

RATINGS: Standard & Poor's: "AA"
Moody's: "Aa2"
See "RATINGS" herein

NEW ISSUE -BOOK-ENTRY-ONLY

In the opinion of Fulbright & Jaworski LLP, Bond Counsel, under existing law, interest on the 2014 Series Bonds is exempt from income taxes imposed by the State of Arizona. Interest on the 2014 Series Bonds is included in gross income for federal income tax purposes. See "FEDERAL AND STATE INCOME TAXES" herein regarding certain other tax considerations.

\$26,565,000
ARIZONA POWER AUTHORITY
Power Resource Revenue Bonds, 2014 Series
(Hoover Prepayment Project) (Federally Taxable)

Dated: Date of Delivery

Due: October 1, as shown on the inside cover

The 2014 Series Bonds are being issued to refinance indebtedness issued by the Arizona Power Authority (the "Authority") to prepay the Authority's proportionate share of the obligations incurred by the United States Bureau of Reclamation for certain improvements at Hoover Dam, to fund a deposit to the debt service reserve account, to capitalize interest payments to October 1, 2014 and to pay costs of issuance. Such prepayment will result in a reduction of the costs paid by the Authority for the power and energy from the Boulder Canyon Project. See "PREPAYMENT PLAN", herein.

The 2014 Series Bonds will be issued as registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as securities depository for the 2014 Series Bonds. Individual purchases will be made in book-entry-only form, in the principal amount of \$5,000 or integral multiples thereof. Purchasers will not receive certificates representing their interest in the 2014 Series Bond purchased. So long as DTC is the registered owner of the 2014 Series Bonds, payments of the principal of, premium, if any, and interest on the 2014 Series Bonds will be made directly to DTC. Disbursement of such payments to DTC Participants is the responsibility of DTC and disbursements of such payments to the beneficial owners is the responsibility of DTC Participants and Indirect Participants. See "THE 2014 SERIES BONDS - Book-Entry-Only System." Interest on the 2014 Series Bonds is payable on April 1 and October 1 of each year, commencing on October 1, 2014.

The 2014 Series Bonds are subject to optional and mandatory redemption prior to maturity. See "THE 2014 SERIES BONDS – Redemption Provisions."

The principal of, premium, if any, and interest on the 2014 Series Bonds, are payable solely from the revenues derived by the Authority from the sale of power and energy pursuant to power sales contracts and other available funds pledged under the hereinafter defined Resolution, subject to the prior application thereof as permitted by the Resolution. The 2014 Series Bonds are payable from such source on a parity with the hereinafter defined 2001 Series Bonds and any additional obligations issued or incurred on a parity therewith as provided in the Resolution. For information relating to the termination of said power sales contracts prior to the final maturity of the 2014 Series Bonds, see "INVESTMENT CONSIDERATIONS RELATING TO THE POWER SALES CONTRACTS."

THE 2014 SERIES BONDS, ARE DIRECT AND SPECIAL OBLIGATIONS OF THE ARIZONA POWER AUTHORITY AND NEITHER THE FAITH AND CREDIT OF THE AUTHORITY, THE STATE OF ARIZONA NOR ANY POLITICAL SUBDIVISION THEREOF HAS BEEN PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE 2014 SERIES BONDS. THE 2014 SERIES BONDS ARE PAYABLE SOLELY FROM AND SECURED BY THE PLEDGED PROPERTY. THE AUTHORITY HAS NO TAXING POWER.

Certain matters in connection with the issuance of the 2014 Series Bonds are subject to the approval of the legality thereof by Fulbright & Jaworski LLP, a member of Norton Rose Fulbright, Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for the Authority by its Legal Counsel, Douglas V. Fant, Esq., and for the Underwriters by their Counsel, Squire Sanders (US) LLP. It is expected that the 2014 Series Bonds will be delivered through the facilities of DTC on or about March 27, 2014.

J.P. MORGAN

RBC Capital Markets

The date of this Official Statement is March 18, 2014

\$26,565,000

**Power Resource Revenue Bonds, 2014 Series
(Hoover Prepayment Project) (Federally Taxable)**

\$7,655,000 Serial Bonds

Year	Principal Amount	Interest Rate	Price	CUSIP†	Year	Principal Amount	Interest Rate	Price	CUSIP†
2018	\$540,000	1.799%	100%	040627DK4	2024	\$635,000	3.679%	100%	040627DR9
2019	550,000	2.199	100	040627DL2	2025	660,000	3.829	100	040627DS7
2020	560,000	2.708	100	040627DM0	2026	685,000	3.979	100	040627DT5
2021	580,000	3.058	100	040627DN8	2027	715,000	4.109	100	040627DU2
2022	595,000	3.329	100	040627DP3	2028	745,000	4.209	100	040627DV0
2023	615,000	3.509	100	040627DQ1	2029	775,000	4.309	100	040627DW8

\$18,910,000 4.918% Term Bonds Due October 1, 2045, Price 100%, CUSIP 040627DX6†

† CUSIP numbers have been assigned by an independent company not affiliated with the Authority and are included solely for the convenience of the holders of the 2014 Series Bonds. Neither the Authority nor the Underwriters are responsible for the selection or uses of the CUSIP numbers and no representation is made as to their correctness on the 2014 Series Bonds or as indicated above. CUSIP numbers are subject to being changed after the issuance of the 2014 Series Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such 2014 Series Bonds or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of the 2014 Series Bonds.

ARIZONA POWER AUTHORITY

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No dealer, salesman or any other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement, in connection with the offering contained herein, and, if given or made, such information or representations must not be relied upon as having been authorized by the Authority or the Underwriters. This Official Statement does not constitute an offer to sell, or a solicitation of an offer to buy, any securities other than the securities offered hereby, or an offer to sell or solicitation of an offer to buy the securities offered hereby to any person in any jurisdiction where such offer or solicitation of such offer would be unlawful. The delivery of this Official Statement at any time does not imply that information herein is correct as of any time subsequent to its date.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2014 SERIES BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The information set forth herein has been furnished by the Authority and Central Arizona Water Conservation District ("CAWCD") and includes information obtained from other sources as indicated herein, all of which are believed to be reliable. The information and expressions of opinion identified 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 Authority or CAWCD since the date hereof. Such information and expressions of opinion are made for the purpose of providing information to prospective investors and are not to be used for any other purpose or relied on by any other party.

This Official Statement contains statements which, to the extent they are not recitations of historical fact, constitute "forward-looking statements." In this respect, the words "estimate", "project", "anticipate", "expect", "intend", "believe" and similar expressions are intended to identify forward-looking statements. A number of important factors affecting the Authority's or CAWCD's business and financial results could cause actual results to differ from those stated in the 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 respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

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ARIZONA POWER AUTHORITY

\$26,565,000

Power Resource Revenue Bonds, 2014 Series (Hoover Prepayment Project) (Federally Taxable)

INTRODUCTORY STATEMENT

The purpose of this Official Statement, which includes the cover page and the appendices hereto, is to set forth certain information in connection with the issuance by the Arizona Power Authority (the “Authority”) of \$26,565,000 principal amount of its Power Resource Revenue Bonds, 2014 Series (Hoover Prepayment Project) (Federally Taxable) (the “2014 Series Bonds”). The 2014 Series Bonds are being issued to refinance indebtedness issued by the Authority to prepay the Authority’s proportionate share of the obligations incurred by the Bureau of Reclamation (the “Bureau”) of the United States Department of the Interior (the “Interior Department”) for certain improvements at Hoover Dam, to fund a deposit to the Debt Service Reserve Account, to capitalize interest payments to October 1, 2014 and to pay costs of issuance. See “PREPAYMENT PLAN”. The 2014 Series Bonds will be issued on a parity with the Authority’s outstanding Power Resource Revenue Bonds, 2001 Series (the “2001 Series Bonds”). The 2014 Series Bonds and the 2001 Series Bonds, and any additional bonds issued in the future under the Resolution that are on a parity as to security and source of payment therewith, are herein referred to collectively as the “Bonds.”

The Authority was created and is existing pursuant to the Arizona Power Authority Act of 1944, constituting Articles 1 through 3 of Chapter 1 of Title 30 of the Arizona Revised Statutes (the “Power Authority Act”). The 2014 Series Bonds will be issued pursuant to and under the State Water and Power Plan Act of 1967, constituting Chapter 10 of Title 45 of the Arizona Revised Statutes (the “Plan Act”). The Power Authority Act and the Plan Act are sometimes collectively referred to herein as the “Authority Act.”

The 2014 Series Bonds are issued pursuant to and are secured by the Power Resource Revenue Bond Resolution adopted by the Authority on December 6, 1985 and the Seventh Supplemental Revenue Bond Resolution adopted by the Authority on March 18, 2014 (the “Seventh Supplemental Resolution”) (said Power Resource Revenue Bond Resolution as so supplemented by the Seventh Supplemental Resolution and as heretofore amended and supplemented, the “Resolution”). A summary of certain provisions of the Resolution is set forth in “APPENDIX D — SUMMARY OF CERTAIN PROVISIONS OF THE POWER RESOURCE REVENUE BOND RESOLUTION.”

For a description of the debt service on the Bonds that will be outstanding upon the authentication and delivery of the 2014 Series Bonds, see “DEBT SERVICE REQUIREMENTS ON THE BONDS.”

The Authority supplies capacity and energy on a wholesale basis to certain power purchasers in the State of Arizona (the “State”). The Authority’s primary source of power and energy is the Hoover Powerplant at Hoover Dam. Hoover Dam, located approximately 25 miles from Las Vegas, Nevada, is the highest and third largest concrete dam in the United States of America. Hoover Dam was dedicated in 1935 and the first generator of the Hoover Powerplant was in full operation in October 1936. The Hoover Powerplant has been in continuous operation since 1936, with energy generated at the Hoover Powerplant for the year ended September 30, 2013 totaling 3,744,931 megawatt-hours (“MWh”). Power and energy from the Hoover Powerplant is transmitted to load centers in Arizona, California and Nevada. The Authority first contracted for Arizona’s share of Hoover power in 1952 and has continuously provided power and energy to its customers since that time. For the year ended September 30, 2013, the Authority delivered 687,304 MWh of energy to its customers in Arizona. The amounts of capacity and energy allocated to the Hoover Contractors for the period prior to October 1, 2017 and for the period October 1, 2017 to September 30, 2067 is set forth in the tables under the heading “THE HOOVER POWERPLANT”.

The Authority entered into a Contract for Electric Service, effective January 1, 1987 (the “Western Contract”), with the Western Area Power Administration (“Western”), one of four federal power marketing agencies of the United States Department of Energy. The Western Contract is one of a series of contracts (the “Western Agreements”) between Western and the Hoover power purchasers (the “Hoover Contractors”) which provides for the sale of Hoover capacity and associated energy to the Hoover Contractors commencing June 1, 1987. The capacity and energy purchased by the Authority from Western is transmitted to delivery points in Arizona pursuant to Contracts for Firm and Non-Firm Transmission Service, dated February 12, 1987 (the “Western Wheeling Contracts”), between the Authority and Western

and a Transmission Service Agreement, dated February 18, 1987 (the “Salt River Project Wheeling Contract”), between the Authority and the Salt River Project Agricultural Improvement and Power District (“Salt River Project”). The Western Wheeling Contracts and the Salt River Project Wheeling Contract are herein collectively referred to as the “Wheeling Agreement.” The Authority has also entered into power sales contracts, all dated as of September 15, 1986 (collectively, the “Original Power Sales Contracts”), with 29 power purchasers (the “Authority Power Purchasers”) that provide for the sale of the Authority’s share of Hoover power and provide the source of revenues for the repayment of the Bonds. In connection with the hereinafter defined Prepayment Project and the issuance of the 2014 Series Bonds, the Authority has entered into Amendment No. 1, dated as of October 1, 2013 (“Amendment No. 1”) to the Original Power Sales Contracts, with each of the Authority Power Purchasers. The Original Power Sales Contracts, as amended by Amendment No. 1, are herein referred to as the “Power Sales Contracts.” For a more detailed description of the Power Sales Contracts, see “APPENDIX C — SUMMARY OF CERTAIN PROVISIONS OF THE POWER SALES CONTRACTS”.

The Uprating Program was conducted by the Bureau pursuant to the Hoover Power Plant Act of 1984 (the “1984 Hoover Act”). The Uprating Program increased the generating nameplate capacity of the Hoover Powerplant to approximately 2,074 megawatts (“MW”). The Authority issued bonds in 1985 to provide funds to the Bureau to pay for its proportionate share of the cost of the Uprating Program which bonds were refunded in 1993 and 2001. As of October 1, 2013, \$23,070,000 of the 2001 Series Bonds issued to refinance the bonds of Authority issued for the Uprating Program remain outstanding with a final maturity date of October 1, 2017. The Authority and the other Hoover Contractors that advanced funds to the Bureau for the Uprating Program were allocated the resulting increased capacity and associated energy which totaled up to 503 MW. The Authority was allocated 37.3757% of the increase in capacity resulting from the Uprating Program, totaling approximately 188 MW. The total cost of the Uprating Program was \$168,739,113.

In conjunction with the Uprating Program, the Bureau completed in 1995 a significant expansion and modernization of facilities to accommodate visitors at Hoover Dam (the “Visitor Center”) at a total Federal investment of \$126,265,344. In addition, the Bureau completed in 1987 the construction of protective enhancements and modifications to the Hoover Dam spillways (the “Air Slots”) at a total Federal investment of \$11,324,291. Funding for construction of the Visitor Center and Air Slots was obtained through appropriations from the United States. The Bureau is obligated to repay such appropriations together with interest on such appropriations. Principal of such appropriations and interest payments thereon are treated as borrowings from the United States Department of the Treasury (the “Treasury”) and have been included in the cost of power and energy produced at the Hoover Powerplant and sold to the Hoover Contractors pursuant to the Western Agreements. The interest rates on appropriations for the Visitor Center and Air Slots were significantly higher than those prevailing under current market conditions. See “PREPAYMENT PLAN.”

The summaries of and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety by reference to each document, statute, report or instrument. The capitalization of any word not conventionally capitalized or otherwise defined herein has the meaning given it in “APPENDIX D — SUMMARY OF CERTAIN PROVISIONS OF THE POWER RESOURCE REVENUE BOND RESOLUTION.”

PREPAYMENT PLAN

On March 12, 2014, the Hoover Contractors completed the prepayment of appropriations by the United States Congress for the Visitor Center and Air Slots. Appropriation funding for the cost of acquisition and construction of the Visitor Center was provided to the Bureau totaling \$126,265,344 (the “Visitor Center Appropriations”). The Bureau is required to repay the Visitor Center Appropriations with interest. The weighted average interest rate on the Visitor Center Appropriations was 8.062% and the final repayment date of the Visitor Center Appropriations was September 30, 2045. The principal amount of Visitor Center Appropriations outstanding at the time of prepayment was \$114,287,563.

Appropriation funding for the cost of acquisition and construction of the Air Slots was provided to the Bureau totaling \$11,324,291 (the “Air Slots Appropriations”). The Bureau is required to repay the Air Slots Appropriations with interest. The weighted average interest rate on the Air Slots Appropriations was 9.84% and the final repayment date of the Air Slots Appropriations was September 30, 2037. The principal amount of Air Slots Appropriations outstanding at the time of prepayment was \$9,683,305. The Visitor Center Appropriations and Air Slots Appropriations are collectively referred to herein as the “Bureau Appropriation Obligations.” The amount of the Bureau Appropriation Obligations has been furnished by the Bureau by a letter, dated December 3, 2013, addressed to the Interim Acting Executive Director of the Authority.

The Hoover Contractors have entered into the Western Agreements with Western to purchase capacity and energy from the Boulder Canyon Project. The payment of the principal and interest on the Bureau Appropriation Obligations was a component of the cost of power and energy payable by the Hoover Contractors to Western pursuant to

the Western Agreements. The Hoover Contractors determined that it was in their best interest to provide for the prepayment of all of the outstanding Bureau Appropriation Obligations so as to decrease their cost of Hoover power and energy payable pursuant to the Western Agreements.

Each of the Hoover Contractors has provided its proportionate share of the funds necessary to pay the principal of the outstanding Bureau Appropriation Obligations and the Bureau has eliminated such charges from its budget for the cost of power and energy payable under the Western Contracts. The amount of Bureau Appropriation Obligations prepaid by each Hoover Contractor as well as each Hoover Contractors percentage of such amount is set forth in the table below. With respect to each Hoover Contractor, such percentage is hereinafter referred to as its "Prepayment Share."

JPMorgan Chase Bank, National Association extended a line of credit to the Authority pursuant to a Loan and Security Agreement dated March 5, 2014 (the "Loan Agreement"). Under the Loan Agreement, the Authority borrowed \$23,843,169 to finance the Authority's Prepayment Share, as well as certain costs incurred under the Loan Agreement. A portion of the proceeds of the 2014 Series Bonds will be applied by the Authority to repay the borrowing under the Loan Agreement and related costs.

The funding by the Authority through the issuance of the 2014 Series Bonds of its Prepayment Share as well as other costs related thereto is herein referred to as the "Prepayment Project".

PREPAYMENT SHARES

<u>Hoover Contractor</u>	<u>Prepayment Share</u>	<u>Visitor Center Loans</u>	<u>Air Slots Loans</u>	<u>Total Bureau Prepayment Amount</u>
City of Anaheim, California	1.5995%	\$ 1,828,030	\$ 154,884	\$ 1,982,914
Arizona Power Authority	19.1381	21,872,468	1,853,201	23,725,669
City of Azusa, California ⁽¹⁾	0.1577	180,231	15,271	195,502
City of Banning, California ⁽¹⁾	0.0733	83,773	7,098	90,871
Boulder City Nevada ⁽²⁾	1.3961	1,595,569	135,189	1,730,758
City of Burbank, California ⁽¹⁾	0.8096	925,272	78,396	1,003,668
Colorado River Commission	21.3470	24,396,966	2,067,095	26,464,061
City of Colton, California ⁽¹⁾	0.1211	138,402	11,726	150,128
City of Glendale, California ⁽¹⁾	1.3063	1,492,938	126,493	1,619,431
Los Angeles Department of Water & Power	20.2915	23,190,661	1,964,888	25,155,549
Metropolitan Water District of Southern California	20.6125	23,557,524	1,995,971	25,553,495
City of Pasadena, California ⁽¹⁾	1.1940	1,364,594	115,619	1,480,213
City of Riverside, California ⁽¹⁾	1.1996	1,370,994	116,161	1,487,155
Southern California Edison	9.8806	11,292,297	956,769	12,249,066
City of Vernon, California ⁽¹⁾	<u>0.8731</u>	<u>997,845</u>	<u>84,545</u>	<u>1,082,390</u>
Total	100.0000%	\$114,287,563 ⁽³⁾	\$9,683,305 ⁽³⁾	\$123,970,868 ⁽³⁾

(1) Each of said California Cities is making its Prepayment Share payment through the Southern California Public Power Authority.

(2) The Colorado River Commission of Nevada is funding the Prepayment Share of Boulder City, Nevada.

(3) Amounts may not add to total due to rounding.

In 2013 the Plan Act was amended to include the Prepayment Project as an authorized project eligible to be funded by the Authority pursuant to the Plan Act.

INVESTMENT CONSIDERATIONS RELATING TO THE POWER SALES CONTRACTS

The final maturity date of the 2014 Series Bonds is October 1, 2045, coterminous with the final maturity date of the Visitor Center Appropriations. The Power Sales Contracts entered into by the Authority with the Authority Power Purchasers terminate on September 30, 2017. Pursuant to the Hoover Power Allocation Act of 2011, Western provided in

June 2012 formal notification and confirmation of the post 2017 Hoover power allocations to the existing Hoover Contractors, including the Authority. While the Authority expects to enter into new power sales contracts for the period from October 1, 2017 to September 30, 2067 that will secure the 2014 Series Bonds, the holders of the 2014 Series Bonds should take into consideration when purchasing the 2014 Series Bonds that the Authority may not have post 2017 Hoover power sold under long term firm power sales contracts securing the payment of the 2014 Series Bonds during the period beginning on October 1, 2017.

The Hoover Power Allocation Act of 2011 allocated post 2017 Hoover power to the existing Hoover Contractors, including the Authority, which is further discussed herein under the caption "THE HOOVER POWERPLANT." The Hoover Power Allocation Act of 2011 also authorized Western to enter into power sales contracts with the Hoover Contractors for the period October 1, 2017 to September 30, 2067. Western has not yet announced the terms and conditions for the sale of post 2017 Hoover power to the existing Hoover Contractors under such power sales contracts. The Authority expects that such power sales contracts will be similar in substance to the current Western Agreements. Western has recently published the marketing criteria for its allocation of the hereinafter defined Hoover D Power to new entities in the Boulder City marketing area. Applications for the allocation of Hoover D Power are to be submitted to Western by qualified entities by March 31, 2014. See "THE HOOVER POWERPLANT".

The Authority is at an early stage in the contracting process for its allocation of post 2017 Hoover power made available under the Hoover Power Allocation Act of 2011 and is currently engaged in preliminary evaluation and analysis of load and resource data voluntarily submitted by Authority Power Purchasers and new entities. The Authority has retained an independent consulting engineering firm, UC Synergetic, to assist in evaluating applications for the allocation of post 2017 Hoover power. The Authority has received indications of interest for 667 MW of capacity (total available post 2017 capacity is 392 MW), and for 990,000 MWh of energy (total available post 2017 energy is 840,000 MWh). The Authority expects to begin a public hearing process for the distribution of its allocation of post 2017 Hoover power to prospective power customers in Arizona for the 50 year period beginning on October 1, 2017 in mid-2014 and to complete its Hoover power allocation process during 2014. Subsequently, the Authority expects to enter into new power sales contracts with the allottees of its allocation of post 2017 Hoover power which, based on current requests for post 2017 Hoover power allocations received by the Authority, may include existing Authority Power Purchasers as well as additional power purchasers in Arizona. For additional information with respect to the costs of Hoover power and energy see "HOOVER POWER MARKETING BY THE AUTHORITY — COSTS OF HOOVER POWER", herein.

The amount of post 2017 Hoover power to be allocated by the Authority to any particular power purchaser in Arizona is unknown at this time and will not be determined until the allocation process has been completed, including consideration of the recommendations for power allocations provided by the independent consulting engineering firm. The Authority expects that power sales contracts for post 2017 Hoover power will be substantially similar to the existing Power Sales Contracts. However, until such post October 1, 2017 power sales contracts are executed and delivered, the Authority will not know which entities, if any, will purchase post 2017 Hoover power from the Authority or in what amounts.

The cost of Hoover power between the date of issue of the 2014 Series Bonds and the execution of new power sales contracts for the post October 1, 2017 period could be affected by various factors including the continuation of drought conditions in the southwestern United States which could reduce energy output at Hoover Dam as well as environmental considerations that may affect operations of the lower Colorado River. For additional information see "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – "Drought Conditions Affecting Hoover Dam" and "- Environmental Considerations Relating to Hoover Dam". A substantial increase in the cost of Hoover power prior to the execution by the Authority of new power sales contracts for the post October 1, 2017 period may affect the Authority's ability to enter into new power sales contracts for such period.

If the Authority has not entered into contracts for Hoover power for the post October 1, 2017 period, the Authority believes that it could sell post 2017 Hoover power and energy into the power markets of Arizona at prices that would recover its costs, including payment of debt service on the 2014 Series Bonds. As discussed under "HOOVER POWER MARKETING BY THE AUTHORITY – COST OF HOOVER POWER," based on projections provided by Western and the Bureau, the Authority believes that post 2017 Hoover power will be a low cost source of energy and easily marketable in the Arizona energy markets. However, the Authority's ability to sell post 2017 Hoover power could be affected by factors beyond the control of the Authority. For information relating to drought conditions in the Colorado River Basin as well as certain environmental considerations, see "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – Drought Conditions Affecting Hoover Dam and Environmental Considerations Relating to Hoover Dam."

Purchasers of the 2014 Series Bonds should take into consideration that the existing Power Sales Contracts will terminate on September 30, 2017 and will no longer provide security for the 2014 Series Bonds on and after October 1, 2017. If the Authority is unable to enter into new power sales contracts for the post October 1, 2017 period, due to a substantial increase in the cost of Hoover power as a result of reduced energy output at Hoover Dam or environmental considerations affecting operations or otherwise, and/or if the Authority is unable to sell post 2017 Hoover power and energy into other power markets at prices that would recover its costs, including payment of debt service on 2014 Series Bonds, there could result a shortfall in amounts required for the payment of principal of and interest on the 2014 Series Bonds.

APPLICATION OF PROCEEDS OF THE 2014 SERIES BONDS

Proceeds of the 2014 Series Bonds	<u>\$26,565,000.00</u>
Deposit in the Prepayment Account ^{(1), (2)}	\$24,455,035.98
Deposit to the Debt Service Reserve Account	1,196,112.36
Financing Costs ⁽³⁾	913,851.66
Total Amount Applied	<u>\$26,565,000.00</u>

(1) Includes interest capitalized to October 1, 2014.

(2) A portion of proceeds of the 2014 Series Bonds deposited in the Prepayment Account will be applied by the Authority to repay its borrowing under the Loan Agreement and related costs.

(3) Includes underwriters' compensation and other costs of issuance.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Pledge Effected by the Resolution

The Resolution provides that the Bonds, including the 2014 Series Bonds, shall be direct and special obligations of the Authority payable solely from and secured solely by the Pledged Property which is defined by the Resolution to include (i) the proceeds of the sale of the Bonds, (ii) all right, title and interest of the Authority in, to and under the Western Contract, the Power Sales Contracts, the Wheeling Agreement and the Surplus Revenues Agreement (described below), (iii) the Revenues (as defined in the Resolution), and (iv) all funds established by the Resolution, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

See "APPENDIX D — SUMMARY OF CERTAIN PROVISIONS OF THE POWER RESOURCE REVENUE BOND RESOLUTION" for further discussion of certain terms of the Resolution.

Power Sales Contracts

Pursuant to the Power Sales Contracts, the Authority has agreed to sell and deliver to each Authority Power Purchaser, during the term of the related Power Sales Contract, Hoover power at designated points of delivery in an amount up to each Authority Power Purchaser's Entitlement. The term of each Power Sales Contract extends to September 30, 2017. See "INVESTMENT CONSIDERATIONS RELATING TO THE POWER SALES CONTRACTS" for information relating to the post September 30, 2017 period. The following discussion of the Power Sales Contracts applies only to the Power Sales Contracts that terminate on September 30, 2017.

Power Purchaser's Entitlement is defined in the Power Sales Contracts to mean the Authority Power Purchaser's proportionate share of hereinafter defined Hoover A Power and Hoover B Power, as the case may be, made available to the Authority by Western during the then current Contract Year. Such proportionate share is based upon the allocation of Hoover A Power and Hoover B Power made by the Authority pursuant to the Final Hoover Marketing Post-1987 plan adopted by the Authority on June 7, 1985 (the "Final Hoover Marketing Plan"). For the current allocation to each Authority Power Purchaser, see "HOOVER POWER MARKETING BY THE AUTHORITY — Authority Power Purchasers."

Each Authority Power Purchaser has agreed to take and pay for the Hoover power delivered or made available for delivery by the Authority to the Authority Power Purchaser at the rates and charges developed in accordance with the related Power Sales Contract.

The Authority is required by State law and the Power Sales Contracts to establish and maintain rates that will provide revenues sufficient to meet the estimated Revenue Requirements which are defined by the Power Sales Contracts to include the Authority's costs under the Western Contract and the Wheeling Agreement and the debt service on the Bonds. The Authority allocates the Revenue Requirements to a Demand Charge and an Energy Charge. Each Authority Power Purchaser makes monthly payments to the Authority based on the product of the Demand Charge and Energy Charge multiplied by the Authority Power Purchaser's capacity for such month and the aggregate amount of energy delivered for such month, respectively.

So long as any Hoover power is delivered or made available for delivery to the Authority Power Purchasers at any time during a monthly billing period, the Authority Power Purchaser is required to pay its proportionate share of the Revenue Requirements for such billing period. If no Hoover power is delivered or made available for delivery to the Authority Power Purchaser during such monthly billing period, the Authority Power Purchaser is not required to make any payments for such monthly billing period. Hoover energy actually scheduled for delivery to the Authority Power Purchaser and dispatched shall be deemed delivered.

In the event of a default by Authority Power Purchaser and the termination of the related Power Sales Contract, the Authority is required to reallocate such defaulting Authority Power Purchaser's Entitlement as the Authority shall determine, however, the non-defaulting Authority Power Purchasers are not required to accept such Entitlement. If the Authority is unable to reallocate such defaulting Authority Power Purchaser's Entitlement, the Authority is required to use its best efforts to sell such Entitlement to other parties. Any costs not recovered by the Authority through such reallocation or sale would be included in Revenue Requirements for the purpose of determining the Demand Charge and the Energy Charge payable by the non-defaulting Authority Power Purchasers. No Authority Power Purchaser has defaulted on its Power Sales Contract.

Each Authority Power Purchaser may tender or relinquish to the Authority for resale by the Authority, all or a portion of the Authority Power Purchaser's Entitlement not needed by the Authority Power Purchaser. The Authority Power Purchaser's Entitlement so relinquished or tendered to the Authority is to be returned to the Authority Power Purchaser within 60 days following written notice by the Authority Power Purchaser to the Authority if required to meet the loads of the Authority Power Purchaser. The Authority is obligated by the Power Sales Contract to use its best efforts to sell such Entitlement and the net proceeds of the sale thereof shall be applied to satisfy the Authority Power Purchaser's payment obligations under the Power Sales Contract. No tender, or relinquishment of such Entitlement shall relieve the Authority Power Purchaser of its obligations under the Power Sales Contract or be deemed a recapture by the Authority pursuant to the Power Sales Contract unless such tender or relinquishment is for the remaining term of the Power Sales Contract and the Authority has sold all or a portion of the Hoover capacity and energy to be made available to the Authority Power Purchaser for the remaining term of the Power Sales Contract.

Pursuant to the related Power Sales Contracts each Authority Power Purchaser has agreed to maintain rates, fees and charges for the sale or use of the Hoover power purchased under the Power Sales Contract, as allowed by the appropriate regulatory authority, if any, which, together with other available funds, shall provide to the Authority Power Purchaser revenues sufficient to meet its obligations to the Authority under the Power Sales Contract and the obligations of the Authority Power Purchaser, if any, which are equal to or superior to its obligations under the Power Sales Contract. Nothing in the Power Sales Contract shall be deemed to require the Authority Power Purchaser to satisfy its obligations under the Power Sales Contract from any source which would result in a violation of any statutory or constitutional provisions including, if applicable, payments from ad valorem or property taxes in violation of law.

For a more detailed description of the Power Sales Contracts that terminate on September 30, 2017, see "APPENDIX C — SUMMARY OF CERTAIN PROVISIONS OF THE POWER SALES CONTRACTS."

The Authority's primary source of payment of the principal of and interest on the Bonds is derived from amounts required to be paid by the Authority Power Purchasers pursuant to the Power Sales Contracts. An individual Authority Power Purchaser's ability to make such payments is dependent on its ability to collect rates, fees and charges from its customers which may be subject to various factors, including with respect to a large number of the Authority Power Purchasers affiliated with agriculture, unfavorable conditions or stress in the agricultural economy in Arizona, which could adversely affect their demand for electrical power, or their ability to collect rates, fees and charges from customers sufficient to make payments under the Power Sales Contracts.

The Authority has entered into power sales contracts for the sale of hereinafter defined Hoover C Energy when and if Hoover C Energy is available. Such power sales contracts are also pledged as security for the Bonds under the

Resolution. For additional information relating to Hoover C Energy, see herein “THE HOOVER POWERPLANT — General” and “— Hoover C Energy.”

In connection with the Prepayment Project, the Authority has entered into Amendment No. 1 to the Power Sales Contract with each of the Authority Power Purchasers which amends certain definitions in the Power Sales Contracts.

Certain Contracts

Western Contract and Wheeling Agreement. The Western Contract provides for the purchase by the Authority from Western of the hereinafter defined Hoover A Power, Hoover B Power and Hoover C Energy, which Western has offered to the Authority pursuant to the requirements of the 1984 Hoover Act. The Authority is required to pay Western for all Hoover power scheduled or delivered to the Authority in accordance with the Western Contract. Debt service on indebtedness of the Authority incurred in advancing funds to the Bureau and certain other costs for the Upgrading Program (net of investment income in certain circumstances), including debt service on the Bonds issued for the Upgrading Program, is to be credited against the power bills rendered to the Authority by Western, thereby reducing the Authority’s payments to Western for purchasing power under the Western Contract. For a more detailed description of the Western Contract, see “APPENDIX F — SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL CONTRACTS — The Western Contract.”

The Authority has also entered into the Western Wheeling Contracts, which provide for transmission of the Hoover power purchased by the Authority pursuant to the Western Contract to delivery points in Arizona. For a more detailed description of the Western Wheeling Contracts, see “APPENDIX F — SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL CONTRACTS — The Western Wheeling Contracts.” Pursuant to the Salt River Project Wheeling Contract, Salt River Project will transmit Hoover power purchased by certain Authority Power Purchasers that are also customers of Salt River Project to designated points of delivery of those Authority Power Purchasers. For further discussion of the transmission of Hoover power by the Authority, see “THE HOOVER POWERPLANT — Transmission.”

Surplus Revenues Agreement. The Authority, as required by the Plan Act, has entered into the Surplus Revenues Agreement with the Arizona Department of Water Resources. The Surplus Revenues Agreement provides that surplus funds in the General Reserve Fund created under the Resolution are to be transferred at the end of each Fiscal Year by the Authority to the State Treasurer for deposit in the State Water and Power Development Fund to be used as an additional debt service reserve for the Bonds. The Authority has not and does not anticipate making any transfers from the General Reserve Fund to the State Water and Power Development Fund pursuant to the Surplus Revenues Agreement.

Pledge and Assignment. All of the Authority’s right, title and interest in and to the Western Contract, the Wheeling Agreement and the Surplus Revenues Agreement have been pledged and assigned by the Authority to the Trustee pursuant to the Resolution as security for the payment of the Bonds.

Flow of Funds

The Resolution establishes the following Funds and Accounts for the application of Revenues:

<u>Funds</u>	<u>Held by</u>
Construction Fund	Trustee
Revenue Fund.....	Authority
Operating Fund.....	Authority
Operating Account	
Debt Service Fund	Trustee
Debt Service Account.....	
Debt Service Reserve Account	
Subordinated Debt Fund.....	Trustee
Power Resources Development Fund.....	Authority
General Reserve Fund	Authority

Pursuant to the Resolution, all Revenues received are to be deposited promptly in the Revenue Fund. Amounts in the Revenue Fund are to be paid monthly to the following funds in the following order of priority:

First, To the Operating Fund, for credit to the Operating Account, such amount as the Authority shall estimate is required, together with amounts then on deposit therein, to provide for the payment of Operating Expenses estimated to be paid through the next month.

Second, To the Debt Service Fund, (i) for credit to the Debt Service Account, the amount, if any, required so that the balance in the Debt Service Account shall equal the Accrued Aggregate Debt Service as of the last day of the then current month or, if interest and/or principal are required to be paid to holders of Bonds during the next succeeding month on a day other than the first day of such month, Accrued Aggregate Debt Service as of the day through and including which such interest and/or principal is required to be paid; provided that, for the purposes of computing the amount to be deposited in the Debt Service Account, there shall be excluded from the balance of the Debt Service Account the amount, if any, set aside in the Debt Service Account from the proceeds of Bonds (including amounts, if any, transferred thereto from the Construction Fund) for the payment of interest on Bonds less that amount of such proceeds to be applied in accordance with the Resolution to the payment of interest accrued and unpaid and to accrue on Bonds to the last day of the then current month or, if interest is required to be paid to holders of Bonds during the next succeeding month on the day other than first day of such month less that amount of such proceeds to be applied in accordance with the Resolution to the payment of interest accrued and unpaid and to accrue on Bonds to the day through and including which such interest is required to be paid, and (ii) for credit to the Debt Service Reserve Account, the amount, if any, required for the Debt Service Reserve Account, after giving effect to any surety bond, insurance policy, letter of credit or other similar obligation deposited in the Debt Service Reserve Account pursuant to the Resolution, to equal the Debt Service Reserve Requirement as of the last day of the then current month.

Third, To the Subordinated Debt Fund, the amount, if any, required to pay principal or sinking fund installments of and interest on each issue of Subordinated Debt and reserves therefor and the amounts, if any, to pay tendered Subordinated Debt, in accordance with the Resolution or other debt instrument authorizing such issue of Subordinated Debt.

Fourth, To the Power Resource Development Fund, the amount, if any, to be deposited in said Fund for such month pursuant to the then current Annual Budget.

Fifth, To the General Reserve Fund, the remaining balance, if any, of moneys in the Revenue Fund after making the above credits and deposits.

For a more detailed discussion of the application of moneys deposited in the various Funds and Accounts, see “APPENDIX D — SUMMARY OF CERTAIN PROVISIONS OF THE POWER RESOURCE REVENUE BOND RESOLUTION — Application of Revenues.”

Debt Service Reserve Account

As of any date of calculation and subject to adjustment as hereinafter described, the Debt Service Reserve Requirement is an amount equal to the greatest amount of Adjusted Aggregate Debt Service for any Fiscal Year. See “APPENDIX D — SUMMARY OF CERTAIN PROVISIONS OF THE POWER RESOURCE REVENUE BOND RESOLUTION — Application of Revenues — Payments into Certain Funds.” Should the amount on deposit in the Debt Service Reserve Account fall below its required level and there are not sufficient Revenues therefor, such deficit is to be cured by application of funds from amounts in the General Reserve Fund, the Power Resource Development Fund and the Subordinated Debt Fund, in that order. Any deficiency in the Debt Service Reserve Account is subject to immediate replenishment in accordance with the Resolution. For information relating to the Authority’s right to deposit a surety bond or insurance policy in the Debt Service Reserve Account, see APPENDIX D — SUMMARY OF CERTAIN PROVISIONS OF THE POWER RESOURCE REVENUE BOND RESOLUTION — Debt Service Fund — Debt Service Reserve Account.” The amount to be on deposit in the Debt Service Reserve Account upon the authentication and delivery of the 2014 Series Bonds is \$7,742,662.36.

Rate Covenant

Pursuant to the Resolution, the Authority has covenanted to fix, establish, maintain and collect rents, rates, fees and charges under the Power Sales Contracts to provide Revenues at least sufficient, together with other available funds, for the payment in each Fiscal Year of the sum of (i) Operating Expenses, (ii) Aggregate Debt Service, (iii) any required deposit in the Debt Service Reserve Account, (iv) debt service on Subordinated Debt, and (v) all other charges and liens payable out of Revenues.

In the opinion of Legal Counsel to the Authority, the rates charged by the Authority are not subject to regulation by the Arizona Corporation Commission or any other federal or State of Arizona regulatory body.

Additional Bonds

Under the Resolution, the Authority reserves the right to issue one or more series of additional Bonds at any time or from time to time for the purpose of paying all or a portion of the Cost of Acquisition and Construction of any additional project authorized by the Plan Act or to refund any Outstanding Bonds. The proceeds of such additional Bonds shall be applied as set forth in the supplemental resolution authorizing such series and such Bonds will rank equally as to security and payment with the Bonds. For information relating to the terms and conditions under which such additional Bonds can be issued, see “APPENDIX D — SUMMARY OF CERTAIN PROVISIONS OF THE POWER RESOURCE REVENUE BOND RESOLUTION — Additional Bonds; Refunding Bonds.”

THE 2014 SERIES BONDS

General

The 2014 Series Bonds will be delivered as fully registered bonds in the denominations of \$5,000 or any integral multiple thereof. The Bank of New York Mellon Trust Company, N.A. has been appointed as Trustee, Paying Agent and Bond Registrar by the Authority under the Resolution. The 2014 Series Bonds will bear interest at the rates and mature on the dates and in the amounts set forth on the inside front cover page of this Official Statement.

Interest on the 2014 Series Bonds is payable on April 1 and October 1 of each year, commencing October 1, 2014, computed on the basis of a 360-day year, consisting of twelve 30-day months. Interest on the 2014 Series Bonds is payable by check or draft of the Trustee, mailed to the registered owners thereof at the addresses shown on the registration books of the Authority kept for that purpose at the principal corporate trust office of the Bond Registrar, on the 15th day of the calendar month next preceding an interest payment date (the “Record Date”). The principal and redemption price of the 2014 Series Bonds are payable at the principal corporate trust office of the Paying Agent.

Redemption Provisions

Mandatory Redemption. The 2014 Series Bonds maturing on October 1, 2045 are subject to mandatory sinking fund redemption, in such manner as the Trustee may reasonably determine, at a redemption price equal to the principal amount thereof on each of the dates and in the respective principal amounts set forth below, upon notice and in the manner and subject to the provisions of the Resolution:

<u>Date</u> <u>(October 1)</u>	<u>Sinking Fund</u> <u>Payment</u>	<u>Date</u> <u>(October 1)</u>	<u>Sinking Fund</u> <u>Payment</u>
2030	\$ 805,000	2038	\$1,180,000
2031	845,000	2039	1,240,000
2032	885,000	2040	1,300,000
2033	930,000	2041	1,365,000
2034	975,000	2042	1,430,000
2035	1,025,000	2043	1,500,000
2036	1,075,000	2044	1,575,000
2037	1,125,000	2045*	1,655,000

* Maturity

The Authority may from time to time direct the Trustee to purchase 2014 Series Bonds with moneys in the Debt Service Fund, at a price not greater than par, plus accrued interest to the date of such purchase, and apply such 2014 Series Bonds so purchased as a credit, at 100% of the principal amount thereof, against and in fulfillment of any future mandatory sinking fund payment for such 2014 Series Bonds.

Optional Redemption. The 2014 Series Bonds are subject to redemption prior to maturity at the option of the Authority in whole or in part on any date, at a redemption price (the “Make-Whole Redemption Price”) equal to the greater of:

- (1) the issue price (but not less than 100%) of the principal amount of the 2014 Series Bonds to be redeemed; or
- (2) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the 2014 Series Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the 2014 Series Bonds are to be redeemed, discounted to the date on which the 2014 Series Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (as described below) plus 10 basis points for the 2014 Series Bonds maturing on October 1, 2018 to and including October 1, 2020, 15 basis points for the 2014 Series Bonds maturing on October 1, 2021 to and including October 1, 2023; 20 basis points for the 2014 Series Bonds maturing on October 1, 2024 to and including October 1, 2025, and 25 basis points for the 2014 Series Bonds maturing on and after October 1, 2026;

plus, in each case, accrued and unpaid interest on the 2014 Series Bonds to be redeemed on the redemption date. As used herein, “Treasury Rate” means, with respect to any redemption date for a particular 2014 Series Bond, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the Federal Reserve Statistical Release H.15 (519) that has become publicly available as of the most recent date that is at least two Business Days, but not more than 30 calendar days, prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data) most nearly equal to the period from the redemption date to the maturity date of the 2014 Series Bonds to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

Selection of Bonds to be Redeemed. In the case of redemption of the 2014 Series Bonds at the option of the Authority, the Authority will select the maturities of the 2014 Series Bonds to be redeemed.

If the 2014 Series Bonds are not registered in book-entry only form any redemption of less than all of a maturity of the 2014 Series Bonds shall be effected by the Trustee among owners on a *pro rata* basis subject to minimum authorized denominations of \$5,000 principal amounts or integral multiples thereof. The particular 2014 Series Bonds to be redeemed shall be determined by the Trustee, using such method as it shall deem fair and appropriate.

If the 2014 Series Bonds are registered in book-entry only form and so long as DTC or a successor securities depository is the sole registered owner of the 2014 Series Bonds, if less than all of the 2014 Series Bonds of a maturity are called for prior redemption, the particular 2014 Series Bonds or portions thereof to be redeemed shall be selected on a “Pro Rata Pass-Through Distribution of Principal” basis in accordance with DTC procedures, provided that, so long as the 2014 Series Bonds are held in book-entry form, the selection for redemption of such 2014 Series Bonds shall be made in accordance with the operational arrangements of DTC then in effect that currently provide for adjustment of the principal by a factor provided by the Trustee pursuant to DTC operational arrangements. If the Trustee does not provide the necessary information and identify the redemption as on a Pro Rata Pass-Through Distribution of Principal basis, the 2014 Series Bonds will be selected for redemption in accordance with DTC procedures by lot.

It is the Authority’s intent with respect to the 2014 Series Bonds that redemption allocations made by DTC, the DTC Participants or such other intermediaries that may exist between the Authority and the Beneficial Owners be made on a “Pro Rata Pass-Through Distribution of Principal” basis as described above. However, the Authority can provide no assurance that DTC, the DTC Participants or any other intermediaries will allocate redemptions among Beneficial Owners on such basis. If the DTC operational arrangements do not allow for the redemption of the 2014 Series Bonds on a Pro Rata Pass-Through Distribution of Principal basis as discussed above, then the 2014 Series Bonds will be selected for redemption in accordance with DTC procedures by lot.

In connection with any repayment of principal, including payments of scheduled mandatory sinking fund payments, the Trustee, as Bond Register, will direct DTC to make a pass-through distribution of principal to the holders of the 2014 Series Bonds. A Pro Rata Pass-Through Distribution of Principal table is included as APPENDIX H to this Official Statement and reflects the current schedule of mandatory sinking fund redemptions applicable to the 2014 Series Bonds and the factors applicable to such redemption amounts and remaining bond balances, which is subject to change upon certain optional redemptions. See “APPENDIX H — Principal Paydown Factor Table.”

For purposes of calculation of the “pro rata pass-through distribution of principal,” “pro rata” means, for any amount of principal to be paid, the application of a fraction to each denomination of the respective 2014 Series Bonds where (a) the numerator of which is equal to the amount due to the respective bondholders on a payment date, and (b) the denominator of which is equal to the total original par amount of the respective 2014 Series Bonds.

If the 2014 Series Bonds are no longer registered in book-entry-only form, and all of the 2014 Series Bonds are redeemed each holder will receive an amount of 2014 Series Bonds equal to the original face amount then held by that owner, registered in such investor’s name. Any redemption of less than all of the 2014 Series Bonds will continue to be paid to the registered owners of such 2014 Series Bonds on a pro-rata basis, based on the portion of the original face amount of any such 2014 Series Bonds to be redeemed.

Notice of Redemption. When the respective Trustee receives notice from the Authority of its election or direction to redeem any 2014 Series Bonds, such Trustee shall give notice, in the name of the Authority, of the redemption of such 2014 Series Bonds. Such notice shall be mailed by the respective Trustee, postage prepaid, not less than 30 days nor more than 60 days prior to the redemption date, to the registered owners of any 2014 Series Bonds or portions thereof which are to be redeemed, at their last addresses appearing upon the registration books of the Authority kept by the respective Bond Registrar. Failure to give notice by mail, or any defect in the notice to the registered owner of any 2014 Series Bonds which are to be redeemed shall not affect the validity of the proceedings for the redemption of any other 2014 Series Bonds. Any notice which is mailed in the manner herein provided shall be conclusively presumed to have been duly given, whether or not the owner receives such notice. As long as the book-entry system is used for the 2014 Series Bonds, the Trustee and the Authority will give any notice of redemption or any other notices required to be given to Bondholders of 2014 Series Bonds only to Cede & Co., as nominee of DTC.

Any redemption notice may state that such redemption notice is conditioned upon the receipt of moneys required for the redemption.

Transferability and Registration

The 2014 Series Bonds will be available to the ultimate purchasers in book-entry form only. Purchasers of the 2014 Series Bonds will not receive certificates representing their interests in such 2014 Series Bonds purchased, except as described below under “Book-Entry-Only System”. DTC will act as securities depository (“Securities Depository”) for the 2014 Series Bonds. As discussed below under “Book-Entry-Only System”, transfers of ownership interests in the 2014 Series Bonds will be accomplished by book entries made by DTC and, in turn, by DTC Participants and Indirect Participants (as defined below under “Book-Entry-Only System”) acting on behalf of Beneficial Owners of the 2014 Series Bonds. The Authority, the Trustee and any other person may treat the Registered Owner of any 2014 Series Bond as the absolute owner of such 2014 Series Bond for the purpose of making payment thereof and for all other purposes, and the Authority and the Trustee shall not be bound by any notice or knowledge to the contrary, whether such 2014 Series Bond shall be overdue or not. All payments of or on account of interest or principal to any Registered Owner of any such 2014 Series Bond shall be valid and effectual and shall be a discharge of the Authority and the Trustee in respect of the liability upon such 2014 Bond, to the extent of the sum or sums paid.

When 2014 Series Bonds are registered in the name of Cede & Co., as nominee of DTC, the Authority and the Trustee shall have no responsibility or obligation to any DTC Participant or to any person on behalf of whom a DTC Participant holds an interest in the 2014 Series Bonds with respect to (1) the accuracy of the records of DTC, Cede & Co. or any DTC Participant with respect to any ownership interest in the 2014 Series Bonds, (2) the delivery to any DTC Participant or any other person, other than a Registered Owner as shown on the Bond Register, of any notice with respect to the 2014 Series Bonds, including any notice of redemption, (3) the payment to any DTC Participant or any other person, other than a Registered Owner as shown on the Bond Register, of any amount with respect to principal of, premium, if any, or interest on the 2014 Series Bonds, (4) the selection by DTC or any DTC Participant of any person to receive payment in the event of a partial redemption of the 2014 Series Bonds, (5) any consent given or action taken by DTC as Registered Owner, or (6) any other matter. The Authority and the Trustee may treat and consider Cede & Co., in whose name each 2014 Series Bond is registered, as the holder and absolute owner of such 2014 Series Bond for the purpose of payment, giving notices of redemption and others matters.

Book-Entry-Only System

The 2014 Series Bonds will be available only in book-entry form. DTC New York, NY, will act as securities depository for the 2014 Series Bonds. The 2014 Series 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 2014 Series Bond certificate will be issued for each maturity of each Series of the 2014 Series Bonds and will be deposited with DTC.

DTC is a limited purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, 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 bond 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 others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). 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 and www.dtc.org.

Purchases of 2014 Series Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2014 Series Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2014 Series Bond (a “Beneficial Owner”) is in turn to be recorded on the Direct or Indirect Participant’s 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 2014 Series 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 2014 Series Bonds, except in the event that use of the book-entry system for the 2014 Series Bonds is discontinued.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE 2014 SERIES BONDS, AS NOMINEE FOR DTC, REFERENCES HEREIN TO THE BONDHOLDERS OR REGISTERED OWNERS OR OWNERS OF THE 2014 SERIES BONDS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE 2014 SERIES BONDS.

To facilitate subsequent transfers, all 2014 Series 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 2014 Series Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2014 Series Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such 2014 Series Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect 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. Beneficial Owners of the 2014 Series Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of the 2014 Series Bonds may wish to ascertain that the nominee holding the 2014 Series Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

The Authority, the Trustee and the Paying Agent may treat DTC (or its nominee) as the sole and exclusive owner of the 2014 Series Bonds registered in its name for the purpose of payment of the principal of or interest or premium, if any, on the 2014 Series Bonds, selecting 2014 Series Bonds and portions thereof to be redeemed, giving any notice permitted or required to be given to Bondholders under the Resolution, including any notice of redemption, registering the transfer of 2014 Series Bonds, obtaining any consent or other action to be taken by Bondholders and for all other purposes whatsoever, and shall not be affected by any notice to the contrary. The Authority, the Underwriters and the Paying Agent shall not have any responsibility or obligation to any Direct Participant, any person claiming a beneficial ownership interest in the 2014 Series Bonds under or through DTC or any Participant, or any other person which is not shown on the books of registry (kept by the Trustee) as being a Bondholder, with respect to: the accuracy of any records maintained by DTC or any Participant regarding ownership interests in the 2014 Series Bonds; the payment by DTC or any Participant of any amount in respect of the principal of or interest or premium, if any, on the 2014 Series Bonds; the delivery to any Participant or any Beneficial Owner of any notice which is permitted or required to be given to Bondholders under the Resolution, including any notice of redemption; the selection by DTC or any Participant of any person to receive payment in the event of a partial redemption of the 2014 Series Bonds; or any consent given or other action taken by DTC as a Bondholder.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2014 Series 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 issuer 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 such bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and interest payments on the 2014 Series 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 Authority or the Trustee, on payable 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 bonds 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 Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

Except as described below, neither DTC nor Cede & Co. will take any action to enforce covenants with respect to any security registered in the name of Cede & Co. Under its current procedures, on the written instructions of a Direct Participant, DTC will cause Cede & Co. to sign a demand to exercise bondholder rights as record holder of the quantity of bonds specified in the Direct Participant's instructions and not as record holder of all the bonds of that issue registered in the name of Cede & Co. Also, in accordance with DTC's current procedures, all factual representations to be made by Cede & Co. to the issuer, the Trustee or any other party must be made to DTC and Cede & Co. by the Direct Participant in its instructions to DTC.

For so long as the 2014 Series Bonds are issued in book-entry form through the facilities of DTC, any Beneficial Owner desiring to cause the Authority or the Trustee to comply with any of its obligations with respect to the 2014 Series Bonds must make arrangements with the Participant through which such Beneficial Owner's ownership interest in the 2014 Series Bonds is recorded in order for the Direct Participant in whose DTC account such ownership interest is recorded to give the instructions to DTC described above.

NONE OF THE AUTHORITY, THE TRUSTEE OR THE UNDERWRITERS (OTHER THAN IN THEIR CAPACITY, IF ANY, AS PARTICIPANTS) WILL HAVE ANY OBLIGATIONS TO THE PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO DTC'S PROCEDURES OR ANY PROCEDURES OR ARRANGEMENTS BETWEEN DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS AND THE PERSONS FOR WHOM THEY ACT RELATING TO THE MAKING OF ANY DEMAND BY CEDE & CO. AS THE REGISTERED OWNER OF THE 2014 SERIES BONDS, THE ADHERENCE TO SUCH PROCEDURES OR ARRANGEMENTS OR THE EFFECTIVENESS OF ANY ACTION TAKEN PURSUANT TO SUCH PROCEDURES OR ARRANGEMENTS.

As long as the book-entry system is used for the 2014 Series Bonds, the Paying Agent and the Authority will give any notice of redemption or any other notices required to be given to Bondholders of 2014 Series Bonds only to DTC. Any failure of DTC to advise any Direct Participant, or of any Direct Participant to notify any Indirect Participant, or of

any Direct Participant or Indirect Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the 2014 Series Bonds called for redemption, or of any other action premised on such notice. 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. Beneficial Owners may desire to make arrangements with a Direct Participant or Indirect Participant so that all notices of redemption or other communications to DTC which affect such Beneficial Owners will be forwarded in writing by such Direct Participant or Indirect Participant.

NONE OF THE AUTHORITY, THE TRUSTEE, THE PAYING AGENT OR THE UNDERWRITERS (OTHER THAN IN THEIR CAPACITY, IF ANY, AS DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS) WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS, OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES, WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE TO THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS, OR THE BENEFICIAL OWNERS OF THE 2014 SERIES BONDS.

Discontinuation of Book-Entry-Only System

DTC may discontinue providing its services as securities depository with respect to the 2014 Series Bonds at any time by giving reasonable notice thereof to the Authority or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, bonds are required to be printed and delivered. Upon the discontinuance of the services of DTC as Securities Depository for the 2014 Series Bonds, the Authority may within 90 days thereafter appoint a substitute securities depository which, in the opinion of the Authority, is willing and able to undertake the functions of securities depository under the Resolution upon reasonable and customary terms. If no such successor can be found within such period, the 2014 Series Bonds no longer shall be restricted to being registered in the name of a securities depository.

In the event the book-entry system is discontinued, the persons to whom 2014 Series Bond certificates are delivered will be treated as registered owners for all purposes of the Resolution, including the giving of any notice, consent, request or demand pursuant to the Resolution for any purpose whatsoever. In such event, interest on the 2014 Series Bonds will be payable by check or draft of the Paying Agent mailed to such Bondholders, and the principal of all 2014 Series Bonds will be payable at the principal office of the Trustee, as described above under the heading "General Provisions." In addition, following such discontinuation, the 2014 Series Bonds will be transferable as described in the following three paragraphs.

Any 2014 Series Bond may be transferred upon the books of registry kept by the Bond Registrar by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond to the Bond Registrar, accompanied by a written instrument of transfer fully executed by the registered owner in person or his duly authorized agent, in form satisfactory to the Bond Registrar.

Whenever any 2014 Series Bond is surrendered for transfer, a new 2014 Series Bond or Bonds, registered in the name of the transferee or transferees and for a like aggregate principal sum shall be delivered at the principal office of the Bond Registrar (or sent by registered mail to the new owner at his request, risk and expense). To the extent the same are in denominations of \$5,000 or integral multiples thereof, one or several 2014 Series Bonds may be transferred for one or several such Bonds of the same aggregate principal amount. All such transfers shall be made without expense to the holder of such 2014 Series Bonds, except as stated above, and except that the Bond Registrar shall require the payment by the Bondholder requesting such transfer of any tax or other governmental charges required to be paid with respect to such transfer.

No transfers are required to be made during the fifteen days next preceding an interest payment date for 2014 Series Bonds or during the fifteen days next preceding the date fixed for redemption of 2014 Series Bonds.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, bonds 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 Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

Source: DTC, New York, New York.

DEBT SERVICE REQUIREMENTS ON THE BONDS

The principal, interest and total debt service on the Bonds is as follows:

October 1, ⁽¹⁾	2001 Series	2014 Series Bonds		Total
	Bonds	Principal	Interest	
2014	\$6,541,175.00		\$ 611,346.31	\$7,152,521.31
2015	6,546,350.00		1,196,112.36	7,742,462.36
2016	6,541,562.50		1,196,112.36	7,737,674.86
2017	6,546,550.00		1,196,112.36	7,742,662.36
2018		\$ 540,000	1,196,112.36	1,736,112.36
2019		550,000	1,186,397.76	1,736,397.76
2020		560,000	1,174,303.26	1,734,303.26
2021		580,000	1,159,138.46	1,739,138.46
2022		595,000	1,141,402.06	1,736,402.06
2023		615,000	1,121,594.50	1,736,594.50
2024		635,000	1,100,014.16	1,735,014.16
2025		660,000	1,076,652.50	1,736,652.50
2026		685,000	1,051,381.10	1,736,381.10
2027		715,000	1,024,124.96	1,739,124.96
2028		745,000	994,745.60	1,739,745.60
2029		775,000	963,388.56	1,738,388.56
2030		805,000	929,993.80	1,734,993.80
2031		845,000	890,403.90	1,735,403.90
2032		885,000	848,846.80	1,733,846.80
2033		930,000	805,322.50	1,735,322.50
2034		975,000	759,585.10	1,734,585.10
2035		1,025,000	711,634.60	1,736,634.60
2036		1,075,000	661,225.10	1,736,225.10
2037		1,125,000	608,356.60	1,733,356.60
2038		1,180,000	553,029.10	1,733,029.10
2039		1,240,000	494,996.70	1,734,996.70
2040		1,300,000	434,013.50	1,734,013.50
2041		1,365,000	370,079.50	1,735,079.50
2042		1,430,000	302,948.80	1,732,948.80
2043		1,500,000	232,621.40	1,732,621.40
2044		1,575,000	158,851.40	1,733,851.40
2045		1,655,000	81,392.90	1,736,392.90
Total	<u>\$26,175,637.50</u>	<u>\$26,565,000</u>	<u>\$26,232,240.37</u>	<u>\$78,972,877.87</u>

(1) Principal and interest due on any October 1 are shown as part of debt service requirements for the period ending on the preceding September 30.

ARIZONA POWER AUTHORITY

Enabling Legislation

The Authority is a body corporate and politic, without taxing power, established by the Arizona Legislature on May 27, 1944 by the Power Authority Act. Under the Power Authority Act, the Authority is directed to obtain electric power developed from the mainstream of the Colorado River and sell such power to certain qualified purchasers. The Power Authority Act provides that the Authority must be a self-supporting agency and prohibits the Authority from incurring any obligation which would be binding upon the State of Arizona. All electric energy or power coming under the jurisdiction of the Authority and all property acquired by it are “public property.” In 1967, the Plan Act brought additional projects under the Authority’s jurisdiction and established a separate method for financing and for marketing power derived from such projects. Amendments to the Plan Act in 1982 included the Upgrading Program as such a project.

In 2013, the Plan Act was amended to include the State of Arizona’s share of the costs of refinancing the Visitor Center and the Air Slots as additional projects to be financed pursuant to the Plan Act.

Organization

The governing body of the Authority consists of a Commission of five members who are appointed by the Governor of Arizona with the approval of the State Senate. Members serve terms of six years each. The Chairman and Vice Chairman, who are elected from among the Commission's membership, each hold office for two years beginning and ending on the first Monday in January. The Commission must submit an annual report to the Governor.

The Authority Act authorizes the Authority to employ a director, manager or chief engineer who must be a duly licensed engineer. The current designation given to this person is "Executive Director." The Executive Director oversees the operations of the Authority and supervises a staff of six persons. Pursuant to the Authority Act, the Authority has its offices in Phoenix, Arizona.

Commissioners

The following table sets forth the current membership of the Commission of the Authority, their occupations and their terms of office.

