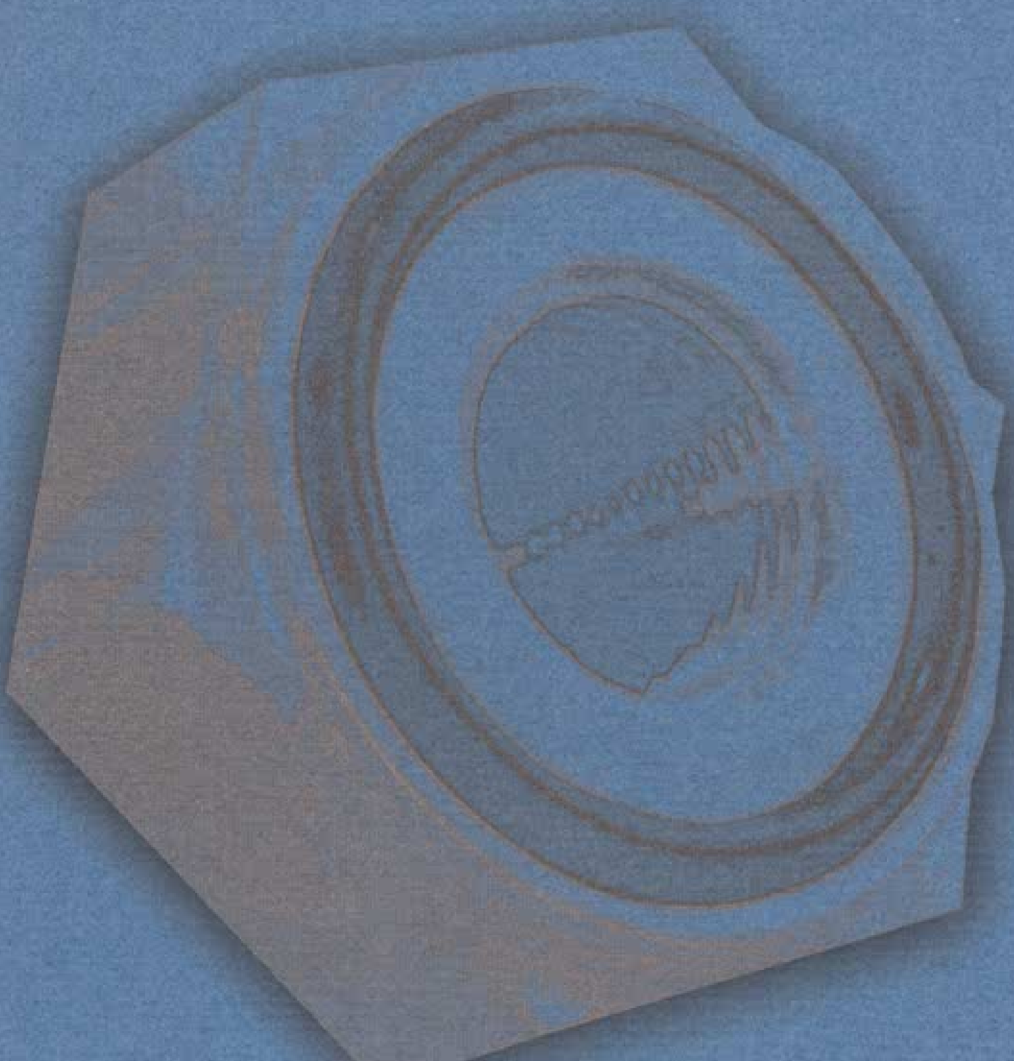

Imperial Irrigation District

2001

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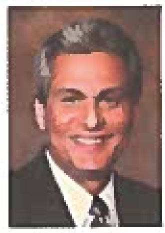
Letter from the General Manager



Jesse P. Silva

From the sky, you can trace man's progress march across the raspy beige sand in geometric precision. From the sky, you can see the imprint of Imperial Irrigation District, not just on the ground, but on the lives and livelihoods of the people of the Imperial and Coachella valleys.

Nearly 500,000 irrigated acres, in an unexpectedly colorful patchwork, blanket what otherwise would be inhospitable desert. Acres of satin green lettuce grow beside the emerald lace of asparagus fields.

Freshly plowed fields stand in corrugated brown splendor. Waves of jade green alfalfa dance near fields turned the startling gold of blossoming safflowers.

The shimmering strand stitching the vibrant spread together is the irrigation system that stands unrivaled in the Western Hemisphere.

For 90 years, the Imperial Irrigation District has been the steward of the 1,600-mile canal system that turned a wasteland into an oasis. More than three million acre-feet of water annually flows through the system 24 hours a day, seven days a week, providing the community's lifeblood and keeping drifting sand at bay.

About 60 years ago, the IID also started to energize the social fabric that sparkles and grows in thriving cities throughout its 6,471 square-mile service area. Today, IID is the sixth largest power utility in California.

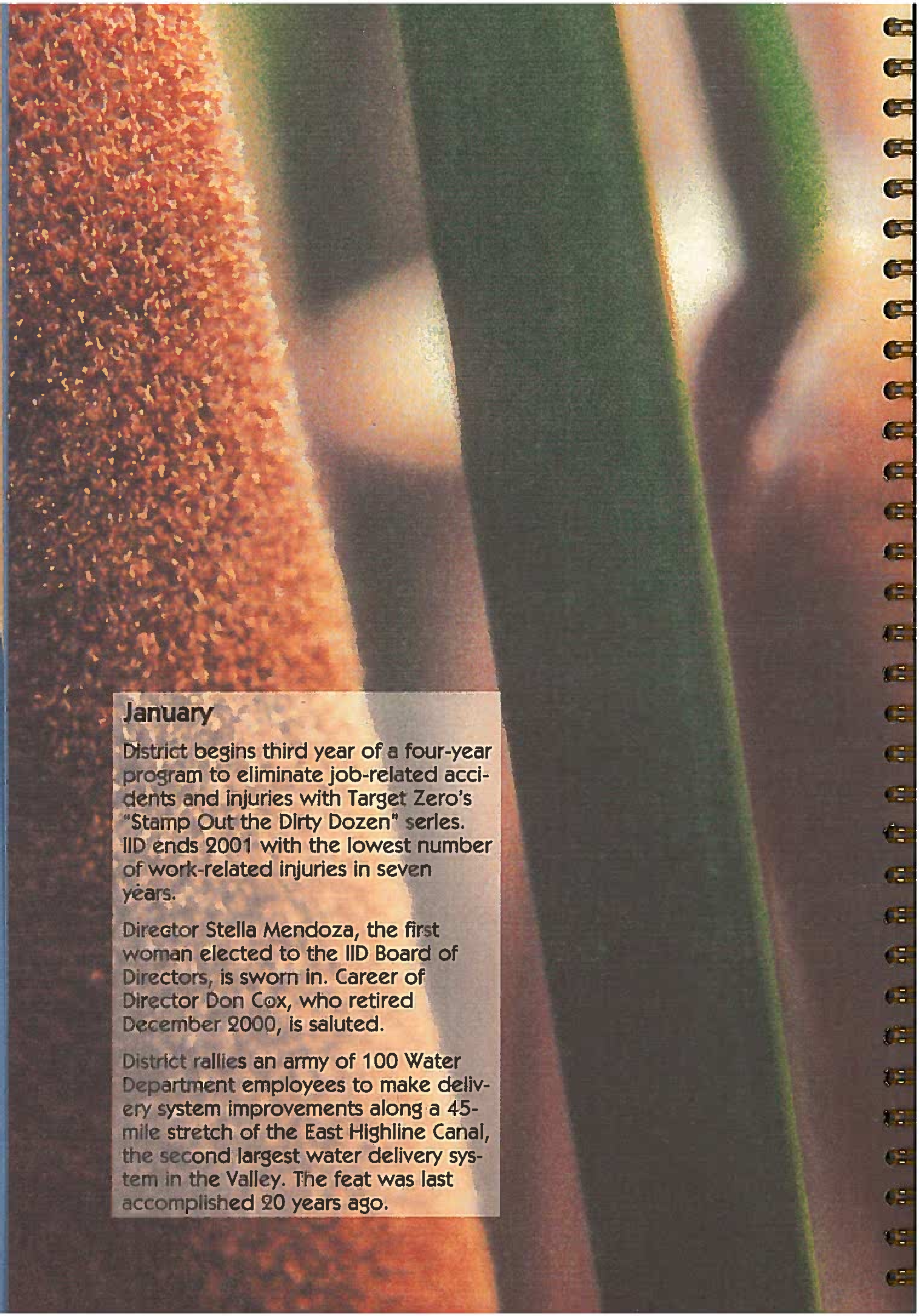
In the desert, cultivation and civilization do not happen by chance. It takes planning, dedication, resourcefulness and lots of hard work to turn dreams into a destiny. IID's ability to shape ideas with ingenuity planted the footprint of progress across the desert. The utility's dedication to its customers helped turn the harsh environment into a home for many and a food source for many more.

