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BEFORE THE ARIZONA CORPORATION COMMISSION

TOM FORESE
Chairman
BOB BURNS
Commissioner
ANDY TOBIN
Commissioner
BOYD DUNN
Commissioner
JUSTIN OLSON
Commissioner

Arizona Corporation Commission
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IN THE MATTER OF THE APPLICATION OF SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT FOR AN ORDER AUTHORIZING ITS ISSUANCE OF REVENUE BONDS AND REFUNDING REVENUE BONDS.	**DOCKET NO. E-02217A-06-0489** **DECISION NO. 69422** **NOTICE OF SALE OF REVENUE BONDS (2017 SERIES A)**
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 (2017 SERIES A)**
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-16-0112** **DECISION NO. 75610** **NOTICE OF SALE OF REVENUE BONDS (2017 SERIES A)**

TO THE HONORABLE ARIZONA CORPORATION COMMISSION:

On November 21, 2017, Salt River Project Agricultural Improvement and Power District (District) issued $735,240,000 of its Salt River Project Electric System Revenue Bonds, 2017 Series A (2017 Series A Bonds). Authority for $266,645,000 of the 2017 Series A Bonds was derived from Decision No. 75610 of the Commission, dated June 27, 2016, in Docket No. E-02217A-16-0112, authorizing the District to issue Revenue Bonds up to $1,500,000,000 as

described therein. Authority for $191,943,113 of the 2017 Series A Bonds was derived from Decision No. 70611 of the Commission, dated November 19, 2008, in Docket No. E-02217A-08-0159, authorizing the District to issue Refunding Revenue Bonds up to $2,100,000,000 as described therein. Authority for $276,651,887 of the 2017 Series A Bonds was derived from Decision No. 69422 of the Commission, dated April 16, 2007, in Docket E-02217A-06-0489, authorizing the District to issue Refunding Revenue Bonds in an amount not to exceed $1,300,000,000 as described therein. A breakout of the Revenue Bonds issued pursuant to these Decisions is attached as Exhibit 1.

The District has no current plans to issue any additional Revenue Bonds during the 12-month period following the issuance of the 2017 Series A Bonds. However, its plans could change depending on the needs of the District and the market conditions at any point in time.

The Decisions require that the District file with the Commission certain documents and information after the issuance of any Revenue Bonds authorized thereby. In accordance with the Decisions, the District submits the following documents in connection with its sale of the 2017 Series A Bonds:

1. A certified copy of the November 9, 2017 resolution of the Board of Directors of the District authorizing the sale of the 2017 Series A Bonds (Exhibit 2);

2. A certified copy of the November 9, 2017 resolution of the Council of the District ratifying and confirming the sale of the 2017 Series A Bonds (Exhibit 3);

3. A copy of the November 9, 2017 Purchase Contract between the District and Goldman Sachs & Co. LLC, as representative of the Purchasers (Exhibit 4);

4. A copy of the Official Statement dated November 9, 2017, distributed in connection with the marketing and sale of the 2017 Series A Bonds (Exhibit 5); and

5. A copy of the Report of the Independent Financial Advisor dated December 5, 2017, describing the issuance and showing that the bonds were issued at competitive market rates (Exhibit 6).

The documents include, as requested, 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 18th day of January 2018.

SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT

By W. Gary Hull

W. Gary Hull
Senior Director Law Services – Corporate
P. O. Box 52025 – PAB4TA
Phoenix, AZ 85072-2025
602.236.3277
Attorney for Applicant

ORIGINAL and thirteen (13) copies of the foregoing filed this 18th day of January 2018, with:

Arizona Corporation Commission
Docket Control
1200 W. Washington Street
Phoenix, AZ 85007

COPY of the foregoing hand-delivered this 18th day of January 2018 to:

Andy M. Kvesic, Director
Legal Division
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

Elijah Abinah, Director
Utilities Division
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

Carmel Hood
Utilities Division, Compliance Section
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

BY Michelle Mason

APPLICATION EXHIBITS

Exhibit 1	**Attribution of 2017 Series A Bonds to Prior Decisions of the Commission**
Exhibit 2	**Resolution of the District's Board of Directors**
Exhibit 3	**Resolution of the District's Council**
Exhibit 4	**Purchase Contract**
Exhibit 5	**Official Statement for the 2017 Series A Bonds**
Exhibit 6	**Final Report of Independent Financial Advisor**

EXHIBIT "1"

Exhibit 1

ATTRIBUTION OF 2017 SERIES A REVENUE BONDS TO PRIOR DECISIONS OF THE COMMISSION

Commission Decision No.	Refunding Revenue Bonds Authorized	Previously Issued Bonds or Expired	2017 Series A Bonds	Remaining Authorization
69422	$1,300,000,000	$731,085,000	$276,651,887	$292,263,113
70611	$2,100,000,000	$1,023,846,360.69	$191,943,113	$884,210,526.31

Commission Decision No.	Revenue Bonds Authorized	Previously Issued Bonds or Expired	2017 Series A Bonds	Remaining Authorization
75610	$1,500,000,000	-0-	$266,645,000	$1,233,355,000

EXHIBIT "2"

CERTIFICATE

I, JOHN M. FELTY, 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 adopted by the District Board of Directors at a meeting duly held on November 9th, 2017, 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 10th day of January 2018.

John M. Felty
Corporate Secretary

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

RESOLUTION AUTHORIZING THE ISSUANCE AND SALE OF $735,240,000 SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS, 2017 SERIES A OF THE SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, AND PROVIDING FOR THE FORM, DETAILS AND TERMS THEREOF

WHEREAS, the members of the Board of Directors (the "Board of Directors") 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 (the "Resolution"), have created and established an issue of Salt River Project Electric System Revenue Bonds (the "Bonds"), which may be authorized from time to time pursuant to Series Resolutions; and

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

WHEREAS, the District, upon the refunding of the Bonds To Be Refunded, will realize a net present value savings of approximately $735,240,000 using a discount rate equal to the reoffering yield of the 2017 Series A Bonds (as defined in Section 2 hereof) and adjusted for the present value of certain money sources and uses of funds; and

WHEREAS, the Arizona Corporation Commission (the "Commission") has approved by its Opinions and Orders described in **Exhibit A** hereto the issuance of $735,240,000 2017 Series A Bonds to pay the costs of various improvements and additions to the District's Electric System and to refund the Bonds To Be Refunded; 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 the 2017 Series A Bonds to (i) finance the costs of acquisition and construction of various capital improvements and additions to the District's Electric System, (ii) refund the Bonds To Be Refunded and (iii) pay certain costs of issuance of the 2017 Series A Bonds; and

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

WHEREAS, the Board of Directors has been presented with a Purchase Contract, dated November 9, 2017 (the "Purchase Contract"), by and among the District and a group of purchasers represented by and including Goldman, Sachs & Co., LLC, Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Securities LLC, and Morgan Stanley & Co. LLC (hereinafter collectively referred to as the "Purchasers") providing for the purchase of $735,240,000 2017 Series A Bonds; and

WHEREAS, the Board of Directors desires the District to sell $735,240,000 2017 Series A Bonds to the Purchasers pursuant to the terms and conditions of the Purchase Contract to provide moneys to carry out the aforesaid purposes of the District; and

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

WHEREAS, the Board of Directors desires to ratify and confirm the preparation and distribution of a Preliminary Official Statement and approve the preparation, execution and delivery of an Official Statement for the 2017 Series A 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 sale, issuance and delivery as aforesaid of $735,240,000 2017 Series A Bonds; and

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

SECTION 1. Series Resolution. This Series Resolution (hereinafter referred to as "Resolution Authorizing the Issuance and Sale of $735,240,000 2017 Series A Bonds" or as "2017 Series A Resolution") is adopted in accordance with the provisions of the Resolution and pursuant to the authority contained in Title 48, Chapter 17 of the Arizona Revised Statutes, as amended.

SECTION 2. Definitions. This 2017 Series A Resolution and the Resolution are herein collectively referred to as the "Resolutions." All terms which are defined in the Resolution shall have the same meanings, respectively, in this 2017 Series A Resolution, as such terms are given in the Resolution. In this 2017 Series A Resolution:

"2017 Series A Bonds" shall mean the Bonds authorized by Section 3 hereof.

"Bonds To Be Refunded" shall mean the Refunded 2009 Series A Bonds, as described in **Exhibit B** hereto.

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

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

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

"Information Services" shall mean Financial Information, Inc.'s Daily Called Bond Service, 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302; Kenny Information Service's Called Bond Service, 65 Broadway, 16th Floor, New York, New York 10006; Moody's Municipal and Government, 99 Church Street, 8th Floor, New York, New York 10007, attention: Municipal News Report; and Standard & Poor's Called Bond Record, 25 Broadway, New York, New York 10004; or to such other addresses and/or such other national information services providing information or disseminating notices of redemption of obligations similar to the 2017 Series A Bonds.

"Interest Payment Date" shall mean each January 1 and July 1 of each year so long as 2017 Series A Bonds are Outstanding, commencing January 1, 2018.

"Refunded 2009 Series A Bonds" shall mean the Outstanding Electric System Revenue Bonds, 2009 Series A of the District, as described in **Exhibit B** hereto.

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

"Securities Depositories" shall mean The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax - (516) 227-4039 or 4190; Midwest Securities Trust Company, Capital Structures-Call Notification, 440 South LaSalle Street, Chicago, Illinois 60605, Fax - (312) 663-2343; or to such other addresses and/or such other registered securities depositories holding substantial amounts of obligations of types similar to the 2017 Series A Bonds.

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

SECTION 3: Principal Amount, Designation, Series and Allocations. (a) Pursuant to the provisions of the Resolutions, the District is hereby authorized to sell and issue Bonds in the aggregate principal amount of $735,240,000 Such Bonds shall be designated as "Salt River Project Electric System Revenue Bonds, 2017 Series A."

(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 2017 Series A Bonds are issued are: 1) to provide moneys required for the payment of the principal of, Redemption Price of and the interest on the Bonds To Be Refunded as provided in **Exhibit B** hereto, for the purpose of realizing present value debt service savings, 2) to provide moneys for the payment of the costs of acquisition and construction of various capital improvements and additions to the District's Electric System and 3) to pay certain costs of issuance of the 2017 Series A Bonds.

SECTION 5: Dates, Maturities and Interest. (a) The 2017 Series A Bonds shall be dated, and shall bear interest from, their date of delivery.

(b) The 2017 Series A Bonds shall bear interest at the following rates per annum and shall mature on January 1 in the following years in the following principal amounts:

Year of Maturity (January 1)	Principal Amount	Interest Rate	Yield
2021	$24,950,000	5.000%	1.240%
2022	25,380,000	5.000	1.340
2023	27,495,000	5.000	1.470
2024	33,860,000	5.000	1.590
2025	23,520,000	5.000	1.710
2026	39,115,000	5.000	1.830
2027	35,775,000	5.000	1.950
2028	44,050,000	5.000	2.060
2029	33,805,000	5.000	2.160
2030	59,850,000	5.000	2.260
2031	46,060,000	5.000	2.370
2032	29,620,000	5.000	2.430
2033	46,720,000	5.000	2.480
2034	42,520,000	5.000	2.530
2035	31,340,000	5.000	2.560
2036	44,575,000	5.000	2.590
2037	56,005,000	5.000	2.600
2038	48,745,000	5.000	2.610
2039	41,855,000	5.000	2.620

(c) Interest on the 2017 Series A Bonds shall be payable on January 1, 2018, and semiannually thereafter on July 1 and January 1 of each year to the registered owner of the 2017 Series A Bonds as of the immediately preceding June 15 or December 15, until the District's obligation with respect to the payment of the principal of such 2017 Series A Bonds shall be discharged.

SECTION 6. Denominations, Numbers and Letters. The 2017 Series A Bonds shall be issued only as fully registered bonds without coupons, subject to the provisions regarding a book-entry only system as described in Section 7 hereof, and the 2017 Series A Bonds shall be issued in the denomination of $5,000, or any integral multiple thereof, in all cases not exceeding the aggregate principal amount of 2017 Series A Bonds maturing on the maturity date of the bond for which the denomination is to be specified.

SECTION 7. Book-Entry 2017 Series A Bonds. (a) Beneficial ownership interests in the 2017 Series A Bonds will be available in book-entry form only. Purchasers of beneficial ownership interests in the 2017 Series A Bonds will not receive certificates representing their interests in the 2017 Series A Bonds and will not be Bondholders or owners of the Bonds under the Resolution. DTC, an automated clearinghouse for securities transactions, will act as the Securities Depository for the 2017 Series A Bonds. The 2017 Series A Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for each maturity (or, if applicable, each interest rate within a maturity) of the 2017 Series A Bonds, in the aggregate principal amount of such maturity (or, if applicable, such interest rate within a maturity), and will be deposited with DTC.

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

Purchases of the 2017 Series A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2017 Series A Bonds on DTC's records. The ownership interest of each actual purchaser of each 2017 Series A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmation providing details of the transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2017 Series A Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2017 Series A Bonds, except in the event that use of the book-entry system for the 2017 Series A Bonds is discontinued.

To facilitate subsequent transfers, all 2017 Series A Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee,

Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of 2017 Series A Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2017 Series A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2017 Series A Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices shall be sent to DTC. If less than all of the 2017 Series A Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such 2017 Series A Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2017 Series A Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2017 Series A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2017 Series A Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Trustee, on each payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the District or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2017 Series A Bonds at any time by giving reasonable notice to the District. Under such circumstances, in the event that a successor securities depository is not obtained, the 2017 Series A Bond certificates are required to be printed and delivered. The District may decide to discontinue use of the system

of book-entry transfers through DTC (or a successor securities depository). In that event, the 2017 Series A Bond certificates will be printed and delivered.

Beneficial Owners will not be recognized by the Trustee as registered owners for purposes of this 2017 Series A Resolution, and Beneficial Owners will be permitted to exercise the rights of registered owners only indirectly through DTC and the Direct and Indirect Participants.

(b) In the event definitive 2017 Series A Bonds are issued, the provision of the Resolution, including but not limited to Sections 304 and 305 of the Resolution, shall apply to, among other things, the transfer and exchange of such definitive 2017 Series A Bonds and the method of payment of principal of and interest on such definitive 2017 Series A Bonds. Whenever DTC requests the District and the Trustee to do so, the Trustee and the District will cooperate with DTC in taking appropriate action after reasonable notice (i) to make available one or more separate definitive 2017 Series A Bonds evidencing the Bonds to any DTC Participant having 2017 Series A Bonds credited to its DTC account or (ii) to arrange for another securities depository to maintain custody of definitive 2017 Series A Bonds.

(c) Notwithstanding any other provision of the Resolution to the contrary, so long as any 2017 Series A Bond is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to the principal of and interest on such 2017 Series A Bond and all notices with respect to such 2017 Series A Bond shall be made and given to Cede & Co., as nominee of DTC, as provided in the Representation Letter. All of the provisions of the Representation Letter shall be deemed to be a part of this 2017 Series A Resolution as fully and to the same extent as if incorporated verbatim herein, with such changes, amendments, modifications, insertions, omissions or additions, as may be approved by 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 2017 Series A Bonds shall be payable at the designated corporate trust office of the Trustee under the Resolutions (or at the principal office of any successor Trustee appointed pursuant to the Resolutions) or at any other place which may be provided for such payment by the appointment of any other Paying Agent or Paying Agents as authorized by the Resolutions. The Trustee is hereby appointed the Paying Agent for the 2017 Series A Bonds. The interest on the 2017 Series A Bonds will be payable by

wired transfer or by check mailed by the Trustee on each Interest Payment Date.

SECTION 9. Redemption Terms and Prices.

(a) Optional Redemption — 2017 Series A Bonds. The 2017 Series A Bonds maturing on or after January 1, 2029 are subject to redemption at the option of the District prior to maturity, at any time on or after January 1, 2028, as a whole or in part by random selection by the Trustee within a maturity with the same interest rate from maturities selected by the District, at the Redemption Price of 100% of the principal amount of the 2017 Series A Bonds or portions thereof to be redeemed, together with accrued interest up to but not including the redemption date.

For so long as book entry only system of registration is in effect with respect to the 2017 Series A Bonds if less than all of the 2017 Series A Bonds of a particular maturity (and, if applicable, interest rate within a maturity) are to be redeemed, the particular Beneficial Owner(s) to receive payment of the redemption price with respect to beneficial ownership interests in such 2017 Series A Bonds shall be selected by DTC and the Direct Participants and/or the Indirect Participants.

(b) Notice of Redemption. Notice to Bondholders of such redemption shall be given by mail to the registered owners of the 2017 Series A Bonds to be redeemed, postage prepaid, not less than 25 days nor more than 50 days prior to the redemption date. Failure to give notice of redemption by mail, or any defect in such notice, will not affect the validity of the proceedings for the redemption of any other Electric System Revenue Bonds.

(c) 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 2017 Series A Bonds are to be redeemed, the Bond numbers (and, in the case of partial redemption, the respective principal amounts) of the 2017 Series A Bonds to be redeemed, (iv) that on the redemption date the Redemption Price will become due and payable upon each such 2017 Series A Bond or portion thereof called for redemption, and that interest with respect thereto shall cease to accrue from and after said date, (v) the CUSIP numbers of the 2017 Series A Bonds to be redeemed, (vi) the place where such 2017 Series A Bonds are to be surrendered for payment of the Redemption Price, (vii) the original date of execution and delivery of the 2017 Series A Bonds; (viii) the rate of interest payable with respect to each 2017 Series A Bond being

redeemed; (ix) the maturity date of each 2017 Series A Bond being redeemed; and (x) any other descriptive information needed to identify accurately the 2017 Series A Bonds being redeemed. Each further notice of redemption shall be sent, not less than 25 days nor more than 50 days prior to the redemption date, by electronic, telecopy, registered, certified or overnight mail to all Securities Depositories and to the Information Services. Upon the payment of the Redemption Price of 2017 Series A Bonds being redeemed, each check or other transfer of funds, issued for such purpose shall, to the extent practicable, bear or indicate the CUSIP number identifying, by issue and maturity, the 2017 Series A Bonds being redeemed with the proceeds of such check or other transfer.

(d) Except with respect to the unredeemed portion of any 2017 Series A Bond being redeemed in part, neither the Trustee nor any agent of the Trustee shall be obligated to register the transfer or exchange of any 2017 Series A Bond during the 15 days preceding the date on which notice of redemption of a 2017 Series A Bond is to be given on any Bond that has been called for redemption except the unredeemed portion of any 2017 Series A Bond being redeemed in part.

SECTION 10. Reserved

SECTION 11. Application of the Proceeds of 2017 Series A Bonds. In accordance with the Resolution, the proceeds of the 2017 Series A Bonds, together with other available funds, shall be applied simultaneously with the delivery of the 2017 Series A Bonds, as follows:

(a) $605,806,897.97 consisting of $569,719,101.16 from the proceeds of the 2017 Series A Bonds and $36,087,796.81 of other available funds, shall be deposited with the Trustee for the purchase of Investment Securities by the Trustee and to provide cash, for deposit in the Escrow Fund, as provided in paragraph 3 of the Escrow Deposit Agreement.

(b) $131,294,113.65 shall be deposited in the Construction Fund to pay Costs of Construction, (ii) $600,000.00 thereof shall be used to pay costs of issuance of the 2017 Series A Bonds, (iii) $193,706,863.00 shall be deposited in the General Fund to reimburse the District for previously incurred Costs of Construction and (iv) $1,312,538.79 shall be used to pay the Underwriter's discount.

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

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

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

SECTION 13. Form of 2017 Series A Bonds. Subject to the provisions of the Resolutions, the 2017 Series A Bonds and the Certificate of Authentication shall be in substantially the form of **Exhibit E** hereto.

SECTION 14. Notice of Redemption and Notice of Defeasance of the Bonds To Be Refunded. The District hereby irrevocably elects and directs the Trustee to redeem from the amounts deposited with the Trustee pursuant to Section 11 hereof the Bonds To Be Refunded in the amounts, on the dates and at the redemption prices set forth in the Escrow Deposit Agreement. The District directs the Trustee to give notice of redemption and notice of defeasance as required by Sections 4.05 and 12.01, respectively, of the Resolution. In addition to the foregoing notice, further notice shall be given by the Trustee as set forth below, but no defect in said further notice nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of a call for redemption if notice thereof is given as prescribed above. Each further notice of redemption given hereunder shall be dated and shall state: (i) the redemption date, (ii) the Redemption Price, (iii) the Bond numbers (and, in the case of a partial redemption, the respective principal amounts) of the Bonds To Be Refunded to be redeemed, (iv) that on the redemption date the Redemption Price will become due and payable upon each of such Bonds To Be Refunded called for redemption, and that interest with respect thereto shall cease to accrue from and after said date, (v) the CUSIP numbers of the Bonds To Be Refunded to be redeemed, (vi) the place where such Bonds To Be Refunded are to be surrendered for payment of the Redemption Price, (vii) the original date of execution and delivery of the Bonds To Be Refunded, (viii) the rate of interest payable with respect to each of the Bonds To Be Refunded being redeemed, (ix) the maturity date of each of the Bonds To Be Refunded being redeemed, and (x) any other descriptive information needed to identify accurately the Bonds To Be Refunded being redeemed. Each further notice of redemption shall be sent, not less than 25 days nor more than 50 days prior to the redemption date, by telecopy, registered, certified or overnight mail to all Securities Depositories and

to the Information Services. Upon the payment of the Redemption Price of the Bonds To Be Refunded being redeemed, each check or other transfer of funds, issued for such purpose shall, to the extent practicable, bear or indicate the CUSIP number identifying, by issue and maturity, the Bonds To Be Refunded being redeemed with the proceeds of such check or other transfer. For the purpose of satisfying the publication and/or mailing requirement of redemption and defeasance notices set forth in the Resolution, the Trustee may combine into one or more notices the notices required under the Resolution and may add to such notice or notices the information listed in (i) through (x) above as it deems necessary.

SECTION 15. Escrow Deposit Agreement. Upon the issuance of the 2017 Series A Bonds, the District intends to enter into the Escrow Deposit Agreement. The form of the Escrow Deposit Agreement in substantially the form attached hereto as **Exhibit C** is hereby approved. The President, or the Vice President, or the General Manager and Chief Executive Officer, or the Deputy General Manager Resources & Finance, or the Associate General Manager and Chief Financial Executive or the Senior Director of Financial Services and Corporate Treasurer of the District are hereby each authorized and directed to execute the Escrow Deposit Agreement and to deliver the Escrow Deposit Agreement to the Trustee as the Escrow Agent, and they are hereby each authorized and directed to execute and deliver the Escrow Deposit Agreement. All of the provisions of the Escrow Deposit Agreement, when executed and delivered by the District as authorized herein and when duly authorized and executed by the Trustee as Escrow Agent, shall be deemed to be a part of this 2017 Series A Resolution as fully and to the same extent as if incorporated verbatim herein, with such changes, amendments, modifications, insertions, omissions or additions, including the date of such Escrow Deposit Agreement, as may be approved by the President, or the Vice President, or the General Manager and Chief Executive Officer, or the Deputy General Manager Resources & Finance, or the Associate General Manager and Chief Financial Executive or the Senior Director of Financial Services and Corporate Treasurer of the District. Execution by said President or Vice President, or General Manager and Chief Executive Officer, or Associate General Manager and Chief Financial Executive or the Senior Director of Financial Services and Corporate Treasurer of the Escrow Deposit Agreement shall be deemed to be conclusive evidence of approval of any such changes, amendments, modifications, insertions, omissions or additions.

SECTION 16. Execution, Delivery and Authentication. The 2017 Series A Bonds shall be executed by imprinting thereon the manual or facsimile signature of the President or Vice President of the District and by affixing thereto the corporate seal of the District or facsimile thereof and said signature and seal shall be attested by the manual or facsimile signature of the Corporate Secretary or an Assistant Secretary of the District. The President or the Senior Director of Financial Services and Corporate Treasurer of the District or their designees are hereby authorized and directed to deliver the 2017 Series A Bonds executed in the foregoing manner to the Purchasers upon payment of the purchase price

specified in Section 17 hereof pursuant to the terms and conditions of the Purchase Contract. There is hereby authorized to be printed or otherwise reproduced on the back of, or attached to, each of the 2017 Series A Bonds, the opinion of Chiesa Shahinian & Giantomasi PC, Bond Counsel, the opinion of Polsinelli PC, Special Tax Counsel, and a certification executed by the manual or facsimile signature of the Corporate 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 2017 Series A Bonds and the refunding and defeasance of the Bonds To Be Refunded.

The Trustee (or its duly designated agent) as Authenticating Agent is hereby authorized and directed to manually execute the Certificate of Authentication appearing on the 2017 Series A Bonds. No 2017 Series A Bond shall be issued and delivered hereunder without the manual signature of an authorized representative of the Trustee or its Authenticating Agent appearing on such Certificate of Authentication.

SECTION 17. Purchase Contract. The Purchase Contract, which is attached hereto as **Exhibit D**, is hereby approved. The 2017 Series A Bonds are hereby sold to the Purchasers, pursuant to the terms and conditions of the Purchase Contract, at an aggregate purchase price of $895,320,077.81, calculated as follows: $735,240,000.00 aggregate principal amount of 2017 Series A Bonds, plus $161,392,616.60 Original Issue Premium, and less Underwriters' Discount in the amount of $1,312,538.79 and the President, or the Vice President, or the General Manager and Chief Executive Officer, or the Deputy General Manager Resources & Finance, or the Associate General Manager and Chief Financial Executive or the Senior Director of Financial Services and Corporate Treasurer or any Assistant Treasurer of the District are each hereby authorized and directed to execute the Purchase Contract and to deliver the same for and on behalf of the District to the Purchasers.

SECTION 18. Amortization of Financing Costs and Accounting Loss on Defeasance. In order to provide accurate accounting records and reports, (i) the issuance costs of approximately $600,000 resulting from the issuance of the 2017 Series A Bonds shall be amortized monthly over the life of the 2017 Series A Bonds; and (ii) the accounting loss of approximately $16,000,000 on the defeasance of the Bonds To Be Refunded shall be amortized monthly over the life of the Bonds To Be Refunded.

SECTION 19. Good Faith Deposit. The good faith deposit in the amount of $7,390,200 received by the District from the Purchasers shall be held by the District in accordance with the terms of the Purchase Contract.

SECTION 20. Approval of Final Official Statement and Continuing Disclosure Agreement. The preparation and distribution of the Preliminary Official Statement, dated October 23, 2017, as amended and supplemented,

attached hereto as **Exhibit F**, is hereby ratified and confirmed and the Preliminary Official Statement is deemed "final" as of its date, as supplemented, for purposes of Securities and Exchange Commission Rule 15c2-12(b)(1), except for certain omissions permitted thereunder and except for changes permitted by other applicable law. Authorized Officers and staff of the District are authorized to prepare and deliver to the Purchasers an Official Statement, dated the date hereof, relating to the 2017 Series A Bonds, substantially in the form attached hereto as **Exhibit G**. The form of the Continuing Disclosure Agreement attached hereto as **Exhibit H** is hereby approved. The President, or the Vice President, or the General Manager and Chief Executive Officer, or the Deputy General Manager Resources & Finance, or the Associate General Manager and Chief Financial Executive or the Senior Director of Financial Services and Corporate Treasurer or any Assistant Treasurer of the District are hereby each authorized and directed to execute and deliver the Official Statement, for and on behalf of the District, to the Purchasers, and the Continuing Disclosure Agreement to the Trustee. The Secretary or an Assistant Secretary of the District are each hereby authorized to attest signatures, if required.

SECTION 21. Reserved.

SECTION 22. Arbitrage Covenant. The District covenants and agrees that it shall not direct or permit any action which would cause any 2017 Series A Bond to be an "arbitrage bond" within the meaning of Section 148 of the Code or direct or permit any action inconsistent with the applicable regulations thereunder as amended from time to time and as applicable to the 2017 Series A Bonds. The provisions of this Section 22 shall survive any defeasance of the 2017 Series A Bonds pursuant to the Resolution.

SECTION 23. Tax Exemption. In order to maintain the exclusion from Federal gross income of interest on the 2017 Series A Bonds, the District shall comply with the provisions of the Code applicable to the 2017 Series A Bonds, including without limitation the provisions of the Code relating to the computation of the yield on investments of the gross proceeds of the 2017 Series A Bonds, reporting of earnings on the gross proceeds of the 2017 Series A Bonds, and rebate of excess earnings to the Department of the Treasury of the United States of America and shall not take any action or permit any action that would cause the interest on the 2017 Series A Bonds to be included in gross income under Section 103 of the Code or cause interest on the 2017 Series A Bonds to be an item of tax preference under Section 57 of the Code. In furtherance of the foregoing, the District shall comply with the Tax Certificate as to Arbitrage and the Provisions of Sections 141-150 of the Code, to be executed by the President, or the Vice President, or the General Manager and Chief Executive Officer, or the Deputy General Manager Resources & Finance, or the Associate General Manager and Chief Financial Executive or the Senior Director of Financial Services and Corporate Treasurer of the District at the time the 2017 Series A Bonds are issued, as such Tax Certificate may be amended from time to time, as a source of guidance for achieving compliance with the Code, and such officers are hereby authorized and directed to execute and deliver such Tax Certificate

for and on behalf of the District. The provisions of this Section 22 shall survive any defeasance of the 2017 Series A Bonds pursuant to the Resolution.

SECTION 24. Severability. If any one or more of the covenants or agreements provided in this 2017 Series A Resolution on the part of the District or any Fiduciary to be performed should be contrary to law, then such covenant or covenants or agreement or agreements shall be deemed severable from the remaining covenants and agreements, and shall in no way affect the validity of the other provisions of this 2017 Series A Resolution, so long as this 2017 Series A Resolution as so modified continues to express, without material change, the original intentions of the District or any Fiduciary as to the subject matter of this 2017 Series A Resolution and the deletion of such portion of this 2017 Series A Resolution will not substantially impair the respective benefits or expectations of the District or any Fiduciary.

SECTION 25. Effective Date. This 2017 Series A Resolution shall take effect immediately upon adoption.

Exhibit A

Opinions & Orders of the Arizona Corporation Commission

Order	Order Date

Exhibit B

Bonds To Be Refunded

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

Remaining Balance of 2009A Bonds:

Bond	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
Electric System Revenue Bonds, 2009 Series A:					
2009A Serial Bonds	01/01/2021	5.000%	16,080,000.00	01/01/2019	100.000
	01/01/2022	4.000%	6,310,000.00	01/01/2019	100.000
	01/01/2022	5.000%	13,345,000.00	01/01/2019	100.000
	01/01/2023	4.200%	3,365,000.00	01/01/2019	100.000
	01/01/2023	5.000%	17,200,000.00	01/01/2019	100.000
	01/01/2024	4.300%	955,000.00	01/01/2019	100.000
	01/01/2024	5.000%	20,625,000.00	01/01/2019	100.000
	01/01/2025	5.000%	22,625,000.00	01/01/2019	100.000
	01/01/2026	5.000%	23,820,000.00	01/01/2019	100.000
	01/01/2027	5.000%	24,890,000.00	01/01/2019	100.000
	01/01/2028	5.000%	26,360,000.00	01/01/2019	100.000
	01/01/2029	4.700%	2,675,000.00	01/01/2019	100.000
	01/01/2029	5.000%	24,560,000.00	01/01/2019	100.000
	01/01/2030	5.000%	29,470,000.00	01/01/2019	100.000
	01/01/2031	4.875%	29,185,000.00	01/01/2019	100.000
	01/01/2032	5.000%	34,125,000.00	01/01/2019	100.000
	01/01/2033	5.000%	28,795,000.00	01/01/2019	100.000
	01/01/2034	5.000%	44,310,000.00	01/01/2019	100.000
2009A Term Bond	01/01/2035	5.000%	18,370,000.00	01/01/2019	100.000
	01/01/2036	5.000%	39,450,000.00	01/01/2019	100.000
	01/01/2037	5.000%	37,265,000.00	01/01/2019	100.000
	01/01/2038	5.000%	39,680,000.00	01/01/2019	100.000
	01/01/2039	5.000%	48,180,000.00	01/01/2019	100.000
			551,640,000.00		

Non-Coronado Coal-Related 2009 Series A Bonds:

Bond	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
Electric System Revenue Bonds, 2009 Series A (Non-Coronado Coal-Related Bonds):					
2009A Serial Bonds	01/01/2020	3.500%	135,000.00	01/01/2019	100.000
	01/01/2020	5.000%	540,000.00	01/01/2019	100.000
	01/01/2021	3.800%	105,000.00	01/01/2019	100.000
	01/01/2021	5.000%	605,000.00	01/01/2019	100.000
	01/01/2022	4.000%	235,000.00	01/01/2019	100.000
	01/01/2022	5.000%	505,000.00	01/01/2019	100.000
	01/01/2023	4.200%	125,000.00	01/01/2019	100.000
	01/01/2023	5.000%	650,000.00	01/01/2019	100.000
	01/01/2024	4.300%	35,000.00	01/01/2019	100.000
	01/01/2024	5.000%	780,000.00	01/01/2019	100.000
	01/01/2025	5.000%	855,000.00	01/01/2019	100.000
	01/01/2026	5.000%	895,000.00	01/01/2019	100.000
	01/01/2027	5.000%	940,000.00	01/01/2019	100.000
	01/01/2028	5.000%	995,000.00	01/01/2019	100.000
	01/01/2029	4.700%	100,000.00	01/01/2019	100.000
	01/01/2029	5.000%	925,000.00	01/01/2019	100.000
	01/01/2030	5.000%	1,110,000.00	01/01/2019	100.000
	01/01/2031	4.875%	1,105,000.00	01/01/2019	100.000
	01/01/2032	5.000%	1,285,000.00	01/01/2019	100.000
	01/01/2033	5.000%	1,085,000.00	01/01/2019	100.000
	01/01/2034	5.000%	1,670,000.00	01/01/2019	100.000
2009A Term Bond	01/01/2035	5.000%	695,000.00	01/01/2019	100.000
	01/01/2036	5.000%	1,485,000.00	01/01/2019	100.000
	01/01/2037	5.000%	1,405,000.00	01/01/2019	100.000
	01/01/2038	5.000%	1,500,000.00	01/01/2019	100.000
	01/01/2039	5.000%	1,820,000.00	01/01/2019	100.000
			21,585,000.00		

EXHIBIT E

Form of Bond

Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the issuer or its agent for registration of transfer, exchange or payment, and any certificate issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), **ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.**

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

Number R $

UNITED STATES OF AMERICA
STATE OF ARIZONA COUNTY OF MARICOPA
SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT
SALT RIVER PROJECT ELECTRIC SYSTEM
REVENUE BOND, 2017 SERIES A

Interest Rate	Maturity Date	Dated Date	CUSIP
	January 1,	November 21, 2017	

Registered Owner: Cede & Co.

Principal Sum:

SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, Maricopa County, Arizona (herein called the "District"), a political subdivision and body politic and corporate organized and existing under the Constitution and laws of the State of Arizona, acknowledges itself indebted to, and for value received hereby

promises to pay, solely from the revenues and special funds of the District pledged therefor as hereinafter provided, to the registered owner identified above or registered assigns, on the maturity date set forth above, upon presentation and surrender of this 2017 Series A Bond (as hereinafter defined) at the designated corporate trust office of U.S. Bank National Association (such bank and any successor thereto being herein called the "Paying Agent"), the principal sum set forth above in any coin or currency of the United States of America which at the time of payment is legal tender for payment of public and private debts, and to pay solely from such revenues and special funds pledged therefor to the registered owner hereof interest on such principal sum from the dated date set forth above or from the most recent interest payment date to which interest has been paid or duly provided for, at the interest rate shown above per annum, payable by check mailed by the Trustee (hereinafter defined), on the first days of January and July (beginning January 1, 2018) in each year to the person in whose name this 2017 Series A Bond is registered as of the close of business on the immediately preceding December 15 or June 15 until the District's obligation with respect to the payment of such principal sum shall be discharged.

This Bond is one of a duly authorized series of Bonds of the District in the aggregate principal amount of $735,240,000 designated as its "Salt River Project Electric System Revenue Bonds, 2017 Series A" (herein called the "2017 Series A Bonds"), issued to refund certain of the District's outstanding Revenue Bonds pursuant to the Constitution and laws of the State of Arizona, including Article 7, Chapter 17, Title 48 of the Arizona Revised Statutes (herein called the "Act"), and under and pursuant to a resolution of the Board of Directors of the District, entitled "Supplemental Resolution Dated September 10, 2001 Authorizing an Amended and Restated Resolution Concerning Revenue Bonds," which became effective January 11, 2003 as amended and supplemented (the "Resolution Concerning Revenue Bonds"), and a resolution of the Board of Directors of the District, dated as of November 9, 2017 entitled "Resolution Authorizing the Issuance and Sale of $735,240,000 Salt River Project Electric System Revenue Bonds, 2017 Series A of the Salt River Project Agricultural Improvement and Power District, and Providing for the Form, Details and Terms Thereof" (the "2017 Series Resolution" and, collectively, the "Resolutions"). Each capitalized term not defined herein shall have the meaning set forth in the Resolutions. As provided in the Resolutions, the 2017 Series A Bonds, and the outstanding Electric System Revenue Bonds heretofore issued pursuant to the Resolution Concerning Revenue Bonds, as to principal and interest thereon are payable from and secured by a pledge of the revenues of the District's Electric System referred to in the Resolutions and other funds held or set aside under the Resolutions. Such pledge is subject and subordinate in all respects to the payment of operating expenses and to the prior pledge of such revenues to the repayment of certain federal loan agreements heretofore or hereafter entered into by the District. Copies of the Resolutions are on file at the office of the District and at the designated corporate trust office of U.S. Bank National Association, Phoenix, Arizona, as Trustee under the Resolutions, or its successor as Trustee (herein called the "Trustee"), and reference to the Resolutions and any and all supplements thereto and modifications and amendments thereof and to the Act is made for a description of the pledge and covenants securing the Bonds, the nature, extent and manner of enforcement of such pledge, the rights and remedies of the registered owners of the Bonds with respect thereto and the terms and conditions upon which the Bonds are issued and may be issued thereunder.

The 2017 Series A Bonds are being issued by means of a book-entry system, with no physical distribution of bond certificates to be made except as provided in the Resolutions. One bond certificate for each maturity (or, if applicable, each interest rate within a maturity), registered in the name of the Securities Depository nominee, Cede & Co., is being issued for deposit with the Securities Depository and immobilized in its custody. The book-entry system will evidence positions held in the 2017 Series A Bonds by the Securities Depository's participants; beneficial ownership of the 2017 Series A Bonds, in the principal amount of $5,000 or any integral multiple thereof, shall be evidenced in the records of such participants. Transfers of ownership shall be effected on the records of the Securities Depository and its participants pursuant to rules and procedures established by the Securities Depository and its participants. The District and the Trustee will recognize the Securities Depository nominee, while the registered owner of this 2017 Series A Bond, as the owner of this 2017 Series A Bond for all purposes, including payments of principal of and interest on, this 2017 Series A Bond, notices and voting. Transfers of principal and interest payments to participants of the Securities Depository will be the responsibility of the Securities Depository, and transfers of principal and interest payments to beneficial owners of the 2017 Series A Bonds by participants of the Securities Depository will be the responsibility of such participants and other nominees of such beneficial owners. The District will not be responsible or liable for such transfers of payments or for maintaining, supervising or reviewing the records maintained by the Securities Depository, the Securities Depository nominee, its participants or persons acting through such participants. While the Securities Depository nominee is the owner of this 2017 Series A Bond, notwithstanding any provisions herein contained to the contrary, payments of principal of and interest on this 2017 Series A Bond shall be made in accordance with existing arrangements among the Trustee, the District and the Securities Depository.

This 2017 Series A Bond is transferable as provided in the Resolutions; provided, however, that such transfer may be made only upon books kept for that purpose at the above mentioned office of the Trustee and at the office of any Paying Agent then acting as agent of the Trustee for such purpose, by the registered owner hereof in person, or by his duly authorized attorney, upon surrender of this 2017 Series A Bond together with a written instrument of transfer satisfactory to the Trustee duly executed by the registered owner or his duly authorized attorney, and thereupon a new registered Bond or Bonds, in authorized denominations and for the same aggregate principal amounts, shall be issued to the transferee in exchange therefor as provided in the Resolutions, and upon payment of the charges therein prescribed. The District and the Trustee may deem and treat the person in whose name this 2017 Series A Bond is registered as the absolute owner hereof for the purpose of receiving payment of, or on account of, the principal hereof and interest due hereon and for all other purposes.

The 2017 Series A Bonds are issuable in the form of registered Bonds in the denomination of $5,000 or any integral multiple of $5,000. The 2017 Series A Bonds, upon surrender thereof at the designated corporate trust office of the Trustee or at the office of any Paying Agent then acting as agent for the Trustee for such purpose at the option of the registered owner thereof, may be exchanged for an equal aggregate principal amount of 2017 Series A Bonds of any other authorized denomination, of the same stated maturity, in the same manner, subject to the conditions, and upon the payment of the charges, if any, provided in the Resolutions.

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

The 2017 Series A Bonds maturing on or after January 1, 2029 are subject to redemption at the option of the District prior to maturity, at any time on or after January 1, 2028, as a whole or in part by random selection by the Trustee within a maturity with the same interest rate from maturities selected by the District, at the Redemption Price of 100% of the principal amount of the 2017 Series A Bonds or portions thereof to be redeemed, together with accrued interest up to but not including the redemption date.

For so long as book entry only system of registration is in effect with respect to the 2017 Series A Bonds if less than all of the 2017 Series A Bonds of a particular maturity (and, if applicable, interest rate within a maturity) is to be redeemed, the particular Beneficial Owner(s) to receive payment of the redemption price with respect to beneficial ownership interests in such 2017 Series A Bonds shall be selected by DTC and the Direct Participants and/or the Indirect Participants.

Notice of redemption shall be mailed to the registered owners of the 2017 Series A Bonds not less than 25 days nor more than 50 days prior to the redemption date, all in the manner and upon the terms and conditions set forth in the Resolutions. If notice of redemption shall have been mailed as aforesaid, the 2017 Series A Bonds or portions thereof specified in said notice shall become due and payable on the redemption date therein fixed, and if, on the redemption date, moneys for the redemption of all the 2017 Series A Bonds or portions thereof to be redeemed, together with interest to the redemption date, shall be available for such payment on said date, then from and after the redemption date interest on such Bonds or portions thereof so called for redemption shall cease to accrue and be payable.

This 2017 Series A Bond shall not be entitled to any benefit under the Resolutions or be valid or become obligatory for any purpose until this 2017 Series A Bond shall have been authenticated by the manual signature of a duly authorized signatory of the Trustee or its duly authorized agent on the Certificate of Authentication.

It is hereby certified and recited that all conditions, acts and things required by law and the Resolutions to exist, to have happened and to have been performed precedent to and in the issuance of this 2017 Series A Bond, exist, have happened and have been performed and that the 2017 Series A Bonds, together with all other indebtedness of the District, are within every debt and other limit prescribed by the laws of the State of Arizona.

IN WITNESS WHEREOF, SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, by authority of the Act, has caused this 2017 Series A Bond to be executed by the manual or facsimile signature of its President or Vice President thereunto duly authorized and the corporate seal of said District or facsimile thereof to be hereunto affixed and attested by the manual or facsimile signature of its Secretary or Assistant Secretary, all as of November 21, 2017.

(SEAL)

SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT

Attest:

By: _____
, President

By: _____
, Secretary

CERTIFICATE OF AUTHENTICATION

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

DATED: November 21, 2017

U.S. Bank National Association, as Trustee

By:_____
, Authorized Signatory

The undersigned Secretary of the Salt River Project Agricultural Improvement and Power District hereby certifies that the following is a full, true and correct copy of the original legal opinion of Chiesa Shahinian & Giantomasi PC, as to the validity and security of the Series of Bonds of which the within Bond is one and the original legal opinion of Polsinelli PC, as to certain tax matters with respect to the Bonds, dated as of the date of delivery of said Bonds and delivered as of said date.

_____

Secretary

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

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

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

Dated:

Signature Guaranteed by:

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

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

EXHIBIT "3"

CERTIFICATE

I, JOHN M. FELTY, 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 adopted by the District Council at a meeting duly held on November 9th, 2017, 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 10th day of January 2018.

John M. Felty
Corporate Secretary

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

RESOLUTION OF THE COUNCIL APPROVING THE PRIVATE SALE BY THE SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT AND RATIFYING AND CONFIRMING TERMS AND CONDITIONS OF $735,240,000 SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS, 2017 SERIES A

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

WHEREAS, the Board adopted on this date its "RESOLUTION AUTHORIZING THE ISSUANCE AND SALE OF $735,240,000 SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS, 2017 SERIES A OF THE SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, AND PROVIDING FOR THE FORM, DETAILS AND TERMS THEREOF" (the "2017 Series A Resolution") (the form of which is attached hereto as **Exhibit A**), that, among other things, fixes the form, terms and conditions of the 2017 Series A Bonds, authorizes the issuance of the 2017 Series A Bonds and the private sale of the 2017 Series A Bonds to purchasers represented by and including Goldman, Sachs & Co.,LLC, Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Securities LLC, and Morgan Stanley & Co. LLC (hereinafter collectively referred to as the "2017 Series A Purchasers") pursuant to the terms and conditions of a Purchase Contract, dated November 9, 2017, by and among the District and the 2017 Series A Purchasers (the "2017 Series A Purchase Contract") (the form of which is attached hereto as **Exhibit B**); and

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

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

The maturities, redemption provisions and other terms and conditions of the 2017 Series A Bonds, as contained in the 2017 Series A Resolution, are hereby ratified, confirmed and approved.

The private sale of $735,240,000 2017 Series A Bonds to the 2017 Series A Purchasers, pursuant to the 2017 Series A Resolution and the 2017 Series A Purchase Contract at an aggregate purchase price of $895,320,077.81 calculated as follows: $735,240,000.00 aggregate

principal amount of 2017 Series A Bonds, plus $161,392,616.60 Original Issue Premium, less Underwriters' Discount in the amount of $1,312,538.79 is hereby ratified, confirmed and approved.

This resolution shall take effect immediately.

EXHIBIT "4"

Execution Copy

SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER DISTRICT, ARIZONA

Salt River Project Electric System Revenue Bonds,

$735,240,000
2017 Series A

PURCHASE CONTRACT

November 9, 2017

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

Ladies and Gentlemen:

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

1. (a) Upon the terms and conditions and upon the basis of the representations hereinafter set forth, the Purchasers, jointly and severally, hereby agree to purchase from you, and you hereby agree to sell to the Purchasers, all (but not less than all) of your Salt River Project Electric System Revenue Bonds, 2017 Series A (the "Bonds"), dated their date of delivery, at an aggregate price of $895,320,077.81, which reflects an original issue premium of $161,392,616.60 and an underwriters' discount of $1,312,538.79. The Bonds shall bear interest payable January 1, 2018, and thereafter semi-annually in each year on January 1 and July 1, at the rate or rates and shall mature on the dates and in the principal amounts set forth on the inside front cover of the Official Statement relating to the Bonds, dated November 9, 2017 (the "Official Statement"). Capitalized terms used herein which are not otherwise defined have the meaning given such terms in the Official Statement.

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

became effective January 11, 2003, as amended and supplemented (the "Amended and Restated Resolution Concerning Revenue Bonds"), and the Resolution Authorizing the Issuance and Sale of $735,240,000 Salt River Project Electric System Revenue Bonds, 2017 Series A of the Salt River Project Agricultural Improvement and Power District, and Providing for the Form, Details and Terms Thereof adopted by the Board of Directors of the District on November 9, 2017, with only such changes as shall be mutually agreed upon in writing between you and the undersigned. Such resolution in the form adopted by the Board of Directors of the District (including any such change so made) is herein called the "Supplemental Resolution," and such Amended and Restated Resolution Concerning Revenue Bonds, as theretofore amended and supplemented and as further amended by the Supplemental Resolution, is hereinafter called the "Resolution." The Bonds are subject to redemption at the times, in the manner and upon the terms provided in the Resolution. Pursuant to the Resolution, U.S. Bank National Association (herein called the "Trustee"), has been appointed trustee.

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

(a) Goldman Sachs & Co. LLC, as representative of the Purchasers (the "Representative"), on behalf of the Purchasers, agrees to assist the District in establishing the issue price of the Bonds and shall execute and deliver to the District at Closing an "issue price" or similar certificate, together with the supporting pricing wires or equivalent communications, substantially in the form attached hereto as Annex B, with such modifications as may be appropriate or necessary, in the reasonable judgment of the Representative, the District and Polsinelli PC, as special tax counsel ("Special Tax Counsel"), to accurately reflect, as applicable, the sales price or prices or the initial offering price or prices to the public of the Bonds.

(b) [Except as otherwise set forth in Schedule I hereto], the District will treat the first price at which 10% of each maturity of the Bonds (the "10% test") is sold to the public as the issue price of that maturity (if different interest rates apply within a maturity, each separate CUSIP number within that maturity will be subject to the 10% test). At or promptly after the execution of this Purchase Contract, the Representative shall report to the District the price or prices at which the Purchasers have sold to the public each maturity of the Bonds. If at that time the 10% test has not been satisfied as to any maturity of the Bonds, the Representative agrees to report within five business days after the execution of the Purchase Contract and thereafter to the District the prices at which Bonds of that maturity have been sold by the Purchasers to the public. That reporting obligation shall continue, whether or not the Closing Date has occurred, until the 10% test has been satisfied as to the Bonds of that maturity or until all Bonds of that maturity have been sold to the public.

[Schedule I and subsection (c) shall apply only if the Representative agrees to apply the hold-the-offering-price rule, as described below]

(c) The Representative confirms that the Purchasers have offered the Bonds to the public on or before the date of this Purchase Contract at the offering price or prices (the "initial offering price"), or at the corresponding yield or yields set forth in Schedule II attached hereto, except as otherwise set forth therein. Schedule I also sets forth, as of the date of this Purchase

Contract, the maturities, if any, of the Bonds for which the 10% test has not been satisfied and for which the District and the Representative, on behalf of the Purchasers, agree that the restrictions set forth in the next sentence shall apply, which will allow the District to treat the initial offering price to the public of each such maturity as of the sale date as the issue price of that maturity (the "hold-the-offering-price rule"). So long as the hold-the-offering-price rule remains applicable to any maturity of the Bonds, the Purchasers will neither offer nor sell unsold Bonds of that maturity to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

(i) the close of the fifth business day after the sale date; or

(ii) the date on which the Purchasers have sold at least 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

By the fifth business day after the sale date, he Representative shall advise the District that the Purchasers have sold 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public, if that occurs prior to the close of the fifth business day after the sale date.

The District acknowledges that, in making the representation set forth in this subsection, the Representative will rely on (i) the agreement of each Purchaser to comply with the hold-the-offering-price rule, as set forth in an agreement among Purchasers (if any) and the related pricing wires, (ii) in the event a selling group has been created in connection with the initial sale of the Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the hold-the-offering-price rule, as set forth in a selling group agreement and the related pricing wires, and (iii) in the event that an Purchaser is a party to a retail distribution agreement that was employed in connection with the initial sale of the Bonds to the public, the agreement of each broker-dealer that is a party to such agreement to comply with the hold-the-offering-price rule, as set forth in the retail distribution agreement and the related pricing wires. The District further acknowledges that each Purchaser shall be solely liable for its failure to comply with its agreement regarding the hold-the-offering-price rule and that no Purchaser shall be liable for the failure of any other Purchaser, or of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a retail distribution agreement, to comply with its corresponding agreement regarding the hold-the-offering-price rule as applicable to the Bonds.

