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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
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Arizona Corporation Commission
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Chairman
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Commissioner
SANDRA D. KENNEDY
Commissioner
PAUL NEWMAN
Commissioner
BOB STUMP
Commissioner

IN THE MATTER OF THE APPLICATION OF SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT FOR AN ORDER AUTHORIZING ITS ISSUANCE OF REVENUE BONDS AND REFUNDING REVENUE BONDS	DOCKET NO. E-02217A-08-0159, DECISION NO. 70611
	NOTICE OF SALE OF REVENUE BONDS (2009 Series B)

TO THE HONORABLE ARIZONA CORPORATION COMMISSION:

On October 7, 2009, Salt River Project Agricultural Improvement and Power District (the "District") issued $296,375,000 of its Salt River Project Electric System Revenue Bonds, 2009 Series B (the "2009 Series B Bonds"). Authority for $281,250,000 of the 2009 Series B Bonds was derived from Decision No. 55209 of the Arizona Corporation Commission (the "Commission"), dated September 28, 1986 in Docket No. U-2217-86-127, authorizing the District to issue additional Revenue Bonds in an amount not to exceed $375,000,000 for retirement of the District's Commercial Paper, as described therein. Docket No. U-2217-86-127 has been closed, so compliance filings attributable to this docket are being filed under E-02217A-08-0159. Authority for the remaining $15,125,000 of the 2009 Series B Bonds was derived from Decision No. 56381 of the Commission, dated March 9, 1989, in Docket No. E-02217A-88-0131, authorizing the District to issue Revenue Bonds up to $50,000,000 for

retirement of the District's Commercial Paper, as discussed therein. A breakout of the Bonds issued pursuant to these two Decisions is attached as Exhibit 1.

Decision Nos. 55209 and 56381 require that the District file with the Commission certain documents and information after issuance of any of the Revenue Bonds authorized thereby. In accordance with such orders, the District hereby submits the following documents in connection with its sale of the 2009 Series B Bonds:

1. A certified copy of the September 14, 2009 resolution of the Board of Directors of the District authorizing the public sale of the 2009 Series B Bonds (Exhibit 2);

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

3. A certified copy of the September 29, 2009, resolution of the Board of Directors of the District awarding the sale of the 2009 Series B Bonds (Exhibit 4); and

4. A copy of the Official Statement, dated September 29, 2009, distributed in connection with the marketing and sale of the 2009 Series B Bonds (Exhibit 5).

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

RESPECTFULLY submitted this 6th day of November 2009.

SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER DISTRICT

W. Gary Hull
Salt River Project
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Attorney for Applicant

By W. Gary Hull
W. Gary Hull

The original and 13 copies hand delivered
this 6th day of November 2009, to:

Docket Control
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Phoenix, AZ 85007

With copies to:

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By April L Sheats

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EXHIBIT 1

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

Commission Decision No.	Revenue Bonds Authorized	Previously Issued Bonds	2009 Series B Bonds	Remaining Authorization
55209	$375,000,000	$93,750,000	$281,250,000	-0-
56381	$50,000,000	-0-	$ 15,125,000	$34,875,000
Total			$296,375,000	

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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 RATIFYING AND CONFIRMING THE AMOUNT OF THE SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS, 2009 SERIES B"** as adopted by a majority of the SRP Council Members at a meeting held on September 15, 1009, 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 3rd day of November 2009.

Terrill A. Lonon

Terrill A. Lonon
Corporate Secretary

RESOLUTION OF THE COUNCIL RATIFYING AND CONFIRMING THE AMOUNT OF THE SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS, 2009 SERIES B

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, by resolution entitled "RESOLUTION AUTHORIZING THE ISSUANCE AND PUBLIC SALE OF NOT TO EXCEED $375,000,000 SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS, 2009 SERIES B OF THE SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, AND PROVIDING FOR THE FORM, DETAILS AND TERMS THEREOF" and adopted on September 14, 2009, has authorized the issuance and public sale of its Electric System Revenue Bonds, 2009 Series B; and

WHEREAS, pursuant to the requirements of Title 48, Chapter 17, Article 7, of the Arizona Revised Statutes, if the Board determines to sell bonds at a public sale, 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;

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 amount of the 2009 Series B Bonds, previously authorized to be issued by the Board of not to exceed $375,000,000, is hereby ratified and confirmed.

(ii) This resolution shall take effect immediately.

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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 PUBLIC SALE OF NOT TO EXCEED $375,000,000 SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS, 2009 SERIES B OF THE SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, AND PROVIDING FOR THE FORM, DETAILS AND TERMS THEROF"** as adopted by a majority of the SRP Board of Directors at a meeting held on September 14, 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 3rd day of November 2009.

Terrill A. Lonon
Corporate Secretary

RESOLUTION AUTHORIZING THE ISSUANCE AND PUBLIC SALE OF NOT TO EXCEED $375,000,000 SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS, 2009 SERIES B 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 not to exceed $375,000,000 2009 Series B Bonds to finance the costs of acquisition and construction of various capital improvements and additions to the District's Electric System, to retire commercial paper and to pay certain costs of issuance of the 2009 Series B Bonds; and

WHEREAS, the Board of Directors has determined to use the authorization applicable to the Commission's Opinions and Orders described in **Exhibit A** hereto to issue its 2009 Series B Bonds and to use the proceeds of the 2009 Series B Bonds to retire all or a portion of the outstanding balances of the District's Promissory Notes, Series B (Commercial Paper) and of the District's Promissory Notes, Series C (Commercial Paper), originally issued to finance capital improvements and additions to its Electric System, and to pay certain costs of issuance of the 2009 Series B Bonds; and

WHEREAS, the Board of Directors desires to sell publicly not to exceed $375,000,000 2009 Series B Bonds to the successful bidder therefor pursuant to the terms and conditions hereof and of an Official Notice of Sale, substantially in the form attached hereto as **Exhibit B**, 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 no 2009 Series B 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 2009 Series B Bonds authorized to be issued by the Board of Directors; and

WHEREAS, the Board of Directors desires to approve the preparation, distribution, publication and execution of a Preliminary Official Statement, an Official Notice of Sale and an Official Statement for the 2009 Series B Bonds; and

WHEREAS, the Board of Directors desires to authorize the proper officers and employees of the District to take all necessary steps to complete the issuance, public sale and delivery as aforesaid of not to exceed $375,000,000 2009 Series B 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 Public Sale of not to exceed $375,000,000 2009 Series B Bonds" or as "2009 Series B 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 B Resolution, the Resolution and the Award Resolution are sometimes 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 B Resolution, as such terms are given in the Resolution. In this 2009 Series B Resolution:

"Authorized Representative" shall mean any of the President, the Vice President, the General Manager, the Associate General Manager, Commercial & Customer Services and Chief Financial Executive, and the Corporate Treasurer or any Assistant Corporate Treasurer of the District (collectively the "Authorized Representatives").

"Award Resolution" shall mean the resolution of the Board of Directors awarding the sale of the 2009 Series B Bonds to the successful bidder therefor, as adopted on the date of the public sale.

"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 B Bonds.

"Interest Payment Date" shall mean each January 1 and July 1 of each year so long as 2009 Series B Bonds are Outstanding, commencing January 1, 2010.

"Official Notice of Sale" shall mean the Official Notice of Sale for the 2009 Series B Bonds, as published by the District, in substantially the form attached hereto as **Exhibit B** and presented to the Board of Directors at the time of adoption hereof, with such changes, insertions and revisions as an Authorized Representative shall deem necessary or advisable.

"2009 Series B 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 C** 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 B 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 Bond Allocations. Pursuant to the provisions of the Resolution and this 2009 Series B Resolution, the District is hereby authorized to issue and sell Bonds in the aggregate principal amount of not to exceed $375,000,000. Such Bonds shall be designated as "Salt River Project Electric System Revenue Bonds, 2009 Series B." 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 B Bonds are issued are: 1) to provide moneys for the retirement of all or a portion of the outstanding balances of the District's Promissory Notes, Series B (Commercial Paper) and of the District's Promissory Notes, Series C (Commercial Paper); and 2) to pay certain costs of issuance of the 2009 Series B Bonds.

SECTION 5. Dates, Maturities and Interest. The 2009 Series B Bonds shall be offered for public sale in accordance with the terms set forth herein and in the Official Notice of Sale.

SECTION 6. Denominations, Numbers and Letters. The 2009 Series B 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 B 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 B Bonds maturing on the maturity date of the bond for which the denomination is to be specified.

SECTION 7. Book Entry 2009 Series B Bonds. (a) Beneficial ownership interests in the 2009 Series B Bonds will be available in book-entry form only. Purchasers of beneficial ownership interests in the 2009 Series B Bonds will not receive certificates representing their interests in the 2009 Series B 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 B Bonds. The 2009 Series B 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 B 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 B Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2009 Series B Bonds on DTC's records. The ownership interest of each actual purchaser of each 2009 Series B 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 B 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 B Bonds, except in the event that use of the book-entry system for the 2009 Series B Bonds is discontinued.

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

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

Principal and interest payments on the 2009 Series B 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 B 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 B 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 B 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 B 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 B Bonds are issued, the provision of the Resolution, including but not limited to Sections 3.04 and 3.05 of the Resolution, shall apply to, among other things, the transfer and exchange of such definitive 2009 Series B Bonds and the method of payment of principal of and interest on such definitive 2009 Series B 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 B Bonds evidencing the Bonds to any DTC participant having 2009 Series B Bonds credited to its DTC account or (ii) to arrange for another securities depository to maintain custody of definitive 2009 Series B Bonds.

(c) Notwithstanding any other provision of the Resolution to the contrary, so long as any 2009 Series B 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 B Bond and all notices with respect to such 2009 Series B 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 B 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 an Authorized Representative. Execution by said

Authorized Representative 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 B 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 B Bonds. The interest on the 2009 Series B 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 B Bonds. The 2009 Series B Bonds 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, at 100% of the principal amount of the 2009 Series B Bonds to be redeemed, together with accrued interest up to but not including the redemption date, as set forth in Section 10 hereof.

(b) Optional Redemption - 2009 Series B Bonds. Except as optional redemption provisions may be modified by the Official Notice of Sale, the 2009 Series B 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 B 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 B Bonds, if less than all of the 2009 Series B 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 B 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 B 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 B Bonds are to be redeemed, the Bond numbers (and, in the case of partial redemption, the respective principal amounts) of the 2009 Series B Bonds to be redeemed, (iv) that on the redemption date the Redemption Price will become due and payable upon each such 2009 Series B 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 B Bonds to be redeemed, (vi) the place where such 2009 Series B Bonds are to be surrendered for payment of the Redemption Price, (vii) the original date of execution and delivery of the 2009 Series B Bonds; (viii) the rate of interest payable with respect to each 2009 Series B Bond being redeemed; (ix) the maturity date of each 2009 Series B Bond being redeemed; and (x) any other descriptive information needed to identify accurately the 2009 Series B 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 B 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 B Bonds being redeemed with the proceeds of such check or other transfer.

(e) Except with respect to the unredeemed portion of any 2009 Series B 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 B Bond during the 15 days preceding the date on which notice of redemption of a 2009 Series B Bond is to be given on any Bond that has been called for redemption except the unredeemed portion of any 2009 Series B Bond being redeemed in part.

SECTION 10. Sinking Fund Installments. (a) Sinking Fund Installments are hereby authorized for the 2009 Series B Bonds at the option of the successful purchaser thereof pursuant to the terms of the Official Notice of Sale.

(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 B 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 B Bonds. The proceeds of the 2009 Series B Bonds shall be applied simultaneously with the delivery of the 2009 Series B Bonds, in accordance with the provisions of the Award Resolution.

SECTION 12. Authorization of Swaps. The Authorized Representatives are hereby authorized and directed to utilize, in whole or in part, any interest rate swaps (the "Swaps"), to manage the interest rate costs of the District in connection with the 2009 Series B Bonds as such Authorized Representative deems necessary and appropriate and to bid, negotiate, execute and deliver, for and on behalf of the District, one or more Swaps, and accept the terms and conditions thereof, as such Authorized Representative deems necessary and appropriate, with the advice of Bond Counsel and Special Tax Counsel. The Authorized Representatives are authorized and directed to enter into and deliver such other agreements, documents or instruments, for and on behalf of the District, in connection with entry into any and all Swaps (including without limitation any agreement necessary to evidence the obligation of the District to satisfy all payment and performance obligations under the agreement relating to the Swaps) (collectively, the "Related Swap Documents"), as such Authorized Representative deems necessary and appropriate, with the advice of Bond Counsel and Special Tax Counsel.

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

SECTION 14. Reserved.

SECTION 15. Reserved.

SECTION 16. Execution, Delivery and Authentication. The 2009 Series B 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 B Bonds executed in the foregoing manner to the Purchasers upon payment of the purchase price pursuant to the terms and conditions of the Official Notice of Sale and the Award Resolution. There is hereby authorized to be printed or otherwise reproduced on the back of, or attached to, each of the 2009 Series B 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 B 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 B Bonds. No 2009 Series B 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. Official Notice of Sale. The Official Notice of Sale is hereby approved. The 2009 Series B Bonds shall be sold to the successful bidder therefor, pursuant to the terms

and conditions hereof and of the Official Notice of Sale, and by further action of the Board of Directors through the adoption of the Award Resolution on the date of the public sale. Sealed bids for the 2009 Series B Bonds shall be received by the Corporate Treasurer until the hour of 8:30 a.m., Phoenix, Arizona time, (11:30 a.m., New York time), on Tuesday, September 29, 2009 (the "Bid Date") in the manner set forth in the Official Notice of Sale, provided that the Authorized Representatives are hereby authorized to postpone the Bid Date and to determine and notice an alternative Bid Date in the manner set forth in the Official Notice of Sale, to the extent deemed necessary and appropriate. The Official Notice of Sale or a summary thereof, as permitted by applicable law, shall be published in The Arizona Republic and another Arizona newspaper to be selected by an Authorized Representative, at least three (3) times prior to the date of the public sale and shall be published in The Bond Buyer one time prior to the date of the public sale.

SECTION 18. Reserved.

SECTION 19. Good Faith Deposit. The good faith deposit provided for in the Official Notice of Sale shall be held by the District in accordance with the terms and conditions of the Official Notice of Sale.

SECTION 20. Approval of Final Official Statement and Continuing Disclosure Agreement. The preparation and distribution of the Preliminary Official Statement dated September 16, 2009, attached hereto as **Exhibit D**, 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 successful purchaser an Official Statement, dated the date of the public sale, relating to the 2009 Series B Bonds substantially in the form attached hereto as **Exhibit E**. The form of the Continuing Disclosure Agreement attached hereto as **Exhibit F** is hereby approved. The Authorized Representatives are hereby each authorized and directed to execute and deliver the Official Statement, for and on behalf of the District, to the successful purchaser, 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 B 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 B Bonds. The provisions of this Section 21 shall survive any defeasance of the 2009 Series B 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 B Bonds, the District shall comply with the provisions of the Code applicable to the 2009 Series B 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 B Bonds, reporting of earnings on the gross proceeds of the 2009 Series B 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 B Bonds to be included in gross income under Section 103 of the Code or cause interest on the 2009 Series B 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 an Authorized Representative at the time the 2009 Series B 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 individuals 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 B Bonds pursuant to the Resolution.

SECTION 23. Severability. If any one or more of the covenants or agreements provided in this 2009 Series B 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 B Resolution, so long as this 2009 Series B 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 B Resolution and the deletion of such portion of this 2009 Series B Resolution will not substantially impair the respective benefits or expectations of the District or any Fiduciary.

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

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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 AWARDING THE SALE OF $296,735,000 SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS, 2009 SERIES B OF THE SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, TO THE SUCCESSFUL PURCHASER THEREOF", a**s adopted by a majority of the SRP Board of Directors at a meeting held on September 14, 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 3rd day of November 2009.

Terrill A. Lonon

Terrill A. Lonon
Corporate Secretary

RESOLUTION AWARDING THE SALE OF $296,375,000 SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS, 2009 SERIES B OF THE SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, TO THE SUCCESSFUL PURCHASER THEREOF

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, by resolution entitled "RESOLUTION AUTHORIZING THE ISSUANCE AND PUBLIC SALE OF NOT TO EXCEED $375,000,000 SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS, 2009 SERIES B OF THE SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, AND PROVIDING FOR THE FORM, DETAILS AND TERMS THEREOF" and adopted by the Board on September 14, 2009 (the "2009 Series B Resolution"), has authorized the issuance and public sale of its Electric System Revenue Bonds, 2009 Series B (the "2009 Series B Bonds"); and

WHEREAS, the Council, by resolution entitled "RESOLUTION OF THE COUNCIL RATIFYING AND CONFIRMING THE AMOUNT OF THE SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS, 2009 SERIES B" and adopted by the Council on September 15, 2009, has ratified and confirmed not to exceed $375,000,000 2009 Series B Bonds; and

WHEREAS, pursuant to the 2009 Series B Resolution, the Board has offered publicly the 2009 Series B Bonds and desires to award said bonds pursuant to the 2009 Series B Resolution and to the Official Notice of Sale, dated September 16, 2009, as amended on September 24, 2009 and September 25, 2009 (collectively, the "Notice of Sale"), to the successful bidder thereof;

NOW, THEREFORE, BE IT RESOLVED, by the Board of Directors of the District as follows:

SECTION 1. The aggregate principal amount of the 2009 Series B Bonds hereby authorized to be issued and delivered shall be $296,375,000.

SECTION 2. The 2009 Series B Bonds shall bear the rate or rates of interest per annum and shall mature on January 1 in the years and in the principal amounts, as follows:

Year	Principal Amount	Interest Rate	Year	Principal Amount	Interest Rate
2013	$23,710,000	3.000%	2017	$52,390,000	4.000%
2014	$27,120,000	3.000%	2018	$49,255,000	4.000%
2015	$33,605,000	4.000%	2019	$47,830,000	4.500%
2016	$57,540,000	4.000%	2020	$ 4,925,000	4.000%

SECTION 3. The 2009 Series B Bonds are awarded to J.P. Morgan Securities Inc., at a purchase price of $356,981,526.75 and at a true interest cost of 2.142498%, whose winning bid is attached hereto as Exhibit A.

SECTION 4. After having resized the issue in accordance with the terms of the Notice of Sale, the purchase price for the 2009 Series B Bonds shall be $325,539,673.85 (being the principal amount thereof, plus net original issue premium of $29,789,788.00, less $625,114.15 underwriter's discount) for a true interest cost of 2.412503%.

SECTION 5. In order to provide accurate accounting records and reports, the issuance costs of approximately $536,000 resulting from the issuance of the 2009 Series B Bonds shall be amortized monthly over the life of the 2009 Series B Bonds.

SECTION 6. From the proceeds of the 2009 Series B Bonds:

(A) $275,000,000 shall be used to retire the District's Promissory Notes, Series B (Commercial Paper) and $50,000,000 shall be used to retire the District's Promissory Notes, Series C (Commercial Paper); and

(B) $536,000 shall be used to pay costs of issuance of the 2009 Series B Bonds.

SECTION 7. This Award Resolution shall take effect immediately upon adoption.

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NEW ISSUE **FULL BOOK-ENTRY**

In the opinion of Special Tax Counsel, under existing law and assuming compliance with the tax covenants described herein, and the accuracy of certain representations and certifications made by the District, interest on the 2009 Series B 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 B Bonds is excluded from the adjusted current earnings of 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 B Bonds is exempt from income taxes imposed by the State of Arizona. See "TAX MATTERS" herein regarding certain other tax considerations.

$296,375,000
Salt River Project Agricultural Improvement and Power District, Arizona
Salt River Project Electric System Revenue Bonds, 2009 Series B

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

The 2009 Series B 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 B 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 B 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 B Bonds. Individual purchases of interests in the 2009 Series B 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 B Bonds. Interest with respect to the 2009 Series B Bonds is payable January 1 and July 1 of each year, commencing January 1, 2010.

The principal of, redemption price, if any, and interest on the 2009 Series B 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 B 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 B 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 B Bonds. The 2009 Series B Bonds are subject to optional and mandatory redemption as described herein. See "THE 2009 Series B BONDS — Redemption" herein.

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

The 2009 Series B 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. It is expected that the 2009 Series B Bonds will be available for delivery to DTC in New York, New York, on or about October 7, 2009.

Dated: September 29, 2009

SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS
2009 Series B

Serial Bonds

Maturity (January 1)	Principal Amount	Interest Rate	Yield	CUSIP Number**
2013	$ 23,710,000	3.000%	1.280%	79575DD23
2014	27,120,000	3.000%	1.600%	79575DD31
2015	33,605,000	4.000%	1.920%	79575DD49
2016	57,540,000	4.000%	2.200%	79575DD56
2017	52,390,000	4.000%	2.420%	79575DD64
2018	49,255,000	4.000%	2.650%	79575DD72
2019	47,830,000	4.500%	2.770%	79575DD80
2020	4,925,000	4.000%	2.880%*	79575DD98

* 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 B 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 B Bonds or as indicated herein.

MANAGEMENT OF THE DISTRICT

BOARD OF DIRECTORS

Larry D. Rovey	Deborah S. Hendrickson
Paul E. Rovey	Arthur L. Freeman
Mario J. Herrera	Dwayne E. Dobson
Lloyd E. Banning	Carolyn Pendergast
Carl E. Weiler	William W. Arnett
John M. White, Jr.	Fred J. Ash
Keith B. Woods	Wendy L. Marshall

PRINCIPAL OFFICERS AND OTHER EXECUTIVES

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

CONSULTANTS

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

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy the 2009 Series B 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 Underwriter to give any information or to make any representations with respect to the 2009 Series B 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 Underwriter.