<u>Commissioner</u>	<u>Occupation</u>	<u>Year First Appointed</u>	<u>Current Term Expires</u>
Stephen M. Brophy, Chairman	Agriculture, Business	2008	2020
Joe A. Albo, Vice Chairman	Government, Business	2010	2016
Dalton H. Cole	Agriculture, Business	2002	2020
Richard S. Walden	Agriculture, Ranching	1984	2016
Russell L. Jones	Government, Business	2014	2018

Staff

MICHAEL A. GAZDA, *Interim Acting Executive Director*

Michael Gazda is the Interim Acting Executive Director of the Authority and has been employed by the Authority since 2006. Prior to his appointment as Interim Acting Executive Director, Mr. Gazda served as the Authority's Deputy Director. Mr. Gazda has a Bachelor of Science Degree from the University of Illinois in Electrical Engineering with a Power Option. He has more than 35 years of technical experience in many aspects of the electrical utility industry ranging from power plant supervision to transmission and distribution activities, including planning, operations and maintenance along with substation design, protective relaying and SCADA communications. Mr. Gazda has also provided technical support for the Southwire/DOE Superconductor demonstration project located at Southwire's Carrolton, Georgia plant. The Superconductor project continues its successful operation carrying the full load of the plant. Mr. Gazda is a registered Professional Engineer in Arizona and South Carolina. In his position as Interim Acting Executive Director of the Authority, Mr. Gazda oversees the Authority's staff of six employees.

DOUGLAS V. FANT, *Legal Counsel*

Douglas V. Fant has served as Legal Counsel to the Authority since 2000. Mr. Fant graduated in 1974 from Stanford University and in 1977 from Stanford Law School. He also obtained the Diplom Wirtschafdsdeutsch International in 1990 from the Goethe-Institut. He served as a law clerk to the U.S. Senate Committee on Interior & Insular Affairs in 1975, and then served as an Honors Program Attorney in energy and environmental issues for the Carter Administration from 1977-1980. Mr. Fant also worked for Mobil Oil Corporation where he served as the Lead EHS/Transportation Attorney for the Americas in the 1990's and then later served as an EHS Manager for the Mobil West U.S. business entity. Mr. Fant also served in 1990 on the Board of Directors of the Greater Houston Partnership and as President of the Houston Junior Chamber of Commerce. Mr. Fant is a member of the Arizona, California, District of Columbia, and Texas Bar Associations.

MARCIA K. KENNEDY, *Financial Administrator/Human Resource Director*

Marcia Kennedy serves as the Authority's Financial Administrator and Human Resource Director. Ms. Kennedy has been employed by the Authority since 2002. Ms. Kennedy has over 30 years of professional experience in such industries as advertising, law, utility business management, financial management and computer software administration. In addition, Ms. Kennedy is an adjunct business professor, specializing in economics, marketing and computer curricula.

She holds a Bachelor of Arts degree from the University of Northwestern and an M.B.A. from Arizona State University. She is currently pursuing a Ph.D. in Organizational Leadership.

Other Authority Projects

The Plan Act authorizes the Authority to engage in and issue bonds for other projects in addition to the Prepayment Project and the Hoover Upgrading Project. At the present time, the Authority is not actively pursuing the development of any other power plant project.

THE HOOVER POWERPLANT

General

Hoover Dam, located approximately 25 miles from Las Vegas, Nevada, is the highest and third largest concrete dam in the United States of America. The dam, power plant and high-voltage switch yards (collectively, the “Boulder Canyon Project”) are located in the Black Canyon of the Colorado River on the Arizona-Nevada State line. The dam impounds Colorado River water drained from the Colorado River basin system, including the Colorado River and its tributaries, which is located within portions of seven western states (Wyoming, Colorado, Utah, New Mexico, Nevada, Arizona, California) and Mexico and comprises a watershed area of approximately 242,000 square miles encompassing approximately 8% of the land area in the continental United States. The Colorado River and its tributaries provide water to 40 million people for municipal use and irrigate approximately 5.5 million acres of agricultural land.

Colorado River water is stored in the reservoir behind the dam, Lake Mead, and is released when needed for municipal uses, irrigation uses and power generation. Lake Mead contains 26.1 million acre feet of water at full capacity. The Colorado River basin system has water storage capacity totaling approximately 60 million acre feet representing approximately four years of average natural flow of the Colorado River.

Hoover Dam is a multi-purpose project, encompassing the whole concept of river control and providing protection from floods, water conservation for municipal, irrigation and power generation, recreation, fish and wildlife preservation and other purposes. Construction of the Hoover Dam and the Hoover Powerplant was authorized by the Boulder Canyon Project Act of December 21, 1928, which was amended by the Boulder Canyon Project Adjustment Act, dated July 19, 1940 (collectively, the “Boulder Canyon Project Act” or “BCP Act”). Construction of the Boulder Canyon Project by the Bureau commenced in 1931 and the dam was dedicated on September 30, 1935. The first generator of the power plant was in full operation by October 1936, and the last generator went into operation on December 1, 1961. The Hoover Powerplant has been in continuous operation since 1936.

The Hoover Powerplant is located at the toe of the Hoover Dam and extends downstream 650 feet along each wall of the Black Canyon. The 17 main turbines in the power plant are designed to operate at a wide range of hydraulic head to a maximum of 590 feet at dam crest. The dam, power plant building and their appurtenances are owned, operated and maintained by the federal government, acting through the Lower Colorado Dams Project Office of the Bureau. Since 1977, the marketing of the output of the Hoover Powerplant has been the responsibility of Western.

The Bureau and Western develop long range plans for renewals, replacements, upgrades and improvements at the Hoover Powerplant (the “Ten Year Plan”) with input from the Hoover Contractors and fund these investments annually with revenues received from sales of Hoover power and energy under the Western Contracts. In recent years in response to lowered water levels in Lake Mead, the Bureau has undertaken several projects to improve operating performance and power generation at lower lake elevation levels, such as installation of wide-head turbines, upgrades to wicket gates, automation of control systems and enhancements to operating protocols. Collectively these measures have improved the ability of the Hoover Powerplant to generate power efficiently across a wider range of water levels. Continuing investment in operating efficiency projects are included in the current Ten Year Plan. For additional information concerning Hoover Powerplant operation and drought conditions in the Colorado River Basin see “HOOVER POWER MARKETING BY THE AUTHORITY - Costs of Hoover Power to the Authority” and “CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – Drought Conditions Affecting Hoover Dam and Environmental Considerations Relating to Hoover Dam.”

Visitor Center and Air Slots Prepayment Program

The Hoover Contractors have completed the Prepayment Plan under which all outstanding Bureau Appropriation Obligations totaling \$123,970,870 have been retired and the Bureau Appropriation Obligations are no longer included as a

component of the cost of power and energy under the Western Contracts. The Authority's Prepayment Share of the Bureau Appropriation Obligations was \$23,725,669, which will be refinanced through the issuance of the 2014 Series Bonds.

Upgrading Program

The Upgrading Program involved the installation of new windings of increased electrical capacity which were the same physical size as the old windings and the upgrading of various auxiliary equipment. This made it possible to "uprate" the capacity of the older generators at the Hoover Powerplant.

Prior to the Upgrading Program, the 17 original generators at the Hoover Powerplant had an aggregate nameplate capacity of 1,340 MW. The Upgrading Program increased the aggregate nameplate capability of the 17 generators to approximately 2,074 MW. The uprated generators have a maximum output at a head of 560 feet, the point at which the power plant becomes generator-limited, of approximately 2,074 MW.

The Upgrading Program was completed in September, 1995. The final cost of the Hoover Upgrading Program was \$168,739,113, of which approximately \$153,900,000 was contributed by non-federal sources. The Authority's 37.3758% proportionate share of the cost of the Hoover Upgrading Program contributed by non-federal sources was \$57,521,357 and was funded through the issuance of Bonds.

The Upgrading Program was undertaken in part with funds advanced as a prepayment for capacity and associated energy under contracts between the Interior Department and prospective non-federal purchasers of the uprated Hoover capacity and associated energy (the "Non-Federal Participants"). All funds advanced by the Non-Federal Participants are being returned to such Non-Federal Participants including the Authority in the form of credits on the monthly power bills rendered by Western to such Non-Federal Participants pursuant to the Western Agreements throughout the period commencing October 1, 1987 and ending September 30, 2017. For additional information relating to the credits under the Western Contract, see "APPENDIX F — SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL CONTRACTS — Western Contract."

Hoover A Contingent Capacity and Firm Energy Prior to October 1, 2017

Under the 1984 Hoover Act, 1,448 MW of contingent capacity and 3,759,787 MWh of associated firm energy is being sold under power sales contracts with Western, including the Authority's Western Contract, which commenced June 1, 1987, as follows (the "Hoover A Power"):

Hoover Contractor	Contingent Capacity (kW)	Firm Energy ⁽¹⁾ (MWh)		Total
		Summer	Winter	
Metropolitan Water District of Southern California	247,500	904,382	387,592	1,291,974
City of Los Angeles	490,875	488,535	209,658	698,193
Southern California Edison Company	277,500	175,486	75,208	250,694
City of Glendale.....	18,000	47,398	20,313	67,711
City of Pasadena	11,000	40,655	17,424	58,079
City of Burbank	5,125	14,811	6,347	21,158
Arizona Power Authority	189,000	452,192	193,797	645,989
Colorado River Commission of Nevada	189,000	452,192	193,797	645,989
United States, for Boulder City.....	20,000	56,000	24,000	80,000
TOTALS	1,448,000	2,631,651	1,128,136	3,759,787

(1) The Hoover Contractors are each responsible under the 1984 Hoover Act for their portion of the potential energy deficiency in any given year of operation with respect to Hoover A Power. The 1984 Hoover Act directs, and the Western Contract provides, the United States Department of Energy to purchase energy to meet any such deficiency at the individual Hoover Contractor's request.

Hoover B Contingent Capacity and Firm Energy Prior to October 1, 2017

Under the 1984 Hoover Act, the 503 MW of contingent capacity and 767,214 MWh of associated firm energy resulting from the Upgrading Program are being sold under the power sales contracts with Western, including the Authority's Western Contract, which commenced June 1, 1987, as follows (the "Hoover B Power"):

Hoover Contractor	Contingent Capacity (kW)	Firm Energy ⁽¹⁾ (MWh)		Total
		Summer	Winter	
Arizona Entities ⁽²⁾	188,000	148,000	64,000	212,000
California Entities ⁽³⁾	127,000	99,850	43,364	143,214
Nevada Entities	188,000	288,000	124,000	412,000
TOTALS	503,000 ⁽⁴⁾	535,850	231,364	767,214

- (1) The Hoover Contractors are each responsible under the 1984 Hoover Act for their portion of the potential energy deficiency in any given year of operation with respect to Hoover B Power. The 1984 Hoover Act directs, and the Western Contract provides, the United States Department of Energy to purchase energy to meet any such deficiency at the individual Hoover Contractor's request.
- (2) The Authority is the only purchaser of Arizona's allocation of Hoover B Power.
- (3) Metropolitan Water District of Southern California, City of Los Angeles and Southern California Edison Company have not been allotted Hoover B Power.
- (4) Any available capacity above 503,000 kW is retained by Western.

Hoover C Energy Prior to October 1, 2017

Under the 1984 Hoover Act, any Hoover energy in excess of 4,501,001 MWh in any year of operation (the "Hoover C Energy"), is to be disposed of in accordance with the following: First: meeting Arizona's first priority right to delivery of excess energy which is equal in each year of operation to 200,000 MWh; provided, however, that in the event excess energy in the amount of 200,000 MWh is not generated during any year of operation, Arizona shall accumulate a first right to delivery of excess energy subsequently generated in an amount not to exceed 600,000 MWh, inclusive of the current year's 200,000 MWh. Said first right of delivery shall accrue at a rate of 200,000 MWh per year for each year excess energy in the amount of 200,000 MWh is not generated, less amounts of excess energy delivered; Second: meeting Hoover Dam contractual obligations for Hoover A Power and Hoover B Power not exceeding 26,000 MWh in each year of operation; and Third: meeting the energy requirements of the States of Arizona, Nevada and California, such available excess energy to be divided equally among the States of Arizona, California and Nevada. Hoover C Energy is essentially the excess energy resulting from high water years of the Colorado River. Under the Western Contract, Western, in addition to offering Hoover A Power and Hoover B Power to the Authority, has offered to sell to the Authority, and the Authority has agreed to purchase, Hoover C Energy. The Authority received Hoover C Energy beginning in 1998 through 2002 totaling 1,536,242 MWh. The amount and timing of receipt of Hoover C Energy is dependent on hydrology in the Colorado River watershed.

Transmission Prior to October 1, 2017

Under the Western Contract, Hoover power is delivered at the Mead Substation owned by the United States of America and located in Nevada, adjacent to the Hoover Powerplant. The Authority Power Purchasers have requested delivery of their allocations to load centers in Arizona, thereby requiring additional transmission arrangements. The Authority has entered into the Western Wheeling Contracts for the delivery of Hoover power to the Arizona Power Purchasers at various Western delivery points in Arizona. See "APPENDIX F — SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL CONTRACTS — The Western Wheeling Contracts." Pursuant to the Salt River Project Wheeling Contract, Salt River Project will transmit Hoover power purchased by certain Authority Power Purchasers that are also customers of Salt River Project to designated points of delivery of these Authority Power Purchasers.

These transmission arrangements provide sufficient firm transmission capacity for delivery of Hoover power to delivery points in Arizona for the term of the Authority Power Sales Contracts. It is the responsibility of the Authority Power Purchasers to arrange for wheeling from the points of delivery to their systems.

Scheduling Agent for Hoover Power Prior to October 1, 2017

In order to meet the monthly and seasonal power requirements of the Authority Power Purchasers, the Authority has entered into a Scheduling Entity Agreement (the “Scheduling Agreement”) with the Salt River Project for a term that expires on September 30, 2017. The Scheduling Agreement provides that the Salt River Project will schedule Hoover power available to the Authority in a pattern that is beneficial to the Salt River Project. In return for such benefit, the Salt River Project will pay certain amounts to the Authority and deliver an equivalent amount of power to the Authority Power Purchasers in a pattern that benefits the Authority Power Purchasers.

The Scheduling Agreement also permits energy not scheduled by an Authority Power Purchaser in a given month to be scheduled within certain limits by such Authority Power Purchaser in a later time period.

Hoover A Contingent Capacity and Firm Energy On and After October 1, 2017

Under the Hoover Power Allocation Act of 2011, 1,462 MW of contingent capacity and 3,571,796 MWh of associated firm energy will be sold under power sales contracts with Western, commencing October 1, 2017, as follows (the “post 2017 Hoover A Power”):

Hoover Contractor	Contingent Capacity (kW)	Firm Energy ⁽¹⁾⁽²⁾ (MWh)		Total
		Summer	Winter	
Metropolitan Water District of Southern California	249,948	859,163	368,212	1,227,375
City of Los Angeles	495,732	464,108	199,175	663,283
Southern California Edison Company	280,245	166,712	71,448	238,160
City of Glendale	18,178	45,028	19,297	64,325
City of Pasadena	11,108	38,622	16,553	55,175
City of Burbank	5,176	14,070	6,030	20,100
Arizona Power Authority	190,869	429,582	184,107	613,689
Colorado River Commission of Nevada	190,869	429,582	184,107	613,689
United States, for Boulder City	20,198	53,200	22,800	76,000
TOTALS	1,462,323	2,500,067	1,071,729	3,571,796

(1) The Hoover Power Allocation Act of 2011 maintains the requirements of the 1984 Hoover Act that the Hoover Contractors are each responsible for their portion of the potential energy deficiency in any given year of operation with respect to post 2017 Hoover A Power. The Hoover Power Allocation Act of 2011 maintains the requirements of the 1984 Hoover Act that directs the United States Department of Energy to purchase energy to meet any such deficiency at the individual Hoover Contractor’s request.

(2) Includes 5% to be allocated to the Hoover D Power (as hereinafter defined).

Hoover B Contingent Capacity and Firm Energy On and After October 1, 2017

Under the Hoover Power Allocation Act of 2011, the 508 MW of contingent capacity and 728,853 MWh of associated firm energy will be sold under the power sales contracts with Western, commencing October 1, 2017, as follows (the “post 2017 Hoover B Power”):

Hoover Contractor	Contingent Capacity (kW)	Firm Energy ⁽¹⁾⁽²⁾ (MWh)		Total
		Summer	Winter	
Arizona Entities ⁽³⁾	189,860	140,600	60,800	201,400
California Entities ⁽⁴⁾	128,257	94,857	41,196	136,053
Nevada Entities	189,860	273,600	117,800	391,400
TOTALS	507,977 ⁽⁵⁾	509,057	219,796	728,853

- (1) The Hoover Power Allocation Act of 2011 maintains the requirements of the 1984 Hoover Act that the Hoover Contractors are each responsible for their portion of the potential energy deficiency in any given year of operation with respect to post 2017 Hoover B Power. The Hoover Power Allocation Act of 2011 maintains the requirements of the 1984 Hoover Act that directs the United States Department of Energy to purchase energy to meet any such deficiency at the individual Hoover Contractor's request.
- (2) Includes 5% to be allocated to the Hoover D Power.
- (3) The Authority is the only purchaser of Arizona's allocation of post 2017 Hoover B Power.
- (4) Metropolitan Water District of Southern California, City of Los Angeles and Southern California Edison Company have not been allotted post 2017 Hoover B Power.
- (5) Any available capacity above 507,977 kW is retained by Western.

Hoover C Energy On and After October 1, 2017

Under the Hoover Power Allocation Act of 2011, any Hoover energy in excess of 4,501,001 MWh in any year of operation (the "post 2017 Hoover C Energy"), is to be disposed of in accordance with the following: First: meeting Arizona's first priority right to delivery of excess energy which is equal in each year of operation to 200,000 MWh; provided, however, that in the event excess energy in the amount of 200,000 MWh is not generated during any year of operation, Arizona shall accumulate a first right to delivery of excess energy subsequently generated in an amount not to exceed 600,000 MWh, inclusive of the current year's 200,000 MWh. Said first right of delivery shall accrue at a rate of 200,000 MWh per year for each year excess energy in the amount of 200,000 MWh is not generated, less amounts of excess energy delivered; Second: meeting Hoover Dam contractual obligations for post 2017 Hoover A Power, post 2017 Hoover B Power and Hoover D Power not exceeding 26,000 MWh in each year of operation; and Third: meeting the energy requirements of the States of Arizona, Nevada and California, such available excess energy to be divided equally among the States of Arizona, California and Nevada. Post 2017 Hoover C Energy is essentially the excess energy resulting from high water years of the Colorado River.

Hoover D Power On and After October 1, 2017

The Hoover Power Allocation Act of 2011 requires Western to establish a resource pool equal to five percent of the aggregate amount of the contingent capacity and firm energy of post 2017 Hoover A and Hoover B contingent capacity and firm energy (the "Hoover D Power") to be allocated to entities not receiving Hoover A and Hoover B Power as provided in the following table:

State	Contingent Capacity (kW)	Firm Energy (thousands of kWh)		
		Summer	Winter	Total
New Entities Allocated by Western	69,170	105,637	45,376	151,013
New Entities Allocated by State				
Arizona	11,510	17,580	7,533	25,113
California	11,510	17,580	7,533	25,113
Nevada	11,510	17,580	7,533	25,113
TOTALS	103,700	158,377	67,975	226,352

Pursuant to the Hoover Power Allocation Act of 2011, Western on December 30, 2013 announced its final marketing criteria for Hoover D Power. Pursuant to said criteria allocations of Hoover D Power will only be made to new allottees, defined under the Hoover Power Allocation Act of 2011 as entities that do not receive Hoover A and Hoover B Power. Said marketing criteria further provides that native American tribes will receive first consideration for Hoover D

Power with the remaining Hoover D Power to be allocated to eligible nonprofit entities. Hoover D Power for new allottees in Arizona and Nevada other than federally recognized Indian tribes is to be offered through the Authority and the Colorado River Commission of Nevada, respectively. Hoover D Power allocated to federally recognized Indian tribes will be contracted for directly with Western.

Any of the 69,170 kW of capacity and 151,013 kW of firm energy comprising Hoover D Power that is to be allocated by Western that is not allocated and placed under contract by October 1, 2017 is required to be returned to post 2017 Hoover A and Hoover B contractors in the same proportion as those contractors' allocations of post 2017 Hoover A and Hoover B Power. Any of the 33.3 percent of Hoover D Power that is to be distributed within the States of Arizona, Nevada, and California that is not allocated and placed under contract by October 1, 2017 is to be returned to the post 2017 Hoover A and Hoover B contractors within the State in which the Schedule D Power was to have been distributed, in the same proportion as those contractors' allocations of Hoover A and Hoover B Power.

Transmission and Scheduling On and After October 1, 2017

The Authority believes that there is sufficient transmission capacity available on and after October 1, 2017 to transmit Hoover capacity and energy from Hoover Dam to various delivery locations in Arizona. However, the Authority has not determined how post 2017 Hoover capacity and energy on and after October 1, 2017 will be transmitted or if the contractors of post 2017 Hoover power and energy from the Authority will require the Authority to provide transmission services. Such decisions will be made upon execution of definitive power sales contracts for the post October 1, 2017 period. The Authority expects to enter into a scheduling agreement to provide for the scheduling of post 2017 Hoover power and energy for the period on and after October 1, 2017 that will be substantially similar to the Scheduling Agreement currently in existence.

HOOVER POWER MARKETING BY THE AUTHORITY

Costs of Hoover Power to the Authority

Western regulations and the Western Contract specify the categories of Hoover Dam and Hoover Powerplant costs that will be recovered by Western's rates for Hoover power. The costs to be recovered include, among other things: all costs of operation and maintenance; replacements; amortization with interest of pre-1987 unamortized investments; costs of transmission from the Hoover Powerplant to Mead Substation; and credits to power bills of the Non-Federal Participants in the amounts of debt service and other costs associated with the Non-Federal Participants' financing of the Upgrading Program.

The annual operating budget for the Hoover Dam and Powerplant is prepared by the Bureau and Western and aggregates all costs associated with the production and distribution of Hoover power to the Mead Substation. The annual operating budget establishes the amount of revenue required to be raised through the sale of Hoover power. Hoover A Power and Hoover B Power are melded for purposes of establishing Hoover power capacity and energy rates. Currently, annual Hoover revenue requirements are equally apportioned between capacity charges and energy charges. Western's revenue requirements are collected through a pro rata assessment of the projected budget to each of the Hoover Contractors in accordance with their respective shares of the generation entitlement. The assessments are subject to change to assure sufficient revenue to recover Western's revenue requirements. The Hoover assessment applicable to the Authority also includes a surcharge of 4.5 mills per kWh for payments into the Lower Colorado River Basin Development Fund ("LCRBDF") to provide repayment assistance for the Central Arizona Project (the "CAP"), a federal project to deliver Colorado River water to central and southern Arizona.

Western is required to conduct annual repayment studies to determine Hoover revenue requirements which are the basis for its Hoover power budget. The revenue requirements consist of operating costs, uprating credits, repayments with interest of federal investments, and replacements and additions. Representatives of the Hoover Contractors, Western and the Bureau work together through an Engineering & Operating Committee and a Coordinating Committee which were established pursuant to an Implementation Committee Agreement in order to provide Western and the Bureau with Hoover Contractors' input on revenue and expense issues relating to the Hoover budget. The revenue requirements include all costs associated with delivering Hoover power to the Mead Substation near the Hoover Powerplant and do not include costs of transmission of Hoover power to the Authority Power Purchasers' delivery points.

The Hoover rates developed by Western are placed into effect on an interim basis by the Assistant Secretary of the United States Department of Energy pending final confirmation and approval by the Federal Energy Regulatory Commission ("FERC"). FERC conducts a limited appellate review of Western rate filings.

The Western Contract provides that Hoover power costs shall be based on the actual costs of operation, maintenance and debt service associated with the Hoover Powerplant and, consequently, are not subject to regional or local market pricing considerations. As part of its budget-setting activities, Western prepares annually for review and comment by the Hoover Contractors the Ten Year Plan which sets forth the anticipated costs of operation, maintenance, federal appropriation repayments, renewals, replacements and other costs necessary for power production under the Western Agreements. The Authority expects that Western will continue the existing budget setting format in the post October 1, 2017 power sales contracts.

The following table indicates the effective historical cost of power produced at the Hoover Powerplant and delivered to the Mead Substation for the five-year period October 1, 2009 to September 30, 2013 and projected cost of Hoover power based on the Ten Year Plan prepared by Western. The information presented regarding projected cost of Hoover power constitutes “forward looking statements” which must be read with an abundance of caution and may not be realized or may not occur in the future.

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COST OF HOOVER POWER⁽¹⁾

COST OF HOOVER POWER⁽¹⁾

<u>HISTORICAL</u>	<u>Year Ended September 30,</u>				
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Western Annual Revenue Requirement	\$70,213,497	\$70,681,340	\$75,182,522	\$84,536,772	\$82,379,637
Energy Sales (MWh)	3,692,752	3,619,844	3,877,034	3,990,704	3,744,931
Power Cost (\$/MWh)	\$19.01	\$19.53	\$19.39	\$21.18	\$22.00

(1) Does not include \$4.50 per MWh for payments to the LCRBDF.

COST OF HOOVER POWER⁽¹⁾

<u>PROJECTED</u>	<u>Year Ending September 30,</u>									
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Western Annual Revenue Requirement ⁽²⁾	\$76,108,019	\$71,180,500	\$78,214,879	\$78,570,825	\$67,264,535 ⁽⁴⁾	\$60,544,033	\$60,624,857	\$61,176,403	\$63,232,539	\$65,034,246
Energy Sales (MWh) ⁽³⁾	3,770,993	3,482,000	3,504,000	3,450,000	3,421,000	3,426,000	3,334,000	3,275,000	3,353,000	3,315,000
Power Cost (\$/MWh)	\$20.18	\$20.44	\$22.32	\$22.77	\$19.66	\$17.67	\$18.18	\$18.68	\$18.86	\$19.62

(1) Does not include \$4.50 per MWh for payments to the LCRBDF.

(2) Projected annual revenue requirements from Boulder Canyon Power Repayment Study dated January 2014 adjusted for repayment of Bureau Appropriation Obligations.

(3) Projected energy sales from Boulder Canyon Power Repayment Study dated January 2014.

(4) The decrease in Western annual revenue requirements reflects the retirement of the Uprating Program payment obligations.

Recapture of Hoover B Power by the Authority for the Benefit of CAWCD

The Authority's 1985 Hoover Marketing Plan provided that the initial allocations of Hoover B Power could be recaptured for the benefit of the Central Arizona Water Conservation District ("CAWCD"). On October 1, 1992, the effective date of such recapture, CAWCD was substituted for and replaced the Contractors of Hoover B Power from which such Hoover B Power was recaptured and CAWCD has the right to receive and shall have the obligation to pay for all Hoover B Power so recaptured.

The Power Sales Contract with CAWCD provides that CAWCD is to relinquish to the Authority for resale to other qualified purchasers 25.38 MW and 28,620 MWh (at transmission delivery points) of Hoover B Power, except that such relinquishments by CAWCD are not required in a Surplus Water Year immediately following a non-Surplus Water Year. A Surplus Water Year is one in which the CAWCD may withdraw from the Colorado River two million or more acre feet of water. CAWCD remains liable to the Authority for all Hoover B Power recaptured by the Authority for CAWCD even when such Hoover B Power has been relinquished to the Authority for sale to such qualified purchasers. For additional information relating to CAWCD, see APPENDIX B — CENTRAL ARIZONA WATER CONSERVATION DISTRICT FINANCIAL STATEMENTS." CAWCD did not request and did not receive the consent of its auditors to the inclusion of its audited financial statements in APPENDIX B. No procedures were performed by CAWCD or its auditors to update said financial statements.

Authority Power Purchasers

The following table identifies the 29 Authority Power Purchasers of Hoover A Power and Hoover B Power and their respective allocations of Hoover power. For a summary of certain provisions of the Power Sales Contracts, see APPENDIX C — "SUMMARY OF CERTAIN PROVISIONS OF THE POWER SALES CONTRACTS."

Authority Power Purchasers	Hoover Power Allocations To Authority Power Purchasers ⁽¹⁾					
	Hoover A Power		Hoover B Power		Total	
	Capacity (kW)	Energy (MWh)	Capacity (kW)	Energy (MWh)	Capacity (kW)	Energy ⁽²⁾ (MWh)
Aguila Irrigation District	2,450	8,389	3,840	4,327	6,290	12,716
Avra Valley Irrigation & Drainage District	630	2,168	0	0	630	2,168
Buckeye Water Conservation & Drainage District	2,980	10,201	0	0	2,980	10,201
Central Arizona Water Conservation District.....	0	0	161,600	182,235	161,600	182,235
Chandler Heights Citrus Irrigation District	930	3,164	0	0	930	3,164
City of Page.....	0	0	1,040	1,173	1,040	1,173
City of Safford	0	0	2,080	2,345	2,080	2,345
Cortaro-Marana Irrigation District	6,440	22,003	0	0	6,440	22,003
Electrical District No. 2, Pinal County	19,450	66,473	0	0	19,450	66,473
Electrical District No. 3, Pinal County	15,900	54,351	0	0	15,900	54,351
Electrical District No. 4, Pinal County	19,450	66,473	0	0	19,450	66,473
Electrical District No. 5, Pinal County	14,770	50,476	0	0	14,770	50,476
Electrical District No. 6, Pinal County	8,360	28,579	0	0	8,360	28,579
Electrical District No. 7, Maricopa County	10,500	35,902	0	0	10,500	35,902
Electrical District No. 8, Maricopa County.....	13,390	45,749	10,810	12,185	24,200	57,934
Harquahala Valley Irrigation District	2,490	8,495	0	0	2,490	8,495
Maricopa County Municipal Water Conservation and Drainage District No. 1	8,840	30,215	0	0	8,840	30,215
McMullen Valley Water Conservation & Drainage District	3,800	12,974	5,290	5,970	9,090	18,944
Ocotillo Water Conservation District.....	2,390	8,175	0	0	2,390	8,175
Queen Creek Irrigation District	1,770	6,043	0	0	1,770	6,043
Roosevelt Irrigation District	3,220	11,020	0	0	3,220	11,020
Roosevelt Water Conservation District.....	6,760	23,106	0	0	6,760	23,106
Salt River Project.....	38,790	132,589	0	0	38,790	132,589
San Tan Irrigation District.....	520	1,777	0	0	520	1,777
Silverbell Irrigation & Drainage District.....	710	2,417	0	0	710	2,417
Tonopah Irrigation District.....	1,550	5,297	0	0	1,550	5,297
Town of Thatcher	0	0	1,050	1,185	1,050	1,185
Town of Wickenburg.....	0	0	2,290	2,580	2,290	2,580
Wellton-Mohawk Irrigation & Drainage District.....	2,910	9,953	0	0	2,910	9,953
TOTALS.....	<u>189,000</u>	<u>645,989</u>	<u>188,000</u>	<u>212,000</u>	<u>377,000</u>	<u>857,989</u>

(1) Before transmission losses.

(2) To the extent the energy allocation is not available at Hoover Powerplant, the Authority will purchase the deficiency for the Authority Power Purchaser if requested by the Authority Power Purchaser; the cost of such purchase will be charged to the applicable Authority Power Purchaser.

The following table indicates the amount of at generation Hoover power (MWh) purchased by each of the Authority Power Purchasers for the years ended September 30, 2009 to September 30, 2013.

Authority Power Purchasers	2009		2010		2011		2012		2013	
	Capacity (kW) ⁽¹⁾	Energy (MWh)	Capacity (kW) ⁽¹⁾	Energy (MWh)	Capacity (kW) ⁽¹⁾	Energy (MWh)	Capacity (kW) ⁽¹⁾	Energy (MWh)	Capacity (kW) ⁽¹⁾	Energy (MWh)
Aguila Irrigation District	5,047	10,205	4,726	10,108	4,863	10,837	4,992	11,301	5,076	10,429
Avra Valley Irrigation & Drainage District	506	1,740	473	1,724	487	1,849	500	1,928	508	1,778
Buckeye Water Conservation & Drainage District	2,391	8,185	2,239	8,109	2,304	8,695	2,365	9,066	2,405	8,369
Central Arizona Water Conservation District	129,678	146,242	121,413	144,871	124,943	155,366	128,254	160,915	130,410	150,927
Chandler Heights Citrus Irrigation District	746	2,540	699	2,515	719	2,696	738	2,812	751	2,594
City of Page	835	942	781	932	804	999	825	1,042	839	961
City of Safford	1,669	1,882	1,563	1,864	1,608	1,998	1,651	2,082	1,678	1,923
Cortaro-Marana Irrigation District	5,168	17,656	4,838	17,494	4,979	18,760	5,111	19,559	5,197	18,049
Electrical District No. 2, Pinal County	15,608	53,343	14,613	52,843	15,038	56,672	15,436	59,091	15,696	54,528
Electrical District No. 3, Pinal County	12,759	43,616	11,946	43,207	12,293	46,338	12,619	48,313	12,831	44,584
Electrical District No. 4, Pinal County	15,608	53,346	14,613	52,843	15,038	56,672	15,436	59,089	15,696	54,526
Electrical District No. 5, Pinal County	11,852	40,509	11,097	40,126	11,420	43,033	11,722	44,871	11,920	41,405
Electrical District No. 6, Pinal County	6,709	22,935	6,281	22,719	6,464	24,365	6,635	25,400	6,746	23,520
Electrical District No. 7, Maricopa County	8,426	28,811	7,889	28,542	8,118	30,608	8,333	31,913	8,473	29,448
Electrical District no. 8, Maricopa County	19,420	46,493	18,182	46,051	18,711	49,386	19,206	51,496	19,529	47,520
Harquahala Valley Irrigation District	1,998	6,815	1,871	6,752	1,925	7,241	1,976	7,550	2,009	6,966
Maricopa County Municipal Water Conservation and Drainage District	7,094	24,246	6,642	24,021	6,835	25,758	7,016	26,859	7,134	24,784
McMullen Valley Water Conservation and Drainage District	7,294	15,205	6,829	15,056	7,028	16,148	7,214	16,837	7,336	15,540
Ocotillo Water Conservation District	1,918	6,559	1,796	6,501	1,848	6,971	1,897	7,267	1,929	6,706
Queen Creek Irrigation District	1,420	4,848	1,330	4,803	1,369	5,151	1,405	5,372	1,429	4,956
Roosevelt Irrigation District	2,584	8,847	2,419	8,760	2,490	9,394	2,556	9,797	2,599	9,039
Roosevelt Water Conservation District	5,425	18,540	5,079	18,369	5,227	19,699	5,365	20,539	5,456	18,955
Salt River Project	31,127	106,400	29,144	105,406	29,991	113,040	30,785	117,021	31,303	109,808
San Tan Irrigation District	417	1,427	391	1,412	402	1,514	413	1,579	420	1,457
Silverbell Irrigation & Drainage District	570	1,939	533	1,922	549	2,060	563	2,148	573	1,982
Tonopah Irrigation District	1,244	4,250	1,165	4,211	1,198	4,514	1,230	4,707	1,251	4,344
Town of Thatcher	843	952	789	940	812	1,010	833	1,052	847	971
Town of Wickenburg	1,838	2,071	1,721	2,051	1,771	2,200	1,817	2,293	1,848	2,116
Wellton-Mohawk Irrigation & Drainage District	2,335	7,987	2,186	7,912	2,250	8,485	2,309	8,847	2,348	8,164
TOTALS	302,529	688,531	283,248	682,064	291,484	731,459	299,202	760,746	304,237	706,349

(1) Average kW per month.

The Authority Power Purchasers are composed of eight electrical districts, ten irrigation districts, six water conservation districts, one power and water district and four cities and towns. The Authority Power Purchasers are located throughout the State of Arizona and serve nearly all regions of the State. Financial Statements of CAWCD representing 32% of the Authority's Hoover power allocation sold by the Authority are set forth in APPENDIX B.

The information contained in APPENDIX B was supplied to the Authority by CAWCD.

The Authority and the Underwriters do not guaranty the accuracy or completeness of APPENDIX B.

AUTHORITY FINANCIAL MATTERS

Rates under the Power Sales Contracts

Pursuant to the requirements of the Power Sales Contracts, the Authority is required to maintain and establish rates under the Power Sales Contracts which are sufficient to meet the estimated costs of the Authority (the "Revenue Requirements"). Revenue Requirements include, among other items, the costs of the Authority under the Western Contract, the costs of transmission and debt service on the Bonds. The Authority allocates the Revenue Requirements between a demand charge and an energy charge and collects its revenues based upon capacity and energy delivered to the Authority Power Purchasers.

The Authority determines the estimated Revenue Requirements based upon estimated costs and estimated power and energy from the Hoover Powerplant which are furnished to the Authority by Western. Western bases its estimate of the power and energy from the Hoover Power Plant upon water availability and downstream water requirements.

In the event that the revenues collected by the Authority based upon the estimated Revenue Requirements are insufficient to meet the Authority's actual revenue requests, the Authority is authorized under the Power Sales Contracts to revise the demand charge and energy charge to recover its actual Revenue Requirements.

In the event that the Authority receives revenues that are in excess of its Revenue Requirements, the Authority is required to refund overcollections or credit excess revenues against the Authority's Revenue Requirements in the current contract year or the next contract year. The Authority makes overcollection refund payments to Authority Power Purchasers at the end of the operating year following the year during which the overcollection occurred.

Revenues and Expenses

The following table shows the revenues and expenses of the Authority's Hoover Fund for the years ended September 30, 2009 through 2013. Such revenues and expenses are derived from the financial statements of the Authority's Hoover Fund audited by CliftonLarsonAllen LLP. The financial statements of the Authority's Hoover Fund for each of the years in the two-year period ended September 30, 2013 and the report of CliftonLarsonAllen LLP are contained in APPENDIX A.

REVENUES AND EXPENSES FOR THE AUTHORITY'S HOOVER FUND

	For the Years ended September 30,				
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
OPERATING REVENUES	\$24,956,763	\$24,405,788	\$25,614,805	\$27,655,987	\$27,622,411
OPERATING EXPENSES					
Purchased power	16,554,759	16,529,575	17,721,402	19,703,556	18,921,561
Western credits	(5,842,790)	(6,649,521)	(6,507,651)	(6,559,715)	(6,579,145)
Amortization of Uprating Costs	5,842,790	6,649,521	6,507,651	6,559,715	6,579,145
Transmission	6,146,914	5,911,905	5,964,010	6,138,320	6,787,816
Administrative and General	1,478,892	1,906,916	1,671,821	1,632,612	1,658,010
Other	26,665	24,936	17,138	12,768	14,916
Total operating expenses	<u>24,207,230</u>	<u>24,373,332</u>	<u>25,374,371</u>	<u>27,487,256</u>	<u>27,382,303</u>
Operating income (loss)	749,533	32,456	240,434	168,731	240,108
OTHER INCOME (EXPENSES)					
Interest expenses	(2,360,613)	(2,169,863)	(1,958,861)	(1,729,613)	(1,477,088)
Deferred interest expense	2,222,465	2,065,021	1,878,817	1,657,185	1,415,723
Interest income	62,849	29,550	10,893	12,200	9,968
Amortization	99,180	91,164	82,296	72,660	62,052
Other, net	-	-	-	258	20,444
Total other income	<u>23,881</u>	<u>15,872</u>	<u>13,145</u>	<u>12,690</u>	<u>31,099</u>
Net income	\$773,414	\$48,328	\$253,579	\$181,421	\$271,207
Reconciliation to calculate income available for Debt Service under the Resolution					
Add:					
Interest expenses ⁽¹⁾	2,360,613	2,169,863	1,958,861	1,729,613	1,477,088
Amortization ⁽¹⁾ of Uprating Costs	5,842,790	6,649,521	6,507,651	6,559,715	6,579,145
Credits to Authority Power Purchasers for prior years	1,080,940	368,171	1,011,806	680,114	738,477
Amortization & Depreciation	239,341	220,432	193,622	168,599	147,997
Deduct:					
Deferred interest expense ⁽²⁾	2,222,465	2,065,021	1,878,817	1,657,185	1,415,723
Premium Amortization	311,855	286,660	258,780	228,495	195,133
Income available for Debt Service	7,762,779	7,104,634	7,787,922	7,433,782	7,603,058
Debt Service	6,175,613	6,389,963	6,543,863	6,539,613	6,542,088
Debt Service coverage ratio (times)	1.26	1.11	1.19	1.14	1.16

(1) Interest Expense and Amortization of Uprating Costs are not Operating Expenses under the Resolution.

(2) Deferred Interest Expense is not a Revenue under the Resolution.

Management Discussion of Financial Results

Overview: The Authority is required by State statute and the provisions of the Resolution to set rates at levels necessary to recover its costs for supplying services to its customers. The Authority's Hoover power rates are driven primarily by Reclamation's and Western's revenue requirements. Reclamation's revenue requirements include the costs of operating, maintaining and upgrading the equipment at Hoover Dam. The Authority staff participates in the Engineering & Operating Committee, which advises Reclamation and Western regarding approval of maintenance and upgrade projects.

The Authority's operating costs are driven by several elements:

- 1) Reclamation's and Western's Hoover revenue requirements;
- 2) The amount of Hoover capacity and energy (determined by Lake Mead elevations and water releases) made available to the Authority by Western;

- 3) The cost of transmission of Hoover Power to the Authority Power Purchasers' delivery points over Western's transmission facilities.

Operating Revenues. Operating revenues remained constant from 2012 to 2013 despite continuing low water levels at Hoover Dam and higher transmission rates. However, from 2011 to 2012, revenues increased by \$2 million due to the increase in Reclamation revenue requirements associated with the extraordinary maintenance and upgrade projects completed in 2012. Prior to 2012, operating revenues remained consistent. Supplemental purchased costs are recovered in total when purchased, and have no effect on the rate that Authority charges for Hoover power.

Operating Expenses. In addition to the above list of cost elements, the Authority's Operating Expenses also include Administrative and General expenses, which are a small portion of the total expenses.

Purchased Power costs for Hoover power increased in 2012, as compared to 2011, primarily due to increased Reclamation revenue requirements. During that year, Reclamation installed a new wide-head turbine and retooled wicket gates at Hoover Dam, in addition to completing other efficiency upgrades.

Purchased Power costs for Hoover power decreased approximately \$782,000 in 2013 due mainly to a reduced revenue requirement from Reclamation and to the reduced amount of energy delivered during 2013. Energy was reduced due to lower Lake Mead elevation and a reduction in downstream water orders.

Transmission expenses increased by approximately \$650,000 during 2013 reflecting higher Western Intertie transmission rates. The Authority's General and Administrative costs have remained stable over recent periods. Lower Purchased Power costs combined with higher transmission expenses resulted in a slight decline in Total Operating Expenses between 2012 and 2013. In recent periods prior to 2012, Operating Expenses remained relatively consistent, reflecting stable Western transmission rates. Although the drought condition in the Colorado River Basin continues, increased efficiency improvements at Hoover Dam have helped to mitigate the effects of reduced water levels.

Other Income (Expenses). Other Income (Expenses) reflects the continuing reduction in interest expenses and deferred interest expense associated with repayment of the Authority's 2001 Series Bonds issued for the Hoover Upgrading Program. Interest income varies with prevailing short term U.S. Treasury market conditions.

Reconciliation to Net Revenues under the Resolution. The Authority receives credits on its Western Hoover Power bill to offset Authority costs incurred from financing a portion of the Hoover Upgrading Project. These costs include debt service on the outstanding 2001 Series Bonds. Amortization of Upgrading Costs consists of debt service on the Authority's 2001 Series Bonds and associated expenses. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Certain Contracts."

Revenue received by the Authority in excess of its Revenue Requirements in any year is refunded back to Authority Power Purchasers within the next contract year. Amounts shown for Credits to Authority Power Purchasers for prior years represent revenue overcollections received by the Authority based on Hoover Power rate schedules in effect. This overcollection is refunded to Authority Power Purchasers during the subsequent operating year. The amounts refunded to Authority Power Purchasers vary depending on several factors including annual budget/actual results, changes in Hoover Power production, rates or revenue requirements during the course of the year, Authority rate actions, and scheduling of Hoover Power by Authority Power Purchasers. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Certain Contracts."

Authority's Historical Hoover Power Costs and Rates

The following table sets forth the Hoover power made available to the Authority, the Authority's annual costs and the Authority's rates for Hoover power for the years ended September 30, 2009 to September 30, 2013:

	Year Ended September 30,				
Capacity and Energy:	2009	2010	2011	2012	2013
Hoover Capacity Available to Authority (kW) ⁽¹⁾	293,452	274,751	282,738	290,226	295,111
Hoover Energy Available at Authority Power Purchaser Delivery Points (MWh) ⁽²⁾	671,752	668,128	708,845	735,050	687,304
Operating Expenses:					
Hoover Purchased Power.....	\$16,554,759	\$16,529,575	\$17,721,402	\$19,703,556	\$18,921,561
Transmission.....	6,146,914	5,911,905	5,964,010	6,138,320	6,787,816
Administrative & General	1,478,892	1,906,916	1,671,821	1,632,612	1,658,010
Total Operating Expenses	\$24,180,565	\$24,348,396	\$25,357,233	\$27,474,488	\$27,367,387
Upgrading Credits	(5,842,790)	(6,649,521)	(6,507,651)	(6,559,715)	(6,579,145)
Debt Service	6,175,613	6,389,863	6,543,863	6,539,613	6,542,088
Interest Income	(62,849)	(29,550)	(10,893)	(12,200)	(9,968)
Total Authority Costs	\$24,450,539	\$24,059,188	\$25,382,552	\$27,442,186	\$27,320,362
Authority Power Cost in dollars/MWh	\$34.97	\$36.36	\$35.77	\$37.19	\$39.87

(1) Monthly average available at Mead Substation.

(2) Hoover A and B Energy delivered at Mead Substation less transmission losses to Authority Power Purchasers' delivery points.

The costs of Hoover power in the future could be affected by many factors, including drought conditions and environmental considerations discussed under "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY" – "Drought Conditions Affecting Hoover Dam" and "Environmental Considerations Relating to Hoover Dam."

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 by the Authority and the Authority Power Purchasers. Two significant factors are (i) the efforts on national and local levels to restructure the electric utility industry from a heavily regulated monopoly to an industry in which there is open competition for power supply and transmission, and (ii) the regulatory requirements related to the issues of climate change.

Other factors include, among others, (i) effects of compliance with rapidly changing environmental, safety, licensing, regulatory and legislative requirements, (ii) changes resulting from conservation and demand-side management programs on the timing and use of electric energy, (iii) changes that might result from national energy policies, (iv) increased competition from independent power producers, (v) "self-generation" by certain industrial and commercial customers, (vi) issues relating to the ability to issue tax-exempt obligations, (vii) severe restrictions on the ability to sell to nongovernmental entities electricity from generation projects financed with outstanding tax-exempt obligations, (viii) changes from projected future electricity requirements, (ix) increases in costs, (x) shifts in the availability and relative costs of different fuels, (xi) effects of the financial difficulties confronting the power marketers, (xii) costs resulting from attempts to change the way transmission providers operate, and (xiii) effects of hydrologic conditions in the Colorado River Basin and hydraulic conditions at Hoover Dam. 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 Authority 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 Authority should obtain and review such information.

Drought Conditions Affecting Hoover Dam

Lake Powell, the reservoir behind Glen Canyon Dam located upstream from Hoover Dam, and Lake Mead are the major storage reservoirs for the Colorado River. Since 2000, the watershed basin of the Colorado River has

experienced periods of severe drought conditions and in 2007 the United States Department of the Interior established rules in its Record of Decision on Colorado River Interim Guidelines for Lower Basin Shortages and the Coordinated Operations of Lake Powell and Lake Mead (the “Interim Guidelines”) for the management of water releases from dams and reservoirs on the Colorado River. These rules, in effect through 2026, define a strategy under which Lake Powell and Lake Mead are operated conjunctively to protect certain reservoir elevations and control the risk of large-scale shortages to water users served by the Colorado River. In general, the Interim Guidelines provide for increases or decreases in the amount of water that will be released to meet delivery obligations to downstream users when the water levels in the reservoirs rise or fall past certain elevations. If drought conditions continue, certain trigger points set forth in the Interim Guidelines could further reduce water levels at Lake Mead with the possibility that electric generation at Hoover Dam could be correspondingly reduced. A reduction in electrical generation would reduce the amount of Hoover power and energy available to be sold by the Authority, increase the cost of Hoover power and energy, and reduce the economic value of such power and energy to the Authority Power Purchasers or require replacement power purchases at significantly increased cost.

In response to falling reservoir levels at Lake Mead, the Bureau is presently undertaking the installation of five wide-head turbines at Hoover Dam (replacing 5 of the 17 main turbines currently in operation) that will allow for more efficient production of energy during low-head conditions and allow continued production of electricity at reservoir levels lower than would be possible under current conditions. One wide-head turbine is currently in operation, four additional wide-head turbines are expected to be completed and operational by 2016.

Environmental Considerations Relating to Hoover Dam.

The lower Colorado River has been included in a critical Habitat Designated Area. The Bureau and the States of Arizona, California, and Nevada have developed a 50-year program which balances use of the Colorado River with conservation of native species and habitats. Called the Lower Colorado River Multi-Species Conservation Plan (“MSCP”), the MSCP authorized current water and power uses and optimized opportunities for future water and power development by providing Endangered Species Act (the “ESA”) compliance for such activities for the 50-year period from 2006 to 2056. The MSCP covers over 400 miles of the lower Colorado River from the Mexican border northward to and including Lake Mead and Hoover Dam. The Bureau implements the MSCP. An MSCP Steering Committee currently representing 57 entities, including the afore-referenced states, federal agencies, Hoover Contractors, including the Authority, other water and power users, municipalities, Native American Tribes, and conservation organizations provide input and oversee the Bureau’s implementations of the MSCP.

Due to the MSCP, the Authority believes that any ESA-related impact on future operations at Hoover Dam will be minor. The Hoover Contractors, including the Authority, together with certain other parties, have implemented the MSCP in cooperation with the Bureau and the United States Fish and Wildlife Service to mitigate negative effects on the Hoover Powerplant’s energy production.

The Federal Energy Regulatory Commission

The 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 Authority) 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 only once preliminarily proposed that a single public power entity be obligated to develop and file a FERC-approved open access transmission tariff in the form required of public utilities. The Authority does not own or operate transmission lines. Any reliability issues are contractually handled by third parties.

Retail Wheeling In Arizona

In August 1998, the Arizona Corporation Commission (the “ACC”) adopted rules mandating, on a phased-in basis, competition by certain electric utilities which are regulated by the ACC which includes such entities as Arizona Public Service Company and Tucson Electric Power Company.

Also, the Arizona Legislature passed legislation effective December 31, 1998 (the “Competition Act”) requiring, on a phased-in basis, competition by public power entities which are not regulated by the ACC (such as Salt River Project). The Competition Act directed the ACC to adopt rules for competition similar to what the Arizona Legislature had enacted for public utility entities. In 1999, the ACC issued its rules for retail electric competition, which were challenged in the courts, and held to be invalid. Since 2006, the ACC has initiated consideration of retail competition on three separate occasions, the most recent of which was in September of 2013. In each instance, the ACC did not take any action to reinstate its electric competition rules.

LITIGATION

There is no controversy or litigation of any nature now pending or threatened restraining or enjoining the issuance, sale, execution or delivery of the 2014 Series Bonds or in any way contesting or affecting the validity of the 2014 Series Bonds or any proceedings of the Authority taken with respect to the issuance, sale or reoffering thereof.

The Authority has intervened in litigation initiated by the Navajo Nation against the Secretary of Interior as a party defendant relating to Colorado River water rights. Other than its own legal costs, the Authority will not be subject to any financial impact with regard to said proceedings.

CANCELLATION OF CONTRACTS

Title 38, Chapter 3, Article 8 of the Arizona Revised Statutes is a conflict of interest statute which provides that contracts made by the State or any public agency are voidable, cancelable or subject to equitable remedies imposed by the superior court if such contracts are entered into in violation of the statute. Public agencies are defined to include all courts; any department, agency, board, commission, institution, instrumentality, legislative or administrative body of the state, county, incorporated town or city and any other political subdivision; and the State, county and incorporated cities and towns and any other political subdivisions. The Authority is a political subdivision of the State and, therefore, a political subdivision and public agency within the meaning of Title 38, Chapter 3, Article 8.

Title 38, Chapter 3, Article 8 includes a provision that a political subdivision of the State such as the Authority may cancel any contract made by the political subdivision within three years after execution of the contract if any person significantly involved in initiating, negotiating, securing, drafting or creating the contract on behalf of the political subdivision (the Authority) is at any time while the contract or any extension of the contract is in effect, an employee or agent of any other party to the contract in any capacity or a consultant to any other party of the contract with respect to the subject matter of the contract. By statute, such cancellation would be without penalty or further obligation of a political subdivision such as the Authority. Cancellation may be initiated by the Governor of the State or the chief executive officer or the governing body of the political subdivision such as the Authority. Requests for equitable relief also may be made by any person affected by a decision of a public agency such as the Authority. The Authority has adopted or is a party to several financing agreements which are material to the payment of the 2014 Series Bonds, including the Seventh Supplemental Resolution authorizing the 2014 Series Bonds and Amendment No. 1. Exercise of a remedy under Title 38, Chapter 3, Article 8 against any such financing agreements to which the Authority is a party would adversely affect the holders of the 2014 Series Bonds.

No action for cancellation of any contract of the Authority, including, but not limited to, the Power Sales Contract, the Western Contract, the Wheeling Agreement and the Resolution, has ever been initiated pursuant to the statutory scheme.

UNDERWRITING

J.P. Morgan Securities LLC and RBC Capital Markets, LLC (collectively, the “Underwriters”) have jointly and severally agreed, subject to certain conditions, to purchase the 2014 Series Bonds from the Authority an aggregate underwriters’ discount of \$238,851.66. The initial public offering prices or yields are set forth on the inside front cover page of this Official Statement. The Underwriters’ obligations are subject to certain conditions precedent, and they will be obligated to purchase all such 2014 Series Bonds if any are purchased. The 2014 Series Bonds may be offered and sold to certain dealers at a price or yield lower than such public offering prices or yields. The public offering prices may be changed, from time to time, by the Underwriters.

The Underwriters have provided the following information to the Authority for inclusion in this Official Statement. The Underwriters and their respective affiliates are full service financial institutions engaged in various

activities, which may include securities trading, commercial and investment banking, financial 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 Authority, 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 Authority.

J.P. Morgan Securities LLC (“JPMS”), one of the Underwriters, has entered into a negotiated dealer agreement (the “Dealer Agreement”) with Charles Schwab & Co., Inc. (“CS&Co.”) for the retail distribution of certain securities offerings, at the original issue prices. Pursuant to the Dealer Agreement, if applicable to this transaction, CS&Co. will purchase the 2014 Series Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any 2014 Series A Bonds that CS&Co. sells.

JPMorgan Chase Bank, National Association, an affiliate of JPMS entered into the Loan Agreement with the Authority that provided that the interim financing for the Prepayment Project.

CONTINUING DISCLOSURE

The Authority and the Trustee, as dissemination agent (the “Dissemination Agent”) are entering into a Continuing Disclosure Agreement for the benefit of the holders and Beneficial Owners of the 2014 Series Bonds in order to assist Underwriters in complying with Rule 15c2-12 of the Securities and Exchange Commission (the “Rule”). CAWCD is an “obligated person” under the Rule and the Authority has agreed to provide certain updated financial information and operating data of CAWCD (the “CAWCD Annual Information”) of the type described in the Continuing Disclosure Agreement attached hereto as APPENDIX G.

Pursuant to the Continuing Disclosure Agreement, the Authority will, or will cause the Dissemination Agent to, not later than 180 days after the end of the respective fiscal years of the Authority and CAWCD, provide to the Municipal Securities Rulemaking Board (the “MSRB”) through the Electronic Municipal Market Access system (“EMMA”) the financial information and operating data relating to the Authority (the “Authority Annual Information” and together with the CAWCD Annual Information, collectively the “Annual Information”) and notice of certain events (the “Material Events”) all as described in the Continuing Disclosure Agreement attached hereto as APPENDIX G.

The Annual Information and notices of Material Events required to be filed by the Authority the Dissemination Agent under the Continuing Disclosure Agreement must be submitted to the MSRB through EMMA, which is an internet-based, online portal for free investor access to municipal bond information, including offering documents, material event notices, real-time municipal securities trade prices and MSRB education resources, available at www.emma.msrb.org. Nothing contained on EMMA relating to the Authority or CAWCD is incorporated by reference into this Official Statement.

The Authority executed a continuing disclosure undertaking in connection with the issuance of the 2001 Series Bonds, in which it was to file (i) its Annual Information and (ii) Annual Information regarding CAWCD, in each case, within 180 days following the end of each fiscal year. The audited financial statements of the Authority for fiscal years ended September 30, 2009-2012, due to be filed on April 1, 2010- 2013, respectively, were filed with EMMA on July 10, 2010, January 5, 2012, August 11, 2013 and August 11, 2013, respectively, and the remaining operating data was filed on January 16, 2014. The Annual Information regarding CAWCD for fiscal years ended December 31, 2009-2012, due to be filed on July 1, 2010-2013, was filed with EMMA on December 23, 2013. In order to assure compliance with the Rule in the future and to avoid filing failures, the Authority has developed and implemented written policies and procedures for compliance with its filing requirements. Under the Continuing Disclosure Agreement, the Authority has agreed to either file the Annual Information with the MSRB or have the Dissemination Agent file the Annual Information. In addition, the Continuing Disclosure Agreement provides that in the event that the Dissemination Agent has not received notice of the Annual Information being filed with the MSRB or that it has not received the Annual Information by the date set forth in the Continuing Disclosure Agreement, then the Dissemination Agent is required to send a notice to the MSRB of such failure.

RATINGS

Standard & Poor's Ratings Service, a Division of the McGraw-Hill Companies, Inc. ("S&P") has assigned the 2014 Series Bonds the rating of "AA". Moody's Investor Services, Inc. ("Moody's") has assigned the 2014 Series Bonds the rating of "Aa2". Such ratings express only the views of the respective rating agencies.

An explanation of the significance of the rating given by S&P may be obtained from S&P Corporation, 55 Water Street, New York, New York 10041. An explanation of the significance of the rating given by Moody's may be obtained from Moody's Investors Services, Inc., 99 Church Street, New York, New York 10007. There is no assurance that the ratings will continue for any given period of time or that the ratings will not be revised downward or withdrawn entirely by S&P, if in the judgment of S&P, and by Moody's if, in the judgment of Moody's, circumstances so warrant. In addition, the rating agencies have from time to time and may in the future change the methodology of determining the ratings that could affect the ratings of the 2014 Series Bonds. Any downward revision or withdrawal of the ratings may have an adverse effect on the market price of the 2014 Series Bonds. The ratings are not a recommendation to buy, sell or hold the 2014 Series Bonds.

FEDERAL AND STATE INCOME TAXES

State Tax Exemption. In the opinion of Bond Counsel, under existing law interest on the 2014 Series Bonds is exempt from income taxes imposed by the State of Arizona.

Certain Federal Income Tax Considerations. The following is a general summary of certain federal income tax consequences of the purchase and ownership of the 2014 Series Bonds. The discussion is based upon the Internal Revenue Code of 1986 (the "Code"), U.S. Treasury Regulations, rulings, and decisions now in effect, all of which are subject to change (possibly, with retroactive effect) or possibly differing interpretation. No assurances can be given that future changes in the law will not alter the conclusions reached herein. The discussion below does not purport to deal with federal income tax consequences applicable to all categories of investors and generally does not address consequences relating to the disposition of a 2014 Series Bond by a Beneficial Owner thereof. Further, this summary does not discuss all aspects of federal income taxation that may be relevant to a particular investor in the 2014 Series Bonds in light of the investor's particular circumstances (for example, persons subject to the alternative minimum tax provisions of the Code), or to certain types of investors subject to special treatment under the federal income tax laws (including insurance companies, tax-exempt organizations and entities, financial institutions, broker-dealers, persons who have hedged the risk of owning the 2014 Series Bonds, traders in securities that elect to use a mark-to-market method of accounting, thrifts, regulated investment companies, pension and other employee benefit plans, partnerships and other pass-through entities, certain hybrid entities and owners of interests therein, persons who acquire 2014 Series Bonds in connection with the performance of services, or persons deemed to sell 2014 Series Bonds under the constructive sale provisions of the Code). The discussion below also does not discuss any aspect of state, local, or foreign law or U.S. federal tax laws other than U.S. federal income tax law. The summary is limited to certain issues relating to initial investors who will hold the 2014 Series Bonds as "capital assets" within the meaning of Section 1221 of the Code, and acquire such 2014 Series Bonds for investment and not as a dealer or for resale. This summary addresses certain federal income tax consequences applicable to Beneficial Owners of the 2014 Series Bonds who are United States persons within the meaning of Section 7701 (a)(30) of the Code ("United States persons") and, except as discussed below, does not address any consequences to persons other than United States persons. Prospective investors should note that no rulings have been or will be sought from the Internal Revenue Service (the "IRS" or the "Service") with respect to any of the federal income tax consequences discussed below, and no assurance can be given that the Service will not take contrary positions.

ALL PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS IN DETERMINING THE FEDERAL, STATE, LOCAL, FOREIGN, AND ANY OTHER TAX CONSEQUENCES TO THEM FROM THE PURCHASE, OWNERSHIP, AND DISPOSITION OF THE 2014 SERIES BONDS.

Internal Revenue Service Circular 230 Notice. Prospective investors should be aware that:

(a) the discussion in this Official Statement with respect to certain U.S. federal income tax consequences of purchasing and owning the 2014 Series Bonds is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed under the Code;

(b) such discussion was written in connection with the promotion or marketing (within the meaning of IRS Circular 230) of the transactions or matters addressed in this Official Statement; and

(c) each taxpayer should seek advice based on its particular circumstances from an independent tax advisor.

This notice is given solely for purposes of ensuring compliance with IRS Circular 230 with respect to the discussion below regarding the 2014 Series Bonds.

