 Series A Bonds are subject to the approval of Drinker Biddle & Reath LLP, Bond Counsel, whose final approving opinion will be delivered with the 2009 Series A Bonds in substantially the form attached hereto as Appendix C. Certain legal matters in connection with the 2009 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 2009 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 2009 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 2009 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 2009 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 2009 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, 2009 (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events with respect to the 2009 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, 2008 and April 30, 2007 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.

### **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, 2008 is available, and copies of the annual report and audited financial statements may be obtained on the District's webpage [www.srpnet.com](http://www.srpnet.com) or by writing to Salt River Project Agricultural Improvement and Power District, Corporate Communications, PAB340, P.O. Box 52025, Phoenix, AZ 85072-2025.

#### 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

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APPENDIX A — REPORT OF INDEPENDENT AUDITORS AND COMBINED FINANCIAL STATEMENTS  
AS OF APRIL 30, 2008 AND 2007

REPORT OF INDEPENDENT AUDITORS



**PricewaterhouseCoopers LLP**  
400 Campus Drive  
P. O. Box 988  
Florham Park NJ 07932  
Telephone (973) 236 4000  
Facsimile (973) 236 5000

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, 2008 and 2007, 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.

As discussed in Note 7 to the combined financial statements, SRP changed the manner in which it accounts for defined benefit postretirement plans in fiscal 2008.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP". The signature is written in dark ink and is positioned above the date.

June 12, 2008

SALT RIVER PROJECT  
COMBINED BALANCE SHEETS  
APRIL 30, 2008 AND 2007

(Thousands)

ASSETS	<u>2008</u>	<u>2007</u>
<b>UTILITY PLANT</b>		
Plant in service -		
Electric .....	\$ 8,943,588	\$ 8,596,738
Irrigation .....	294,038	283,065
Common .....	488,692	472,244
Total plant in service .....	9,726,318	9,352,047
Less – Accumulated depreciation on plant in service .....	(4,687,090)	(4,419,510)
	5,039,228	4,932,537
Plant held for future use .....	3,726	3,283
Construction work in progress .....	1,041,462	511,580
Nuclear fuel, net .....	94,904	45,955
	6,179,320	5,493,355
<b>OTHER PROPERTY AND INVESTMENTS</b>		
Non-utility property and other investments .....	194,900	137,837
Segregated funds, net of current portion .....	1,153,803	877,171
	1,348,703	1,015,008
<b>CURRENT ASSETS</b>		
Cash and cash equivalents .....	414,428	495,150
Rate Stabilization Fund .....	-	82,273
Temporary investments .....	106,556	137,058
Current portion of segregated funds .....	98,765	83,000
Receivables, net of allowance for doubtful accounts .....	241,626	226,456
Fuel stocks .....	37,829	26,902
Materials and supplies .....	124,160	106,740
Other current assets .....	115,527	57,524
	1,138,891	1,215,103
DEFERRED CHARGES AND OTHER ASSETS .....	715,093	422,266
	\$ 9,382,007	\$ 8,145,732
<b>CAPITALIZATION AND LIABILITIES</b>		
LONG-TERM DEBT .....	\$ 3,679,929	\$ 3,041,408
<b>ACCUMULATED NET REVENUES AND OTHER</b>		
<b>COMPREHENSIVE INCOME</b> .....	3,838,835	3,606,896
<b>TOTAL CAPITALIZATION</b> .....	7,518,764	6,648,304
<b>CURRENT LIABILITIES</b>		
Current portion of long-term debt .....	170,748	146,148
Accounts payable .....	284,295	219,027
Accrued taxes and tax equivalents .....	72,600	75,135
Accrued interest .....	49,122	47,646
Customers' deposits .....	79,049	73,909
Other current liabilities .....	174,644	159,745
	830,458	721,610
DEFERRED CREDITS AND OTHER NON-CURRENT LIABILITIES	1,032,785	775,818
COMMITMENTS AND CONTINGENCIES		
(Notes 5,7,8,9,10, and 11)	\$ 9,382,007	\$ 8,145,732

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

SALT RIVER PROJECT  
 COMBINED STATEMENTS OF NET REVENUES AND COMPREHENSIVE INCOME  
 FOR THE YEARS ENDED APRIL 30, 2008 AND 2007

(Thousands)

	2008	2007
<b>OPERATING REVENUES</b>		
Retail electric.....	\$ 2,212,807	\$ 2,054,652
Water .....	14,339	12,893
Other .....	511,977	563,188
Total operating revenues .....	2,739,123	2,630,733
<b>OPERATING EXPENSES</b>		
Power purchased .....	486,406	475,349
Fuel used in electric generation .....	677,871	615,961
Other operating expenses.....	484,954	439,338
Maintenance .....	304,824	236,646
Depreciation and amortization .....	369,477	348,643
Taxes and tax equivalents .....	93,376	97,607
Total operating expenses .....	2,416,908	2,213,544
Net operating revenues .....	322,215	417,189
<b>OTHER INCOME (EXPENSES)</b>		
Interest income .....	62,657	86,765
Other income, net .....	(4,553)	3,459
Total other income, net.....	58,104	90,224
Net revenues before financing costs.....	380,319	507,413
<b>FINANCING COSTS</b>		
Interest on bonds .....	123,455	122,093
Capitalized interest.....	(23,552)	(9,110)
Amortization of bond discount/premium and issuance expenses.....	(5,962)	(6,181)
Interest on other obligations.....	29,275	32,821
Net financing costs.....	123,216	139,623
NET REVENUES .....	257,103	367,790
OTHER COMPREHENSIVE INCOME.....	(25,164)	98,244
COMPREHENSIVE INCOME.....	\$ 231,939	\$ 466,034

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, 2008 AND 2007

(Thousands)

	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net revenues .....	\$ 257,103	\$ 367,790
Adjustments to reconcile net revenues to net cash provided by operating activities:		
Depreciation, amortization and accretion .....	369,477	348,643
Amortization of net bond discount/premium and issuance expenses .....	(5,963)	(6,181)
Change in fair value of derivative instruments .....	(92,707)	(47,230)
Gain on sale of capital assets .....	(301)	(4,809)
Decrease (increase) in -		
Fuel stocks and materials & supplies .....	(28,347)	(12,559)
Receivables, including unbilled revenues, net .....	(15,170)	(37,443)
Other current assets.....	(10,168)	26,144
Deferred charges and other assets .....	(10,046)	(107,296)
Increase (decrease) in -		
Accounts payable .....	65,268	56,223
Accrued taxes and tax equivalents.....	(2,535)	2,378
Accrued interest.....	1,476	2,239
Current liabilities .....	19,768	(60,298)
Deferred credits and other non-current liabilities .....	(13,180)	212,922
Net cash provided by operating activities .....	534,675	740,523
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to utility plant, net .....	(1,073,997)	(650,520)
Proceeds from disposition of assets.....	9,101	43,512
Purchases of investments .....	(1,344,636)	(1,494,805)
Sales and maturities of securities.....	1,210,608	1,290,228
Net Change in temporary investments related to segregated funds.....	(83,848)	(70,360)
Net cash used for investing activities .....	(1,282,772)	(881,945)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of revenue bonds .....	816,139	299,963
Repayment of long-term debt, including refundings .....	(148,764)	(129,338)
Net cash provided by financing activities .....	667,375	170,625
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....</b>	<b>(80,722)</b>	<b>29,203</b>
<b>BALANCE AT BEGINNING OF YEAR IN CASH AND CASH EQUIVALENTS .....</b>	<b>495,150</b>	<b>465,947</b>
<b>BALANCE AT END OF YEAR IN CASH AND CASH EQUIVALENTS .....</b>	<b>\$ 414,428</b>	<b>\$ 495,150</b>
<b>SUPPLEMENTAL INFORMATION:</b>		
Cash paid for interest (net of capitalized interest).....	\$ 127,702	\$ 143,565

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

**SALT RIVER PROJECT  
NOTES TO COMBINED FINANCIAL STATEMENTS  
APRIL 30, 2008 AND 2007**

**(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.

***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 three wholly-owned taxable subsidiaries: SRP Captive Risk Solutions, Limited (CRS), Papago Park Center, Inc. (PPC) and New West Energy Corporation (New West Energy). 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. PPC is a real estate management company. New West Energy was used 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, but is now largely inactive. 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 preemptive 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 4.76% and 4.67% were used in fiscal years 2008 and 2007 to calculate interest on funds used to finance construction work in progress, resulting in \$23.6 million and \$9.1 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:

	2008	2007
Average electric depreciation rate .....	3.66%	3.58%
Average irrigation depreciation rate .....	2.05%	1.93%
Average common depreciation rate.....	6.49%	6.35%

**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 \$12.1 million and \$13.0 million as of April 30, 2008 and 2007, respectively.

**Nuclear Fuel**

The District amortizes the cost of nuclear fuel using the units-of-production method. The units-of-production method is an amortization method based on actual physical usage. The nuclear fuel amortization and the disposal expense are components of fuel expense. Accumulated amortization of nuclear fuel at April 30, 2008 and 2007 was \$425.7 million and \$408.2 million, respectively.

**Asset Retirement Obligations**

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

The District has identified retirement obligations for the Palo Verde Nuclear Generating Station (PVNGS), Navajo Generating Station (NGS), Four Corners Generating Station (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. PVNGS received an updated decommissioning study during fiscal year 2008, which resulted in a decrease of \$32.2 million to SRP's share of the PVNGS asset retirement obligation.

A summary of the asset retirement obligation activity of the District for the year ended April 30, 2008, is included below (in millions):

Balance, May 1, 2007.....	\$ 195.0
Liabilities incurred.....	2.5
Changes in estimate.....	(32.2)
Accretion expense.....	12.0
Balance, April 30, 2008.....	<u>\$ 177.3</u>

In accordance with regulations of the Nuclear Regulatory Commission, the District maintains a trust for the decommissioning of PVNGS. Decommissioning funds of \$194.5 million and \$196.4 million, stated at market value, as of April 30, 2008 and 2007, respectively, are held in the trust and are classified as segregated funds in the accompanying Combined Balance Sheets. The nuclear decommissioning trust funds are invested in debt and equity securities. The trust funds are accounted for in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and are classified as available-for-sale. The nuclear decommissioning trust funds are exempt from federal and state income taxes.

In fiscal year 2008, the Board authorized the future recovery through prices of all costs associated with nuclear decommissioning. As a result, any difference between current year costs and revenues associated with nuclear decommissioning are deferred. Accordingly, the District's nuclear decommissioning activities are accounted for in accordance with SFAS No. 71 and have no impact to the District's earnings. Realized and unrealized gains and losses (including other-than-temporary impairments) on decommissioning trust funds increase or decrease the trust asset and the related regulatory asset or liability. (See NOTE (9) REGULATORY ISSUES, *Deferred Charges and Deferred Credits* for additional disclosure).

**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 represent probable future recovery of certain costs from customers through the pricing process and are included in deferred charges and other assets in the accompanying

Combined Balance Sheets. (See NOTE (9) REGULATORY ISSUES, *Deferred Charges and Deferred Credits*, for additional discussion.)

### ***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 manage 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 to 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 normal sales exception allowed under SFAS No. 133 and are not recorded at market value. This exception applies to physical sales and purchases of power or fuel where it is probable that physical delivery will occur; the pricing provisions are clearly and closely related to the contracted prices; and the SFAS 133 documentation requirements are met. (For further explanation of the effects of SFAS No. 133 on SRP'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. The Association is not exempt from federal and Arizona state income taxes but has not been liable for income taxes on the basis of a settlement with the Commissioner of Internal Revenue in 1949 which was approved by the Secretary of the Treasury. The District has three wholly-owned taxable subsidiaries: CRS, PPC and New West Energy. 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, except for those short-term investments that are set aside for a specific purpose, such as amounts held in the Rate Stabilization Fund or as part of the segregated funds.

### **Rate Stabilization Fund**

In 2001, the District Board created a 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 other purposes. Since the time of the initial authorization, the District has funded the RSF three times and transferred \$165.0 million, plus interest, from the RSF to the District's General Fund to address a portion of fuel and purchased power expenses for fiscal years 2006 through 2008. (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. The estimated revenue for electricity delivered but not yet billed is included in retail electric revenue and was \$64.0 million and \$60.1 million at April 30, 2008 and 2007, respectively. Other operating revenue consists primarily of revenue from marketing and trading electricity.

### **Sales and Use Taxes**

The District is required by various government authorities, including states and municipalities, to collect and remit taxes on certain retail sales. Such taxes are presented on a net basis and excluded from revenues and expenses in the combined financial statements.

### **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 total assets, net revenues or cashflows.

### **Recently Issued Accounting Standards**

FASB has issued the following Statements of Financial Accounting Standards (SFAS), Emerging Issues Task Force Opinions (EITF) and Interpretations (FIN) that may have an impact on SRP:

In June 2006, the FASB issued EITF Issue No. 06-03, "*How Taxes Collected from Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement (that is, Gross versus Net Presentation)*" (EITF 06-03), which requires that SRP disclose its accounting policy regarding presentation of taxes on either a gross (included in revenues and costs) or a net (excluded from revenues) basis. Additionally, the amounts of any taxes reported on a gross basis in interim and annual financial statements must be disclosed. EITF 06-03 is effective for interim and annual reporting periods beginning after December 15, 2006. SRP adopted the provisions of this statement on May 1, 2007. Sales tax amounts collected from customers have been recorded on a net basis, which resulted in no impact to the financial statements. (See *Sales and Use Taxes* in this Note.)

FIN No. 48, "*Accounting for Uncertainty in Income Taxes - an Interpretation of FAS 109*" (FIN 48), issued July 2006, requires a determination of whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Once it is determined that a tax position meets the more-likely-than-not recognition threshold, the position is measured to determine the amount of benefit to recognize in the financial statements. FIN 48 is effective for fiscal years beginning after December 15, 2006, and was adopted by SRP on May 1, 2007. The adoption did not have a material impact on the accompanying combined financial statements.

In September 2006, the FASB issued SFAS No. 157, "*Fair Value Measurements*" (SFAS No. 157). SFAS No. 157 defines fair value, establishes methods for measuring fair value by applying one of three observable market techniques (market approach, income approach or cost approach) and expands required disclosures about fair value measurements. SRP adopted the provisions of this standard effective May 1, 2008. Implementation of SFAS No. 157 impacts the recognition of future changes in fair value. As such, SRP cannot predict the impact that adopting this standard will have on the results of future operations.

Also in September 2006, the FASB issued SFAS No. 158, "*Employers' Accounting for Defined Benefit Pension and Other Post-Retirement Plans*" (SFAS No. 158). SFAS No. 158 requires an employer to recognize overfunded or underfunded status of the plan, measure defined benefit plan assets and obligations as of the date of the employer's statement of financial position, and disclose additional information in the footnotes. The provisions of this standard are effective for SRP for fiscal years ending after June 15, 2007; accordingly, SRP adopted the provisions of this standard on April 30, 2008. (See Note (7), DEFINED BENEFIT PLANS AND INCENTIVE PROGRAMS, *Defined Benefit Pension and Other Postretirement Benefits*, for additional discussion.)

In February 2007, the FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment to FASB Statement No. 115*" (SFAS No. 159), which provides an option to report eligible financial assets and liabilities at fair value, with changes in fair value recognized in earnings. SRP adopted the provisions of this standard effective May 1, 2008. Elections made under SFAS No. 159 impact the recognition of future changes in fair value. As such, SRP cannot predict the impact that its elections will have on the results of future operations.

In March 2008, the FASB issued SFAS No. 161, "*Disclosures about Derivative Instruments and Hedging Activities – an Amendment of FASB Statement No. 133*" (SFAS No. 161). SFAS No. 161 requires additional disclosures related to derivative instruments, including how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years beginning after November 15, 2008, with early adoption permitted. SRP will adopt the provisions of this standard on May 1, 2009. SFAS No. 161 will impact disclosures only and will not have an impact on SRP's combined financial statements.

### **(3) Accounting for Derivative Instruments and Hedging Activities:**

SRP follows SFAS No. 133, 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 fair value are recognized immediately in earnings unless specific hedge accounting criteria are met. For derivatives that qualify for hedge accounting, depending on the nature of the hedge, changes in fair value are either offset by changes in the fair value of the hedged assets, liabilities or firm commitments through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings.

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 economically 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 normal 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 normal sales scope exception are recorded at fair value with changes in fair value recognized in earnings. Changes in fair value related to the District's derivatives are classified as part of operating cash flows in the Combined Statements of Cash Flows.

The following table summarizes the District's derivative-related assets and liabilities at April 30 (in thousands):

	2008	2007
Other current assets .....	\$ 101,795	\$ 40,024
Deferred charges and other assets.....	58,520	40,813
Other current liabilities .....	(5,460)	(18,624)
Deferred credits and other non-current liabilities .....	(583)	(9,085)
Long-term debt .....	724	1,855
Net asset.....	<u>\$ 154,996</u>	<u>\$ 54,983</u>

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 presents the impacts of these financially settled contracts on a net basis, which resulted in a net reduction to revenue and purchase power expense of \$166.1 million and \$150.4 million for fiscal years 2008 and 2007, respectively, but which did not impact net revenues or cash flows.

The following table summarizes the District's unrealized gains (losses) associated with derivative-related activity at April 30 (in thousands):

	2008	2007
Operating Revenues.....	\$ 8,500	\$ 35,137
Purchased Power .....	26,271	-
Fuel Used in electric generation .....	56,284	12,565
Interest on other obligations .....	1,652	(472)
Net unrealized gain .....	<u>\$ 92,707</u>	<u>\$ 47,230</u>

#### (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
		Minimum pension liability	Unrealized gain (loss) on available- for-sale securities	Total	
BALANCE, April 30, 2006	\$ 3,202,326	\$ (73,300)	\$ 11,836	\$ (61,464)	\$ 3,140,862
Net Revenues	367,790				367,790
Other Comprehensive Income	-	73,300	24,944	98,244	98,244
BALANCE, April 30, 2007	<u>\$ 3,570,116</u>	<u>\$ -</u>	<u>\$ 36,780</u>	<u>\$ 36,780</u>	<u>\$ 3,606,896</u>
Net Revenues	257,103				257,103
Other Comprehensive Income	-	-	(25,164)	(25,164)	(25,164)
BALANCE, April 30, 2008	<u>\$ 3,827,219</u>	<u>\$ -</u>	<u>\$ 11,616</u>	<u>\$ 11,616</u>	<u>\$ 3,838,835</u>

**(5) Long-Term Debt:**

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

	<u>Interest Rate</u>	<u>2008</u>	<u>2007</u>
Revenue bonds (mature through 2038)	4.00 – 6.50%	\$ 3,074,928	\$ 2,394,926
Unamortized bond (discount) premium		51,108	53,105
Total revenue bonds outstanding		<u>3,126,036</u>	<u>2,448,031</u>
Finance lease	2.50 – 5.25%	250,365	266,380
Commercial paper	0.90 – 2.75%	475,000	475,000
Total long-term debt		<u>3,851,401</u>	<u>3,189,411</u>
Unamortized interest rate swap		(724)	(1,855)
Less: Current portion of long-term		<u>(170,748)</u>	<u>(146,148)</u>
Total long-term debt, net of current		<u>\$ 3,679,929</u>	<u>\$ 3,041,408</u>

The annual maturities of long-term debt (excluding commercial paper, unamortized mini-revenue bond accretion, and unamortized bond discount/premium) as of April 30, 2008, due in fiscal years ending April 30, are as follows (in thousands):

	<u>Revenue Bonds</u>	<u>Finance Lease</u>
2009	\$ 152,968	\$ 17,780
2010	115,855	16,790
2011	108,480	19,950
2012	103,430	17,455
2013	78,495	22,995
Thereafter	<u>2,515,700</u>	<u>155,395</u>
	<u>\$ 3,074,928</u>	<u>\$ 250,365</u>

**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 trustee 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 \$181.3 million and \$150.7 million of debt service related funds as of April 30, 2008 and 2007, respectively.

The District has \$38.5 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, 2008 and 2007, the debt service coverage ratio was 2.82 and 3.09, respectively.

Interest and the amortization of the bond discount, premium and issue expense on the various issues results in an effective rate of 4.93% over the remaining term of the bonds.

The District has authorization to issue additional Electric System Revenue Bonds totaling \$384.0 million principal amount and Electric System Refunding Revenue Bonds totaling \$4.0 billion principal amount, and has an application pending with the Arizona Corporation Commission for additional authorization in the principal amounts of \$1.9 billion and \$2.1 billion, respectively.

In July 2006, the District issued \$296.0 million Electric System Revenue Bonds. The net proceeds from these bonds were used to fund distribution capital requirements. In March 2008, the District issued an additional \$816.7 million Electric System Revenue Bonds, the net proceeds of which are being used to finance additional capital improvements to the Electric System pursuant to the District's Capital Improvement Program.

#### ***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 a six-year, \$75 million fixed-to-floating interest rate swap transaction with Morgan Stanley Capital Services. The notional value of the swap is \$50 million, with \$25 million notional maturities expiring on December 1, 2008 and 2009, respectively. The floating rate on the swap is based on the ~~Securities Industry and Financial Markets Association (SIFMA) Municipal Index~~ and 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 SIFMA-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. (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 \$100.0 million Series C Commercial Paper. The issues have an average weighted interest rate to the District of 1.74%.

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, 2008.

The revolving credit agreement contains various conditions precedent to borrowings that include, but are not limited to, compliance with the covenants set forth in the agreement, the continued accuracy of representations and warranties, no existence of default and maintenance of certain investment grade ratings on the District's revenue bonds. 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, 2008.

### **(6) Fair Value of Financial Instruments:**

The following methods and assumptions were used to estimate the fair value for 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 collective fair value of the District's revenue bonds and the Desert Basin Lease-Purchase Agreement, 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. As of April 30, 2008 and 2007, the carrying amounts, including accrued interest, were \$3.8 billion and \$3.2 billion, respectively, and the estimated fair values were \$4.0 billion and \$3.3 billion, respectively.

### ***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.

### ***Accounting for Debt and Equity Securities***

The District applies SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," in accounting for its investments in debt and equity securities. The following table summarizes the District's investments in debt and equity securities at April 30 (in thousands):

	2008	2007
Cash and cash equivalents	\$ 404,091	\$ 467,637
Non-utility property and other investments	119,590	61,500
Segregated funds, net of current portion	1,153,803	877,171
Rate Stabilization Fund	-	82,273
Temporary investments	106,556	137,058
Current portion of segregated funds	98,765	83,000
<b>Total</b>	<b>\$ 1,882,805</b>	<b>\$ 1,708,639</b>

Segregated funds include legally restricted amounts of \$412.8 million and \$166.1 million at April 30, 2008 and 2007, respectively, which are used to fund capital improvements to the Electric System pursuant to the District's Capital Improvement Program. The remaining segregated funds are segregated due to management intent and support various purposes. The District's investments in debt securities are reported at amortized cost if the intent is to hold the security to maturity. The District's amortized cost and fair value of held-to-maturity securities were \$651.4 million and \$653.8 million, respectively, at April 30, 2008 and \$603.8 million and \$604.7 million, respectively, at April 30, 2007. At April 30, 2008, the District's investments in debt securities have maturity dates ranging from May 7, 2008, to January 9, 2014. 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 or deferred charges and other assets. (See Note (2), SIGNIFICANT ACCOUNTING POLICIES, *Asset Retirement Obligation*, for discussion on accounting for the unrealized gains or losses on decommissioning fund assets.)