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 B BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2009 SERIES B 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 B 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 UNDERWRITER.

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 Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has 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 Underwriter does 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 B 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 B Bonds:

The 2009 Series B 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 B 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 B Bonds:

The 2009 Series B Bonds are being issued to repay $325 million of its commercial paper. The proceeds of the 2009 Series B Bonds also will be used to pay costs of issuing the 2009 Series B Bonds. See "PLAN OF FINANCE" and "SOURCES AND USES OF PROCEEDS" herein.

Security for the 2009 Series B Bonds:

The 2009 Series B Bonds and all Revenue Bonds heretofore and hereafter issued will be payable from and secured by a pledge of lien on all Revenues derived by the District from the ownership and operation of the Electric System after the payment of Operating Expenses and payments required to be made under United States Government Loans heretofore and hereafter incurred by the District. Such pledge created by the Resolution is subject only to the provisions of the Resolution permitting the application of Revenues for the purposes and upon the terms and conditions set forth in the Resolution.

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

The District has covenanted in the Resolution to maintain the Debt Reserve Account at the Debt Reserve Requirement. At April 30, 2009 the balance in the Debt Reserve Account was approximately $81 million, which exceeded the Debt Reserve Requirement. Upon the issuance of the 2009 Series B 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 B 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 B Bonds has the right to compel the exercise of the taxing powers of the District to pay the 2009 Series B Bonds or the interest thereon. See "SECURITY FOR 2009 Series B BONDS" herein.

Outstanding Indebtedness:

As of April 30, 2009, the District had a total of $4,273,725,000 in outstanding debt, computed without deducting the unamortized bond discount/premium, consisting of $3,666,140,000 in Revenue Bonds and general fund debt of $607,585,000 consisting of $375,000,000 in promissory notes sold in the tax-exempt commercial paper market and rental payments totaling $232,585,000, 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.

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-Scottsdale Metropolitan Statistical Area (the "Phoenix- Mesa-Scottsdale MSA") and reached a peak load of approximately 7232 MW in August 2008. Approximately 43.4% of fiscal year 2009 retail electric revenues were received from residential customers.

Transmission and Distribution Facilities:

The District owns transmission and distribution systems in order to deliver electricity. These systems include both overhead and

underground lines with voltage levels ranging from 12kV to 500kV. In addition, the District also has acquired rights on transmission systems owned by others. See "THE ELECTRIC SYSTEM — Existing and Future Resources" herein.

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

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

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

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SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, ARIZONA

OFFICIAL STATEMENT

RELATING TO

$ 296,375,000

SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS, 2009 Series B

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 B (the "2009 Series B 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 B 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 B Bonds, the District's Board will have authorized the award and issuance of the 2009 Series B Bonds and the District's Council will have ratified and confirmed the amount of the 2009 Series B Bonds. See "THE 2009 Series B BONDS" herein and "Appendix B — Summary of the Resolution" attached hereto.

PLAN OF FINANCE

The District will issue the 2009 Series B Bonds to repay $325 million of its commercial paper. Proceeds of the 2009 Series B Bonds also will be used to pay a portion of the costs of issuance of the 2009 Series B Bonds. The 2009 Series B 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 B BONDS

General

The 2009 Series B Bonds will be issued in the principal amount of $296,375,000 and will be dated and bear interest from the date of delivery. The 2009 Series B Bonds will mature on the dates and in the principal amounts, and bear interest, payable on January 1 and July 1 of each year, commencing January 1, 2010, 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 B 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 B Bond as of the immediately preceding December 15 or June 15.

Book-Entry Only System

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

Redemption

Optional Redemption. The 2009 Series B Bonds maturing on 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 B 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 B Bonds, if less than all of the 2009 Series B 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 B 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 B 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 B 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 B 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 B 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 B Bonds. If the book-entry only system were discontinued, the following provisions would apply. A 2009 Series B Bond may be transferred on the bond register maintained by the Bond Registrar upon surrender of the 2009 Series B 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 B Bond may be exchanged for 2009 Series B 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 B Bonds during the 15 days preceding the date on which notice of

redemption of a 2009 Series B Bond is to be mailed or any 2009 Series B Bond that has been called for redemption except the unredeemed portion of any 2009 Series B Bond being redeemed in part.

SOURCES AND USES OF PROCEEDS

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

Sources of Funds	
Principal Amount of 2009 Series B Bonds	$ 296,375,000.00
Original Issue Premium	$ 29,789,788.00
Total Sources of Funds	$ 326,164,788.00
Uses of Funds	
Series B and Series C Commercial Paper Repayment	$ 325,000,000.00
Cost of Issuance (including Underwriter's Discount)	$ 1,164,788.00
Total Uses of Funds	$ 326,164,788.00

SECURITY FOR 2009 SERIES B BONDS

General

The Revenue Bonds, including the 2009 Series B 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 B 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 B 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 B 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 April 30, 2009, the balance in the Debt Reserve Account was approximately $81 million, which exceeded the Debt Reserve Requirement. Upon issuance of the 2009 Series B 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 April 30, 2009, District and Association full-time employees (full-time equivalent) totaled approximately 4,463, including approximately 1,892 hourly employees represented by the International Brotherhood of Electrical Workers, Local 266. The present labor contracts expire on November 15, 2009. The District expects to commence negotiations in mid-October 2009.

Economic and Customer Growth in the District's Service Area

The District serves approximately 55% of the population living in the Phoenix-Mesa-Scottsdale Metropolitan Statistical Area ("Phoenix-Mesa-Scottsdale MSA"). As the governmental and economic center of Arizona, the Phoenix-Mesa-Scottsdale MSA possesses the largest percentage of the state's residents, businesses, and income. It contains approximately 65% of the state's population, and more than two-thirds of its total employment and total personal income.

Although the Phoenix-Mesa-Scottsdale MSA has experienced strong economic growth from the early 1990's through the middle of the current decade, the deep recession has had a significant impact on the local economy. The U.S. Census Bureau estimated that the metropolitan area added about 887,000 people from 2000 through 2007, a compound annual growth rate of approximately 3.5%. The Census Bureau's 2008 growth annual estimate was 2.8%. It is likely that the population growth rate fell below the 2% level since then, and future growth is anticipated to remain at levels below prior forecasts while the current economic downturn continues.

After averaging 6.2% and 5.4% in 2005 and 2006, respectively the Phoenix-Mesa-Scottsdale MSA's job growth rate slowed to 1.6% in 2007. In 2008, the metropolitan area's employment base shrank by 2.4% in response to the deepening recession. By June 2009, non-farm employment in the metropolitan area had declined by 7.6% on a year-over-year basis. While the current recession is the deepest observed in several decades, the Phoenix-Mesa-Scottsdale MSA is projected to return to a trend of long-term growth in the years ahead.

Table 1 summarizes several key economic statistics over recent years.

TABLE 1 — Historical Growth Statistics

Year	State of Arizona Population (thousands)[1]	Phx-Mesa-Scottsdale MSA Population (thousands)[1]	Phx-Mesa-Scottsdale MSA Non-Agricultural Wage & Salary Employment (thousands)[2]	Phx-Mesa-Scottsdale MSA Residential Permits[3]	Phx-Mesa-Scottsdale MSA Personal Income ($ billions)[4]
2002	5,449	3,495	1,596	47,899	100.8
2003	5,585	3,595	1,620	54,860	105.5
2004	5,750	3,716	1,684	65,259	115.4
2005	5,961	3,873	1,788	62,617	128.1
2006	6,178	4,035	1,884	44,280	140.5
2007	6,353	4,166	1,915	37,272	146.6
2008	6,500	4,282	1,868	18,533	NA

(1) U.S. Census Bureau; numbers are estimates as of July 1st each year.
(2) Arizona Department of Commerce; 2008 revised.
(3) U.S. Census Bureau, "Housing Units Authorized by Building Permits"; 2008 preliminary.
(4) U.S. Bureau of Economic Analysis; 2008 preliminary.

While the slowdown in the metropolitan Phoenix area is most pronounced in construction and real estate, the weakness is spread across most sectors. The Phoenix-Mesa-Scottsdale MSA historically outperformed the national economy, but the current recession is deeper locally than for the nation as a whole. Through June 2009, employment in the Phoenix-Mesa-Scottsdale MSA decreased 7.6% on a year-over-year basis, ranking second for the

largest percent decline posted among the nation's large metropolitan areas (nonfarm employment greater than 750,000).

The Phoenix-Mesa-Scottsdale MSA's unemployment rate had increased to 8.0% by June 2009. Seasonally adjusted unemployment rates for the Phoenix-Mesa-Scottsdale MSA, Arizona, and the United States are listed below:

Comparative Unemployment Rates

	June 2009	June 2008	June 2007
Phoenix-Mesa-Scottsdale MSA	8.0%	4.8%	3.1%
Arizona	8.7%	5.5%	3.6%
United States	9.5%	5.6%	4.6%

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. From 2007 through 2009's first half, this trend reversed, with job losses posted across a broad range of industries. The District expects to see continued weakness in these areas, along with softness in the manufacturing and information sectors.

Phoenix-Mesa-Scottsdale MSA Employment
(thousands)

Year	Natural Resources & Mining	Construction	Manufacturing	Trade, Transportation, & Utilities	Information	Financial Activities
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	3.2	169.4	137.2	391.7	31.2	153.6
2008	3.7	140.7	131.2	383.0	31.6	147.8

Year	Professional & Business Services	Education & Health Services	Leisure & Hospitality	Other Services	Government
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	325.3	206.2	186.2	72.1	238.7
2008	308.9	216.9	184.9	74.1	245.5

Source: State of Arizona, Department of Economic Security.

The Phoenix-Mesa-Scottsdale MSA is home to several corporate headquarters: US Airways Group, Inc., Republic Services Inc., 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-Scottsdale MSA.

While strong population growth has been the traditional driver for the commercial real estate market, the slowdown in population growth has led to increased vacancy rates. Retail space vacancy rates increased to 10.5% in 2009's second quarter. Retail construction and net absorption slowed significantly in 2008 and 2009. The recession has raised office vacancy rates in the metropolitan area to 23.7% in the second quarter of 2009. Industrial real estate activity, which was strong in recent years, has slumped along with the decline in demand for distribution space. The industrial vacancy rate increased to 15.2% in the second quarter of 2009.

The real estate market in the Phoenix-Mesa-Scottsdale 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 and in 2009 to date, 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-Scottsdale 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 generated approximately $6.4 million in revenue from this activity during fiscal year 2009.

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 $2.39 million and $2.27 million in fiscal years 2009 and 2008, 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 2010 through 2015. The projections reflected therein are consistent with industry-wide experience and provide the basis for the District's current year operating budget, May 2009 through April 2010. 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,					
	2010	2011	2012	2013	2014	2015
Annual Peak:(MW)[1][2]						
Service Territory System Requirements[3][4][5]	6,670	6,868	7,087	7,289	7,530	7,789
Sales for Resale	451	102	89	28	28	28
Total Peak Load[6]	7,121	6,970	7,176	7,317	7,558	7,817
Resources:						
Demand Response Program	30	40	50	60	70	80
Energy Efficiency Program	56	97	130	135	168	203
Thermal:						
Gas and/or Oil	2,951	2,951	2,951	2,951	3,133	3,133
Coal	1,793	2,195	2,184	2,173	2,173	2,167
Nuclear	688	688	688	688	688	688
Renewables [7]	276	276	270	280	280	280
Purchased:						
CAWCD/Navajo Surplus [8]	709	702	704	300	300	300
AEPCO – Arizona Electric Power Cooperative	100	100	0	0	0	0
TEP – Tucson Electric Power Company ("TEP") [9]	100	100	100	100	100	100
Tri-State – Tri-State Generation and Transmission Association, Inc. ("Tri-State") [10]	100	100	100	100	100	100
Coolidge Generating Station [11]	0	0	512	512	512	512
Renewable Purchases [12]	229	259	259	259	259	209
Other Existing	1,063	663	263	113	38	38
New Purchases	253	1	31	481	616	916
Total Resources	8,348	8,172	8,242	8,152	8,437	8,726
Total Resources in Excess of Total Peak Load	1,227	1,202	1,066	835	879	909
Planned Reserve Percentage[13]	22.0	20.6	16.4	12.3	12.4	12.4

(1) The forecasts was updated in February 2009.
(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 not been reduced by the impact of conservation programs; these programs that the District has sponsored for more than a decade are depicted as resources.
(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) Renewables include owned hydro-electric generation.

(8) Navajo Surplus is electrical capacity and energy made available to the District from the entitlement in Navajo Generating Station that the United States Bureau of Reclamation holds for the purpose of supplying the power requirements of the Central Arizona Project when such amount is surplus. 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.
(9) 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.
(10) 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.
(11) 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.
(12) Renewable purchases include SRP's federal hydro-electric allocations.
(13) 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, 2009. The District's largest source of energy during the fiscal year ended April 30, 2009 was thermal generating facilities, which supplied approximately 73.6% of the District's total production. Hydroelectric generation provided approximately 2.8% of production with 1.3 % coming from the District's own hydroelectric plants and 1.6% coming from purchases from the Arizona Power Authority ("APA") and the United States Department of Energy, Western Area Power Administration ("WAPA"). The remaining 23.6% came from various other purchases and renewable resources. Table 3 provides more detail on District power sources.

TABLE 3 — Fiscal Year 2009 District Power Sources

	Capability (MW)[1]	% of Total	Net Production Amount (MWh)[2]	Net Production % of Total
District Generation:				
One Hundred Percent Entitlement – Renewable Hydroelectric & Other:				
Roosevelt Dam	36	0.46%	106,497	0.30%
Mormon Flat Dam	68	0.87	97,813	0.28
Horse Mesa Dam	149	1.90	182,404	0.52
Stewart Mountain Dam	13	0.17	41,344	0.12
Canal Plant (Crosscut)	3	0.04	6,216	0.02
Canal Plant (South Consolidated)	1	0.01	2,997	0.01
Arizona Falls	1	0.01	2,447	0.01
Subtotal Hydroelectric	271	3.45	439,718	1.26
Solar	1	0.00	1,574	0.00
Fuel Cells	0[3]	0.00	1,033	0.00
Alternative Fuels – Tri-cities Landfill	4	0.05	18,485	0.05
Subtotal Other	5	0.06	21,092	0.06
One Hundred Percent Entitlement – Thermal				
Kyrene (Steam)	106	1.35	(807)	0.00
Kyrene (Gas Turbine)	165	2.10	955	0.00
Kyrene (Combined Cycle)	250	3.18	783,644	2.24
Agua Fria (Steam)	407	5.18	134,138	0.38
Agua Fria (Gas Turbine)	219	2.79	9,807	0.03
Santan Combined Cycle	1,227	15.61	4,423,086	12.64
Desert Basin Combined Cycle	577	7.34	1,272,013	3.63
Coronado Generating Station	773	9.83	5,938,531	16.97
Subtotal	3,724	47.38	12,561,367	35.89
Participation Plants				
Navajo Generating Station	489	6.22	3,671,561	10.49
Mohave Generating Station	0	0.00	(1,228)	0.00
Four Corners Generating Station Units 4 &5	150	1.91	1,174,293	3.36
Hayden Generating Station	131	1.67	1,087,049	3.11
Craig Generating Station	248	3.16	2,026,245	5.79
Palo Verde Nuclear Generating Station	688	8.75	5,238,358	14.97
Subtotal	1,706	21.70	13,196,278	37.70
Purchases and Receipts[4]:				
Federal Hydropower – Renewable				
APA – Arizona Power Authority	49[5]	0.62%	109,863	0.31
WAPA – Colorado River Storage Project	68[6]	0.87	293,748	0.84
WAPA – Parker-Davis Dams	32	0.41	148,164	0.42
WAPA – CAWCD/Navajo Surplus	643[7]	8.18	1,874,501	5.36
AEPCO – Arizona Electric Power Cooperative	100	1.27	738,555	2.11
TEP – Tucson Electric Power Company	100	1.27	778,879	2.23
TSGT – Tri-State Generation & Transmission	100	1.27	746,117	2.13
Renewable – SWMP – Snowflake White Mountain Power (Biomass)	10	0.13	65,116	0.19
Renewables – Wind Power	50	0.64	61,600	0.18
Renewables – Geothermal Power	25	0.32	147,025	0.42
Renewables – Other	50	0.64	341,800	0.98
Others	927[8]	11.79	3,474,960[8]	9.93
Subtotal	2,154	27.40	8,780,328	25.09
TOTAL[9]	7,860	100.00	34,998,783	100.00

(1) Load capability during summer system peak. Winter capability may be greater.
(2) Actual net production during the fiscal year ended April 30, 2009. Energy for pumped storage is not deducted.
(3) Fuel cell capacity is 250 kW.
(4) Purchase and receipt capabilities vary month to month. Listed are the capabilities for the peak month.
(5) Includes 16 MW wheeled for certain electrical/irrigation districts.
(6) Includes 13 MW wheeled for certain electrical/irrigation districts.
(7) Net of CAWCD pumping load and losses totaling 96 MW that occurred coincident with system peak.
(8) 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. The District presents the impacts of these financially settled contracts on a net basis. Short term purchases excluding 640 MW and 2,015,949 MWh of book-outs.
(9) 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 although one of the facilities, the Mohave Generating Station is being decommissioned and hence, not producing generation. 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. See "THE ELECTRIC SYSTEM — Existing and Future Resources — *Mohave Generating Station"* for a discussion of the status of the Mohave Generating Station.

TABLE 4 — District Participation Interests in Existing Generating Facilities[1]

	Navajo Generating Station	Four Corners Generating Station Units 4 & 5	Hayden Generating Station Unit 2	Mohave Generating Station[2]	Craig Generating Station Units 1 & 2	Palo Verde Nuclear Generating Station
Project Capabilities						
Total Continuous Load Capabilities (MW)	2,250	1,570[3]	262	1,580[4]	856	3,937[5]
Project Participants						
District	21.7	10.0	50.0	20.0	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]	—	—	—	—	—
Total Percentage	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

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

(2) Mohave Generating Station suspended operations at the end of 2005 and it is being decommissioned. 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 dependable capability. Except during summer, normal continuous load capability will usually exceed 3,937 MW, MDC net (Maximum Dependable Capacity, net).

(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 and 2. The District owns 29% of Craig Generating Station Units 1 and 2, which are operated by Tri-State. The two 428 MW coal-fired generating units commenced commercial operations in 1981 and 1979, respectively. The Craig Generating Station Units 1 and 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 and 2, like the power and energy from Four Corners Generating Station Units 4 and 5 ("Four Corners") 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 and 2.

Four Corners Generating Station Units 4 and 5. The Four Corners Generating Station Units 4 and 5, operated by APS, are located on the Navajo Indian Reservation near Farmington, New Mexico. The District owns 10% of Units 4 and 5, two 785 MW (maximum capability) coal-fired generating units, which commenced commercial operations in 1969 and 1970, respectively. Coal comes from the Navajo mine located 11 miles away on the Navajo Indian Reservation.

On April 6, 2009, APS received a request from the Environmental Protection Agency ("EPA") under the New Source Review Provisions of the Clean Air Act ("CAA") seeking detailed information regarding projects at and operations of Four Corners. APS has provided initial responses to this request and is unable to predict the timing or content of the EPA's response or any resulting actions. See "LITIGATION — Environmental Issues — *New Source Review*" for discussion of the EPA's national enforcement initiative under the New Source Review Provisions of the CAA.

See "The ELECTRIC SYSTEM — Environmental Matters — *California*" for comments related to investments in coal-fired generating stations by California utilities.

See "THE ELECTRIC SYSTEM — Existing and Future Resources — *Coal*" for comments relating to the coal supply for the Four Corners Generating Station Units 4 and 5.

See "THE ELECTRIC SYSTEM — Environmental Matters — *Navajo Generating Station and Four Corners Generating Station Units 4 and 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 commercial 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 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. Peabody Western Coal Company ("Peabody") operates the mine under leases with both tribes.

The Department of Water and Power for the City of Los Angeles ("LADWP"), a participant in NGS, has announced that it will replace its coal-fired generation with generation from renewable energy sources by 2020. Although LADWP's contract for NGS does not expire until 2019, LADWP has begun looking for a buyer of its interest in NGS.

See "THE ELECTRIC SYSTEM — Environmental Matters — *Navajo Generating Station and Four Corners Generating Station Units 4 and 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 commercial operations in 1971 and is located in Clark County, Nevada, on the Colorado River. SCE is the operating agent. However, the plant suspended operations in 2005 and the participants have begun decommissioning it.

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.

In fiscal year 2003, 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. On April 30, 2009, the net regulatory asset for Mohave was $52.0 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. PVNGS Units 1, 2 and 3 commenced 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 needed improvement in several areas following a decline in performance since 2003. In February 2008, the NRC issued a letter detailing the corrective actions needed by PVNGS to return the plant to normal regulatory oversight. On March 24, 2009 the NRC announced that PVNGS had returned to normal NRC regulatory oversight. The NRC will continue to track a number of the corrective actions taken.

The steam generators and low pressure turbine rotors have been replaced in all three units resulting in an increase of 65 to 71 MW net output (11 to 12 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 2009, approximately 15.2% of the District's energy requirements were met with long-term power purchases. An additional 9.9% 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 2009, a total of 792 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 Transcanada, Coolidge Power LLC for the development, construction, and operation of a simple cycle combustion turbine electric peaking plant near Randolph, Arizona 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.

