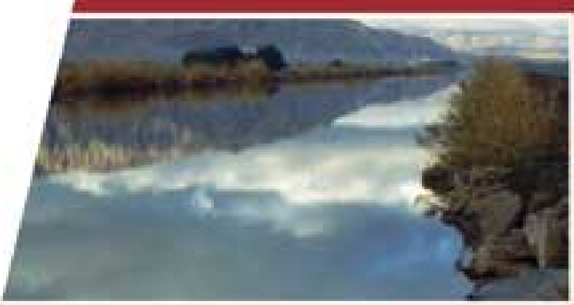
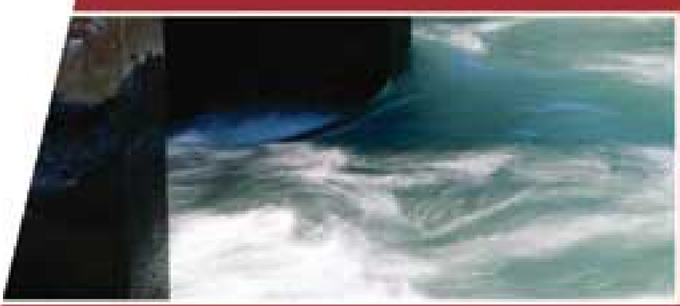
IMPERIAL IRRIGATION DISTRICT
ANNUAL REPORT 2004



A New Generation

Table of Contents

Mission Forward

A new generation of challenges, opportunities

Nothing about the Imperial Irrigation District is small. Its energy service area spans 6,471 square miles of the fastest growing area in California. Its irrigation canals wind 1,668 miles through 500,000 acres of what is the nation's largest agricultural irrigation district. And, its impacts are unfettered by geographic boundaries, touching millions, reaching over the horizon and into a new generation.

On the face of it, IID's mission is simple: to provide the highest quality service at a fair and competitive price. Yet in the desert, on the frontier of opportunity and progress, few things come easy. In 2004, the challenges of protecting the water rights of one of the nation's most productive agricultural regions and energizing one of the fastest growing regions in California became increasingly complex and sometimes contentious. Nature, population growth, and politics placed IID squarely at the crossroads of the West today and the increasingly urbanized future to which it is rapidly moving.

Nothing better illustrates the challenges than the Quantification Settlement Agreement (QSA), which for the first time caps IID's water entitlement, sets a detailed schedule of ag-to-urban water transfers and heralds a new age in which California's Colorado River water users agree on a vision of the future in which they all can operate without threat of costly legal battles.

While the transfers occur within California, the impacts of the QSA reverberate through all seven states within the Colorado River basin. All told, some 50 million people, represented by seven governors, 14 U.S. senators and 77 members of the House, or nearly 20 percent of Congress, are directly affected by the QSA.

The weight of this increasingly urban population and the pernicious drought infecting the Colorado River basin put greater pressure on IID during the year as it worked to carry out the provisions of the QSA and still protect the productivity and economy of its service area.

In 2004, water moved to San Diego through a 15-year fallowing program required under the agreement. From then on, all the water IID transfers to the coast will come from on-farm and system conservation financed with revenues from San Diego County Water Authority under the terms of the QSA. Until then, the QSA sets forth a mechanism to mitigate the socioeconomic impacts of temporarily putting farmland out of production.

In 2004, IID and Imperial Valley residents began the challenging process of quantifying and mitigating the socioeconomic impacts of putting land out of production temporarily to make water available for transfer.

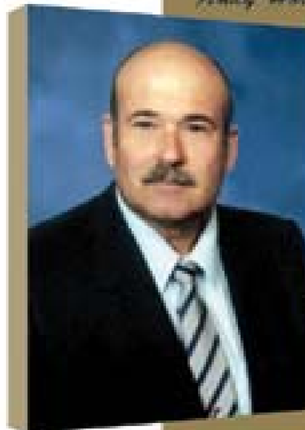
On the energy side, challenges were no less daunting with 120,000 energy customers to serve in 2004. Now, the fastest-growing energy utility in California, IID Energy anticipates its customer base will double by 2015. With the future closing quickly, IID Energy spent considerable time and effort in 2004 developing a strategy and plan for staying ahead of the new generation of growth.

The result was a step in the direction of energy independence for IID Energy. IID Energy went out to bid for new energy resources and found that it could develop its own resources more efficiently. The integrated resource plan calls for IID Energy to maintain 50 percent of the generation the utility will require. Historically IID has maintained about 30 percent of the generation it delivers. The new generation will give IID Energy greater autonomy from outside producers and higher efficiency by reducing transmission losses.

An important part of investing in the future requires maintaining and improving what already exists. IID Energy budgeted $100 million to strengthen and improve infrastructure during 2004. And, IID continued to improve within by implementing scores of new efficiencies in all areas of operations.

Preparing IID for the future isn't a small job and isn't easy. Preparing for the future is, however, what the new generation of IID is primed to do: face big challenges, serve an enormous area and create opportunities for the new and growing generation in the Imperial and Coachella valleys.


Andy Horne Division 1


Bruce Kuhn President Division 2


Lloyd Allen Division 3


Stella Mendoza Division 4


Rudy Maldonado Division 5

A NEW DEDICATION

Creating opportunities through change

A message from the General Manager

Some say change is the only constant in the business environment today. At the Imperial Irrigation District, change constanyly charged the atmosphere in 2004. Dramatic growth, tighter resources, technological advances, new government regulations, greater needs, new ways, and new people were all part of the utility's operation. Yet, at the IID there remains one constant - a dedication to excellence.