The amortized cost, gross unrealized gains and losses, and fair value of available-for-sale debt and marketable equity securities at April 30, 2008 and 2007 were (in thousands):

	<b>2008</b>			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Equity securities	\$ 944,116	\$ 25,127	\$ (12,979)	\$ 956,264
Fixed-income securities	262,643	12,544	-	275,187
<b>Total available-for-sale securities</b>	<b>\$ 1,206,759</b>	<b>\$ 37,671</b>	<b>\$ (12,979)</b>	<b>\$ 1,231,451</b>

	<b>2007</b>			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Equity securities	\$ 816,521	\$ 53,992	\$ (6,334)	\$ 864,179
Fixed-income securities	234,195	8,148	(1,929)	240,414
<b>Total available-for-sale securities</b>	<b>\$ 1,050,716</b>	<b>\$ 62,140</b>	<b>\$ (8,263)</b>	<b>\$ 1,104,593</b>

At April 30, 2008 and 2007, net unrealized gains (losses) on available-for-sale debt and marketable equity securities, excluding decommissioning fund assets, were \$(25.2) million and \$24.9 million, respectively, for the fiscal year and are included in accumulated other comprehensive income in the accompanying Combined Balance Sheets. Unrealized gains (losses) on decommissioning fund assets of \$(4.0) million and \$11.4 million for the fiscal



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.

In September 2006, the FASB issued SFAS No. 158, which requires employers to recognize the overfunded or underfunded positions of defined benefit pension and other postretirement plans as an asset and liability in their balance sheet. Under SFAS No. 158, any actuarial gains and losses, prior service costs and transition assets or obligations that were not recognized under previous accounting standards must be recorded on the balance sheet with an offset to accumulated other comprehensive income until the amounts are amortized as a component of net periodic benefit costs. SFAS No. 158 does not change how net periodic pension and postretirement costs are accounted for and reported in the income statement. The District adopted the provisions for SFAS No. 158 as of April 30, 2008. (See Note (2), SIGNIFICANT ACCOUNT POLICIES, *Recently Issued Accounting Standards*, for further discussion of SFAS No. 158.)

In fiscal year 2008, in accordance with SFAS No. 71, the Board authorized the establishment of a regulatory asset for the portion of the total amounts otherwise chargeable to accumulated other comprehensive income that are expected to be recovered through prices in future periods. The changes in actuarial gains and losses, prior service costs and transition assets or obligations pertaining to the regulatory asset will be recognized as an adjustment to the regulatory asset or liability accounts as these amounts are recognized as components of net periodic pension costs each year. The following table discloses the incremental effect of applying the provisions of SFAS No. 158 (and SFAS No. 71) to individual line items in the balance sheet as of April 30, 2008 (in thousands):

	<b>Before Application of SFAS No. 158</b>	<b>SFAS No. 158 Adjustments</b>	<b>After Application of SFAS No. 158</b>
<b>Assets</b>			
Deferred charges and other assets	\$ 138,192	\$ 278,435	\$ 416,627
<b>Capitalization and liabilities</b>			
Other current liabilities	\$ -	\$ 20,065	\$ 20,065
Deferred credits and other non-current liabilities	338,869	258,370	597,239
<b>Total capitalization and liabilities</b>	<b>\$ 338,869</b>	<b>\$ 278,435</b>	<b>\$ 617,304</b>

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	
	2008	2007	2008	2007
<b>Change in benefit obligation</b>				
Benefit obligation at beginning of year	\$ 1,130,845	\$ 1,096,700	\$ 513,503	\$ 510,700
Service cost	33,638	32,800	11,342	12,000
Interest cost	66,625	62,000	30,263	28,500
Amendments	-	500	-	-
Actuarial loss	(24,467)	(24,100)	(1,159)	(23,500)
Benefits paid	(40,500)	(37,100)	(20,607)	(14,200)
<b>Benefit obligation at end of year</b>	<b>\$ 1,166,141</b>	<b>\$ 1,130,800</b>	<b>\$ 533,342</b>	<b>\$ 513,500</b>
<b>Change in plan assets</b>				
Fair value of plan assets at beginning of year	\$ 1,062,644	\$ 928,900	\$ -	\$ -
Actual return on plan assets	10,036	100,800	-	-
Employer contributions	50,000	70,000	20,607	14,300
Benefits paid	(40,500)	(37,100)	(20,607)	(14,300)
<b>Fair value of plan assets at end of year</b>	<b>\$ 1,082,180</b>	<b>\$ 1,062,600</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Funded status at end of year</b>	<b>\$ (83,961)</b>	<b>\$ (68,200)</b>	<b>\$ (533,342)</b>	<b>\$ (513,500)</b>
Unrecognized transition obligation	-	171,600	-	18,700
Unrecognized net actuarial loss	-	-	-	183,500
Unrecognized prior service cost	-	16,300	-	6,800
Post January 31 contributions	-	-	-	4,500
<b>Net asset (liability) recognized</b>	<b>\$ (83,961)</b>	<b>\$ 119,700</b>	<b>\$ (533,342)</b>	<b>\$ (300,000)</b>
<b>Amounts recognized in Combined Balance Sheets:</b>				
Deferred charges and other assets	\$ -	\$ 119,700	\$ -	\$ -
Other current liabilities	-	-	(20,064)	-
Deferred credits and other non-current liabilities	(83,961)	-	(513,278)	(300,000)
Accumulated other comprehensive income	-	-	-	-
<b>Net asset (liability) recognized</b>	<b>\$ (83,961)</b>	<b>\$ 119,700</b>	<b>\$ (533,342)</b>	<b>\$ (300,000)</b>
<b>Additional detail of amounts as a regulatory asset:</b>				
Transition obligation	\$ -	\$ -	\$ 15,594	\$ -
Prior service cost	13,949	-	6,025	-
Net actuarial loss	208,205	-	172,854	-
<b>Net regulatory asset</b>	<b>\$ 222,154</b>	<b>\$ -</b>	<b>\$ 194,473</b>	<b>\$ -</b>

The following table represents the amortization amounts expected to be recognized or paid during the fiscal year ending April 30, 2009, based on January 31 valuation dates (in thousands):

	Pension Benefits	Postretirement Benefits
Net transition obligation	\$ -	\$ 3,117
Prior service cost	\$ 2,315	\$ 769
Net actuarial	\$ 7,900	\$ 9,703

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):

	<u>2008</u>	<u>2007</u>
Projected benefit obligation	\$ 1,166,141	\$ 1,130,800
Accumulated benefit obligation	\$ 1,005,783	\$ 966,400
Fair value of Plan assets	\$ 1,082,180	\$ 1,062,600

The District internally funds its other postretirement benefits obligation. At April 30, 2008 and 2007, \$445.5 million and \$424.7 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:

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Discount rate	6.25%	6.00%	6.25%	6.00%
Rate of compensation increase	4.00%	4.00%	N/A	N/A

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

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Discount rate	6.00%	5.75%	6.00%	5.75%
Expected return on Plan assets	8.25%	8.25%	N/A	N/A
Rate of compensation increase	4.00%	4.00%	N/A	N/A

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% in all future years.

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

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Service cost	\$ 33,638	\$ 32,800	\$ 11,342	\$ 12,000
Interest cost	66,625	62,000	30,262	28,500
Expected return on Plan assets	(82,262)	(73,300)	-	-
Amortization of transition obligation	-	-	3,117	3,100
Recognized net actuarial loss	11,124	16,000	10,328	12,600
Amortization of prior service cost	2,365	2,300	769	700
Net periodic benefit cost	<u>\$ 31,490</u>	<u>\$ 39,800</u>	<u>\$ 55,818</u>	<u>\$ 56,900</u>

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):

	<b>One Percentage Point Increase</b>	<b>One Percentage Point Decrease</b>
Effect on total service cost and interest cost components	\$ 6,500	\$ (5,600)
Effect on postretirement benefit obligation	\$ 74,600	\$ (65,100)

### **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	2008	2007
Equity securities.....	65.0%	60.0%	65.8%
Debt securities.....	25.0%	27.6%	23.6%
Real estate.....	10.0%	12.4%	10.6%
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 \$50 million to the Plan over the next valuation period.

### **Benefits Payments**

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Prescription Drug Act) authorized a federal subsidy to be provided to plan sponsors for certain prescription drug benefits under Medicare. SRP has adopted FASB Staff Position SFAS No. 106-2 for the effects of the Prescription Drug Act, effective July 1, 2004.

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

	<u>Pension Benefits</u>	<u>Postretirement Benefits</u>	
		<u>Before Subsidy</u>	<u>Net</u>
2009	\$ 45,968	\$ 20,100	\$ 19,545
2010	\$ 49,474	\$ 22,417	\$ 21,797
2011	\$ 53,337	\$ 24,679	\$ 23,981
2012	\$ 57,222	\$ 26,994	\$ 26,214
2013	\$ 61,746	\$ 29,114	\$ 28,228
2014 through 2018	\$ 376,263	\$ 180,170	\$ 174,361

### **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. Employees who have one year of service in which they have worked at least 1,000 hours and who are also contributing to the 401(k) Plan are eligible to receive partial employer matching contributions of \$0.80 on every dollar contributed up to the first six-percent of their base pay that they contribute to the 401(k) Plan. Employer matching contributions to the 401(k) Plan were \$12.9 million and \$12.3 million during fiscal years 2008 and 2007, 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 \$16.6 million and \$29.2 million for fiscal years ended April 30, 2008 and 2007, 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 \$1.6 million and \$1.5 million at April 30, 2008 and 2007, 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, 2008 (in thousands):

<u>Generating Station</u>	<u>Ownership Share</u>	<u>Plant in Service</u>	<u>Accumulated Depreciation</u>	<u>Construction Work In Progress</u>
Four Corners (NM) (Units 4 & 5)	10.00%	\$ 108,951	\$ (96,353)	\$ 6,996
Mohave (NV) (Units 1 & 2)	20.00%	131,803	(129,491)	-
Navajo (AZ) (Units 1, 2 & 3)	21.70%	356,900	(303,301)	5,869
Hayden (CO) (Unit 2)	50.00%	117,682	(97,076)	1,246
Craig (CO) (Units 1 & 2)	29.00%	268,911	(186,908)	4,272
PVNGS (AZ) (Units 1, 2 & 3)	17.49%	1,274,003	(932,272)	17,746
		<u>\$ 2,258,250</u>	<u>\$ (1,745,401)</u>	<u>\$ 36,129</u>

The Mohave Generating Station (Mohave) ceased operations on December 31, 2005, pending installation of new environmental controls and resolution of other operating issues. It is unlikely the plant will reopen as a coal-fired

generation source. (See Note (9), REGULATORY ISSUES, *Mohave Generating Station*, for a discussion of matters pertaining to Mohave.) There remains approximately \$2.3 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.

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. However, during the past two years, two retail energy service providers, one meter reading service provider, and one meter service provider have applied to the Arizona Corporation Commission for authorization to sell energy in Arizona. New West Energy intervened in the sole application for which a procedural order has been issued, asking that the application be dismissed until the Arizona Corporation Commission has held a general rulemaking procedure for retail competition. All of the applications are pending.

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 (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.

In its Order 890, issued in February 2007, FERC declined to generically implement its discretionary authority over unregulated transmitting utilities (including the District). FERC determined the authority would be used on a case-by-case basis. The District does not expect Order 890 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 1, 2007, the District Board approved a 4.7% system average increase for fuel and purchased power under the FPPAM beginning November 1, 2007. The increase was needed to address an under-recovery of retail fuel and purchased power expenses. The increase is expected to generate annual revenues of approximately \$103.7 million.

On March 17, 2008, the District Board approved a 3.9% system average price increase effective May 1, 2008. The increase was comprised of 2.1 percent related to a fuel and purchased power adjustment and 1.8 percent related to changes in base prices. The increase is expected to generate \$91.1 million annually. The new price plans incorporate design changes that better reflect the District's underlying seasonal costs and promote energy efficiency and conservation.

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 October 2005 pricing approval, the Board approved additional funding for renewable energy programs, energy efficiency and energy conservation effective beginning November 1, 2005. These surcharges continue to be separately identified and included in the District's price plans for the regulated portion of its operations.

### ***Mohave Generating Station***

In 1999, 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 for the plant 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 Navajo Nation and the Hopi Tribe demanded that the pumping of water from the Navajo Aquifer for the slurry pipeline serving Mohave cease. The Mohave Participants refused to commit to install pollution abatement equipment without reasonable assurance that water would 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 participated in mediation for an alternative source of water for the mine and the slurry pipeline if the life of Mohave were extended, and to resolve other related issues. However, Southern California Edison Company (SCE), operating agent for Mohave, as well as the other two Participants, the Los Angeles Department of Water and Power (LADWP) and Nevada Power Company, advised the District in June 2006 that they did not intend to proceed with efforts to extend the life of Mohave. The mediation efforts continued, but subsequent efforts of SCE to sell the plant as a coal-fired plant, and the District's efforts to acquire the other Participants' interests in the plant, were unsuccessful. Although the District continues to evaluate its options, it is unlikely that the plant will return to service as a coal-fired generation source. The District has included funding in its Capital Improvement Program to cover the costs of alternate resources and has already replaced a portion of the energy it would have received had Mohave continued operations. The District is considering several options for replacing the balance of its energy supply from Mohave including self-build options and purchases from others. (See Note (11), CONTINGENCIES, *Coal Supply Litigation*, for a discussion of other related issues.)

During fiscal year 2003, faced with the complex and contentious issues involved in the mediation noted above, and the potential closure of the plant at the end of 2005, 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 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 prices. At April 30, 2008 and 2007, the Mohave net regulatory asset was \$59.8 million and \$67.6 million, respectively, and is included in deferred charges and other assets on the accompanying Combined Balance Sheets. The Mohave asset is being recovered over a ten-year period which began in fiscal year 2006.

**Deferred Charges and Deferred Credits**

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

	<u>2008</u>	<u>2007</u>
Bond defeasance regulatory asset	\$ 82,459	\$ 86,638
Mohave Generating Station regulatory asset	59,804	67,605
Nuclear decommissioning regulatory asset	10,924	21,753
Derivatives market valuation	58,520	40,813
Prepaid pension benefit cost	-	119,700
Deferred lease asset	33,252	32,639
SFAS No. 158 regulatory asset	416,627	-
Other	53,507	53,118
	<u>\$ 715,093</u>	<u>\$ 422,266</u>

Bond defeasance regulatory assets are amortized over different periods, beginning in fiscal year 1997 and ending in fiscal year 2031. The nuclear decommissioning regulatory asset is being deferred over the life of PVNGS and is being collected through a component of the system benefits charge.

Based on actions of the Board, the District believes the future collection of costs deferred through regulatory assets is probable. 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):

	<u>2008</u>	<u>2007</u>
Asset retirement obligation	\$ 177,331	\$ 195,005
Accrued postretirement benefit liability	597,239	300,000
Accrued decommissioning costs	-	17,045
Provision for contract losses	39,778	53,059
Deferred lease income	33,535	32,440
Derivatives market valuation	583	9,085
Accrued spent nuclear fuel storage	25,015	24,586
Accrued environmental issues	87,864	83,973
Other	71,440	60,625
	<u>\$ 1,032,785</u>	<u>\$ 775,818</u>

**(10) Commitments:**

***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 2009-2014 time period, the District estimates capital expenditures of approximately \$6.3 billion. Major construction projects include construction of Unit 4 at Springerville Generating Station, support for the Coronado Generating Station (CGS) Emissions Control Project, funding for future generation peaking units, continued participation in the Southeast Valley Transmission Project 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 (WAPA) 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 in fiscal year 2012. Of the total obligation, \$25.2 million annually through fiscal year 2011 and \$10.5 million in fiscal year 2012 are unconditionally payable regardless of the availability of power. Payments under these contracts totaled \$92.7 million and \$94.4 million in fiscal years 2008 and 2007, respectively.

The District entered into an additional 20-year contract with WAPA, executed September 28, 2007, to purchase NGS surplus power with deliveries to begin June 1, 2012. This purchase is for 300 MW during the eight super-peak hours of the day, June through August, and the term runs through September 30, 2031. Energy deliveries are contingent on NGS generation and payments are made only for actual energy delivered. There is no minimum payment obligation for this contract.

The District entered into two other long-term power purchase agreements to obtain a portion of its projected load requirements through 2011 and has an agreement in place for the extension of one of the agreements through May 2016, with the possibility of a further extension to 2021 if certain conditions are met. Minimum payments under these contracts are \$37.6 million annually through fiscal year 2011 and \$1.9 million thereafter. Total payments under these two contracts, including the minimum payments, were \$76.4 million and \$71.0 million in fiscal years 2008 and 2007, 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 2008 and 2007. The remaining liability at April 30, 2008 of \$39.8 million is included in deferred credits and other non-current liabilities in the Combined Balance Sheets.

Beginning on September 1, 2006, the District has 100 MW of capacity from Springerville Generating Station Unit 3, pursuant to a 30-year power purchase agreement. Minimum payments under this contract are \$26.0 million annually through fiscal year 2012 and \$636.0 million thereafter. Total payments on this contract during the year ended April 30, 2008 were \$42.7 million, including minimum payments.

The District has entered into a 20-year power purchase agreement with Snowflake White Mountain Power, LLC, which is a renewable energy resource utilizing biomass products to produce power. The agreement requires the District to purchase a minimum of 78,840 MWh during fiscal years 2008 through 2023 and to purchase the full energy output, approximately 20 MW, during fiscal years 2024 through 2028. The District is obligated to pay only if the facility produces power under this agreement. The facility began commercial power production in June 2008.

### **Fuel Supply**

At April 30, 2008, minimum payments under long-term coal supply contract commitments are estimated to be \$180.8 million in fiscal year 2009, \$180.8 million in fiscal year 2010, \$181.8 million in fiscal year 2011, \$125.6 million in fiscal year 2012, \$120.3 million in fiscal year 2013, and \$343.7 million thereafter.

In May 2006, the District sold a natural gas pipeline to El Paso Natural Gas Company (EPNG). The District maintains options to purchase an ownership interest in the pipeline and also holds a perpetual right of first refusal with EPNG if EPNG desires to sell the pipeline. Accordingly, the District recorded a deferred asset and an offsetting deferred income amount in the accounting records. The deferred asset will be depreciated and the deferred income recognized over the life of the Santan Generating Station, which is the generating station served by the pipeline. The balance of the deferred asset at April 30, 2008 and 2007, was \$33.3 million and \$32.6 million, respectively, and

included in deferred charges and other assets in the Combined Balance Sheets. The balance of the deferred income at April 30, 2008 and 2007, was \$33.5 million and \$32.4 million, respectively, and included in deferred credits and other non-current liabilities in the Combined Balance Sheets.

### ***Long-Term Natural Gas Purchase Agreement***

In October 2007, the District entered into a 30-year gas purchase agreement (Gas Purchase Agreement) with Salt Verde Financial Corporation (SVFC), an Arizona nonprofit corporation formed for the primary purpose of supplying natural gas to the District. Under the agreement, the District is committed to purchase 294,550,000 MMBtus (million of British thermal units) of natural gas, which is expected to supply approximately 20% of its projected natural gas requirements needed to serve retail customers over the 30-year period. The District receives a discount off of market prices and is obligated to pay only for gas delivered. To fulfill its obligation, SVFC entered into a 30-year prepaid gas agreement with Citigroup Energy Inc. SVFC financed the purchase by the issuance of its special obligation gas revenue bonds (Bonds). The Bonds do not constitute a debt, liability or obligation of the District.

The District has evaluated the prepaid gas transaction under FIN No. 46R, "*Consolidation of Variable Interest Entities, an Interpretation of Account Research Bulletin No. 51*," which provides guidance on the identification and consolidation of entities for which control is achieved through means other than voting rights. Under FIN No. 46R, SVFC is deemed a variable interest entity. However, while the District retains rights to any residual assets in SVFC, the majority of the risk from the transaction is absorbed by parties other than the District and, therefore, the District is not deemed SVFC's primary beneficiary for purposes of FIN No. 46R. Accordingly, the District accounts for the transaction under the equity method. Other than the District's commitment to purchase gas supplied under the Gas Purchase Agreement, its maximum exposure under this transaction is \$100,000.

### ***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 was developed by Tri-State Generation and Transmission Association, Inc. Unit 3 was placed in service in September 2006, beginning the 30-year term of the PPA. 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 originally held such rights in a wholly-owned subsidiary, Springerville Four, LLC, but such rights were assigned to the District on February 1, 2007, and Springerville Four was dissolved in April 2007. The District has begun construction of Unit 4 and expects it to be in service by the end of calendar year 2009. As of April 30, 2008, the District has recognized \$500.9 million of construction costs which are included in construction work in progress in the Combined Balance Sheets. The Springerville 4 Project is anticipated to cost approximately \$1.0 billion. UniSource's affiliate, Tucson Electric Power Company (TEP), operates Units 1, 2 and 3 and will operate Unit 4 upon completion. (See Note (11) CONTINGENCIES, *Air Quality*, for a discussion of a challenge to the Unit 4 air permit by the Sierra Club.)

## **(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 a repository for permanent storage and disposal of spent nuclear fuel not later than December 31, 1998. However, the DOE delayed submitting an application to construct a permanent repository at Yucca Mountain Nevada until June 2008. A decision on licensing is not expected until at least 2010 and the facility is unlikely to open until at least 2017. 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. Fifty-three casks are now stored on site.

The District's share of on-site interim storage at PVNGS is estimated to be \$37.1 million for costs to store spent nuclear fuel from inception of the plant through fiscal year-end 2008, 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.

### ***Coal Supply Litigation***

*Navajo Nation v. Peabody* (US Dist. Court, D.C. District – RICO Case) – In 1999, the Navajo Nation filed a lawsuit in the United States District Court in Washington D.C. (the "U.S. District Court") in which the Hopi Tribe later was joined as a plaintiff. The lawsuit arises out of negotiations culminating in 1987 with amendments to the coal leases and related agreements. The Navajo Nation and the Hopi Tribe allege that Peabody (the coal supplier for NGS and Mohave), Southern California Edison Company (operating agent for Mohave), the District (operating agent for NGS) and certain individual defendants, had improperly induced the Department of the Interior to not approve the coal royalty rate proposed by the Navajo Nation in violation of the federal racketeering statutes. They further alleged that the Department's failure to approve the rate caused the tribes to negotiate and settle upon a substantially lower royalty rate. 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 2001, 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 while the parties were in mediation with respect to this litigation and related business issues. In November 2007, the parties jointly filed a status report in the District Court, stating that they had failed to resolve the lawsuit and terminating the District Court mediation. Hence, the parties have requested that the District Court terminate the stay and restore the case to the active docket.

*Navajo Nation v. United States* (Court of Federal Claims) - In an earlier case filed by the Navajo Nation against the United States and based on allegations similar to those raised in the *RICO Case*, the U. S. Court of Appeals for the Federal Circuit held that the Navajo Nation had a cognizable money-mandating claim against the United States for breach of trust and that the United States had breached its duties to the Navajo Nation. The Court of Appeals remanded the case to the Court of Claims for proceedings consistent with its ruling. The Court of Claims again found that the United States had not breached any compensable duty of trust owed to the Navajo Nation. On appeal, the Court of Appeals again reversed the Court of Claims. The United States then sought, but was denied, rehearing of the order of the Court of Appeals. In May 2008, the United States filed its petition for a writ of certiorari with the US Supreme court seeking reversal of the Federal Circuit Court Appeals decision in this matter.

*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 in the Superior Court of Arizona against the NGS and Mohave Participants, respectively, seeking recovery of these fees. The Mohave and NGS Participants dispute Peabody's attempt to recover its legal costs under the coal supply agreements.

In the NGS legal fees case, the Maricopa County Superior Court dismissed Peabody's claims for legal fees against the NGS Participants. The Arizona Court of Appeals affirmed the dismissal and a petition for review to the Arizona Supreme Court was denied. Thus the decision is final.

As for the Mohave legal fees case, the Mohave Participants and Peabody had executed a settlement agreement pursuant to which Peabody had granted the Mohave Participants a waiver for fees incurred prior to January 2006. However, the lawsuit for fees arising after December 2005 remained until December 17, 2007, when the court ruled among other matters that the Mohave Participants were not responsible for Peabody's legal fees incurred in the *RICO Case*. The District has agreed to dismiss without prejudice its counterclaims relating to Peabody's alleged agency until the *RICO Case* has been completed.