The District has entered into a 20-year power purchase agreement with Snowflake White Mountain Power, LLC, which is a renewable energy resource near Snowflake, Arizona, 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. Payments under this contract totaled $5.3 million in fiscal year 2009.

The District has entered into a 20-year power purchase agreement with Dry Lake Wind, LLC, which is a renewable energy resource utilizing wind to produce power. The facility, to be located southwest of Holbrook, Arizona, is expected to begin commercial operation by December 31, 2009. The agreement requires the District to purchase the full output of the wind farm, approximately 63 MW, during the fiscal years 2010 through 2030. The District is obligated to pay for actual energy delivered. There is no minimum payment obligation for this contract.

The District has entered into a 30-year purchase power agreement with Hudson Ranch Power I, LLC, which is developing a renewable energy resource utilizing geothermal heat to produce power. The facility, to be located in the Imperial Valley of California, is expected to begin commercial operation by September, 2011. The agreement requires the District to purchase the full output of the facility, approximately 50 MW, during the fiscal years 2012 through 2042. The District is obligated to pay only for actual energy delivered. There is no minimum payment obligation for this contract.

The District has entered into a 20-year purchase power agreement with Lightning Dock Geothermal HI-01, LLC, which is developing a renewable energy resource in the Animas Valley in New Mexico utilizing geothermal heat to produce power. The facility is expected to begin commercial operation by August, 2010. The agreement requires the District to purchase the full output of the facility, approximately 10 to 15 MW, during the fiscal years 2011 through 2031. The District is obligated to pay only for actual energy delivered. There is no minimum payment obligation for this contract.

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 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 has begun construction of Unit 4 and expects it to be in service by the end of calendar year 2009. As of April 30, 2009, the District has recognized $846.8 million of construction costs which are included in construction work in progress in the combined balance sheets. 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 the "CAPITAL IMPROVEMENT PROGRAM.")

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 819 MW of summer capacity. That generating facility will become operational in stages, beginning as early as 2013, with full operating capacity available in 2017. The District will concurrently seek to permit a combined-cycle intermediate power plant at the Pinal Central site of up to 600 MW of summer capacity. That facility will be placed in service by 2018. 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. The first 50 miles of 500kV transmission of the project were constructed and placed in service in 2008. The remaining sections of the project will be built in phases. The facilities are expected to be placed in-service from 2011 through 2013.

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

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

Fiscal Year Ending April 30,	Hydro[1]	Gas/Oil	Coal	Nuclear	Renewables	Long Term Purchases	Other Purchases[2]
2010	3.1%	14.3%	39.4%	13.5%	0.1%	9.9%	19.7%
2011	2.8%	16.7%	41.8%	12.7%	0.1%	10.8%	15.1%
2012	2.6%	20.2%	42.5%	13.5%	0.1%	5.5%	15.6%
2013	2.5%	20.9%	42.7%	13.3%	0.1%	2.9%	17.6%
2014	2.5%	22.5%	40.2%	13.0%	0.1%	3.4%	18.3%
2015	2.2%	24.1%	39.5%	12.4%	0.1%	3.3%	18.4%

(1) Includes hydro purchases.
(2) Includes renewable energy purchases.

Coal. Hayden Generating Station Unit 2, NGS, Four Corners, and Craig Generating Station Units 1 and 2 are coal-fired generating units. The coal supply contract for Four Corners has been extended to July 2016. The coal supply contract for NGS will expire in April 2011 and for the Hayden Generating Station in December 2011. The two coal supply contracts for the Craig Generating Station expire July 1, 2014 and December 31, 2017. In the past, approximately 30% of the requirements were purchased through annual spot market solicitations. This portion of the supply has been acquired through a contract that will expire in December 2020. 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. The District has entered into a coal supply contract for Springerville Unit 4 which began in 2009 and runs through 2012.

For calendar 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.

Rio Tinto Energy America will also supply the coal requirements for building inventory, testing, and for commercial operation of Springerville 4 through 2012. The District expects to enter into a new agreement(s) for Springerville Unit 4 coal requirements beyond 2012.

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-Scottsdale 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 six year period into the future relative to the District's retail customer demand. See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY — Competition in Arizona — *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 and Transwestern Pipeline Company. 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 2011 and 65% through 2017, 100% of the requirements for conversion services through 2011 and 67% through 2017, 100% of the requirements for the enrichment services through 2013 and 40% through 2020, 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 ("GHG") 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 liability 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 a portion of that coverage is 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 and 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 and 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 CAA and climate change initiatives may result in requirements for further reductions of emissions that are currently regulated, like sulfur dioxide ("SO_2"), nitrogen oxide ("NOx"), particulate matter ("PM") and mercury, as well as reductions of emissions of gases and substances not presently regulated, like carbon dioxide ("CO_2"). 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 GHG 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 GHG emissions.

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

Navajo Generating Station and Four Corners Generating Station Units 4 and 5. Certain environmental laws, including the CAA, the Clean Water Act, and the Safe Drinking Water Act, contain provisions pursuant to which Indian tribes may be treated as states for purposes of administering programs under those acts. The Navajo Nation has obtained EPA approval to administer programs under some of these laws. However, the EPA generally has not included NGS or 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 ADEQ 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 other voluntary compliance agreements. 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. New West Energy intervened in the sole application for which a procedural order has been issued, asking that the application be dismissed until the ACC has held a general rulemaking procedure for retail competition. In September 2008, the ACC suspended consideration of that application 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.

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.

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%.

On May 1, 2008, the District implemented a 3.9% price increase that incorporated price plan design changes that further reflected the District's underlying seasonal costs and 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 EZ-3 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.

On July 13, 2009, the District initiated a process to consider management proposals that, if approved, would have totaled an 8.8% increase in retail electric prices. The proposals include a proposed Environmental Programs Cost Adjustment Factor ("EPCAF") to track costs and revenues relating to renewable energy and energy efficiency programs, as well as costs incurred as a result of energy efficiency and renewable portfolio standards and carbon reduction mandates imposed upon the District, either legislatively, or by regulation. In addition, the proposals included adjustments to the System Benefits Charge ("SBC"), and the FPPAM. However, on September 1, 2009, the District Board voted to defer consideration of changes to base prices until a subsequent process that will begin in December 2009 and be completed prior to May 1, 2010 (the "2010 Price Process"). The District Board will consider the remainder of the proposal dealing with the EPCAF, the SBC and the FPPAM at scheduled meetings in September and October 2009. If approved, changes would be effective with the November 2009 billing cycle and likely would result in retail electric prices remaining level pending completion of the 2010 Price Process. Management proposals for the 2010 Price Process will not be known until the end of 2009.

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. This surcharge continues 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 2010 through 2015 Capital Improvement Program totals approximately $5.4 billion. Of this total, approximately $5.1 billion is for construction (including contingencies), $54.1 million is for capitalized administrative and general expenses, $6.6 million is for capitalized voluntary contributions in lieu of taxes, and $187.7 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 47% of the 2010 through 2015 Capital Improvement Program from internally generated funds. The remainder is anticipated to be funded by Revenue Bonds, other forms of indebtedness and third party contributions.

The Capital Improvement Program is driven by the need to expand the generation, transmission and distribution systems of the District in order to meet growing customer electricity needs and to maintain a satisfactory level of service reliability. Of the approximately $5.4 billion Capital Improvement Program, approximately $2.0 billion is directed to generating projects. These include support for the Coronado Emission Controls Project, completion of Springerville Unit 4 Generating Station and funding for future generation facilities. Approximately $1.5 billion is planned for expansion of the electrical distribution system to meet new growth and to replace aging underground cable. The continued expenses for the Southeast Valley Transmission Project and the construction of a high voltage transmission line account for part of the $520 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 2010 through 2015 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 2010 through 2015 Capital Improvement Program.

TABLE 6 — 2010 through 2015 Capital Improvement Program
($000's – Unaudited)

	2010	2011	2012	2013	2014	2015	Total 2010-15
Electric Construction:							
Generation	$ 456,399	$ 467,540	$ 365,683	$ 261,306	$ 176,837	$ 251,048	$ 1,978,813
Transmission	147,433	139,525	100,399	70,870	36,255	25,747	520,229
Distribution	181,935	217,039	260,348	263,787	273,662	282,427	1,479,198
Retail Sales and Services	30,767	24,657	21,857	22,596	5,146	5,324	110,346
Operational Support	44,098	56,519	50,362	47,211	49,496	48,878	296,564
Subtotal — Electric Construction	860,632	905,280	798,648	665,769	541,397	613,424	4,385,149
Contingency Allowance & Risk Portfolio	20,000	35,000	111,000	193,000	193,000	193,000	745,000
Subtotal	880,632	940,280	909,648	858,769	734,397	806,424	5,130,149
Capitalized Administrative and General Expenses	11,907	10,357	9,497	8,115	6,750	7,498	54,124
Capitalized Voluntary Contributions	1,100	1,100	1,100	1,100	1,100	1,100	6,600
Capitalized Interest	50,155	31,602	34,233	33,055	17,276	21,398	187,719
Total[1]	$ 943,794	$ 983,339	$ 954,478	$ 901,039	$ 759,523	$ 836,420	$ 5,378,593

(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 1.7% 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 — 2009 Customer Accounts, Sales, and Revenues
Fiscal Year Ended April 30, 2009

	Customer Accounts at April 30, 2009	Total Sales (GWh)	%	Sales Revenue ($000)	%
Residential	839,685	12,462	35.5	1,233,216	43.4
Commercial and Small Industrial	83,985	10,765	30.7	871,300	30.7
Large Industrial	21	1,698	4.8	99,332	3.5
Mines	26	1,508	4.3	80,026	2.8
Pumps	136	29	0.1	3,576	0.1
Public/Private Lighting	9,857	207	0.6	27,074	1.0
Interdepartmental	1	78	0.2	6,275	0.2
Subtotal/Retail	933,711	26,747	76.2	2,320,799	81.7
Electric Utilities/Wholesale[1]	60	8,333	23.8	520,612	18.3
Total[2]	933,771	35,080	100.0	2,841,411	100.0

(1) 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. The District presents the impacts of these financially settled contracts on a net basis. Wholesale figure shown is adjusted to exclude book-outs.
(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 839,685 customers at April 30, 2009, 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 83,985 at April 30, 2009 against 82,620 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, 2009.

TABLE 8 — Historical Operating Statistics

	2009	2008	2007	2006	2005
SERVICE:					
Total Customers at Year-End	933,771	928,992	919,422	892,875	858,312
Total Sales (million kWh)	35,080	36,839	36,506	36,876	35,516
Average Revenue per kWh (cents)	8.10	7.66	7.33	7.39	6.56
District Only: (excludes sales for resale and affiliated retail)					
Sales (millions kWh)	26,747	27,947	26,675	25,052	23,649
Increase in Sales (%)	(4.3)	4.8	6.5	5.9	(1.2)
TOTAL OPERATING REVENUES: (000's omitted)[1][9]	$ 2,755,134	$ 2,733,359	$ 2,623,686	$ 2,512,559	$ 2,252,827
OPERATING EXPENSES (000's omitted):					
Fuel and Purchased Power[2][9]	$ 1,526,282	$ 1,161,669	$ 1,089,333	$ 1,056,645	$ 782,349
Operating and Maintenance[3]	710,534	724,808	613,902	605,525	563,222
Sales and Payroll Taxes	29,170	27,931	27,156	25,407	24,208
Ad Valorem Taxes[4]	5,607	(2,290)	6,633	4,275	7,444
Total Operating Expenses [5]	$ 2,271,593	$ 1,912,118	$ 1,737,024	$ 1,691,852	$ 1,377,223
NET OPERATING REVENUES	$ 483,541	$ 821,241	$ 886,662	$ 820,707	$ 875,604
VOLUNTARY CONTRIBUTIONS IN LIEU OF TAXES (000's omitted):[6]					
Expensed	$ 55,307	$ 63,871	$ 61,636	$ 69,220	$ 72,100
Capitalized	813	426	518	598	80
Total	$ 56,120	$ 64,297	$ 62,154	$ 69,818	$ 72,180
OTHER STATISTICS:					
Annual Peak (MW):					
System Requirements	6,410	6,578	6,590	6,044	5,665
Total Peak Load[7]	7,232	7,324	7,649	7,297	6,669
System Load Factor(%)[8]	48.8	49.5	47.7	49.3	49.1
Residential Statistics:					
Fiscal Year-End Residential Customers	839,685	836,637	830,735	809,235	778,123
Annual Sales (million kWh)	12,462	13,392	12,919	12,077	11,218
Average Annual Usage (kWh)	14,823	15,980	15,695	15,211	14,687
Average Sales Price per kWh (cents)	9.90	9.06	8.80	8.59	8.20

(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 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 have secured 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 were 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 was defeased in June 2009, and future payments no longer secure debt service on these revenue bonds. Payments under the power sales contracts will continue to be made on a monthly basis for power available through September 30, 2011. The District is obligated under the power sales contracts with WAPA, USBR and CAWCD to pay each month for its allocated capacity at a capacity charge of $6 per kilowatt per month for the period beginning on the date of initial service and ending September 30, 2011. The power sales contracts provide that this obligation of the District is absolute and unconditional and constitutes a general obligation of the District and not a special charge, lien, or pledge of the revenues of the Electric System. The power sales contracts also provide that the District may pay the capacity charge from the revenues of the Electric System as an operating expense so long as no "long-term forced outage" (as defined in the power sales contracts, being an outage or curtailment which reduces the District's contract capacity to 70% or less for an uninterrupted period exceeding 30 days) occurs and is continuing. During a long-term forced outage, the power sales contracts provide that the District will make the payments from its General Fund.

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

Additional Financial Matters

Short-Term Promissory Notes and Credit Agreement Borrowings. The District's Board has authorized the issuance of up to $475 million in short-term promissory notes (the "Promissory Notes"). The Promissory Notes are being sold in the tax-exempt commercial paper market. The District will apply a portion of the 2009 Series B Bonds to the repayment of $325 million of the Promissory Notes, reducing the amount outstanding 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 April 30, 2009, the District had no outstanding borrowings under the Agreement or prior credit agreements and had $375 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. Upon the issuance of the 2009 Series B Bonds, the District intends to terminate the Agreement. On September 16, 2009, the District entered into a new revolving credit agreement which may be used to support up to $50 million of Promissory Notes.

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 April 30, 2009, $232,585,000 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.

Outstanding Revenue Bond Long-Term Indebtedness. As of April 30, 2009, the District had outstanding $3,666,140,000 of Revenue Bonds, computed without deducting the unamortized bond discount/premium.

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

TABLE 9 — Total Revenue Bond Requirements and Finance Lease Liability [1]

Years Ending April 30, [2]	Total Revenue Bond Debt Service Requirements	Total Finance Lease Payments	Total Revenue Bond Debt Service & Finance Lease Payments
2009	38,618,333	6,995,833	45,614,157
2010	275,762,283	28,234,673	303,996,956
2011	310,912,110	29,184,772	340,096,882
2012	301,016,501	29,182,429	330,198,930
2013	292,011,139	29,182,319	321,193,458
2014	282,371,576	29,182,688	311,554,264
2015	275,986,931	29,182,354	305,169,285
2016	264,471,850	29,182,438	293,654,287
2017	257,757,945	29,184,521	286,942,466
2018	253,141,702	29,183,146	282,324,848
2019	240,867,168	29,182,563	270,049,731
2020	233,295,627		233,295,627
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.

The following table shows the actual application of revenues and coverage of Debt Service requirements for fiscal years 2006, 2007, 2008 and 2009.

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

	Fiscal Years Ended April 30 Actuals			
	2009[1]	2008[1]	2007[1]	2006[1]
Electric Revenues [2]	$ 2,901,639	$ 2,890,921	$ 2,736,831	$ 2,794,025
Operating Expenses [2][3][4]	2,091,006	2,160,735	1,900,035	1,948,830
Revenues from Operations	810,633	730,186	836,796	845,195
Interest and Other Income (Net)	(24,504)	50,683	77,051	55,459
Revenues Available for Debt Service	786,129	780,869	913,847	900,654
Rate Stabilization Funds	--	81,922	(25,599)	(1,892)
Revenues Available for Debt Service on Revenue Bonds and Subordinated Debt	786,129	862,791	888,248	898,762
Debt Service Requirements Revenue Bonds	301,368	260,830	241,546	337,980
Debt Service Requirements Subordinated Debt	35,401	44,663	46,378	33,844
Total Debt Service	336,769	305,493	287,924	371,824
Coverage of Total Revenue Bond Debt Service [5]	2.61	2.99	3.78	2.66
Coverage of Total Debt Service [6]	2.33	2.82	3.09	2.42
Balance after Debt Service	449,360	557,298	600,324	526,938
Plus: Interest on Construction Fund	7,740	3,873	11,705	3,388
Less: Contribution in Lieu of Taxes	55,307	63,871	61,636	69,220
Less: Contributions to Water Operations	33,167	47,018	34,792	34,161
Less: Falling Water Charges [7]	17,898	16,380	21,192	18,273
Balance Available for Corporate Purposes	$ 350,728[8]	$ 433,902	$ 494,409	$ 408,672

(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 2009 (shown on page A4) as follows:

($000's – Unaudited)

BALANCE AVAILABLE FOR CORPORATE PURPOSES	$ 350,728
Bond principal repayment	140,621
Subordinated Debt principal payment	17,368
Rate Stabilization Funds	--
Capitalized Interest	44,643
Amortization of regulatory assets	(11,980)
Depreciation and amortization	(372,829)
Fuel related depreciation (reflected in fuel costs)	(1,940)
Amortization of bond accretion	--
Amortization of bond discount/premium, issuance, and refinancing expenses	6,174
Net Revenues before impact of fair value adjustments	172,785
Impact of fair value adjustments	(419,807)
Gain on sale of available-for-sale securities	--
COMBINED NET REVENUES	$ (247,022)

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.

The Federal Energy Regulatory Commission

The Federal Energy Regulatory Commission ("FERC") regulates the transmission of electricity in interstate commerce. Historically, with limited exceptions, FERC has not regulated transmission services by public power. However, the Energy Policy Act of 2005 (the "Energy Policy Act") expanded FERC jurisdiction by granting FERC authority to regulate the non-rate terms and conditions, and to a lesser extent, rates, under which public power entities (including the District) provide transmission services. The Energy Policy Act explicitly prohibits FERC from requiring public power entities to take actions that would violate a private activity bond rule. To date FERC has declined to generically implement its authority over public power entities, and determined its authority would be used on a case-by-case basis.

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 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."

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. New West Energy intervened in the sole application for which a procedural order has been issued, asking that the application be dismissed until the ACC has held a general rulemaking procedure for retail competition. In September 2008, the ACC suspended consideration of that application 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.

In separate proceedings an advocacy group for the solar industry, which is comprised of equipment manufacturers, dealers and installers, and a solar electric provider have petitioned the ACC for a determination that providers of certain solar service agreements were not public service corporations. At issue is whether such providers are public service corporations under the Arizona Constitution and therefore, regulated by the ACC. The District has intervened in both proceedings and will not issue incentives to customers who enter into power purchase agreements with solar providers until the ACC has issued its final decisions.

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 1.7% 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 2009 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 ten out of the last eleven 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. Many of the District's contractual agreements qualify for the normal purchases and sales exception allowed under SFAS No. 133, and are not recorded at market value.

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 District's Board of Directors 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 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 GHG emissions. There is no way to predict the impact of such initiatives on the District at this time.

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. 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 EPA issued regulations for the control of mercury emissions from coal-fired generating stations in 2005. 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, in February 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 but, the District and other utilities have negotiated agreements with the ADEQ, pursuant to which SRP will implement a control strategy designed to achieve a 70 % reduction of mercury emissions at CGS on a facility-wide annual average basis by January 1, 2012. It is likely that additional controls will be required at all coal-fired plants in which the District has an interest. The District is 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 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 are subject to the 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 EPA is reviewing the District's analysis of BART for NGS and APS's analysis of BART for Four Corners and is expected to make its positions known later in 2009. The District believes that BART for NGS requires the installation on all three units of low-nitrogen burners and separated over-fired air, and has begun installation. The Improvement Program includes $90 million for that installation but the EPA may also require installation of selective catalytic reduction ("SCR") as well as controls for sulfuric acid mist emissions and fine PM, which would cost about $1 billion, of which the District's share is approximately $217 million. There is no money in the Improvement Program for SCR or for sulfuric acid mist controls.

APS believes that BART for Four Corners requires the installation of low-nitrogen burners with separated over-fire air for Units 4 and 5 (in which the District owns a ten percent interest). The Improvement Program includes $1.6 million for the District's share of the estimated costs, but the EPA may also require SCR, which could cost an additional $48 million (District share). There is no money in the Improvement Program for SCR.

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 climate change and other developments at the federal, state and regional levels. Congress is considering a bill containing several significant provisions which would: (1) require utilities to meet 20% of their electricity demand through renewable energy sources and energy efficiency by 2020; (2) establish a new cap and trade program to reduce GHG, including carbon emissions, from major sources by over 80% by 2050; (3) mandate new energy efficiency codes for buildings and appliances; and (4) make investments in new energy technologies, resources and energy efficiency. It is unknown when Congress will complete its consideration of the climate change and energy issues or what the final provisions of any bill that is enacted into law will be; however, if Congress fails to pass legislation dealing with GHG, the EPA has said that it will use its authority under the CAA to promulgate standards, which would apply to power plants, to control the emissions of GHG.

