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STAKEHOLDER BACKGROUND

Salt River Project

The Salt River Project (SRP), based in Phoenix, Arizona, is the third-largest public power utility in the United States and the second largest water supplier in the Grand Canyon State. SRP consists of two organizations: the Salt River Valley Water Users' Association (the Association) and the Salt River Project Agricultural Improvement and Power District (the District).

The Association is a private Arizona corporation. It administers the water rights of SRP's 240,000-acre water service area, and operates and maintains a system of dams and waterways that delivers water to municipal, industrial, agricultural and residential customers.

The District is a public power utility and a political subdivision of the State of Arizona. It provides electricity to more than 890,000 residential, industrial, commercial, agricultural and mining customers throughout a 2,900 square-mile service territory in central Arizona¹. The District of SRP owns and operates an electric system that generates, purchases, and distributes electric power and energy. SRP provides electric service to residential, commercial, industrial, and agricultural power users in parts of Maricopa, Gila, and Pinal Counties. The District presently obtains power and energy from its wholly owned hydroelectric and thermal generating facilities, through participation in jointly owned thermal plants, and through power purchases.

SRP's mission is to provide reliable electricity to the customers within its service territory. Customers want as much electricity as they need, whenever they need it, without interruption, and at the lowest possible cost. Customers also want electricity provided with a conscientious regard for and minimal impact on the environment. SRP has played a significant role in supplying the energy that has helped fuel the growth of central Arizona.

Central Arizona Water Conservation District

The Central Arizona Water Conservation District (CAWCD) is a multi-county water conservation district organized pursuant to the Arizona Revised Statutes, Section 48-3701, *et seq.* for the purposes, among others, of providing assistance in financing and repaying portions of the construction costs of the Central Arizona Project (CAP), and is the organization with the contractual responsibility to operate and maintain the CAP in the most economic and efficient manner.

The primary purpose of CAP is to help Arizona conserve its groundwater supplies by importing surface water from the Colorado River, whose supply is renewed yearly by rainfall and snowmelt. CAP also provides flood control, recreation, and fish and wildlife benefits.

CAP is a 336-mile long system of aqueducts, tunnels, pumping plants and pipelines carrying water from Lake Havasu near Parker, Arizona, on the Colorado River, through Phoenix, Arizona, to the southern boundary of the San Xavier Indian Reservation southwest of Tucson, Arizona.

¹ For more information on SRP business and financial activities, see SRP's Home Page at <http://www.srpnet.com>.

During a year of normal water runoff, CAP is able to deliver 1.5 million acre-feet of Colorado River water within Maricopa, Pinal, and Pima counties. During a year in which the Colorado River has surplus water supplies, CAP can deliver 1.8 million acre-feet.

CAP water is generally used in four ways: direct treatment and delivery (municipalities, industries, and Indian communities), treatment and blending with other water sources (municipalities), recharge into groundwater aquifers, and irrigation for farmland.²

CAWCD Load and Power Resources

CAP facilities, including 14 pumping plants with loads in excess of 450 megawatts, make CAWCD a major consumer of electricity in Arizona.

To meet the electric needs of the CAP, the United States Department of Interior through the Bureau of Reclamation in 1969 signed a participation agreement to form the Navajo Project. The Navajo Project consists of three, coal-fired 750-megawatt generating units. Located on the Navajo Indian Reservation near Page, Arizona, the Navajo Project also features two 500,000-volt transmission systems, one to the west and one to the south. SRP is the operating agent for the plant and has performed an outstanding job keeping Navajo Generating Station one of the leading plants in the United States.

The Hoover Power Plant Act of 1984 authorized improvement of the turbines and generators at Hoover Dam creating additional capacity, known as Hoover Schedule B power. Arizona's share of Hoover Schedule B power was made available through the Arizona Power Authority. In September 1986, CAWCD contracted with Arizona Power Authority for Hoover Schedule B power.

A new dam on the Agua Fria River impounding Lake Pleasant also became a feature of the CAP in the late 1980s. The New Waddell Dam provides a much needed element of flexibility in CAP water operations as well as a modest generation source when Colorado River water is returned from Lake Pleasant into the CAP aqueduct.

CAWCD also maintains transmission rights and entitlements with the Bureau of Reclamation and the Western Area Power Administration.

Salt River Pima-Maricopa Indian Community, Ft. McDowell Yavapai Nation, and Gila River Indian Community

The United States Bureau of Reclamation (Reclamation) operates several Federal hydro-electric generation facilities one of which is the Colorado River Storage Projects. Under Acts of the United States of America, the Western Area Power Administration (WAPA) markets and transmits the electric power generated at these facilities and collectively refers to these as the Salt Lake City Area Integrated Projects (SLCA/IP). To implement the Acts and authorities, WAPA developed and published the Salt Lake City Area Integrated Projects Post-1989 General Power Marketing and

² For more information on the Central Arizona Project and Central Arizona Water Conservation District, see <http://www.cap-az.com>.

Allocation Criteria (Marketing Program). This Marketing Program required that SLCA/IP long-term power customers prepare integrated resource plans.

In late 2004 SLCA/IP firm power customers' contractual commitments with WAPA were renewed and extended until 2024. Part of this amendment made approximately seven (7) percent of the SLAC/IP capacity and energy available to new applicants, particularly Native American Tribes. WAPA determined that a number of tribes were eligible as preference customers to receive a Tribal Allocation. In early 2004, the Salt River Pima-Maricopa Indian Community, the Ft. McDowell Yavapai Nation, and the Gila River Indian Community (Native American Tribes), among many others, entered into Firm Electric Service contracts with the United States Department of Energy and WAPA. These Firm Electric Service contracts became effective October 1, 2004.

In order for the Native American Tribes to directly receive and benefit from the power and energy made available to it by Western by way of the Tribal Allocation, it would have been necessary for the Native American tribes to establish operating utilities, to secure and purchase transmission service to deliver the Tribal Allocation to point(s) of delivery on the electric system of the SRP, and to make arrangements to purchase and wheel any power and energy needed by the Native American's tribal utility for its tribal load in excess of the Tribal Allocation. The Native American tribes acknowledged that this option was cost prohibitive and requested that SRP accept Federal Power on its behalf and pass through the benefit of said Federal Power to the Native American Tribes.

SRP entered into Benefit Crediting Contracts with the Native American tribes³ and Western. Under these Contracts SRP accepts the Tribal Allocations from WAPA and delivers the economic benefits of said Tribal Allocations to the Native American Tribes. All parties recognize and acknowledge that the Benefit Crediting Programs implemented do not constitute a sale for resale of the Tribal Allocation and is not in conflict with Article 17 of WAPA's General Power Contract Provisions, a part of Contract No. 02-DSR-11361.

³ In April 2007, SRP received written notice from the Gila River Indian Community (GRIC) of their intent to terminate the benefit crediting contract on July 31, 2007. GRIC plans to take physical delivery of its Federal Hydropower beginning August 1, 2007.

SRP, CAWCD, AND NATIVE AMERICAN TRIBES WAPA IRP FILING

In the late 1980s, SRP entered into two separate power purchase agreements with CAWCD for capacity and energy from Navajo Generating Station that would not be needed for projected CAP pumping loads. To take advantage of CAWCD's power resources and flexibility in CAP water operations, SRP and CAWCD in 1994 entered into a third agreement (incorporating the two previous agreements) wherein the electric load of CAP facilities became part of SRP's system load responsibility and the CAWCD power resources including transmission rights became part of SRP's system resources.

In the Benefit Crediting Contracts between SRP and the Native American Tribes SRP accepts the Tribal Allocations from WAPA and delivers the economic benefits of said Tribal Allocations to the Native American Tribes. SRP also fully serves the loads of the Salt River Pima-Maricopa Indian Community and the Ft. McDowell Yavapai Nation, and partially serves the loads of the Gila River Indian Community through the SRP system. In recognition of this allocation and load serving relationship, SRP agreed to prepare and submit Integrated Resource Plans that satisfy the requirements of the SLCA/IP long-term power customers under the Firm Electric Service contracts, on behalf of the Native American Tribes.