Since its inception as a water purveyor in 1911, IID has existed for one purpose- to serve the public for which it was created. After more than 90 years as a water provider, and nearly 70 as an energy producer, providing exceptional service remains the compass point that guides the District.

Today's generation realizes that the challenge of change is to create opportunities to make the utility more efficient and responsive to customer needs. Throughout the organization, there was a renewed dedication to adjusting, to developing better business practices, and creating efficiency. By the end of the year, systematic changes were in place to save the owners of the utility - the public - more than $20 million a year. The lion's share comes from improvements to the Customer Service Proposal process for electrical installations. Not only does the new process save money, it improves the way IID meets customer needs.

Creating a culture conducive to meeting challenges continues to be a focus of the utility. Employees studied the concepts of Continuous Measurable Improvement to better collaborate and find innovative approaches across departments. By working as teams to hone business processes, IID earnestly created efficiencies, rather than increased costs, paving a path to improved customer service.

Steering the course toward excellence requires adjustments in the best of times. In the face of the dramatic events of 2004, IID stayed the course with even greater planning, vigilance, and innovation. Both IID Energy and IID's Water Department faced unprecedented volatility. IID Energy was the fastest growing energy utility in California. We are particularly proud that, as the sixth largest energy utility in the state, we still provide our customers with plenty of energy at one of the lowest rates in the state.

That, however, is not enough. IID Energy is working hard to secure sufficient, affordable energy supplies to keep up with the service area's exponential growth. With about 120,000 energy customers, IID Energy anticipates its customer base will double within a decade. A vision for the future dictates steering in a new direction. After intensive study, IID Energy created a plan that calls for a dramatic increase in energy

"Steering the course toward excellence requires adjustments in the best of times. In the face of the dramatic events of 2004, IID stayed the course with even greater planning, vigilance, and innovation."

to be generated within the service area. IID Energy's local generation will double, rising to 50 percent of the utility's load. Customers will benefit by the utility being able to maintain its autonomy and increase reliability.

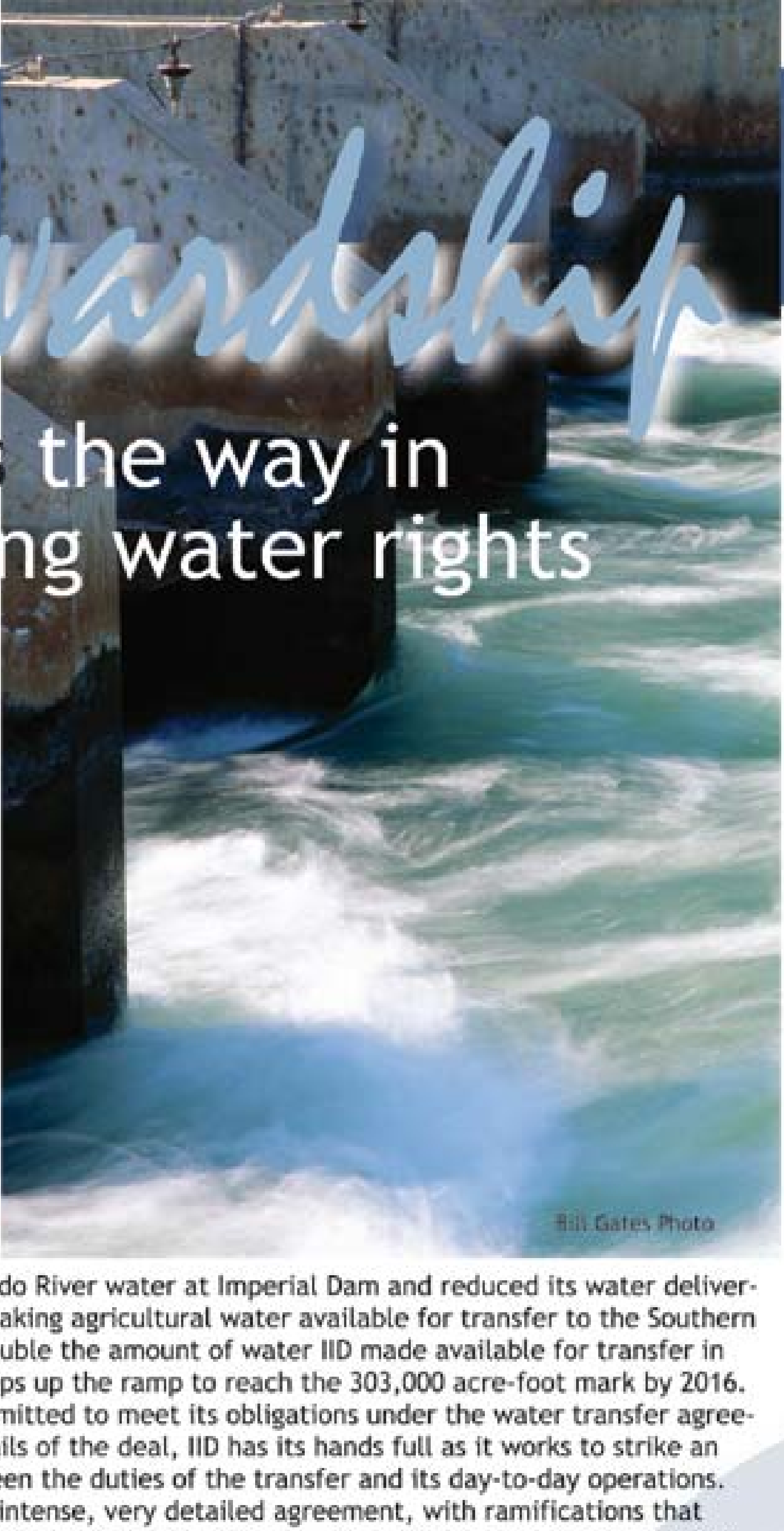
On the issure of water, IID continued the challenging process of implenmenting the Quantification Settlement Agreement. The deal allows California to stretch limited water resources to meet changing needs while still protecting IID's water rights. While the agreement ultimately will provide money to implement water conservation in IID's service area, the first years call for putting land out of production to make water available for transfer to urban centers. Tough as this has been, IID's obligations are being met.