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 GHG emissions, including the Department of Energy's Climate VISION Program, which establishes a voluntary framework for reducing the 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 GHG 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 gases from transportation and fugitive sources. These emission results are publicly 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 publicly 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_2 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 (SF6), another potent GHG. Through a stakeholder process, the District will work with the ADEQ 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.

California. 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 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.

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

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 and use of Yucca Mountain as a storage site remains uncertain. Because of the significant delays in the DOE's schedule, and recently enacted reductions in federal funding, 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 the PVNGS operating agent, APS, will be able to initiate shipments to the 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. Over 60 casks are now stored on the site.

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 B 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 B 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

The United States Fish and Wildlife Service ("USFWS") designated a 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 incidental take permits ("ITPs") issued to the District for operation of its dams. 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, there may not be any adverse impact on the District's ITPs as the ITPs, and supporting habitat conservation plans, may cover this eventuality, providing 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 were 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.

In May 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, in April 2006, the Navajo Nation Supreme Court dismissed the air regulation challenge and the

Navajo District Court dismissed the air quality related claims in the District Court because the District and the Navajo Nation had entered into a Voluntary Compliance Agreement. The Navajo Nation wants to negotiate additional Voluntary Compliance Agreements to resolve the remaining portions of the litigation and, accordingly, the District and the Navajo Nation have begun negotiations relating to an agreement under the Navajo Safe Drinking Water Act. See "THE ELECTRIC SYSTEM — Environmental Matters — *Navajo Generating Station and Four Corners Generating Station Units 4 and 5*" for further discussion of Navajo Nation environmental laws.

On May 5, 2009, the National Parks Conservation Association, Sierra Club, Grand Canyon Trust, San Juan Citizens Alliance, To Nozhoni Ani, and Diné CARE petitioned the National Park Service ("NPS") to certify to the EPA that visibility impairment in Grand Canyon National Park is reasonably attributable to oxides of nitrogen and PM emissions from NGS. The petition asks the NPS to supplement a similar certification it made in 1986 that ultimately led to the installation of SO_2 scrubbers at NGS. The Petitioners allege that although the installation of the scrubbers improved visibility at the Grand Canyon, they did not adequately reduce NGS's impact on such visibility.

The District is evaluating options for responding to the petition but it is too soon to predict the likely outcome.

Superfund Sites. In September 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. The District may be liable for past costs incurred and for future work to be conducted within the superfund site. The District investigated and found minimal contamination at its 16th St. Facility. It removed the contamination and the EPA has informed the District that no further work will be required at the 16th St. Facility. The District is unable at this time to predict the outcome, but believes that it has adequate reserves for this potential liability.

On April 29, 2009, the Roosevelt Irrigation District ("RID") submitted Notices of Claim to the District and others for damages and response costs of not less than $40,000,000 for the release or threatened release of hazardous substances from District facilities, including the 16th St. facility. RID's claim relates to its ownership and operation of wells located within the West Van Buren State Superfund Site, which is immediately to the west of the Motorola 52nd Street Superfund Site. The District has been identified as a potentially responsible party for the West Van Buren Site because of its involvement in the Motorola 52nd Street Superfund Site. The District is unable at this time to predict the outcome of this matter but does not believe that the final resolution of this matter will have a material adverse effect on its operations or financial condition.

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, in the opinion of the EPA, would have required the installation of new pollution control equipment under the CAA. As part of this initiative, the EPA contacted the District and, in March 2004, began negotiations with the District 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 $550 million to further reduce emissions of SO_2, NOx and PM. These controls are consistent with expected BART requirements for the generating stations, and $460 million of the costs have already been included in the District's six-year Capital Improvement Plan. In addition, the District paid a $950,000 penalty and will 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 violates 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. The District is litigating with Prescott and Prescott Valley their plans for such withdrawal and transportation and has challenged the Arizona Department of Water Resources' preliminary approval to count the water as an available supply under state law. The District is also challenging the decision of the Arizona Department of Water Resources to exclude the District from its decision-making process. 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") not to 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 by the Navajo Nation 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 to the Navajo Nation. On April 2, 2009, after several appeals, the U.S. Supreme Court determined that the Navajo Nation's claim for compensation failed and this matter should be regarded as closed.

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 its defense of the challenges by the Navajo Nation and Hopi Tribe to these 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.

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 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.

In 2008, the Office of Surface Mining ("OSM") issued the final Environmental Impact Statement ("EIS") regarding the permit revision application of Peabody for the Black Mesa Complex, and approved the revised permit. Under the permit revision, the Black Mesa Mine (which formerly served the Mohave Generating Station) was added to the Kayenta Mine (which serves NGS) under one permit. Among other things, combining the two permits may give Peabody access to shallower, high quality coal for NGS, which could reduce future costs to the NGS Participants and provide an additional source of coal. Under the administrative appeals process, numerous appeals of the permit decision were filed, with appellants requesting an administrative hearing. The District intervened in those appeals in support of OSM and a hearing is scheduled in early 2010. The District cannot predict the outcome of this matter.

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 $30.8 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 B 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

J.P. Morgan Securities Inc. has purchased all of the 2009 Series B bonds from the District at an aggregate purchase price of $325,539,673.85, reflecting an original issue premium of $29,789,788.00 and an underwriter's discount of $625,114.15 from the initial public offering prices set forth on the inside cover page of this Official Statement.

TAX MATTERS

Federal Income Taxes

The Internal Revenue Code of 1986 (the "Code") imposes certain requirements that must be met at and subsequent to the issuance and delivery of the 2009 Series B 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 B Bonds to be included in gross income for federal income tax purposes retroactive to the date of issue of the 2009 Series B Bonds. The District has covenanted to comply with the provisions of the Code applicable to the 2009 Series B Bonds, and has covenanted not to take any action or permit any action that would cause the interest on the 2009 Series B Bonds to be included in gross income under Section 103 of the Code applicable to the 2009 Series B 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 B 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 B Bonds is excluded from the adjusted current earnings of 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 B Bonds is exempt from income taxes imposed by the State of Arizona.

Original Issue Premium

The 2009 Series B Bonds are being offered at prices in excess of their principal amounts. An initial purchaser with an initial adjusted basis in a 2009 Series B 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 B Bond based on the purchaser's yield to maturity (or, in the case of 2009 Series B 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 B 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 B 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 B Bonds. Owners of the 2009 Series B 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 B Bonds.

Ancillary Tax Matters

Ownership of the 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, and individuals seeking to claim the earned income credit. Ownership of the Bonds may also result in other federal tax consequences to taxpayers who may be deemed to have incurred or continued indebtedness to purchase or to carry the Bonds; for certain bonds issued during 2009 and 2010, the American Recovery and Reinvestment Act of 2009 modifies the application of those rules as they apply to financial institutions. Prospective investors are advised to consult their own tax advisors regarding these rules.

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 B 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 B 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 B Bonds for federal or state income tax purposes, and thus on the value or marketability of the 2009 Series B 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 B Bonds may occur. Prospective purchasers of the 2009 Series B 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 B 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 B Bonds, or the interest thereon, if any action is taken with respect to the 2009 Series B 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 B Bonds are subject to the approval of Drinker Biddle & Reath LLP, Bond Counsel, whose final approving opinion will be delivered with the 2009 Series B Bonds in substantially the form attached hereto as Appendix C. Certain legal matters in connection with the 2009 Series B 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 B Bonds in substantially the form attached hereto as Appendix C.

The various legal opinions and/or certification to be delivered concurrently with the delivery of the 2009 Series B 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 B 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 B 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 B 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, 2010 (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events with respect to the 2009 Series B 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 through the Electronic Municipal Market Access system operated by the Municipal Securities Rulemaking Board and with the State information repository, if any, established by the State of Arizona. Under the Continuing Disclosure Agreement, the sole remedy for any Bondholder upon an event of default is a lawsuit for specific performance in a court of competent jurisdiction. See "Appendix D — Form of Continuing Disclosure Agreement."

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

INDEPENDENT ACCOUNTANTS

The financial statements of SRP as of April 30, 2009 and April 30, 2008 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, 2009 is not yet available. When available, copies of the annual report and audited financial statements may be obtained on the District's webpage 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

APPENDIX A — REPORT OF INDEPENDENT AUDITORS AND COMBINED FINANCIAL STATEMENTS AS OF APRIL 30, 2009 AND 2008

REPORT OF INDEPENDENT AUDITORS

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
350 South Grand Avenue
Los Angeles CA 90071-3405
Telephone 213 356 6000
Facsimile 213 356 6363

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, and cash flows present fairly, in all material respects, the financial position of the Salt River Project Agricultural Improvement and Power District and its subsidiaries and the Salt River Valley Water Users' Association (collectively, "SRP") at April 30, 2009 and 2008, 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 Notes 3, 5 and 9 to the combined financial statements, SRP changed the manner in which it accounts for fair value measurements, for certain financial instruments, and for defined benefit postretirement plans in fiscal 2009.

PricewaterhouseCoopers LLP

June 30, 2009

SALT RIVER PROJECT
COMBINED BALANCE SHEETS
APRIL 30, 2009 AND 2008
(Thousands)

ASSETS	2009	2008
UTILITY PLANT		
Plant in service -		
Electric	$ 9,299,342	$ 8,943,588
Irrigation	304,032	294,038
Common	505,524	488,692
Total plant in service	10,108,898	9,726,318
Less – Accumulated depreciation on plant in service	(4,988,868)	(4,687,090)
	5,120,030	5,039,228
Plant held for future use	3,883	3,726
Construction work in progress	1,559,300	1,041,462
Nuclear fuel, net	111,515	94,904
	6,794,728	6,179,320
OTHER PROPERTY AND INVESTMENTS		
Non-utility property and other investments	206,825	194,900
Segregated funds, net of current portion	1,039,178	1,153,803
	1,246,003	1,348,703
CURRENT ASSETS		
Cash and cash equivalents	379,482	414,428
Temporary investments	145,664	106,556
Current portion of segregated funds	211,498	232,303
Receivables, net of allowance for doubtful accounts	183,680	241,626
Fuel stocks	44,622	37,829
Materials and supplies	133,868	124,160
Current derivative assets	60,193	101,795
Other current assets	19,163	13,732
	1,178,170	1,272,429
DEFERRED CHARGES AND OTHER ASSETS		
Regulatory assets	779,299	569,814
Non-current derivative assets	5,790	58,520
Other deferred charges and other assets	69,313	86,759
	854,402	715,093
	$ 10,073,303	$ 9,515,545

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

SALT RIVER PROJECT
COMBINED BALANCE SHEETS
APRIL 30, 2009 AND 2008
(Thousands)

CAPITALIZATION AND LIABILITIES	2009	2008
LONG-TERM DEBT	$ 3,831,657	$3,679,929
ACCUMULATED NET REVENUES AND OTHER COMPREHENSIVE INCOME	3,591,813	3,838,835
TOTAL CAPITALIZATION	7,423,470	7,518,764
CURRENT LIABILITIES		
Current portion of long-term debt	132,645	170,748
Commercial Paper	375,000	-
Accounts payable	248,454	284,295
Accrued taxes and tax equivalents	62,686	72,600
Accrued interest	63,779	49,122
Customers' deposits	80,010	79,049
Current derivative liabilities	162,286	5,460
Other current liabilities	285,998	302,722
	1,410,858	963,996
DEFERRED CREDITS AND OTHER NON-CURRENT LIABILITIES		
Accrued post-retirement liability	792,328	597,239
Asset retirement obligations	187,801	177,331
Non-current derivative liabilities	39,511	583
Other deferred credits and other non-current liabilities	219,335	257,632
	1,238,975	1,032,785
COMMITMENTS AND CONTINGENCIES (Notes 7, 9, 10, 13 and 14)		
	$ 10,073,303	$ 9,515,545

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, 2009 AND 2008
(Thousands)

	2009	2008
OPERATING REVENUES		
Retail electric	$ 2,318,582	$ 2,212,807
Water	14,107	14,339
Other	434,335	511,977
Total operating revenues	2,767,024	2,739,123
OPERATING EXPENSES		
Power purchased	581,731	486,406
Fuel used in electric generation	948,335	677,871
Other operating expenses	499,643	484,954
Maintenance	270,678	304,824
Depreciation and amortization	384,848	369,477
Taxes and tax equivalents	92,840	93,376
Total operating expenses	2,778,075	2,416,908
Net operating revenues (expenses)	(11,051)	322,215
OTHER INCOME		
Interest income (loss), net	(99,669)	62,657
Other income (deductions), net	(3,828)	(4,553)
Total other income, net	(103,497)	58,104
Net revenues (expenses) before financing costs	(114,548)	380,319
FINANCING COSTS		
Interest on bonds	160,747	123,455
Capitalized interest	(44,643)	(23,552)
Amortization of bond discount/premium and issuance expenses	(6,174)	(5,962)
Interest on other obligations	22,544	29,275
Net financing costs	132,474	123,216
NET REVENUES (EXPENSES)	(247,022)	257,103
OTHER COMPREHENSIVE INCOME (LOSS)	-	(25,164)
COMPREHENSIVE INCOME (LOSS)	$ (247,022)	$ 231,939

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, 2009 AND 2008
(Thousands)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net revenues	$ (247,022)	$ 257,103
Adjustments to reconcile net revenues to net cash provided by operating activities:		
Depreciation, amortization and accretion	384,848	369,477
Amortization of net bond discount/premium and issuance expenses	(6,174)	(5,963)
Change in fair value of derivative instruments	327,769	(92,707)
Change in fair value of investment securities	92,271	-
(Loss) gain on sale of capital assets	(643)	(301)
Decrease (increase) in:		
Fuel stocks and materials & supplies	(16,501)	(28,347)
Receivables, including unbilled revenues, net	57,946	(15,170)
Other current assets	(47,256)	(10,168)
Deferred charges and other assets	(188,624)	(10,046)
Increase (decrease) in:		
Accounts payable	(99,726)	65,268
Accrued taxes and tax equivalents	(9,914)	(2,535)
Accrued interest	14,657	1,476
Current liabilities	9,971	19,768
Deferred credits and other non-current liabilities	121,471	(13,180)
Net cash provided by operating activities	393,073	534,675
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to utility plant, net	(955,457)	(1,073,997)
Proceeds from disposition of assets	5,176	9,101
Purchases of investments	(1,033,979)	(1,344,636)
Sales and maturities of investments	999,617	1,210,608
Net change in short-term investments related to segregated funds	62,768	(83,848)
Net cash used for investing activities	(921,875)	(1,282,772)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of revenue bonds	760,606	816,139
Retirement of commercial paper	(100,000)	-
Repayment of long-term debt, including refundings	(166,750)	(148,764)
Net cash provided by financing activities	493,856	667,375
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(34,946)	(80,722)
BALANCE AT BEGINNING OF YEAR IN CASH AND CASH EQUIVALENTS	414,428	495,150
BALANCE AT END OF YEAR IN CASH AND CASH EQUIVALENTS	$ 379,482	$ 414,428
SUPPLEMENTAL INFORMATION:		
Cash paid for interest (net of capitalized interest)	$ 124,526	$ 127,702

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

(1) Basis of Presentation:

The Company

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

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.

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 District's Board of Directors (Board). The District's electric operations apply Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71).

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

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

Regulation and Pricing Policies

Under Arizona law, the District's publicly elected 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:

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. The District records regulatory assets, which represent probable future recovery of certain costs from customers through the pricing process, and regulatory liabilities, which represent probable future credits to customers through the ratemaking process. The District includes the following regulatory assets in the accompanying Combined Balance Sheets as of April 30:

	2009	2008
Pension and other postretirement benefits (Note 9)	$ 609,390	$ 416,627
Bond defeasance	78,280	82,459
Mohave Generating Station (Note 12)	52,004	59,804
Nuclear decommissioning (Note 2)	39,625	10,924
Total regulatory assets	$ 779,299	$ 569,814

The pension and other postretirement benefits regulatory asset is adjusted as changes in actuarial gains and losses, prior service costs and transition assets or obligations are recognized as components of net periodic pension costs each year and is recovered through prices charged to customers. Bond defeasance regulatory assets are recovered over the remaining original amortization period of the reacquired debt ending in fiscal year 2031. The Mohave Generating Station regulatory asset is being recovered over a ten-year period ending in fiscal year 2016. The nuclear decommissioning regulatory asset is being deferred over the life of Palo Verde Nuclear Generating Station (PVNGS) and is being recovered 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.

Principles of Combination

The accompanying combined financial statements reflect the combined accounts of the Association and the District. 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 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.

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

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:

	2009	2008
Average electric depreciation rate	3.67%	3.66%
Average irrigation depreciation rate	2.02%	2.05%
Average common depreciation rate	6.54%	6.49%

Allowance for Funds Used During Construction

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. AFUDC is capitalized during certain plant construction and included in capitalized interest in the Combined Statements of Net Revenue and Comprehensive Income. Composite rates of 4.52% and 4.76% were used in fiscal years 2009 and 2008 to calculate interest on funds used to finance construction work in progress, resulting in $44.6 million and $23.6 million of interest capitalized, 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 accrued expenses for both the interim and permanent disposal of spent nuclear fuel are components of fuel expense. Accumulated amortization of nuclear fuel at April 30, 2009 and 2008 was $447.0 million and $425.7 million, respectively. (See Note (14) CONTINGENCIES, Spent Nuclear Fuel for additional information).

Asset Retirement Obligations

SRP accounts for its asset retirement obligations in accordance with SFAS No. 143, "Accounting for Asset Retirement Obligations," (SFAS No. 143) and FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations an interpretation of FASB Statement No. 143" (FIN 47). 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 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 the District's share of the PVNGS asset retirement obligation.

A summary of the asset retirement obligation activity of the District at April 30 is included below (in thousands):

	2009	2008
Beginning balance, May 1	$ 177,331	$ 195,005
Liabilities incurred during the year	-	2,468
Changes in estimate	(415)	(32,189)
Accretion expense	10,885	12,047
Ending balance, April 30	$ 187,801	$ 177,331

Investments in Debt Equity Securities

SRP accounts and reports for investments in debt and equity securities in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," (SFAS No. 115). Debt securities that SRP has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and reported at amortized cost. Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings. Debt and equity securities not classified as either held-to-maturity securities or trading securities are classified as available-for-sale securities and reported at fair value, with unrealized gains and losses excluded from earnings and reported in accumulated other comprehensive income. SRP has adopted SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment to FASB Statement No. 115," (SFAS No. 159) for all securities previously classified as available-for-sale. (See Note (3) FAIR VALUE OF FINANCIAL INSTRUMENTS.)

Securities Lending

The District participates in a securities lending program for certain investments held in equity securities. Under the program, the District receives collateral having a market value not less than 102% of the market value of the loaned securities. The collateral received is invested in a collateral pool made up of fixed income securities and are classified as trading securities in accordance with SFAS No. 115.

During fiscal year 2009, the District determined that the collateral received and corresponding obligation to return the collateral had not been recorded in the prior year. The district revised the previously issued financial statements to reflect these amounts, resulting in an increase to current portion of segregated funds by $133.5 million, with a corresponding increase in other current liabilities in the accompanying Combined Balance Sheets at April 30, 2008.

Segregated Funds

The District sets aside funds that are segregated due to management intent and to support various purposes. These segregated funds also include amounts that are legally restricted. The following amounts are included in segregated funds in the accompanying Combined Balance Sheets at April 30 (in thousands):

	2009	2008
Segregated funds – legally restricted		
Construction Fund (see "Capital Improvement Program" in Note 13)	$ 421,856	$ 412,782
Nuclear Decommissioning Trust (see "Nuclear Decommissioning" in Note 2)	152,111	194,510
Roosevelt Habitat Conservation Plan (see "Environmental" in Note 14)	9,545	-
NGS Settlement Trust	1,818	-
Debt Reserve Fund (see "Revenue Bonds" in Note 7)	80,598	81,146
Collateral investment pool (see "Securities Lending" in Note 2)	112,499	133,538
Total segregated funds – legally restricted	778,427	821,976
Segregated funds – other		
Benefits funds	372,455	464,011
Debt Service Fund (see "Revenue Bonds" in Note 7)	99,000	98,765
Other	794	1,354
Total segregated funds - other	472,249	564,130
Total segregated funds, including current portion	$ 1,250,676	$ 1,386,106

Nuclear Decommissioning

In accordance with regulations of the Nuclear Regulatory Commission, the District maintains a trust for the decommissioning of PVNGS. The Nuclear Decommissioning Trust (NDT) funds are invested in debt and equity securities. As of May 1, 2008, the District elected to apply the fair value option to these securities which are now reported as trading securities. Prior to the election of the fair value option, these securities were classified as available-for-sale. The NDT funds, stated at fair value, as of April 30, 2009 and 2008, were $152.1 million and $194.5 million, respectively. The NDT funds are classified as segregated funds in the accompanying Combined Balance Sheets and are exempt from federal and state income taxes. (See Note (3) FAIR VALUE OPTION for additional information about the NDT.)

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 in accordance with SFAS No. 71 and have no impact to the District's earnings. (See NOTE (2) SIGNIFICANT ACCOUNTING POLICIES, Regulatory Accounting for additional information.)

Cash Equivalents

Cash equivalents include money market funds and highly liquid short-term investments with original maturities of three months or less, excluding those short-term investments included as part of the segregated funds and investments included in non-utility property and other investments in the accompanying Combined Balance Sheets. (For further discussion of financial instruments see Note (5) FAIR VALUE MEASUREMENTS.)

Allowance for Doubtful Accounts

The District has provided for an allowance for doubtful accounts of $9.3 million and $12.1 million as of April 30, 2009 and 2008, respectively.

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.