From a resource planning perspective, all of CAWCD's load and resource requirements are included with, and integral to, SRP's loads and resources. In addition, SRP accepts the WAPA Tribal Allocations on behalf of the Native American Tribes and either fully or partially serves their loads through the SRP system. For these reasons, SRP, CAWCD, and the Native American Tribes agree that a single response to the WAPA's resource plan filing requirements, as represented by this report, is appropriate.

This report describes SRP's long-range plan for providing electricity to the customers in its service territory and incorporates the needs of CAWCD and the Native American Tribes.

OVERVIEW

The resource information contained within this report is consistent with SRP's Fiscal Year 2007 (FY07) Resource Plan. The plan's time horizon is six years (FY07 through FY12). SRP's fiscal year begins May 1st of each year.

According to the FY07 Resource Plan, SRP will meet its future resource needs using a diverse portfolio of short and long-term purchases, new generation and system improvements. These resources will allow SRP to meet its growing customer load at a low cost, while mitigating potential risks. This will help position SRP to fulfill its corporate mission to “deliver ever-improving contributions to the people we serve through the provision of low cost, reliable water and power, and community programs, to ensure the vitality of the Salt River Valley”.

Given the dynamic nature of the energy industry, it is likely that some elements of this plan will change over time in response to challenges facing our industry. Some of these challenges include: volatile natural gas and electric prices, uncertainty about gas infrastructure, an undefined industry-wide vision for the transmission business, increased attention on environmental issues and associated regulations, and the unpredictable nature of the regulatory and political environment.

SRP and CAWD closely follow both local and national energy news on an ongoing basis to assess changes that could influence these plans. Flexibility is a key element of the resource plan that helps SRP deal with these types of future uncertainties. SRP is continually considering sufficient options should some elements of this plan change.

SRP'S RESOURCE PLANNING OBJECTIVES

In the electric utility industry, the term “Integrated Resource Planning” (IRP) refers to the formal process of planning for customers’ electric service demand and energy requirements in future years. Decisions made within such processes have far-reaching impacts on electric utilities, customers, and society at large. The purpose of this document is to present a clear and concise projection of the resource needs of the SRP system over the next six years and a strategy for meeting those needs in an evolving utility environment. SRP’s FY07 Resource Plan has been developed and submitted in compliance with the requirements of the Western Area Power Administration’s Energy Planning and Management Program.

SRP’s current resource planning process attempts to strike an effective balance between multiple, and often competing, objectives. No single plan can meet every objective equally well. SRP examines many alternative future plans in order to find a plan that best meets a combination of the following resource planning objectives.

Ensure Adequate and Reliable Service to Electric Customers

SRP is committed to serving the growing electric needs of the customers within its service territory. To meet these projected future needs, a portfolio of resource options, including future supply-side alternatives and demand-side alternatives, were considered. SRP is interested in the efficient utilization of electricity on both sides of the meter.

The selected combination of resources must be capable of meeting projected future customer demand requirements, and the reserve capacity and energy necessary to provide reliable electric service during equipment outages, severe weather conditions, sudden unexpected surges in load, and changing future marketplace conditions.

Provide an Economically Efficient and Environmentally Responsible Utilization of Resources

SRP uses multiple decision-making techniques for selecting among alternatives for meeting future customer requirements during the course of the resource planning process. SRP examines various candidate resource alternatives to ensure the development of a plan that represents the best interests of SRP, its customers, and society.

The resource planning process also identifies a plan that can meet applicable environmental regulations. Environmental legislation poses significant challenges to the utility industry and its customers, and will continue to do so in the coming years as existing statutes are clarified and new regulations are developed.

Maintain SRP’s Financial and Operational Integrity

The resource planning process is structured to identify the long-term plan that will help SRP accomplish its mission. Each year’s recommended six-year future plan must be consistent with current financial goals, but still allow for operational fluctuations that occur in meeting the day-to-day needs of electric service customers in an uncertain future. Capital outlays will be leveraged for

maximum benefit as SRP looks to control costs and mitigate long-term risk. Future resource decisions will continue to be based on retail load requirements and take into account impacts on retail customer rates.

Maximize Flexibility in Future Resource Acquisition

The uncertainties presented by customer demand, fuel prices, customer choices, electric prices in the wholesale marketplace and the regulatory and political environment can each have a profound impact on resource planning and acquisition. SRP's resource planning effort places an emphasis on adopting plans that maximize the flexibility for responding to the changing conditions of an uncertain future.

Manage Uncertainties

SRP has an energy risk management program to limit exposure to risks inherent in normal energy business operations. The goal of the energy risk management program is to measure and report exposure to market risks, credit risks and operational risks. Specific goals of the energy risk management program include reducing the impact of market fluctuations on energy commodity prices associated with customer energy requirements, excess generation and fuel expenses, in addition to meeting customer pricing needs, and maximizing the value of physical generating assets. SRP employs established policies and procedures to meet the goals of the energy risk management program using various physical and financial instruments, including forward contracts, futures, swaps and options. Certain of these transactions are accounted for under Statement of Financial Accounting Standards No. 133, "*Accounting for Derivative Instruments and Hedging Activities*," as amended (SFAS No. 133). Under SFAS No. 133, derivatives are recorded in the balance sheet as either an asset or liability measured at their fair value. The standard also requires changes in the fair value of the derivative be recognized each period in current earnings or other comprehensive income depending on the purpose for using the derivative and/or its qualification, designation and effectiveness as a hedging transaction. Many of SRP's contractual agreements qualify for the normal purchases and sales exceptions allowed under SFAS No. 133 and are not recorded at market value. Risk reduction is the ultimate result of SRP's hedging practices.

Summary

Providing instantaneous electric service to hundreds of thousands of Arizonans requires planning well in advance. Some of the alternatives that SRP could call upon to meet projected future customer needs take years to bring from the drawing board to reality. The resource planning process identifies resource alternatives and strategies that will enhance SRP's ability to meet customer needs at competitive prices and increase the flexibility to meet load and industry uncertainty. SRP will continue to develop long-term resource plans in a manner that provides an effective balance of all objectives.

HOW SRP RETAIL CUSTOMERS USE ELECTRICITY

Unlike other forms of energy, such as gasoline for cars or propane for barbecue grills, electricity is an instantaneous commodity and cannot be stored until needed. When any SRP customer turns on a light switch, starts a microwave oven, or starts a pool pump, SRP's system for supplying electricity must respond immediately to meet that customer's demand. Thousands of SRP customers make decisions either to use, or stop using, electricity every minute of every day. Predicting how much electricity customers will use, and when they will use it, today and in the future is a challenge.

The amount of electricity that SRP's customers use at any moment is referred to as "load" or "demand." The sum of all SRP customers' decisions to use or not use electricity at any moment is called the Total System Load or Total System Demand. This Total System Load is usually measured in units of millions of watts, or megawatts (MW). As a result of customers' decisions during fiscal year 2006, SRP supplied at least 1,650 MW during every moment of the year.

Like other Sunbelt utilities, SRP is a "summer peaking" utility. This means that each year, demand for SRP electricity is greatest during Arizona's hot summer months. Central air conditioning, a fixture in our southwestern desert lifestyle, is a significant reason that SRP's greatest demand occurs during the summer. The highest single hourly demand that occurs during each year is referred to as the Total System Peak Load. SRP's Peak Load for FY06 was 6,044 MW and occurred on July 21, 2005.

SRP's highest hourly load during a year can be described as a needle peak. This means the annual peak load tends to spike well above other hourly loads. SRP does not experience consistent, level hourly loads. The annual peak occurs during the summer months and is usually driven by extreme weather conditions. Area temperatures can rise above 110 degrees and the need to air condition and refrigerate spaces causes the loads to spike.

For example, during the summer of 2005 (FY06), the highest daily peak load was 6,044 MW on July 21st. On that same day, the lowest hourly load was 3,454 MW. SRP's load increased 2,590 MW from lowest to highest to spike at 6,044 MW. The next highest daily peak that summer was 24 MW (0.3%) lower at 6,020 MW on July 19th. The third highest daily peak was 5,976 MW and the fourth highest was 5,961 MW. The annual peak load not only "spikes" during the day it occurs, but usually it is well above other daily peaks during the summer.