There were those who thought it impossible to tame the desert when hardy settlers first tapped the Colorado River 100 years ago and turned the water into the Imperial Valley. Yet, IID and the communities it serves have time and again proved the doubters wrong.

IID's water and power systems stand as a testament to man's ability to overcome adversity and realize dreams. They bear witness to the power of innovation and excellence; to the potential of a community utility.

Today, there are new challenges on the horizon. Power deregulation, increasing demands on the Colorado River, the need to find ways to serve customers more efficiently are among the issues with which IID must come to grips.

The tools and ideals that have served IID so well throughout its history will help propel the utility forward today as it continues to build on the frontier of possibility.



January

District begins third year of a four-year program to eliminate job-related accidents and injuries with Target Zero's "Stamp Out the Dirty Dozen" series. IID ends 2001 with the lowest number of work-related injuries in seven years.

Director Stella Mendoza, the first woman elected to the IID Board of Directors, is sworn in. Career of Director Don Cox, who retired December 2000, is saluted.

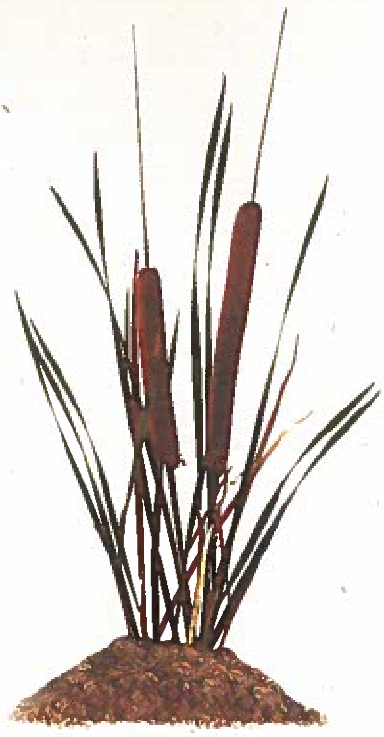
District rallies an army of 100 Water Department employees to make delivery system improvements along a 45-mile stretch of the East Highline Canal, the second largest water delivery system in the Valley. The feat was last accomplished 20 years ago.

Water: *preparing for the future,*

celebrating a centennial of service

Over the eons, the rusty red fluid of the Colorado River has etched its ever-changing course like scars across the face of the West. The politics of the river has left its own angry stain across the pages of legal pleadings, compacts and judicial decisions that now make up what is called the Law of the River.

By 2001, with demands on the river ever increasing, the four California water agencies that depend upon the Colorado River set out to alter the political course of water use in an unprecedented way. The four - the Imperial Irrigation District (IID), the Coachella Valley Water District (CVWD), the Metropolitan Water District



of Southern California (MWD) and the San Diego County Water Authority (SDCWA) - worked together to forge common solutions.

The decision to develop a water destiny together unleashed a torrent of activity no less energetic than the torrents of Colorado River water that carved the face of the Grand Canyon.

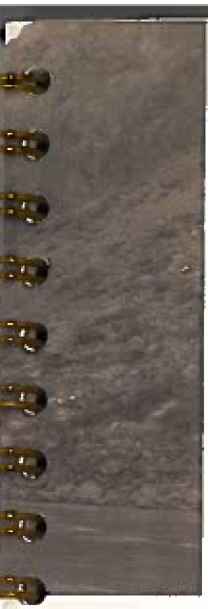
The unparalleled cooperative effort grew out of increasing competition for a limited water supply and bitter legal contentions.

The stage was set when, in the 1990s, the Secretary of the Interior told California it must reduce its use of Colorado River water by nearly 800,000 acre-feet a year to live within its 4.4 million acre-foot entitlement. The reduction would largely affect urban Southern California. In 1998, IID agreed to be part of the solution through a water conservation and transfer agreement with San Diego, which would move up to 200,000 acre-feet of water to the coast. Almost immediately, Coachella threatened legal action to block the transfer and the reduction in California's water use because of concerns for that district's water needs.

At the insistence of the Secretary of the Interior, the four Southern California water agencies negotiated a Quantification Settlement Agreement (QSA) in 2000 that describes how they will reduce their use of Colorado River water and still meet their collective water needs for up to 75 years.

Of key importance, the agreement provides for long-term peace among the agencies, which allows them to meet their water needs and plan for the future without fear of continued legal challenges. The agreement spells out a number of ag-to-urban transfers and calls for IID for the first time to cap its entitlement at 3.1 million acre-feet a year. In exchange, the other six states that rely on the Colorado River agree that California can take up to 15 years to reduce its use of the river if the four water agencies meet key deadlines associated with the QSA. Some of the important deadlines come due on Dec. 31, 2002.

During 2001, IID and the other water agencies worked at a frenetic pace to finalize the various agreements associated with the QSA and obtain necessary state and federal approvals. IID also worked to complete the environmental review required for the San Diego transfer to move ahead.



Yet 2001 proved to be a rocky year. Even as issues of contention between the water agencies were resolved, new pitfalls developed. Of key concern was the impact the transfer would have on the already ailing Salton Sea, which is supplied almost entirely by agricultural runoff. The four agencies started working to get state and federal legislation adopted to assist in solving the problems of the Salton Sea so that environmental issues would not interfere with the transfer.

The four water agencies ended the year as they started it - working together. This time, however, they found themselves in a brewing political storm over the QSA and potential environmental impacts.

Preserving IID's tradition of service

Inspired by the rugged pioneering spirit that brought Colorado River water to the Imperial Valley a century ago, Imperial Irrigation District's Water Department embarked on a course of change in 2001 focused on the future.

"IID is working to improve on its proud tradition of service," said Michael L. King, Water Department manager. "We understand that things are not the same as they were a century ago, so we're being innovative, we're working smarter and we're dedicated to meeting future needs. Change hasn't always been easy, but preserving and expanding on our long tradition of service makes the effort worth it."

A highlight of 2001 included putting a number of consumer suggestions to work as a result of customer interaction. For instance, on-duty field supervision was extended to six days a week to provide more accessibility for customers, which quickly proved effective.

While working to cut costs, the staff and customers began to investigate the development of a new water management system (WMS). The easy-to-access system would integrate and automate water operations, help track water, schedule irrigation, coordinate orders with customers, track order status and preserve water use data.

Still in the development stages, the new system could help water users place tighter orders and help the District conserve more water.

But efforts to improve technology didn't stop with the WMS. As a pilot project, IID also used "DuraForm™," the Bayer Corporation's new polyurethane composite, to strengthen some lateral canals.

And, as a means to protect growers from regulatory intervention and preserve the District's drainage system, IID encouraged tailwater box maintenance.

Throughout the year, the District also dedicated itself to safety, resulting in the lowest number of employee injuries in seven years.