Farmers are responding to the continuing drought on the Colorado River by further limiting their use of water. And, the Water Department faced the challenge of working with less revenue due to reduced water sales as local urban areas expanded, converting land that was once farmed into residential or commercial enterprises. It was a challenge that precipitated changes to streamline operations and become ever more efficient.

While change becomes ever more constant, endless possibilities still exist. The new generation, guided by a dedication to the customers we serve, continues to forge a path of efficiency, innovation, and opportunity.

Generating Growth

"Preparing IID for the future isn't a small job and isn't easy. Preparing for the future is, however, what the new generation of IID is primed to do: face big challenges, serve an enormous area and create opportunities for the new and growing generation in the Imperial and Coachella valleys."



Bill Gates Photo

Stewardship

IID leads the way in protecting water rights

Imperial Irrigation District's effort in 2004, as a leader in the nation's largest water conservation and transfer agreement, could be described as monumental, an illustration of the magnitude of events that continue to transpire.

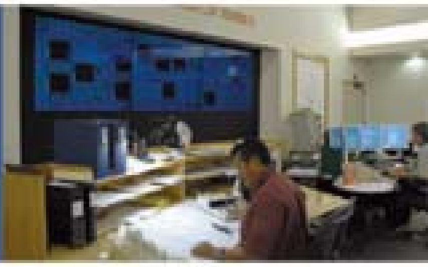
In 2004, the District entered its second year of leading the way to carry out California's Quantification Settlement Agreement. Through agreements with area farmers, IID cut its intake of Colorado River water at Imperial Dam and reduced its water deliveries by 20,000 acre-feet, making agricultural water available for transfer to the Southern California coast. This is double the amount of water IID made available for transfer in 2003, and one of many steps up the ramp to reach the 303,000 acre-foot mark by 2016.

The District is committed to meet its obligations under the water transfer agreement. Because of the details of the deal, IID has its hands full as it works to strike an operational balance between the duties of the transfer and its day-to-day operations.

"The QSA is a very intense, very detailed agreement, with ramifications that impact nearly everyone in the West," said Michael L. King, Water Department manager. "It's been our job to carry out this agreement and make it work. To our staff's credit, that's what we have been doing."

IID spent much effort coordinating and carrying out the voluntary On-Farm Fallowing program to create conserved water for transfer. In 2004, IID entered into 118 one-year contracts with farmers to fallow just over 12,000 acres of land. This was up from the previous year when 5,700 acres were fallowed.

Conserved agricultural water is also being made available to the Salton Sea for a limited period of time to meet certain environmental mitigation requirements.



Although the work is getting done, it hasn't been without challenges. As water in the Imperial Valley is conserved for transfer, less is delivered to farmland. This can have an impact on the District's bottom line.

"While the Water Department retains funds from the transfer to cover lost water sales, the department loses water sales when agricultural land is converted for urban use," King said, "however, we continue to do our best to maintain the water delivery system while serving our water customers with the excellence they've come to expect."

A number of notable issues related to the QSA were addressed in 2004.

Agricultural Land

The IID purchased about 42,000 acres of agricultural land, which had been owned by a California limited partnership, so the land would be under the control of local interests. Of the acquired acreage, productive farmland continues to be farmed; some of the land is being fallowed to meet the needs of the water transfer; other portions are being sold.

Water Conservation

While none of the water currently made available for the QSA is presently being created by efficiency-based conservation, no later than year 11 of the agreement, water for transfer can be made by on-farm conservation measures. This is one of the major tasks the District will be working on with farmers over the next several years.

Water, however, is being conserved in the Imperial Valley. In 2004, under the 1998 water conservation program with the Metropolitan Water District of Southern California, more than 101,000 acre-feet of water was conserved through efficiency-based measures. Over the years, a number of water delivery system improvements have been and continue to be made throughout IID's delivery area.

Environmental Concerns

Under the QSA, there are a number of environmental concerns that the District is obligated to address. IID currently serves as a member of the QSA Implementation Team, working with the California Department of Fish and Game and the United States Fish and Wildlife Service. The team will develop a mitigation plan for wildlife and endangered species in the areas related to the water conservation and transfer agreement. IID is also using best-management practices to minimize PM10 emissions from fallowed lands.

All-American Canal

IID also made good progress on the project to concrete line the All-American Canal in 2004, bringing the plan to the design stage. The project is central to California's overall plan to limit its use of Colorado River water. The lining project is expected to conserve 67,700 acre-feet of water a year for use on the coast of Southern California.