*Peabody v. the District* (the St. Louis Case) – In October 2004, Peabody also filed suit in St. Louis, Missouri against the District and the other owners of NGS. Peabody asserted claims of tortious interference with contracts and tortious interference with business expectancies against the District and claims against all NGS Participants for reimbursement of any damages relating to liability associated with the *Rico Case*; alleged breach of the NGS Coal Supply Agreement; and breach of indemnity obligations owed to Peabody as the alleged agent of the NGS Participants. Peabody seeks \$500.0 million in damages for the breach of contract claim and unspecified compensatory damages, prejudgment interest, attorneys' fees and costs on the other claims. This case is in its discovery phase and is still pending. The District and Peabody have agreed to dismiss this case without prejudice until completion of the *RICO Case*.

*District v. Peabody* (the RHCC/FRC Case) – The NGS Participants are contesting their alleged liability for mine closing, final reclamation, mine decommissioning and environmental monitoring costs, and certain post retirement health care and life insurance benefits that Peabody will pay or provide to its employees after termination of the NGS Coal Supply Agreement and associated closure of the Kayenta Mine. On December 3, 2007, the District approved and executed, on behalf of the NGS Participants, a proposed settlement and mutual release agreement with Peabody. All the Participants have approved the settlement, but it awaits the final signature of one Participant.

Except as indicated, the District is unable to predict the likely outcome of the coal supply litigation matters at this time but does not believe that the final resolution of these matters 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 (CERCLA) as an owner and operator of a facility (the 16<sup>th</sup> St. facility) within the Motorola 52<sup>nd</sup> 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 minimal contamination on site. 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, in the opinion of the EPA, would have required the installation of new pollution control equipment. As part of this initiative, the District received four letters from the EPA, requesting information on CGS. 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, the EPA has taken no enforcement action against the District for alleged violations of NSR regulations at CGS. The District anticipates a resolution with the EPA that would require installation of additional controls at CGS. Any additional controls would also be consistent with BART requirements for the generating station. The District is unable at this time to predict the outcome, but believes that it has adequate reserves for this potential liability.

Several species listed under the Endangered Species Act (ESA) have been discovered in and around Roosevelt and Horseshoe Dams. The District entered into formal negotiations for an Incidental Take Permit (ITP) with the United States Fish and Wildlife Service (USFWS), and developed a Habitat Conservation Plan (HCP), which allows full operation of Roosevelt Dam and Reservoir, provided the District established habitats for the species in other areas or through other measures. The District engaged in similar negotiations with the USFWS to obtain a permit for operation of the Horseshoe and Bartlett Dams on the Verde River. The USFWS issued a permit for operation of Roosevelt Dam in 2003 and a separate permit for operations on the Verde River in May 2008. Pursuant to the ITP with the USFWS, the District established a Trust Fund as of May 2008 to pay mitigation expenses related to the HCP. The Trust was funded with \$13.2 million, and is expected to pay mitigation expenses into perpetuity.

### ***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 were estimated at \$1 billion, of which the District's share would be \$211.3 million. These costs were included in capital contingencies portion of the 2007-2012 Improvement Program. However, as discussed in Note (9) REGULATORY ISSUES, Mohave Generating Station, the uncertainty in post-2005 coal and water supply caused the Mohave Participants to be unwilling to make the necessary investments and funding was removed from the District's 2008-2013 Improvement Program.

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 2008 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 regulations for the control of mercury emissions from coal-fired generating stations in 2005. Arizona opted into the federal mercury program in 2006 and imposed additional mercury emissions limitations which would have required the District to install additional controls at CGS and Springerville Unit 4 to achieve 90% mercury removal. In addition, the District has been participating with the EPA in the development of a plan to control mercury emissions on the Navajo Reservation, where the District owns an interest in two generating stations, NGS and Four Corners. However, on February 7, 2008, the U.S. Court of Appeals, D.C. Circuit, vacated the EPA rules in response to a suit by 11 states that had challenged the rules as not protective enough of public health and contrary to the CAA. The EPA will promulgate new mercury rules in response to the court's decision. While the District is evaluating the implications of the decision, it is likely that additional controls will be required at all coal-fired plants in which the District has an interest. The District is still evaluating compliance options and cannot yet estimate the associated costs.

On May 6, 2008, pursuant to the citizen suit provision of the CAA, the Sierra Club challenged the issuance of the air permit for Units 3 and 4 of the Springerville Generating Station (SGS). The Sierra Club stated that the owners of the units had violated the CAA by having received a permit without a determination of the maximum achievable control technology (MACT) standards. While it is too soon to predict the outcome of this matter, the District believes that all necessary environmental permits and determinations have been obtained, including the required MACT determination.

In June 2005, the EPA also 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 and tribes were required to complete BART determinations for eligible facilities by the end of 2007, although Arizona did not meet that deadline and it is uncertain whether it will do so by the end of 2008 or in 2009. BART controls must be installed five years after the EPA has approved 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 submitted a BART analysis to the EPA in November 2007 for NGS, and to the ADEQ in February 2008 for CGS. BART analyses have also been completed for several other coal-fired plants in which the District has financial interest. The District cannot predict whether the EPA will approve Arizona's BART determination, and if approved what its financial impact will be on the District.

The District recognizes the growing importance of the issues concerning climate change (global warming) and the implications they could have on its operations, so it is closely monitoring related developments at the federal, state and regional levels. Efforts to cap or tax emissions of carbon dioxide from fossil fuel power plants will substantially increase the cost of, and add to the difficulty of siting, constructing, and operating electric generating units. As a result of legislative and regulatory initiatives, the District is planning emission reductions at its coal-fired power plants. The full significance of air quality standards and emission reduction initiatives to the District in terms of costs and operational problems is difficult to predict, but it appears that costly equipment may have to be added to existing units and that permit fees may increase significantly resulting in potentially material cost to the District as well as reduced generation. The District is assessing the risk of policy initiatives on its generation assets and is developing contingency plans to comply with future laws and regulations restricting greenhouse gas emissions. There is no way to predict the impact of such initiatives on the District at this time.

The California Legislature has enacted laws that could impact the District. Under one such law, the California Public Utilities Commission (CPUC) and the California Energy Commission (CEC) must implement regulations that, among other things, prohibit procurement of electricity from a coal-fired power plant for five years or longer and restrict investments in coal-fired plants. The Los Angeles Department of Water and Power (LADWP), one of the participants in NGS, and SCE, a participant in Four Corners Units 4 and 5, are subject to the regulations and may be precluded from approving certain expenditures at the plants, including capital improvements. The regulations exempt expenditures for "routine maintenance"; however, no definition is provided. SCE has petitioned the CPUC to exclude financial contributions required under pre-existing contract obligations for Four Corners; the petition is pending. The California Air Resource Board is also developing an economy wide cap-and-trade program for greenhouse gases. The CPUC and CEC released joint recommendations on how to regulate emissions from the electricity sector. The regulations could impact the District's ability to sell excess generation into California. If the implementing regulations prohibit or penalize the sale of energy generated by a coal-fired plant, the District could lose California as a market for its wholesale generation; however, the District has other options for marketing its wholesale generation. The District is monitoring and participating in the development of these regulations to determine the full extent of their impact on the District and the plants in which it has an interest. Based on available information, the District cannot estimate or predict the impact of the California laws on it at this time.

### **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 then filed a petition for review of this decision with the Arizona Supreme Court, which was denied. The denial ended the litigation. At issue had been the District's liability for approximately \$13.8 million plus interest for fiscal years 2003 (four months), 2004 (12 months), and 2005 (eight months). In fiscal year 2007, the District recognized \$15.5 million of income due to the reversal of previously recorded reserves resulting in the reduction of other operating expenses in the accompanying combined financial statements as of April 30. For calendar years 2005 and forward, legislation was passed that codifies the exclusion of CIAC from the in-lieu contributions formula. In addition, the State of Arizona in 2005 reduced 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 was reduced to 20% over a 10-year period. Because the tax year was based on a calendar year, the first reduction for in lieu contributions affected only four months of the District's fiscal year 2006. Fiscal year 2007 was the first full fiscal year for the District, with the continual reduction through fiscal year 2016, when the assessment ratio was to reach 20%. Reduction of the assessment ratio to 20% was expected to produce a cumulative savings of approximately \$1.5 million per year.

However, in 2007, Arizona accelerated the assessment ratio reduction from 10 years to six years by reducing the rate 1% per tax year (for each of the remaining for years) instead of the ½% reduction that had been in place, thus achieving the reduced rate of 20% by calendar year 2011. The accelerated reduction is expected to result in an additional cumulative savings of approximately \$6.4 million in voluntary contribution expense from fiscal year 2008 through fiscal year 2013.

### ***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. The District has received approximately \$22.2 million in refunds as of April 30, 2008. In May and June 2008, FERC approved an additional \$1.6 million in refunds which the District received in June 2008.

### ***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 *Coal Supply Litigation* 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. In 2004, the United States enacted the Arizona Water Rights Settlement Act, which resolves the claims of the GRI Community listed above as well as many of the claims in the Gila 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.

The cities of Prescott and Prescott Valley, together with the Town of Chino Valley, have announced plans to withdraw groundwater from the Big Chino Groundwater Sub-Basin and transport the water to their respective service areas for municipal and industrial uses. SRP opposes these plans because it believes that such pumping would deplete the base flow of the Verde River, which is captured and stored by two reservoirs on the Verde River for delivery to Association shareholders. This dispute is still in its early stages and SRP cannot predict the outcome at this time. SRP has agreed to engage in formal mediation with the cities in an attempt to resolve its concerns about the water supply. However, SRP does not believe the dispute will have a significant financial impact on the District or the Association.

#### ***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 depository 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 depository 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 depository 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 depository 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; provided, however, that to the extent such statement would be contrary to the then current recommendations of the American Institute of Certified Public Accountants or other governing or regulatory entities that provide similar guidance, the District may file a certificate with the Trustee executed by an Authorized Officer of the District certifying to those matters not otherwise stated in the Accountant's Report, which District certification, together with the Accountant's Report so filed, shall be deemed to have satisfied the requirements of this paragraph.

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).

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**APPENDIX C — FORM OF BOND OPINION AND FORM OF SPECIAL TAX COUNSEL OPINION**

**[FORM OF BOND COUNSEL OPINION]**

January 28, 2009

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

**\$744,180,000**  
**Salt River Project**  
**Electric System Revenue Bonds,**  
**2009 Series A**

The 2009 Series A Bonds consist of bonds bearing interest at fixed rates. The 2009 Series A Bonds are dated as shown on the inside front cover of the Official Statement dated January 15, 2009 relating to the 2009 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 2009 Series A Bonds are subject to redemption prior to maturity as provided in the Resolutions.

We have also examined the form of said 2009 Series A Bonds.

We are of the opinion that such proceedings and proofs show lawful authority for the issuance and sale of the 2009 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 supplemented, and a resolution dated as of January 15, 2009, entitled "Resolution Authorizing The Issuance And Sale Of \$744,180,000 Salt River Project Electric System Revenue Bonds, 2009 Series A" (collectively, the "Resolutions"), all duly adopted by the District and that the 2009 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 2009 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 2009 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 2009 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 2009 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]

January 28, 2009

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

**Salt River Project Agricultural Improvement and Power District  
\$744,180,000 Electric System Revenue Bonds, 2009 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 \$744,180,000 aggregate principal amount of Electric System Revenue Bonds, 2009 Series A (the "2009 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 and supplemented (the "Bond Resolution"), a Resolution Authorizing the Issuance and Sale of \$744,180,000 Salt River Project Electric System Revenue Bonds, 2009 Series A adopted by the District on January 15, 2009 (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 Drinker Biddle & Reath LLP, Bond Counsel, relating among other things to the validity of the 2009 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 2009 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 2009 Series A Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issue of the 2009 Series A Bonds. The District has covenanted to comply with the provisions of the Code applicable to the 2009 Series A Bonds and has covenanted not to take any action or permit any action that would cause the interest on the 2009 Series A Bonds to be included in gross income under Section 103 of the Code applicable to the 2009 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 2009 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 2009 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 2009 Series A Bonds is exempt from income taxes imposed by the State of Arizona.

Special Tax Counsel is further of the opinion that the difference between the principal amount of the 2009 Series A Bonds maturing on January 1, 2020 with an interest rate of 3.5 percent, January 2021 with an interest rate of 3.8 percent, January 1, 2022 with an interest rate of 4 percent, January 1, 2024 with an interest rate of 4.3 percent, January 1, 2029 with an interest rate of 4.7 percent, January 1, 2031 and on January 1, 2033 through January 1, 2039 (the "Discount Bonds") and the initial offering price to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of such Discount Bonds of the same maturity was sold constitutes original issue discount which is excluded from gross income for Federal income tax purposes to the same extent as interest on the Bonds. Further, such original issue

discount accrues actuarially on a constant interest rate basis over the term of each Discount Bond and the basis of each Discount Bond acquired at such initial offering price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount. The accrual of original issue discount may be taken into account as an increase in the amount of tax-exempt income for purposes of determining various other tax consequences of owning the Discount Bonds, even though there will not be a corresponding cash payment.

Except as stated in the preceding three paragraphs, we express no opinion as to any other Federal or state tax consequences of the ownership or disposition of the 2009 Series A Bonds. Furthermore, we express no opinion as to any Federal, state or local tax law consequences with respect to the 2009 Series A Bonds, or the interest thereon, if any action is taken with respect to the 2009 Series A Bonds or the proceeds thereof upon the advice or approval of other bond counsel.

Very truly yours,

**APPENDIX D — FORM OF CONTINUING DISCLOSURE AGREEMENT**

**CONTINUING DISCLOSURE AGREEMENT**

**Between**

**SALT RIVER PROJECT AGRICULTURAL  
IMPROVEMENT AND POWER DISTRICT**

**and**

**U.S. BANK NATIONAL ASSOCIATION  
as trustee**

**\$744,180,000 Salt River Project Electric System Revenue Bonds, 2009 Series A**

THIS CONTINUING DISCLOSURE AGREEMENT (“Disclosure Agreement”), dated as of January 1, 2009 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 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 \$744,180,000 Salt River Project Electric System Revenue Bonds, 2009 Series A to be issued by the District (the “Bonds”);

**WITNESSETH:**

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, as amended and supplemented, (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.

“Association” shall mean the Salt River Valley Water Users’ Association, predecessor to the District, duly incorporated February 9, 1903 under the laws of the Territory of Arizona.

“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](http://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 January 15, 2009 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, 2009:

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," if at all, or (b) 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 11 and 12 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: \_\_\_\_\_

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## APPENDIX E — BOOK-ENTRY ONLY SYSTEM

### General

Beneficial ownership interests in the 2009 Series A Bonds will be available in book-entry form only. Purchasers of beneficial ownership interests in the 2009 Series A Bonds will not receive certificates representing their interests in the 2009 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 2009 Series A Bonds. The 2009 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 2009 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 2009 Series A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2009 Series A Bonds on DTC's records. The ownership interest of each actual purchaser of each 2009 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 2009 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 2009 Series A Bonds, except in the event that use of the book-entry system for the 2009 Series A Bonds is discontinued.

To facilitate subsequent transfers, all 2009 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 2009 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 2009 Series A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2009 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 2009 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 2009 Series A Bonds to be redeemed.

*Neither DTC nor Cede & Co.* (nor such other DTC nominee) will consent or vote with respect to the 2009 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 2009 Series A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2009 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 2009 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 2009 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 2009 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 2009 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 2009 Series A Bonds can be effected only through DTC, Direct Participants and Indirect Participants, the ability of a Beneficial Owner to pledge 2009 Series A Bonds to persons or entities that do not participate in the DTC system, or otherwise to take actions in respect of the 2009 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 2009 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 2009 Series A Bonds is generally settled in clearing-house or next-day funds. In contrast, the 2009 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 2009 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 2009 Series A Bonds.

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**EXHIBIT 6**

**FINAL REPORT OF INDEPENDENT FINANCIAL ADVISOR  
AND  
POST-PRICING BOOK**

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215-661-4100 fax  
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## **Report of the Independent Financial Advisor**

Regarding the Issuance of



**Delivering More Than Power.™**

**\$744,180,000**  
**Salt River Project Agricultural**  
**Improvement and Power District, Arizona**  
**Salt River Project Electric System Revenue Bonds, 2009 Series A**

**January 27, 2009**

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### **Introduction**

This report is intended to summarize the plan of finance, market conditions and credit factors related to the issuance by the Salt River Project Agricultural Improvement and Power District (the "District") of \$744,180,000 Salt River Project Electric System Revenue Bonds, 2009 Series A (the "2009 Series A Bonds"). This report was prepared to assist the District in formulating an informed decision with respect to the acceptability of the Bond Purchase Agreement it entered into with Goldman Sachs & Co. (the "Underwriter"), Morgan Stanley & Co. Incorporated, J.P. Morgan Chase & Co., Citigroup Incorporated (the "Underwriters"). This report also serves as the basis for the formal recommendation from Public Financial Management, Inc. ("PFM"), the independent Financial Advisor to the District, with respect to the sale of the 2009 Series A Bonds.

### **Plan of Finance**

#### **Purpose**

The 2009 Series A Bonds are being issued to (a) finance capital improvements to the Electric System pursuant to the District's Capital Improvement Program; (b) repay of a portion of the District's \$475,000,000 commercial paper; and (c) pay costs of associated with issuing the 2009 Series A Bonds.

**Sources and Uses of Funds**

The sources and uses of funds in connection with the issuance of the 2009 Series A Bonds are as follows:

2009 Series A Bonds	
<b>Sources of Funds:</b>	
Par Amount	744,180,000.00
Original Issue Premium	20,424,831.15
<b>Total Sources</b>	<b>764,604,831.15</b>
<b>Use of Funds:</b>	
Series B Commercial Paper Repayment	100,000,000.00
Construction Fund	480,000,000.00
General Fund	180,000,000.00
Underwriters' Discount	3,999,137.50
Cost of Issuance	605,693.65
<b>Total Uses</b>	<b>764,604,831.15</b>

**Structure**

The 2009 Series A Bonds will be issued in the principal amount of \$744,180,000 and will be dated the date of delivery, January 28, 2009. Interest on the 2009 Series A Bonds will be payable on January 1 and July 1 of each year, commencing on July 1, 2009. The 2009 Series A Bonds mature serially from January 1, 2011 through January 1, 2034, excluding January 1, 2029, with a Term Bond due on January 1, 2039.

**Security and Source of Payment**

The 2009 Series A Bonds and 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 incurred by the District.

**Original Issue Premium/Discount**

The 2009 Series A Bonds were structured to include both original issue premiums ("OIPs") and original issue discounts ("OIDs"). Bonds with an OIP structure are sold at coupons or interest rates which are above current market interest rates. In order to give the investor an actual rate of return or "yield" which is equal to the current market interest rates, these bonds are sold at a premium above par amount. Conversely, bonds with an OID structure are sold at coupons or interest rates which are below current market interest rates. In order to give the investor an actual rate of return or "yield" which is equal to the current market interest rates, these bonds are sold at a discount below par amount. The 2009 Series A Bonds had a net original issue premium of \$20,424,831.15.

**Debt Service Reserve Fund**

At October 31, 2008, the balance in the Debt Reserve Account was approximately \$81 million, which exceeded the Debt Reserve Requirement. Upon issuance of the 2009 Series A Bonds, the account will continue to exceed the Debt Reserve Requirement, therefore no proceeds from the 2009 Series A Bonds were used to deposit into the Debt Service Reserve Fund.

**Bond Ratings**

Moody's Investor Service and Standard & Poor's Corporation have given the ratings of 'Aa1' and 'AA', respectively, to the 2009 Series A Bonds.

**Redemption Provisions**

The 2009 Series A Bonds maturing on and after January 1, 2020 are subject to redemption prior to their stated maturity, at the election of the District, in whole or in part, at any time on or after January 1, 2019 at the redemption price of 100% of the principal amount of the 2009 Series A Bonds, together with accrued interest on, but not including the redemption date.

<u>Period During Which Redeemed</u>	<u>Redemption Price</u>
January 1, 2019 and thereafter	100%

The 2009 Series A Bonds maturing on January 1, 2039 are subject to mandatory redemption prior to maturity, by operation of the Debt Service Fund to satisfy the Sinking Fund Installments required by the Series Resolution, on and after January 1, 2035 at 100% of the principal amount of such 2009 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 2009 Series A Bonds on the dates and in the principal amounts shown below:

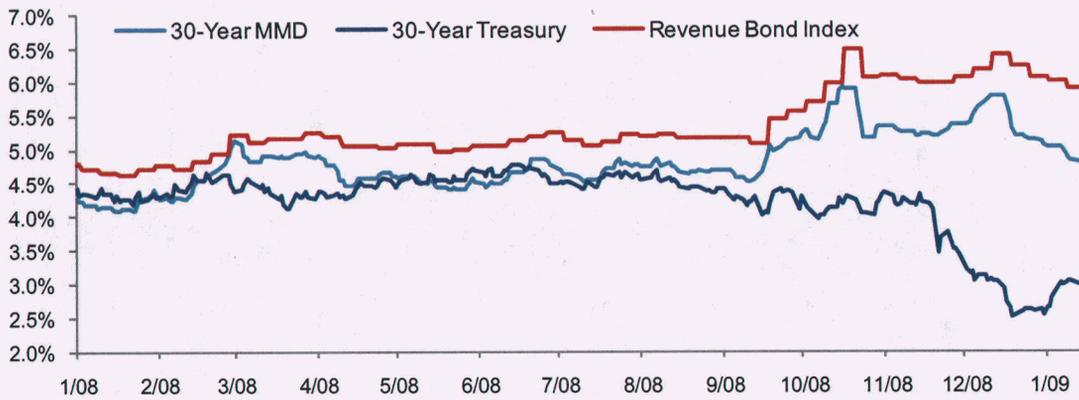
<u>2039 Term Bonds</u>	
<u>January 1</u>	<u>Principal Amount</u>
2035	\$ 19,065,000
2036	40,935,000
2037	38,360,000
2038	41,180,000
2039 <sup>†</sup>	50,000,000

<sup>†</sup> Maturity

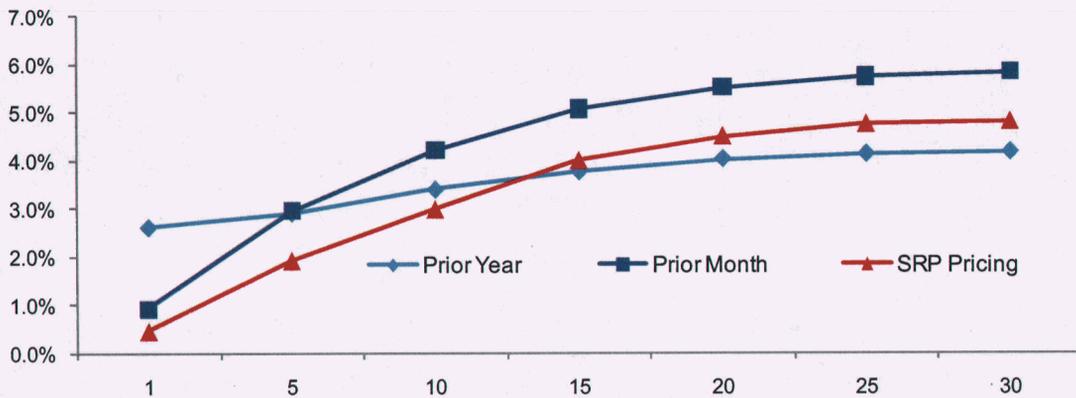
## General Market Conditions

The graph below depicts the movement of 30-Year MMD AAA G.O index and U.S. Treasury, as well as the *Bond Buyer 25 Revenue Bond Index* (the "RBI") since 2008. In addition, the historical trend of the MMD AAA G.O. index and the Bond Buyer's 30-day Visible Supply are shown.