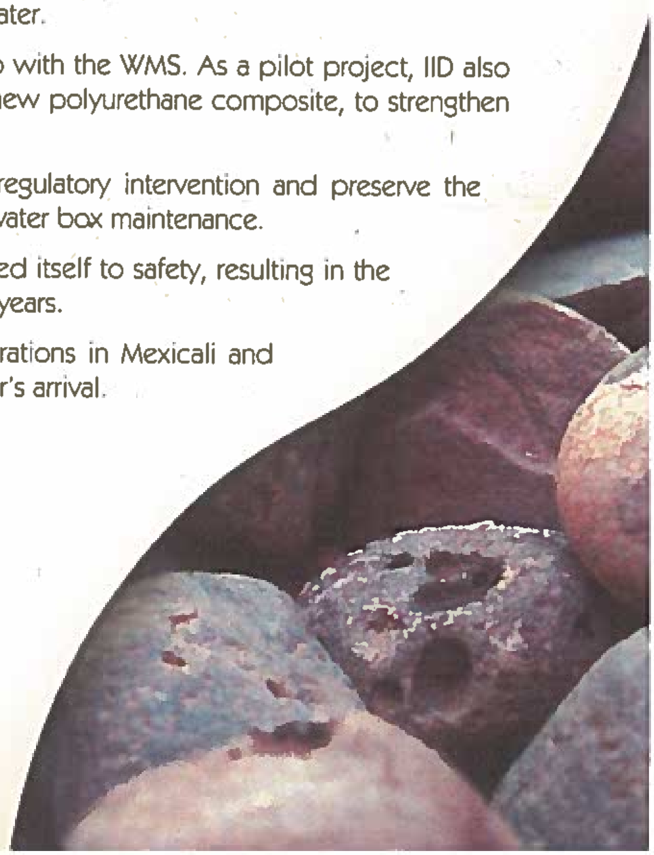
IID also had fun in 2001 as binational celebrations in Mexicali and Imperial marked the 100th anniversary of water's arrival.

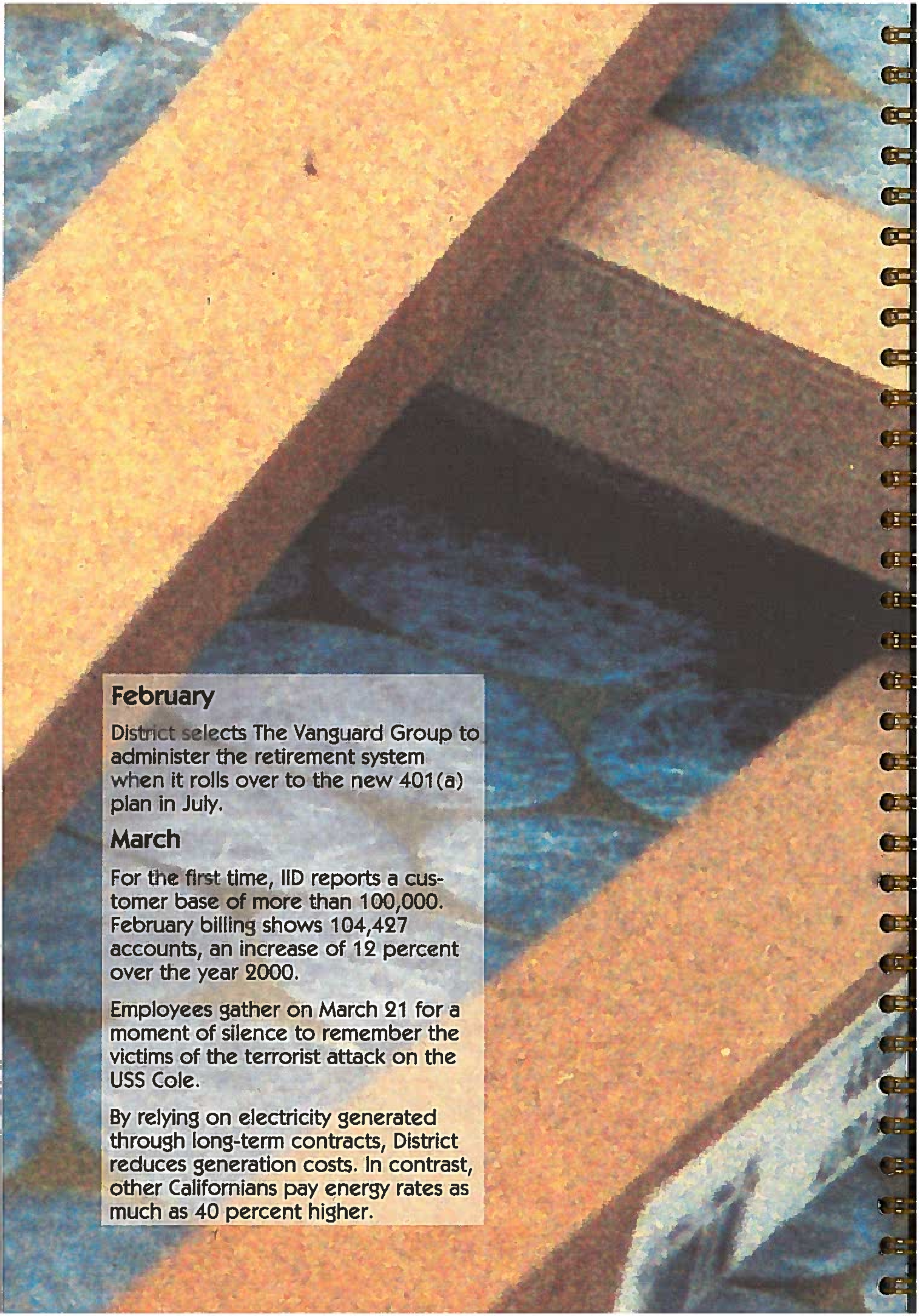
Water Service Area

Gross Acreage – 1,061,637

Gross Crop Acreage – 521,847

Net Irrigated Area – 453,346





February

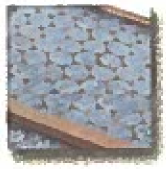
District selects The Vanguard Group to administer the retirement system when it rolls over to the new 401(a) plan in July.

March

For the first time, IID reports a customer base of more than 100,000. February billing shows 104,427 accounts, an increase of 12 percent over the year 2000.

Employees gather on March 21 for a moment of silence to remember the victims of the terrorist attack on the USS Cole.

By relying on electricity generated through long-term contracts, District reduces generation costs. In contrast, other Californians pay energy rates as much as 40 percent higher.

Building Better 

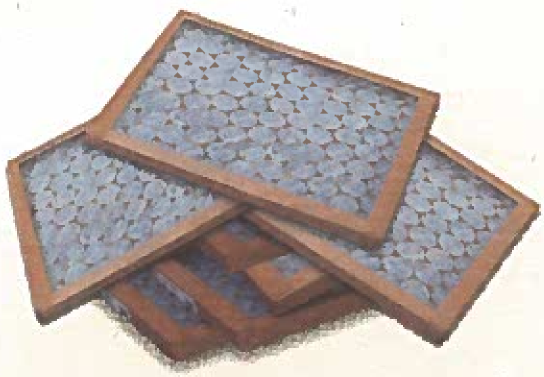
Customer benefits go high tech

Imperial Irrigation District ratcheted up its customer service effort in 2001 on several fronts. So successful were the efforts that even the local press took note.

"IID has worked hard to get out the word that there are programs to help people meet and even lower their power bills," an Imperial Valley Press editorial stated in August 2001.