While the QSA may have settled disputes over water rights in California, its implementation and related agreements continue to have a significant impact on IID, its customers and the Imperial Valley.

For the Imperial Valley, the water conservation and transfer agreement is stewardship and protection, a shield of the valley's way of life from legal, legislative and political meddling from people who once saw the valley's water as California's sole solution.

Indeed, IID is doing its part and proud to be leading the way for a new generation.

WATER

Regeneration

Growing to meet the needs of a new generation

Driven to make electricity accessible for the generations of today and tomorrow, IID Energy is working to become one of the best utilities in the country.

So the booming Imperial and Coachella valleys can continue to access power with ease, IID Energy continued to reorganize, developing a strategy aimed at maximizing assets while offering some of the lowest electricity rates in the state.

The department set a new direction, consolidated resources, promoted more efficient operations, incorporated new technology and improved customer service while driving accountability across the system.

"We needed a complete refocus to take us into the future," said Glenn Steiger, IID Energy manager. "We weren't ready two years ago to do what we are doing now."

Among the changes that have been

putting IID Energy on the map:

• Incorporating new procedures established by the Federal Energy Regulatory Commission to sell available transmission capacity and energy supplies.

• Establishing a trading floor, or merchant function; this allows trading with anyone on an equal and non-discriminatory basis.

• Centralizing new electrical installations and distributing engineering functions for customer convenience.

• Maximizing the use of its control area status — one of only four in the state of California; IID Energy owns the means of generation, transmission, and distribution of electricity which means added savings and energy reliability to its customers.

• Consolidating customer service, billing, construction, and meter reading sections under a team concept; working closely with customers to address and anticipate special needs.

• Developing demand-side management programs, helping large commercial customers to reduce power consumption and shift energy use to off-peak hours.

Serving 120,000

customers in 2004, IID Energy is the sixth largest utility in California in terms of the quantity of energy it delivers.

With the tremendous growth in its service area, IID Energy also became the fastest growing energy utility in the state in 2004. Growing at a rate of about 7 percent, IID Energy's customer base is projected to double by the year 2015. The increasing demand for energy is a challenge for any utility, particularly a power provider serving a desert environment. This new generation will require a dramatic demand for energy resources from a utility that's second to none.

To address future demands, the utility developed an integrated resource plan and new business model to procure new energy resources. The strategy paid off in a plan to attain a historic level of new energy – 350 megawatts – to be generated by IID Energy in its own backyard.

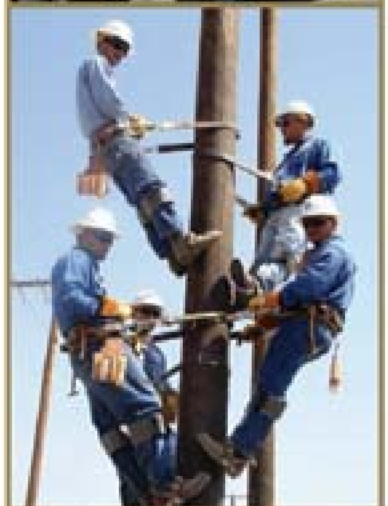
IID Energy has historically generated 25 percent of the energy its customers need; however, it will soon have enough assets to generate approximately 50 percent of its peak load. The commitment will help IID Energy maintain a high level of autonomy by relying less on outside power producers and transmission resource import capabilities.

IID Energy also invested $100 million in infrastructure during the year, strengthening its energy transport capabilities and reliability.

The utility is also active in the Public Power Initiative of the West where it works with other utilities, control areas and regulators to address transmission issues that affect the energy industry and protect its control area status. By doing so, IID Energy can collaborate with other entities to build strategic transmission facilities, promote reliability and maintain affordable rates.

IID Energy also led in the development of wesTTrans.net, the first web-based regional transmission market in the Western United States and Canada which successfully launched in 2004.

Concluded Steiger, "As a public energy provider, our customers depend on a reliable, affordable supply of energy to serve our homes and businesses. IID Energy is prepared to make it happen today and tomorrow."



IID ENERGY

Commitment to Renewable Energy

Since the late 1930s, when the All-American Canal was dug to deliver Colorado River water to the Imperial Valley, IID Energy has been tapping into this resource to produce renewable energy.

With the power of water, IID Energy's seven hydroelectric plants and 14 generators together produce 85 megawatts (MW) of renewable energy – about enough energy to power more than 50,000 homes.

To say the least, renewable energy is an important component in IID Energy's power mix. In fact, hydroelectric energy amounts to no less than 14 percent of IID Energy's own power production. With such projects as the recommissioning of the Double Weir Hydroelectric Power Plant along the Central Main Canal, IID Energy is committed to going with the flow to provide as much green energy as possible.

So, when the opportunity presented itself to restore and improve a valuable energy source in 2004, IID Energy directed the waves of progress.

This 30-ton winding mechanism is the core of the hydroelectric generator.

One major project was to improve the generating capacity of the Unit 2 generator at the Drop 3 Hydroelectric Power Plant. After Generator No. 2 was struck by lightning in 2001, generating capacity dipped and a new winding mechanism was needed.

After the scope of the project was determined, a five-person IID Energy crew took to disassemble the winding mechanism.

It wasn't typical work.

"We do routine maintenance on the generators every day," said Tony Yuriar, hydro plants generation superintendent. "But we rarely completely disassemble them. This was a major maintenance project."