Stated Interest and Reporting of Interest Payments. The stated interest on the 2014 Series Bonds will be included in the gross income, as defined in Section 61 of the Code, of the Beneficial Owners thereof as ordinary income for federal income tax purposes at the time it is paid or accrued, depending on the tax accounting method applicable to the Beneficial Owners thereof. Subject to certain exceptions, the stated interest on the 2014 Series Bonds will be reported to the Service. Such information will be filed each year with the Service on Form 1099 which will reflect the name, address, and taxpayer identification number (“TIN”) of the Beneficial Owner. A copy of Form 1099 will be sent to each Beneficial Owner of a 2014 Series Bond for federal income tax purposes.

Medicare Contribution Tax. Pursuant to Section 1411 of the Code, as enacted by the Health Care and Education Reconciliation Act of 2010, an additional tax is imposed on individuals beginning January 1, 2013. The additional tax is 3.8% of the lesser of (i) net investment income (defined as gross income from interest, dividends, net gain from disposition of property not used in a trade or business, and certain other listed items of gross income), or (ii) the excess of “modified adjusted gross income” of the individual over \$200,000 for unmarried individuals (\$250,000 for married couples filing a joint return and a surviving spouse). Beneficial Owners of the 2014 Series Bonds should consult with their own tax advisors concerning this additional tax, as it may apply to interest earned on the 2014 Series Bonds as well as gain on the sale of a 2014 Series Bond.

Defeasance. Persons considering the purchase of a 2014 Series Bond should be aware that the Resolution permits the Authority under certain circumstances to deposit monies or securities in escrow, resulting in the release of the lien of the Resolution (a “defeasance”). A defeasance could result in the realization of gain or loss by the Beneficial Owner of a 2014 Series Bond for federal income tax purposes, without any corresponding receipts of monies by the Beneficial Owner. Such gain or loss generally would be subject to recognition for the tax year in which such realization occurs, as in the case of a sale or exchange. Owners are advised to consult their own tax advisers with respect to the tax consequences resulting from such events.

Backup Withholding. Under Section 3406 of the Code, a Beneficial Owner of the 2014 Series Bonds who is a United States person may, under certain circumstances, be subject to “backup withholding” (currently at a rate of 28 percent) on current or accrued interest on the 2014 Series Bonds or with respect to proceeds received from a disposition of the 2014 Series Bonds. This withholding applies if such Beneficial Owner of 2014 Series Bonds: (i) fails to furnish to the payor such Beneficial Owner’s social security number or other TIN; (ii) furnishes the payor an incorrect TIN; (iii) fails to report interest properly; or (iv) under certain circumstances, fails to provide the payor or such Beneficial Owner’s broker with a certified statement, signed under penalty of perjury, that the TIN provided to the payor or broker is correct and that such Beneficial Owner is not subject to backup withholding. To establish status as an exempt person, a Beneficial Owner will generally be required to provide certification on IRS Form W-9 (or substitute form).

Backup withholding will not apply, however, if the Beneficial Owner is a corporation or falls within certain tax-exempt categories and, when required, demonstrates such fact. BENEFICIAL OWNERS OF THE 2014 SERIES BONDS SHOULD CONSULT THEIR TAX ADVISORS REGARDING THEIR QUALIFICATION FOR EXEMPTION FROM BACKUP WITHHOLDING AND THE PROCEDURE FOR OBTAINING SUCH EXEMPTION, IF APPLICABLE. The backup withholding tax is not an additional tax and taxpayers may use amounts withheld as a credit against their federal income tax liability or may claim a refund as long as they timely provide certain information to the Service.

Withholding on Payments to Nonresident Alien Individuals and Foreign Corporations. Under Sections 1441 and 1442 of the Code, nonresident alien individuals and foreign corporations are generally subject to withholding of U.S. federal income tax by the payor at the rate of 30 percent on periodic income items arising from sources within the United States, provided such income is not effectively connected with the conduct of a United States trade or business. Assuming the interest income of such a Beneficial Owner of the 2014 Series Bonds is not treated as effectively connected income within the meaning of Section 864 of the Code, such interest will be subject to 30 percent withholding, or any lower rate specified in an income tax treaty, unless such income is treated as “portfolio interest.” Interest will be treated as portfolio interest if (i) the Beneficial Owner provides a statement to the payor certifying, under penalties of perjury, that such Beneficial Owner is not a United States person and providing the name and address of such Beneficial Owner, (ii) such interest is treated as not effectively connected with the Beneficial Owner’s United States trade or business, (iii) interest

payments are not made to a person within a foreign country which the Service has included on a list of countries having provisions inadequate to prevent United States tax evasion, (iv) interest payable with respect to the 2014 Series Bonds is not deemed contingent interest within the meaning of the portfolio debt provision, (v) such Beneficial Owner is not a controlled foreign corporation within the meaning of Section 957 of the Code, and (vi) such Beneficial Owner is not a bank receiving interest on the 2014 Series Bonds pursuant to a loan agreement entered into in the ordinary course of the bank's trade or business.

Assuming payments on the 2014 Series Bonds are treated as portfolio interest within the meaning of Sections 871 and 881 of the Code, then no withholding under Section 1441 and 1442 of the Code, and no backup withholding under Section 3406 of the Code is required with respect to Beneficial Owners or intermediaries who have furnished Form W-8 BEN, Form W-8 EXP, or Form W-8 IMY, as applicable, provided the payor has no actual knowledge or reason to know that such person is a United States person.

The preceding discussion of certain U.S. federal income tax consequences is for general information only and is not tax advice. Accordingly, each investor should consult its own tax advisor as to particular tax consequences to it of purchasing, owning, and disposing of the 2014 Series Bonds, including the applicability and effect of any state, local, or foreign tax laws, and of any proposed changes in applicable laws.

APPROVAL OF LEGAL PROCEEDINGS

All legal matters incident to the authorization and issuance of the 2014 Series Bonds are subject to the approval of Fulbright & Jaworski LLP, New York, New York, a member of Norton Rose Fulbright, Bond Counsel, whose final approving opinion will be delivered with the 2014 Series Bonds, and Douglas V. Fant, Esq., General Counsel to the Authority. Certain legal matters will be passed upon for the Underwriters by Squire Sanders (US) LLP, Phoenix, Arizona.

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MISCELLANEOUS

All references to the Resolution, the Power Sales Contracts, the Western Contract, the Wheeling Agreement, the Authority Act, the Boulder Canyon Project Act, the 1984 Hoover Act, the Hoover Power Allocation Act of 2011 and certain other documents are brief outlines of certain provisions thereof. Such outlines do not purport to be complete and reference is made to such documents for full and complete statements of such provisions. Statements herein involving matters of opinion or estimates, 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 estimates will be realized.

ARIZONA POWER AUTHORITY

By: /s/ Stephen M. Brophy
Chairman of the Commission

By: /s/ Michael A. Gazda
Interim Acting Executive Director

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**ARIZONA POWER AUTHORITY FISCAL YEAR 2012-13
FINANCIAL STATEMENTS**

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**ARIZONA POWER AUTHORITY
(A BODY, CORPORATE AND POLITIC, OF THE
STATE OF ARIZONA)
PHOENIX, ARIZONA**

**FINANCIAL STATEMENTS
SEPTEMBER 30, 2013 AND 2012**

**ARIZONA POWER AUTHORITY
(A BODY, CORPORATE AND POLITIC, OF THE STATE OF ARIZONA)
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SEPTEMBER 30, 2013 AND 2012**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Arizona Power Authority Commission
Phoenix, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of Arizona Power Authority (A Body, Corporate and Politic of the State of Arizona) (Authority), which comprise the statements of net position, as of September 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arizona Power Authority as of September 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages 3 through 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

Phoenix, Arizona
December 10, 2013

**ARIZONA POWER AUTHORITY
(A BODY, CORPORATE AND POLITIC, OF THE STATE OF ARIZONA)
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013 AND 2012**

Introduction

The following is a discussion and analysis of the Arizona Power Authority's ("Authority") financial performance for the operating years ended September 30, 2013 and 2012. This discussion is designed to: (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Authority's financial activity, and (c) identify changes in the Authority's financial position.

The Management's Discussion and Analysis ("MD&A") focuses on the 2013 and 2012 operating years' activities, resulting changes and known facts, and should be read in conjunction with the Authority's basic financial statements as of and for the years ended September 30, 2013 and 2012.

This MD&A is an introduction to the basic financial statements of the Authority, which are comprised of two components.

- (1) Fund Financial Statements
- (2) Notes to the Financial Statements

The Fund Financial Statements begin on page 17 and provide detailed information about the individual funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the Authority uses to keep track of specific sources of revenues and disbursements for specific purposes. The Authority's funds are treated as proprietary and are independent of each other. Most of the Authority's financial dealings are with contracts outside of state government. A separate fund is not maintained for government activities. The Authority does not act as a fiduciary.

USING THIS FINANCIAL REPORT

This financial report consists of a series of financial statements. The Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position and the Statements of Cash Flows (on pages 17, 19 and 21, respectively) provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances. The Authority is a body, corporate and politic, of the State of Arizona and is a special-purpose government entity engaged only in business-type activities. Accordingly, the financial statements presented are the required basic financial statements in accordance with the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

AUTHORITY HIGHLIGHTS

Transmission Agreement - On January 24, 2003, the Authority and the Western Area Power Administration ("Western") entered into an agreement for the Advancement of Funds for Transmission Services. The Authority had an existing agreement with Western that provided for the delivery of power and energy. The agreement provides for the Authority to advance funds to Western on a monthly basis to fund operations, maintenance and replacement costs associated with Western's transmission services. For the years ended September 30, 2013 and 2012, the Authority advanced a net prepaid deposit of \$589,509 and \$527,507, respectively, which is included in the Statements of Net Position. This contract gives Western greater flexibility and allows them to work more effectively with the Authority and other customers.

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(A BODY, CORPORATE AND POLITIC, OF THE STATE OF ARIZONA)
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013 AND 2012**

Contributions - During the 2012 operating year, the Authority contributed \$60,000 to Arizona State schools, via the Arizona Power Authority Scholarship Program.

Effects of Drought on Hoover Energy - The Colorado River Basin has been experiencing severe drought conditions for the past thirteen years. This has resulted in a reduction in Lake Mead's storage and the power production at Hoover Dam. In response to customer requests, the Authority continues to purchase supplemental power to offset the reduced energy production at Hoover. The supplemental power costs are significantly higher than Hoover rates, and are passed directly to the requesting customers. These supplemental revenues and costs are reflected on the Authority's records, resulting in higher revenue and purchased power costs.

Arizona State Treasurer-Held Investment Write-off - The Authority is statutorily required to invest funds through the Arizona State Treasurer ("Treasurer"), who has sole investment decision-making authority. In November 2002, the Authority was advised that one of the Treasurer's chosen investments managed by National Century Financial Enterprises was under investigation for fraud. In December 2002, the Authority was informed that the Treasurer was vitiating the investment in question, thereby reducing the value to zero. Since that time, litigation was initiated and continues. There is no guarantee that the litigation will result in the recovery of the Authority's funds, which totaled \$227,224. Therefore, the Authority wrote off the lost investment amount as of September 30, 2003. As of September 30, 2013, a total of \$173,330 (including interest) has been recovered.

REVENUES

Increase/Decrease in Commission Approved Power Rates - State statute requires the rates be set at levels to recover the cost of supplying services. In addition, contracts between the Authority and its customers provide specific details regarding rate determination. The Arizona Power Authority Commission is solely responsible for periodically adjusting rates, as appropriate.

Market Impacts on Investment Income – During operating year 2013 market conditions resulted in a slight decrease in investment income over the previous year.

Economic Drought Condition Impact – Although the drought condition in the Colorado River Basin continues, increased efficiency improvements at Hoover Dam have helped to offset the decreases resulting from reduced water levels.

EXPENSES

Introduction of New Programs – There were no changes during this operating year; however, individual programs may be added or deleted to meet changing Authority needs.

Increase/Decrease in Authorized Personnel – Changes in Authority's services may result in increasing/decreasing authorized staffing. Operating year 2013 staffing costs (salary and related benefits) represent 3.14% of the Authority's operating costs. For operating year 2012, staffing costs represent 3.54% of the Authority's operating costs.

Salary Structure – The ability to attract and retain competent personnel requires the Authority to provide a competitive salary structure, which is reviewed annually, and is within State guidelines.

**ARIZONA POWER AUTHORITY
(A BODY, CORPORATE AND POLITIC, OF THE STATE OF ARIZONA)
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013 AND 2012**

FINANCIAL HIGHLIGHTS

- The Authority's 2013 net position increased by \$253,851. This increase is the result of:
 - A reduction in operating expenses related to purchased power.
 - An increase in other income, due to recovered funds from the NCFE prior year write-off.
- The Authority's 2013 operating revenues decreased by \$(4,130,562) due largely to a reduction in supplemental power sales.
- The Authority's 2012 net position increased by \$37,643 due primarily to reduced expenses.
- The Authority's 2012 operating revenues increased by \$3,058,185 due primarily to increased revenues resulting from a small increase in energy available for sale and increased Hoover Dam operating costs, which necessitated increased power rates.

STATEMENTS OF NET POSITION

There are three normal transactions that will affect the comparability of the Statements of Net Position summary presentation:

Net Results of Activities – which will impact (increase/decrease) current assets and unrestricted net position.

Principal Payment on Debt – which will reduce current assets and reduce long-term debt.

Reduction of Capital Assets through Depreciation – which will reduce capital assets and net investment in capital assets.

ARIZONA POWER AUTHORITY
(A BODY, CORPORATE AND POLITIC, OF THE STATE OF ARIZONA)
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013 AND 2012

Condensed Statements of Net Position
Business Type Activities

	<u>9/30/2013</u>	<u>9/30/2012</u>	<u>Diff</u>	<u>%</u>
Current assets	\$ 15,344,856	\$ 14,940,065	\$ 404,791	2.7
Long-term assets	20,990,615	25,823,531	(4,832,916)	(18.7)
Capital assets, net	103,212	115,725	(12,513)	(10.8)
Total assets	<u>\$ 36,438,683</u>	<u>\$ 40,879,321</u>	<u>\$ (4,440,638)</u>	<u>(10.9)</u>
Current liabilities	\$ 8,582,188	\$ 8,149,625	\$ 432,563	5.3
Long-term bonds payable, net	23,200,459	28,327,511	(5,127,052)	(18.1)
Total liabilities	<u>31,782,647</u>	<u>36,477,136</u>	<u>(4,694,489)</u>	<u>(12.9)</u>
Net investment in capital assets	103,212	115,725	(12,513)	(10.8)
Unrestricted	4,552,824	4,286,460	266,364	6.2
Total net position	<u>4,656,036</u>	<u>4,402,185</u>	<u>253,851</u>	<u>5.8</u>
Total liabilities and net position	<u>\$ 36,438,683</u>	<u>\$ 40,879,321</u>	<u>\$ (4,440,638)</u>	<u>(10.9)</u>

Operating Year 2013 Condensed Statements of Net Position Discussion

Current Assets increased due to an expense normally paid within the operating year, which was not paid during Operating Year 2013, due to a delay in receipt of the invoice. The expense was accrued in the Operating Year 2013.

Long-Term Assets decreased because of the application of credits for the payment of principal for the current year debt service for the Uprating Program (a reclassification of long-term debt to current debt).

Capital Assets, net decreased because of normal depreciation/retirement of capital assets.

Current Liabilities increased due to an expense normally paid within the operating year, which was not paid during Operating Year 2013, due to a delay in receipt of the invoice. The expense was accrued as a liability in the Operating Year 2013.

Long-Term Liabilities decreased due to a pay down of the bond principal. See further explanation on page 8.

Net Position is explained on page 11.

ARIZONA POWER AUTHORITY
(A BODY, CORPORATE AND POLITIC, OF THE STATE OF ARIZONA)
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013 AND 2012

Condensed Statements of Net Position
Business Type Activities

	<u>9/30/2012</u>	<u>9/30/2011</u>	<u>Diff</u>	<u>%</u>
Current assets	\$ 14,940,065	\$ 15,198,078	\$ (258,013)	(1.7)
Long-term assets	25,823,531	30,404,676	(4,581,145)	(15.1)
Capital assets, net	115,725	119,001	(3,276)	(2.8)
Total assets	<u>\$ 40,879,321</u>	<u>\$ 45,721,755</u>	<u>\$ (4,842,434)</u>	<u>(10.6)</u>
Current liabilities	\$ 8,149,625	\$ 8,147,042	\$ 2,583	-
Long-term bonds payable, net	28,327,511	33,210,171	(4,882,660)	(14.7)
Total liabilities	<u>36,477,136</u>	<u>41,357,213</u>	<u>(4,880,077)</u>	<u>(11.8)</u>
Net investment in capital assets	115,725	119,001	(3,276)	(2.8)
Unrestricted	4,286,460	4,245,541	40,919	1.0
Total net position	<u>4,402,185</u>	<u>4,364,542</u>	<u>37,643</u>	<u>0.9</u>
Total liabilities and net position	<u>\$ 40,879,321</u>	<u>\$ 45,721,755</u>	<u>\$ (4,842,434)</u>	<u>(10.6)</u>

Operating Year 2012 Condensed Statements of Net Position Discussion

Current Assets decreased due primarily to a decrease in accounts receivable.

Long-Term Assets decreased because of the application of credits for the payment of principal for the current year debt service for the Upgrading Program.

Capital Assets, net decreased because of normal depreciation/retirement of capital assets.

Current Liabilities increased due mainly to an increased short-term bonds payable (which is in keeping with the schedule established by the Bond Covenant), and an increase in Power Contracts payable.

Long-Term Liabilities decreased due to a pay down of the bond principal. See further explanation on page 8.

Net Position is explained on page 11.

**ARIZONA POWER AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013 AND 2012**

CAPITAL ASSETS

As of September 30, 2013, the Authority had \$103,212 invested in a variety of capital assets, as reflected in the following schedule, which represents a net decrease (additions less retirements and depreciation) of \$(12,513) during operating year 2013, and a net decrease of \$(3,276) during operating year 2012.

	September 30,	
	2013	2012
Transmission plant	\$ 5,340	\$ 8,392
Distribution plant	8,637	10,941
General plant - office	89,235	96,392
Net investment in capital assets, end of year	<u>\$ 103,212</u>	<u>\$ 115,725</u>

The following reconciliation summarizes the change in Capital Assets for the years ended September 30, 2013 and 2012, which is presented in detail in Note 4:

	September 30,	
	2013	2012
Beginning balance	\$ 115,725	\$ 119,001
Additions	7,758	14,845
Depreciation	(20,271)	(18,121)
Ending balance	<u>\$ 103,212</u>	<u>\$ 115,725</u>

DEBT OUTSTANDING

As of September 30, 2013, the Authority had \$28,135,000 in debt outstanding, compared to \$32,945,000 in the prior year, as a result of a principal payment of \$4,810,000, which was paid on October 1, 2012.

As of September 30, 2012, the Authority had \$32,945,000 in debt outstanding, compared to \$37,530,000 in the prior year, as a result of a principal payment of \$4,585,000, which was paid on October 1, 2011. These payments were scheduled principal payments during the year. Also see Note 6 to the Financial Statements for a detailed summary of debt activity during the year. There was no new long-term debt added in fiscal 2013 or 2012.

**ARIZONA POWER AUTHORITY
(A BODY, CORPORATE AND POLITIC, OF THE STATE OF ARIZONA)
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013 AND 2012**

LIQUIDITY

Pursuant to Arizona Revised Statutes (A.R.S.) Section 30-124, the Commission of the Authority shall establish electric rates to include such price components as are necessary to maintain the Authority, to provide and maintain reasonable working capital and depreciation and other necessary and proper reserves. Components that are necessary to maintain the Authority include employee payroll, occupancy costs, cost of purchases or construction of generation and transmission services, and any cost factors chargeable to the cost of providing service as the Commission deems necessary or advisable to establish and maintain the financial integrity of the Authority. Contracts for sale of electric power to the Authority's customers include rates which may be modified upon 24-hour notice when such action is necessary in the sole judgment of the Commission in order to achieve the purposes of A.R.S. Section 30-124. The Commission, on a monthly basis, reviews the financial status of the Authority, including expenses and revenues and the adequacy of the rates to maintain the Authority's financial integrity. During operating year 2013, the Commission lowered rates by 2.33% in October 2012 and increased rates in July 2013 by 1.37%. During operating year 2012, the Commission did not raise rates.

ARIZONA POWER AUTHORITY
(A BODY, CORPORATE AND POLITIC, OF THE STATE OF ARIZONA)
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013 AND 2012

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

There are normal transactions that will affect the comparability of the Statements of Revenues, Expenses and Changes in Net Position summary presentation:

Operating Revenues – which increase/decrease as a result of economic conditions and power usage.

Operating Expenses – which increase/decrease as a result of purchased power costs, transmission costs, and operating costs.

Other Income (Expenses) – which increase/decrease as a result of investment market conditions.

	<u>2013</u>	<u>2012</u>	<u>Diff</u>	<u>%</u>
Operating revenues	\$ 28,763,233	\$ 32,893,795	\$ (4,130,562)	(12.6)
Operating expenses:				
Purchased power	19,989,421	24,861,520	(4,872,099)	(19.6)
Western credits	(6,579,145)	(6,559,715)	(19,430)	0.3
Amortization of Hoover				
Uprating Program costs	6,579,145	6,559,715	19,430	0.3
Transmission and distribution	6,871,637	6,299,538	572,099	9.1
Administrative and general	1,658,010	1,632,612	25,398	1.6
Depreciation	20,271	18,121	2,150	11.9
Other	34,992	60,002	(25,010)	(41.7)
Total operating expenses	<u>28,574,331</u>	<u>32,871,793</u>	<u>(4,297,462)</u>	<u>(13.1)</u>
Operating income	<u>188,902</u>	<u>22,002</u>	<u>166,900</u>	<u>758.6</u>
Other income (expenses)				
Interest expense	(1,477,088)	(1,729,613)	252,525	(14.6)
Deferred interest expense	1,415,723	1,657,185	(241,462)	(14.6)
Amortization	62,052	72,660	(10,608)	(14.6)
Interest income	12,521	14,756	(2,235)	(15.1)
Other, net	51,741	653	51,088	7,823.6
Total other income	<u>64,949</u>	<u>15,641</u>	<u>49,308</u>	<u>315.2</u>
Change in net position	253,851	37,643	216,208	574.4
Net position, beginning of year	<u>4,402,185</u>	<u>4,364,542</u>	<u>37,643</u>	<u>0.9</u>
Net position, end of year	<u>\$ 4,656,036</u>	<u>\$ 4,402,185</u>	<u>\$ 253,851</u>	<u>5.8</u>

**ARIZONA POWER AUTHORITY
(A BODY, CORPORATE AND POLITIC, OF THE STATE OF ARIZONA)
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013 AND 2012**

Operating Year 2013 Changes in Net Position Discussion

Net Position increased overall because of the following:

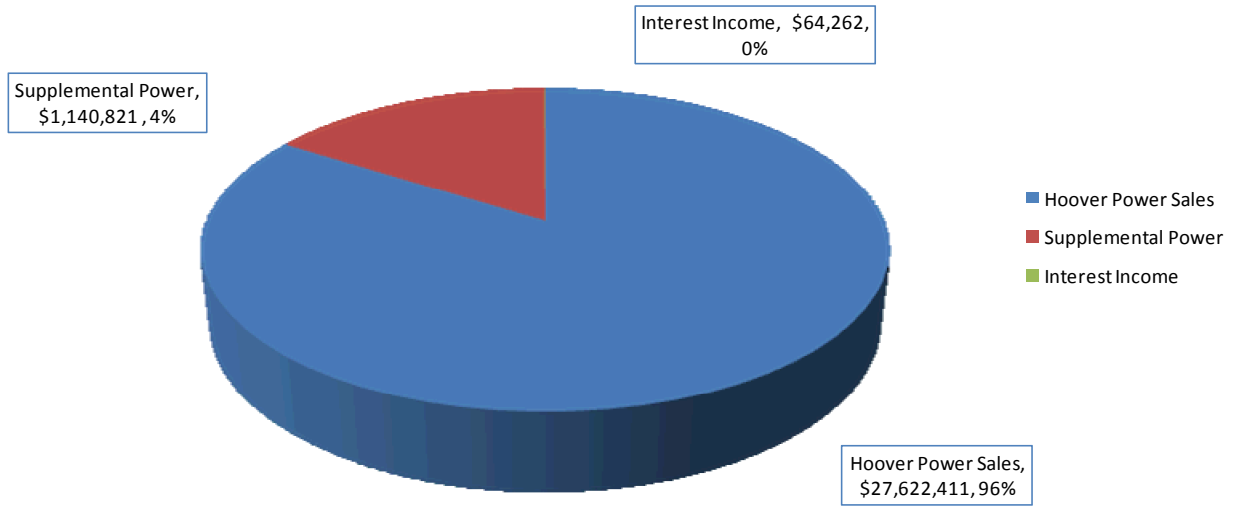
- Operating Revenues decreased primarily due to a reduction in supplemental power purchases.
- Total Operating Expenses decreased due to a reduction in purchased power expenses.
- Amortization of the Upgrading Program costs changed because of the principal and interest payments related to the Upgrading Program.
- Western Credits decreased because of expected scheduled debt payments and associated costs related to the Upgrading Program.
- Administrative and General Expenses slightly increased due to increased 2017 allocation process expenses, which were partly offset by the decrease in staff expenses.
- Depreciation increased due to acquisition of capital assets.
- Other Expenses decreased during Operating Year 2013 due largely to the elimination of the annual Scholarship Fund contribution.

**ARIZONA POWER AUTHORITY
(A BODY, CORPORATE AND POLITIC, OF THE STATE OF ARIZONA)
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013 AND 2012**

Business Type Activities

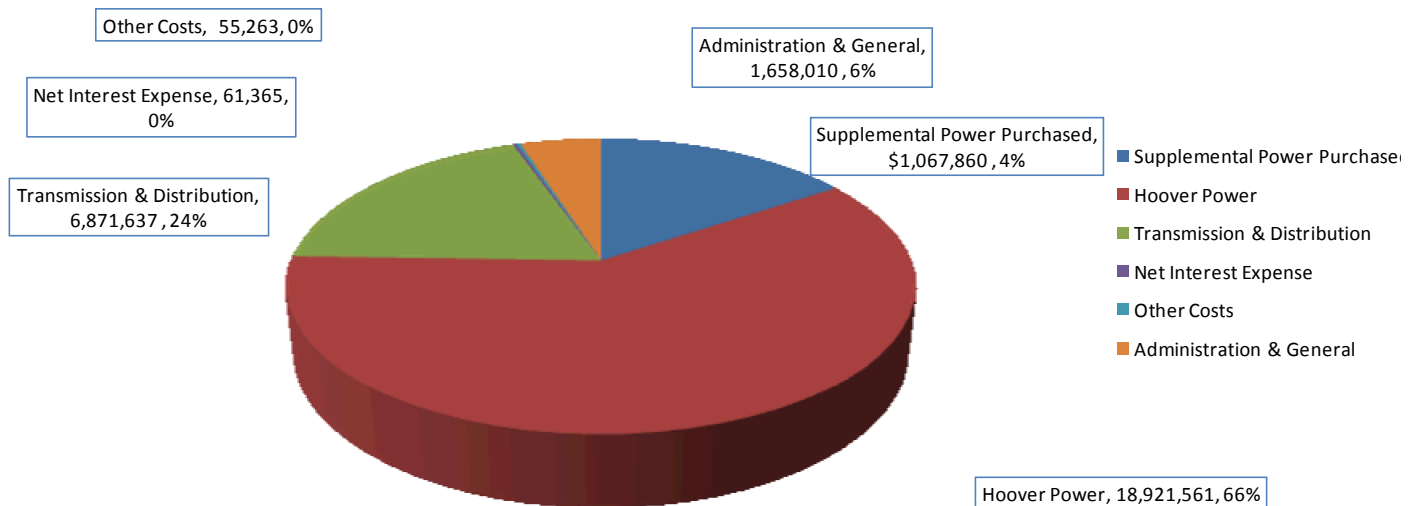
The following chart depicts the sources of revenues for the operating year 2013:

REVENUES OY 2013



The following chart depicts the sources of expenses for the operating year 2013:

EXPENSES OY 2013



ARIZONA POWER AUTHORITY
(A BODY, CORPORATE AND POLITIC, OF THE STATE OF ARIZONA)
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013 AND 2012

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

There are normal transactions that will affect the comparability of the Statements of Revenues, Expenses and Changes in the Net Position summary presentation:

Operating Revenues - which increase/decrease as a result of economic conditions and power usage.

Operating Expenses - which increase/decrease as a result of purchased power costs, transmission costs, and operating costs.

Other Income (Expenses) - which increase/decrease as a result of investment market conditions.

Statements of Revenue, Expenses, and Changes in Net Position
Business Type Activities

	Year Ended September 30,			
	2012	2011	Diff	%
Operating revenues	\$ 32,893,795	\$ 29,835,610	\$ 3,058,185	10.3
Operating expenses:				
Purchased power	24,861,520	21,844,486	3,017,034	13.8
Western Credits	(6,559,715)	(6,507,651)	(52,064)	0.8
Amortization of Hoover				
Uprating Program costs	6,559,715	6,507,651	52,064	0.8
Transmission and distribution	6,299,538	6,045,260	254,278	4.2
Administrative and general	1,632,612	1,671,821	(39,209)	(2.3)
Depreciation	18,121	22,493	(4,372)	(19.4)
Other	60,002	60,000	2	-
Total operating expenses	32,871,793	29,644,060	3,227,733	10.9
Operating income	22,002	191,550	(169,548)	(88.5)
Other income (expenses)				
Interest expense	(1,729,613)	(1,958,861)	229,248	(11.7)
Deferred interest expense	1,657,185	1,878,817	(221,632)	(11.8)
Amortization	72,660	82,296	(9,636)	(11.7)
Interest income	14,756	13,690	1,066	7.8
Other, net	653	-	653	-
Total other income	15,641	15,942	(301)	(1.9)
Change in net position	37,643	207,492	(169,849)	(81.9)
Net position, beginning of year	4,364,542	4,157,050	207,492	5.0
Net position, end of year	\$ 4,402,185	\$ 4,364,542	\$ 37,643	0.9

**ARIZONA POWER AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013 AND 2012**

Operating Year 2012 Changes in Net Position Discussion

Net Position increased overall because of the following:

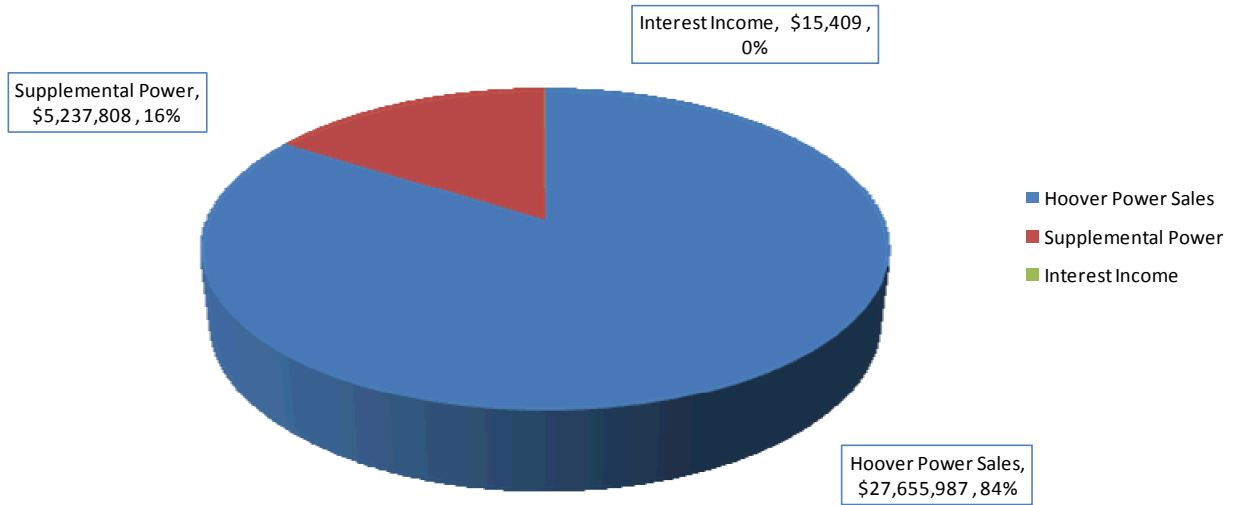
- Operating Revenues increased due mainly to increase in rates and increase in supplemental power sales.
- Total Operating Expenses increased due primarily to an increased in purchased power expenses.
- Western Credits change each year, due to changes in scheduled debt payments and associated costs related to the Upgrading Program.
- Amortization of the Upgrading Program costs decreased because of changes in debt payments and associated costs related to the Upgrading Program.
- Administrative and General expenses decreased by \$(39,209), or (2.3)% due to a decrease in outside professional expenses.
- Depreciation decreased due to normal attrition in the carrying value of property, plant, and equipment.
- Other expenses remained the same in Operating Year 2012.

**ARIZONA POWER AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013 AND 2012**

Business Type Activities

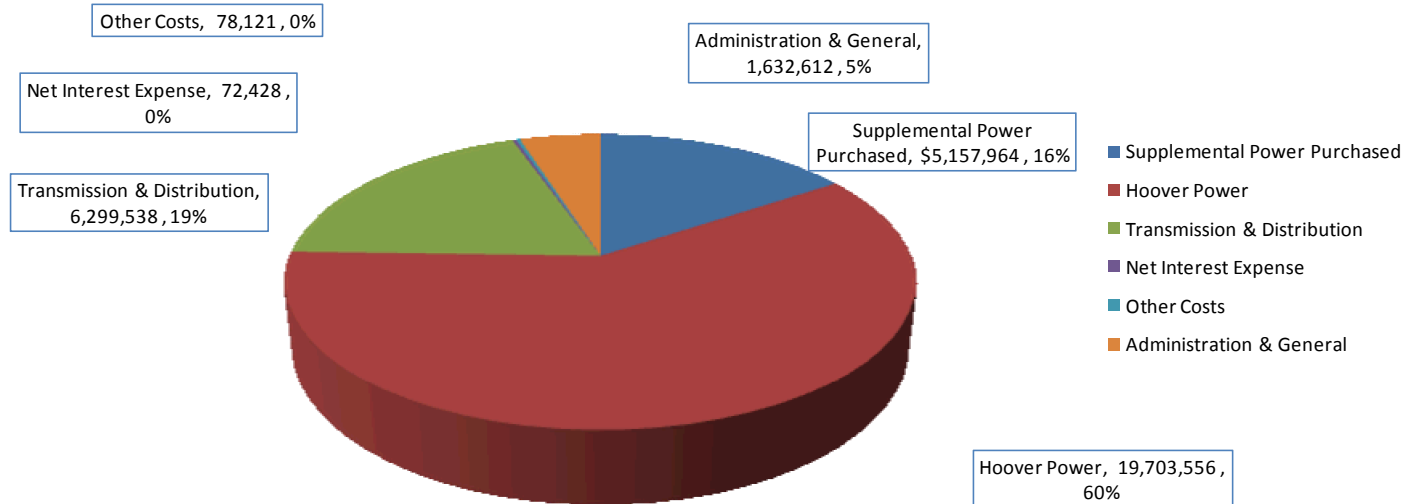
The following chart depicts the sources of revenues for the operating year 2012:

REVENUES OY 2012



The following chart depicts the sources of expenses for the operating year 2012:

EXPENSES OY 2012



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**ARIZONA POWER AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013 AND 2012**

REQUEST FOR FINANCIAL INFORMATION

The information contained in the Management's Discussion and Analysis is intended to provide a general overview of the Authority's finances. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to the Accounting Department, Arizona Power Authority, 1810 West Adams Street, Phoenix, Arizona, 85007.

**ARIZONA POWER AUTHORITY
(A BODY, CORPORATE AND POLITIC, OF THE STATE OF ARIZONA)
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2013 AND 2012**

ASSETS

	APA General Fund	
	<u>2013</u>	<u>2012</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,066,074	\$ 3,102,031
Investments - short-term	-	-
Accounts receivable, customer power purchases	175,303	3,722
Prepaid purchased power	-	-
	<hr/>	<hr/>
Total current assets	3,241,377	3,105,753
Capital assets, net	103,212	115,725
Investments - long-term	-	-
Advances for Hoover Uprating Program, net	-	-
Prepaid transmission	527,507	527,507
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 3,872,096</u>	<u>\$ 3,748,985</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES		
Accounts payable and other	\$ 162,149	\$ 21,682
Customer refunds	-	-
Power contracts payable	-	-
Accrued interest payable	-	-
Bonds payable - short-term	-	-
	<hr/>	<hr/>
Total current liabilities	162,149	21,682
	<hr/>	<hr/>
LONG-TERM LIABILITIES		
Bonds payable - long-term	-	-
Premium on bonds payable, net of discounts	-	-
	<hr/>	<hr/>
Total long-term liabilities	-	-
	<hr/>	<hr/>
Total liabilities	162,149	21,682
	<hr/>	<hr/>
NET POSITION		
Net investment in capital assets	103,212	115,725
Unrestricted	3,606,735	3,611,578
	<hr/>	<hr/>
Total net position	3,709,947	3,727,303
	<hr/>	<hr/>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 3,872,096</u>	<u>\$ 3,748,985</u>

Hoover Upgrading Fund		Total	
<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
\$ 3,705,351	\$ 3,353,709	\$ 6,771,425	\$ 6,455,740
6,180,827	6,014,986	6,180,827	6,014,986
2,217,301	2,465,617	2,392,604	2,469,339
-	-	-	-
12,103,479	11,834,312	15,344,856	14,940,065
-	-	103,212	115,725
6,559,658	6,553,949	6,559,658	6,553,949
13,841,448	18,742,075	13,841,448	18,742,075
62,002	-	589,509	527,507
<u>\$ 32,566,587</u>	<u>\$ 37,130,336</u>	<u>\$ 36,438,683</u>	<u>\$ 40,879,321</u>
\$ 103,236	\$ 172,002	\$ 265,385	\$ 193,684
738,477	680,114	738,477	680,114
1,774,781	1,601,020	1,774,781	1,601,020
738,545	864,807	738,545	864,807
5,065,000	4,810,000	5,065,000	4,810,000
8,420,039	8,127,943	8,582,188	8,149,625
23,070,000	28,135,000	23,070,000	28,135,000
130,459	192,511	130,459	192,511
23,200,459	28,327,511	23,200,459	28,327,511
31,620,498	36,455,454	31,782,647	36,477,136
-	-	103,212	115,725
946,089	674,882	4,552,824	4,286,460
946,089	674,882	4,656,036	4,402,185
<u>\$ 32,566,587</u>	<u>\$ 37,130,336</u>	<u>\$ 36,438,683</u>	<u>\$ 40,879,321</u>

See accompanying Notes to Financial Statements.

ARIZONA POWER AUTHORITY
(A BODY, CORPORATE AND POLITIC, OF THE STATE OF ARIZONA)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	APA General Fund	
	<u>2013</u>	<u>2012</u>
OPERATING REVENUES	\$ 1,140,822	\$ 5,237,808
OPERATING EXPENSES		
Purchased power	1,067,860	5,157,964
Western credits	-	-
Amortization of Hoover Uprating Program costs	-	-
Transmission and distribution	83,821	161,218
Administrative and general	-	-
Depreciation	20,271	18,121
Other	20,076	47,234
Total operating expenses	1,192,028	5,384,537
Operating income (loss)	(51,206)	(146,729)
OTHER INCOME (EXPENSES)		
Interest expense	-	-
Deferred interest expense	-	-
Amortization	-	-
Interest income	2,553	2,556
Other, net	31,297	395
Total other income	33,850	2,951
CHANGES IN NET POSITION	(17,356)	(143,778)
NET POSITION, BEGINNING OF YEAR	<u>3,727,303</u>	<u>3,871,081</u>
NET POSITION, END OF YEAR	<u>\$ 3,709,947</u>	<u>\$ 3,727,303</u>

Hoover Upgrading Fund		Total	
<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
<u>\$ 27,622,411</u>	<u>\$ 27,655,987</u>	<u>\$ 28,763,233</u>	<u>\$ 32,893,795</u>
18,921,561	19,703,556	19,989,421	24,861,520
(6,579,145)	(6,559,715)	(6,579,145)	(6,559,715)
6,579,145	6,559,715	6,579,145	6,559,715
6,787,816	6,138,320	6,871,637	6,299,538
1,658,010	1,632,612	1,658,010	1,632,612
-	-	20,271	18,121
<u>14,916</u>	<u>12,768</u>	<u>34,992</u>	<u>60,002</u>
<u>27,382,303</u>	<u>27,487,256</u>	<u>28,574,331</u>	<u>32,871,793</u>
<u>240,108</u>	<u>168,731</u>	<u>188,902</u>	<u>22,002</u>
(1,477,088)	(1,729,613)	(1,477,088)	(1,729,613)
1,415,723	1,657,185	1,415,723	1,657,185
62,052	72,660	62,052	72,660
9,968	12,200	12,521	14,756
<u>20,444</u>	<u>258</u>	<u>51,741</u>	<u>653</u>
<u>31,099</u>	<u>12,690</u>	<u>64,949</u>	<u>15,641</u>
271,207	181,421	253,851	37,643
<u>674,882</u>	<u>493,461</u>	<u>4,402,185</u>	<u>4,364,542</u>
<u><u>\$ 946,089</u></u>	<u><u>\$ 674,882</u></u>	<u><u>\$ 4,656,036</u></u>	<u><u>\$ 4,402,185</u></u>

See accompanying Notes to Financial Statements.

ARIZONA POWER AUTHORITY
(A BODY, CORPORATE AND POLITIC, OF THE STATE OF ARIZONA)
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	APA General Fund	
	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 969,241	\$ 5,336,724
Cash payments to suppliers for goods or services	(1,031,290)	(5,482,144)
Cash payments to employees for services	-	-
Net cash provided by (used in) operating activities	<u>(62,049)</u>	<u>(145,420)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	2,553	2,556
Loss on investments recovered	31,297	395
Purchase of investments	-	-
Net cash provided by (used in) investing activities	<u>33,850</u>	<u>2,951</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest payments on bonds payable	-	-
Payments on bonds payable	-	-
Acquisition of capital assets	(7,758)	(14,845)
Other costs relating to Hoover Upgrading Program	-	-
Western credits received for Hoover Upgrading Program	-	-
Net cash provided by (used in) capital and related financing activities	<u>(7,758)</u>	<u>(14,845)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(35,957)	(157,314)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,102,031</u>	<u>3,259,345</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,066,074</u>	<u>\$ 3,102,031</u>

Hoover Uprating Fund		Total	
<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
\$ 27,870,727	\$ 27,781,119	\$ 28,839,968	\$ 33,117,843
(26,630,562)	(26,775,719)	(27,661,852)	(32,257,863)
<u>(650,385)</u>	<u>(746,103)</u>	<u>(650,385)</u>	<u>(746,103)</u>
589,780	259,297	527,731	113,877
9,968	12,200	12,521	14,756
20,444	258	51,741	653
<u>(171,551)</u>	<u>(138,994)</u>	<u>(171,551)</u>	<u>(138,994)</u>
<u>(141,139)</u>	<u>(126,536)</u>	<u>(107,289)</u>	<u>(123,585)</u>
(1,603,350)	(1,844,237)	(1,603,350)	(1,844,237)
(4,810,000)	(4,585,000)	(4,810,000)	(4,585,000)
-	-	(7,758)	(14,845)
(262,794)	(271,624)	(262,794)	(271,624)
<u>6,579,145</u>	<u>6,559,715</u>	<u>6,579,145</u>	<u>6,559,715</u>
<u>(96,999)</u>	<u>(141,146)</u>	<u>(104,757)</u>	<u>(155,991)</u>
351,642	(8,385)	315,685	(165,699)
<u>3,353,709</u>	<u>3,362,094</u>	<u>6,455,740</u>	<u>6,621,439</u>
<u>\$ 3,705,351</u>	<u>\$ 3,353,709</u>	<u>\$ 6,771,425</u>	<u>\$ 6,455,740</u>

See accompanying Notes to Financial Statements.

ARIZONA POWER AUTHORITY
(A BODY, CORPORATE AND POLITIC, OF THE STATE OF ARIZONA)
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	APA General Fund	
	<u>2013</u>	<u>2012</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income (loss)	\$ (51,206)	\$ (146,729)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	20,271	18,121
Increase (decrease) in cash resulting from changes in:		
Accounts receivable	(171,581)	98,916
Prepaid purchased power	-	-
Prepaid transmission	-	(42,502)
Accounts payable and other	140,467	(73,226)
Customer refunds	-	-
Power contracts payable	-	-
Total adjustments	<u>(10,843)</u>	<u>1,309</u>
Net cash provided by (used in) operating activities	<u><u>\$ (62,049)</u></u>	<u><u>\$ (145,420)</u></u>
SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATING FINANCING ACTIVITIES		
Deferred interest expense	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Hoover Upgrading Fund		Total	
<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
\$ 240,108	\$ 168,731	\$ 188,902	\$ 22,002
-	-	20,271	18,121
248,316	125,132	76,735	224,048
-	-	-	-
(62,002)	-	(62,002)	(42,502)
(68,766)	67,984	71,701	(5,242)
58,363	(331,692)	58,363	(331,692)
173,761	229,142	173,761	229,142
<u>349,672</u>	<u>90,566</u>	<u>338,829</u>	<u>91,875</u>
<u>\$ 589,780</u>	<u>\$ 259,297</u>	<u>\$ 527,731</u>	<u>\$ 113,877</u>
<u>\$ 1,415,723</u>	<u>\$ 1,657,185</u>	<u>\$ 1,415,723</u>	<u>\$ 1,657,185</u>

See accompanying Notes to Financial Statements.

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**ARIZONA POWER AUTHORITY
(A BODY, CORPORATE AND POLITIC, OF THE STATE OF ARIZONA)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2013 AND 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

The Arizona Power Authority (the "Authority") is a body, corporate and politic, without taxing power, established by the Arizona Legislature on May 27, 1944 by the Power Authority Act. Under the Power Authority Act, the Authority is directed to obtain electric power developed from the mainstream of the Colorado River and sell such power to certain qualified purchasers. The Power Authority Act provides that the Authority must be a self-supporting agency and prohibits the Authority from incurring any obligation, which would be binding upon the State of Arizona.

The Authority supplies capacity and energy on a wholesale basis to certain power purchasers in the State of Arizona. The Authority's primary source of power and energy is the Hoover Power Plant at Hoover Dam, located approximately 25 miles from Las Vegas, Nevada. Hoover power is produced by the Boulder Canyon Project hydropower plant owned by the Bureau of Reclamation. Hoover Dam is the highest and third largest concrete dam in the United States of America. Hoover Dam was dedicated in 1935 and the first generator of the Hoover Power Plant was in full operation in October 1936 and has been in continuous operation since. Power and energy from the Hoover Power Plant is transmitted to load centers in Arizona, California and Nevada. The Authority first contracted for Arizona's share of Hoover power in 1952 and has continuously provided power and energy to its customers since that time.

The Authority is governed by a commission of five members appointed by the Governor and approved by the State Senate (the "Commission"). The term of office for each member is six years and the members select a chairman and vice-chairman from among its membership for two-year terms.

Pursuant to Arizona law, the Commission serves as the Authority's regulatory body with the exclusive authority to establish electric prices. The Authority is required to follow certain procedures, pertaining to public notice requirements and public meetings, before implementing changes in electric price schedules.

Measurement Focus

The Authority's funds are accounted for on a flow of economic resources measurement focus. All assets and liabilities (whether current or noncurrent) associated with their activity are included in the Statements of Net Position. The Statements of Revenues, Expenses and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position. The Authority's reported total net position is segregated into net investment in capital assets and unrestricted components.

Basis of Accounting

The accompanying financial statements are presented in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to a governmental entity.

**ARIZONA POWER AUTHORITY
(A BODY, CORPORATE AND POLITIC, OF THE STATE OF ARIZONA)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2013 AND 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

Basis of accounting refers to the time at which revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. The accrual basis of accounting is used by the Authority whereby revenues are recognized in the accounting period in which they are earned and become measurable, and expenses are recognized when incurred.

Accounting Standards

The Authority implemented Government Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position contained in Pre-November 30, 1989 FASB and AICPA pronouncements*. The adoption of this guidance did not have a material effect on the financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

The Authority recognizes revenue when power is delivered to the customers.

Cash and Cash Equivalents

The Authority treats short-term temporary cash investments with original maturities, when purchased, of three months or less as cash equivalents.

Capital Assets and Depreciation

Capital assets are initially stated at original cost less accumulated depreciation. Depreciation is provided on the straight-line method based on the estimated useful lives of the property items, which range from 3 to 20 years. The costs of additions and replacements are capitalized. Repairs and maintenance are charged to expense as incurred. Retirements, sales and disposals are recorded by removing the cost and accumulated depreciation from the asset and accumulated depreciation accounts with any resulting gain or loss reflected in Other within the Statements of Revenues, Expenses and Changes in Net Position. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the fair value is less than the carrying amount of the asset, a loss is recognized for the difference.

**ARIZONA POWER AUTHORITY
(A BODY, CORPORATE AND POLITIC, OF THE STATE OF ARIZONA)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2013 AND 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advances for Hoover Upgrading Program

Proceeds from bonds payable were advanced by the Authority to Western for upgrading the Hoover Power Plant and are recorded as advances. Such advances, including debt issue costs, plus net interest expense incurred by the Authority are reimbursed in the form of credits on the monthly power bills rendered by the Western Area Power Administration of the Department of Energy ("Western"). These credits will be issued over the 30-year life of the bonds. Substantially all advances, net interest expense and other related costs on the bonds are charged to the Upgrading Program as amounts to be recovered from future credits. These amounts are included in the Amortization of Hoover Upgrading Program Costs in the Statements of Revenues, Expenses and Changes in Net Position.

Operating Revenues

Operating revenues are derived from the sale of power to customers or from other contractual agreements. Operating revenues include funds received as a result of an agreement between the Authority and the Salt River Project. These revenues amounted to \$5,452,000 during the year ended September 30, 2013, and \$5,452,000 during the year ended September 30, 2012. These scheduling entity revenues reduce the overall revenue requirements to be paid by the Authority's customers through power rates. The current Scheduling Entity Agreement was approved and implemented as of October 1, 2012, and that Agreement will expire on September 30, 2017.

Application of Net Position to Expenses Incurred

The Authority applies unrestricted, undesignated net position to expenses incurred. To the extent undesignated net position is unavailable, unrestricted, designated net position will be applied to expenses incurred.

Customer Credits

The Authority operates on a non-profit basis and reduces charges to its customers through credits on power bills or checks to customers, for any revenues in excess of expenses after the close of the operating year. Likewise, the Authority bills its customers for any deficit in revenues versus expenses incurred during the operating year.

Refunds of \$680,114 and \$1,001,863 were paid to the customers during the years ended September 30, 2013 and 2012, respectively.

Income Taxes

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

Geographic and Product Concentration

The Authority's revenues are derived from the sale of electrical power and services to water districts, electrical and irrigation districts, and cities, which represent contracted customers in the state of Arizona. The Hoover Upgrading Fund is used to purchase electric power solely from Western. The Authority's APA General Fund is used to purchase electric power from various providers.

ARIZONA POWER AUTHORITY
(A BODY, CORPORATE AND POLITIC, OF THE STATE OF ARIZONA)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 2 FUND ACCOUNTING

Hoover Upgrading Fund

The Hoover Power Plant Act of 1984 ("Hoover Act") authorized the U.S. government to increase the capacity of existing generating equipment at the Hoover Dam Power Plant ("Upgrading Program"). Instead of appropriating further federal funds for the Upgrading Program, Congress implemented an advancement of funds procedure whereby prospective nonfederal purchasers of the upgraded Hoover capacity and associated energy contribute to the financing of the Upgrading Program. The Upgrading Program was determined to be complete in September 1995. The Authority financed a portion of the total Upgrading Program by issuing bonds.

The Hoover Upgrading Fund accounts for advances by the Authority in connection with the Upgrading Program. Effective June 1, 1987, the Authority executed new power contracts with Western and its customers which expire in 2017. The revenues and expenditures applicable to the sale and transmission of power and energy received by the Authority from Western under these contracts are accounted for in the Hoover Upgrading Fund.

APA General Fund

The Authority's operations other than those applicable to the Hoover Upgrading Fund are accounted for in the APA General Fund. The purchase of supplemental power and the sale and transmission of such power to the Authority's customers comprise the majority of this fund's activity.

NOTE 3 CASH AND CASH EQUIVALENTS

All cash and cash equivalent balances are maintained by the State of Arizona Treasurer within the Local Government Investment Pool ("LGIP"). The LGIP is not registered with the Securities and Exchange Commission and investments are not subject to custodial credit risk. The State Board of Investment conducts monthly reviews of investment activity and performance. LGIP amounts are carried at fair value. Participant shares are purchased and sold based on the Net Asset Value ("NAV") of the shares. The NAV is determined by dividing the fair value of the portfolio by the total shares outstanding.

The Authority's LGIP investment balance represents its cash and cash equivalents as of September 30, 2013 and 2012.

ARIZONA POWER AUTHORITY
(A BODY, CORPORATE AND POLITIC, OF THE STATE OF ARIZONA)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 4 CAPITAL ASSETS

Capital assets of the Authority at September 30, 2013 and 2012 were as follows:

	Balances September 30, 2012	Additions	Deletions	Balances September 30, 2013
Transmission plant	\$ 319,565	\$ -	\$ -	\$ 319,565
Distribution plant	227,518	-	-	227,518
General plant - office	782,664	7,758	(10,299)	780,123
Total depreciable assets	<u>1,329,747</u>	<u>7,758</u>	<u>(10,299)</u>	<u>1,327,206</u>
Less accumulated depreciation for:				
Transmission plant	311,173	3,052	-	314,225
Distribution plant	216,577	2,304	-	218,881
General plant - office	686,272	14,915	(10,299)	690,888
Total accumulated depreciation	<u>1,214,022</u>	<u>20,271</u>	<u>(10,299)</u>	<u>1,223,994</u>
Capital assets, net	<u>\$ 115,725</u>	<u>\$ (12,513)</u>	<u>\$ -</u>	<u>\$ 103,212</u>

	Balances September 30, 2011	Additions	Deletions	Balances September 30, 2012
Transmission plant	\$ 319,565	\$ -	\$ -	\$ 319,565
Distribution plant	227,518	-	-	227,518
General plant - office	767,819	14,845	-	782,664
Total depreciable assets	<u>1,314,902</u>	<u>14,845</u>	<u>-</u>	<u>1,329,747</u>
Less accumulated depreciation for:				
Transmission plant	308,121	3,052	-	311,173
Distribution plant	214,274	2,303	-	216,577
General plant - office	673,506	12,766	-	686,272
Total accumulated depreciation	<u>1,195,901</u>	<u>18,121</u>	<u>-</u>	<u>1,214,022</u>
Capital assets, net	<u>\$ 119,001</u>	<u>\$ (3,276)</u>	<u>\$ -</u>	<u>\$ 115,725</u>

The Authority's depreciation expense was \$20,271 and \$18,121 for the years ended September 30, 2013 and 2012, respectively.

The transmission and distribution plants are comprised of a substation and related equipment. Purchased power is delivered over transmission facilities owned by Western.

ARIZONA POWER AUTHORITY
(A BODY, CORPORATE AND POLITIC, OF THE STATE OF ARIZONA)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 5 ADVANCES FOR HOOVER UPRATING PROGRAM

Advances for the Hoover Upgrading Program were reimbursed by Western through credits on the Authority's power bills in the amount of \$6,579,145 and \$6,559,715 for the years ended September 30, 2013 and 2012, respectively. Credits were received for the upraters' portion of principal and interest expense on the bonds and other costs associated with the Hoover Upgrading Program.

NOTE 6 BONDS PAYABLE

Bonds payable consists of the following:

	<u>September 30, 2012</u>	<u>Increases</u>	<u>Reductions</u>	<u>Transfers</u>	<u>September 30, 2013</u>
Bonds payable short-term	\$ 4,810,000	\$ -	\$(4,810,000)	\$ 5,065,000	\$ 5,065,000
Bonds payable long-term	<u>28,135,000</u>	<u>-</u>	<u>-</u>	<u>(5,065,000)</u>	<u>23,070,000</u>
Total bonds payable	<u>\$ 32,945,000</u>	<u>\$ -</u>	<u>\$(4,810,000)</u>	<u>\$ -</u>	<u>\$ 28,135,000</u>

	<u>September 30, 2011</u>	<u>Increases</u>	<u>Reductions</u>	<u>Transfers</u>	<u>September 30, 2012</u>
Bonds payable short-term	\$ 4,585,000	\$ -	\$(4,585,000)	\$ 4,810,000	\$ 4,810,000
Bonds payable long-term	<u>32,945,000</u>	<u>-</u>	<u>-</u>	<u>(4,810,000)</u>	<u>28,135,000</u>
Total bonds payable	<u>\$ 37,530,000</u>	<u>\$ -</u>	<u>\$(4,585,000)</u>	<u>\$ -</u>	<u>\$ 32,945,000</u>

In prior years, the Authority defeased various issues of bonds by purchasing U.S. government securities which were deposited in an irrevocable trust with an escrow agent to provide for future debt service until the call dates. As a result, those bonds are considered to be defeased and the corresponding liability has been removed from the Hoover Upgrading Fund. Accordingly, the trust account assets and related liabilities are not included in the Authority's financial statements.

ARIZONA POWER AUTHORITY
(A BODY, CORPORATE AND POLITIC, OF THE STATE OF ARIZONA)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 6 BONDS PAYABLE (CONTINUED)

The Authority's outstanding bonds, totaling \$28,135,000, bear interest ranging from 5.00% to 5.25%, are due through 2018, and are secured by the pledged property, as defined by the Resolution, which includes the proceeds from the sale of the bonds, rights and interest in various contracts and revenues. The Authority amortizes the bond premium (discount) using the interest method. Principal and interest amounts due over the next five operating years ending September 30 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 5,065,000	\$ 1,477,088
2015	5,330,000	1,211,175
2016	5,615,000	931,350
2017	5,905,000	636,563
2018	6,220,000	326,550
Total	<u>\$ 28,135,000</u>	<u>\$ 4,582,726</u>

Crossover Refunding

On September 12, 2001, the Authority issued \$57,520,000 of Special Obligation Crossover Refunding Bonds. Proceeds from the sale of the bonds along with a fund contribution by the Authority were held in an escrow trust account invested in government securities until October 1, 2003 (the "Crossover Date") when a crossover refunding took place. The crossover refunding resulted in \$57,520,000 of Special Obligation Crossover Refunding Bonds being exchanged for 2001 Series Power Resource Revenue Refunding Bonds of the same principal amount, maturity date and interest rates as the crossover bonds. The Authority called the \$62,630,000 of the 1993 Series Power Resource Revenue Refunding Bonds maturing on and after October 1, 2005.

The proceeds in the government securities escrow trust account, together with the income realized from investment of trust assets, served as collateral for the Special Obligation Crossover Bonds and paid the debt service on those bonds until the Crossover Date. The Special Obligation Crossover Bonds were payable solely from the amounts in the escrow trust account and were not payable from any other source.

As a result of the crossover refunding transaction on October 1, 2003, the 2001 Series Bonds are reflected as obligations of the Authority at June 30, 2013 and 2012, and the called portion of the 1993 Series Bonds are no longer outstanding and cease to be entitled to any lien on the revenues pledged to payment of those bonds. Instead, the revenue stream originally pledged to secure the called portion of the 1993 Series Bonds "crossed over" to pay debt service on the 2001 Series Bonds on October 1, 2003. The 2001 Series Bonds bear interest at a rate of 5.00% and 5.25% payable on April 1 and October 1, respectively, of each year, commencing April 1, 2004 and maturing in 2017. In addition, the Authority recognized an economic gain (difference between the present value of the old and new debt service payments) of \$2,095,648.

ARIZONA POWER AUTHORITY
(A BODY, CORPORATE AND POLITIC, OF THE STATE OF ARIZONA)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 6 BONDS PAYABLE (CONTINUED)

Crossover Refunding (continued)

The crossover refunding also resulted in the recognition of a deferred amount of \$2,411,956 that has been reflected as a decrease in bonds payable and which will be amortized using the interest method as a component of interest expense over the life of the refunded bonds. The Authority amortized \$133,080 and \$155,832 for the years ended September 30, 2013 and 2012, respectively, resulting in a net deferred amount of \$279,817 and \$412,897 in the Statements of Net Position, respectively. The Authority also recognized a premium of \$3,536,652 on the crossover refunding which has been reflected as an increase in bonds payable and which will be amortized using the interest method. The Authority amortized \$195,132 and \$228,492 for the years ended September 30, 2013 and 2012, respectively, resulting in a net premium of bonds payable of \$410,276 and \$605,408 in the Statements of Net Position, respectively.

NOTE 7 COMMITMENTS AND CONTINGENCIES

The Lower Colorado Multi-Species Conservation Program ("MSCP") is a cooperative effort between Federal and non-federal entities that will create more than 8,100 acres of riparian, marsh and backwater habitat for 31 species of fish, birds, mammals and plants. The program became effective on April 4, 2005 and expires April 30, 2055. As a party to this Agreement, the Arizona Power Authority's financial obligation is approximately \$119,000 per year (in 2003 dollars, adjusted annually for inflation). For the years ended September 30, 2013 and 2012, the Authority paid \$149,613 and \$145,210 respectively, for the MSCP.

The Authority is involved in various claims arising in the ordinary course of business, none of which, in the opinion of management, if determined adversely against the Authority, will have a material adverse effect on the financial condition or results of operations of the Authority.