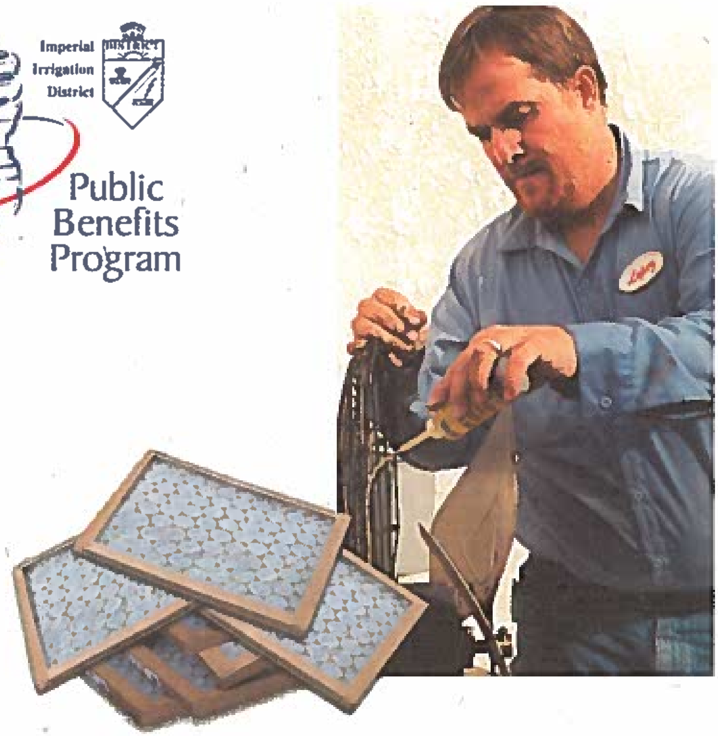
"The agency deserves credit for its handling of power issues over the past year and there is some proof the District's efforts have proved successful.

"IID also deserves credit for its effort to control costs. Officials knew they would be facing a hard summer in



Imperial Irrigation District

Public Benefits Program



which power costs might increase."

The District is proud to be recognized for assisting customers because it's what we strive to do best. In 2001, IID's effort took on new light with the introduction of the coolest high-tech item in energy savings: compact fluorescent light bulbs (CFLs).

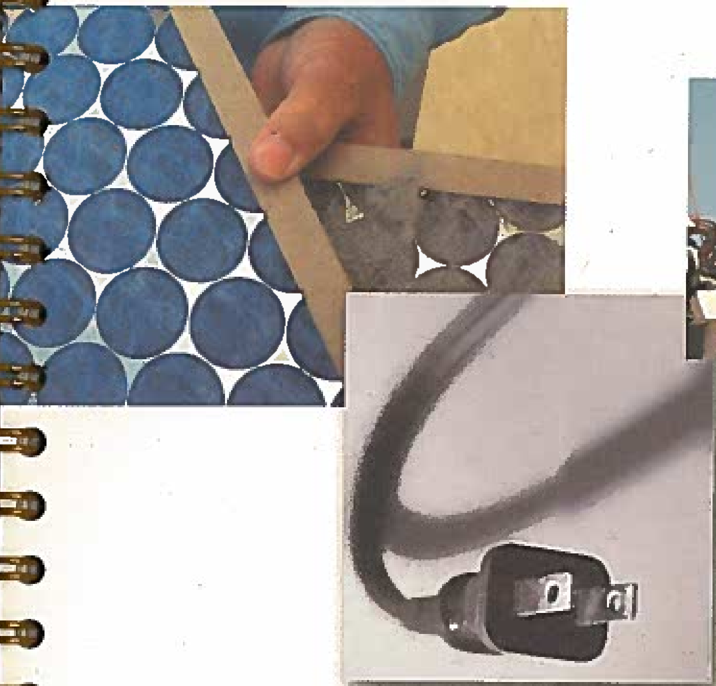
The bulb's design, which resembles a soft-serve vanilla ice cream cone, is so popular, retailers have had to work to keep them in stock.

Using 75 percent less energy, CFLs are sweeter than any confectionery. They also burn cooler and last longer, causing consumers to quickly snap up IID discounts promoting their use.

The bulbs were part of IID's Public Benefits Charge Program (PBC) and one of many ways the District encouraged energy conservation.

PBC programs also featured other benefits:

- The Super A/C Tune-up slashed $25 off air conditioner maintenance.
- Double and triple rebates were directed to customers who bought new air conditioners and heat pumps.
- High-energy-consuming torchiere lamps were exchanged for lamps featuring cooler CFLs.
- Rebates were routed to customers who recycled old refrigerators and purchased EnergyStar®-qualified ones.



IID-Owned Generating Units

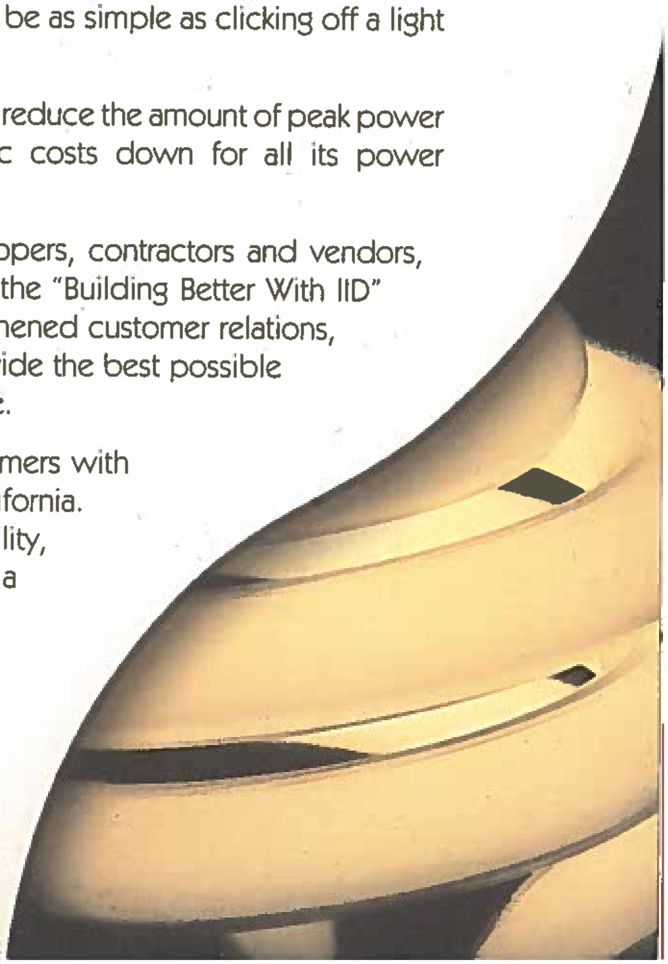
El Centro Steam Units - 241.5 Megawatts
Gas Turbine Units - 142.5 Megawatts
Yucca Steam Unit - 96.6 Megawatts
Hydroelectric Units - 85 Megawatts
Total IID-Owned - 565.5 Megawatts