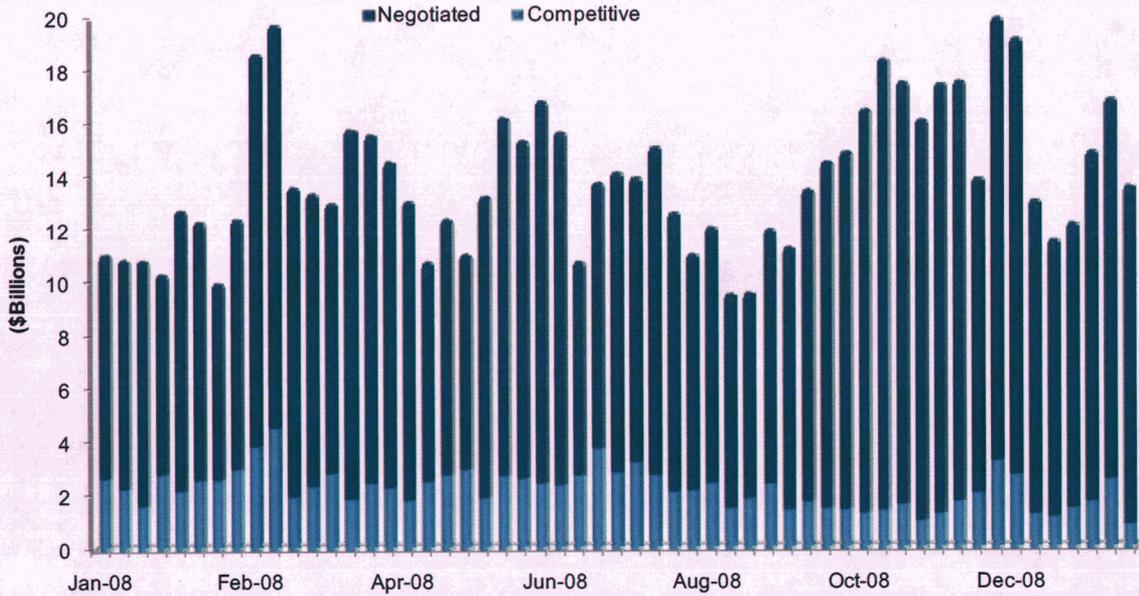
**30-Year MMD and US Treasury and Revenue Bond Index**



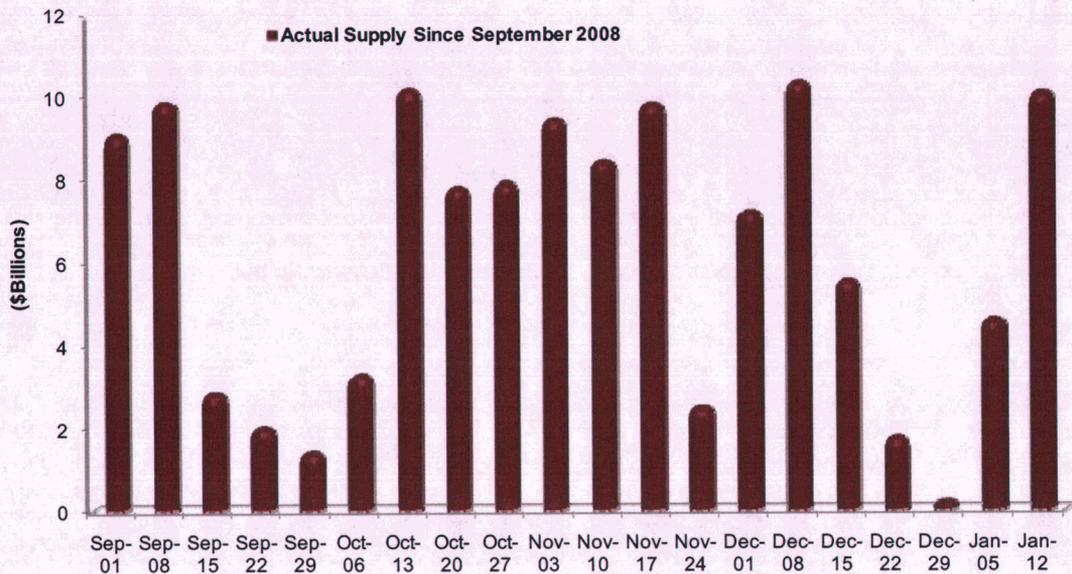
**MMD AAA G.O. Yield Curve Comparison**



### 30-Day Visible Supply



The visible supply shown in the above chart shows the amount of supply that was supposed to come to the market, however, as the chart below indicates, the actual amount of supply has fluctuated greatly during the recent market turmoil, and in particular, basically shut down completely in mid September and December, right before the District's scheduled sale date.



## **Pricing of the 2009 Series A Bonds**

### **Pricing Comparables**

To prepare for the pricing/sale process, PFM closely followed the recent trends of interest rates, municipal offerings and inventory and other matters relevant to the pricing of the 2009 Series A Bonds. Furthermore, PFM analyzed the interest rates, yields, and takedown levels of recently priced municipal issues and compared them to the initial interest rates, yields, and takedown levels proposed by the Underwriters. Several pricing analyses of comparable transactions are included in the attached Post-Pricing Book.

### **Municipal Market Data Index**

The MMD AAA G.O. scale was used to perform pricing analyses. The AAA daily yield curve is a composite of uninsured AAA G.O. issues of \$2 million or more that have a 10-year par call. Yields are reflective of coupon structures that are the general preference of institutional buyers and tend to be standard structures for primary issues. Currently, the coupon of preference is 5.00%. PFM's analysis illustrates the interest rates/yields and corresponding spreads to the MMD AAA G.O. scale for each of the respective maturities sold and for each comparable bond issue listed above.

### **Priority of Orders**

Prior to pricing the 2009 Series A Bonds, the retail order period priority of orders was agreed upon as follows:

1. Arizona Retail
2. National Retail

The institutional order period priority of orders was agreed upon as follows:

1. Arizona Retail (entered during the Retail Order Period)
2. National Retail (entered during the Retail Order Period)
3. Net Designated
4. Member

### **Designation Policy**

Prior to pricing the 2009 Series A Bonds, the designation policy was agreed upon as follows:

1. At least 3 firms must be designated.
2. No firm may receive more than 60% of any designation.
3. The senior manager will pay out all designations.
4. The senior manager requests the identification of all priority orders at the time the orders are entered.
5. There will not be any clearance fee taken from designated sales in accordance with MSRB Rule G-17.
6. No soft-dollar designations.
7. Selling group members may not enter priority orders, and may not be designated.

### **Bond Pricing**

In the weeks leading up to the sale of the District's 2009 Series A Bonds, the bond market experienced high volatility, with the first few weeks in December selling off even more sharply than in October, when most tax-exempt market indices came close to their highest levels in the past 20 years. The MMD AAA GO Index rose to 5.81%. At times, the market was virtually shut down to all but those issuers who faced inflexible funding deadlines and were thus forced into the market.

During the end of December and the first week of January, the market tone turned markedly and abruptly in the District's favor. By the first week of January, long-term, tax-exempt interest rate indices had declined nearly 100 basis points from the December peaks.

In early December, there was one of the most striking municipal market rallies in history. It was driven by very strong demand by direct retail investment, as well as "retail-fueled" buying by bond funds. This unprecedented demand from retail and bond funds was marked by a strong preference for very highly-rated bonds, known as "high-grades" in the market. This is seen by the sharp demand for high AA and AAA-rated bonds, much like the type the District sought to issue. Also, the focus of the retail demand was on the shorter maturities with the higher-rated issues. Long bonds and A-rated bonds did see a solid decline in rates, but not to the degree of shorter, higher-rated bonds. For example, the yield on the MMD 10-year AAA-rated benchmark was 2.98% on January 13, 2009 as compared to 4.21% on December 15<sup>th</sup> - a 123 basis point decline. While the 30-year AAA GO index declined only 102 basis points over this timeframe - from 5.81% to 4.79%. Although the District's high ratings were of the type investors were seeking, there was still some question as to whether a large volume of bonds could be placed at levels that reflected a full participation in the recent rally.

As the market opened in the first week of 2009, it received a number of sizable new issues, some of which had been delayed from November and December. Despite initial concern over supply, highly-rated new issues were well received and the municipal market continued to improve, particularly in the intermediate and shorter part of the curve as described above.

On January 9, 2009, the District, PFM and the Underwriters (the "Working Group") convened via conference call to discuss market conditions and the preliminary consensus pricing views for the 2009 Series A Bonds leading up to the retail order period scheduled for the following Monday, January 12<sup>th</sup>. The Underwriter suggested a scale which included both premium and discount bonds in order to maximize the universe of both traditional and nontraditional retail investors. The group also discussed market indications that were provided by each of the Co-Managing underwriters, and which bonds should be offered during the retail order period. Takedown levels were established to be consistent with those of other retail order periods in the market.

On January 12<sup>th</sup>, the Working Group reconvened to review the preliminary retail wire that was set to post. The Underwriter had lowered the yields on all maturities in the amount equal to the corresponding adjustment in MMD which took place at Friday's close. The table on the following page details the retail order period pricing wire:

**Retail Order Period Pricing Wire**

Maturity	Amount (000s)	Coupon	Yield	Price	AAA MMD as of 1/9	Spread to MMD (bps)	Takedown
1/1/2011	9,355	3.000%	1.710%	102.431	1.61%	10	1/2
1/1/2011	9,355	5.000%	1.710%	106.202	1.61%	10	1/2
1/1/2012	4,675	2.750%	1.930%	102.320	1.78%	15	1/2
1/1/2012	4,680	4.000%	1.930%	105.858	1.78%	15	1/2
1/1/2012	9,355	5.000%	1.930%	108.688	1.78%	15	1/2
1/1/2013	4,675	2.750%	2.160%	102.207	1.96%	20	1/2
1/1/2013	4,680	4.000%	2.160%	106.887	1.96%	20	1/2
1/1/2013	9,355	5.000%	2.160%	110.630	1.96%	20	1/2
1/1/2014	9,355	3.000%	2.360%	102.958	2.16%	20	1/2
1/1/2014	4,675	4.000%	2.360%	107.581	2.16%	20	1/2
1/1/2014	4,675	5.000%	2.360%	112.205	2.16%	20	1/2
1/1/2015	9,355	3.000%	2.550%	102.458	2.35%	20	1/2
1/1/2015	4,675	4.000%	2.550%	107.925	2.35%	20	1/2
1/1/2015	4,675	5.000%	2.550%	113.391	2.35%	20	1/2
1/1/2016	8,910	3.000%	2.740%	101.628	2.54%	20	1/2
1/1/2016	4,455	4.000%	2.740%	107.896	2.54%	20	1/2
1/1/2016	4,455	5.000%	2.740%	114.165	2.54%	20	1/2
1/1/2017	3,190	3.250%	2.950%	102.104	2.75%	20	1/2
1/1/2017	6,375	4.000%	2.950%	107.370	2.75%	20	1/2
1/1/2017	3,190	5.000%	2.950%	114.390	2.75%	20	1/2
1/1/2018	6,325	3.500%	3.170%	102.546	2.97%	20	1/2
1/1/2018	6,325	4.000%	3.170%	106.406	2.97%	20	1/2
1/1/2018	12,650	5.000%	3.170%	114.126	2.97%	20	1/2
1/1/2020	9,315	3.625%	3.680%	99.506	3.48%	20	1/2
1/1/2020	9,315	5.000%	3.680%	110.889	3.48%	20	1/2
1/1/2021	19,560	3.875%	3.930%	99.477	3.73%	20	1/2
1/1/2022	20,535	4.000%	4.090%	99.100	3.89%	20	1/2
1/1/2023	21,560	4.250%	4.250%	100.000	4.05%	20	1/2
1/1/2024	22,655	4.300%	4.370%	99.235	4.17%	20	1/2
1/1/2025	23,755	NO	RETAIL	ORDERS			
1/1/2026	25,005	NO	RETAIL	ORDERS			
1/1/2027	26,140	NO	RETAIL	ORDERS			
1/1/2028	27,670	NO	RETAIL	ORDERS			
1/1/2029	9,295	4.750%	4.800%	99.359	4.60%	20	5/8
1/1/2029	19,300	5.000%	4.800%	101.560	4.60%	20	5/8
1/1/2034	174,270	NO	RETAIL	ORDERS			
1/1/2039	192,210	5.000%	5.050%	99.228	4.84%	21	5/8

The District's retail order period was well received, as money managers and nontraditional retail investors such as Blackrock Financial Management, PNC Advisors, Brown Brothers Harriman, Standish Mellon Asset Management, and Ayco Asset Management placed a number of orders. In all, the District was able to sell over \$285 million bonds, or approximately 38% of the entire issuance, during the retail order period. Meanwhile, the municipal market had continued to rally throughout the day and MMD closed the day tightening from 10 to 8 basis points throughout the curve. During the retail wrap-up call, the Underwriter proposed lowering several coupons and yields for the early maturities to respond to strong market demand and to establish levels for the institutional preliminary pricing wire to review the following morning.

On January 13, 2009, the Working Group convened prior to the institutional order period to review the preliminary pricing wire proposed by the Underwriter. The Underwriter had lowered the yields on maturities from 2011 to 2020 by 8 to 10 basis points to correspond with the movement of MMD the night before and maintain the same spreads to the MMD Index rates. For the maturities that had remaining balances from the retail order period, the Underwriter proposed increasing the spread 3 basis points for the 2021 maturity, 5 basis points for 2022 through 2027, 4 basis points for 2028, 3 basis points for 2029 and 7 basis points for the 2039 term bond. The finance team also proposed to serialize the 2034 term bond in order to achieve savings due to the steepness of the yield curve. Takedowns were reduced slightly to levels equal to those of traditional institutional order period. PFM felt that the proposed yield adjustments were fair and appropriate, given the balance between orders and bonds available for sale by the District. The table on the following page shows the preliminary pricing wire and the spread to MMD at the close of January 12, 2009.

**Preliminary Pricing Wire**

Maturity	Amount (000s)	Balance (000s)	Coupon	Yield	Price	AAA MMD as of 1/12	Spread to MMD (bps)	Takedown
1/1/2011	6,095	-	3.000%	1.610%	102.623	1.51%	10	1/2
1/1/2011	12,680	-	5.000%	1.610%	106.399	1.51%	10	1/2
1/1/2012	5,560	-	2.750%	1.830%	102.607	1.68%	15	1/2
1/1/2012	6,335	-	4.000%	1.830%	106.151	1.68%	15	1/2
1/1/2012	6,880	-	5.000%	1.830%	108.987	1.68%	15	1/2
1/1/2013	2,180	-	2.750%	2.060%	102.587	1.86%	20	1/2
1/1/2013	7,995	-	4.000%	2.060%	107.277	1.86%	20	1/2
1/1/2013	8,600	-	5.000%	2.060%	111.029	1.86%	20	1/2
1/1/2014	11,080	-	3.000%	2.260%	103.429	2.06%	20	1/2
1/1/2014	3,510	-	4.000%	2.260%	108.065	2.06%	20	1/2
1/1/2014	4,190	-	5.000%	2.260%	112.701	2.06%	20	1/2
1/1/2015	3,615	-	3.000%	2.470%	102.903	2.27%	20	1/2
1/1/2015	7,695	-	4.000%	2.470%	108.383	2.27%	20	1/2
1/1/2015	7,470	-	5.000%	2.470%	113.863	2.27%	20	1/2
1/1/2016	4,185	-	3.000%	2.660%	102.136	2.46%	20	1/2
1/1/2016	4,850	-	4.000%	2.660%	108.422	2.46%	20	1/2
1/1/2016	9,170	-	5.000%	2.660%	114.708	2.46%	20	1/2
1/1/2017	750	-	3.250%	2.870%	102.675	2.67%	20	1/2
1/1/2017	7,335	-	4.000%	2.870%	107.957	2.67%	20	1/2
1/1/2017	4,950	-	5.000%	2.870%	115.000	2.67%	20	1/2
1/1/2018	7,860	-	3.250%	3.090%	101.238	2.89%	20	1/2
1/1/2018	9,030	-	4.000%	3.090%	107.048	2.89%	20	1/2
1/1/2018	8,605	-	5.000%	3.090%	114.796	2.89%	20	1/2
1/1/2020	3,660	-	3.500%	3.600%	99.101	3.40%	20	1/2
1/1/2020	14,950	-	5.000%	3.600%	111.594	3.40%	20	1/2
1/1/2021	2,770	-	3.800%	3.880%	99.239	3.65%	23	1/2
1/1/2021	16,720	16,720	5.000%	3.880%	109.150	3.65%	23	1/2
1/1/2022	6,545	-	4.000%	4.060%	99.398	3.81%	25	1/2
1/1/2022	13,885	13,885	5.000%	4.060%	107.613	3.81%	25	1/2
1/1/2023	3,490	3,490	4.200%	4.220%	99.788	3.97%	25	1/2
1/1/2023	17,890	17,890	5.000%	4.220%	106.268	3.97%	25	1/2
1/1/2024	990	-	4.300%	4.350%	99.452	4.10%	25	1/2
1/1/2024	21,445	21,445	5.000%	4.350%	105.190	4.10%	25	1/2
1/1/2025	23,520	23,520	5.000%	4.450%	104.370	4.20%	25	1/2
1/1/2026	24,755	24,755	5.000%	4.540%	103.639	4.29%	25	1/2
1/1/2027	25,880	25,880	5.000%	4.630%	102.914	4.38%	25	1/2
1/1/2028	27,400	27,400	5.000%	4.710%	102.274	4.47%	24	1/2
1/1/2029	2,775	-	4.700%	4.770%	99.102	4.54%	23	1/2
1/1/2029	25,535	4,380	5.000%	4.770%	101.797	4.54%	23	1/2
1/1/2030	30,635	30,635	5.000%	4.830%	101.324	4.61%	22	1/2
1/1/2031	30,340	30,340	4.875%	4.930%	99.264	4.65%	28	1/2
1/1/2032	35,510	35,510	5.000%	4.970%	100.228	4.70%	27	1/2
1/1/2034	76,065	76,065	5.000%	5.030%	99.572	4.76%	27	1/2
1/1/2039	190,365	182,075	5.000%	5.080%	98.772	4.81%	27	1/2

During the institutional order period, the municipal market continued to rally, especially for high-grades 20 years and in. Several highly-rated General Obligation bonds that sold competitively in the morning met with high demand, including an offering by Chandler, Arizona. New York Transitional Finance Authority increased the size of its offering twice throughout the day to \$650 million from \$300 million in reaction to the strong market tone. The District saw significant orders from various institutional investor segments, including Vanguard, PIMCO, State Farm, Liberty Mutual, Lord Abbett, Hartford Investment Management, and various arbitrage accounts. The strong investor response created oversubscriptions in most maturities, including the large term bond in 2034. PFM was optimistic that this demand would allow for a re-pricing and yield improvements on most maturities. In response to the further decline in the MMD interest rate indices, the Underwriter proposed reducing the yields on the 2011 through 2020 maturities, which were sold in the retail order period, by an additional 5 basis points, as well as the 2021 and 2022 maturities. The 2023 and 2024 maturities were reduced by 2 basis points and the remaining maturities were left unchanged. The underwriter also underwrote unsold balances of in certain maturities. The table on the following page shows the final results and the spread to MMD at the close of January 13, 2009.

**Final Pricing Wire**

Maturity	Amount (000s)	Coupon	Yield	Price	AAA MMD as of 1/13	Spread to MMD (bps)
1/1/2011	6,095	3.000%	1.560%	102.719	1.38%	18
1/1/2011	12,655	5.000%	1.560%	106.497	1.38%	18
1/1/2012	5,560	2.750%	1.780%	102.751	1.55%	23
1/1/2012	6,335	4.000%	1.780%	106.298	1.55%	23
1/1/2012	6,855	5.000%	1.780%	109.136	1.55%	23
1/1/2013	2,180	2.750%	2.010%	102.778	1.73%	28
1/1/2013	7,995	4.000%	2.010%	107.473	1.73%	28
1/1/2013	8,575	5.000%	2.010%	111.229	1.73%	28
1/1/2014	8,380	3.000%	2.210%	103.666	1.93%	28
1/1/2014	3,480	4.000%	2.210%	108.308	1.93%	28
1/1/2014	2,700	2.750%	2.210%	102.505	1.93%	28
1/1/2014	4,190	5.000%	2.210%	112.950	1.93%	28
1/1/2015	3,615	3.000%	2.420%	103.182	2.14%	28
1/1/2015	7,695	4.000%	2.420%	108.671	2.14%	28
1/1/2015	7,440	5.000%	2.420%	114.159	2.14%	28
1/1/2016	4,185	3.000%	2.610%	102.454	2.33%	28
1/1/2016	4,850	4.000%	2.610%	108.752	2.33%	28
1/1/2016	9,140	5.000%	2.610%	115.049	2.33%	28
1/1/2017	750	3.250%	2.820%	103.033	2.54%	28
1/1/2017	7,310	4.000%	2.820%	108.326	2.54%	28
1/1/2017	4,950	5.000%	2.820%	115.383	2.54%	28
1/1/2018	7,860	3.250%	3.040%	101.629	2.76%	28
1/1/2018	8,985	4.000%	3.040%	107.452	2.76%	28
1/1/2018	8,605	5.000%	3.040%	115.217	2.76%	28
1/1/2020	3,660	3.500%	3.550%	99.548	3.26%	29
1/1/2020	14,920	5.000%	3.550%	112.037	3.26%	29
1/1/2021	2,770	3.800%	3.830%	99.712	3.51%	32
1/1/2021	16,685	5.000%	3.830%	109.581	3.51%	32
1/1/2022	6,545	4.000%	4.010%	99.897	3.67%	34
1/1/2022	13,850	5.000%	4.010%	108.037	3.67%	34
1/1/2023	3,490	4.200%	4.200%	100.000	3.84%	36
1/1/2023	17,850	5.000%	4.200%	106.435	3.84%	36
1/1/2024	990	4.300%	4.330%	99.669	3.99%	34
1/1/2024	21,405	5.000%	4.330%	105.355	3.99%	34
1/1/2025	23,480	5.000%	4.450%	104.370	4.11%	34
1/1/2026	24,715	5.000%	4.540%	103.639	4.21%	33
1/1/2027	25,830	5.000%	4.630%	102.914	4.31%	32
1/1/2028	27,355	5.000%	4.710%	102.274	4.41%	30
1/1/2029	2,775	4.700%	4.770%	99.102	4.49%	28
1/1/2029	25,485	5.000%	4.770%	101.797	4.49%	28
1/1/2030	30,580	5.000%	4.830%	101.324	4.57%	26
1/1/2031	30,290	4.875%	4.930%	99.264	4.62%	31
1/1/2032	35,410	5.000%	4.970%	100.228	4.67%	30
1/1/2033	29,880	5.000%	5.010%	99.857	4.72%	29
1/1/2034	45,980	5.000%	5.030%	99.572	4.74%	29
1/1/2039	189,850	5.000%	5.080%	98.772	4.79%	29

**Underwriter's Discount**

The final underwriter's discount for the 2009 Series A Bonds totaled \$3,999,137.50 or \$5.37388 per bond. These amounts are in line with transactions of this nature, size and complexity in the current market.

	\$/1000	Amount
Average Takedown	5.05407	3,761,137.50
Underwriter's Counsel	0.15453	115,000.00
CUSIP	0.00114	848.00
Day Loan	0.01389	10,335.80
Dalcomp	0.07500	55,813.50
Dalnet	0.00019	140.00
DTC	0.00054	400.00
SIFMA Fee	0.03000	22,325.40
Expenses to Date	0.02168	16,137.30
Net Roadshow	0.00672	5,000.00
Closing Expenses	0.01613	12,000.00
	5.37388	3,999,137.50

**Cost of Issuance**

The District's estimated cost of issuance for the 2009 Series A Bonds totaled \$600,000. This level of cost is reasonable for a transaction of this size.