The work called for delicately lifting the 30-ton unit from its casing and gently lowering it onto the plant deck. This provided full access to the generator windings and rotor.

As an option, the crew also elected to replace the generator core because it was also found to have suffered damage and was deemed unfit for long-term service.

With the bulk of the unit now accessible, contractor General Electric replaced the Brazilian-imported windings, installed 12 resistance temperature detectors and electrically tested the major generator components to assure service fitness.

When the project was complete, Drop 3's generating capacity rose an additional 90 kilowatt-hours using the same amount of water. (Generation productivity jumped from 4.6 to 5.5). This is an increase of about 240 megawatt-hours a year.

Not only was the project successful in securing additional green energy, the team's innovative approach also cut costs. As a result, the project was completed $86,000 under budget.

"This major project helped IID Energy secure more renewable power for our customers," said Glenn Steiger, IID Energy manager. "IID Energy is both proud and pleased to be part of a new generation of team members who work together to secure renewable energy, benefiting our customers and the communities we serve."

"We do routine maintenance on the generators every day... But we rarely completely disassemble them. This was a major maintenance project."

Drought

One more challenge for the West

Bill Gates Photo

One word, unlike any other, brings uncertainty and trepidation to the most frugal water user – drought.

While we all can do our best to use our precious water efficiently and we can have plans to meet certain contingencies, not one of us has control of Mother Nature. For nearly six years she's been wreaking havoc of untold consequence in the Colorado River Basin.

Drier than average hydrologic conditions, since 1999, have significantly changed the face of the Colorado River, the lifeblood of some 30 million western people. With the annual snow runoff far less than average, the two largest reservoirs along the river (lakes Powell and Mead) look emaciated, their skeleton-like bathtub rings ominous of the uncertainty that lies ahead.

Yet, the rustic-colored fluid continues its 1,450-mile journey from the Rockies to the Gulf, but the uncertainty of the supply for current and future generations shook all users in 2004.

The seriousness of the drought caused the federal government to threaten to impose unilateral water cutbacks on California, Arizona and Nevada, urging the states to come up with a plan to deal with the possibility of not having enough.

"We need the three basin states to get their act together and deal with shortages," said then Assistant Interior Secretary Bennett Raley. "If they can't work out a plan the Interior secretary will have to."

Heeding his warning, California continued pushing conservation, more use of groundwater banks and extra pumping from the Delta. Federal and state governmental officials and water agency representatives have been meeting and working on the shortage plan to meet a December 2007 deadline.

As the largest user of Colorado River water, IID plays a key role. The District began notifying its water users of the seriousness of the drought, urging conservation and efficiency. IID also coordinated a tour of Lake Mead for farmers and other interested citizens, bringing the issue front and center.

"This drought will potentially cause significant reductions in the total volume of Colorado River water available for use," said Water Department Manager Michael L. King. "While we are prepared to safeguard the benefits we are entitled to as a senior right holder, and enforce the provisions of the Quantification Settlement Agreement, it would be naïve for us to assume that those in urgent need of additional water supplies will not seek assistance from IID. Thus, any drought management plan proposed by the lower basin states or the undersecretary will likely have some impact on the IID and water availability."

IID water users responded with a renewed commitment to use water wisely, are continuing to explore strategies to reduce water use, and are applying irrigation best-management practices. Efficiency improvements are also being made in both water delivery and on-farm operations.

What will happen in the long term, should the drought continue? That's a question that can't be answered without a plan – ideas that will turn into action should the drought ever be severe enough to result in water shortages.

One thing is certain, however; IID is by no means the only user of Colorado River water. The river serves an ever-increasing, ever-demanding coastal population, irrigates about one million acres of the most productive farmland in the world, sustains vital habitat for numerous species and provides recreation and key hydroelectric generation opportunities along its route. And, like the basin states, IID has begun working with stakeholders to develop shortage guidelines, should the District, one day, find its water order unfilled.

Shortage criteria has not been developed, said Bureau of Reclamation Commissioner John Keys. Historically, it wasn't needed. But things are changing; in fact, until recently, none of the states, other than California and Arizona, had ever used their full allotment of Colorado River water.