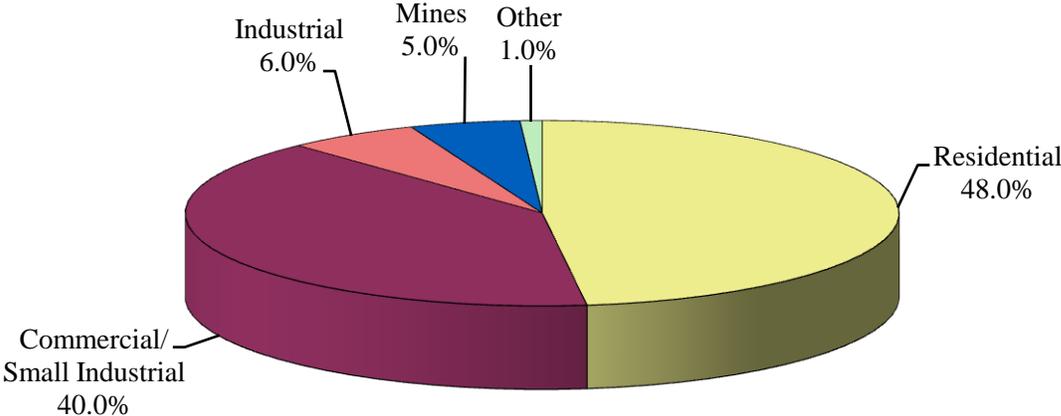
Historically, SRP's highest loads have occurred during only a limited number of hours each year. While SRP plans to continue to meet all of its customers' requirements, a resource acquired solely for the purpose of meeting customers' demands during these peak hours could conceivably sit idle during the remainder of the year. Therefore, resource alternatives such as summer season purchases and demand-relief programs that focus primarily on this characteristic of SRP's electric customer needs are examined in the resource planning process.

The amount of electricity that SRP's customers use during a measured unit of time is referred to as "energy." Since the industry standard quantity of time is an hour, energy is usually measured in units of thousands of watt-hours, kilowatt-hours (kWh), millions of watt-hours, megawatt-hours (MWh), or billions of watt-hours, gigawatt-hours (GWh). Each month, SRP customers are billed for

the amount of energy they have used. The sum of all of SRP customers' decisions to use electricity during a particular time frame is called Total System Energy. During fiscal year 2006 (May 2005 to April 2006), the Total Retail System Energy sales were approximately 24,977 GWh.

SRP currently serves approximately 892,000 customers (as of April 2006) in five customer classifications: residential, commercial/small industrial, large industrial, mines, and other. Residential customers comprise more than 90 percent of the total customer base. Energy used by the residential and commercial/small industrial classes make up the largest share, almost 90% combined, of Total System Energy. The strongest growth in electricity use over the next six years is also expected to be in these two classes, along with strong growth in the mining class due to high copper prices.

Figure 1
Share of Total Retail System Energy



The use of electricity in today's advanced technological society is changing. Society is witnessing an increase in home offices and in the number of electronic devices and appliances in the home, including home entertainment systems, personal computers, microwave ovens, and more. Electric customers continue to change their consumption patterns and increase overall electricity usage.

EXISTING ELECTRIC UTILITY SYSTEM INFRASTRUCTURE

In the early 1900s, agricultural landowners in the greater Phoenix area formed the Salt River Valley Water Users' Association. When these landowners initially pledged their lands as collateral for the construction of Theodore Roosevelt Dam, electric power generation was incidental. The primary concern of the Association was the delivery of water for agricultural purposes.

Water has continued to play an essential role in the Valley but as the area has moved steadily toward urbanization, the fundamental nature of SRP's business has changed considerably. To serve electric customers, SRP currently utilizes a diverse portfolio of SRP owned resource options that have been developed through time as the demand for power has grown within SRP's service territory. SRP utilizes a combination of existing hydroelectric, gas/oil fired, coal, and nuclear facilities to meet its growing demand.

Hydroelectric Facilities

Following the completion of Theodore Roosevelt Dam in 1911, the Salt River Valley Water Users' Association added five other conventional hydroelectric (hydro) units at three other sites in the late 1920s and early 1930s. Since then, all of the original units have been refurbished, and other units have been added. Today SRP has six conventional hydro units and two pumped-storage units on the Salt River and three canal hydro units that provide 270 MW of generating capacity.

To deliver water for agricultural purposes in a timely manner, and to maximize the benefit for SRP's electric customers, SRP's hydro system is operated on a seasonal basis. Consequently, most of the electricity generated by SRP's hydro system is produced during the summer months, May through October.

SRP also receives energy from several federal hydro projects, including the Hoover Project, the Parker Davis Project, and the Colorado River Storage Project (CRSP). SRP's summer season allocation of capacity from these projects totals 214 MW of generating capacity.

Gas/Oil Facilities

As the Phoenix metropolitan area grew in the post-World War II era, SRP constructed additional generating capacity in the Valley to meet the increasing demand for electricity. In the 1950's and 1960s, SRP constructed two gas-fired steam units at a newly developed Kyrene facility and three gas-fired steam units at a newly developed Agua Fria facility that currently provides about 518 MW of generating capacity.

As the Valley continued to boom in the early to mid-1970s, SRP added three combustion turbines at the Agua Fria site and four⁴ combustion turbines at the Kyrene site which currently provide about 438 MW of capacity. In addition, SRP developed a new Santan facility with four combined-cycle units that currently provide about 368 MW of capacity.

⁴One combustion turbine was sold back to the vendor in 1996.

As the Valley has continued to grow, SRP has grown with it. SRP has added four new combined-cycle facilities to its existing resource portfolio. In 2001, SRP purchased the Desert Basin plant from Reliant Energy. Desert Basin is a new two-on-one combined-cycle facility with 600 MW of generating capacity. It is located approximately forty miles southeast of the Phoenix Metropolitan area in Casa Grande, Arizona. SRP also added a combined cycle plant, Kyrene unit 7, with a capacity of 250 MW which became operational in October 2002.

In addition to the new Desert Basin and Kyrene facilities, SRP constructed two additional combined-cycle plants at Santan to keep pace with rapid growth in the East Valley. Santan Unit 5 became operational in April 2005 and has a capacity of 550MW. Santan Unit 6 has a capacity of 275 MW and became operational in March 2006.

Santan 5 and 6, Kyrene 7, and Desert Basin plants together provide the majority of SRP's Valley-based generation. The older steam and combustion turbine units at Kyrene and Agua Fria operate primarily to provide additional capability to meet peak load during the summer months.

Coal Facilities

In the late 1960s and early 1970s, SRP realized that expansion of its Valley generating facilities would not be sufficient to meet swelling customer demands for electricity, and thus participated in the construction of a number of large, coal-fired generating facilities. Between 1969 and 1981, SRP added electrical generation from 12 coal-fired units representing about 1,791 MW of generating capacity.

As the mainstay of today's system, SRP's primary coal plant interests are in the jointly owned Navajo Generating Station and in the solely owned Coronado Generating Station. Together, the five units at these facilities account for over two-thirds (1,262 MW) of SRP's coal-fired capability. SRP also owns interests in the Four Corners plant (New Mexico), the Mohave plant (Nevada), plus the Craig and Hayden plants (Colorado).

Nuclear Facility

Like many other Sunbelt utilities, in the early 1970s SRP faced extremely high population and economic growth rates, and expected more of the same during the 1980s. Thus, after extensive study and consideration, SRP decided to participate in Palo Verde Nuclear Generating Station as a means for meeting growing electric customer demand.

As a 17.49 percent owner, SRP depends upon nuclear generating capability to provide approximately 671 MW (summer season capability) to help meet customers' load requirements. SRP uses electricity produced at Palo Verde as much as possible because Palo Verde operating costs are extremely low in comparison with other facilities, including base-load coal plants. This means that except for regularly scheduled maintenance, safety inspections and refueling stops, the plant is used as designed to produce electricity 24 hours per day, 365 days per year, for all of its participant owners. For this reason, the availability of Palo Verde continues to be very important to both SRP and its customers.

Expansion and Acquisition of Facilities

With the exception of Palo Verde Nuclear Generating Station and the new combined cycles recently added to SRP's system, every existing SRP generating facility was at least 20 years old, and some, more than 40 years old in the year 2007. Despite this aging population of units, SRP currently does not plan for the retirement of any power plant facilities during the six-year planning horizon.