NOTE 8 INVESTMENTS HELD BY TRUSTEE

As of September 30, 2013 and 2012, investments are collateralized with securities held by the Authority's trustee. The fair value of the investment securities at September 30 is as follows:

	<u>2013</u>	<u>2012</u>
U.S. Treasury obligations	\$ 6,559,658	\$ 6,553,949
U.S. government securities	<u>6,180,827</u>	<u>6,014,986</u>
Total investments held by trustee	<u>\$ 12,740,485</u>	<u>\$ 12,568,935</u>

**ARIZONA POWER AUTHORITY
(A BODY, CORPORATE AND POLITIC, OF THE STATE OF ARIZONA)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2013 AND 2012**

NOTE 8 INVESTMENTS HELD BY TRUSTEE (CONTINUED)

On October 2, 1996, the Authority entered into a repurchase and custody agreement with MBIA Investment Management Corporation ("IMC") wherein the Authority agreed to effect a series of repurchase transactions with IMC, in investments allowable under the bond resolution agreements and state law, with a fixed earnings rate of 5.00%. The securities were held in trust by The Bank of New York. In response to financial market conditions, on November 7, 2008, the Authority terminated its Debt Service Reserve Fund Investment Agreement with IMC and received the par value and accrued interest of such investment, totaling \$6,584,738. These funds are invested in direct U.S. Treasury obligations, which mature on dates coinciding with the principal and interest payment dates for the Authority's outstanding bonds.

As of September 30, 2013, the investments held by the trustee consists of U.S. Treasury obligations, which are direct obligations of the United States of America, as required by the Bond Resolution. The U.S. Treasury obligations are rated AA+ by the rating agencies. There is minimal interest rate risk.

NOTE 9 RETIREMENT PLAN

The Authority contributes to the retirement plan described below. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits.

The Arizona State Retirement System (the "Plan" or "ASRS") administers a cost-sharing multiple-employer defined benefit pension plan that covers permanent, full-time employees of the Authority. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of ARS Title 38, Chapter 5, Article 2. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. By actuarial computation, employee member and Authority contributions to the Plan were fixed at 11.54% (11.30% retirement and 0.24% long-term disability) and 11.14% (10.90% retirement and 0.24% long-term disability) of their compensation for the years ended September 30, 2013 and 2012, respectively, with the contributions made through payroll deductions. Employee contributions vest immediately. Total contributions to the Plan for the years ended September 30, 2013, 2012 and 2011, by the Authority's employees were \$71,476, \$77,346 and \$75,909, respectively.

Matching employer member contributions were actuarially determined and fixed at the same rate as employee/member contributions for the years ended September 30, 2013 and 2012. In the event the Plan's actuary determines that additional contributions are needed in order to amortize an unfunded accrued liability, every employer and member will be required to contribute the revised contribution percentage which is established by the Arizona State Legislature.

ARIZONA POWER AUTHORITY
(A BODY, CORPORATE AND POLITIC, OF THE STATE OF ARIZONA)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 9 RETIREMENT PLAN (CONTINUED)

All full-time employees of the Authority are required to become members of the Plan. The Authority's total payroll for employees covered by this Plan for the years ended September 30, 2013 and 2012 was \$650,385 and \$746,103, respectively. Contributions to the Plan by the Authority for its covered employees vest over five years. All required employer contributions are made to the Plan by the end of each month.

NOTE 10 ADDITIONAL BENEFITS

In addition to the pension benefits described above, ASRS offers health care benefits to retired and disabled members who are no longer eligible for health care benefits through their former member employer's group health plan. Retired is defined as actively receiving an annuity benefit and disabled is defined as receiving a long-term disability ("LTD") benefit through the LTD program administered by ASRS. A premium benefit is applied to the member's health insurance cost. The following chart illustrates the maximum amount of the monthly available benefit supplement for eligible members and their dependents:

Years of Credited Service	Percent of Premium Benefit	Member		Member and Dependents(s)	
		Not Medicare Eligible	Medicare Eligible	Not Medicare Eligible	Medicare Eligible
5.0-5.9	50%	\$ 75.00	\$ 50.00	\$ 130.00	\$ 85.00
6.0-6.9	60%	90.00	60.00	156.00	102.00
7.0-7.9	70%	105.00	70.00	182.00	119.00
8.0-8.9	80%	120.00	80.00	208.00	136.00
9.0-9.9	90%	135.00	90.00	234.00	153.00
10.0 +	100%	150.00	100.00	260.00	170.00

NOTE 11 PURCHASED POWER, SALES AND TRANSMISSION COMMITMENTS

The Authority has sales contracts with its customers. Under these contracts, customers are obligated to pay for their proportionate share of Hoover power and transmission costs if delivered or made available for delivery. These sales contracts expire September 30, 2017, but some can be terminated by the Authority on June 1, 2007, or thereafter.

The Authority is party to Firm Electric Service and Transmission Service Contracts with terms expiring September 30, 2017. This requires the Authority to pay approximately 19% of Western's revenue requirements each operating year until the contract expires. During the years ended September 30, 2013 and 2012, the Authority paid \$18,921,561 and \$19,703,556, respectively, for purchased power under this contract. The Authority is obligated to pay these costs under the contract even in the unlikely event that no power is supplied.

**ARIZONA POWER AUTHORITY
(A BODY, CORPORATE AND POLITIC, OF THE STATE OF ARIZONA)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2013 AND 2012**

NOTE 11 PURCHASED POWER, SALES AND TRANSMISSION COMMITMENTS (CONTINUED)

The Authority also has a contract with Western for transmission services. During the years ended September 30, 2013 and 2012, the Authority paid \$6,703,995 and \$6,138,320, respectively, for transmission costs to Western. On January 24, 2003, the Authority entered into the Advancement of Funds for Transmission Services contract with Western. The contract provides for the Authority to advance funds to Western on a monthly basis to fund operations, maintenance and replacement costs associated with Western's transmission services. The advanced funds are then applied to the subsequent month's transmission invoice. As of September 30, 2013 and 2012, the Authority recognized a prepayment of \$589,509 and \$527,507, respectively, that applies to the last payment upon termination of the contract.

The Authority also has contracts with Salt River Project for the purchase and transmission of power to the Authority's customers. Under the transmission contract, the Authority must pay an annual transmission fee of \$63,898 until September 30, 2017. The Authority has a power contract with SRP in which supplemental power purchases can be made by the Authority on behalf of its customers. There are no minimum quantities that the Authority is required to purchase. This agreement is applicable when supplemental power is necessary, during such times of low production of Hoover energy, and during summer months when customers require higher levels of energy. During the years ended September 30, 2013 and 2012, the Authority paid \$1,067,860 and \$5,157,964, respectively, for purchased power under this contract for its customers.

NOTE 12 SUBSEQUENT EVENTS

Management evaluated subsequent events through December 10, 2013, the date the financial statements were available to be issued.

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**CENTRAL ARIZONA WATER CONSERVATION DISTRICT
EXCERPTS FROM FISCAL YEAR 2011-12
COMPREHENSIVE ANNUAL FINANCIAL REPORT**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Central Arizona Water Conservation District
Phoenix, Arizona

Report on the Financial Statements

We have audited the accompanying statements of net position of the Central Arizona Water Conservation District, as of December 31, 2012 and 2011, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Central Arizona Water Conservation District as of December 31, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Central Arizona Water Conservation District's basic financial statements. The accompanying supplementary information listed in the table of contents is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information listed in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

CliftonLarsonAllen LLP

Phoenix, Arizona
April 18, 2013



**CENTRAL ARIZONA WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2012 and 2011**

The management of Central Arizona Water Conservation District (the District or CAWCD) offer the readers of CAWCD's financial statements this analysis and overview of the financial activities for the calendar years ended December 31, 2012 and 2011. Readers are encouraged to consider the information presented here in conjunction with the District's financial statements, including accompanying notes, to enhance their understanding of the District's financial performance. The narrative will guide the readers through the District's financial performance and how it relates to CAWCD's stewardship of Central Arizona's Colorado River water entitlement and its vision to enhance the quality of life and ensure sustainable growth for current and future residents of Arizona.

FINANCIAL HIGHLIGHTS

The District's financial results are largely impacted by rainfall and snowfall levels which affect customer water delivery needs. Other factors impacting the District's financial position include fluctuations in property valuations and the electricity market. The following are some of the key highlights for the year ended 2012. A more detailed narrative analysis occurs in the Condensed Financial Information section.

- Assets of the District exceeded liabilities (net position) at the end of 2012 by \$573.0 million, an increase of \$2.0 million over 2011. Net position was \$571.0 million at the end of 2011, an increase of \$57.8 million over 2010.
- The District's unrestricted cash reserve balances or Working Capital reserves at the end of 2012 were \$33.4 million compared to \$44.2 million at the end of 2011. The unrestricted reserves or working capital reserves are used to meet CAWCD's ongoing obligations to customers and creditors. Approximately \$4.0 million of Recharge Operation and Maintenance (O&M) reserves were segregated into Other Reserves in 2011 that were previously included in Working Capital reserves.
- Operating revenues decreased \$29.7 million in 2012 and had increased \$2.0 million in 2011.
- Operating expenses increased \$16.4 million in 2012 and had increased \$0.6 million in 2011.
- Non-operating revenues decreased \$10.6 million in 2012 as compared to a \$9.7 million decrease in 2011 mostly due to decreasing property taxes as a result of lower property valuations.
- Non-operating expenses decreased \$0.9 million in 2012 as compared to a \$1.7 million decrease in 2011.
- Capital expenditures were \$34.6 million in 2012 and \$31.3 million in 2011, a \$3.3 million increase.

**CENTRAL ARIZONA WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2012 and 2011**

DISCUSSION OF BASIC FINANCIAL STATEMENTS

CAWCD's annual financial reporting includes three basic financial statements and accompanying notes as required for its business type activities. The District reports on a calendar year basis and all financial statements are presented on a comparative basis for 2012 and 2011. This annual financial report includes the following statements:

STATEMENT	DESCRIPTION
Statements of Net Position	A snapshot of the District's resources (assets) and obligations (liabilities) as of the last day of the calendar year. The difference between the assets and liabilities is the District's net position.
Statements of Revenues, Expenses, and Changes in Net Position	Lists the District's revenue (income) and expenses, both operating and non-operating for a calendar year. A positive change in net position signifies that the District received revenue in excess of the funds needed to cover expenses.
Statements of Cash Flows	Provides, on a cash basis, information on the District's cash receipts (sources of cash) and cash disbursements (uses of cash) for the calendar year as they apply to operating, investing, and capital and non-capital financing activities. The statements include reconciliations to the changes in net position (accrual basis) and the balance of cash and cash equivalents.

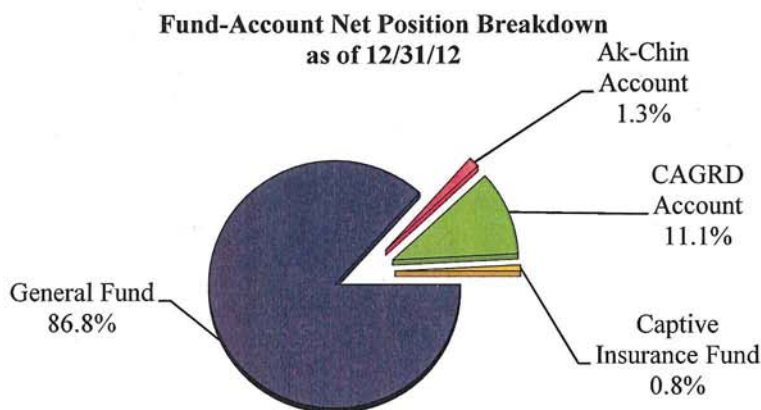
The Management's Discussion and Analysis (MD&A) will cover portions of each of these statements and provide the reader condensed summaries with each section to make the discussions easier to follow. For more detailed information on the District's financial activities, separated by funds, see the consolidating statements of net position and statements of revenues, expenses and changes in net position in the Supplementary Information section located after the Notes to the Financial Statements.

The District's activities are accounted for using the accrual method and incorporate the requirements of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Under enterprise fund accounting, the District is a single accounting entity for financial reporting purposes and is similar to a private business enterprise. However, within this single accounting entity, the District has identified a number of financial activities that are useful to track separately. We refer to these activities as "funds and accounts." The CAWCD Insurance Company, Inc., a blended component unit of CAWCD, also referred to as the Captive Insurance Company (Captive). The District is not required to, and does not, publish separate financial statements for any of the individual funds and accounts except for the Captive, which is required under the corporation laws for the State of Hawaii, to conduct its own external audit and publish its own audited financial statements.

**CENTRAL ARIZONA WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2012 and 2011**

FUND/ACCOUNT	DESCRIPTION
General Fund	The General Fund is the largest fund within the District and covers CAWCD's core business activities including the delivery of Colorado River water to central Arizona through the Central Arizona Project (CAP) canal and repayment of reimbursable construction costs to the Department of the Interior - Bureau of Reclamation.
Ak-Chin Account	The Ak-Chin account includes activities related to a trust fund established by Section 7 of Public Law 98-530 and ARS § 45-3715.01 to acquire or conserve water to supplement Colorado River supplies. Funds are held by the Arizona State Treasurer.
Central Arizona Groundwater Replenishment District Account	The Central Arizona Groundwater Replenishment District (CAGRDR) was established in 1993 as authorized by ARS § 48-3771, et seq. The CAGRDR is a replenishment authority designed to help water providers and landowners comply with the State's Assured Water Supply Rules and to meet the objectives of the 1980 Groundwater Management Act.
Revenue Bond Accounts	The District's enabling act of 1986 provided the District with revenue bonding authority. Contract revenue bonds had been issued to fund CAWCD's share of the construction of the New Waddell Dam. Final payment was made in 2010 on all series of bonds and it is not shown as there are not currently any remaining bond series outstanding.
Captive Insurance Company	CAWCD Insurance Company, Inc., aka Captive Insurance Company, was established to provide a self-insurance mechanism for CAWCD to fund claims for property, casualty and health insurance. The Captive is a tax exempt wholly-owned corporation formed in 2003.

Please refer to the Notes to the Financial Statements for additional, more detailed information on these funds and accounts. The following is a breakdown of the net position of the various funds and accounts which indicates the relative size of each within the total net position of CAWCD.



**CENTRAL ARIZONA WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2012 and 2011**

CONDENSED FINANCIAL INFORMATION

The following financial information and narrative will provide the reader with an overview of the District's financial activities, including comparisons, for the years ended December 31, 2012, December 31, 2011 and December 31, 2010. This discussion will highlight areas within the financial statements that support and advance CAWCD's operations and business purpose to the residents of the State of Arizona.

Assets

Current Assets: Current assets include cash, receivables, inventory and other current assets. In 2012, current assets decreased by \$22.8 million. The primary reason for this decrease was the transfer of \$25.0 million in cash reserves for Maricopa water storage reserves from a short term reserve account to a long term (non-current) reserve account with a higher interest yield at the Arizona State Treasurer. These funds are not expected to be utilized for at least two years. Cash reserves also decreased due to increases in the cost of power which will be discussed in more detail in the revenue and expense discussion. Prepaid expenses also decreased by \$5.2 million. These decreases were offset by a \$9.2 million increase in CAGR cash reserve funds as a result of higher customer acre feet obligations that were billed and an increase in the 2011/2012 rate.

In 2011, current assets decreased by \$60.7 million. The primary reason for this decrease was that \$84.8 million was moved from cash and cash equivalents to non-current investments for the Maricopa water storage reserves and funding the strategic reserves to meet Board of Directors (Board) targets (these reserves are held in longer term investments). Receivables also decreased by \$2.4 million mostly due to the final payment of the Arizona Water Settlement Act water allocations which CAWCD had financed over 5 years. These decreases were offset by \$10.4 million in other current assets which was mainly attributed to an advance payment to the Bureau of Reclamation for January 2012 energy. This advance payment was part of the new Navajo Generating Station (NGS) operating agreements that started October 1, 2011.

Noncurrent Assets: Included in the noncurrent assets are funds held by/advanced to the federal government, investments and restricted assets, water rights, and capital assets. The largest capital asset is the permanent service right (PSR) and for this reason is broken out in the table below. The PSR represents the District's right to operate and maintain the CAP system and collect revenues from operations, for which the District has incurred a repayment obligation to the United States (see Note 2 of the financial statements for detailed information). The PSR is amortized each year and consequently decreases year over year. Capital assets are discussed in more detail in the Capital Asset and Noncurrent Debt Activity section of the MD&A.

**CENTRAL ARIZONA WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2012 and 2011**

In 2012, noncurrent assets increased by \$11.4 million. As stated above, the transfer of \$25.0 million from current to noncurrent reserve accounts was responsible for the majority of the increase. The Rate Stabilization Fund, a new designated cash fund, was established in 2012 to mitigate rate shock in the event of a declared shortage on the Colorado River and to be used in the annual rate reconciliation. At the end of 2012, this fund balance was \$7.7 million. Funds held by the federal government decreased by \$11.5 million over 2011 due to a continued decrease in surplus power revenues and an increase in costs associated with the operations of the NGS affecting the repayment funds available in the Basin and Development Fund (BDF). Property and Equipment increased by \$19.1 million. The PSR decreased by \$26.5 million.

In 2011, noncurrent assets increased by \$66.5 million. A net \$84.8 million was moved from cash and cash equivalents into mid to long term investments. In the first quarter, \$75 million of Maricopa Water Storage reserves were moved into longer term investments to improve interest income. The balance was funding made to address revised strategic reserve targets approved by the Board of Directors in early 2010 and favorable fair market adjustments during the year. Funds held by the federal government decreased by \$6.4 million over 2010 due to less surplus power revenues being available toward repayment in the BDF. Property and Equipment increased by \$15.8 million as a result of the higher level of replacement projects being performed due to the aging of the CAP. The PSR decreased by \$27.7 million.

<i>(Dollars in millions)</i>	2012	2011	Change	2011	2010	Change
Current Assets						
Cash and cash equivalents	\$ 124.1	\$ 142.5	\$ (18.4)	\$ 142.5	\$ 211.5	\$ (69.0)
Other current assets	70.7	75.1	(4.4)	75.1	66.8	8.3
Total Current Assets	194.8	217.6	(22.8)	217.6	278.3	(60.7)
Noncurrent Assets						
Funds held by /advanced to federal gov't	16.9	28.4	(11.5)	28.4	34.8	(6.4)
Investments and restricted assets	305.0	274.7	30.3	274.7	189.9	84.8
Capital Assets						
Operating assets, net	190.5	171.4	19.1	171.4	155.6	15.8
Permanent service right, net	1,227.4	1,253.9	(26.5)	1,253.9	1,281.6	(27.7)
Other assets	88.7	88.7	-	88.7	88.7	-
Total Noncurrent Assets	1,828.5	1,817.1	11.4	1,817.1	1,750.6	66.5
Total Assets	\$ 2,023.3	\$ 2,034.7	\$ (11.4)	\$ 2,034.7	\$ 2,028.9	\$ 5.8

**CENTRAL ARIZONA WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2012 and 2011**

Total Liabilities

Current Liabilities: Current liabilities include payables, deferred revenue, accrued interest, and current principal obligations.

In 2012, current liabilities increased by \$5.6 million. The majority of the increase, \$4.8 million, was within accounts payable/accrued liabilities. This increase was primarily due to a \$2 million cost share project with APS accrual, \$1 million increase in other capital project accruals, \$1 million increase for the Board elections which occur in November in even years and a \$1 million increase in CAGRD contract replenishment obligations for the Phoenix and Tucson Active Management Area (AMA). Deferred revenue increased \$1.6 million due to an increase in water revenues billed in advance for M&I subcontract, federal, M&I non-subcontract (excess) and agriculture (AG) water deliveries.

In 2011, current liabilities decreased by \$15.2 million. Accounts payable/accrued liabilities decreased \$14.6 million as a result of the new NGS operating agreements. Previously, expenses were billed in the subsequent month and were therefore accrued into accounts payable/accrued liabilities. Starting in October 2011, an agreement was made between CAWCD and the Bureau of Reclamation (BOR) that provided for advance payment of NGS power. This advance payment can be seen in the increase in other current assets as stated above, and a decrease in current liabilities.

Noncurrent Liabilities: The largest component of the District's noncurrent liabilities is the federal repayment obligation. The decrease in the noncurrent federal repayment obligation was \$26.4 million in 2012 and \$38.3 million in 2011 in accordance with the annual payment schedule. There was a \$12 million additional payment in 2011 made pursuant to the Repayment Stipulation (see Note 3).

<i>(Dollars in millions)</i>	2012	2011	Change	2011	2010	Change
Current Liabilities						
Accounts payable/accrued liabilities	\$ 25.9	\$ 21.1	\$ 4.8	\$ 21.1	\$ 35.7	\$ (14.6)
Water operations and capital charges deferred revenue	28.6	27.0	1.6	27.0	26.8	0.2
Other current liabilities	54.5	55.3	(0.8)	55.3	56.1	(0.8)
Total Current Liabilities	109.0	103.4	5.6	103.4	118.6	(15.2)
Noncurrent Liabilities						
Repayment obligation	1,230.1	1,256.5	(26.4)	1,256.5	1,294.8	(38.3)
Non-Indian Ag debt	88.7	88.7	-	88.7	88.7	-
Other noncurrent liabilities	22.5	15.1	7.4	15.1	13.6	1.5
Total Noncurrent Liabilities	1,341.3	1,360.3	(19.0)	1,360.3	1,397.1	(36.8)
Total Liabilities	\$ 1,450.3	\$ 1,463.7	\$ (13.4)	\$ 1,463.7	\$ 1,515.7	\$ (52.0)

**CENTRAL ARIZONA WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2012 and 2011**

Total Net Position

Net position, the difference between assets and liabilities, increased \$2.0 million in 2012 and \$57.8 million in 2011.

Net investment in capital assets: Increased \$18.9 million in 2012 and \$26.5 million in 2011. This increase is related to the District continuing to replace aged systems and equipment. Currently, amounts associated with the amortization of the PSR (asset) exceed the District's annual principal payment to the federal government for the repayment obligation (liability). The annual repayment obligation is based on paying a percentage (which increases over time) of the remaining outstanding principal balance, plus interest, over a 50-year period, while amortization remains relatively flat over time. Consequently, the asset is presently being amortized by approximately \$.07 million more than the principal that is being paid. As the payment percentage increases, the annual principal payment will exceed amortization.

The 2011 increase of \$26.5 million as compared to 2010 was comprised of the annual increase due to the District's need to replace aging infrastructure and the completion of the Superstition Recharge project at the end of 2011 for a total cost of \$11 million. In addition to the annual payment towards the District's repayment obligation, a \$12 million payment was made on the federal debt as required by the Settlement Stipulation. This payment caused the federal repayment obligation to decrease by \$12 million more than the PSR amortization.

Restricted net position: Restricted net position decreased \$2.9 million in 2012 and increased \$9.1 million in 2011. The 2012 decrease was related to the decrease in funds held by the federal government, offset by the establishment of the Rate Stabilization Fund mentioned previously in noncurrent assets. The 2011 increase was due to the payments on the Additional Rate Component contract with SRP that expired September 30, 2011. The proceeds from these payments were required to be deposited and managed in a restricted cash account.

<i>(Dollars in millions)</i>	2012	2011	Change	2011	2010	Change
Assets						
Capital Assets	\$ 1,417.9	\$ 1,425.3	\$ (7.4)	\$ 1,425.3	\$ 1,437.2	\$ (11.9)
Other Assets	605.4	609.4	(4.0)	609.4	591.7	17.7
Total assets	2,023.3	2,034.7	(11.4)	2,034.7	2,028.9	5.8
Liabilities						
Current liabilities	109.0	103.4	5.6	103.4	118.6	(15.2)
Noncurrent liabilities	1,341.3	1,360.3	(19.0)	1,360.3	1,397.1	(36.8)
Total liabilities	1,450.3	1,463.7	(13.4)	1,463.7	1,515.7	(52.0)
Net Position						
Net investment in capital assets	161.4	142.5	18.9	142.5	116.0	26.5
Restricted, net	92.4	95.3	(2.9)	95.3	86.2	9.1
Unrestricted, net	319.2	333.2	(14.0)	333.2	311.0	22.2
Total net position	573.0	571.0	2.0	571.0	513.2	57.8
Total liabilities & net position	\$ 2,023.3	\$ 2,034.7	\$ (11.4)	\$ 2,034.7	\$ 2,028.9	\$ 5.8

**CENTRAL ARIZONA WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2012 and 2011**

Unrestricted net position: Unrestricted net position decreased \$14.0 million in 2012 and increased \$22.2 million in 2011. In 2012, the decrease was related to outgoing cash flows due to the decrease in power revenues and the increase in NGS costs. The main reason for the increase in 2011 was due to the timing of receipts of tax revenue and water charges as compared to the incurrence of expense. The change in restricted and unrestricted net position will fluctuate depending on operational needs and any Board actions.

Cash Flows

Cash and cash equivalents decreased by \$18.4 million in 2012. Cash flow from operating activities increased by \$10.9 million due to an increase in cash received by customers and a decrease in cash paid to suppliers. The decrease of \$8.3 million in noncapital financing activities was a continuation of the decrease in property tax collections due to the economic downturn in the housing market that has reduced property valuation. Cash flows from capital and related financing activities decreased \$4.2 million. Cash outflows from investing activities in 2012 decreased by \$52.2 million compared to 2011 mainly due to the transfer of \$25.0 from current to noncurrent assets and the formation of the Rate Stabilization Fund (\$7.7 million) previously discussed, a \$2.0 million increase in the Captive noncurrent reserve account for the reserve required by the Hawaii Insurance Board for the addition of the health benefits to the Captive's portfolio and CAGRDR restricted reserves increased \$1.7 million related to water acquisition.

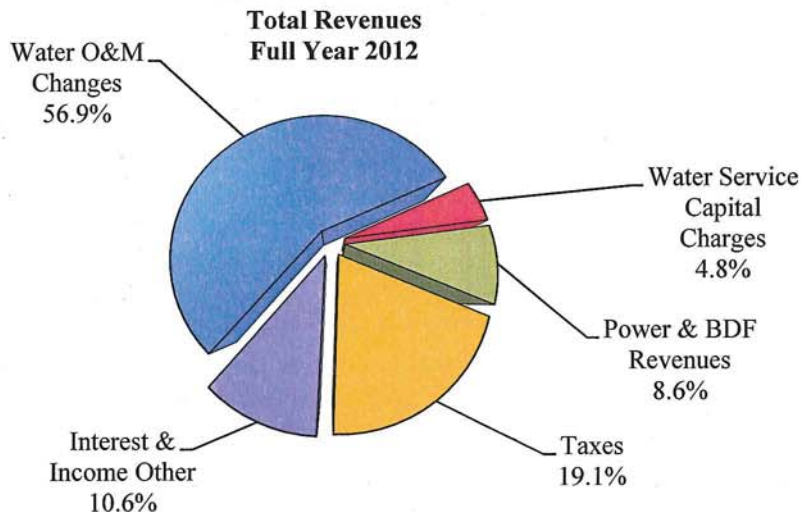
In 2011, cash and cash equivalents decreased by \$69.0 million. Cash flow from operating activities increased by \$4.2 million mainly due to an increase in cash received from customers offset by an increase in cash paid to suppliers. Noncapital financing activities decreased \$10.1 million from declines in property tax valuation. Cash flows from capital and related financing activities decreased \$6.7 million. This decrease was caused by an additional payment of \$12.0 million on the District's repayment obligation less a reduction in revenue bonds expense due to the payoff of all outstanding bonds in 2010. Cash outflows from investing activities in 2011 increased by \$70.4 million compared to 2010 as the District moved funds from a cash equivalency reserve account at the Arizona State Treasurer to a mid to long term asset reserve account to obtain a better rate of return.

<i>(Dollars in millions)</i>	2012	2011	Change	2011	2010	Change
Cash flows from operating activities	\$ 29.8	\$ 18.9	\$ 10.9	\$ 18.9	\$ 14.7	\$ 4.2
Cash flows from noncapital financing activities	47.8	56.1	(8.3)	56.1	66.2	(10.1)
Cash flows from capital and related financing activities	(72.9)	(68.7)	(4.2)	(68.7)	(62.0)	(6.7)
Cash flows from investing activities	(23.1)	(75.3)	52.2	(75.3)	(4.9)	(70.4)
Net increase(decrease) in cash and cash equivalents	(18.4)	(69.0)	50.6	(69.0)	14.0	(83.0)
Cash and cash equivalents at beginning of year	142.5	211.5	(69.0)	211.5	197.5	14.0
Cash and cash equivalents at end of year	\$ 124.1	\$ 142.5	\$ (18.4)	\$ 142.5	\$ 211.5	\$ (69.0)

**CENTRAL ARIZONA WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2012 and 2011**

Total Revenues

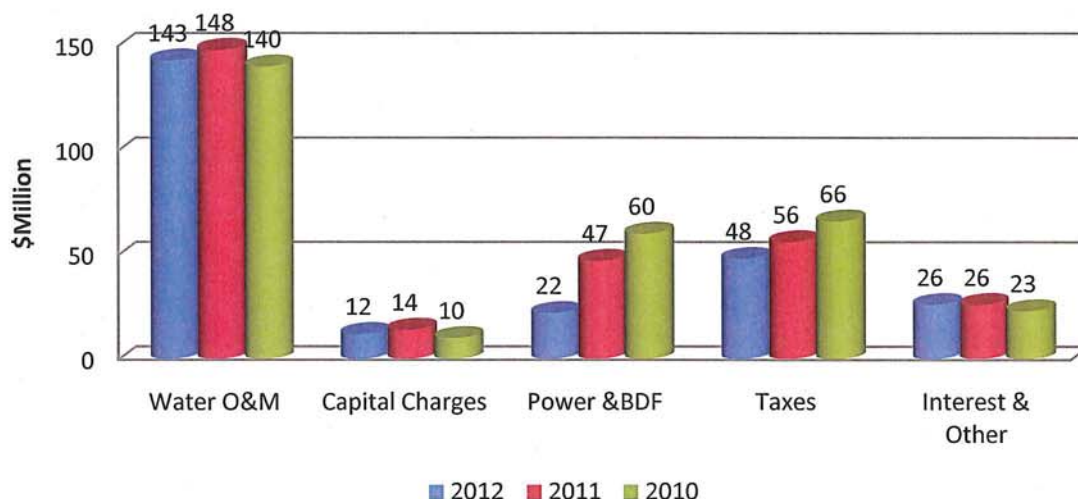
Total revenues, as depicted in the chart below, include operating revenues, such as water delivery O&M charges, water service capital charges, power and BDF revenues, and non-operating revenues, such as property taxes and interest earnings.



Total revenues in 2012 decreased by \$40.3 million or 13.8%. Water O&M revenues decreased \$5.7 million as a result of a reduction in delivered acre feet. In addition, although the total water O&M rate remained the same, the new rate component for the Rate Stabilization Fund was added. This fund was established to mitigate rate shock in the event of a declared shortage on the Colorado River and fluctuations in the actual O&M rates in the annual rate reconciliation. As this portion of the rate is a customer deposit, the other rate components on which revenue was recognized were reduced. Water service capital charges decreased \$1.7 million which reflects the move from Excess and Recharge deliveries to Federal deliveries. The capital charge rate remained the same from 2011. Federal customers do not pay the capital component of the water delivery rate, whereas Excess and Recharge customers are charged the capital component on delivered water. Power and BDF revenues decreased by \$25.2 million due to a combination of factors; NGS surplus power sales are significantly less than expected owing to a depressed power market with low trading prices; the cost of operating NGS has increased with general operating expenses and capital projects; and, the termination of the additional rate component (ARC) under the previous surplus power agreement. Property tax revenue decreased by \$8.3 million following the downturn in housing values and assessed property valuations. Interest and other income decreased by \$2.3 million. Other income includes the recharge site revenue, which is the main cause of the variance. As there is less excess water available, less is stored at the recharge sites and consequently lowers other income.

**CENTRAL ARIZONA WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2012 and 2011**

Total Revenues



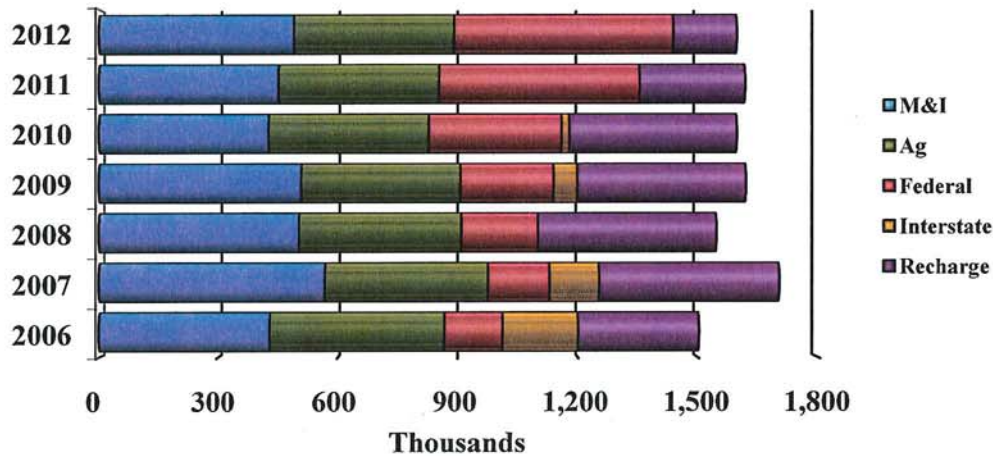
For 2011, total revenues decreased by \$7.7 million or 2.6%. Water O&M revenues increased as a result of increased deliveries and an increase in the water rate. Water service capital charges increased due to a change that Recharge customers now pay capital charges, which were previously waived as part of the expired incentive Recharge program. This increase was partially offset by higher deliveries of federal water which are not subject to capital charges. Power and BDF revenues decreased by \$12.6 million as a result of the expiration of the ARC revenue on September 30, 2011, which decrease revenues by \$6.3 million and the ending of the SRP surplus power agreement, which decreased revenue by \$3.6 million. Even though the property tax rate was held consistent from 2009, revenue decreased by \$10 million in 2011 as a result of the bursting of the previous housing bubble (lag of slightly over 2 years from valuation to collection). Interest and other income increased due to higher CAGR revenues as a result of higher 2011 rates compared to 2010.

**CENTRAL ARIZONA WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2012 and 2011**

<i>(Dollars in millions)</i>	2012	2011	Change	2011	2010	Change
Operating revenues						
Water O&M charges	\$ 142.8	\$ 148.5	\$ (5.7)	\$ 148.5	\$ 140.3	\$ 8.2
Water service capital charges	12.0	13.7	(1.7)	13.7	10.2	3.5
Power & other BDF revenues	21.6	46.8	(25.2)	46.8	59.4	(12.6)
Reimbursements & other	19.4	16.5	2.9	16.5	13.6	2.9
Total operating revenues	195.8	225.5	(29.7)	225.5	223.5	2.0
Nonoperating revenues						
Property taxes	47.8	56.1	(8.3)	56.1	66.2	(10.1)
Interest income & other	7.2	9.5	(2.3)	9.5	7.4	2.1
Gain/(loss) on sale of assets	-	-	-	-	1.7	(1.7)
Total nonoperating revenues	55.0	65.6	(10.6)	65.6	75.3	(9.7)
Total revenues	\$ 250.8	\$ 291.1	\$ (40.3)	\$ 291.1	\$ 298.8	\$ (7.7)

Water deliveries were 1,598,806 acre-feet in 2012 and 1,619,833 acre-feet in 2011 (including credits), a decrease of 21,027 acre-feet, which is within normal variance ranges. Municipal contractual agreements with Indian tribes have increased off-reservation federal deliveries significantly. The increase in the federal class of water is offset by a decrease in recharge deliveries as they only have access to excess water, which is reduced due to the federal increase. There were no Interstate deliveries in 2012 or 2011 also as a result of the shrinking availability of excess water.

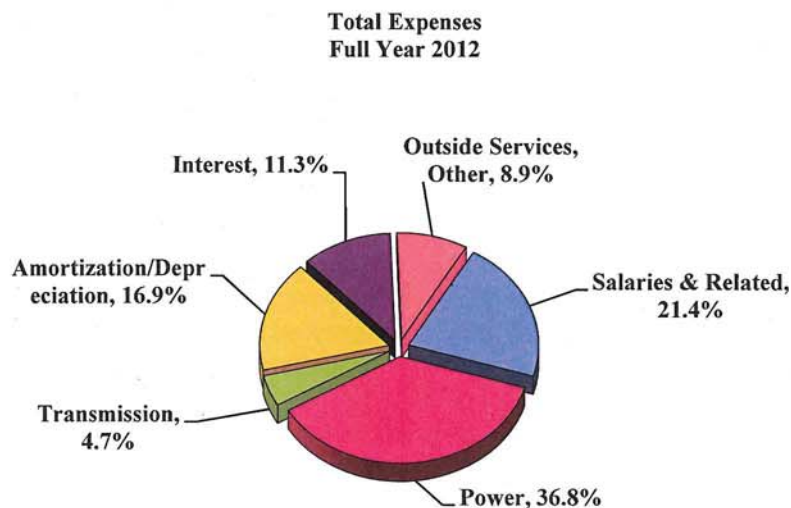
Water Deliveries (Acre-Feet)- 2006 to 2012



**CENTRAL ARIZONA WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2012 and 2011**

Total Expenses

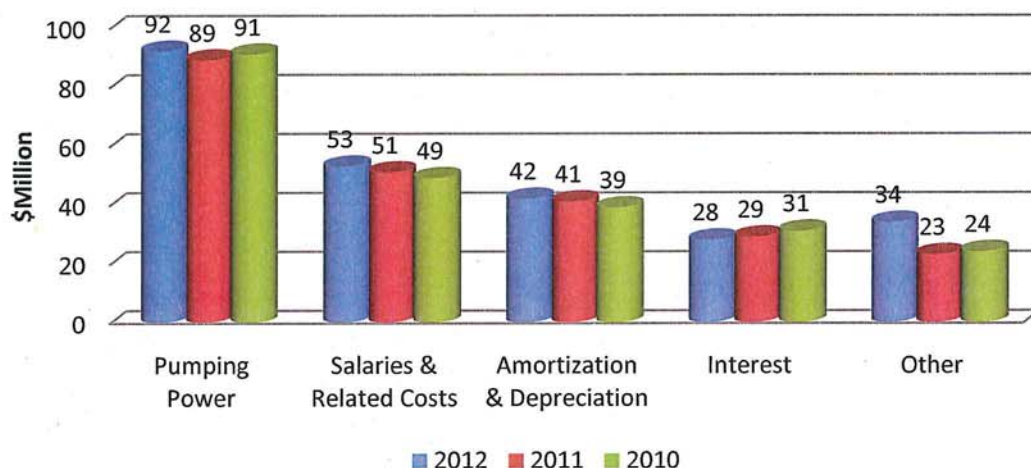
Total expenses include operating and non-operating expenses. Operating expenses consist of salaries and related cost, professional services, pumping power and power transmission, amortization and depreciation as well as other operating expenses. Non-operating expenses are primarily interest and other financial expenses. Rates are set in a manner that will recover an appropriate share of the District's expected operating expenses from customers. Since rates are set in advance, actual expenses may differ from the estimates used to calculate rates, and reserves may consequently fluctuate.



For 2012, total expenses increased \$15.5 million from 2011. The \$2.3 million increase in salaries and related costs is a result of moving health insurance expense from CAWCD to the Captive. To conform to insurance industry standards, an expense was taken under employee health insurance that was offset by reductions in other expenses. In addition, worker's compensation insurance was moved from other expenses to employee expenses in 2012. Other increases were related to other employee benefits. Pumping power expense increased \$2.6 million due to an increase in the cost of power at NGS. Amortization/Depreciation expense increased \$1.3 million as the District sees an increase in capital equipment and capital project costs. Other operating expenses increased \$10.2 million and include outside services, materials and supplies, transmission costs, overhead, and CAGR water purchases. This increase was a combination of: an increase of \$3.9 million in transmission cost from a rise in Western Area Power Administration (WAPA) system maintenance costs; an increase in outside services and materials and supplies of \$3.5 million, mostly as a direct result of a significant canal embankment failure which closed down a portion of the canal and, indirectly, as the canal closure created an opportunity to perform other maintenance functions in areas not normally accessible; a \$1.0 million increase in the Multi-Species Conservation Program (MSCP) which entered the second phase of operations requiring an increase in CAWCD's annual payment; and, as the District has elections in even years it incurs a \$1 million election cost from the county in those years. Non-operating expenses include interest expense which decreased \$0.9 million due to paying down the federal debt.

**CENTRAL ARIZONA WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2012 and 2011**

Total Expenses



Total expenses decreased for 2011 by \$1.1 million from 2010. The decrease in pumping power expense of \$1.8 million was a result of the ending of the NGS agreements at the end of September 2011. Previously, the District had to purchase over threshold power in the open market that was generally more expensive. Under the new agreements, the District is able to use what it needs from NGS and only the excess is sold off. This decrease was offset by an increase in salaries and related costs of \$1.3 million as a result of filling some open positions and annual increases and cost benefit cost changes in early 2011. Other operating expenses include outside services, materials and supplies, transmission costs, overhead, and CAGRD water purchases. Outside services decreased by \$2.5 million due to focused reductions and Board elections that occur every 2 years (in even years). Overhead decreased by \$1 million due to capital projects. These decreases were offset by increases in transmission costs of \$1 million, materials and supply costs of \$0.6 million, and CAGRD water purchases of \$0.9 million. Non-operating expenses include interest expense which decreased \$1.7 million.

<i>(Dollars in millions)</i>	2012	2011	Change	2011	2010	Change
Operating expenses						
Salaries & related costs	\$ 53.2	\$ 50.9	\$ 2.3	\$ 50.9	\$ 49.6	\$ 1.3
Pumping power	91.6	89.0	2.6	89.0	90.8	(1.8)
Amortization	26.5	27.7	(1.2)	27.7	27.7	-
Depreciation	15.5	13.0	2.5	13.0	11.0	2.0
Other	33.9	23.7	10.2	23.7	24.6	(0.9)
Total operating expenses	220.7	204.3	16.4	204.3	203.7	0.6
Non-operating expenses	28.1	29.0	(0.9)	29.0	30.7	(1.7)
Total expenses	\$ 248.8	\$ 233.3	\$ 15.5	\$ 233.3	\$ 234.4	\$ (1.1)

**CENTRAL ARIZONA WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2012 and 2011**

Change In Net Position and Ending Net Position

Net position increased \$2.0 million in 2012 and increased \$57.8 million in 2011.

<i>(Dollars in millions)</i>	2012	2011	Change	2011	2010	Change
Total operating revenues	\$ 195.8	\$ 225.5	\$ (29.7)	\$ 225.5	\$ 223.5	\$ 2.0
Total operating expenses	(220.7)	(204.3)	(16.4)	(204.3)	(203.7)	(0.6)
Operating income (loss)	(24.9)	21.2	(46.1)	21.2	19.8	1.4
Non-operating revenues	55.0	65.6	(10.6)	65.6	75.3	(9.7)
Non-operating expenses	(28.1)	(29.0)	0.9	(29.0)	(30.7)	1.7
Change in net position	2.0	57.8	(55.8)	57.8	64.4	(6.6)
Beginning net position	571.0	513.2	57.8	513.2	448.8	64.4
Ending net position	\$ 573.0	\$ 571.0	\$ 2.0	\$ 571.0	\$ 513.2	\$ 57.8

CAPITAL ASSET AND NONCURRENT DEBT ACTIVITY

Capital Assets: The District's investment in capital assets decreased \$7.5 million to \$1.42 billion in 2012 and decreased \$11.8 million to \$1.43 billion in 2011. The largest component of the District's capital assets is the PSR, net of accumulated amortization. The PSR (net) has decreased from \$1.25 billion in 2011 to \$1.23 billion in 2012 per the amortization schedule, which is approximately \$28 million per year. In 2011, a net of \$13.9 million in work-in-process was transferred to structures and improvements and equipment.

More information about the District's capital assets is provided in Note 2 of the financial statements.

**SCHEDULE OF CAPITAL ASSETS
(Net of Depreciation and Amortization)**

<i>(Dollars in millions)</i>	2012	2011	Change	2011	2010	Change
Operating assets						
Land	\$ 1.9	\$ 1.9	\$ -	\$ 1.9	\$ 1.1	\$ 0.8
Work-in-process	36.1	20.2	15.9	20.2	26.4	(6.2)
Intangibles	28.2	28.9	(0.7)	28.9	30.2	(1.3)
Structures and improvements	57.5	60.0	(2.5)	60.0	52.5	7.5
Equipment	66.8	60.5	6.3	60.5	45.4	15.1
Operating assets	190.5	171.5	19.0	142.6	125.4	15.9
Permanent service right	1,227.4	1,253.9	(26.5)	1,253.9	1,281.6	(27.7)
Total capital assets	\$ 1,417.9	\$ 1,425.4	\$ (7.5)	\$ 1,396.5	\$ 1,407.0	\$ (11.8)

Noncurrent Debt: The District's noncurrent debt decreased \$26.4 million in 2012 and decreased \$38.3 million in 2011.

**CENTRAL ARIZONA WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2012 and 2011**

SCHEDULE OF NONCURRENT DEBT

<i>(Dollars in millions)</i>	2012	2011	Change	2011	2010	Change
Repayment obligation	\$ 1,230.1	\$ 1,256.5	\$ (26.4)	\$ 1,256.5	\$ 1,294.8	\$ (38.3)
Total long-term debt	\$ 1,230.1	\$ 1,256.5	\$ (26.4)	\$ 1,256.5	\$ 1,294.8	\$ (38.3)

Noncurrent debt is discussed in the previous Total Liabilities section of the MD&A. More information about the District's repayment obligation is provided in Note 3 of the financial statements.

CURRENTLY KNOWN ECONOMIC FACTORS IMPACTING THE FUTURE FINANCES OF CAWCD

- The Environmental Protection Agency has issued a proposed Best Available Retrofit Technology (BART) rule for NGS which will require the installation of costly new controls to reduce nitrogen oxide emissions at the plant as early as 2021. In addition, the owners of NGS, including the Bureau of Reclamation, are in the process of renegotiating a plant site lease and coal supply agreement that both expire in 2019. Depending on the cost of the required new controls, and the resolution of the land lease and coal supply agreement, the owners of NGS could determine that the most economical alternative would be to close the plant, which would require CAWCD to obtain another source of power. Either of these results, i.e., the installation of expensive new control equipment together with increased costs due to new lease terms or the closure of NGS, could lead to substantial increases in CAP water rates, tax rates or both, and to reductions in revenues from sales of surplus NGS power.
- Under shortage sharing criteria agreed to among the basin states and the Department of the Interior, if the water elevation in Lake Mead falls to certain levels, the Secretary will declare a shortage. The first shortage trigger in Lake Mead is at elevation 1,075, at which point the declared shortage for the lower basin would be 333,000 acre-feet, with about 288,000 acre-feet of that amount allocated to CAP. In the event of a shortage, Fixed O&M costs would have to be absorbed by lower delivery volumes, and water delivery rates would increase correspondingly. Additional shortage triggers occur at elevation 1,050 (417,000 acre-feet total and about 360,000 acre-feet to CAP) and 1,025 (500,000 acre-feet total and about 432,000 acre-feet to CAP). The Colorado River basin has experienced a prolonged drought since the turn of this century. By November 2010, the water level in Lake Mead had fallen to elevation 1082, only 7 feet above the first shortage trigger. System runoff in 2011 was well above average, raising the water level in Lake Mead more than 50 feet, but runoff in 2012 was once again below average, and the elevation at the end of 2012 was 1,120. Water storage in the two major main-stem reservoirs, Lake Powell and Lake Mead, remains around 50 percent of capacity, and a continuation of drought conditions could lead to a shortage declaration as soon as 2016. However, recent projections by the Bureau of Reclamation show the probability for some type of surplus declaration on the Colorado River in the near future is at least as likely as a shortage.

**CENTRAL ARIZONA WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2012 and 2011**

- Proposition 117 was passed by the voters of Arizona on November 6, 2012. This referendum amended Article IX, Section 18 of the Arizona Constitution to limit annual increases in assessed property valuations for property tax purposes to no more than 5% of the previous year's value. This change will take effect beginning with the 2015 tax year. Currently, CAP's *ad valorem* taxing authority is based on the Full Cash Value (FCV), which is allowed to fluctuate with the market without restriction. In addition, the property valuation that serves as the base year starting point will be the 2014 Limited Property Value (LPV), which will be lower than the 2014 FCV. Property values in the CAP service area have declined drastically since 2007, but there are indications that valuations are beginning to improve. Consequently, the revenue that CAP will be able to collect beginning in 2015 from its current levy (6 cents per \$100 of assessed valuation out of a maximum 10 cent authority) will be less than it otherwise would have been, and the value of CAP's unlevied authority (4 cents per \$100 of assessed valuation) will be worth less. Because of the replacement of the FCV with the LPV in the base year, CAP's 2015 tax revenue may stay flat or even decline in 2015 at the same tax rate.
- Reclamation's 24.3% ownership share of NGS represents about 4,200 gigawatt hours (GWH) in a typical year. CAP uses about 2,800 GWH for pumping, although a portion of this is sold and replaced by other electricity from the market in order to meet operational needs and to take advantage of shaping and displacement price opportunities, if any. The balance, approximately 1,400 GWH per year, is sold by Western as NGS Surplus and the proceeds are applied towards CAP's repayment obligation. Both CAP's energy costs and CAP's annual net repayment (after applying all applicable credits from the Basin Development Fund) are exposed to the market. CAP's rates are set in advance and, while they are reconciled for some customers, if rates do not anticipate large fluctuations in the energy market, there may be both short-term and longer-term impacts on CAP's reserves, either favorable or unfavorable. Energy prices dropped 30-50% in 2009 from where they had been the previous five years due to an oversupply situation in the natural gas market that occurred in part as a result of the recession. During 2012, natural gas prices dropped another 50% from 2009-2011 levels, which resulted in losses in market transactions. Although energy prices have begun to recover, the forecast is that this recovery will be relatively slow.

**CENTRAL ARIZONA WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2012 and 2011**

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

The information contained in the Management's Discussion and Analysis is intended to give our customers, taxpayers and other stakeholders a general overview of the District's finances, issues that affect the District's financial position and accountability for the money it receives. If you have questions about the report or need additional financial information, contact:

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CENTRAL ARIZONA WATER CONSERVATION DISTRICT
STATEMENTS OF NET POSITION
December 31, 2012 and 2011

ASSETS

	<u>2012</u>	<u>2011</u>
	<i>(In Thousands)</i>	
CURRENT ASSETS		
Cash	\$ 11,140	\$ 6,832
Cash equivalents	<u>112,998</u>	<u>135,675</u>
Total cash and cash equivalents	124,138	142,507
Receivables:		
Due from water customers	12,950	12,464
Other receivables	6,623	6,171
Water inventory	45,249	45,243
Other assets	<u>5,867</u>	<u>11,168</u>
Total current assets	<u>194,827</u>	<u>217,553</u>
NONCURRENT ASSETS		
Funds held by federal government	16,922	28,351
Investments	184,491	150,456
Restricted assets	120,491	124,236
Agriculture water rights	88,719	88,719
Capital assets:		
Operating assets, less accumulated depreciation of \$105,905 and \$91,404 at December 31, 2012 and 2011, respectively	190,488	171,458
Permanent service right, less accumulated amortization of \$563,720 and \$537,201 at December 31, 2012 and 2011, respectively	<u>1,227,392</u>	<u>1,253,911</u>
Total noncurrent assets	<u>1,828,503</u>	<u>1,817,131</u>
 Total assets	 <u>\$ 2,023,330</u>	 <u>\$ 2,034,684</u>

See accompanying notes.

LIABILITIES

	<u>2012</u>	<u>2011</u>
	<i>(In Thousands)</i>	
CURRENT LIABILITIES		
Accounts payable	\$ 18,092	\$ 13,639
Accrued payroll, payroll taxes and other accrued expenses	7,857	7,469
Water operations and capital charges deferred revenue	28,607	26,974
Current liabilities payable from restricted assets, advances to federal government, and other noncurrent assets:		
Accrued interest payable	28,114	28,968
Repayment obligation, due within one year	<u>26,343</u>	<u>26,343</u>
Total current liabilities	<u>109,013</u>	<u>103,393</u>
NONCURRENT LIABILITIES		
Repayment obligation, due after one year	1,230,136	1,256,481
Non-Indian agricultural 9(d) debt	88,719	88,719
Other noncurrent liabilities	<u>22,413</u>	<u>15,054</u>
Total noncurrent liabilities	<u>1,341,268</u>	<u>1,360,254</u>
Total liabilities	<u>1,450,281</u>	<u>1,463,647</u>
NET POSITION		
Net investment in capital assets	161,401	142,545
Restricted for Master Repayment Agreement	71,844	76,655
Restricted for Ak-Chin account	7,846	7,665
Restricted for CAGR account	10,437	8,699
Restricted for Captive Insurance Company	2,250	2,250
Unrestricted	<u>319,271</u>	<u>333,223</u>
Total net position	<u>573,049</u>	<u>571,037</u>
Total liabilities and net position	<u>\$ 2,023,330</u>	<u>\$ 2,034,684</u>

See accompanying notes.

CENTRAL ARIZONA WATER CONSERVATION DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
	<i>(In Thousands)</i>	
OPERATING REVENUES		
Water operations and maintenance charges	\$ 142,805	\$ 148,520
Water service capital charges	12,022	13,677
Power and Basin Development Fund revenues	21,611	46,800
Reimbursements and other operating revenues	<u>19,407</u>	<u>16,547</u>
Total operating revenues	<u>195,845</u>	<u>225,544</u>
OPERATING EXPENSES		
Salaries and related costs	53,200	50,868
Pumping power	91,568	88,996
Power transmission	7,769	3,905
Hoover capacity charges	4,021	3,847
Amortization of permanent service right	26,519	27,684
Depreciation	15,494	13,032
Other operating expenses	<u>22,147</u>	<u>15,979</u>
Total operating expenses	<u>220,718</u>	<u>204,311</u>
Operating income (loss)	<u>(24,873)</u>	<u>21,233</u>
NONOPERATING REVENUES (EXPENSES)		
Property taxes	47,825	56,101
Loss on sale of assets	(3)	-
Interest income and other nonoperating revenues	7,177	9,515
Interest expense and other nonoperating expenses	<u>(28,114)</u>	<u>(28,968)</u>
Total nonoperating revenues, net	<u>26,885</u>	<u>36,648</u>
CHANGES IN NET POSITION	<u>2,012</u>	<u>57,881</u>
NET POSITION AT BEGINNING OF YEAR	<u>571,037</u>	<u>513,156</u>
NET POSITION AT END OF YEAR	<u>\$ 573,049</u>	<u>\$ 571,037</u>

See accompanying notes.



CENTRAL ARIZONA WATER CONSERVATION DISTRICT
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
	<i>(In Thousands)</i>	
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 191,047	\$ 187,241
Cash received from power sales	—	18,900
Cash paid to employees	(52,814)	(50,850)
Cash paid to suppliers	(108,393)	(136,339)
	<u>29,840</u>	<u>18,952</u>
Net cash provided by operating activities		
CASH FLOWS PROVIDED BY NONCAPITAL FINANCING		
Cash received from property taxes	<u>47,825</u>	<u>56,101</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments on repayment obligation, including interest	(38,389)	(39,812)
Additions to capital assets	(34,535)	(31,302)
Proceeds from disposal of capital assets	<u>11</u>	<u>2,372</u>
	<u>(72,913)</u>	<u>(68,742)</u>
Net cash used in capital and related financing activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in restricted assets	(2,038)	(7,097)
Decrease in restricted assets	5,828	221
Purchase of investments	(33,096)	(93,247)
Proceeds from sale and maturities of investments	29	18,984
Investment income received	<u>6,156</u>	<u>5,824</u>
	<u>(23,121)</u>	<u>(75,315)</u>
Net cash used in investing activities		
CHANGE IN CASH AND CASH EQUIVALENTS	(18,369)	(69,005)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>142,507</u>	<u>211,511</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 124,138</u>	<u>\$ 142,507</u>

CENTRAL ARIZONA WATER CONSERVATION DISTRICT
STATEMENTS OF CASH FLOWS (CONTINUED)
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
	<i>(In Thousands)</i>	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (24,873)	\$ 21,233
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Amortization of permanent service right	26,519	27,684
Depreciation	15,494	13,032
Loss on sale of assets	3	-
Non-cash revenue	(16,922)	(28,350)
Changes in operating assets and liabilities:		
Due from water customers	(486)	1,405
Due from other receivables	(452)	873
Water inventory	(6)	(109)
Other assets	5,301	(10,373)
Funds held by federal government	11,429	6,476
Accounts payable	4,453	(14,631)
Accrued payroll, payroll taxes and other accrued expenses	388	17
Water operations and capital charges deferred revenue	1,633	194
Other noncurrent liabilities	<u>7,359</u>	<u>1,501</u>
Net cash provided by operating activities	<u>\$ 29,840</u>	<u>\$ 18,952</u>
 NONCASH INVESTING ACTIVITIES		
Decrease in fair value of investments	\$ (971)	\$ (2,385)
Decrease in fair value of restricted assets	<u>(45)</u>	<u>(1,306)</u>
 Total noncash investing activities	<u>\$ (1,016)</u>	<u>\$ (3,691)</u>
 NONCASH TRANSACTION AFFECTING FINANCIAL POSITION		
Acquisition of water rights	<u>\$ -</u>	<u>\$ 117</u>

See accompanying notes.



Notes to the Financial Statements

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CENTRAL ARIZONA WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

The Central Arizona Water Conservation District (CAWCD or District) is a multi-county water conservation district organized within the state of Arizona encompassing Maricopa, Pima and Pinal counties. The District's popularly elected Board of Directors serves as its governing body. Under the requirements of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the District is a primary government with a single blended component unit, the CAWCD Insurance Company, Inc. (Captive). The Captive is included as a component unit because it provides services exclusively to the District. The CAWCD Insurance Company issues separate financial statements and they can be obtained upon request from the District. The District was authorized in 1971 by the Arizona State Legislature for the primary purpose of creating a single entity to enter into an agreement with the United States Department of the Interior, Bureau of Reclamation (Reclamation), for repayment of the reimbursable cost of the Central Arizona Project (CAP). The District is further empowered to serve as the operating agent of the CAP.

The CAP is a multi-purpose water resource project authorized by the Congress of the United States in 1968 by the Colorado River Basin Project Act and was constructed by Reclamation. The CAP is intended to deliver an average of approximately 1.5 million acre-feet of Arizona's annual share of Colorado River water to central and southern Arizona, which will partially replace existing groundwater uses and supplement surface water supplies. It also provides flood control, power, recreation, and fish and wildlife benefits.

Under its enabling legislation (A.R.S. §48-3701 *et seq.*), the District has the authority to levy ad valorem taxes against all taxable property within its boundaries. The first ad valorem tax, which may not exceed 10 cents per \$100 of assessed valuation, is for the District's operations and repayment of the construction cost repayment obligation of the CAP (Note 3). The ad valorem tax for operations and repayment was levied at 6 cents per \$100 of assessed valuation for the tax years ended June 30, 2013, 2012 and 2011. The second ad valorem tax, which may not exceed 4 cents per \$100 of assessed valuation, is for water storage to the extent that it is not required for the District's operations or the construction cost repayment obligation of the project. The ad valorem tax for water storage was levied at 4 cents per \$100 of assessed valuation in the tax years ended June 30, 2013, 2012 and 2011. Proceeds were deposited by the District with the State Treasurer and used by the District to defray annual operation, maintenance and replacement costs. The respective counties collect property taxes on behalf of the District.

In 1993, the State legislature gave the District additional authority to provide replenishment services within the District's three-county service area. This authority is commonly referred to as the Central Arizona Groundwater Replenishment District (CAGRD). The CAGRD began enrolling members in 1995. As of December 31, 2012 and 2011, there were 1,107 and 1,106 member lands, respectively (individual subdivisions) and 23 and 23 member service areas, respectively. The CAGRD is responsible for using renewable water supplies to replenish (or recharge) excess groundwater used by its members. All costs of the CAGRD are to be paid by its members through assessments based on replenishment services provided. CAGRD's total net replenishment obligation was approximately 363,000 (estimate pending final Arizona Department of Water Resources reports) for 2012 and 328,000 acre-feet for 2011.

CENTRAL ARIZONA WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

The accounting policies of the District conform to generally accepted accounting principles as applicable to an enterprise fund of a governmental unit. Accordingly, the accrual basis of accounting is utilized, whereby revenues are recorded when they are earned, and expenses are recorded when the liability is incurred. The District's books and records include separate accounts and projects that are described as "accounts" or "fund": a general fund, Ak-Chin account, Captive fund and CAGRD account. This "fund" and these "accounts" have been combined in the accompanying financial statements. All material inter-fund transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash, Cash Equivalents and Unrestricted Investments

All funds, except the Captive, are to be invested in obligations issued or guaranteed by the United States or any of its agencies, collateralized repurchase agreements, obligations of the state and local governments, prime quality commercial paper and other instruments as set forth in the District's enabling legislation.

Investments are managed by the State Treasurer and maintained in investment pools (the state of Arizona Local Government Investment Pool 5 and the CAWCD Long-Term Pool 12). The Local Government Investment Pool (LGIP) 5 consists of participating interest earning investment contracts with maturities of less than one year and, therefore, is recorded at cost and is considered cash equivalents. The CAWCD Long-Term Pool 12 is recorded at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

Inventory

Inventory is comprised of mainly replacement parts. The District charges all such replacement parts to expense upon acquisition.