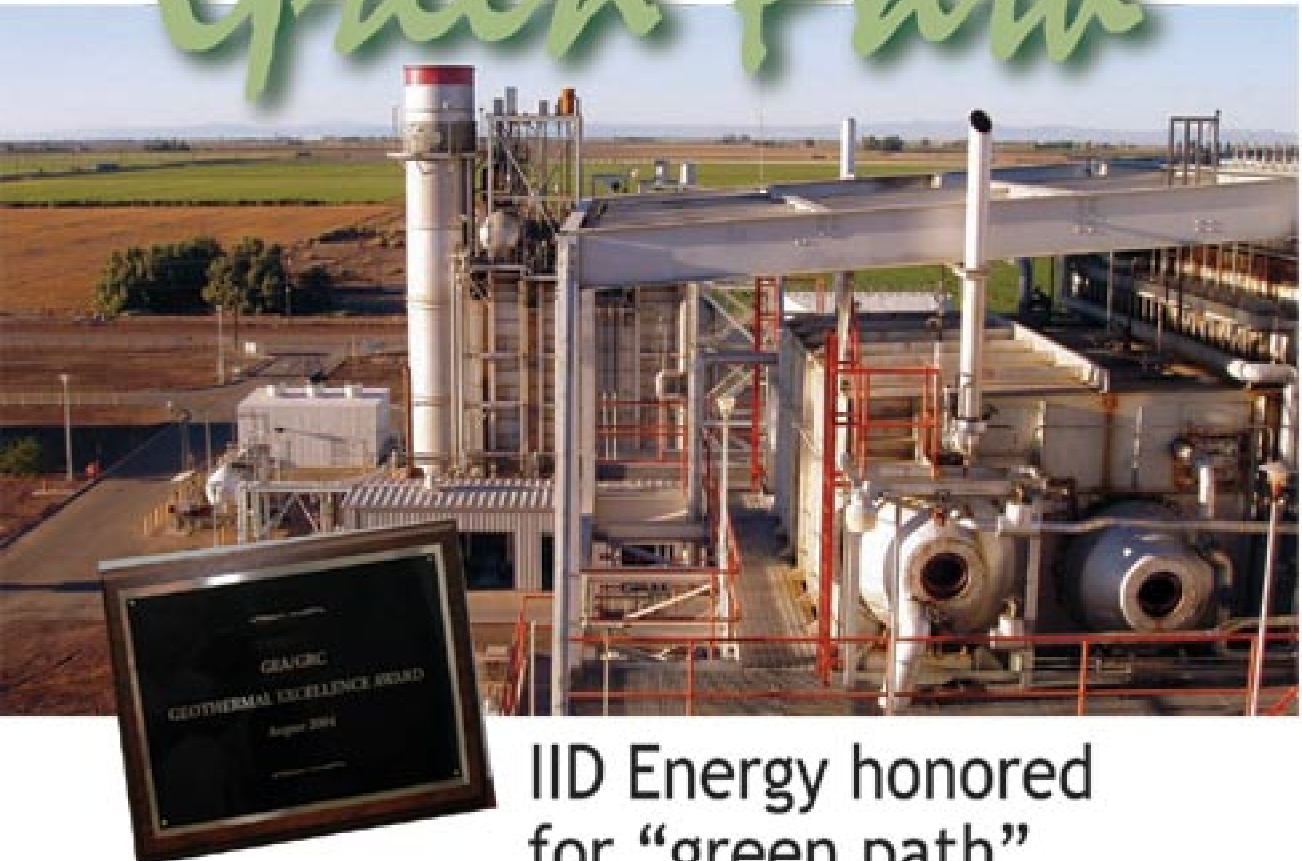
"We're getting to the point where they are using their full entitlements and the flow of the river being fully allocated," Keys said.

Improving conservation, the commissioner said, is crucial. Agricultural water users, it appears, will continue to be part of the solution. Said Keys, thirsty communities will "find ways to work with the agricultural community to make better use of their water and free up some more water."

The importance of the Colorado River to the Southwest to grow food, produce electricity, sustain wildlife, recreation, and other benefits necessitates that all parties work together to find creative solutions that will help minimize the adverse effects of drought. IID is committed to doing its part.

Today's generation, and those of tomorrow, depend upon it.

Green Path



IID Energy honored for "green path"

IID Energy was honored with the Geothermal Excellence Award by the Geothermal Energy Association and the Geothermal Resources Council at the groups' annual meeting in September 2004.

The geothermal organizations cited IID Energy's outstanding efforts to promote geothermal energy as the basis of the award.

"This is a unique honor - an independent power producer honoring a public energy provider," said Glenn Steiger, IID Energy manager. "We couldn't be more pleased and proud."

IID Energy promotes its substantial 1,300-mile transmission network as the "Green Path" to export renewable resources from its service area to energy providers throughout the western United States.

IID's Green Path currently wheels energy for CalEnergy and Ormat - two geothermal producers with a combined output of about 1,000 megawatts from multiple projects in the Imperial Valley.

No other entity has transmitted more clean geothermal energy within the United States than IID Energy.

In addition, to boost the use of renewable resources, IID Energy also voluntarily adopted a Renewable Portfolio Standard, establishing 20 percent minimum use of green energy resources by the utility. The standard is required to be met by investor-owned utilities, but is only optional for public power providers.

IID Energy is working with CalEnergy to purchase up to 195 megawatts from its new geothermal plant beginning in 2008.

"As an industry leader, our Green Path is very important to us and others," Steiger added. "By pursuing green energy, we can help keep our rates affordable."

Conservation

IID turns grant award into conserved water

U.S. Bureau of Reclamation Commissioner John Keys, in October 2004, presented the Imperial Irrigation District Water Department with a grant award of more than $115,000.

The funds, which are competitively awarded from the Bureau's Water 2025 Challenge Grant program, will help the IID conserve water along the All-American Canal.

IID will strategically place four independent flow-meter sensors along the AAC. The sensors will more accurately measure water flow, resulting in improved water delivery and conservation.

An estimated 34,500 acre-feet of water could be conserved each year from the project alone.

"We're both honored and pleased to be one of the top parties selected to receive this important funding," said Michael L. King, Water Department manager. "We're happy to work with the Bureau on a common goal to make our natural resources go as far as they can."

The grant is exactly half of the cost of the $230,000 project. IID will fund the balance.

In making the award, Keys said he believes water conservation is the key to peace among competing water interests in the West.

"The Bureau is working with agencies to find ways to stay out of crisis and conflict in dealing with water," the commissioner said. "Water conservation is the keystone. We're trying to find ways to stretch the water that we all have and make it go farther and meet new demands."