**Conclusions and Recommendation**

Based on the foregoing and our knowledge and experience in the issuance of tax-exempt debt, it is Public Financial Management's opinion that the coupon rates, yields and underwriting spread, all of which constitute the pricing of the 2009 Series A Bonds, were fair and appropriate for the District. PFM endorses your decision to accept the terms of the transaction.

# Salt River Project Agricultural Improvement and Power District, Arizona

\$744,180,000

Electric System Revenue Bonds

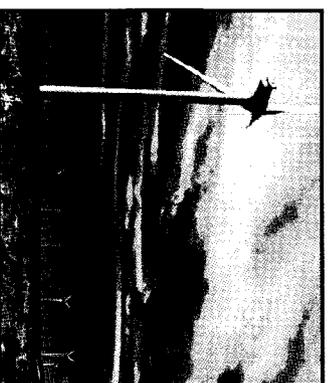
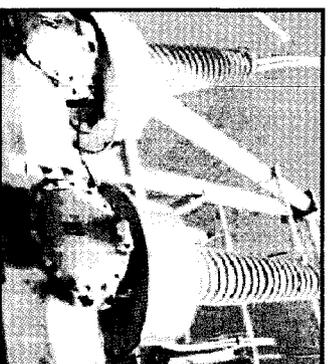
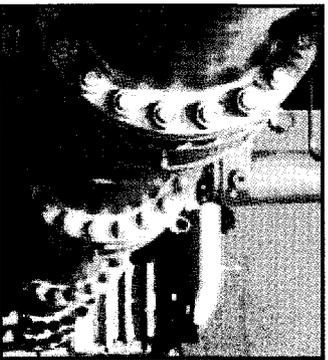
2009 Series A

Post-Pricing Book

presented by

**The PFM Group**

January 28, 2009



**Delivering More Than Power.™**



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- I. Transaction Information**
- II. Market Conditions**
- III. SRP Secondary Market Activity**
- IV. Pricing Comparables**





Delivering More Than Power.™

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# I. TRANSACTION INFORMATION

# Transaction Summary



## 2009 Series A Bonds

Sources of Funds:	
Par Amount	744,180,000.00
Original Issue Premium	20,424,831.15
<b>Total Sources</b>	<b>764,604,831.15</b>
Use of Funds:	
Series B Commercial Paper Repayment	100,000,000.00
Construction Fund	480,000,000.00
General Fund	180,000,000.00
Underwriters' Discount	3,999,137.50
Cost of Issuance	605,693.65
<b>Total Uses</b>	<b>764,604,831.15</b>



# Financing Schedule



Delivering More Than Power.™

January 12

- Retail Order Period

January 13

- Institutional Pricing

January 15

- SRP Board Meeting
- BPA Signed

January 28

- Closing

## 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 2009 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 2009 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 2009 Series A Bonds is exempt from income taxes imposed by the State of Arizona. See "TAX MATTERS" herein regarding certain other tax considerations.*

**\$744,180,000**

**Salt River Project Agricultural  
Improvement and Power District, Arizona**  
Salt River Project Electric System Revenue Bonds, 2009 Series A

### Dated: Date of Delivery:

Date: January 1, as shown on inside cover.

The 2009 Series A Bonds are being issued pursuant to the Supplemental Resolution Dated September 10, 2001, authorizing an Amended and Restated Resolution Concerning Revenue Bonds, which became effective January 11, 2003, as amended and supplemented (the "Resolution"). The 2009 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 2009 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 2009 Series A Bonds. Individual purchases of interests in the 2009 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 2009 Series A Bonds. Interest with respect to the 2009 Series A Bonds is payable January 1 and July 1 of each year, commencing July 1, 2009.

The principal of redemption price, if any, and interest on the 2009 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 2009 Series A Bond as of the immediately preceding December 15 or 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 2009 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 2009 Series A Bonds. The 2009 Series A Bonds are subject to optional and mandatory redemption as described herein. See "THE 2009 SERIES A BONDS — Redemption" herein.

The 2009 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 2009 Series A Bonds has the right to compel the exercise of the taxing powers of the District to pay the 2009 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 2009 Series A Bonds. Investors should read this Official Statement in its entirety before making an investment decision.

The 2009 Series A Bonds are offered when, as and if issued, and subject to the approval of legality by Drinker Biddle & Reath LLP, Bond Counsel. Certain legal matters will be passed upon for the District by Nixon Peabody LLP, Special Tax Counsel, and for the Underwriters by Winston & Strawn LLP. It is expected that the 2009 Series A Bonds will be available for delivery to DTC in New York, New York, on or about January 28, 2009.

Goldman, Sachs & Co.

Morgan Stanley & Co. Incorporated

JPMorgan

Citi

Dated: January 15, 2009



The PFM Group | January 28, 2009 | 4

# Financing Team



## Senior Manager

- Goldman Sachs & Co.
- Jill Toporek
- Arthur Miller
- Andrew Prindle
- David Cohen
- Ed Droesch

## Co-Managers

- Citigroup
- Morgan Stanley
- JP Morgan

## Underwriter's Counsel

- Winston & Strawn
- James Normile
- Catriona Morgan

## Bond Counsel

- Drinker Biddle & Reath
- John Scally
- Gregory Tears

## Financial Advisor

- Public Financial Management
- Mike Mace
- Eric Smith



# Affirmed Credit Ratings



- Moody's and Standard & Poor's have assigned ratings of 'Aa1' and 'AA', respectively, to SRP's 2009 Series A Bonds.

Rating Agency	Credit Rating	Outlook
 Moody's Investors Service	Aa1	Stable
 STANDARD & POOR'S	AA	Stable



# Retail Pricing Scale



Maturity	Amount (000s)	Coupon	Yield	Price	AAA MMD as of 1/9	Spread to MMD (bps)	Takedown
1/1/2011	9,355	3.000%	1.710%	102.431	1.61%	10	1/2
1/1/2011	9,355	5.000%	1.710%	106.202	1.61%	10	1/2
1/1/2012	4,675	2.750%	1.930%	102.320	1.78%	15	1/2
1/1/2012	4,680	4.000%	1.930%	105.858	1.78%	15	1/2
1/1/2012	9,355	5.000%	1.930%	108.688	1.78%	15	1/2
1/1/2013	4,675	2.750%	2.160%	102.207	1.96%	20	1/2
1/1/2013	4,680	4.000%	2.160%	106.887	1.96%	20	1/2
1/1/2013	9,355	5.000%	2.160%	110.630	1.96%	20	1/2
1/1/2014	9,355	3.000%	2.360%	102.958	2.16%	20	1/2
1/1/2014	4,675	4.000%	2.360%	107.581	2.16%	20	1/2
1/1/2014	4,675	5.000%	2.360%	112.205	2.16%	20	1/2
1/1/2015	9,355	3.000%	2.550%	102.458	2.35%	20	1/2
1/1/2015	4,675	4.000%	2.550%	107.925	2.35%	20	1/2
1/1/2015	4,675	5.000%	2.550%	113.391	2.35%	20	1/2
1/1/2016	8,910	3.000%	2.740%	101.628	2.54%	20	1/2
1/1/2016	4,455	4.000%	2.740%	107.896	2.54%	20	1/2
1/1/2016	4,455	5.000%	2.740%	114.165	2.54%	20	1/2
1/1/2017	3,190	3.250%	2.950%	102.104	2.75%	20	1/2
1/1/2017	6,375	4.000%	2.950%	107.370	2.75%	20	1/2
1/1/2017	3,190	5.000%	2.950%	114.390	2.75%	20	1/2
1/1/2018	6,325	3.500%	3.170%	102.546	2.97%	20	1/2
1/1/2018	6,325	4.000%	3.170%	106.406	2.97%	20	1/2
1/1/2018	12,650	5.000%	3.170%	114.126	2.97%	20	1/2
1/1/2020	9,315	3.625%	3.680%	99.506	3.48%	20	1/2
1/1/2020	9,315	5.000%	3.680%	110.889	3.48%	20	1/2
1/1/2021	19,560	3.875%	3.930%	99.477	3.73%	20	1/2
1/1/2022	20,535	4.000%	4.090%	99.100	3.89%	20	1/2
1/1/2023	21,560	4.250%	4.250%	100.000	4.05%	20	1/2
1/1/2024	22,655	4.300%	4.370%	99.235	4.17%	20	1/2
1/1/2025	23,755	NO	RETAIL	ORDERS			
1/1/2026	25,005	NO	RETAIL	ORDERS			
1/1/2027	26,140	NO	RETAIL	ORDERS			
1/1/2028	27,670	NO	RETAIL	ORDERS			
1/1/2029	9,295	4.750%	4.800%	99.359	4.60%	20	5/8
1/1/2029	19,300	5.000%	4.800%	101.560	4.60%	20	5/8
1/1/2034	174,270	NO	RETAIL	ORDERS			
1/1/2039	192,210	5.000%	5.050%	99.228	4.84%	21	5/8

# Preliminary Pricing Scale



Maturity	Amount (000s)	Balance (000s)	Coupon	Yield	Price	AAA MMD as of 1/12	Spread to MMD (bps)	Takedown
1/1/2011	6,095	-	3.000%	1.610%	102.623	1.51%	10	1/2
1/1/2011	12,680	-	5.000%	1.610%	106.399	1.51%	10	1/2
1/1/2012	5,560	-	2.750%	1.830%	102.607	1.68%	15	1/2
1/1/2012	6,335	-	4.000%	1.830%	106.151	1.68%	15	1/2
1/1/2012	6,880	-	5.000%	1.830%	108.987	1.68%	15	1/2
1/1/2013	2,180	-	2.750%	2.060%	102.587	1.86%	20	1/2
1/1/2013	7,995	-	4.000%	2.060%	107.277	1.86%	20	1/2
1/1/2013	8,600	-	5.000%	2.060%	111.029	1.86%	20	1/2
1/1/2014	11,080	-	3.000%	2.260%	103.429	2.06%	20	1/2
1/1/2014	3,510	-	4.000%	2.260%	108.065	2.06%	20	1/2
1/1/2014	4,190	-	5.000%	2.260%	112.701	2.06%	20	1/2
1/1/2015	3,615	-	3.000%	2.470%	102.903	2.27%	20	1/2
1/1/2015	7,695	-	4.000%	2.470%	108.383	2.27%	20	1/2
1/1/2015	7,470	-	5.000%	2.470%	113.863	2.27%	20	1/2
1/1/2016	4,185	-	3.000%	2.660%	102.136	2.46%	20	1/2
1/1/2016	4,850	-	4.000%	2.660%	108.422	2.46%	20	1/2
1/1/2016	9,170	-	5.000%	2.660%	114.708	2.46%	20	1/2
1/1/2017	750	-	3.250%	2.870%	102.675	2.67%	20	1/2
1/1/2017	7,335	-	4.000%	2.870%	107.957	2.67%	20	1/2
1/1/2017	4,950	-	5.000%	2.870%	115.000	2.67%	20	1/2
1/1/2018	7,860	-	3.250%	3.090%	101.238	2.89%	20	1/2
1/1/2018	9,030	-	4.000%	3.090%	107.048	2.89%	20	1/2
1/1/2018	8,605	-	5.000%	3.090%	114.796	2.89%	20	1/2
1/1/2020	3,660	-	3.500%	3.600%	99.101	3.40%	20	1/2
1/1/2020	14,950	-	5.000%	3.600%	111.594	3.40%	20	1/2
1/1/2021	2,770	-	3.800%	3.880%	99.239	3.65%	23	1/2
1/1/2021	16,720	-	5.000%	3.880%	109.150	3.65%	23	1/2
1/1/2022	6,545	-	4.000%	4.060%	99.398	3.81%	25	1/2
1/1/2022	13,885	-	5.000%	4.060%	107.613	3.81%	25	1/2
1/1/2023	3,490	3,490	4.200%	4.220%	99.788	3.97%	25	1/2
1/1/2023	17,890	17,890	5.000%	4.220%	106.268	3.97%	25	1/2
1/1/2024	990	-	4.300%	4.350%	99.452	4.10%	25	1/2
1/1/2024	21,445	21,445	5.000%	4.350%	105.190	4.10%	25	1/2
1/1/2025	23,520	23,520	5.000%	4.450%	104.370	4.20%	25	1/2
1/1/2026	24,755	24,755	5.000%	4.540%	103.639	4.29%	25	1/2
1/1/2027	25,880	25,880	5.000%	4.630%	102.914	4.38%	25	1/2
1/1/2028	27,400	27,400	5.000%	4.710%	102.274	4.47%	24	1/2
1/1/2029	2,775	-	4.700%	4.770%	99.102	4.54%	23	1/2
1/1/2029	25,535	4,380	5.000%	4.770%	101.797	4.54%	23	1/2
1/1/2030	30,635	30,635	5.000%	4.830%	101.324	4.61%	22	1/2
1/1/2031	30,340	30,340	4.875%	4.930%	99.264	4.65%	28	1/2
1/1/2032	35,510	35,510	5.000%	4.970%	100.228	4.70%	27	1/2
1/1/2034	76,065	76,065	5.000%	5.030%	99.572	4.76%	27	1/2
1/1/2039	190,365	182,075	5.000%	5.080%	98.772	4.81%	27	1/2

# Final Pricing Scale

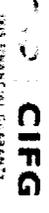
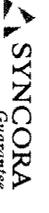


Maturity	Amount (000s)	Coupon	Yield	Price	AAA MMD as of 1/13	Spread to MMD (bps)
1/1/2011	6,095	3.000%	1.560%	102.719	1.38%	18
1/1/2011	12,655	5.000%	1.560%	106.497	1.38%	18
1/1/2012	5,560	2.750%	1.780%	102.751	1.55%	23
1/1/2012	6,335	4.000%	1.780%	106.298	1.55%	23
1/1/2012	6,855	5.000%	1.780%	109.136	1.55%	23
1/1/2013	2,180	2.750%	2.010%	102.778	1.73%	28
1/1/2013	7,995	4.000%	2.010%	107.473	1.73%	28
1/1/2013	8,575	5.000%	2.010%	111.229	1.73%	28
1/1/2014	8,380	3.000%	2.210%	103.666	1.93%	28
1/1/2014	3,480	4.000%	2.210%	108.308	1.93%	28
1/1/2014	2,700	2.750%	2.210%	102.505	1.93%	28
1/1/2014	4,190	5.000%	2.210%	112.950	1.93%	28
1/1/2015	3,615	3.000%	2.420%	103.182	2.14%	28
1/1/2015	7,695	4.000%	2.420%	108.671	2.14%	28
1/1/2015	7,440	5.000%	2.420%	114.159	2.14%	28
1/1/2016	4,185	3.000%	2.610%	102.454	2.33%	28
1/1/2016	4,850	4.000%	2.610%	108.752	2.33%	28
1/1/2016	9,140	5.000%	2.610%	115.049	2.33%	28
1/1/2017	750	3.250%	2.820%	103.033	2.54%	28
1/1/2017	7,310	4.000%	2.820%	108.326	2.54%	28
1/1/2017	4,950	5.000%	2.820%	115.383	2.54%	28
1/1/2018	7,860	3.250%	3.040%	101.629	2.76%	28
1/1/2018	8,985	4.000%	3.040%	107.452	2.76%	28
1/1/2018	8,605	5.000%	3.040%	115.217	2.76%	28
1/1/2020	3,660	3.500%	3.550%	99.548	3.26%	29
1/1/2020	14,920	5.000%	3.550%	112.037	3.26%	29
1/1/2021	2,770	3.800%	3.830%	99.712	3.51%	32
1/1/2021	16,685	5.000%	3.830%	109.581	3.51%	32
1/1/2022	6,545	4.000%	4.010%	99.897	3.67%	34
1/1/2022	13,850	5.000%	4.010%	108.037	3.67%	34
1/1/2023	3,490	4.200%	4.200%	100.000	3.84%	36
1/1/2023	17,850	5.000%	4.200%	106.435	3.84%	36
1/1/2024	990	4.300%	4.330%	99.669	3.99%	34
1/1/2024	21,405	5.000%	4.330%	105.355	3.99%	34
1/1/2025	23,480	5.000%	4.450%	104.370	4.11%	34
1/1/2026	24,715	5.000%	4.540%	103.639	4.21%	33
1/1/2027	25,830	5.000%	4.630%	102.914	4.31%	32
1/1/2028	27,355	5.000%	4.710%	102.274	4.41%	30
1/1/2029	2,775	4.700%	4.770%	99.102	4.49%	28
1/1/2029	25,485	5.000%	4.770%	101.797	4.49%	28
1/1/2030	30,580	5.000%	4.830%	101.324	4.57%	26
1/1/2031	30,290	4.875%	4.930%	99.264	4.62%	31
1/1/2032	35,410	5.000%	4.970%	100.228	4.67%	30
1/1/2033	29,990	5.000%	5.010%	99.857	4.72%	29
1/1/2034	45,980	5.000%	5.030%	99.572	4.74%	29
1/1/2039	189,850	5.000%	5.080%	98.772	4.79%	29

## II. MARKET CONDITIONS

# Rating Agencies Continue to Take Negative Rating Action Against the Bond Insurers



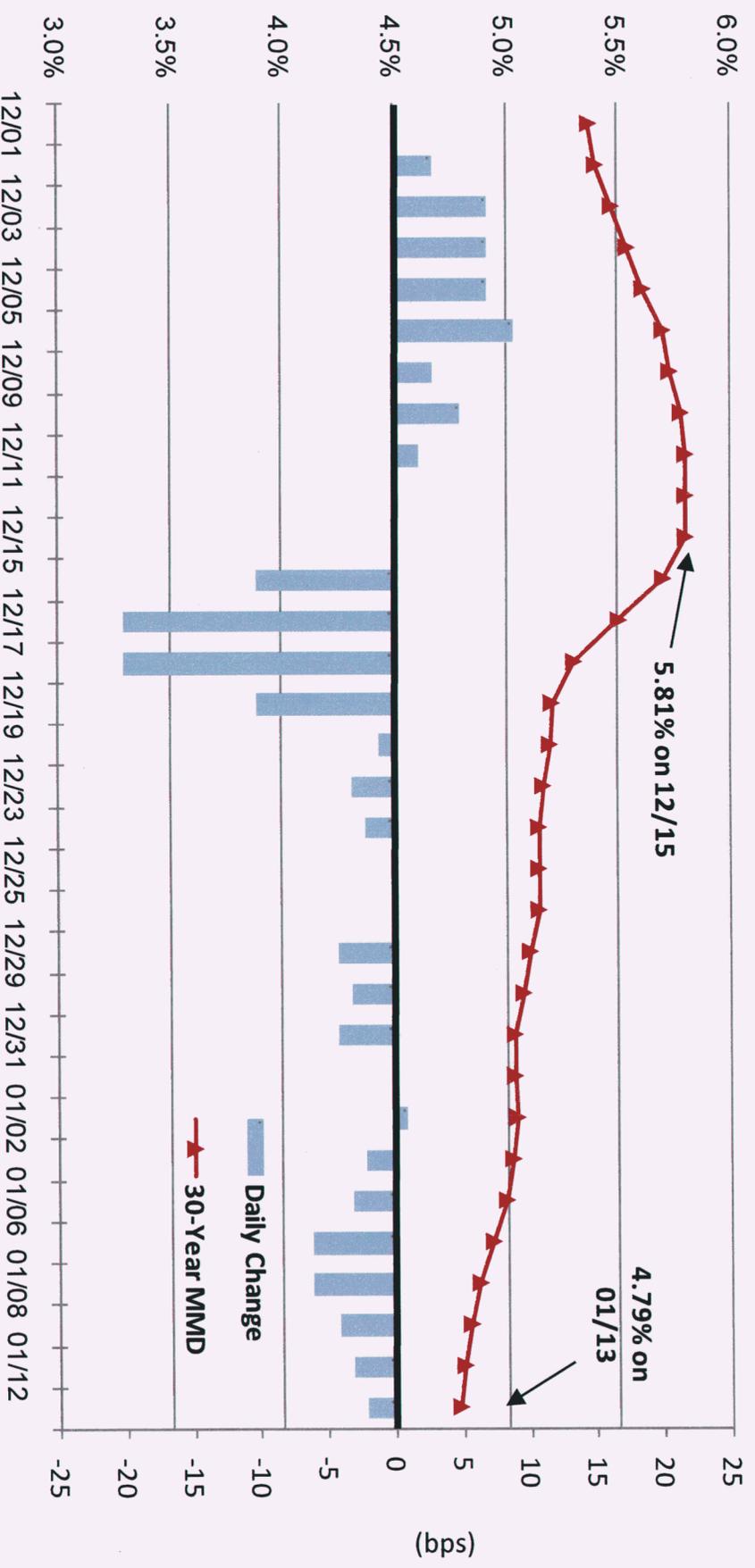
	 Moody's Investors Service	STANDARD & POOR'S	FitchRatings <small>FORMERLY FITCH IBCA</small>
<b>Ambac</b>	<ul style="list-style-type: none"> <li>• 'Baa1' / Outlook Developing</li> </ul>	<ul style="list-style-type: none"> <li>• 'A' / Negative</li> </ul>	<ul style="list-style-type: none"> <li>• Ratings Withdrawn</li> </ul>
ASSURED GUARANTY	<ul style="list-style-type: none"> <li>• 'Aa2' / Stable</li> </ul>	<ul style="list-style-type: none"> <li>• 'AAA' / Stable</li> </ul>	<ul style="list-style-type: none"> <li>• 'AAA' / Stable</li> </ul>
BERSHIRE HATHAWAY INC.	<ul style="list-style-type: none"> <li>• 'Aaa' / Stable</li> </ul>	<ul style="list-style-type: none"> <li>• 'AAA' / Stable</li> </ul>	<ul style="list-style-type: none"> <li>• Not Rated</li> </ul>
	<ul style="list-style-type: none"> <li>• 'Baa3' / Watchlist Developing</li> </ul>	<ul style="list-style-type: none"> <li>• 'BB' / CreditWatch Developing</li> </ul>	<ul style="list-style-type: none"> <li>• Ratings Withdrawn</li> </ul>
FGIC	<ul style="list-style-type: none"> <li>• 'Caat1' / Negative</li> </ul>	<ul style="list-style-type: none"> <li>• 'CCC' / Negative</li> </ul>	<ul style="list-style-type: none"> <li>• Ratings Withdrawn</li> </ul>
 A Fidelity Company	<ul style="list-style-type: none"> <li>• 'Aa3' / Outlook Developing</li> </ul>	<ul style="list-style-type: none"> <li>• 'AAA' / CreditWatch Negative</li> </ul>	<ul style="list-style-type: none"> <li>• 'AAA' / CreditWatch Negative</li> </ul>
 ASSET MANAGEMENT	<ul style="list-style-type: none"> <li>• 'Baa1' / Outlook Developing</li> </ul>	<ul style="list-style-type: none"> <li>• 'AA' / Negative</li> </ul>	<ul style="list-style-type: none"> <li>• Ratings Withdrawn</li> </ul>
 Guarantee	<ul style="list-style-type: none"> <li>• 'Caat1' / Watch Developing</li> </ul>	<ul style="list-style-type: none"> <li>• 'B' / CreditWatch Developing</li> </ul>	<ul style="list-style-type: none"> <li>• Ratings Withdrawn</li> </ul>