SRP's existing generation assets have been and will continue to be an integral part of its long-term resource plans. These generating stations historically have achieved high availability and low forced outage rates as compared to industry averages. This performance can largely be attributed to prudent operational and maintenance practices. Sustaining and improving this performance will be achieved by continuing a focused effort on preventative, predictive, and corrective maintenance activities. By combining these practices with the ongoing application of engineering and technology improvements, SRP will ensure that the future economic and operational value of existing assets is maintained.

Exchange Agreement with Western Area Power Administration

In the late 1950s and early 1960s, the United States Bureau of Reclamation (USBR), in conjunction with other public agencies and interests, developed the Colorado River Storage Project as a part of the federal government's water reclamation efforts in the western United States. The 1,400 MW Glen Canyon hydroelectric facility, located in northern Arizona near the Utah border, became the centerpiece of CRSP development, providing electric and water services to customers throughout the Rocky Mountain west.

As the construction of Glen Canyon dam progressed, USBR planned the necessary construction of several high voltage transmission lines from Glen Canyon north and east, to serve CRSP customers located in Utah, Colorado, Wyoming and New Mexico.

As previously mentioned, during this same period of time, SRP was considering several power plant construction projects, including participation in jointly owned coal-fired generating facilities in northwestern New Mexico (Four Corners) and northwestern Colorado (Craig and Hayden). To get this power to the south and west to serve SRP customers would require the construction of additional high voltage transmission lines.

Recognizing that the USBR had resources where SRP needed to get power and that SRP was considering resources where the USBR needed to get power, the concept of exchanging power rather than building transmission lines was explored. Acknowledging a mutually beneficial opportunity, in 1962 SRP and the USBR entered into contract # 14-06-400-2468, a 52-year compact commonly referred to as the "Exchange Agreement". The current agreement expires in 2014. This contract was subsequently amended by mutual consent and is now administered by a separate federal agency, WAPA. By virtue of this contract, SRP agreed to:

- Construct, operate and maintain 533 MW of coal-fired generating capacity at Craig, Hayden and Four Corners,

- Deliver electricity from these facilities to the federal government's CRSP customers in Utah, Colorado, Wyoming and New Mexico, and
- Pay the federal government approximately \$1.5 million per year.

Similarly, the federal government (originally USBR, and now WAPA) agreed to:

- Deliver an equivalent amount of electricity from Glen Canyon dam to SRP's customers in central Arizona, and
- Provide firm transmission service from Craig, Hayden and Four Corners to central Arizona during those times when insufficient hydro generation at Glen Canyon would be available to match SRP's coal plant electricity production.

As a result of the Exchange Agreement, considerable investments in transmission facilities were avoided and transmission energy losses were reduced, saving SRP and federal government customers billions of dollars.

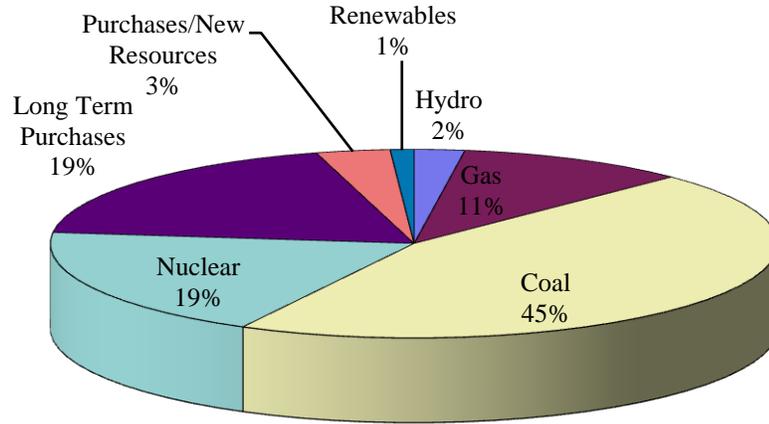
In 1982, the Glen Canyon Environmental Studies (GCES) was initiated to analyze the operational impacts of Glen Canyon dam on the economic, social, cultural, natural, and physical environment of the Grand Canyon. In 1995, the Glen Canyon Environmental Impact Study (GCEIS) was filed with the Environmental Protection Agency and in 1996; the Secretary of the Interior signed an EIS Record of Decision setting new dam operations criteria and flow parameters for the dam.

Following more than two decades of study, the result of the GCEIS Record of Decision was to reduce the hourly and daily water releases at the dam below previous levels yet maintain the same annual and approximately the same monthly level of water releases. Also, the dam would now generate between 500 and 900 MW on average during a year—depending on snow pack upstream.

The FY07 Resource Plan assumes that the federal government will be able to satisfy the interests of all Glen Canyon dam stakeholders, and in so doing, fulfill its Exchange Agreement obligations to SRP throughout the next six-year planning horizon.

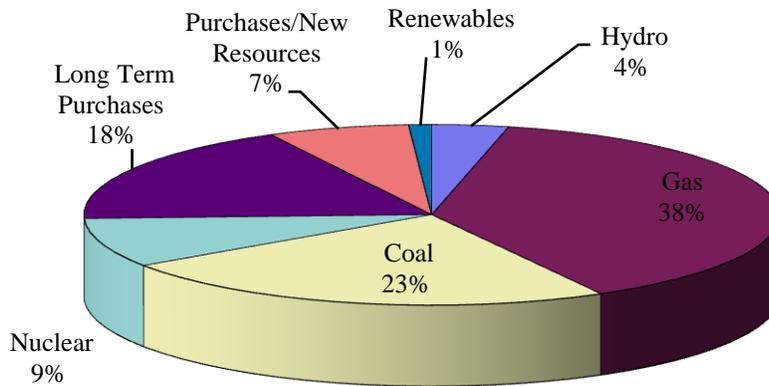
Figures 2 and 3 below show the projected components of SRP's total energy generated (28,327 GWh) in FY07 and the installed capacity at system peak (7,604 MW).

Figure 2
Resource Mix Energy (GWh)
FY 2007



Total Energy Production 28,327GWh

Figure 3
Resource Mix Capacity (MW)
FY 2007



Total Capacity 7,604 MW

TRANSMISSION RESOURCES

SRP's extensive system of transmission, sub-transmission, and distribution facilities is a key element in providing electric service to customers. Transmission refers to the 500, 230, and 115 kV system that is designed to carry electricity from remote SRP resources to the Valley, sub-transmission refers to the system that moves electricity to neighborhood substations, and distribution refers to the lower voltage system that is used to deliver electricity locally. SRP owns, in whole or in part:

- 1,349 circuit miles of 500 kV lines
- 369 circuit miles of 230 kV lines
- 261 circuit miles of 115 kV lines
- 739 circuit miles of 69 kV lines
- 28,600 circuit miles of 12 kV lines

SRP also operates and maintains an extensive system of 41 transmission substations and 217 distribution substations that help effectively deliver electricity to current service territory customers.

The interconnected transmission system of the western United States allows SRP to purchase electricity when it is available from other utilities at costs below SRP's electric production costs, and in a similar manner, allows SRP to sell electricity during those periods when energy from SRP resources is not needed by retail customers. By selling to the wholesale market when SRP has surplus energy available, SRP generates revenue that helps keep existing retail customer rates low. These wholesale sales also help SRP to more efficiently utilize its generation assets. SRP is actively participating in transmission projects and inter-utility working groups to help assure that there will be adequate transmission capability to meet Phoenix metropolitan area requirements. Some of these projects may also increase access to additional markets and open up new wholesale opportunities.

The interconnected transmission system also helps to sustain adequate system reliability. With connections to many other western state transmission and generating facilities, it is extremely unlikely that SRP customers will experience an extended electrical outage due to a shortage of generating resources.

As the Phoenix metro area expands and the population density increases, SRP will need to add transmission, substations, and distribution facilities to continue reliably serving its customers. Without these additions, the existing system may become overloaded, compromising the reliability and quality of service to SRP customers.

Each year, SRP updates a 10-year outlook that identifies future load growth patterns and determines when and where the existing distribution system becomes strained. The location of new electrical facilities is a community concern, and a sensitive issue for existing businesses and homeowners. Therefore, whenever SRP decides that new facilities are needed to serve an area, SRP initiates a public process to determine the facility location that maximizes the quality of electric service delivery to customers, and minimizes physical impacts on the immediate area. The public process for transmission lines 115 kV and above is defined by the state, while SRP's Board of Directors defines the process for other facilities.