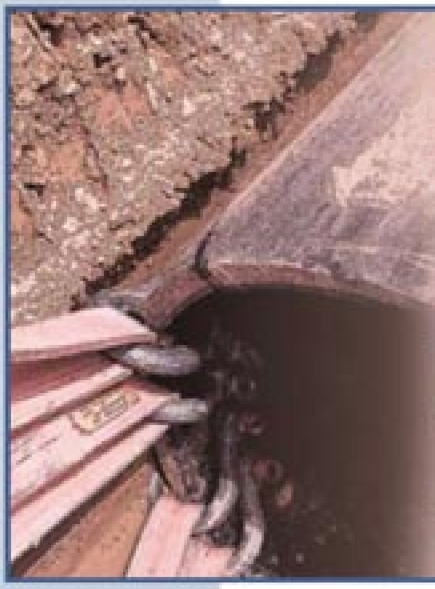
About 80 percent of the water rights in the West are held by agriculture, he added, so when growing communities look to meet their water needs they often look to agriculture water users for assistance.

Agriculture is "the basis of our economy," Keys said. "If we can conserve water in our districts and make it available to new users, we can protect the agricultural economy that we all depend upon."

Marvin Wieben Photo

IMPERIAL COUNTY AG PRODUCTION VALUES

2004	$1,187,254,000
2003	$1,073,473,000
2002	$1,224,109,000
2001	$1,010,321,000
2000	$ 919,610,000



2004 WATER FACTS

Total Customers (2004 Farm Accounts)	6,200
Owner-Operated	2,442
Tenant-Operated	3,758
Ag Water Rate	$15/acre-foot
Gross Acreage	1,061,637
Farmable Area	475,511 acres
Net Irrigated Area (includes area being leached)	435,782 acres
IID Fallowing Program (QSA & IID/SDCWA Transfer)	11,827 acres
Water Received for IID Use (AAC Station 60)	2,843,042 acre-feet
Miles of Canals (AAC, Mains, Laterals)	1,668
Miles of Drains (AAC, Divisions, Drainage)	1,456

ENERGY CUSTOMERS

	2004	2003	2002
Residential	102,377	95,988	90,475
Commercial	16,461	16,508	15,876
Industrial	17	18	17
Other	1,841	1,826	1,825
Total	**120,696**	**114,350**	**108,194**

GENERATING NUMBERS

AT A GLANCE ...

Net Assets up $41.9 million

The difference between assets and liabilities jumped $41.9 million in 2004 as a result of $8.73 million more in operating income and $33.2 million more in capital contributions and other new operating expenses.

Capital assets up $78 million

As the District acquired lands to be primarily used in connection with the implementation of a range of water conservation measures to satisfy certain obligations under a series of water agreements, IID's capital assets jumped by $78 million.

Consumer rates remain steady

The IID Board of Directors waived the $1-per-acre-foot increase to the agricultural water rate, which was to begin January 1, 2004.

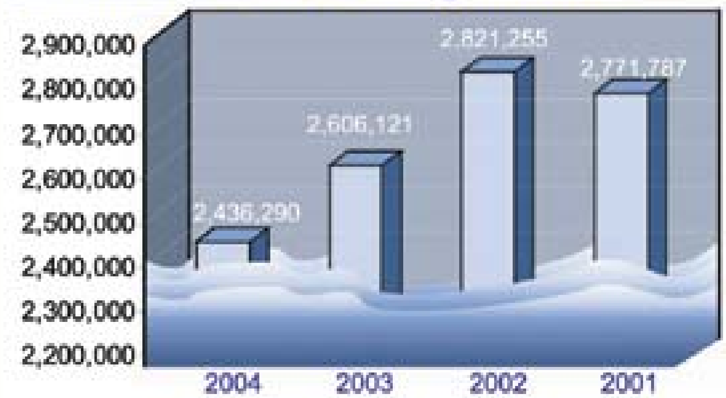
On the energy side, base rates did not increase in 2004; however, the number of energy customers increased by 6 percent with most of the growth occurring in the Coachella Valley service area.

Water Delivery (in acre feet)

Total water delivered

2004	2,494,415
2003	2,660,741
2002	2,874,874
2001	2,842,119

Water Delivered For Agriculture



	2004	2003	2002	2001
Industrial	23,821	22,452	21,029	22,774
Municipal	34,305	32,168	32,590	47,558

The information on this compact disc is also available at

www.iid.com

Follow the "About IID, District Information, Annual Report" links.