# Long-term Rates Continue To Be Volatile



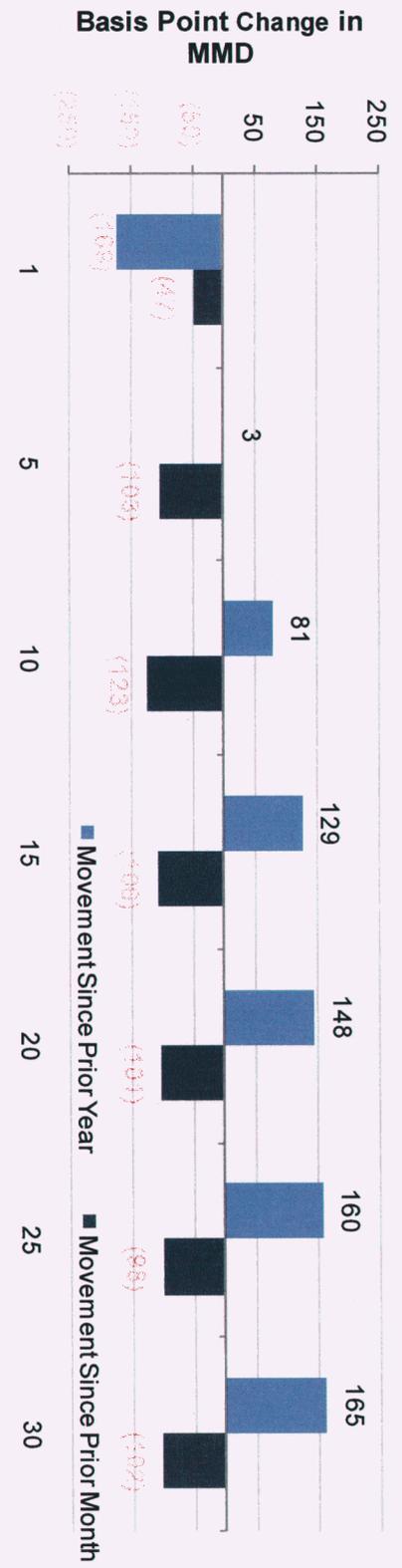
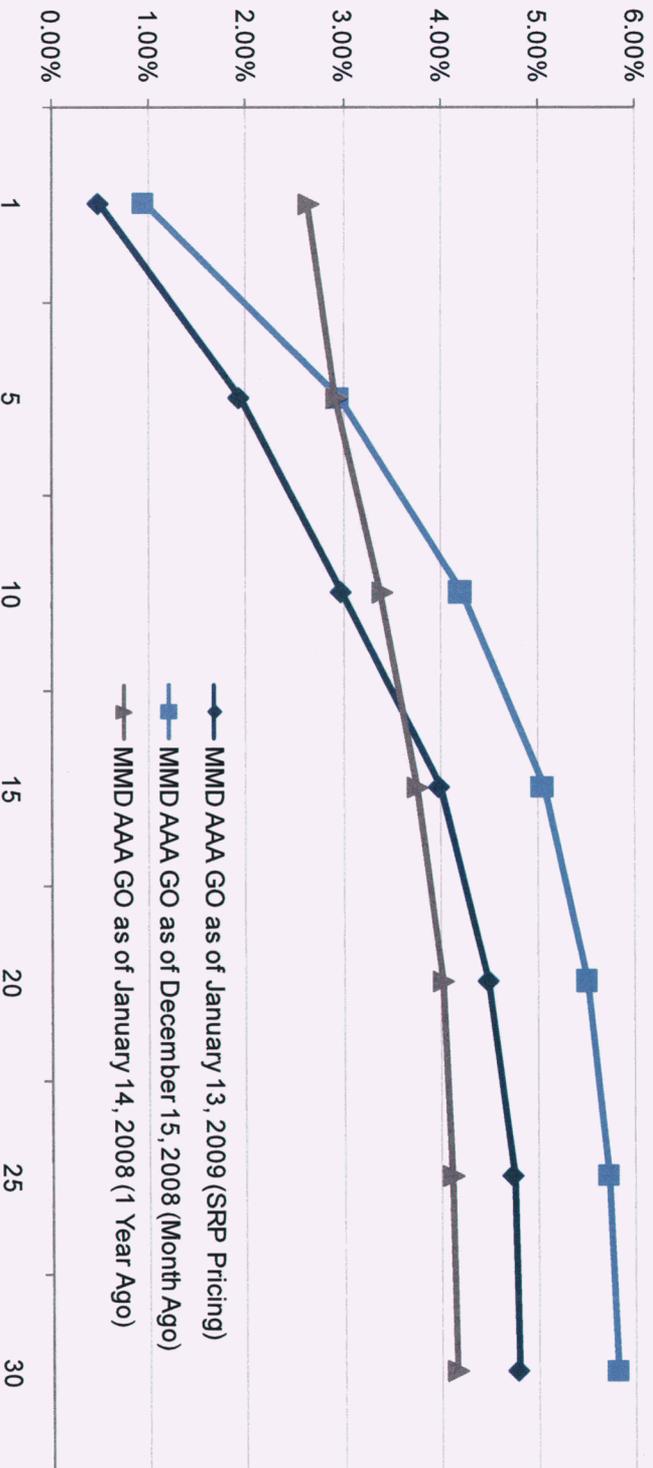
- From its peak in mid December, the 30-year MMD rallied by more than 100 basis points by SRP's pricing on January 13<sup>th</sup>.



# MMD Benchmark Yield Curve



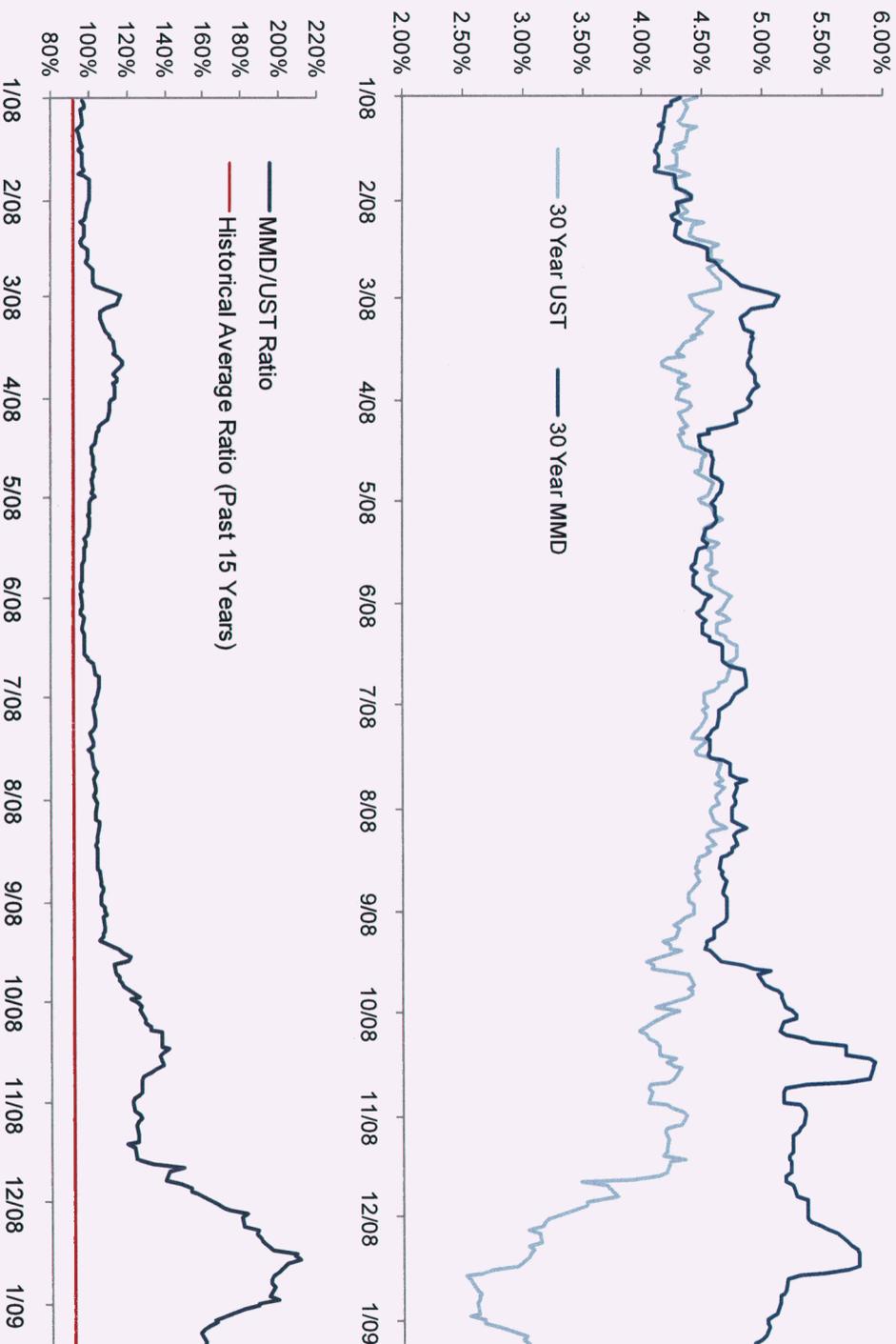
- The municipal yield curve moved dramatically over the past month with some maturities declining more than 120 basis points.



# Historical Relationship Between Taxable and Tax-Exempt Yields Has Dislocated



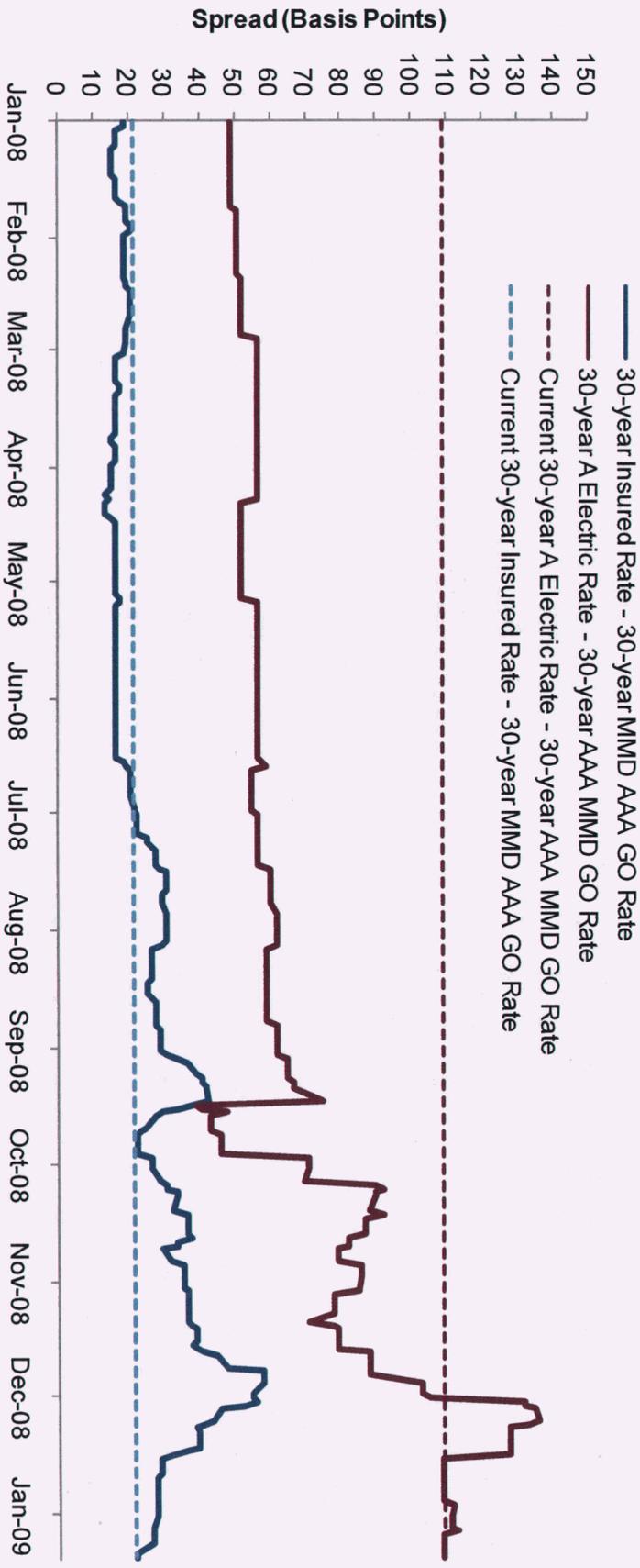
- On January 13<sup>th</sup>, the 30-Year MMD/UST ratio was 160%, well above the 15 year historical average of 92%



# Credit Spreads Have Widened Throughout 2008



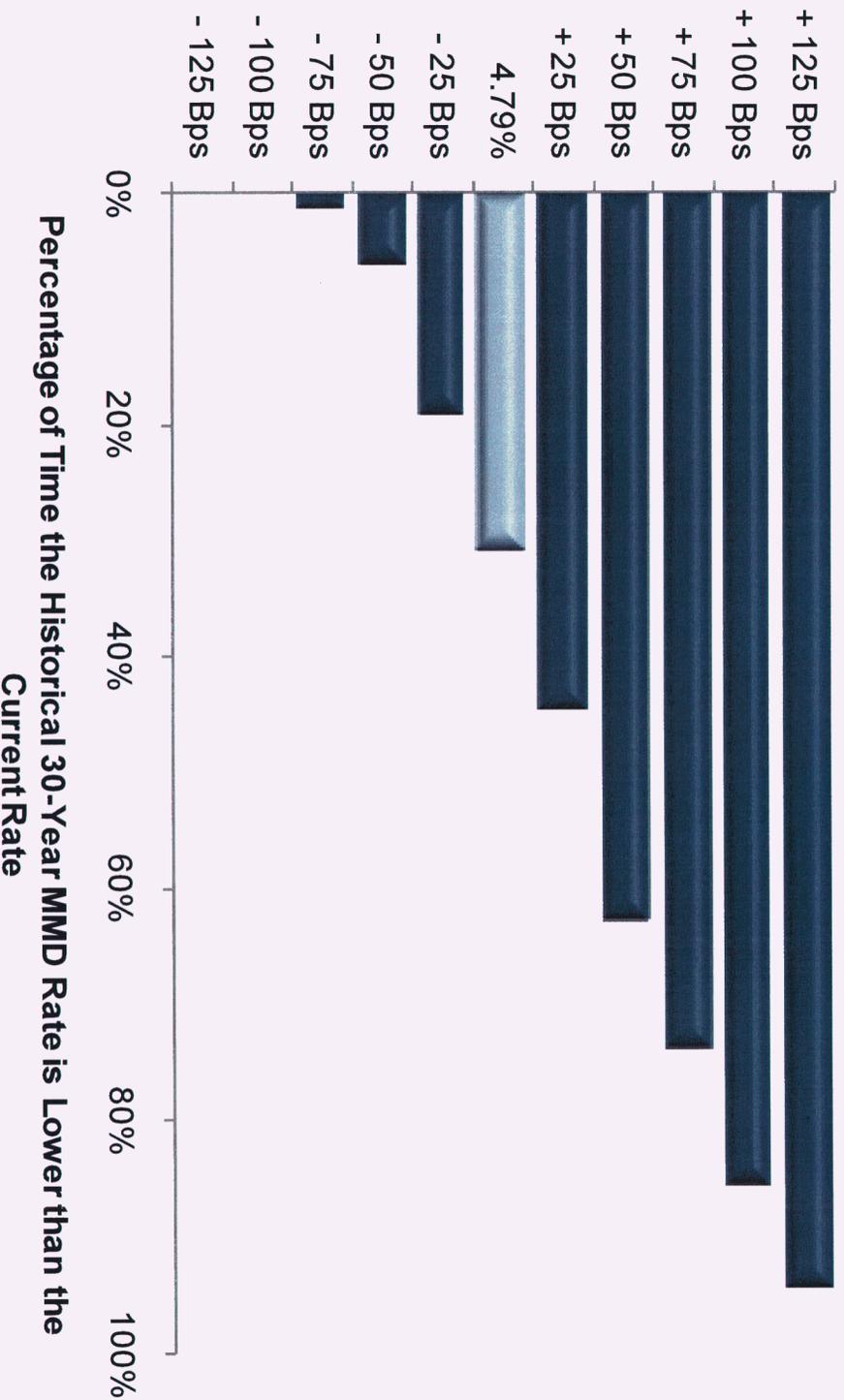
- Credit spreads continue to widen and fluctuate widely across the credit spectrum
- Investors remain hyper-sensitive to credit conditions and liquidity



# Historical 30-Year MMD AAA GO Rate



- The 30-year MMD AAA GO rate has been lower than the current rate 30% of the time throughout the past 15 years



Percentage of Time the Historical 30-Year MMD Rate is Lower than the Current Rate



# Economic Calendar



- SRP priced its bonds early in a week with a significant amount of economic data

Date	Time	Event	Survey	Actual	Prior	Revised
January 13	8:30:00 AM	Trade Balance	-\$51.0B	-\$40.4B	-\$56.7B	-\$57.2B
<b>SRP Pricing</b>						
January 13	2:00:00 PM	Treasury Budget	NA	-\$83.6B	-\$48.3B	-
January 14	8:30:00 AM	Export Prices ex-ag.	NA	-1.90%	-2.90%	-
January 14	8:30:00 AM	Import Prices ex-oil	NA	-1.10%	-1.80%	-
January 14	8:30:00 AM	Retail Sales	-1.00%	-2.70%	-2.10%	-1.80%
January 14	8:30:00 AM	Retail Sales ex-auto	-1.20%	-3.10%	-2.50%	-1.60%
January 14	10:00:00 AM	Business Inventories	-0.50%	-0.70%	-0.60%	-
January 14	10:30:00 AM	Crude Inventories	NA	1144K	6682K	-
January 14	2:00:00 PM	Fed Beige Book	-	-	-	-
January 15	8:30:00 AM	Core PPI	0.10%	0.20%	0.10%	-
January 15	8:30:00 AM	Empire Manufacturing Index	-	-	-2576.00%	-
January 15	8:30:00 AM	Initial Claims	NA	-	467K	-
January 15	8:30:00 AM	Initial Claims	-1.70%	-1.90%	-2.20%	-
January 15	8:30:00 AM	PPI	NA	524K	470K	467K
January 15	8:30:00 AM	Initial Claims	NA	-	-27.9	-25.8
January 15	8:30:00 AM	Empire Manufacturing Index	-	-22.2	-36.1	-32.9
January 15	10:00:00 AM	Philadelphia Fed	-35.0	-24.3	0.00%	-
January 16	8:30:00 AM	Core CPI	0.00%	0.00%	0.00%	-
January 16	8:30:00 AM	CPI	-1.00%	-0.70%	-1.70%	-
January 16	9:15:00 AM	Capacity Utilization	74.60%	73.60%	75.20%	75.40%
January 16	9:15:00 AM	Industrial Production	-1.00%	-2.00%	-1.30%	0.60%
January 16	9:55:00 AM	Mich Sentiment-Prel	61.0	61.9	60.1	-



# Calendar: Week of January 12th



- The calendar was heavy as issuers prepared to enter the market after the start of the new year and the lower interest rate environment

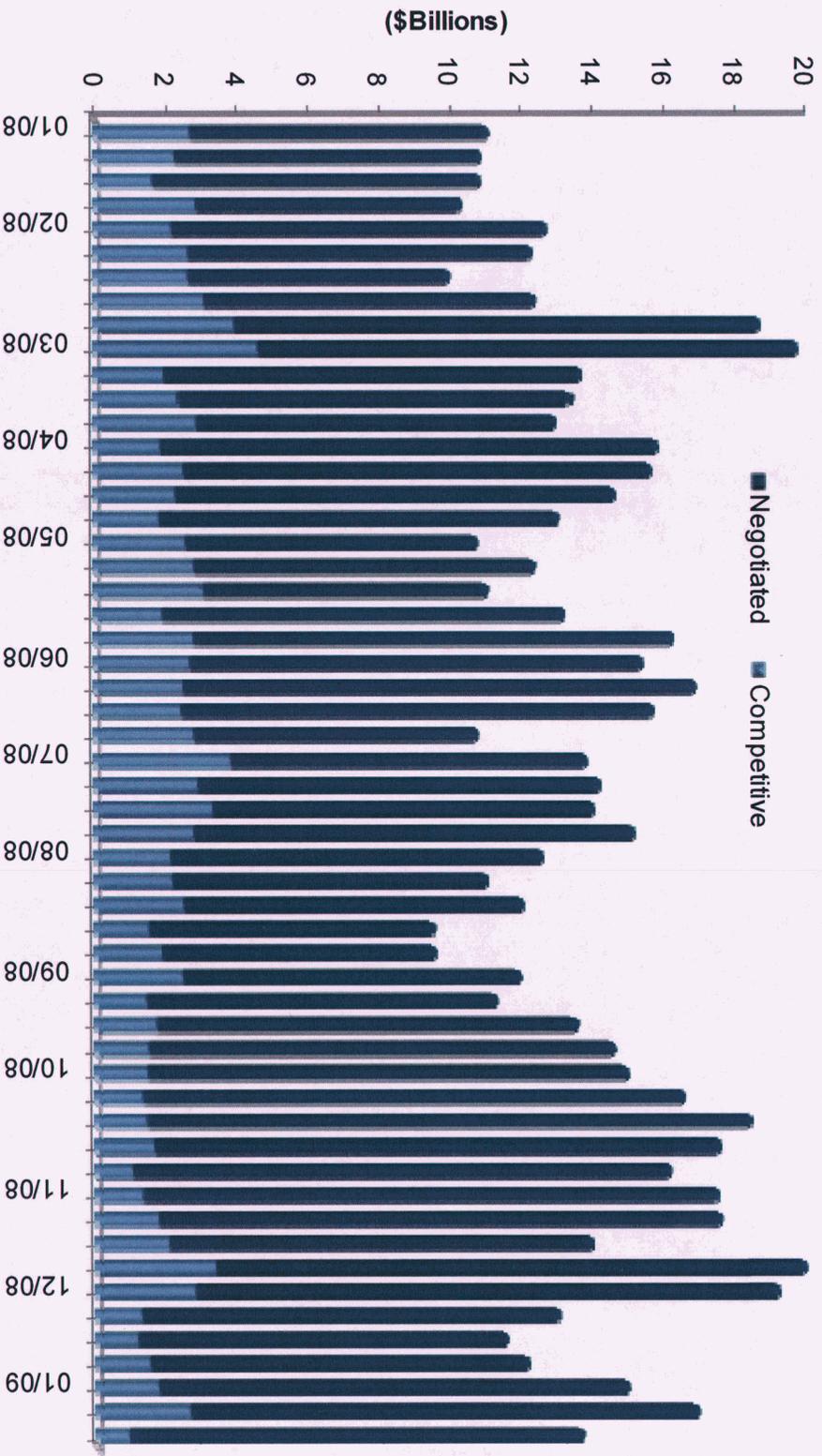
Negotiated Calendar			
Issuer	State	Amount (000's)	
New Orleans Aviation Board	LA	\$144,355	
<b>Salt River Project</b>	<b>AZ</b>	<b>\$744,180</b>	
The Metropolitan Water District of Southern California	CA	\$200,000	
City of Chicago	IL	\$611,017	
City of Paducah	KY	\$170,255	
Royal Oak Hospital Finance Authority	MI	\$392,995	
Long Island Power Authority	NY	\$435,825	
The Ohio State University	OH	\$217,595	
Pennsylvania Turnpike Commission	PA	\$308,035	
Massachusetts State College Building Authority	MA	\$128,570	
Trustees of Princeton University	NJ	\$1,000,000	
New York City Transitional Finance Authority	NY	\$650,000	
Ohio Building Authority	OH	\$139,510	
San Diego Public Facilities Financing Authority	CA	\$157,190	
State of Delaware	DE	\$115,000	
University of Notre Dame Du Lac	IN	\$150,000	
Board of Regents of the University of Houston System	TX	\$108,395	
Tyler Independent School District	TX	\$123,140	
Adams County	CO	\$105,000	
Lewisville Independent School District	TX	\$167,045	
Iowa School Corporation	IA	\$78,590	
City of Newark	NJ	\$110,245	
Competitive Calendar			
Issuer	State	Amount (\$000's)	
State of Delaware	DE	\$110,000	
Florida State Board of Education	FL	\$200,000	
City of Chandler	AZ	\$252,000	
State of Minnesota	MIN	\$325,000	
County of Guilford	NC	\$164,600	
Fairfax County	VA	\$204,000	



# Bond Buyer's 30-Day Visible Supply



- Pending supply increased significantly following the holiday season and rally in tax-exempt rates.
- Retail continued to drive the market, particularly for high-grade credits





Delivering More Than Power.™

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# III. PRICING COMPARABLES

# Pricing Details



## The Ohio State University

Sale Date: 1/14/2009

Series: \$ 217,595,000 General Receipts Bonds, Series 2008A

Lead Manager: Morgan Stanley & Co.