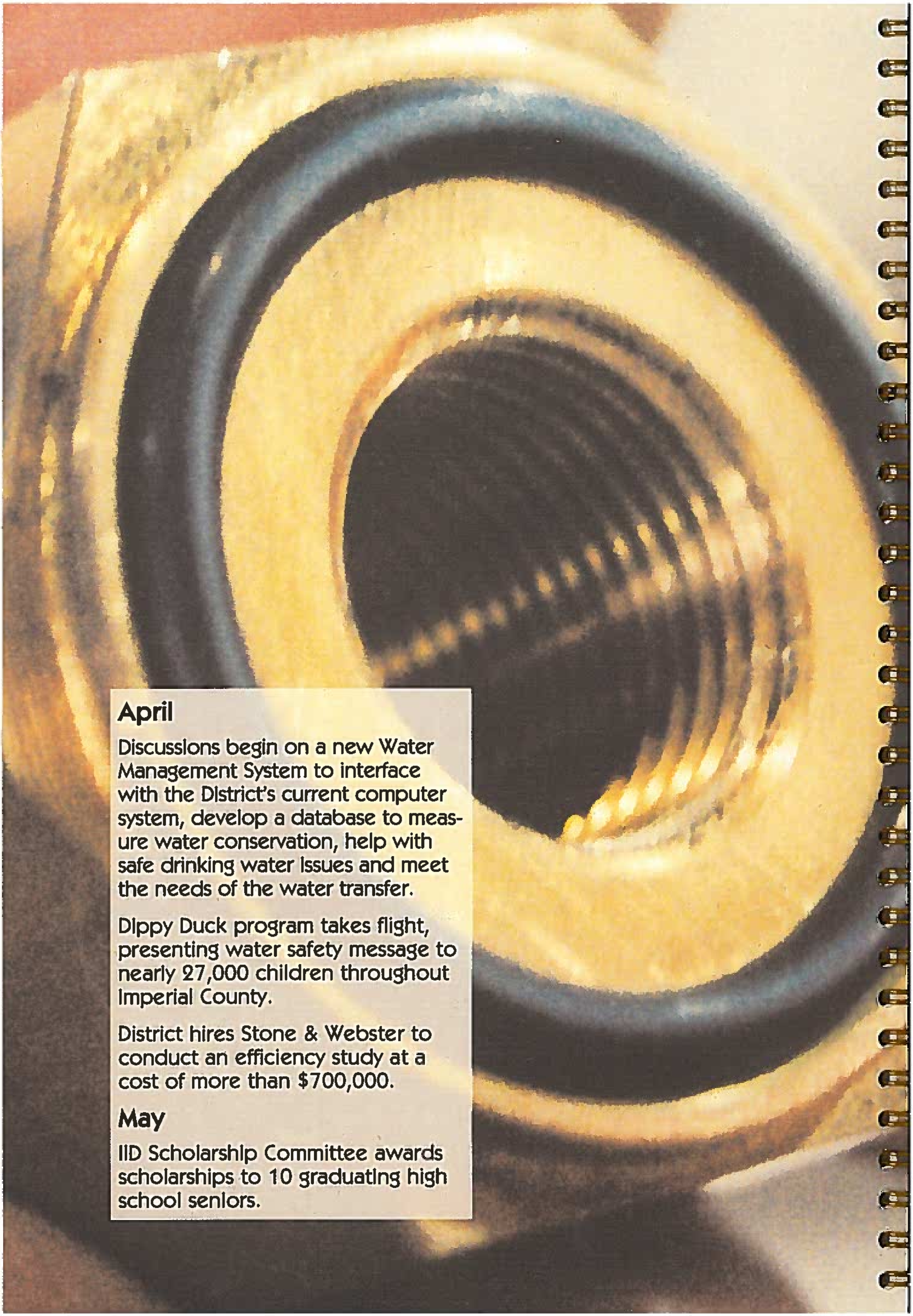
IID didn't stop with discounts. The staff promoted energy conservation with the new 50 Ways to Cut Your Power Bill booklet, helping customers quickly realize that saving energy can be as simple as clicking off a light switch.

The conservation promotion helps IID reduce the amount of peak power it has to buy, which keeps electric costs down for all its power customers.

The District also worked with developers, contractors and vendors, sharing new regulatory guidelines at the "Building Better With IID" exposition. The time together strengthened customer relations, helping IID pursue its mission to provide the best possible service at a fair and competitive price.

IID is proud its efforts provide customers with one of the lowest power rates in California. As we stand on the frontier of possibility, IID continues to focus on building a better utility.





April

Discussions begin on a new Water Management System to interface with the District's current computer system, develop a database to measure water conservation, help with safe drinking water issues and meet the needs of the water transfer.

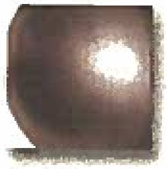
Dippy Duck program takes flight, presenting water safety message to nearly 27,000 children throughout Imperial County.

District hires Stone & Webster to conduct an efficiency study at a cost of more than $700,000.

May

IID Scholarship Committee awards scholarships to 10 graduating high school seniors.

Innovations

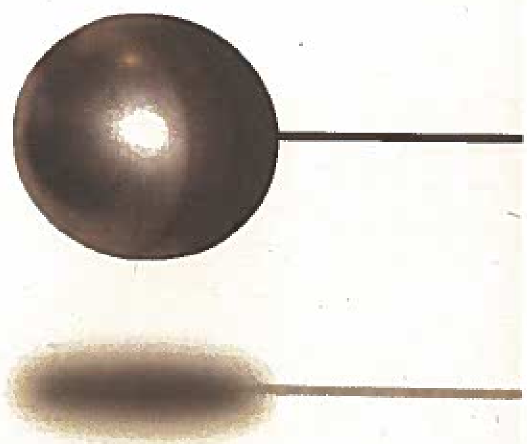


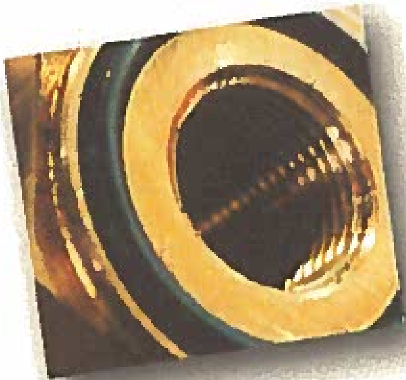
Service through technology

Pulsating red lights, set to life by the intricate circuitry of today's technology, served as a beacon for the Imperial Irrigation District's spirit of innovation in 2001.

The safety lighting system for transporting power poles to job sites, a highspeed digital telephone system and several other process improvements were among the projects undertaken to advance the way the District serves its customers.

The high-speed digital telephone system in the Customer Call Center doubled the previous call volume and increased flexibility and customer service efficiency.





Power Customers
(in the year 2000)

Residential Meters - 85,414
Commercial
& Industrial Meters -13,982
Agricultural
(pumping) Meters -1,614
Other Meters -1,810
Total Customers -102,820

The unit has been a delight for the staff and consumers alike.

- Faster communication between the system and the voice recognition unit improves response time and clarity;
- More customers get to speak with an agent;
- A reassuring voice gives callers an estimated wait time;
- A new overflow feature routes calls during busy times; and
- A message board alerts agents to pressing issues affecting customers.

The telephone system is also so flexible that one day agents will be able to serve customers from any phone, making the possibilities for improved customer value endless.

IID also proved that sometimes doing something best means doing it yourself. To improve safety and reduce accidents associated with power pole transport, a team of machinists, electricians, linemen and safety specialists designed a portable warning light system that attaches to the end of power poles during transport.

Finding the only available commercial product unacceptable, IID decided that by designing the safety unit itself, it could build the units to withstand road transport, yet be made flexible enough to fit various pole sizes.

The warning light system has all the features the power bucket trucks have, meeting transportation regulations, and is expected to save in reduced accident costs and injury.

In another innovation, IID built an oil reclamation system so the District can purify its transformer oil, rather than pay contractors to do the work.

The unit extracts combustible gases, contamination and free water from the oil, which is used to insulate and cool transformers. Since all transformer oil must be analyzed yearly, and a week's worth of purification work costs about $50,000, the expected savings is tremendous.

Purchasing an oil reclamation system was cost-prohibitive at $150,000 or more, so engineers and machinists worked to build the IID unit. The materials and workmanship cost the District under $50,000.

In addition to saving customers a significant amount of money, the ability to analyze and purify the oil internally has other benefits.

Said Mike Jackson, substation construction and maintenance general foreman: "If we have an emergency, we need to know right away. This technology helps tremendously."

And when it comes to getting their hands dirty, IID's equipment maintenance mechanics don't mind.

The crew, which maintains the 1,200 pumps that move drain water through the valley, began designing and building pumps in 2001.

Although it requires more ingenuity, the self-made pumps are stronger, perform better and save money.