CENTRAL ARIZONA WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

The District records revenue from the sale of water, the sale of power, the sale of emissions credits, the collection of property taxes and the provision of certain contract services to other external or third party entities. Water rates consist of a water service capital charge and an operations maintenance and replacement (OM&R) charge. Generally, OM&R charges are determined by the Board of Directors after giving consideration to the amount of OM&R costs to be paid by the various subcontractors and through property taxes. Water is delivered to subcontractors and other customers based on delivery requests. Revenue from OM&R charges is recognized as it is earned and revenue from water service capital charges is recognized ratably over the period of the billing. Generally, OM&R charges for scheduled water deliveries are due in advance.

Revenues from contract services and the sale of power and emissions credits are recorded when earned.

Property taxes are recorded as revenue when received. Tax equivalency charges are recorded when received if there is no obligation to deliver any services or provision for refund.

Operating and Nonoperating Revenues

The District's primary operating revenues are water sales, capital charges associated with water sales and power and Lower Colorado River Basin Development Fund (BDF) revenues. The District's primary nonoperating revenues are property taxes and interest earnings.

Operating and Nonoperating Expenses

The District's primary operating expenses are salaries and related costs, pumping power, amortization/depreciation, and outside services (other operating expenses). The District's primary nonoperating expense is interest related to the federal debt repayment.

Application of Restricted or Unrestricted Resources

In cases where an expense is incurred for purposes for which both restricted and unrestricted net position is available, the expense is applied to the restricted net position first.

Statements of Cash Flows

For the purpose of the statements of cash flows, investments in the State of Arizona Local Government Investment Pools are treated as cash and cash equivalents due to their high liquidity.

CENTRAL ARIZONA WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets and Depreciation

Capital assets are initially recorded at cost. Depreciation is provided on the straight-line method based on the estimated useful lives of the assets ranging from three to fifty years. The costs of additions and replacements are capitalized. Work-in-process is capitalized as projects are completed. Major components of a project that have been completed and placed in service are depreciated. Projects are classified as an asset when the entire project has been completed. Repairs and maintenance are charged to expense as incurred. Retirements, sales and disposals are recorded by removing the cost and accumulated depreciation from the asset and accumulated depreciation accounts with any resulting gain or loss reflected in nonoperating revenue or expenses within the Statements of Revenues, Expenses and Changes in Net Position.

Non depreciable intangibles are water rights, including long term storage credits (LTSC) and intentionally created surplus credits (ICS), that are perpetual and do not decrease in value. Depreciable intangibles include water rights if agreements are for shorter terms (see Note 2 for further discussion) and computer software.

The Permanent Service Right is an intangible asset that represents that District's right to operate the CAP water delivery system (see Note 2).

Operating assets are capitalized when over \$5,000 and are stated at cost. Assets are depreciated on the straight-line method over the estimated useful lives as follows:

Land	Not depreciated
Intangibles – non depreciable	Not depreciated
Structures and improvements	5-40 years
Equipment	3-20 years
Intangibles – depreciable	3-50 years

Water Inventory

The water inventory adjustment for water inventory is a means to adjust the pumping energy component of water service charges to recognize that the cost of power used to pump water into Lake Pleasant should be recovered, through OM&R charges, in the year the water is delivered to customers, not the year in which it is pumped into Lake Pleasant. The water inventory adjustment is valued at the actual energy cost.

The District's share of Lake Pleasant storage as of December 31, 2012 and 2011 was 425,895 acre-feet and 452,548 acre-feet, respectively.

In 2002, the District entered into a water exchange agreement with Salt River Project (SRP) that allowed for an exchange of up to 150,000 acre-feet. In 2012 and 2011, the District's remaining share was 51,516 acre-feet and 66,601 acre-feet, respectively with SRP. The water inventory adjustment represents the actual energy cost when the water was stored associated with the change in storage level over the calendar year.

CENTRAL ARIZONA WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Water Inventory (Continued)

As the result of a one year test run of the Yuma Desalting Plant beginning in 2010, the Bureau of Reclamation assigned ICS to the District. These credits were recorded at the District's M&I water rate. During 2011, the District earned 956 AF of ICS with an assigned cost of \$117,000. No ICS credits were earned in 2012.

LTSC are recorded at cost using average cost valuation method. As of December 31, 2012 and 2011, the value was \$8,059,316 and \$7,751,000, respectively.

Agricultural Water Rights

During 2007, as a result of the Arizona Water Settlement (Note 3), the District obtained agricultural water rights to be reallocated (Note 10). The agricultural water rights are recorded at cost and will be available for sale starting in 2015.

Investments

Investments held by governmental entities are reported at fair value. Fair value adjustments are included in interest income.

Restricted Assets

Restricted assets are primarily funds held by the State Treasurer or bond trustees that are restricted by enabling legislation, contract or bond indenture.

NOTE 2 –CAPITAL ASSETS

The District reports investment in capital assets in two separate categories. The first category includes those capital assets that are operational in nature and are more common types of capital assets. The second is the permanent service right (described below) which is reported separately due to the significance of the asset. It is an asset unique to federally funded projects that are subsequently turned over to special municipal operating districts. This separation provides readers of the District's financials key relevant information.

CENTRAL ARIZONA WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 2 –CAPITAL ASSETS (CONTINUED)

	December 31, 2011			December 31, 2012
	<u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances</u>
		<i>(In Thousands)</i>		
Operating assets not depreciated:				
Land	\$ 1,938	\$ 3	\$ -	\$ 1,941
Work-in-process	5,618	5,007	-	10,625
Intangibles	3,663	-	-	3,663
Operating assets being depreciated:				
Land improvements	1,186	19	-	1,205
Work-in-process	18,816	26,780	(13,946)	31,650
Intangibles	31,379	34	(326)	31,087
Structures and improvements	78,867	1,503	-	80,370
Equipment	<u>121,395</u>	<u>15,377</u>	<u>(920)</u>	<u>135,852</u>
Total operating assets	<u>262,862</u>	<u>48,723</u>	<u>(15,192)</u>	<u>296,393</u>
Less accumulated depreciation for:				
Work-in-process	(4,262)	(1,976)	2	(6,236)
Intangibles	(5,994)	(617)	118	(6,493)
Structures and improvements	(20,011)	(4,032)	-	(24,043)
Equipment	<u>(61,137)</u>	<u>(8,869)</u>	<u>873</u>	<u>(69,133)</u>
Total accumulated depreciation	<u>(91,404)</u>	<u>(15,494)</u>	<u>993</u>	<u>(105,905)</u>
Operating assets, net	<u>\$ 171,458</u>	<u>\$ 33,229</u>	<u>\$ (14,199)</u>	<u>\$ 190,488</u>

CENTRAL ARIZONA WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 2 –CAPITAL ASSETS (CONTINUED)

	December 31, 2010			December 31, 2011
	<u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances</u>
		<i>(In Thousands)</i>		
Operating assets not depreciated:				
Land	\$ 1,101	\$ 837	\$ -	\$ 1,938
Work-in-process	12,911	-	(7,293)	5,618
Intangibles	29,897	-	(26,234)	3,663
Operating assets being depreciated:				
Land improvements	1,179	7	-	1,186
Work-in-process	16,575	30,584	(28,343)	18,816
Intangibles	6,007	26,291	(919)	31,379
Structures and improvements	67,797	11,077	(7)	78,867
Equipment	<u>101,989</u>	<u>23,170</u>	<u>(3,764)</u>	<u>121,395</u>
Total operating assets	<u>237,456</u>	<u>91,966</u>	<u>(66,560)</u>	<u>262,862</u>
Less accumulated depreciation for:				
Work-in-process	(3,040)	(1,222)	-	(4,262)
Intangibles	(5,679)	(401)	86	(5,994)
Structures and improvements	(16,548)	(3,470)	7	(20,011)
Equipment	<u>(56,629)</u>	<u>(7,939)</u>	<u>3,431</u>	<u>(61,137)</u>
Total accumulated depreciation	<u>(81,896)</u>	<u>(13,032)</u>	<u>524</u>	<u>(91,404)</u>
Operating assets, net	<u>\$ 155,560</u>	<u>\$ 78,934</u>	<u>\$ (631,036)</u>	<u>\$ 171,458</u>

Total depreciation expense was approximately \$15,494,000 and \$13,032,000 for the years ended December 31, 2012 and 2011, respectively.

Intangible assets consist of non depreciable and depreciable assets. Non depreciable assets are perpetual water rights and depreciable assets are water rights with an ending term date along with software.

Permanent Service Right

The District's interest in the CAP represents a permanent service right pursuant to the Master Repayment Agreement and Repayment Settlement. The permanent service right represents the District's right to use the CAP water delivery system for the purpose of fulfilling its responsibility of delivering water as provided in the Master Repayment Agreement and to collect revenues produced by the CAP. The District has used the repayment obligation specified in the Repayment Settlement, plus certain advances to the federal government and other adjustments, in recording the permanent service right. The cost of the permanent service right may be adjusted in the future as a result of determinations to be made as a consequence of the Repayment Settlement.

CENTRAL ARIZONA WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 2 –CAPITAL ASSETS (CONTINUED)

Although the District's interest in the CAP is reflected in the accompanying statements of net position, the United States retains a paramount right or claim in the CAP arising from the original construction and operation of the CAP as a Federal Reclamation Project. The District's right to the possession and use of, and to all revenues produced by the CAP, is evidenced by the Master Repayment Agreement, various laws and other agreements with the United States. Legal title to the CAP will remain with the United States until otherwise provided by Congress.

The District amortizes/depreciates the permanent service right on the straight-line method over the estimated useful lives of the major components of the CAP, generally 100 years for the aqueduct, 30 years for the Navajo Generating Station (NGS) power plant and related transmission facilities, 50 years for buildings and structures and 20 years for the pumping plant equipment.

	December 31, 2011 Balances	Increases (In Thousands)	Decreases	December 31, 2012 Balances
Permanent Service Right	\$ 1,789,627	\$ -	\$ -	\$ 1,789,627
Navajo Generating Station assets	<u>1,485</u>	<u>-</u>	<u>-</u>	<u>1,485</u>
Total being amortized/depreciated	<u>1,791,112</u>	<u>-</u>	<u>-</u>	<u>1,791,112</u>
Less accumulated amortization/ depreciation				
Permanent Service Right	(536,286)	(26,501)	-	(562,787)
Navajo Generating Station assets	<u>(915)</u>	<u>(18)</u>	<u>-</u>	<u>(933)</u>
Total accumulated amortization/depreciation	<u>(537,201)</u>	<u>(26,519)</u>	<u>-</u>	<u>(563,720)</u>
Permanent Service Right asset, net	<u>\$ 1,253,911</u>	<u>\$ (26,519)</u>	<u>\$ -</u>	<u>\$ 1,227,392</u>

CENTRAL ARIZONA WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 2 – CAPITAL ASSETS (CONTINUED)

	December 31, 2010 <u>Balances</u>	<u>Increases</u> <i>(In Thousands)</i>	<u>Decreases</u>	December 31, 2011 <u>Balances</u>
Permanent Service Right	\$ 1,789,627	\$ -	\$ -	\$ 1,789,627
Navajo Generating Station assets	<u>1,485</u>	<u>-</u>	<u>-</u>	<u>1,485</u>
Total being amortized/depreciated	<u>1,791,112</u>	<u>-</u>	<u>-</u>	<u>1,791,112</u>
Less accumulated amortization/ depreciation				
Permanent Service Right	(508,618)	(27,668)	-	(536,286)
Navajo Generating Station assets	<u>(899)</u>	<u>(16)</u>	<u>-</u>	<u>(915)</u>
Total accumulated amortization/depreciation	<u>(509,517)</u>	<u>(27,684)</u>	<u>-</u>	<u>(537,201)</u>
Permanent Service Right asset, net	<u>\$ 1,281,595</u>	<u>\$ (27,684)</u>	<u>\$ -</u>	<u>\$ 1,253,911</u>

The cost of periodic maintenance is charged to operations expense and the cost of major replacements is capitalized.

NOTE 3 – MASTER REPAYMENT AGREEMENT

The Agreement

The Bureau of Reclamation and the District have a contract for delivery of water and repayment of costs of the CAP. This contract (the Master Repayment Agreement) was originally entered into in 1972 and amended in 1988. In the Master Repayment Agreement, Reclamation agreed to construct the CAP and the District agreed to repay various reimbursable construction costs of the CAP, various OM&R costs during construction and interest during construction on various costs.

Commencement of Repayment

Reclamation notified the District that the water supply system, the first CAP construction stage, was substantially complete on October 1, 1993. This notification initiated repayment by the District for the water supply system. Reclamation notified the District that the regulatory storage facilities stage, consisting of New Waddell and Modified Roosevelt Dams, was substantially complete on September 30, 1996. This notification initiated repayment by the District for the regulatory storage facilities stage.

**CENTRAL ARIZONA WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

NOTE 3 – MASTER REPAYMENT AGREEMENT (CONTINUED)

Commencement of Repayment (Continued)

The Master Repayment Agreement requires the District to make annual payments to the United States on the repayment obligation related to the completed construction stages. These payments are required to be made over a 50-year period and are based on paying a percentage of the remaining outstanding repayment obligation, plus interest, with each construction stage having a separate 50-year repayment period as follows: contract years 1-7: 1%; 8-14: 1.3%; 15-21: 1.6%; 22-28: 2%; 29-35: 2.6%; and 36-50: 2.7%.

Repayment Litigation and Repayment Settlement

As a result of disputes between the District and the United States regarding the amount of the District's repayment obligation, the District filed a lawsuit against the United States in July 1995, seeking a judicial determination of the District's repayment obligation. The United States also filed a lawsuit against the District. The two lawsuits were consolidated into a single action in the Federal District Court (the Court), in Phoenix, Arizona (the Repayment Litigation). On May 9, 2000, the litigation was settled, contingent upon the satisfaction of certain conditions within a specified time period (the Repayment Settlement). On April 8, 2003, the settlement was amended to extend the time for satisfaction of the conditions necessary for entry of final judgment. On December 10, 2004, the Arizona Water Settlements Act was enacted (the Settlements Act). The Settlements Act facilitated final judgment in the Repayment Litigation by authorizing actions that were necessary to satisfy the conditions of the Repayment Settlement. These conditions were subsequently satisfied. On November 21, 2007, a final judgment was entered based upon a stipulation for judgment filed by all of the parties to the Repayment Litigation. The time for appeal of the final judgment has expired. Accordingly, the Repayment Settlement is now fully effective. The major matters resolved by the Repayment Settlement are discussed below.

The Arizona Water Settlement

The Repayment Settlement required that there be a reallocation of CAP water supplies such that the total amount of CAP water allocated for federal uses be increased to 667,724 acre-feet, or approximately 47% of average annual CAP supplies. The remaining CAP supplies, 747,276 acre-feet, or approximately 53% of average annual CAP supplies, were required to be made available for non-Indian agricultural, municipal and industrial use.

CENTRAL ARIZONA WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 3 – MASTER REPAYMENT AGREEMENT (CONTINUED)

The Arizona Water Settlement (Continued)

This reallocation was accomplished through the relinquishment of long-term CAP entitlements by non-Indian agricultural CAP subcontractors and the eventual reallocation of those entitlements and other, uncontracted non-Indian agricultural (NIA) priority CAP water to Indian and municipal and industrial (M&I) water users. In return for the receipt of certain benefits, including the opportunity to purchase excess CAP water under short term contracts at energy-only rates through 2030, non-Indian agricultural CAP subcontractors were offered the opportunity to relinquish their rights to NIA water under their long-term CAP subcontracts. All of the non-Indian agricultural CAP subcontractors agreed to permanently relinquish their entitlements to NIA water. (The Arizona State Land Department, a landowner within the Maricopa Stanfield Irrigation and Drainage District (MSIDD), initially elected to retain an entitlement of 9,026 acre-feet of MSIDD's entitlement under a long-term NIA CAP subcontract, but was subsequently terminated on September 1, 2009). On August 25, 2006, the Secretary of the Interior (Secretary) reallocated 197,500 acre-feet of the relinquished and uncontracted NIA water for use by Arizona Indian tribes, bringing the total amount of CAP water allocated for federal use to 650,724 acre-feet. Under the Settlements Act, an additional 17,000 acre-feet of M&I priority CAP water may be transferred from non-federal to federal uses in the future. If that additional water ultimately is not transferred, the District and the United States would adjust the District's repayment obligation as described below.

In the August 25, 2006, allocation decision, the Secretary also reallocated up to 96,295 acre-feet of NIA priority CAP water to the Arizona Department of Water Resources to be held in trust for eventual reallocation to non-Indian M&I entities and reallocated 65,647 acre-feet of previously un-contracted M&I priority CAP water to M&I entities. New CAP subcontracts, incorporating the additional allocations of M&I water and certain amendments required by the Settlements Act, were offered to all subcontractors of CAP water service. All of those subcontracts have been fully executed, bringing the total amount of non-Indian M&I priority CAP water under subcontract to 620,678 acre-feet. This, together with the NIA priority water allocated to the Arizona Department of Water Resources, brings the total amount of CAP water currently in non-Indian hands to 764,276 acre-feet.

Repayment Obligation

The Repayment Settlement established the principal amount of the District's repayment obligation for the water supply system and regulatory storage facilities stages of the CAP at \$1,646,462,500 based upon the agreement to increase the amount of CAP water allocated for federal use to 667,724 acre-feet. The Repayment Settlement provides that the repayment obligation is subject to further adjustment, up or down, by \$1,415 per acre-foot if the total amount of CAP water ultimately made available for federal use is not 667,724 acre-feet. The District's repayment obligation would vary inversely with the amount of CAP water allocated for federal use. Thus, if the total amount of CAP water ultimately made available for federal use is less than 667,724 acre-feet, the District's repayment obligation would be increased by \$1,415 per acre-foot of the difference. There was no adjustment to the District's repayment obligation related to the CAP water allocated for federal use in 2012 and 2011.

CENTRAL ARIZONA WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 3 – MASTER REPAYMENT AGREEMENT (CONTINUED)

Repayment Obligation (Continued)

The Repayment Settlement provided that 73% of the District's repayment obligation will bear interest at the rate established in the Master Repayment Agreement of 3.342% per annum, and 27% of the repayment obligation will be non-interest bearing. The Repayment Settlement fixed these percentages for the duration of the repayment period.

Construction Deficiencies and Other Credits

Certain disputes regarding financial responsibility for CAP construction deficiencies were resolved by the Repayment Settlement, with the District receiving appropriate credit against payments due under its repayment obligation for work performed by the District to correct these deficiencies. Certain other credits against the annual payments due from the District were also recognized and applied in the Repayment Settlement.

In 2011, the District applied a one-time prepayment of \$12,000,000 from the sale of NGS Surplus Power pursuant to the Repayment Settlement. This amount has reduced the last \$12,000,000 due of the non-interest bearing portion of the Repayment Obligation.

Application of Development Fund Revenues

The Repayment Settlement provided that all net miscellaneous revenues and net power revenues accumulating in the BDF of the United States Treasury in each year will be credited annually against the amount due from the District on its repayment obligation.

CENTRAL ARIZONA WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 3 – MASTER REPAYMENT AGREEMENT (CONTINUED)

Payments to Maturity

The required annual payments under the Repayment Settlement on the repayment obligation are as follows:

Years	Principal	Interest	Total
	<i>(In Thousands)</i>		
2013	\$ 26,343	\$ 28,114	\$ 54,457
2014	26,343	27,260	53,603
2015	31,362	26,407	57,769
2016	31,362	25,385	56,747
2017	31,362	24,364	55,726
2018-2022	172,172	105,906	278,078
2023-2027	209,336	74,870	284,206
2028-2032	219,448	39,480	258,928
2033-2037	222,273	6,624	228,897
2038-2042	222,273	-	222,273
2043-2045	64,205	-	64,205
	<u>\$ 1,256,479</u>	<u>\$ 358,410</u>	<u>\$ 1,614,889</u>

Changes in Repayment Obligation Balance

December 31, 2011 Balance	Additions	Reductions	December 31, 2012 Balance	Amount Due Within One Year
<i>(In Thousands)</i>				
\$ 1,282,824	\$ -	\$ (26,345)	\$ 1,256,479	\$ 26,343

December 31, 2010 Balance	Additions	Reductions	December 31, 2011 Balance	Amount Due Within One Year
<i>(In Thousands)</i>				
\$ 1,321,167	\$ -	\$ (38,343)	\$ 1,282,824	\$ 26,345

Amounts Recorded in Financial Statements

The repayment obligation and amounts due on that obligation reported in these financial statements reflect the terms of the Repayment Settlement.

CENTRAL ARIZONA WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 4 – OPERATIONS

Operations and Maintenance Agreement

Reclamation has transferred responsibility for operation and maintenance of completed CAP features to the District. The District performs these responsibilities under the Master Repayment Agreement, an agreement with Reclamation for the operation and maintenance of the facilities (the OM&R Transfer Contract), and an Operating Agreement between Reclamation and the District that took effect as part of the Repayment Settlement.

Water Delivery Contracts and Subcontracts

Long-term CAP water service began pursuant to contracts and subcontracts on October 1, 1993, upon notice of completion of the water supply system. Originally, the term of the contracts and subcontracts was generally 50 years beginning January 1, 1994. The Settlements Act required the Secretary to offer to amend all CAP contracts and subcontracts to, among other things, change the term of the contracts and subcontracts from 50 years to permanent water service, with an initial delivery term of 100 years. Pursuant to the Settlements Act, the District offered 60 new subcontracts and all were executed. In addition, the United States has entered into long-term contracts with eleven Indian entities for the delivery of CAP water. The District is not a party to these contracts but is obligated to deliver CAP water to Indian contractors under the Master Repayment Agreement. Total CAP water deliveries for 2012 and 2011 were 1,598,806 and 1,619,883 acre-feet, (including credits) respectively.

The non-Indian subcontracts require the payment of a water service capital charge and an OM&R charge. For Municipal and Industrial (M&I) subcontractors, the water service capital charge is applicable to each subcontractor's maximum annual entitlement to CAP water. Under the M&I water service subcontracts and current District pricing structure, the M&I water service capital charge is a variable charge, which began at an annual rate of \$10.50 per acre-foot of entitlement in 1994, increasing to \$48 per acre-foot of entitlement by 1999. The M&I water service capital charge has gradually been reduced since 2001 to a rate of \$15 per acre-foot for 2012 and 2011. The amount of this M&I water service capital charge may be adjusted periodically by the District as a result of repayment determinations provided for in the Master Repayment Agreement and to reflect all sources of revenue, but the water service capital charge will not be greater than necessary to amortize project capital costs allocated to the M&I function with interest. Indian contractors of CAP water pay no water service capital charge, since the capital costs associated with the delivery of CAP water to Indian entities are not reimbursable by the District pursuant to the Master Repayment Agreement.

The OM&R costs of the CAP are of two types: energy costs and fixed costs. Energy costs are incurred to pump water from the Colorado River through the CAP aqueduct system and fixed costs are the non-energy costs associated with operation, maintenance and replacement. The District completed a cost of service study to better define what components properly constitute fixed OM&R costs and how to allocate those costs among classes of CAP water users.

M&I subcontractors and Indian contractors must pay OM&R charges on water scheduled for delivery.

CENTRAL ARIZONA WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 4 – OPERATIONS (CONTINUED)

Water Delivery Contracts and Subcontracts (Continued)

Indian tribes, or the United States on behalf of Indian tribes, pay the fixed OM&R charges and pumping energy charges associated with the delivery of CAP water to Indian tribes. Under the Settlements Act, the United States may use funds available in the BDF to pay Indian fixed OM&R charges beginning in 2010. The United States pays all OM&R charges for water delivered to the Ak-Chin Indian Community pursuant to a 1984 settlement of that tribe's water rights claims. Disputes that existed with respect to the amounts of those charges and the proper method of calculating OM&R charges were resolved as part of the Repayment Settlement.

As an integral part of the Repayment Settlement, the District also offers a special pool of excess water to non-Indian agricultural water users pursuant to two-party contracts between the District and non-Indian agricultural water users. Those users pay pumping energy charges, but not fixed OM&R charges, for that water.

The District's Board of Directors uses the District's Long-Range Financial Forecast (LRFF) to assist in setting rates for water service. In 2005, the Board of Directors adopted a two-year planning cycle. The Board revised the policy in 2010. As a result, water service charges are set every other year, including firm rates for the next year, provisional rates for the following year, and advisory rates for the subsequent four years. The provisional rates become firm the subsequent year unless updated by the Board prior to the commencement of the second year during the rate update process. The water service charges charged to M&I subcontractors and the United States on behalf of Indian contractors of CAP water service for 2012 were confirmed by the Board of Directors in June 2011, at which time the Board also approved provisional and advisory rates for 2013 through 2016.

Details regarding water deliveries and charges are set forth in the unaudited tables appended to these financial statements as Other District Information.

NOTE 5 – POWER

Power Purchases

The electricity needed for the operation of the CAP pumps is provided from a number of sources. Relatively small amounts of power are available from the Hoover power plant at Hoover Dam and from CAP's New Waddell Dam pump-generating station when water is released from Lake Pleasant. The balance of CAP's pumping power needs, with the exception of market purchases that may be made for economic or operational reasons, are provided by Reclamation's interest in the NGS.

CENTRAL ARIZONA WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 5 – POWER (CONTINUED)

Hoover B Power Purchases

The 1984 Hoover Power Plant Act (Hoover Act) authorized upgrading the Hoover power plant, located at Hoover Dam, to increase generating capacity at the plant by 503 megawatts (MW). This additional capacity and its associated energy is known as Hoover B Power. The Hoover Act allocated 188 MW and 212,000 megawatt hours (MWh) of associated firm annual energy of the Hoover B Power to purchasers in Arizona. The Arizona Power Authority (Authority) distributes Arizona's share of the Hoover B Power. The District has contracted with Arizona Power Authority for all but 26.5 MW of Hoover B Power.

Power Revenues

Power revenues are generated from the sale of NGS Surplus (power associated with Reclamation's NGS entitlement that is in excess of CAP's pumping requirements of the CAP) and from a surcharge on energy sold in Arizona from the Boulder Canyon (Hoover) and Parker-Davis projects.

Navajo Generating Station

Reclamation is one of six participants in NGS, which consists of three 750,000 kilowatt coal-fired, steam-electric generating units that were brought on-line between 1974 and 1976, a railroad to deliver fuel and 500 kilovolt transmission lines and switching stations to deliver the power and energy to the various participants. An agreement among the participants governs the construction, operation, and maintenance of NGS. Reclamation entered into this agreement in order to acquire a portion of the capacity of NGS for supplying the power requirements of the CAP. Reclamation has a 24.3% entitlement in the generating station, resulting in a power entitlement of 546,750 kilowatts of nominal capacity. The District is charged for the costs associated with the energy used to operate the CAP, and the payments for this energy are deposited into the Development Fund. Contracts governing the sale of NGS Surplus and certain other transactions expired or were replaced effective September 30, 2011.

Additional Rate Component through September 30, 2011

The Hoover Act authorized the establishment and collection of additional rate components on sales and exchanges of the capacity and energy associated with Reclamation's NGS entitlement in excess of the pumping requirements of the CAP and any needs for desalting and protective pumping facilities as may be required under the Colorado River Basin Salinity Control Act (NGS surplus). The Hoover Act further authorized the payment of revenues from such additional rate components to entities that have advanced funds for the construction and repayment of construction costs of the CAP.

In the 1987 NGS Power Marketing Plan, the Secretary determined that 400,000 kilowatts of capacity and 760 kilowatt hours of energy per year per kilowatt of such capacity was the excess capacity and energy that constituted NGS surplus to be marketed pursuant to long-term contracts. The District and Reclamation subsequently entered into power sales contracts with SRP for the sale of an aggregate of 350,000 kilowatts of such capacity and the associated energy from May 1993 through September 2011.

CENTRAL ARIZONA WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 5 – POWER (CONTINUED)

Additional Rate Component through September 30, 2011 (Continued)

The additional rate component on the sale of such capacity was established by the District at \$6 per kilowatt of allocated capacity per month. Revenues from the additional rate component were paid directly to the District's bond trustee to repay the contract revenue bonds sold by the District. Under the Repayment Settlement, when it was no longer necessary to have the additional rate component revenues paid to the bond trustee under the bond indentures, the remaining revenues were paid to the District to establish a reserve to cover the costs associated with major repair or replacement of CAP features. In 2011, the District received \$18,900,000 from additional rate component revenues. All proceeds were placed into a major repair and replacement reserve, which are included in restricted assets in the accompanying statements of net position.

Sale of NGS Surplus through September 30, 2011

The District entered into a contract with SRP, Reclamation and the Western Area Power Administration (Western) for the sale of the remaining NGS surplus. The contract, which was for the period June 1994 through September 2011, granted SRP the use of the remaining United States entitlement to output of the NGS, the right to schedule and integrate with the SRP system the District's contractual rights to Hoover capacity and energy, produced at New Waddell Dam and certain transmission rights, and required SRP to sell energy at cost to the District to meet CAP pumping requirements up to a defined threshold level for each contract year. If CAP energy requirements exceeded the threshold, the District was required to purchase additional energy either from SRP or from other sources. Under the contract, SRP paid a monthly charge of \$1,812,500 to the Development Fund. The District recorded these revenues as funds held by the federal government as of December 31 of each year and then applied them against the annual payment due from the District under the Master Repayment Agreement the following January 20. The application of these revenues against the annual payments due from the District under the Master Repayment Agreement is required by the Repayment Settlement.

Sale of NGS Surplus after September 30, 2011

On September 18, 2007, the Commissioner of Reclamation, on behalf of the Secretary, adopted the Amended NGS Power Marketing Plan (Amended Plan), which governs the sale of NGS Surplus after September 30, 2011. Under the Amended Plan, energy from Reclamation's share of NGS is available to meet all of the District's estimated pumping energy requirements in excess of capacity and energy supplied to the District from Hoover Dam or New Waddell Dam. NGS energy in excess of the District's pumping needs is marketed by Western.

CENTRAL ARIZONA WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 5 – POWER (CONTINUED)

Sale of NGS Surplus after September 30, 2011 (Continued)

On September 30, 2011, the District, Reclamation and Western entered into a contract, with associated operating procedures, for administration of the U.S. entitlement in the NGS Project. Pursuant to that contract, the District will notify Western and Reclamation by December 15 of each year as to the amount of NGS energy that is needed for CAP pumping for the following year. NGS energy not reserved for CAP use will be marketed by Western, with the proceeds of any sales to be deposited in the Development Fund for application against the annual payments due from the District under the Master Repayment Agreement and Repayment Settlement.

SRP Power Purchase Agreement (Post-September 30, 2011)

SRP and Western have entered into a NGS Power Purchase Agreement for the sale of a portion of NGS Surplus power for the period October 1, 2011, through September 30, 2031. SRP will purchase up to 220,800 MWh per year on a unit contingent basis. The price will be actual production cost, excluding capital, for all energy delivered to SRP plus a premium. After the first year, increases in production cost are capped at 4% per year, but re-priced to actual cost every three years. The premium is \$25 million in 2012 escalated at 3.0% annually. The premium is to be re-priced in year 11 of the contract based on the change in natural gas prices and subject to a maximum change of \$7,000,000 in either direction and escalating at 3% annually thereafter. The proceeds from this contract are to be deposited into the BDF to be applied towards CAP Repayment.

Hoover Surcharge

The Hoover Act also provided for the addition of a surcharge to the rates for energy sold in Arizona from the Boulder Canyon (Hoover) and Parker-Davis projects of 4.5 mills per kilowatt-hour. Revenues from the surcharge on Hoover power sales began in 1987 and revenues from Parker-Davis power sales began in 2005. Revenues from this surcharge are credited to the Development Fund.

The District records these revenues as funds held by the federal government as of December 31 of each year and then applies them against the annual payment due from the District the following January 20. The application of these revenues against the annual payments due from the District under the Master Repayment Agreement is required by the Repayment Settlement.

CENTRAL ARIZONA WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 6 – CASH AND INVESTMENTS

Cash

The CAWCD and Captive accounts are on demand deposits at Bank of America and First Hawaiian Bank, respectively. As of December 31, 2012, the District reported approximately \$11,140,000 in cash on its general ledger with bank balances of \$11,666,000. As of December 31, 2011, the District reported \$6,832,000 in cash on its general ledger with bank balances of \$7,938,000. The District's cash balances on deposit are insured by the Federal Deposit Insurance Corporation (FDIC) up to specified limits. Pursuant to a Depository Agreement between CAWCD and the Bank of America all of the District's eligible public funds on deposit with the bank in excess of FDIC coverage are collateralized pursuant to A.R.S. 35-323. All securities pledged are held in book-entry form at the Bank of New York Mellon.

Investments

As a multi-county water conservation district, the District's Enabling Act prescribes that the Arizona State Treasurer holds the District's investments, including the restricted assets in Note 7. The District had money in CAWCD Long-Term Pool 12 and LGIP-Pool 5 (Local Government Investment Pool).

The target duration of the CAWCD Long-Term Pool 12 is 4.5 years. Securities, at time of purchase, will carry, as a minimum, an A or better rating by either Moody's Investors Service or Standard and Poor's Rating Service or their successors. Eligible securities include U.S. Treasury, agency, corporate notes, mortgage backed securities/asset backed securities, and money market instruments with a minimum rating of A1/P1.

The LGIP-Pool 5 is a pool used for liquid cash equivalent needs. The final maturity of any fixed-rate security shall not exceed 18 months from the settlement date of the purchase. The final maturity of any variable rate security shall not exceed two years. The dollar weighted average portfolio maturity shall not exceed 90 days.

CENTRAL ARIZONA WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 6 – CASH AND INVESTMENTS (CONTINUED)

Investments (Continued)

The investment pools themselves are not required to register (and are not registered) with the Securities and Exchange Commission under the 1940 Investments Advisors Act. The activity and performance of the pools are reviewed monthly by the State Board of Investment in accordance with A.R.S. §35-311. However, the State Treasurer's Office only invests in SEC-registered investment company shares that have readily available share prices. The fair value of the District's position in the pool shares is the same as the value of the pool shares. Fair market values of investments are determined using JP Morgan prices. JP Morgan obtains security prices from independent, industry recognized data vendors who provide values that are either exchange based or matrix based. Matrix based pricing is the process of determining the price of a non benchmark security by adding (subtracting) a spread in basis points to the yield of a comparable benchmark that is actively priced. Equities are priced utilizing the primary exchange closing price. In the absence of a closing price, the mid/bid price will be utilized. The mid/bid price is the midpoint between the best bid and offer. If no pricing source is available, the cost price or the last available price from any source will be utilized. All bonds are priced using an evaluated market price, the closing trade/bid price or the most recent mid/bid price, except securities with a remaining maturity of 90 days or less are priced at amortized cost (amortizing premium/accreting discount on a straight-line to maturity method). If no pricing source is available, the cost or the last available price from any source will be utilized.

The District's portion of pooled investments as of December 31, 2012 and 2011, consisted of the following (stated at fair value):

	<u>2012</u>	<u>2011</u>
	<i>(In Thousands)</i>	
Pooled investments – current:		
Local Government Investment Pool 5	\$ 112,998	\$ 135,675
Pooled investments – noncurrent:		
CAWCD Long-Term Pool 12	184,096	150,060
Pooled investments – included in restricted assets:		
Local Government Investment Pool 5	10,437	8,699
CAWCD Long-Term Pool 12	<u>107,804</u>	<u>113,288</u>
	<u>118,241</u>	<u>121,987</u>
	<u>\$ 415,335</u>	<u>\$ 407,722</u>

Pool 5 is rated by Standard & Poor's Rating Service. The rating at December 31, 2012 and 2011, was AA+/-S1+. Pool 12 is not rated by a nationally recognized statistical rating organization. The District does not have a credit risk policy for its pooled investments.

CENTRAL ARIZONA WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 6 – CASH AND INVESTMENTS (CONTINUED)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rate will adversely affect the fair value of an investment. The District does not have an interest rate risk policy for its pooled investments.

At December 31, 2012, the interest rate risks of the two pools in the aggregate are:

	Fair Value	Weighted- Average Maturity (Years)
	<i>(In Thousands)</i>	
Local Government Investment Pool 5	\$ 123,435	0.06
CAWCD Long-Term Pool 12	<u>291,900</u>	<u>6.72</u>
	<u>\$ 415,335</u>	<u>2.40</u>

The Board of Directors has designated end of year strategic reserve targets that are invested in Pool 12 investments. The reserves are currently being funded to the revised targets as follows: capital reserves of \$75,000,000, contingency reserves of \$10,000,000 and operating reserves of \$45,000,000.

At December 31, 2011, the interest rate risks of the three pools in the aggregate are:

	Fair Value	Weighted- Average Maturity (Years)
	<i>(In Thousands)</i>	
Local Government Investment Pool 5	\$ 144,374	0.06
CAWCD Long-Term Pool 12	<u>263,348</u>	<u>8.66</u>
	<u>\$ 407,722</u>	<u>5.61</u>

CENTRAL ARIZONA WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 7 – ASSETS RESTRICTED BY ENABLING LEGISLATION

Restricted assets, including accrued interest receivable, consist of the following:

	December 31	
	2012	2011
	<i>(In Thousands)</i>	
Master Repayment Agreement repayment and operating reserves	\$ 45,751	\$ 45,618
Revised Stipulation Agreement major repairs or replacement	54,207	60,004
Ak-Chin account	7,846	7,665
CAGRD account	10,437	8,699
Captive Insurance Company	<u>2,250</u>	<u>2,250</u>
	<u>\$ 120,491</u>	<u>\$ 124,236</u>

The District statements of net position report \$92,377,000 and \$95,269,000 of restricted net position as of December 31, 2012 and 2011, respectively.

Master Repayment and Operating Reserves

The District is required under the terms of the Master Repayment Agreement to establish and fund over a ten-year period (1) an operations and maintenance reserve fund of \$4,000,000 for extraordinary costs of operations, maintenance and replacement of project works, and (2) a repayment reserve fund of \$40,000,000 for the purpose of assuring payments of future obligations.

At December 31, 2012, the fair value of the operations and maintenance and repayment reserves totaled \$5,751,000, and \$40,000,000, respectively, including accrued interest. See the cash and investments footnote (Note 6) for risk disclosures as of December 31, 2012 and 2011 related to investments held by the Arizona State Treasurer.

The District redeemed its Series B bonds on November 1, 2007. The District discharged its Series A bonds on June 1, 2009 as there were sufficient funds in reserve to make the remaining debt service payments. Per the Revised Stipulation Agreement, revenues from the Capacity Charge not necessary to pay debt service, costs, or rebate obligations associated with outstanding bonds or to fund reserves may be paid, at the District's option and in lieu of payment to Reclamation for deposit to the BDF, to CAWCD to be used by CAWCD solely to establish a reserve to cover the costs associated with major repair or replacement of CAP features.

At December 31, 2012 and 2011, the fair value of the major repair and replacement reserve totaled \$54,207,000 and \$60,004,000, respectively. See cash and investments (Note 6) for risk disclosures as of December 31, 2012 and 2011, related to investments held by the Arizona State Treasurer.

CENTRAL ARIZONA WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 7 – ASSETS RESTRICTED BY ENABLING LEGISLATION (CONTINUED)

Ak-Chin Account

In August 1985, the District's Board of Directors approved participation in an account established pursuant to legislation enacted by the Congress of the United States for the acquisition or conservation of water to supplement CAP water supplies (Ak-Chin account). The District and the United States government each have contributed \$1,000,000 to this account, which is administered by the District.

The District, acting as administrator of the account, is empowered to direct the expenditure of the trust funds in accordance with the provisions of a trust agreement between the District and the Arizona State Treasurer.

In November 2004, the Ak-Chin account was transferred from the LGIP to the CAWCD Long Term Pool, which invests primarily in U.S. Treasury, agency, corporate notes, mortgage backed securities/asset backed securities, and money market instruments with a minimum rating of A1/P1 and has a target duration of four to five years. See the cash and investments footnote (see Note 6) for the disclosures as of December 31, 2012 and 2011 related to investments held by the Arizona State Treasurer.

CAGRD Account

The District is required by state statute to use replenishment reserve charges and fees within each active management area together with all interest earned on these charges and fees to store water in the active management area in advance of groundwater replenishment obligations for the purpose of developing long-term storage credits. See the cash and investments footnote (Note 6) for risk disclosures as of December 31, 2012 and 2011, related to investments held by the Arizona State Treasurer.

Captive Insurance

The Hawaii Insurance Division has established certain minimum capital and surplus requirements for the Captive which are required to be maintained at all times. In 2011, the required reserve increased to \$2,250,000 due to the additional health insurance benefits and claims that were to be handled by the Captive in 2012. As of December 31, 2012 and 2011, the Captive was in compliance with the minimum capital and surplus requirement of the State of Hawaii.

CENTRAL ARIZONA WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 8 – UNDERGROUND WATER STORAGE AND RECOVERY

In 1992, the District entered into an agreement with the Metropolitan Water District of Southern California (MWD) and subsequently with Southern Nevada Water Authority (SNWA), whereby up to an aggregate of 100,000 acre-feet of interstate underground water storage credits would be set aside for potential assignment to MWD and SNWA in years in which there is a surplus on the Colorado River. Once assigned, MWD and SNWA can request recovery of these credits in years in which there is a normal supply on the Colorado River. If assigned credits are recovered, the District must forbear diversion of Colorado River water in an amount diverted by MWD and SNWA, and recover the stored credits in an amount equal to the CAWCD's reduced diversion. In 1995, the agreement with MWD was amended, increasing the amount of water that can be stored from 100,000 acre-feet to 300,000 acre-feet. As of December 31, 2012 and 2011, a total of 89,000 acre-feet and 50,000 acre-feet of water were stored under this agreement on behalf of MWD and SNWA, respectively.

In 1999, the Secretary adopted regulations that allow the AWBA to engage in interstate banking of Colorado River water in cooperation with other lower basin states. The rules require agreements between the AWBA, the Secretary, and the authorized entity in the other lower basin states.

The AWBA has completed the agreements necessary to conduct interstate water banking with SNWA. Under the terms of the new agreement, the AWBA will store an additional 1,200,000 acre-feet of credits in Arizona for SNWA. The District has transferred credits previously stored by the District on behalf of SNWA (50,000 acre-feet) to the AWBA to hold in its SNWA storage account. At present, MWD has not entered into interstate storage agreements with AWBA required for MWD to participate in interstate water banking. During the 2007 to 2010 periods, the District recovered for Arizona and forebore on the Colorado River 80,909 acre-feet on behalf of MWD. As of December 31, 2012, this completes CAWCD's contractual obligation to recover on behalf of MWD.

NOTE 9 – NON-INDIAN AGRICULTURAL 9(d) DEBT

During 2007, and as the result of the Arizona Water Settlement Act (Note 3), long-term entitlements to CAP non-Indian Agricultural (NIA) water were relinquished by CAP NIA subcontractors. Those rights will be reallocated to municipal and industrial (M&I) users. Upon reallocation, the District will collect charges from those M&I users sufficient to repay the District's costs in facilitating the relinquishment of the agricultural water rights. In 2009, 9,026 acre-feet of agricultural water rights were relinquished by a NIA user.

CENTRAL ARIZONA WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 9 – NON-INDIAN AGRICULTURAL 9(d) DEBT (CONTINUED)

The required annual payments related to the Non-Indian agriculture 9(d) debt obligation are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	<i>(In Thousands)</i>		
2012-2025	\$ -	\$ -	\$ -
2026-2030	25,351	-	25,351
2031-2035	26,566	-	26,566
2036-2040	22,307	-	22,307
2041-2045	10,812	-	10,812
2046	<u>3,683</u>	<u>-</u>	<u>3,683</u>
Total	<u>\$ 88,719</u>	<u>\$ -</u>	<u>\$ 88,719</u>

NOTE 10 – OTHER NONCURRENT LIABILITIES

Other noncurrent liabilities consist of the following:

	<u>2012</u>	<u>2011</u>	<u>Change</u>
	<i>(In Thousands)</i>		
Retirees health insurance	\$ 2,629	\$ 1,948	\$ 681
Asset retirement obligation (Note 14)	11,594	11,042	552
Deferred revenue	2,064	2,064	-
Customer Deposits - Rate Stabilization	<u>6,126</u>	<u>-</u>	<u>6,126</u>
	<u>\$ 22,413</u>	<u>\$ 15,054</u>	<u>\$ 7,359</u>

Starting in 2012, the District began collecting a portion of the water delivery rate that is dedicated to a potential future water shortage. This portion of the rate has been deposited into a separate state treasurer account for rate stabilization and has the corresponding Customer Deposits – Rate Stabilization liability. The Board has set of target of approximately \$30 million dollars for this reserve and will continue to collect it to attain this target (including interest) or until such times the funds are needed to assist customers in reducing the Water Delivery charge.

CENTRAL ARIZONA WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Contingency Reserve

The District's Board of Directors has designated \$10,000,000 of noncurrent unrestricted investments to act as a contingency reserve. Of this amount, \$5,000,000 has been set aside to be available for property and liability damages to respond to any claims, judgments and related costs against the District, its officers, directors and employees, if any, in excess of the outstanding insurance coverage. \$3,000,000 has been designated to be available for incurred but not reported (IBNR) claims under the District's self-funded medical insurance program. \$2,000,000 has been set aside to be available for extraordinary regulatory costs.

Litigation

The District has intervened in an action that challenges the Secretary's authority to reallocate CAP water as called for by the Repayment Settlement and in an action that challenges rules relating to permits for certain water transfers. The District is also participating in certain cases and administrative proceedings that could affect the District's ability to operate the CAP as intended, increase the costs of operating the CAP or reduce District revenues going forward. The outcome of these matters cannot be predicted at this time.

NOTE 12 – PENSION PLANS

Benefits were provided for service prior to July 1, 1998, through the Central Arizona Water Conservation District Retirement Plan (the District Plan) and from July 1, 1998, through December 31, 2012, through the Arizona State Retirement System Plan (ASRS Plan). Employees retired or terminated prior to July 1, 1998, or their beneficiaries, continue to be provided benefits through the District Plan, which was terminated in 2004. Annuities were purchased during 2004 to cover remaining obligations.

Arizona State Retirement System Plan

Effective July 1, 1998, the District became a member of the ASRS, a cost-sharing, multiple-employer, public employee retirement system established by the State of Arizona to provide benefits for employees of the State and participating political subdivisions and school districts. The ASRS Board administers the ASRS Plan, which is a defined benefit pension plan. The ASRS Plan provides for retirement, disability, health insurance premium benefits and death and survivor benefits as established by State statute. Substantially all employees of the District are covered by the ASRS Plan.

The ASRS Plan issues a Comprehensive Annual Financial Report, including financial statements and supplemental information, which may be obtained by writing to Arizona State Retirement System, 3300 North Central Avenue, P.O. Box 33910, Phoenix Arizona 85067-3910 or by calling (602) 240-2000 or 1-800-621-3778.

CENTRAL ARIZONA WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 12 – PENSION PLANS (CONTINUED)

The Arizona Revised Statutes provide statutory authority for determining the employees' and employers' contribution amounts as a percentage of covered payroll. Employers are required to contribute at the same rate as employees (50% employee/50% employer). The employee and employer contribution rates for the ASRS Plan years ended June 30, 2012, June 30, 2011, and June 30, 2010, were set at 10.74%, 9.85%, and 9.40%, respectively, of covered wages as determined by actuarial computations. The contribution rate for plan year ending June 30, 2013, is 11.14%.

Contributions for calendar years 2012, 2011, and 2010, were \$9,216,918, \$8,569,144, and \$7,930,399, respectively, for the District, and 100% of the contributions were assessed by ASRS.

NOTE 13 – SAVINGS AND DEFERRED COMPENSATION PLANS

The District has adopted and maintains the Central Arizona Water Conservation District Savings Plan (Savings Plan), a defined contribution plan, in accordance with Section 401(k) of the Internal Revenue Code. The Savings Plan provides that all active, nonunion employees are eligible to participate as of their date of employment. The Savings Plan is governed by the Board of Trustees.

Eligible employees are allowed to contribute up to 98% of their biweekly compensation, subject to IRS limits, and the District has agreed to contribute to an employee's account an amount equal to one-half of the amount contributed by the employee up to three percent of the employee's biweekly compensation. Contributions expense, paid by the District for the Savings Plan for the years ended December 31, 2012 and 2011, was approximately \$943,000 and \$943,000, respectively. Accrued benefits attributable to the District's contributions on behalf of participants vest 20% for each year of completed service.

During 2003, the District adopted and currently maintains the Central Arizona Water Conservation District Deferred Compensation Plan in accordance with Section 457 of the Internal Revenue Code. The District does not make contributions to this plan. Only employee contributions are accepted.

NOTE 14 – ASSET RETIREMENT OBLIGATION

On January 1, 2003, the District adopted accounting requirements for the recognition and measurement of liabilities associated with the retirement of tangible long-lived assets. The liabilities are recognized at fair value as incurred and capitalized as part of the related tangible long-lived assets. Accretion of the liability 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.

CENTRAL ARIZONA WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 14 – ASSET RETIREMENT OBLIGATION (CONTINUED)

The District has an asset retirement obligation for NGS, of which the District's share is 24.3%. The asset retirement obligation primarily relates to final plant decommissioning. This obligation is based on the requirements for removing portions of the plant at the end of the lease term. The estimated liability for the District's portion of the decommissioning in 2044 is approximately \$53,736,000.

The following schedule shows the change in the District's asset retirement obligations, included in other noncurrent liabilities (Note 10), during the years ended December 31, 2012 and 2011:

	2012	2011
	<i>(In Thousands)</i>	
Balance at January 1	\$ 11,042	\$ 10,516
Accretion expense	<u>552</u>	<u>526</u>
Balance at December 31	<u>\$ 11,594</u>	<u>\$ 11,042</u>

NOTE 15 – TAX LEVY AUTHORITY

The District has the authority to levy two limited ad valorem taxes against all taxable property within its boundaries. The first ad valorem tax, which may not exceed 10 cents per \$100 of assessed valuation, is for the District's operations and payment of the District's repayment obligation to the United States. The second ad valorem tax, which may not exceed 4 cents per \$100 of assessed valuation, is for water storage to the extent that it is not required for the District's operations or payment of the repayment obligation. The ad valorem tax for operations and repayment was levied at 6 cents per \$100 of assessed valuation for 2010, 2011 and 2012. The ad valorem tax for water storage was levied at 4 cents per \$100 of assessed valuation for the tax years ending 2010, 2011, and 2012. The ad valorem tax for water storage is deposited with the District to be used by the District to defray annual operation, maintenance and replacement cost. The respective counties collect property taxes on behalf of the District.

Tax Year	Period Collected
2010	October 1, 2010 to September 30, 2011
2011	October 1, 2011 to September 30, 2012
2012	October 1, 2012 to September 30, 2013

The ad valorem property tax is levied against all taxable property in the District. In each county within the District, the County Assessor establishes a full cash value for each parcel of taxable property. Based on the applicable property classification ratio, the assessed value of each parcel is determined.

CENTRAL ARIZONA WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 15 – TAX LEVY AUTHORITY (CONTINUED)

The property taxes due to the District are billed, along with State, County and other property taxes, in September of each year and are payable in two installments, October and March. The delinquent tax dates are November 1 and May 1 and delinquent taxes are subject to a penalty of 16% per annum unless the full year tax is paid by December 31. At the close of the tax collection period, the County Treasurer prepares a delinquent property tax list and the property so listed is advertised for sale in February of the succeeding year. In the event that there is no purchaser for the property at the tax sale, the title to such property is vested in the State, and the property is reoffered for sale from time to time until such time as it is sold, subject to redemption, for an amount sufficient to cover all delinquent and current taxes.

Additional information concerning the full cash value and assessed value of property within the District's service area, tax levies and tax collections appears in the Other District Information section.

NOTE 16 – RISK MANAGEMENT AND CAPTIVE INSURANCE

The District maintains a risk management program to protect it from financial harm by identifying, analyzing and controlling risk at the lowest possible cost. Under this program, the District believes it is more economical to manage risks internally and insure for catastrophic loss. The District's Board of Directors has designated \$5,000,000 of noncurrent unrestricted investments as a reserve for property and liability damages. With the exception of automobile physical damage, which is self-insured, the District insures itself through the CAWCD Insurance Company, Inc. (Captive).

The Captive was incorporated under the laws of the State of Hawaii as a nonprofit captive insurance company pursuant to Article 19 of Chapter 431 of the Hawaii Revised Statutes. The Captive received its Certificate of Authority from the Hawaii Insurance Division on December 18, 2003, and operations commenced on January 1, 2004. The Certificate of Authority enables the Captive to operate as a captive insurance company in the State of Hawaii. The District is the sole member of the Captive. The Captive provides the first \$2,000,000 of coverage on all lines of coverage. The District also purchases reinsurance on property, public officials' liability and workers' compensation, as authorized by the Industrial Commission of Arizona, over the \$2,000,000 covered by the Captive.

Reserve for Losses and Loss Expenses

The reserve for losses and loss expenses includes the unpaid accumulation of case estimates for losses reported, estimates for losses incurred but not reported and estimates of expenses for investigating and adjusting incurred losses. The reserve for unpaid losses and loss expenses is based upon the aggregated loss experience of the District and is estimated using individual case-basis valuations and statistical analysis. These estimates are subject to the effects of trends in loss severity and frequency. However, management believes the reserve for losses and loss expenses is adequate. The estimates are continually reviewed and adjusted, as necessary, as experience develops or new information becomes known; such adjustments are included in current operations.

CENTRAL ARIZONA WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 16 – RISK MANAGEMENT AND CAPTIVE INSURANCE (CONTINUED)

Reserve for Losses and Loss Expenses (Continued)

The following table provides a reconciliation of the beginning and ending balances of the reserve for losses and loss expenses (included in accounts payable) at December 31:

	<u>2012</u>	<u>2011</u>
	<i>(In Thousands)</i>	
Balance at January 1	\$ 1,563	\$ 1,399
Add provision for losses and loss expenses for claims occurring during:		
Current year	6,828	635
Prior year	<u>(456)</u>	<u>(310)</u>
	<u>6,372</u>	<u>325</u>
Deduct losses and loss expense payments for claims occurring during:		
Current year	5,295	60
Prior year	<u>222</u>	<u>101</u>
	<u>5,517</u>	<u>161</u>
Balance at December 31	<u>\$ 2,418</u>	<u>\$ 1,563</u>

Starting January 1, 2012 the Captive started covering the District's health insurance plan. The \$6 million increase in activity is related to the addition of this coverage.

NOTE 17 – MULTI-SPECIES CONSERVATION PROGRAM

On March 3, 2005, the District's Board of Directors adopted a resolution authorizing participation in the Lower Colorado River Multi-Species Conservation Program (LCR MSCP) and approving related documents.

The LCR MSCP is a comprehensive program for the protection of 26 covered species and their habitat in the Lower Colorado River Basin, including six endangered and threatened species. The purpose of the LCR MSCP is to comply with the Endangered Species Act (Act) and thereby protect existing and future activities associated with water use and power production.

The LCR MSCP is intended to satisfy the requirements of Section 7 of the Act for the federal agencies involved and the requirements for issuance of a Section 10 permit to the non-federal participants for the non-federal activities covered by the program.

CENTRAL ARIZONA WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 17 – MULTI-SPECIES CONSERVATION PROGRAM (CONTINUED)

The covered Arizona activities include on-going diversions of Colorado River water by users such as the CAP, future diversions, including transfers of Colorado River entitlements and changes in the points of diversion of up to 200,000 acre-feet per year, and on-going and future use of hydropower from Hoover, Parker and Davis Dams. The Section 10 permit issued to Arizona participants, including the District, authorizes the "incidental taking" of covered species during the course of carrying out covered activities.

The total costs of the program are approximately \$626,000,000, in 2003 dollars, over the 50-year period of the program and the permit (adjusted for inflation over the fifty years this amount is estimated to be \$1,270,948,000). The federal government will bear 50% of this cost. The Lower Basin States of Arizona, California and Nevada will bear the other 50%. Of the share allocated to the States, Arizona will bear 25%, or approximately \$78 million. The payments due each fiscal year will be indexed for inflation on an annual basis. The District's cost associated with the program was \$1,419,000 and \$484,000 in 2012 and 2011, respectively.

The Arizona participants in the program include 26 entities that are agencies that have been actively involved in developing the program since its inception or are water or power users that want the protection of the Section 10 permit. The documents include: an Implementing Agreement among state and federal participants; a Funding and Management Agreement among state and federal participants; a Trust Indenture and Joint Payment Agreement from Arizona participants to a trustee; and a Permit issued by the United States Fish and Wildlife Service.

The Implementing Agreement essentially defines the relationship of the parties to the Fish and Wildlife Service with respect to the LCR MSCP. The Funding and Management Agreement defines the obligations of the state parties and Reclamation with respect to payment of LCR MSCP costs. The Trust Indenture and Joint Payment Agreement from Arizona participants to a trustee defines the relationship of the Arizona parties with respect to payment of Arizona's share of LCR MSCP costs. The Permit issued by the United States Fish and Wildlife Service is the document that gives the state parties the right to "take" species during the course of carrying out otherwise lawful activities such as water diversion and power use.

The Funding and Management Agreement allows Arizona to pay less than 25% of the States' costs during the first ten years, in return for agreeing to make up the difference between what it pays in the early years and 25% over the next 20 years, with an inflation adjustment at the agreed rate. The District has agreed to underwrite payment of Arizona's share of LCR MSCP costs. The District may elect to pay the full 25% at any time.

CENTRAL ARIZONA WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 17 – MULTI-SPECIES CONSERVATION PROGRAM (CONTINUED)

Under the Trust Indenture and Joint Payment Agreement, water and power users named in the Permit are required to share in paying Arizona's share of MSCP costs. Pre-1968 and post-1968 water users (including the District) will pay 25 cents per acre-foot of consumptive use of Colorado River water during the first ten years of the program; pre-1968 water users will pay 50 cents per acre-foot thereafter and post-1968 water users (including the District) will pay \$1.00 per acre-foot thereafter. These amounts are in 2003 dollars, and are to be escalated by a specified inflation index. Power users in Arizona will pay 12.5% of Arizona's costs. The District will have the obligation under the Trust Indenture and Joint Payment Agreement to pay any portion of the Arizona obligation that is not covered by the payments made by other Arizona participants. No party will have any right to enforce the obligation to pay other than through requesting that the Fish and Wildlife Service suspend or revoke the Permit as to any party that fails to pay its share.

NOTE 18 – POSTEMPLOYMENT HEALTHCARE PLAN

Plan Description

Upon retirement, retirees have the choice of joining the ASRS retiree healthcare plan or the District's plan. The ASRS Plan issues a Comprehensive Annual Financial Report, including financial statements and supplemental information, which may be obtained by writing to Arizona State Retirement System, 3300 North Central Avenue, P.O. Box 33910, Phoenix Arizona 85067-3910 or by calling (602) 240-2000 or 1-800-621-3778. The District's self insured employee and retiree health plan is a single-employer defined benefit plan. Eligible retirees are provided medical, dental and life insurance benefits for spouses and family.

The retirees receive a subsidy for health insurance premium benefit from Arizona State Retirement System for up to a maximum of \$215 per month. The \$215 may be prorated on a combination of years of service, dependents and medicare.

CENTRAL ARIZONA WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 18 – POSTEMPLOYMENT HEALTHCARE PLAN (CONTINUED)

Funding Policy

The District's plan is financed on a pay-as-you-go basis. During 2012, plan members contributed \$261,328 of the annual required contribution of \$986,017 or 26.50%.

Retirees Contribution Rates for 2012

Retirees Monthly Medical Rates (prior to ASRS subsidy)

Pre Age 65	
Retiree Only	\$551.43
Retiree + 1	\$1,345.47
Retiree + Family	\$1,808.62
Post Age 65	
Retiree Only	\$413.57
Retiree + 1	\$1,009.09
Retiree + Family	\$1,472.27

Retirees Monthly Dental Rates

Retiree Only	\$32.86
Retiree + 1	\$92.24
Retiree + Family	\$152.29

Retirees Monthly Life Insurance Rates

Retiree Only	\$4.10
Retiree + 1	\$6.15

Required Supplementary Information
Schedule of Employer Contributions

Plan Year Beginning	Annual Required Contributions	Actual Contributions	Percentage Contributed
January 1, 2010	\$932,392	\$304,145	32.62%
January 1, 2011	\$1,070,385	\$73,967	6.91%
January 1, 2012	\$986,017	\$261,328	26.50%

The total cost of providing postemployment benefits is projected. This amount is then discounted to determine the actuarial present value of the projected cost of these benefits (APB). The actuarial accrued liability (AAL) is the portion of the present value of the total projected benefits allocated to years of employment prior to the measurement date. The unfunded actuarial accrued liability (UAAL) is the difference between the AAL and actuarial value of assets in the plan.

Required Supplementary Information
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Underfunded/ (Overfunded) AAL (UAAL) (b) - (a)	Funded Ratio (a) ÷ (b)
January 1, 2010	\$0	\$8,407,419	\$8,407,419	0%
January 1, 2011	\$0	\$9,649,543	\$9,649,543	0%
January 1, 2012	\$0	\$8,802,956	\$8,802,956	0%

CENTRAL ARIZONA WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 18 – POSTEMPLOYMENT HEALTHCARE PLAN (CONTINUED)

Funding Policy (Continued)

The District's annual other postemployment benefit (OPEB) expense is calculated based on the annual required contribution of the District (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the District's OPEB obligation.