(d) The Representative confirms that:

(i) any agreement among underwriters, any selling group agreement and each retail distribution agreement (to which the Representative is a party) relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each Purchaser, each dealer who is a member of the selling group, and each broker-dealer that is a party to such retail distribution agreement, as applicable, to (i) report the prices at which it sells to the public the unsold Bonds of each maturity allotted to it until it is notified by the Representative that either the 10% test has been satisfied as to the Bonds of that maturity or all bonds of that maturity have been sold to the public and (ii) comply with the hold-the-offering-price rule, if applicable, in each

case if and for so long as directed by the Representative and as set forth in the related pricing wires; and

(ii) any agreement among underwriters relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each Purchaser that is a party to a retail distribution agreement to be employed in connection with the initial sale of the Bonds to the public to require each broker-dealer that is a party to such retail distribution agreement to (i) report the prices at which it sells to the public the unsold Bonds of each maturity allotted to it until it is notified by the Representative or the Purchaser that either the 10% test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the public and (ii) comply with the hold-the-offering–price rule, if applicable, in each case if and for so long as directed by the Representative or the Purchaser and as set forth in the related pricing wires.

(e) The Purchasers acknowledge that sales of any Bonds to any person that is a related party to an underwriter shall not constitute sales to the public for purposes of this section. Further, for purposes of this section:

(i) "public" means any person other than an underwriter or a related party;

(ii) "underwriter" means (A) any person that agrees pursuant to a written contract with the District (or with the Representative to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the public);

(iii) a purchaser of any of the Bonds is a "related party" to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (A) at least 50% common ownership of the voting power of the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (B) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (C) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other); and

(iv) "sale date" means the date of execution of this Purchase Contract by all parties.

3. Delivered herewith by Goldman Sachs & Co. LLC (the "Representative"), on behalf of the Purchasers, is a corporate check payable to the order of the District in the amount equal to $7,390,200 (the "Check"), which the District agrees to hold uncashed as security for the performance by the Purchasers of their obligation to accept and pay for the Bonds at the Closing (as such term is defined in Section 6(b) hereof), and in the event of their compliance with such

obligation the Check shall be returned to the Representative. In the event of your failure to deliver the Bonds at the Closing, or if you shall be unable at or prior to the date of the Closing to satisfy the conditions to the obligations of the Purchasers contained herein, or if the obligations of the Purchasers shall be terminated for any reason permitted by this Purchase Contract, the Check, shall be immediately returned to the undersigned. The return of the Check shall constitute a full release and discharge of all claims and damages against the District for such failure to deliver the Bonds at the Closing. If the Purchasers fail (other than for a reason permitted hereunder) to accept and pay for the Bonds upon tender thereof by you at the Closing as herein provided, the Check held by the District shall be retained, cashed and collected by the District as and for full liquidated damages for such failure and for any and all defaults on the part of the Purchasers, and the retention of such moneys shall constitute a full release and discharge of all claims and damages for such failure and for any and all such defaults for the Bonds.

4. (a) The District has previously delivered to the Purchasers the Preliminary Official Statement dated October 23, 2017, as amended and supplemented (the "Preliminary Official Statement"), which the District has deemed "final" as of its date for purposes of Securities and Exchange Commission Rule 15c2-12(b)(1), except for certain omissions permitted thereunder and except for changes permitted by other applicable law. The District hereby ratifies, confirms and approves the use of the Preliminary Official Statement and the Official Statement, in printed or electronic form, for distribution to prospective purchasers and investors.

(b) As soon as practicable after its preparation, but in no event later than seven business days after the District's acceptance of this Purchase Contract and in order to comply with Rule 15c2-12 and other applicable securities laws, rules or regulations, you shall deliver to the undersigned: (i) four executed copies of the Official Statement which is a "final official statement" for purposes of Rule 15c2-12(e)(3), in "designated electronic format" (as defined in MSRB Rule G-32), which copies of the Official Statement are executed on behalf of the District by its President or Vice President and its General Manager and Chief Executive Officer or Associate General Manager and Chief Financial Executive, or its Senior Director of Financial Services and Corporate Treasurer or any Assistant Treasurer, and include as an Appendix thereto the combined financial statements of the District and the Association as of and for the fiscal years ended April 30, 2017 and 2016, together with the report of PricewaterhouseCoopers LLP, dated July 13, 2017, signed and delivered by that firm with respect to the fiscal years ended April 30, 2017 and 2016; (ii) a sufficient quantity of conformed copies of the Official Statement to enable the Purchasers to comply with the rules of the Securities and Exchange Commission and the Municipal Securities Rulemaking Board.

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

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

5. (a) You represent and warrant to each of the Purchasers that (i) at its date, the statements and information contained in the Preliminary Official Statement were true and correct

and such Preliminary Official Statement did not contain any untrue statement of a material fact or omit any statement or information which should be included therein for the purposes for which the Preliminary Official Statement is to be used or which is necessary to make the statements and information contained therein not misleading; (ii) both at its date and at the time of the Closing, the statements and information contained in the Official Statement (as the same may be supplemented or amended with our approval) will be true and correct and such Official Statement will not contain an untrue statement of a material fact or omit any statement or information which should be included therein for the purposes for which the Official Statement is to be used or which is necessary to make the statements and information contained therein not misleading; and (iii) the District has not failed during the previous five years to comply in all material respects with any previous undertakings in a written continuing disclosure contract or agreement under Rule 15c2-12.

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

6. (a) At 11:00 A.M., New York time, on November 21, 2017, or at such other time as shall have been mutually agreed upon by you and the undersigned, you will deliver, or cause to be delivered, the Bonds, to the undersigned through The Depository Trust Company ("DTC"), in definitive form, bearing proper CUSIP numbers, duly executed on your behalf, together with the other documents hereinafter mentioned as delivered to the undersigned, and the undersigned, on behalf of the Purchasers, will accept such delivery and pay the purchase price of the Bonds as set forth in Section 1(a) hereof by delivering to the District a wire transfer, or at the discretion of the District, a certified or official bank check or checks, for such purchase price payable in federal funds to the order of the District. The District shall apply the funds referred to in this Section 6(a) for the purpose stated in the Official Statement.

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

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

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

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

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

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

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

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

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

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

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

(d) At the Closing, the undersigned shall receive the unqualified opinion of Chiesa Shahinian & Giantomasi PC, as Bond Counsel to the District, dated the date of Closing, to the effect that:

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

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

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

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

(v) on the basis of the documents which have been reviewed, to the best of their knowledge, information contained in the Preliminary Official Statement and the Official Statement under the captions "INTRODUCTION," "PLAN OF FINANCE," "THE 2017 SERIES A BONDS" (as contained in the Preliminary Official Statement), "SECURITY FOR 2017 SERIES A BONDS" (as contained in the Preliminary Official Statement), "THE 2017 SERIES A BONDS" (as contained in the Official Statement), "SECURITY FOR 2017 SERIES A BONDS" (as contained in the Official Statement), "LEGALITY OF REVENUE BONDS FOR INVESTMENT" and the first paragraph under the caption "CONTINUING DISCLOSURE", and "Appendix B - Summary of the Resolution," with

respect to legal matters relating to the District and its powers, and the statutes referred to therein, and legal and governmental proceedings, contracts and other documents, did not, as of the respective dates thereof and, with respect to the Official Statement, on the date of the Closing does not, contain any untrue statement of material fact and is not materially misleading and does not omit any statement which should be included or referred to therein in order to make the statements made, in light of the circumstances under which they are made, not misleading.

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

(e) At the Closing, the undersigned shall receive the unqualified opinion of Michael O'Connor, Associate General Manager and Chief Legal Executive, dated the day of the Closing, to the effect that:

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

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

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

(iv) on the basis of the documents which have been reviewed, to the best of his knowledge, the information in the Preliminary Official Statement and the Official Statement with respect to statutes, regulations (but not including any provisions of Arizona law applicable to tax or securities matters or federal law applicable to tax or

securities matters), legal and governmental proceedings and contracts, did not, as of the respective dates thereof and, with respect to the Official Statement, as of the date of Closing does not, contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they are made, not misleading.

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

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

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

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

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

(g) At the time of the execution of this Purchase Contract and at the Closing, the undersigned shall receive a letter, dated the date of delivery thereof, of PricewaterhouseCoopers LLP, in a form satisfactory to the undersigned and PricewaterhouseCoopers LLP.

(h) At the Closing, the undersigned shall receive a letter, dated within five business days of the Closing, of PricewaterhouseCoopers LLP, stating that they agree to the use of their report dated July 13, 2017 for inclusion in Appendix A of the Preliminary Official Statement and the Official Statement.

(i) At the Closing, the undersigned shall receive a certificate, dated the date of the Closing, signed by the President or the Vice President and the General Manager and Chief Executive Officer or the Associate General Manager and Chief Financial Executive to the effect that, except as disclosed in the Official Statement, no litigation or other proceedings are pending or, to the knowledge of any of the signers of such certificate, threatened in any court or other tribunal of competent jurisdiction, State or Federal, in any way (i) restraining or enjoining the issuance, sale or delivery of any of the Bonds, or (ii) questioning or affecting the validity of this Purchase Contract, the Bonds, the Continuing Disclosure Agreement, the Resolution or the pledge by the District to the Trustee of any moneys or security provided under the Resolution, or (iii) questioning or affecting the validity of the proceedings for the authorization, sale, execution,

registration or delivery of the Bonds, or (iv) questioning or affecting the organization of the Board of Directors of the District in office at any time on or prior to the date of the Closing or the legal or corporate existence of the District, or the title to office of the directors or officers thereof, or materially adversely affecting any powers of the District under the statutes of the State of Arizona, including, without limitation, the power of the District to construct and operate its Electric System and to fix and collect rates, fees and other charges in connection therewith.

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

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

(l) At or prior to the Closing, the undersigned shall have received evidence that the Bonds have received credit ratings of "Aa1" and "AA" from Moody's Investors Service, Inc. and S&P Global Ratings, respectively.

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

(n) At the Closing, the undersigned shall receive the opinions of Chiesa Shahinian & Giantomasi PC, as Bond Counsel to the District, and Polsinelli PC, Special Tax Counsel, addressed to the undersigned and dated the day of the Closing, in substantially the same form attached as Appendix C to the Official Statement.

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

(p) At the Closing, the undersigned shall receive a certificate, dated the date of the Closing, signed by an Authorized Officer (as defined in the Resolution) of the District,

evidencing full compliance with the provisions of clauses (a) and (b) of subsection 1 of Section 2.04 of the Amended and Restated Resolution Concerning Revenue Bonds.

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

(r) At the Closing, the undersigned shall receive (i) the Letter of Instructions and Escrow Deposit Agreement as to Payment of Refunded Bonds to be dated November 21, 2017, directing the redemption of the Refunded Bonds (as defined in the Official Statement), (ii) a verification report from Causey Demgen & Moore Inc., a firm of independent public accountants and (iii) the opinion of Chiesa Shahinian & Giantomasi PC relating to the defeasance of the Refunded Bonds, in form and substance satisfactory to the Purchasers.

(s) At the Closing, the undersigned shall receive a 10b-5 letter from Polsinelli PC, Special Tax Counsel, with respect to the tax disclosure on the cover of the Preliminary Official Statement and the Official Statement and the information contained in the Preliminary Official Statement and the Official Statement under the caption "TAX MATTERS".

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

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

8. The Purchasers shall be under no obligation to pay any expenses incident to the performance of the obligations of the District hereunder. The District shall pay the fees and disbursements of Jennings, Strouss & Salmon, P.L.C., of Chiesa Shahinian & Giantomasi PC, of Polsinelli PC, of PricewaterhouseCoopers LLP, of Public Financial Management ("PFM"), financial consultant to the District, and of any consultant or engineer in respect of any matters contemplated by this Purchase Contract not directly retained by the undersigned; the cost of printing or otherwise preparing and furnishing to the undersigned the documents specified in Section 4 hereof; the cost of preparation and issuance of the Bonds and any charges made by rating agencies for the rating of the Bonds. The District shall be under no obligation to pay any expenses incident to the performance of the obligations of the Purchasers hereunder, other than those included in the expense component of the underwriters' discount. The Purchasers shall pay the cost of printing any supplement or amendment to the Official Statement made in accordance with Section 5(b) hereof, the cost of printing the Agreement Among Underwriters and Purchase Contract; the cost of all Blue Sky memoranda used by them; all advertising expenses in

connection with the public offering of the Bonds; and the fees and disbursements of Katten Muchin Rosenman LLP, counsel to the Purchasers.

9. The District acknowledges and agrees that: (i) the primary role of the Representative, as an underwriter, is to purchase securities, for resale to investors, in an arm's-length commercial transaction between the District and the Representative and that the Representative has financial and other interests that differ from those of the District; (ii) the Representative is not acting as a municipal advisor, financial advisor, or fiduciary to the District and has not assumed any advisory or fiduciary responsibility to the District with respect to the transaction contemplated hereby and the discussions, undertakings and procedures leading thereto (irrespective of whether the Representative has provided other services or is currently providing other services to the District on other matters); (iii) the only obligations the Representative has to the District with respect to the transaction contemplated hereby expressly are set forth in this Purchase Contract; and (iv) the District has consulted its own financial and/or municipal, legal, accounting, tax and other advisors, as applicable, to the extent it deems appropriate. The District has retained PFM as its financial consultant.

10. This Purchase Contract constitutes the entire agreement between the parties hereto with respect to the matters covered hereby, and supersedes all prior agreements and understandings between the parties. This Purchase Contract shall only be amended, supplemented or modified in a writing signed by both of the parties hereto.

11. Any notice or other communication to be given to the District under this Purchase Contract may be given by delivering the same in writing at its address set forth above, and any notice or other communication to be given to the Purchasers under this Purchase Contract may be given by delivering the same in writing to Goldman Sachs & Co. LLC, 200 West Street, 30th Floor, New York, New York, 10282, Attention: Jill Toporek.

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

GOLDMAN SACHS & CO. LLC
CITIGROUP GLOBAL MARKETS INC.
J.P. MORGAN SECURITIES LLC
MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED
MORGAN STANLEY & CO. LLC

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

By: _____
Name: Jill Toporek
Title: Managing Director

Accepted by resolution adopted at
Tempe, Arizona, on November 9, 2017

SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT

By: _____

Annex A to Purchase Contract

The Purchasers

GOLDMAN SACHS & CO. LLC
CITIGROUP GLOBAL MARKETS INC.
J.P. MORGAN SECURITIES LLC
MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED
MORGAN STANLEY & CO. LLC

EXHIBIT "5"

NEW ISSUE **FULL BOOK-ENTRY**

In the opinion of Special Tax Counsel, under existing statutes and court decisions and assuming compliance with the tax covenants described herein, and the accuracy of certain representations and certifications made by the Salt River Project Agricultural Improvement and Power District, interest on the 2017 Series A Bonds is excluded from gross income of the owners thereof for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). In the further opinion of Special Tax Counsel, interest on the 2017 Series A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations; such interest, however is included in adjusted current earnings in calculating alternative minimum taxable income for purposes of the alternative minimum tax imposed under the Code on certain corporations. In the opinion of Special Tax Counsel, interest on the 2017 Series A Bonds is exempt from income taxes imposed by the State of Arizona. See "TAX MATTERS" herein regarding certain other tax considerations.

$735,240,000
SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, ARIZONA
Salt River Project Electric System Revenue Bonds, 2017 Series A

Dated: Date of Delivery **Due: As shown on inside cover**

The Salt River Project Electric System Revenue Bonds, 2017 Series A (the "2017 Series A Bonds") are being issued pursuant to the Supplemental Resolution Dated September 10, 2001, authorizing an Amended and Restated Resolution Concerning Revenue Bonds, which became effective January 11, 2003, as amended and supplemented (the "Resolution"). The 2017 Series A Bonds, together with heretofore and hereafter issued Revenue Bonds, are payable from and secured by a pledge of and lien on all Revenues of the Salt River Project Agricultural Improvement and Power District (the "District") from the ownership and operation of the Electric System after the payment of Operating Expenses.

The 2017 Series A Bonds will be issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2017 Series A Bonds. Individual purchases of interests in the 2017 Series A Bonds may be made in book-entry form only, in the principal amount of $5,000 or any integral multiple thereof. Purchasers of such interests will not receive certificates representing their interests in the 2017 Series A Bonds. Interest with respect to the 2017 Series A Bonds is payable January 1 and July 1 of each year, commencing January 1, 2018.

The principal of, redemption price, if any, and interest on the 2017 Series A Bonds are payable by U.S. Bank National Association, as Trustee, and interest will be payable by check mailed by the Trustee to the registered owner of each 2017 Series A Bond as of the immediately preceding December 15 or June 15. So long as Cede & Co. is the registered owner, the Trustee will pay such principal and redemption price, if any, of and interest on the 2017 Series A Bonds to DTC, which will remit such principal, redemption price, if any, and interest to its Direct Participants for subsequent disbursement to the Beneficial Owners of the 2017 Series A Bonds. The 2017 Series A Bonds are subject to optional redemption as described herein. See "THE 2017 SERIES A BONDS — Redemption" herein.

The 2017 Series A Bonds do not constitute general obligations of the Salt River Project Agricultural Improvement and Power District or obligations of the State of Arizona, and no holder of any of the 2017 Series A Bonds has the right to compel the exercise of the taxing powers of the District to pay the 2017 Series A Bonds or the interest thereon.

This cover page contains certain information for quick reference only. It is not intended to be a summary of all factors relating to an investment in the 2017 Series A Bonds. Investors should read this Official Statement in its entirety before making an investment decision.

The 2017 Series A Bonds are offered when, as and if issued, and subject to the approval of legality by Chiesa Shahinian & Giantomasi PC, Bond Counsel. Certain legal matters will be passed upon for the District by Polsinelli PC, Special Tax Counsel, and for the Underwriters by Katten Muchin Rosenman LLP. It is expected that the 2017 Series A Bonds will be available for delivery through the facilities of DTC on or about November 21, 2017.

Goldman Sachs & Co. LLC

BofA Merrill Lynch **Citigroup** **Morgan Stanley** **J.P. Morgan**

Dated: November 9, 2017

SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS, 2017 SERIES A

Serial Bonds

Maturity (January 1)	Principal Amount	Interest Rate	Yield	CUSIP Number*
2021	$24,950,000	5.000%	1.240%	79574CCE1
2022	25,380,000	5.000	1.340	79574CCF8
2023	27,495,000	5.000	1.470	79574CCG6
2024	33,860,000	5.000	1.590	79574CCH4
2025	23,520,000	5.000	1.710	79574CCJ0
2026	39,115,000	5.000	1.830	79574CCK7
2027	35,775,000	5.000	1.950	79574CCL5
2028	44,050,000	5.000	2.060	79574CCM3
2029	33,805,000	5.000	2.160†	79574CCN1
2030	59,850,000	5.000	2.260†	79574CCP6
2031	46,060,000	5.000	2.370†	79574CCQ4
2032	29,620,000	5.000	2.430†	79574CCR2
2033	46,720,000	5.000	2.480†	79574CCS0
2034	42,520,000	5.000	2.530†	79574CCT8
2035	31,340,000	5.000	2.560†	79574CCU5
2036	44,575,000	5.000	2.590†	79574CCV3
2037	56,005,000	5.000	2.600†	79574CCW1
2038	48,745,000	5.000	2.610†	79574CCX9
2039	41,855,000	5.000	2.620†	79574CCY7

† Priced to first call date of January 1, 2028 at par.

* CUSIP numbers have been assigned by Standard & Poor's CUSIP Service Bureau, a division of the McGraw-Hill Companies, Inc. and are included solely for the convenience of the Holders of the 2017 Series A Bonds. The District is not responsible for the selection or use of these CUSIP numbers, and no representation is made as to their correctness on the 2017 Series A Bonds or as indicated above. The CUSIP number for a specific maturity is subject to change after the issuance of the 2017 Series A Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as the result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the 2017 Series A Bonds.

MANAGEMENT OF THE DISTRICT

BOARD OF DIRECTORS

David Rousseau, President

Robert C. Arnett	Wendy L Marshall
William W. Arnett	Mark V. Pace
Nicholas R. Brown	Paul E. Rovey
Deborah S. Hendrickson	John M. White Jr.
Mario J. Herrera	Leslie C. Williams
Paul W. Hirt	Stephen H. Williams
Kevin J. Johnson	Keith B. Woods

PRINCIPAL OFFICERS AND OTHER EXECUTIVES

Officers:

David Rousseau	President
John R. Hoopes	Vice President
John M. Felty	Corporate Secretary
Steven J. Hulet	Corporate Treasurer & Senior Director of Financial Services

Executive Management:

Mark B. Bonsall	General Manager & Chief Executive Officer
Michael Hummel	Deputy General Manager Resources & Finance
Michael W. Lowe	Deputy General Manager Customer Operations & Services & Chief Customer Executive
Alaina Chabrier	Associate General Manager & Chief Communications Executive
Peter M. Hayes	Associate General Manager & Chief Public Affairs Executive
Aidan J. McSheffrey	Associate General Manager & Chief Financial Executive
Michael J. O'Connor	Associate General Manager & Chief Legal Executive
David C. Roberts	Associate General Manager, Water Resources

SPECIAL SERVICES

Legal Advisors	*Jennings, Strouss & Salmon, P.L.C.*
Independent Accountants	*PricewaterhouseCoopers LLP*
Bond Counsel	*Chiesa Shahinian & Giantomasi PC*
Special Tax Counsel	*Polsinelli PC*
Financial Consultant	*Public Financial Management*
Verification Services	*Causey Demgen & Moore Inc.*
Trustee and Paying Agent	*U.S. Bank National Association*

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy the 2017 Series A Bonds described herein in any jurisdiction to any person to whom it is unlawful to make such an offer. No dealer, broker, salesman or other person has been authorized by the Salt River Project Agricultural Improvement and Power District (the "District") or the Underwriters to give any information or to make any representations with respect to the 2017 Series A Bonds other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the District or the Underwriters.

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

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

IN CONNECTION WITH THE OFFERING OF THE 2017 SERIES A BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2017 SERIES A BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME WITHOUT PRIOR NOTICE. THE UNDERWRITERS MAY OFFER AND SELL THE 2017 SERIES A BONDS TO CERTAIN DEALERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

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

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

SUMMARY STATEMENT

THIS SUMMARY STATEMENT IS SUBJECT IN ALL RESPECTS TO THE MORE COMPLETE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT AND SHOULD NOT BE CONSIDERED A COMPLETE STATEMENT OF THE FACTS MATERIAL TO MAKING AN INVESTMENT DECISION. THE OFFERING OF THE 2017 SERIES A BONDS TO POTENTIAL INVESTORS IS MADE ONLY BY MEANS OF THE ENTIRE OFFICIAL STATEMENT. CERTAIN TERMS USED HEREIN ARE DEFINED IN THIS OFFICIAL STATEMENT.

District:	The Salt River Project Agricultural Improvement and Power District (the "District") is an agricultural improvement district, organized under the laws of the State of Arizona, which provides electric service in a 2,900 square-mile service territory in parts of Maricopa, Gila and Pinal Counties in Arizona, plus mine loads in an adjacent 2,400 square-mile area in Gila and Pinal Counties.
The 2017 Series A Bonds:	The 2017 Series A Bonds are being offered in the principal amount per maturity and bearing interest at the rates set forth on the inside cover page of this Official Statement. The 2017 Series A Bonds are authorized pursuant to the Constitution and laws of the State of Arizona and in particular Title 48, Chapter 17, Article 7, Arizona Revised Statutes (the "Act") and the Resolution.
Purpose of the 2017 Series A Bonds:	The 2017 Series A Bonds are being issued to refund certain outstanding Revenue Bonds of the District and to finance capital improvements to the Electric System pursuant to the District's Capital Improvement Program. See "THE CAPITAL IMPROVEMENT PROGRAM" herein. The proceeds of the 2017 Series A Bonds also will be used to pay costs of issuing the 2017 Series A Bonds. See "PLAN OF FINANCE" and "SOURCES AND USES OF FUNDS" herein.
Security for the 2017 Series A Bonds:	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 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, 2017, the balance in the Debt Reserve Account was approximately $81 million, which exceeded the Debt Reserve Requirement. Upon the issuance of the 2017 Series A Bonds, the Debt Reserve Account will continue to exceed the Debt Reserve Requirement. The District has covenanted in the Resolution that, among other things, it will at all times maintain rates, fees or charges sufficient for the payment of Operating Expenses of the District and the payment of Debt Service on all Revenue Bonds. The financial statements of the District and the Salt River Valley Water Users' Association (the "Association") (together "SRP") are presented on a combined basis due to the relationship between the two. The District's electric revenues support the operations of the water and irrigation system. See "THE DISTRICT — General" and "— History" for a further discussion of the relationship between the District and the Association.

	The 2017 Series A Bonds do not constitute general obligations of the District or obligations of the State of Arizona, and no holder of any of the 2017 Series A Bonds has the right to compel the exercise of the taxing powers of the District to pay the 2017 Series A Bonds or the interest thereon. See "SECURITY FOR 2017 SERIES A BONDS" herein.
Outstanding Indebtedness:	As of July 1, 2017, the District had a total of $3,989,705,000 in outstanding debt, computed without deducting/adding the unamortized bond discount/premium, consisting of $3,664,705,000 in Revenue Bonds and general fund debt of $325,000,000, consisting of $50,000,000 in promissory notes sold in the tax-exempt commercial paper market and $275,000,000 in promissory notes sold in the taxable commercial paper market. The promissory notes are payable from the District's general funds and are not secured by 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 54% of the population living in the Phoenix-Mesa-Scottsdale Metropolitan Statistical Area (the "Phoenix-Mesa-Scottsdale MSA") and reached a total peak load of approximately 7,543 MW in fiscal year 2017. See "TABLE 8 – Historical Operating Statistics" herein. Approximately 49.4% of fiscal year 2017 retail electric revenues were received from residential customers. See "TABLE 7 – Customer Accounts, Sales and Revenues Fiscal Year Ended April 30, 2017" herein.
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 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

$735,240,000

SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS, 2017 SERIES A

INTRODUCTION

General

The purpose of this Official Statement, which includes the cover page and the Appendices hereto, is to furnish certain information with respect to the Salt River Project Agricultural Improvement and Power District (the "District") and its Salt River Project Electric System Revenue Bonds, 2017 Series A 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 2017 Series A Bonds, are authorized pursuant to the Constitution and laws of the State of Arizona and, in particular, 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 2017 Series A Bonds, the District's Board will have authorized the issuance of the 2017 Series A Bonds and the District's Council will have ratified and confirmed the District's action. See "THE 2017 SERIES A BONDS" herein and "Appendix B — Summary of the Resolution" attached hereto.

The Underwriters have advised the District that it will be a condition to the initial purchase of the 2017 Series A Bonds that each initial purchaser of any 2017 Series A Bond must provide its written consent to certain amendments to the Resolution in satisfaction of the requirements of Sections 11.02 and 11.03 of the Resolution. See "SECURITY FOR 2017 SERIES A BONDS – Consent to Amendments to Resolution. "

PLAN OF FINANCE

The District will issue the 2017 Series A Bonds to refund certain of the District's outstanding Revenue Bonds listed in Appendix F (collectively the "Refunded Bonds") and to finance capital improvements to the Electric System pursuant to the District's Capital Improvement Program. See "THE CAPITAL IMPROVEMENT PROGRAM" herein. The Refunded Bonds will be redeemed or paid and cancelled, as applicable, on the dates and at the prices, as shown in Appendix F attached hereto. Proceeds of the 2017 Series A Bonds also will be used to pay costs of issuing the 2017 Series A Bonds. The 2017 Series A Bonds will be issued under the Resolution. See "Appendix B — Summary of the Resolution" attached hereto. See "SOURCES AND USES OF FUNDS" herein.

THE 2017 SERIES A BONDS

General

The 2017 Series A Bonds will be issued in the principal amount of $735,240,000 and will be dated and bear interest from the date of delivery. The 2017 Series A Bonds will mature on the dates and in the principal amounts, and bear interest, payable on January 1 and July 1 of each year, commencing January 1, 2018, at the respective rates, as shown on the inside cover page of this Official Statement. The principal of, redemption price, if any, and interest on the 2017 Series A Bonds are payable by the Trustee, and interest thereon will be payable by check mailed by the Trustee to the registered owner of each 2017 Series A Bond as of the immediately preceding December 15 or June 15.

Book-Entry-Only System

The 2017 Series A Bonds will be issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository for the 2017 Series A Bonds. Individual purchases of interests in the 2017 Series A Bonds will be made in book-entry form only, in the principal amount of $5,000 or any integral multiple thereof. Purchasers of such interests will not receive certificates representing their interests in the 2017 Series A Bonds. So long as Cede & Co. is the registered owner of the 2017 Series A Bonds, the Trustee will make payments of principal and redemption price, if any, of and interest on the 2017 Series A Bonds directly to DTC, which will remit such principal, redemption price, if any, of and interest to the Beneficial Owners (as hereinafter defined in "Appendix E — Book-Entry-Only System") of the 2017 Series A Bonds, as described herein. See "Appendix E — Book-Entry-Only System" attached hereto.

Redemption

2017 Series A Bonds

Optional Redemption. The 2017 Series A Bonds maturing on or after January 1, 2029 are subject to redemption at the option of the District prior to maturity, at any time on or after January 1, 2028, as a whole or in part by random selection by the Trustee within a maturity with the same interest rate from maturities selected by the District, at the Redemption Price of 100% of the principal amount of the 2017 Series A Bonds or portions thereof to be redeemed, together with accrued interest up to but not including the redemption date.

For so long as book-entry-only system of registration is in effect with respect to the 2017 Series A Bonds, if less than all of the 2017 Series A Bonds of a particular maturity (and, if applicable, interest rate within a maturity) is to be redeemed, the particular Beneficial Owner(s) (as defined in Appendix E hereto) to receive payment of the redemption price with respect to beneficial ownership interests in such 2017 Series A Bonds shall be selected by DTC and the Direct Participants and/or the Indirect Participants (as defined in Appendix E hereto). See "Book-Entry-Only System" in Appendix E hereto.

Notice of Redemption. Notice of redemption will be given to the Bondholders by mail to the registered owners as of the date of the notice of the 2017 Series A Bonds to be redeemed, postage prepaid, not less than 25 days nor more than 50 days prior to the redemption date. Notice having been given in the manner provided in the Resolution, on the redemption dates so designated, the District's 2017 Series A Bonds or portions thereof so called for redemption shall become due and payable on such redemption date at the redemption price, plus interest accrued and unpaid to, but not including, the redemption date.

Any notice of optional redemption given pursuant to the Resolution may state that it is conditional upon receipt by the Trustee of monies sufficient to pay the redemption price of the 2017 Series A Bonds or upon the satisfaction of any other condition, or that it may be rescinded upon the occurrence of any other event, and any conditional notice so given may be rescinded at any time before payment of such redemption price if any condition so specified is not satisfied or if any such other event occurs. Notice of such rescission shall be given by the Trustee to the registered owners of any 2017 Series A Bonds so affected as promptly as practicable upon the failure of such condition or the occurrence of such event. Failure to give notice of redemption by mail, or any defect in such notice, will not affect the validity of the proceedings for the redemption of any other Electric System Revenue Bonds.

Registration and Transfer upon Discontinuation of Book-Entry-Only System

U.S. Bank National Association will act as bond registrar ("Bond Registrar") and transfer and paying agent for the 2017 Series A Bonds. If the book-entry-only system were discontinued, the following provisions would apply. A 2017 Series A Bond may be transferred on the bond register maintained by the Bond Registrar upon surrender of the 2017 Series A Bond at the principal corporate trust office of the Bond Registrar, accompanied by a written instrument of transfer, in form satisfactory to the Bond Registrar, signed by the registered owner or a duly authorized attorney for the registered owner. Upon surrender for transfer at the principal corporate trust office of the Bond Registrar, any 2017 Series A Bond may be exchanged for like 2017 Series A Bonds of the same aggregate principal amount, maturity date and interest rate, of any authorized denomination. The Bond Registrar will not be obligated to transfer or exchange any 2017 Series A Bonds during the 15 days preceding the date on which notice of redemption of a 2017 Series A Bond is to be mailed or any 2017 Series A Bond that has been called for redemption except the unredeemed portion of any 2017 Series A Bond being redeemed in part.

SOURCES AND USES OF FUNDS

The sources and uses of funds with respect to the 2017 Series A Bonds are as follows:

Sources of Funds	
Principal Amount of 2017 Series A Bonds	$ 735,240,000.00
Original Issue Premium	161,392,616.60
Other Funds	36,087,796.81
Total Sources of Funds	$ 932,720,413.41
Uses of Funds	
Deposit to Escrow Fund	$ 605,806,897.97
Deposit to Construction Fund	325,000,976.65
Cost of Issuance (including Underwriters' Discount)	1,912,538.79
Total Uses of Funds	$ 932,720,413.41

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SECURITY FOR 2017 SERIES A BONDS

General

The Revenue Bonds, including the 2017 Series A Bonds, are payable from and secured by a pledge of and lien on Revenues. Revenues are defined in the Resolution as (i) all revenues, income, rents and receipts derived by the District from the ownership and operation of the Electric System and the proceeds of any insurance covering business interruption loss relating to the Electric System and (ii) interest received on any moneys or securities (other than in the Construction Fund) held pursuant to the Resolution and paid into the Revenue Fund, but not including any such income or receipts attributable directly or indirectly to the ownership or operation of any Separately Financed Project and not including any federal or state grant monies the receipt of which is conditioned upon their expenditure for a particular purpose.

In addition, the Revenue Bonds, including the 2017 Series A Bonds, are also secured by all funds held under the Resolution. Such pledge created by the Resolution is subject only to the provisions of the Resolution permitting the application of Revenues for the purposes and upon the terms and conditions set forth in the Resolution.

The 2017 Series A Bonds will not constitute general obligations of the District or obligations of the State of Arizona, and no holder of Revenue Bonds, including the 2017 Series A Bonds, will ever have the right to compel any exercise of the taxing powers of the District to pay the Revenue Bonds or the interest thereon.

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

Consent to Amendments to Resolution

The Underwriters have advised the District that it will be a condition to the initial purchase of the 2017 Series A Bonds that each initial purchaser of any 2017 Series A Bond must provide its written consent to certain amendments to the Resolution (the "Proposed Amendments") in satisfaction of the requirements of Sections 11.02 and 11.03 of the Resolution. Such amendments are described in bold italic font herein under "SECURITY FOR 2017 SERIES A BONDS — Debt Reserve Account," "— Rate Covenant" and "— Limitations on Additional Indebtedness" and in "APPENDIX B — Summary of the Resolution." The Proposed Amendments will become effective when the written consents of the Holders of at least two-thirds of the Bonds Outstanding have been filed with the Trustee as provided in the Resolution. Immediately prior to the issuance of the 2017 Series A Bonds, there will be outstanding $3,664,705,000 of Revenue Bonds of which $1,294,200,000 will have consented to the Proposed Amendments.

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. As of April 30, 2017, the balance in the Debt Reserve Account was approximately $81 million, which exceeded the Debt Reserve Requirement. Upon issuance of the 2017 Series A Bonds, the account will continue to exceed the Debt Reserve Requirement.

For purposes of calculating the Debt Reserve Requirement specified in this section, any calculation of interest on all Outstanding Bonds for any period of time shall be reduced by the amount of any Federal Subsidy that the District receives or expects to receive during such period of time relating to or in connection with such Outstanding Bonds.

Rate Covenant

The District covenants in the Resolution that it will charge and collect rates, fees and other charges for the sale of electric power and energy and other services, facilities and commodities of the Electric System as shall be required to

provide revenues and income (including investment income) at least sufficient in each fiscal year for the payment of the sum of (i) Operating Expenses during such fiscal year, including reserves, if any, provided therefor in the Annual Budget for such year; (ii) an amount equal to the Aggregate Debt Service for such fiscal year; (iii) the amount, if any, to be paid during such fiscal year into the Debt Reserve Account in the Debt Service Fund; and (iv) all other charges or liens whatsoever payable out of revenues and income during such fiscal year and, to the extent not otherwise provided for, all amounts payable on Subordinated Indebtedness. See "ELECTRIC PRICES" herein.

For purposes of the calculations specified in this section: (i) any calculation of Debt Service on Outstanding Bonds for any period of time shall be reduced by the amount of any Federal Subsidy that the District receives or expects to receive during such period of time relating to or in connection with such Outstanding Bonds; and (ii) to the extent the calculation of Debt Service on Outstanding Bonds is reduced by the Federal Subsidy as provided in clause (i) of this paragraph, any calculation of Revenues for any period of time shall be reduced by the amount of any Federal Subsidy received or expected to be received by the District with respect to or in connection with such Outstanding Bonds during such period of time.

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 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.

For purposes of the calculations specified in this section: (i) any calculation of Debt Service on Outstanding Bonds for any period of time shall be reduced by the amount of any Federal Subsidy that the District receives or expects to receive during such period of time relating to or in connection with such Outstanding Bonds; and (ii) to the extent the calculation of Debt Service on Outstanding Bonds is reduced by the Federal Subsidy as provided in clause (i) of this paragraph, any calculation of Revenues for any period of time shall be reduced by the amount of any Federal Subsidy received or expected to be received by the District with respect to or in connection with such Outstanding Bonds during such period of time.

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) 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 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 ("DOI") performs audits of the Project. In addition, the District seeks approval from the DOI for certain transactions such as payments in-lieu of taxes. The District also gives the DOI the opportunity to raise any objections it may have regarding the issuance of revenue bonds.

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 and the District's enabling statutes in Arizona, 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 is governed by a Board of Directors ("Board") and a Council. The Board establishes overall policy, approves the annual budget and major contracts, approves major purchases and sales of assets, sets electric prices, and authorizes bond issuances. The Council enacts and amends by-laws relating to the District and authorizes bond

issuances. The General Manager and Chief Executive Officer of the District has management and operational responsibilities for the District.

The District's Board members are elected from among the electors (landowners) for four-year terms, and consist of the President, who is an ex officio member, 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 (one from each voting division), 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 District's Council consists of thirty members. Three Council members from each of the ten voting divisions of the District are elected biennially for four-year terms. One half of the members are elected biennially. All Council members are elected by votes weighted in proportion to the amount of land owned by each elector.

The Association has a similar governance structure, excluding the four at-large board positions, thus having an 11-member Board of Governors as opposed to the District's 15-member Board. The General Manager of the Association has management and operational responsibilities for the Association.

As of April 30, 2017, District and Association employees totaled approximately 5,186, including approximately 1,925 hourly employees represented by the International Brotherhood of Electrical Workers, Local 266, but excluding non-regular employees such as temporary employees, provisional employees, students, and contractors. The present labor contracts will expire on November 15, 2017. However, both the hourly employees and the Board have approved new labor agreements that will take effect on November 16, 2017 and remain in effect until November 15, 2021.

SRP has an established Mandatory Retirement Age policy for the General Manager and the individuals that report directly to the General Manager. Pursuant to this policy, General Manager and CEO Mark Bonsall has announced that he will retire at the end of the current fiscal year, which ends on April 30, 2018. Both the District Board and the Association Board of Governors have approved a recommendation to commence a succession planning process for a new General Manager/CEO.

Economic and Customer Growth in the District's Service Area

The District serves approximately 54% of the population living in the 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 66% of the state's population, and more than two-thirds of its total employment and total personal income.

The Phoenix-Mesa-Scottsdale MSA experienced substantial job losses during the 2008-2009 recession but has recovered and expanded its employment base in the last several years. The local population has continued to grow at a steady pace. The Arizona Department of Administration, Office of Employment and Population statistics, reported that the metropolitan area added about 350,000 people from July 2010 through July 2016, a compound annual growth rate of approximately 1.3%.

Employment in the Phoenix-Mesa-Scottsdale MSA increased at a 3.2% and 3.1% average annual growth rate in 2015 and 2016, respectively. Professional and business services and educational and health services combined to add more than 25,000 positions in 2016, while the manufacturing sector added 800 jobs. As the post-recession business expansion continues, the Phoenix-Mesa-Scottsdale MSA is expected to achieve steady long-term growth in the years ahead.

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Table 1 summarizes several key economic statistics in recent years.

TABLE 1 — Historical Growth Statistics
(Annual Averages)

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]
2010	6,402	4,200	1,692	8,300	146.6
2011	6,438	4,228	1,717	9, 081	154.6
2012	6,499	4,274	1,760	15,967	163.4
2013	6,581	4,339	1,812	17,737	167.8
2014	6,667	4,405	1,853	20,341	178.1
2015	6,758	4,483	1,913	22,402	186.7
2016	6,836	4,550	1,973	28,583	NA

[1] Arizona Department of Administration, Office of Employment and Population Statistics; revised March 2017; numbers are estimates as of July 1st each year.
[2] Arizona Department of Administration, Office of Employment and Population Statistics; 2015 and 2016 are preliminary.
[3] U.S. Census Bureau, "Housing Units Authorized by Building Permits"; 2016 preliminary.
[4] U.S. Bureau of Economic Analysis; New estimates for 2015, revised estimates for 2010-2014.

In August 2017, the 1.8% year-over-year employment increase in the Phoenix-Mesa-Scottsdale MSA represented a net gain of 34,900 jobs.

The Phoenix-Mesa-Scottsdale MSA's unemployment rate was 4.3% in August 2017. Unemployment rates for the Phoenix-Mesa-Scottsdale MSA, Arizona, and the United States are listed below:

Comparative Unemployment Rates

	August 2017	August 2016	August 2015
Phoenix-Mesa-Scottsdale MSA[1]	4.3%	4.8%	5.5%
Arizona	5.0%	5.1%	5.8%
United States	4.4%	4.9%	5.1%

Source: US Department of Labor, Bureau of Labor Statistics and Arizona Department of Administration, Office of Employment and Population Statistics.
[1] Not seasonally adjusted.

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Recent employment gains have been led by the trade, transportation and utilities, education and health services, and professional and business services sectors. The District expects to see continued improvements in construction and real estate, along with gradual growth in the manufacturing sector.

Phoenix-Mesa-Scottsdale MSA Employment
(Thousands)

Year	Natural Resources & Mining	Construction	Manufacturing	Trade, Transportation & Utilities	Information	Financial Activities
2010	3.0	82.4	110.7	345.4	27.4	140.8
2011	3.2	83.0	112.7	349.4	28.4	145.1
2012	3.5	88.0	116.7	353.0	31.1	150.3
2013	3.6	93.4	117.1	356.0	33.2	158.2
2014	3.4	95.4	118.5	364.8	34.9	161.6
2015	3.3	99.0	119.7	376.9	35.9	166.6
2016	3.2	104.8	120.5	386.7	36.2	175.0

Year	Professional & Business Services	Education & Health Services	Leisure & Hospitality	Other Services	Government
2010	271.0	239.0	173.4	63.8	234.8
2011	277.2	247.4	177.7	63.8	229.2
2012	286.0	255.5	183.3	62.3	230.6
2013	301.9	261.0	191.6	63.7	231.9
2014	309.7	268.8	199.1	63.5	233.0
2015	324.1	282.0	208.2	63.1	233.9
2016	339.1	292.1	215.7	63.8	235.9

Source: Arizona Department of Administration, Office of Employment and Population Statistics.

The Phoenix-Mesa-Scottsdale MSA is home to several corporate headquarters including: AVNET, Republic Services Inc., Freeport-McMoRan, Inc., Insight Enterprises, U-Haul, First Solar, ON Semiconductor, Microchip Technology Inc., GoDaddy, Inc., and Viad Corp. In addition, JPMorgan Chase, Wells Fargo, Bank of America, American Express, Charles Schwab, American Airlines, State Farm Mutual, Sentry Insurance Co., Southwest Airlines, and Wal-Mart have substantial regional operations in the Phoenix-Mesa-Scottsdale MSA.

Population and employment growth have been the traditional drivers for the commercial real estate market. As population and employment have grown in the Phoenix-Mesa-Scottsdale MSA, commercial vacancies trended downward. The retail vacancy rate decreased to 8.5% in the second quarter of 2017. The office vacancy rate continued to improve, declining to 17.6% in the second quarter of 2017. Industrial real estate activity, as measured by the industrial vacancy rate has also continued to decrease and stood at 7.7% in the second quarter of 2017.

The residential real estate market in the Phoenix-Mesa-Scottsdale MSA is a large driver of economic activity. Permits for new homes have steadily increased since 2011 reaching more than 28,000 in 2016. Foreclosures accelerated during the recession but have trended downward since then and returned to pre-recession lows. Home prices improved in recent years and increased by 5.3% in 2016.

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 major portions of the cities of Phoenix, Avondale, Glendale, Mesa, Tempe, Chandler, Gilbert, Peoria, Scottsdale and Tolleson.

The water supply for the Association's water service area of the Project is primarily runoff from watersheds consisting of approximately 13,000 square miles which is stored in seven reservoirs, four of which are located on the Salt River, two on the Verde River and one on East Clear Creek. The Association also has a well-established and robust aquifer from which it withdraws groundwater to serve its customers in years when surface water is in limited supply. The Association uses the aquifer to recharge or bank water supplies for future use. Over the last 20 years, the Association has stored more than 1.3 million acre feet of water, which is approximately twice the annual water demand. The Association also works closely with other large water supply entities in Arizona, and these partnerships have provided, and should continue to provide, supplemental water for the Project.

The Project's seventh reservoir, the C. C. Cragin Reservoir, was acquired from Phelps Dodge Corporation (now Freeport-McMoRan, Inc.) in 2005, and ownership of the dam was immediately transferred to the United States Bureau of Reclamation ('USBR"), thereby making it part of the Project's Reservoir System. Water from this relatively small 15,000 acre-foot capacity 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 uses 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. In furtherance of this objective, the District formed Horizon Acquisitions LLC, a wholly owned limited liability company ("Horizon"), with which to resolve water rights through the acquisition of properties when deemed advantageous. Horizon was initially funded with $7 million for this purpose and has spent approximately $2 million for the purchase of properties to date.

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 principles relating to water use and assuming a continuation of historical precipitation and usage patterns, and responsible operation of the reservoir system, the area within the Project water service boundaries has a dependable and assured water supply.

The Southwest has an arid climate prone to natural variability in surface water supply. The Project's network of seven reservoirs and 271 active production wells has been developed and is managed to maintain a reliable water supply, even in dry times. For some periods over the past twenty years, the Southwest, including the Project's watershed, has experienced serious drought conditions, but these conditions have been mitigated by contingency management plans resulting in minimal impact to end users. In response to reduced reservoir inflow, the Association has utilized increased groundwater pumping, reductions in water allocations and supplemental water supplies from the Central Arizona Project, which have been available for purchase or exchange.

The true value of the Association's management of water supplies and infrastructure, however, has been demonstrated the past several years as surface water runoff has fluctuated. Due to the severity of drought in 2003 and 2004, the Association reduced the allocation of water to its shareholders and to the valley cities by one-third, only the second time in the Project's long history that allocations have been reduced for consecutive years. 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. Normal rain and snow failed to materialize in the winter of 2006 and 2007, suggesting that drought conditions were continuing as anticipated; however, the winters of 2008, 2009, and 2010 provided sufficiently abundant rain and snow which resulted in full surface water storage and deliveries to Association shareholders once again. The winters of 2011 through 2016 again reinforced the fact that drought is always a factor in a desert environment as all six winters produced below median inflow. Even so, deliveries to shareholders were not curtailed as the Association was able to balance the peaks and valleys of natural water supply conditions through the conjunctive management of the Project's reservoirs and wells, and remains well-positioned to respond to the natural variability of the Southwestern climate. The winter of 2017 broke the string of 6-years of below median runoff with nearly twice normal runoff and refilled a majority of the reservoir system.

The Association also operates 271 active production 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 imposes restrictions on the use of wells having chemical contamination above the permit levels.

Numerous wells are subject to such restrictions and can only be run if combined with uncontaminated water from another source.

See "LITIGATION — Water Rights" for a discussion of additional matters relating to irrigation and water supply.

Telecommunication Facilities

The District has installed approximately 73,000 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 CenturyLink, Integra Telecom, AT&T, Level 3 and AboveNet, among others, as well as with certain enterprise customers to market this excess capacity, and received approximately $5.9 million in revenue in fiscal year 2017 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 $11.3 million in revenue from this activity during fiscal year 2017.

Papago Park Center

Papago Park Center is an approximately 300 acre mixed-use commercial development located on land owned by the District adjacent to its administrative offices. In March 1989, the District leased most portions of the development to Papago Park Center, Inc. ("PPC"), a wholly-owned, incorporated, and taxable subsidiary of the District. The lease between the District and PPC expires on December 31, 2088. PPC, in turn, has and continues to enter into long term subleases with third parties based upon the market value of the property. Most of the land in Papago Park Center has since been developed, with the exception of a remaining parcel of approximately 59 acres. The remaining parcel, commonly referred to as The Grand, is in the process of being subleased by PPC and developed by third parties. The lease term to PPC for that parcel has been extended to December 31, 2113. Lease payments from PPC to the District were $3.78 million and $4.11 million in fiscal years 2017 and 2016, 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 2018 through 2023. The projections reflected therein are consistent with industry-wide experience and provide the basis for the District's current year operating budget, May 2017 through April 2018. 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 weakness in the economies of the nation or in the Phoenix-Mesa-Scottsdale 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.

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TABLE 2 — Projected Peak Loads and Resources (MW)
Fiscal Years Ending April 30,

	2018	2019	2020	2021	2022	2023
Annual Peak:(MW)[1][2]						
Service Territory System Requirements[3][4][5]	7,820	7,925	7,736	7,878	8,078	8,322
Sales for Resale	172	169	169	92	92	37
Demand-Side Resources[5]	(820)	(865)	(559)	(625)	(673)	(719)
Total Peak Load[6]	7,172	7,229	7,346	7,345	7,497	7,640
Resources:						
Owned:						
Gas and/or Oil	3,958	3,958	3,958	3,958	3,958	3,958
Coal[7]	2,676[8]	2,674[8]	2,674[8]	1,708	1,708	1,708
Nuclear	688	688	688	688	688	688
Renewables[9]	269	269	269	269	269	269
Future Peaking/Intermediate Resources	0	0	0	0	672	870
Purchased:						
WAPA/Navajo Surplus[10]	300	300	300	0	0	0
Tri-State – Tri-State Generation and Transmission Association, Inc. ("Tri-State")[11]	100	100	100	100	100	100
Coolidge Generating Station[12]	512	512	512	512	512	512
Renewable Purchases[13]	323	304	239	239	239	239
Future Renewable Purchases	0	18	73	83	86	86
Other Existing	92	53	36	36	36	36
Future Purchases	0	10	10	735	235	210
Total Resources	8,918	8,886	8,859	8,328	8,503	8,676
Total Resources in Excess of Total Peak Load	1,746	1,657	1,513	983	1,006	1,036
Planned Reserve Percentage[14]	22.4	20.9	19.5	12.6	12.6	12.6

[1] The forecast was approved February 2017.

[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.

[4] Projected peak demand for electricity for retail customers does not take into account the impact of demand-side resources that would reduce demand.