SRP and other Arizona utilities as well as interested and affected parties participate in WECC, several regional study forums, and local study forums to analyze system requirements, evaluate solutions, and determine courses of action to take to develop a system that provides adequate and economic service to a number of owners and customers⁵.

⁵ More information on the forums and the studies in process can be found on www.azpower.org.

ENVIRONMENTAL CONSIDERATIONS IN RESOURCE PLANNING

SRP plans, constructs and operates its power facilities in a manner that conforms to existing environmental requirements and is responsive to evolving public policy on environmental stewardship. SRP works closely with regulatory agencies and concerned citizens in establishing environmental standards for our facilities that will be fully protective of public health and the environment.

Clean Air Act Compliance

Title IV – Acid Rain

Title IV of the 1990 Clean Air Act Amendments (CAAA), known as the Acid Rain Program and implemented by the EPA, set limits on SO₂ emissions from fossil fuel-fired power plants beginning January 1, 2000.

Emission allowances were allocated to each fossil fuel electric generating unit. The owner of the electric generating unit must hold allowances equal to the amount of SO₂ emissions. Rigorous monitoring and reporting requirements must be satisfied to comply with the Acid Rain Program. SRP has fully complied with all elements of Title IV.

SRP's has an ownership share of seven coal-fired power plants and four gas-fired power plants. All the operating coal-fired power plants currently online have scrubbers to reduce SO₂ emissions. One plant, the Mohave Generating Station, is currently shut down and will only startup upon installation of new emission controls, including a high efficiency scrubber. The existing SO₂ removal system at SRP's Coronado Generating Station will also be upgraded in the next several years to satisfy other regulatory requirements.

SRP holds sufficient acid rain allowances to cover actual and projected SO₂ emissions from its current portfolio of coal and gas-fired power plants. SRP is evaluating other SO₂ emission reduction strategies in the event future legislation further reduces national SO₂ emissions.

SRP is also meeting the NO_x emission rate limit set forth in Title IV for coal-fired boilers.

Visibility

By December 2007, states are required to submit plans to EPA for meeting the federal Regional Haze requirements set forth to protect visibility in National Parks and Wilderness Areas. The plans will require certain stationary sources of pollutants, like power plants, to install Best Available Retrofit Technology (BART) emission controls for SO₂, NO_x, and PM₁₀. BART controls will have to be in place by December 2013.

SRP has an ownership share of several coal-fired power plants that are subject to the BART requirement. Additional investment in emission controls may be necessary to conform to these future requirements. Specifically, the BART rules will require both Coronado Generating Station (CGS) and Navajo Generating Station (NGS) to install advanced combustion controls to reduce NOx emissions.

Mercury

Arizona finalized state regulations for controlling mercury emissions from coal-fired power plants. The regulations require that each existing plant, and all new plants, implement technology for removing 90 percent of the mercury in the coal by 2013. Furthermore, each plant will have to hold allowances equal to its emissions. The Arizona regulations affect SRP's CGS and Springerville Generating Station Unit 4. SRP may be able to bank any surplus mercury allowances at CGS for several years. The banked allowances could be used in subsequent years at both CGS and Springerville Unit 4.

All coal-fired power plants on the Navajo Nation will be able to participate in the national cap-and-trade program. EPA is still in the process of developing a mercury allocation rule for coal-fired power plants on the Navajo Nation. SRP anticipates that additional investment will be needed to reduce mercury emissions at the Navajo Generating Station to comply with expected allocations.

Colorado, Nevada and New Mexico have also developed mercury control regulations that require minimum levels of control at each coal plant. Colorado and New Mexico have imposed restrictions on the sale of any surplus state mercury allowances. Thus, SRP can not transfer any excess mercury allowances from its ownership share at the Craig, Hayden and Four Corners power plants to its Arizona power generation facilities. A portion of the surplus mercury allowances in Nevada may be sold to out-of-state power interests by the Nevada Division of Environmental Protection. In the event Mohave remains shut down, it may be possible for SRP to purchase allowances from the State of Nevada.

New Generation - Non-Attainment

SRP's resource plan calls for building new gas-fired peaking generation within or near its customer load. A substantial portion of SRP's service area is located in a region classified as being in "non-attainment" with EPA's ambient air quality standards for fine particulate matter (PM10) and ozone. New peaking generation within the "non-attainment" area would have to be designed and constructed to meet the Lowest Achievable Emission Rate set forth by EPA. Furthermore, any significant increase of PM10, NOx, and VOC emissions would have to be offset by an equal amount. This can be accomplished by reducing emissions at other facilities, upgrading mobile sources of emissions, or paving roads. Air quality modeling must demonstrate that emissions from the new unit(s) will not degrade air quality or impact visibility in nearby Class 1 areas.

New Generation - Attainment

Any new generation located in areas classified as being in attainment with the national ambient air quality standards would have to meet Best Available Control Technology Standards and demonstrate that it would not degrade air quality or impact visibility in nearby Class 1 areas. New coal-fired units would have to secure SO₂ and mercury allocations to cover its emissions. Mercury allowances would likely have to be secured on the marketplace. SRP may possess some surplus SO₂ allowances that it could transfer to new coal units. Any shortfall of SO₂ allowances would have to be purchased on the marketplace.

Climate Change – Carbon Dioxide (CO₂)

Climate change policy is receiving considerable debate in Congress. Several bills have been proposed calling for substantial reductions in GHG emissions. In the absence of federal legislation, some states are establishing policies for reducing emissions of greenhouse gases, predominantly CO₂. There is also legislation being discussed that would authorize greater investment in carbon capture and storage technology, and renewables.

SRP is helping advance clean coal technology by contributing to research in the areas of carbon capture technology and geologic sequestration. SRP anticipates that this technology will be commercially available by 2025.

SRP's renewable energy strategy calls for expanding investment in energy conservation, wind, biomass, geothermal, solar and hydroelectric. SRP will also continue to evaluate carbon offset projects that can be verified, legally enforced and meet SRP financial standards.

Water Supply and Water Quality

Steam electric generating units require water for cooling purposes. SRP makes every effort to use renewable water resources at its power plants, find beneficial uses of plant cooling water, or implement technology to recycle cooling water. Given the water supply constraints of the arid West, dry cooling or hybrid cooling is considered to minimize water requirements when evaluating new fossil fuel plants.

Federal and state water quality agencies continue to establish more stringent water quality standards for western rivers and ephemeral streams. These standards will require existing and new power plants to invest in more advanced treatment technology and deploy zero discharge wastewater management options.

SUSTAINABLE PORTFOLIO INITIATIVE

Over the years SRP has implemented a number of measures designed to reduce the use of fossil fuels for power generation. Of recent significance, in April 2004, SRP's Board of Directors adopted a set of general principles to guide the acquisition of sustainable resources which include renewable generation, conservation, and energy efficiency. And in the spring of 2006, SRP's Board of Directors approved a management proposal that directs SRP's future use of renewable energy resources and energy conservation measures. The approved Sustainable Energy Portfolio sets a target of 15 percent of SRP retail sales to be met through sustainable resources by fiscal year 2025.

SRP's Sustainable Energy Portfolio combines renewable energy resources with energy conservation programs to benefit the environment. SRP's program integrates sound science, customer values, and resource preservation strategies.

Being "sustainable" means not simply being environmentally friendly in the way we generate power, but in how we use it, as well. SRP is committed to developing programs that enable our customers to partner in renewable energy resources and conservation. A summary of some of the programs SRP has developed allowing our customers to be active in the stewardship mission follows.

Landfill Gas

SRP joined with DTE Biomass Energy to install a landfill gas pipeline between the Salt River Landfill and the Tri-Cities Landfill, on the Salt River Pima-Maricopa Indian Community. The pipeline will allow gas from the Salt River landfill to supply fuel to the existing 4 MW Tri-Cities Landfill Generating Facility as the latter facility's gas supply declines over time. This will both prolong the life of the Tri-Cities generating facility and continue to make this innovative source of power production a viable resource.