Bond Expense

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

Voluntary Contributions in Lieu of Taxes

In accordance with 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.

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 $62.1 million and $64.0 million at April 30, 2009 and 2008, respectively. Other operating revenue consists primarily of revenue from marketing and trading electricity.

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. 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 $115.1 million and $166.1 million for fiscal years 2009 and 2008, respectively, but which did not impact net revenues or cash flows.

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.

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. The Association is not liable for income taxes on operations relating to its acting as an agent for the District on the basis of a settlement with the Commissioner of Internal Revenue in 1949 which was approved by the Secretary of the Treasury. The Association is liable for income taxes on activities where it is not acting as an agent of the District. The tax effect of the District's wholly-owned taxable subsidiaries' operations is immaterial to the combined financial statements.

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 as derivatives under SFAS 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 No. 133 documentation requirements are met. (For further explanation of the effects of SFAS No. 133 on SRP's financial results, see Note (4), DERIVATIVE INSTRUMENTS.)

Concentrations of Credit Risk

The use of contractual arrangements to manage the risks associated with changes in energy commodity prices creates credit risks 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, continuously monitoring credit exposures, routinely assessing the financial strength of its counterparties, minimizing credit risk by dealing primarily with creditworthy counterparties, entering into standardized agreements which allow netting of exposures to and from a single counterparty, and requiring letters of credit, parent guarantees or other collateral when it does not consider the financial strength of a counterparty sufficient.

Recently Issued Accounting Standards

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

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 for financial assets and liabilities and nonfinancial assets and liabilities measured at fair value effective May 1, 2008. (See Note (5) FAIR VALUE MEASUREMENTS.)

In February 2007, the FASB issued 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. Effective May 1, 2008, SRP adopted the provisions of this standard for all securities previously classified as available-for-sale under SFAS No. 115. (See Note (3) FAIR VALUE OF FINANCIAL INSTRUMENTS, Fair Value Option for additional information regarding the adoption of SFAS No. 159.)

In April 2007, the FASB issued FSP No. FIN 39-1, "An Amendment to FIN 39, Offsetting of Amounts Related to Certain Contracts," (FSP FIN 39-1), which permits companies to offset fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) against fair value amounts recognized for derivative instruments executed with the same counterparty under a master netting arrangement. In addition, upon the adoption of FSP FIN 39-1, companies were permitted to change their accounting policy to offset or not offset fair value amounts recognized for derivative instruments under master netting agreements. SRP adopted FSP FIN 39-1 effective May 1, 2008. The adoption had no effect on the combined financial statements.

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 and interim periods beginning after November 15, 2008, with early adoption permitted. SRP adopted the provisions of this standard effective February 1, 2009, which resulted in additional disclosures to the combined financial statements. SFAS No. 161 affects disclosures only. (See Note (4) DERIVATIVE INSTRUMENTS.)

In December 2008, the FASB issued FSP No. FAS 140-4 and FIN 46(R)-8, "Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities," (FSP FAS 140-4 and FIN 46(R)-8). The pronouncement also amends FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities," to provide additional disclosures about involvement with variable interest entities and qualifying special purpose entities. FSP FAS 140-4 and FIN 46(R)-8 were effective for SRP at April 30, 2009, and resulted in additional disclosures to the combined financial statements. (See Note (11) VARIABLE INTEREST ENTITIES.)

In February 2008, the FASB issued FSP No. FAS 157-2, "Effective Date of FASB Statement No. 157," which delayed the effective date of FAS No. 157 for all nonrecurring fair value measurements of nonfinancial assets and liabilities for one year. Accordingly, SRP has not adopted FAS No. 157 for its nonfinancial assets and liabilities, except those items recognized or disclosed at fair value on a recurring basis. SRP will adopt FAS No. 157 for nonrecurring fair value measurements of nonfinancial assets and liabilities at May 1, 2009, and is evaluating the impact, if any, that the adoption of the standard could have on the combined financial statements.

In December 2008, the FASB issued FSP No. FAS 132(R)-1, "Employers Disclosures about Postretirement Benefits Assets," which amends SFAS No. 132(R)-1 to require more detailed disclosures about employers' plan assets, including employers' investment strategies, major categories of plan assets, concentrations of risk within plan assets, and valuation techniques used to measure the fair value of plan assets. The disclosures about plan assets required by this FSP shall be provided for fiscal years ending after December 15, 2009. SRP will adopt these provisions at April 30, 2010, which will result in the inclusion of additional disclosures in the combined financial statements.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments," (FSP FAS 115-2 and FAS 124-2) which changes existing guidance for determining whether impairment is other than temporary for debt securities. Under FSP FAS 115-2 and FAS 124-2, an entity would write down to fair value through earnings, impaired debt securities that it currently intends to sell or for which it is more likely than not it will have to sell before recovery. If an entity does not intend and will not be required to sell a debt security, the entity will separate the other-than-temporary impairment into two components: 1) the amount due to credit loss would be recognized in earnings, and 2) the remaining portion would be recognized in other comprehensive income. FSP FAS 115-2 and FAS 124-2 also requires increased disclosures including the amortized cost basis, credit losses, a potential increase in major security categories and quarterly as well as annual disclosures. SRP will adopt FSP FAS 115-2 and FAS 124-2 effective July 31, 2009, and does not expect the provision to impact the combined financial statements.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)," (SFAS No. 167). This statement amends the Interpretation to require an enterprise to perform an analysis to determine whether the enterprise's interests give it a controlling financial interest in a variable interest entity (VIE) and to assess whether it has an implicit financial responsibility to ensure that a VIE operates as designated. The standard also requires ongoing reassessments of whether an enterprise is the primary beneficiary of a VIE. The standard will also require enhanced disclosures that will provide more transparent information about an enterprise's involvement in a VIE. SFAS No. 167 is effective as of the beginning of the first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. SRP will adopt SFAS No. 167 effective May 1, 2010, and is evaluating the impact, if any, that the adoption of this standard could have on the combined financial statements.

(3) Fair Value of Financial Instruments:

Fair Value Option

SRP invests in U.S. government obligations, certificates of deposit and other marketable investments. Such investments are classified as cash and cash equivalents, temporary investments, other investments, and segregated funds in the accompanying Combined Balance Sheets depending on the purpose and duration of the investment.

On May 1, 2008, SRP adopted SFAS No. 159 which permits an entity to choose to measure many financial instruments and certain other items at fair value. SRP elected the fair value option for all investment securities previously classified as available-for-sale under SFAS No. 115. Prior to the adoption of SFAS No. 159, these investment securities were classified as available-for-sale; election of the fair value option for an available-for-sale security in conjunction with the adoption of SFAS No. 159 requires the securities to be reported as a trading security under SFAS No. 115. Additionally, during fiscal year 2009, the District elected the fair value option for investment securities held in the NGS Settlement Trust and the Roosevelt Habitat Conservation Plan Trust (RHCP) which were established in fiscal year 2009. Management elected the fair value option for these investment securities at fair value because management believes that fair value best represents the nature of the investments.

While the investment securities held in these funds are reported as trading securities, the investments continue to be managed with a long-term focus. Accordingly, all purchases and sales within these funds are presented separately in the accompanying Statement of Cash Flows as investing cash flows, consistent with the nature and purpose for which the securities are acquired.

The following table provides detail regarding SRP's elections by combined balance sheet line as of May 1, 2008 (in thousands):

	Carrying Value of Financial Instruments as of May 1, 2008	Transition Gain(Loss) Recorded in Accumulated Net Revenues	Adjusted Carrying Value of Financial Instruments as of May 1, 2008
Cash and cash equivalents	$ 404,091	$ -	$ 404,091
Segregated funds, net of current portion	827,993	11,616	839,609
Cumulative effect of adoption of SFAS No. 159	$ 1,232,084	$ 11,616	$ 1,243,700

The adoption of SFAS No. 159, for investments held in the NDT, had no impact on the earnings, cash flows, or financial condition of the District. For all periods presented, all gains and losses, whether realized or unrealized, are recorded in the regulatory asset or liability as authorized by the Board. Fair value adjustments, realized gains, and other-than-temporary losses are determined on a weighted-average cost basis.

Investments in Marketable Debt and Equity Securities

The following table summarizes SRP's investments in debt and equity securities presented in the accompanying Combined Balance Sheets at April 30 (in thousands):

	2009	2008
Cash and cash equivalents		
Cash	$ 21,652	$ 10,337
Money market funds	347,859	394,159
Available-for-sale investments	-	9,932
Held-to-maturity investments	9,971	-
Total cash and cash equivalents	379,482	414,428
Non-utility property and other investments		
Money market funds	5,343	-
Trading investments	19,709	-
Held-to-maturity investments	103,535	119,590
Total non-utility property and other investments	128,587	119,590
Segregated funds, net of current portion		
Cash	798	1,638
Money market funds	280,147	192,936
Trading investments	514,277	-
Available-for-sale investments	-	635,057
Held-to-maturity investments	243,956	324,172
Total segregated funds, net of current portion	1,039,178	1,153,803
Temporary investments		
Held-to-maturity investments	145,664	106,556
Total temporary investments	145,664	106,556
Current portion of segregated funds		
Money market funds	20,270	-
Trading investments	112,499	133,538
Held-to-maturity investments	78,729	98,765
Total current portion of segregated funds	211,498	232,303
Total cash, cash equivalents and investments	$ 1,904,409	$ 2,026,680

SRP's investments in debt securities are measured and reported at amortized cost when there is positive intent and ability to hold the security to maturity. SRP's amortized cost and fair value of held-to-maturity securities were $581.9 million and $587.7 million, respectively, at April 30, 2009 and $649.1 million and $651.5 million, respectively, at April 30, 2008. At April 30, 2009, SRP's investments in debt securities have maturity dates ranging from May 22, 2009, to January 10, 2013.

SRP's trading investments are measured at fair value in accordance with SFAS No. 115 which requires that unrealized trading gains and losses be included in earnings. SRP recognized a $92.3 million unrealized loss in investment income (loss), net, in the accompanying Statements of Net Revenues and Other Comprehensive Income at April 30, 2009, and a corresponding adjustment of $85.7 million and $6.6 million to the fair value of investments included in segregated funds, net of current portion, and in current portion of segregated funds, respectively, in the accompanying Combined Balance Sheets at April 30, 2009. SRP's money market funds, previously classified as available-for-sale securities, are classified as trading investments beginning at May 1, 2008.

At April 30, 2008, the amortized cost and estimated fair value of SRP's available-for-sale securities, including money market funds, consists of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Equity securities	$ 944,750	$ 25,127	$ (12,979)	$ 956,898
Debt securities	262,643	12,544	-	275,187
Total available-for-sale securities	$ 1,207,393	$ 37,671	$ (12,979)	$ 1,232,085

There were no available-for-sale securities at April 30, 2009. At April 30, 2008, net unrealized gains (losses) on available-for-sale debt and marketable equity securities, excluding decommissioning fund assets, were $(25.2) million 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 for the fiscal year ended April 30, 2008, are included in regulatory assets in the accompanying Combined Balance Sheets. The proceeds from sale of available-for-sale securities were $315.1 million, and the net realized gains were $39.1 million, at April 30, 2008.

At April 30, 2008, SRP's total securities with gross unrealized losses consisted of available-for-sale equity securities with a fair value of $81.0 million and gross unrealized losses of $13.0 million. The securities were in this position for less than twelve months at the reporting date. SRP did not have any material unrealized losses at April 30, 2009, related to investments in securities.

Prior to the adoption of SFAS No. 159, management evaluated both available-for-sale and held-to-maturity securities for other-than-temporary impairment on a quarterly basis considering numerous factors, and their relative significance varies case-by-case. Upon adoption of SFAS No. 159, SRP elected the fair value option on all securities, excluding those classified as held-to-maturity and continues to evaluate the held-to-maturity securities for other-than-temporary impairment. At April 30, 2009, SRP did not hold any other-than-temporary impaired securities. Factors considered when determining whether impairment is other-than-temporary include the length of time and extent to which the fair value has been less than cost; the financial condition and near-term prospects of the issuer; and SRP's intent and ability to hold the security in order to allow for an anticipated recovery in fair value. If, based upon an analysis of each of the above factors, it is determined that the impairment is other-than-temporary, the carrying value of the security is written down to fair value, and a loss is recognized through earnings; losses recognized on decommissioning trust securities are recorded as a regulatory asset in accordance with SFAS No. 71. SRP recognized a $20.9 million other-than-temporary impairment in fiscal year 2008 of which $10.4 million is included in other income in the accompanying Combined Statements of Net Revenues and Comprehensive Income and $10.5 million is included in regulatory assets in the accompanying Combined Balance Sheets.

(4) Derivative Instruments:

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.

Interest Rate Derivatives

In connection with a lease-purchase agreement related to the issuance of Certificates of Participation (COPs), the District entered into a six-year, $75 million pay-fixed-receive-floating interest rate swap transaction with Morgan Stanley Capital Services. The remaining notional value of the swap is $25 million expiring on December 1, 2009. The floating rate on the swap is based on the Securities Industry and Financial Markets Association (SIFMA) Municipal Index of 0.63% at April 30, 2009, 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. (See Note (7), LONG-TERM DEBT, Finance Lease for further information regarding COPs.)

Commodity Derivatives

The District enters into derivatives instruments, including forward contracts, futures, swaps and options intended to mitigate risk in connection with changes in utility commodity prices and vehicle fuel prices on behalf of its electric customers. The District records its derivative instruments at fair value on its combined balance sheets.

Derivative Volumes

The District has the following gross derivative volumes, by commodity type, at April 30, 2009:

Commodity	Unit of Measure	Sales Volumes	Purchases Volumes
Natural gas options, swaps and forward arrangements	MMBTU	7,305,000	83,210,000
Electricity options, swaps and forward arrangements	MWH	4,226,890	2,065,475
Liquefied fuel swaps	Gallon	-	2,005,914

Presentation of Derivative Instruments in the Financial Statements

The following table provides information about the gross fair values, netting, and collateral and margin deposits for derivatives not designated as hedging instruments under SFAS No. 133 in the accompanying Combined Balance Sheets (in thousands):

April 30, 2009

	Current Derivative Assets	Non-current Derivative Assets	Current Derivative Liabilities	Non-current Derivative Liabilities	Long-term Debt	Total Assets (Liabilities)
Commodities	$ 43,316	$ 10,661	$ (173,423)	$ (44,948)	$ -	$ (164,394)
Interest rate swap	-	566	-	-	172	738
Netting	(11,137)	(5,437)	11,137	5,437	-	-
Collateral and margin deposits	28,014	-	-	-	-	28,014
Total balance sheet	$ 60,193	$ 5,790	$ (162,286)	$ (39,511)	$ 172	$ (135,642)

April 30, 2008

	Current Derivative Assets	Non-current Derivative Assets	Current Derivative Liabilities	Non-current Derivative Liabilities	Long-term Debt	Total Assets
Commodities	$ 127,684	$ 63,011	$ (31,349)	$ (5,529)	$ -	$ 153,817
Interest rate swap	-	455	-	-	724	1,179
Netting	(25,889)	(4,946)	25,889	4,946	-	-
Collateral and margin deposits	-	-	-	-	-	-
Total balance sheet	$ 101,795	$ 58,520	$ (5,460)	$ (583)	$ 724	$ 154,996

The following table summarizes the District's unrealized gains (losses) associated with derivatives not designated as hedging instruments under SFAS No. 133 in the accompanying Combined Statements of Net Revenues and Comprehensive Income (in thousands):

April 30, 2009

	Operating Revenues	Power Purchased	Fuel Used in Electric Generation	Interest on Other Obligations	Net Unrealized Gain (Loss)
Commodities	$ (31,403)	$ (89,503)	$ (206,186)	$ -	$ (327,092)
Interest rate swap	-	-	-	(442)	(442)
Total	$ (31,403)	$ (89,503)	$ (206,186)	$ (442)	$ (327,534)

April 30, 2008

	Operating Revenues	Power Purchased	Fuel Used in Electric Generation	Interest on Other Obligations	Net Unrealized Gain (Loss)
Commodities	$ 8,500	$ 26,271	$ 56,284	$ -	$ 91,055
Interest rate swap	-	-	-	1,652	1,652
Total	$ 8,500	$ 26,271	$ 56,284	$ 1,652	$ 92,707

Credit Related Contingent Features

Certain of the District's derivative instruments contain provisions that require the District's debt to maintain an investment grade credit rating from each of the major credit rating agencies. If the District's debt were to fall below investment grade, it would violate these provisions, and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position on April 30, 2009, is $180.1 million for which the District has posted collateral of $1.6 million in the normal course of business. If the credit-risk-related contingent features underlying these agreements were triggered on April 30, 2009, the District would be required to post an additional $178.5 million of collateral to its counterparties.

(5) Fair Value Measurements:

On May 1, 2008, SRP adopted SFAS No. 157 which 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. This standard defines fair value as the price that would be received for an asset, or paid to transfer a liability, in the most advantageous market for the asset or liability in an arms-length transaction between willing market participants at the measurement date.

In accordance with SFAS No. 157, SRP has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy defined by SFAS No. 157 are as follows:

Level 1 – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market.

Level 2 – Financial assets and liabilities whose values are based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in non-active markets, pricing models whose inputs are observable for substantially the full term of the asset or liabilities and pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means.

Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

The following table sets forth, by level within the fair value hierarchy, SRP's financial assets and liabilities that were accounted for at fair value on a recurring basis as of April 30, 2009 (in thousands):

	Level 1	Level 2	Level 3	Netting and Collateral	Total
Assets					
Cash and cash equivalents:					
Money market funds	$ -	$ 347,859	$ -	$ -	$ 347,859
Total cash and cash equivalents	-	347,859	-	-	347,859
Non-utility property and other investments:					
Money market funds	-	5,343	-	-	5,343
Mutual funds	19,709	-	-	-	19,709
Total non-utility property and other investments	19,709	5,343	-	-	25,052
Segregated funds, net of current portion:					
Money market funds	-	280,147	-	-	280,147
Mutual funds	204,640	-	-	-	204,640
Commingled funds	-	-	156,043	-	156,043
Common stocks	153,594	-	-	-	153,594
Total segregated funds, net of current portion	358,234	280,147	156,043	-	794,424
Current portion of segregated funds:					
Money market fund	-	20,271	-	-	20,271
Collateral pool investments	-	-	112,499	-	112,499
Total current portion of segregated funds	-	20,271	112,499	-	132,770
Derivative instruments:					
Commodities	949	10,674	42,354	11,440	65,417
Interest rate swap	-	566	-	-	566
Total derivative instruments	949	11,240	42,354	11,440	65,983
Total assets	$ 378,892	$ 664,860	$ 310,896	$ 11,440	$1,382,662
Liabilities					
Derivative instruments:					
Commodities	$ (33,307)	$ (169,710)	$ (15,354)	$ 16,574	$ (218,371)
Interest rate swap	-	172	-	-	172
Total derivative instruments	(33,307)	(169,538)	(15,354)	16,574	(201,625)
Total liabilities	$ (33,307)	$ (169,538)	$ (15,354)	$ 16,574	$ (201,625)

Based on the guidance provided in SFAS No. 157, asset and liabilities are categorized based on the lowest level of input that is significant to the valuation. The following is a description of the valuation methodologies used by SRP at April 30, 2009.

Securities

The fair values of shares in mutual funds and common stocks are based on inputs that are quoted prices in active markets for identical assets and, therefore, have been categorized in Level 1 in the fair value hierarchy. Equities are priced using exchanges such as American Stock Exchange (AMEX), New York Stock Exchange (NYSE), and NASDAQ.

The fair value of shares in money market funds are priced based on inputs obtained from Bloomberg, a pricing service, whose prices are obtained from direct feeds from exchanges, that are either directly or indirectly observable, and, therefore have been categorized in Level 2 in the fair value hierarchy.

The fair value of commingled funds are based on net asset values per fund share (the unit of account), derived from the quoted prices in active markets of the underlying fixed income and equity securities. However, because the shares of these commingled funds are not publicly quoted, not traded in an active market and are subject to certain restrictions regarding their purchase and sale, the commingled funds are categorized in Level 3.

Derivative Instruments

The fair value of gas swaps and power swaps that are priced based on inputs using quoted prices of similar exchange traded items have been categorized in Level 1 in the fair value hierarchy. These include gas swaps traded on the New York Mercantile Exchange (NYMEX) and power swaps traded on the Intercontinental Exchange.

The fair value of gas swaps, power swaps, gas options, power options and power deals that are priced based on inputs obtained through pricing agencies and developed pricing models, using similar observable items in active and inactive markets, are classified as Level 2 in the valuation hierarchy.

The fair value of derivatives assets and liabilities which are valued using pricing models with significant unobservable market data traded in less active or underdeveloped markets are classified as Level 3 in the valuation hierarchy. Level 3 items include gas swaps, power swaps, gas options, power options and power deals. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability (examples include long-dated or complex derivatives).

All of the assumptions above include adjustments for counterparty credit risk, using credit default swap data, bond yields, when available, or external credit ratings.

Collateral and Margin Deposits

Margin and collateral deposits include cash deposited with counterparties and brokers as credit support under energy contracts. The amount of margin and collateral deposits generally varies based on changes in the fair value of the positions. In accordance with FSP FIN 39-1, the District presents a portion of its margin and cash collateral deposits net with its derivative position on the Combined Balance Sheets. Amounts recognized as margin and collateral provided to others are included in derivative assets in the accompanying Combined Balance Sheets and totaled $28.0 million at April 30, 2009.