[5] Demand-side resources are programs or price plans which incent behavior that results in a reduction of the expected peak demand for electricity of retail customers. Also includes the projected reduction of peak demand due to federal efficiency codes and standards for lighting and HVAC equipment, as well as customer-owned distributed generation that is already installed.

[6] Projected peak load for retail customers reduced by the impact of demand-side resources and increased by firm wholesale obligations (sales for resale).

[7] A slight decline in coal capacity is representative of impacts from environmental emissions control equipment. The District will cease operations at NGS on or prior to December 2019 and as a result, the District's generation from coal-fired resources will be reduced accordingly. See "THE ELECTRIC SYSTEM – Existing and Future Resources – *Navajo Generating Station*" for discussion of the Navajo Generating Station and the District's cessation of operations at NGS on or prior to December 2019.

[8] Includes the District's July 2016 purchase of LADWP's share of the Navajo Generating Station.

[9] Renewables include owned hydro-electric generation.

[10] 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. A long-term 20-year contract for 300 MW was entered into with WAPA, acting on behalf of the USBR, in 2011.This contract will be discontinued when operations cease at Navajo Generating Station.

[11] 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.

[12] The District has a 20-year agreement with Coolidge Power LLC to purchase approximately 551 MW of nominal capacity from the Coolidge Generating Station. Commercial operation began May 1, 2011. The District has an option for a 10-year extension of the agreement.

[13] Renewable purchases include SRP's federal hydro-power and other renewable energy PPA's.

[14] 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 owns one hundred percent (100%) of an individual generating unit but shares common facilities with others, generating facilities in which the District owns a percentage interest in one or more generating units as well as the associated common facilities, and the District's ability to enter into agreements with others to purchase power.

Economic Viability of Existing Generation Assets. The District's existing generating stations have long played a vital role in preserving the reliable, low-cost energy and generation capacity District customers have come to expect. 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 asset management procedures which not only monitor equipment performance and health but also include solid preventive, predictive and corrective maintenance activities. By combining these practices with the ongoing application of engineering and technology improvements the District will help ensure that the future economic and operational value of the majority of its existing assets is maintained. Beyond these practices, however, there are other factors that have significant bearing on the viability of the District's existing assets such as environmental regulations, future air-quality standards, competing fuel prices and internal emissions reductions targets. The District is assessing the risk of these various concerns on its generation assets and is developing contingency plans, which may include the curtailment or closure of one or more of the District's generating units. The District will continue to evaluate its entire generation portfolio to ensure that the best mix of assets is preserved for its customers and is responsive to customer economics, reliability requirements and environmental targets and regulations.

Summary of Existing Power Sources during the fiscal year ended April 30, 2017. The District's largest source of energy during the fiscal year ended April 30, 2017 was thermal generating facilities, which supplied approximately 82.6% of the District's total production. Hydroelectric generation provided approximately 2.3% of production with 0.9% coming from the District's own hydroelectric plants and 1.4% coming from purchases from the Arizona Power Authority ("APA") and the United States Department of Energy, Western Area Power Administration ("WAPA"). The remaining 15.1% came from various other purchases and renewable resources. Table 3 provides more detail on District power sources.

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TABLE 3 — Fiscal Year 2017 District Power Sources

	Capability (MW)[1]	% of Total	Net Production Amount (MWh)[2]	% of Total
District Generation:				
One Hundred Percent Entitlement – Renewable Hydroelectric:				
Arizona Falls	1	0.01%	19	0.00%
Canal Plant (Crosscut)	3	0.04%	0	0.00%
Horse Mesa Dam - Run of River	30	0.35%	62,715	0.18%
Mormon Flat Dam - Run of River	12	0.14%	32,696	0.09%
Roosevelt Dam	36	0.43%	49,817	0.14%
Canal Plant (South Consolidated)	1	0.01%	0	0.00%
Stewart Mountain Dam	13	0.15%	23,834	0.07%
Subtotal Renewable Hydroelectric	**96**	**1.13%**	**169,081**	**0.48%**
Horse Mesa Dam Pumped Storage	119	1.41%	94,219	0.27%
Mormon Flat Dam Pumped Storage	57	0.67%	56,013	0.16%
Subtotal Pumped Storage Hydroelectric	**176**	**2.08%**	**150,232**	**0.42%**
One Hundred Percent Entitlement – Thermal				
Agua Fria (Steam)	407	4.81%	79,407	0.22%
Agua Fria (Gas Turbine)	219	2.59%	405	0.00%
Coolidge (Gas Turbine)	521	6.16%	167,499	0.47%
Coronado Generating Station	762	9.01%	4,498,245	12.72%
Desert Basin Combined Cycle	577	6.82%	783,002	2.21%
Kyrene (Steam)	0[3]	0.00%	(148)	0.00%
Kyrene (Gas Turbine)	165	1.95%	1,070	0.00%
Kyrene (Combined Cycle)	254	3.00%	939,352	2.66%
Mesquite Generating Station	595	7.04%	2,123,864	6.01%
Santan Combined Cycle	1,227	14.51%	2,952,651	8.35%
Springerville Generating Station (minus Payback)	417	4.93%	2,328,084	6.58%
Subtotal	**5,144**	**60.83%**	**13,873,431**	**39.22%**
One Hundred Percent Entitlement – Renewable				
Solar	1	0.01%	578	0.00%
Fuel Cells	0[3]	0.00%	0	0.00%
Alternative Fuels – Landfill	0[3]	0.00%	0	0.00%
Subtotal Other	**1**	**0.01%**	**578**	**0.00%**
Participation Plants				
Craig Generating Station[4]	248	2.93%	1,654,211	4.68%
Four Corners Generating Station Units 4 &5	154	1.82%	834,890	2.36%
Hayden Generating Station	131	1.55%	760,759	2.15%
Navajo Generating Station SRP 1	489	5.78%	3,652,445	10.33%
Navajo Generating Station SRP 2[5]	0	0.00%	2,814,182	7.96%
Palo Verde Nuclear Generating Station	688	8.14%	5,613,786	15.87%
Subtotal	**1,710**	**20.22%**	**15,330,273**	**43.35%**
Purchases and Receipts:				
Federal Hydropower – Renewable				
APA – Arizona Power Authority	167[6]	1.98%	92,714	0.26%
WAPA – Colorado River Storage Project	66[6]	0.78%	263,571	0.75%
WAPA – Parker-Davis Dams	32[7]	0.38%	147,317	0.42%
TEP – Tucson Electric Power Company	0[3][8]	0.00%	40,000[8]	0.11%
WAPA/Navajo Surplus	300	3.55%	220,775	0.62%
TSGT – Tri-State Generation & Transmission (SP3)	100	1.18%	411,293	1.16%
Renewables – Novo (SWMP Biomass)	14[9]	0.17%	106,951	0.30%
Renewables – Wind Power Dry Lake I (63 MW)	0[9]	0.00%	124,770	0.35%
Renewables – Wind Power Dry Lake II (64 MW)	1[9]	0.01%	127,766	0.36%
Renewables – Other Wind Power	0[3]	0.00%	0	0.00%
Renewables – Copper Crossing Solar (20 MW)	17[9]	0.20%	52,715	0.15%
Renewables – Queen Creek Solar	16[9]	0.19%	51,654	0.15%
Renewables – Sand Stone Solar	38[9]	0.45%	122,537	0.35%
Renewables – CalEnergy Geothermal	16[9]	0.19%	114,695	0.32%
Renewables – Cove Fort Geothermal	20[9]	0.24%	174,610	0.49%
Renewables – Hudson Ranch Geothermal (Resold to LADWP)[10]	0[11]	0.00%[11]	5,317[11]	0.02%[11]
Others	542[12]	6.41%	3,786,072[12]	10.71%
Subtotal	**1,329**	**15.72%**	**5,842,757**	**16.52%**
TOTAL[13][14]	**8,456**	**100.00%**	**35,366,352**	**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, 2017. Energy from pumped storage is included.

[3] Purchase and receipt capabilities vary month to month. Listed are the capabilities for the peak month.

[4] In September 2016, the owners of Unit 1 of the Craig Generating Station ("Craig"), including the District, announced a preliminary settlement that will result in either the retirement of Craig Unit 1 by December 31, 2025 or the cessation of coal consumption at Unit 1 no later than August 31, 2021 and the subsequent conversion of Unit 1 to a natural gas burning unit by August 31, 2023. See "THE ELECTRIC SYSTEM – Existing and Future Resources - *Craig Generating Station Units 1 and 2*" for additional discussion on the Craig Generating Station.

[5] The District purchased the Los Angeles Department of Water and Power's 21.2% ownership share (equal to 477 MW) of the Navajo Generating Station ("NGS") in July 2016. Summer Peak measurement occurs in June. Since the District did not own this resource during summer peak the Capability displays 0 MW for Fiscal Year 2017. The District's total ownership interest in NGS is 42.9% or 965 MW. See "THE ELECTRIC SYSTEM – Existing and Future Resources – *Navajo Generating Station*" for discussion of the Navajo Generating Station and the District's cessation of operations at NGS on or prior to December 2019.

[6] Includes MW wheeled for certain electrical/irrigation districts.

[7] Includes 1 MW wheeled for the City of Gilbert.

[8] Contract with Tucson Electric Power Company expired May 31, 2016.

[9] Capability based on actual output during peak hour.

[10] The District sold the energy and environmental attributes from the Hudson Ranch facility to LADWP through October 23, 2021.

[11] Reflects net amount after sale.

[12] 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 exclude 0 MW and 1,427,212 MWh of book-outs.

[13] Totals may not add correctly due to rounding.

[14] Totals do not include the generation output from Block 4 of the Gila River Power Plant which the District acquired on June 1, 2017.

Natural Gas Generation. The District operates and has 100% ownership of several generating units, some with shared common facilities that utilize natural gas to generate electricity through a variety of single cycle, combined cycle, and steam generating units. All of these generating stations operate in and around the Phoenix metropolitan area: Agua Fria Generating Station, Desert Basin Generating Station, Kyrene Generating Station, Mesquite Generating Station Block 1, Gila River Power Plant Block 4 and Santan Generating Station. The total generating capability of these plants in the peak summer month is approximately 3,959 MW. Additionally, the District has a contract to receive 100% of the generation from the Coolidge Generating Station which has a total capacity of 521 MW from simple cycle gas turbines. The Coolidge Generating Station is owned and operated by TransCanada Corporation.

Coal Generation. The District operates and has 100% ownership of the Coronado Generating Station located in St. Johns, Arizona, and Unit 4 of the Springerville Generating Station located in Springerville, Arizona. The Coronado Generating Station has a total capacity of 762 MW, and Springerville Unit 4 has a total capacity of 400 MW.

See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY — Environmental, *Coronado Generating Station* and *Springerville Generating Station*" for further discussion.

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

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

	Navajo Generating Station [2]	Four Corners Generating Station Units 4 & 5	Hayden Generating Station Unit 2	Craig Generating Station Units 1 & 2	Palo Verde Nuclear Generating Station
Project Capabilities					
Total Continuous Load Capabilities (MW)	2,250	1,540	262	856	3,937[3]
Project Participants					
District	42.9[4]	10.0	50.0	29.0	17.5
APS	14.0	70.0[5]	—	—	29.1
Department of Water & Power, Los Angeles ("LADWP")	—[4]	—	—	—	5.7
El Paso Electric Company ("El Paso")	—	—[5]	—	—	15.8
Nevada Power Company ("NPC")	11.3	—	—	—	—
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")	—	—	—	—	15.8
Southern California Public Power Authority ("SCPPA")	—	—	—	—	5.9
Tri-State	—	—	—	24.0	—
TEP	7.5	7.0	—	—	—
USBR	24.3[6]	—	—	—	—
Total Percentage	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] See "THE ELECTRIC SYSTEM – Existing and Future Resources – *Navajo Generating Station*" for discussion of the Navajo Generating Station and the District's cessation of operations at NGS on or prior to December 2019.

[3] 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).

[4] The District purchased LADWP's 21.2% share of the Navajo Generating Station in July 2016.

[5] 4C Acquisition LLC ("4CA") a wholly-owned subsidiary of APS' parent company, Pinnacle West, acquired El Paso's share of Four Corners Generating Station Units 4 and 5 in July 2016. See "THE ELECTRIC SYSTEM — Existing and Future Resources — *Four Corners Generating Station Units 4 and 5*" for discussion of 4CA's acquisition of El Paso's 7% interest in Four Corners Generating Station Units 4 and 5.

[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, 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.

In September 2016, the owners of Unit 1 of the Craig Generating Station ("Craig"), including the District, announced a preliminary settlement that will result in either the retirement of Craig Unit 1 by December 31, 2025 or the cessation of coal consumption at Unit 1 no later than August 31, 2021 and the subsequent conversion of Unit 1 to

a natural gas burning unit by August 31, 2023. All parties other than the EPA have signed the settlement agreement. The SIP revision adopting the settlement was submitted to the EPA on May 26, 2017 and the EPA has 18 months to complete its review. The District cannot predict the outcome of this matter. New emission control equipment on Unit 2 of Craig was installed in May 2017 and is in testing mode with a mandatory emission compliance date of January 30, 2018. The District owns 29% of Units 1 and 2 at Craig which are rated at 428 MW each.

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.

See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY — Environmental" for discussion concerning the determination by the State of Colorado of the Best Available Retrofit Technology ("BART") for the Craig Generating Station.

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 Nation near Farmington, New Mexico. The District owns 10% of Units 4 and 5, two 770 MW coal-fired generating units, which commenced commercial operations in 1969 and 1970, respectively. The coal for Four Corners comes from the Navajo Mine located 11 miles away on the Navajo Nation.

On July 6, 2016, 4C Acquisition LLC ("4CA"), a wholly-owned subsidiary of APS' parent company, Pinnacle West Capital Corporation, acquired a 7% ownership interest in Four Corners Units 4 and 5 and the associated transmission interconnection facilities from El Paso. However, a tribal entity, Navajo Transitional Energy Co. LLC ("NTEC") or its designee, had the option to purchase all or a portion of 4CA's ownership interest in Four Corners on or before July 6, 2017. The purchase did not occur on or before July 6, 2017. The parties are currently in discussions as to the future of the option transaction.

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. PSCo is the operating agent. PSCo is an operating company within Xcel Energy.

See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY — Environmental" for discussion concerning the determination by the State of Colorado of the BART for the Hayden Generating Station.

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. NGS, located on the Navajo Nation 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 NGS 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 42.9% of NGS and is the operating agent of the generating station and the railroad. The District also holds legal title to an additional 24.3% for the use and benefit of the USBR. The NGS coal supply is surface-mined and delivered from the Kayenta Mine, which is located on Navajo and Hopi lands in Northern Arizona. Peabody Western Coal Company ("Peabody") operates the mine under leases with both tribes.

The initial term of the Indenture of Lease for NGS Units 1, 2 and 3 (the "Lease") runs through December 22, 2019, with a right by the owners to extend the Lease for up to an additional 25 years. The Grant of Federal Right-of-Way and Easement from the U.S. Department of Interior for the plant site runs through December 22, 2019. The coal supply agreement with Peabody also runs through December 22, 2019, with a right by the Participants to extend the agreement to April 30, 2026. A variety of other agreements and grants necessary to the continued operation of NGS expire at various dates as well and need to be renewed to continue the operation of NGS beyond 2019.

In 2014, the EPA issued a final regional haze rule that provides for a significant emission-reduction plan for the plant. That rule requires that the owners of NGS shut down one of the three units at the plant by Jan. 21, 2020, or make a reduction of NOx emissions equivalent to the shutdown of one Unit from 2020 to 2030. The Ninth Circuit Court of Appeals denied all petitions for review on March 20, 2017, and denied a request for rehearing en banc in the

consolidated appeal on June 2, 2017. See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY — Environmental" for discussion of the EPA's determination of BART at NGS under the EPA's Regional Haze Rule and legal challenges to that determination. The District and the other Participants are evaluating future options for NGS in light of these and other developments.

The Department of Water and Power for the City of Los Angeles ("LADWP"), a participant in NGS, announced that it would replace its coal-fired generation with generation from renewable energy sources by 2020. Further, although LADWP's contract for NGS did not expire until 2019, it announced in August 2010 its intent to sell its interest in NGS. On May 14, 2015, the District's Board of Directors approved an agreement for the purchase of LADWP's 21.2 percent share of NGS, representing 477 megawatts of capacity. The agreement was approved by LADWP's Board of Directors, the Los Angeles City Council and the Mayor of Los Angeles, as well as the USBR, among others. The transaction closed on July 1, 2016.

The purchase of LADWP's share of the plant will not result in any additional emissions from NGS, and the District anticipates that the short-term increase in its ownership capacity at NGS will revert back to its current amount at the end of 2019. The District does not expect that the purchase will result in any increase in its own carbon dioxide emissions beyond 2019, and will not alter the District's commitment to renewable energy. As part of NV Energy's NVision plan, it plans to reduce greenhouse gas and other emissions by exiting from or shutting down coal-fired power plants. For this reason, NV Energy, a participant in NGS, announced plans to end its ownership interest in NGS in 2019.

On February 13, 2017, the current group of non-federal owners of NGS stated that they will operate NGS through December 22, 2019, when the current term of the lease with the Navajo Nation expires, provided that certain conditions are met including, without limitation, entering into certain necessary agreements with the Navajo Nation. These agreements are necessary in order for the plant decommissioning process to commence at the end of 2019. The decision affirming the Regional Haze Federal Implementation Plan ("FIP") leaves open the possibility for others to come in and operate NGS subject to the FIP.

On June 5, 2017, a new lease, an amendment to the existing Lease and related agreements were approved by the Board. On June 26, 2017, the Navajo Nation Council approved legislation authorizing the Navajo Nation President to execute the new lease, the amendment to the existing Lease, and the other agreements. The Navajo Nation, the District and three of the other owners executed the documents by July 1, 2017. The remaining signatures are that of LADWP and the District with respect to the 24.3% portion of NGS which the District holds legal title to for the use and benefit of the USBR. The LADWP Board of Directors approved the agreements on September 19, 2017, and the Los Angeles City Council is expected to vote on the agreements next. Under the terms of the new lease, the remaining approvals and signatures are required no later than December 1, 2017, after additional reviews under applicable law. The new lease would allow NGS to operate through December 2019 by providing site access after that date for decommissioning activities, post-closure activities and monitoring, and ongoing operation of the related transmission systems on Navajo Nation lands. If the remaining approvals and signatures cannot be obtained or if the additional reviews are not completed on a timely basis or do not yield satisfactory results, then the plant will cease operations and the decommissioning process will begin soon thereafter, with completion targeted by the end of 2019.

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.

See "LITIGATION — Coal Supply" for a discussion of the other pending issues

Palo Verde Nuclear Generating Station. The District owns 17.49% of the Palo Verde Nuclear Generating Station ("PVNGS"), located near Wintersburg, Arizona. APS is the project manager and operating agent. PVNGS Units 1, 2 and 3 commenced commercial operation in 1986, 1986, and 1988, respectively. In April 2011, the U.S. Nuclear

Regulatory Commission (the "NRC") issued Renewed Facility Operating Licenses for the three PVNGS Units to 2045, 2046 and 2047, respectively.

PVNGS originally consisted of three nominally sized 1,270 MW pressurized water nuclear generating units. 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. Reactor vessel heads have been replaced in all three units. This replacement eliminated industry issues regarding alloy 600 nozzle corrosion cracking in the reactor vessel head.

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 2017, approximately 7.7% of the District's energy requirements will be met with long-term power purchases and an additional 12.6% will be met with short-term purchases.

The District entered into a 30-year power purchase agreement ("PPA") with Tri-State to purchase 100MW of capacity from Springerville Unit 3, which was developed by Tri-State and placed in service in September 2006, beginning the 30-year term of the PPA.

The District has multiple long-term contracts to purchase power from WAPA including a contract executed September 28, 2007, to purchase Navajo Surplus Power with deliveries that began June 1, 2012. Navajo Surplus Power is electrical capacity and energy made available from the entitlement in the Navajo Project which the USBR holds for the purpose of supplying the power requirements of the Central Arizona Project ("CAP") 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. This 300 MW purchase partially replaces a previous contract that expired September 30, 2011. This purchase agreement for Navajo Surplus Power will end if NGS ceases operations on or prior to December 2019. In addition, the District purchased power contracts with APA, the Colorado River Storage Project ("CRSP"), and the Parker-Davis Project totaling 115 MW.

The District entered into a PPA 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 began commercial operation in May 2011 and will continue for a 20-year term thereafter. The District has an option for a 10-year extension of the agreement.

The District has entered into various long-term PPAs for renewable energy generation that are currently delivering energy to SRP's system that extend for periods of 10 to 30 years as reflected in the table below. Except as noted below, the District is receiving the power and renewable energy credits ("RECs") from these facilities. The District has also sold the energy and environmental attributes from the 55 MW Hudson Ranch facility to LADWP through October 23, 2021.

In late 2015, the District entered into a short-term agreement to purchase energy and environmental attributes from the Navajo Tribal Utility Authority ("NTUA"). The environmental attributes may be associated with the generation of energy from the Kayenta Solar Project or other qualified solar photovoltaic facilities on the Navajo Nation land in Arizona. The 27 MW Kayenta Solar Project began operation in May 2017. The energy from the solar facility is consumed by local NTUA load. NTUA bundles the RECs from the solar generation with firm energy from gas and hydro resources and delivers this energy and the RECs to the District. The agreement had an initial one-year term, but has been extended for a second year.

More recently, the District entered into a long-term PPA for a solar project combined with energy storage. The Pinal Central Energy Project will consist of a solar photovoltaic generation facility with an expected capacity of 20 MW, together with a 10 MW lithium-ion energy battery storage system. The project is currently under development in Pinal County, Arizona. It is expected to begin operations in May 2018.

Project	Counterparty	Capacity (MW)	Fuel	Commercial Operation	Term (End Date)	Location
Novo BioPower	Novo BioPower, LLC	14	Biomass	FY2009	FY2024	Snowflake, AZ
Dry Lake I	Iberdrola Arizona Renewables, LLC	63	Wind	FY2009	FY2030	Holbrook, AZ
Dry Lake II	Iberdrola Arizona Renewables, LLC	64	Wind	FY2011	FY2031	Holbrook, AZ
Hudson Ranch I	Hudson Ranch Power I, LLC	55	Geothermal	FY2012	FY2042	Imperial Valley, CA
Copper Crossing	Iberdrola Arizona Renewables, LLC	20	Solar PV	FY2012	FY2037	Florence, AZ
Queen Creek Solar	Siete Solar, LLC	19	Solar PV	FY2013	FY2033	Queen Creek, AZ
Cove Fort	Enel Cove Fort, LLC	25	Geothermal	FY2014	FY2034	Beaver County, Utah
Sandstone Solar	Sandstone Solar, LLC	45	Solar PV	FY2016	FY2036	Florence, AZ
CalEnergy	CalEnergy, LLC	87	Geothermal	FY2016-FY2020	FY2040	Imperial Valley, CA
Kayenta Solar	NTUA	25	Solar PV	FY2018	FY2020	Navajo Nation, AZ
Pinal Central Energy Center	Pinal Central Energy Center, LLC	20+10	Solar PV with Energy Storage	FY2019	FY2039	Pinal County, AZ

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. Consistent with its acquisition of the Desert Basin Project, Gila River Generating Station Block 4, and Mesquite Block 1, the District continues to evaluate these developments, which could include the acquisition of other existing generation facilities.

Gila River Power Station. In September 2016, the District entered into an agreement to purchase power block 4 of the Gila River Power Station ("Gila River") from Gila River Power, LLC, an independent power producer. Gila River, which entered commercial service in 2003, consists of four combined-cycle gas-fired generating power blocks, each nominally rated at 550 MW. Gila River is located near Gila Bend, Arizona. The District agreed to purchase 100% of power block 4 and a 25% undivided ownership interest in the facility's common assets, shared spare parts inventory, and infrastructure, for $100 million. The transaction closed on June 1, 2017.

On October 11, 2017, the District entered into an agreement for the purchase of 100% of power blocks 1 and 2 at Gila River from CXA Sundevil Power I, Inc. and CXA Sundevil Power II, Inc., respectively, together with an additional 50% undivided ownership interest in the facility's common assets, shared spare parts inventory, and infrastructure, for $330 million in total. The transaction is targeted to close on or before December 31, 2017.

On the same date the District entered into a 20-year tolling power purchase agreement with Tucson Electric Power Company ("TEP") for the output of block 2 at Gila River. The agreement includes a three-year option for TEP to purchase block 2 from the District and will become effective upon closing of the District's purchase of block 2.

The District believes these acquisitions and the tolling arrangement will allow the District to meet long-term load growth and customer needs at a reasonable cost.

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 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 and own Unit 4, which it completed and placed in service in December 2009.

Mesquite Generating Station. In February 2013, the District purchased power block 1 of the Mesquite Generating Station ("Mesquite") from an independent power producer ("Seller"). Mesquite, which entered commercial service in 2003, consists of two combined-cycle gas-fired generating power blocks, each nominally rated at 625 MW. Mesquite is located approximately 40 miles west of Phoenix, Arizona. The District purchased 100% of power block 1, a 50% ownership interest in most of the facility's common assets and a 32.05% interest in the adjacent switchyard for approximately $370.2 million. Assets acquired include $364.7 million of plant and $5.5 million of inventory, land and other assets. The District believes this plant will meet long term load growth and customer needs at a reasonable cost. The District is the operator for the entire facility. The Seller recently sold its remaining 625 MW block to ArcLight Capital Partners.

Peaking Generation Siting. In order to meet future system demand growth, the District is currently assessing the opportunity to build a natural gas peaking plant on District owned property in Pinal County, Arizona. If the need for peaking generation materializes, the District could build up to 1,684 MW of simple cycle generation at this site. The District filed an application for an air permit for this facility, which was approved by the Pinal County Air Quality Control District. The generation could be brought on-line in phases with the first phase as early as fiscal year 2022. The ultimate timing of this new resource will be driven by the load forecast, as it may be modified from time to time, and the availability and attractiveness of other supply and demand-side options.

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 broader transmission network in the western United States. The District owns, or jointly owns, transmission systems consisting of over 3,200 miles of transmission lines at voltages ranging between 69 kilovolts (kV) and 500kV. The District's transmission system transports electricity from generation resources to the distribution system and ultimately serves the District's retail customers. When it is not prudent to build new or upgrade existing transmission lines, the District meets customers' needs by acquiring contract rights on transmission systems owned by others. The District also uses its transmission system to access generation resources produced by others and to transmit this energy when surplus transmission capacity is available.

A healthy and reliable transmission system is integral to providing safe and reliable power at a reasonable cost. As the demand for electricity increases, it will be necessary to make upgrades, additions or changes to the transmission system to maintain its health and reliability. Additionally, the quality of the transmission system is also challenged by external forces such as new regulations and policies, fluctuations in the economy and advancements in technology.

In order to maintain a healthy and reliable transmission system the District must determine the need for system improvements years in advance of the actual need. This is accomplished through annual planning studies that assess system performance for the upcoming ten years. These studies are performed in accordance with industry accepted planning standards and practices. The results of the studies are used to design the District's transmission system to reliably serve the expected electric system load. The transmission system upgrades, additions and changes that are needed over the next six years are reflected in the Capital Improvement Program.

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/ Sustainable[1]	Gas/Oil	Coal	Nuclear	Renewables/ Sustainable[2]	Other
2018	2.3%	9.8%	56.1%	17.1%	12.1%	2.6%
2019	2.2%	10.3%	55.1%	16.2%	12.8%	3.3%
2020[3]	2.2%	16.1%	47.8%	15.9%	13.8%	4.2%
2021	2.2%	27.5%	34.0%	15.6%	14.2%	6.5%
2022	2.1%	30.3%	32.4%	15.5%	15.2%	4.6%
2023	2.1%	33.3%	29.4%	15.1%	15.7%	4.4%

(1) Includes federal hydro purchases; hydro resources are included in SRP's Sustainable Portfolio.
(2) Includes renewable energy purchases, renewable resources, energy efficiency and demand response.
(3) In fiscal year 2020, the District may utilize surplus RECs from previous years' over-performance to meet its 20% SPP goal.

Coal. Hayden Generating Station Unit 2, NGS, Four Corners, and Craig Generating Station Units 1 and 2 are four of the six coal-fired generating units in which the District has an interest. The existing coal supply contract for Four Corners expires in July 2031. The coal supply contract for NGS has been extended to December 22, 2019. A new coal supply contract for Hayden Generating Station became effective January 1, 2012 and will expire in December 2027. One of two coal supply contracts for the Craig Generating Station expires December 31, 2017, and provides approximately 30% of the coal supply for Craig. The remaining 70% of the coal supply for Craig is acquired through a second contract that will expire in December 2020. The District believes it will be able to obtain coal for the remainder of the depreciable life of each plant.

The District has two existing coal supply agreements that provide for the supply of coal to both the Coronado Generating Station ("CGS") and Springerville Unit 4. These coal supply agreements are scheduled to expire at the end of calendar year 2017 and 2018. The District believes it can continue to meet the coal requirements for CGS and Springerville Unit 4.

The stockpiles of coal for all coal-fired generating stations are at or above targeted levels for normal operations. However, in the case of Navajo Generating Station, the target level stockpile has been reduced based on the possible cessation of operations at any of the units prior to December 2019. See "THE ELECTRIC SYSTEM – Existing and Future Resources – *Navajo Generating Station*" for discussion of the Navajo Generating Station and the District's cessation of operations at NGS on or prior to December 2019.

There are a number of disputes involving the mine permits for the plants in which the District has an interest. 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 matters.

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. 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. The vast majority of the District's 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. In May 2017, the District implemented and executed a defined hedging program through 2027 to mitigate fuel price

risk related to the incremental retail gas requirements attributed to the District's decision to cease operations at the Navajo Generating Station on or prior to December 2019.

To date, most of the District's energy-related hedging transactions have been conducted in the "Over the Counter" ("OTC") markets. Until the passage of the Dodd-Frank Wall Street Reform and Customer Protection Act (the "Dodd-Frank Act") in August of 2010, the OTC market was generally unregulated. The Dodd-Frank Act generally subjects OTC transactions to rules and regulations related to, among other things, clearing, margining and reporting requirements. The District has implemented policies and procedures to comply with these rules and regulations.

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.

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 15% 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 approximately 90% of the materials and services required to provide uranium concentrates through the year 2017, 80% in 2018, and 45% through 2025, 90% of the requirements for conversion services through 2017, 97% in 2018 and 45% through 2025, 100% of the requirements for the enrichment services through 2020 and 20% through 2026, and 100% of the requirements for fabrication services through 2022. APS is examining uranium supplies along with fuel conversion, enrichment, and fabrication 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 is already pursuing a portfolio of initiatives to meet current and future goals and has invested heavily in research and development.

These investments 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 joined efforts 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 hot water systems, and the District also has its Trees for Change and Residential Shade Tree Programs which allow customers to support tree planting.

Evidence of the District's portfolio approach is the Board's adoption of a Sustainable Portfolio Plan ("SPP"). The SPP, adopted in 2004 and amended in 2006 and 2011, targets meeting 15.875% of expected retail energy requirements with sustainable resources by fiscal year 2017, increasing to 20% by fiscal year 2020. 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, codes and

standards, and pricing measures. The Sustainable Portfolio does not include nuclear power, but if nuclear is included, over 33% of the electricity currently provided by the District is produced without creating any GHG. The District is pursuing the acquisition of additional, cost-effective renewable resources and is evaluating other resource options.

The District has also continued its investment in energy efficiency and demand response programs. Over the past ten years, the District has invested over $350 million in energy efficiency initiatives. Examples of these programs include rebates for efficient air conditioning systems, builder incentives for the construction of energy efficient homes and commercial buildings, retail partnerships to discount LED light bulbs, residential demand response programs in which customers use their thermostats to reduce summer peak load, and comprehensive commercial programs that provide incentives for standard and customized efforts to install efficient lighting, refrigeration and other energy savings 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. Approximately 154,000 customers participate in 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 added 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 United States. The District Board introduced the E-21 price plan designed to reduce customer load during the summer hours of 3:00 p.m. - 6:00 p.m. Results from the program showed customers who switched from both the standard and TOU plan consistently reduced energy demand during on-peak hours, with minimal offsetting effects in the pre- and post-peak hours. Due to the success of the E-21 price plan, the District introduced the E-22 and E-25 pilot price plans designed to reduce customer load during the summer hours 4:00 p.m. - 7:00 p.m. and 2:00 p.m. - 5:00 p.m., respectively. Initial results from the pilot programs are consistent with results from the original E-21 program results in terms of reducing energy demand during on-peak hours. Including residential, commercial, and industrial loads the District has nearly 60 percent of its retail sales load taking service under a TOU price Plan. See "ELECTRIC PRICES" for further discussion of the District's TOU and M-Power® Programs.

Finally, on October 2, 2017, the Board adopted additional sustainability goals through the year 2035 ("SRP 2035 Sustainability Goals"). The goals address carbon emissions reductions, water resiliency, supply chain and waste reduction, grid modernization, and customer and employee engagement and community involvement. The SRP 2035 Sustainability Goals position the District as one of the first utilities in the electric power industry to establish a comprehensive sustainability framework designed to reduce environmental impacts and operational costs while also accommodating customer adoption of evolving technologies.

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. The District remains actively engaged at the state, regional and federal level on various regulatory initiatives affecting fossil-fuel-fired power plants. 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 ("SRPCRS"), a wholly-owned subsidiary, to provide property insurance coverage for certain acts of terrorism as originally provided by the Federal Terrorism Risk Insurance Act of

2002 and extended by the Terrorism Risk Insurance Program Reauthorization Act of 2007 and 2014. Additionally, SRPCRS is utilized to provide other coverage to the District when it can provide enhanced or more economical coverage than through the commercial insurance market.

Insurance for boiler and machinery and property risks in the past was obtained primarily from the commercial market, but a portion of that coverage has been placed with industry mutual companies when most economical. The District believes it has adequate coverage and limits, although insurer competition in the commercial market has declined in some years 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 ("EGUs") 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.

Solid and Hazardous Waste Management. Many normal activities in connection with the operation of the District 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 District 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 District 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. The federal government and Arizona have extensive regulatory systems governing water quality, including permit programs for discharges to surface water and to groundwater, and superfund programs to clean up groundwater contamination. Nineteen state superfund sites and six federal superfund sites targeting contamination of groundwater are active within the greater Phoenix metropolitan area. SRP has wells located in sixteen of the nineteen state superfund sites and in two of the six federal superfund sites that are threatened or impacted. 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 and an adjacent state 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 "LITIGATION — Environmental Issues — *Superfund Sites*" for discussion of the Motorola 52nd Street Superfund site and the West Van Buren Superfund site.

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.

Air Quality. Like other electric utilities and industries, the District is subject to federal, state, and local standards to control emissions to protect air quality. The District's coal-fired generating units are located in the western United States where the federal agencies place a high emphasis on preserving air quality and visibility at large national parks, monuments, wilderness areas and Indian reservations. Because 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, operating coal-fired EGUs. Environmental requirements regarding air emissions have been changing and are anticipated to change substantially in the future. Legislative or regulatory mandates related to the Clean Air Act ("CAA") and climate change initiatives may result in additional requirements for reductions of emissions that are currently regulated, like sulfur dioxide ("SO_2"), NOx, particulate matter ("PM"), mercury, and GHG. The District continues to monitor regional climate change initiatives. While government leaders continue to debate climate change, the District 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 as appropriate.

Based on currently available information, the District cannot estimate or predict its costs to comply with any future proposals and goals, but believes that such costs could be material. See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY — Environmental" for a discussion of the 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. 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 certain air emissions at NGS and Four Corners under certain rules not stricter than those of the EPA. See "LITIGATION — Environmental Issues — *Navajo Environmental Laws*," for further discussion of the Navajo Nation's environmental laws 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 commercial users.

The District operates in a highly regulated environment in which it has 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 sale 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, only a few customers chose an alternative energy provider, and 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, and the District's Direct Access Program is suspended.

See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY — Competition in Arizona — *The Arizona Corporation Commission*" for a discussion of competition among utilities regulated by the ACC.

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 60 percent of its retail sales load taking service under 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 percent.

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 both increases and decreases in the FPPAM since it 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.

In November 2009, the District introduced an Environmental Programs Cost Adjustment Factor ("EPCAF") to recover costs incurred by the District to comply with renewable-energy, energy efficiency and climate-change related requirements imposed by mandate. The EPCAF is applied to all retail customer energy sales at a single per-kWh price for all customer classes except for the E-27 Customer Generation Price Plan where the EPCAF price is a tiered, per-kW rate that varies by season.

Through a surcharge to the District's transmission and distribution customers for system benefits, the District recovers the costs of programs benefiting the general public, such as discounted rates for low income customers and customers on medical life support, and for nuclear decommissioning, including the cost of spent fuel storage. This System Benefits surcharge continues to be separately identified and included in the District's price plans for the regulated portion of its operations. Prior to November 2009, some of the EPCAF costs had been recovered as part of the Systems Benefits Charge.

On Feb. 26, 2015, the District's Board concluded a public process by approving changes and adjustments to its price plans, including an overall average annual price increase of 3.9%, to be phased in beginning with the April 2015 billing cycle, which for most customers begins sometime in March. This overall increase was comprised of a 4.4 percent base increase and a 0.5 percent EPCAF decrease. There was no material change to the FPPAM.

In addition to other approved changes and adjustments, the Board approved a new price plan for residential customers who, after Dec. 8, 2014, add solar or other technologies to generate some of their energy requirements. SRP structured the new E-27 Customer Generation Price Plan for distributed generation customers to be in line with what

non-distributed generation customers pay for the same services. The price plan includes a demand charge to better recover fixed costs related to the solar customer's service facilities and their use of the grid, but also reduces the price the customer pays per kilowatt hour for energy.

SolarCity Corporation, an active participant in the price process proceedings, filed a lawsuit against the District in Arizona Federal District Court on March 2, 2015, alleging, among other things, that the District, by its adoption of the Customer Generation Price Plan, acted unlawfully in an effort to preserve its existing monopoly over the retail provision of electric power for consumers and businesses. See "LITIGATION — General Litigation Matters— *Price Process Litigation*" for a discussion of the SolarCity lawsuit.

During 2015 and 2016, the Board approved various temporary reductions to the EPCAF and the FPPAM. On December 5, 2016 the Board approved a temporary 1.2 percent reduction to the EPCAF and a 0.4 percent reduction to the FPPAM for ten months (January 2017 billing cycle through October 2017 billing cycle).

CAPITAL IMPROVEMENT PROGRAM

The Capital Improvement Program is a 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 Capital Improvement Program for fiscal years 2018 through 2023 totals approximately $5.3 billion. Of this total, approximately $5.0 billion is for construction (including contingencies), $164.4 million is for capitalized administrative and general expenses and $116.5 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 21% of the Capital Improvement Program from Revenue Bonds, other forms of indebtedness and third-party contributions. The remainder is anticipated to be funded by internally generated funds.

The Capital Improvement Program is driven by the need to sustain the generation, transmission and distribution systems of the District in order to meet customer electricity needs and to maintain a satisfactory level of service reliability. Of the approximately $5.3 billion Capital Improvement Program, approximately $1.7 billion is directed to generating projects. These include funding for such items as: plant betterments, plant emission controls and future generation facilities. Approximately $1.6 billion is planned for expansion of the electrical distribution system to meet future growth and to replace aging underground cable. The efforts for pole asset management, line additions and station upgrades account for part of the $399.6 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 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."

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Table 6 summarizes the District's fiscal year 2018 through 2023 Capital Improvement Program.

TABLE 6 — Fiscal Year 2018 through 2023 Capital Improvement Program
($000's)

	2018	2019	2020	2021	2022	2023	Total 2018-23
Electric Construction:							
Generation[1]	$ 304,390	$ 343,754	$ 298,451	$ 361,010	$ 217,742	$ 220,775	$ 1,746,122
Transmission	73,740	62,025	70,312	105,130	53,234	35,136	399,577
Distribution	240,536	257,817	260,979	269,846	269,178	268,137	1,566,293
Customer Systems	46,212	42,214	39,004	29,430	29,416	26,958	213,233
Operational Support	185,753	153,870	115,519	93,264	88,813	86,581	723,801
Subtotal – Electric Construction	850,631	859,480	784,265	858,680	658,382	637,587	4,649,027
Contingency Allowance & Risk Portfolio	19,621	65,708	79,588	44,854	49,948	84,055	343,774
Subtotal	870,252	925,188	863,853	903,534	708,330	721,642	4,992,801
Capitalized Administrative and General Expenses	30,964	32,016	27,943	29,814	22,133	21,564	164,433
Capitalized Interest	11,762	13,951	21,676	29,991	20,554	18,581	116,515
Total[2]	$ 912,978	$ 971,155	$ 913,472	$ 963,340	$ 751,017	$ 761,787	$ 5,273,749

[1] Reflects ongoing betterments for existing generation and planned expenditures for potential new generation. Does not reflect the agreement to purchase 100% of power blocks 1 and 2 at Gila River. The purchase of 100% of power blocks 1 and 2 at Gila River will allow the District to delay planned new generation capital spending. The delay of planned new generation and the purchase of 100% of power blocks 1 and 2 at Gila River would result in a net reduction of $18 million over the six-year Capital Improvement Program.

[2] Totals may not exactly equal the sum of the above entries due to rounding.

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SELECTED OPERATIONAL AND FINANCIAL DATA

Customers, Sales, Revenues and Expenses

Classification of Customers. The District has a diversified customer base. As of the fiscal year ending April 2017, no one retail customer represented more than 2.5% 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 — 2017 Customer Accounts, Sales, and Revenues
Fiscal Year Ended April 30, 2017

	Customer Accounts at April 30, 2017	Total Sales (GWh)	%	Sales Revenue ($000)	%
Residential	924,384	12,832	35.8	1,486,905	49.4
Commercial and Small Industrial	91,023	11,052	30.9	1,014,630	33.7
Large Industrial	24	2,271	6.3	147,396	4.9
Mines	25	1,558	4.4	96,137	3.2
Pumps	142	22	0.1	2,147	0.1
Public/Private Lighting	10,434	209	0.6	33,702	1.1
Interdepartmental	1	111	0.3	10,353	0.3
Subtotal/Retail	1,026,033	28,056	78.4	2,791,270	92.8
Electric Utilities/Wholesale[1]	86	7,739	21.6	217,572	7.2
Total[2]	1,026,119	35,796	100.0	3,008,842	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 924,384 customers at April 30, 2017, this group serves as a solid base, bringing in approximately 49.4% of total electric revenues.

The second largest retail customer classification is the commercial and small industrial group; these customers numbered 91,023 at April 30, 2017 against 89,585 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.

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Historical Operating Statistics. The following table shows certain historical operating statistics of the District for the five years ended April 30, 2017.

TABLE 8 — Historical Operating Statistics

	2017	2016	2015	2014	2013
SERVICE:					
Total Customers at Year-End	1,026,119	1,009,109	996,682	983,746	969,046
Total Sales (million kWh)	35,796	35,804	36,084	35,050	33,840
Average Revenue per kWh (cents)	8.53	8.46	8.35	8.43	8.33
District Only: (excludes sales for resale and affiliated retail)					
Sales (millions kWh)	28,056	27,807	27,680	26,958	27,158
Increase in Sales (%)	0.9%	0.5%	2.7%	(0.7)%	2.0%
TOTAL OPERATING REVENUES:					
(000's omitted)[1][9]	3,078,803	$ 3,042,681	$ 3,019,357	$ 2,957,567	$ 2,799,471
OPERATING EXPENSES (000's omitted):					
Fuel and Purchased Power[2][9]	$ 994,644	$ 1,003,500	$ 1,218,270	$ 1,023,853	$ 871,015
Operating and Maintenance[3]	986,255	988,152	983,012	939,690	927,576
Sales and Payroll Taxes	39,993	38,832	37,774	35,510	33,722
Ad Valorem Taxes[4]	2,651	3,598	8,320	8,541	4,324
Total Operating Expenses[5]	2,023,543	$ 2,034,082	$ 2,247,376	$ 2,007,594	$ 1,836,637
NET OPERATING REVENUES	$1,055,260	$ 1,008,599	$ 771,981	$ 949,973	$ 962,834
VOLUNTARY CONTRIBUTIONS IN LIEU OF TAXES (000's omitted):[6]					
Expensed	$ 121,724	$ 119,494	$ 112,995	$ 114,120	$ 101,006
Capitalized	3,046	1,301	2,363	2,456	1,367
Total	$ 124,770	$ 120,795	$ 115,358	$ 116,576	$ 102,373
OTHER STATISTICS:					
Annual Peak (MW):					
System Requirements	6,873	6,806	6,716	6,567	6,663
Total Peak Load[7]	7,543	7,892	7,854	7,614	7,195
System Load Factor(%)[8]	47.9	48.1%	48.6%	48.4%	47.9%
Residential Statistics:					
Fiscal Year-End Residential Customers	920,356	906,467	897,603	886,460	872,875
Annual Sales (million kWh)	12,832	12,682	12,344	12,290	12,695
Average Annual Usage (kWh)	13,943	13,991	13,782	13,911	14,579
Average Sales Price per kWh (cents)	11.60	11.62	11.35	11.26	10.93

[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 ASC 815, *Derivatives and Hedging*.

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.

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 $500 million in short-term promissory notes (the "Promissory Notes"). The Promissory Notes are sold in the commercial paper market and 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%. As of July 1, 2017, the District had $325 million of Promissory Notes outstanding, consisting of $50,000,000 in Promissory Notes sold in the tax-exempt commercial paper market and $275,000,000 in Promissory Notes sold in the taxable commercial paper market.

The District has two revolving credit agreements, a $150.0 million revolving credit agreement with U.S. Bank National Association and a $350.0 million revolving credit agreement with JPMorgan Chase Bank, National Association (the "RCAs"). Both agreements support the $325.0 million of Promissory Notes outstanding as of July 1, 2017. Both RCA's expire on June 29, 2020. Under the terms of the RCA with JP Morgan Chase Bank, National Association, the District has borrowed $3.5 million, and this amount will remain outstanding during the term of the RCA.

The District has limited the total amount of indebtedness which may be outstanding at one time under the RCAs, or any agreement in substitution or replacement therefor, and in the commercial paper market to an aggregate of $500 million. However, the District can issue Promissory Notes in excess of $500 million if it obtains additional District Board authorization and liquidity/credit facilities equal to such additional Promissory Notes.

The indebtedness of the District evidenced by the Promissory Notes is, and any borrowings under the RCAs would be, an unsecured obligation 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 any borrowings under the RCAs, and the Promissory Notes and such borrowings are not payable from taxes.

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

Management's Discussion of Operations. During the 12-month period ended July 31, 2017 the number of electric customers increased by 1.5% compared to an increase of 1.4% for the same period ended July 31, 2016.

Operating revenues were $1.1 billion for the first quarter of fiscal year FY18, an increase of $46.6 million compared with FY17. Retail revenues increased $21.6 million compared to prior year primarily due to volume increases. Wholesale revenues increased $22.1 million in the first quarter FY18 due to increases in volume and market prices compared to the same quarter last year. Wholesale revenues include the effects of fair value adjustments recorded during the period. Without the effect of the fair value adjustments, wholesale revenues would have increased $17.9 million in the first quarter of FY18 compared to the same period last year.

Operating expenses were $826.4 million for the first quarter FY18, an increase of $132.8 million from the first quarter FY17. The majority of the increase in operating expenses was due to an increase in fuel used in electric generation and an increase in depreciation and amortization. Fuel used in electric generation increased by $106.1 million primarily due to unfavorable fair value changes. Without the fair value adjustments, fuel expense would have increased $19.0 million from the same period in FY17. Depreciation and amortization increased $20.6 million due to a combination of assets being placed into service in the last twelve months and recovery periods being shortened for certain coal assets.

Investment income for the quarter was $24.1 million compared with income of $29.3 million for the same period last year. The decrease in investment income was primarily due to a decrease in equity market gains compared with the prior year.

The effects of the previously mentioned activities resulted in net revenues for the quarter of $212.9 million, compared with net revenues of $302.3 million for the same quarter last year. Excluding the change in fair value of fuel, purchased power, wholesale positions, and investment income, net revenues for the quarter would have been $246.3 million compared with net revenues of $247.2 million for the same quarter last year.

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Three Months Ended July 31, 2017 and 2016 – Unaudited.

TABLE 9 – Summary Combined Financial Data[1]
($000's – Unaudited)

Summary Combined Statements of Net Revenues

	2017	2016
Operating Revenues:		
Retail Electric	$ 970,015	$ 948,426
Water	4,095	3,608
Wholesale	67,070	44,960
Other Electric	18,854	16,479
Total Operating Revenues[2]	1,060,034	1,013,473
Operating Expenses:		
Purchased Power	102,483	107,160
Fuel Used in Electric Generation	278,542	172,454
Operations and Maintenance[2]	244,761	235,582
Depreciation and Amortization	157,758	137,187
Taxes and Tax Equivalents	42,869	41,218
Total Operating Expenses	826,413	693,601
Net Operating Revenues	233,621	319,872
Other Income:		
Investment Income (Loss), Net	24,091	29,264
Other Income (Deductions), net	(2,477)	(944)
Total Other Income (Loss)	21,614	28,320
Net Financing Costs	42,323	45,940
NET REVENUES	$ 212,912	$ 302,252

[1] The unaudited combined financial data reflect the combined net revenues of the District and the Association and should be read in conjunction with the Notes to the Combined Financial Statements attached hereto as Appendix A.
[2] Inter-company transactions eliminated.

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TABLE 10 – Summary Combined Financial Data[1]
(000's)

	As of July 31, 2017 (Unaudited)	As of April 30, 2017
ASSETS		
Utility Plant, at Original Cost	$ 16,608,952	$ 16,402,866
Less: Accumulated Depreciation	7,865,192	7,738,978
	8,743,760	8,663,888
Other Property and Investments	1,545,404	1,529,043
CURRENT ASSETS		
Cash and Cash Equivalents	345,565	313,551
Temporary Investments	136,185	180,360
Current Portion, Segregated Funds	83,061	101,228
Receivables, Net	517,260	262,713
Fuel Stocks	108,443	115,925
Materials and Supplies	200,500	193,922
Other	32,595	37,698
	1,423,609	1,205,397
Deferred Charges and Other Assets	1,258,589	1,258,278
TOTAL ASSETS	$ 12,971,362	$ 12,656,606
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION		
Long-Term Debt	$ 4,558,934	$ 4,465,538
Accumulated Net Revenues	5,300,097	5,087,185
TOTAL CAPITALIZATION	9,859,031	9,552,723
CURRENT LIABILITIES		
Current Portion, Long-Term Debt	120,015	120,015
Accounts Payable	210,093	183,733
Accrued Taxes and Tax Equivalents	113,667	125,767
Accrued Interest	21,199	64,962
Customer Deposits	98,706	97,184
Other	245,374	279,545
Deferred Credits and Other Non-Current Liabilities	2,303,277	2,232,677
TOTAL CAPITALIZATION AND LIABILITIES	$ 12,971,362	$ 12,656,606

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

Outstanding Revenue Bond Long-Term Indebtedness. As of April 30, 2017, the District had outstanding $3,664,705,000 of Revenue Bonds, computed without deducting/adding the unamortized bond discount/premium.