Solar Energy

If ever a place was perfectly suited for exploiting solar power, it is Arizona's "Valley of the Sun", which enjoys more than 300 days of sunshine each year. Solar energy, through advancement of the technology, is becoming better suited to integration as a component of a sustainable power production portfolio. SRP is utilizing solar energy in a variety of ways, while helping advance research and development of solar energy technologies and applications.

- At SRP's Rogers Substation Solar Park, 3 photovoltaic (PV) units generate a combined capacity of 400 kW of solar energy, and a second installation (comprised of 2 PV units) at SRP's Agua Fria Generating Station produces 200 kW of solar energy delivered to the power grid, for use by customers.
- In partnership with the city of Mesa, SRP has installed a 25 kW photovoltaic power system on covered parking at the city's Red Mountain Library. This project is providing 34 covered parking spaces for the library, while the city and SRP are gaining valuable experience with PV power systems in a covered parking application.

- SRP installed a roof mounted 75 kW PV power system on the company's Tempe Service Center Warehouse addition. This is the first solar project in which a PV power system has been located on the roof of an SRP building, and will provide solar energy for the facility. The system began commercial operation May 2005.

Low-impact Hydro Power

Arizona Falls is a low-impact hydroelectric facility that incorporates part of a retired hydroelectric plant built in 1911. Power is provided by water from the Arizona Canal running through an adjustable blade turbine driving a 750 kW induction generator. SRP has improved the aesthetic features of Arizona Falls with water falls, shade canopies, landscaping, stairs and walking paths around the power plant, in order to make this an inviting point of interest for Valley residents.

Fuel Cell Technology

Through a cooperative effort with the Electric Power Research Institute and Arizona State University, SRP is gaining valuable experience by performing the first test demonstration of a residential scale fuel power cell system. Testing began in June 2003 on a pre-commercial 5 kW Plug Power Fuel Cell system in both grid-connected and stand-alone modes. The project gives SRP valuable experience in fuel cell applications as this emerging technology is further developed.

SRP also has joined with ASU to install a 250 kW high-temperature molten carbonate fuel cell power system at the ASU East campus in 2005. ASU will benefit by having access to non-proprietary system operations and performance data, while the power generated will be sent to the SRP grid. SRP will assess the potential for using this technology in a combined heat and power application during fiscal year 2006.

EarthWise Solar Energy

The goal of the EarthWise Solar Energy Program is to encourage investment and interest in solar power – increasing consumer demand, which will spur further research into solar technologies, ultimately making them more affordable.

The program offers financial incentives to SRP customers who install photovoltaic systems or solar water heaters in their homes or businesses. The contribution made by SRP helps defray the cost of purchase and installation of these systems and encourages their use and further development.

SRP offers a payment of \$3,000 per kilowatt, up to 3 kW for residential customers and up to 10 kW for business customers. For customers who install a solar water heating system, SRP offers a \$750 payment. SRP has committed \$1 million a year in support of the program.

EarthWise Energy

EarthWise Energy allows SRP customers to be active in securing renewable resources for the future. For as little as \$3 per month, participating customers can invest in the development of renewable energy applications, as 100% of EarthWise Energy funds are used to generate clean energy.

Currently, approximately 4,500 residential and 60 small business customers participate in the EarthWise Energy Program.

Sustainable Resources

In addition to the programs just identified SRP has also entered into contracts for the output from sustainable resources.

- **Wind.** SRP has contracts in place to purchase 50 MW of wind power and associated renewable-energy credits that started in 2003 and extend through 2013. The clean wind-generated energy will provide SRP with 61,600 MWh each year, or enough to power more than 4,400 homes in the metropolitan Phoenix area.
- **Geothermal.** Geothermal power plants produce electricity from naturally occurring geothermal steam. The steam is formed when production wells tap into superheated water reservoirs thousands of feet beneath the Earth's surface. Instead of burning a fuel to heat water into steam, heat from the Earth is used to create the steam that powers the turbines. SRP has a five-year agreement to purchase 25 MW of power and geothermal renewable-energy credits which began in June 2004.
- **Biomass.** Biomass power, also called biopower, is electricity produced from biomass fuels. Biomass technologies convert renewable biomass fuels into electricity using modern boilers, gasifiers, turbines, generators, and fuel cells. SRP has a contract in place to purchase 10 MW of biomass power and associated renewable-energy credits that starts in 2008 and extends through 2027. The purchase increases to 20 MW of biomass power the last five years of the contract.

DEMAND-SIDE-MANAGEMENT PROGRAMS

Far more than just a guiding principle, sustainability has been an integral part of SRP's heritage since our inception. Being environmentally responsible extends beyond the way we generate electricity to how we help our customers understand and use electricity wisely. Sustainable demand-side management programs provide benefits to SRP and its customers by improving energy efficiency and reliability, and reducing costs. Together, SRP and our customers take an active role in the stewardship mission, as evidenced by these programs:

M-Power

M-Power is a voluntary pre-pay power program, allowing customers to more actively manage their electricity consumption. With more than 43,000 customers, M-Power is the largest program of its kind in North America. M-Power allows customers to see their real-time power usage (via a special in-home display unit), giving them the ability to make more informed decisions regarding their electricity consumption. On average, M-Power customers used approximately 12.4% less energy on M-Power than they did on alternative price plans, and are among our most satisfied customers.

SRP PowerWise Home Program (PWH)

Homes constructed as part the SRP PowerWise Home program and its forerunner, the SRP Certified Home (SCH) program; consume less energy on a kilowatt-hour basis, through use of various energy-efficient options for construction materials and major appliances. In Fiscal Year 2006, SRP secured builder contracts for 12,751 PWH units. A total of 8,370 SCH homes and 324 PWH homes were built during the year, saving those homeowners approximately 6,570 megawatt-hours, due to improved energy efficiency. Since 1989, over 84,000 homes have been built to the standards of either the SCH or PWH program.

Energy Conservation Tools

Numerous programs are enabling SRP residential and commercial customers to more closely monitor their energy consumption, which leads to more effective energy conservation efforts.

Residential Programs

- **Online: Monthly Usage, Payment History, and Home Comparison:** An Internet-based tool allowing customers to access their account information, compare their energy usage with homes of a similar size, and estimate savings available under the Time of Use Price Plan. (In Fiscal Year 2006, these sites received over 635,000 visits.)
- **Online: Home Energy Manager:** An Internet-based tool allowing customers to better understand how they use energy in their home, and offering conservation/money saving tips. (In Fiscal Year 2006, there were 6,483 users of this tool.)

- **Energy Audits:** In Fiscal Year 2006, SRP's trained Energy Auditors performed 3,541 on-site assessments of customers' residences, offering recommendations for energy improvements.
- **Customer Education and Energy Savings Advice:** Through multiple communication pieces (**Contact, SRP Energy Savings Guide, Powerful Solutions**, print ads, bill inserts, etc.), residential customers are offered tips on using products in their home more efficiently.

Commercial/Industrial Programs

- **Online: Usage and Payment History:** An Internet-based tool allowing small commercial customers to access account information, usage and payment history, and a price calculator displaying a comparison of savings available under the Time of Use Price Plan. (In Fiscal Year 2006 these sites received 2,880 visits.)
- **Online: Business Energy Manager:** An Internet-based tool allowing small and medium-sized commercial customers to assess and understand how they use energy in their facility, and offering conservation/money saving tips as well as case studies and comparisons with facilities of similar size. (In Fiscal Year 2006, 254 users visited this site.)
- **Online: SPATIA Energy Information Services (EIS):** A near real-time Internet-based tool allowing customers who know and monitor their energy usage patterns to cut costs by shifting peak loads, manage consumption, and optimize performance. We have customers subscribing for SPATIA EIS at 608 metering points.
- **e-News:** An Internet-based quarterly newsletter, designed specifically for the unique energy needs of commercial customers, offering energy efficiency information. (In Fiscal Year 2006, 770 customers received e-News)
- **Signature Series:** A series of technical seminars and workshops for business customers on effective and efficient usage of electricity, offered in partnership with DOE and other industry experts. Last year 240 customers attended sessions on chiller optimization and system assessments for motors, pumps, and fans.