Type: Negotiated

Ratings: Aa2 / AA / AA Underlying  
(Moody's/S&P/Fitch) Uninsured

Delivery: 1/22/2009  
First Coupon: 6/1/2009

### Bond Pricing Details

Due	Par (\$000)	Coupon	YTW	Price	MMD	Spread (BP)	Insurer	YTM	Spread (BP)
12/1/2009	12,090	2.000%	0.42% NC	101.352	0.48%	(9)			
12/1/2010	12,400	3.000%	1.40% NC	102.923	0.48%	92			
12/1/2011	12,840	4.000%	1.61% NC	106.648	1.28%	33			
12/1/2012	3,625	4.000%	1.77% NC	108.279	1.37%	40			
12/1/2012	9,765	4.500%	1.77% NC	110.136	1.37%	40			
12/1/2013	14,035	5.000%	1.92% NC	114.219	1.55%	37			
12/1/2014	4,000	4.000%	2.18% NC	109.956	1.76%	42			
12/1/2014	10,730	5.000%	2.18% NC	115.427	1.76%	42			
12/1/2015	5,765	2.375%	2.39% NC	99.904	1.98%	41			
12/1/2015	9,625	5.000%	2.39% NC	116.417	1.98%	41			
12/1/2016	7,865	5.000%	2.58% NC	117.110	2.17%	41			
12/1/2017	6,200	4.000%	2.79% NC	109.436	2.38%	41			
12/1/2017	1,965	5.000%	2.79% NC	117.236	2.38%	41			
12/1/2018	6,785	3.000%	3.01% NC	99.912	2.60%	41			
12/1/2018	1,635	5.000%	3.01% NC	116.862	2.60%	41			
12/1/2019	8,715	5.000%	3.23% PPC	114.838	2.82%	41		3.36%	54
12/1/2020	9,080	5.000%	3.51% PPC	112.322	3.10%	41		3.71%	61
12/1/2021	9,480	5.000%	3.76% PPC	110.131	3.37%	39		3.98%	61
12/1/2022	2,025	4.000%	3.92% PPC	100.645	3.55%	37		3.94%	39
12/1/2022	7,845	5.000%	3.92% PPC	108.755	3.55%	37		4.16%	61
12/1/2023	10,280	5.000%	4.09% PPC	107.317	3.72%	37		4.33%	61
12/1/2024	5,500	5.000%	4.25% PPC	105.983	3.89%	36		4.47%	58
12/1/2024	3,880	4.250%	4.25% C	100.000	3.89%	36			
12/1/2025	500	5.000%	4.36% PPC	105.078	4.01%	35		4.56%	55
12/1/2025	9,245	4.350%	4.36% C	99.876	4.01%	35			
12/1/2026	650	4.375%	4.46% C	98.956	4.12%	34			
12/1/2026	9,480	5.000%	4.46% PPC	104.264	4.12%	34		4.65%	53
12/1/2027	10,565	5.000%	4.56% PPC	103.456	4.23%	33		4.72%	49
12/1/2028	11,025	5.000%	4.66% PPC	102.657	4.35%	31		4.79%	44
<b>Total Par:</b>	<b>217,595</b>								

Callable 12/1/2018 @ 100%

NC - NonCallable C - Callable PPC - Premium Priced to Call

# Pricing Details



## Massachusetts State College Building Authority

Sale Date: 1/14/2009

Series: \$ 128,570,000 Project Revenue Bonds, Series 2009A

Lead Manager: J.P. Morgan Securities

Ratings: A1 / A+ / NR Underlying

Delivery: 1/28/2009

Type: Negotiated

(Moody's/S&P/Fitch) Uninsured

First Coupon: 11/1/2009

### Bond Pricing Details

Due	Par (\$000)	Coupon	YTM	Price	MMD	Spread (BP)	Insurer	YTM	Spread (BP)
5/1/2010	410	3.000%	1.13% NC	102.328	0.48%	65			
5/1/2011	1,510	3.000%	2.06% NC	102.061	1.28%	78			
5/1/2012	1,500	3.000%	2.27% NC	102.278	1.37%	90			
5/1/2013	1,585	3.500%	2.50% NC	104.013	1.55%	95			
5/1/2014	1,740	3.500%	2.74% NC	103.695	1.76%	98			
5/1/2015	1,140	3.000%	2.97% NC	100.167	1.98%	99			
5/1/2015	1,315	5.000%	2.97% NC	111.511	1.98%	99			
5/1/2016	885	4.000%	3.18% NC	105.273	2.17%	101			
5/1/2016	1,740	5.000%	3.18% NC	111.708	2.17%	101			
5/1/2017	525	3.375%	3.39% NC	99.889	2.38%	101			
5/1/2017	2,315	5.000%	3.39% NC	111.507	2.38%	101			
5/1/2018	1,000	4.000%	3.61% NC	103.041	2.60%	101			
5/1/2018	1,845	5.000%	3.61% NC	110.851	2.60%	101			
5/1/2019	900	4.000%	3.83% NC	101.426	2.82%	101			
5/1/2019	2,180	5.000%	3.83% NC	109.842	2.82%	101			
5/1/2020	1,250	4.125%	4.13% C	99.950	3.10%	103			
5/1/2020	1,880	5.000%	4.13% Ppc	107.209	3.10%	103		4.19%	109
5/1/2021	150	4.375%	4.39% C	99.853	3.37%	102			
5/1/2021	3,225	5.000%	4.39% Ppc	104.988	3.37%	102		4.47%	110

Cont. on next page

# Pricing Details



## Massachusetts State College Building Authority

CONT.

Sale Date: 1/14/2009

Series: \$ 128,570,000 Project Revenue Bonds, Series 2009A

Lead Manager: J.P. Morgan Securities

Ratings: A1 / A+ / NR Underlying

Delivery: 1/28/2009

Type: Negotiated

(Moody's/S&P/Fitch) Uninsured

First Coupon: 11/1/2009

### Bond Pricing Details

Due	Par (\$000)	Coupon	YTW	Price	MMD	Spread (BP)	Insurer	YTM	Spread (BP)
5/1/2022	1,285	4.500%	4.56% C	99.401	3.55%	101			
5/1/2022	2,355	5.000%	4.56% PPC	103.566	3.55%	101		4.64%	109
5/1/2023	300	4.700%	4.72% C	99.787	3.72%	100			
5/1/2023	3,710	5.000%	4.72% PPC	102.248	3.72%	100		4.78%	106
5/1/2024	2,500	4.750%	4.85% C	98.923	3.89%	96			
5/1/2024	1,805	5.000%	4.85% PPC	101.193	3.89%	96		4.89%	100
5/1/2025	725	4.875%	4.95% C	99.161	4.01%	94			
5/1/2025	3,695	5.000%	4.95% PPC	100.390	4.01%	94		4.96%	95
5/1/2026	4,740	5.000%	5.04% C	99.534	4.12%	92			
5/1/2027	5,085	5.000%	5.13% C	98.462	4.23%	90			
5/1/2028	5,440	5.125%	5.22% C	98.846	4.35%	87			
5/1/2029	5,870	5.250%	5.29% C	99.497	4.43%	86			
5/1/2034	17,425	5.375%	5.50% C	98.295	4.70%	80			
5/1/2039	25,855	5.500%	5.55% C	99.261	4.75%	80			
5/1/2049	10,685	5.750%	5.80% C	99.213	4.75%	105			
5/1/2049	10,000	5.500%	5.80% C	95.335	4.75%	105			
<b>Total Par:</b>	<b>128,570</b>								

Callable 5/1/2019 @ 100%

NC - NonCallable

C - Callable

PPC - Premium Priced to Call

# Pricing Details



**Jea, Florida**

Sale Date: 1/14/2009

**Series: \$ 129,190,000 Electric System Subordinated Revenue Bonds, 2009 Series A**

Lead Manager: Banc of America Securities

Ratings: Aa3 / A+ / AA- Underlying

Delivery: 1/28/2009

Type: Negotiated

(Moody's/S&P/Fitch) Uninsured

First Coupon: 4/1/2009

## Bond Pricing Details

Due	Par (\$000)	Coupon	YTW	Price	MMD	Spread (BP)	Insurer	YTM	Spread (BP)
10/1/2010	370	3.000%	1.03% NC	103.262	0.48%	55			
10/1/2011	380	3.000%	2.01% NC	102.564	1.28%	73			
10/1/2012	395	3.000%	2.23% NC	102.700	1.37%	86			
10/1/2013	405	3.000%	2.46% NC	102.368	1.55%	91			
10/1/2014	415	3.000%	2.71% PPC	101.389	1.76%	95		2.73%	97
10/1/2015	2,765	3.000%	3.00% C	100.000	1.98%	102			
10/1/2016	2,845	3.100%	3.20% C	99.321	2.17%	103			
10/1/2017	2,935	3.250%	3.40% C	98.878	2.38%	102			
10/1/2018	3,035	3.500%	3.64% C	98.863	2.60%	104			
10/1/2019	3,135	3.700%	3.85% C	98.693	2.82%	103			
10/1/2020	3,800	4.000%	4.15% C	98.618	3.10%	105			
10/1/2021	2,840	4.250%	4.40% C	98.549	3.37%	103			
10/1/2022	3,535	4.400%	4.56% C	98.379	3.55%	101			
10/1/2023	3,695	4.600%	4.72% C	98.733	3.72%	100			
10/1/2024	3,860	4.700%	4.85% C	98.360	3.89%	96			
10/1/2025	4,045	4.800%	4.95% C	98.303	4.01%	94			
10/1/2026	3,360	5.000%	5.04% C	99.528	4.12%	92			
10/1/2027	5,340	5.000%	5.13% C	98.442	4.23%	90			
10/1/2028	4,675	5.125%	5.22% C	98.832	4.35%	87			
10/1/2032	22,090	5.625%	5.37% PPC	101.819	4.62%	75		5.54%	92
10/1/2033	5,280	5.375%	5.49% C	98.447	4.67%	82			
10/1/2039	13,120	5.500%	5.56% C	99.112	4.75%	81			
10/1/2039	25,670	5.500%	5.56% C	99.112	4.75%	81			
10/1/2039	5,200	5.400%	5.56% C	97.648	4.75%	81			
<b>Total Par:</b>	<b>123,190</b>								

Callable 4/1/2014 @ 100% NC - NonCallable C - Callable PPC - Premium Priced to Call

EXCEPT: 10/1/2032 Optional Call in 4/1/2018

# Pricing Details



## Long Island Power Authority, New York

Sale Date: 1/14/2009

Series: \$ 434,875,000 Electric System General Revenue Bonds, Fiscal 2009 Series A

Lead Manager: Morgan Stanley & Co.

Ratings: A3 / A- / A- Underlying

Delivery: 1/28/2009

Type: Negotiated

(Moody's/S&P/Fitch) Uninsured

First Coupon: 4/1/2009

### Bond Pricing Details

Due	Par (\$000)	Coupon	YTW	Price	MMD	Spread (BP)	Insurer	YTM	Spread (BP)
4/1/2014	3,190	3.000%	2.98% NC	100.092	1.76%	122			
4/1/2015	3,375	5.000%	3.18% NC	110.126	1.98%	120			
4/1/2016	2,770	3.500%	3.43% NC	100.438	2.17%	126			
4/1/2017	10,120	5.000%	3.68% NC	109.241	2.38%	130			
4/1/2018	11,510	5.000%	3.93% NC	108.170	2.60%	133			
4/1/2019	15,000	5.000%	4.16% NC	106.905	2.82%	134			
4/1/2020	8,905	4.500%	4.44% PPC	100.481	3.10%	134		4.44%	134
4/1/2020	19,080	5.250%	4.44% PPC	106.567	3.10%	134		4.50%	140
4/1/2021	36,105	5.250%	4.69% PPC	104.483	3.37%	132		4.76%	139
4/1/2022	34,895	5.500%	4.85% PPC	105.164	3.55%	130		4.96%	141
4/1/2023	37,645	5.000%	5.02% C	99.791	3.72%	130			
4/1/2024	39,240	5.500%	5.16% PPC	102.657	3.89%	127		5.24%	135
4/1/2030	18,040	5.700%	5.72% C	99.747	4.52%	120			
4/1/2033	70,000	6.250%	5.80% PPC	103.412	4.67%	113		5.98%	131
4/1/2039	125,000	5.750%	5.87% C	98.302	4.75%	112			
<b>Total Par:</b>	<b>434,875</b>								

Callable 4/1/2019 @ 100%      NC - NonCallable      C - Callable      PPC - Premium Priced to Call

# Pricing Details



## New York City Transitional Finance Authority

Sale Date: 1/13/2009

Series: \$ 650,000,000 Building Aid Revenue Bonds, Fiscal 2009 Series S-3

Lead Manager: Citigroup  
Type: Negotiated

Ratings: A1 / AA- / A+ Underlying  
(Moody's/S&P/Fitch) Uninsured

Delivery: 1/21/2009  
First Coupon: 7/15/2009

### Bond Pricing Details

Due	Par (\$000)	Coupon	YTW	Price	MMD	Spread (BP)	Insurer	YTM	Spread (BP)
1/15/2011	9,395	3.000%	2.05% NC	101.836	1.38%	67			
1/15/2012	9,675	3.000%	2.25% NC	102.152	1.55%	70			
1/15/2013	4,745	3.000%	2.50% NC	101.884	1.73%	77			
1/15/2013	5,220	5.000%	2.50% NC	109.422	1.73%	77			
1/15/2014	4,855	3.000%	2.75% NC	101.156	1.93%	82			
1/15/2014	7,600	5.000%	2.75% NC	110.410	1.93%	82			
1/15/2015	10,160	3.000%	3.02% NC	99.890	2.14%	88			
1/15/2015	2,820	5.000%	3.02% NC	110.763	2.14%	88			
1/15/2016	10,505	4.000%	3.21% NC	104.906	2.33%	88			
1/15/2016	2,925	5.000%	3.21% NC	111.118	2.33%	88			
1/15/2017	13,995	5.000%	3.42% NC	110.956	2.54%	88			
1/15/2018	14,695	5.000%	3.64% NC	110.340	2.76%	88			
1/15/2019	7,735	4.000%	3.88% NC	100.984	2.98%	90			
1/15/2019	7,695	5.000%	3.88% NC	109.196	2.98%	90			
1/15/2020	4,125	4.000%	4.20% C	98.254	3.26%	94			
1/15/2020	12,000	5.000%	4.20% PPC	106.468	3.26%	94		4.26%	100
1/15/2021	6,190	4.375%	4.45% C	99.308	3.51%	94			
1/15/2021	10,695	5.000%	4.45% PPC	104.393	3.51%	94		4.52%	101
1/15/2022	4,830	4.500%	4.61% C	98.933	3.67%	94			
1/15/2022	12,865	5.000%	4.61% PPC	103.091	3.67%	94		4.68%	101

Cont. on next page

# Pricing Details



## New York City Transitional Finance Authority

CONT.

Sale Date: 1/13/2009

Series: \$ 650,000,000 Building Aid Revenue Bonds, Fiscal 2009 Series S-3

Lead Manager: Citigroup

Ratings: A1 / AA- / A+ Underlying

Delivery: 1/21/2009

Type: Negotiated

(Moody's/S&P/Fitch) Uninsured

First Coupon: 7/15/2009

### Bond Pricing Details

Due	Par (\$000)	Coupon	YTW	Price	MMD	Spread (BP)	Insurer	YTM	Spread (BP)
1/15/2023	4,115	4.750%	4.77% C	99.796	3.84%	93			
1/15/2023	14,440	5.000%	4.77% PPC	101.809	3.84%	93		4.82%	98
1/15/2024	19,470	5.000%	4.90% PPC	100.781	3.99%	91		4.93%	94
1/15/2025	20,445	5.250%	5.00% PPC	101.945	4.11%	89		5.07%	96
1/15/2026	21,520	5.250%	5.09% PPC	101.239	4.21%	88		5.14%	93
1/15/2027	22,650	5.250%	5.18% PPC	100.539	4.31%	87		5.20%	89
1/15/2028	23,835	5.125%	5.25% C	98.508	4.41%	84			
1/15/2029	25,060	5.125%	5.30% C	97.857	4.49%	81			
1/15/2030	26,345	5.250%	5.37% C	98.499	4.57%	80			
1/15/2034	56,685	5.375%	5.50% C	98.312	4.74%	76			
1/15/2034	63,365	5.250%	5.50% C	96.625	4.74%	76			
1/15/2039	189,345	5.250%	5.55% C	95.640	4.79%	76			
<b>Total Par:</b>	<b>460,655</b>								

Callable 1/15/2019 @ 100%

NC - NonCallable C - Callable PPC - Premium Priced to Call

# Pricing Details



## Public Facilities Financing Authority Of The City Of San Diego, California

Sale Date: 1/13/2009

Series: \$ 157,815,000 Water Revenue Bonds, Refunding Series 2009A

Lead Manager: Morgan Stanley & Co.

Ratings: A1 / AA- / AA- Underlying

Delivery: 1/29/2009

Type: Negotiated

(Moody's/S&P/Fitch) Uninsured

First Coupon: 8/1/2009

### Bond Pricing Details

Due	Par (\$000)	Coupon	YTW	Price	MMD	Spread (BP)	Insurer	YTM	Spread (BP)
8/1/2009	1,055	3.000%	0.92% NC	101.046	0.48%	44			
8/1/2010	1,130	3.000%	0.97% NC	103.026	0.48%	49			
8/1/2011	1,165	2.500%	1.97% NC	101.289	1.38%	59			
8/1/2012	1,195	3.000%	2.19% NC	102.718	1.55%	64			
8/1/2013	1,240	4.000%	2.40% NC	106.794	1.73%	67			
8/1/2014	1,285	4.000%	2.65% NC	106.873	1.93%	72			
8/1/2015	2,220	3.000%	2.89% NC	100.648	2.14%	75			
8/1/2016	15,040	5.000%	3.11% NC	112.564	2.33%	78			
8/1/2017	15,810	5.000%	3.32% NC	112.360	2.54%	78			
8/1/2018	16,620	5.000%	3.54% NC	111.697	2.76%	78			
8/1/2019	9,650	4.000%	3.76% PPC	101.903	2.98%	78		3.78%	80
8/1/2019	7,770	5.000%	3.76% PPC	109.833	2.98%	78		3.85%	87
8/1/2020	3,570	4.000%	4.05% C	99.543	3.26%	79			
8/1/2020	14,675	5.000%	4.05% PPC	107.433	3.26%	79		4.18%	92
8/1/2021	2,545	4.250%	4.30% C	99.519	3.51%	79			
8/1/2021	16,610	5.000%	4.30% PPC	105.414	3.51%	79		4.43%	92
8/1/2026	9,725	5.000%	4.89% PPC	100.827	4.21%	68		4.93%	72
8/1/2029	7,115	5.000%	5.14% C	98.237	4.49%	65			
8/1/2038	29,395	5.250%	5.40% C	97.798	4.78%	62			
<b>Total Par:</b>	<b>157,815</b>								

Callable

8/1/2018

@ 100%

NC - NonCallable

C - Callable

PPC - Premium Priced to Call

# Pricing Details



## The University Of Houston, Texas System

Sale Date: 1/13/2009

Series: \$ 108,395,000 Consolidated Revenue and Refunding Bonds, Series 2009

Lead Manager: RBC Capital Markets

Moody's/S&P/Fitch) Ratings: Aa3 / AA- / NR Underlying

Delivery: 2/4/2009  
First Coupon: 2/15/2009

### Bond Pricing Details

Due	Par (\$000)	Coupon	YTW	Price	MMD	Spread (BP)	Insurer	YTM	Spread (BP)
2/15/2009	4,765	3.000%	0.65% NC	100.071	0.48%	17			
2/15/2010	2,805	3.000%	0.85% NC	102.201	0.48%	37			
2/15/2011	2,890	3.000%	1.80% NC	102.381	1.38%	42			
2/15/2012	3,525	3.500%	2.02% NC	104.329	1.55%	47			
2/15/2013	3,655	4.000%	2.20% NC	106.905	1.73%	47			
2/15/2014	3,810	4.000%	2.40% NC	107.538	1.93%	47			
2/15/2015	3,965	4.000%	2.65% NC	107.477	2.14%	51			
2/15/2016	4,125	4.000%	2.88% NC	107.081	2.33%	55			
2/15/2017	4,310	5.000%	3.12% NC	113.262	2.54%	58			
2/15/2018	4,530	5.000%	3.36% NC	112.682	2.76%	60			
2/15/2019	4,765	5.000%	3.58% NC	111.877	2.98%	60			
2/15/2020	5,000	5.000%	3.88% PPC	109.231	3.26%	62		3.96%	70
2/15/2021	5,265	5.000%	4.14% PPC	106.999	3.51%	63		4.25%	74
2/15/2022	5,535	5.000%	4.30% PPC	105.653	3.67%	63		4.42%	75
2/15/2023	5,820	5.000%	4.45% PPC	104.409	3.84%	61		4.57%	73
2/15/2024	6,115	5.000%	4.60% PPC	103.183	3.99%	61		4.70%	71
2/15/2025	6,435	5.000%	4.70% PPC	102.375	4.11%	59		4.79%	68
2/15/2026	6,765	5.000%	4.79% PPC	101.655	4.21%	58		4.86%	65
2/15/2027	7,100	5.000%	4.88% PPC	100.941	4.31%	57		4.92%	61
2/15/2028	7,470	5.000%	4.97% PPC	100.232	4.41%	56		4.98%	57
2/15/2029	2,825	5.000%	5.04% C	99.497	4.49%	55			
2/15/2030	2,260	5.000%	5.10% C	98.717	4.57%	53			
2/15/2031	2,380	5.000%	5.13% C	98.294	4.62%	51			
2/15/2032	1,110	5.000%	5.18% C	97.593	4.67%	51			
2/15/2033	1,170	5.000%	5.21% C	97.138	4.72%	49			
<b>Total Par:</b>	<b>108,395</b>								

Callable 2/15/2019 @ 100%

NC - NonCallable

C - Callable

PPC - Premium Priced to Call

# Pricing Details



## Adams County, Colorado

Sale Date: 1/12/2009

Series: \$ 105,000,000 Certificates of Participation, Series 2009

Lead Manager: RBC Capital Markets  
Type: Negotiated

Ratings: Aa3 / AA / NR Underlying  
(Moody's/S&P/Fitch) Uninsured

Delivery: 1/27/2009  
First Coupon: 6/1/2009

### Bond Pricing Details

Due	Par (\$000)	Coupon	YTW	Price	MMD	Spread (BP)	Insurer	YTM	Spread (BP)
12/1/2009	2,160	3.000%	1.17% NC	101.532	0.58%	59			
12/1/2010	1,470	3.000%	1.30% NC	103.087	0.58%	72			
12/1/2011	1,515	3.000%	2.19% NC	102.220	1.51%	68			
12/1/2012	1,560	3.000%	2.36% NC	102.337	1.68%	68			
12/1/2013	1,610	3.000%	2.56% NC	101.990	1.86%	70			
12/1/2014	1,660	3.000%	2.74% NC	101.393	2.06%	68			
12/1/2015	1,710	3.250%	2.95% NC	101.844	2.27%	68			
12/1/2016	1,770	3.500%	3.19% NC	102.133	2.46%	73			
12/1/2017	1,830	3.750%	3.40% NC	102.650	2.67%	73			
12/1/2018	1,900	3.750%	3.65% NC	100.817	2.89%	76			
12/1/2019	6,250	5.000%	3.80% PPC	109.773	3.11%	69		3.89%	78
12/1/2020	6,560	5.000%	4.07% PPC	107.476	3.40%	67		4.19%	79
12/1/2021	6,890	4.250%	4.45% C	98.054	3.65%	80			
12/1/2022	7,185	4.500%	4.65% C	98.475	3.81%	84			
12/1/2023	7,505	4.625%	4.80% C	98.151	3.97%	83			
12/1/2024	7,855	4.900%	4.92% C	99.775	4.10%	82			
12/1/2025	8,240	5.000%	5.02% C	99.767	4.20%	82			
12/1/2026	8,650	5.000%	5.11% C	98.715	4.29%	82			
12/1/2027	9,080	5.125%	5.20% C	99.098	4.38%	82			
12/1/2028	9,550	5.250%	5.28% C	99.626	4.47%	81			
12/1/2029	10,050	5.125%	5.32% C	97.554	4.54%	78			
<b>Total Par:</b>	<b>105,000</b>								