The following table shows the Revenue Bond Debt Service Requirements immediately preceding the issuance of the 2017 Series A Bonds.

TABLE 11 — Total Revenue Bond Debt Service Requirements[1]

Years Ending April 30, [2]	Principal Requirements on Outstanding Revenue Bonds	Interest Requirements on Outstanding Revenue Bonds[3]	Total Debt Service Requirements
2017	$ 36,339,167	$ 64,888,424	$101,227,591
2018	101,136,250	173,290,206	274,426,456
2019	93,185,000	168,909,702	262,094,702
2020	89,860,417	164,525,493	254,385,910
2021	88,758,750	160,167,248	248,925,998
2022	95,199,167	155,833,804	251,032,971
2023	97,645,417	151,156,828	248,802,244
2024	103,164,167	146,325,084	249,489,251
2025	111,537,083	141,171,496	252,708,579
2026	109,244,167	135,613,350	244,857,517
2027	116,046,250	130,177,333	246,223,583
2028	121,677,083	124,375,021	246,052,104
2029	127,934,167	118,293,942	246,228,108
2030	123,685,833	111,902,783	235,588,617
2031	147,294,167	105,731,883	253,026,050
2032	162,300,000	98,393,496	260,693,496
2033	161,433,750	90,647,163	252,080,913
2034	177,477,500	83,396,088	260,873,588
2035	177,918,750	75,431,400	253,350,150
2036	187,442,500	67,569,088	255,011,588
2037	190,522,083	59,026,354	249,548,438
2038	211,570,000	50,432,333	262,002,333
2039	96,461,667	40,861,667	137,323,333
2040	229,795,000	36,140,220	265,935,220
2041	232,199,583	25,020,440	257,220,023
2042	49,747,083	13,743,854	63,490,938
2043	52,232,083	11,256,500	63,488,583
2044	54,843,333	8,644,896	63,488,229
2045	57,589,167	5,902,729	63,491,896
2046	60,465,417	3,023,271	63,488,688

[1] Totals may not add due to rounding.
[2] Payment amounts for Debt Service are for the years in which they accrue, not for the years in which they are paid.
[3] Interest Requirements do not reflect subsidy payments from Build America Bonds.

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The following table shows the actual application of revenues and coverage of Debt Service requirements for fiscal years 2014, 2015, 2016 and 2017.

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

	2017[1]	2016[1]	2015[1]	2014[1]
Electric Revenues[2]	$ 3,123,220	$ 3,097,921	$ 3,070,406	$ 3,009,616
Operating Expenses[2][3][4]	2,125,211	2,058,344	2,193,855	2,104,458
Revenues from Operations	998,009	1,039,577	876,551	905,158
Interest and Other Income (Net)	13,131	(11,042)	19,955	61,057
Revenues Available for Debt Service	1,011,140	1,028,535	896,506	966,215
Rate Stabilization Funds	--	--	--	--
Revenues Available for Debt Service on Revenue Bonds and Subordinated Debt	1,011,140	1,028,535	896,506	966,215
Debt Service Requirements Revenue Bonds	281,262	305,363	279,207	287,281
Debt Service Requirements Subordinated Debt	1,723	698	282	15,285
Total Debt Service	282,985	306,061	279,489	302,566
Coverage of Total Revenue Bond Debt Service[5]	3.60	3.37	3.21	3.36
Coverage of Total Debt Service[6]	3.57	3.36	3.21	3.19
Balance after Debt Service	728,155	722,474	617,017	663,649
Plus: Interest on Construction Fund	42	181	--	--
Less: Contribution in Lieu of Taxes	121,840	119,609	113,105	114,120
Less: Contributions to Water Operations	58,209	60,510	59,033	62,184
Less: Falling Water Charges[7]	6,939	5,504	6,880	6,453
Balance Available for Corporate Purposes	$ 541,209[8]	$ 537,032	$ 437,999	$ 480,892

[1] Includes inter-company sales.

[2] Electric Revenues and Operating Expenses do not include the effects of ASC 815, *Derivatives and Hedging*.

[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 2017 as follows:

($000's – Unaudited)

BALANCE AVAILABLE FOR CORPORATE PURPOSES	$ 541,209
Bond principal repayment	100,654
Subordinated Debt principal payment	--
Rate Stabilization Funds	--
Capitalized Interest	14,597
Amortization of regulatory assets	(6,658)
Depreciation and amortization	(534,375)
Fuel related depreciation (reflected in fuel costs)	(3,518)
Amortization of bond accretion	--
Realized Earnings on segregated post retirement investment funds	(32,426)
Amortization of bond discount/premium, issuance, and refinancing expenses	18,404
Capital lease principal payments	16,527
Net Revenues before impact of fair value adjustments	114,414
Impact of fair value adjustments	(133,423)
Gain on sale of available-for-sale securities	--
COMBINED NET REVENUES	$ 247,837

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 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.

Among others, key factors include, (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 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, either through a comprehensive rule-making impacting all public power entities or upon a final finding that any one public power entity has engaged in discriminatory practices that impaired fair and open access to its transmission system. 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. FERC has thus far only ordered one specific public power entity to file a FERC-approved open access transmission tariff.

In response to FERC's rule for nondiscriminatory access to transmission and recent FERC orders expanding options for public power entities, the District developed a Board of Directors-approved Open Access Transmission Tariff which is publically posted and sets forth the equivalent terms and conditions under which the District operates its transmission system. By operating under its own version of a public power entity tariff, the District enjoys a presumption of reciprocity that ensures 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 certain wholesale market enhancements that would improve transmission and wholesale energy markets. See "THE ELECTRIC SYSTEM — Existing and Future Resources — *Transmission*."

Competition in Arizona

In 1998, Arizona enacted the Electric Power 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 by 2001, only a few customers chose an alternative energy provider, and 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, and the District's Direct Access Program is suspended. 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. The rules were challenged in the courts, and held to be invalid. At various times since, numerous energy service providers, meter reading, and meter service providers, as well as brokers, large industrial customers and merchant power plant owners have urged the ACC to reinstate some form of retail competition, but none have been successful. The most recent effort was in May 2013, when the ACC opened a further inquiry into retail competition and requested that interested parties provide comments on a series of ACC-issued questions. The District participated in this inquiry. On September 11, 2013, the ACC voted to close its inquiry into whether the ACC should consider deregulation of the Arizona electricity market. The ACC's action was consistent with the position advocated by SRP.

Beginning in July of 2012, the ACC created a buy-through program for another major Arizona utility allowing a limited number of large industrial customers to purchase generation from other providers. The ACC has modified the program over the years but has not expanded it to include other utilities in the state.

In a separate proceeding, filed in 2010, an advocacy group for the solar industry comprised of equipment manufacturers, dealers and installers, and a solar electric provider, petitioned the ACC for a determination that providers of certain solar service agreements were not public service corporations. At issue was whether such providers were public service corporations under the Arizona Constitution and, therefore, regulated by the ACC. The ACC ruled on June 30, 2010, that a solar electric provider providing service to a school, nonprofit organization or governmental entity from a solar facility constructed on the customer's premises was not subject to ACC jurisdiction as a public service corporation.

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 a restructuring of the utility industry. The District has retained its existing vertically-integrated infrastructure and is developing additional resources to keep up with its load growth. Its fuel sources for existing generation are diversified, and planned additions include sustainable 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, as of the end of the fiscal year ending April 2017, no single customer provided more than 2.5% of its operating revenues. See "SELECTED OPERATIONAL AND FINANCIAL DATA — Customers, Sales, Revenues and Expenses" herein.

In April 2017, the District formally agreed to join the western Energy Imbalance Market ("EIM") and will be active in the EIM commencing April 2020. The EIM is a five-minute automated energy market designed to help optimize the dispatch of energy and manage variable generation resources to serve customers. The EIM's advanced market systems automatically find the lowest-cost energy to serve real-time consumer demands of participating utilities. The EIM enables utilities to buy and sell power more efficiently in the hour before the energy is needed, with five-minute plant dispatching, which results in improved efficiencies and cost savings.

The EIM is operated by the California Independent System Operator ("CAISO"). Motivated principally by California energy policy advancements and the addition of large amounts of solar and wind to the Western grid, the EIM seeks to provide improved generation dispatch efficiency, enhanced operational flexibility and reduced costs for participants. The EIM is a relatively small part of the overall Western energy market. While EIM transactions occur in five minute increments, the vast majority of energy purchases and sales in the west occur in day-ahead, month-ahead and longer time frames. While it is a small market when compared to the overall energy market, it can provide additional economic benefits to participants, particularly with regard to managing variable resources.

The District is regulated by an independent, publicly-elected Board of Directors that 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 2017 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 18 out of the last 19 years. The District also scored highest in customer satisfaction for business electric service among electricity providers in the western United States for 2016. The District also received this award in six out of the last seven years.

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 the Accounting Standards Codification Topic 815, "Derivatives and Hedging," ("ASC 815"). Under ASC 815, 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 ASC 815, 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 that continually change due to legislative, regulatory and judicial actions. There is concern by the public, the scientific community, and certain portions of the federal and state governments regarding environmental damage resulting from the use of fossil fuels. Under President Obama's administration, there were a number of regulatory proposals that affected the electric utility industry. There also was an increase in the level of environmental enforcement by the EPA and state and local authorities. Increased environmental regulations under the provisions of multiple environmental laws have created certain barriers to new facility development and modifications of existing facilities. It is unclear how President Trump's administration will proceed in setting new environmental priorities, creating continuing uncertainty for the electric utility industry.

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 require additional capital expenditures, reduced operating levels, or the complete shutdown of individual EGUs 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. In addition, the cost of fossil fuel purchased by the District may increase and permit fees may increase, 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 relating to generation facilities and reduction of GHGs and other air pollutants. The District cannot predict at this time whether any additional legislation or rules will be enacted that will affect the District's operations, the impact of any initiatives on the District at this time and, if such laws or rules are enacted, what the costs to the District might be in the future because of such action.

Air Quality. Efforts to reduce emissions from fossil fuel power plants are on-going, and increase the cost of, and add to the difficulty of, siting, constructing and operating fossil fuel EGUs. As a result of legislative and regulatory initiatives, the District has made reductions in emissions of mercury and other pollutants at its coal-fired power plants, including plants located on the Navajo Nation.

The full significance of future air-quality standards and emissions-reduction initiatives to the District in terms of costs and operational impacts is difficult to predict. The cost of fossil fuel purchased by the District may increase and 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 these policy initiatives on its generation assets and is developing contingency plans which may include the curtailment or closure of one or more of the District's generating units. The District cannot predict the impact of such initiatives on the District at this time.

CGS Consent Order. The District negotiated a Consent Order with the ADEQ in 2009, pursuant to which the District delayed compliance with Arizona limitations on mercury emissions until 2016, and instead implemented a control strategy designed to achieve a 70% reduction of mercury emissions at CGS on a facility-wide annual average basis beginning January 1, 2012 at an estimated annual cost of $2.4 million. In April 2016, the District became subject to the federal standards for mercury established by the Mercury and Air Toxics Standards ("MATS") rule. The State has adopted backstop limitations that would remain in place if the federal rule is repealed or vacated. These standards match the current federal standards.

Mercury and Air Toxics Standards. In February 2012, the EPA published the MATS rule, which established new emissions standards for trace metals, acid gases, mercury and organic compounds from existing and new coal- and oil-fired power plants under the CAA. These standards became effective in April 2015, except for facilities granted an extension under the CAA. Extension requests were granted for CGS and NGS. The District determined the rule required new controls for mercury at the District-operated CGS and NGS facilities. The District completed the construction of equipment to support the selected mercury control strategy at each plant prior to the April 2016 deadline for compliance with the MATS mercury limit. No additional controls for MATS compliance were required at any other coal-fired plants in which the District has an interest. On March 17, 2016, the EPA issued a final rule clarifying changes and corrections to the MATS rule. In June 2016, five petitions for review were filed challenging the final rule and the cases have been consolidated. The District is monitoring the litigation but continues to comply with the MATS rule.

Regional Haze Rule. Provisions of the EPA's Regional Haze Rule require emissions controls known as BART for certain coal-fired power plants and other industrial facilities that emit air pollutants that reduce visibility in Class I areas such as national parks. The District has financial interests in several coal-fired power plants that are subject to the BART requirements.

Navajo Generating Station. The EPA proposed a BART determination for NGS in January 2013. In its proposed rule the EPA invited the submittal of alternative proposals that would achieve benefits equal to or greater than the EPA's proposal. In August 2013, the District and other interested parties reached agreement on an alternative proposal (the "NGS Proposal") that was then submitted to the EPA. Under the NGS Proposal, the total NOx emissions from 2009 to 2044 would be less than the emissions allowed by the EPA's proposal. The NGS Proposal included two alternatives. Alternative A would require ceasing coal generation on one unit or reducing generation by January 1, 2020 if certain ownership changes occur, and installing selective catalytic reduction ("SCR") or equivalent technology on two units by 2030. Alternative B would require achievement of NOx emission reductions equivalent to the shutdown of one unit between 2020 and 2030, and submittal of annual Implementation Plans describing the operating scenarios to be

used to achieve greater NOx emissions reductions than the EPA's proposal. After issuing the NGS Proposal as a supplemental proposed rule and completing the public comment process, the EPA issued the final BART rule for NGS as a FIP on August 8, 2014, adopting (with limited changes) the NGS Proposal as a better than BART determination.

Four petitions for review of the final rule were filed before the Ninth Circuit by (i) The Hopi Tribe, (ii) National Parks Conservation Association, Sierra Club, Grand Canyon Trust and Natural Resources Defense Council, (iii) To' Nizhoni Ani, Black Mesa Water Coalition, and Diné Citizens Against Ruining the Environment ("Diné CARE"), and (iv) Vincent Yazzie. The District was granted intervention in all four appeals, as were three other intervenor parties. The three appeals other than the Hopi appeal were consolidated for proceedings before the Ninth Circuit. Oral argument was held on November 18, 2016. The Ninth Circuit denied all petitions for review on March 20, 2017, and denied a petition for rehearing en banc in the consolidated cases on June 2, 2017.

On February 13, 2017, the current group of non-federal owners of NGS announced that they will operate NGS through December 22, 2019, when the current term of the Lease with the Navajo Nation expires, provided that certain conditions are met including, without limitation, entering into certain necessary agreements in order for the plant decommissioning process to commence at the end of 2019. The decision affirming the FIP, however, leaves open the possibility for others to acquire and operate NGS subject to the FIP.

On June 5, 2017, a new lease, an amendment to the existing Lease, and related agreements were approved by the Board. On June 26, 2017, the Navajo Nation Council approved legislation authorizing the Navajo Nation President to execute the new lease, the amendment to the existing Lease, and other agreements. The Navajo Nation, the District and three of the other owners executed the documents by July 1, 2017. The remaining signatures are that of LADWP and the District with respect to the 24.3% portion of NGS which the District holds legal title to for the use and benefit of the USBR. The LADWP Board of Directors approved the agreements on September 19, 2017, and the Los Angeles City Council is expected to vote on the agreements next. Under the terms of the new lease, the remaining approvals and signatures are required no later than December 1, 2017, after additional reviews under applicable law. The new lease would allow NGS to operate through December 2019 by providing site access after that date for decommissioning activities, post-closure activities and monitoring, and ongoing operation of the related transmission systems on Navajo Nation lands. If the remaining approvals and signatures cannot be obtained or if the additional reviews are not completed on a timely basis or do not yield satisfactory results, then the plant will cease operations and the decommissioning process will begin soon thereafter, with completion targeted by the end of 2019.

Coronado Generating Station. On December 5, 2012, the EPA finalized the FIP which imposed emissions limits for PM, SO_2, and NOx under the BART provisions of the Regional Haze rule. The emissions limit for NOx was a plant-wide limit of 0.065 lb/MMBtu. To meet the limit without affecting the NOx limit for Unit 2 established in the previous consent decree (0.080 lb/MMBtu), the District would have been required to install a second SCR system at CGS on Unit 1 at additional cost of approximately $110 million. The District installed an SCR system on Unit 2 previously. Under the FIP the District must meet the new limits by December 5, 2017. The District filed for judicial review of the final FIP with the U.S. Court of Appeals for the Ninth Circuit and filed an Administrative Petition for Reconsideration with the EPA. On March 31, 2015 the EPA published the notice in the Federal Register granting the petition with respect to a limited subset of concerns listed in the petition. On February 24, 2016, the Ninth Circuit issued a partial decision denying the ADEQ and District petitions for review and found that the EPA was not arbitrary or capricious when it issued the FIP. The Ninth Circuit held, however, that it would wait for the EPA's final action on reconsideration before reviewing the technical feasibility of the EPA's FIP. The final FIP reconsideration removed the previous plant-wide NOx limit for CGS and adopted unit-specific NOx limits of 0.065 lb/MMBtu for Unit 1 and 0.080 lb/MMBtu for Unit 2. In light of the EPA's final action revising the FIP for CGS, the Ninth Circuit lifted the stay as to the remaining issues in the proceedings and the remainder of the District's petition for review was dismissed as moot. The reconsideration did not alter FIP compliance dates, leaving in place the requirement of an SCR system on Unit 1 by December 2017.

Throughout the appeal and administrative review process, the District engaged in discussions with the EPA and ADEQ to resolve this matter. As a result of these discussions, the District proposed an alternative interim strategy to meet the EPA's Regional Haze standards to provide time for the District to assess the impacts of federal carbon regulations on the future of CGS. Under this alternative strategy, the District would curtail CGS Unit 1 for various time periods during certain winter months. The District also will evaluate and make a decision by December of 2022 to either close Unit 1 in 2025 or install SCR on Unit 1 to meet the emissions requirements and continue to operate

Unit 1. The District submitted a permit revision application and proposed SIP revision (to replace the current FIP) to ADEQ in early 2016. ADEQ completed review of these actions and issued a revised permit and SIP revision approval in December 2016. The SIP revision was submitted to the EPA on December 15, 2016, for review and approval. The EPA published a proposed rule to approve the SIP revision on April 27, 2017, and the District commented on this proposal by the due date of June 12, 2017. On September 28, 2017, the EPA Administrator signed the Final Approval of Arizona Regional Haze SIP Revision and Withdrawal of the FIP for CGS, and it becomes effective November 9, 2017. This final action approves a source-specific revision to the Arizona Regional Haze SIP for CGS and withdraws a FIP promulgated by the EPA in 2012 for CGS. The District will implement the provisions of the SIP revision upon its effective date.

Four Corners Generating Station. On August 6, 2012, the EPA issued its final BART determination for Four Corners which required the installation of SCRs on all five units, or the closure of Units 1, 2 and 3 and SCRs on Units 4 and 5. SCRs for Units 4 and 5 could cost $635.0 million, of which the District's share would be $63.5 million. On December 30, 2013, APS, on behalf of the Four Corners owners, notified the EPA that the owners had chosen the alternative BART compliance strategy requiring the permanent closure of Units 1, 2 and 3 by January 1, 2014 and installation and operation of SCRs on Units 4 and 5 by July 31, 2018. Construction of the SCRs for both units is underway.

Craig Generating Station. The final BART determination for Craig Units 1 and 2, in which the District owns 29%, required installation of new emission control equipment on Craig Units 1 and 2. In February and March 2013, two petitions for judicial review of the BART determination for Craig were filed by environmental organizations with the U.S. Court of Appeals for the Tenth Circuit. On July 10, 2014, a motion was filed with the Court indicating that certain of the parties to the litigation had reached a settlement that, if adopted as a final rule, would further reduce NO_X emissions limits for Craig Unit 1 from 0.028 lb/MMBtu, on a 30-day rolling average, to 0.07 lb/MMBtu, calculated on a 30 boiler-operating-day rolling average, with a compliance deadline of August 31, 2021. No changes would be required for Craig Unit 2. The lawsuits are stayed pending the governmental approval and public notice process. PacifiCorp, one of the owners of Craig Unit 1 and an intervenor in the appeals, objected to the settlement arguing the settlement agreement is inappropriate, improper, inadequate, or inconsistent with the requirements of the CAA. On November 20, 2014, the Colorado Department of Public Health & Environment approved a revised Regional Haze Plan that adopts the settlement. The revised Regional Haze Plan was presented to and approved by the Colorado legislature during spring 2015 legislative session. Tri-State was expecting EPA approval of the revised Regional Haze Plan by December 31, 2016. On September 1, 2016, however, Tri-State announced a preliminary settlement agreement with the State of Colorado, the EPA and the environmental petitioners to reduce NOx emissions under Colorado's Visibility and Regional Haze SIP. This preliminary settlement, if approved by all the relevant parties, will result in either the retirement of Craig Unit 1 by December 31, 2025 or the cessation of coal consumption at Unit 1 no later than August 31, 2021 and the subsequent conversion of Unit 1 to a natural gas burning unit by August 31, 2023. All parties other than the EPA have signed the settlement agreement. The SIP revision adopting the settlement was submitted to the EPA on May 26, 2017 and the EPA has 18 months to complete its review. The District cannot predict the outcome of this matter. The new emission control equipment for Craig Unit 2 was installed in May 2017 and is in the testing mode with a mandatory emission compliance date of January 30, 2018. The cost was approximately $146 million, of which the District's share is approximately $43 million.

Hayden Generating Station. The BART determination for Unit 2, in which the District owns 50%, required the installation of new emission control equipment. The Unit 2 SCR was installed in November, 2016 at a total cost of approximately $68.7 million, of which the District's share was approximately $34.4 million.

Springerville Generating Station. Unit 4 at the Springerville Generating Station included an SCR system as part of the plant construction.

GHG Regulations. The District recognizes the growing importance of the issues concerning climate change (global warming) and the implications those issues could have on the District's operations, so it is closely monitoring climate change and other legislative and regulatory developments at the federal, state and regional levels.

Under the Obama administration, the EPA moved forward with its efforts to regulate emissions of GHG. In December 2009, the EPA found that emissions of GHG endanger public health and welfare. In April 2010, the EPA issued a "timing" rule that allows the EPA to regulate emissions of GHG by stationary sources, such as power plants. Subsequently, the EPA released its "tailoring" rule, which specifies thresholds that trigger permitting requirements for sources of GHG emissions.

The rule applied to power plants beginning January 2, 2011. However, on June 23, 2014, the Supreme Court in Utility Air Regulatory Group v. EPA, rejected the EPA's tailoring rule. On October 3, 2016, the EPA published a proposed rule to revise provisions in the Prevention of Significant Deterioration (PSD) and Title V permitting regulations applicable to GHGs. The proposed rule responds to decisions by the Supreme Court and the U.S. Court of Appeals for the District of Columbia Circuit, which vacated the EPA's regulations that required a stationary source to obtain a PSD or Title V permit solely because the source emits or has the potential to emit GHGs above the applicable thresholds (non-anyway sources). The comment period on this proposal closed December 16, 2016.

EPA Carbon Regulations for Existing EGUs. On October 23, 2015, the EPA published in the Federal Register the final rules for (i) existing electric generating units (EGUs) and (ii) new and modified or reconstructed EGUs. The final rule for existing EGUs, known as the Clean Power Plan ("CPP"), addresses affected sources located in states and on tribal lands. The final rule for existing EGUs contains an overall nationwide goal to reduce power plant carbon emissions 32% below 2005 levels by 2030, compared to the proposed rule's goal of reducing power sector emissions by 30% by 2030. In response to comments on the proposed CPP, the EPA changed the methodology for calculating state and tribal emissions targets, which produced different reduction requirements than in the proposed rule. In Arizona, the final rule requires that carbon emissions be reduced by 34% by 2030 when compared to 2012 levels. The final rule also requires that carbon emissions from EGUs located on the Navajo Nation be reduced by approximately 38% by 2030 from 2012 levels.

On October 23, 2015, the EPA also published in the Federal Register for comment a rule that outlines proposed options for implementing the final rules for existing sources. The rule addresses the possible components of EPA-imposed federal plans if a state does not submit its own plan, or does not submit an approvable plan. The rule also proposes two "model trading rules" that states may adopt as an alternative to a state-specific plan. The District submitted comments on the proposed rule January 21, 2016. On April 3, 2017, the EPA published a notice to withdraw the October 2015 proposed rule, stating the Agency is not under an obligation to finalize this rulemaking.

More than 161 entities consisting of states, environmental quality departments, utility, and mining companies filed petitions for review in the D.C. Circuit Court of Appeals challenging the lawfulness of the EPA's final CPP rule (also known as the Section 111(d) rule (Existing Source Performance Standard)). On January 21, 2016, the Court of Appeals for the D.C. Circuit denied all motions to stay the rule but ordered expedited briefing on all issues on appeal to be completed by April 22, 2016 and scheduled oral argument for June 2016. On January 26 and 27, 2016, four applications were filed with the United States Supreme Court to stay the final rule and the Supreme Court granted those applications on February 9, 2016. The D.C. Circuit Court of Appeals decided to hear the case en banc and oral argument was held on September 27, 2016. The EPA denied 38 petitions for reconsideration and 22 administrative stays of the CPP on January 17, 2017. On January 17, 2017, a number of petitions for review challenging the denial of the petitions for reconsideration and administrative stays were brought by a number of states and parties, including Arizona. The cases were consolidated on January 25, 2017 in State of North Dakota, et al. v. EPA (Case No. 17-1014). On February 24, 2017, the Utility Air Regulatory Group, the American Public Power Association, KG&E and KU Energy LLC moved to sever their respective petitions for review and to consolidate their petitions in the ongoing litigation relating to the CPP (State of West Virginia, et al. v. EPA (Case No. 15-1363)). Briefing is complete on the motion to sever and consolidate, and the parties are waiting for the court to rule on the motion. The District is monitoring the litigation.

On March 28, 2017, President Trump signed an executive order directing the EPA to commence a review of the CPP rule for EGUs. The EPA then filed a motion to hold the CPP litigation in abeyance stating that President Trump's executive order may result in significant changes by the EPA to the CPP, which could significantly alter the outcome of the CPP litigation. The court temporarily stayed the proceedings for sixty (60) days and requested the parties file supplemental briefing on whether to remand the rules to the EPA. The EPA notified the court that it had begun the interagency review process of a proposed regulatory action resulting from the EPA's review of the CPP and requested the cases be held in abeyance pending the conclusion of the rulemaking. On August 8, 2017, the court issued an order to hold the litigation in abeyance for another sixty (60) days. The District is monitoring this activity and cannot predict the outcome. Despite the stay currently in effect for the CPP, on June 16, 2016 the EPA published a subsequent proposed rule requesting additional comment on the Clean Energy Incentive Program ("CEIP") elements of the CPP. The EPA stated that it would proceed with a final rule to establish the elements of the CEIP as a separate, voluntary early action program associated with the final CPP emissions guidelines ("EGs") for states that want to earn emission rate credits ("ERCs") or allowances in years 2020 and 2021. The District submitted comments on October 28, 2016.

On April 3, 2017, the EPA published a notice to withdraw the June 2016 proposed rule, stating the Agency is not under an obligation to finalize this rulemaking. On October 10, 2017 the Administrator signed a Federal Register notice proposing to repeal the CPP on the grounds that it exceeds the EPA's statutory authority under a proposed change in the EPA's interpretation of section 111 of the CAA. After publication in the Federal Register, interested persons will have sixty (60) days to comment on this proposal.

The EPA is further considering the scope of any potential replacement rule under section 111(d) of the CAA to regulate greenhouse gas emissions from existing electric utility generating units. On October 10, 2017, the EPA submitted to the White House Office of Management and Budget for interagency review an Advance Notice of Proposed Rulemaking that will solicit information on systems of emission reduction that are in accord with the legal interpretation that has been proposed by the EPA.

EPA Carbon Regulations for New and Modified/Reconstructed EGUs. On September 20, 2013 and June 2, 2014, the EPA proposed standards of performance for GHG emissions from new electric generating units and modified/reconstructed electric generating units, respectively. Within each proposal, the EPA proposed standards for natural gas-fired stationary combustion turbines, fossil fuel-fired utility boilers, and integrated gasification combined cycle ("IGCC") units. For modified or reconstructed units, these standards are based on use of the most efficient generating technology available. For new units, these standards are based on the use of carbon capture and storage ("CCS") for fossil fuel-fired utility boilers and IGCC units, and the most efficient generating technology for natural gas-fired stationary combustion turbines. With both proposals, there is concern that the units will not be able to meet the proposed standards under certain operating conditions.

To date, CCS has not been commercially demonstrated for large-scale applications. Furthermore, the high cost of CCS technology effectively precludes its deployment even if the outstanding technical, environmental and legal limitations could be addressed to make the technology ready for commercial deployment. The EPA's mandate for the use of high-cost, unproven CCS technology, coupled with emissions limits that are unachievable with current coal generation technology, effectively restricts the construction of new coal-fired power plants in the U.S.

Petitions for review also were filed in the D.C. Circuit Court of Appeals challenging the lawfulness of the EPA's rule for new and modified and reconstructed EGUs (also known as the Section 111(b) rule (New Source Performance Standards)). The District is monitoring the litigation. Briefing was suspended to allow the petitioners to file petitions for review of the EPA's denial of administrative petitions to reconsider the rule. Petitions for review were filed on June 30 and July 1, 2016 and those petitions were consolidated with this case. Briefing is complete and the court scheduled oral argument on April 19, 2017. On March 30, 2017, the court suspended oral argument pending consideration of the EPA's motion to hold the case in abeyance in response to President Trump's executive order, dated March 28, 2017, ordering review of the 111(b) rule. On August 10, 2017, the court issued an order holding the consolidated challenges to the Section 111(b) rule for new, modified, reconstructed EGUs in abeyance. The D.C. Circuit directed the parties in the case to file status reports every 90 days and to file motions to govern further proceedings within 30 days of the conclusion of the EPA's proceedings. The EPA's first status report is due October 27, 2017. It is too soon to predict the outcome of this proceeding. For the reasons set forth in the EPA's March 28, 2017 motion to hold cases in abeyance, these cases should remain in abeyance pending the conclusion of rulemaking.

The District already has taken significant and material action to reduce its carbon emissions intensity. In 2004, the District Board directed management to enhance its resource portfolio by adding significant amounts of renewable energy and other sustainable resources through the development of the SPP. The SPP has matured and intensified over the years and the most recent revision to the SPP, approved by the District's Board in 2011, requires the District to meet 20% of its expected retail energy requirements with sustainable (zero carbon) resources by 2020. The District has already reduced system-wide carbon intensity by 18% from Fiscal Year ("FY") 2006 through FY2012 and has been working to further enhance this performance. As part of the District's 2014 Integrated Resource Planning Process, a goal was established to further reduce carbon intensity by 40% by FY2043 while managing the economic impact to customers and protecting grid reliability. See "ELECTRIC SYSTEM — Sustainable Resource Portfolio" for a further discussion of the District's planning efforts related to GHG emissions.

National Ambient Air Quality Standards. Pursuant to the CAA, the EPA is required to review and, if appropriate and necessary, revise each of the established National Ambient Air Quality Standards ("NAAQS") at five-year intervals. The previous NAAQS for ozone, which was set at 75 parts per billion ("ppb") on an 8-hour average in 2008,

was required to be reviewed by the EPA no later than 2013. Because this schedule was not met, the EPA was sued by a number of environmental groups. Subsequently, a court order was issued requiring the EPA to issue a proposed rule based on review of the ozone NAAQS no later than December 1, 2014. The EPA issued a proposed rule to revise the ozone NAAQS on November 25, 2014. The proposal did not recommend a specific value for the new standard. Instead, the proposal indicates that the EPA was considering a revised ozone NAAQS in the range of 65 to 70 ppb on an 8-hour average for both the primary and secondary standards. The EPA is also accepting comments on revising the ozone NAAQS to a value as low as 60 ppb or maintaining the current standard at 75 ppb. The EPA provided a 90-day comment period on the proposed rule and the District submitted comments to the proposed rule on March 17, 2015. On October 1, 2015, the EPA released final revisions to the NAAQS and lowered both the primary ozone standard and the secondary standard from the 2008 limit of 75 ppb down to 70 ppb. Several states, including Arizona, have challenged the final rule.

The revised ozone NAAQS will impact attainment designations in Arizona. Currently, Maricopa County and Pinal County are designated as partial nonattainment for the 2008 standard. Based on current monitoring data, it is expected that there will be an expansion of the nonattainment areas in Arizona due to the new 70 ppb standard. An expansion of Arizona's ozone nonattainment designations will have implications on the construction of new sources that emit NOx and VOCs – precursors to ozone formation – because the air permitting process in nonattainment areas is more stringent.

On September 27, 2016, Arizona submitted proposed revisions to the nonattainment area ("NAA") designations for the state to the EPA. These recommendations include a modest expansion of the current boundaries covering the Phoenix metropolitan area. The EPA is reviewing Arizona's recommendation and has until June 2017 to approve or propose modifications to Arizona's NAA boundary designation. The EPA was scheduled to finalize the ozone NAA designations by October 1, 2017. In June 2017, the EPA postponed this requirement until October 1, 2018, in order to gather more information on recommended designations. On August 2, the EPA Administrator Pruitt signed a notice announcing the withdrawal of the Agency's one-year extension, to October 1, 2018, for promulgating the final area ozone designations stating that "the information gaps that formed the basis of the extension may not be as expansive as we previously believed." The withdrawal of the extension re-establishes October 1, 2017 as the deadline for the EPA to finalize the nonattainment designations. The EPA has not yet taken any action to approve or reject the state-recommended nonattainment area boundaries. After the effective date of the final designations, no permit may be issued for a new stationary source, or for a project at an existing stationary source in a nonattainment area, except in conformance with applicable Nonattainment New Source Review ("NNSR") requirements. The District cannot predict the impact of this rule on its operations or finances at this time.

Implementation of caps or taxes on emissions of GHG or other air pollutants from fossil fuel power plants would 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, including plants located on the Navajo Nation. 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 likely be added to existing units, that the cost of fossil fuel purchased by the District may increase and that permit fees may increase significantly resulting in potentially material costs to the District as well as reduced generation. The District is continually assessing the risk of policy initiatives on its generation assets and is developing contingency plans to comply with future laws and regulations relating to generation facilities and reduction of GHG emissions and other air pollutants. The District cannot predict at this time the extent to which new legislation or rules will affect the District's operations, the impact of any initiatives on the District at this time and, if such laws or rules are enacted, what the costs to the District might be because of such action.

In addition, the District is unable to predict the impact of climate change and the greenhouse effect more generally on the District and its operations and markets. However, such impact may include, for example, effects on the District's operations directly or indirectly through customers or the District's supply chain, increased capital expenditures, costs to purchase or profits from sales of allowances or credits under a "cap-and-trade" system, increased raw material and equipment costs, increased insurance premiums and deductibles as new actuarial tables are developed to reshape coverage, a change in competitive position relative to industry peers and changes to profit or loss arising from increased or decreased demand for the District's production, changes in human population patterns, and potential physical impacts such as changes in rainfall patterns, shortages of water or other natural resources, changing surface water and groundwater levels, changing storm patterns and intensities, and changing temperature levels.

Solid and Hazardous Waste Management. Many normal activities in connection with the operation of the District 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 District 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 District 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.

In 2010, the EPA issued a proposed rule seeking comments on whether to regulate the handling and disposal of coal combustion residuals ("CCRs"), such as fly ash, bottom ash and flue gas desulfurization ("FGD") sludge as solid or hazardous waste. The District disposes of CCRs in dry landfill storage areas at CGS and NGS, with the exception of wet surface impoundment disposal of FGD sludge at CGS. Both CGS and NGS sell a portion of their fly ash for beneficial reuse as a constituent in concrete production. The District also owns interests in joint participation plants, such as Four Corners, Craig, Hayden and Springerville, which dispose of CCRs in dry storage areas and in wet surface impoundments ash ponds. The EPA issued a final rule on December 19, 2014 that establishes federal criteria for management of CCRs as solid non-hazardous waste. The rule was published in the Federal Register on April 17, 2015 and became effective on October 19, 2015. The rule generally requires any existing unlined CCR surface impoundment that is contaminating groundwater above a certain protection standard to stop receiving CCRs and either retrofit or close the impoundment, and further requires the closure of any CCR landfill or surface impoundment that cannot meet the applicable performance criteria for location restrictions or structural integrity. The District has engaged assistance from professional engineering and consulting firms to determine the compliance requirements for CCR facilities at District-operated CGS and NGS. The District anticipates costs to comply with this new rule will include costs for new monitoring wells, compliance monitoring and the eventual closure of residual ponds and storage areas.

On August 5, 2016 the EPA published a direct final rule modifying compliance requirements for inactive CCR surface impoundments as part of a partial settlement of litigation regarding the final CCR rule. The rule, referred to as the "Extension Rule", became effective on October 4, 2016. Under the rule, CCR surface impoundments that were categorized as inactive prior to publication date of the CCR rule are now categorized as existing impoundments subject to CCR rule requirements. The District has one facility at CGS that is affected by the Extension Rule. The District has updated compliance plans to address the requirements now applicable to this facility. This includes installation of three additional groundwater monitoring wells.

On December 10, 2016, the U.S. Senate approved S. 612, the Water Infrastructure Improvements for the Nation Act ("WIIN Act"), which includes provisions to provide for implementation of the federal CCR rule through a state- or federal-based permit program. The WIIN Act also mandates that the EPA establish and carry out a permit program for CCR units located at EGUs on tribal lands. President Obama signed the legislation into law on December 16, 2016. SRP is evaluating the provisions of the WIIN Act to determine the actions needed for ADEQ to develop a state permit program that incorporate the federal CCR management criteria. On August 15, 2017 the EPA published in the *Federal Register* notice of the interim final guidance entitled "Coal Combustion Residuals State Permit Program Guidance Document." The EPA Guidance addresses how the Agency will review and approve state coal ash permitting programs authorized under the WIIN Act. The state programs must either directly implement the federal criteria applicable to CCR units identified in the EPA's CCR final rule, or develop state criteria that is "at least as protective as" the federal criteria. The District submitted comments to the EPA Guidance document prior to the expiration of the comment period which ended on September 14, 2017. The District cannot predict the impact of the legislation on its operations or finances at this time.

Water Quality. The federal government and Arizona have extensive regulatory systems governing water quality, including permit programs for discharges to surface water and to groundwater, and a superfund program to clean up groundwater contamination. Nineteen state superfund sites and six federal superfund sites targeting contamination of the groundwater are active within the greater Phoenix metropolitan area. SRP has wells located in sixteen of the nineteen state superfund sites and in two of the six federal superfund sites that are threatened or impacted. The Association has

agreed with other responsible parties to clean up one federal superfund site, and one District facility has been identified as a possible source of contamination for another federal superfund site and a state 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, but the District believes it has recorded adequate reserves as part of its environmental reserves to cover its related obligations.

Endangered Species. Several species listed as threatened or endangered under the Endangered Species Act ("ESA") have been discovered in and around reservoirs on the Salt and Verde Rivers, as well as C.C. Cragin Reservoir operated by the District. Potential ESA issues also exist along the Little Colorado River in the vicinity of the Coronado and Springerville Generating Stations. The District obtained Incidental Take Permits ("ITPs") from the United States Fish and Wildlife Service ("USFWS"), which allow full operation of Roosevelt Dam on the Salt River and Horseshoe and Bartlett Dams on the Verde River. The ITPs, and associated Habitat Conservation Plans ("HCPs"), identify the obligations, such as mitigation and wildlife monitoring, the District must undertake to comply with the ESA. The District has established trust funds to pay mitigation and monitoring expenses related to the implementation of both the Roosevelt HCP and Horseshoe-Bartlett HCP and believes it has recorded adequate reserves as a part of its environmental reserves to cover its related obligations. On June 1, 2017, the District accepted title to an 820-acre parcel of land along the San Pedro River under a Memorandum of Understanding with the USBR. This property supports USBR and SRP mitigation requirements for the southwestern willow flycatcher related to modification and operation of Roosevelt Dam. The District is awaiting receipt of approximately $3.1 million in management funds from USBR, which will be placed in a trust fund by the District to support on-going management of the property.

The District continues to assess the potential ESA liabilities along the Little Colorado River and at C.C. Cragin, and is working closely with the USFWS and other state and federal agencies to address potential species concerns as necessary, but cannot predict the ultimate outcome at this time.

On February 11, 2016, the USFWS and the National Marine Fisheries Services (collectively the "Services") announced two final rules and one policy addressing critical habitat under the ESA. The rules and policy increase the discretion of the Services to designate broad areas of occupied and unoccupied habitat as critical habitat. Once a critical habitat is designated, the ESA prohibits federal agencies from engaging in actions that adversely modify critical habitat. The rules and policy are considered to be among the most significant developments involving critical habitat designation in years. The District is reviewing the final rules and policy to determine potential impacts to the District's HCPs, on-going operations and new projects. The District cannot predict the impact of the rules and policy at this time. On November 29, 2016, eighteen states, including Arizona filed a lawsuit in the United States District Court of the Southern District of Alabama challenging the two final critical habitat rules. The case is stayed through November 10, 2017 to allow the recently appointed officials to consider the arguments raised by plaintiffs.

On March 8, 2016, USFWS published proposed revisions to its 1981 Mitigation Policy. The policy sets out USFWS' process for recommending or requiring developers to mitigate (i.e., avoid, minimize, or compensate for) the adverse impacts of their activities to species and habitats protected by federal statutes. The proposed policy revisions are in response to a November 2015 Presidential Memorandum directing several federal agencies, including USFWS, to mitigate impacts to natural resources. The USFWS states that the revisions are also motivated by conservation practices and challenges that have arisen since 1981, including the effects of climate change. The District is reviewing the proposed policy for potential impacts to the District's HCPs, on-going operations and new projects. Two different utility industry groups, of which the District is a member, submitted comments on May 10, 2016 and June 13, 2016.

On November 21, 2016, the USFWS published the final revisions to the Mitigation Policy. In addition to this policy, the USFWS also published a final Compensatory Mitigation Policy on December 27, 2016. The new policy addresses use of compensatory mitigation as recommended or required under the ESA, adopts principles outlined in the final revisions to the 1981 Mitigation Policy and sets compensatory mitigation standards for siting, species coverage, additionality and collaboration. The District is reviewing the final policies for potential impacts to the District's HCPs, on-going operations and new projects. The District cannot predict the impact of the final policies at this time.

On June 28, 2016, the Services released proposed revisions to their Habitat Conservation Planning Handbook. The Handbook serves as a guide for the Services' staff and project proponents in developing HCPs. The District is reviewing the proposed revisions for potential impacts to the District's HCPs, on-going operations and new projects.

The District submitted comments on August 29, 2016. On November 21, 2016, the Services announced availability of the final revised HCP Handbook. The District is reviewing the final revisions for potential impacts to the District's HCPs, on-going operations and new projects.

USFWS has finalized the listing of the Northern Mexican and Narrowheaded garter snakes as threatened. Critical habitat for these species has been proposed and the District is awaiting the draft economic analysis and environmental assessment for the critical habitat proposal.

USFWS also proposed on October 3, 2013, to list the western distinct population segment of the Yellow-billed cuckoo as threatened. Subsequent to this proposal, the USFWS published a proposed rule on August 15, 2014 designating proposed critical habitat for this species. The District submitted comments on the proposed listing and the proposed critical habitat designation.

The USFWS has taken several actions in response to the Multi-District Litigation Settlement, which requires USFWS to make listing decisions for numerous candidate species, including some species that are present in Arizona. On October 7, 2015, USFWS issued a proposed rule listing a distinct population segment of the roundtail chub as a threatened species. The District continues to evaluate proposed and potential listings to determine potential effects on the District's operations.

Cybersecurity

The District handles a variety of confidential business and customer information in the regular course of its business. In the event there is a security breach of the District's information management systems such as theft or the unauthorized release of certain types of information, including confidential or proprietary customer, employee, financial or system operating information, it may have a material adverse impact on the District's reputation, operating results, cash flows or financial condition. The District operates in a highly regulated industry that requires the continued operation of sophisticated information technology systems and network infrastructure. Despite implementation of security measures, the District's technology systems could be vulnerable to disability, failures or unauthorized access. The District's electric system facilities including, without limitation, its generation, transmission and distribution facilities, information technology systems and other infrastructure facilities and systems and physical assets could be targets of such unauthorized access. Failures or breaches of the District's systems could impact the reliability of the District's generation, transmission and distribution systems and also subject the District to financial harm. If the District's technology systems were to fail or be breached and if the District was unable to recover in a timely way, the District may not be able to fulfill critical business functions and sensitive confidential information could be compromised, which could have a material adverse impact on the District's reputation, operating results, cash flows or financial condition.

The District has experienced, and expects to continue to experience, threats and attempted intrusions to the District's information technology systems and the District could experience such threats and attempted intrusions to the District's operational control systems. While the implementation of additional security measures provides additional layers of protection, such measures could also increase costs and could have a material adverse impact on the District's financial results. The District has obtained cyber insurance to provide coverage for a portion of the losses and damages that may result from a security breach of the District's information technology systems, but such insurance may not cover the total loss or damage caused by a breach. These types of events could also require significant management attention and resources, and could adversely affect the District's reputation with customers and the public.

The District is subject to laws and rules issued by multiple government and regulatory agencies concerning safeguarding and maintaining the confidentiality of the District's security, customer and business information. The North American Electricity Reliability Corporation ("NERC") has issued comprehensive regulations and standards surrounding the security of bulk power systems, and regularly issues updated and additional requirements with which the electric utility industry must comply. The increasing promulgation of NERC rules and standards will increase the District's compliance costs and the District's exposure to the potential risk of violations of the standards, which includes potential financial penalties.

Nuclear Plant Matters

Under the Nuclear Waste Policy Act of 1982, the District was required to pay $0.001 per kilowatt-hour on its share of net energy generation at PVNGS to the U.S. Department of Energy (DOE) through April 30, 2015. However, to date,

for various reasons, the DOE has not constructed a site for the storage of spent nuclear fuel. Accordingly, Arizona Public Service Company (APS), the operating agent for PVNGS, has constructed an on-site dry cask storage facility to receive and store PVNGS spent fuel. PVNGS has sufficient capacity at its on-site spent fuel storage installation to be able to store all of the nuclear fuel that will be spent during the first operating license period which ends in December 2027. In addition, PVNGS has sufficient capacity to store a portion of the fuel that will be spent during the period of extended operation, which will end in December 2047. Potentially, and depending on how the NRC rules on the future unloading of spent fuel pools, PVNGS could use high-capacity storage casks to store the balance of any fuel spent during the extended license period. As a result of the DOE not constructing a storage site for the spent nuclear fuel, the DOE has made payments to nuclear facilities to reimburse a portion of the costs that have been incurred for fuel storage to date. SRP's portion of the reimbursements for FY17 and FY16 were $2.0 million and $2.1 million, respectively. The on-site facility stored its first cask in March 2003. Effective May 15, 2014, the per kilowatt-hour charge on energy generation at PVNGS was reduced to zero. A similar charge could be reinstated in the future.

The 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. In February 2011, PVNGS received approval for a 20-year operating license renewal from the NRC. As a result, the projected shutdown of PVNGS has been moved from 2024 to 2047. The District projects that it will accumulate $415 million in 2015 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.

In March 2017, Westinghouse Electric Co. ("Westinghouse"), a subsidiary of Toshiba Corp., filed for bankruptcy protection in federal bankruptcy court for the Southern District of New York. Westinghouse is the only supplier, approved by the NRC, of manufactured fuel rod assemblies to PVNGS. In the event Westinghouse fails to perform while in bankruptcy, there is a risk that one or more units at PVNGS may be shut down due to a fuel supply interruption. The financial difficulties at Westinghouse are largely attributable to its construction division while its fuel rod manufacture business continues to be a profitable source of revenue for Westinghouse. At this time, the greatest perceived risk is the payment risk to subcontractors by Westinghouse. As such, the District and the other PVNGS owners are prepared to step in and provide either direct payment, or payment surety in order to ensure the fuel rod assemblies remain on-schedule for future outages. Such actions are expected to remain in-line or result in immaterial increases in expected fuel costs.

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 2017 Series A Bonds, the law firm of Jennings, Strouss & Salmon, P.L.C., Phoenix, Arizona, legal advisors to the District, will deliver a no-litigation opinion stating substantially that, no litigation is now pending or, to its knowledge threatened, affecting or questioning the organization of the District or the titles or manner of election of the officers or directors of the District to their terms of office, respectively; and no litigation is now pending or, to its knowledge threatened, affecting or questioning the power and authority of the District to issue, execute and deliver the 2017 Series A Bonds or the pledge or application of any moneys or security provided for the payment thereof.

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

Environmental Issues

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 Generating Station Participants (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, respectively, entered into a Voluntary Compliance Agreement with the Navajo Nation to establish contractual authority for the Navajo Nation to regulate certain air emissions and issue certain air permits at NGS and Four Corners under rules not stricter than the EPA air rules. As a result, the parties asked the court to dismiss those portions of the above lawsuits relating to regulation of air pollution and 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. The remaining District Court claims are stayed in order to allow the parties to negotiate a potential resolution of the lawsuits. The District cannot predict the outcome of these matters at this time. 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.

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 located within the Motorola 52nd Street Superfund Site Operable Unit 3. The District completed the remedial investigation at the facility and received a no further action letter from the EPA, but other potentially responsible parties are still undertaking remedial investigations and feasibility studies at the site and the District could still be liable for past costs incurred and for future work to be conducted within the Superfund Site with regard to groundwater. At the adjacent West Van Buren Water Quality Assurance Revolving Fund Site, a state superfund site, the Roosevelt Irrigation District ("RID") has sued the District and numerous other parties claiming that as a result of groundwater contamination, RID has been damaged in excess of $125 million. The District denies the allegations and intends to vigorously contest the claim. The District filed an Answer to the Second Amended Complaint. The defendants, including the District, filed two motions for summary judgment challenging RID's purported past costs and a motion for summary judgment on National Contingency Plan ("NCP") compliance. RID filed a cross-motion for summary judgment on NCP compliance. The majority of discovery was stayed pending the resolution of these motions. The court granted one of defendants' motions for summary judgment challenging RID's past costs on November 22, 2016. On March 14, 2017, the court granted in part and denied in part defendants' second motion for summary judgment on the remaining costs. On March 15, 2017, the court denied defendants' motion for summary judgment on the National Contingency Plan compliance and granted plaintiff's cross-motion for summary judgment. The court also denied defendants' motion for reconsideration. The majority of discovery remains stayed.

On December 16, 2016, SRP was named as a party in a complaint filed by Spinnaker Holdings, LLC, and Synergy Environmental, LLC. Spinnaker and Synergy allege that they are entitled to recover costs for their work on behalf of RID, or RID's agent, Gallagher & Kennedy, in investigating, developing, and implementing a response action to protect and restore RID's wells and water supply from the release and threatened release of hazardous substances. Plaintiffs stated that they filed their complaint in response to the Court's November 22, 2016 order. The complaint has not been served on any parties.

On December 16, 2016, the law firm of Gallagher & Kennedy also filed a complaint to recover their costs already incurred and any further costs they incur on behalf of RID under CERCLA. The firm stated that the complaint also was filed in response to the Court's November 22, 2016 order. The District is not named in the complaint; however, there is a potential that cross-claims could be filed against the District. The complaint has not been served on any parties.

While the District is unable at this time to predict the outcome of these matters, it believes it has recorded adequate reserves as part of its environmental reserves to cover known liabilities related to these issues.