FY07 RESOURCE PLAN

Resource planning is an ongoing, multi-attribute process by which SRP analyzes and evaluates a wide variety of resource options, taking into account a number of considerations; including:

- Timing – How quickly can a resource be brought to market?
- Economics – How do the costs compare?
- Reliability – Is the project located in a load center or in a remote area? Will the project be dependent on transmission?
- Environmental Impacts– What type of resource is it? What will the impact be on the surrounding community?
- Risk – What are the financial, public management, and construction risks?

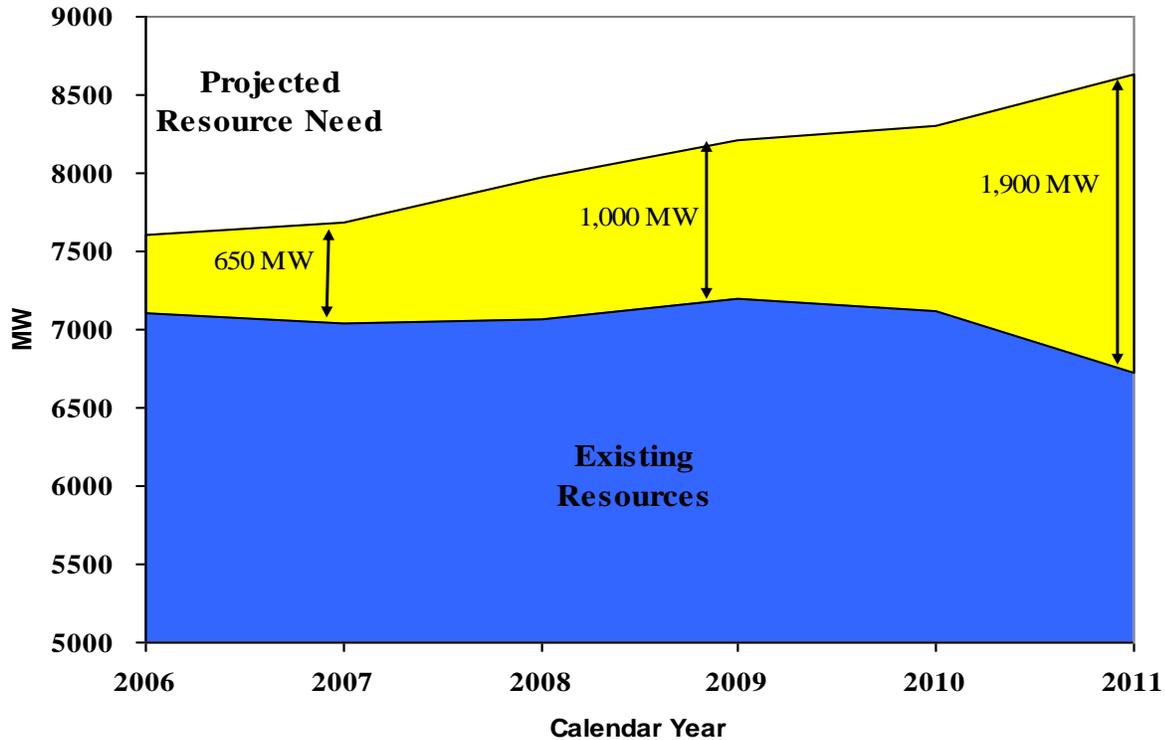
SRP expects that many regional factors will continue to influence which resource options are most attractive including, how much new generation is built, the adequacy of transmission, the adequacy of gas supply and transportation, uncertain market structures in many Western states, and uncertain regulatory and political outcomes.

SRP Resource Needs and Existing Resources

The primary component of SRP's expected resource need is the projected baseline forecast requirements of those retail customers that presently reside within, plus those that are expected to migrate into, the currently defined SRP electric service territory. In addition to retail load, SRP's resource need also recognizes the impact of SRP demand-side-management programs and includes the Territorial and Contingent sale to APS, the firm pumping load sale to CAWCD, tribal resources, other miscellaneous firm sales, and a 12% planning reserve margin.

SRP's highest demand occurs during a relatively short period of time each summer. This high, summer season demand establishes the basis for reserve calculations, and drives the need for new resource additions. Figure 4 shows SRP projected resource needs including reserves compared to existing resources. By 2012, the gap between resource needs and existing resources is expected to grow to 1900 MW.

Figure 4
Projected Resource Need



Options for meeting the gap between projected resource need and today's existing resources are described in the following section.

Future Resource Options

Electric utilities generally employ three types of resources for meeting the fluctuating needs of customers: base, intermediate, and peaking. Base load generating facilities, such as Palo Verde or Navajo, are operated as much of the time as possible. Peaking units (combustion turbines at Kyrene or Agua Fria, for example) are used for short periods of time to help meet the highest electric demands that occur. Intermediate resources, such as the combined cycle units at Santan, are deployed to fill the gaps. The bulk of SRP customers' energy requirements are met by base load, coal-fired generating facilities.

The following discussion outlines the resource options that SRP evaluates on an ongoing basis to meet its customers' resource needs.

Natural Gas

Natural gas-fired generation is currently the economic and environmental choice of most prospective future suppliers of electric generating capacity. Gas-fired resources can be constructed and placed into service quickly, and usually present fewer environmental challenges than other fuels. Some of the challenges associated with gas-fired generation include fuel price volatility and gas transportation availability.

SRP continues to explore various gas-fired generation options, including development at new sites, expansion and/or refurbishment of an existing SRP site, and merchant gas options. The FY07 Resource Plan includes 250 MW of peaking resources in the latter portion of the six year plan.

Coal

Attractive aspects of coal-fired generation include fuel diversity, fuel availability, and fuel price stability. Some of the challenges associated with coal-fired generation include remote siting, environmental issues, and long lead times for new plants.

SRP continues to evaluate opportunities to acquire additional coal-fired generation on an ongoing case-by-case basis. The FY07 Resource Plan includes a 100 MW purchase from Springerville 3 and 400 MW of new coal-fired generation from Springerville 4.

Sustainable Resources

SRP's Sustainable Energy Portfolio sets a target of 15 percent of SRP retail sales to be met through sustainable resources by fiscal year 2025. SRP's Sustainable Energy Portfolio combines renewable energy resources with energy conservation programs to benefit the environment. As highlighted in the *Sustainable Portfolio Initiative* portion of this report SRP has already added several existing sustainable resources to its portfolio including solar, landfill, low impact hydro, fuel cells, wind, and geothermal.

SRP continues to evaluate other opportunities to acquire additional sustainable resources on an ongoing case-by-case basis. The FY07 Resource Plan includes 1 MW of miscellaneous small sustainable resources, 17 MW of solar and 100 MW of geothermal through 2011.

Purchase Commitments

Purchases provide flexibility and mitigate the risk related to the timing of the actual resource need. Through this highly flexible mechanism, capacity and energy can be purchased for years, months, weeks, days and even just a few hours. In the resource planning process, SRP evaluates a variety of purchase commitment options, including market purchases and facility-specific purchases. An important consideration in these evaluations is counter party risk as the continued availability of the purchase is dependent upon the financial health of the supplier. Other considerations include the availability of necessary transmission, market liquidity, and the characteristics of individual generating facilities.

SRP continues to evaluate opportunities to acquire additional purchases on an ongoing case-by-case basis.

Demand-Side-Management Programs

Demand-Side-Management programs are typically characterized by peak load reduction and energy conservation. SRP examines market opportunities based on customer technologies and estimates of the market potential for demand-side-management programs.

For residential customers, SRP encourages energy efficiency and promotes electric end-uses in the new home market through the SRP-Certified Home program. SRP also provides residential customer pricing options through time-of-use and M-Power pricing plans.

For commercial and industrial customers, SRP promotes heating, ventilating, and air conditioning technologies for new commercial construction and retrofit and will continue to provide pricing options through time-of-use price plans and Interruptible riders.

Demand-side-management programs implemented during FY06 were responsible for reducing energy consumption by about 189,000 MWH. SRP will continue to pursue demand-side-management programs as a means of reducing peak demand.

Territorial and Contingent Sale to APS

In the mid-1950s, SRP and APS established a Power Coordination Agreement. As part of this agreement, SRP agreed to a long-term sale of electricity to APS, known as the Territorial and Contingent (T&C) sale. This contract was renegotiated in 1998 as part of opening the service territory to competition.