Required Supplementary Information
Net OPEB Obligation (NOO)

Fiscal Year	Annual Required Contribution (a)	Interest on Existing NOO (b)	ARC Adjustment (c)	Annual OPEB Cost (a) + (b) + (c) (d)	Actual Contribution Amount (e)	Net Increase (Decrease) in NOO (d) – (e) (f)	NOO as of End of Year (g)
Beginning							
January 1, 2010	\$932,392	\$15,356	\$(22,085)	\$925,663	\$304,145	\$621,518	\$962,764
January 1, 2011	\$1,070,385	\$43,324	\$(63,562)	\$1,050,147	\$73,967	\$976,180	\$1,938,944
January 1, 2012	\$986,017	\$87,252	\$(130,761)	\$942,508	\$261,328	\$681,180	\$2,620,124

As stated above, the plan members contributed \$261,328 of the annual required contribution of \$986,017 or 26.50% for the plan year ended 2012.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Calculations and projections are based on the benefits provided under the terms of the substantive plan (the plan understood by the District and the plan members) in effect at the time of valuation on the pattern of sharing costs between the District and plan members. The projection of benefits does not incorporate the potential effect of legal or contractual funding limitations on the pattern of cost sharing between the District and plan members in the future.

Actuarial calculations reflect a long-term perspective, and the methods and assumptions use techniques designed to reduce short term volatility in accrued liabilities and the actuarial value of assets.

The calculation of an accounting obligation does not, in and of itself, imply that there is any legal liability to provide the benefits valued, nor is there any implication that the District is required to implement a funding policy to satisfy the projected expense.

CENTRAL ARIZONA WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 18 – POSTEMPLOYMENT HEALTHCARE PLAN (CONTINUED)

Required Supplementary Information

Valuation date	January 1, 2012		
Actuarial cost method	Entry age normal, level annual dollar amount		
Amortization method	30-year closed amortization, with initial payment determined as if future payments would theoretically remain on a level dollar basis		
Remaining amortization period	25 years as of January 1, 2012		
Asset valuation method	N/A		
Post-retirement increases Actuarial assumptions:			
Investment rate of return	4.50%		
Discount rate	4.50%		
Projected payroll increases	N/A		
Health care cost trend rate:			
Medical and Drug	8.5% from January 1, 2012 to December 31, 2012, decreasing over seven years until it reaches an ultimate rate of 5%		
Inflation rate	N/A		
Plan membership:	January 1, 2012	January 1, 2011	January 1, 2010
Current retirees and dependents	78	73	71
Current active members	<u>449</u>	<u>457</u>	<u>454</u>
Total	<u><u>527</u></u>	<u><u>530</u></u>	<u><u>525</u></u>

NOTE 19 – SELF INSURANCE

The District is self-insured for medical, dental, vision, property, casualty & workers compensation. Medical coverage was transferred from District to CAWCD Insurance Company (Captive) January 1, 2012. Medical services obtained prior to January 1, 2012 will be paid by District and all outstanding claims are expected to be settled within one year.

In addition, the District was authorized to self-insure Workers' Compensation by the Industrial Commission of Arizona effective January 1, 2011. A trust account was established with a beginning balance of \$350,000 and additional contribution of \$350,000 January 1, 2012. Cumulative paid for Workers' Compensation claims expenses and incurred but not reported reserves (IBNR) totaled \$110,732 under self-insured program. Direct costs associated with Workers' Compensation was \$190,290. Interest earned on the account balance was \$580 leaving an unencumbered ending balance of \$435,018.

CENTRAL ARIZONA WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 19 – SELF INSURANCE (CONTINUED)

Self-Insured paid claims:	2012	2011
Medical, Dental, Vision (MDV)	\$ 6,322,163	\$ 5,308,600
IBNR-MDV	1,290,900	1,107,000
Property Casualty (PC)	43,658	4,544
IBNR - PC	282,000	274,400
Workers Compensation (WC)	22,432	42,200
IBNR – WC (2004 thru 2012)	910,000	1,166,000

NOTE 20 – SUBSEQUENT EVENT

Effective January 1, 2012, the District's self insured health and dental plan is through the Captive and consequently there is no longer stop loss coverage.

Management evaluated subsequent events through April 18, 2013, the date the financial statements were available to be issued.

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SUMMARY OF CERTAIN PROVISIONS OF THE POWER SALES CONTRACTS

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SUMMARY OF CERTAIN PROVISIONS OF THE POWER SALES CONTRACTS

The following is a summary of certain provisions of the Power Sales Contract and is not to be considered as a full statement of the provisions thereof. This summary is qualified by reference to and is subject to the complete Power Sales Contract. The Power Sales Contracts between the Authority and each of the Contractors are the same in all material respects.

The Power Sales Contracts will terminate on September 30, 2017, which is prior to the final maturity of the 2014 Series Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS-Power Sales Contracts” and “INVESTMENT CONSIDERATIONS RELATING TO THE POWER SALES CONTRACTS.”

Definitions

Unless the context clearly requires otherwise, all terms used herein shall have the meanings as hereinafter set forth.

“Annual Budget: means, with respect to a Contract Year, the budget of the Authority prepared by the Authority in accordance with the Power Sales Contract for such Contract Year or, in the case of an amended Annual Budget, for the remainder of such Contract Year.

“Average Monthly Hoover Capacity Entitlement” means the aggregate sum of the Hoover Capacity portion of the Contractor’s Entitlement, as adjusted for transmission losses to the Contractor’s Point of Delivery, for each month of the then current Contract Year as estimated by the Authority at the start of such Contract Year and irrespective of the Hoover Capacity actually made available or delivered to the Contractor for such Contract Year, divided by the number of months in such Contract Year.

“Bond Counsel” means an attorney or firm of attorneys of recognized standing in the field of law relating to municipal bonds.

“Bond Resolution” means the Bond Resolution adopted by the Authority on December 6, 1985 providing for the issuance of the Bonds, and all amendments and supplements thereto adopted in accordance with the provisions thereof.

“Bonds” means the Bonds from time to time issued by the Authority pursuant to the Bond Resolution to pay any part of the Cost of the Project, whether or not any issue of such Bonds shall be subordinated as to payment to any other issue of Bonds, and shall include additional Bonds and refunding Bonds issued in accordance with the Power Sales Contract.

“Boulder Canyon Project Agreement” means the Agreement between the Authority and Western, authorized by the 1984 Hoover Act, pursuant to which the Authority purchases, among other things, Hoover Power, as the same may be amended or supplemented.

“Bureau” means the Bureau of Reclamation of the Department of the Interior of the United States of America and the successors and assigns to its duties and functions.

“CAWCD” means the Central Arizona Water Conservation District.

“Capacity” means kilowatts (kW) or megawatts (MW), as the case may be.

“Contract Year” means (i) with respect to the first Contract Year, the period from June 1, 1987 to September 3, 1987 and (ii) with respect to each subsequent Contract Year, the period from October 1 of any year through September 30 of the subsequent year or such other period that the Authority designates as a Contract Year.

“Contractor” means the entity defined as the Contractor in the introductory paragraph of the Power Sales Contract and the successors and assigns to its duties and functions.

“Contractor’s Entitlement” means the Hoover Capacity and Hoover Energy which the Contractor is entitled to receive for the then current Contract Year, without any adjustments for transmission losses, as such amounts of Capacity and Energy may be revised from time to time in accordance with the Power Sales Contract.

“Contractors” means the parties, other than the Authority, to the Power Sales Contracts.

“Cost of the Project” means all costs of acquiring and financing the Project which shall include, but shall not be limited to, funds for:

- (1) all costs required to be paid by the Authority pursuant to the Uprating Agreement and all costs of the Authority necessary to effectuate the Prepayment Program;
- (2) the costs incurred by the Authority during the period of construction of the Uprating Program in prepaying for the rights of transmission Capacity which is required to deliver Hoover Power;
- (3) interest accruing in whole or in part on Bonds prior to and during construction of the Uprating Program and for such additional period as the Authority may reasonably determine to be necessary;
- (4) allowance for working capital requirements of the Project in such amounts as shall be deemed reasonably necessary by the Authority;
- (5) the deposit or deposits required to be made under the Bond Resolution from the proceeds of Bonds into any fund or account established pursuant to the Bond Resolution to meet Debt Service reserve requirements for Bonds;
- (6) the deposit or deposits required to be made under the Bond Resolution from the proceeds of Bonds into any fund or account established pursuant to the Bond Resolution as a reserve for monthly power purchase payments or as a general or other reserve or into any account established pursuant to the Bond Resolution for working capital;
- (7) the costs and expenses, including discounts to the underwriters or other purchasers thereof, if any, incurred in the issuance and sale of the bonds, notes or other evidences of indebtedness from time to time issued, the proceeds of which have been or will be required to be applied to one or more purposes for which Bonds could be issued;
- (8) costs of letters of credit, lines of credit, insurance and any other means of providing credit enhancement or credit support in connection with the issuance, sale and marketing of the Bonds;
- (9) costs incurred in connection with interest rate exchanges, futures contracts or other similar financing arrangements; and
- (10) the payment of principal, premium, if any, and interest when due (whether at the maturity of principal or at the due date of interest or upon redemption or upon purchase) on any notes or other evidences of indebtedness from time to time issued in anticipation of the issuance of Bonds, the proceeds of which have been or will be required to be applied to one or more purposes for which Bonds could be issued.

There shall be applied, as a credit against Cost of the Project, interest earned on investments if and to the extent held or paid into the Construction Fund as required by the Bond Resolution.

“Debt Service” means, with respect to any period, the aggregate of the amounts required by the Bond Resolution to be paid or deposited during said period into any fund or account created by the Bond Resolution for the sole purpose of paying the principal (including sinking fund installments) of, premium, if any, and interest on all Bonds from time to time outstanding as the same shall become due (whether at the maturity of principal or at the due date of interest or upon redemption or purchase); provided, however, that Debt Service shall not include any amount payable as principal or interest solely by reason of the acceleration of the maturity of the Bonds.

“Demand Charge” means the Demand Charge determined pursuant to, and set forth in, the Power Sales Contract.

“Demand Related Revenue Requirements” means all Revenue Requirements determined by the Authority to be Demand Related Revenue Requirements pursuant to the Power Sales Contract.

“Energy” means kilowatt hours (kWh) or gigawatt hours (GWh), as the case may be.

“Energy Charge” means the Energy Charge determined pursuant to, and set forth in, the Power Sales Contract.

“Energy Related Revenue Requirements” means all Revenue Requirements determined by the Authority to be Energy Related Revenue Requirements pursuant to the Power Sales Contract.

“Hoover A Capacity” means the Capacity portion of Hoover A Power.

“Hoover A Energy” means the Energy portion of Hoover A Energy.

“Hoover A Power” means the Capacity and associated Energy offered to the Authority pursuant to Section 105(a)(1)(A) of the 1984 Hoover Act and purchased by the Authority pursuant to the Boulder Canyon Project Agreement.

“Hoover B Capacity” means the Capacity portion of Hoover B Power.

“Hoover B Energy” means the Energy portion of Hoover B Power.

“Hoover B Power” means the Capacity and associated Energy offered to the Authority pursuant to Section 105(a)(1)(B) of the 1984 Hoover Act and purchased by the Authority pursuant to the Boulder Canyon Project Agreement.

“Hoover C Energy” means the Energy offered to the Authority pursuant to Section 105(a)(1)(C) of the 1984 Hoover Act and purchased by the Authority pursuant to the Boulder Canyon Project Agreement.

“Hoover Capacity” means Hoover A Capacity and Hoover B Capacity.

“Hoover Energy” means Hoover A Energy and Hoover B Energy.

“Hoover Power” means Hoover A Power and Hoover B Power.

“Point of Delivery” means any point or points of delivery on the Parker-Davis Transmission System of the United States of America or the Pinnacle Peak or Liberty Substations points of delivery on the Pacific Northwest-Pacific Southwest Intertie System of the United States of America at which the Authority shall determine to deliver Capacity and Energy to the Contractor, as such point or points of delivery may be amended from time to time by written consent of the Authority and the Contractor.

“Power Sales Contract” means the Contract between the Authority, and each of the Contractors, relating to Hoover Power, as the same may be amended from time to time.

“Prepayment Program” means the funding of the Authority’s prepayment of its proportionate share of the costs incurred by the Bureau of Reclamation of the United States of America for the Hoover Visitors Center at the Hoover Dam and the construction of the Air Slots at Hoover Dam as authorized by State of Arizona legislation HB 244 of the 51st Legislature, First Regular Session.

“Project” means (i) the Authority’s right to the Capacity and Energy from the Upgrading Program to be financed as a prepayment for Capacity and Energy pursuant to the Upgrading Agreement, and (ii) the Prepayment Program.

“Revenue Requirements” shall mean all costs and claims paid or incurred or to be paid or incurred by the Authority in connection with the Project and the acquisition, delivery and transmission of Hoover Power including, without limitation, the following items of cost:

- (1) payments of Debt Service and payments which the Authority is required to make into the Debt Service Account in the Debt Service Fund or the Subordinated Indebtedness Fund under the terms of the Bond Resolution to pay Debt Service;
- (2) amounts required under the Bond Resolution to be paid or deposited into any fund or account established by the Bond Resolution (other than the Debt Service Account or the Subordinated Indebtedness Fund referred to in clause (1) above), including, but not limited to any amounts required to be paid or deposited by reason of the transfer of moneys from the Debt Service Reserve Account in the Debt Service Fund to the Debt Service Account in the Debt Service Fund;
- (3) additional amounts which must be realized by the Authority in order to meet the requirement of any rate covenant with respect to coverage of Debt Service on Bonds contained in the Bond Resolution or which the Authority deems advisable in the marketing of its Bonds;
- (4) amounts which the Authority is required to pay pursuant to the Boulder Canyon Project Agreement and the Wheeling Agreement, including, without limitation, and to the extent the same is required to be a Revenue Requirement, the cost of Hoover C Energy to the extent such cost is not otherwise recovered by the Authority from the sale of Hoover C Energy;
- (5) working capital requirements and operating reserves required by the Authority in connection with the Boulder Canyon Project Agreement and the Wheeling Agreement;
- (6) operating expenses and costs of the Authority (including administrative and general expenses and taxes or payments in lieu thereof) relating to the Project and the acquisition, delivery and transmission of Hoover Power not included in the costs specified in the other items of this definition;
- (7) the cost of transmission service for delivery of Hoover Power to the extent not included clause (4) above;
- (8) costs of letters of credit, lines of credit, insurance and any other means of providing credit enhancement or credit support in connection with the issuance, sale and marketing of the Bonds;
- (9) costs incurred in connection with interest rate exchanges, futures contracts or other similar financing arrangements; and
- (10) an amount, if needed, not to exceed 0.50 mills for each kilowatt-hour of Hoover Energy sold under the Power Sales Contract, to be utilized by the Authority for power development activities, provided, however, if any such activities are developed into revenue producing power arrangements, then the cost of developing such revenue producing power arrangements and other

costs allocable thereto, if any, shall be credited against Revenue Requirements in such amounts and in such Contract Years as shall be determined by the Authority.

Interest earned on amounts on deposit under the Bond Resolution which is allocable to the Project shall be credited against Revenue Requirements to the extent permitted by the Bond Resolution. Amounts, if any, derived by the Authority from the sale of Hoover C Energy, over its costs thereof, shall be credited against Revenue Requirements.

“Uprating Agreement” means the contract between the Authority and the Bureau pursuant to which the Authority has agreed to advance funds for the Project, as the same may be amended or supplemented.

“Uprating Program” means the program authorized by Section 101(a) of the 1984 Hoover Act for increasing the generating capacity of the original Hoover Powerplant.

“Wheeling Agreement” means each and all of the transmission agreements entered into by the Authority for the transmission of Hoover Power to the Point of Delivery, as the same may be amended and supplemented and any substitution therefor.

Term

The Power Sales Contract shall remain in effect until September 30, 2017 unless terminated in accordance with the provisions thereof; provided, however, as required by Arizona law, the Authority shall have the right to terminate sales of Hoover A Power on and after June 1, 2007 upon five years’ written notice to the Contractor.

Sale and Purchase of Hoover Capacity and Hoover Energy

The Authority agrees to sell and deliver to the Contractor pursuant to the Act and the Power Sales Contract, commencing June 1, 1987 and extending through the term of the Power Sales Contract, Hoover Power at the Point of Delivery in an amount up to the Contractor’s Entitlement.

The Contractor agrees to take and pay to the Authority for any Hoover Power which is delivered or which is made available for delivery to the Contractor at its Point of Delivery in each monthly billing period, at the rates and charges set forth in the Power Sales Contract, and in accordance with and subject to the provisions of, the Power Sales Contract.

Hoover Capacity Available to the Contractor

The Capacity portion of the Contractor’s Entitlement is based upon the allocation of Hoover Capacity to the Contractor set forth in the Power Sales Contract and will be adjusted for transmission losses calculated in accordance with the Wheeling Agreement.

If the amount of Hoover B Capacity which results from the Uprating Program is less than the total amount of Hoover B Capacity initially allocated to the Contractors of Hoover B Capacity as set forth in the Authority’s June 7, 1985 allocation of Hoover Power to all Contractors, which is set forth in Annex 1 to the Power Sales Contract, the total amount of Hoover B Capacity initially allocated to the Contractors of Hoover B Capacity shall be reduced in proportion to the allocations of Hoover B Capacity to all Contractors of Hoover B Capacity as set forth in the Authority’s June 7, 1985 allocation of Hoover Power to all the Contractors.

As provided in the Boulder Canyon Project Agreement, increases in Hoover A Capacity and Hoover B Capacity to be made available to the Authority may occur, among other reasons, as a result of the Uprating Program or river operations. In addition, reductions in Hoover A Capacity and Hoover B Capacity respectively, to be made available to the Authority pursuant to the Boulder Canyon Project Agreement, other than those described in the preceding paragraph with, respect to Hoover B Capacity, may occur, among other reasons, as a result of forced, scheduled or maintenance outages, river operations or reservoir drawdowns, or as a result of

testing of the generators by order of the Secretary of the Interior. Any such increase or reduction in Hoover A Capacity will be prorated among the Contractors of Hoover A Capacity in proportion to the allocation of Hoover A Capacity as set forth in the Authority's June 7, 1985 allocation of Hoover Power to all the Contractors, which is annexed to the Power Sales Contract, and any such increase or reduction in Hoover B Capacity will be prorated among the Contractors of Hoover B Capacity in the same manner.

Monthly Entitlement of Hoover Energy and Scheduling

The Hoover Energy portion of Contractor's Entitlement is based upon the allocation of Hoover Energy to the Contractor as set forth in the Power Sales Contract and will be adjusted for transmission losses calculated in accordance with the Wheeling Agreement. Delivery in any monthly billing period shall not exceed Contractor's Entitlement of Hoover Energy from the Authority for such month. Any reduction or increase in Hoover A Energy will be prorated among the Contractors of Hoover A Energy in proportion to the allocation of Hoover A Energy as set forth in the Authority's June 7, 1985 allocation of Hoover Power to all the Contractors, which is annexed to the Power Sales Contract, and any reduction or increase in Hoover B Energy will be prorated among the Contractors of Hoover B Energy in the same manner.

The Contractor may at any time during a Contract Year request that the Authority revise the amount of Hoover Energy the Contractor is scheduled to receive during any month or months of such Contract Year; provided that no such scheduling revision shall decrease the amount of Hoover Energy any other Contractor is scheduled to receive without the consent of such Contractor. The Authority shall have the right to accept or deny such requests in its sole discretion.

Transmission of Hoover Power

The Authority will transmit or cause to be transmitted the Hoover Power sold under the Power Sales Contract and deliver or cause to be delivered to the Contractor or to Contractor's Hoover Power transmission agent, at the Point of Delivery in accordance with the applicable provisions of the Wheeling Agreement; provided, that the Authority shall have the right to interchange Capacity and Energy otherwise available to the Authority with Hoover Power, insofar as such interchange can be effected without interfering with the delivery of Hoover Power under the Power Sales Contract or increasing the charges to the Contractor under the Power Sales Contract.

The Authority will offer, pursuant to a written agreement or agreements between the Contractor and the Authority, to purchase Energy to firm Contractor's Entitlement and under such agreement or agreements the Authority will agree to transmit or cause to be transmitted without charge, so long as such transmission does not result in any increased cost to the Authority or to any other Contractor, any Energy purchased by the Contractor from the Authority or any Energy provided by the Contractor and scheduled by the Authority to firm Contractor's Entitlement and deliver or cause the same to be delivered, as adjusted for transmission losses, to the Contractor or to its Hoover Power transmission agent, at the Point of Delivery in accordance with applicable provisions of the Wheeling Agreement.

Annual Budget and Determination of Demand Charge and Energy Charge

The Authority shall prepare an Annual Budget for each Contract Year. The Annual Budget shall itemize for such Contract Year the Authority's estimates of all Revenue Requirements and all revenues and other funds available to the Authority for the payment of such Revenue Requirements as well as the estimated amount of Hoover Power which formed the bases of such estimate of revenues. In preparing the Annual Budget, the Authority, to the extent it incurs costs or expenses that relate to non-Hoover Power functions to be payable from Revenue Requirements, shall delineate such costs and expenses. After consideration of any comments of the Contractors, the Authority, not less than 30 days prior to the beginning of such Contract Year, shall adopt an Annual Budget for said Contract Year and shall cause copies of such Annual Budget to be delivered to each Contractor.

The Authority shall establish and maintain rates under the Power Sales Contracts which will provide revenues which are sufficient to meet the estimated Revenue Requirements of the Authority. The demand charges and the energy charges paid by the Authority to Western for Hoover Power under the Boulder Canyon

Project Agreement shall be assigned to the Demand Related Revenue Requirements and Energy Related Revenue Requirements, respectively. The balance of the Authority's Revenue Requirements shall be assigned to Demand Related Revenue Requirements and Energy Related Revenue Requirements in the same percentage proportion that Western assigns costs to demand and energy charges in the Boulder Canyon Project Agreement. The Authority shall determine the Demand Charge for each monthly billing period by dividing the estimated Demand Related Revenue Requirements by the product of the number of months in such Contract Year times total aggregate sum of the Average Monthly Hoover Capacity Entitlement of all the Contractors. The Authority shall determine the Energy Charge by dividing the estimated Energy Related Revenue Requirements by the total aggregate amount of Hoover Energy estimated by the Authority to be scheduled to be delivered, after adjusting for transmission losses, to all Contractors during such Contract Year.

If, at any time after the adoption of the Annual Budget, the Authority estimates that the Revenue Requirements or revenues to be furnished for the Contract Year or any part thereof for which such Annual Budget applies will be greater or less than the Revenue Requirements or revenues set forth in the Annual Budget, then the Authority may prepare an amended Annual Budget and revise the Demand Charge and Energy Charge in accordance with such amended Annual Budget.

The Contractor shall pay the Authority for Hoover Power at the rates and charges set forth in the Power Sales Contract, as the same may be revised from Contract Year to Contract Year and from time to time within a Contract Year in accordance with the provisions of the Power Sales Contract as a result of an amendment to the Annual Budget. The Contractor shall pay for Hoover Power in each month the sum of (i) the product of the Demand Charge multiplied by the Contractor's Average Monthly Hoover Capacity Entitlement, and (ii) the product of the Energy Charge multiplied by the total aggregate amount of Hoover Energy delivered or made available for delivery at Contractor's Point of Delivery during such month. Hoover Energy actually scheduled for delivery to the Contractor and dispatched shall be deemed delivered.

Payments by the Contractor to the Authority are due and payable the later of the 15th day after the date of the statement of charges or 15 days after the statement is mailed as indicated by the postmark thereon. If payment in full is not actually received by the Authority on or before the close of business on the due date of such payment, the Authority shall charge the Contractor an initial late payment charge equal to 2% of the unpaid amount. Each day after the due date, a charge of 0.05% of the principal sum unpaid shall be added until the amount due, including the 2% initial late payment charge, is paid in full. Payments received will first be applied to the charges for late payment assessed on the principal and then to payment of the principal. Remittances received by mail will be accepted without assessment of such charges if the postmark indicates that the payment was mailed on or before the due date of such payment as provided in the Power Sales Contract.

In the event of any dispute as to any portion of any monthly statement, the Contractor shall nevertheless pay the full amount of the disputed charges when due and shall give written notice of the dispute to the Authority by the date such payment is due or within ten days after the Contractor first obtains knowledge of the principal fact on which the dispute is based, whichever is later. Such notice shall identify the disputed bill, state the amount in dispute and set forth a full statement of the grounds on which such dispute is based. No adjustment shall be considered or made for disputed charges unless notice is given as aforesaid. The Authority shall give consideration to such dispute and shall advise the Contractor in writing with regard to its position relative thereto within 30 days following receipt of such written notice. Upon final determination (whether by agreement, arbitration, adjudication or otherwise) of the correct amount, any difference between such correct amount and such full amount, including interest on any overpayment at the average rate of interest borne by amounts of the Authority on deposit in the Debt Service Account in the Debt Service Fund created under the Bond Resolution during the period of the overpayment, shall be properly reflected in the statement next submitted to the Contractor after such determination.

Credits required to be made against Revenue Requirements pursuant to the provisions of the Power Sales Contract or as provided in the definition of Revenue Requirements in the Power Sales Contract will be made in the then current Contract Year or the next succeeding Contract Year, as determined by the Authority.

Nature of Contractor's Obligation

So long as any Hoover Power is delivered or made available for delivery to the Contractor at its Point of Delivery at any time during a monthly billing period, the Contractor shall be required to pay the amounts required to be paid pursuant to the Power Sales Contract for such monthly billing period when any Hoover Power is so delivered or made available for delivery. If no Hoover Power is delivered or made available for delivery to the Contractor during any monthly billing period, the Contractor is not required to make any payments pursuant to the Power Sales Contract for such monthly billing period. Hoover Energy actually scheduled for delivery to the Contractor and dispatched shall be deemed delivered.

Covenants of the Contractor

The Contractor agrees to maintain rates, fees and charges for the sale or use of the Hoover Power purchased under the Power Sales Contract, as showed by the appropriate regulatory authority, if any, which, together with other available funds, shall provide to the Contractor revenues sufficient to meet its obligations to the Authority under the Power Sales Contract and the obligations of the Contractor, if any, which are equal to or superior to its obligations under the Power Sales Contract. Nothing in the Power Sales Contract shall be deemed to require the Contractor to satisfy its obligations under the Power Sales Contract from any source which would result in a violation of any statutory or constitutional provisions including, if applicable, payments from ad valorem of property taxes in violation of law.

The Contractor shall not sell, transfer, exchange or otherwise dispose of any of the Hoover Power made available to the Contractor under the Power Sales Contract other than for resale to its customers in Contractor's service area or its own use, unless such sale, transfer, exchange or other disposition is specifically approved by the Authority which approval shall be in the sole discretion of the Authority; provided nothing herein shall be deemed to prevent banking, pooling or other similar exchange arrangements which will allow the Contractor to ultimately utilize Hoover Power.

The Contractor shall not sell or otherwise dispose of all or substantially all of its business or utilities operations from which it derives revenues to satisfy its obligations to the Authority under the Power Sales Contract except on 90 days' prior written notice to the Authority and, in any event, shall not so sell or otherwise dispose of the same unless all of the following conditions are met: (i) the Contractor shall assign the Power Sales Contract and its rights and interest under the Power Sales Contract to the purchaser of its business or utilities operations and such purchaser shall assume all obligations of the Contractor under the Power Sales Contract; (ii) if and to the extent necessary to reflect such assignment and assumption, the Authority and such purchaser shall enter into an agreement supplemental to the Power Sales Contract to clarify the terms on which Hoover Power is to be sold under the Power Sales Contract by the Authority to such purchaser; (iii) the Authority shall by resolution determine (which determination shall not be unreasonably withheld) that such sale or other disposition will not adversely affect the value of the Power Sales Contract as security for the payment of Bonds; and (iv) the Authority receives an opinion of Bond Counsel that such sale or other disposition will not adversely affect the exemption of interest on Bonds from federal income taxation.

On and after the date of the Power Sales Contract, the Contractor shall not, without written consent of the Authority, lease all or substantially all of its business or utility operations from which it derives revenues to satisfy its obligations under the Power Sales Contract. The Authority will give its written consent to such lease upon being furnished with an opinion of Bond Counsel to the effect that such lease will not adversely affect the exemption of the Bonds from federal income taxation.

The Contractor agrees, that it shall, in accordance with normal accepted utility practice, operate its utility system or the properties of its business operations from which it derives revenues to satisfy its obligations to the Authority under the Power Sales Contract.

The Contractor shall provide or cause to be provided spinning reserve requirements for its load; provided that such reserves meet or exceed the minimum reserve criteria established by the Western Systems Coordinating Council or a successor organization.

The Contractor may be required by the Authority to schedule a minimum rate of delivery of Hoover Energy during the off-peak hours in order to allow the Bureau to comply with required minimum water releases and for Western to fulfill firm Energy purchase obligations. The amount of Hoover Energy to be scheduled by the Contractor with respect to such minimum water releases shall be the product of the overall minimum rate of delivery of Hoover Energy required for minimum water releases imposed upon the Authority by Western multiplied by a fraction where the numerator is the Hoover Energy portion of the Contractor's Entitlement during such monthly billing period and the denominator is the aggregate amount of Hoover Energy to be made available for sale by the Authority to all Contractors during such monthly billing period. The amount of Hoover Energy to be scheduled at such minimum rate of delivery in connection with Western's purchases of firming Energy shall be the product of the overall minimum rate of delivery for all such firming Energy imposed upon the Authority by Western multiplied by a fraction where the numerator is the amount of firming Energy purchased by the Authority from Western for the Contractor and the denominator is the aggregate amount of firming Energy purchased by the Authority from Western for all the Contractors. If the amount of Hoover Energy and Hoover C Energy scheduled by the other Contractors for delivery during off-peak hours meets or exceeds the minimum rate of delivery imposed upon the Authority, the Contractor may be permitted, at the sole discretion of the Authority, to reduce the amount of Hoover Energy required to be scheduled by the Contractor for delivery during off-peak hours pursuant to this paragraph.

The Contractor shall, if applicable, construct, operate, and maintain its power system in a manner which, as determined by the Authority upon written advice of Western, will not interfere with the operation of the system of Western or its transmission agents over which electric services are furnished to the Contractor under the Power Sales Contract, and in a manner which will coordinate with the protective relaying and other protective arrangements of the system(s) of Western or Western's transmission agents.

Uncontrollable Force

Neither the Authority nor the Contractor shall be considered to be in default in respect to any obligation under the Power Sales Contract (other than the obligation of the Contractor to pay for the Hoover Power during any monthly billing period as provided in the Power Sales Contract) if prevented from fulfilling such obligations by reason of an uncontrollable force, the term uncontrollable force being deemed for the purposes of the Power Sales Contract to mean any cause beyond the control of the party affected, including, but not limited to, failure of facilities, flood, earthquake, storm, lightning, fire, epidemic, pestilence, war, riot, civil disturbance, labor disturbance, sabotage and restraint by court or public authority, which by due diligence and foresight such party could not reasonably have been expected to avoid. Either party rendered unable to fulfill any obligation by reason of an uncontrollable force shall exercise due diligence to remove such inability with all reasonable dispatch.

Assignment of Power Sales Contract

The Power Sales Contract shall inure to the benefit of and shall be binding upon the respective successors and assigns of the parties to the Power Sales Contract; provided, however, that, except for the assignment by the Authority authorized by the following paragraph and except for any assignment in connection with the sale, lease or other disposition of all or substantially all of the Contractor's business or utilities operations, neither the Power Sales Contract nor any interest under the Power Sales Contract shall be transferred or assigned by either party to the Power Sales Contract except with the consent in writing of the other party, which consent shall not be unreasonably withheld. No assignment or transfer of the Power Sales Contract shall relieve the parties of any obligation under the Power Sales Contract.

The Contractor acknowledges and agrees that the Authority may assign and pledge to any trustee or similar fiduciary designated in the Bond Resolution all of, or any interest in, its right, title, and interest in and to all payments to be made to the Authority under the provisions of the Power Sales Contract as security for the payment of the principal (including sinking fund installments) of, premium, if any, and interest on any Bonds and may deliver possession of the Power Sales Contract to such trustee in connection therewith, and, upon such assignment, pledge and delivery, the Authority may grant to such trustee any rights and remedies provided to the Authority in the Power Sales Contract and thereupon any reference in the Power Sales Contract to the Authority shall be deemed, with the necessary changes in detail, to include such trustee which shall be a third party beneficiary of the covenants and agreements of the Contractor contained in the Power Sales Contract.

Additional Bonds

Additional Bonds may be sold and issued by the Authority in accordance with the provisions of the Bond Resolution at any time and from time to time in such amounts as the Authority shall deem necessary and advantageous in the event, for any reason, the proceeds derived from the sale of Bonds prior to such time shall be insufficient for the purpose of paying the Cost of the Project. Any such additional Bonds shall be secured by the pledge made pursuant to the provisions of the Power Sales Contract of the payments required to be made by the Contractor under the Power Sales Contract, as such payments may be increased and extended by reason of the issuance of such additional Bonds. Any such additional Bonds issued in accordance with the provisions of this paragraph and secured by the pledge of such payments may rank equally as to the security afforded by the provisions of the Power Sales Contract with all Bonds theretofore issued pursuant to and secured in accordance with the provisions of the Bond Resolution.

In the event the Authority deems it advantageous to refund any Bonds outstanding, then the Authority may issue and sell refunding Bonds in accordance with the Bond Resolution to be secured by the pledge of the payments required to be made by the Contractor under the Power Sales Contract. Any such refunding Bonds issued in accordance with the provisions of this paragraph and secured by the pledge of such payments may rank equally as to the security afforded by the provisions of the Power Sales Contract with all Bonds theretofore issued pursuant to and secured in accordance with the provisions of the Power Sales Contract.

Default by the Contractor

The following shall constitute a default under the Power Sales Contract:

- (a) Failure of the Contractor to make to the Authority when due any of the payments for which provision is made in the Power Sales Contract.
- (b) Failure of the Contractor to perform any other obligation under the Power Sales Contract for a period of 60 days following written notice from the Authority to the Contractor of such failure; provided, however, the Contractor shall not be deemed in default under this clause (b) if the Contractor, after receipt of such notice, is proceeding with reasonable diligence to cure such failure.

Remedies of the Authority

In the event of any default referred to above, the Authority shall have, in addition to any other rights or remedies it may have under law, the following rights and remedies:

- (a) the Authority may bring any suit, action, or proceedings in law or in equity, including any special action for specific performance, as may be necessary and appropriate in the sole discretion of the Authority to enforce against the Contractor any covenant, agreement or obligation for which provision is made in the Power Sales Contract;
- (b) the Authority may, at any time upon 15 days' written notice to the Contractor, cease and discontinue delivering or making available for delivery Hoover Power to the Contractor so long as such default shall continue; provided, however, that any such cessation and discontinuance shall not relieve the Contractor of any obligation under the Power Sales Contract, including the obligation to pay amounts due on and prior to the date of such cessation and discontinuance and provided further that if the Authority has not terminated the Power Sales Contract pursuant to subsection (c) below and if the Contractor pays all amounts due under the Power Sales Contract, including all late payments, and/or performs all other obligations to be performed under the Power Sales Contract then the Authority shall reinstate delivery of Hoover Power to the Contractor; and

(c) whether or not the Authority shall have ceased and discontinued delivering or making available for delivery Hoover Power as summarized in clause (b) above, if an event of default described above shall continue for 60 days, the Authority may at any time thereafter while such default shall be continuing, upon written notice to the Contractor, terminate the Power Sales Contract; provided, however, that any such termination shall not relieve the Contractor of the obligation to pay any amounts required to be paid under the Power Sales Contract with respect to any amounts due on and prior to such date of such termination or the date the delivery of Hoover Power was discontinued as summarized in clause (b) above if such date of discontinuance was earlier than the date of termination.

Reallocation of Defaulting Contractor's Hoover Entitlement Following Default

In the event of a default by the Contractor and termination of the Power Sales Contract, the Authority shall reallocate such defaulting Contractor's Entitlement as the Authority shall determine and, provided, further, Hoover B Power will only be reallocated in a manner which will not affect exemption from interest on the Bonds from federal income taxation.

Default by the Authority

In the event of any default by the Authority under any covenant, agreement or obligation of the Power Sales Contract, the Contractor's remedy for such default shall be limited to injunction, special action, action for specific performance or any other available equitable remedy designed to enforce any covenant, obligation or agreement of the Authority under the Power Sales Contract as may be necessary or appropriate.

Abandonment of Remedy

In case any proceeding taken on account of any default shall have been discontinued or abandoned for any reason, the parties to such proceeding shall, unless such parties agree otherwise, be restored to their former positions and rights under the Power Sales Contract, respectively, and all rights, remedies, powers and duties of the Authority and the Contractor shall continue as though no such proceeding had been taken.

Recaptured, Relinquished or Tendered Hoover Power

If for any reason all or a portion of Contractor's Entitlement has exceeded for a period of three consecutive Contract Years the electric load of the Contractor, the Authority may recapture all or a portion of Contractor's Entitlement. The Authority shall give the Contractor at least 30 days' notice of a hearing relating to a determination to effect recapture. At such hearing, the Authority shall determine if it can be reasonably expected that Contractor's Entitlement will exceed in whole or in part the Contractor's load in the future. Any portion of Contractor's Entitlement, or all of Contractor's Entitlement, as the case may be, the Authority determines to be excess pursuant to the preceding sentence shall be recaptured by the Authority. Any such recapture shall be effective 60 days following written notice to the Contractor of the Authority's determination to recapture. Any such recapture of Hoover Power shall result in a reduction of the Contractor's Entitlement.

The Contractor may tender or relinquish to the Authority for resale by the Authority, Hoover Power to be made available to the Contractor and not needed by the Contractor. Hoover Power so relinquished or tendered to the Authority shall be returned to the Contractor within 60 days following written notice by the Contractor to the Authority if required to meet the loads of the Contractor. The Authority will use its best efforts to sell such Hoover Power and the net proceeds of the sale thereof shall be applied to satisfy the Contractor's payment obligations under the Power Sales Contract. No tender or relinquishment of such Hoover Power shall relieve the Contractor of its obligations under the Power Sales Contract or be deemed a recapture by the Authority pursuant to the Power Sales Contract unless such tender or relinquishment shall be for the remaining term of the Power Sales Contract and the Authority shall have sold all or a portion of the Hoover Capacity and Energy to be made available to the Contractor for the remaining term of the Power Sales Contract.

Hoover B Power Relinquished by CAWCD

After recapture of Hoover B Power by the Authority pursuant to the Power Sales Contract, CAWCD will relinquish to the Authority in all Water Years (as hereinafter defined), other than a Surplus Water Year (as hereinafter defined) which immediately follows a non-Surplus Water Year, the amounts of Hoover B Capacity and Hoover B Energy such that the total amount available (at the transmission delivery points assumed in the Power Sales Contract) shall be 25.38 MW and 28.620 GWh, respectively.

If in any Water Year the amount of Hoover B Capacity available to CAWCD as a result of recapture by the Authority is less than 180.77 MAW (determined at said transmission delivery points assumed in the Power Sales Contract) or the amount of Hoover B Energy available to CAWCD as a result of recapture by the Authority is less than 203.846 GWh (determined at said transmission delivery points assumed in the Power Sales Contract), then the amount of Hoover B Capacity and Hoover B Energy which CAWCD may be required to relinquish to the Authority in such Water Year shall not exceed, in the case of Hoover B Capacity, the amount obtained by multiplying 25.38 MW by a fraction the numerator of which is the amount of Hoover B Capacity available to CAWCD in such Water Year and the denominator of which is 180.77 MW, and in the case of Hoover B Energy, the amount obtained by multiplying 28.620 GWh by a fraction the numerator of which is the amount of Hoover B Energy available to CAWCD in such Water Year and the denominator of which is 203.846 GWh.

CAWCD will notify the Authority no later than August 1 of each year if the following Water Year will be a Surplus Water Year, and the Authority shall accordingly promptly notify the Contractor. A Water Year shall mean the period from October 1 of each year to September 30 of the subsequent year. A Surplus Water Year shall mean a Water Year for which the Bureau has notified CAWCD that CAWCD may withdraw from the Colorado River two million or more acre feet of water.

Hoover B Power relinquished by CAWCD shall be offered first to the cities, districts and other entities that meet all of the following eligibility requirements ("Eligible Entities"):

- (i) which were Contractors of Hoover B Power as of the date of the Power Sales Contract;
- (ii) the graphic area of which contained, as of February 10, 1983, no persons or entities which were named in the Record of Decision by the Secretary of the Interior of February 10, 1983, to receive a water allocation from the Central Arizona Project; and
- (iii) which had no Hoover capacity and energy contract in effect on June 6, 1985.

Such Hoover B Power so relinquished by CAWCD shall be offered to the Eligible Entities pro rata in proportion to the amount of Hoover B Power recaptured from them. Hoover B Power not contracted for by an Eligible Entity shall be offered to the remaining Eligible Entities; provided that no such Eligible Entity will be offered more Hoover B Power under the provisions than was recaptured from it pursuant to the Power Sales Contract. Any amounts of Hoover B Power relinquished by CAWCD in excess of the amount distributed to the Eligible Entities shall be offered to the remaining Hoover B Power Contractors pro rata in proportion to the amounts of Hoover B Power recaptured from them; provided that no such Contractor will be offered more Hoover B Power under this provision than was recaptured from it. Any remaining relinquished Hoover B Power not contracted for will be returned to CAWCD.

The rates and charges per unit of Hoover B Power paid to the Authority by any Eligible Entity or by any other Hoover B Power Contractor for Hoover B Power relinquished by CAWCD shall be the same rates and charges per unit of Hoover B Power that would have been required to be paid by CAWCD for such Hoover B Power, as established by the Authority.

The provisions above shall not relieve the Contractor from any obligation under the other provisions of the Power Sales Contract. CAWCD shall remain liable for the performance of all of the terms and conditions of CAWCD's Power Sales Contract with the Authority, including, without limitation, the liability and

responsibility for payment of all of the Authority's rates and charges associated with Hoover B Power recaptured by the Authority for the benefit of CAWCD.

Effects of Recapture or Reduced Allocation of Hoover Power

Except as provided in the provisions described in this Appendix D under "Recaptured, Relinquished or Tendered Hoover Power" and subject to the rights of the Contractor to purchase, and its obligation to pay for, any Hoover B Power pursuant to the provisions described in this Appendix D under "Hoover B Power Relinquished by CAWCD" or to purchase and pay for any recaptured, tendered or relinquished Hoover Power pursuant to the Power Sales Contract, in the event that the Contractor's allocation of Hoover Power is recaptured in whole or in part or is reduced in part or reduced to zero pursuant to the provisions of the Power Sales Contract, the rights and obligations of the Contractor under the Power Sales Contract, including, but not limited to, its right to receive Hoover Power and its obligation to pay for Hoover Power, shall be reduced in proportion to such recapture or reduction, as the case may be.

If the Contractor's allocation of Hoover Power is recaptured in whole or reduced to zero, the Power Sales Contract shall not terminate; provided, however, the Contractor shall have the right, upon written notice to the Authority, to terminate the Power Sales Contract and upon such termination the Contractor shall no longer have any rights or obligations under the Power Sales Contract, including, but not limited to, the right to any Hoover B Power relinquished by CAWCD to the Authority.

CAWCD shall remain liable for the performance of all the terms and conditions of CAWCD's Power Sales Contract, including, without limitation, the liability and responsibility for payment of the Authority's rates and charges associated with Hoover B Power recaptured by the Authority for the benefit of CAWCD in the event of any failure by any Eligible Entity or any other Hoover B Power Contractor to pay all applicable rates and charges for Hoover B Power relinquished by CAWCD and acquired by such Eligible Entity or other Hoover B Power Contractor.

Relationship to and Compliance with Other Instruments

It is recognized by the parties to the Power Sales Contract that, in undertaking, or causing to be undertaken, the financing of the Project, the Authority must comply with the requirements of the Bond Resolution, the Boulder Canyon Project Agreement, the Wheeling Agreement and the Uprating Agreement, and it is therefore agreed that the Power Sales Contract is made subject to the terms and provisions of the Bond Resolution and such Agreements.

The Power Sales Contract is made upon the express condition and with the express covenant that all rights under the Power Sales Contract shall be subject to and controlled by the Colorado River Compact approved by Section 13(a) of the Boulder Canyon Project Act of December 21, 1928 (45 Stat. 1057).

Benefits of Federal Power

The Contractor agrees that the benefits of federally generated power shall be made available at fair and reasonable terms to all of its customers at the lowest possible rates consistent with sound business principles.

Conservation and Renewable Energy Program

The Contractor shall develop and implement a conservation and renewable energy program in accordance with the provisions of the "Final Guidelines and Acceptance Criteria for Customer Conservation and Renewable Energy Programs" published in the Federal Register on August 21, 1985 (50 Fed. Reg. 33892 *et seq.*), and any subsequent amendments thereto (the "Guidelines and Acceptance Criteria").

The Contractor will develop a conservation and renewable energy program suitable for its own geographic area and type of utility operation and will submit said program to the Authority, for submission by the Authority to Western by January 1, 1988. Conservation and renewable energy programs shall consist of a designated

number of activities as stipulated in the Guidelines and Acceptance Criteria. Credit is to be given by Western for past accomplishments if they are ongoing and current under the Guidelines and Acceptance Criteria. Approval by Western of the Contractor's conservation and renewable energy program shall be in accordance with the published Guidelines and Acceptance Criteria.

The initial conservation and renewable energy program submitted by the Contractor will either be approved or disapproved by Western within three months of receipt by Western. If an initial submittal is disapproved, a notification of deficiencies in such submittal will be given in writing by Western. Deficiencies must be remedied within 12 months of the date of notification. If an existing conservation and renewable energy program is revoked at any time after approval, a notification outlining the deficiencies in such program will be given in writing to the Contractor by Western. Deficiencies must be remedied within 12 months of the date of notification.

If deficiencies in the Contractor's conservation and renewable energy program or initial submittal are not corrected within 12 months of Western's notification of deficiencies therein, the Contractor's Entitlement shall be reduced by 10% if the Authority is directed by Western to reduce Contractor's Entitlement.

Hoover C Energy

The Power Sales Contract does not allocate or sell any Hoover C Energy and nothing contained in the Power Sales Contract shall require or be deemed to be an allocation or sale of Hoover C Energy by the Authority to the Contractor, any of the other Contractors or any other person.

If the Authority offers to sell Hoover C Energy pursuant to a separate contract and if the Contractor agrees to purchase any such Hoover C Energy from the Authority, the Authority agrees to transmit, or cause to be transmitted, Hoover C Energy without charge, so long as such transmission does not result in any increased cost to the Authority or to any other Contractor, such Hoover C Energy and deliver or cause to be delivered, as adjusted for transmission losses, such Hoover C Energy to the Contractor, at the Point of Delivery in accordance with the applicable provisions of the Wheeling Agreement; provided that the amount of such Hoover C Energy purchased from the Authority when added to the Contractor's Entitlement of Hoover Energy and the amount of firming Energy purchased by the Contractor from the Authority does not exceed the transmission capacity allocated to deliver Contractor's Entitlement of Hoover Capacity. If the Contractor desires to purchase Hoover C Energy in amounts such that the aggregate amount of Energy purchased from the Authority exceeds the transmission capacity allocated to deliver Contractor's Entitlement of Hoover Energy as provided in the preceding sentence, nothing shall be deemed to preclude the Contractor from purchasing such Hoover C Energy if it provides for its own transmission of such Hoover C Energy or enters into a separate agreement with the Authority for the transmission of such Hoover C Energy.

**SUMMARY OF CERTAIN PROVISIONS OF THE
POWER RESOURCE REVENUE BOND RESOLUTION**

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**SUMMARY OF CERTAIN PROVISIONS OF
THE POWER RESOURCE REVENUE BOND RESOLUTION**

The following is a general summary of certain provisions of the Resolution. The summary is not to be considered a full statement of the terms of the Resolution and accordingly is qualified by reference thereto and is subject to the full text thereof. A copy of the Resolution may be obtained from the Authority upon request. The section references shown below in parenthesis are to particular sections of the Resolution.

Definitions

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

“Accreted Value” means, with respect to any Capital Appreciation Bonds, an amount equal to the principal amount of such Capital Appreciation Bond (determined on the basis of the principal amount per \$5,000 at maturity thereof) plus the amount assuming semi-annual compounding of earnings which would be produced on the investment of such principal amount, beginning on the dated date of such Capital Appreciation Bond and ending at the maturity date thereof, at a yield which, if produced until maturity, will produce \$5,000 at maturity. As of any Valuation Date, the Accreted Value of any Capital Appreciation Bonds shall mean the amount set forth for such date in the supplemental resolution authorizing such Capital Appreciation Bonds and as of any date other than a Valuation Date, the sum of (a) the Accredited Value on the preceding Valuation Date, and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, and (2) the difference between the Accreted Values for such Valuation Dates.

“Accrued Aggregate Debt Service” means, as of any date of calculation, an amount equal to the sum of the amounts of accrued Debt Service with respect to all series, calculating the accrued Debt Service with respect to each series at an amount equal to the sum of (i) interest on the Bonds of such series accrued and unpaid and to accrue to the end of the then current calendar month, and (ii) Principal Installments due and unpaid and that portion of the Principal Installment for such Series next due which would have accrued (if deemed to accrue in the manner set forth in the definition of Debt Service) to the end of such calendar month; provided, however, that there shall be excluded from the calculation of Accrued Aggregate Debt Service any Principal Installments which are Refundable Principal Installments. For purposes of this definition, the principal and interest portions of the Accreted Value of Capital Appreciation Bonds and the Appreciated Value of the Capital Appreciation and Income Bonds becoming due at maturity or by virtue of a Sinking Fund Installment shall be included in the calculations of accrued and unpaid and accruing interest or Principal Installments in such manner and during such period of time as is specified in the supplemental resolution authorizing such Capital Appreciation Bonds or Capital Appreciation and Income Bonds.

“Additional Projects” means any project or works authorized by Section 45-2503 of the Act (the State Water and Power Plan) and facilities used in connection therewith for which the Authority may issue bonds or notes.

“Adjusted Aggregate Debt Service” for any period means, as of any date of calculation, the Aggregate Debt Service for such period except that, if any Refundable Principal Installment for any series of Bonds is included in Aggregate Debt Service for such period, Adjusted Aggregate Debt Service shall mean Aggregate Debt Service determined as if each such Refundable Principal Installment had been payable, over a period extending from the due date of such Principal Installment through the later of the 25th anniversary of the issuance of such series of Bonds or the 10th anniversary of the due date of such Principal Installment, in installments which would have required equal annual payments of principal and interest over such period. Interest deemed payable in any Fiscal Year after the actual due date of any Refundable Principal Installment of any series of Bonds shall be calculated at the average rate of interest actually payable on the Bonds of such series at the time the calculation is made (using the true, actuarial method of calculation).

“Aggregate Debt Service” for any period means, as of any date of calculation, the sum of the amounts of Debt Service for such period with respect to all series.

“Appreciated Value” means, with respect to any Capital Appreciation and Income Bond up to the Interest Commencement Date, an amount equal to the principal amount of such Capital Appreciation and Income Bond (determined on the basis of the principal amount per \$5,000 at the Interest Commencement Date thereof) plus the amount, assuming semi-annual compounding of earnings which would be produced on the investment of such principal amount, beginning on the dated date of such Capital Appreciation and Income Bond and ending on the Interest Commencement Date, at a yield which, if produced until the Interest Commencement Date, will produce \$5,000 at the Interest Commencement Date. As of any Valuation Date, the Appreciated Value of any Capital Appreciation Income Bond shall mean the amount set forth for such date in the supplemental resolution authorizing such Capital Appreciation Bonds and as of any date other than a Valuation Date, the sum of (a) the Appreciated Value on the preceding Valuation Date, and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, and (2) the difference between the Appreciated Values for such Valuation Dates.

“Authorized Officer of the Authority” means the Chairman, Vice Chairman, Administrator or Secretary of the Authority or any person or persons designated by the Authority by resolution to act on behalf of the Authority under the Resolution. The designation of such person or persons shall be evidenced by a written certificate containing the specimen signature of such person or persons and signed on behalf of the Authority by its Chairman.

“Bond or Bonds” means any bonds, rates or other evidences of indebtedness (other than Subordinated Debt), as the case may be, authenticated and delivered under and Outstanding pursuant to the Resolution.

“Boulder Canyon Project Agreement” means the Agreement between the Authority and the United States of America, acting through the Western Area Power Administration of the Department of Energy, authorized by the 1984 Hoover Act, pursuant to which the Authority purchases Hoover Power, as the same may be amended or supplemented.

“Business Day” means any day other than a Saturday, a Sunday, a legal holiday in the State or a day on which either the Trustee or the Authority is legally authorized to close.

“Capital Appreciation Bonds” means any Bonds issued under the Resolution as to which interest is payable only at the maturity or prior redemption of such Bonds.

“Capital Appreciation and Income Bonds” means any Bonds issued under the Resolution as to which interest is deferred prior to the Interest Commencement Date.

“Credit Facility” means a letter of credit, surety bond, loan agreement, standby purchase agreement or other credit agreement, facility or insurance or guaranty arrangement pursuant to which the Authority or another person is entitled to obtain funds to pay Bonds and interest thereon tendered to the Authority or a third party for payment, purchase or redemption in accordance with the Resolution.

“Debt Service” for any period means, as of any date of calculation and with respect to any series, an amount equal to the sum of (i) the interest accruing during such period on such series of Bonds except to the extent such interest is to be paid from deposits made from Bond proceeds into the Debt Service Account in the Debt Service Fund, 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 should be no preceding Principal Installment due date, from a date one year (or such lesser period as shall be appropriate if Principal Installments shall become due more frequently than annually) preceding the due date of such Principal Installment or from the date of issuance of the Bonds of such series, whichever is later. In the case of Variable Interest Rate Bonds, with respect to a particular period and date of

calculation, the interest rate thereon shall be calculated on the assumption that such Bonds will bear interest during such period at the Maximum Interest Rate for such Bonds; provided that, if on such date of calculation the interest rate on such Bonds shall then be fixed for a specified period, the interest rate used for such specified period for the purposes of the foregoing calculation shall be such actual interest rate. For purposes of this definition the principal and interest portions of the Accreted Value and Appreciated Value of Capital Appreciation Bonds and Capital Appreciation and Income Bonds, respectively, becoming due at maturity or by virtue of a Sinking Fund Installment shall be included in the calculations of accrued and unpaid and accruing interest or Principal Installments in such manner and during such period of time as is specified in the supplemental resolution authorizing such Capital Appreciation Bonds.

“Debt Service Reserve Requirement” means, as of any date of calculation and subject to adjustment as hereinafter provided, an amount equal to the greatest amount of Adjusted Aggregate Debt Service for any Fiscal Year. The amount of the Debt Service Reserve Requirement shall be adjusted as follows: (i) in the supplemental resolution authorizing Variable Interest Rate Bonds, the Debt Service Reserve Requirement shall be calculated so as to limit the Maximum Interest Rate for such Variable Rate Bonds to an interest rate not less than 12% per annum, and (ii) if any Variable Interest Rate Bond or Bonds shall be converted to a fixed rate Bond or Bonds for the remainder of the term thereof and as a result of such conversion a deficiency shall be created in the Debt Service Reserve Account in the Debt Service Fund, the Debt Service Reserve Requirement shall be calculated so as to exclude the amount of such deficiency and the Debt Service Reserve Requirement shall be increased in each of the Fiscal Years after the date of such conversion by an amount which shall be equal to 50% of the aforesaid deficiency.

“Insurer” means any nationally recognized company engaged in the business of insuring bonds which may from time to time insure the payment of the principal of and interest on all or a portion of the Bonds of any series.

“1984 Hoover Act” means the Hoover Power Plant Act of 1984, Act of August 17, 1984 (P.L. 98-381, 98 Stat. 1333).

“Hoover Power” means the capacity and energy of the power plant at the Hoover Dam purchased by the Authority pursuant to the Boulder Canyon Project Agreement.

“Hoover Power Sales Contract” means the Power Sales Contracts for the sale of Hoover Power between the Authority and the Contractors named therein, as the same may be amended or supplemented.

“Hoover Upgrading Project” means the Authority’s right to the increased generating capacity of the Hoover Powerplant resulting from the authorization under the 1984 Hoover Act, to be financed as a prepayment of capacity and energy pursuant to the Upgrading Agreement.

“Interest Commencement Date” means, with respect to any particular Capital Appreciation and Income Bond, the date specified in the supplemental resolution authorizing such Bonds (which date must be prior to the maturity date for such Bonds) after which interest ceases to be deferred and compounded and the interest becomes currently payable.

“Investment Securities” means and includes any of the following securities, if and to the extent the same are at the time legal for investment of the Authority’s funds:

- (i) Direct obligations of the United States of America (including certificates that evidence direct ownership of the right to payments of principal or interest on such obligations, provided that such obligations shall be held in trust on behalf of the owner of such certificates by a bank or trust company or a national banking association meeting the requirements for a successor Trustee under the Resolution) or obligations the principal of and interest on which are unconditionally guaranteed by United States of America;

(ii) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies if such obligations are backed by the full faith and credit of the United States of America (stripped securities shall only be deemed Investment Securities if they have been stripped by the agency itself):

- (a) Export-Import Bank - direct obligations or fully guaranteed certificates of beneficial ownership;
- (b) Farmers Home Administration - certificates of beneficial ownership;
- (c) Federal Financing Bank;
- (d) Federal Housing Administration debentures;
- (e) General Services Administration - participation certificates;
- (f) Government National Mortgage Association ("GNMA") - GNMA guaranteed mortgage-backed bonds and GNMA guaranteed pass-through obligations;
- (g) U.S. Maritime Administration - guaranteed Title XI financing; and
- (h) U.S. Department of Housing and Urban Development - project notes, local authority bonds, New Communities debentures which are United States guaranteed debentures; and public housing notes and bonds which are guaranteed by the United States;

(iii) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit United States government agencies (stripped securities are only deemed Investment Securities if they have been stripped by the agency itself);

- (a) Federal Home Loan Bank System - senior debt obligations;
- (b) Federal Home Loan Mortgage Corporation (FHLMC) - participation certificates and senior debt obligations;
- (c) Federal National Mortgage Association (FNMA) - mortgage-backed securities and senior debt obligations;
- (d) Student Loan Marketing Association - senior debt obligations; and
- (e) Resolution Funding Corporations obligations.

(iv) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAAm-G; AAAm; or AAAm;

(v) Certificates of deposit secured at all times by collateral described in (i) and/or (ii) above which are issued by commercial banks, savings and loan associations or mutual savings banks and the collateral must be held by a third party and the bondholders must have a perfected first security interest in the collateral;

(vi) Certificates of deposit, savings accounts, deposit accounts of money market deposits which are fully insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation;

(vii) Investment Agreements, including guaranteed investment contracts, acceptable to the 1998 Series Bond Insurer so long as the 1998 Series Bonds are Outstanding;

- (viii) Commercial paper rated, at the time of purchase, “Prime - 1” by Moody’s or “A-1” or better by S&P;
- (ix) Bonds or notes issued by any state or municipality which are rated by Moody’s or S&P in one of the two highest rating categories assigned by such agencies;
- (x) Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of “Prime - 1” or “A3 or better by Moody’s and “A-1” or “A” or better by S&P;
- (xi) Repurchase agreements that provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Authority (buyer/lender), and the transfer of cash from the Authority to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the Authority in exchange for the securities at a specified date provided, however, repurchase agreements must satisfy the following criteria:
 - (a) The repurchase agreement must be between the Authority and a dealer bank or securities firm and such dealer bank must be a primary dealer on the Federal Reserve reporting dealer list which is rated “A” or better by S&P and Moody’s, and such bank must be a bank rated “A” or above by S&P and Moody’s;
 - (b) The written repurchase agreement must include the following provisions:
 - (i) the collateral securities must be direct United States obligations, or Federal agencies backed by the full faith and credit of the United States (including FNMA and FHLMC);
 - (ii) a term of up to 30 days;
 - (iii) the collateral must be delivered to the Trustee (if the Trustee is not supplying the collateral) or third party acting as agent for the Trustee (if the Trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities); and
 - (iv) provision for valuation of collateral which provides that the securities must be valued weekly, market-to-market at current market price plus accrued interest and the value of collateral must be equal to 104% of the amount of cash transferred by the Authority to the dealer bank or security firm under the repo plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by the Authority, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%; and
 - (c) A legal opinion which must be delivered to the Authority which states in effect that the repurchase agreement meets guidelines under state law for legal investment of public funds; and
- (xii) Any state administered pool investment in the Authority is statutorily permitted or required to invest.

“Liquidity Facility” means a letter of credit or other Credit Facility issued by a financial institution or insurance company or association which has been rated not lower than the second highest rating category by Moody’s and S&P’s, respectively, which letter of credit or Credit Facility is payable on demand in the event the terms under which such letter of credit or Credit Facility require payment thereunder.

“Maximum Interest Rate” means, with respect to any particular Variable Interest Rate Bond, a numerical rate of interest, which shall be set forth in the supplemental resolution authorizing such Bond, that shall be the maximum rate of interest such Bond may at any time bear.

“Minimum Interest Rate” means, with respect to any particular Variable Interest Rate Bond, a numerical rate of interest which may (but need not) be set forth in the supplemental resolution authorizing such Bond, that shall be the minimum rate of interest such Bond may at any time bear.

“Moody’s” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, if any.

“Net Revenues” for any period means the Revenues during such period minus Operating Expenses during such period.