Changes in Level 3 Fair Value Measurements

The table below includes the reconciliation of changes to the balance sheet amounts for the year ended April 30, 2009, (in thousands) for financial instruments classified within Level 3 of the valuation hierarchy; this determination is based upon unobservable inputs to the overall fair value measurement:

Beginning balance at May 1, 2008	$ 424,257
Net realized and unrealized (loss) included in earnings	(65,471)
Net realized and unrealized (loss) recorded as regulatory assets	(17,713)
Net purchases and settlements	(38,946)
Net transfers in/out of Level 3	(6,585)
Balance at April 30, 2009	$ 295,542
Net unrealized loss included in earnings related to instruments held at April 30, 2009	$ (2,993)
Net unrealized loss recorded in regulatory assets related to instruments held at April 30, 2009	$ (12,843)

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," (SFAS No. 107) requires disclosure of the estimated fair value of certain financial instruments and the methods and significant assumptions used to estimate their fair values. Many but not all of the financial instruments are recorded at fair value on the accompanying Combined Balance Sheets. Financial instruments held by SRP are discussed below. Additionally, certain financial instruments and all nonfinancial instruments are excluded from the scope of SFAS No. 107.

Financial Instruments for Which Fair Value Approximates Carrying Value - Certain financial instruments that are not carried at fair value on the accompanying Combined Balance Sheets are carried at amounts that approximate fair value due to their short-term nature and generally negligible credit risk. The instruments include receivables, accounts payable, customers' deposits and other current liabilities.

Financial Instruments for Which Fair Value Does Not Approximate Carrying Value - The District presents long-term debt at carrying value on the accompanying Combined Balance Sheets. 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. (See Note (7) LONG-TERM DEBT for further discussion of these items.) As of April 30, 2009 and 2008, the carrying amounts, including accrued interest, were $3.9 billion and $3.8 billion, respectively, and the estimated fair values were $4.1 billion and $4.0 billion, respectively.

(6) Accumulated Net Revenues and Other Comprehensive Income:

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

	Accumulated Net Revenues	Other Comprehensive Income (Loss)	Accumulated Net Revenues and Other Comprehensive Income
Balance, April 30, 2007	$ 3,570,116	$ 36,780	$ 3,606,896
Net Revenues	257,103	-	257,103
Unrealized gain (loss) on available-for-sale securities	-	(25,164)	(25,164)
Balance, April 30, 2008	3,827,219	11,616	3,838,835
Cumulative effect of change in accounting principle – SFAS No. 159	11,616	(11,616)	-
Balance, May 1, 2008, adjusted	3,838,835	-	3,838,835
Net Revenues (Expenses)	(247,022)	-	(247,022)
Balance, April 30, 2009	$ 3,591,813	$ -	$ 3,591,813

(7) Long-Term Debt:

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

	Interest Rate	2009	2008
Revenue bonds			
1992 Series D (matured 1/1/2009)	6.00%	$ -	$ 19,275
1993 Series A (mature 2009 –2010)	5.75%	4,000	9,995
1993 Series C (mature 2009 –2011)	5.05 – 6.50%	58,845	99,685
1994 Series A (matured 1/1/2009)	5.15%	-	38,493
1997 Series A (mature 2009 –2020)	5.00 – 5.125%	43,990	50,570
2001 Series A (mature 2009 –2011)	4.125 – 5.00%	54,080	67,860
2002 Series A (mature 2010–2031)	4.125 – 5.25%	432,560	432,560
2002 Series B (mature 2016–2032)	4.00 – 5.00%	570,000	570,000
2002 Series C (mature 2010–2015)	5.00%	202,385	202,385
2002 Series D (matured 1/1/2009)	5.00%	-	26,855
2004 Series A (mature 2009–2024)	4.00 – 5.00%	116,360	117,510
2005 Series A (mature 2027–2035)	4.75 – 5.00%	327,090	327,090
2006 Series A (mature 2033–2037)	5.00%	296,000	296,000
2008 Series A (mature 2016–2038)	5.00%	816,650	816,650
2009 Series A (mature 2011–2039)	2.75 – 5.00%	744,180	-
Total revenue bonds		3,666,140	3 074,928
Unamortized bond (discount) premium		65,749	51,108
Total revenue bonds outstanding		3,731,889	3,126,036
Finance lease	2.80 – 5.25%	232,585	250,365
Commercial paper		-	475,000
Total long-term debt		3,964,474	3,851,401
Unamortized interest rate swap		(172)	(724)
Less: Current portion of long-term		(132,645)	(170,748)
Total long-term debt, net of current		$ 3,831,657	$ 3,679,929

The annual maturities of long-term debt (excluding unamortized bond discount/premium) as of April 30, 2009, due in fiscal years ending April 30, are as follows (in thousands):

	Revenue Bonds	Finance Lease
2010	$ 115,855	$ 16,790
2011	127,230	19,950
2012	122,180	17,455
2013	97,245	22,995
2014	86,620	17,500
Thereafter	3,117,010	137,895
Total	$ 3,666,140	$ 232,585

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, as amended, the District makes debt service deposits to a non-trusteed

segregated fund. Included in segregated funds in the accompanying Combined Balance Sheets are $179.6 million and $181.3 million of debt service related funds as of April 30, 2009 and 2008, respectively.

The debt service coverage ratio is defined in the Bond Resolution. For the years ended April 30, 2009 and 2008, the debt service coverage ratio was 2.33 and 2.82, respectively.

Interest and the amortization of the bond discount, premium and issue expense on the various issues results in an effective rate of 5.02% over the remaining term of the bonds.

In March 2008, the District issued $816.7 million Electric System Revenue Bonds, the net proceeds of which were used to finance additional capital improvements to the Electric System pursuant to the District's Capital Improvement Program. In January 2009, the District issued an additional $744.2 million Electric System Revenue Bonds. A portion of the net proceeds was used to retire $100.0 million of Series B commercial paper and balance is being used to finance capital improvements to the Electric System pursuant to the District's Capital Improvement.

The District has authorization to issue additional Electric System Revenue Bonds totaling $2.0 billion principal amount and Electric System Refunding Revenue Bonds totaling $5.9 billion principal amount.

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 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.

(8) Commercial Paper and Credit Agreements:

The District is authorized by the Board to issue up to $475.0 million in commercial paper. The District has $275.0 million Series B and $100.0 million Series C Commercial Paper programs outstanding at April 30, 2009. The District retired $100.0 million of its Series B Commercial Paper during fiscal year 2009. At April 30, 2009, the Series B issue had an average weighted interest rate to the District of 0.57% and the Series C issue had an average weighted interest rate to the District of 0.49%. 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 a $475.0 million revolving line-of-credit agreement that supports the $375.0 million of outstanding commercial paper. The revolving credit agreement expires December 7, 2009. At April 30, 2008, the District classified commercial paper as long-term debt as it had the ability to refinance the commercial paper on a long-term basis based on its revolving line of credit. At December 8, 2008, the District reclassified commercial paper as short-term, due to the pending expiration of the revolving line of credit, and it is classified in current liabilities in the accompanying Combined Balance Sheets at April 30, 2009.

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 agreement has various covenants, with which management believes the District was in compliance at April 30, 2009. 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.

(9) Employee Benefit Plans and Incentive Programs:

Defined Benefit Pension Plan and Other Postretirement Benefits

SRP's Employees' Retirement Plan (the Plan) covers substantially all employees. The Plan is funded entirely from SRP contributions and the income earned on invested Plan assets. The District made a contribution of $50.0 million in each of the fiscal years 2009 and 2008.

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.

SRP adopted the recognition and disclosure provisions of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," (SFAS No. 158) effective April 30, 2008, and the measurement date provisions of SFAS No. 158 as of April 30, 2009. The recognition and disclosure provisions require employers to recognize the overfunded or underfunded positions of defined benefit pension and other postretirement plans in their balance sheets. 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.

In fiscal year 2008, the Board authorized the District to collect future amounts associated with the pension and other postretirement plan liabilities. As a result, the District established 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 are 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 District's estimated amortization amounts for fiscal year 2009 are $3.9 million for transition obligation, $3.9 million for prior service cost and $3.0 million for net actuarial loss.

Effective April 30, 2009, SFAS No. 158 requires SRP to measure plan assets and benefit obligations at fiscal year end. SRP previously performed this measurement at January 31 of each year. In accordance with this standard, SRP eliminated the use of the three-month lag. As a result of implementing the measurement date provisions of SFAS No. 158 and as authorized by the Board, the District recorded $16.9 million into the pension and post-retirement regulatory asset on the accompanying Combined Balance Sheets for the additional three months of pension and other postretirement benefits cost at April 30, 2009. The provisions of SFAS No. 158 do not permit retrospective application.

The following tables outline changes in benefit obligations, plan assets, the funded status of the plans and amounts included in the combined financial statements (in thousands):

	Pension Benefits		Postretirement Benefits	
	April 30 2009	January 31 2008	April 30 2009	January 31 2008
Change in benefit obligation				
Benefit obligation at beginning of year	$ 1,166,141	$ 1,130,845	$ 533,342	$ 513,503
Service cost	42,171	33,638	12,244	11,342
Interest cost	88,832	66,625	35,305	30,263
Actuarial gain	(84,012)	(24,467)	(113,228)	(1,159)
Benefits paid	(55,460)	(40,500)	(17,384)	(20,607)
Benefit obligation at end of year	$ 1,157,672	$ 1,166,141	$ 450,279	$ 533,342
Change in plan assets				
Fair value of plan assets at beginning of year	$ 1,082,180	$ 1,062,644	$ -	$ -
Actual return on plan assets	(279,979)	10,036	-	-
Employer contributions	50,000	50,000	21,539	20,607
Benefits paid	(55,460)	(40,500)	(21,539)	(20,607)
Fair value of plan assets at end of year	796,741	1,082,180	-	-
Funded status at end of year	$ (360,931)	$ (83,961)	$ (450,279)	$ (533,342)
Amounts recognized in Combined Balance Sheets:				
Other current liabilities	$ -	$ -	$ (18,882)	$ (20,064)
Accrued post-retirement liability	(360,931)	(83,961)	(431,397)	(513,278)
Net asset (liability) recognized	$ (360,931)	$ (83,961)	$ (450,279)	$ (533,342)
Amounts recognized as a regulatory asset:				
Transition obligation	$ -	$ -	$ 11,698	$ 15,594
Prior service cost	11,055	13,949	5,064	6,025
Net actuarial loss	510,984	208,205	53,722	172,854
Measurement date transition adjustment	5,417	-	11,450	-
Net regulatory asset	$ 527,456	$ 222,154	$ 81,934	$ 194,473

The following table represents the amortization amounts expected to be recognized or paid during the fiscal year ending April 30, 2010 (in thousands):

	Pension Benefits	Postretirement Benefits
Net transition obligation	$ -	$ 3,117
Prior service cost	$ 2,315	$ 769
Net actuarial	$ 4,938	$ 672

The following table outlines the projected benefit obligation and accumulated benefit obligation in excess of Plan assets (in thousands):

	April 30 2009	January 31 2008
Projected benefit obligation	$ 1,157,672	$ 1,166,141
Accumulated benefit obligation	$ 1,009,364	$ 1,005,783
Fair value of Plan assets	$ 796,741	$ 1,082,180

SRP internally funds its other postretirement benefits obligation. At April 30, 2009 and 2008, $352.9 million and $445.5 million of segregated funds, respectively, were designated for this purpose.

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

	Pension Benefits		Postretirement Benefits	
	2009	2008	2009	2008
Discount rate	7.00%	6.25%	7.00%	6.25%
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:

	Pension Benefits		Postretirement Benefits	
	April 30 2009	January 31 2008	April 30 2009	January 31 2008
Discount rate	6.25%	6.00%	6.25%	6.00%
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 8.5% annual increase before attainment of age 65 and an 8.5% annual increase on and after attainment of age 65 in per capita costs of health care benefits were assumed during 2008; these rates were assumed to decrease uniformly until equaling 5% in all future years.

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

	Pension Benefits		Postretirement Benefits	
	2009	2008	2009	2008
Service cost	$ 33,737	$ 33,638	$ 9,796	$ 11,342
Interest cost	71,065	66,625	28,244	30,262
Expected return on Plan assets	(91,359)	(82,262)	-	-
Amortization of transition obligation	-	-	3,117	3,117
Recognized net actuarial loss	5,909	11,124	3,874	10,328
Amortization of prior service cost	2,315	2,365	769	769
Net periodic benefit cost	$ 21,667	$ 31,490	$ 45,800	$ 55,818

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

	One Percentage Point Increase	One Percentage Point Decrease
Effect on total service cost and interest cost components	$ 5,700	$ (5,000)
Effect on postretirement benefit obligation	$ 55,500	$ (48,200)

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.

Volatile market conditions have affected the value of SRP's trust established to fund its future long-term pension benefits. The market value of the investments (reflecting investment returns, contributions and benefits payments) within the plan trust declined 25.7% during fiscal year 2009. This reduction in the value of plan assets resulted in a decrease in the pension plan funding status and will also result in increased future expense and increased future contributions. Changes in the plan's funded status affect the assets and liabilities recorded on the balance sheet in accordance with SFAS No. 158. Due to the District's regulatory treatment, the recognition of funded status is offset by regulatory assets or liabilities and is recovered through prices. The Pension Protection Act of 2006 establishes new minimum funding standards and restricts plans underfunded by more than 20% from adopting amendments that increase plan liabilities unless they are funded immediately. In December 2008, the Worker, Retiree, and Employer Recovery Act (WRERA) was enacted. Among other provisions, the WRERA provides temporary funding relief to defined benefit plans in light of the current economic crisis. It is expected that WRERA will have a favorable impact on the level of minimum required contributions for years after 2009.

The Plan's weighted-average asset allocations are as follows:

	Target Allocations	April 30 2009	January 31 2008
Equity securities	65.0%	53.6%	60.0%
Debt securities	25.0%	34.4%	27.6%
Real estate	10.0%	12.0%	12.4%
Total	100.0%	100.0%	100.0%

The investment policy, as authorized by the Board, allows management to reallocate Plan assets at any time within a tolerance range up to plus or minus 5% from the target asset allocation which allows for flexibility in managing the assets based on prevailing market conditions and does not require automatic rebalancing if the actual allocation strays from the target allocation.

Given the dislocations in the markets, the Plan's weighted-average asset allocations have deviated from the target allocations. Typically, Plan rebalancing is used to control the risk of being over-allocated to 'overheated' segments of the market. The recent market downturn has been negative for most all asset classes and was driven by a flight to liquidity. Management has adopted a methodical approach to bring the allocation back in line with the target which includes ongoing analysis of credit spreads to determine the availability of cash with which to rebalance. While there is no set timeframe to complete this, management continues to monitor the allocations on a recurring basis.

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.

Employer Contributions

The District expects to contribute $37.0 million to the Plan over the next valuation period.

Benefits Payments

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

	Pension Benefits	Postretirement Benefits	
		Before Subsidy*	Net
2010	$ 50,936	$ 19,103	$ 18,337
2011	55,456	21,264	20,388
2012	59,824	23,463	22,470
2013	65,318	25,456	24,312
2014	71,323	27,572	26,287
2015 through 2019	$ 452,234	$ 167,872	$ 159,349

*Estimated future benefit payments, including prescription drug benefits, prior to federal drug subsidy receipts expected as a result of the Medicare Prescription Drug, Improvement and Modernization Act of 2003.

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 $0.85 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 $13.8 million and $12.9 million during fiscal years 2009 and 2008, 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. These targets were not met in fiscal year 2009. An accrual of $16.6 million for fiscal year ended April 30, 2008 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 at April 30, 2008, and was paid in fiscal year 2009.

(10) 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, 2009 (in thousands):

Generating Station	Ownership Share	Plant in Service	Accumulated Depreciation	Construction Work In Progress
Four Corners (NM) (Units 4 & 5)	10.00%	$ 111,099	$ (97,509)	$ 4,131
Mohave (NV) (Units 1 & 2)	20.00%	133,498	(129,618)	-
Navajo (AZ) (Units 1, 2 & 3)	21.70%	358,393	(318,269)	9,984
Hayden (CO) (Unit 2)	50.00%	118,018	(103,234)	2,698
Craig (CO) (Units 1 & 2)	29.00%	270,522	(198,479)	3,937
PVNGS (AZ) (Units 1, 2 & 3)	17.49%	1,276,909	(969,272)	32,473
		$ 2,268,439	$ (1,816,381)	$ 53,223

The Mohave Generating Station (Mohave) ceased operations on December 31, 2005. To date, efforts to reopen or sell the plant as a coal-fired generation source have been unsuccessful and the Participants are decommissioning the plant. (See Note (12), REGULATORY MATTERS, Mohave Generating Station, for a discussion of matters pertaining to Mohave.) There remains approximately $3.9 million in net plant value at Mohave for the switchyard and transmission line still used to route power to other inter-tied systems.

(11) Variable Interest Entities:

FIN No. 46R, "Consolidation of Variable Interest Entities, an Interpretation of Account Research Bulletin No. 51," (FIN No. 46R) provides guidance on the identification and consolidation of entities for which control is achieved through means other than voting rights.

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 market prices and is obligated to pay only for gas delivered. Payments to SVFC under the Gas Purchase Agreements were $36.4 million in fiscal year 2009. 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 $1.2 billion of special obligation gas revenue bonds (Bonds). The Bonds do not constitute a debt, liability or obligation of the District.

The District, under a services agreement with SVFC, provides accounting and treasury services and performs administrative functions for the daily operations of SVFC. Under the service agreement, the amount paid by SVFC to the District was not material to the operations the District in fiscal years 2009 and 2008.

The District has evaluated the prepaid gas transaction under FIN No. 46R and has determined that the District has variable interests in SVFC. However, while the District retains rights to any residual assets in SVFC, the District is not deemed SVFC's primary beneficiary for purposes of FIN No. 46R. This conclusion is based on the structure of the transaction, which results in the majority of the risk being absorbed by parties other than the District. 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 and to provide services under the service agreement, its maximum exposure under this transaction is $100,000.

(12) Regulatory Matters:

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 three 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. In September 2008, the ACC suspended consideration of that application 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.

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. 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.

On October 6, 2008, the District Board approved an annualized 5.9% system average increase for the fuel and purchased power adjustment mechanism to address under-collected fuel and purchased power expenses, effective with the November 2008 billing cycle. To lessen impact on customer bills, the increase was designed to recover the under-collection over an 18-month period. The increase is expected to generate approximately $203.6 million over the 18-month period.

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. 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 (14), 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 Participants have begun to decommission the plant. 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 (14), CONTINGENCIES, Coal Supply Litigation, for a discussion of other related issues.)

In fiscal year 2003, 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. During fiscal year 2003, the District determined that its investment in Mohave was impaired and 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. (See Note (2), SIGNIFICANT ACCOUNTING POLICIES, Regulatory Accounting for additional information related to Mohave regulatory assets.)

(13) Commitments:

Capital 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 2010-2015 time period, the District estimates capital expenditures of approximately $5.6 billion. Major construction projects

include support for the Coronado Emission Controls project, funding for future generation resources, completion of Unit 4 at Springerville Generating Station, funding for new distribution business and other key generation, distribution and transmission projects.

Firm Purchase Commitments

The District had various firm non-cancelable purchase commitments at April 30, 2009, which are not recognized in the accompanying Combined Balance Sheets. The following table presents information pertaining to firm purchase commitments with remaining terms greater than one year (in millions):

	Total Payments		Purchase Commitments					
	2009	2008	2010	2011	2012	2013	2014	Thereafter
Purchase power contracts	$ 237.5	$ 211.8	$ 112.3	$ 106.7	$ 47.6	$ 26.3	$ 26.5	$ 615.9
Coal fuel supply contracts	487.5	390.9	226.2	247.3	189.0	167.3	117.0	211.2
Total	$ 725.0	$ 602.7	$ 338.5	$ 354.0	$ 236.6	$ 193.6	$ 143.5	$ 827.1

The District previously 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 purchase, 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. 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.

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. In conjunction with an impairment analysis performed on generation-related operations, in August 1998, the District has recorded provisions of $163.7 million for losses on these contracts. The provisions 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 2009 and 2008. The remaining liability at April 30, 2009 of $26.5 million is included in deferred credits and other non-current liabilities in the Combined Balance Sheets.

Beginning on September 1, 2006, the District has purchased 100 MW of capacity from Springerville Generating Station Unit 3, pursuant to a 30-year power purchase agreement.

The District entered into a 20-year power purchase agreement with Transcanada, 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 electrical capacity, energy and ancillary services available from Coolidge Generating Station, which is located in Pinal County. The natural gas-fired resource is expected to begin commercial operation in May 2011. The District has an option for a 10-year extension of the agreement. Anticipated minimum payment obligations are not included in the table above.

Other Purchase Power Agreements

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 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. Payments under this contract totaled $5.3 million in fiscal year 2009.

The District has entered into a 20-year purchase power agreement with Dry Lake Wind, LLC, which is a renewable energy resource utilizing wind to produce power. The facility is expected to begin commercial operation by December 31, 2009. The agreement requires the District to purchase the full output of the wind farm, approximately 63 MW, during the fiscal years 2010 through 2030. The District is obligated to pay only for actual energy delivered. There is no minimum payment obligation for this contract.

The District has entered into a 30-year purchase power agreement with Hudson Ranch Power I, LLC, which is developing a renewable energy resource utilizing geothermal heat to produce power. The facility is expected to begin commercial operation by July, 2011. The agreement requires the District to purchase the full output of the facility, approximately 50 MW, during the fiscal years 2012 through 2042. The District is obligated to pay only for actual energy delivered. There is no minimum payment obligation for this contract.