As a result of the most recent agreement, any time after December 31, 2003, SRP has the right to cancel all or part of this sale upon three years' notification to APS. SRP assesses the relative merits of cancellation in the resource planning process. The FY07 Resource Plan included the cancellation of 150 MW in June 2007 initiated by a June 2004 notification to APS and an assumption that the balance of the contract would be cancelled at the end of December 2011.

Nuclear

Interest in nuclear generation is expected to increase in the future based on technological advances, its low variable cost, and lack of emissions. Palo Verde Nuclear Generating Station is currently the only nuclear facility in SRP's generation portfolio and plays a significant role in providing low-cost base load generation. Challenges associated with building new nuclear generation include its high capital cost, long permitting time requirements, spent fuel storage issues, and an uncertain political and regulatory environment.

The FY07 Resource Plan does not include any new nuclear generation. SRP continually stays abreast of technological and other developments, however, and will continue to evaluate emerging opportunities.

Hydroelectric

SRP has several existing sources of hydroelectric generation (as described in the *Existing Electric Utility System Infrastructure* and *Sustainable Portfolio Initiatives* sections of this report). This technology remains core to our power production portfolio. New large scale hydroelectric facilities are unlikely in the planning horizon, due to limited opportunities, high capital costs, and environmental concerns. SRP continually stays abreast of technological development and opportunities in the area and will continue to evaluate emerging opportunities.

Existing System Improvements

SRP has implemented a number of improvements to existing facilities including scrubbers at the coal-fired Navajo Generating Station in Northern Arizona and steam generator replacements at units 1 and 2 of the Palo Verde Nuclear Generating Station. In 2003 and 2005 a new horizontal single axis tracking system was also added to one of the photovoltaic sites, allowing the modules to move in a east-west motion following the sun.

SRP examines the prospects for cost effective improvements at existing facilities on an on-going basis. In the FY07 Resource Plan the steam generator for unit 3 at the Palo Verde Nuclear Generating Station is planned for replacement in January 2008.

FY07 Resource Plan Summary

Table 1 shows existing generation resources, purchases, and planned resources.

Table 1
FY07 Resource Plan Summary⁶

Existing Resources	FY07	FY08	FY09	FY10	FY11	FY12
Generation	5655	5655	5673	5673	5673	5673
Purchases						
Total Existing Resources						
New Resources	FY07	FY08	FY09	FY10	FY11	FY12
Short-term Market Purchases						
Long-term Purchases/New Resources						
Renewable Resources	1	1	101	118	118	118
Mohave 1-2*	0	0	0	0	316	316
Springerville 4	0	0	0	0	400	400
Combustion Turbines	<u>0</u>	<u>0</u>	<u>0</u>	<u>150</u>	<u>150</u>	<u>250</u>
Total Resource Additions						
Total Resources						

* In the FY07 resource plan Mohave Generating Station was expected to return to service in January 2010. As of the drafting of this report it is unclear when or if the plant will return to service.

⁶ The information is consistent with the FY07-FY12 Resource Plan and represents a snapshot in time that balances many factors. Given the dynamic nature of the electric industry it is likely that some elements of this plan will change over time.

ACTION PLAN AND PERFORMANCE VALIDATION

Each year, as part of the corporate budget and financial plan development process, SRP creates a six-year forecast of retail sales levels, wholesale marketplace expectations, and asset management (resource plan) developments. The process of developing plans to meet customers' needs is continuous.

Action Plan

Table 1 summarizes the major elements of SRP's action plan. However, there are periods of resource need over the planning horizon even after the addition of solar and other renewables, Springerville and the combustion turbines. This remaining need (represented in the "Long-term Purchases/New Resources" line of Table 1) will come from as yet unspecified purchases or other resources.

Performance Validation

SRP has witnessed dramatic changes in the electric utility industry in recent years. Significant changes will most likely serve to increase the need for resource acquisitions within a six-year planning horizon. As forecasts for the economy and the future demand are updated each year, SRP will continue to evaluate on an ongoing basis the need for currently projected Resource Plan elements.

SRP must plan well in advance to meet SRP's resource planning objectives:

1. Ensuring adequate and reliable service to electric customers
2. Providing an economically efficient and environmentally responsible utilization of resources
3. Maintaining SRP's financial and operational integrity
4. Leveraging capital investment in future resources
5. Maximizing flexibility in future resource acquisition
6. Hedging against uncertainties

Some of the alternatives that SRP could call upon to meet projected future customer needs take years to bring from the drawing board to reality. The resource planning process identifies resource alternatives and strategies that will enhance SRP's ability to meet customer needs at competitive prices and increase the flexibility to meet load and industry structural uncertainty. SRP will continue to develop long-term resource plans in a manner that provides an effective balance of these objectives.

PUBLIC PARTICIPATION

This draft edition of SRP's FY07 Resource Plan has been made available for public review and comment during the 30-day period beginning Monday, August 20, 2007 and ending Friday, September 14, 2007. SRP has made copies of the draft report available by contacting the Secretary's Office at SRP.

A public notice of the opportunity to receive a copy of this document and submit questions and/or comments regarding the draft report was published in *The Arizona Republic* (Phoenix, Arizona), the *Casa Grande Dispatch* (Casa Grande, Arizona), *The Tribune* (Mesa, Arizona), the *Tucson Citizen* (Tucson, Arizona), and *The Arizona Daily Star* (Tucson, Arizona) between August 17, 2007 and August 20, 2007.

During the month-long public review period, no parties requested or obtained copies of the draft report. SRP received no questions or comments about this document.

PUBLIC NOTICE

Public Notice is hereby given that the Salt River Project Agricultural Improvement and Power District (SRP) has prepared and is making available for public comment and review an Integrated Resource Plan for fiscal year 2007 for submittal to the Western Area Power Administration pursuant to Section 114 of the Energy Policy Act of 1992 (P.L. 102-486) and 10 CFR Part 905. This Integrated Resource Plan has been prepared and will be submitted on behalf of SRP, Central Arizona Water Conservation District, Gila River Indian Community, Fort McDowell Yavapai Nation, and Salt River Pima-Maricopa Indian Community.

The Integrated Resource Plan is available for public review and copying weekdays beginning, Friday August 31, 2007, through Thursday, September 27, 2007, from 8:30 a.m. to 5:00 p.m., at SRP's Corporate Secretary's Office located in the SRP Project Administration Building, 1521 N. Project Drive, Tempe, Arizona 85281. Copies may also be obtained by calling SRP's Corporate Secretary's Office at (602) 236-5005 weekdays during business hours. Members of the public are invited to review and submit written comments on the Integrated Resource Plan addressed to: SRP's Corporate Secretary (PAB215) and mailed to: P.O. Box 52025, Phoenix, Arizona 85072-2025 or hand-delivered to: 1521 N. Project Drive, Tempe, Arizona 85281. The deadline for receipt of public comments is Thursday, September 27, 2007 at 5:00 p.m.

COMMON TERMS

<u>Acronym</u>	Definition
APS	Arizona Public Service
CAP	Central Arizona Project
CAWCD	Central Arizona Water Conservation District
CO ₂	Carbon Dioxide
COB	California-Oregon Border
CRSP	Colorado River Storage Project
ESP	Energy Service Provider
FERC	Federal Energy Regulatory Commission
FY	SRP Fiscal Year: May 1 - April 30 (For example, FY00 is May 1,1999 through April 30, 2000.)
GDP	Gross Domestic Product
GCEIS	Glen Canyon Environmental Impact Statement
GWh	Gigawatt-Hours
IOUs	Investor-Owned Utilities
IRP	Integrated Resource Planning
kV	Kilovolt
kW	Kilowatt
kWh	Kilowatt-Hours
LB/MMBTU	Pounds per million British thermal units
MW	Megawatt
MWh	Megawatt-Hours
NO _x	Nitrogen Oxides
NPV	Net Present Value
NYMEX	New York Mercantile Exchange
PX	California Power Exchange
RTP	Real-Time Pricing
SO ₂	Sulfur Dioxide
SRP	Salt River Project
T&C	Territorial & Contingent
TES	Thermal Energy Storage
UDC	Utility Distribution Company
USBR	United States Bureau of Reclamation
Valley or Valley of the Sun	Greater Phoenix Metropolitan Area
WAPA	Western Area Power Administration
WSCC	Western Systems Coordinating Council