“Operating Expenses” means all the Authority’s costs and expenses for operation, maintenance, and ordinary repairs, renewals and replacements not constituting units of property (as prescribed in the Uniform System of Accounts) of the Power Resources, including all costs of producing and delivering electric capacity and energy from the Power Resources and providing dispatching, transmission and other services and payments (other than payments out of Bond proceeds) into reserves in the Operating Fund for items of Operating Expenses the payment of which is not immediately required, and shall include, without limiting the generality of the foregoing, costs of purchased power including transmission expenses incurred to meet obligations under the Boulder Canyon Project Agreement, the Wheeling Agreement or other similar agreements relating to any Additional Project, fuel costs, costs of transmission service, costs of dispatching and other related services, generating capacity reserve and backup services and scheduled, emergency, or other interchange service, credit obligations to the extent permitted by the Resolution, rents, administrative and general expenses, engineering expenses, legal and financial advisory expenses, required payments to pension, retirement, health and hospitalization funds, taxes, payments in-lieu-of taxes and other governmental charges, insurance premiums, and any other current expenses or obligations required to be paid by the Authority under the provisions of the Resolution or under or in connection with the performance of its obligations under the Boulder Canyon Project Agreement or the Wheeling Agreement or by law, all to the extent properly allocable to the Power Resources, the fees and expenses of the fiduciaries with respect to any Bonds secured by a letter of credit or other credit facility, the costs of lines of credit, letters of credit, insurance and any other means of providing credit enhancement or credit support for the Bonds, costs incurred in connection with interest rate exchanges, futures contracts or other similar financing arrangements, and any fees and expenses relating to the issuance or administration of any Variable Interest Rate Bonds or any Option Bonds. Operating Expenses shall not include any allowance for depreciation, interest, amortization or any costs and expenses for new construction. There shall be included in Operating Expenses an equitably allocated portion of the Authority’s general and administrative expenses which are properly chargeable to the Power Resources.

“Option Bonds” means Bonds which by their terms may be tendered by and at the option of the Holder thereof for payment or purchase by the Authority or another party prior to the stated maturity thereof, or the maturities of which may be extended by and at the option of the Holder thereof.

“Outstanding,” when used with reference to Bonds, means, as of any date, Bonds theretofore or thereupon being authenticated and delivered under the Resolution except:

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

- (iii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to the Resolution;
- (iv) Bonds deemed to have been paid as provided in the Resolution; and
- (v) Option Bonds deemed tendered in accordance with the provisions of the supplemental resolution authorizing such Bonds on the applicable adjustment or conversion date, if interest thereon shall have been paid through such applicable date and the purchase price thereof shall have been paid or amounts are available for such payment as provided in the Resolution.

“Pledged Property” means the right, title and interest of the Authority to the Boulder Canyon Project Agreement, the Power Sales Contracts, the Wheeling Agreement, the Surplus Revenues Agreement, the Revenues and Funds, including Investment Securities held in any such Funds under the Resolution, together with all proceeds and revenues of the foregoing and all other moneys, securities or funds pledged for the payment of the principal or redemption price of and interest on the Bonds and the Authority’s other obligations under this Resolution in accordance with the terms and provisions of this Resolution; provided, however, Pledged Property shall not include the Boulder Canyon Project Agreement, the Power Sales Contracts and the Wheeling Agreement prior to the Escrow Disbursement Date.

“Power Resource” means the Hoover Upgrading Project or any Additional Project and Power Resources shall mean the Hoover Upgrading Project and any Additional Project.

“Power Resource Agreements” means the Upgrading Agreement, the Wheeling Agreement and any other agreement pursuant to which the Authority acquires any rights or interests in any Power Resource.

“Power Sales Contracts” means (i) the Hoover Power Sales Contracts, and (ii) with respect to any Additional Project, the contract providing for the sale of capacity and energy from such Additional Project between the Authority and the parties named therein, as such contracts may be amended or supplemented.

“Principal Installment” means, as of any date of calculation and with respect to any Series, so long as any Bonds thereof are Outstanding, (i) the principal amount of Bonds of such series due on a certain future date for which no Sinking Fund Installments have been established (including the principal amount of Option Bonds tendered for payment and not purchased), or (ii) the unsatisfied balance (determined as provided in the Resolution) of any Sinking Fund Installments due on a certain future date for Bonds of such series, plus the amount of the sinking fund redemption premiums, if any, which would be applicable upon redemption of such Bonds on such future date in a principal amount equal to said unsatisfied balance of such Sinking Fund Installments, or (iii) if such future dates coincide as to different Bonds of such series, the sum of such principal amount of Bonds and of such unsatisfied balance of Sinking Fund Installments due on such future date plus such applicable redemption premiums, if any.

“Refundable Principal Installment” means any Principal Installment for any series of Bonds which the Authority intends to pay with moneys which are not Revenues, provided that such intent shall have been expressed in the supplemental resolution authorizing such series of Bonds and provided further that such Principal Installment shall be a Refundable Principal Installment only through the penultimate day of the month preceding the month in which such Principal Installment comes due or such earlier time as the Authority no longer intends to pay such Principal Installment with moneys which are not Revenues.

“Revenues” means (i) all fees, rents and charges and other income derived or to be derived by the Authority from or for the operation, use or services of the Power Resources, (ii) any other amounts received from any other source by the Authority and pledged by the Authority as security for the payment of Bonds including, without limitation, amounts derived from the Pledged Property, (iii) moneys deposited in the Debt Service Account in the Debt Service Fund from the State Water and Power Development Fund, and (iv) interest received or to be received on any moneys or securities held pursuant to the Resolution and paid or required to be paid into the Revenue Fund.

“S&P’s” means Standard & Poor’s Corporation, a corporation organized and existing under the laws of the State of New York, and its successors and their assigns, if any.

“State Water and Power Development Fund” means the fund in the treasury of the State held by State Treasurer which is created pursuant to Section 45-2511 of the Act.

“Surplus Revenues Agreement” means the agreement or agreements between the Authority and the State Director of Water Resources entered into pursuant to the provisions of Section 45-2509 of the Act.

“Uprating Agreement” means the contract between the Authority and the United States of America, acting through the Bureau of Reclamation of the Department of the Interior, pursuant to which the Authority has agreed to advance funds for the Uprating Project, as the same may be amended or supplemented.

“Valuation Date” means with respect to any Capital Appreciation Bonds and Capital Appreciation and Income Bonds, the date or dates set forth in the supplemental resolution authorizing such Bonds on which specific Accreted Values or Appreciated Values are assigned to the Capital Appreciation Bonds and Capital Appreciation and Income Bonds, as the case may be.

“Variable Interest Rate” means a variable interest rate to be borne by a series of Bonds or any one or more maturities within a series of Bonds. The method of computing such variable interest rate shall be specified in the supplemental resolution authorizing such series of Bonds and shall be based on (i) a percentage or percentages or other function of an objectively determinable interest rate or rates (*e.g.*, a prime lending rate) or a function of such objectively determinable interest rate or rates which may be in effect from time to time or at a particular time or times; provided that, such variable interest rate shall be subject to a Maximum Interest Rate and may be subject to a Minimum Interest Rate and that there may be an initial rate specified, in each case as provided in such supplemental resolution, or (ii) a stated interest rate that may be changed from time to time as provided in the supplemental resolution authorizing such series, provided that such interest rate shall be subject to a Maximum Interest Rate. Such supplemental resolution shall also specify either (i) the particular period or periods of time or manner of determining such period or periods of time for which each value of such variable interest rate shall remain in effect, or (ii) the time or times upon which any change in such variable interest rate shall become effective.

“Variable Interest Rate Bonds,” for any period of time, means Bonds which during such period bear a Variable Interest Rate, provided that Bonds the interest rate on which shall have been fixed for the remainder of the term thereof shall no longer be Variable Interest Rate Bonds.

Pledge of Pledged Property

The Bonds will be special obligations of the Authority payable solely from and secured as to the payment of the principal and Redemption Price thereof, and interest thereon, in accordance with their terms and the provisions of the Resolution solely by the Pledged Property. There will be pledged and assigned as security for the payment of the principal and Redemption Price of, and interest on, the Bonds in accordance with their terms and the provisions of the Resolution, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution, all of the Pledged Property. All Pledged Property shall immediately be subject to the lien of this pledge without any physical delivery thereof or further act, and the lien of this pledge shall be valid and binding as against all persons having claims of any kind in tort, contract or otherwise against the Authority, irrespective of whether such persons have notice thereof. (Section 501)

Application of Revenues

The Resolution establishes the following Funds and Account; for the application of Revenues,

Funds	Held By
(1) Construction Fund	Trustee
(2) Revenue Fund	Authority
(3) Operating Fund, consisting of an Operation Account.....	Authority
(4) Debt Service Fund, consisting of a Debt Service Account and a Debt Service Reserve Account Trustee	Trustee
(5) Subordinated Debt Fund	Trustee
(6) Power Resource Development Fund	Authority
(7) General Reserve Fund	Authority

(Section 502)

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 Authority, any moneys received by the Authority from any source, unless required to be otherwise applied as provided by the Resolution. Amounts in the Construction Fund shall be applied to pay the cost of acquisition and construction of a Power Resource in the manner provided in the Resolution and the supplemental resolution authorizing a series of Bonds to finance the cost and acquisition of a Power Resource.

There shall be established within the Construction Fund a separate account (i) the Hoover Upgrading Project, and (ii) each Additional Project, the cost of acquisition and construction of which is to be paid out of the Construction Fund.

The Trustee shall make payments from the Construction Fund in the amounts, at the times, in the manner, and on the other terms and conditions set forth in the Resolution.

To the extent that other moneys are not available therefor, amounts in the Construction Fund shall be applied to the payment of Principal Installments of and interest on Bonds when due.

The completion of construction of any Power Resource financed in whole or in part by the issuance of Bonds shall be evidenced by a certificate or certificates of an Authorized Officer of the Authority, which shall be filed with the Trustee, stating (i) that such Power Resource has been completed in accordance with the plans and specifications applicable thereto, (ii) the date of such completion, and (iii) the amount, if any, required in the opinion of the signer or signers for the payment of any remaining part of the cost of acquisition and construction thereof. (Section 503)

Payments into Certain Funds. All Revenues shall be promptly deposited by the Authority upon receipt thereof into the Revenue Fund. In each month after the deposit of Revenues into the Revenue Fund (but in any case no later than the last Business Day of such month), the Authority shall credit to, or shall transfer to the Trustee for deposit in, the following Funds and Accounts in the following order the amounts set forth below (such application to be made in such a manner so as to assure immediately available funds in such Funds on the last Business Day of such month):

(1) To Operating Fund, for credit to the Operating Amount, such amount as the Authority shall estimate is required, together with amounts then on deposit therein, to provide the payment of Operating Expenses estimated to be paid through the next month.

(2) To the Debt Service Fund, (i) for credit to the Debt Service Account, the amount, if any, required so that the balance in said Account shall equal the Accrued Aggregate Debt Service as of the last day of the then current month or, if interest and/or principal are required to be paid to Holders of Bonds during the next succeeding month on a day other than the first day of such month, Accrued Aggregate Debt Service as of the day

through and including which such interest and/or principal is required to be paid, and (ii) for credit to the Debt Service Reserve Account, the amount, if any, required for such Account, after giving effect to any surety bond, insurance policy, letter of credit or other similar obligation deposited in such Account pursuant to the Resolution to equal the Debt Service Reserve Requirement as of the last day of the then current month.

(3) To the Subordinated Debt Fund, the amount, if any, required to apply principal or sinking fund installments of and interest on each issue of Subordinated Debt and reserves therefor and the amounts, if any, to pay tendered Subordinated Debt, in accordance with the resolution or other debt instrument authorizing such issue of Subordinated Debt.

(4) To the Power Resource Development Fund, the amount, if any, to be deposited in said Fund for such month pursuant to the then current Annual Budget.

(5) To the General Revenue Fund, the remaining balance, if any, of moneys in the Revenue Fund making the above credits and deposits.

Operating Fund

Amounts credited to the Operating Account shall be applied from time to time by the Authority to the payment of Operating Expenses.

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 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 Agent 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 Bonds purchased for retirement.

Amounts accumulated in the Debt Service Account with respect to any Sinking Fund Installment may and, if so directed by the Authority, shall be applied by the Trustee, on or prior to the 40th day next preceding the due date of such Sinking Fund Installment, to (i) the purchase of Bonds of the series and maturity for which such Sinking Fund Installment was established, or (ii) the redemption at the applicable sinking fund redemption price of such Bonds, if then redeemable by their terms. 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, on such due date Bonds of the series and maturity 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.

In the event of the refunding of any Bonds, the Trustee shall, if the Authority so directs, withdraw from the Debt Service Account in the Debt Service Fund all, or any portion of, the amounts accumulated therein with respect to Debt Service on the Bonds being refunded and deposit such amounts with itself as Trustee to be held for the payment of the principal or redemption price, if applicable, and interest on the Bonds being refunded; provided that such withdrawal shall not be made unless (i) immediately thereafter Bonds being refunded shall be deemed to have been paid pursuant to the Resolution, and (ii) the amount remaining in the Debt Service Account in the Debt Service Fund, after giving effect to the issuance of Refunding Bonds and the disposition of the proceeds thereof, shall not be less than the requirement of such Account pursuant to the Resolution. In the event of such refunding, the Authority may also direct the Trustee to withdraw from the Debt Service Account in the Debt Service Fund all, or any portion of, the amounts accumulated therein with respect to Debt Service on the Bonds being refunded and deposit such amounts in any Fund or Account under this Resolution; provided, however, that such withdrawal shall not be made unless items (i) and (ii) referred to hereinabove have been satisfied and provided, further, that, at the time of such withdrawal, there shall exist no deficiency in any Fund or Account held under the Resolution.

Debt Service Fund - Debt Service Reserve Account

If five days prior to any interest or Principal Installment due date with respect to any series of Bonds payment for such interest or Principal Installment in full has not been made or provided for, the Trustee shall forthwith withdraw from the Debt Service Reserve Account an amount not exceeding the amount required to provide for such payment in full and deposit such amount in the Debt Service Account for application to such payment.

Whenever the amount in the Debt Service Reserve Account shall exceed the Debt Service Reserve Requirement, after giving effect to any surety bond, insurance policy or letter of credit deposited in such Account pursuant to the Resolution such excess shall be deposited in the Revenue Fund.

Whenever the amount in the Debt Service Reserve Account (exclusive of any surety bond, letter of credit or insurance policy therein), together with the amount in the Debt Service Account is sufficient to pay in full 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 Service Reserve Account shall be transferred to the Debt Service Account.

In lieu of the required transfers or deposits to the Debt Service Reserve Account, the Authority may cause to be deposited into the Debt Service Reserve Account a surety bond or an insurance policy for the benefit of the holders of the Bonds in an amount equal to the difference between the Debt Service Reserve Requirement and the sums then on deposit in the Debt Service Reserve Account, if any.

In the event of the refunding of any Bonds, the Trustee shall, if the Authority so directs, withdraw from the Debt Service Reserve Account in the Debt Service Fund all, or any portion of, the amounts accumulated therein with respect to the Bonds being refunded and deposit such amounts with itself as Trustee to held for the payment of the principal or redemption price, if applicable, and interest on the Bonds being refunded.

Subordinated Debt Fund

The Trustee as directed by the Authority shall apply amounts in the Subordinated Debt Fund to the payment of the principal or sinking fund installment of and interest on each issue of Subordinated Debt and reserves therefor in accordance with the provisions of, and subject to the priorities and limitations and restrictions provided in, the resolution or other debt instrument authorizing each issue of such Subordinated Debt or for the payment of Credit Obligations.

If at any time the amount on deposit in the Debt Service Reserve Account shall be less than the Debt Service Reserve Requirement and there shall not be any moneys available in the General Reserve Fund and the State Water and Power Development Fund to make up such deficiency, the Trustee shall forthwith transfer from the Subordinated Debt Fund for deposit in the Debt Service Reserve Account the amount necessary (or all moneys in said Subordinated Debt Fund, if necessary), to make up such deficiency.

Subject to the provisions of, and to the priorities and limitations and restrictions provided in, the resolution, indenture or other instrument securing each issue of Subordinated Debt, amounts in the Subordinated Debt Fund which the Authority at any time determines to be in excess of the requirements of such Fund, may, at the direction of the Authority, be transferred to the General Reserve Fund and applied in accordance with the Resolution.

Power Resource Development Fund

Subject to the Resolution, amounts in the Power Resource Development Fund shall be applied by the Authority for its costs in developing power resources or for other lawful purposes of the Authority.

Notwithstanding any of the provisions of the Resolution, if at any time the amount on deposit in the Debt Service Reserve Account shall be less than the Debt Service Reserve Requirement and there shall not be

any moneys available in the General Reserve Fund and the State Water and Power Development Fund to make up such deficiency or if there shall be a deficiency in the Subordinated Debt Fund, the Trustee shall forthwith transfer from the Power Resource Development Fund for deposit in the Debt Service Reserve Account and the Subordinated Debt Fund, in that priority, the amount necessary on all moneys in said Power Resource Development Debt Fund and the Subordinated Debt Fund, in that order, if necessary), to make up such deficiency.

Amount in the Power Resource Development Fund which the Authority at any time determines to be in excess of the requirements of such Fund, may, at the direction of the Authority be transferred to the General Reserve Fund and applied in accordance with the Resolution.

General Reserve Fund

The Authority shall apply moneys credited to the General Reserve Fund in the following amounts and in the following order of priority: (i) to the Trustee for deposit in the Debt Service Account and the Debt Service Reserve Account in the Debt Service Fund, in that order, the amount necessary (or all moneys in General Reserve Fund, if necessary) to make up any deficiencies in payments to said Accounts required by the Resolution, (ii) to the Trustee for deposit in the Debt Service Reserve Account in the Debt Service Fund the amount necessary (or all moneys in the General Reserve Fund, if necessary) to make up any deficiency in such Account after giving effect to any surety bond, insurance policy or letter of credit deposited in such Account pursuant to the Resolution, resulting from any transfer of moneys from said Debt Service Reserve Account to the Debt Service Account, and (iii) to the Trustee for deposit in the Subordinated Debt Fund the amount necessary (or all moneys in the General Reserve Fund, if necessary) to make up any deficiency in such Fund.

Amount in the General Reserve Fund not required to meet a deficiency as reimbursed by the Resolution shall upon determination of the Authority be applied to or set aside for any one or more of the following:

- (i) the purchase or redemption of any Bonds, including without limitation Option Bonds tendered for payment and not remarketed, or purchase or redemption of Subordinated Debt, and to provide for expenses in connection with the purchase or redemption of any Bonds or Subordinated Debt or any reserves which the Authority determines shall be required for such purposes;
- (ii) payments into the Subordinated Debt Fund for application to the purposes of such Fund;
- (iii) transfer to the Operating Account in the Operating Fund for the payment of Operating Expenses;
- (iv) payment of any extraordinary operation and maintenance costs, including the prevention or correction of any unusual loss or damage, in connection with the Power Resources, all to the extent not provided for in the then current Annual Budget;
- (v) payments into any separate account or account established in the Construction Fund for application to the purposes of such account;
- (vi) payments to the State Treasurer for deposit in the State Water and Power Development Fund at the times and in the manner set forth in the Surplus Revenues Agreement; or
- (vii) any other lawful purpose of the Authority related to the Power Resources.

Upon any purchase or redemption pursuant to the preceding paragraph of Bonds of any series and maturity for which Sinking Fund Installments shall have been established, there shall be credited toward each such Sinking Fund Installment thereafter to become due (other than the next such date) an amount bearing the same ratio to such Sinking Fund Installment as the total principal amount of such Bonds so purchased or redeemed bears to the total amount of all such Sinking Fund Installments to be so credited. The portion of any such Sinking Fund Installment remaining after the deduction of any such amounts credited toward the same (or the original amount of any such Sinking Fund Installment if no such amounts shall have been credited toward the same) shall constitute the

unsatisfied balance of such Sinking Fund Installment due for the purpose of calculation of Sinking Fund Installments due on a future date. (Sections 504, 505, 506, 507, 508, 509, 510 and 511)

Additional Bonds; Refunding Bonds

One or more series of Additional Bonds may be authenticated and delivered upon original issuance at any time or from time to time for the purpose of paying all or a portion of the cost of acquisition and construction of any Additional Project. The issuance of Additional Bonds for an Additional Project is subject to certain conditions including delivery of a certificate of an authorized officer of the Authority setting forth (a) for any period of 12 consecutive calendar months within the 24 calendar months preceding the date of the authentication and delivery, the Net Revenues for such period, and (b) the Aggregate Debt Service during the period for which Net Revenues are set forth pursuant to (A) with respect to all Series of Bonds which were then Outstanding excluding from Aggregate Debt Service any Principal Installment or portion thereof which was paid from sources other than Revenues, and showing that the amount set forth in (A) is equal to or greater than the amount set forth in (B); and delivery of a certificate of the Consulting Engineer stating that the Net Revenues for each of the full Fiscal Years in the period specified in the next sentence, as such Net Revenues are estimated by the Consulting Engineer shall be equal to or greater than the Adjusted Aggregate Debt Service for each such Fiscal Year, as estimated by the Consulting Engineer. The period to be covered by such certificate shall be the period beginning with the Fiscal Year in which the Series of Bonds is authenticated and delivered and ending with the later of (a) the fifth full Fiscal Year after such date of authentication and delivery or (b) the first full Fiscal Year in which less than 10% of the interest coming due on Bonds estimated by the Consulting Engineer to be Outstanding is to be paid from deposits made from Bond proceeds in the Debt Service Account in the Debt Service Fund (including amounts, if any, to be transferred thereto from the Construction Fund). The proceeds, including accrued interest, of the Additional Bonds of each series shall be applied simultaneously with the delivery of such Bonds as provided in the supplemental resolution authorizing such series.

One or more series of Refunding Bonds may be issued at any time to refund Outstanding Bonds of one or more series or one or more maturities within a series or any Bonds of one or more maturities within one or more series. 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 Funds and Accounts under the Resolution required by the provisions of the supplemental resolution authorizing such Bonds. (Sections 204 and 205)

Subordinated Debt

The Authority may, at any time, or from time to time, issue Subordinated Debt for any of its corporate purposes payable out of, and which may be secured by a pledge of, such amounts in the Subordinated Debt Fund as may from time to time be available for the purpose of payment thereof; provided, however, that such pledge shall be, and shall be expressed to be, subordinate and junior in all respects to the pledge and lien created by the Resolution as security for the Bonds. For the purposes of this provision, Subordinated Debt shall include credit obligations payable from the Subordinated Debt Fund.

The Authority may also, at any time or from time to time, issue Subordinated Debt to refund any Subordinated Debt issued as provided in the Resolution or to refund Outstanding Bonds of one or more series or one or more maturities within a series. Such Subordinated Debt issued for refunding purposes may be payable out of, and may be secured by a pledge of, such amounts in the Subordinated Debt Fund as may from time to time be available therefor, provided that any such payment or pledge shall be, and shall be expressed to be, subordinate and junior in all respects to the pledge and lien created by the Resolution as security for the Bonds.

Any issue of Subordinated Debt may have such rank or priority with respect to any other issue as may be provided in the resolution, indenture or other instrument securing such issue of Subordinated Debt and may contain such other provisions as are not in conflict with the provisions of the Resolution. (Section 513)

Investment of Certain Funds

Moneys held in the Debt Service Fund shall be invested and reinvested by the Trustee to the fullest extent practicable in Investment Securities, (a) in the case of moneys held in the Debt Service Reserve Account within ten years, and (b) in the case of moneys held by the Debt Service Account not later than such times as shall be necessary to provide moneys when needed for payments to be made from such Account. Moneys held in the Revenue Fund and the Construction Fund may be invested and reinvested in Investment Securities which mature not later than such times as shall be necessary to provide moneys when needed for payments to be made from such Fund. Moneys held in the Operating Fund and the Power Resource Development Fund shall be invested in Investment Securities which mature within twelve months and moneys held in the General Reserve Fund shall be invested in Investment Securities which mature within 24 months, and in any case the Investment Securities in such Funds shall mature not later than such times as shall be necessary to provide moneys when needed for payments to be made from such Funds. Subject to the terms of any resolution, indenture or other instrument securing any issue of Subordinated Debt, moneys held in the Subordinated Debt Fund shall be invested and reinvested to the fullest extent practicable in Investment Securities which shall mature not later than such times as shall be necessary to provide moneys when needed for payments to be made from such Fund. The Trustee shall make all such investments of moneys held by it in accordance with written instructions from time to time received from any Authorized Officer of the Authority. In making any investment in any Investment Securities with moneys in any Fund or Account established under the Resolution, the Authority may instruct the Trustee or any Depository to combine such moneys with moneys in any other Fund or Account, but solely for purposes of making such investment in such Investment Securities.

Unless otherwise provided in a supplemental resolution and except as provided in the Resolution, interest (net of that which represents a return of accrued interest paid in connection with the purchase of any investment) earned or any gain realized on any moneys or investments in such Funds and Accounts, other than the Construction Fund, shall be paid into the Revenue Fund on a periodic basis at least quarterly as shall be directed by the Authority; provided, however, that at the direction of the Authority, such income earned on moneys or investments in any Fund or Account or any portion thereof shall be paid into the Construction Fund. Interest earned or gain realized on any moneys or investments in the Construction Fund shall be held in such Fund for the purposes thereof or, if so directed by the Authority, paid into the Revenue Fund. (Section 603)

Certain Covenants of the Authority

Creation of Lien and Sale and Lease of Property. The Authority shall not issue any bonds, notes, debentures, or other evidences of indebtedness of similar nature, other than the Bonds, payable out of or secured by a pledge or assignment of the Pledged Property or other moneys, securities or funds held or set aside by the Authority or by the Fiduciaries under the Resolution and shall not create or cause to be created any lien or charge on the Pledged Property, or such moneys, securities or funds; provided, however, that nothing contained in the Resolution shall prevent the Authority from issuing, if and to the extent permitted by law (i) evidences of indebtedness (a) payable out of moneys in the Construction Fund as part of the Cost of Acquisition and Construction of the Power Resources, or (b) payable out of, or secured by a pledge or assignment of, Revenues to be received on and after such date as the Pledge of the Revenues provided in the Resolution shall be discharged and satisfied, (ii) Subordinated Debt, or (iii) bonds, notes, debentures or other evidences of indebtedness payable out of the General Reserve Fund.

No part of, or interest of the Authority in, any of the Power Resources shall be sold, leased, mortgaged or otherwise disposed of, except that the Authority may sell or exchange at any time and from time to time any property or facilities constituting part of the Power Resources, other than its interest in the Upgrading Project, only if it shall determine that such property or facilities are not necessary for the purposes of the Authority in the operation of the Power Resources. The Authority may also, subject to any Power Resource Agreement relating to the use, operation and output of any Power Resource, lease or make contracts or grant licenses for the operation of, or make arrangements for the use of, or grant easements or other rights with respect to, any part of the Power Resources, provided that any such lease, contract, license, arrangement, easement or right (i) does not impede the operation by the Authority or its agents of the Power Resources and (ii) does not in any manner impair or adversely affect the rights or security of the Bondholders under the Resolution; and provided, further, that if the book value of the property to be covered by any such lease, contract, license, arrangement, easement or other right is

in excess of 1% of the book value of the assets of the Authority at such time, the Authority shall first file with the Trustee a certificate of the Consulting Engineer that the action of the Authority with respect thereto does not result in a breach of the conditions under this paragraph. Any payments received by the Authority under or in connection with any such lease, contract, license, arrangement, easement or right in respect of the Power Resources or any part thereof shall be deposited in the Revenue Fund. (Section 707)

Annual Budget. Not less than 60 days prior to the beginning of each Fiscal Year, the Authority shall prepare and file with the Trustee and the Consulting Engineer an Annual Budget for the ensuing Fiscal Year which shall set forth in reasonable detail the estimated Revenues and Operating Expenses and other expenditures relating to the Power Resources for such Fiscal Year and which shall include monthly appropriations for the estimated amounts to be deposited during each month in such year in the Operating Fund and the requirements, if any, for and the amounts estimated to be deposited during each month from each Fund and Account established under the Resolution. Such Annual Budget also may set forth such additional material as the Authority may determine. Following the end of each fiscal quarter and at such other times as the Authority shall determine, the Authority shall review its estimates set forth in the Annual Budget for such Fiscal Year, and in the event such estimates do not substantially correspond with actual Revenues, Operating Expenses or other requirements, or if there are at any time during any such Fiscal Year extraordinary receipts or payment of unusual costs, the Authority shall prepare an amended Annual Budget for the remainder of such Fiscal Year. The Authority also may at any time adopt an amended Annual Budget for the remainder of the then current Fiscal Year. (Section 711)

Rate Covenant. The Authority shall fix, establish, maintain and collect rents, rates, fees and charges under the Power Sales Contracts and shall otherwise charge and collect rents, rates, fees and charges for the use or the sale of the output, electric capacity and energy or service of the Power Resources, which together with other available Revenues are expected to produce Revenues for each Fiscal Year which will be at least sufficient for such Fiscal Year to pay the sum of:

- (i) all Operating Expenses for such Fiscal Year;
- (ii) a sum equal to the Aggregate Debt Service for such Fiscal Year computed as of the beginning of such Fiscal Year;
- (iii) the amount, if any, to be paid during such Fiscal Year into the Debt Service Reserve Account in the Debt Service Fund (other than amounts required to be paid into such Account out of the proceeds of Bonds);
- (iv) a sum equal to the debt service on any Subordinated Debt for such Fiscal Year computed as of the beginning of such Fiscal Year; and
- (v) amounts necessary to pay and discharge all charges or liens payable out of the Revenues when due and enforceable, provided, however, that any Principal Installment which is a Refundable Principal Installment may be excluded from Aggregate Debt Service for purposes of the foregoing but only to the extent that the Authority intends to any such Principal Investments from sources other than Revenues.

Promptly upon (a) any material decrease in any month in the Revenues anticipated to be produced by any rents, fees, rates or charges at the time of adoption of such rents, fees, rates or charges or any later review thereof, (b) any material increase in expenses of operation of the Power Resources on any month not contemplated at the time of adoption of the rents, fees, rates and charges then in effect or any later review thereof, or (c) any other material change in the circumstances which were contemplated at the time such rent, fees, rates and charges were most recently reviewed, but not less frequently than once every 12 months, the Authority shall review the rents, fees, rates and charges so established and shall promptly establish or revise such rents, rates, fees and charges as necessary to comply with the foregoing requirements, provided that such rents, fees, rates and charges shall in any event produce moneys sufficient to enable the Authority to comply with all its covenants under the Resolution.

The Authority will not furnish or supply or cause to be furnished or supplied any use, output or service of the Power Resources, free of charge to any person, firm or corporation, public or private, and the

Authority will enforce the payment of any and all accounts owing to the Authority by reason of the ownership and operation of the Power Resources by discontinuing such use, output or service, or by filing suit therefor within 120 days after any such accounts are due, or by both such discontinuance and by filing suit. (Section 712)

Power Sales Contracts; Amendment. The Authority shall collect all amounts payable to it pursuant to the Power Sales Contracts or payable to it pursuant to any other contract for the sale or use of output, capacity or other service from the Power Resources or any part thereof and as soon as practicable after receipt thereof, and in any event within ten days of such receipt, shall deposit the same into the Revenue Fund. The Authority shall enforce the provisions of the Power Sales Contracts and duly perform its covenants and agreements thereunder. The Authority will not consent or agree to or permit any rescission of or amendment to any Power Sales Contract unless it shall have delivered to the Trustee (a) a certificate of the Consulting Engineer stating that, in its opinion, such action will not preclude the Authority from complying with the covenant set forth in the Resolution, and (b) a certificate of an Authorized Officer of the Authority setting forth a determination by the Commission that, taking into account all relevant facts and circumstances, including, if and to the extent the Authority deems appropriate, the advice or opinions of the Consulting Engineer as to engineering matters, its Bond Counsel as to legal matters and other consultants and advisors, such action will not have a material adverse effect on the interests of Bondholders. A copy of each Power Sales Contract certified by an Authorized Officer of the Authority shall be filed with the Trustee, and prior to execution by the Authority of any such amendment thereof, a copy of such amendment certified by the Authorized Officer of the Authority shall be filed with the Trustee. Nothing contained herein shall be deemed to prevent the Authority from enforcing the terms and provisions of the Power Sales Contract. (Section 713)

Maintenance of Insurance. Subject to the Power Resources Agreements, the Authority shall at all times use its best efforts to keep or cause to be kept the properties of the Power Resources which are of an insurable nature (and for which the Authority has the Obligation to insure or cause to be insured pursuant to the Power Resource Agreement) and of the character usually insured by those operating properties similar to the Power Resources insured against loss or damage by fire and from other causes customarily insured against and in such relative amounts so are usually obtained. The Authority shall at all times use its best efforts to maintain or cause to be maintained insurance or reserves against loss or damage from such hazards and risks to the person and property of others as are usually insured or reserved against by those operating properties similar to the properties of the Power Resources. The Authority shall only be required to obtain such insurance if the same is available at reasonable rates and upon reasonable terms and conditions but if such insurance is not so obtainable, the Authority shall deliver an opinion to the Trustee of an independent insurance consultant to that effect. (Section 714)

Accounts and Reports. The Authority shall keep or cause to be kept proper books of record and account (separate from all other records and accounts) in which complete and correct entries shall be made of its transactions relating to the Power Resources and each Fund and Account established under the Resolution and which, together with all other books and papers of the Authority, including insurance policies, relating to the Power Resources, shall at all times be subject to the inspection of the Trustee and the Holders of an aggregate of not less than 5% in principal amount of the Bonds then Outstanding or their representatives duly authorized in writing.

The Trustee and the Authority shall advise each other promptly after the end of each fiscal quarter of their respective transactions during such quarter relating to each Fund and Account held by it under the Resolution.

The Authority shall annually, within 120 days after the close of each Fiscal Year, file with the Trustee and otherwise as provided by law, a copy of an annual report for such Fiscal Year, accompanied by a certificate of an Accountant relating to the Power Resources which shall include the following statements in reasonable detail; a statement of assets and liabilities as of the end of such Fiscal Year; a statement of Revenues and Operating Expenses for such Fiscal Year; and a summary with respect to each Fund and Account established under the Resolution of the receipts therein and disbursements therefrom during such Fiscal Year and the amount held therein at the end of such Fiscal Year. Such certificate shall state whether or not, to the knowledge of the signer, the Authority is in default with respect to any of the covenants, agreements or conditions on its part contained in the Resolution, and if so, the nature of such default. The annual report of the Authority required by the Act, if it includes the statements required herein although for a different period, may be used by the Authority in lieu of the annual report required of this paragraph.

The reports, statements and other documents required to be furnished to the Trustee pursuant to any provisions of the Resolution shall be available for the inspection of Bondholders at the office of the Trustee and shall be mailed to each Bondholder who shall file a written request therefor with the Authority. The Authority may charge for such reports, statements and other documents, a reasonable fee to cover reproduction, handling and postage.

The Authority shall file with the Trustee (a) forthwith upon becoming aware of any Event of Default or default, in the performance by the Authority of any covenant, agreement or condition contained in the Resolution, a certificate signed by an Authorized Officer of the Authority and specifying such Event of Default or default, and (b) within 120 days after the end of each Fiscal Year a certificate signed by an Authorized Officer of the Authority stating that, to the best of his knowledge and belief, the Authority has kept, observed, performed and fulfilled each and every one of its covenants, agreements and obligations, contained in the Resolution and there does not exist at the date of such certificate any default by the Authority under the Resolution or any Event of Default or other event which, with the lapse of time would become an Event of Default, or, if any such default or Event of Default or other event shall so exist, specifying the same and the nature and status thereof. (Section 716)

State Water and Power Development Fund

To the extent required by the Act, amounts, if any, deposited in the State Water and Power Development Fund pursuant to the Surplus Revenues Agreement shall be accumulated therein as a bond reserve which is equal to the sum of the maximum Debt Service on the Bonds in the then current or any future Fiscal Year and the maximum principal and interest coming due on outstanding Subordinated Bonds in the then current or any future Fiscal Year.

To the extent required by the Act, any time the amount on deposit in the State Water and Power Development Fund is in excess of said bond reserve, such excess shall be paid by the State Treasurer upon written application thereof by an Authorized Officer of the Authority to the Trustee for deposit in the Debt Service Account in the Debt Service Fund and such excess shall be deemed Revenues for the purpose of the Resolution.

The State Treasurer shall, as required by the Act, apply moneys deposited into the State Water and Power Development Fund in the following amounts and in the following order of priority: (i) to the Trustee for deposit in the Debt Service Account and the Debt Service Reserve Account in the Debt Service Fund, in that order, the amount necessary (or all moneys in the State Water and Power Development Fund, if necessary) to make up any deficiencies in payments to said Accounts required by the Resolution, (ii) to the Trustee for deposit in the Debt Service Reserve Account in the Debt Service Fund the amount necessary (or all moneys in the State Water and Power Development Fund, if necessary) to make up any deficiency in such Account after giving effect to any surety bond, insurance policy or letter of credit deposited in such Account pursuant to the Resolution, resulting from any transfer of moneys from said Debt Service Reserve Account to the Debt Service Account, and (iii) to the Trustee for deposit in the Subordinated Debt Fund the amount necessary (or all moneys in the State Water and Power Development Fund, if necessary) to make up any deficiency in such Fund. (Section 718)

Events of Default

The following events shall constitute an Event of Default under the Resolution:

- (i) failure of the Authority to pay the principal of redemption price of any Bond when due;
- (ii) failure of the Authority to pay any installment of interest on any Bond or the unsatisfied balance of any Sinking Fund Installment therefor when due;
- (iii) failure of the Authority to perform or observe 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; or
- (iv) certain events of bankruptcy or insolvency.

Upon the happening of an Event of Default, the Trustee or the Holders of not less than 25% in principal amount of the Bonds Outstanding 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 shall become and be immediately due and payable; provided that if any Bonds are insured Bonds then the acceleration of such Bonds is subject to the counsel of the Insurer.

If an Event of Default shall happen and shall not have been remedied, the Authority, upon the demand of the Trustee, shall pay over or cause to be paid over to the Trustee (a) forthwith, all Pledged Property then held by the Authority under the Resolution, and (b) all Revenues which are not paid directly to the Trustee as promptly as practicable after receipt thereof.

During the continuance of the Event of Default, the Trustee shall apply the Pledged Property including all moneys, securities, funds and Revenues received by the Trustee pursuant to any right given or action taken under the provisions of the Resolution, to, *inter alia*, the payment of all installments of interest then due in the order of the maturity of such installments, together with accrued and unpaid interest on the Bonds theretofore called for redemption 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 to the payment 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; provided, however, that if the principal of all of the Bonds shall have become or have been declared due and payable, the Trustee shall apply such Pledged Property to, *inter alia*, 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 Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds.

If an Event of Default shall happen and shall not have been remedied, the Trustee may proceed, and upon written request of the Holders of not less than 25% in principal amount of the Bonds Outstanding shall proceed, to protect and enforce its rights and the right 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 contained in, or in aid of the execution of any power granted in the Resolution, or for an accounting against the Authority as if the Authority 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.

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 is in good health 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.

Regardless of the happening of an Event of Default, the Trustee shall have power to, but unless requested in writing by the Holders of 25% 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 interests and the interests of the Bondholders.

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 defined in the Resolution, and the Holders of at least 25% in principal amount of the Bonds then Outstanding shall have filed a written request with the Trustee, and shall have offered the Trustee reasonable opportunity, either to exercise the Powers granted in the Resolution or by the laws of the State 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, fees (including reasonable attorneys' fees), 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.

Nothing in the Resolution or in the Bonds contained shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay at the respective dates of maturity and places therein expressed the principal of (and premium, if any) 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 its Bond. (Sections 801, 903, 804 and 805).

Notice of Default. The Trustee shall promptly mail written notice of the occurrence of any Event of Default and to each registered owns of Bonds then Outstanding at his address, if any, appearing upon the registry books of the Authority. (Section 808)

Trustee; Paying Agents

The Resolution requires the appointment by the Authority of a Trustee and one or more Paying Agents (which may include the Trustee). The Trustee may at any time resign by giving not less than 90 days written notice to the Authority and may be removed at any time by the Holders. Any successor Trustee shall be a bank or trust company organized under the laws of any state or a national banking association and shall have capital stock, surplus and undivided earnings aggregating at least \$50,000,000. (Sections 901, 902, 907, 908 and 909)

Amendments and Supplemental Resolutions

Any modification or amendment of the Resolution and of the rights and obligations of the Authority and of the Holders of the Bonds thereunder, in any particular, may be made by a supplemental resolution, with the written consent (i) of the Holders of at least a majority 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 are affected by the modification or amendment, of the Holders of at least a majority in principal amount of the Bonds of each series so affected 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. No such modification or amendment shall permit a change in the terms of redemption (including Sinking Fund Installments) or maturity of the principal of any Outstanding Bond or of any, installment of interest thereon or a reduction in the principal amount or be 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.

The Authority may adopt (without the consent of any holders of the Bonds) at any time or from time to time, a supplemental resolution for any one or more of the following purposes:

- (1) To close the Resolution against the authentication and delivery of Bonds or the issuance of other evidences of indebtedness;
- (2) To add to the covenants and agreements of the Authority in the Resolution;
- (3) To add to the limitations and restrictions in the Resolution and restrictions to be observed by the Authority;
- (4) To authorize Bonds of a series;

- (5) To authorize, in compliance with all applicable law, Bonds of each series to be issued in the form of coupon Bonds;
- (6) To authorize, in compliance with all applicable law, Bonds of each series to be issued in the form of Bonds issued and held in book-entry form;
- (7) Notwithstanding any other provisions of the Resolution, to authorize Bonds of a series having terms and provisions different than the terms and provisions theretofore provided in the Resolution;
- (8) To confirm any pledge or assignment under the Resolution of the Pledged Property;
- (9) To comply with the provisions of any federal or state securities law, including, without limitation, the Trust Indenture Act of 1939, as amended, or to comply with Section 103 of the Internal Revenue Code of 1954, as amended; and
- (10) To modify any of the provisions of the Resolution in any other respect whatever, provided that such modification shall be effective only after all Bonds of each series Outstanding at the date of the adoption of such Supplemental Resolution shall cease to be Outstanding. (Sections 1001 and 1102)

Defeasance

If the Authority shall pay or cause to be paid, or there shall otherwise be paid, to the Holders of all Bonds the principal or redemption price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated in the Bonds and in the Resolution, then such Bonds shall cease to be entitled to any lien, benefit or security under the Resolution, and all covenants, agreements and obligations of the Authority to the Holders of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

Bonds or interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Paying Agents at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed in the Resolution, as described in the preceding sentence. All Outstanding Bonds 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 Resolution if the following conditions are met: (i) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee instructions to mail notice of redemption of such Bonds on said date, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Investment 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 or prior to the redemption date or maturity date thereof, as the case may be, and (iii) in the event said Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Authority shall have given the Trustee instructions to mail a notice to the Holders of such Bonds that the deposit described above has been made with the Trustee and that said Bonds are deemed to have been paid and stating such maturity or redemption date upon which moneys are expected to be available for the payment of the principal or redemption price, if applicable, on said Bonds. Investment Securities described in clause (i) of the definition of Investment Securities only may be used for the purposes of defeasance. (Section 1201)

SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL CONTRACTS

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SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL CONTRACTS

THE WESTERN CONTRACT

The following is a summary of certain provisions of the Contract for Electric Service (the “Western Contract”) and is not to be considered as a full statement of the provisions thereof. This summary is qualified by reference to and is subject to the complete Western Contract.

Unless the context clearly requires otherwise, all terms used herein shall have the meanings as hereinafter set forth.

“Administrator” means the Administrator of Western.

“Advance Credits” means credits provided by Western at any time in addition to those to be provided based upon the Credit Schedule of the Contractor at the time in effect.

“Advance Credits Account” means the account established by the Contractor pursuant to the Western Contract.

“Advances” means advances made or anticipated to be made pursuant to the Bureau Contract or the Interim Contract or both.

“Billing Period” means the service period beginning on the first day and extending through the last day of any calendar month.

“Boulder Canyon Project” means all work authorized by the Boulder Canyon Project Act, the Hoover Power Plant Act, and any additions authorized by Congress to be constructed and owned by the United States, but exclusive of the main canal and appurtenances authorized by the Boulder Canyon Project Act, known as the All-American Canal.

“Boulder City Area Projects” means the Boulder Canyon Project, the Parker-Davis Project, and the United States entitlement in the Navajo Generating Station (a feature of the Central Arizona Project).

“Bureau” means the Bureau of Reclamation of the Department of the Interior of the United States of America and the successors and assigns to its duties and functions.

“Bureau Contract” means the Contract between the Bureau and a Schedule B Contractor, for the Advance of Funds for the Uprating Program at Hoover Powerplant.

“Colorado River Dam Fund” means the special fund in the United States Treasury established by Section 2(a) of the Boulder Canyon Project Act and available for carrying out the provisions of said Act, the Boulder Canyon Project Adjustment Act, and the Hoover Power Plant Act.

“Contingent Capacity” means the aggregate of Schedule A Contingent Capacity and Schedule B Contingent Capacity.

“Contract Capacity” means the amount of capacity to which the Contractor is entitled pursuant to the Western Contract.

“Contractors” means the entities entering into contracts with Western for electric service pursuant to the Hoover Power Plant Act.

“Credit Amount” means, with respect to any Billing Period, the sum of the following:

- (1) The amount accruing for payment by or on behalf of the Schedule B Contractor with respect to Indebtedness and Periodic Interest Costs in such Billing Period (excluding any portion thereof scheduled to be paid from debt service or other reserves with respect to Indebtedness), as shown by the most recent Credit Schedule furnished to Western by the Schedule B Contractor;
- (2) With respect to the month of July 1987, the Credit Amount shall also include the amount accruing for payment by or on behalf of the Schedule B Contractor with respect to Indebtedness and Periodic Interest Costs prior to July 1, 1987, as shown by the most recent Credit Schedule furnished to Western by the Schedule B Contractor;
- (3) The amount of any Credit Carryforward to be included in the Credit Amount for such Billing Period pursuant to the Western Contract; and
- (4) The amount (positive or negative) of any Credit Difference not yet applied by Western pursuant to the Western Contract.

“Credit Carryforward” means to the extent that, after applying the Credit Amount for any calendar month Billing Period to the power bill of the Contractor rendered in such calendar month, there shall remain a portion of the Credit Amount which has not been so applied, the portion of the Credit Amount so remaining shall constitute a Credit Carryforward.

“Credit Difference” means the amount of any difference between (i) the amounts accrued with respect to Indebtedness and Period Interest Costs during a Fiscal Year, and (ii) the amounts included in the last Credit Schedule with respect to such Fiscal Year.

“Credit Schedule” means an annual schedule provided to the Bureau and Western by the Contractor, setting forth the Contractor’s estimate of the amounts payable by or on behalf of the Contractor with respect to all Indebtedness then outstanding and all related Periodic Interest Costs with respect to each calendar month in the Fiscal Years covered thereby.

“Express Capacity” means the extent that the Output Capability less any Western Capacity is greater than the Rated Capacity.

“Express Energy” means Energy in excess of 4,501,001,000 kilowatthours in any Fiscal Year obligated from the Hoover Powerplant pursuant to Section 105(a)(1)(C) of the Hoover Power Plant Act.

“Federal Projects on the Colorado River” means the Boulder Canyon Project, the Parker-Davis Project, and the Colorado River Storage Project system, consisting of the Glen Canyon, Flaming Gorge and Wayne Aspinall units.

“Firm Energy” means Energy obligated from the Hoover Powerplant pursuant to Section 105(a)(1)(A) and/or Section 105(a)(1)(B) of the Hoover Power Plant Act.

“Fiscal Year” means the 12-month period so designated by federal law. Until changed by federal law, Fiscal Year means the period commencing October 1 of each year, immediately following midnight September 30, and ending at midnight September 30 of the following year.

“Funded Interest Costs” means that portion of Interest Costs paid or anticipated to be paid from the proceeds of Indebtedness.

“Indebtedness” includes the following:

- (1) The amount of all borrowed money and all guarantees, assumptions and other contingent liabilities incurred to finance Advances, and the amount of all borrowed money, guarantees, assumptions and liabilities incurred to finance Funded Interest Costs; and

(2) the amount of funds furnished to the Bureau by the Schedule B Contractor as Advances, to the extent such funds are derived by the Schedule B Contractor from sources other than described in clause (1) above, whether incurred or provided by the Schedule B Contractor or by any entity acting on behalf of, or as assignee of, the Schedule B Contractor.

“Interest Costs” means all amounts used or anticipated to be used for interest payments, issuance expenses, discounts, reserves, credit support and similar fees, remarketing fees and other financing expenses (to the extent such other financing expenses are incurred to service or reduce interest payments with respect to Indebtedness); whether incurred by the Schedule B Contractor or by any entity acting on behalf of, or assignee of, the Schedule B Contractor.

“Interim Contract” means the Interim Contract Relating to the Upgrading Program at Hoover Powerplant dated March 11, 1986 entered into by the Contractors and the United States.

“Output Capability” means the capacity available from Hoover Powerplant at the Boulder Canyon Project points of delivery at any given time with all units and equipment in service.

“Periodic Interest Costs” means that portion of Interest Costs not constituting Funded Interest Costs.

“Power” means Contract Capacity, Firm Energy, and Excess Energy.

“Rated Capacity” means the capacity of the Hoover Powerplant at the Boulder Canyon Project points of delivery at a net effective head of 498 feet with all units and equipment in service.

“Schedule A Contingent Capacity” means the capacity shown in the schedule so captioned appearing in section 105(a)(1)(A) of the Hoover Power Plant Act.

“Schedule A Contract Capacity” means the quantity of capacity calculated in accordance with the Western Contract.

“Schedule A Contractor” means an entity that enters into a contract with Western pursuant to Section 105(a)(1)(A) of the Hoover Power Plant Act.

“Schedule B Contingent Capacity” means the capacity shown in the schedule so captioned appearing in section 105(a)(1)(B) of the Hoover Power Plant Act, supplemented, as to users in California, by the allocation appearing in 50 Fed. Reg. 47830 *et seq.*, November 20, 1985.

“Schedule 13 Contract Capacity” means the quantity of capacity calculated in accordance with the Western Contract.

“Schedule B Contractor” means an entity that enters into a contract with Western pursuant to Section 105(a)(1)(B) of the Hoover Power Plant Act and enters into a Bureau Contract.

“Upgrading Program” means the program authorized by Section 101(a) of the Hoover Power Plant Act for increasing the capacity of existing generating equipment and appurtenances at the Hoover Powerplant.

“Western Capacity” means the capacity to which Western is entitled pursuant to the Western Contract.

“WSCC” means the Western Systems Coordinating Council, an affiliation of electric utility systems established to promote reliable operation of the interconnected bulk power systems through the coordination of planning and operation of generating and interconnected transmission facilities.

Term

The Western Contract, subject to prior termination as otherwise provided in the Western Contract, shall remain in effect until midnight, September 30, 2017, without prejudice to any right conferred on the Contractor by the Boulder Canyon Project Act, as amended and supplemented, provided that the Contractor is not in default under the Western Contract on September 30, 2017.

Electric Service to be Furnished

Power Generation and Delivery Responsibilities. Power generation, and the associated operation, maintenance, and making of replacements, however necessitated, of facilities and equipment at the Hoover Powerplant are the responsibilities of the Bureau.

Subject to the statutory requirement that Hoover Dam and Lake Mead shall be used: first, for river regulation, improvement of navigation and flood control; second, for irrigation and domestic uses and satisfaction of present perfected rights mentioned in section 6 of the Boulder Canyon Project Act; and third, for power. The Bureau shall release water, make available generating capacity, and generate energy, in such quantities, and at such times, as are necessary for the delivery of the capacity and energy to which Contractors are entitled.

The Bureau reserves the right to reschedule, temporarily discontinue, reduce, or increase the delivery of water for the generation of electrical energy at any time for the purpose of maintenance, repairs, and/or replacements, and for investigations and inspections necessary thereto, or to allow for changing reservoir and river conditions, or for changes in kilowatthours generation per acre-foot, or by reason of compliance with the statutory requirement; provided, that the Bureau shall, except in case of emergency, give Western reasonable notice in advance of any change in delivery of water and Western shall promptly forward such notice to the Contractors, and that the Bureau shall make such inspections and perform such maintenance and repair work at such times and in such manner as to cause the least inconvenience possible to the Contractors and that the Bureau shall prosecute such work with diligence and, without unnecessary delay, resume delivery of water as scheduled.

Western shall operate, maintain, replace and repair the Federal transmission system in order to deliver the Contractor's Contract Capacity, Firm Energy, and Excess Energy entitlements from the Hoover Powerplant to Boulder Canyon Project points of delivery. Western shall measure and account for Power deliveries, render bills, and maintain books of account to ensure the financial integrity of the Boulder Canyon Project.

Western shall accept from the Bureau and, subject to the terms and conditions stated in the Western Contract, shall schedule, deliver, and measure Power to the Contractor, from and after each date of initial service at the point(s) of delivery and voltage(s) set forth in the Western Contract.

Power being fungible, Western shall be permitted to satisfy its obligations under the Western Contract by use of generation from Hoover Powerplant or other sources of generation available to Western; provided, that the measure of the Contractor's rights to Power under the Western Contract, shall be the quantity of capacity and energy available from Hoover Powerplant. Subject to the contract rights of all Contractors being preserved, and except as otherwise provided in the Western Contract, Western will utilize the Boulder Canyon Project to optimize the operation of the Federal system. Western shall be obligated to provide regulation, ramping and spinning reserves to the Contractor in quantities that can be provided by Hoover Powerplant; provided, that Western may provide regulation, ramping and spinning reserves from other Federal projects on the Colorado River if they can be made available from such other projects with the same quality as if they were provided by Hoover Powerplant.

Undertaking of Western to Schedule Contract Capacity. Western shall schedule and measure, and the Contractor shall accept, the Contractor's Contract Capacity as set forth in the Western Contract.

If the Upgrading Program results in Rated Capacity greater than or equal to 1,951,000 kilowatts, Western shall be entitled to use the Output Capability in excess of 1,951,000 kilowatts only for the purpose of meeting Western's contractual obligations to provide firm capacity at the Federal Projects on the Colorado River.

Any such capacity not used by Western for the purpose specified above shall be available to Schedule A and Schedule B Contractors.

Reductions in Contract Capacity and Western Capacity may result due to forced or planned outages, the Upgrading Program as scheduled the Bureau, river operations, or reservoir drawdown.

Any reduction in capacity due to a reduction in generating capacity or in the use of capacity of the Hoover Powerplant, whether scheduled or unscheduled, shall be determined by the Bureau.

Any reduction in capacity due to a reduction in transfer capability, whether scheduled or unscheduled, of the Boulder Canyon Project transmission or delivery system, shall be determined by Western.

Reductions in the Contractor's Contract Capacity and Western Capacity shall be allocated as follows:

- (1) Any such reductions in capacity shall first be made from Excess Capacity available and shall be borne pro rata by the Schedule A and Schedule B Contractors receiving Excess Capacity.
- (2) Any such reductions in capacity shall secondly be borne by the Western Capacity to the extent that such Western Capacity exists.
- (3) Any further such reductions in capacity shall then be borne by:
 - (i) Schedule B Contractors on a pro rata basis if the reduction is due to the Upgrading Program as scheduled by the Bureau. To the extent such reduction exceeds the Contract Capacity of the Schedule B Contractors, the remaining reduction shall be borne by Schedule A Contractors on a pro rata basis.
 - (ii) Schedule A and Schedule B Contractors on a pro rata basis if the reduction is due to a reason other than the scheduling of the reduction pursuant to the Upgrading Program. To the extent such reduction exceeds the Contract Capacity of the Schedule B Contractors, the remaining reduction shall be borne by Schedule A Contractors on a pro rata basis.

As each increment of the Upgrading Program becomes operable, the increase shall be made available to the Schedule B Contractor as determined in the Western Contract.

Electric energy shall be delivered to the Contractor in quantities which the Contractor may from time to time schedule, up to the Contract Capacity the Contractor is entitled to receive. The simultaneous rate of delivery of Firm Energy and Excess Energy at the points of delivery shall not exceed the Contractor's Contract Capacity. Said Contract Capacity will be available in any hour within the Billing Period, except as otherwise provided. During any period when the quantity of Contract Capacity available to a Contractor is not sufficient to deliver the Contractor's Firm Energy and Excess Energy entitlements, subject to the availability of general capability, the simultaneous rate of delivery for all points of delivery will be allowed on an interruptible basis to exceed the Contractor's Contract Capacity.

Energy Entitlement. Whenever Excess Energy is available, Western shall deliver it in accordance with the order of priority set forth in the Western Contract. After the first and second priority entitlement to Excess Energy has been obligated for delivery, Western shall make available one-third of the third-priority Excess Energy to Arizona, one-third to Nevada, and one-third to the California Contractors.

When Excess Energy is forecast, scheduled, and delivered during any period and later during such period it is forecast that only Firm Energy or a reduced quantity of Excess Energy deliveries can be made, the amount of over-delivered Excess Energy shall be accounted for in an energy delivery deviation account. The return of energy to Western by the Contractor receiving the over-delivered Excess Energy shall be made pursuant to written metering and scheduling instructions developed pursuant to the Western Contract. Unless otherwise agreed,

this amount of energy should be (i) returned at mutually agreed upon points and rates of delivery within 12 months of the date of notice of the change in characterization of energy, and (ii) returned during on-peak hours. Returned energy deliveries by the Contractor shall not affect the rights of other Contractors.

The Contractor may be required by Western to schedule a minimum raw of delivery of energy during the off-peak hours. The Contractor's hourly minimum rate of delivery of energy as a result of the Bureau complying with required minimum water releases shall be the lesser of (i) 25 % of the Contractor's total Firm Energy for the Billing Period involved divided by the off-peak hours for that period; or (ii) the Contractor's proportional share of total Firm Energy and Excess Energy for the Billing Period involved multiplied by the overall minimum rate of delivery of energy for required minimum water releases. Scheduled power purchases will not affect the minimum rate of delivery required by minimum water releases.

At the request of the Contractor and at the Contractors expense, Western shall purchase energy to meet that Contractor's Firm Energy deficiency. The price of firming energy shall be billed monthly at Western's estimated annual average purchase price for firming energy, adjusted to the actual price, without interest, as soon after the end of the Fiscal Year as such prices can be determined. Such firming arrangements are to be evidenced by prior written agreement between the parties. The price to the Contractor for firming energy purchased for the Contractor shall not include the Lower Colorado River Basin Development Fund Contribution Charge of 4.5 mills per kWh.

If the Contractor determines it is temporarily unable to utilize Firm Energy or Excess Energy available to it, Western will, at the Contractor's request, attempt to lay off all or part of the Firm Energy or Excess Energy the Contractor declares to be available for lay off, first to other Contractors in the same state and then to the other Contractors, and then to any potential purchaser. No other Contractor shall be obligated to accept any lay off of Firm Energy or of Excess Energy. The rate to be paid by a purchaser agreeing to accept laid off Firm Energy or Excess Energy shall be the rate that would have been paid by the Contractor requesting the lay off of such energy or at the best lesser rate obtainable. A Contractor requesting Western to lay off Firm Energy or Excess Energy shall not be relieved of its obligation to pay for such Firm Energy or Excess Energy, but any revenues received by Western shall be credited against the requesting Contractor's obligation.

Procedure for Scheduling Quantities of Energy Available. Western will use the Boulder Canyon Project with other resources available in order to make the deliveries of Power from the Boulder Canyon Project more useful to the Contractors. Western will identify the term of transactions that will permit Western to accomplish this goal. In the event that said terms can be agreed upon by Western and the Contractor as evidenced by the Contractor's acceptance of the annual schedule of deliveries Western will finalize the arrangements for the transactions. Acceptance of such integration shall be at the sole discretion of the Contractor. Such integration shall not impair the rights of any other Contractor.

Prior to May 1 of each year, Western shall furnish to the Contractor for review (i) the Bureau's estimated annual operating schedule for the Hoover Powerplant showing estimated power generation and estimated maintenance and Upgrading Program outages; (ii) a draft release pattern schedule showing the best forecast of energy and a tabulation of forecasted capacity available to the Contractors during the ensuing 12-month period beginning on June 1, by months, from the Boulder Canyon Project; and (iii) a listing of proposed transactions, including firming energy purchases, and that; resulting energy projected to be available to the Contractors during the ensuing 12-month period beginning on June 1, by months, through integration of the Boulder Canyon Project with other projects and sources available to Western.

Within fifteen (15) day, after receipt of the information listed above each Contractor shall submit to Western comments on the draft release pattern schedule and outage schedule, and proposed schedules of that Contractor's use of capacity, Firm Energy, firming energy and Excess Energy, by months, for the year beginning on June 1 and extending through May 31 of the next year.

Western shall thereupon prepare and furnish to the Contractors a preliminary release pattern schedule and preliminary integration schedule for the ensuing 12-month period beginning on June 1, taking into consideration to the extent possible the Contractor's proposed schedules.

The Contractor shall have 10 days from receipt of the preliminary release pattern schedule and preliminary integration schedule to submit alternative schedules for delivery of its Firm Energy, firming energy and Excess Energy.

Western shall meet with all interested Contractors to review the preliminary release pattern schedule, preliminary integration schedule, alternative schedules, power rates, and any other items suggested by a Contractor. Western shall provide written notice to the Contractors of the date and location of such meeting. After Western has considered the information provided by the Contractor(s) prior to or at such meeting, it shall issue the final release pattern schedule and integration schedule.