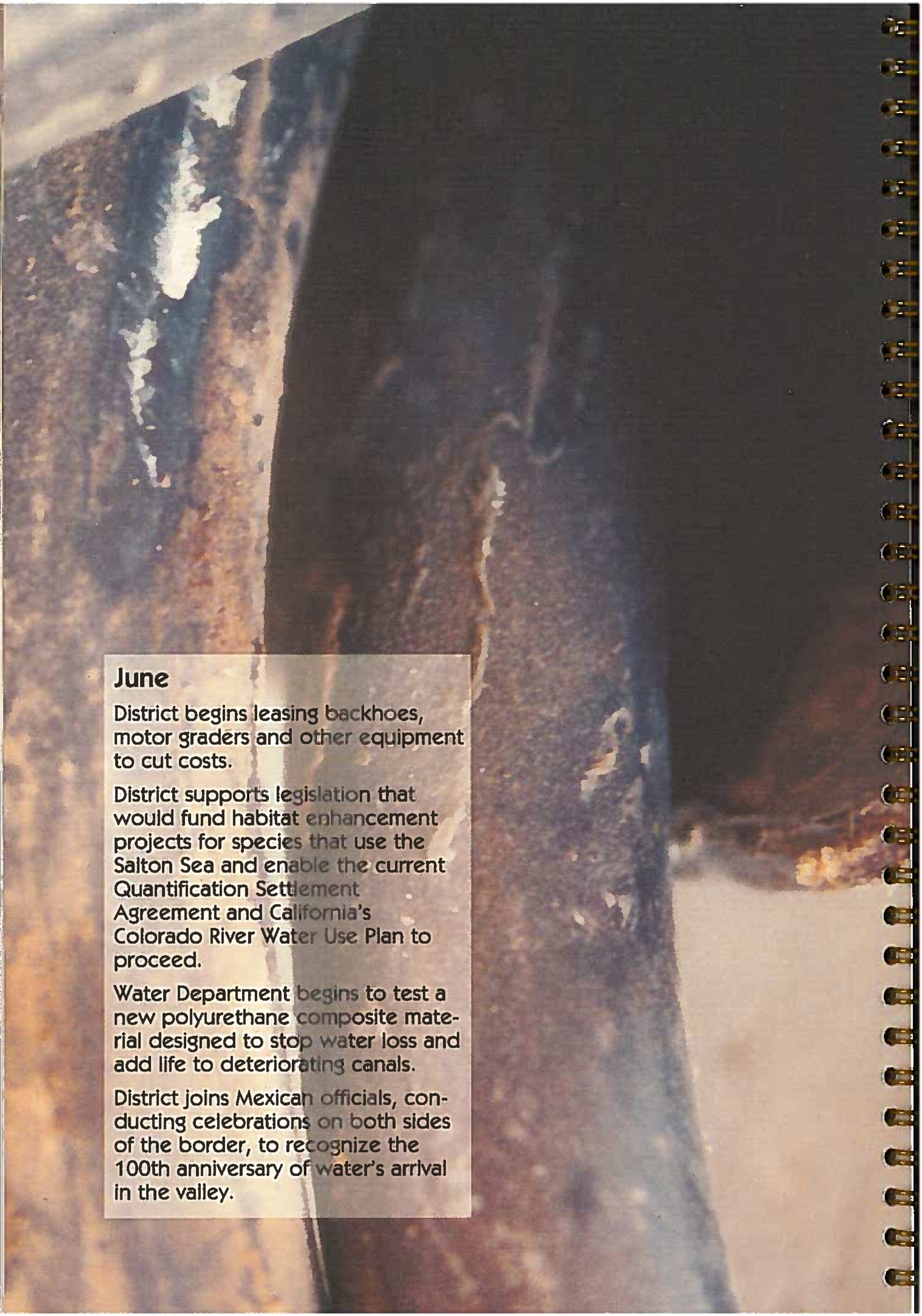
Building them from scratch also allows design benefits:

- Flanges are substituted for couplings, making assembly easier;
- Pumps are lubricated with water rather than costly oil or grease;
- Using better alloys causes the pumps to run better, extending longevity.

In addition to saving on materials, the one-month turnaround time is also a huge benefit over the six-month delivery time from manufacturers.

Machine and Metal Shop Supervisor Jim Brownlee is proud of his crew because the ability to make the pumps internally directly impacts customer service.

"IID is really dedicated to customer service. By doing these projects, we're able to help our customers and we're keeping the District going by changing with it."



June

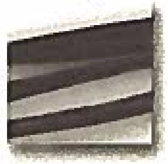
District begins leasing backhoes, motor graders and other equipment to cut costs.

District supports legislation that would fund habitat enhancement projects for species that use the Salton Sea and enable the current Quantification Settlement Agreement and California's Colorado River Water Use Plan to proceed.

Water Department begins to test a new polyurethane composite material designed to stop water loss and add life to deteriorating canals.

District joins Mexican officials, conducting celebrations on both sides of the border, to recognize the 100th anniversary of water's arrival in the valley.

Powering reliable service



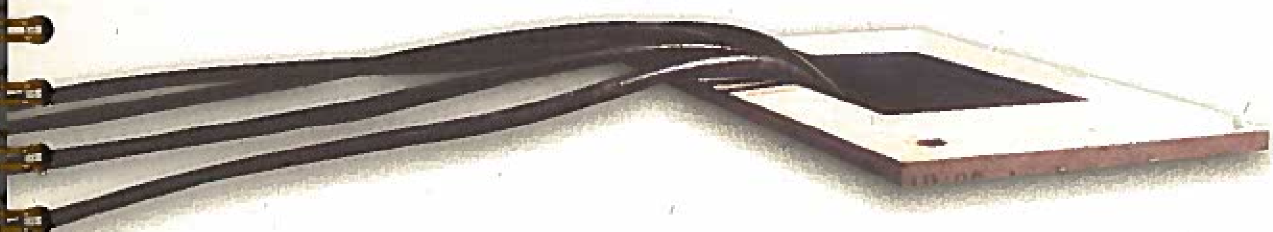
Building for tomorrow, today

One word describes Imperial Irrigation District's power service to a "T" - reliability.

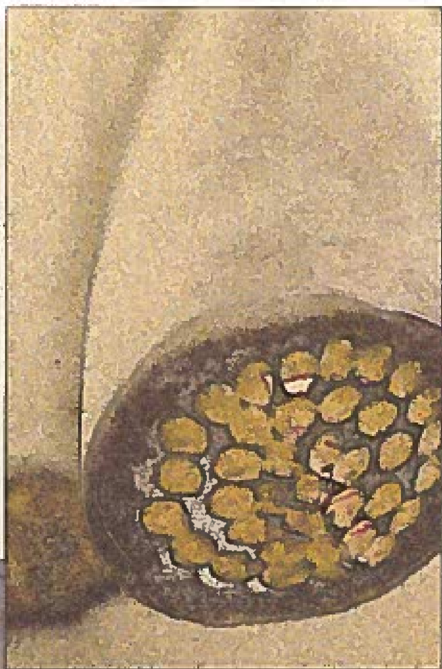
Like the miles of power lines and poles that gently cast a quiet sense of security over the harsh desert floor, IID stands proud that its electric service consistently meets or exceeds American Public Power Association standards for reliability.

It's a reputation the District plans to hold for years to come, and a good thing during a trying 2001.

While much of California tussled through the turmoil of the power crisis, the state's sixth largest power company kept its customers' lights and air conditioners



"We were busy, busy, busy, especially with the new beef plant substation. But we're happy to accomplish these projects for our customers."



going without missing a step. IID invested over $30 million installing crucial infrastructure throughout the electrical system to meet future consumer power needs.

That $30 million allowed the District to make other enhancements, including a major upgrade to the Calexico Substation. The improved facility supplies over half of the city's overall power load.

Additionally, IID's team worked at a feverish pace to build a new substation in Brawley. The substation, with two 92kV lines, new feeders and fiber optics, powers the new Brawley Beef processing plant - a boon for the Imperial Valley.

To meet the growing energy needs of the Coachella Valley, IID constructed the new Ramon Substation, added a second transformer to the Northview Substation in La Quinta, connected a major circuit to Mecca School and completed a major transmission loop from Ramon Substation.

"It was quite a year," said Rick White, assistant power manager, construction and maintenance/engineering services. "We were busy, busy, busy, especially with the new beef plant substation. But we're happy to accomplish these projects for our customers."