Water Rights

Gila River Adjudication. The District and the Association are parties to a state water rights adjudication proceeding initiated in 1974 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.

Little Colorado River Adjudication. In 1978, a water rights adjudication was initiated in the Apache County Superior Court for the State of Arizona with regard to the Little Colorado River System, and will eventually result in the determination of all conflicting rights to water from the Little Colorado River and its tributaries, including East Clear Creek, the location of C. C. Cragin Dam and Reservoir. The District is unable to predict the ultimate outcome of this proceeding, but believes an adequate water supply for CGS will remain available and that the rights to C. C. Cragin Dam and Reservoir will be confirmed.

Coal Supply

Kayenta Mine Permit Renewal. In 2008, the Office of Surface Mining Reclamation and Enforcement ("OSM") issued an Environmental Impact Statement ("EIS") to allow Peabody to add the Black Mesa Mine (which formerly served Mohave) to the permit for the Kayenta Mine (which serves NGS). Under the administrative appeals process, numerous appeals of the permit decision were filed, and a decision was issued that the process OSM had followed to issue the permit was inadequate. In response to the decision, Peabody filed an application for a permit renewal for the Kayenta Mine. On January 6, 2012, the OSM approved the five-year renewal of the permit through July 6, 2015. In February 2012, three separate appeals of the renewal were filed by various environmental and tribal groups, following which the District successfully intervened in the matter. Although an Administrative Law Judge ("ALJ") issued a decision disposing of several of the claims in the appeals, certain claims were left for hearing. The proceedings were stayed pending discussions among the parties regarding the possible resolution of some of the remaining claims. A settlement agreement was executed with all parties except the Black Mesa Trust ("BMT") and The Forgotten People ("TFP"). The ALJ subsequently dismissed all of the remaining requests for review by TFP and BMT. On August 30, 2014, TFP filed a Petition for Discretionary Review before the Interior Board of Land Appeals ("IBLA") arguing that several issues were not sufficiently resolved or mooted by the settlement agreement. Peabody and OSM filed responses arguing TFP has not alleged any errors in the ALJ's decision and therefore the petition should be denied. In January 2016, the IBLA issued an order denying the appeal and the time to file an appeal with the court has passed. Peabody filed a new application for a permit renewal in early 2015 for the Kayenta Mine which would, if approved, extend the permit from 2015 to 2020. On August 17, 2017, OSM issued a draft Environmental Assessment ("EA") and unsigned Finding of No Significant Impact ("FONSI") that would approve continued operation of the mine through 2020. The District submitted comments on the draft EA and unsigned FONSI by the due date of September 15, 2017. On October 3, 2017, after considering comments filed by the District and others, OSM approved Peabody's application for a permit renewal of five years. On November 3, 2017, several indigenous and national environmental organizations filed a Request for Review with the Office of Hearings and Appeals at DOI challenging the granting of the permit renewal under the Surface Mining Control and Reclamation Act of 1977 ("SMCRA") and the National Environmental Policy Act ("NEPA"). The District cannot predict the outcome of this appeal.

General Litigation Matters

Four Corners and Navajo Coal Mine. OSM and Bureau of Indian Affairs ("BIA") completed the environmental review process for the extension of operations at the Navajo Coal Mine and the Four Corners Generating Station. The U.S. Department of Interior ("Interior") issued the Record of Decision on or about July 17, 2015 and BIA approved

the lease amendment shortly thereafter. On December 21, 2015, Diné Citizens Against Ruining Our Environment, San Juan Citizens Alliance, Amigos Bravos, Center for Biological Diversity and Sierra Club submitted a Notice of Intent ("NOI") to sue OSM, USFWS and others challenging the approvals. On April 20, 2016, the environmental groups filed a complaint against Interior and several of its agencies alleging violations of both the ESA and NEPA and requested that the Court enjoin the continued operations of the plant and mine until the agencies comply with NEPA and the ESA. The plaintiffs also seek to enjoin the USFWS from authorizing any incidental take of listed fish until the agencies comply with Section 7 of the ESA and to enjoin the agencies from authorizing any portion of the project until they comply with NEPA. APS, as operating agent for Four Corners and NTEC, were granted intervention in the lawsuit. NTEC filed a motion to dismiss on jurisdictional grounds and that motion was fully briefed. On September 11, 2017, the Court dismissed the suit with prejudice, ruling that NTEC was an indispensable party and could not be brought in without its consent given that it had not waived sovereign immunity. On November 9, 2017, the plaintiffs appealed the decision to the Ninth Circuit Court of Appeals. The District cannot predict the outcome of this matter.

Price Process Litigation. On February 26, 2015, the District Board concluded a public process (the "2015 Price Process") by approving changes and adjustments to its retail electric price plans, including an overall average annual price increase of 3.9 percent, to be phased in beginning with the April 2015 billing cycle. This overall increase was comprised of a 4.4 percent base increase and a 0.5 percent decrease to the Environmental Programs Cost Adjustment Factor.

In addition to other approved changes and adjustments, the Board approved a new price plan for residential customers who, after December 8, 2014, add solar or other technologies to generate some of their energy requirements (the "E-27 Customer Generation Price Plan"). The District structured the new price plan for distributed generation customers to be in line with what non-distributed generation customers pay for the same services. The price plan includes a demand charge to better recover fixed costs related to the distributed generation customers' service facilities and their use of the grid, but also reduces the price such customers pay per kilowatt hour for energy.

SolarCity Corporation, an active participant in the 2015 Price Process proceedings, filed a lawsuit against the District in Arizona Federal District Court on March 2, 2015, alleging, among other things, that the District, by its adoption of the E-27 Customer Generation Price Plan, acted unlawfully in an effort to preserve its existing monopoly over the retail provision of electric power for consumers and businesses. The lawsuit asserts claims for unspecified damages and injunctive relief pursuant to federal antitrust laws, claims for injunctive relief under Arizona antitrust laws, and claims for injunctive relief based on Arizona law for intentional interference with prospective economic advantage and intentional interference with agreements between SolarCity and its prospective and current customers.

On May 20, 2015, SolarCity filed an amended complaint adding the Association as a defendant, alleging, among other things, that the District and the Association operate as alter egos. On June 23, 2015, the District and the Association each filed motions to dismiss raising federal and state immunities and seeking dismissal with prejudice of all claims asserted. Briefing on the motions to dismiss was completed on August 12, 2015. Oral argument was held on October 14, 2015. On October 27, 2015, the Court dismissed the Association from the lawsuit and also dismissed SolarCity's claims for damages under federal and state antitrust laws. The remaining claims consist of injunctive relief sought under certain federal and state antitrust laws. In November 2015, the District Court set a pretrial schedule that allowed factual discovery until May 31, 2016, expert discovery until August 31, motions for summary judgment until September 15, and a trial to the court on December 6, 2016. The District complied with the court ordered deadlines, engaged in significant discovery and filed a motion for summary judgment on September 15. Earlier, on November 20, 2015, the District filed an interlocutory appeal with the Ninth Circuit on the lower court's decision with respect to the District's immunity under Arizona and federal law. Briefing at the Ninth Circuit was completed on June 20, 2016, and oral argument was held on November 18, 2016. On September 19, 2016, the District Court granted the District's motion to stay the District Court proceedings, including a bench trial that was scheduled to begin December 6, 2016, and denied, without prejudice, the District's motion for summary judgment and motions in limine until after the Ninth Circuit ruled on the District's appeal. The District Court also denied SolarCity's motion for preliminary injunctive relief to block the E-27 Customer Generation Price Plan from going into effect. On June 12, 2017, the Ninth Circuit denied the District's appeal of the District Court's order denying the motion to dismiss on state action immunity grounds. The District, on September 7, 2017, filed a Petition for Certiorari with the United States Supreme Court regarding the Ninth Circuit's decision covering the jurisdiction question relating to the collateral order doctrine. At the scheduling conference on August 30, 2017, the District Court set a pretrial schedule wherein the parties' motions for summary judgment were due no later than October 13, 2017 and the parties' motions regarding disqualification of

experts and other pretrial matters are due no later than February 15, 2018. Both parties met the due date for filing motions for summary judgment. The District Court also set a two week bench trial to commence on April 17, 2018. While it is too soon to predict the outcome of this matter at either the district or appellate courts, the District believes the lawsuit is without merit and will continue to aggressively defend the lawsuit.

LEGALITY OF REVENUE BONDS FOR INVESTMENT

Under the Act, the 2017 Series A Bonds constitute legal investments for savings banks, banks, savings and loan associations, trust companies, executors, administrators, trustees, guardians and other fiduciaries in the State of Arizona and for any board, body, agency or instrumentality of the State of Arizona, or of any county, municipality or other political subdivision of the State of Arizona, and constitute securities which may be deposited by banks, savings and loan associations or trust companies as security for deposits of state, county, municipal and other public funds.

UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase from the District all, but not less than all, of the 2017 Series A Bonds at an aggregate purchase price of $895,320,077.81, reflecting an original issue premium of $161,392,616.60 less an underwriters' discount of $1,312,538.79 from the initial public offering prices set forth on the inside cover page of this Official Statement.

The following two paragraphs have been furnished by the Underwriters for inclusion in this Official Statement. The District does not guarantee the accuracy or completeness of the information contained in such paragraphs and such information is not to be construed as a representation of the District.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the District, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the District. The Underwriters and their affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

The initial public offering prices or yields set forth on the inside cover page may be changed from time to time by the Underwriters. The Underwriters may offer and sell the Bonds to certain dealers, unit investment trusts or money market funds at prices lower than the public offering prices stated on the inside cover pages.

In addition, certain of the Underwriters have entered into distribution agreements with other broker-dealers (that have not been designated by the District as Underwriters) for the distribution of the 2017 Series A Bonds at the original issue prices. Such agreements generally provide that the relevant Underwriter will share a portion of its underwriting compensation or selling concession with such broker-dealers.

Each of the following paragraphs in this section has been provided by one or more of the Underwriters identified therein. The District does not guarantee the accuracy or completeness of the information contained in such paragraphs and such information is not to be construed as a representation of the District.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC, one of the Underwriters of the 2017 Series A Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors

through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the 2017 Series A Bonds.

J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the 2017 Series A Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co., Inc. ("CS&Co.") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, if applicable to this transaction, each of CS&Co. and LPL will purchase 2017 Series A Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any 2017 Series A Bonds that such firm sells.

TAX MATTERS

Federal Income Taxes

The Code imposes certain requirements that must be met at and subsequent to the issuance and delivery of the 2017 Series A Bonds for interest thereon to be and remain excluded from gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause the interest on the 2017 Series A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2017 Series A Bonds. The District has covenanted to comply with the provisions of the Code applicable to the 2017 Series A Bonds, and has covenanted not to take any action or permit any action that would cause the interest on the 2017 Series A Bonds to be included in gross income under Section 103 of the Code. 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 Code. Special Tax Counsel will not independently verify the accuracy of those certifications and representations.

In the opinion of Polsinelli PC, Special Tax Counsel, under existing statutes and court decisions, and assuming compliance with the aforementioned covenants and the accuracy of certain representations and certifications made by the District described above, interest on the 2017 Series A Bonds is excluded from gross income of the owners thereof for federal income tax purposes under Section 103 of the Code. In the further opinion of Special Tax Counsel, interest on the 2017 Series A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations; such interest, however, is included in adjusted current earnings in calculating alternative minimum taxable income for purposes of the alternative minimum tax imposed under the Code on certain corporations.

State Taxes

Special Tax Counsel is also of the opinion that, under existing law, interest on the 2017 Series A Bonds is exempt from income taxes imposed by the State of Arizona.

Original Issue Premium

The initial public offering price of certain 2017 Series A Bonds may be greater than the stated redemption price thereof at maturity. The difference between the initial public offering price for any such 2017 Series A Bond and the stated redemption price at maturity is "original issue premium." For federal income tax purposes original issue premium is amortizable periodically over the term of a 2017 Series A Bond through reductions in the holder's tax basis for the 2017 Series A Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Amortizable premium is accounted for as reducing the tax-exempt interest on the 2017 Series A Bond rather than creating a deductible expense or loss. Purchasers of the 2017 Series A Bonds should consult their tax advisors for an explanation of the accrual rules for original issue premium and any other federal, state or local tax consequences of the purchase of 2017 Series A Bonds with original issue premium.

Original Issue Discount

The initial public offering price of certain 2017 Series A Bonds may be less than the stated redemption price thereof at maturity. The difference between the initial public offering price for any such 2017 Series A Bond and the stated redemption price at maturity is "original issue discount." For federal income tax purposes, original issue discount on a 2017 Series A Bond accrues to the original holder of the 2017 Series A Bond over the period of its maturity based on the constant yield method compounded annually as interest with the same tax exemption and alternative minimum

tax status as regular interest. The accrual of original issue discount increases the holder's tax basis in the 2017 Series A Bond for determining taxable gain or loss on the maturity, redemption, prior sale or other disposition of a 2017 Series A Bond. Purchasers of the 2017 Series A Bonds should consult their tax advisors for an explanation of the accrual rules for original issue discount and any other federal, state or local tax consequences of the purchase of 2017 Series A Bonds with original issue discount.

Certain Federal Tax Consequences

Ownership of the 2017 Series A Bonds may result in other federal tax consequences to certain taxpayers, including, without limitation, certain S corporations, foreign corporations with branches in the United States, property and casualty insurance companies, banks, thrifts or other financial institutions, individuals receiving social security or railroad retirement benefits, and individuals seeking to claim the earned income credit. Ownership of the 2017 Series A Bonds may also result in other federal tax consequences to taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the 2017 Series A Bonds.

Commencing with interest paid in 2006, interest paid on tax-exempt obligations such as the 2017 Series A Bonds is subject to information reporting to the IRS in a manner similar to interest paid on taxable obligations. In addition, interest on the 2017 Series A Bonds may be subject to backup withholding if such interest is paid to a registered owner that (a) fails to provide certain identifying information (such as the registered owner's taxpayer identification number) in the manner required by the IRS, or (b) has been identified by the IRS as being subject to backup withholding.

Special Tax Counsel is not rendering any opinion on any federal tax matters other than those described under the caption "TAX MATTERS". Prospective investors, particularly those who may be subject to special rules described above, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the 2017 Series A Bonds, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

Changes in Law and Post Issuance Events

Special Tax Counsel has not undertaken to advise in the future whether any events after the date of issuance of the 2017 Series A Bonds, including legislation, court decisions or administrative actions, whether at the federal or state level, may affect the tax-exempt status of interest on the 2017 Series A Bonds or the tax consequences of ownership of the 2017 Series A Bonds. No assurance can be given that any pending or future legislation, or clarifications or amendments to the Code, if enacted into law, will not contain provisions which could directly or indirectly reduce the benefit of the exclusion of interest on the 2017 Series A Bonds from gross income for federal tax purposes or any state tax benefit. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the 2017 Series A Bonds. Prospective purchasers of the 2017 Series A Bonds should consult their own tax advisors with respect to any pending or proposed federal or state tax legislation, regulations or litigation, and regarding the impact of any future legislation, regulations or litigation, as to which Special Tax Counsel expresses no opinion.

APPROVAL OF LEGAL MATTERS

Legal matters incident to the authorization and issuance of the 2017 Series A Bonds are subject to the approval of Chiesa Shahinian & Giantomasi PC, Bond Counsel, whose final approving opinion will be delivered with the 2017 Series A Bonds in substantially the form attached hereto as Appendix C. Certain legal matters in connection with the 2017 Series A Bonds will be passed upon for the District by Jennings, Strouss & Salmon, P.L.C. and by Polsinelli PC, Special Tax Counsel, whose tax opinion will be delivered with the 2017 Series A Bonds in substantially the form attached hereto as Appendix C. Certain legal matters will be passed upon for the Underwriters by Katten Muchin Rosenman LLP, counsel to the Underwriters.

The various legal opinions and/or certification to be delivered concurrently with the delivery of the 2017 Series A Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion and/or certification, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or the future performance of parties to the transaction. Nor does the rendering of an opinion and/or certification guarantee the outcome of any legal dispute that may arise out of the transaction.

RATINGS

Moody's Investors Service and S&P Global Ratings have given the ratings of Aa1 and AA, respectively, to the 2017 Series A Bonds. Such ratings reflect only the view of such organizations, and an explanation of the significance of such rating may be obtained only from the respective rating agency. There is no assurance that such ratings will be maintained for any given period of time, or that they will not be revised downward, or be withdrawn entirely by the respective rating agency if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2017 Series A Bonds.

CONTINUING DISCLOSURE

Pursuant to the Continuing Disclosure Agreement, the District will covenant for the benefit of the holders and Beneficial Owners of the 2017 Series A Bonds to provide certain financial information and operating data relating to the District by not later than 180 days after the end of each of the District's fiscal years (presently, each April 30), commencing with the fiscal year ending April 30, 2018 (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events with respect to the 2017 Series A Bonds within ten (10) business days after the occurrence of such events. The Continuing Disclosure Agreement provides that the Annual Report and any notices of such 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. 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 15c2-12 of the Securities and Exchange Commission.

INDEPENDENT ACCOUNTANTS

The combined financial statements of the District and its subsidiaries and the Association as of April 30, 2017 and 2016 and for each of the two years in the period ended April 30, 2017, 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.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Causey Demgen & Moore Inc., a firm of independent public accountants, will deliver to the District, on or before the date of issuance of the 2017 Series A Bonds, its verification report indicating that it has verified certain information provided by the District and the Underwriters with respect to the Refunded Bonds and the 2017 Series A Bonds. Included in the scope of Causey Demgen & Moore Inc.'s procedures will be a verification of the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Government Obligations (as defined in the Resolutions) to pay, when due, the maturing principal of, interest on and related call premium requirements, if any, of the Refunded Bonds; and (b) the mathematical computations supporting the conclusion of Special Tax Counsel that the 2017 Series A Bonds are not "arbitrage bonds" under the Code and the regulations promulgated thereunder.

The verification performed by Causey Demgen & Moore Inc. will be solely based upon data, information and documents that the District and the Underwriters caused to be provided to Causey Demgen & Moore Inc. The Causey Demgen & Moore Inc. report of its verification will state that Causey Demgen & Moore Inc. has no obligation to update the report because of events occurring, or data or information coming to its attention, subsequent to the date of the report.

OTHER AVAILABLE INFORMATION

SRP prepares audited financial statements with respect to each fiscal year ending April 30, which typically become available in July of the following fiscal year. SRP's financial statements are presented on a combined basis including the financial information of both the District and the Association.

SRP also prepares an annual report which includes information relating to SRP's staff, legal and financial services and operations for the fiscal year ending April 30. The annual report typically becomes available in September of the following fiscal year.

Copies of the annual report and audited financial statements for the year ended April 30, 2017 may be obtained by writing to Salt River Project Agricultural Improvement and Power District, Corporate Communications, PAB340, P.O. Box 52025, Phoenix, AZ 85072-2025.

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/ David Rousseau
President

/s/ Mark B. Bonsall
General Manager and Chief Executive Officer

Attest:

/s/ John M. Felty
Corporate Secretary

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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

We have audited the accompanying combined financial statements of Salt River Project Agricultural Improvement and Power District and its subsidiaries and the Salt River Valley Water Users' Association (collectively, "SRP"), which comprise the combined balance sheets as of April 30, 2017 and April 30, 2016, and the related combined statements of net revenues and cash flows for the years then ended.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the combined financial statements based on our audits. We conducted our audits 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

pwc

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Salt River Project Agricultural Improvement and Power District and its subsidiaries and the Salt River Valley Water Users' Association as of April 30, 2017 and April 30, 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Phoenix, Arizona
July 13, 2017

SALT RIVER PROJECT

COMBINED FINANCIAL STATEMENTS AS
OF APRIL 30, 2017 AND 2016
TOGETHER WITH REPORT OF
INDEPENDENT AUDITORS

SALT RIVER PROJECT
COMBINED BALANCE SHEETS
APRIL 30, 2017 AND 2016
(Thousands)

ASSETS

	2017	2016
Utility Plant		
Plant in service -		
Electric	$ 14,241,648	$ 13,887,357
Irrigation	461,321	419,716
Common	995,349	832,789
Total plant in service	15,698,318	15,139,862
Less - Accumulated depreciation on plant in service	(7,738,978)	(7,305,448)
	7,959,340	7,834,414
Plant held for future use	54,388	54,394
Construction work in progress	518,589	531,565
Nuclear fuel, net	131,571	134,522
	8,663,888	8,554,895
Other Property and Investments		
Non-utility property and other investments	258,472	225,617
Segregated funds, net of current portion	1,270,571	1,181,672
	1,529,043	1,407,289
Current Assets		
Cash and cash equivalents	313,551	341,049
Temporary investments	180,360	239,603
Current portion of segregated funds	101,228	104,021
Receivables, net of allowance for doubtful accounts	262,713	243,461
Fuel stocks	115,925	116,425
Materials and supplies	193,922	171,393
Current commodity derivative assets	9,196	19,002
Other current assets	28,502	14,306
	1,205,397	1,249,260
Deferred Charges and Other Assets		
Regulatory assets	1,208,590	1,123,276
Non-current commodity derivative assets	8,458	11,029
Other deferred charges and other assets	41,230	38,966
	1,258,278	1,173,271
Total Assets	$ 12,656,606	$ 12,384,715

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

SALT RIVER PROJECT
COMBINED BALANCE SHEETS
APRIL 30, 2017 AND 2016
(Thousands)

CAPITALIZATION AND LIABILITIES

	2017	2016
Long-term Debt and Capital Lease Obligation	$ 4,465,538	$ 4,567,162
Accumulated Net Revenues	5,087,185	4,839,348
Total Capitalization	9,552,723	9,406,510
Current Liabilities		
Current portion of long-term debt and capital lease obligation	120,015	116,687
Accounts payable	183,733	185,112
Accrued taxes and tax equivalents	125,767	123,532
Accrued interest	64,962	68,289
Customers' deposits	97,184	90,223
Current commodity derivative liabilities	22,912	65,277
Other current liabilities	256,633	247,594
	871,206	896,714
Deferred Credits and Other Non-current Liabilities		
Accrued post-retirement liability	1,250,983	1,186,305
Asset retirement obligations	313,376	304,436
Non-current commodity derivative liabilities	70,080	72,123
Other deferred credits and other non-current liabilities	598,238	518,627
	2,232,677	2,081,491
Commitments and Contingencies (Notes 7, 9, 11, 12, and 13)		
Total Capitalization and Liabilities	$ 12,656,606	$ 12,384,715

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

SALT RIVER PROJECT
COMBINED STATEMENTS OF NET REVENUES
FOR THE YEARS ENDED APRIL 30, 2017 AND 2016
(Thousands)

	2017	2016
Operating Revenues		
Retail electric	$ 2,780,916	$ 2,749,131
Other electric	69,962	69,414
Wholesale	217,572	212,874
Water	16,238	15,853
Total operating revenues	3,084,688	3,047,272
Operating Expenses		
Power purchased	322,297	307,362
Fuel used in electric generation	675,291	648,072
Operations and maintenance	1,054,525	1,055,731
Depreciation and amortization	539,938	530,289
Taxes and tax equivalents	166,898	164,475
Total operating expenses	2,758,949	2,705,929
Net operating revenues	325,739	341,343
Other Income		
Investment income (loss), net	93,980	(14,174)
Other income, net	5,393	2,707
Total other income (loss), net	99,373	(11,467)
Net revenues before financing costs	425,112	329,876
Financing Costs		
Interest on bonds, net	172,723	178,403
Capitalized interest	(14,597)	(15,342)
Amortization of bond premium	(18,404)	(15,519)
Interest on other obligations	37,553	37,731
Net financing costs	177,275	185,273
Net Revenues	$ 247,837	$ 144,603

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, 2017 AND 2016
(Thousands)

	2017	2016
Cash Flows from Operating Activities		
Net Revenues	$ 247,837	$ 144,603
Adjustments to reconcile net revenues to net cash provided by operating activities:		
Depreciation and amortization	539,938	530,289
Amortization of nuclear fuel	45,056	45,834
Amortization of bond discount/premium and issuance expenses	(18,404)	(15,519)
Change in fair value of derivative instruments	(32,031)	(21,344)
Change in fair value of investment securities	(58,231)	48,323
Other	(3,808)	(6,375)
Decrease (increase) in:		
Fuel stocks and materials and supplies	(6,074)	(35,023)
Receivables, net of allowance for doubtful accounts	(26,847)	3,651
Other current assets	(14,196)	4,598
Deferred charges and other assets	3,574	1,140
Increase (decrease) in:		
Accounts payable	(6,261)	(22,475)
Accrued taxes and tax equivalents	2,235	1,096
Accrued interest	(3,327)	18,364
Customer deposits and other current liabilities	16,000	6,918
Deferred credits and other non-current liabilities	83,895	48,179
Net cash provided by operating activities	769,356	752,259
Cash Flows from Investing Activities		
Capital expenditures	(741,400)	(750,734)
Plant acquisition	(16,241)	-
Contributions in aid of construction	41,965	51,399
Proceeds from disposition of assets	11,275	3,301
Purchases of investments	(1,016,265)	(1,183,168)
Sales of investments	725,992	804,062
Maturities of investments	330,113	244,145
Net change in short-term investments related to segregated funds	(25,252)	(6,405)
Other investing activities	9,646	1,491
Net cash used for investing activities	(680,167)	(835,909)
Cash Flows from Financing Activities		
Proceeds from issuance of Revenue Bonds, net of debt issuance costs	-	335,836
Proceeds from issuance of Commercial Paper	-	100,000
Capital lease principal payments	(16,527)	(15,293)
Repayment of long-term debt, including refundings	(100,160)	(119,070)
Net cash provided by (used for) financing activities	(116,687)	301,473
Net Increase (Decrease) in Cash and Cash Equivalents	(27,498)	217,823
Balance at Beginning of Year in Cash and Cash Equivalents	341,049	123,226
Balance at End of Year in Cash and Cash Equivalents	$ 313,551	$ 341,049
Supplemental Information		
Cash paid for interest, net of capitalized interest	$ 199,006	$ 182,428

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.

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 wholly owned taxable subsidiaries: SRP Captive Risk Solutions, Limited (CRS), Papago Park Center, Inc. (PPC), New West Energy Corporation (New West Energy), and Horizon Acquisitions LLC (Horizon). 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. Horizon is a land acquisition company. Net revenues, assets and liabilities related to the District's wholly owned taxable subsidiaries' operations are not material to the accompanying Combined Financial Statements. All intercompany transactions and balances have been eliminated.

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 (U.S. GAAP). The preparation of financial statements in compliance with U.S. 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.

By virtue of SRP operating a federal reclamation project under contract, with the federal government's paramount rights, asset ownership and certain approval rights, SRP is subject to 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. As permitted, SRP has elected to report its financial statements in accordance with FASB standards.

(2) SIGNIFICANT ACCOUNTING POLICIES:

Utility Plant

Utility plant is stated at the historical cost of construction. Capitalized construction costs include labor, materials, services purchased under contract, and allocations of indirect charges for engineering, supervision, transportation, and administrative expenses and an allowance for funds used during construction (AFUDC). The cost of property that is replaced, removed or abandoned, less salvage, is charged to accumulated depreciation. Repairs and maintenance costs are charged to maintenance expense.

Depreciation expense is computed on a straight-line basis over recovery periods of the various classes of plant assets. Depreciation expense for utility plant totaled $535.0 million and $507.7 million for the years ended April 30, 2017 and 2016, respectively. The following table reflects the District's average depreciation rates on the average cost of depreciable assets for the fiscal years ended April 30:

	2017	2016
Average electric depreciation rate	3.27%	3.26%
Average irrigation depreciation rate	1.86%	1.61%
Average common depreciation rate	6.75%	6.89%

On July 1, 2016, the District acquired an additional 21.2% share of the Navajo Generating Station (NGS), representing 477 megawatts of capacity owned by the Los Angeles Department of Water and Power (LADWP). The District paid approximately $16.2 million in cash and transferred certain property valued at $11.3 million for LADWP's share of the plant, including fuel and supplies inventories. The District may receive up to $9.0 million of the purchase price back in 2020, depending on future market conditions. A receivable of $8.7 million was recorded for this contingent consideration as of the acquisition date. The receivable continues to be valued at $8.7 million at April 30, 2017. The transferred property and the contingent receivable are non-cash activity items for the Statement of Cash Flows.

For the years ended April 30, 2017 and 2016, there was an increase of $4.9 million and a decrease of $0.1 million, respectively, in property, plant and equipment purchases within accounts payable. Such changes are considered a non-cash investing activity.

Plant Held for Future Use

Plant held for future use primarily includes the cost of land acquired for future operations, including generation, transmission and other purposes. Once development starts on the new facility, the costs will be moved to construction work in progress.

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 is included in capitalized interest in the accompanying Combined Statements of Net Revenues. Composite rates of 3.90% and 4.25% were applied in fiscal years 2017 and 2016 to calculate interest on funds used to finance construction work in progress, resulting in $14.6 million and $15.3 million of interest capitalized, respectively.

Nuclear Fuel

SRP 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. Nuclear fuel amortization was $45.0 million and $45.8 million in fiscal years 2017 and 2016, respectively. The balance of nuclear fuel includes $79.7 million and $81.0 million of in-process stock which is not yet being amortized at April 30, 2017 and 2016, respectively.

Computer Software Costs

SRP capitalizes costs incurred to purchase and develop internal use computer software and amortizes such costs over the recovery periods of the products. The following table summarizes the capitalized computer software costs (in thousands):

	2017	2016
Asset balance	$535,470	$471,169
Accumulated depreciation	$368,778	$318,577

For the years ended April 30, 2017 and 2016, depreciation expense on capitalized software costs was $32.7 million and $31.4 million, respectively.

Asset Retirement Obligations

SRP accounts for its asset retirement obligations in accordance with authoritative guidance which requires the recognition and measurement of liabilities for legal obligations associated with the retirement of tangible long-lived assets. Liabilities for asset retirement obligations 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 are those for which a legal obligation exists under enacted laws, statutes and contracts, including obligations arising under the doctrine of promissory estoppel.

The District has identified retirement obligations for Palo Verde Nuclear Generating Station (PVNGS), NGS, Four Corners Generating Station (Four Corners), Mesquite Generating Station (Mesquite) and certain other assets. Amounts recorded for asset retirement obligations 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. Subsequent to the initial recognition, the liability is adjusted for any revisions to the estimated future

cash flows associated with the asset retirement obligation (with corresponding adjustments to utility plant), which can occur due to a number of factors, including, but not limited to, cost escalation, changes in technology applicable to the assets to be retired, changes in federal, state and local regulations and changes to the estimated decommissioning date of the assets, as well as for accretion of the liability due to the passage of time until the obligation is settled. During 2017 and 2016, revisions were made to various retirement obligations, including the coal combustion residual-related obligation based on updated decommissioning cost studies and/or updating assumptions for the District's best estimate of decommissioning date, inflation rate or interest rate.

The following table summarizes the asset retirement obligation activity of the District at April 30 (in thousands):

	2017	2016
Beginning balance, May 1	$304,436	$268,413
Revisions to estimates	(2,622)	24,125
Accretion expense	11,562	11,898
Ending balance, April 30	$313,376	$304,436

Investments in Debt and Equity Securities

SRP invests in various debt and equity securities. Debt securities in which SRP has the 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 with the likelihood of selling them in the near term are classified as trading securities and reported at fair value, with unrealized gains and losses included in investment income (loss), net. SRP has adopted the fair value option for all debt and equity securities other than those classified as held-to-maturity securities. All such securities are reported at fair value, with unrealized gains and losses included in investment income, net, with the exception of the Nuclear Decommissioning Trust for which unrealized gains and losses are recorded in regulatory liabilities. (See table below in Segregated Funds). SRP does not classify any securities as available-for-sale.

Temporary Investments

Debt and equity securities that are short-term in nature and are expected to be sold or converted to cash in the next twelve months are classified as temporary investments on the Combined Balance Sheet, unless they meet the definition of a cash equivalent.

Segregated Funds

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

	2017	2016
Segregated funds – legally restricted		
Nuclear Decommissioning Trust	$ 389,063	$ 346,283
Debt Reserve Fund	80,616	80,598
Construction Fund	-	45,153
Other	38,967	31,634
Total segregated funds – legally restricted	508,646	503,668
Segregated funds – other		
Benefits funds	761,925	678,004
Debt Service Fund	101,228	104,021
Total segregated funds – other	863,153	782,025
Total segregated funds, including current portion	$ 1,371,799	$1,285,693

Nuclear Decommissioning

In accordance with regulations of the Nuclear Regulatory Commission (NRC), the District maintains a trust for the decommissioning of PVNGS. The Nuclear Decommissioning Trust (NDT) funds are invested in debt and equity securities. All NDT securities are reported as trading securities. SRP has elected the fair value option for such securities. Changes in fair value related to the NDT securities are included in the nuclear decommissioning regulatory asset or liability with no impact to net revenues. The NDT funds are classified as segregated funds in the accompanying Combined Balance Sheets.

Cash and 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.

Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided for electric customer accounts and other non-energy receivables balances based upon a historical experience rate of write-offs. The allowance account is adjusted periodically for this experience rate and is maintained until either receipt of payment or the likelihood of collection is considered remote, at which time the allowance account and corresponding receivable balance are written off. SRP has provided for an allowance for doubtful accounts of $2.0 million and $2.4 million as of April 30, 2017 and 2016, respectively.

Fuel Stocks and Materials and Supplies

Fuel stocks and materials and supplies are stated at weighted average cost and are valued using the average cost method.

Other Current Liabilities

The accompanying Combined Balance Sheets include the following other current liabilities as of April 30 (in thousands):

	2017	2016
Sick, vacation and holiday (SVHL) accrual	$ 93,209	$ 92,635
Customer prepayments	56,760	53,459
Employee Performance Incentive Compensation (EPIC)	30,489	28,833
Post-retirement benefits	31,403	28,898
Other	44,772	43,769
Total other current liabilities	$256,633	$ 247,594

Other Deferred Credits and Non-current Liabilities

The accompanying Combined Balance Sheets include the following other deferred credits and non-current liabilities as of April 30 (in thousands):

	2017	2016
Regulatory liabilities	$ 358,637	$ 310,816
Mine reclamation and other environmental obligations	112,301	92,035
Other	127,300	115,776
Total other deferred credits and non-current liabilities	$ 598,238	$ 518,627

Financing Costs

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

Income Taxes

The District, as a political subdivision of the State of Arizona, is exempt from federal and Arizona state income taxes. The Association, as a private corporation, is not exempt from federal and Arizona state income taxes. However, 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. Income taxes related to the Association and to the District's wholly owned taxable subsidiaries' operations are not material to the accompanying Combined Financial Statements.

Voluntary Contributions in Lieu of Taxes

As a political subdivision of the State of Arizona, the District is exempt from property taxation. In accordance with Arizona law, 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 included in its electric system. The amount paid is computed on the same basis as ad valorem taxes paid by a private utility corporation with an allowance for certain water-related deductions. Such contributions are included in taxes and tax equivalents in the Combined Statements of Net Revenues.

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 recorded on a net basis and excluded from revenues and expenses in the accompanying Combined Financial Statements.

Revenue Recognition

SRP recognizes electric revenues 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 in receivables, net, and was $88.1 million and $81.0 million at April 30, 2017 and 2016, respectively. Some customers pay in advance under level payment billing plans. Such advance payments are deferred and included in other current liabilities in the Combined Balance Sheets.

In addition to the retail electric revenues, SRP also generates revenues from wholesale, transmission, telecommunications and water activities. Wholesale revenues include wholesale excess energy sales. Wholesale revenues are recognized when the energy is delivered. Transmission revenues are earned by allowing other entities to use SRP's transmission facilities to transmit power. The transmission revenues are recognized as earned and are included in other electric revenues on the Combined Statement of Net Revenues. SRP earns telecommunications revenue by allowing companies to use SRP's infrastructure to place antennas that are used to transmit communications signals. Telecommunication revenues are recognized when earned and are included in other electric revenues on the Combined Statement of Net Revenues. SRP earns water revenues from providing water to SRP water customers through annual assessments, supplemental water assessments and various other fees and charges. Water revenues are recognized when earned.

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. SRP presents the impacts of these financially settled contracts on a net basis, which resulted in a net reduction to revenue and purchased power expense of $39.6 million and $39.1 million for fiscal years 2017 and 2016, respectively, but which did not affect net revenues or cash flows.

Concentrations of Credit Risk

Financial instruments that potentially subject SRP to credit risk consist of cash and cash equivalents, temporary and other investments, and segregated funds. Certain balances exceed Federal Deposit Insurance Corporation (FDIC) insured limits or are invested in money market accounts with investment banks that are not FDIC insured. SRP's cash and cash equivalents, temporary and other investments, and segregated funds are placed in creditworthy financial institutions and certain money market accounts that invest in U.S. Treasury Securities or other obligations issued or guaranteed by the U.S. government or its agencies or instrumentalities.

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 monitors credit exposures and routinely assesses the financial strength of its counterparties. The District minimizes credit risk by dealing primarily with creditworthy counterparties, entering into standardized agreements that 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 the counterparty sufficient.

Recently Issued Accounting Standards

In April 2015, the FASB issued Accounting Standards Update (ASU) 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. In August 2015, the FASB issued ASU 2015-15, *Interest-Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangement*. ASU 2015-15 amended the accounting guidance updated by ASU 2015-03 to allow reporting entities the option to defer and present debt issuance costs related to line-of-credit arrangements as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement. These standards are effective for SRP for financial statements issued for fiscal years beginning after December 15, 2015. SRP adopted this standard in fiscal year 2017. To conform to the current year presentation, SRP reclassified $12.8 million of deferred debt issuance costs from other deferred charges and other assets to long-term debt and capital lease obligation as of April 30, 2016. The deferred debt issuance costs are now classified as a direct deduction from the carrying value of the associated debt liability for the years ended April 30, 2017 and 2016.

In April 2015, the FASB issued ASU 2015-05, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*. This update provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance will not change GAAP for a customer's accounting for service contracts. This standard is effective for annual periods beginning after December 15, 2015, and interim periods in annual periods beginning after December 15, 2016. SRP adopted the standard prospectively as of May 1, 2016. Adoption of the guidance did not have a material impact on the consolidated financial statements.

On May 1, 2015, the FASB issued ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent).* For entities that measure an investment's fair value using the net asset value per share (or an equivalent) practical expedient, the amendments in ASU 2015-07 eliminate the requirement to classify the investment within the fair value hierarchy. In addition, the requirement to make specific disclosures for all investments eligible to be assessed at fair value with the net asset value per share practical expedient has been removed. Instead, such disclosures are restricted only to investments that the entity has decided to measure using the practical expedient. SRP adopted the standard in fiscal year, 2017 resulting in a change to the related footnote disclosures. The comparative 2016 disclosures were revised to be consistent with the 2017 presentation.

In 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which was subsequently amended by ASUs 2015-14, 2016-08, 2016-10, 2016-11, 2016-12 and 2016-20. The new standard replaces the previous revenue recognition guidance contained in Topic 605. SRP is required to apply the revenue standard for the fiscal year beginning May 1, 2018. SRP is currently evaluating the impact this new standard may have, if any, on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. This new standard supersedes the existing lease accounting model and modifies both lessee and lessor accounting. The new guidance will require a lessee to reflect most operating lease arrangements on the balance sheet by recording a right-of-use asset and a lease liability that will initially be measured at the present value of lease payments. Among other

changes, the new standard also modifies the definition of a lease and requires expanded lease disclosures. The standard is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. SRP is currently evaluating what impact the new standard may have on its financial statements. SRP expects to adopt this standard for the fiscal year beginning May 1, 2019.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations – Clarifying the Definition of a Business*. This standard is intended to assist entities with evaluating whether a transaction should be accounted for as an acquisition (or disposal) of assets or a business. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The new standard is effective for fiscal years beginning after December 15, 2018, using a prospective approach. SRP is currently evaluating the impact this new standard may have, if any, on its financial statements.

In March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits*. This standard is intended to improve the presentation of net periodic pension cost and net periodic post-retirement benefit cost. The new standard is effective for fiscal periods beginning after December 15, 2018 and early adoption is permitted. It is to be applied using a retrospective approach for the presentation of the service cost component and the other components of net periodic pension cost and net periodic post-retirement benefit cost in the income statement and prospectively for the capitalization of the service cost component of net periodic pension cost and net periodic post-retirement benefit in assets. SRP is currently evaluating the impact this new standard may have, if any, on its financial statements.

In March 2017 the FASB issued ASU 2017-08, *Premium Amortization on Purchased Callable Debt Securities*. This standard amends the amortization period for certain purchased callable debt securities held at a premium. The Board is shortening the amortization period for the premium to the earliest call date. The amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. SRP is currently evaluating the impact this new standard may have, if any, on its financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows*. This accounting standard will require entities to show the changes in the total of cash, cash equivalents, and restricted cash or restricted cash equivalents in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. The standard is effective for fiscal periods beginning after December 15, 2018, and is to be applied using a retrospective approach. Early adoption is permitted. SRP is currently evaluating the impact this new standard may have, if any, on its financial statements.

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. This standard is effective for fiscal years beginning after December 15, 2018, and will need to be applied using a retrospective approach. There are eight main provisions of this ASU for which current GAAP either is unclear or does not include specific guidance. SRP is currently evaluating the impact this new standard may have, if any, on its financial statements.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. This standard requires management to evaluate, for each annual and interim reporting period, whether there are conditions and events, considered in the aggregate, that raise substantial doubt about an entity's ability to continue as a going concern within

one year after the date the financial statements are issued or are available to be issued. If substantial doubt is raised, additional disclosures around management's plan to alleviate these doubts are required. In fiscal year 2017, the Company adopted ASU 2014-15. The adoption of this standard did not have an impact on SRP's disclosures.

Reclassifications

For comparative purposes, certain amounts from prior periods have been reclassified to conform to the current period presentation. Except as disclosed in the first paragraph of the preceding Recently Issued Accounting Standards section, the reclassifications had no impact on total assets, total liabilities, net revenues or cash flows.

Subsequent Events

SRP follows authoritative guidance which requires an entity to evaluate subsequent events through the date that the financial statements are either issued or available to be issued. Subsequent events for SRP have been evaluated through July 13, 2017, which is the date that the financial statements were issued.

(3) REGULATORY MATTERS:

The Electric Utility Industry

The District operates in a regulated environment in which it has an obligation to deliver electric service to customers within its service area. In 1998, Arizona enacted the Arizona Electric Power Competition Act (the Act), which 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, only a few customers chose an alternative energy provider, and 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, and the District's Direct Access Program is suspended.

At various times since 2006, numerous energy service, meter reading and meter service providers, brokers, large industrial customers and merchant power plant owners have urged the Arizona Corporation Commission (ACC) to reinstate some form of retail competition but none have been successful. The most recent effort was in May 2013, when the ACC, in response to various applications received, opened a further inquiry into retail competition, requesting that interested parties provide comments on a series of ACC-issued questions. The District participated in this inquiry. On September 11, 2013, the ACC voted to close its inquiry into whether the ACC should consider deregulation of the Arizona electricity market. The ACC's action was consistent with the position advocated by the District. However, effective July 1, 2012, the ACC approved another major Arizona utility's proposed buy-through pilot program whereby a limited number of large industrial customers are now allowed to purchase generation from other providers.

In a separate proceeding filed in 2010, an advocacy group for the solar industry, comprised of equipment manufacturers, dealers and installers, and a solar electric provider, petitioned the ACC for a determination that providers of certain solar service agreements were not public service corporations. At issue was whether such providers were public service corporations under the Arizona Constitution and, therefore, regulated by the ACC. The ACC ruled on June 30, 2010, that a solar electric provider providing service to a school, nonprofit organization or governmental entity from a solar facility constructed on the customer's premises was not subject to ACC jurisdiction as a public service corporation.

Regulation and Pricing Policies

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

The District's price plans include a base price component, a Fuel and Purchased Power Adjustment Mechanism (FPPAM) and an Environmental Programs Cost Adjustment Factor (EPCAF). Base prices recover costs for generation, transmission, distribution, customer services, metering, meter reading, billing and collections, and system benefits charges that are not otherwise recovered through the FPPAM or EPCAF. The FPPAM was implemented in May 2002 to adjust for increases and decreases in fuel costs. The EPCAF was implemented in November 2009 to cover costs incurred by the District to comply with requirements imposed by mandate that are related to renewable energy, energy efficiency and climate change. Through a system benefits 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 low-income customers and nuclear decommissioning, including the cost of spent fuel storage.

On September 29, 2015, the Board approved a temporary 1.2% reduction to the EPCAF for the six-month winter season (November 2015 through April 2016). On June 23, 2016, the Board approved a temporary 1.0% decrease for the EPCAF and 2.7% decrease for the FPPAM for the two-month summer peak season (July and August 2016). On December 5, 2016 the Board approved a temporary 1.2% reduction to the EPCAF and a 0.4% reduction to the FPPAM for ten months (January 2017 billing cycle through October 2017 billing cycle).

Regulatory Accounting

SRP accounts for the financial effects of the regulated portion of its operations in accordance with the provisions of authoritative guidance for regulated enterprises, which requires cost-based, rate-regulated utilities to reflect the impacts of regulatory decisions in their financial statements. SRP 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 or current collections for future expected costs. Based on actions of the Board, SRP believes the future collection of costs deferred as regulatory assets is probable. If events were to occur making recovery of these regulatory assets no longer probable, SRP would be required to write off the remaining balance of such assets as a one-time charge to net revenues. None of the regulatory assets earn a rate of return.

The accompanying Combined Balance Sheets include the following regulatory assets and liabilities as of April 30 (in thousands):

Assets	2017	2016
Pension and other post-retirement benefits (Note [9])	$ 1,095,503	$ 1,043,199
Bond defeasance	109,125	78,988
Other	3,962	1,089
Total regulatory assets	$ 1,208,590	$ 1,123,276
Liabilities		
Nuclear decommissioning	$ 210,276	$ 167,844
Depreciation	148,361	142,972
Total regulatory liabilities	$ 358,637	$ 310,816

The pension and other post-retirement 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 periods of the reacquired debt ending in various years through fiscal year 2038.

The nuclear decommissioning regulatory liability is being deferred over the life of PVNGS and is being recovered through a component of the system benefits charge. Any difference between current year costs, revenues associated with nuclear decommissioning and earnings (losses) on the NDT is deferred in accordance with authoritative guidance for regulated enterprises and has no impact to SRP's earnings.

The depreciation regulatory liability, which results from depreciation that is accelerated in excess of straight-line depreciation, is being deferred over the estimated remaining lives of assets.

(4) FAIR VALUE OF FINANCIAL INSTRUMENTS:

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.

Fair Value Option

SRP adopted authoritative guidance which permits an entity to choose to measure many financial instruments and certain other items at fair value. SRP has elected the fair value option for all investment securities other than those classified as held-to-maturity. Election of the fair value option requires the security to be reported as a trading security.

The fair value option was elected 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 Combined Statements of Cash Flows as investing cash flows, consistent with the nature and purpose for which the securities are acquired.

Realized and unrealized gains and losses on these investments are included in investment income (loss), net, in the accompanying Combined Statements of Net Revenues.

The following table summarizes line items included in the accompanying Combined Balance Sheets at April 30 that include amounts recorded at fair value pursuant to the fair value option (in thousands):

	Measurement Attribute*	2017	2016
Cash and cash equivalents			
Cash	N/A	$ 17,689	$ 10,358
Money market funds	Fair value	291,553	330,691
Commercial paper	Amortized cost	4,309	-
Total cash and cash equivalents		313,551	341,049
Non-utility property and other investments			
Money market funds	Fair value	7,094	2,249
Trading investments	Fair value	47,124	36,463
Held-to-maturity investments	Amortized cost	91,706	72,855
Non-utility property	N/A	112,548	114,050
Total non-utility property and other investments		258,472	225,617
Segregated funds, net of current portion			
Money market funds	Fair value	8,070	63,970
Trading investments	Fair value	1,182,838	1,046,171
Held-to-maturity investments	Amortized cost	79,663	71,531
Total segregated funds, net of current portion		1,270,571	1,181,672
Temporary investments			
Held-to-maturity investments	Amortized cost	180,360	239,603
Total temporary investments		180,360	239,603
Current portion of segregated funds			
Money market funds	Fair value	101,228	104,021
Total current portion of segregated funds		$ 101,228	$ 104,021

*N/A – Asset category not eligible for fair value option.

SRP's investments in debt securities are measured and reported at amortized cost when there is intent and ability to hold the security to maturity. SRP's amortized cost and fair value of held-to-maturity securities were $356.0 million and $348.8 million, respectively, at April 30, 2017, and $384.0 million and $385.0 million, respectively, at April 30, 2016. At April 30, 2017, SRP's investments in debt securities have maturity dates ranging from May 2017 to June 2031.

SRP evaluates the held-to-maturity securities for other-than-temporary impairment on a periodic basis considering numerous factors. At April 30, 2017 and 2016, SRP did not hold any other-than-temporary impaired securities. As of April 30, 2017, the total unrecognized loss on held-to-maturity securities with amortized costs exceeding fair market value was approximately $2.5 million.

SRP's trading investments are measured at fair value with unrealized trading gains and losses included in investment income, net. Unrealized trading gains and losses on Nuclear Decommissioning Trust investments are included in nuclear decommissioning regulatory liability.

The following table summarizes unrealized gains (losses) from fair value changes related to investments still held at April 30 (in thousands):

	2017	2016
Segregated funds, net of current portion	$ 74,077	$ (45,925)
Non-utility property and other investments	2,917	(2,398)
Total	$ 76,994	$ (48,323)

(5) DERIVATIVE INSTRUMENTS:

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 commodity derivatives and are recorded in the accompanying Combined Balance Sheets as either an asset or liability measured at their fair value. Derivative instruments and the related collateral accounts, if applicable, that are subject to master netting agreements are presented as a net asset or liability on the Combined Balance Sheets. Changes in the fair value of commodity derivatives are recognized each period in net operating revenues and included in the accompanying Combined Statements of Net Revenues and classified as part of operating cash flows in the accompanying Combined Statements of Cash Flows. Some of the District's contractual agreements qualify and are designated for the normal purchases and normal sales exception 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 underlying asset; and the documentation requirements are met. If a contract qualifies for the 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). SRP has not elected to use hedge accounting for its derivative investments.

See Note [6], FAIR VALUE MEASUREMENTS, for additional information on derivative valuation.