Callable 12/1/2018 @ 100%

NC - NonCallable

C - Callable

PPC - Premium Priced to Call

# Pricing Details



## The State Of Delaware

Sale Date: 1/12/2009

Series: \$ 115,000,000 General Obligation Bonds, Series 2009

Lead Manager: Morgan Stanley & Company

Ratings: Aaa / AAA / AAA Underlying

Delivery: 1/28/2009

Type: Negotiated

(Moody's/S&P/Fitch) Uninsured

First Coupon: 7/1/2009

### Bond Pricing Details

Due	Par (\$000)	Coupon	YTW	Price	MMMD	Spread (BP)	Insurer	YTM	Spread (BP)
1/1/2010	9,200	4.000%	0.50% NC	103.225	0.58%	(3)			
1/1/2011	9,200	4.000%	1.46% NC	104.803	1.51%	(3)			
1/1/2012	9,200	4.000%	1.64% NC	106.712	1.68%	(4)			
1/1/2013	9,200	4.000%	1.84% NC	108.141	1.86%	(2)			
1/1/2014	9,200	5.000%	2.04% NC	113.801	2.06%	(2)			
1/1/2015	6,410	3.000%	2.25% NC	104.137	2.27%	(2)			
1/1/2015	675	5.000%	2.25% NC	115.172	2.27%	(2)			
1/1/2016	4,600	2.500%	2.45% NC	100.315	2.46%	(1)			
1/1/2016	4,600	4.000%	2.45% NC	109.815	2.46%	(1)			
1/1/2017	4,715	5.000%	2.65% NC	116.696	2.67%	(2)			
1/1/2018	4,600	4.000%	2.87% PPC	107.957	2.89%	(2)		2.98%	9
1/1/2018	4,600	5.000%	2.87% PPC	115.000	2.89%	(2)		3.07%	18
1/1/2019	4,600	3.000%	3.09% C	99.234	3.11%	(2)			
1/1/2019	4,600	5.000%	3.09% PPC	113.332	3.11%	(2)		3.41%	30
1/1/2020	2,300	3.375%	3.38% C	99.952	3.40%	(2)			
1/1/2021	2,300	4.000%	3.63% PPC	102.526	3.65%	(2)		3.74%	9
1/1/2022	2,300	4.000%	3.79% PPC	101.423	3.81%	(2)		3.86%	5
1/1/2023	2,300	4.000%	3.95% PPC	100.334	3.97%	(2)		3.97%	(3)
1/1/2024	2,300	4.000%	4.07% C	99.220	4.10%	(3)			
1/1/2025	2,300	4.125%	4.17% C	99.477	4.20%	(3)			
1/1/2026	2,300	4.250%	4.26% C	99.877	4.29%	(3)			
1/1/2027	4,500	4.250%	4.35% C	98.761	4.38%	(3)			
1/1/2028	4,500	4.375%	4.43% C	99.297	4.47%	(4)			
1/1/2029	4,500	4.500%	4.50% C	100.000	4.54%	(4)			
<b>Total Par:</b>	<b>115,000</b>								

Callable

1/1/2017 @ 100%

NC - NonCallable

C - Callable

PPC - Premium Priced to Call

# Pricing Details



## City Of Austin, Texas

Sale Date: 1/8/2009

Series: \$ 175,000,000 Water & Wastewater System Revenue Refunding Bonds, Series 2009

Lead Manager: Merrill Lynch & Co.

Ratings: Aa3 / AA / AA- Underlying

Delivery: 2/4/2009

Type: Negotiated

(Moody's/S&P/Fitch)

Uninsured

First Coupon: 5/15/2009

### Bond Pricing Details

Due	Par (\$000)	Coupon	YTW	Price	MMD	Spread (BP)	Insurer	YTM	Spread (BP)
11/15/2011	5,975	3.000%	1.98% NC	102.744	1.66%	32			
11/15/2012	6,155	3.000%	2.20% NC	102.884	1.83%	37			
11/15/2013	6,375	4.000%	2.45% NC	106.949	2.01%	44			
11/15/2014	6,670	5.000%	2.72% NC	112.115	2.21%	51			
11/15/2015	7,015	5.000%	2.95% NC	112.510	2.40%	55			
11/15/2016	7,335	4.000%	3.20% NC	105.467	2.59%	61			
11/15/2017	7,675	5.000%	3.39% NC	112.133	2.80%	59			
11/15/2018	8,070	5.000%	3.62% NC	111.276	3.02%	60			
11/15/2019	8,440	4.000%	3.86% NC	101.220	3.24%	62			
11/15/2020	8,830	5.000%	4.15% PPC	107.321	3.53%	62		4.20%	67
11/15/2021	9,280	5.000%	4.39% PPC	105.187	3.78%	61		4.46%	68
11/15/2022	9,730	4.500%	4.59% C	99.082	3.94%	65			
11/15/2023	10,205	5.000%	4.71% PPC	102.422	4.10%	61		4.77%	67
11/15/2024	10,730	5.000%	4.83% PPC	101.408	4.22%	61		4.87%	65
11/15/2025	11,280	5.000%	4.95% PPC	100.406	4.32%	63		4.96%	64
11/15/2026	11,855	5.000%	5.01% C	99.875	4.41%	60			
11/15/2027	12,465	5.000%	5.08% C	99.031	4.50%	58			
11/15/2028	13,115	5.125%	5.15% C	99.684	4.58%	57			
11/15/2029	13,800	5.125%	5.19% C	99.171	4.65%	54			
<b>Total Par:</b>	<b>175,000</b>								

Callable 11/15/2019 @ 100%

NC - NonCallable

C - Callable

PPC - Premium Priced to Call

# Pricing Details



## Municipal Energy Agency Of Nebraska

Sale Date: 1/17/2009

Series: \$ 78,680,000 Power Supply System Revenue and Refunding Bonds, 2009 Series A

Lead Manager: Goldman, Sachs & Co.

Ratings: A2 / A / A Underlying

Delivery: 1/20/2009

Type: Negotiated

(Moody's/S&P/Fitch) Aaa / AAA / -- Insured

First Coupon: 4/1/2009

### Bond Pricing Details

Due	Par (\$000)	Coupon	YTW	Price	MMD	Spread (BP)	Insurer	YTM	Spread (BP)
4/1/2010	920	5.000%	1.30% NC	104.379	0.70%	60	BHAC		
4/1/2011	965	5.000%	2.35% NC	105.639	1.74%	61	BHAC		
4/1/2012	1,015	5.000%	2.57% NC	107.409	1.91%	66	BHAC		
4/1/2013	1,070	5.000%	2.77% NC	108.774	2.09%	68	BHAC		
4/1/2014	1,115	5.000%	2.99% NC	109.604	2.29%	70	BHAC		
4/1/2015	1,170	5.000%	3.18% NC	110.159	2.48%	70	BHAC		
4/1/2016	190	5.000%	3.37% NC	110.335	2.67%	70	BHAC		
4/1/2018	1,240	5.000%	3.76% NC	109.560	3.11%	65	BHAC		
4/1/2019	1,310	5.000%	3.99% NC	108.387	3.34%	65	BHAC		
4/1/2020	1,370	5.000%	4.28% PPC	105.893	3.63%	65	BHAC	4.33%	70
4/1/2021	1,440	5.000%	4.55% PPC	103.632	3.88%	67	BHAC	4.61%	73
4/1/2022	1,510	5.125%	4.71% PPC	103.322	4.04%	67	BHAC	4.78%	74
4/1/2023	1,585	5.125%	4.86% PPC	102.103	4.20%	66	BHAC	4.92%	72
4/1/2024	1,680	5.125%	4.97% PPC	101.220	4.31%	66	BHAC	5.01%	70
4/1/2029	9,715	5.125%	5.23% C	98.692	4.71%	52	BHAC		
4/1/2039	52,385	5.375%	5.42% C	99.326	4.93%	49	BHAC		
<b>Total Par:</b>	<b>78,680</b>								

Callable 4/1/2019 @ 100%

NC - NonCallable

C - Callable

PPC - Premium Priced to Call

# Pricing Detail



## State Of California Department Of Water Resources

Sale Date: 1/7/2009

Series: \$ 149,570,000 Power Supply Revenue Bonds (Fixed Rate), Series 2005 F-3

Lead Manager: J.P. Morgan Securities  
Type: Negotiated

Ratings: Aa3 / A+ / A+ Underlying  
(Moody's/S&P/Fitch) Uninsured

Delivery: 1/15/2009  
First Coupon: 5/1/2009

### Bond Pricing Details

Due	Par (\$000)	Coupon	YTW	Price	MMD	Spread (BP)	Insurer	YTM	Spread (BP)
5/1/2020	15,000	4.375%	4.47%	99.158	3.63%	84			
5/1/2020	31,595	5.000%	4.47%	103.988	3.63%	84		4.54%	91
5/1/2021	6,050	4.625%	4.72%	99.114	3.88%	84			
5/1/2021	96,925	5.000%	4.72%	102.080	3.88%	84		4.77%	89
<b>Total Par:</b>				<b>149,570</b>					

Series: \$ 198,560,000 Power Supply Revenue Bonds (Fixed Rate), Series 2005 F-5

Lead Manager: J.P. Morgan Securities  
Type: Negotiated

Ratings: Aa3 / A+ / A+ Underlying  
(Moody's/S&P/Fitch) Uninsured

Delivery: 1/15/2009  
First Coupon: 5/1/2009

### Bond Pricing Details

Due	Par (\$000)	Coupon	YTW	Price	MMD	Spread (BP)	Insurer	YTM	Spread (BP)
5/1/2022	14,115	4.750%	4.88%	98.732	4.04%	84			
5/1/2022	184,445	5.000%	4.88%	100.880	4.04%	84		4.91%	87
<b>Total Par:</b>				<b>198,560</b>					

Callable 5/1/2018 @ 100%

NC - NonCallable

C - Callable

PPC - Premium Priced to Call

# Pricing Detail



## Empire State Development Corporation, New York

Sale Date: 1/17/2009

Series: \$ 341,080,000 State Personal Income Tax Revenue Bonds (Economic Development and Housing), Series 2009A-1

Lead Manager: Citigroup Global Markets

Ratings: NAF / AAA / AA- Underlying

Delivery: 1/15/2009

Type: Negotiated

(Moody's/S&P/Fitch) Uninsured

First Coupon: 6/15/2009

### Bond Pricing Details

Due	Par (\$000)	Coupon	YTW	Price	MMD	Spread (BP)	Insurer	YTM	Spread (BP)
12/15/2009	18,295	SEALED BID	-	-	0.70%	-		-	
12/15/2010	20,335	3.000%	2.00%	101.870	0.70%	130			
12/15/2011	10,000	3.000%	2.19%	102.275	1.74%	45			
12/15/2011	10,930	4.000%	2.19%	105.085	1.74%	45			
12/15/2012	6,420	3.000%	2.42%	102.153	1.91%	51			
12/15/2012	15,250	5.000%	2.42%	109.583	1.91%	51			
12/15/2013	10,000	3.000%	2.66%	101.555	2.09%	57			
12/15/2013	12,625	5.000%	2.66%	110.715	2.09%	57			
12/15/2014	23,555	5.000%	2.88%	111.454	2.29%	59			
12/15/2015	4,115	3.000%	3.06%	99.626	2.48%	58			
12/15/2015	20,620	5.000%	3.06%	112.008	2.48%	58			
12/15/2016	25,890	5.000%	3.26%	112.052	2.67%	59			
12/15/2017	27,180	5.000%	3.47%	111.644	2.88%	59			
12/15/2018	28,550	5.000%	3.70%	110.706	3.11%	59			
12/15/2019	8,540	5.000%	3.93%	108.714	3.34%	59			
12/15/2020	8,970	5.000%	4.20%	106.430	3.63%	57			
12/15/2021	9,410	5.000%	4.40%	104.776	3.88%	52			
12/15/2022	9,870	5.000%	4.55%	103.555	4.04%	51			
12/15/2023	10,365	5.000%	4.64%	102.831	4.20%	44			
12/15/2028	60,160	5.000%	5.10%	98.754	4.65%	45			
<b>Total Par:</b>	<b>341,080</b>								

Callable 12/15/2018 @ 100%

NC - NonCallable

C - Callable

PPC - Premium Priced to Call

# Pricing Detail



## Empire State Development Corporation, New York

Sale Date: 1/17/2009

Series: \$ 500,225,000 State Personal Income Tax Revenue Bonds (Economic Development and Housing), Series 2009B-1

Lead Manager: Citigroup Global Markets

Ratings: NAF / AAA / AA- Underlying

Delivery: 1/15/2009

Type: Negotiated

(Moody's/S&P/Fitch) Uninsured

First Coupon: 9/15/2009

### Bond Pricing Details

Due	Par (\$000)	Coupon	YTW	Price	MMD	Spread (BP)	Insurer	YTM	Spread (BP)
3/15/2010	29,970	SEALED BID	-	-	0.70%	-		-	
3/15/2011	21,020	3.000%	2.09%	101.916	1.74%	35			
3/15/2011	13,915	4.000%	2.09%	104.023	1.74%	35			
3/15/2012	5,675	3.000%	2.30%	102.124	1.91%	39			
3/15/2012	10,620	5.000%	2.30%	108.197	1.91%	39			
3/15/2013	11,990	3.000%	2.56%	101.726	2.09%	47			
3/15/2013	5,000	5.000%	2.56%	109.581	2.09%	47			
3/15/2014	5,605	3.500%	2.77%	103.489	2.29%	48			
3/15/2014	10,545	5.000%	2.77%	110.662	2.29%	48			
3/15/2015	16,875	3.000%	3.00%	100.000	2.48%	52			
3/15/2016	4,660	4.000%	3.15%	105.411	2.67%	48			
3/15/2016	12,715	5.000%	3.15%	111.781	2.67%	48			
3/15/2017	2,295	4.000%	3.35%	104.606	2.88%	47			
3/15/2017	15,905	5.000%	3.35%	111.699	2.88%	47			
3/15/2018	12,070	4.000%	3.58%	103.253	3.11%	47			
3/15/2018	7,025	5.000%	3.58%	111.008	3.11%	47			
3/15/2019	5,885	4.000%	3.81%	101.584	3.34%	47			
3/15/2019	7,425	5.000%	3.81%	109.947	3.34%	47			
3/15/2020	13,915	4.000%	4.10%	99.106	3.63%	47			
3/15/2021	14,480	4.250%	4.35%	99.057	3.88%	47			
3/15/2022	15,095	4.375%	4.50%	98.762	4.04%	46			
3/15/2023	15,750	4.500%	4.64%	98.552	4.20%	44			
3/15/2028	90,935	5.000%	5.10%	98.779	4.65%	45			
3/15/2036	114,495	5.000%	5.28%	95.976	4.91%	37			
3/15/2038	36,360	5.250%	5.34%	98.669	4.93%	41			
<b>Total Par:</b>	<b>500,225</b>								

Callable 3/15/2019 @ 100%

NC - NonCallable

C - Callable

PPC - Premium Priced to Call

# Pricing Detail



## County Of Chester-Commonwealth Of Pennsylvania

Sale Date: 1/7/2009

Series: \$ 118,080,000 General Obligation Bonds, Series 2009

Lead Manager: Merrill Lynch & Co.

Ratings: Aaa / NR / NR Underlying

Delivery: 1/14/2009

Type: Negotiated

(Moody's/S&P/Fitch) Uninsured

First Coupon: 7/15/2009

### Bond Pricing Details

Due	Par (\$000)	Coupon	YTW	Price	MMD	Spread (BP)	Insurer	YTM	Spread (BP)
7/15/2009	5	3.000%	0.85% NC	101.076	0.70%	15			
7/15/2010	5	3.000%	1.37% NC	102.416	0.70%	67			
7/15/2011	5	3.000%	1.88% NC	102.725	1.74%	14			
7/15/2012	90	3.000%	1.99% NC	103.400	1.91%	8			
7/15/2013	80	3.000%	2.24% NC	103.237	2.09%	15			
7/15/2014	75	3.000%	2.45% NC	102.815	2.29%	16			
7/15/2015	70	3.000%	2.65% NC	102.078	2.48%	17			
7/15/2016	60	3.250%	2.83% NC	102.821	2.67%	16			
7/15/2017	45	3.250%	3.05% NC	101.487	2.88%	17			
7/15/2018	35	4.000%	3.27% NC	105.921	3.11%	16			
7/15/2019	25	4.000%	3.50% NC	104.362	3.34%	16			
7/15/2020	5	4.000%	3.79% PPC	101.805	3.63%	16		3.80%	17
7/15/2021	2,005	4.000%	4.08% C	99.222	3.88%	20			
7/15/2022	2,095	5.000%	4.27% PPC	106.126	4.04%	23		4.39%	35
7/15/2023	2,210	5.000%	4.41% PPC	104.917	4.20%	21		4.53%	33
7/15/2024	2,325	5.000%	4.52% PPC	103.978	4.31%	21		4.64%	33
7/15/2025	18,035	5.000%	4.61% PPC	103.217	4.41%	20		4.72%	31
7/15/2026	18,945	5.000%	4.68% PPC	102.631	4.50%	18		4.78%	28
7/15/2027	19,900	5.000%	4.75% PPC	102.048	4.58%	17		4.83%	25
7/15/2028	31,210	5.000%	4.82% PPC	101.469	4.65%	17		4.88%	23
7/15/2029	3,535	4.750%	4.89% C	98.200	4.71%	18			
7/15/2029	17,320	5.000%	4.88% PPC	100.976	4.71%	17		4.92%	21
<b>Total Par:</b>	<b>118,080</b>								

Callable 7/15/2019 @ 100%

NC - NonCallable

C - Callable

PPC - Premium Priced to Call

# Pricing Detail



## California Educational Facilities Authority

Sale Date: 1/7/2009

Series: \$ 217,605,000 Revenue Bonds (University of Southern California), Series 2009A

Lead Manager: Morgan Stanley

Ratings: Aa1 / AA+ / NR Underlying

Delivery: 1/15/2009

Type: Negotiated

(Moody's/S&P/Fitch) Uninsured

First Coupon: 4/1/2009

### Bond Pricing Details

Due	Par (\$000)	Coupon	YTW	Price	MMD	Spread (BP)	Insurer	YTM	Spread (BP)
10/1/2038	100,000	5.250%	5.09% PPC	101.205	4.93%	16		5.17%	24
10/1/2039	117,605	5.000%	5.12% C	98.144	4.93%	19			

Total Par: 217,605

Callable 10/1/2018 @ 100%

NC - NonCallable C - Callable PPC - Premium Priced to Call

# Pricing Detail



## New Castle County, Delaware

Sale Date: 1/5/2009

Series: \$ 107,105,000 General Obligation Bonds, Series 2009

Lead Manager: Merrill Lynch & Company

Ratings: Aaa / AAA / AAA Underlying

Delivery: 2/6/2009

Type: Negotiated

(Moody's/S&P/Fitch) Uninsured

First Coupon: 7/15/2009

### Bond Pricing Details

Due	Par (\$000)	Coupon	YTW	Price	MMD	Spread (BP)	Insurer	YTM	Spread (BP)
7/15/2009	700	3.500%	0.75% NC	101.209	0.85%	(10)			
7/15/2010	4,200	3.500%	0.80% NC	103.862	0.85%	(5)			
7/15/2011	4,350	4.000%	1.83% NC	105.157	1.86%	(3)			
7/15/2012	4,495	2.500%	1.99% NC	101.687	2.02%	(3)			
7/15/2013	2,645	2.500%	2.21% NC	101.219	2.24%	(3)			
7/15/2014	2,735	4.000%	2.43% NC	107.956	2.46%	(3)			
7/15/2015	2,865	5.000%	2.65% NC	113.830	2.65%	0			
7/15/2016	4,150	4.000%	2.84% NC	107.730	2.84%	0			
7/15/2017	5,260	5.000%	3.05% NC	114.414	3.05%	0			
7/15/2018	5,505	4.000%	3.28% NC	105.803	3.28%	0			
7/15/2019	2,475	5.000%	3.51% PPC	111.884	3.51%	0		3.62%	11
7/15/2020	2,600	5.000%	3.79% PPC	109.526	3.79%	0		3.96%	17
7/15/2021	2,740	5.000%	4.08% PPC	107.146	4.04%	4		4.25%	21
7/15/2022	2,880	5.000%	4.24% PPC	105.860	4.20%	4		4.42%	22
7/15/2023	3,030	5.000%	4.38% PPC	104.749	4.34%	4		4.55%	21
7/15/2024	3,180	5.000%	4.52% PPC	103.653	4.45%	7		4.67%	22
7/15/2025	3,340	5.000%	4.61% PPC	102.955	4.54%	7		4.74%	20
7/15/2026	3,515	5.000%	4.68% PPC	102.416	4.61%	7		4.79%	18
7/15/2027	3,700	5.000%	4.75% PPC	101.881	4.68%	7		4.84%	16
7/15/2028	3,880	4.750%	4.82% C	99.120	4.75%	7			
7/15/2033	15,950	5.000%	5.03% C	99.577	4.96%	7			
7/15/2039	22,910	5.000%	5.10% C	98.459	5.02%	8			
<b>Total Par:</b>	<b>107,105</b>								

Callable 7/15/2018 @ 100%

NC - NonCallable C - Callable

PPC - Premium Priced to Call

# Pricing Detail



## City Of Philadelphia

Sale Date: 12/15/2008

Series: \$ 165,000,000 General Obligation Bonds, Series 2008B

Lead Manager: Morgan Stanley & Inc.  
Type: Negotiated

Ratings: Baa1 / BBB / BBB+ Underlying  
(Moody's/S&P/Fitch) Aa2 / AAA / AAA Insured  
Delivery: 1/6/2009  
First Coupon: 7/15/2009

### Bond Pricing Details

Due	Par (\$000)	Coupon	YTW	Price	MMMD	Spread (BP)	Insurer	YTM	Spread (BP)
7/15/2009	1,790	4.000%	3.50% NC	100.257	0.95%	255	AGC		
7/15/2010	2,145	4.000%	4.00% NC	100.000	2.10%	190	AGC		
7/15/2011	2,235	4.000%	4.15% NC	99.642	2.34%	181	AGC		
7/15/2012	2,330	4.500%	4.50% NC	100.000	2.72%	178	AGC		
7/15/2013	2,135	4.750%	4.75% NC	100.000	2.96%	179	AGC		
7/15/2014	760	5.000%	5.00% NC	100.000	3.16%	184	AGC		
7/15/2015	4,815	5.250%	5.25% NC	100.000	3.37%	188	AGC		
7/15/2016	2,850	5.500%	5.50% NC	100.000	3.65%	185	AGC		
7/15/2017	3,020	5.750%	5.75% C	100.000	3.96%	179	AGC		
7/15/2018	3,200	6.000%	6.00% C	100.000	4.21%	179	AGC		
7/15/2023	19,355	6.250%	6.46% C	98.037	5.05%	141	AGC		
7/15/2028	25,000	7.000%	7.00% C	100.000	5.50%	150	AGC		
7/15/2038	95,365	7.125%	7.25% C	98.483	5.81%	144	AGC		
<b>Total Par:</b>	<b>165,000</b>								

Callable 7/15/2016 @ 100%

NC - NonCallable C - Callable PPC - Premium Priced to Call