The District has entered into a 20-year purchase power agreement with Lightning Dock Geothermal HI-01, LLC, which is developing a renewable energy resource utilizing geothermal heat to produce power. The facility is expected to begin commercial operation by August, 2010. The agreement requires the District to purchase the full output of the facility, approximately 10 to 15 MW, during the fiscal years 2011 through 2031. The District is obligated to pay only for actual energy delivered. There is no minimum payment obligation for this contract.

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 has begun construction of Unit 4 and expects it to be in service by the end of calendar year 2009. As of April 30, 2009, the District has recognized $846.8 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 (14) CONTINGENCIES, Air Quality, for a discussion of a challenge to the Unit 4 air permit by the Sierra Club.)

(14) Contingencies:

Nuclear Insurance

Under existing law, public liability claims arising from a single nuclear incident are limited to $12.5 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 $117.5 million including a 5% surcharge; applicable in certain circumstances, but not more than $17.5 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 $61.7 million, including the 5% surcharge, but would be limited to $9.2 million per incident in any one year.

PVNGS participants also maintain "all risk" (including nuclear hazards) insurance for property damage to, and decontamination of, property at PVNGS in the aggregate amount of $2.75 billion, a substantial portion of which must first be applied to stabilization and decontamination. The District has also secured insurance against portions of any increased cost of generation or purchased power and business interruption resulting from a sudden and unforeseen accidental outage of any of the three units. The property damage, decontamination, and replacement power coverages are provided by Nuclear Electric Insurance Limited (NEIL). The District is subject to retrospective assessments under all NEIL policies if NEIL's losses in any policy year exceed accumulated funds. The maximum amount of retrospective assessments the District could incur under the current NEIL policies totals approximately $12.6 million. The insurance coverage discussed in this and the previous paragraph is subject to certain policy conditions and exclusions.

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 and the use of Yucca Mountain as a storage site remains uncertain. 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-eight casks are now stored on site.

The District's share of on-site interim storage at PVNGS is estimated to be $57.5 million for costs to store spent nuclear fuel from inception of the plant through fiscal year-end 2009, and $1.3 million per year going forward. These costs have been included in the District's regulated operations price plans for transmission and distribution. At April 30, 2009 and 2008, the District's accrued spent fuel storage cost was $24.5 million and $25.0 million, respectively, and included in deferred credits and other non-current liabilities on the accompanying Combined Balance Sheets.

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 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.

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.

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. On April 2, 2009, after several appeals, the U.S. Supreme Court determined that the Navajo Nation's claim for compensation failed and this matter should be regarded as closed.

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.

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 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 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. 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 the completion of the RICO Case.

In 2008, the Office of Surface Mining ("OSM") issued the final Environmental Impact Statement ("EIS") regarding the permit revision application of Peabody for the Black Mesa Complex, and approved the revised permit. Under the permit revision, the Black Mesa Mine (which formerly served the Mohave Generating Station) was added to the Kayenta Mine (which serves NGS) under one permit. Among other things, combining the two permits may give Peabody access to shallower, high quality coal for NGS, which could reduce future costs to the NGS Participants and provide an additional source of coal. Under the administrative appeals process, numerous appeals of the permit decision were filed, with appellants requesting an administrative hearing. The District intervened in those appeals in support of OSM and a hearing is scheduled in early 2010. The District cannot predict the outcome of this matter.

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. At April 30, 2009, and 2008, the District accrued $89.1 million and $87.9 million, respectively, for environmental issues, on a non-discounted basis, and is included in deferred credits and other non-current liabilities on the accompanying Combined Balance Sheets.

In September 2003, the U.S. Environmental Protection Agency (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 the site. The District is unable at this time to predict the outcome of this matter, but believes that it has adequate reserves for this potential liability.

On April 29, 2009, the Roosevelt Irrigation District (RID) submitted Notices of Claim to the District and others for damages and response costs of not less than $40,000,000 for the release or threatened release of hazardous substances from District facilities, including the 16th St. facility. RID's claim relates to its ownership and operation of wells located within the West Van Buren WQARF Site. The District is unable at this time to predict the outcome of this matter but does not believe that the final resolution of this matters will have a material adverse effect on its operations or financial condition.

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 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 emissions 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 (SO2), nitrogen oxide (NOx) and particulate matters (PM). These costs have already been included in the District's Improvement Program. In addition, the District paid a $950,000 penalty and will spend $4 million on supplemental environmental projects.

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, in May 2008 the District established a Trust Fund 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. Additional funding in the amount of approximately $2.3 million is expected in early Fall 2009, most of which is expected to come from the City of Phoenix due to the City's interest in the water supply from Horseshoe Dam.

Air Quality

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 issue new rules but, SRP and other utilities negotiated Consent Orders with the Arizona Department of Environmental Quality (ADEQ), pursuant to which SRP will implement a control strategy designed to achieve a 70 percent reduction of mercury emissions at CGS on a facility-wide annual average basis by January 1, 2012. It is likely that additional controls will be required at all coal-fired plants in which the District has an interest. The District is evaluating compliance options and cannot yet estimate the associated costs.

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 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 are subject to the BART requirements.

The EPA is reviewing the District's analysis of BART for NGS and APS's analysis of BART for Four Corners and is expected to make its positions known later in 2009. The District believes that BART for NGS requires the installation on all three units of low-nitrogen burners and separated over-fired air, and has begun installation. The Improvement Program includes $90 million for that installation but the EPA may also require installation of selective catalytic reduction (SCR) as well as controls for sulfuric acid mist emissions and fine particulate matter, which would cost about $1 billion. There is no money in the Improvement Program for SCR or for sulfuric acid mist controls.

APS believes that BART for Four corners requires the installation of low-NOx burners with separated over-fire air for Units 4 and 5 (in which the District owns a ten percent interest). The Improvement Program includes $1.6 million for SRP's share of the estimated costs, but the EPA may also require SCR, which could cost an additional $48 million (District share). There is no money in the Improvement Program for SCR.

On May 5, 2009, the National Parks Conservation Association, Sierra Club, Grand Canyon Trust, San Juan Citizens Alliance, To Nozhoni Ani, and Diné CARE petitioned the National Park Service (NPS) to certify to the EPA that visibility impairment in Grand Canyon National Park is "reasonably attributable" to oxides of nitrogen and particulate matter emissions from NGS. The Petition asks the NPS to supplement a similar certification it made in 1986 that ultimately led to the installation of sulfur dioxide scrubbers at NGS. The Petitioners allege that although the installation of the scrubbers improved visibility at the Grand Canyon, they did not adequately reduce NGS's impact on such visibility.

The District is evaluating options for responding to both the Petition and the EPA's potential BART determination for NGS. The District is unable to predict the likely outcomes of these matters or the BART determination for Four Corners at this time.

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 climate change and other developments at the federal, state and regional levels. Congress is considering a bill containing several significant provisions which would: (1) require utilities to meet 20% of their electricity demand through renewable energy sources and energy efficiency by 2020; (2) establish a new cap-and trade program to reduce carbon emissions from major sources by over 80% by 2050; (3) mandate new energy efficiency codes for buildings and appliances; and (4) make investments in new energy technologies, resources and energy efficiency. It is unknown when Congress will complete its consideration of the climate change and energy issues or what the final provisions of any bill that is enacted into law will be.

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. 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 further discussion of the settlement in this Note at Environmental.) 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) have implemented a regulation that, among other things, prohibits 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 except expenditures for "routine maintenance"; however, no definition is provided. The California Air Resource Board (CARB) is also developing a program to reduce California 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 plan, 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.

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 $29.6 million in refunds as of April 30, 2009, and expects an additional $1.5 million in fiscal year 2010.

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 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 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 was among the many defendants named in this lawsuit. The lawsuit claimed that the defendants' use of surface water and groundwater violates 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 the claims of the GRI Community but also 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 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. The District cannot predict the outcomes of this matter at this time. However, the District 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. The District records the reserves in deferred credits and other non-current liabilities in the accompanying Combined Balance Sheets.

APPENDIX B — SUMMARY OF THE RESOLUTION

SUMMARY OF THE RESOLUTION

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

Certain Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Irrigation Plant: All land and land rights, structure, facilities and equipment used or usable by the District or the Salt River Valley Water Users' Association solely for the development, storage, transportation, distribution and delivery of water to the owners or occupants of the lands within the Salt River Project having rights thereto or to anyone acting on behalf thereof pursuant to contracts with the Salt River Valley Water Users' Association or the District.

Operating Expenses: The District's expenses of operating the Electric System, including, without limiting the generality of the foregoing, all costs of purchased power, operation, maintenance, generation, production,

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

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

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

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

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

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

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

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

(Resolution, Section 1.01).

Pledge of Revenues and Funds

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

(Resolution, Section 5.01).

Additional Bonds

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

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

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

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

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

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

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

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

(Resolution, Section 2.04).

Refunding Bonds

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

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

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

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

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

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

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

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

(Resolution, Section 2.05).

Separately Financed Projects

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

(Resolution, Section 2.06).

Subordinated Indebtedness

The District may, at any time, or from time to time, issue evidences of indebtedness payable out of Revenues and which may be secured by a pledge of Revenues; provided, however, that such pledge shall be and shall be expressed

to be, subordinate in all respects to the pledge of the Revenues, moneys, securities and funds created by the Resolution.

(Resolution, Section 5.09).

Establishment of Funds and Application Thereof

The Resolution creates and establishes the following Funds and Accounts:

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

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

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

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

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

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

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

The proceeds of insurance maintained pursuant to the Resolution against physical loss of or damage to a Project, or of contractors' performance bonds with respect thereto, pertaining to the period of construction thereof, shall be paid into the Construction Fund.

Unless otherwise provided herein, amounts in the Construction Fund shall be applied to the purpose or purposes specified in the Series Resolution authorizing the Bonds.

Notwithstanding any of the other provisions of this subheading, to the extent that other moneys are not available therefor, amounts in the Construction Fund shall be applied to the payment of principal of and interest on Bonds when due.

Amounts in the Construction Fund shall be invested by the District to the fullest extent practicable in Investment Securities maturing in such amounts and at such times as may be necessary to provide funds when needed to pay the Cost of Construction or such other purpose to which such moneys are applicable. The District may, and to the extent required for payments from the Construction Fund shall, sell any such Investment Securities at any time, and the proceeds of such sale, and of all payments at maturity and upon redemption of such investments, shall be held in the Construction Fund. Interest received on moneys or securities in the Construction Fund shall be deposited in the Construction Fund.

Revenues and Revenue Fund. The Resolution establishes a Revenue Fund and provides that there shall be promptly deposited by the District to the credit of the Revenue Fund all Revenues.

Payment of Operating Expenses. The District (a) shall out of the moneys in the Revenue Fund, pay, free and clear of any lien or pledge created by the Resolution, all amounts required for reasonable and necessary Operating Expenses, and (b) may at all times retain in the Revenue Fund amounts deemed by the District to be reasonable and necessary for working capital and reserves for Operating Expenses including expenses which do not recur annually; provided that the total amount of such reserves set aside during any year shall not exceed 20% of the amount of Operating Expenses for such year.

Payments Into Certain Funds. The District shall out of the moneys in the Revenue Fund not retained therein pursuant to this subheading, on or before each date for the payment of Debt Service, transfer and apply such amount

to the Debt Service Fund (i) for credit to the Debt Service Account, to the extent required so that the balance in said Account shall equal the Aggregate Debt Service; provided that, for the purposes of computing the amount to be allocated to said Account, there shall be excluded the amount, if any, set aside in said Account which was deposited therein from the Rate Stabilization Fund or from the proceeds of Bonds less an amount equal to the interest accrued and unpaid and to accrue on Bonds (or any Refunding Bonds issued to refund Bonds) to the last day of the then current calendar month; and (ii) for credit to the Debt Reserve Account, an amount equal to one-twelfth of twenty percent (1/12 of 20%) of the amount necessary to make the total amount of moneys on deposit therein equal to the Debt Reserve Requirement; provided, however, that no deposits shall be required if the District shall deposit a Debt Reserve Account Credit Facility in the Debt Reserve Account in satisfaction of the Debt Reserve Requirement.

The District may out of the moneys in the Revenue Fund not retained therein pursuant to this subheading or applied pursuant to this subheading, upon a determination by an Authorized Officer of the District at any time prior to the next Debt Service payment date that sufficient funds are or will be available in the Debt Service Account to pay Debt Service on the next Debt Service payment date and that sufficient moneys, securities or a Debt Reserve Account Credit Facility equal to the Debt Reserve Requirement are or will be on deposit in the Debt Reserve Account to satisfy the Debt Reserve Requirement, transfer such amount as follows and in the following order:

(1) To the Rate Stabilization Fund, an amount deemed necessary by the District which may be used by the District for any lawful purpose; and

(2) To the General Fund, any such remaining balance in the Revenue Fund. Any amount so transferred to the General Fund of the District may be used by the District for any lawful purpose.

Provided, however, that so long as there shall be held in the Debt Service Fund an amount sufficient to fully pay all Outstanding Bonds in accordance with their terms (including principal or applicable sinking fund Redemption Price and interest thereon), no deposits shall be required to be made into the Debt Service Fund.

Debt Service Fund. Debt Service Account. The Trustee shall pay out of the Debt Service Account to the respective Paying Agents (i) on or before each interest payment date for any of the Bonds, the amount required for the interest payable on such date; (ii) on or before each Principal Installment due date, the amount required for the Principal Installment payable on such due date; and (iii) on or before the day preceding any redemption date for the Bonds, the amount required for the payment of interest on the Bonds then to be redeemed. Such amounts shall be applied by the Paying Agents on and after the due dates thereof. The Trustee shall also pay out of the Debt Service Account the accrued interest included in the purchase price of the Bonds purchased for retirement.

Amounts accumulated in the Debt Service Account with respect to any Sinking Fund Installment (together with amounts accumulated therein with respect to interest on the Bonds for which such Sinking Fund Installment was established) may and, if so directed by the District, shall be applied by the Trustee, on or prior to the 60th day preceding the due date of such Sinking Fund Installment, to (i) the purchase of Bonds of the Series for which such Sinking Fund Installment was established, or (ii) the redemption at the applicable sinking fund Redemption Prices pursuant to Article IV of the Resolution, of such Bonds, if then redeemable by their terms. After the 60th day but on or prior to the 40th day preceding the due date of such Sinking Fund Installment, any amounts then on deposit in the Debt Service Account (exclusive of amounts, if any, set aside in said Account which were deposited therein from the proceeds of additional Bonds) may and, if so directed by the District, shall be applied by the Trustee to the purchase of Bonds of the Series for which such Sinking Fund Installment was established in an amount not exceeding that necessary to complete the retirement of the unsatisfied balance of such Sinking Fund Installment. All purchases of any Bonds pursuant to this subheading shall be made at prices not exceeding the applicable sinking fund Redemption Price of such Bonds plus accrued interest, and such purchases shall be made in such manner as the Trustee shall determine. The applicable sinking fund Redemption Price (or principal amount of maturing Bonds) of any Bonds so purchased or redeemed shall be deemed to constitute part of the Debt Service Account until such Sinking Fund Installment date, for the purpose of calculating the amount of such Account. As soon as practicable after the 40th day preceding the due date of any such Sinking Fund Installment, the Trustee shall proceed to call for redemption, by giving notice as provided in Section 4.05 of the Resolution, on such due date Bonds of the Series for which such Sinking Fund Installment was established (except in the case of Bonds maturing on a Sinking Fund Installment date) in such amount as shall be necessary to complete the retirement of the unsatisfied balance of such Sinking Fund Installment. The Trustee shall pay out of the Debt Service Account to the appropriate Paying Agents, on or before the day preceding such redemption date (or maturity date), the amount required for the redemption of

the Bonds so called for redemption (or for the payment of such Bonds then maturing), and such amount shall be applied by such Paying Agents to such redemption (or payment). All expenses in connection with the purchase or redemption of Bonds shall be paid by the District from the Revenue Fund as an Operating Expense.

The amount, if any, deposited in the Debt Service Account from the proceeds of each Series of Bonds shall be set aside in such Account and applied to the payment of interest on the Bonds of such Series (or Refunding Bonds issued to refund such Bonds) as the same becomes due and payable.

Debt Reserve Account. If on the first working day of any month the amount on deposit in the Debt Reserve Account shall be less than the Debt Reserve Requirement, the Trustee shall apply amounts from the Debt Service Fund to the extent necessary to make good the deficiency. In the event that there is on deposit in the Debt Reserve Account moneys and a Debt Reserve Account Credit Facility, the Trustee shall withdraw moneys prior to making a draw or claim, as the case may be, on a Debt Reserve Account Credit Facility.

Whenever the amount on deposit in the Debt Reserve Account shall exceed the Debt Reserve Requirement, such excess shall be allocated and applied by the District in the same manner as Revenues pursuant to the subheading entitled "Payments Into Certain Funds" under the caption entitled "Establishment of Funds and Application Thereof".

Whenever the amount in the Debt Reserve Account, together with the amount in the Debt Service Account, is sufficient to fully pay all Outstanding Bonds in accordance with their terms (including principal or applicable sinking fund Redemption Price and interest thereon), the funds on deposit in the Debt Reserve Account shall be transferred to the Debt Service Account.

The District may cause to be delivered to the Trustee for deposit into the Debt Service Account, and the Trustee shall upon its receipt so deposit, a Debt Reserve Account Credit Facility for the benefit of the Bondholders, which Debt Reserve Account Credit Facility shall be payable or available to be drawn upon, as the case may be (upon the giving of notice as required thereunder), on any date on which a deficiency in the Debt Service Fund exists which cannot be cured by moneys in any other fund or account held hereunder and available for such purpose; provided, however, (i) if a disbursement is made under the Debt Reserve Account Credit Facility, the District shall either reinstate the maximum limits of such Debt Reserve Account Credit Facility within twelve (12) months following such disbursement equal to the Debt Reserve Requirement or deposit into the Debt Reserve Account moneys in the amount of the disbursement made under such Debt Reserve Account Credit Facility, or a combination of such alternatives as shall equal the Debt Reserve Requirement; (ii) if any such Debt Reserve Account Credit Facility for deposit in the Debt Service Reserve Fund is obtained and if six (6) months prior to the expiration thereof, the Debt Reserve Account is less than the Debt Reserve Requirement, the District shall cause the reinstatement of the maximum limits of such existing Debt Reserve Account Credit Facility, or shall obtain a substitute to the extent necessary to fund the Debt Reserve Account at the Debt Reserve Requirement; and (v) if a nationally recognized rating agency shall downgrade the rating of the Bonds, if any, as a result of such deposit of any such Debt Reserve Account Credit Facility or the rating of the provider thereof drops below the highest rating category for a nationally recognized rating agency, then the District shall deliver to the Trustee for deposit in the Debt Reserve Account a replacement of such Debt Reserve Account Credit Facility, in like amount and form acceptable to the Trustee and such that the nationally recognized rating agency will not reduce or withdraw their ratings, if any, on the Bonds, or deposit moneys in an amount sufficient to fund the Debt Reserve Account in an amount equal to the Debt Reserve Requirement within twelve (12) months following such downgrade.

Rate Stabilization Fund. There may be deposited in the Rate Stabilization Fund any amounts deemed necessary by the District to be used for any lawful purpose of the District, including but not limited to making any deposits required by the Resolution to any Fund, as determined by the District; provided, however, that no such deposit to any such Fund shall be required; provided further, however, that if at any time the amounts in the Operating Fund or Debt Service Fund shall be less than the current requirements thereof, the District shall withdraw from the Rate Stabilization Fund and deposit in such other Funds the amount necessary (or all the moneys in the Rate Stabilization Fund, if less than the amounts necessary, applying available amounts in the order of priority and otherwise as specified under the subheading entitled "Payments Into Certain Funds" under the caption entitled "Establishment of Funds and Application Thereof") to make up such deficiency. Amounts on deposit in the Rate Stabilization Fund may be invested by the District to the fullest extent practicable in Investment Securities. The District may sell any such Investment Securities at any time, and the proceeds of such sale, and of all payments at maturity and upon redemption of such investments, shall be held in the Rate Stabilization Fund. Interest received on moneys or

securities in the Rate Stabilization Fund shall be deposited in the Rate Stabilization Fund. Amounts in the Rate Stabilization Fund which the District may determine to be in excess of the amount required to be maintained therein shall be transferred to the Revenue Fund. Amounts on deposit in the Rate Stabilization Fund are not subject to the lien or pledge created by the Resolution.

Redemption Fund. There shall be deposited in the Redemption Fund amounts required to be deposited therein pursuant to the subheading entitled "Creation of Liens: Sale and Lease of Properties" under the caption entitled "Certain Other Covenants" and the caption entitled "Reconstruction; Application of Insurance Proceeds". Amounts in the Redemption Fund shall be used by the District for the purchase or redemption of any Bonds, and expenses in connection with the purchase or redemption of any Bonds.

(Resolution, Sections 5.02-5.08; 5.10).

Operation and Maintenance of Electric System.