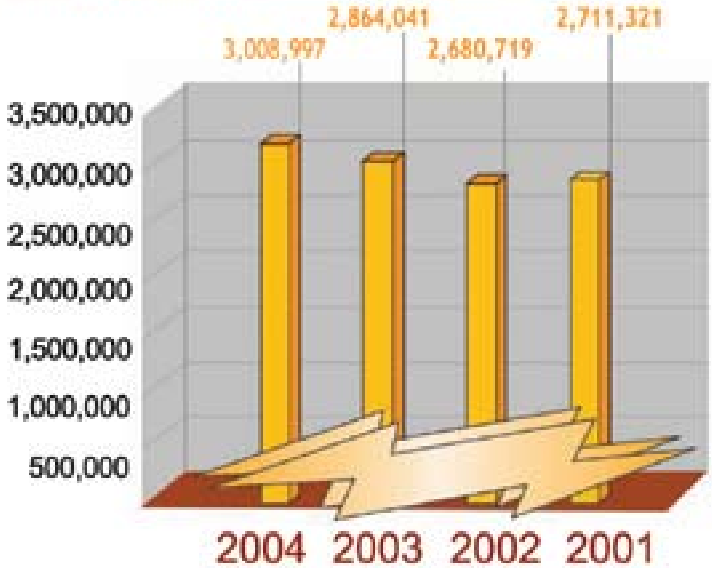
Energy Delivery

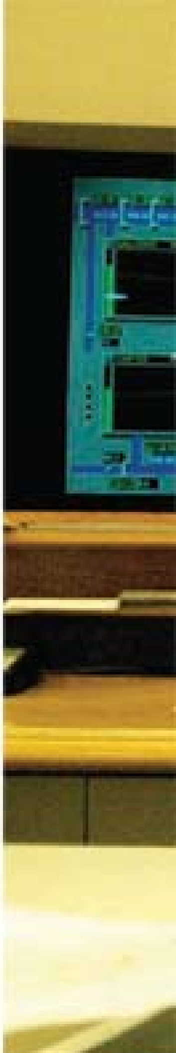
Peak Hours

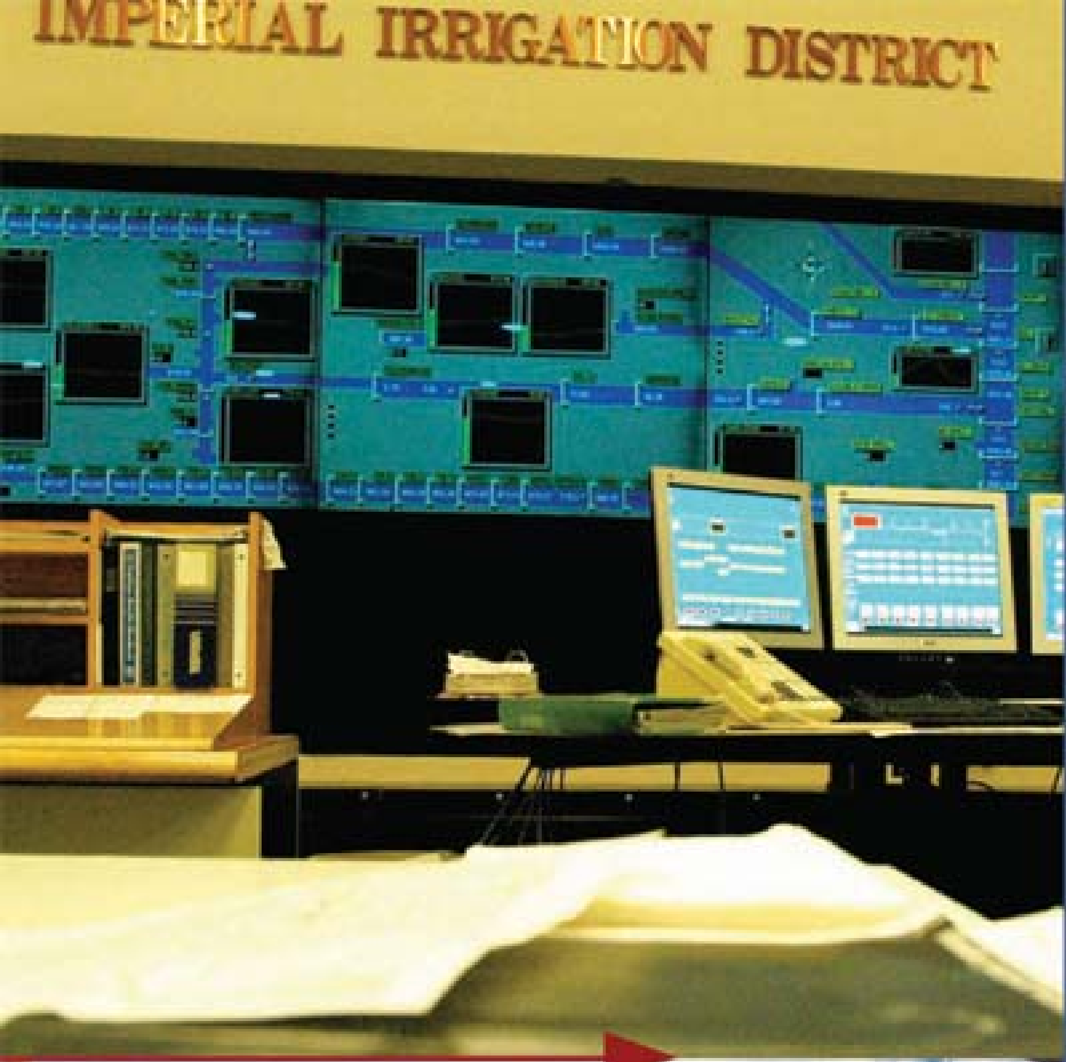
(Megawatts)

2004	840
2003	792
2002	740
2001	712

Energy Sold (in megawatt-hours)







Revenues
from Water Sales

2004
$37,168,000

2003
$42,500,000

2002
$44,725,000

2001
$42,889,000

Energy Customers
(Total)

2004
120,696

2003
114,350

2002
108,194

2001
104,563

Imperial Irrigation District
P.O. Box 937
333 Barioni Boulevard
Imperial, CA 92251
www.iid.com