Planning for the future continued as IID entered into an agreement to purchase, at stable prices, geothermal electricity from neighbor CalEnergy. Expected to be operational by 2005, the source will amount to about 19 percent of IID's overall load and 40 percent of its base load.

"It's a power source in our back yard that we see as a win, win, win," said Director Bruce Kuhn.

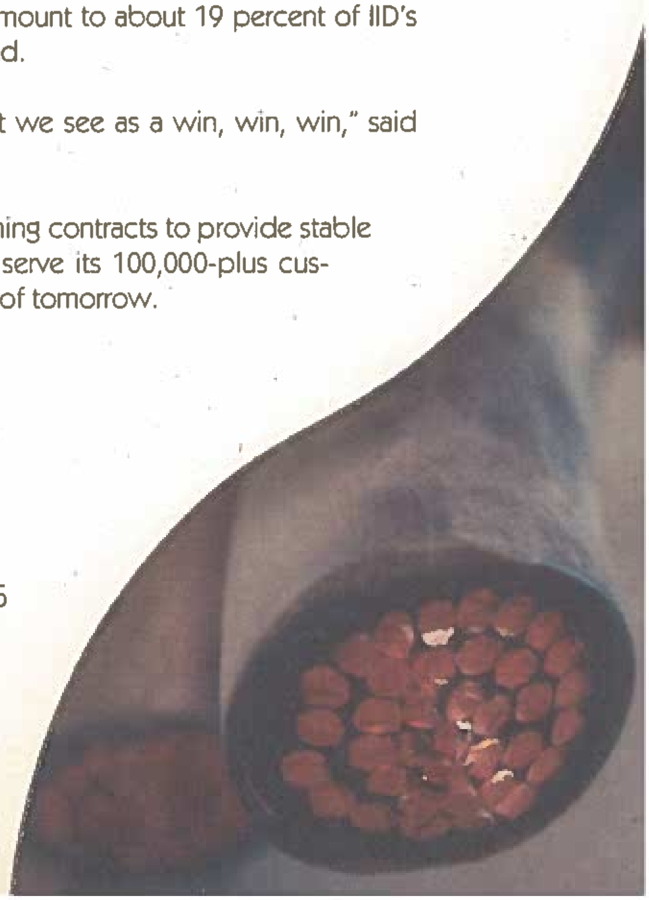
Whether it's substation construction or signing contracts to provide stable energy, IID is working more efficiently to serve its 100,000-plus customers while preparing for the challenges of tomorrow.

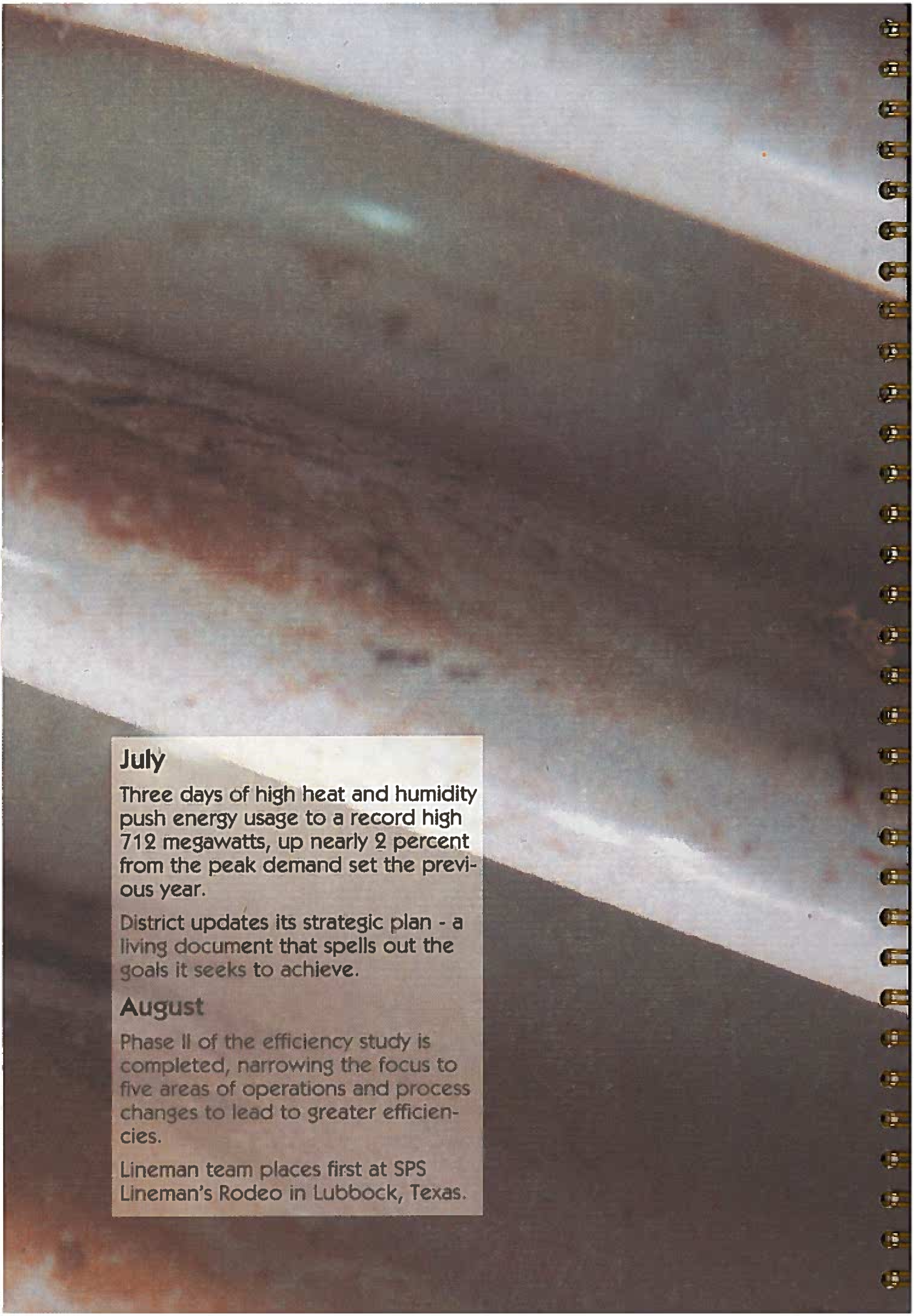
Miles of Line

Transmission Lines - 1,340

Subtransmission Lines - 325

Distribution Lines
(overhead & underground) - 3,825





July

Three days of high heat and humidity push energy usage to a record high 712 megawatts, up nearly 2 percent from the peak demand set the previous year.

District updates its strategic plan - a living document that spells out the goals it seeks to achieve.

August

Phase II of the efficiency study is completed, narrowing the focus to five areas of operations and process changes to lead to greater efficiencies.

Lineman team places first at SPS Lineman's Rodeo in Lubbock, Texas.

The power to serve

A way to plan and deliver

It took more than an umbrella and a prayer for the Imperial Irrigation District to weather the storm of California's power deregulation during the early months of 2001. It took a dedication to customer service, a willingness to consider unconventional solutions and an eye to the future to get through the squall without jeopardizing service and still provide one of the lowest power rates in the state.

"Rather than merely batten down the hatches and prepare for price increases, IID developed a plan to shield customers from the full fury of the deregulated market," IID General Manager Jesse Silva said. "Then we turned our sights to the future to make sure our

"IID developed a plan to shield customers from the full fury of the deregulated market..."

customers will have the affordable power they need when they need it. That's the way IID does business."

Even with the tumult of deregulation, IID spent much of the year preparing for the challenges of the future.

From the start, the year promised to be a challenge. Unusually cold weather, rising natural gas prices and lack of available power on the open market sent prices soaring and prompted blackouts through much of California.

While customers of investor-owned utilities suffered, IID's customers had all the power they needed thanks to the District's diversified power base. IID holds long-term power purchase agreements with generators in New Mexico and Arizona. The District also maintains its own generating facilities.