Derivative Volumes

The District has the following gross derivative volumes, by type, at April 30, 2017:

Commodity	Unit of Measure	Sales Volumes	Purchases Volumes
Natural gas options, swaps and forward arrangements	MMBtu	40,060,000	101,150,000
Electricity options, swaps and forward arrangements	MWh	4,227,632	936,643
Liquefied fuel swaps	Gallon	-	7,301,200

The District had the following gross derivative volumes, by type, at April 30, 2016:

Commodity	Unit of Measure	Sales Volumes	Purchases Volumes
Natural gas options, swaps and forward arrangements	MMBtu	56,495,000	110,730,000
Electricity options, swaps and forward arrangements	MWh	4,440,628	1,197,845
Liquefied fuel swaps	Gallon	-	1,354,000

Presentation of Derivative Instruments in the Financial Statements

The following tables provide information about the gross fair values, netting and collateral and margin deposits for derivatives hedging instruments in the accompanying Combined Balance Sheets (in thousands):

	April 30, 2017				
	Current Commodity Derivative Assets	Non-current Commodity Derivative Assets	Current Commodity Derivative Liabilities	Non-current Commodity Derivative Liabilities	Net Assets (Liabilities)
Commodities	$12,948	$11,520	$(28,310)	$(73,142)	$(76,984)
Netting	(6,312)	(3,062)	6,312	3,062	-
Collateral and margin deposits	2,560	-	(914)	-	1,646
Total	$ 9,196	$ 8,458	$(22,912)	$(70,080)	$(75,338)

	April 30, 2016				
	Current Commodity Derivative Assets	Non-current Commodity Derivative Assets	Current Commodity Derivative Liabilities	Non-current Commodity Derivative Liabilities	Net Assets (Liabilities)
Commodities	$ 16,867	$ 16,374	$ (77,551)	$ (77,468)	$ (121,778)
Netting	(12,274)	(5,345)	12,274	5,345	-
Collateral and margin deposits	14,409	-	-	-	14,409
Total	$ 19,002	$ 11,029	$ (65,277)	$ (72,123)	$ (107,369)

The following tables summarize the District's unrealized gains (losses) associated with derivatives not designated as hedging instruments in the accompanying Combined Statements of Net Revenues (in thousands):

	April 30, 2017			
	Operating Revenues	Power Purchased	Fuel Used in Electric Generation	Change in Unrealized Gain (Loss)
Commodities	$(4,864)	-	$50,632	$45,768

	April 30, 2016			
	Operating Revenues	Power Purchased	Fuel Used in Electric Generation	Change in Unrealized Gain (Loss)
Commodities	$(5,370)	$219	$24,388	$19,237

Credit Related Contingent Features

Certain of the District's derivative instruments contain provisions that require the District to post additional collateral upon certain credit events. If the District's debt were to fall below investment grade, the counterparties to the derivative instruments could demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions.

The aggregate fair value of all derivative liabilities with credit-risk-related contingent features as of April 30, 2017, was $91.6 million, for which the District is not required to post collateral. If the credit-risk-related contingent features underlying these agreements were triggered on April 30, 2017, the District could be required to post up to $91.6 million of collateral to its counterparties.

(6) FAIR VALUE MEASUREMENTS:

SRP accounts for fair value in accordance with authoritative guidance, 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 establishes 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. SRP determines fair value of its financial instruments based on the market approach, which is defined as a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

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 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.

Pursuant to the adoption of ASU 2015-07, *Fair Value Measurement (Topic 820), Disclosures for Investments in Certain Entities that Calculate Net Asset Value per share (or Its Equivalent)*, as disclosed in Note [2], Significant Accounting Policies, assets measured at fair value using net asset value (NAV) as a

practical expedient are no longer categorized in the fair value hierarchy. These assets are listed in the column "Other" of the fair value hierarchy to permit the reconciliation to amounts presented in the financial statements, and prior period amounts have been retrospectively reclassified to conform to current presentation.

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, 2017 (in thousands):

	Level 1	Level 2	Level 3	Other	Netting and Collateral	Total
Assets						
Cash and cash equivalents:						
Money market funds	$ -	$ 291,553	$ -	$ -	$ -	$291,553
Total cash and cash equivalents	-	291,553	-		-	**291,553**
Non-utility property and other investments:						
Money market funds	-	7,094	-	-	-	7,094
Mutual funds	47,124	-	-	-	-	47,124
Total non-utility property and othe investments	47,124	7,094	-	-	-	54,218
Segregated funds, net of current portion:						
Money market funds	-	8,070	-	-	-	8,070
Mutual funds	694,052	-	-	-	-	694,052
Commingled funds	-	-	-	214,068	-	214,068
Common stocks	171,804	-	-	-	-	171,804
Corporate bonds	-	62,549	-	-	-	62,549
Municipal securities	-	1,461	-	-	-	1,461
U.S. government securities	-	38,904	-	-	-	38,904
Total segregated funds, net of current portion	865,856	110,984	-	214,068	-	1,190,908
Current portion of segregated funds:					-	
Money market funds	-	101,228	-	-	-	101,228
Total current portion of segregated funds	-	101,228	-	-	-	101,228
Derivative instruments:						
Commodities	14,198	8,865	1,405	-	(6,814)	17,654
Total	$ 927,178	$ 519,724	$ 1,405	$ 214,068	$ (6,814)	$ 1,655,561
Liabilities						
Derivative instruments:						
Commodities	$ (8,767)	$ (89,189)	$ (3,496)	$ -	$ 8,460	$ (92,992)
Total	$ (8,767)	$ (89,189)	$ (3,496)	$ -	$ 8,460	$ (92,992)

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, 2016 (in thousands):

	Level 1	Level 2	Level 3	Other	Netting and Collateral	Total
Assets						
Cash and cash equivalents:						
Money market funds	$ -	$ 330,691	$ -	$ -	$ -	$ 330,691
Total cash and cash equivalents	-	330,691	-	-	-	330,691
Non-utility property and other investments:						
Money market funds	-	2,249	-	-	-	2,249
Mutual funds	36,463	-	-	-	-	36,463
Total non-utility property and othe investments	36,463	2,249	-	-	-	38,712
Segregated funds, net of current portion:						
Money market funds	-	63,970	-	-	-	63,970
Mutual funds	455,667	-	-	-	-	455,667
Commingled funds	-	-	-	195,662	-	195,662
Common stocks	311,755	-	-	-	-	311,755
Corporate bonds	-	37,096	-	-	-	37,096
U.S. government securities	-	45,991	-	-	-	45,991
Total segregated funds, net of current portion	767,422	147,057	-	195,662	-	1,110,141
Current portion of segregated funds:						
Money market funds	-	104,021	-	-	-	104,021
Total current portion of segregated funds		104,021	-	-	-	104,021
Derivative instruments:						
Commodities	14,969	17,940	332	-	(3,210)	30,031
Total	$ 818,854	$ 601,958	$ 332	$ 195,662	$ (3,210)	$ 1,613,596
Liabilities						
Derivative instruments:						
Commodities	$ (18,871)	$ (136,148)	$ -	$ -	$ 17,619	$ (137,400)
Total	$ (18,871)	$ (136,148)	$ -	$ -	$ 17,619	$ (137,400)

Valuation Methodologies

Securities

Money market funds: Investments with maturities of three months or less when purchased, including certain short-term fixed-income securities, are considered cash equivalents. 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. Even though the NAV of the fund(s) is kept at $1 per share, and transactions occur at that price, the underlying value of the securities may or may not be equal to $1 per share; therefore, these funds are classified as Level 2 in the fair value hierarchy.

Mutual funds: The fair values of shares in mutual funds 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. Mutual funds are priced using active market exchanges, and sources include Interactive Data

Corporation (IDC), Bloomberg, Yahoo! Finance and other publicly available venues. This category may include Exchange-Traded Funds (ETFs), which are similar to mutual funds in their structure but trade actively on exchanges like stocks. Pricing sources for ETFs also include IDC, Bloomberg, Yahoo! Finance and other publicly available venues.

Common stocks: The fair values of shares in preferred and common corporate 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 active market exchanges. Preferred and common corporate stocks are valued based on quoted prices in active markets and are categorized in Level 1. Equity securities held individually are primarily traded on exchanges that contain only actively traded securities due to the volume trading requirements imposed by these exchanges. Common stocks that are valued based on quoted prices from less active markets, such as over-the-counter (OTC) stocks, are categorized as Level 2 in the fair value hierarchy. Pricing sources include IDC, Bloomberg, Yahoo! Finance or other publicly available venues.

U.S. government securities: The fair value of U.S. government securities is derived from quoted prices on similar assets in active or non-active markets, from pricing models whose inputs are observable for the substantially full term of the asset, or from pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means; therefore, these securities have been categorized as Level 2 in the fair value hierarchy.

Municipal securities: The fair value of municipal securities is derived from quoted prices on similar assets in active or non-active markets, from pricing models whose inputs are observable for the substantially full term of the asset, or from pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means; therefore, these securities have been categorized as Level 2 in the fair value hierarchy.

Commingled funds: Commingled funds are maintained by investment companies and hold certain investments in accordance with a stated set of fund objectives, which are consistent with SRP's overall investment strategy. For equity and fixed-income commingled funds, the fund administrator values the fund using the NAV per fund share, derived from the quoted prices in active markets of the underlying securities. These funds are measured at fair value using NAV as a practical expedient and are not categorized in the fair value hierarchy. These assets are listed as "Other" in the fair value hierarchy to permit the reconciliation to amounts presented in the financial statements.

Corporate bonds: For fixed-income securities, multiple prices and price types are obtained from pricing vendors whenever possible, which enables cross-provider validations in addition to checks for unusual daily movements. A primary price source is identified based on asset type, class or issue for each security. SRP has obtained an understanding of how these prices are derived, including the nature and observability of the inputs used in deriving such prices. Additionally, SRP selectively corroborates the fair values of securities by comparison to other market-based price sources. The fair values of fixed-income securities are based on evaluated prices that reflect observable market information, such as actual trade information of similar securities, adjusted for observable differences and are categorized as Level 2.

Commodity Derivative Instruments

The fair values 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 and power swaps traded on exchanges.

The fair values 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 values of derivatives assets and liabilities that 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).

SRP does periodically transact at locations, market price points or in time blocks that are non-standard or illiquid for which no prices are available from an independent pricing source. In these cases, we apply adjustments based on historical price curve relationships to a more liquid price point as a proxy for market prices. Such transactions are classified as Level 3.

SRP estimates the fair value of its options using Black-Scholes option pricing models which includes inputs such as implied volatility, correlations, interest rates and forward price curves.

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

SRP's assessments of the significance of a particular input to the fair value measurements requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. SRP reviews the assumptions underlying its contracts monthly.

The following table provides quantitative information regarding significant unobservable inputs in SRP's Level 3 fair value measurements as of April 30, 2017:

	Fair Value at April 30, 2017 *(in thousands)*		
	Assets	**Liabilities**	**Range of Unobservable Inputs**
Forward contracts:	$ 393	$ (29)	
Market price per MWh			$24.23 - $35.00
Market price per gal MMBtu			$2.573 - $2.574
Option contracts:	1,012	(3,467)	
Market price per MWh			$18.27 – $39.45
Power Volatility			20.08% – 120.22%
Market price per MMbtu			$2.544 – $3.837
Gas Volatility			19.3% – 39.9%

The following table provides quantitative information regarding significant unobservable inputs in SRP's Level 3 fair value measurements as of April 30, 2016:

	Fair Value at April 30, 2016 *(in thousands)*		
	Assets	**Liabilities**	**Range of Unobservable Inputs**
Forward contracts:	$ 332	$ -	
Market price per MWh			$17.985 - $30.940

(See Note [5], DERIVATIVE INSTRUMENTS, for additional detail of derivatives.)

Investments Calculated at Net Asset Value

As of April 30, 2017, the fair value measurement of investments calculated at net asset value per share (or its equivalent), as well as the nature and risks of those instruments, is as follows:

	Fair Value *(in thousands)*	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
Mutual funds	$741,176	None	Daily	N/A
Commingled funds:				
Fixed income funds	214,068	None	Daily	N/A

As of April 30, 2016, the fair value measurement of investments calculated at net asset value per share (or its equivalent), as well as the nature and risks of those instruments, is as follows:

	Fair Value *(in thousands)*	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
Mutual funds	$492,130	None	Daily	N/A
Commingled funds:				
Fixed income funds	195,662	None	Daily	N/A

Mutual funds: These are funds invested in either equity or fixed-income securities. They are actively managed funds that seek to outperform their respective benchmarks. The equity funds may invest in large and/or small capitalization stocks and/or growth or value styles, as dictated by their prospectuses. The fixed-income funds will invest in a broad array of securities, including treasuries, agencies, corporate debt, mortgage-backed securities and some non-U.S. debt.

Fixed-income commingled funds: These funds are actively managed funds used by an investment manager to diversify an overall portfolio of separately managed fixed-income securities. The funds may invest in fixed-income securities of varying duration, maturity, credit quality and geographic location. The securities may be non-U.S. securities.

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. SRP presents its margin and cash collateral deposits net with its derivative position on the accompanying Combined Balance Sheets. Amounts recognized as margin and collateral provided to others are included in derivative assets and/or derivative liabilities in the

accompanying Combined Balance Sheets. The net margin deposits totaled $1.6 million and $14.4 million at April 30, 2017 and 2016, respectively.

Changes in Level 3 Fair Value Measurements

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

Fiscal Year 2017	Commodity Derivatives
Beginning balance at May 1	$ 332
Purchases	(2,221)
Settlements	(202)
Balance at April 30	$ (2,091)

Fiscal Year 2016	Commodity Derivatives	Segregated Funds, net of Current Portion	Total
Beginning balance at May 1	$ (28,190)	$ 14	$ (28,176)
Transfers out of Level 3	28,463	-	28,463
Net realized and unrealized gain/(loss) included in earnings	63	-	63
Settlements	(4)	(14)	(18)
Balance at April 30	$ 332	$ -	$ 332

Realized and unrealized gains and losses included in earnings identified above are included in wholesale revenues, power purchased, fuel used in electric generation or investment income, as appropriate, in the accompanying Combined Statements of Net Revenues. The transfers out of Level 3 for each year primarily represent derivative positions for which the maturity date has moved to within a time frame such that there are published price curves available to use for performing the valuations.

Fair Value Disclosures

U.S. GAAP 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.

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, other current liabilities and commercial paper. The carrying amount of commercial paper approximates fair value because of its short-term maturity and pricing confirmed through independent sources.

Financial instruments for which fair value does not approximate carrying value: SRP presents long-term debt at carrying value on the accompanying Combined Balance Sheets. The collective fair value of the District's revenue bonds, including the current portion, was estimated by using pricing scales from independent sources. As of April 30, 2017 and 2016, the carrying amounts, including current portion and accrued interest, were $4.2 billion and $4.3 billion, respectively, and the estimated fair values were $4.4

billion and $4.7 billion, respectively. These estimated fair values are classified as Level 2 in the fair value hierarchy. (See Note [7], LONG-TERM DEBT AND CAPITAL LEASE OBLIGATION, for further discussion of these items.)

(7) LONG-TERM DEBT AND CAPITAL LEASE OBLIGATION:

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

	Interest Rate	2017	2016
Revenue bonds			
2005 Series A (mature 2027 – 2035)	5.00%	$ -	$ 35,830
2008 Series A (mature 2016 – 2038)	5.00%	-	801,230
2009 Series A (mature 2014 – 2039)	3.25 – 5.00%	619,245	632,255
2009 Series B (mature 2014 – 2020)	4.00 – 4.50%	102,010	154,400
2010 Series A (mature 2040 – 2041)	4.84%	500,000	500,000
2010 Series B (mature 2014 – 2027)	2.50 – 5.00%	190,140	207,335
2011 Series A (mature 2013 – 2030)	3.00 – 5.00%	367,875	369,665
2012 Series A (mature 2029 – 2031)	5.00%	236,185	236,185
2015 Series A (mature 2029 – 2031)	3.00 – 5.00%	888,285	898,805
2016 Series A (mature 2029 – 2031)	4.00 – 5.00%	760,965	-
Total revenue bonds		3,664,705	3,835,705
Unamortized bond premium (discount), net		271,669	184,816
Debt issuance costs		(10,380)	(12,757)
Total revenue bonds outstanding		3,925,994	4,007,764
Commercial paper		225,000	225,000
Total long-term debt		4,150,994	4,232,764
Less: Current portion of long-term debt		(102,155)	(100,160)
Total long-term debt, net of current		$4,048,839	$ 4,132,604

The annual maturities of long-term debt (excluding unamortized bond discount/premium and commercial paper) as of April 30, 2017, due in fiscal years ending April 30, are as follows (in thousands):

	Revenue Bonds
2018	$ 102,155
2019	94,335
2020	91,510
2021	87,155
2022	91,925
Thereafter	3,197,625
Total	$3,664,705

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 amended and restated bond resolution, effective in January 2003, as amended (Bond Resolution). The Bond Resolution requires the District to charge and collect revenues sufficient to fund the debt reserve account and pay operating expenses, debt service and all other charges and liens payable out of revenues and income. Under the terms of the Bond

Resolution, the District makes debt service deposits to a non-trusteed segregated fund. Included in segregated funds in the accompanying Combined Balance Sheets are $181.8 million and $229.8 million of debt-service-related funds as of April 30, 2017 and 2016, respectively. Additionally, the Bond Resolution requires the District to maintain a debt service coverage ratio of 1.1 or greater on outstanding revenue bonds. To be eligible to issue additional revenue bonds, the District must anticipate sufficient revenues to maintain that ratio post-issuance. For the years ended April 30, 2017 and 2016, the debt service coverage ratio was 3.60 and 3.36, respectively. A substantial portion of the revenue bonds are callable by the District ten years after issuance.

In October 2010, the District issued $500.0 million of 2010 Series A Electric System Revenue Bonds as federally taxable, direct payment "Build America Bonds." At the time of issuance, the District expected to receive cash subsidy payments from the United States Treasury equal to 35% of the interest payable on the 2010 Series A Bonds over the term of the 2010 Series A Bonds. Subject to the District's compliance with certain provisions of the ARRA and federal budget sequestration, the District has recorded $7.9 million for cash subsidy earned from the United States Treasury for the years ending April 30, 2017 and 2016. The accrual for subsidy payments was $2.6 million as of April 30, 2017 and 2016. The cash subsidy earned is included in the Combined Statements of Net Revenues as a reduction to interest on bonds, net.

Due to federal budget sequestration, effective March 2013 the Internal Revenue Service published guidance stating that subsidy amounts claimed by Build America Bonds issuers will be reduced periodically. As a result of these periodic reductions, the District's June 9, 2015 subsidy payment was reduced by 7.3%, and the District's January 1, 2016, and July 1, 2016, subsidy payments, which it received on December 8, 2015, and June 7, 2016, respectively, were reduced by 6.8%. The January and July subsidy payments for 2017 were each reduced by 6.9%. The January subsidy payment was received during fiscal year 2017 and the July subsidy payment was received after year end. The District receives subsidy amounts semiannually, with the next payment scheduled for January 1, 2018.

In June 2015, the District issued $924.5 million 2015 Series A Electric System Revenue Bonds at an average effective interest rate of 3.95%. $666.3 million of the proceeds were used to fund an externally trusteed irrevocable escrow (Escrow Funding) to defease $49.7 million of outstanding 2004 Series A Revenue Bonds, $215.5 million of outstanding 2005 Series A Revenue Bonds, $216.0 million of outstanding 2006 series A Revenue Bonds (the Refunded Bonds), and to purchase $75.8 million of outstanding 2005 Series A Revenue Bonds, and $80.0 million of outstanding 2006 Series A Revenue Bonds (the Purchased Bonds). Additionally, the proceeds of the Escrow Funding were applied to the accrued interest, interest payments and the net unamortized premium on the Refunded Bonds and the Purchased bonds. The remaining proceeds were used to fund the costs of issuance and to fund capital improvements of the District. The Escrow Funding activity is a non-cash activity on the Statement of Cash Flows and the Refunded Bonds and Purchased Bonds have been removed from SRP's fiscal year 2016 Balance Sheet.

In December 2016, the District issued $761.0 million 2016 Series A Electric System Refunding Revenue Bonds at an average effective interest rate of 3.43%. $884.9 million of the proceeds were used to fund an externally trusteed irrevocable escrow (Escrow Funding) to defease $35.8 million of outstanding 2005 Series A Revenue Bonds and $796.0 million of outstanding 2008 Series A Revenue Bonds. Additionally, the proceeds of the Escrow Funding were applied to the accrued interest, interest payments and the net unamortized premium on the Refunded Bonds and the Purchased bonds. The remaining proceeds were used to fund the costs of issuance. The Escrow Funding activity is a non-cash activity on the Statement of Cash Flows and the Refunded Bonds and Purchased Bonds have been removed from SRP's fiscal year 2017 Balance Sheet.

Interest, Build America Bonds subsidy payments, and the amortization of the bond discount, premium, and issue expense on the various issues result in an effective rate of 3.8% over the remaining term of the bonds.

As of April 30, 2017, the District had authorization to issue additional Electric System Revenue Bonds totaling $1.5 billion principal amount and Electric System Refunding Revenue Bonds totaling $4.2 billion principal amount.

Capital Lease Obligation

In May 2008, the District entered into a 20-year power purchase agreement to purchase energy from a 575-megawatt (MW) simple-cycle, natural-gas peaking facility. The commercial operation date of the facility was May 1, 2011. Upon expiration of the contract and with proper notice, the District may renew the agreement for another 10 years, subject to certain conditions. Under the agreement, the District will pay a capacity charge, operation and maintenance costs, and property taxes. The District is also obligated to provide the natural gas needed to operate the facility. The capacity charge is paid monthly and will total approximately $51.9 million yearly. The District has concluded that this power purchase agreement is a capital lease. Accordingly, a capital lease asset and corresponding liability were recorded on May 1, 2011, in the amount of $517.0 million. The capital lease asset is being amortized on the straight-line basis over the original 20-year term of the contract. Accumulated amortization as of April 30, 2017 and 2016, is $154.0 million and $128.2 million, respectively.

Future minimum lease payments, excluding executory costs, under the capital lease as of April 30, 2017, are as follows (in thousands):

2018	$ 51,867
2019	51,867
2020	51,867
2021	51,867
2022	51,867
Thereafter	466,804
Total minimum lease payments	726,139
Less: Imputed interest	(280,210)
Less: Imputed lessor profit on executory costs	(11,370)
Less: Current portion of capital lease obligation	(17,860)
Long-term capital lease obligation, net of current	$416,699

(8) COMMERCIAL PAPER AND CREDIT AGREEMENTS:

The District is authorized by the Board to issue up to $500.0 million in commercial paper. The District had $50.0 million of Series C Commercial Paper outstanding at April 30, 2017 and 2016, and an additional $175.0 million of Series D-1 Commercial Paper outstanding at April 30, 2017 and 2016. At April 30, 2017 and 2016, the Series C issue had an average weighted interest rate to the District of 0.92% and 0.52%, respectively. At April 30, 2017 and 2016, the Series D-1 issue had an average weighted interest rate to the District of 1.00% and 0.48%, respectively. 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 two revolving line-of-credit agreements, $100.0 million and $400.0 million. Both agreements support the $225.0 million of outstanding commercial paper at April 30, 2017 and 2016. The $100.0 million revolving credit agreement expires on May 16, 2018, and the $400.0 million revolving credit agreement expires on June 25, 2018. SRP has classified the commercial paper program as long-

term debt in the accompanying Combined Balance Sheets at April 30, 2017 and 2016. The additional $275.0 million in credit available under the two lines of credit may be used to support the issuance of additional commercial paper or for other general corporate purposes.

The revolving line-of-credit agreements contain various conditions precedent to borrowings that include, but are not limited to, compliance with the covenants set forth in the agreements, the continued accuracy of representations and warranties, no existence of default and maintenance of certain investment grade ratings on the District's revenue bonds. The District was in compliance with the various covenants at April 30, 2017 and 2016. The District has never borrowed under the agreements. 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.

On June 1, 2017 the District issued $100.0 million of additional series D-1 commercial paper at an average interest rate of 1.08%.

On June 29, 2017, SRP executed and delivered new Revolving Credit Agreements by and between the District and JP Morgan Chase Bank N. A. authorizing borrowings not exceeding $350.0 million and U.S. Bank N. A. authorizing borrowings not exceeding $150.0 million from time to time under such Revolving Credit Agreements for a three (3) year term due June 29, 2020. The new Agreements replace the outstanding agreements described above that were to expire in 2018.

(9) EMPLOYEE BENEFIT PLANS AND INCENTIVE PROGRAMS:

Defined Benefit Pension Plan and Other Post-retirement Benefits

SRP's Employees' Retirement Plan (the Plan) covers substantially all employees. The Plan is funded entirely from SRP contributions and the income earned on invested Plan assets. SRP contributed $60.0 million in fiscal years 2017 and 2016.

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 at any time after attainment of age 55 with a minimum of ten years of vested service under the Plan (twenty years for those hired January 1, 2000, or later). The funding policy is discretionary.

During fiscal year 2017, the Board approved an ad-hoc Cost-of-Living-Adjustment (COLA) for select participants receiving benefits from the Plan, effective May 1, 2017. Participants who retired prior to 2007 were provided a graded increase to their benefits ranging from 3% for a 2006 retiree, to 36% for a 1987 or earlier retiree. The COLA increased the Projected Benefit Obligation (PBO) by approximately $30.5 million, and projected fiscal year 2018 expense by approximately $2.0 million.

U.S. GAAP requires employers to recognize the overfunded or underfunded positions of defined benefit pension and other post-retirement plans in their balance sheets. Any actuarial gains and losses, prior service costs and transition assets or obligations 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.

The Board has authorized the District to collect future amounts associated with the pension and other post-retirement plan liabilities as part of the pricing process. The District established a regulatory asset

for the 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 amortization amounts for fiscal year 2017 are $(0.9) million for prior service cost and $44.6 million for net actuarial loss. The District's amortization amounts for fiscal year 2016 are $(0.3) million for prior service cost and $46.8 million for net actuarial loss.

The following tables outline changes in benefit obligations, plan assets, the funded status of the plans and amounts included in the accompanying Combined Financial Statements (in thousands):

	Pension Benefits		Post-retirement Benefits	
	2017	**2016**	**2017**	**2016**
Change in benefit obligation				
Benefit obligation at beginning of year	$2,299,808	$ 2,191,559	$780,763	$ 770,699
Service cost	70,488	66,222	14,880	17,453
Interest cost	98,128	93,760	33,335	32,999
Actuarial loss (gain)	86,736	30,499	13,321	(11,733)
Benefits paid	(87,472)	(82,232)	(28,006)	(28,655)
Plan change (COLA)	30,497	-	-	-
Benefit obligation at end of year	$2,498,185	$ 2,299,808	$814,293	$780,763
Change in plan assets				
Fair value of plan assets at beginning of year	$1,865,368	$ 1,906,576	$ -	$ -
Actual return on plan assets	192,196	(18,976)	-	-
Employer contributions	60,000	60,000	28,006	28,655
Benefits paid	(87,472)	(82,232)	(28,006)	(28,655)
Fair value of plan assets at end of year	2,030,092	1,865,368	-	-
Funded status at end of year	$(468,093)	$ (434,440)	$(814,293)	$ (780,763)
Amounts recognized in Combined Balance Sheets:				
Other current liabilities	$ -	$ -	$ (31,403)	$ (28,898)
Accrued post-retirement liability	(468,093)	(434,440)	(782,890)	(751,865)
Net asset (liability) recognized	$(468,093)	$ (434,440)	$(814,293)	$ (780,763)
Amounts recognized as a regulatory asset:				
Prior service cost (credit)	$ 30,578	$ 128	$ (4,678)	$ (5,651)
Net actuarial loss (gain)	867,095	852,209	202,508	196,513
Net regulatory asset	$ 897,673	$ 852,337	$ 197,830	$ 190,862

The following table represents the amortization amounts expected to be recognized during the fiscal year ending April 30, 2018 (in thousands):

	Pension Benefits	Post-retirement Benefits
Prior service cost/(credit)	$2,116	$ (973)
Net actuarial loss	$38,501	$ 7,638

The accumulated benefit obligation for pension benefits was $2.2 billion and $2.0 billion as of April 30, 2017 and 2016, respectively.

SRP internally funds its other post-retirement benefits obligation. At April 30, 2017 and 2016, $761.9 million and $678.0 million of segregated funds, respectively, were designated for this purpose.

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

	Pension Benefits		Post-retirement Benefits	
	2017	**2016**	**2017**	**2016**
Discount rate	4.20%	4.35%	4.20%	4.35%
Rate of compensation increase	5.08%	4.81%	N/A	N/A

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

	Pension Benefits		Post-retirement Benefits	
	2017	**2016**	**2017**	**2016**
Discount rate	4.35%	4.36%	4.35%	4.36%
Expected return on Plan assets	8.25%	8.25%	N/A	N/A
Rate of compensation increase	4.81%	4.69%	N/A	N/A

A 7.00% annual increase in per capita costs of health care benefits was assumed during 2017; these rates were assumed to decrease uniformly until equaling 4.75% in all future years.

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

	Pension Benefits		Post-retirement Benefits	
	2017	**2016**	**2017**	**2016**
Service cost	$ 70,488	$ 66,222	$ 14,880	$ 17,453
Interest cost	98,128	93,760	33,335	32,999
Expected return on Plan assets	(157,648)	(148,818)	-	-
Amortization of net actuarial loss	37,302	38,072	7,325	8,755
Amortization of prior service cost	48	48	(973)	(330)
Net periodic benefit cost	$ 48,318	$ 49,284	$ 54,567	$ 58,877

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	$ 9,846	$ (7,706)
Effect on post-retirement benefit obligation	$ 111,981	$ (97,493)

Plan Assets

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

The market value of investments (reflecting returns, contributions and benefit payments) within the Plan trust appreciated 10.49% during fiscal year 2017, compared to a decrease of (1.01%) during fiscal year 2016. Changes in the Plan's funded status affect the assets and liabilities recorded on the balance sheet in accordance with FASB authoritative guidance. 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 (PPA) 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 during the current economic downturn. The Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act of 2010 (PACMBPRA) was signed into law during fiscal year 2011. During fiscal year 2013, the Moving Ahead for Progress in the 21st Century Act (MAP-21) was passed, which included a provision related to pension funding. All three acts subsequent to the passage of the PPA, WRERA, PACMBPRA and MAP-21 will favorably affect the level of minimum required contributions.

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

	Target Allocations	2017	2016
Equity securities	65%	63%	60%
Debt securities	25%	25%	28%
Real estate	10%	12%	12%
Total	100%	100%	100%

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.

Fair Value of Plan Assets

Pursuant to the adoption of ASU 2015-07, *Fair Value Measurement (Topic 820), Disclosures for Investments in Certain Entities that Calculate Net Asset Value per share (or Its Equivalent)*, as disclosed in Note [2], Significant Accounting Policies, assets measured at fair value using net asset value (NAV) as a practical expedient are no longer categorized in the fair value hierarchy. These assets are listed in the column "Other" of the fair value hierarchy, and prior period amounts have been retrospectively reclassified to conform to current presentation.

The following table sets forth the fair value of Plan assets, by asset category, at April 30, 2017 (in thousands):

	Level 1	Level 2	Other	Total
Cash and cash equivalents	$ 24,189	$ 7,139	$ -	$ 31,328
Mutual funds	246,346	-	-	246,346
U.S. government securities	-	43,842	-	43,842
Corporate bonds	-	430,940	-	430,940
Common stocks	227,166	-	-	227,166
Commingled funds	-	-	810,480	810,480
Real estate	-	-	239,990	239,990
Total assets	$ 497,701	$ 481,921	$1,050,470	$ 2,030,092

The following table sets forth the fair value of Plan assets, by asset category, at April 30, 2016 (in thousands):

	Level 1	Level 2	Other	Total
Cash and cash equivalents	$ 8,297	$ 5,540	$ -	$ 13,837
Mutual funds	392,285	-	-	392,285
U.S. government securities	-	40,687	-	40,687
Corporate bonds	-	449,835	-	449,835
Common stocks	260,330	-	-	260,330
Commingled funds	-	-	488,875	488,875
Real estate	-	-	219,519	219,519
Total assets	$ 660,912	$ 496,062	$ 708,394	$ 1,865,368

For a description of the fair value hierarchy, refer to Note [6], FAIR VALUE MEASUREMENTS.

Valuation Methodologies

Real estate: Real estate commingled funds are funds with a direct investment in a pool of real estate properties. These funds are valued by investment managers on a periodic basis using pricing models that use independent appraisals from sources with professional qualifications. The valuations of the real estate funds are sensitive to market factors outside the control of the Plan, including interest rate levels and economic activity. The valuations, although done quarterly by independent qualified appraisers, may vary due to these factors.

For an explanation of the valuation methodologies used to determine fair value of the assets of the Plan that are not listed above, refer to Note [6], FAIR VALUE MEASUREMENTS.

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

SRP expects to contribute $60.0 million to the Plan over the next year.

Benefits Payments

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

	Pension Benefits	Post-retirement Benefits	
		Before Subsidy*	Net
2018	$ 98,797	$ 32,056	$ 31,403
2019	103,596	33,733	33,161
2020	108,769	35,411	34,818
2021	114,004	36,891	36,279
2022	119,230	38,569	37,943
2023 through 2026	**672,761**	**211,146**	**207,866**

*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 $0.90 on every dollar contributed up to the first 6% of their base pay that they contribute to the 401(k) Plan. Employer matching contributions to the 401(k) Plan were $21.1 million and $20.6 million during fiscal years 2017 and 2016, respectively.

Employee Performance Incentive Compensation Program

The Employee Performance Incentive Compensation (EPIC) program, a cash-based incentive program, is approved by the Board each year. EPIC covers substantially all regular employees and is based on the achievement of pre-established targets for each fiscal year. The total compensation expense, including payroll taxes, recognized for the EPIC program for fiscal years 2017 and 2016 was $32.7 million and $31.0 million, respectively.

Employee Sick Leave Plan

The SRP Employee Sick Leave Plan provides payment to employees for unused sick leave. Employees accumulate sick days at a rate of one day per month. The accumulation, up to the personal maximum, can be carried forward year after year. For most employees, the personal maximum is 720 hours. For sick leave hours accumulated in excess of the personal maximum, a lump sum payment at half pay is made annually in January of each year based on the hourly rate at time of payment, and the accumulated sick leave is then returned to the personal maximum. Upon death or retirement, payment is made for any unused sick leave hours. The payments for retirement or death are based on the hourly rate of pay at retirement or death. SRP has an accrual for unpaid sick leave of approximately $53.6 million and $52.1 million at April 30, 2017 and 2016, respectively. The accrual is determined actuarially based on various

assumptions, including future pay raises, discount rate and the amount of the accrual that will ultimately be paid out.

(10) INTERESTS IN JOINTLY OWNED ELECTRIC UTILITY PLANTS AND TRANSMISSION FACILITIES:

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 and transmission facilities is included in other operating expenses and maintenance in the accompanying Combined Statements of Net Revenues.

The following table reflects the District's ownership interests in jointly owned facilities at electric utility plants as of April 30, 2017 (in thousands):

Generating Station	Ownership Share	Plant in Service	Accumulated Depreciation	Construction Work In Progress
Four Corners (NM) (Units 4 & 5)	10.00%	$ 177,239	$ (132,788)	$ 22,951
Navajo (AZ) (Units 1, 2 & 3)	42.90%	399,383	(349,657)	9,671
Hayden (CO) (Unit 2)	50.00%	180,275	(134,859)	146
Craig (CO) (Units 1 & 2)	29.00%	298,443	(292,801)	49,941
Mesquite Common	50.00%	75,691	(5,836)	125
PVNGS (AZ) (Units 1, 2 & 3)	17.49%	1,402,842	(1,059,583)	34,088
Springerville Common	17.05%-50%	35,106	(1,315)	14,746
		$2,568,979	$(1,976,839)	$131,668

In February 2017, the owners of NGS decided not to continue operations of the plant beyond the end of the lease with the Navajo Nation (the Nation) for the land that the plant is built on. The current plan is to operate the plant until December 2019 when the lease ends, and then begin decommissioning activities. Subsequent to year end, the Nation, the District and three of the other owners agreed to a lease extension for the purposes of completing the decommissioning activities and performing required monitoring activities for thirty-five years. The two remaining owners are anticipated to approve and sign the documents by December 1, 2017 after additional reviews under applicable law. The cost of this lease extension has been included as part of the asset retirement obligation for the plant. The remaining assets of NGS are being depreciated over the remaining life to December 2019. As part of obtaining the lease extension, the owners agreed to pay a minimum level of royalties in calendar 2018 and 2019 of $20.8 million and $18.2 million, respectively. The District's portion of these minimum payments will be approximately 50%. The District believes that the planned operations of the plant through 2019 will result in the minimum payments being made. As such, no amounts have been accrued for this commitment. This commitment and the expected future operations will be monitored for changes in future periods.

The following table reflects the District's investment in jointly owned transmission facilities as of April 30, 2017 (in thousands):

Transmission Facility	Plant in Service	Accumulated Depreciation	Construction Work In Progress
Mead Phoenix	$ 53,722	$ (18,687)	$ 554
Southwest Valley	79,493	(17,888)	95
Southeast Valley	293,920	(30,098)	598
Morgan-Pinnacle Peak	72,680	(6,975)	-
Southern Transmission	75,606	(35,749)	176
Mesquite	24,409	(1,482)	756
ANPP	81,072	(27,860)	2,307
Kyrene-Knox	10,757	(869)	-
	$691,659	$ (139,608)	$4,486

The District's ownership interests in the jointly owned transmission facilities vary by facility and for the various projects within each facility.

(11) VARIABLE INTEREST ENTITIES:

SRP follows guidance that defines a variable interest entity (VIE) as a legal entity whose equity owners do not have sufficient equity at risk or lack certain characteristics of a controlling financial interest in the entity. This guidance identifies the primary beneficiary as the variable interest holder that has the power to direct the activities that most significantly affect the VIE's economic performance (power criterion) and has the obligation to absorb losses or the right to receive benefits from the VIE (losses/benefits criterion). The primary beneficiary is required to consolidate the VIE unless specific exceptions or exclusions are met. SRP considers both qualitative and quantitative factors to form a conclusion whether it, or another interest holder, meets the power criterion and the losses/benefits criterion. SRP performs ongoing reassessments of its VIEs to determine if the primary beneficiary changes each reporting period.

Unconsolidated VIEs

While SRP is not required to consolidate any VIE as of April 30, 2017 or 2016, it held variable interests in certain VIEs as described below.

In May 2008, the District entered into a 20-year power purchase agreement to purchase energy from a 575 MW simple-cycle natural-gas peaking facility. The District has concluded that this power purchase agreement is a capital lease. The District has also determined that it is not the primary beneficiary of this VIE since it does not control operations and maintenance, which it believes are the primary activities that most significantly affect the economic activities of the entity.

The District has entered into various long-term power purchase agreements with developing renewable energy generation facilities that extend for periods of 20 to 30 years. The District is receiving the power and renewable energy credits from these facilities. The capacity of all the facilities combined is approximately 293 MW. The amounts that the District paid to these projects were $109.7 million and $107.5 million for fiscal years 2017 and 2016, respectively. With the exception of projects for which the District is obligated to pay operating and maintenance expenses, the District is obligated to pay only for actual energy delivered and will have no obligation with respect to any facilities that do not start commercial operations. Some of these agreements include a price adjustment clause that will affect the future cost. There are no minimum payment obligations under these agreements. The District has concluded that it is not the primary beneficiary of these VIEs since it does not control operations and maintenance, which it believes are the primary activities that most significantly affect the economic activities of the entity.

The District formed a partnership during fiscal year 2010 to market long-term water storage credits. The District received net capital distributions of $4.7 million in 2017 and made net capital contributions of $4.4 million to the partnership in 2016. The District carried $11.8 million and $14.1 million of investment in the partnership in fiscal years 2017 and 2016, respectively. The District has a future maximum exposure up to a $25.0 million contribution limit. The primary risks associated with this VIE relate to the marketing of the water storage credits. The District has concluded that it is not the primary beneficiary of this VIE since it does not have power to direct the activities related to the marketing of the long-term water storage credits, which represent the most significant economic activities of the VIE.

(12) COMMITMENTS:

Purchased Power and Fuel Supply

The District had various firm, non-cancelable purchase commitments at April 30, 2017, which are not recognized in the accompanying Combined Balance Sheets. The following table presents estimated future payments pertaining to firm purchase commitments with remaining terms greater than one year (in millions):

	Purchase Commitments					
	2018	2019	2020	2021	2022	Thereafter
Purchase power contracts	$ 32.3	$ 32.7	$ 33.2	$ 33.6	$ 34.1	$ 482.7
Fuel supply contracts	368.6	291.4	188.6	103.2	70.6	468.6
Total	$ 400.9	$ 324.1	$ 221.8	$ 136.8	$ 104.7	$ 951.3

Gas Purchase Agreement

In addition to the commitments in the table above, the District, in 2007, entered into a 30-year 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 10,420,000 MMBtus (millions of British thermal units) each fiscal year 2018 through 2022, and 166,720,000 MMBtus over the balance of the term. These purchases are expected to supply approximately 13% of its projected natural-gas requirements needed to serve retail customers over the remainder of the 30-year period. The District receives a discount from market prices and is obligated to pay only for gas delivered. Payments, net of discount, to SVFC under the agreement were $16.7 million and $18.8 million in fiscal years 2017 and 2016, respectively. The agreement also provides for payment from SVFC to the District of certain excess cash resulting from a portion of SVFC's investment income, which effectively reduces the price the District pays for the gas. The excess cash amounts received by the District from SVFC totaled $2.9 million and $3.1 million in in fiscal years 2017 and 2016, respectively. SVFC is a related party to the District.

Operating Leases

The District entered into various operating leases to facilitate the operations of Springerville Generating Station (Springerville) Unit 4, a 400 MW coal-fired plant owned by the District and operated by Tucson Electric Power Company (TEP). Total payments under the agreements to TEP and other parties were $9.9 million in both fiscal years 2017 and 2016. Minimum payments under these agreements are estimated to be $9.9 million in fiscal years 2018 through 2021, $6.8 million in fiscal year 2022 and $229.6 million thereafter. The leases expire in various years from 2022 through 2106.

(13) CONTINGENCIES:

Nuclear Insurance

Under existing law, public liability claims arising from a single nuclear incident are limited to $13.4 billion. PVNGS participants insure for this potential liability through commercial insurance carriers to the maximum amount available ($375.0 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 $127.3 million, including a 5% surcharge applicable in certain circumstances, but not more than $19.0 million per reactor may be charged in any one year for each incident. Based on the District's ownership share of PVNGS, the maximum potential assessment would be $66.8 million, including the 5% surcharge, but would be limited to $10.0 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 $2.8 billion, a substantial portion of which must first be applied to stabilization and decontamination. The District also secured insurance against portions of any increased cost of generation or purchased power and any business interruption resulting from a sudden and unforeseen accidental outage of any of the three units. The coverage for property damage, decontamination and replacement power is 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 NEIL policies totals approximately $14.5 million. The insurance coverage discussed in this and the previous paragraph is subject to certain policy conditions and exclusions.

Nuclear Fuel Supply

In March 2017, Westinghouse Electric Company LLC (Westinghouse), a subsidiary of Toshiba Corporation, filed for protection under Chapter 11 of the U.S. Bankruptcy Code citing significant losses arising from its construction division. Westinghouse is the only supplier, approved by the Nuclear Regulatory Commission, of manufactured fuel rod assemblies to PVNGS. In the event Westinghouse fails to perform while in bankruptcy, there is a risk that one or more units at PVNGS may be shut down due to a fuel supply interruption. Westinghouse has made representations in its bankruptcy court filings stating that the maintenance and engineering services, and fuel fabrication services business lines are profitable and will not be significantly impacted by the bankruptcy filing. The District is unable to predict the outcome of this proceeding; however, we do not expect the outcome to have a material impact on our financial position, results of operations or cash flows.

Spent Nuclear Fuel

Under the Nuclear Waste Policy Act of 1982, the District was required to pay $0.001 per kilowatt-hour on its share of net energy generation at PVNGS to the U.S. Department of Energy (DOE) through April 30, 2015. However, to date, for various reasons, the DOE has not constructed a site for the storage of spent nuclear fuel. Accordingly, Arizona Public Service Company (APS), the operating agent for PVNGS, has constructed an on-site dry cask storage facility to receive and store PVNGS spent fuel. PVNGS has sufficient capacity at its on-site spent fuel storage installation to be able to store all of the nuclear fuel that will be spent during the first operating license period which ends in December 2027. In addition, PVNGS has sufficient capacity to store a portion of the fuel that will be spent during the period of extended operation, which will end in December 2047. Potentially, and depending on how the NRC rules on the future unloading of spent fuel

pools, PVNGS could use high-capacity storage casks to store the balance of any fuel spent during the extended license period. As a result of the DOE not constructing a storage site for the spent nuclear fuel, the DOE has made payments to nuclear facilities to reimburse a portion of the costs that have been incurred for fuel storage to date. SRP's portion of the reimbursements for FY17 and FY16 were $2.0 million and $2.1 million, respectively. The on-site facility stored its first cask in March 2003. Effective May 15, 2014, the per kilowatt-hour charge on energy generation at PVNGS was reduced to zero. A similar charge could be reinstated in the future.

The District's share of on-site interim storage at PVNGS is estimated to be $73.3 million for costs to store spent nuclear fuel from inception through the life of the plant. These costs are recovered through the District's base rates as a component of the system benefit charge. At April 30, 2017 and 2016, the District's accrued spent fuel storage cost was $22.0 million and $22.3 million, respectively, and is included in deferred credits and other non-current liabilities on the accompanying Combined Balance Sheets.

Environmental

SRP is subject to numerous legislative, administrative and regulatory requirements at the federal, state and local levels, as well as lawsuits relative to air quality, water quality, hazardous waste disposal and other environmental matters. Such requirements have resulted, and will continue to result, in increased costs associated with the operation of existing properties. At April 30, 2017 and 2016, SRP accrued $32.3 million and $33.2 million, respectively, for environmental issues, on a non-discounted basis, which is included in deferred credits and other non-current liabilities on the accompanying Combined Balance Sheets. The following topics highlight some of the major environmental compliance issues affecting the District.

Water quality: Due to the nature of its business, from time to time the District is involved in various state and federal superfund matters. In September 2003, the EPA notified the District that it might be liable under the federal Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) as an owner and operator of a facility within the Motorola 52nd Street Superfund Site Operable Unit 3. The District completed the remedial investigation at the facility and received a "no further action" letter from the EPA, but other potentially responsible parties are still undertaking remedial investigations and feasibility studies at the site and the District could still be liable for past costs incurred and for future work to be conducted within the Superfund Site with regard to groundwater.

At the adjacent West Van Buren Water Quality Assurance Revolving Fund Site (WVB Site), a state superfund site, the Arizona Department of Environmental Quality (ADEQ) has identified the District as one of the numerous potentially responsible parties for groundwater contamination. The Roosevelt Irrigation District (RID) has sued the District and some of those other parties claiming that as a result of groundwater contamination, RID has been damaged in excess of $125.0 million. The District denies the allegations and intends to vigorously contest the claim. Although the District was temporarily dismissed from the lawsuit, the plaintiff, with new counsel, filed a Second Amended Complaint that named the District directly as a defendant again, along with a smaller number of potentially responsible parties than in the original complaint and First Amended Complaint. The District filed an Answer to the Second Amended Complaint. Subsequently, RID filed a Third Amended Complaint adding certain parties and deleting others, but retaining the District as a defendant. Discovery has been stayed and the court has scheduled a status conference on the stay for July 13, 2017. At this time, the District cannot predict the outcome of that status conference.

The defendants, including the District, filed two motions for summary judgment challenging the majority of RID's purported past costs and a motion for summary judgment on National Contingency Plan

compliance. The court granted defendants' first motion for summary judgment challenging RID's past costs on November 22, 2016. On March 14, 2017, the court granted in part and denied in part defendants' second motion for summary judgment on the remaining costs. On March 15, 2017, the court denied defendants' motion for summary judgment on the National Contingency Plan compliance and granted plaintiff's cross-motion for summary judgment. The court also denied defendants' motion for reconsideration.

On June 26, 2017, the ADEQ and Arizona Department of Water Resources held a meeting with RID and several of the defendants at which the agencies set out a number of principles for a framework for a remedy for the WVB Site. Both before and since that meeting, the parties have been engaged in discussions toward a negotiated settlement. The District cannot predict the outcome of these discussions.

On December 16, 2016, the District was named as a party in the complaint filed by Spinnaker Holdings, LLC, and Synergy Environmental, LLC. Spinnaker and Synergy allege that they are entitled to recover costs for their work on behalf of RID, or RID's agent, Gallagher & Kennedy, in investigating, developing, and implementing a response action to protect and restore RID's wells and water supply from the release and threatened release of hazardous substances. Plaintiffs stated that they filed their complaint in response to the court's November 22, 2016 order. The complaint has not been served on any parties.

On July 7, 2017, Spinnaker and Synergy requested an extension to serve their complaint until October 2, 2017 in light of the ongoing discussions among the parties toward a negotiated settlement. The judge has not yet ruled on their request.

On December 16, 2016, the law firm of Gallagher & Kennedy also filed a complaint to recover their costs already incurred and any further costs they incur on behalf of RID under CERCLA. The firm stated that the complaint also was filed in response to the Court's November 22, 2016 order. The District is not named in the complaint; however, there is a potential that third party claims could be filed against the District. The complaint has not been served on any parties. Gallagher & Kennedy requested an extension to serve its complaint until September 30, 2017 in light of the potential settlement of the underlying disputes. The judge granted this request.

While the District is unable at this time to predict the outcome of these and other superfund matters, it has recorded reserves as part of its environmental reserves to cover expected liabilities related to these issues.

Air quality: Efforts to reduce emissions 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 reductions in emissions of mercury and other pollutants at its coal-fired power plants, including plants located on the Navajo Reservation. In particular, under the terms of a consent agreement with the EPA, the District installed in 2014 additional pollution control equipment at Coronado Generating Station (CGS) at an approximate cost of $470.0 million.

The full significance of air-quality standards and emissions-reduction initiatives to the District in terms of costs and operational problems is difficult to predict, but recent regulatory actions mean that costly equipment will be added to units now in operation. In addition, the cost of fossil fuel purchased by the District may increase and 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 relating to renewable energy and restricting greenhouse

gas (GHG) emissions. The District cannot predict whether additional legislation or rules will be enacted that will affect the District's operations, the impact of any initiatives on the District and, if such laws or rules are enacted, what the costs to the District might be in the future because of such action. It is unclear how President Trump's administration will proceed in setting new environmental priorities, creating continuing uncertainty for the electric utility industry.

EPA Greenhouse Gas Emissions Regulations – The District recognizes the growing importance of the issues concerning climate change (global warming) and the implications they could have on its operations, and is closely monitoring climate change and other legislative and regulatory developments at the federal, state and regional levels.

Under the Obama administration, the EPA moved forward with its efforts to regulate emissions of GHG. In December 2009, the EPA found that emissions of GHG endanger public health and welfare. In April 2010, the EPA issued a "timing" rule that allows the EPA to regulate emissions of GHG by stationary sources, such as power plants. Subsequently, the EPA released its "tailoring" rule, which specifies thresholds that trigger permitting requirements for sources of GHG emissions. The rule applied to power plants beginning January 2, 2011. However, on June 23, 2014, the Supreme Court in *Utility Air Regulatory Group v. EPA*, rejected EPA's tailoring rule. On October 3, 2016, EPA published a proposed rule to revise provisions in the Prevention of Significant Deterioration (PSD) and Title V permitting regulations applicable to GHGs. The proposed rule responds to decisions by the Supreme Court and the U.S. Court of Appeals for the District of Columbia Circuit, which vacated EPA's regulations that required a stationary source to obtain a PSD or Title V permit solely because the source emits or has the potential to emit GHGs above the applicable thresholds (non-anyway sources). The comment period on this proposal closed December 16, 2016.