Within five days after receipt of the final release pattern schedule and integration schedule, the Contractor shall then choose i) between the aforementioned schedules, and (ii) specify the quantity of firming energy to be purchased by Western on behalf of the Contractor. The Contractor's choice shall become the master schedule for the Contractor for the ensuing 12-month period, beginning June 1. If the Contractor chooses the release pattern schedule, its rights under the Western Contract shall not be diminished or impaired. Western shall furnish a master schedule to each Contractor showing the combined deliveries to all Contractors.

In the event of forced outages, or a change in forecasted river operations or in change outages that necessitates a revision to the then effective master schedule, a revised master schedule shall be furnished to the Contractors as soon as possible after the data become available. Western shall consider any information submitted by the Contractor regarding such revised master schedule and shall make changes in such revised master schedule as Western deems appropriate.

Use of Generation. Within the constraints of outages, river operations, or reservoir drawdown, and to the extent the contractor does not exceed its energy entitlement, emergencies excepted, the Contractor shall have the right to schedule loaded synchronized generation and unloaded synchronized generation, the sum of which shall not exceed the Contractor's Contract Capacity.

The Contractor, through use of a dynamic signal from the Contractor or a scheduling entity to a control center designated by Western, or through such other methods and procedures as the Contractor and Western may agree, shall have the right to use previously scheduled synchronized generation for regulation, ramping from zero to full schedule synchronized generation and the reverse, and spinning reserves in accordance with the provisions of the Western Contract.

During emergencies the Contractor shall have the right for up to 12 hours, to schedule capacity in excess of previously scheduled amounts, up to its Contract Capacity. In the event that delivery of energy during emergencies causes the Contractor's monthly energy entitlement to be exceeded, the energy delivered in excess of the monthly energy entitlement shall be returned to Western during on-peak hours within seven (7) days of the occurrence of the emergency.

Except as otherwise provided, the Contractor's use of energy to support the use of unloaded synchronized generation for regulation, ramping and spinning reserves shall result in reduction in its energy entitlement during on-peak hours in the next succeeding Billing Period. The amount of reduction during peak hours in the Contractor's monthly energy entitlement shall be the Contractor's proportional share of the energy used to support unloaded synchronized generation for the benefit of all Contractors using Hoover Power Plant Contingent Capacity and Firm Energy.

Coordination of Power System. Except as the authorized representatives of the parties may from time to time otherwise agree, each party shall provide or cause to be provided the reactive kilovoltamperes required for the supply of its reactive power requirements and its share of the reactive requirements for voltage control at a point of interconnection between Western and the Contractor, or between Western and the Contractor's suppliers, subcontractors, agents, or customers. The parties shall coordinate the utilization of generation control equipment, capacitors, or reactors to maintain transmission voltages and reactive flows at acceptable levels for full system performance and stability.

Each party shall provide or cause to be provided its spinning reserve requirements for its load; provided, that such reserves shall meet or exceed the minimum reserve criteria established by the WSCC or a successor organization.

Deliveries of Power shall be made pursuant to written metering and scheduling instructions developed and agreed upon by the authorized representatives, or between Western and the scheduling entity subject to the approval of the authorized representative of the Contractor, prior to June 1, 1987, detailing the operating arrangements and scheduling and accounting procedures to be used. Such written metering and scheduling instructions shall be developed in conformity with the following principles:

- (1) Metering and scheduling instructions are intended to implement the terms of the Western Contract but not to modify or amend it and are, therefore, subordinate to the Western Contract.
- (2) It is the Contractor's responsibility to effectuate agreement(s) with any third party or parties which may be necessary to enable the Contractor to accept deliveries under the Western Contract.
- (3) In the event the Contractor's authorized representative or scheduling entity fails or refuses to execute the initial metering and scheduling instructions or any revised instructions which Western determines to be necessary, Western shall develop and temporarily implement revised instructions until mutually acceptable instructions have been developed and executed by Western, the scheduling entity and the authorized representative.

Billings, Payments and Scheduling of Rates

General. The Contractor shall pay monthly for electric service under the Western Contract in accordance with the rates developed pursuant to the 1986 Regulations, other applicable regulations and, to the extent applicable, Department of Energy Order No. RA-6120.2, as each may hereafter be amended or supplemented.

Payment for Capacity. The Contractor shall pay for all of its proportionate share of Schedule A Contingent Capacity (1,488,000 kW) and its proportionate share of Schedule B Contingent Capacity completed under the Upgrading Program (Rated Capacity less 1,488,000 kW, not to exceed 503,000 kW) at the then effective capacity charge when Contract Capacity is equal to or greater than 1,000,000 kW at any time during a Billing Period. In the event that Contract Capacity is less than 1,000,000 kW during an entire Billing Period, the Contractor shall pay the then effective capacity charge for the maximum quantity of Contract Capacity available to it at any time during the Billing Period.

Revenue Insufficiency During Periods of Reduced Generation. In order to permit the Bureau to operate and maintain the facilities of the Boulder Canyon Project when generation has been reduced to a point where the revenues are insufficient to meet the cost of operation and maintenance, the Contractor shall pay a pro rata portion of any monthly deficiency as provided in the Western Contract.

If the Bureau estimates that for two or more consecutive Billing Periods, hereinafter referred to as the "Period of Insufficiency," revenues from the sale of Power from the Hoover Powerplant will not be sufficient to pay all of the operation and maintenance costs of the Boulder Canyon Project for the Period of Insufficiency, the Bureau shall notify Western and Western shall notify the Contractor of the anticipated insufficiency. In making such estimates, the Bureau shall first apply all funds available under Section 2(a) of the Boulder Canyon Project Adjustment Act, as amended, including anticipated revenues during the Period of Insufficiency and any other appropriated funds including emergency funds which are made available to the Bureau under any other applicable provision of law, to meet the insufficiency. If the Bureau determines that such available funds are inadequate to pay operation and maintenance costs, the Bureau shall notify Western indicating the estimated monthly deficiency to the end of the Period of Insufficiency. Western shall bill the Contractor for its pro rata share of the monthly deficiency in addition to the bill for capacity and energy actually made available. Such pro rata share shall be based 50% on the Contractor's percentage allocation of Contingent Capacity and 50% on the Contractor's percentage allocation of Firm Energy. The bill shall be rendered and paid in the normal billing cycle as set forth in the General Power

Contract Provisions, and shall be a prepayment for power. Such prepayments shall be returned to the Contractor through deficiency payment credits on the monthly power bills issued by Western to the Contractor. The amount of the deficiency payment credit shall be equal to the proportionate share prepaid by the Contractor times the total monthly credit to all Contractors. The prepayments shall be returned as soon as practicable, but in no event later than September 30, 2017.

The maximum obligation of the Contractor for such deficiencies shall be (a) zero on June 1, 1987, and shall increase as of the first day of each month at the rate of 1/36th of the Contractor's pro rata of \$12,000,000 plus escalation as provided in this paragraph until the total required to meet the Contractor's pro rata share of the \$12,000,000, as so escalated has been reached, minus (b) any deficiency payments made pursuant to the immediately preceding paragraph, plus (c) 1/36th of each deficiency payment as provided in this paragraph until the total required to meet the Contractor's pro rata share of the \$12,000,000 as so escalated has been reached. In the event that the Contractor has been required to make deficiency payments the obligation of the Contractor shall increase monthly at the rate of 1/36th of each payment or payments made during each period or periods of insufficiency; provided, however, the Contractor's buildup of the obligation in (a) above and (c) above shall not accrue during any Billing Period unless the capacity available from the Hoover Powerplant is equal to, or in excess of 1,000,00 kW and associated energy during the entire immediately preceding Billing Period. The Contractor's pro rata share of \$12,000,000 which is the estimated cost of operation and maintenance of the Boulder Canyon Project for Fiscal Year 1991, may be escalated as follows:

On or before April 15th of each year, the Bureau shall include in cost data provided the Contractor under 43 CFR 432.5 estimates of the operation and maintenance costs of the Boulder Canyon Project for each of the next five Fiscal Years thereby giving the Contractor four years' notice of any resultant increase or decrease in the above estimated cost and the Contractor's pro rata share thereof.

Credit for Prepayment of Power Charges. Pursuant to the Hoover Power Plant Act, and except as otherwise provided in the Western Contract, the Schedule B Contractor is entitled to credits on the power bills rendered under the Western Contract to reflect the funds advanced by the Schedule B Contractor under the Bureau Contract of the Interim Contract of both and the interest costs incurred by the Schedule B Contractor with respect to such finds. Within thirty days after the incurrence of any Indebtedness, or thirty days after the execution and delivery of the Western Contract, whichever is later, the Schedule B Contractor shall deliver to Western and Bureau a schedule setting forth the estimated amounts payable by or on behalf of the Schedule B Contractor in each year with respect to all Indebtedness then outstanding and all related Periodic Interest Costs. If the Schedule B Contractor shall incur any Indebtedness, the Schedule B Contractor shall, consistent with prevailing market conditions, endeavor to structure its obligations to make annual payments of principal equal to not less than (i) in the case of Indebtedness incurred on or prior to September 30, 2012, twenty four years or 90% of the then remaining term of the Western Contract, whichever is shorter, or (ii) in the case of Indebtedness incurred after September 30, 2012, 80% of the then remaining term of the Western Contract. Commencing with the second year in which any payment of principal and interest is scheduled with respect thereto, the estimated amount of such principal and interest scheduled to be payable in any year will not exceed 120% of the average amount of such principal and interest scheduled to accrue for payment in all years commencing on or after October 1, 1987, in which principal is to be paid.

With respect to Indebtedness furnished by the Schedule B Contractor as Advances: (i) the amount of such Indebtedness shall be deemed to be payable in equal installments on the last day of each Billing Period from the date of the Advance or June 1, 1987, whichever is later, to September 30, 2017; and (ii) the Periodic Interest Costs with respect thereto shall be deemed to be payable monthly on the last day of each Billing Period, assuming an annual interest rate equal to the average annual rate for Periodic Interest Costs of all Schedule B Contractors for all Indebtedness based upon the then current Credit Schedules provided by such Schedule B Contractors.

Not less than 90 days (60 days if the Schedule B Contractor shall not have outstanding Indebtedness) prior to the beginning of each year the Schedule B Contractor shall provide to Western and the Bureau a Credit Schedule for each Billing Period for the remaining term of the Western Contract. A copy of each Credit Schedule received by Western from each other Schedule B Contractor shall be provided promptly by Western to all Contractors for their information.

Proceeds of indebtedness and investment income earned on the proceeds of Indebtedness prior to completion of the Hoover Upgrading Program, remaining at the completion or termination of construction of the Hoover Upgrading Program (to the extent not then required for reserves required by the terms of the instruments establishing such Indebtedness) shall be used by or on behalf of the Schedule B Contractor to purchase or redeem Indebtedness at the earliest date after such completion or termination at which (i) such Indebtedness is required by the terms of the instruments establishing it to be purchased or redeemed, or (ii) such Indebtedness may be purchased or redeemed and, in the judgment of the Schedule B Contractor, such redemption or purchase (when compared to leaving the indebtedness outstanding to maturity) would produce an overall net reduction in credits to the Schedule B Contractor pursuant to the Western Contract. Investment income earned on the proceeds of Indebtedness after the completion of the Hoover Upgrading Program (to the extent not used or to be used for Advances or for Interest Costs, and net of any required rebate thereof) shall be applied, as earned, as a reduction of Periodic Interest Costs. The Schedule B Contractor will use its best efforts to cause the reserves required by the terms of the instruments establishing its Indebtedness to be invested from time to time at the highest yield consistent with law, prudent investment policy and the instruments establishing the requirements for such reserves.

The Schedule B Contractor shall provide to Western and the Bureau as soon as practicable after the end of each Fiscal Year a statement of the Credit Difference with respect to such Fiscal Year. Western shall add to or reduce the Schedule B Contractor's succeeding Credit Amounts, as appropriate, as soon as possible to reflect any such Credit Difference.

Western shall apply, as a credit against the power bill of the Schedule B Contractor under the Western Contract rendered in any Billing Period, the Credit Amount for such Billing Period; provided, that the Credit Amount so applied shall not reduce the power bill rendered in any Billing Period below \$0.00. If, after applying such Credit Amount, there remains a Credit Carryforward, it shall be included in the Credit Amount for the next succeeding Billing Period. The amount to be credited on the power bill rendered in any Billing Period shall be deemed to be due from Western to the Schedule B Contractor on the date of payment by the Schedule B Contractor of such Power bill (or, if the amount of such power bill shall be \$0.00, on the date such power bill is rendered by Western).

If Western shall derive revenues from the sale of power from the Boulder Canyon Project in any Fiscal Year in excess of its revenue requirements therefor, Western may set aside and apply portions of such excess revenues as Advance Credits on the power bills of the Schedule B Contractor in the next succeeding Fiscal Year; provided, however, that (i) the power bill rendered to the Schedule B Contractor in any calendar month shall not be reduced to below \$0.00, and (ii) no Advance Credits shall be provided to the Schedule B Contractor when the Advance Credits previously provided (net of any prior reductions) shall exceed the amount of credits shown by the Credit Schedule of the Schedule B Contractor for the then current Fiscal Year and the four next succeeding Fiscal Years.

The Schedule B Contractor shall collect charges from its purchasers of Power so that the Advanced Credits, when received from Western, will not reduce the power bills to such purchasers. The Schedule B Contractor will establish and maintain a reserve account (the "Advance Credits Account"), into which it will deposit all moneys collected from such purchasers attributable to Advance Credits, and the investment income on such Advance Credits Account shall be used in the same manner as other investment income is to be used.

If the Credit Amount applied in any Billing Period shall be less than the amount to be provided based upon the Credit Schedule of the Schedule B Contractor for the then current Fiscal Year (thus creating a Credit Carryforward), the amount then held in the Advance Credits Account shall be applied by the Schedule B Contractor to its Indebtedness and Periodic Interest Costs in an amount equal to the amount of such deficiency, and the Credit Carryforward and outstanding Advance Credits Account shall be induced by an equal amount.

If, at the commencement of any Fiscal Year beginning prior to October 1, 2017, there shall remain a Credit Carryforward which shall equal or exceed 25% of the sum of the monthly Credit Amounts set forth in the last Credit Schedule for the immediately preceding Fiscal Year, the Schedule B Contractor may require that the amount of such Credit Carryforward be applied as a prepayment for the purchase of additional energy from Western, which energy shall be obtained by Western from any lawfully available source and be scheduled by Western for delivery to the Schedule B Contractor at the Boulder Canyon Project points of delivery as promptly as practicable, at

a mutually agreeable time or times and at a price per kilowatthour equal to Western's then existing average annual purchase price for energy.

If, on or after October 1, 2015, there shall remain or arise any Credit Carryforward or Credit Difference, as soon as practicable after such Credit Carryforward or Credit Difference becomes known to Western, the amount thereof shall be treated follows:

(1) Any positive amount shall constitute a prepayment for the purchase of additional energy from Western, which energy shall be scheduled by Western for delivery to the Schedule B Contractor at the Boulder Canyon Project points of delivery as promptly as practicable, at a mutually-agreeable time or times, and at a price per kilowatthour equal to Western's then existing average annual purchase price for energy.

(2) Any negative amount will be billed by Western promptly to the Schedule B Contractor which shall pay the amount within thirty (30) days after receipt of the billing.

Resale of Electric Energy

The Contractor agrees that the benefits of Federally-generated power shall be made available at fair and reasonable terms to all of its customers at the lowest possible rates consistent with sound business principles.

No Contractor shall sell for profit any of the Power contracted for under the Western Contract to any Contractor or resale customer of such Contractor for resale by that customer.

All Power purchased by each Contractor under the Western Contract shall be used only in the State in which such Contractor is located.

Conservation and Renewable Energy Program

The Contractor and each of its resale customers, shall develop and implement a conservation and renewable energy program suitable for its own geographic area and type of utility operation and will submit said program to Western for review and approval within 12 months after the date of execution of the Western Contract.

The initial conservation and renewable energy program submitted by the Contractor to Western for itself or one of its resale customers will either be approved or disapproved within three months of receipt. If an initial submittal is disapproved, notification of deficiencies in the program will be given in writing by Western. Deficiencies must be remedied within 12 months of the date of notification. If an existing conservation and renewable energy program is revoked at any time after approval, a notification outlining the deficiencies in such program will be given in writing to the Contractor and, if applicable, to the resale customer by Western. Deficiencies must be remedied within 12 months of the date of notification.

If Deficiencies in the Contractor's program are not corrected within 12 months of Western's notification of deficiencies in the Contractor's program, the Contractor's Power entitlement, as set forth in the Western Contract, may be reduced by 109% at the discretion of the Administrator.

If deficiencies in the program of any of the Contractor's resale customers are not corrected within 12 months of Western's notification of deficiencies in the program, the Contractor shall, upon direction from the Administrator, reduce the Contractor's resale customers Power entitlement by 10%. The Contractor shall reallocate, in accordance with the Contractor's applicable regulations, the Power entitlement so reduced among its other resale customers whose programs are approved; provided, that in the event the Contractor fails to reduce such resale customer's Power entitlement by 10%, pursuant to written notice by Western, Western may reduce the Contractors Power entitlement, by a like amount.

General Power Contract Provisions Made Part of Western Contract

Certain articles of the General Power Contract Provisions, effective July 15, 1985, were made a part of the Western Contract with the same force and effect as if expressly set forth in the Western Contract. For further information, see “General Power Contract Provisions” in this Appendix E.

Future Regulations, Modifications, Waivers, Defaults

Any modification, extension, or waiver of any provision or requirement of any regulation or contract granted for the benefit of any one or more Contractors in connection with electric service from the Boulder Canyon Project shall not be denied to any other Contractor.

A default or failure of performance by any one or more Contractor shall not have the effect of diminishing another Contractor’s rights under its Contractor or enlarging its obligations or costs if it is not itself in default.

THE WESTERN WHEELING CONTRACT

The following is a summary of certain provisions of the Contract for Firm and Nonfirm Transmission Service (the “Western Wheeling Contract”) and is not to be considered as a full statement of the provisions thereof. This summary is qualified by and is subject to the complete Western Wheeling Contract.

Term

The Western Wheeling Contract shall remain in effect until midnight, September 30, 2017, subject to prior termination as otherwise provided in the Western Wheeling Contract.

The Authority shall have the right to terminate or amend the transmission service requirements for the Authority’s portion of Boulder Canyon Project Schedule B power entitlement over the Baker-Davis and the Parker-Davis System due to the recapture of Boulder Canyon Project Schedule B power by the Authority for the benefit of the Central Arizona Water Conservation District.

The Authority shall be required to provide two years advance written notice to the contracting officer, prior to amending or terminating the transmission service requirements. The two-year notice does not apply to changes in transmission service requirements on the Pacific Intertie during the Upgrading Program.

Firm Transmission Service to be Provided to the Authority by Western

Western has determined that surplus transmission system capacity is available for the Authority’s use in the amount of 188,000 kW on the Pacific Intertie and 189,000 kW on the Parker-Davis System. Western shall accept power and energy scheduled for the account of the Authority at points of receipt designated in the Western Wheeling Contract, transmit such power and energy over its transmission system, and deliver power and energy to the Authority at the points of delivery set forth in the Western Wheeling Contract, adjusted for losses, as set forth in the Western Wheeling Contract.

Western has agreed to phase in the costs of the Pacific Intertie so that the Authority pays for transmission service as capacity from the Upgrading Program is made available to the Authority. However, in the event Western receives a written offer from a third party to purchase a specific quantity of firm transmission service over the Pacific Intertie to commence on a specific date and Western does not have sufficient capacity to grant said request because of Western’s commitment to reserve such capacity for future use by the Authority under the Western Wheeling Contract, Western will so advise the Authority in writing. The Authority shall become liable for the payment in the entire 182,350 kW of capacity reserved for the Authority under the Western Wheeling Contract at the then effective Pacific Intertie firm transmission service charge effective on the date which is coincident with the effective date transmission service would have commenced to the third party.

Western shall at all times have the right to use any portion of the transmission system capacity reserved but not being used by the Authority to schedule the delivery of power and energy for the Authority under the Western Wheeling Contract. Western reserves the right to grant the use of any such capacity to others on an interruptible basis during the periods when the Authority does not schedule use of such capacity.

Nonfirm Transmission Service To Be Provided To The Authority By Western

Western, subject to the availability of excess; capacity in the transmission system as determined exclusively by Western, will transmit energy scheduled from generating sources available to the Authority. Capacity being used to transmit energy under the Western Wheeling Contract may be reduced or withdrawn, at the sole discretion of Western, upon telephone notice given to the load dispatchers or other authorized representatives of the Authority. The Authority recognizes that the nonfirm transmission service provided under the Western Wheeling Contract is not to be used in place of providing adequate resources by firm transmission contracts or other means.

Western will accept energy scheduled for the account of the Authority at the points of receipt designated in the Western Wheeling Contract, transmit such energy over its transmission system and deliver an equivalent amount of energy to the Authority at the points of delivery set forth in the Western Wheeling Contract, adjusted for losses as set forth in the Western Wheeling Contract.

Western shall have the right to interchange or exchange energy scheduled for the account of the Authority at points of receipt designated in the Western Wheeling Contract, with or for energy otherwise available to Western from other sources of generation, and to deliver for the account of the Authority at points of delivery designated in the Western Wheeling Contract, such other energy in quantities scheduled, adjusted for losses as set forth in the Western Wheeling Contract.

Charges for Firm Transmission Service

The Authority shall pay Western monthly for the amount of transmission system capacity, expressed in kilowatts, contracted for under the Western Wheeling Contract and reserved for the Authority's use at Pacific Intertie points of delivery set forth in the Western Wheeling Contract.

The Authority shall pay Western monthly for the amount of transmission system capacity, expressed in kilowatts, contracted for under the Western Wheeling Contract and reserved for the Authority's use at Parker-Davis System points of delivery set forth in the Western Wheeling Contract.

Charges For Nonfirm Transmission Service

The Authority shall pay Western monthly for nonfirm transmission service furnished over Pacific Intertie facilities for the account of the Authority at the points of delivery designated in the Western Wheeling Contract.

The Authority shall pay Western monthly for nonfirm transmission service furnished over Parker-Davis facilities in accordance with rates, charges, and conditions set forth in the Western Wheeling Contract.

The Authority shall pay Western monthly for use of the Mead Substation 230 kV Pacific Intertie facilities, to permit nonfirm energy to be scheduled and transmitted over the Parker-Davis System for receipt or delivery at Mead Substation, in an amount equal to the number of kilowatthours so scheduled for receipt or delivery at the Mead Substation 230-kV bus for transmission over the Parker-Davis System times the applicable charge per kilowatthour specified in the Western Wheeling Contract. The charge per kilowatthour shall be reviewed periodically and, if needed, a revised charge will be calculated based on the latest cost data available.

The Authority shall pay Western monthly for use of the Westwing Substation 554 or 230-kV CAP/NAV facilities, to permit nonfirm energy to be scheduled for receipt or delivery at Westwing Substation and transmitted over the Pacific Intertie, in an amount equal to the number of kilowatthours so scheduled for receipt or delivery at the 500-kV or 230-kV Westwing Substation times the applicable charge per kilowatthour specified in the

Western Wheeling Contract. The charge per kilowatthour shall be reviewed periodically and, if needed, a revised charge will be calculated based on the latest cost data available.

Reactive Power

Except as the authorized representatives of the parties may from time to time otherwise agree, each party shall provide or cause to be provided the reactive kilovoltamperes required for the supply of its reactive power requirements and its share of the reactive requirements for voltage control at points of interconnection between Western and the Authority, or between Western and the Authority's suppliers, subcontractors or agents. The parties shall coordinate the utilization of generation control equipment, capacitors, or reactors to maintain transmission voltages and reactive flows at acceptable levels for full system performance and stability.

Scheduling Power Energy Deliveries

Deliveries of power and energy shall be scheduled in advance, emergencies excepted, and accounted for on the basis of such advance schedules, all in accordance with procedures agreed upon in advance between the authorized representatives of the parties. The procedures shall provide for the adaptation of such schedules to the needs of day-to-day or hour-by-hour operation.

Metering and Scheduling Instructions

No power and energy will be received or scheduled to be received for transmission for the Authority and no deliveries will be made under the Western Wheeling Contract until authorized representatives of the parties have agreed in writing to the scheduling and accounting procedure to be followed by the parties. If the Authority fails or refuses to enter into written metering and scheduling instructions or any revised instructions that Western exclusively determines to be necessary, Western shall promulgate revised instructions until mutually acceptable instructions have been developed and executed by the authorized representative.

Control and Possession of Systems

Western and the Authority shall each at all times be and remain in exclusive control and possession of its respective systems and the Western Wheeling Contract shall not be construed to grant either party any rights of ownership in or possession of the other party's system.

General Power Contract Provisions Made Part of Western Wheeling Contract

Certain provisions of the General Power Contract Provisions effective July 15, 1985, were made a part of the Western Wheeling Contract, the same as if they had been expressly set forth in the Western Wheeling Contract. For further information, see "General Power Contract Provisions" in this Appendix E.

GENERAL POWER CONTRACT PROVISIONS

The following is a summary of certain provisions of the General Power Contract Provisions (the "Contract Provisions") and is not to be considered as a full statement of the provisions thereof. This summary is qualified by reference to and is subject to the complete Contract Provisions. Certain Contract Provisions are incorporated by reference into the Western Contract and the Western Wheeling Contract.

Applicability

The Contract Provisions shall be a part of the Western Contract and the Western Wheeling Contract. Specific terms set forth in the Western Contract and the Western Wheeling Contract have precedence over any provisions in the Contract Provisions.

Use of Capacity or Energy in Excess of Contract Obligation

The Authority is not entitled to use federal power, energy or capacity in amounts greater than the Western Contract delivery obligation in effect for each type of service provided for the contract, except with the approval of the contracting officer. Overruns shall not establish any continuing right thereto and the Authority shall cease any overruns when requested by the contracting officer, or in one of authorized overruns, when the approval expires, whichever occurs first. Nothing in the Western Contract or the Western Wheeling Contract shall obligate Western to increase any delivery obligation. If additional power, energy or capacity is not available from Western, the responsibility for securing additional power, energy or capacity shall rest wholly with the Authority.

Continuity of Service

With respect to the Western Wheeling Contract only, electric service will be supplied or transmitted continuously except for: (1) fluctuations, interruptions, or reductions due to uncontrollable forces; (2) fluctuations, interruptions, or reductions due to operation of devices installed for power system protection; and (3) temporary fluctuations, interruptions, or reductions, which, in the opinion of the party supplying the service, are necessary or desirable for the purposes of maintenance, repairs, replacements, installation of equipment, or investigation and inspection. The party supplying service, except in case of emergency, will give the party to whom service is being provided reasonable advance notice of such temporary interruptions or reductions and will remove the cause thereof with diligence.

Conditions of Transmission Service

When the electric service under the Western Contract is furnished by Western over the facilities of others by virtue of a transmission service arrangement, the power and energy shall be furnished at the voltage available and under the conditions which exist from time to time on the transmission system over which the service is supplied.

If the Authority, because of changes or conditions on the system over which the service under the Western Contract is supplied, is required to make changes on its system at its own expense in order to continue receiving service under the Western Contract, then the Authority may terminate service under the Western Contract upon not less than 60 days' written notice given to the contracting officer prior to making such change, but not thereafter.

If Western notifies the Authority that electric service provided for under the Western Contract cannot be delivered to the Authority because of an insufficiency of capacity available to Western in the facilities of others over which service under the Western Contract is supplied, the Authority may terminate service under the Western Contract upon not less than 60 days' written notice given to the contracting officer prior to the date on which said capacity ceases to be available to Western, but not thereafter.

Rates

Rates applicable under the Western Wheeling Contract shall be subject to change by Western in accordance with appropriate rate adjustment procedures. The Authority, by written notice to the contracting officer within 90 days after the effective date of a rate change, may elect to terminate the service billed by Western under the new rate. Said termination shall be effective on the last day of the billing period requested by the Authority not later than two years after the effective date of the new rate.

Billing and Payment

Western will issue bills to the Authority for service furnished during the preceding month within 10 days after the end of the billing period. If Western is unable to issue a timely monthly bill, it may elect to render an estimated bill for that month to be followed by the final bill. Such estimated bill shall be subject to the same payment provisions as a final bill.

Payments are due and payable by the Authority before the close of business on the twentieth (20th) calendar day after the date of issuance of each bill or the next business day thereafter if said day is a Saturday, Sunday, or federal holiday. Bills shall be considered paid when payment is received by Western; provided, that payments received by mail will be accepted as timely provided a United States Post Office first class mail postmark indicates the payment was mailed at least three (3) calendar days before the due date.

Whenever the parties agree, payments due Western by the Authority may be offset against payments due the Authority by Western for the sale or exchange of electric power and energy, use of transmission facilities, operation and maintenance of electric facilities, and other services. For services included in net billing procedures, payments due one party in any month shall be offset against payment due the other party in such month, and the resulting net balance shall be paid to the party in whose favor such balance exists. The parties shall exchange such reports and information that either party requires for billing purposes. Net billing shall not be used for any amounts due which are in dispute.

Nonpayment of Bills in Full when Due

Bills not paid in full by the Authority by the due date specified shall bear an initial charge of 2% of the amount unpaid. Each day thereafter, a charge of 0.05% of the principal sum unpaid shall be added until the amount due, including the 2% initial charge, is paid in full. Payments received will first be applied to the charges for late payment assessed on the principal and then to payment of the principal.

Western shall have the right, upon not less than 15 days' advance written notice, to discontinue furnishing the services specified in the Western Contract or the Western Wheeling Contract for nonpayment of bills in full when due and to refuse to resume such services so long as any part of the amount due remains unpaid. Such a discontinuance of services shall not relieve the Authority of liability for minimum charges during the time service is so discontinued.

Construction, Operation, and Maintenance of Contractor's Power System

The Authority shall if applicable, require each of its members or transmission agents to construct, operate and maintain its power system in a manner which, as determined by the contracting officer, shall not interfere with the operation of the system of Western or its transmission agent; over which electric services are furnished to the Authority under the Western Wheeling Contract, and in a manner which shall coordinate with the protective relaying and other protective arrangements of the systems of Western or Western's transmission agents. Western may reduce or discontinue furnishing services to the Authority if, after notice by the contracting officer, the Authority fails or refuses to make such changes as may be necessary to eliminate an unsatisfactory condition on the Authority's power system which is determined by the contracting officer to interfere significantly under current or probable conditions with any service supplied from the power system of Western or from the power system of a transmission agent of Western. Such a reduction or discontinuance of service shall not relieve the Authority of liability for any minimum charges provided for in the Western Wheeling Contract during the time said services are reduced or discontinued.

Contract Subject to Colorado River Compact

Where the energy sold under the Western Contract is generated from waters of the Colorado River system, the Western Contract is made upon the express condition and with the express covenant that all rights under the Western Contract shall be subject to and controlled by the Colorado River Compact approved by Section 13(a) of the Boulder Canyon Project Act of December 21, 1928 (45 Stat. 1057) and the parties to the Western Contract shall observe and be subject to and controlled by said Colorado River Compact in the construction, management and operation of the dams, reservoirs and power plants from which electrical energy is to be furnished by Western to the Authority under the Western Contract, and in the storage, diversion, delivery and use of water for the generation of electrical energy to be delivered by Western to the Authority under the Western Contract.

Uncontrollable Forces

Neither party shall be considered in default in performance of any of its obligations under the Western Wheeling Contract, except to make payment of monthly bills for service furnished, when a failure of performance shall be due to an uncontrollable force. Either party rendered unable to fulfill any of its obligations under the Western Wheeling Contract by reason of an uncontrollable force shall give prompt written notice of such fact to the other party and shall exercise due diligence to remove such inability with all reasonable dispatch.

Liability

The Authority agrees to indemnify and hold harmless the United States, its employees, agents, or subcontractors, from any loss or damage and from any liability on account of personal injury, death, or property damage or claims for personal injury, death, or property damages of any nature whatsoever and by whomsoever made arising out of the Authority's, its employees', agents', and subcontractors', construction, operation, maintenance, or replacement activities under the Western Wheeling Contract.

The United States is liable only for negligence on the part of its officers and employees in accordance with the Federal Tort Claims Act, as amended.

Contingent Upon Appropriations

Where activities provided for in the Western Contract and the Western Wheeling Contract extend beyond the current fiscal year, continued expenditures by the United States are contingent upon Congress making the necessary appropriations required for the continued performance of the United States obligations under the Western Contract and the Western Wheeling Contract; *provided*, that such provisions are not applicable so long as Western is to provide credits to the Authority pursuant to the Western Contract. In case such appropriation is not made, the Authority hereby releases the United States from its contractual obligations and from all liability due to the failure of Congress to make such appropriation.

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OPINION OF BOND COUNSEL

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(Date of Closing)

Arizona Power Authority
1810 West Adams Street
Phoenix, Arizona 85007

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nortonrosefulbright.com

We have examined a record of proceedings relating to the issuance of \$26,565,000 aggregate principal amount of Power Resources Revenue Bonds, 2014 Series (Hoover Prepayment Project) (Federally Taxable) (the “Bonds”) of the Arizona Power Authority (the “Authority”), a public body corporate and a public corporation of the State of Arizona.

The Bonds are issued under and pursuant to A.R.S. 45-1701 *et seq.*, inclusive, as amended and supplemented (the “Act”), and under and pursuant to a resolution of the Authority adopted on December 6, 1985 entitled “Power Resources Revenue Bond Resolution” (said Resolution, as amended and supplemented to the date hereof, the “Resolution”).

The Bonds will mature on October 1 in the years and bear interest at the respective rates per annum shown below:

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2018	\$540,000	1.799%	2025	\$ 660,000	3.829%
2019	550,000	2.199	2026	685,000	3.979
2020	560,000	2.708	2027	715,000	4.109
2021	580,000	3.058	2028	745,000	4.209
2022	595,000	3.329	2029	775,000	4.309
2023	615,000	3.509	2045	18,910,000	4.918
2024	635,000	3.679			

The Bonds are dated and shall bear interest from their date of delivery. Interest on the Bonds is payable and is calculated as provided in the Resolution. The Bonds are subject to redemption prior to their maturity as provided in the Resolution. The Bonds are in the form of registered Bonds in the denomination of \$5,000 or any integral multiple of \$5,000 for the Bonds and are numbered from one upward, preceded by the letter R prefixed to the number.

The Bonds are being issued (i) to prepay the Authority’s proportionate share of the obligations incurred by the United States Bureau of Reclamation for certain improvements at Hoover Dam, (ii) to fund the Debt Service Reserve Account, (iii) to capitalize interest payments to October 1, 2014, and (iv) to pay costs of issuance. The Authority reserves the right to issue additional bonds on a parity with the Bonds under the Resolution on the terms and conditions and for the purposes stated in the Resolution.

The Authority has entered into Power Sales Agreements (said Power Sales Agreements, as amended, herein the “Power Sales Agreements”) with power purchasers in the State of Arizona (the “Power Purchasers”) for the sale of Hoover Power (as defined in the Resolution) by the Authority to each of the Power Purchasers.

We are of the opinion that:

1. The Authority is duly created and validly existing as a public body corporate and a public corporation under the provisions of the Constitution and statutes of the State of Arizona, with full power and authority under the Act to finance the Prepayment Program (as defined in the Resolution).

2. The Authority has the right and power under the Act to adopt the Resolution, and the Resolution has been duly and lawfully adopted by the Authority and is enforceable in accordance with its terms, and no other authorization for the Resolution is required. The Resolution creates the valid pledge which it purports to create of the moneys, securities and funds created under the Resolution, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

3. The Authority is duly authorized and entitled to issue the Bonds, and the Bonds have been duly and validly authorized and issued by the Authority in accordance with the Constitution and statutes of the State of Arizona, including the Act and the Resolution. The Bonds constitute the valid and binding obligations of the Authority as provided in the Resolution, are enforceable in accordance with their terms and terms of the Resolution and are entitled to the benefit of the Act and the Resolution. The Bonds are direct and special obligations of the Authority and are payable solely from the Pledged Property and other funds pledged therefor under the Resolution and neither the faith and credit of the Authority, the State of Arizona nor any political subdivision thereof has been pledged to the payment of the principal of or redemption price, if any, or the interest on the Bonds.

4. The Authority has the right and power to enter and carry out its obligations under the Power Sales Agreements and has duly authorized, executed and delivered the Power Sales Agreements, and the Power Sales Agreements constitute valid and binding agreements of the Authority enforceable in accordance with their respective terms.

5. Under the Constitution and laws of the State of Arizona, each Power Sales Agreement constitutes a valid and binding agreement of the Power Purchaser party thereto enforceable in accordance with its terms. In rendering the foregoing opinion, we have made no investigation of, and do not express any opinion with respect to, the following as they may relate to the valid and binding nature of such Power Sales Agreement: (i) the legal existence or formation of any Power Purchaser or the incumbency of any official or officer thereof, (ii) the charter, by-laws or other governing instrument of any Power Purchaser, (iii) any local or special acts or any ordinance, resolution or other proceedings of any Power Purchaser, including, without limitation, any proceedings relating to the negotiation or authorization of any such Power Sales Agreement or the execution, delivery or performance thereof, (iv) any bond resolution, indenture, contract, debt instrument, agreement or other instrument (other than such Power Sales Agreement) or any governmental order, regulation or rule of law applicable to any Power Purchaser, (v) any judicial order, judgment or decree in a proceeding to which any Power Purchaser is party or (vi) any approval, consent, filing, registration or authorization by or with any regulatory authority or other governmental or public agency, authority or person which may be or has been required for the authorization, execution, delivery or performance by any Power Purchaser of its Power Sales Agreement (other than the approvals by the Authority set forth in the Power Sales Agreement and the Act). The Authority has received opinions, independent from this opinion, with respect to, among other things, the validity and enforceability of the Power Sales Agreements with the Power Purchasers rendered by legal counsel to the respective Power Purchasers.

6. Under existing law, interest on the Bonds, is exempt from income taxes imposed by the State of Arizona

The opinions expressed in paragraphs 2, 3, 4 and 5 hereof are qualified to the extent that the enforceability of the Resolution, the Bonds and the Power Sales Agreements, respectively, may be limited by applicable bankruptcy, insolvency, moratorium, reorganization or other similar laws affecting creditors' rights generally and judicial discretion and no opinion is being rendered as to the availability of any particular remedy therefor.

We have examined an executed Bond in registered form, and in our opinion the form of such Bond and its execution are regular and proper.

Respectfully submitted,

CONTINUING DISCLOSURE AGREEMENT

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CONTINUING DISCLOSURE AGREEMENT

Dated as of March 1, 2014

Between

ARIZONA POWER AUTHORITY

And

**THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.,
as Trustee**

**\$26,565,000
Arizona Power Authority
Power Resources Revenue Bonds
(Hoover Prepayment Project)
(Federally Taxable)
2014 Series**

CONTINUING DISCLOSURE AGREEMENT

This **CONTINUING DISCLOSURE AGREEMENT** dated as of March 1, 2014 (this “Continuing Disclosure Agreement”), is executed and delivered by Arizona Power Authority (the “Issuer”) and The Bank of New York Mellon Trust Company, N.A., as dissemination agent (the “Dissemination Agent”).

RECITALS

1. This Continuing Disclosure Agreement is executed and delivered in connection with the issuance by the Issuer of its \$26,565,000 Power Resources Revenue Bonds (Hoover Prepayment Project) 2014 Series (Federally Taxable) (the “Bonds”) which are being issued pursuant to the Power Resource Revenue Bond Resolution adopted by the Issuer on December 6, 1985 (said Resolution, as supplemented and amended the “Resolution”).

2. The Issuer and the Dissemination Agent are entering into this Continuing Disclosure Agreement for the benefit of the Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with Rule 15c2-12 of the Securities and Exchange Commission (the “Rule”). The Central Arizona Water Conservation District (CAWCD) is the only “obligated person” with responsibility for continuing disclosure hereunder. CAWCD will execute a Consent and Acceptance substantially in the form of Exhibit D to this Agreement in conjunction with the issuance of the Bonds, pursuant to which CAWCD will agree to provide the information contained in the Annual Reports described below to the Issuer or the Dissemination Agent on or before the date time provided herein.

In consideration of the mutual covenants and agreements herein, the Issuer and the Dissemination Agent covenant and agree as follows:

Section 1. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Continuing Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Beneficial Owner” means any registered owner of any Bonds and any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any 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.

“CAWCD Annual Report” means any Annual Report provided by CAWCD pursuant to, and as described in, Section 3 of this Continuing Disclosure Agreement.

“Dissemination Agent” means The Bank of New York Mellon Trust Company, N.A., acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Issuer.

“EMMA” means the Electronic Municipal Market Access system for municipal securities disclosures established and maintained by the MSRB, which can be accessed at www.emma.msrb.org.

“Fiscal Year” means (i) with respect to the Issuer, the 12-month period beginning on October 1 and ending on September 30, and (iv) with respect to CAWCD, the 12-month period beginning on January 1 and ending on December 31, or any other 12-month period selected by the Issuer or CAWCD as the Fiscal Year of the Issuer or CAWCD for financial reporting purposes.

“Issuer Annual Information” means any Issuer Annual Information provided by the Issuer pursuant to, and as described in, Section 2 of this Continuing Disclosure Agreement.

“Material Events” means any of the events listed in Section 3(a) of this Continuing Disclosure Agreement.

“**MSRB**” means the Municipal Securities Rulemaking Board, or any successor repository designated as such by the Securities and Exchange Commission in accordance with the Rule.

“**Participating Underwriter**” means any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“**Rule**” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 2. Provision of Annual Reports.

- (a) The Issuer shall, or shall cause the Dissemination Agent to, not later than 180 days after the end of the each Fiscal Year, commencing with the year ending September 30, 2014, file with the MSRB, through EMMA, the following financial information and operating data (the “Issuer Annual Information”):
 - (1) The audited financial statements of the Issuer for the prior fiscal year, beginning with the fiscal year ended September 30, 2014, prepared in accordance with accounting principles generally accepted in the United States of America. If audited financial statements of the Issuer are not available by the time the Issuer Annual Information is required to be filed, the Issuer Annual Information may contain unaudited financial statements in a format similar to the Issuer financial statements contained in this Official Statement, and the audited financial statements will be filed in the same manner as the Issuer Annual Information promptly after they become available.
 - (2) Updates as of the end of the Fiscal Year of certain financial information and operating data contained in the final Official Statement, as described in Exhibit A, in substantially the same format contained in the final Official Statement.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the Issuer is an “obligated person” (as defined by the Rule), which have been provided to the MSRB and is available through EMMA or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB on EMMA. The Issuer shall clearly identify each such other document so included by reference.

In each case, the Issuer Annual Information may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in this Section; provided that the audited financial statements of the Issuer may be submitted separately from the balance of the Issuer Annual Information and later than the date required above for the filing of the Issuer Annual Information if they are not available by that date. If the Issuer’s Fiscal Year changes, it shall give notice of such change in the same manner as for a Material Event under Section 3.

- (b) Not later than the date specified in subsection (a) for providing the Issuer Annual Information to the MSRB, the Issuer shall either (1) provide the Issuer Annual Information to the Dissemination Agent, with written instructions to file the Issuer Annual Information as specified in subsection (a), or (2) provide written notice to the Dissemination Agent that the Issuer has provided the Issuer Annual Information to the MSRB (or will do so prior to the deadline specified in subsection (a)).
- (c) If the Dissemination Agent has not received either the Issuer Annual Information with filing instructions or a written notice from the Issuer that it has provided the Issuer Annual Information to the MSRB by the date required in subsection (a), the Dissemination Agent shall send a notice to the MSRB in substantially the form attached as Exhibit D.

- (d) The Dissemination Agent shall, unless the Issuer has provided the Issuer Annual Information to the MSRB, promptly following receipt of the Issuer Annual Information and instructions required in subsection (b) above, provide the Issuer Annual Information to the MSRB and provide a report to the Issuer certifying that the Issuer Annual Information has been provided pursuant to this Continuing Disclosure Agreement, stating the date it was provided to the MSRB.
- (e) In addition to the foregoing requirements of this Section, the Issuer agrees to provide copies of the most recent Issuer Annual Report to any requesting Beneficial Owner or prospective Beneficial Owner, but only after the same have been delivered to the MSRB on EMMA.
- (f) The issuer Annual Report shall be filed with the MSRB in such manner and format as is prescribed by the MSRB.

Section 3. Provision of CAWCD Annual Reports

- (a) The Issuer shall, or shall cause the Dissemination Agent to, not later than 180 days after the end of the each Fiscal Year, commencing with the year ending December 31, 2013, file with the MSRB, through EMMA, the following financial information and operating data (the “CAWCD Annual Report”):
 - (1) The audited financial statements of CAWCD for the prior fiscal year, beginning with the fiscal year ended December 31, 2013, prepared in accordance with accounting principles generally accepted in the United States of America. If audited financial statements of the CAWCD are not available by the time the CAWCD Annual Report is required to be filed, the CAWCD Annual Report may contain unaudited financial statements in a format similar to the Issuer financial statements contained in this Official Statement, and the audited financial statements will be filed in the same manner as the CAWCD Annual Report promptly after they become available.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the CAWCD is an “obligated person” (as defined by the Rule), which have been provided to the MSRB and is available through EMMA or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB on EMMA. The Issuer shall clearly identify each such other document so included by reference.

In each case, the CAWCD Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in this Section; provided that the audited financial statements of the CAWCD may be submitted separately from the balance of the CAWCD Annual Report and later than the date required above for the filing of the CAWCD Annual Report if they are not available by that date. If CAWCD’s Fiscal Year changes, it shall give notice of such change in the same manner as for a Material Event under Section 4.

- (b) Not later than the date specified in subsection (a) for providing the Annual Report to the MSRB, the Issuer shall either (1) provide the CAWCD Annual Report to the Dissemination Agent, with written instructions to file the CAWCD Annual Report as specified in subsection (a), or (2) provide written notice to the Dissemination Agent that the Issuer has provided the CAWCD Annual Report to the MSRB (or will do so prior to the deadline specified in subsection (a)).
- (c) If the Dissemination Agent has not received either the CAWCD Annual Report with filing instructions or a written notice from the Issuer that it has provided an CAWCD Annual Report to the MSRB by the date required in subsection (a), the Dissemination Agent shall send a notice to the MSRB in substantially the form attached as Exhibit C.

- (d) The Dissemination Agent shall, unless the Issuer has provided the CAWCD Annual Report to the MSRB, promptly following receipt of the CAWCD Annual Report and instructions required in subsection (b) above, provide the CAWCD Annual Report to the MSRB and provide a report to the Issuer certifying that the CAWCD Annual Report has been provided pursuant to this Continuing Disclosure Agreement, stating the date it was provided to the MSRB.
- (e) In addition to the foregoing requirements of this Section, the Issuer agrees to provide copies of the most recent CAWCD Annual Report to any requesting Beneficial Owner or prospective Beneficial Owner, but only after the same have been delivered to the MSRB on EMMA.
- (f) The CAWCD Annual Report shall be filed with the MSRB in such manner and format as is prescribed by the MSRB.

Section 4. Reporting of Material Events.

- (a) No later than 10 business days after the occurrence of any of the following events, the Issuer shall give, or cause to be given to the MSRB, through EMMA, notice of the occurrence of any of the following events with respect to the Bonds ("Material Events"):
 - (1) principal and interest payment delinquencies;
 - (2) non-payment related defaults, if material;
 - (3) unscheduled draws on debt service reserves reflecting financial difficulties;
 - (4) unscheduled draws on credit enhancements reflecting financial difficulties;
 - (5) substitution of credit or liquidity providers, or their failure to perform;
 - (6) adverse tax opinions; the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
 - (7) modifications to rights of bondholders, if material;
 - (8) bond calls, if material, and tender offers;
 - (9) defeasances;
 - (10) release, substitution or sale of property securing repayment of the Bonds, if material;
 - (11) rating changes;
 - (12) bankruptcy, insolvency, receivership or similar event of the Issuer;
 - (13) the consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, 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
 - (14) appointment of a successor or additional trustee or the change of name of the trustee, if material.
- (b) The Dissemination Agent shall, promptly after obtaining actual knowledge of the occurrence of any event that it believes may constitute a Material Event, contact the Executive Director of the Issuer or his or her designee, or such other person as the Issuer shall designate in writing to the Dissemination Agent from time to time, inform such person of the event, and request that the Issuer promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (d). If in response to a request under this subsection (b), the Issuer determines that the event does not constitute a Material Event, the Issuer shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent whether or not to report the occurrence pursuant to subsection (d).
- (c) Whenever the Issuer obtains knowledge of the occurrence of a Material Event, because of a notice from the Dissemination Agent pursuant to subsection (b) or otherwise, the Issuer shall promptly

notify and instruct the Dissemination Agent in writing to report the occurrence pursuant to subsection (d).

- (d) If the Dissemination Agent receives written instructions from the Issuer to report the occurrence of a Material Event, the Dissemination Agent shall promptly file a notice of such occurrence to the MSRB, with a copy to the Issuer. Notwithstanding the foregoing, notice of Material Events described in subsections (a)(8) and (9) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the registered owners of affected Bonds pursuant to the Resolution.

Section 5. Termination of Reporting Obligation. The Issuer's and the Dissemination Agent's obligations under this Continuing Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If the Issuer's obligations under this Continuing Disclosure Agreement are assumed in full by some other entity, such person shall be responsible for compliance with this Continuing Disclosure Agreement in the same manner as if it were the Issuer, and the Issuer shall have no further responsibility hereunder. If such termination or substitution occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination or substitution in the same manner as for a Material Event under Section 4.

Section 6. Dissemination Agents. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Continuing Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign as dissemination agent hereunder at any time upon 30 days prior written notice to the Issuer. It is understood and agreed that any information that the Dissemination Agent may be instructed to file with the MSRB shall be prepared and provided to it by the Issuer. The fact that the Dissemination Agent or any affiliate thereof may have any fiduciary or banking relationship with the Issuer shall not be construed to mean that the Dissemination Agent has actual knowledge of any event or condition except as may be provided by written notice from the Issuer. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report (including without limitation the Annual Report) prepared by the Issuer pursuant to this Continuing Disclosure Agreement. The initial Dissemination Agent is The Bank of New York Mellon Trust Company, N.A.

Section 7. Amendment; Waiver. Notwithstanding any other provision of this Continuing Disclosure Agreement, the Issuer and the Dissemination Agent may amend this Continuing Disclosure Agreement and any provision of this Continuing Disclosure Agreement may be waived, provided that Bond Counsel or other counsel experienced in federal securities law matters provides the Issuer and the Dissemination Agent with its written opinion that the undertaking of the Issuer contained herein, as so amended or after giving effect to such waiver, is in compliance with the Rule and all current amendments thereto and interpretations thereof that are applicable to this Continuing Disclosure Agreement. No amendment to this Continuing Disclosure Agreement may be made that affects the information and timing of information to be provided by CAWCD without the written consent of CAWCD.

In the event of any amendment or waiver of a provision of this Continuing Disclosure Agreement, the Issuer shall describe such amendment or waiver in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Issuer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (1) notice of such change shall be given in the same manner as for a Material Event under Section 3, and (2) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 8. Additional Information. Nothing in this Continuing Disclosure Agreement or the Consent and Acceptance, as applicable, shall be deemed to prevent the Issuer or CAWCD from disseminating any other information, using the means of dissemination set forth in this Continuing Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or, in the case of the Issuer, any notice of occurrence of a Material Event, in addition to that which is required by this Continuing Disclosure

Agreement or the Consent and Acceptance, as applicable. If the Issuer or CAWCD chooses to include any information in any Annual Report or, in the case of the Issuer, any notice of occurrence of a Material Event, in addition to that which is specifically required by this Continuing Disclosure Agreement or the Consent and Acceptance, as applicable, the Issuer or CAWCD shall have no obligation under the applicable agreement to update such information or include it in any future Annual Report or notice of occurrence of a Material Event.

Section 9. Default. If the Issuer or the Dissemination Agent fails to comply with any provision of this Continuing Disclosure Agreement, any Participating Underwriter or any Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Issuer or the Dissemination Agent, as the case may be, to comply with its obligations under this Continuing Disclosure Agreement. A default under this Continuing Disclosure Agreement shall not be deemed an event of default under the Resolution or the Bonds, and the sole remedy under this Continuing Disclosure Agreement in the event of any failure of the Issuer or the Dissemination Agent to comply with this Continuing Disclosure Agreement shall be an action to compel performance.

Section 10. Duties and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Continuing Disclosure Agreement, and, to the extent permitted by law, the Issuer agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorney's fees and expenses) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's gross negligence or wilful misconduct. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. The Issuer shall pay the fees, charges and expenses of the Dissemination Agent in connection with its administration of this Continuing Disclosure Agreement. Neither the Dissemination Agent nor any of its officers, directors, employees or agents shall be liable for any action taken or omitted under this Continuing Disclosure Agreement or in connection herewith except to the extent caused by the Dissemination Agent's gross negligence or willful misconduct. None of the provisions of this Agreement shall require the Dissemination Agent to expend or risk its own funds or otherwise to incur any liability, financial or otherwise, in the performance of any of its duties hereunder. The Dissemination Agent may conclusively rely and shall be fully protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Dissemination Agent may consult with counsel and the advice or any opinion of counsel shall be full and complete authorization and protection in respect of any action taken or omitted by it hereunder in good faith and in accordance with such advice or opinion of counsel. The Dissemination Agent may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents, attorneys, custodians or nominees appointed with due care, and shall not be responsible for any willful misconduct or negligence on the part of any agent, attorney, custodian or nominee so appointed.

Any bank, corporation or association into which the Dissemination Agent may be merged or converted or with which it may be consolidated, or any bank, corporation or association resulting from any merger, conversion or consolidation to which the Dissemination Agent shall be a party, or any bank, corporation or association succeeding to all or substantially all of the corporate trust business of the Dissemination Agent shall be the successor of the Dissemination Agent hereunder without the execution or filing of any paper with any party hereto or any further act on the part of any of the parties hereto except on the part of any of the parties hereto where an instrument of transfer or assignment is required by law to effect such succession, anything herein to the contrary notwithstanding.

Section 11. Notices. Any notices or communications to or among any of the parties to this Continuing Disclosure Agreement may be given by registered or certified mail, return receipt requested, or by confirmed facsimile, or delivered in person or by overnight courier, and will be deemed given on the second day following the date on which the notice or communication is so mailed, as follows:

To the Issuer:

Arizona Power Authority
1810 West Adams Street
Phoenix, Arizona 85007
Attention: Executive Director
Fax: (602) 253-7970

To the Dissemination Agent:

The Bank of New York Mellon Trust Company, N.A.
400 South Hope Street, Suite 400
Los Angeles, California 90071
Attention: Justin Bui
Fax: (877) 269-6192

Any notice required to be given to the Issuer or the Dissemination Agent shall also be given to CAWCD, as follows:

To CAWCD:

Central Arizona Water Conservation District
23636 N. Seventh Street
Phoenix, AZ 85024
Attention: General Manager
Fax: (623) 869-2333

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

Section 12. Beneficiaries. This Continuing Disclosure Agreement shall inure solely to the benefit of the Issuer, the Dissemination Agent, CAWCD, the Participating Underwriter, and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 13. Severability. If any provision in this Continuing Disclosure Agreement, the Resolution or the Bonds shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 14. Counterparts. This Continuing Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 15. Electronic Transactions. The arrangement described herein may be conducted and related documents may be stored by electronic means. Copies, telecopies, facsimiles, electronic files and other reproductions of original documents shall be deemed to be authentic and valid counterparts of such original documents for all purposes, including the filing of any claim, action or suit in the appropriate court of law.

Section 16. Governing Law. This Continuing Disclosure Agreement shall be governed by and construed in accordance with the laws of the State of Arizona.

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IN WITNESS WHEREOF, the Issuer and the Dissemination Agent have caused this Continuing Disclosure Agreement to be executed as of the day and year first above written.

ARIZONA POWER AUTHORITY

By: _____
Name: Michael A. Gazda
Title: Interim Acting Executive Director

**THE BANK OF NEW YORK MELLON TRUST
COMPANY, N.A.,**
as Dissemination Agent

By: _____
Title: Authorized Officer

EXHIBIT A

FINANCIAL INFORMATION AND OPERATING DATA TO BE INCLUDED IN THE ISSUER ANNUAL INFORMATION

The following sections and tables contained in the final Official Statement:

- (i) “HOOVER POWER MARKETING BY THE AUTHORITY – COST OF HOOVER POWER;”
- (ii) “HOOVER POWER MARKETING BY THE AUTHORITY – Authority Power Purchasers;” and
- (iii) “AUTHORITY FINANCIAL MATTERS – Revenues and Expenses” and “ – Authority’s Historical Hoover Power Costs and Rates.”

The above information need not be provided separately in the Issuer Annual Information if such information is available in the audited financial statements of the Issuer or in schedules to the audited financial statements of the Issuer (without regard to whether such schedules are considered audited).

EXHIBIT B

NOTICE OF FAILURE TO FILE ISSUER ANNUAL INFORMATION

Name of Issuer: Arizona Power Authority

Name of Bond Issue: \$26,565,000 Power Resources Revenue Bonds (Hoover Prepayment Project) 2014 Series (Federal Taxable) (the "Bonds")

Date of Issuance: [Closing Date]

NOTICE IS HEREBY GIVEN that Arizona Power Authority has not provided an Issuer Annual Information with respect to the above-named Bonds as required by the Continuing Disclosure Agreement dated as of March 1, 2014, between Arizona Power Authority and The Bank of New York Mellon Trust Company, N.A., as Dissemination Agent. [The Issuer has informed the Dissemination Agent that the Issuer anticipates that the Issuer Annual Information will be provided by _____.]

Dated: _____, _____, _____

**THE BANK OF NEW YORK MELLON TRUST
COMPANY, N.A.**, as Dissemination Agent
on behalf of Arizona Power Authority

cc: Arizona Power Authority
Central Arizona Water Conservancy District

EXHIBIT C

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Arizona Power Authority

Name of Bond Issue: \$26,565,000 Power Resources Revenue Bonds (Hoover Prepayment Project) 2014 Series (Federal Taxable) (the "Bonds")

Name of Obligated Person: Central Arizona Water Conservancy District ("CAWCD")

Date of Issuance: [Closing Date]

NOTICE IS HEREBY GIVEN that CAWCD has not provided the CAWCD Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement dated as of March 1, 2014, between Arizona Power Authority and The Bank of New York Mellon Trust Company, N.A., as Dissemination Agent. [The Issuer has informed the Dissemination Agent that the Issuer anticipates that the CAWCD Annual Report will be provided by _____.]

Dated: _____, _____, _____

**THE BANK OF NEW YORK MELLON TRUST
COMPANY, N.A.**, as Dissemination Agent
on behalf of Arizona Power Authority

cc: Arizona Power Authority
Central Arizona Water Conservancy District

EXHIBIT D

CONSENT AND ACCEPTANCE

The Central Arizona Water Conservation District (CAWCD) consents to the attached Continuing Disclosure Agreement dated as of March 1, 2014 (the "Continuing Disclosure Agreement"). Capitalized terms not otherwise defined in this Consent and Acceptance have the meanings given those terms in the Continuing Disclosure Agreement.

1. CAWCD shall, not later than 180 days after the end of each Fiscal Year, commencing with the year ending December 31, 2013, submit to the Issuer or the Dissemination Agent:
 - (a) The audited financial statements of CAWCD, prepared in accordance with accounting principles generally accepted in the United States of America. If audited financial statements of CAWCD are not available by the time the financial statements are required to be filed, the submission may contain unaudited financial statements in a format similar to the financial statements contained in this Official Statement, and the audited financial statements will be filed promptly after they become available.
2. If CAWCD fails to comply with any of its obligations under this Consent and Acceptance, any Participating Underwriter or any Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause CAWCD to comply with its obligations hereunder. A default under this Consent and Acceptance shall not be deemed an event of default under the Power Sales Contract, and the sole remedy hereunder in the event of any failure of CAWCD to comply herewith shall be an action to compel performance.

Date: March 27, 2014

Central Arizona Water Conservancy District

By: _____
Assistant General Manager

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PRINCIPAL PAYDOWN FACTOR TABLE

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PRINCIPAL PAYDOWN FACTOR TABLE

PRO RATA PASS-THROUGH DISTRIBUTION OF PRINCIPAL

\$18,910,000 4.918% Term Bond Due October 1, 2045

Principal Paydown Date (October 1)	Mandatory Sinking Fund/Paydown Amounts¹	Paydown Amount per \$1,000	Remaining Balance per \$1,000	Paydown Factor	Remaining Bond Factor
2030	\$ 805,000.00	42.57	957.43	0.042570	0.957430
2031	845,000.00	44.69	912.74	0.044685	0.912745
2032	885,000.00	46.80	865.94	0.046801	0.865944
2033	930,000.00	49.18	816.76	0.049180	0.816764
2034	975,000.00	51.56	765.20	0.051560	0.765204
2035	1,025,000.00	54.20	711.00	0.054204	0.710999
2036	1,075,000.00	56.85	654.15	0.056848	0.654151
2037	1,125,000.00	59.49	594.66	0.059492	0.594659
2038	1,180,000.00	62.40	532.26	0.062401	0.532258
2039	1,240,000.00	65.58	466.68	0.065574	0.466684
2040	1,300,000.00	68.74	397.94	0.068747	0.397938
2041	1,365,000.00	72.19	325.75	0.072184	0.325754
2042	1,430,000.00	75.62	250.13	0.075621	0.250132
2043	1,500,000.00	79.32	170.81	0.079323	0.170809
2044	1,575,000.00	83.29	87.52	0.083289	0.087520
2045	1,655,000.00	87.52	-	0.087520	0.000000

¹ Subject to change in the event of certain optional redemptions or purchases of 2014 Series Bonds and subject to DTC's (or other securities depository) operational procedures on the date such mandatory sinking fund redemption.

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