The District shall at all times operate or cause to be operated the Electric System properly and in an efficient and economical manner, consistent with good business and utility operating practices, and shall maintain, preserve, reconstruct and keep the same or cause the same to be so maintained, preserved, reconstructed and kept, with the appurtenances and every part and parcel thereof, in good repair, working order and condition, and shall from time to time make, or cause to be made, all necessary and proper repairs, replacements and renewals so that at all times the operation of the Electric System may be properly and advantageously conducted; provided, however, that nothing contained herein shall prevent the District from exercising its powers under the subheading entitled "Creation of Liens: Sale and Lease of Properties" under the caption entitled "Certain Other Covenants"; provided further, however, that any sale-leaseback or lease-leaseback of any part of the Electric System or other similar contractual arrangements, the effect of which is that the District continues to retain the Revenues therefrom, shall not constitute a lease or disposition of such part of the Electric System for purposes described under the subheading entitled "Creation of Liens: Sale and Lease of Properties" under the caption entitled "Certain Other Covenants" and any proceeds therefrom shall be treated as Revenues.

(Resolution, Section 7.10).

Reconstruction; Application of Insurance Proceeds.

If any useful portion of the Electric System shall be damaged or destroyed, the District shall, as expeditiously as possible, continuously and diligently prosecute the reconstruction or replacement thereof, unless the District determines that such reconstruction and replacement is not in the interest of the District and the Bondholders. The proceeds of any insurance shall be paid on account of such damage or destruction, other than business interruption loss insurance, shall be held by the District in the Construction Fund and made available for, and to the extent necessary be applied to, the cost of such reconstruction or replacement, or shall be applied to the construction or acquisition of any properties or assets of the Electric System. Pending such application, such proceeds may be invested by the District in Investment Securities which mature not later than such times as shall be necessary to provide moneys when needed to pay such cost of reconstruction or replacement or acquisition. Interest earned on such investments shall be deposited in the Construction Fund. The proceeds of any such insurance not applied by the District to constructing or replacing damaged or destroyed property or in acquiring property or assets of the Electric System shall be paid to the Trustee for deposit in the Redemption Fund.

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

(Resolution, Section 7.13).

Transfer from General Fund

In the event there is a deficiency in the Debt Service Account and if such a deficiency is not paid from other sources, the District shall transfer money in the General Fund to the Debt Service Account an amount sufficient to make up such deficiency.

(Resolution, Section 7.17).

Electric System Rate Covenant

The District shall charge and collect rates, fees and other charges for the sale of electric power and energy and other services, facilities and commodities of the Electric System as shall be required to provide revenues and income (including investment income) at least sufficient in each Fiscal Year for the payment of the sum of:

(a) Operating Expenses during such Fiscal Year, including reserves, if any, therefor provided for in the Annual Budget for such year;

(b) An amount equal to the Aggregate Debt Service for such Fiscal Year;

(c) The amount, if any, to be paid during such Fiscal Year into the Debt Reserve Account in the Debt Service Fund; and

(d) All other charges or liens whatsoever payable out of revenues and income during such Fiscal Year and, to the extent not otherwise provided for, all amounts payable on Subordinated Indebtedness.

If, in any Fiscal Year, the revenues and income collected shall not have been sufficient to provide all of the payments and meet all other requirements as specified in the preceding paragraphs in this caption, the District shall as promptly as permitted by law establish and place in effect a schedule of rates, fees and charges which will cause sufficient revenues and income to be collected. For purposes of this caption, at any time, revenues and income collected shall include any amounts withdrawn or expected to be withdrawn thereafter in any Fiscal Year from the Rate Stabilization Fund which were on deposit therein prior to such Fiscal Year.

The failure in any Fiscal Year to comply with the Electric System Rate Covenant shall not constitute an Event of Default under the Resolution, if the District shall comply with the requirements of the immediately preceding paragraph.

(Resolution, Section 7.11).

Certain Other Covenants

No Free Service: The District will not furnish or supply power or energy free of charge to any person, firm or corporation, public or private, and the District shall promptly enforce the payment of any and all accounts owing to the District by reason of the ownership and operation of the Electric System, to the extent dictated by sound business practice.

(Resolution, Section 7.11-3).

Power to Operate Electric System and Collect Rates and Fees: The District has good right and lawful power to construct, reconstruct, improve, maintain, operate and repair the Electric System, and to fix and collect rates, fees, rents and other charges in connection therewith.

(Resolution, Section 7.06).

Creation of Liens: Sale and Lease of Properties: The District shall not hereafter issue any bonds or other evidences of indebtedness payable out of or secured by a pledge of any revenues or income of the Electric System, except as in this Resolution provided.

The District shall not issue any bonds or other evidences of indebtedness other than the Bonds, payable out of or secured by a pledge of any revenues or income of the Electric System or of the moneys, securities or funds held or set aside by the District or by the Fiduciaries under the Resolution and shall not create or cause to be created any lien or charge on any revenues or income of the Electric System, or such moneys, securities or funds; provided, however, that nothing contained in the Resolution shall prevent the District from issuing Subordinated Indebtedness as provided in the caption entitled "Subordinated Indebtedness", and provided further that the District may, for its authorized purposes, make or assume loans with the United States of America, which loans may be secured by lien on revenues and income of the Electric System prior to the lien of the Bonds issued hereunder.

The District may sell or exchange at any time and from time to time any property constituting part of the Electric System and may lease or make contracts or grant licenses for the operation of, or grant easements or other rights

with respect to, any part of the Electric System if (i) in the sole judgment of the District it is advisable to take such action, (ii) such action shall not impair the ability of the District to make Debt Service payments, and (iii) such action does not materially impede or unduly restrict the operation by the District of the Electric System. Except as provided under the caption entitled "Operation and Maintenance of Electric System", any proceeds of any such sale, exchange, lease, contract or license shall at the discretion of the District be deposited in the Redemption Fund for application to the purchase or redemption of Bonds or be applied for any lawful purpose.

(Resolution, Section 7.07).

Insurance: The District shall provide protection for the Electric System in accordance with sound electric utility practice which may consist of insurance, self insurance and indemnities. Any insurance shall be in the form of policies or contracts for insurance with insurers of good standing, shall be payable to the District as its interest may appear, and may provide for such deductibles, exclusions, limitations, restrictions and restrictive endorsements customary in policies for similar coverage issued to entities operating properties similar to the properties of the Electric System. Any self insurance shall be in the amounts, manner and of the types provided by entities operating properties similar to the properties of the Electric System.

(Resolution, Section 7.12).

Accounts and Reports: The District shall keep, in accordance with Accounting Practice, proper books of record and account of its transactions relating to the Electric System and the Funds and Accounts established by the Resolution, together with all contracts for the sale of power and energy and all other books and papers of the District, including insurance policies, relating to the Electric System and such Funds and accounts.

The Trustee shall advise the District promptly after the end of each month of its transactions during such month relating to the funds and accounts held by it under the Resolution.

The District shall annually, within 180 days after the close of each fiscal year, file with the Trustee, and otherwise as provided by law, a copy of the annual report of the District for such year, accompanied by an Accountant's Report. In addition, the District will file with the Trustee a statement, or statements, accompanied by an Accountant's Report of each fund and account established under the Resolution, summarizing the receipts therein and disbursements therefrom during such year and the amounts held therein at the end of each year. Such Accountant's Report on the statement summarizing the transactions in the funds established under the Resolution shall state whether or not, to the knowledge of the signer, the District is in default with respect to any of the covenants, agreements or conditions as set forth under the subheading entitled "Events of Default" under the caption entitled "Events of Default and Remedies", insofar as they pertain to accounting matters and, if so, the nature of such default; 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 COUNSEL OPINION AND FORM OF SPECIAL TAX COUNSEL OPINION

[FORM OF BOND COUNSEL OPINION]

October 7, 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

$ 296,375,000
Salt River Project
Electric System Revenue Bonds,
2009 Series B

The 2009 Series B Bonds consist of bonds bearing interest at fixed rates. The 2009 Series B Bonds are dated as shown on the inside front cover of the Official Statement dated September 29, 2009 relating to the 2009 Series B 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 B Bonds are subject to redemption prior to maturity as provided in the Resolutions.

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

We are of the opinion that such proceedings and proofs show lawful authority for the issuance and sale of the 2009 Series B 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, a resolution dated as of September 14, 2009, entitled "Resolution Authorizing The Issuance And Public Sale Of Not To Exceed $375,000,000 Salt River Project Electric System Revenue Bonds, 2009 Series B of the Salt River Project Agricultural Improvement and Power District, and Providing for the Form, Details and Terms Thereof" (collectively, the "Resolutions"), and an Award Resolution of the District dated as of September 29, 2009 all duly adopted by the District and that the 2009 Series B 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 B 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 B 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 B 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 B 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]

October 7, 2009

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

Salt River Project Agricultural Improvement and Power District
$ 296,375,000 Electric System Revenue Bonds, 2009 Series B

Ladies and Gentlemen:

We have reviewed the record of proceedings related to the issuance by the Salt River Project Agricultural Improvement and Power District (the "District") of its $296,375,000 aggregate principal amount of Electric System Revenue Bonds, 2009 Series B (the "2009 Series B 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 Public Sale of Not To Exceed $375,000,000 Salt River Project Electric System Revenue Bonds, 2009 Series B of the Salt River Project Agricultural Improvement and Power District, and Providing for the Form, Details and Terms Thereof adopted by the District on September 14, 2009 (collectively with the Bond Resolution, (the "Resolution") and an Award Resolution of the District dated as of September 29, 2009), 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 B 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 B 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 B Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issue of the 2009 Series B Bonds. The District has covenanted to comply with the provisions of the Code applicable to the 2009 Series B Bonds and has covenanted not to take any action or permit any action that would cause the interest on the 2009 Series B Bonds to be included in gross income under Section 103 of the Code applicable to the 2009 Series B 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 B 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 B Bonds is excluded from the adjusted current earnings of 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 B Bonds is exempt from income taxes imposed by the State of Arizona.

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

$296,375,000 Salt River Project Electric System Revenue Bonds, 2009 Series B

THIS CONTINUING DISCLOSURE AGREEMENT ("Agreement"), dated as of October 7, 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 $296,375,000 Salt River Project Electric System Revenue Bonds, 2009 Series B to be issued by the District (the "Bonds");

W I T N E S S E T H:

WHEREAS, the District intends to issue the Bonds under and pursuant to (i) the Act and (ii) the District's Supplemental Resolution, dated as of September 10, 2001 Authorizing an Amended and Restated Resolution Concerning Revenue Bonds, which became effective January 11, 2003, 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 Agreement is being executed and delivered by the District and the Trustee for the benefit of the Bondholders, the Beneficial Owners of the Bonds and the Trustee in order to comply with Rule 15c2-12 issued by the Commission;

WHEREAS, the District hereby agrees to provide the information described herein below with respect to itself;

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, the District and the Trustee agree as follows:

Section 1. Definitions

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

"Annual Financial Information" shall mean the information specified in Section 3 hereof.

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any of the Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Bondholder" or "Holder" shall mean any registered owner of Bonds and any Beneficial Owner of Bonds who provides evidence satisfactory to the Trustee of such status.

"EMMA" shall mean the Electronic Municipal Market Access system operated by the MSRB for municipal securities disclosures.

"Independent Accountant" shall mean, with respect to the District, any firm of certified public accountants appointed by the District.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Official Statement" shall mean the Official Statement of the District, dated September 29, 2009, relating to the issuance of the Bonds.

"Rule 15c2-12" shall mean Rule 15c2-12 under the Securities Exchange Act of 1934, as amended through the date of this Agreement.

"State" shall mean the State of Arizona.

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 EMMA in an electronic format, accompanied by identifying information, in accordance with the rules and procedures set forth from time to time by the MSRB, no later than 180 days after the end of each fiscal year, commencing with the fiscal year ending April 30, 2010:

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 EMMA in accordance with the rules and procedures set forth from time to time by the MSRB, when they become available (but in no event later than 350 days after the end of such fiscal year); or

2. notice to EMMA in accordance with the rules and procedures set forth from time to time by the MSRB, of the District's failure, if any, to provide any of the information described in Section A.1. hereinabove;

B. to EMMA in an electronic format, accompanied by identifying information, in accordance with the rules and procedures set forth from time to time by the MSRB, in a timely manner, notice of any of the following events with respect to the Bonds, if material:

1. any Event of Default resulting from principal and interest payment delinquencies on the Bonds;

2. any non-payment related Event of Default;

3. unscheduled draws on the Debt Reserve Account under the Resolution reflecting financial difficulties;

4. unscheduled draws on credit enhancements, if any, reflecting financial difficulties under the Resolution;

5. substitution of credit or liquidity providers, if any, or their failure to perform;

6. adverse tax opinions or events affecting the tax-exempt status of the Bonds;

7. amendments of or modifications to the rights of Bondholders;

8. giving of notice of redemption of Bonds (which does not include regularly scheduled or mandatory sinking fund redemptions effectuated in accordance with the Resolution);

9. defeasance of the Bonds;

10. release, substitution, or sale of property, if any, securing repayment of the Bonds; and

11. rating changes on the Bonds.

The Trustee shall notify the District upon the occurrence of any of the eleven events listed in this Section 2.B. promptly upon becoming aware of the occurrence of any such event. The Trustee shall not be deemed to have become aware of the occurrence of any such event unless an officer in its corporate trust department actually becomes aware of the occurrence of any such event. The District shall notify the Trustee upon the transmittal of any such information.

Nothing in this Agreement shall prevent the District from disseminating any information in addition to that required hereunder. If the District disseminates any such additional information, nothing herein shall obligate the District to update such information or include it in any future materials disseminated.

Section 3. Annual Financial Information

Annual Financial Information shall include updated financial and operating information, in each case updated through the last day of the Salt River Project's prior fiscal year unless otherwise noted, relating to the following information contained in the Official Statement:

(i) information as to any changes in the District's projected peak loads and resources in substantially the same level of detail as found in Table 2 under the heading "Projected Peak Loads and Resources";

(ii) an update of the information listing District power sources and participation interests in power generating facilities in substantially the same level of detail found in Table 3 and Table 4 under the heading "Existing and Future Resources";

(iii) information as to any changes or proposed changes in the electric prices charged by the District in substantially the same level of detail as found under the heading "Electric Prices";

(iv) an update of the information relating to customer base and classification, electric power sales, and the District's revenues and expenses in substantially the same level of detail found in Table 7 and Table 8 under the heading "Customers, Sales, Revenues and Expenses";

(v) (a) an update summarizing the contractual payment obligations of the District on behalf of other political subdivisions which obligations secure debt service on bonds, other than bonds issued by the District, in substantially the same level of detail as found under the heading "Customers, Sales, Revenues and Expenses – Contractual Obligations Relating to Bonds of Other Political Subdivisions" and (b) a statement of any default in the payment of such obligations;

(vi) (a) information as to the authorization or issuance by the District of any notes, other obligations, 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, 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 EMMA in accordance with the rules and procedures set forth from time to time by the MSRB. 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 MSRB. The District shall clearly identify each such other document so incorporated by reference. It is sufficient for the purposes of Rule 15c2-12 and this Agreement that the Annual Financial Information to be provided pursuant to Section 2.A. and Section 3 hereof be submitted to EMMA in accordance with the rules and procedures set forth from time to time by the MSRB 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 EMMA in accordance with the rules and procedures set forth from time to time by the MSRB; **provided, however**, that if the document is an official statement, it shall have been filed with the MSRB and need not have been filed elsewhere.

Section 5. Remedies

If the District shall fail to comply with any provision of this Agreement, then the Trustee or any Holder may, but shall not be obligated to, enforce, for the equal benefit and protection of all Holders similarly situated, by mandamus or other suit or proceeding at law or in equity, this Agreement against the District and any of the officers, agents and employees of the District, and may compel the District or any such officers, agents or employees to perform and carry out their duties under this Agreement; **provided, however**, that the sole remedy hereunder shall be limited to an action to compel specific performance of the obligations of the District hereunder and no person or entity shall be entitled to recover monetary damages hereunder under any circumstances; **provided, further**, that any challenge to the adequacy of any information provided pursuant to Section 2 shall be brought only by the Trustee or the Holders

of 25% of the aggregate principal amount of the Bonds then outstanding which are affected thereby. Failure to comply with any provision of this Agreement shall not constitute an Event of Default under the Resolution.

Section 6. Parties in Interest

This Agreement is executed and delivered for the sole benefit of the Holders, the Beneficial Owners and the Trustee. No other person shall have any right to enforce the provisions hereof or any other rights hereunder.

Section 7. Termination

This Agreement shall remain in full force and effect until such time as all principal, redemption premiums, if any, and interest on the Bonds shall have been paid in full or legally defeased pursuant to the Resolution (a "Legal Defeasance"); **provided, however**, that if Rule 15c2-12 (or successor provision) shall be amended, modified or changed so that all or any part of the information currently required to be provided thereunder shall no longer be required to be provided thereunder, then this Agreement shall be amended to provide that such information shall no longer be required to be provided hereunder; and **provided, further**, that if and to the extent Rule 15c2-12 (or successor provision), or any provision thereof, shall be declared by a court of competent and final jurisdiction to be, in whole or in part, invalid, unconstitutional, null and void or otherwise inapplicable to the Bonds, then the information required to be provided hereunder, insofar as it was required to be provided by a provision of Rule 15c2-12 so declared, shall no longer be required to be provided hereunder. Upon any Legal Defeasance, the District shall provide notice of such defeasance to EMMA in accordance with the rules and procedures set forth from time to time by the MSRB. 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 EMMA in accordance with the rules and procedures set forth from time to time by the MSRB.

Section 8. Amendment; Change; Modification

Without the consent of any Holders (except to the extent expressly provided below), the District and the Trustee at any time and from time to time may enter into any amendments or changes to this Agreement for any of the following purposes:

(i) to comply with or conform to Rule 15c2-12 or any amendments thereto or authoritative interpretations thereof by the Commission or its staff (whether required or optional) which are applicable to this Agreement;

(ii) to add a dissemination agent for the information required to be provided hereby and to make any necessary or desirable provisions with respect thereto;

(iii) to evidence the succession of another person to the District and the assumption by any such successor of the covenants of the District hereunder;

(iv) to add to the covenants of the District for the benefit of the Holders, or to surrender any right or power herein conferred upon the District; or

(v) for any other purpose as a result of a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the District, or type of business conducted; provided that (1) this Agreement, as amended, would have complied with the requirements of Rule 15c2-12 at the time of the offering of the Bonds, after taking into account any amendments or authoritative interpretations of Rule 15c2-12, as well as any change in circumstances, (2) the amendment or change either (a) does not materially impair the interest of Holders, as determined by bond counsel, or the interest of the Trustee or (b) is approved by the vote or consent of Holders of a majority in outstanding principal amount of the Bonds affected thereby at or prior to the time of such amendment or change and (3) the Trustee receives an opinion of bond counsel that such amendment is authorized or permitted by this Agreement.

The Annual Financial Information for any fiscal year containing any amendment to the operating data or financial information for such fiscal year shall explain, in narrative form, the reasons for such amendment and the impact of the change on the type of operating data or financial information in the Annual Financial Information

being provided for such fiscal year. If a change in accounting principles is included in any such amendment, such Annual Financial Information, respectively, shall present a comparison between the financial statements or information prepared on the basis of the amended accounting principles. Such comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information. To the extent reasonably feasible such comparison shall also be quantitative. A notice of any such change in accounting principles shall be sent to EMMA in accordance with the rules and procedures set forth from time to time by the MSRB.

Section 9. Duties of the Trustee

A. The duties of the Trustee under this Agreement shall be limited to those expressly assigned to it hereunder. The District agrees to indemnify and save harmless the Trustee and its officers, directors, employees and agents, for, from and against any loss, expense and liabilities that it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including reasonable attorneys' fees and expenses) of defending against any claim of liability, but excluding liabilities due to the Trustee's gross negligence or willful misconduct. The obligations of the District under this Section 9 shall survive resignation or removal of the Trustee, payment of the Bonds or termination of this Agreement.

B. No earlier than one day, nor later than 30 days, following the end of each fiscal year of the District (ending April 30, unless the District notifies the Trustee otherwise) the Trustee will notify the District of its obligation to provide the Annual Financial Information in the time and manner described herein; provided, however, that any failure by the Trustee to notify the District under this Section 9.B shall not affect the District's obligation hereunder, and the Trustee shall not be responsible in any way for such failure.

C. The Trustee shall be under no obligation to report any information to EMMA or any Holder. If an officer of the Trustee obtains actual knowledge of the occurrence of an event described in Section 2.B.1. through 2.B.11 hereunder, whether or not such event is material, the Trustee will notify the District of such occurrence; provided, however, that any failure by the Trustee to notify the District under this Section 9.C. shall not affect the District's obligation hereunder, and the Trustee shall not be responsible in any way for such failure.

Section 10. Governing Law

THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE DETERMINED WITHOUT REGARD TO PRINCIPLES OF CONFLICT OF LAW, AND THE LAWS OF THE UNITED STATES OF AMERICA, AS APPLICABLE. Any action for enforcement of this Agreement shall be taken in a state or federal court, as appropriate, located in Maricopa County, Arizona. To the fullest extent permitted by law, the District and the Trustee each hereby irrevocably waives any and all rights to a trial by jury, and covenants and agrees that it will not request a trial by jury, with respect to any legal proceeding arising out of or relating to this Agreement.

Section 11. No Previous Non-Compliance

The District represents that it has previously entered into written contracts or agreements of the type referenced in paragraph (b)(5)(i) of Rule 15c2-12 in relation to certain of its outstanding obligations, and is in compliance with such agreements.

Section 12. Counterparts

This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

[The remainder of this page is intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized officers as of the date first above written.

SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT

By: _____

Aidan J. McSheffrey
Corporate Treasurer

U.S. BANK NATIONAL ASSOCIATION
as Trustee

By: _____

Name: _____

Title: _____

APPENDIX E — BOOK-ENTRY ONLY SYSTEM

General

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

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

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

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