Clean Power Plan – On June 2, 2014, the EPA issued a proposed rule that would establish enforceable guidelines for states to follow to reduce GHG emissions, specifically CO_2 emissions from existing fossil-fuel-fired electric generating units (EGUs). The proposal, entitled the "Clean Power Plan," would reduce CO_2 emissions from the U.S. electricity sector by 30% from 2005 levels by 2030. However, the EPA established different goals for each state depending on the state's generation mix. The EPA's proposed final goal for Arizona would have required a 52% reduction in CO_2 emissions intensity by 2030 from the proposed program baseline year of 2012. The EPA's proposed interim goal for Arizona would have required Arizona to achieve 90% of the total reductions required by the EPA as early as 2020, the first year of the 10-year interim period. In developing goals for Arizona, the EPA assumed that all of the in-state coal-fired generation would be replaced by natural gas and other generation by the year 2020. The District submitted comments to the EPA on the Clean Power Plan for existing EGUs on November 24, 2014. On November 4, 2014, the EPA published a supplemental proposal to the Clean Power Plan to address CO_2 emissions from EGUs located on tribal lands. The supplemental proposal uses the same analytical framework as the Clean Power Plan proposal for states that prescribed rate-based emission standards. The District submitted its comments on the proposed rule for EGUs located on tribal lands on December 19, 2014.

On October 23, 2015, the EPA published in the Federal Register the final rules for (i) existing electric generating units (EGUs) and (ii) new and modified or reconstructed EGUs. The District's focus will be on the final rule for existing power plants because these rules will likely have the most significant impact on the District's operations at this time. The final rule for existing EGUs (i.e., the final CPP) addresses affected sources located in states and on tribal lands. The final rule for existing EGUs contains an overall nationwide goal to reduce power plant carbon emissions 32% below 2005 levels by 2030, compared to the proposed rule's goal of reducing power sector emissions by 30% by 2030. In response to comments on the proposed CPP, EPA changed the methodology for calculating state and tribal emissions targets, which produced different reduction requirements than in the proposed rule. In Arizona, the final rule

requires that carbon emissions be reduced by 34% by 2030 when compared to 2012 levels whereas the proposed rule had previously required that emissions levels be reduced by 52% by 2030 from 2012 levels. Final goals for tribal lands use the same methodology for calculating carbon emissions used to establish state goals. The final rule also requires that carbon emissions from EGUs located on tribal lands such as the Navajo Nation be reduced by approximately 38% by 2030 from 2012 levels, whereas the proposed rule required a 6% reduction from 2012 levels.

On October 23, 2015, the EPA also published in the Federal Register for comment a rule that outlines proposed options for implementing the final rules for existing sources. The rule addresses the possible components of EPA-imposed federal plans if a state does not submit its own plan, or does not submit an approvable plan. The rule also proposed two "model trading rules" that states may adopt as an alternative to a state-specific plan. The District submitted comments on the proposed rule January 21, 2016.

More than 161 entities consisting of states, environmental quality departments, utilities, and mining companies filed petitions for review in the D.C. Circuit Court of Appeals challenging the lawfulness of EPA's final CPP rule (also known as the Section 111(d) rule (Existing Source Performance Standard)). On January 21, 2016, the Court of Appeals for the D.C. Circuit denied all motions to stay the rule but ordered expedited briefing on all issues on appeal to be completed by April 22, 2016 and scheduled oral argument for June 2016. On January 26 and 27, 2016, four applications were filed with the United States Supreme Court to stay the final rule and the Supreme Court granted those applications on February 9, 2016. The D.C. Circuit Court of Appeals decided to hear the case *en banc* and oral argument was held on September 27, 2016. EPA denied 38 petitions for reconsideration and 22 administrative stays of the CPP on January 17, 2017. On January 17, 2017, a number of petitions for review challenging the denial of the petitions for reconsideration and administrative stays were brought by a number of states and parties, including Arizona. The cases were consolidated on January 25, 2017 in *State of North Dakota, et al. v. EPA* (Case No. 17-1014). On February 24, 2017, the Utility Air Regulatory Group, the American Public Power Association, Kansas Gas and Electric Company (KG&E) and KU Energy LLC moved to sever their respective petitions for review and to consolidate their petitions in the ongoing litigation relating to the CPP (*State of West Virginia, et al. v. EPA* (Case No. 15-1363)). Briefing is complete on the motion to sever and consolidate, and the parties are waiting for the court to rule on the motion. The District is monitoring the litigation.

On March 28, 2017, President Trump signed an executive order directing the EPA to commence a review of the CPP rule for EGUs. EPA then filed a motion to hold the CPP litigation in abeyance stating that President Trump's executive order may result in significant changes by the EPA to the CPP, which could significantly alter the outcome of the CPP litigation. The court temporarily stayed the proceedings for sixty (60) days and requested the parties file supplemental briefing on whether to remand the rules to the EPA. EPA notified the court that it had begun the interagency review process of a proposed regulatory action resulting from EPA's review of the CPP and requested the cases be held in abeyance pending the conclusion of the rulemaking.

Despite the stay currently in effect for the CPP, on June 16, 2016, EPA published a subsequent proposed rule requesting additional comment on the Clean Energy Incentive Program (CEIP) elements of the CPP. EPA stated that it would proceed with a final rule to establish the elements of the CEIP as a separate, voluntary early action program associated with the final CPP emissions guidelines (EGs) for states that want to earn emission rate credits (ERCs) or allowances in years 2020 and 2021. The District submitted comments on October 28, 2016.

EPA Carbon Regulations for New and Modified/Reconstructed EGUs - On September 20, 2013 and June 2, 2014, EPA proposed standards of performance for GHG emissions from new electric generating units

and modified/reconstructed electric generating units, respectively. Within each proposal, EPA proposed standards for natural gas-fired stationary combustion turbines, fossil fuel-fired utility boilers, and integrated gasification combined cycle (IGCC) units. For modified or reconstructed units, these standards are based on use of the most efficient generating technology available. For new units, these standards are based on the use of carbon capture and storage (CCS) for fossil fuel-fired utility boilers and IGCC units, and the most efficient generating technology for natural gas-fired stationary combustion turbines. With both proposals, there is concern that the units will not be able to meet the proposed standards under certain operating conditions.

To date, CCS has not been commercially demonstrated for large-scale applications. Furthermore, the high cost of CCS technology effectively precludes its deployment even if the outstanding technical, environmental and legal limitations could be addressed to make the technology ready for commercial deployment. EPA's mandate for the use of high-cost, unproven CCS technology, coupled with emissions limits that are unachievable with current coal generation technology, effectively restricts the construction of new coal-fired power plants in the U.S.

Petitions for review also were filed in the D.C. Circuit Court of Appeals challenging the lawfulness of EPA's rule for new and modified or reconstructed EGUs (also known as the Section 111(b) rule (New Source Performance Standards)). The District is monitoring the litigation. Briefing was suspended to allow the petitioners to file petitions for review of EPA's denial of administrative petitions to reconsider the rule. Petitions for review were filed on June 30 and July 1, 2016 and those petitions were consolidated with this case. Briefing is complete and the court scheduled oral argument on April 19, 2017. As previously stated above and in response to President Trump's March 28, 2017 executive order, the EPA filed a motion to hold the case in abeyance until 30 days after the conclusion of the regulatory reviews and any new rulemakings. The court temporarily stayed the proceedings for sixty (60) days and requested the parties file supplemental briefing on whether to remand the rules to the EPA. EPA notified the court that it had begun the interagency review process of a proposed regulatory action resulting from EPA's review of the CPP and requested the cases be held in abeyance pending the conclusion of the rulemaking.

Mercury and Air Toxics Standards – In 2009, the District negotiated a Consent Order relating to CGS with the Arizona Department of Environmental Quality (ADEQ), pursuant to which the District delayed compliance with current Arizona limitations on mercury emissions until 2016, and instead implemented a control strategy designed to achieve a 70% reduction of mercury emissions at CGS on a facility-wide annual average basis beginning January 1, 2012, at an estimated annual cost of $2.4 million.

In February 2012, the EPA published its Mercury and Air Toxics Standards (MATS) rule, which establishes new emissions standards for trace minerals, acid gases, mercury and organic compounds from existing and new coal- and oil-fired power plants under the Clean Air Act (CAA). These standards were effective in April 2015, other than for facilities granted an extension under the CAA. Extension requests were granted for CGS and NGS. The District determined that the rule required new controls for mercury at the District-operated CGS and NGS facilities. The District completed construction of equipment to support the selected mercury control strategy at each plant prior to the April 2016 deadline for compliance with the MATS mercury limit. No additional controls for MATS compliance were required at any of the other coal-fired plants in which the District has an interest.

On March 17, 2016, the EPA issued a final rule clarifying changes and corrections to the MATS rule and in April 2016, the District became subject to the federal standards for mercury established by the MATS rule. In June 2016, five petitions for review were filed challenging the final rule and the cases have been consolidated. The District is monitoring the litigation, but continues to comply with the MATS rule. The State has adopted backstop limitations that would remain in place if the federal rule is repealed or vacated. These standards match the current federal standards.

Regional Haze - Provisions of the EPA's Regional Haze Rule 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 in Class I areas, such as national parks. The District has financial interests in several coal-fired power plants that are subject to the BART requirements.

Navajo Generating Station - The EPA proposed a BART determination for NGS in January 2013. The District owns 42.9% of NGS. The EPA also invited the submission of other alternative proposals that would achieve benefits equal to or greater than the EPA's proposal. In August 2013, the District and other interested parties reached an agreement on an alternative proposal (the NGS Proposal) that was then submitted to the EPA. Under the NGS Proposal, the total NOx emissions from 2009 to 2044 would be less than the emissions allowed by the EPA's proposal. The NGS Proposal included two alternatives. Alternative A would require ceasing coal generation on one unit or reducing generation by January 1, 2020, if certain ownership changes occur, and installing Selective Catalytic Reduction (SCR) or equivalent technology on two units by 2030. Alternative B would require achievement of NOx emission reductions equivalent to the shutdown of one unit between 2020 and 2030, and submittal of annual Implementation Plans describing the operating scenarios to be used to achieve greater NOx emissions reductions than the EPA's proposal. The EPA issued the final BART rule for NGS on August 8, 2014, adopting (with limited changes) the NGS Proposal as a better than BART determination. Four petitions for review of the final rule were filed before the Ninth Circuit by (i) The Hopi Tribe, (ii) National Parks Conservation Association, Sierra Club, Grand Canyon Trust and Natural Resources Defense Council, (iii) To' Nizhoni Ani, Black Mesa Water Coalition, and Diné Citizens Against Ruining the Environment (Diné CARE), and (iv) Vincent Yazzie. The District was granted intervention in all four appeals, as were three other intervenor parties. Oral argument was held on November 18, 2016. On March 20, 2017, the Ninth Circuit denied all petitions for review.

On February 13, 2017, the current group of non-federal owners of NGS stated that they will operate NGS through December 22, 2019, when the current term of the lease with the Navajo Nation expires, provided that certain conditions are met including, without limitation, entering into certain necessary agreements in order for the plant decommissioning process to commence at the end of 2019. The decision affirming the FIP, however, leaves open the possibility for others to come in and operate NGS subject to the Federal Implementation Plan (FIP).

On June 5, 2017, a new replacement lease, an amendment to the existing lease, as well as related agreements were approved by the Board. On June 26, 2017, the Navajo Nation Council approved legislation authorizing the Navajo Nation President to execute the new lease, the amendment to the existing lease, and other agreements. The Navajo Nation, the District and three of the other owners executed the documents on June 30, 2017. The remaining signatures are anticipated by December 1, 2017, after additional reviews under applicable law. The new lease would allow NGS to operate through December 2019 by providing site access after that date for decommissioning activities, post-closure activities and monitoring, and ongoing operation of the related transmission systems on Navajo Nation lands.

Coronado Generating Station - On December 5, 2012, the EPA finalized the FIP which imposed new emissions limits for PM, SO_2 and NOx under the BART provisions of the Regional Haze rule. The emission limits for NOx was a plant-wide limit of 0.065 lbs/MMBtu. To meet this limit without affecting the NOx limit for Unit 2 established in the previous consent decree (0.080 lbs/MMBtu), the District would have been required to install a second SCR system at CGS, Unit 1 at an additional cost of approximately $110 million. Under the FIP, the District must meet the new limits by December 5, 2017. The District filed for judicial review of the final FIP with the U.S. Court of Appeals for the Ninth Circuit and filed an Administrative Petition for Reconsideration with the EPA. On March 31, 2015, the EPA published the notice in the Federal Register

granting the petition with respect to a limited subset of concerns listed in the petition. On February 24, 2016, the Ninth Circuit issued a partial decision denying the ADEQ and the District petitions for review and found that the EPA was not arbitrary or capricious when it issued the FIP. The Ninth Circuit held, however, that it would wait EPA's final action on reconsideration before reviewing the technical feasibility of EPA's FIP. The final FIP reconsideration removed the previous NOx limit for CGS and adopted unit-specific NOx limits of 0.065 lbs/MMBtu for Unit 1 and 0.080 lbs/MMBtu for Unit 2. In light of the EPA's final action revising the FIP for CGS, the Ninth Circuit lifted the stay as to the remaining issues in the proceedings and the remainder of District's petition was dismissed as moot. The reconsideration did not alter FIP compliance dates; an SCR system on Unit 1 is needed by December 2017.

Throughout the appeal and administrative review process, the District has been engaged in discussions with the EPA and ADEQ to resolve this matter. As a result of these discussions, SRP has proposed an alternative interim strategy to meet EPA's Regional Haze standards to provide time for the SRP to assess the impacts of the CPP on the future of CGS. Under this alternative strategy, SRP would curtail CGS Unit 1 for various time periods during certain winter months. In the interim period, SRP will evaluate and make a decision by December of 2022 to either close Unit 1 in 2025 or install SCR on Unit 1 to meet the emissions requirements and continue to operate Unit 1. SRP submitted a permit revision application and proposed SIP revision (to replace the current FIP) to ADEQ in early 2016. ADEQ completed review of these actions and issued a revised permit and SIP revision approval in December 2016. The SIP revision was submitted to EPA on December 15, 2016, for review and approval. EPA published a proposed rule to approve the SIP revision on April 27, 2017, and SRP commented on this proposal by the due date of June 12, 2017. EPA approval is needed by December 2017 to avoid a shutdown of Unit 1 because it cannot meet the current FIP NOx limit that becomes effective at that time. It is too soon to predict the outcome of this matter.

Four Corners Generating Station - On August 6, 2012, the EPA issued its final BART determination for Four Corners, which required the installation of SCRs on all five units, or the closure of Units 1, 2 and 3 and SCRs on Units 4 and 5. SCRs for Units 4 and 5 could cost $530.0 million, of which the District's share would be $53.0 million. On December 30, 2013, APS, on behalf of the Four Corners co-owners, notified the EPA that they had chosen the alternative BART compliance strategy requiring the permanent closure of Units 1, 2 and 3 by January 1, 2014, and installation and operation of SCRs on Units 4 and 5 by July 31, 2018.

Craig Generating Station - The BART determinations for Craig Units 1 and 2, in which the District owns 29%, required installation of emissions control equipment on Craig Units 1 and 2. In February and March 2013, two petitions for judicial review of the BART determination for Craig were filed by environmental organizations with the U.S. Court of Appeals for the Tenth Circuit. On July 10, 2014, a motion was filed with the Court indicating that certain of the parties to the litigation had reached a settlement that, if approved, would further reduce NOx emission limits for Craig Unit 1 from .028 lbs/MMBtu, on a 30-day rolling average, to .07 lbs/MMBtu, calculated on a 30 boiler-operating-day rolling average, with a compliance deadline of August 31, 2021. No changes would be required for Craig Unit 2. The lawsuits are stayed pending the governmental approval and public notice process. PacifiCorp, one of the owners of Craig Unit 1 and an intervenor in the appeals, objected to the settlement, arguing that the settlement agreement is inappropriate, improper, inadequate or inconsistent with the requirements of the CAA. On November 20, 2014, the Colorado Department of Public Health & Environment approved a revised Regional Haze Plan that adopts the settlement. The revised Regional Haze Plan was presented to and approved by the Colorado legislature during the spring 2015 legislative session. Tri-State is expecting EPA approval of the revised Regional Haze Plan by December 31, 2016, however, Tri-State announced a preliminary settlement agreement with the State of Colorado, the EPA and the environmental petitions to reduce NOx emissions under Colorado's Visibility and Regional Haze SIP. This preliminary settlement, if approved by all the relevant parties, will result in either the retirement of Craig Unit 1 by December

31, 2025 or the cessation of coal consumption at Unit 1 no later than August 31, 2021 and the subsequent conversion of Unit 1 to a natural gas burning unit by August 31, 2023. It is too soon to predict the outcome of this matter. The new emission control equipment for Craig Unit 2 was installed in May 2017 and is in the testing mode with a mandated emission compliance date of January 30, 2018. The cost was approximately $176.6 million, of which the District's share is approximately $51.2 million.

National Ambient Air Quality Standards

Pursuant to the CAA, the EPA is required to review and, if appropriate and necessary, revise each of the established National Ambient Air Quality Standards (NAAQS) at five-year intervals. The current NAAQS for ozone, which was set at 75 parts per billion (ppb) on an eight-hour average in 2008, was required to be reviewed by the EPA no later than 2013. Because this schedule was not met, the EPA was sued by a number of environmental groups. Subsequently, a court order was issued requiring the EPA to issue a proposed rule based on review of the ozone NAAQS no later than December 1, 2014. The EPA issued a proposed rule to revise the ozone NAAQS on November 25, 2014. The EPA provided a 90-day comment period on the proposed rule and the District submitted its comments to the proposed rule on March 17, 2015. On October 1, 2015, the EPA released final revisions to the NAAQS and lowered both the primary ozone standard and the secondary standard from the 2008 limit of 75 ppb down to 70 ppb. Several states, including the State of Arizona, have challenged the final rule.

The revised ozone NAAQS will impact attainment designations in Arizona. Currently, Maricopa County and Pinal County are designated as "partial nonattainment" for the 2008 standard. Based on current monitoring data, it is expected that there will be an expansion of the nonattainment areas in Arizona due to the new 70 ppb standard. An expansion of Arizona's ozone nonattainment designations will have implications on the construction of new sources that emit NOx and VOCs – precursors to ozone formation – because the air permitting process in nonattainment areas is more stringent.

On September 27, 2016, Arizona submitted proposed revisions to the nonattainment area (NAA) designations for the state to EPA. These recommendations include a modest expansion of the current boundaries covering the Phoenix metropolitan area. EPA is reviewing Arizona's recommendation and has until June 2017 to approve or propose modifications to Arizona's NAA boundary designation. EPA was scheduled to finalize the ozone NAA designations by October 1, 2017, however, EPA has postponed this requirement until October 1, 2018, in order to gather more information on recommended designations. After the effective date of the final designations, no permit may be issued for a new stationary source, or for a project at an existing stationary source in a nonattainment area, except in conformance with applicable Nonattainment New Source Review (NNSR) requirements. The District cannot predict the impact of this rule on its operations or finances at this time.

Solid and Hazardous Waste Management: In 2010, the EPA issued a proposed rule seeking comments on whether to regulate the handling and disposal of coal combustion residuals (CCRs), such as fly ash, bottom ash and flue gas desulfurization (FGD) sludge, as solid or hazardous waste. The District disposes of CCRs in dry landfill storage areas at CGS and NGS, with the exception of wet surface impoundment disposal of FGD sludge at CGS. Both CGS and NGS sell a portion of their fly ash for beneficial reuse as a constituent in concrete production. The District also owns interests in joint participation plants, such as Four Corners, Craig, Hayden and Springerville, which dispose of CCRs in dry storage areas and in wet surface impoundments. The EPA issued a final rule on December 19, 2014, that establishes federal criteria for management of CCRs as solid non-hazardous waste. The rule was published in the Federal Register on April 17, 2015, and became effective on October 19, 2015. The rule generally requires any existing unlined CCR surface impoundment that is contaminating groundwater above a certain protection standard to stop receiving CCRs and either retrofit or close the impoundment, and further requires the

closure of any CCR landfill or surface impoundment that cannot meet the applicable performance criteria for location restrictions or structural integrity. The District has engaged assistance from professional engineering and consulting firms to determine the compliance requirements for CCR facilities at CGS and NGS. The District estimates the costs to comply with this new rule that will include costs for new monitoring wells, compliance monitoring and the eventual closure of residual ponds and storage areas. As described in Note [2], SIGNIFICANT ACCOUNTING POLICIES, SRP has accrued an estimate of the costs related to the eventual closure of residual ponds and storage areas.

On August 5, 2016, EPA published a direct final rule modifying the compliance requirements for inactive CCR surface impoundments as part of a partial settlement of litigation regarding the final CCR rule. The rule, referred to as the "Extension Rule," became effective on October 4, 2016. Under the rule, CCR surface impoundments that were categorized as inactive prior to publication date of the CCR rule are now categorized as existing impoundments subject to CCR rule requirements. The District has one facility at CGS affected by the Extension Rule. The District has updated compliance plans to address the requirements now applicable to this facility and has installed three additional groundwater monitoring wells.

On December 10, 2016, the U.S. Senate approved S. 612, the Water Infrastructure Improvements for the Nation Act (WIIN Act), which includes provisions to provide for implementation of the federal CCR rule through a state- or federal-based permit program. President Obama signed the legislation into law on December 16, 2016. The District is evaluating the provisions of the WIIN Act to determine the actions needed for ADEQ to develop a state permit program that incorporate the federal CCR management criteria.

Endangered Species: Several species listed as threatened or endangered under the Endangered Species Act (ESA) have been discovered in and around reservoirs on the Salt and Verde rivers, as well as C.C. Cragin Reservoir, which is operated by SRP. Potential ESA issues also exist along the Little Colorado River in the vicinity of CGS and Springerville. The District obtained Incidental Take Permits (ITPs) from the USFWS, which allow full operation of Roosevelt Dam on the Salt River and of Horseshoe and Bartlett dams on the Verde River. The ITPs, and associated Habitat Conservation Plans (HCPs), identify the obligations, such as mitigation and wildlife monitoring, the District must undertake to comply with the ESA. The District has established trust funds to pay mitigation and monitoring expenses related to the implementation of both the Roosevelt HCP and Horseshoe-Bartlett HCP and believes it has recorded adequate reserves as a part of its environmental reserves to cover its related obligations. The District continues to assess the potential ESA liabilities and is working closely with the USFWS and other state and federal agencies to address potential species concerns as necessary, but cannot predict the ultimate outcome at this time.

On February 11, 2016, the USFWS and National Marine Fisheries Service (collectively, the "Services") announced two final rules and one policy addressing critical habitat under the ESA. The rules and policy increase the discretion of the Services to designate broad areas of occupied and unoccupied habitat as critical habitat. Once a critical habitat is designated, the ESA prohibits other federal agencies from engaging in actions that adversely modify critical habitat. The rules and policy are considered to be among the most significant developments involving critical habitat designation in years. The District is reviewing the final rules and policy to determine potential impacts to the District's HCPs, ongoing operations and new projects. The District cannot predict the impact at this time. On November 29, 2016, 18 states, including Arizona filed a lawsuit in the U.S. District Court of the Southern District of Alabama challenging the two final critical habitat rules. The case is currently stayed through September 11, 2017 to allow the recently appointed officials to consider the arguments raised by the plaintiffs.

On March 8, 2016, USFWS published proposed revisions to its 1981 Mitigation Policy. The policy sets out USFWS's process for recommending or requiring developers to mitigate (i.e., avoid, minimize or compensate for) the adverse impacts of their activities to species and habitats protected by federal statutes. The proposed policy revisions are in response to a November 2015 Presidential Memorandum directing several federal agencies, including USFWS, to mitigate impacts to natural resources. The USFWS states that the revisions are also motivated by conservation practices and challenges that have arisen since 1981, including the effects of climate change. Two different utility groups, of which the District is a member, submitted comments on May 10, 2016 and June 13, 2016. On November 21, 2016, the USFWS published the final revisions to the Mitigation Policy. In addition to this policy, the USFWS also published a final Compensatory Mitigation Policy on December 27, 2016. The new policy addresses use of compensatory mitigation as recommended or required under the ESA and adopts principles outlined in the final revisions to the 1981 Mitigation Policy and also sets compensatory mitigation standards for siting, species coverage, additionality and collaboration. The District is reviewing the final policies for potential impacts to the District's HCPs, on-going operations and new projects. The District cannot predict the impact of the final policies at this time.

On June 28, 2016, the Services released proposed revisions to their Habitat Conservation Planning Handbook. The Handbook serves as a guide for the Services' staff and project proponents in developing HCPs. The District submitted comments on August 29, 2016. On November 21, 2016, the Services announced availability of the final revised HCP Handbook. The District is reviewing the final revisions for potential impacts to the District's HCPs, ongoing operations and new projects.

The USFWS has finalized the listing of Northern Mexican and narrow-headed garter snakes as threatened. Critical habitat for these species has been proposed and the District is awaiting the draft economic analysis and environmental assessment for the critical habitat proposal.

The USFWS also proposed on October 3, 2013, to list the western distinct population segment of the yellow-billed cuckoo as threatened. Subsequent to this proposal, the USFWS published a proposed rule on August 15, 2014, designating proposed critical habitat for this species. The District submitted comments on the proposed listing and the proposed critical habitat designation.

The USFWS has taken several actions in response to the Multi-District Litigation Settlement, which requires USFWS to make listing decisions for numerous candidate species, including some species that are present in Arizona. On October 7, 2015, USFWS issued a proposed rule listing a distinct population segment of the roundtail chub as a threatened species. The District continues to evaluate proposed and potential listings to determine potential effects on the District's operations.

Water Rights

The District and the Association are parties to a state water-rights adjudication proceeding initiated in 1974 that 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.

In 1978, a water-rights adjudication was initiated in the Apache County Superior Court for the State of Arizona with regard to the Little Colorado River System and will eventually result in the determination of all conflicting rights to water from the Little Colorado River and its tributaries, including Clear Creek, the location of C.C. Cragin Dam and Reservoir. The District is unable to predict the ultimate outcome of this proceeding but believes an adequate water supply for CGS will remain available and that the rights to C.C. Cragin will be confirmed.

Four Corners and Navajo Coal Mine: The Office of Surface Mining (OSM) and the U.S. Bureau of Indian Affairs (BIA) completed the National Environmental Policy Act (NEPA) process for the extension of operations at the Navajo Coal Mine and the Four Corners Generating Station. The U.S. Department of the Interior (Interior) issued the Record of Decision on or about July 17, 2015, and signed the lease amendment shortly thereafter. On December 21, 2015, Diné Citizens Against Ruining Our Environment, San Juan Citizens Alliance, Amigos Bravos, Center for Biological Diversity and Sierra Club submitted a Notice of Intent (NOI) to sue OSM, U.S. Fish and Wildlife Service (USFWS) and others challenging the approval(s). On April 20, 2016, the environmental groups filed a complaint against the Interior and several of its agencies alleging violations of both the Endangered Species Act (ESA) and NEPA and requested that the Court enjoin the continued operations of the plant and mine until the agencies comply with NEPA and ESA. The plaintiffs also seek to enjoin USFWS from authorizing any incidental take of listed fish until the agencies comply with Section 7 of the ESA and to enjoin the agencies from authorizing any portion of the project until they comply with NEPA. APS, as operating agent for Four Corners, and Navajo Transitional Energy Company (NTEC) were granted intervention in the lawsuit. NTEC filed a motion to dismiss on jurisdictional grounds and that motion is fully briefed. The District cannot predict the outcome of this matter.

2015 Price Process Litigation

On February 26, 2015, the District Board concluded a public process (the "2015 Price Process") by approving changes and adjustments to its retail electric price plans, including an overall average annual price increase of 3.9%, to be phased in beginning with the April 2015 billing cycle. This overall increase was comprised of a 4.4% base increase and a 0.5% decrease to the Environmental Programs Cost Adjustment Factor.

In addition to other approved changes and adjustments, the Board approved a new price plan for residential customers who, after December 8, 2014, add solar or other technologies to generate some of their energy requirements (the E-27 Customer Generation Price Plan). The District structured the new price plan for distributed generation customers to be in line with what non-distributed generation customers pay for the same services. The price plan includes a demand charge to better recover fixed costs related to the distributed generation customers' service facilities and their use of the grid, but also reduces the price such customers pay per kilowatt-hour for energy.

SolarCity Corporation, an active participant in the price process proceedings, filed a lawsuit against the District in Arizona Federal District Court on March 2, 2015, alleging, among other things, that the District,

by its adoption of the E-27 Customer Generation Price Plan, acted unlawfully in an effort to preserve its existing monopoly over the retail provision of electric power for consumers and businesses. The suit asserts claims for unspecified damages and injunctive relief pursuant to federal antitrust laws, claims for injunctive relief under Arizona antitrust laws, and claims for injunctive relief based on Arizona law for intentional interference with prospective economic advantage and intentional interference with agreements between SolarCity and its prospective and current customers.

On May 20, 2015, SolarCity filed an amended complaint adding the Association as a defendant, alleging, among other things, that the District and the Association operate as alter egos. On June 23, 2015, the District and the Association each filed motions to dismiss raising federal and state immunities and seeking dismissal with prejudice of all claims asserted. Briefing on the motions to dismiss was completed on August 12, 2015. Oral argument was held on October 14, 2015. On October 27, 2015, the District Court dismissed the Association from the lawsuit and also dismissed SolarCity's claims for damages under federal and state antitrust laws. The remaining claims consist of injunctive relief sought under certain federal and state antitrust laws as well as claims for damages under Arizona state claims for tortious interference. In November 2015, the District Court set a pretrial schedule that allowed factual discovery until May 31, 2016, expert discovery until August 31, motions for summary judgment until September 15, and a trial to the court on December 6, 2016. The District complied with the court ordered deadlines, engaged in significant discovery and filed a motion for summary judgment on September 15. Earlier on November 20, 2015, the District filed an interlocutory appeal with the Ninth Circuit on the lower court's decision with respect to the District's immunity under Arizona law. Briefing at the Ninth Circuit was completed on June 20, 2016, and oral argument was held on November 18, 2016. On September 19, 2016, the District Court granted the District's motion to stay the proceedings, including all pretrial proceedings and a bench trial that was scheduled to begin December 6, 2016, and denied without prejudice, the District's motions for summary judgment and motions in limine until after the Ninth Circuit rules on the District's appeal. The District Court also denied SolarCity's request for preliminary injunctive relief to block the E-27 Customer Generation Price Plan from going into effect. On June 12, 2017, the Ninth Circuit denied the District's collateral-order doctrine appeal of the District Court's order denying the motion to dismiss on state action immunity grounds for lack of jurisdiction. On June 20, 2017, the District filed a motion to stay the Ninth Circuit's remand for ninety (90) days to allow the District to appeal the Ninth Circuit's decision to the U.S. Supreme Court. SolarCity filed an opposition to the District's motion. On July 6, 2017, the Ninth Circuit denied the District's motion to stay. The District will file a petition for certiorari with respect to the Ninth Circuit ruling and if such is denied will continue to defend the claim in the District Court. While it is too soon to predict the outcome of this matter, the District believes that the lawsuit is without merit and continues to aggressively defend the suit.

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, except as otherwise noted herein, the ultimate resolution of these matters will not have a material adverse effect on SRP's financial position or results of operations.

Self-Insurance

SRP maintains various self-insurance retentions for certain casualty and property exposures. In addition, SRP has insurance coverage for amounts in excess of its self-insurance retention levels. SRP 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 SRP's financial position or results of operations. SRP records the reserves in deferred credits and other non-current liabilities in the accompanying Combined Balance Sheets.

(14) SUBSEQUENT EVENTS:

On June 1, 2017, the District acquired a 550 MW combined cycle natural gas generating facility (one of four blocks at the Gila River Generating Station) for a cash purchase price of approximately $100 million. The purchase included a 25% undivided interest in common property at the generating station and materials and supplies inventories. The District also acquired a 100% interest in certain major maintenance spare parts. As of the date of these financial statements, the allocation of purchase price has not been completed. The accounting implications of this transaction are still being evaluated.

See Note [8], COMMERCIAL PAPER AND CREDIT AGREEMENTS, for additional information on changes in commercial paper issuance and revolving credit agreements subsequent to year end, and see Note [10], INTERESTS IN JOINTLY OWNED ELECTRIC UTILITY PLANTS AND TRANSMISSION FACILITIES, for information related to the planned closure of NGS, and related lease extension, that was resolved subsequent to year end.

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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.

The Underwriters have advised the District that it will be a condition to the initial purchase of the 2017 Series A Bonds that each initial purchaser of any 2017 Series A Bond must provide its written consent to certain amendments to the Resolution (the "Proposed Amendments"). The Proposed Amendments are described in ***bold italic*** font in the forepart of this Official Statement under "SECURITY FOR 2017 SERIES A BONDS – Debt Reserve Account," "– Rate Covenant" and "– Limitations on Additional Indebtedness" and in this summary of the Resolution under the captions "Certain Definitions," "Additional Bonds" and "Electric System Rate Covenant." The Proposed Amendments will become effective when the written consents of the Holders of at least two-thirds of the Bonds Outstanding have been filed with the Trustee as provided in the Resolution.

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.

Federal Subsidy: ***Any subsidy, reimbursement or other payment from the federal government of the United States of America under the American Recovery and Reinvestment Act of 2009 (or any similar legislation or regulation of the federal government of the United States of America or any other governmental entity or any extension of any of such legislation or regulation).***

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.

For purposes of the calculations specified in this section: (1) any calculation of Debt Service on Outstanding Bonds for any period of time shall be reduced by the amount of any Federal Subsidy that the District receives, or expects to receive, during such period of time relating to or in connection with such Outstanding Bonds; and (2) to the extent the calculation of Debt Service on Outstanding Bonds is reduced by the Federal Subsidy as provided in clause (1) of this paragraph, any calculation of Revenues for any period of time shall be reduced by the amount of any Federal Subsidy received or expected to be received by the District with respect to or in connection with such Outstanding Bonds during such period of time.

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.

For purposes of the calculations specified in this section: (1) any calculation of Debt Service on Outstanding Bonds for any period of time shall be reduced by the amount of any Federal Subsidy that the District receives or expects to receive during such period of time relating to or in connection with such Outstanding Bonds; and (2) to the extent the calculation of Debt Service on Outstanding Bonds is reduced by the Federal Subsidy as provided in clause (1) of this paragraph, any calculation of Revenues for any period of time shall be reduced by the amount of any Federal Subsidy received or expected to be received by the District with respect to or in connection with such Outstanding Bonds during such period of time.

(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 Property: 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.

(b) if the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bonds over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference.

If and whenever all overdue installments of interest on all Bonds, together with the reasonable and proper charges, expenses and liabilities of the Trustee, and all other sums payable by the District under the Resolution, including the principal and Redemption Price of and accrued unpaid interest on all Bonds which shall then be payable by declaration or otherwise, shall either be paid by or for the account of the District, or provision satisfactory to the Trustee shall be made for such payment, and all defaults under the Resolution or the Bonds shall be made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, the Trustee shall pay over to the District all moneys, securities, funds and Revenues then remaining unexpended in the hands of the Trustee (except moneys, securities, funds or Revenues deposited or pledged, or required by the terms of the Resolution to be deposited or pledged, with the Trustee), and thereupon the District and the Trustee shall be restored, respectively, to their former positions and rights under the Resolution, and all Revenues shall thereafter be applied as provided in Article V of the Resolution. No such payment over to the District by the Trustee or resumption of the application of Revenues as provided in Article V of the Resolution shall extend to or affect any subsequent default under the Resolution or impair any right consequent thereon.

Proceedings Brought by Trustee: If an Event of Default shall happen and shall not have been remedied, then and in every such case, the Trustee, by its agents and attorneys, may proceed, and upon written request of the Holders of not less than [a majority] in principal amount of the Bonds Outstanding shall proceed, to protect and enforce its right and the rights of the Holders of the Bonds under the Resolution forthwith by a suit or suits in equity or at law, whether for the specific performance of any covenant herein contained, or in aid of the execution of any power herein granted, or for an accounting against the District as if the District were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the Trustee, being advised by counsel, shall deem most effectual to enforce any of its rights or to perform any of its duties under the Resolution.

All rights of action under the Resolution may be enforced by the Trustee without the possession of any of the Bonds or the production thereof on the trial or other proceedings, and any such suit or proceedings instituted by the Trustee shall be brought in its name.

The Holders of not less than a majority in principal amount of the Bonds at the time Outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, provided that the Trustee shall have the right to decline to follow any such direction if the Trustee shall be advised by counsel that the action or proceeding so directed may not lawfully be taken, or if the Trustee in good faith shall determine that the action or proceeding so directed would involve the Trustee in personal liability or be unjustly prejudicial to the Bondholders not parties to such direction.

Upon commencing a suit in equity or upon other commencement of judicial proceedings by the Trustee to enforce any right under the Resolution, the Trustee shall be entitled to exercise any and all rights and powers conferred in the Resolution and provided to be exercised by the Trustee upon the occurrence of an Event of Default.

Regardless of the happening of an Event of Default, the Trustee shall have power to, but unless requested in writing by the Holders of a majority in principal amount of the Bonds then Outstanding, and furnished with reasonable security and indemnity, shall be under no obligation to, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient to prevent any impairment of the security under the Resolution by any acts which may be unlawful or in violation of the Resolution, and such suits and proceedings as the Trustee may be advised shall be necessary or expedient to preserve or protect its interest and the interest of the Bondholders.

Restriction on Bondholder's Action: No Holder of any Bond shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of the Resolution or the execution of any trust under the Resolution or for any remedy under the Resolution, unless such Holder shall have previously given to the Trustee written notice of the happening of an Event of Default, as provided in Article VIII of the Resolution, and the

Holders of [not less than a majority] in principal amount of the Bonds then Outstanding shall have filed a written request with the Trustee, and shall have offered it reasonable opportunity, either to exercise the powers granted in the Resolution or by the Act or by the laws of Arizona or to institute such action, suit or proceeding in its own name, and unless such Holders shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused to comply with such request for a period of 60 days after receipt by it of such notice, request and offer of indemnity, it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the pledge created by the Resolution, or to enforce any right under the Resolution, except in the manner therein provided; and that all proceedings at law or in equity to enforce any provision of the Resolution shall be instituted, had and maintained in the manner provided in the Resolution and for the equal benefit of all Holders of the Outstanding Bonds, subject only to the provisions of Section 7.02 of the Resolution.

Nothing in the Resolution or in the Bonds contained shall affect or impair the obligation of the District, which is absolute and unconditional, to pay at the respective dates of maturity and places therein expressed the principal of and interest on the Bonds to the respective Holders thereof, or affect or impair the right of action, which is also absolute and unconditional, of any Holder to enforce such payment of his Bond.

Remedies Not Exclusive: No remedy by the terms of the Resolution conferred upon or reserved to the Trustee or the Bondholders is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Resolution or existing at law or equity or by statute on or after the date of adoption of this Resolution.

Effect of Waiver and Other Circumstances: No delay or omission of the Trustee or of any Bondholder to exercise any right or power arising upon the happening of an Event of Default shall impair any right or power or shall be construed to be a waiver of any such default or be an acquiescence therein; and every power and remedy given by Article VIII of the Resolution to the Trustee or to the Bondholders may be exercised from time to time and as often as may be deemed expedient by the Trustee or by the Bondholders.

Prior to the declaration of maturity of the Bonds as provided under the subheading entitled "Events of Default" under this caption, the Holders of not less than 25% in principal amount of the Bonds at the time Outstanding, or their attorneys-in-fact duly authorized, may, on behalf of the Holders of all of the Bonds waive any past default under the Resolution and its consequences, except a default in the payment of interest on or principal of or premium (if any) on any of the Bonds. No such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

Notice of Default: The Trustee shall promptly mail to registered Holders of Bonds, and to all Bondholders who shall have filed their names and addresses with the Trustee for such purpose written notice of the occurrence of any Event of Default. If for any Fiscal Year the Revenues shall be insufficient to comply with the provisions under the caption entitled "Electric System Rate Covenant", the Trustee, on or before the 30th day after receipt of the annual audit, shall mail to such registered Holders and such Bondholders written notice of such failure.

Responsibilities of Fiduciaries: The recitals of fact herein and in the Bonds contained shall be taken as the statements of the District and no Fiduciary assumes any responsibility for the correctness of the same. No Fiduciary makes any representations as to the validity or sufficiency of the Resolution or of any Bonds issued thereunder or as to the security afforded by the Resolution, and no Fiduciary shall incur any liability in respect thereof. No Fiduciary shall be under any responsibility or duty with respect to the application of any moneys paid to the District or to any other Fiduciary. No Fiduciary shall be under any obligation or duty to perform any act, which would involve it in expense or liability, or to institute or defend any suit in respect hereof, or to advance any of its own moneys, unless properly indemnified. Subject to the provisions of the following paragraph, no Fiduciary shall be liable in connection with the performance of its duties hereunder except for its own negligence, misconduct or default.

The Trustee, prior to the occurrence of an Event of Default and after the curing of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in the Resolution. In case an Event of Default has occurred (which has not been cured) the Trustee shall exercise such of the rights and powers vested in it by the Resolution, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs. Any provision of the Resolution relating to action taken or to be taken by the Trustee or to evidence upon which the Trustee may rely shall be subject to the provisions of this subheading.

(Resolution, Sections 8.01-8.08, 9.03).

Supplemental Resolutions

For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution of the District may be adopted, which, upon the filing with the Trustee of a copy thereof certified by an Authorized Officer of the District, shall be fully effective in accordance with its terms:

(1) To close the Resolution against, or provide limitations and restrictions in addition to the limitations and restrictions contained in the Resolution on, the delivery of Bonds or the issuance of other evidences of indebtedness;

(2) To add to the covenants and agreements of the District in the Resolution, other covenants and agreements to be observed by the District which are not contrary to or inconsistent with the Resolution as theretofore in effect;

(3) To add to the limitations and restrictions in the Resolution, other limitations and restrictions to be observed by the District which are not contrary to or inconsistent with the Resolution as theretofore in effect;

(4) To authorize Bonds of a Series and, in connection therewith, specify and determine the matters and things referred to in Section 2.02 of the Resolution, and also any other matters and things relative to such Bonds which are not contrary to or inconsistent with the Resolution as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first delivery of such Bonds;

(5) To confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the Resolution, of the Revenues or of any other moneys, securities or funds;

(6) To modify any of the provisions of the Resolution in any respect whatever, provided that (i) such modification shall be, and be expressed to be, effective only after all Bonds of any Series Outstanding at the date of the adoption of such Supplemental Resolution shall cease to be Outstanding, and (ii) such Supplemental Resolution shall be specifically referred to in the text of all Bonds of any Series delivered after the date of the adoption of such Supplemental Resolution and of Bonds issued in exchange therefor or in place thereof;

(7) To modify any of the provisions of the Resolution to permit compliance with any amendment to the Internal Revenue Code of 1986, as amended, or any successor thereto, as the same may be in effect from time to time, if, in the Opinion of Bond Counsel, failure to so modify the Resolution either would adversely affect the ability of the District to issue Bonds the interest on which is excludable from gross income for purposes of federal income taxation, or is necessary or advisable to preserve such exclusion with respect to any Outstanding Bonds;

(8) To comply with such regulations and procedures as are from time to time in effect relating to establishing and maintaining a book-entry-only system;

(9) To provide for the issuance of Bonds in coupon form payable to bearer;

(10) To comply with the requirements of any nationally recognized rating agency in order to maintain or improve a rating on the Bonds by such rating agency;

(11) To cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Resolution; or

(12) To insert such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable and are not contrary to or inconsistent with the Resolution as theretofore in effect.

Supplemental Resolutions Effective With Consent of Trustee: At any time or from time to time, a Supplemental Resolution may be adopted subject to consent by Bondholders in accordance with and subject to the provisions of Article XI of the Resolution, which Supplemental Resolution, upon the filing with the Trustee of a copy thereof certified by an Authorized Officer of the District and upon compliance with the provisions of said Article XI, shall become fully effective in accordance with its terms as provided in said Article XI.

General Provisions: The Resolution shall not be modified or amended in any respect except as provided in and in accordance with and subject to the provisions of Article X and Article XI of the Resolution. Nothing in Article X or Article XI of the Resolution contained shall affect or limit the right or obligation of the District to adopt, make, do, execute, acknowledge or deliver any resolution, act or other instrument pursuant to the provisions of Section 7.04 of the Resolution or the right or obligation of the District to execute and deliver to any Fiduciary any instrument which elsewhere in the Resolution it is provided shall be delivered to said Fiduciary.

Any Supplemental Resolution referred to and permitted or authorized by this caption may be adopted by the District without the consent of any of the Bondholders, but shall become effective only on the conditions, to the extent

and at the time provided in said Sections, respectively. The copy of every Supplemental Resolution when filed with the Trustee shall be accompanied by a Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted in accordance with the provisions of the Resolution, is authorized or permitted by the Resolution, and is valid and binding upon the District and enforceable in accordance with its terms.

The Trustee is authorized to accept the delivery of a certified copy of any Supplemental Resolution referred to and permitted or authorized by this caption and subheading and to make all further agreements and stipulations which may be therein contained, and the Trustee, in taking such action, shall be fully protected in relying on an opinion of counsel (which may be a Counsel's Opinion) that such Supplemental Resolution is authorized or permitted by the provisions of the Resolution.

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

(Resolution, Section 10.01-10.03).

Amendment with Consent of Bondholders

Any modification or amendment of the Resolution and of the rights and obligations of the District and of the Holders of the Bonds thereunder, in any particular, may be made by a Supplemental Resolution, with the written consent given as provided in the following paragraph of the Holders of at least two-thirds in principal amount of the Bonds Outstanding at the time such consent is given, and (ii) in case less than all of the several Series of Bonds then Outstanding or less than all the Bonds of a Series then Outstanding are affected by the modification or amendment, of the Holders of at least two-thirds in principal amount of the Bonds so affected and Outstanding at the time such consent is given, and (iii) in case the modification or amendment changes the terms of any Sinking Fund Installment, of Holders of at least two-thirds in principal amount of the Bonds entitled to such Sinking Fund Installment and Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this paragraph. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto. For the purpose of this paragraph, a Series shall be deemed to be affected by a modification or amendment of the Resolution if the same adversely affects or diminishes the rights of the Holders of Bonds of such Series.

The District may at any time adopt a Supplemental Resolution making a modification or amendment permitted by the preceding paragraph, to take effect when and as provided in this paragraph. A copy of such Supplemental Resolution (or brief summary thereof or reference thereto in form approved by Trustee, together with a request to Bondholders for their consent thereto in form satisfactory to the Trustee), shall be mailed by the District to Bondholders and shall be published in the Authorized Newspapers at least once a week for two successive weeks (but failure to mail such copy and request shall not affect the validity of the Supplemental Resolution when consented to as provided in this paragraph). Such Supplemental Resolution shall not be effective unless and until (i) there shall have been filed with the Trustee (a) the written consents of Holders of the percentages of Outstanding Bonds specified in the preceding paragraph and (b) a Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted and filed by the District in accordance with the provisions of the Resolution, is authorized or permitted by the Resolution, and is valid and binding upon the District and enforceable in accordance with its terms, and (ii) a notice shall have been published as provided in this paragraph. Each such consent shall be effective only if accompanied by proof of the holding, at the date of such consent, of the Bonds with respect to which such consent is given, which proof shall be such as is permitted by Section 12.02 of the Resolution. A certificate or certificates by the Trustee filed with the Trustee that it has examined such proof and such proof is sufficient in accordance with Section 12.02 of the Resolution shall be conclusive that the consents have been given by the Holders of the Bonds described in such certificate or certificates of the Trustee. Any such consent shall be binding upon the Holder of the Bonds giving such consent and, anything in Section 12.02 of the Resolution to the contrary notwithstanding, upon any subsequent Holder of such Bonds and of any Bonds issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof) unless such consent is revoked in writing by the Holder of such Bonds giving such consent or a subsequent Holder thereof by filing with the Trustee, prior to the time when the written statement of the

Trustee provided for in this paragraph is filed, such revocation and, if such Bonds are transferable by delivery, proof that such Bonds are held by the signer of such revocation in the manner permitted by Section 12.02 of the Resolution. The fact that a consent has not been revoked may likewise be proved by a certificate of the Trustee filed with the Trustee to the effect that no revocation thereof is on file with the Trustee. At any time after the Holders of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution, the Trustee shall make and file with the District and the Trustee a written statement that the Holders of such required percentages of Bonds have filed such consents. Such written statement shall be conclusive that such consents have been so filed. At any time thereafter notice, stating in substance that the Supplemental Resolution (which may be referred to as Supplemental Resolution adopted by the District on a stated date, a copy of which is on file with the Trustee) has been consented to by the Holders of the required percentages of Bonds and will be effective as provided in this paragraph, may be given to Bondholders by the District by mailing such notice to Bondholders (but failure to mail such notice shall not prevent such Supplemental Resolution from becoming effective and binding as provided in this paragraph) and by publishing the same in the Authorized Newspapers at least once not more than 90 days after the Holders of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution and the written statement of the Trustee hereinabove provided for is filed. The District shall file with the Trustee proof of the publication of such notice and, if the same shall have been mailed to Bondholders, of the mailing thereof. A record, consisting of the papers required or permitted by this paragraph to be filed with the Trustee, shall be proof of the matters therein stated. Such Supplemental Resolution making such amendment or modification shall be deemed conclusively binding upon the District, the Fiduciaries and the Holders of all Bonds at the expiration of 40 days after the filing with the Trustee of the proof of the first publication of such last mentioned notice, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Resolution in a legal action or equitable proceeding for such purpose commenced within such 40 day period; provided, however, that any Fiduciary and the District during such 40 day period and any such further period during which any such action or proceeding may be pending shall be entitled in their absolute discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Resolution as they may deem expedient.

(Resolution, Sections 11.02 and 11.03).

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

[FORM OF BOND COUNSEL OPINION]

November 21, 2017

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 $735,240,000 Salt River Project Electric System Revenue Bonds, 2017 Series A (the "2017 Series A Bonds").

The 2017 Series A Bonds consist of bonds bearing interest at fixed rates. The 2017 Series A Bonds are dated as shown on the inside front cover of the Official Statement dated, November 9, 2017 relating to the 2017 Series A Bonds, mature and bear interest at the times, in the manner and upon the terms provided therein and in the Resolutions (as hereinafter defined). The 2017 Series A Bonds are subject to redemption prior to maturity as provided in the Resolutions.

We have also examined the form of said 2017 Series A Bonds.

We are of the opinion that such proceedings and proofs show lawful authority for the issuance and sale of the 2017 Series A Bonds pursuant to the Constitution and statutes of the State of Arizona, including particularly Title 48, Chapter 17, Article 7, Arizona Revised Statutes, and other applicable provisions of law, and pursuant and subject to the provisions, terms and conditions of a resolution, dated as of September 10, 2001, which became effective January 11, 2003, entitled "Supplemental Resolution Authorizing an Amended and Restated Resolution Concerning Revenue Bonds" as amended and supplemented, and a resolution dated as of November 9, 2017 entitled "Resolution Authorizing The Issuance and Sale of $735,240,000 Salt River Project Electric System Revenue Bonds, 2017 Series A of the Salt River Project Agricultural Improvement and Power District, and Providing for the Form, Details and Terms Thereof", (collectively, the "Resolutions"), all duly adopted by the District and that the 2017 Series A Bonds are valid and legally binding special obligations of the District.

We are further of the opinion that the District, in the Resolutions, has lawfully covenanted and is legally obligated to charge and collect, and revise from time to time whenever necessary, such fees and other charges for the sale of electric power and energy which will be sufficient in each year to pay the necessary expenses of operating and maintaining the District's electric system, the principal of and interest on the 2017 Series A Bonds and all other indebtedness maturing and becoming due in such year, and all reserve or other payments required by the Resolutions in such year, subject to restrictions, if any, imposed by or on behalf of the United States of America, all in the manner provided in the Resolutions.

We are further of the opinion that the 2017 Series A Bonds, and the outstanding Electric System Revenue Bonds heretofore issued pursuant to the Resolutions, as to principal or redemption price thereof and interest thereon are payable on a parity from and secured by a valid and equal pledge of the revenues of the District's electric system and other funds held or set aside under the Resolutions. Such pledge is subject and subordinate to the pledges and liens created by United States of America loan agreements hereafter entered into by the District, all in the manner provided in the Resolutions.

We are further of the opinion that the District may, within the terms, limitations and conditions contained in the Resolutions, issue pari passu additional Electric System Revenue Bonds payable from the revenues derived from the District's electric system, ranking equally as to lien on and source and security for payment from the revenues derived from the District's electric system, with the 2017 Series A Bonds and any pari passu additional Electric System Revenue Bonds heretofore or hereafter issued, all in the manner provided in the Resolutions.

We are further of the opinion that the District has validly entered into further covenants and agreements with the holders of the 2017 Series A Bonds for the exact terms of which reference is made to the Resolutions.

The foregoing opinions are subject to the effect of bankruptcy, reorganization, moratorium and other similar laws, judicial decisions and principles of equity relating to or affecting the enforcement of creditors' rights or contractual obligations generally and judicial discretion.

This opinion letter is issued as of the date hereof and is subject to the assumptions and qualifications set forth herein, and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law, or in interpretations thereof, that may hereafter occur, or for any other reason whatsoever.

In rendering the foregoing opinions we have made a review of those laws and regulations and legal proceedings that, in our experience, are normally deemed necessary to approve the legality of the 2017 Series A Bonds. In rendering the foregoing opinions we have not been requested to examine any document or financial or other information concerning the District or the programs to be financed with the 2017 Series A Bonds other than the record of proceedings referred to above, and we express no opinion as to the accuracy, adequacy or sufficiency of any financial or other information which has been or will be supplied to purchasers of the 2017 Series A Bonds.

Very truly yours,

[FORM OF SPECIAL TAX COUNSEL OPINION]

November 21, 2017

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

Ladies and Gentlemen:

We have acted as Special Tax Counsel to the Salt River Project Agricultural Improvement and Power District (the "District") in connection with the issuance by the District on the date hereof of $735,240,000 Salt River Project Electric System Revenue Bonds, 2017 Series A (the "2017 Series A Bonds").

In connection with such representation, in our capacity as Special Tax Counsel to the District, we have examined copies of (i) 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, (ii) a resolution dated as of November 9, 2017 entitled "Resolution Authorizing The Issuance and Sale of $735,240,000 Salt River Project Electric System Revenue Bonds, 2017 Series A of the Salt River Project Agricultural Improvement and Power District, and Providing for the Form, Details and Terms Thereof" (collectively, the "Resolutions"), (iii) the opinions of Chiesa Shahinian & Giantomasi PC, bond counsel to the District ("Bond Counsel") and opinions of counsel to the District, of even date herewith, (iv) the Tax Certificate as to Arbitrage and The Provisions of Sections 141-150 of the Internal Revenue Code of 1986 (the "Tax Certificate") and (v) originals, executed counterparts or copies of such other agreements, legal opinions, documents, proceedings, records, instruments, certificates and certificates of public authorities and have reviewed such matters of law as we have deemed necessary for the purpose of providing this opinion (collectively, the "Reviewed Materials").

The Internal Revenue Code of 1986, as amended (the "Code") sets forth certain requirements which must be met subsequent to the issuance and delivery of the 2017 Series A Bonds for interest thereon to be and remain excluded from gross income of the owners thereof for federal income tax purposes under Section 103 of the Code. Noncompliance with such requirements could cause the interest on the 2017 Series A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2017 Series A Bonds. The District has covenanted in the Tax Certificate to comply with the provisions of the Code applicable to the 2017 Series A Bonds and has covenanted not to take any action or permit any action that would cause the interest on the 2017 Series A Bonds to be included in gross income of the owners thereof for federal income tax purposes under Section 103 of the Code. 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.

Based upon our review of the Reviewed Materials and the assumption that the execution, delivery and performance, as applicable, of the Reviewed Materials by each of the parties thereto are within such party's powers and have been duly authorized by all necessary action, we are of the opinion that, under existing statutes and court decisions and assuming compliance with the tax covenants described herein, and the accuracy of the certifications and representations contained in the Tax Certificate:

1. Interest on the 2017 Series A Bonds is excluded from gross income of the owners thereof for federal income tax purposes under Section 103 of the Code.

2. Interest on the 2017 Series A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations; such interest, however, is included in adjusted current earnings in calculating alternative minimum taxable income for purposes of the alternative minimum tax imposed under the Code on certain corporations; and

3. Interest on the 2017 Series A Bonds is exempt from income taxes imposed by the State of Arizona.

Except as stated above, we express no opinion as to any other federal or state tax consequences of the ownership or disposition of the 2017 Series A Bonds. Furthermore, we express no opinion as to any federal, state or local tax law

consequences with respect to the 2017 Series A Bonds, or the interest thereon, if any action is taken with respect to the 2017 Series A Bonds or the proceeds thereof upon the advice or approval of other 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

$735,240,000 Salt River Project Electric System Revenue Bonds, 2017 Series A

THIS CONTINUING DISCLOSURE AGREEMENT (the "Agreement"), dated as of November 21, 2017, 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 $735,240,000 Salt River Project Electric System Revenue Bonds, 2017 Series A (the "Bonds") to be issued by the District;

WITNESSETH:

WHEREAS, the District intends to issue the Bonds under and pursuant to (i) the Act and (ii) the District's Supplemental Resolution, dated as of September 10, 2001 Authorizing an Amended and Restated Resolution Concerning Revenue Bonds, which became effective January 11, 2003, as amended and supplemented (the "Resolution").

WHEREAS, on November 10, 1994 the Securities and Exchange Commission (the "Commission") adopted Release Number 34-34961 and on May 27, 2010, the Commission adopted Release Number 34-62184 (collectively, 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;

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.

"Audited Financial Statements" shall mean the annual financial statements specified in Section 4 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 November 9, 2017, 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, 2018:

1. the Annual Financial Information relating to such fiscal year together with the Audited Financial Statements for such fiscal year if audited financial statements are then available; provided, however, that if Audited Financial Statements are not then available, the unaudited financial statements, which may be combined with the financial information of the Association, 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, within ten (10) business days after the occurrence of any of the following events, notice of any of the following events with respect to the Bonds:

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

2. any non-payment related Event of Default, if material;

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;

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, including, (i) the receipt of adverse tax opinions, (ii) the issuance by the Internal Revenue Service of proposed or final determinations of taxability, (iii) the issuance of a Notice of Proposed Issue (IRS Form 5701-TEB) or (iv) the occurrence or receipt (as applicable) of other material notices or determinations with respect to the tax-exempt status of securities or other material events affecting the tax-exempt status of the security;

7. amendments of or modifications to the rights of Bondholders, if material;

8. Bond calls, if material;

9. defeasance of the Bonds;

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

11. rating changes on the Bonds;

12. tender offers;

13. bankruptcy, insolvency, receivership or similar event of the District;

14. the consummation of a merger, consolidation or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

15. appointment of a successor or additional trustee or the change of name of a trustee, if material.

For the purposes of the event identified in clause (B)(13), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession, but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

The District shall notify the Trustee upon the occurrence of any of the fifteen 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 District'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 "THE ELECTRIC SYSTEM – 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 "THE ELECTRIC SYSTEM – 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 "SELECTED OPERATIONAL AND FINANCIAL DATA – Customers, Sales, Revenues and Expenses";

(v) (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 "SELECTED OPERATIONAL AND FINANCIAL DATA – Additional Financial Matters" and (b) a statement of any default under such notes, other obligations or parity indebtedness;

(vi) (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;

(vii) (a) an update summarizing the District's discussions of operations in substantially the same level of detail as found under the heading "SELECTED OPERATIONAL AND FINANCIAL DATA – Additional Financial Matters," if any, or (b) an annual report;

(viii) (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

(ix) 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 District'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 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 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.15. 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. Counterparts

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

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

SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT

By: _____
Steven J. Hulet
Senior Director of Financial Services &
Corporate Treasurer

U.S. BANK NATIONAL ASSOCIATION
as Trustee

By: _____
Keith Henselen
Vice President

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APPENDIX E — BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the 2017 Series A Bonds. Reference to the 2017 Series A Bonds hereunder shall mean all 2017 Series A Bonds held through DTC. The 2017 Series A Bonds will be issued as fully-registered bonds 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 2017 Series A Bonds, each in the aggregate principal amount of such maturity.

DTC, the world's largest securities depository, 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. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to both U.S. and non-U.S. securities brokers and dealers, bank trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating: of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the 2017 Series A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2017 Series A Bonds on DTC's records. The ownership interest of each actual purchaser of each 2017 Series A Bond (a "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. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, 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 2017 Series A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2017 Series A Bonds, except in the event that use of the book-entry system for the 2017 Series A Bonds is discontinued.

To facilitate subsequent transfers, all 2017 Series A Bonds deposited by Direct 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 2017 Series A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2017 Series A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2017 Series A Bonds are credited, which may or may not be the Beneficial Owners. The Direct 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 2017 Series A Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such 2017 Series A Bond to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2017 Series A Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. 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 2017 Series A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal and interest payments on the 2017 Series A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District on the 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 redemption proceeds and principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of 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 depository with respect to the 2017 Series A Bonds at any time by giving reasonable notice to the District. Under such circumstances, in the event that a successor depository is not obtained, 2017 Series A Bond certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, 2017 Series A Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

No assurance can be given by the District that DTC will make prompt transfer of payments to the Participants or that Participants will make prompt transfer of payments to Beneficial Owners. The District is not responsible or liable for payment by DTC or Participants or for sending transaction statements or for maintaining, supervising or reviewing records maintained by DTC or Participants.

For every transfer and exchange of the 2017 Series A Bonds, the Beneficial Owners may be charged a sum sufficient to cover any tax, fee or other charge that may be imposed in relation thereto.

Unless otherwise noted, certain of the information contained in this Appendix E has been extracted from information furnished by DTC. The District does not make any representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

APPENDIX F — THE REFUNDED BONDS

Series	Maturity Date	Interest Rate	Par Amount Refunded	Call Date	Call Price	CUSIP*	Portion of Maturity Refunded
Electric System Revenue Bonds 2009 Series A	2020	3.500%	$ 135,000	1/1/2019	100%	79575DZS2	Partial
	2020	5.000	540,000	1/1/2019	100	79575DZT0	Partial
	2021	3.800	105,000	1/1/2019	100	79575DZU7	Partial
	2021	5.000	16,685,000	1/1/2019	100	79575DZV5	Total
	2022	4.000	6,545,000	1/1/2019	100	79575DZW3	Total
	2022	5.000	13,850,000	1/1/2019	100	79575DZX1	Total
	2023	4.200	3,490,000	1/1/2019	100	79575DZY9	Total
	2023	5.000	17,850,000	1/1/2019	100	79575DZZ6	Total
	2024	4.300	990,000	1/1/2019	100	79575DA26	Total
	2024	5.000	21,405,000	1/1/2019	100	79575DA34	Total
	2025	5.000	23,480,000	1/1/2019	100	79575DA42	Total
	2026	5.000	24,715,000	1/1/2019	100	79575DA59	Total
	2027	5.000	25,830,000	1/1/2019	100	79575DA67	Total
	2028	5.000	27,355,000	1/1/2019	100	79575DA75	Total
	2029	4.700	2,775,000	1/1/2019	100	79575DA83	Total
	2029	5.000	25,485,000	1/1/2019	100	79575DA91	Total
	2030	5.000	30,580,000	1/1/2019	100	79575DB25	Total
	2031	4.875	30,290,000	1/1/2019	100	79575DB33	Total
	2032	5.000	35,410,000	1/1/2019	100	79575DB41	Total
	2033	5.000	29,880,000	1/1/2019	100	79575DB58	Total
	2034	5.000	45,980,000	1/1/2019	100	79575DB66	Total
	2039	5.000	189,850,000	1/1/2019	100	79575DB74	Total
		Total	**$ 573,225,000**				

* CUSIP Numbers are provided for convenience of reference only. The District assumes no responsibility for the accuracy of such numbers.

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APPENDIX G — REQUEST FOR WRITTEN CONSENT TO PROPOSED AMENDMENTS

SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, ARIZONA
SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS, 2017 SERIES A

Anticipated Sale Date: November 7, 2017
Anticipated Delivery Date: November 21, 2017

To: Prospective purchaser of the above bonds (the "New Bonds")

You have indicated your intention to purchase New Bonds of certain maturities and amounts.

As representative of the underwriters, we ask for your consent to the Salt River Project Agricultural Improvement and Power District's "SUPPLEMENTAL RESOLUTION DATED SEPTEMBER 13, 2010 PROVIDING FOR CERTAIN AMENDMENTS TO THE REVENUE BOND RESOLUTION REGARDING BUILD AMERICA BONDS AND THE TREATMENT OF CASH SUBSIDY PAYMENTS RECEIVED FROM THE UNITED STATE FEDERAL GOVERNMENT" in order to implement certain amendments (the "Proposed Amendments") to its Amended and Restated Resolution Concerning Revenue Bonds, which became effective January 11, 2003, as amended and supplemented (the "Resolution"), pursuant to which the New Bonds will be issued. Capitalized terms used herein which are not otherwise defined have the meaning given such terms in the Resolution. The amendments are described in the "SECURITY FOR 2017 SERIES A BONDS" section of the Preliminary Official Statement for the New Bonds, dated October 23, 2017, under the headings "Consent to Amendments to Resolution, Debt Reserve Account, Rate Covenant and Limitations on Additional Indebtedness".

The Proposed Amendments will become effective when the written consents of the holders of at least two-thirds of the bonds outstanding under the Resolution have been filed with the Trustee, as provided in the Resolution. The underwriters have not been requested to provide, nor will they provide, consent to the Proposed Amendments on behalf of the purchasers of the New Bonds.

By signing in the space provided below:

(a) you acknowledge you have read and understand the foregoing;

(b) you hereby provide your written consent to the Proposed Amendments, such consent to be effective immediately upon, and simultaneously with, the delivery of New Bonds to your custodial account with your DTC Participant;

(c) you irrevocably waive any right under the Resolution to revoke the consent provided hereby;

(d) you acknowledge that the aforementioned consents and waivers shall be on behalf of you and all successors in interest in the New Bonds purchased by you; and

(e) you acknowledge that neither Goldman Sachs & Co. LLC, as representative of the underwriters of the New Bonds, nor any of the other underwriters of the New Bonds are providing consent to the Proposed Amendments.

If you are in agreement with the foregoing, please so indicate by signing in the space provided below and returning this letter via email to BOTH of the following:

Sam Denton-Schneider,
Goldman Sachs & Co. LLC
Email: Sam.DentonSchneider@ny.ibd.email.gs.com

Keith Henselen
U.S. Bank National Association
Email: keith.henselen@usbank.com

Very truly yours,
Goldman Sachs & Co. LLC, as representative
of the underwriters of the New Bonds

Acknowledged and agreed:
Print name of Purchaser or Managing Firm (having authority to consent on behalf of the Purchaser):

Authorized Employee of Purchaser or Managing Firm:
_____ (Print Name)

_____ (Sign Name)

Dated:

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EXHIBIT "6"

pfm

Report of the Independent Financial Advisor
Regarding the Issuance of

$735,240,000
Salt River Project Agricultural
Improvement and Power District, Arizona
Salt River Project Electric System Revenue Bonds, 2017 Series A

December 5, 2017

Introduction

This report is intended to summarize the plan of finance, market conditions and credit factors related to the issuance by Salt River Project Agricultural Improvement and Power District (the "District") of the $735,240,000 aggregate principal amount of Salt River Project Electric System Revenue Bonds, 2017 Series A (the "2017 A Bonds"). This report was prepared for the District to assist it in making an informed decision with respect to the acceptability of the Bond Purchase Agreement it entered into with Goldman Sachs & Co. LLC (the "Underwriter"), BofA Merrill Lynch, Citigroup, J.P. Morgan, and Morgan Stanley (collectively, the "Underwriters"). This report also serves as the basis for the formal recommendation from Public Financial Management, Inc. ("PFM"), the independent Financial Advisor to the District with respect to the sale of the 2017 A Bonds.

Plan of Finance

Purpose:
The 2017 A Bonds are being issued to refund certain of the District's outstanding bonds (listed in more detail below), to finance capital improvements to the Electric System, and to pay the cost of issuance related to the 2017 A Bonds.

Refunded Bonds:

The 2017 A Bonds advance refunded a portion of the 2009 Series A Bonds. The details of the Refunded Bonds can be found in the table below.

Series	Maturity Date	Coupon	Par Amount		Redemption Date	Call Price
2009 Series A	1/1/2020	3.50%	135,000		1/1/2019	100%
	1/1/2020	4.00%	540,000		1/1/2019	100%
	1/1/2021	3.80%	105,000		1/1/2019	100%
	1/1/2021	5.00%	16,685,000		1/1/2019	100%
	1/1/2022	4.00%	6,545,000		1/1/2019	100%
	1/1/2022	5.00%	13,850,000		1/1/2019	100%
	1/1/2023	4.20%	3,490,000		1/1/2019	100%
	1/1/2023	5.00%	17,850,000		1/1/2019	100%
	1/1/2024	4.30%	990,000		1/1/2019	100%
	1/1/2024	5.00%	21,405,000		1/1/2019	100%
	1/1/2025	5.00%	23,480,000		1/1/2019	100%
	1/1/2026	5.00%	24,715,000		1/1/2019	100%
	1/1/2027	5.00%	25,830,000		1/1/2019	100%
	1/1/2028	5.00%	27,355,000		1/1/2019	100%
	1/1/2029	4.70%	2,775,000		1/1/2019	100%
	1/1/2029	5.00%	25,485,000		1/1/2019	100%
	1/1/2030	5.00%	30,580,000		1/1/2019	100%
	1/1/2031	4.88%	30,290,000		1/1/2019	100%
	1/1/2032	5.00%	35,410,000		1/1/2019	100%
	1/1/2033	5.00%	29,880,000		1/1/2019	100%
	1/1/2034	5.00%	45,980,000		1/1/2019	100%
	1/1/2035	5.00%	19,065,000		1/1/2019	100%
	1/1/2036	5.00%	40,935,000		1/1/2019	100%
	1/1/2037	5.00%	38,670,000		1/1/2019	100%
	1/1/2038	5.00%	41,180,000		1/1/2019	100%
	1/1/2039	5.00%	50,000,000	*	1/1/2019	100%
		TOTAL	***573,225,000***			

** Term bond final maturity*

Refunding Results:

Year	Prior Debt Service	Refunding Debt Service	Savings	PV Savings @ Arbitrage Yield
2018	3,167,941.94	2,603,305.56	564,636.39	563,211.43
2019	28,511,477.50	23,429,750.00	5,081,727.50	4,983,259.52
2020	29,186,477.50	23,429,750.00	5,756,727.50	5,514,568.66
2021	45,269,752.50	36,714,750.00	8,555,002.50	7,997,535.90
2022	48,036,512.50	39,485,500.00	8,551,012.50	7,813,170.05
2023	48,027,212.50	39,474,500.00	8,552,712.50	7,638,400.88
2024	48,043,132.50	39,492,250.00	8,550,882.50	7,464,252.36
2025	48,015,312.50	39,465,250.00	8,550,062.50	7,294,791.69
2026	48,076,312.50	39,523,500.00	8,552,812.50	7,132,068.44
2027	47,955,562.50	39,400,500.00	8,555,062.50	6,972,519.56
2028	48,189,062.50	39,637,750.00	8,551,312.50	6,811,722.36
2029	47,726,312.50	39,175,000.00	8,551,312.50	6,657,493.78
2030	48,641,637.50	40,089,000.00	8,552,637.50	6,507,747.07
2031	46,822,637.50	38,269,250.00	8,553,387.50	6,360,854.54
2032	50,466,000.00	41,912,250.00	8,553,750.00	6,217,098.58
2033	43,165,500.00	34,611,250.00	8,554,250.00	6,076,486.76
2034	57,771,500.00	49,221,250.00	8,550,250.00	5,935,878.04
2035	28,557,500.00	20,006,250.00	8,551,250.00	5,801,850.46
2036	49,474,250.00	40,923,000.00	8,551,250.00	5,670,126.06
2037	45,162,500.00	36,608,000.00	8,554,500.00	5,543,434.43
2038	45,739,000.00	37,189,000.00	8,550,000.00	5,414,603.84
2039	52,500,000.00	43,947,750.00	8,552,250.00	5,292,875.92
Totals	**958,505,594.44**	**784,608,805.56**	**173,896,788.89**	**135,663,950.34**

PV of savings from cash flow	135,663,950.34
LESS: Refunding funds on hand	(25,002,073.88)
Net PV Savings	110,661,876.46

The refunding of the Refunded Bonds resulted in net present value savings of $110.6 million, or ***19.3%*** of refunded par.

Sources and Uses of Funds:

The following table details the sources and uses of funds for the 2017 A Bonds:

Salt River Project Agricultural Improvement and Power District Electric System Revenue Bonds, 2017 Series A	
SOURCES	
Bond Proceeds :	
Par Amount	735,240,000.00
Premium	161,392,616.60
	896,632,616.60
Other Sources :	
Prior Accrued Interest	11,087,796.81
Equity	25,000,000.00
	36,087,796.81
Total Sources :	**932,720,413.41**
USES	
Project Fund	325,000,000.00
Refunding Escrow Deposits:	605,806,897.97
Delivery Date Expenses :	
Cost of Issuance	600,000.00
Underwriter's Discount	1,312,538.79
	1,912,538.79
Other Uses of Funds :	
Additional Proceeds	976.65
Total Uses :	**932,720,413.41**

Structure:
The 2017 A Bonds will be dated the date of delivery November 21, 2017. Interest on the bonds will be payable starting January 1, 2018, and semiannually thereafter on each January 1 and July 1. The 2017 A Bonds are structured as serial bonds, with maturities ranging from January 1, 2021 to January 1, 2039. The following tables detail the specific maturities and coupons of the 2017 A Bonds

Maturity (1/1)	Par	Coupon	Yield	Price	Call Date	Yield to Maturity	Takedown ($/1000)
2021	24,950,000	5.00%	1.24%	111.438			1.50
2022	25,380,000	5.00%	1.34%	114.590			1.50
2023	27,495,000	5.00%	1.47%	117.318			1.50
2024	33,860,000	5.00%	1.59%	119.781			1.50
2025	23,520,000	5.00%	1.71%	121.939			1.50
2026	39,115,000	5.00%	1.83%	123.792			1.50
2027	35,775,000	5.00%	1.95%	125.345			1.50
2028	44,050,000	5.00%	2.06%	126.709			1.50
2029	33,805,000	5.00%	2.16%	125.670	1/1/2028	2.360%	1.50
2030	59,850,000	5.00%	2.26%	124.640	1/1/2028	2.613%	1.50
2031	46,060,000	5.00%	2.37%	123.520	1/1/2028	2.839%	1.50
2032	29,620,000	5.00%	2.43%	122.914	1/1/2028	2.997%	1.50
2033	46,720,000	5.00%	2.48%	122.411	1/1/2028	3.127%	1.50
2034	42,520,000	5.00%	2.53%	121.911	1/1/2028	3.243%	1.50
2035	31,340,000	5.00%	2.56%	121.612	1/1/2028	3.332%	1.50
2036	44,575,000	5.00%	2.59%	121.315	1/1/2028	3.412%	1.50
2037	56,005,000	5.00%	2.60%	121.215	1/1/2028	3.472%	1.50
2038	48,745,000	5.00%	2.61%	121.116	1/1/2028	3.525%	1.50
2039	41,855,000	5.00%	2.62%	121.017	1/1/2028	3.573%	1.50
Totals	735,240,000						

Optional call on 1/1/2028 @ 100.000

Redemption Provisions:
Optional Redemption:

The 2017 A Bonds maturing on and after January 1, 2029, are subject to redemption at the option of the District on or after January 1, 2028, at a 100% redemption price.

Original Issue Premium/Discount:
Each of the 2017 A Bonds have a net original issue premium (OIP). Bonds with an OIP structure are sold at coupons or interest rates which are above current market interest rates. In order to give the investor an actual rate of return or "yield" which is equal to the current market interest rates, these bonds are sold at a price above the par amount. The 2017 A Bonds have a total original issue premium of $161,392,616.60.

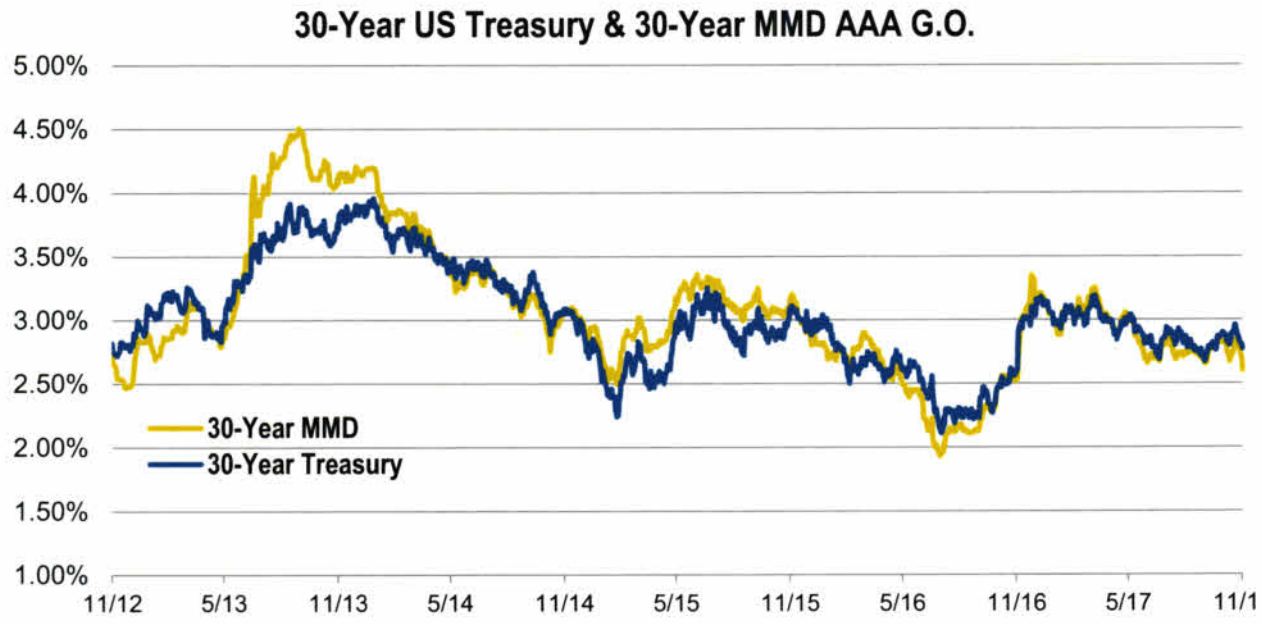
Underwriter's Discount:
The final Underwriter's Discount for the transaction totaled $1,312,538.79 or $1.78518 per $1,000 par amount of bonds.

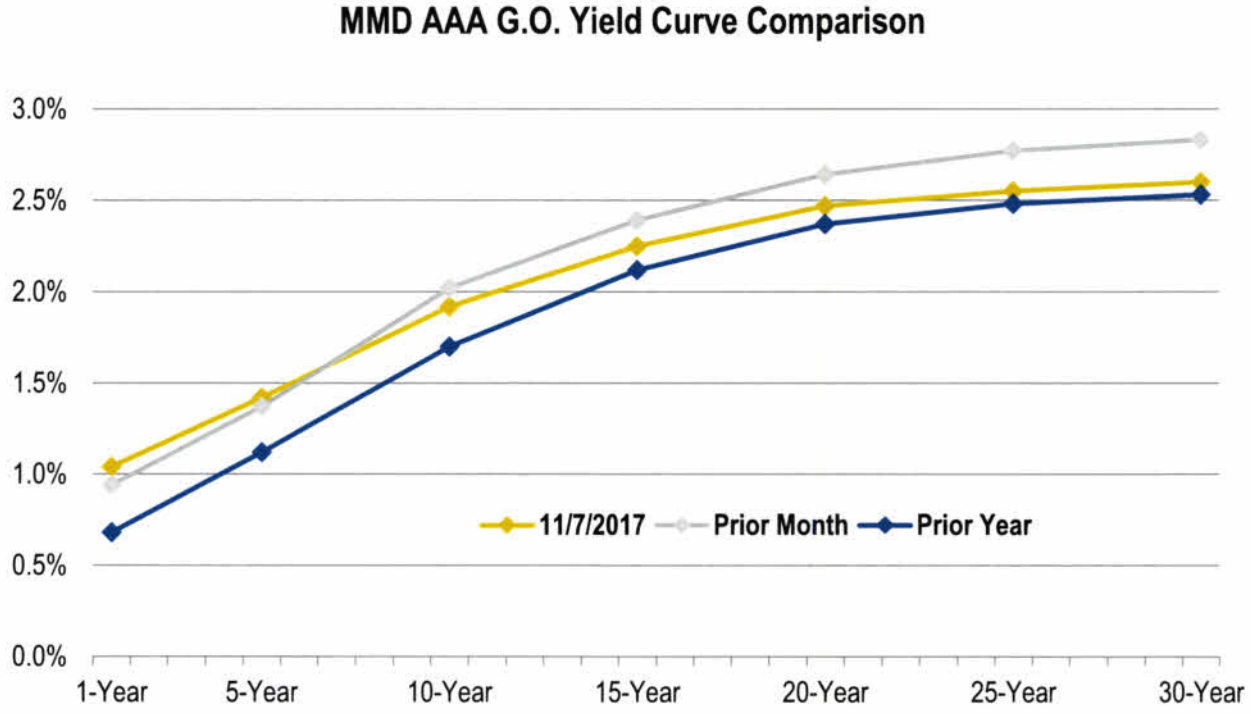
Cost of Issuance:
The estimated cost of issuance for the transaction totaled $600,000 or $0.81606 per $1,000 par amount of bonds.

Bond Ratings:
Moody's Investors Services, Inc. ("Moody's") and Standard & Poor's ("S&P") assigned the 2017 A Bonds ratings of "Aa1" and "AA", respectively. For long-term outlooks, the rating agencies assigned "Stable."

Municipal Market Environment

The graphs below depict the movement of 30-Year U.S Treasury Bond and 30-Year Municipal Market Data ("MMD") AAA G.O. rates since 2012 and the MMD AAA G.O. Yield Curve comparison over various points in time.





General Market Conditions

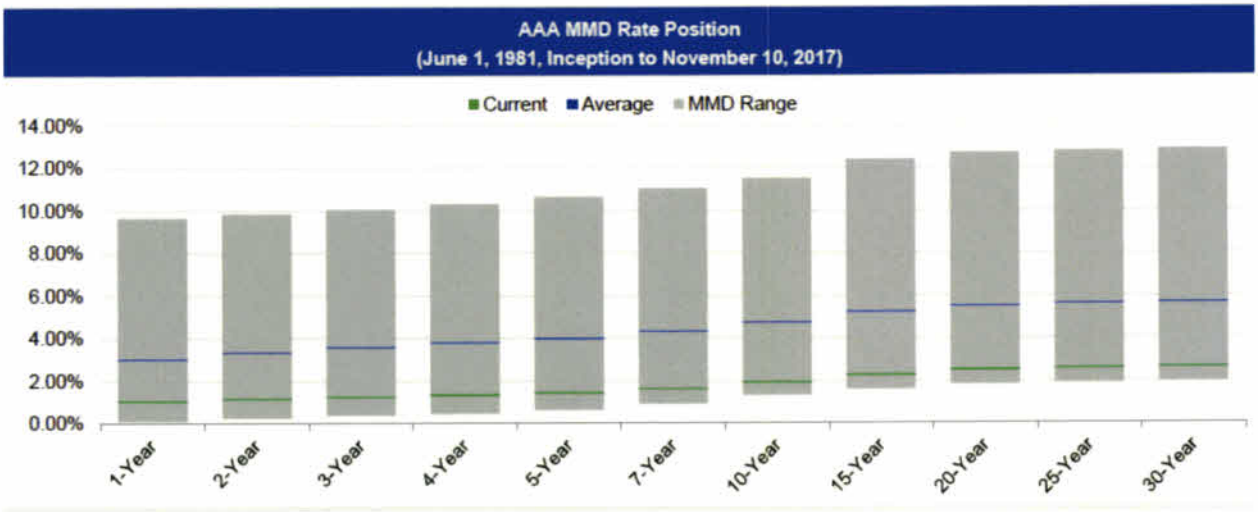
The US economy continued to have a positive tone, with the strong labor report released on November 3rd. October's job gains added 261,000 nonfarm payrolls to the economy, and the unemployment rate fell to 4.1%, indicating continued strength in the labor market. Equities have been pushing through record highs since the election last November. On November 6th, the Dow Jones and S&P 500 closed at 23,548 and 2,591, respectively. As a comparison, the Dow Jones and S&P 500 were 18,868 and 2,177, respectively, at the time of the District's 2016 Series A bond pricing.

Fixed-income yields continued their flattening trend, as short-term rates have increased throughout the year, while long-term rates remained relatively low. On November 7th, the spread between the 2-year and 30-year Treasury was 115 basis points, compared to 192 basis points the previous year.

Uncertainty surrounded the municipal market, as details of the proposed House and Senate comprehensive tax reform were just released. The tax reform proposal would eliminate Private Activity Bonds (PABs) and Advance Refundings, would fully or partially repeal State and Local Tax Deductions (SALT), and greatly reduce the corporate income tax. Given the uncertainty surrounding the loss of the ability to advance refund on a tax-exempt basis and PABs, issuers were preparing to rush into the market before years end. The District was entering the market right before the potential surge in municipal bond supply. Despite the expected near term increase in supply, investors were interested in buying bonds in anticipation of longer term potential for supply to decrease as a result of tax reform.

The chart below graphs the historical MMD range across key maturities.

Historical MMD Range



Pricing of the Bonds

Background:

To prepare for the pricing/sale process, PFM closely followed recent market trends. PFM analyzed interest rates, yields, and takedown levels of recently-priced municipal utility issues in order to evaluate the initial interest rates, yields, and takedown levels proposed by the Underwriters, and to establish PFM's own target pricing levels. The following transactions were among those considered to be valid comparables for the District's financing:

Issuer	State	Date	Amount	Type of Sale	Rating	Underwriter
Phoenix Airport	AZ	10/31/2017	173,440,000	Negotiated	Aa3/AA-/--	Citigroup
City of Mesa Utilities	AZ	5/3/2017	123,875,000	Competitive	Aa2/AA-/--	Bank of America Merrill Lynch
Gainesville Regional Utility	FL	10/24/2017	415,920,000	Negotiated	Aa3/AA-/AA-	Goldman Sachs
Miramar Utility System	FL	10/18/2017	32,315,000	Negotiated	Aa2/AAA/--	Bank of America Merrill Lynch
Memphis Light, Gas, and Water	TN	9/14/2017	90,000,000	Negotiated	Aa2/AA/--	Raymond James
Seattle City Light	WA	9/13/2017	385,530,000	Competitive	Aa2/AA/--	Morgan Stanley
Colorado Springs Utilities	CO	9/13/2017	174,090,000	Negotiated	Aa2/AA/AA	Barclays
Tacoma Public Utilities	WA	8/15/2017	70,575,000	Negotiated	--/AA/AA-	Goldman Sachs
CPS Energy	TX	8/9/2017	194,980,000	Negotiated	Aa1/AA/AA+	Siebert Cisneros
Austin Water & Wastewater	TX	8/1/2017	311,100,000	Negotiated	Aa2/AA/AA-	Goldman Sachs

PFM also reviewed the secondary market trades of comparable bonds with maturities similar to those for the 2017 A Bonds. These secondary trades included other Arizona revenue and national market public power bonds.

Pricing:

On Friday, November 3rd, the working group convened by phone to review the current market conditions and results of the transactions that had priced in the marketplace, as well as to discuss the Underwriters price views, pre-marketing levels, and logistics for the 2017 A Bonds pricing the following week.

Goldman Sachs had solicited price views for the 2017 A Bonds from the other syndicate members on the morning of the 3rd. The price views included spreads to the AAA MMD yield curve for bonds with a traditional 5% coupon structure. The co-managing underwriters' price views were consistent with those of Goldman Sachs. PFM's Pricing Group also performed an independent analysis of market data and came up with a target scale for the District's bonds, and their views were also consistent with the views from the syndicate.

The following details the co-manager price views for the 2017 A Bonds, along with the PFM target scale:

2017 Series A Bonds Co-Manager Price Views							
Year	Premarketing Scale	Goldman	Morgan Stanley	BAML	Citigroup	JPM	PFM Pricing Group
2021	+4 bps	+4 bps	+4 bps	+3 bps	+5 bps	+4 bps	+7 bps
2022	+5 bps	+5 bps	+5 bps	+5 bps	+6 bps	+5 bps	+7 bps
2023	+6 bps	+6 bps	+6 bps	+7 bps	+7 bps	+6 bps	+8 bps
2024	+7 bps	+7 bps	+7 bps	+8 bps	+8 bps	+7 bps	+8 bps
2025	+8 bps	+8 bps	+8 bps	+10 bps	+9 bps	+8 bps	+9 bps
2026	+9 bps	+9 bps	+9 bps	+12 bps	+10 bps	+9 bps	+9 bps
2027	+10 bps	+10 bps	+10 bps	+12 bps	+11 bps	+10 bps	+10 bps
2028	+11 bps	+12 bps	+12 bps	+13 bps	+13 bps	+12 bps	+10 bps
2029	+12 bps	+14 bps	+15 bps	+15 bps	+15 bps	+14 bps	+11 bps
2030	+13 bps	+15 bps	+15 bps	+15 bps	+15 bps	+15 bps	+11 bps
2031	+13 bps	+15 bps	+15 bps	+15 bps	+15 bps	+15 bps	+12 bps
2032	+13 bps	+15 bps	+15 bps	+15 bps	+15 bps	+15 bps	+12 bps
2033	+13 bps	+15 bps	+15 bps	+15 bps	+15 bps	+15 bps	+12 bps
2034	+13 bps	+15 bps	+15 bps	+15 bps	+15 bps	+15 bps	+12 bps
2035	+13 bps	+15 bps	+15 bps	+15 bps	+15 bps	+15 bps	+12 bps
2036	+13 bps	+15 bps	+15 bps	+15 bps	+15 bps	+15 bps	+12 bps
2037	+13 bps	+15 bps	+15 bps	+15 bps	+15 bps	+15 bps	+12 bps
2038	+13 bps	+15 bps	+15 bps	+15 bps	+15 bps	+15 bps	+12 bps
2039	+13 bps	+15 bps	+15 bps	+15 bps	+15 bps	+15 bps	+12 bps

On the morning of November 6th, the working group assembled at Goldman Sachs' office and reviewed the premarketing spreads that were discussed on November 3rd. While the pre-marketing scale that was going to be released included only a 5% coupon structure, the Underwriters were going to solicit feedback from investors for 4% coupon bonds at spreads to the AAA MMD scale that produced savings on a yield-to-maturity (YTM) basis that adequately compensated the District for the reduced option value that going to a lower coupon structure. Bonds with lower coupons typically have a higher reoffering yield relative to 5% coupon bonds, but their yield-to-maturities are lower than 5% coupon bonds. While lower coupon bonds produce a lower yield-to-maturity, they also have less option value, and less potential for future refunding savings after the call date. The current market spread between 4% and 5% coupon bonds was roughly 30 basis points, but given the maturity of the District's bonds, the 30 basis point spread did not produce enough YTM savings relative to the 5% bonds in order to justify the reduction in potential future refinancing savings. Therefore, the Underwriters were going to determine how

much investor interest there was for 4% coupons at yields that were less than 30 basis points above yields on a 5% coupon structure. The premarketing structure and spreads to the AAA MMD yield curve for 5% coupon bonds (listed above) was released to investors.

The pre-marketing levels received positive investor feedback, with more investor interest in the longer-dated bonds. The 4% coupon bonds did not warrant enough investor interest to include any additional consideration. Based on the positive feedback and the number of investors that were interested in the 2017 A Bonds, Goldman Sachs determined that the pre-marketed levels were the appropriate place to commence the institutional order period the following morning. PFM agreed with this pricing strategy.

On the morning of November 7th, the market opened up relatively unchanged. Based on the spreads to the AAA MMD scale agreed upon the afternoon before and the current AAA MMD levels, Goldman Sachs released the following preliminary pricing wire and took investor orders until 11:00AM.

Institutional Order Period Scale

Maturity (1/1)	Par	Coupon	Yield	Price	Call Date	Early MMD (11/6/2017)	Spread to MMD	Yield to Maturity	Spread to MMD
2021	25,335,000	5.00%	1.26%	111.373		1.22%	4 bps		
2022	25,525,000	5.00%	1.36%	114.504		1.31%	5 bps		
2023	27,650,000	5.00%	1.50%	117.156		1.44%	6 bps		
2024	34,025,000	5.00%	1.63%	119.524		1.56%	7 bps		
2025	23,690,000	5.00%	1.76%	121.565		1.68%	8 bps		
2026	39,290,000	5.00%	1.89%	123.283		1.80%	9 bps		
2027	35,970,000	5.00%	2.01%	124.777		1.91%	10 bps		
2028	44,240,000	5.00%	2.13%	125.980		2.02%	11 bps		
2029	34,020,000	5.00%	2.22%	125.051	1/1/2028	2.10%	12 bps	2.416%	32 bps
2030	60,050,000	5.00%	2.32%	124.028	1/1/2028	2.19%	13 bps	2.665%	48 bps
2031	46,330,000	5.00%	2.43%	122.914	1/1/2028	2.30%	13 bps	2.888%	59 bps
2032	29,780,000	5.00%	2.49%	122.311	1/1/2028	2.36%	13 bps	3.043%	68 bps
2033	46,965,000	5.00%	2.55%	121.712	1/1/2028	2.42%	13 bps	3.179%	76 bps
2034	42,780,000	5.00%	2.60%	121.215	1/1/2028	2.47%	13 bps	3.292%	82 bps
2035	31,610,000	5.00%	2.65%	120.721	1/1/2028	2.52%	13 bps	3.393%	87 bps
2036	44,875,000	5.00%	2.69%	120.328	1/1/2028	2.56%	13 bps	3.478%	92 bps
2037	56,280,000	5.00%	2.72%	120.033	1/1/2028	2.59%	13 bps	3.547%	96 bps
2038	49,115,000	5.00%	2.74%	119.838	1/1/2028	2.61%	13 bps	3.604%	99 bps
2039	42,075,000	5.00%	2.76%	119.642	1/1/2028	2.63%	13 bps	3.656%	103 bps
Totals	739,605,000								

Optional call on 1/1/2028 @ 100.000

The institutional order period received very strong investor demand throughout the entire structure. The 2017 A Bonds received approximately $2.7 billion in institutional priority orders with every maturity fully subscribed. The strongest demand was in the 2035 to 2039 maturities, which ranged from 5 to 12 times oversubscribed. A number of investors placed orders in excess of $200 million. Those investors included Vanguard with over $275 million in orders, 16th Amendment Advisors with $261 million, Deutsche Bank with $224 million in orders, and Blackrock with $208 million.

Based on the oversubscription, Goldman Sachs proposed repricing the 2017 A Bonds at lower yields. The proposed yield reductions were 2 basis points in 2021 and 2022, 3 basis points from 2023 through 2027, 4 basis points in 2028, 3 basis points in 2029, 2 basis points in 2030 and 2031, 3 basis points from 2032 through 2034, 5 basis points in 2035, 6 basis points in 2036, 7 basis points in 2037, 8 basis points in 2038, and 9 basis points in 2039. While PFM believed that the adjustments were fair overall, there were a few maturities that PFM believed warranted

additional consideration, based on the number of investor orders. With the approval of the District, PFM requested 1 additional basis point reduction in yield in 2 of the 3 maturities between 2030 and 2032, and suggested potential combining (or "terming up") the 2037 through 2039 maturity and reprice the combined term bond at the newly proposed 2037 maturity yield. This term would effectively be equivalent to an additional 1 basis point improvement in 2038 and 2 basis points improvement in 2039. After consideration, Goldman agreed to the additional 1 basis point in 2030 and 2031, and instead of creating a term bond, they proposed a 1 basis point improvement in 2037 through 2039. PFM and the District accepted the offer from Goldman Sachs. This strategy had the same yield reduction benefit to the District, and was less complicated adjustment from the standpoint of investors. The resulting spreads to the AAA MMD yield curve represent the lowest ever levels in the District's entire history of debt issuance.

The following tables detail the institutional orders, maturity-by-maturity final yield adjustments, and the final pricing wire.

Institutional Orders and Yield Adjustments

Maturity	Amount Offered (000s)	Total Priority Orders (000s)	Balance (000s)	Total Subscription	Final Yield Adjustment
2021	25,335,000	43,720,000	(18,385,000)	1.7 x	-0.02%
2022	25,525,000	36,730,000	(11,205,000)	1.4 x	-0.02%
2023	27,650,000	98,385,000	(70,735,000)	3.6 x	-0.03%
2024	34,025,000	106,665,000	(72,640,000)	3.1 x	-0.03%
2025	23,690,000	82,350,000	(58,660,000)	3.5 x	-0.03%
2026	39,290,000	142,600,000	(103,310,000)	3.6 x	-0.03%
2027	35,970,000	117,655,000	(81,685,000)	3.3 x	-0.03%
2028	44,240,000	183,655,000	(139,415,000)	4.2 x	-0.04%
2029	34,020,000	106,880,000	(72,860,000)	3.1 x	-0.03%
2030	60,050,000	126,440,000	(66,390,000)	2.1 x	-0.03%
2031	46,330,000	115,495,000	(69,165,000)	2.5 x	-0.03%
2032	29,780,000	129,385,000	(99,605,000)	4.3 x	-0.03%
2033	46,965,000	151,075,000	(104,110,000)	3.2 x	-0.03%
2034	42,780,000	111,215,000	(68,435,000)	2.6 x	-0.03%
2035	31,610,000	197,555,000	(165,945,000)	6.2 x	-0.05%
2036	44,875,000	240,875,000	(196,000,000)	5.4 x	-0.06%
2037	56,280,000	420,670,000	(364,390,000)	7.5 x	-0.08%
2038	49,115,000	470,845,000	(421,730,000)	9.6 x	-0.09%
2039	42,075,000	516,300,000	(474,225,000)	12.3 x	-0.10%
Totals	739,605,000	3,398,495,000	(2,658,890,000)	4.6 x	

Maturity (1/1)	Order Period Spread to 11/6 MMD	MMD Changes from 11/6 to 11/7	Order Period Spread to 11/7 MMD	Final Pricing Yield Adjustment	Final Spread to 11/7 MMD
2021	4 bps	0 bps	4 bps	-2 bps	2 bps
2022	5 bps	-1 bps	6 bps	-2 bps	4 bps
2023	6 bps	-2 bps	8 bps	-3 bps	5 bps
2024	7 bps	-3 bps	10 bps	-3 bps	7 bps
2025	8 bps	-4 bps	12 bps	-3 bps	9 bps
2026	9 bps	-4 bps	13 bps	-3 bps	10 bps
2027	10 bps	-4 bps	14 bps	-3 bps	11 bps
2028	11 bps	-5 bps	16 bps	-4 bps	12 bps
2029	12 bps	-5 bps	17 bps	-3 bps	14 bps
2030	13 bps	-6 bps	19 bps	-3 bps	16 bps
2031	13 bps	-7 bps	20 bps	-3 bps	17 bps
2032	13 bps	-8 bps	21 bps	-3 bps	18 bps
2033	13 bps	-8 bps	21 bps	-3 bps	18 bps
2034	13 bps	-8 bps	21 bps	-3 bps	18 bps
2035	13 bps	-8 bps	21 bps	-5 bps	16 bps
2036	13 bps	-8 bps	21 bps	-6 bps	15 bps
2037	13 bps	-8 bps	21 bps	-8 bps	13 bps
2038	13 bps	-8 bps	21 bps	-9 bps	12 bps
2039	13 bps	-8 bps	21 bps	-10 bps	11 bps

Final Pricing Scale

Maturity (1/1)	Par	Coupon	Yield	Price	Call Date	Early MMD (11/7/2017)	Spread to MMD	Yield to Maturity	Spread to MMD
2021	24,950,000	5.00%	1.24%	111.438		1.22%	2 bps		
2022	25,380,000	5.00%	1.34%	114.590		1.31%	3 bps		
2023	27,495,000	5.00%	1.47%	117.318		1.42%	5 bps		
2024	33,860,000	5.00%	1.59%	119.781		1.53%	6 bps		
2025	23,520,000	5.00%	1.71%	121.939		1.62%	9 bps		
2026	39,115,000	5.00%	1.83%	123.792		1.73%	10 bps		
2027	35,775,000	5.00%	1.95%	125.345		1.84%	11 bps		
2028	44,050,000	5.00%	2.06%	126.709		1.94%	12 bps		
2029	33,805,000	5.00%	2.16%	125.670	1/1/2028	2.02%	14 bps	2.360%	34 bps
2030	59,850,000	5.00%	2.26%	124.640	1/1/2028	2.10%	16 bps	2.613%	51 bps
2031	46,060,000	5.00%	2.37%	123.520	1/1/2028	2.20%	17 bps	2.839%	64 bps
2032	29,620,000	5.00%	2.43%	122.914	1/1/2028	2.25%	18 bps	2.997%	75 bps
2033	46,720,000	5.00%	2.48%	122.411	1/1/2028	2.30%	18 bps	3.127%	83 bps
2034	42,520,000	5.00%	2.53%	121.911	1/1/2028	2.35%	18 bps	3.243%	89 bps
2035	31,340,000	5.00%	2.56%	121.612	1/1/2028	2.40%	16 bps	3.332%	93 bps
2036	44,575,000	5.00%	2.59%	121.315	1/1/2028	2.44%	15 bps	3.412%	97 bps
2037	56,005,000	5.00%	2.60%	121.215	1/1/2028	2.47%	13 bps	3.472%	100 bps
2038	48,745,000	5.00%	2.61%	121.116	1/1/2028	2.49%	12 bps	3.525%	104 bps
2039	41,855,000	5.00%	2.62%	121.017	1/1/2028	2.51%	11 bps	3.573%	106 bps
Totals	735,240,000								

Optional call on 1/1/2028 @ 100.000

Conclusions and Recommendations:

Based on the foregoing and our knowledge and experience in the issuance of municipal debt, PFM believes that the coupon rates, yields and underwriting spread, all of which constitute the pricing of 2017 A Bonds, were fair and appropriate. PFM endorses the decision to accept the terms of the transaction.