Still, IID did not escape the tempest unscathed. The rising cost of natural gas, one of the chief fuels used to produce IID's power, posed a serious concern. Natural gas, which cost about $3 per million British Thermal Units (BTUs) in 2000, sold for up to $52 per million BTUs in January 2001.

To spare customers the wild fluctuations of the market, IID negotiated a locked-in price for natural gas of $7.90 per million BTUs through the summer. The energy cost adjustment (ECA) portion of the customer power bill was increased in January to cover the higher fuel cost. Even with the increase, customers continued to enjoy a power rate that was one of the lowest in the state.

Customers were not the only ones interested in IID. As generators scurried to develop new power plants to feed the state's growing demand, many eyed

Power Service Area

Imperial County
4,225 Square Miles

Riverside County
1,953 Square Miles

San Diego County
293 Square Miles

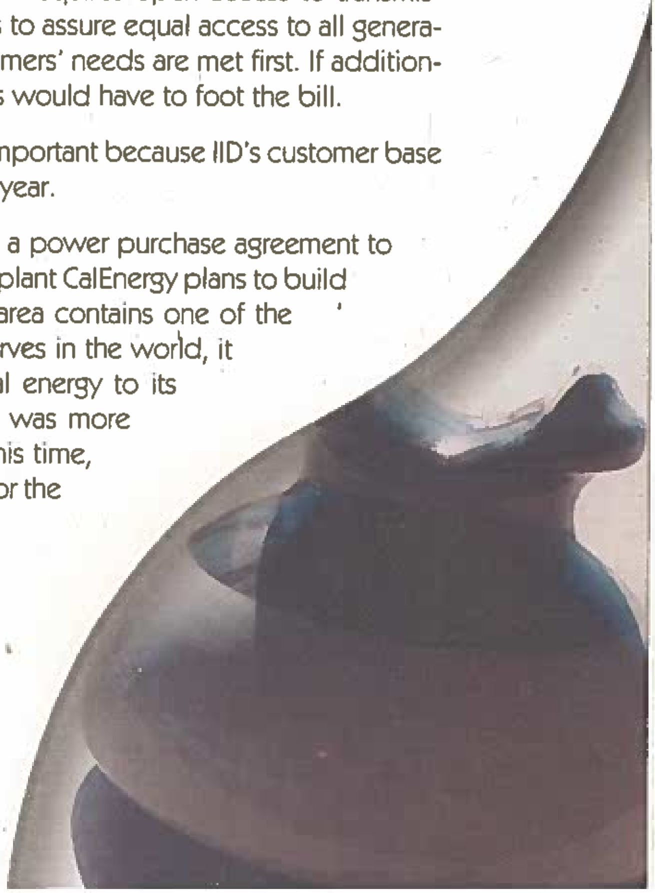
Total Area Served
6,471 Square Miles

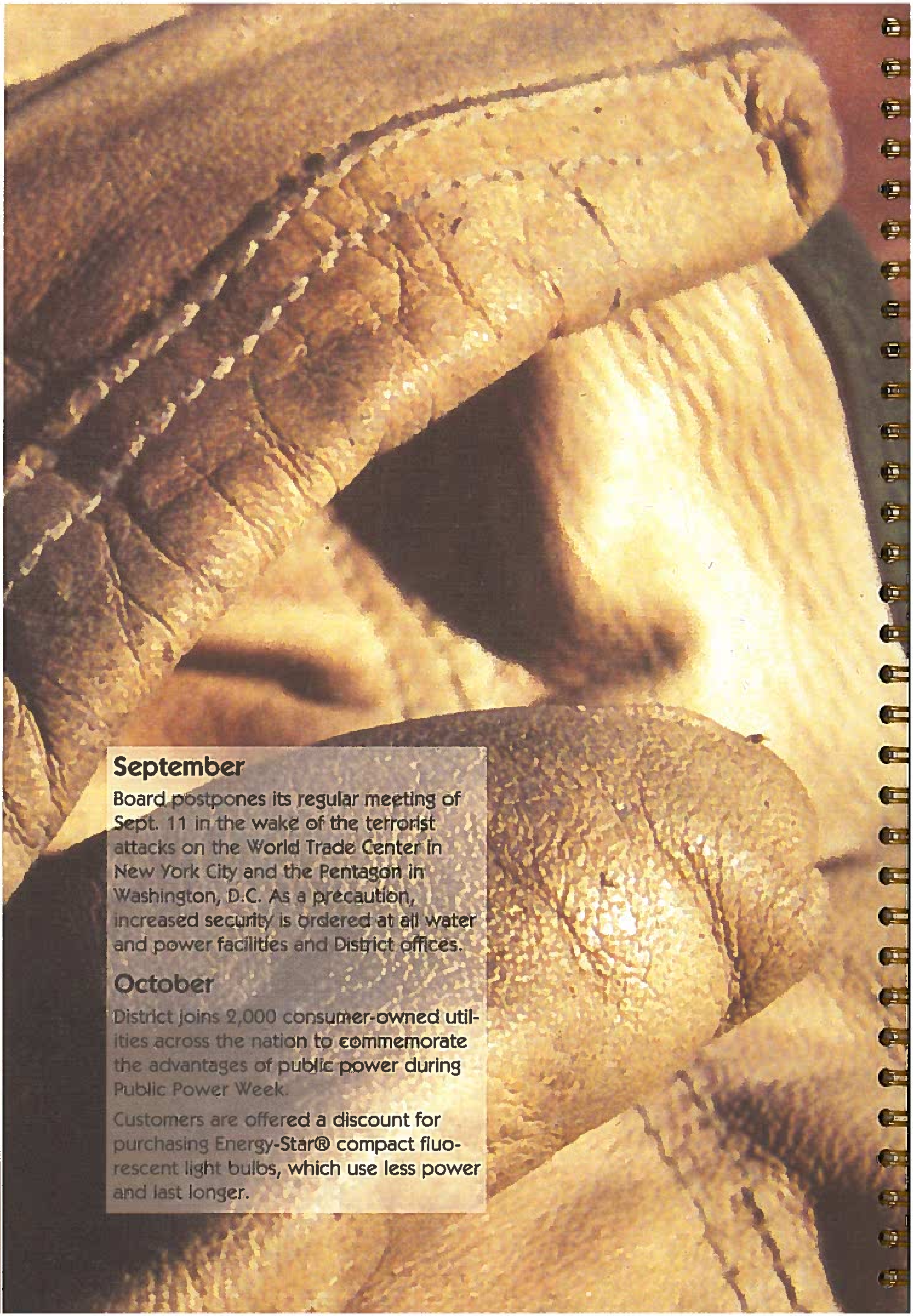
IID's transmission system with growing interest. IID Board of Directors in August adopted an Open Access Transmission Tariff, or OATT, to protect the capacity the District needs while fielding requests for access.

The Federal Energy Regulatory Commission requires open access to transmission, but allows agencies to develop rules to assure equal access to all generators. The rules allow IID to ensure its customers' needs are met first. If additional capacity were needed, other generators would have to foot the bill.

Considering future power needs is vitally important because IID's customer base continues to grow about 3 to 5 percent a year.

In 2001, IID's Board of Directors approved a power purchase agreement to buy up to 170 megawatts of power from a plant CalEnergy plans to build near the Salton Sea. Though IID's service area contains one of the largest and hottest geothermal power reserves in the world, it is the first time IID has added geothermal energy to its power mix. Until now geothermal energy was more expensive than other available supplies. This time, however, IID negotiated a favorable price for the power that will become available in 2005.





September

Board postpones its regular meeting of Sept. 11 in the wake of the terrorist attacks on the World Trade Center in New York City and the Pentagon in Washington, D.C. As a precaution, increased security is ordered at all water and power facilities and District offices.

October

District joins 2,000 consumer-owned utilities across the nation to commemorate the advantages of public power during Public Power Week.

Customers are offered a discount for purchasing Energy-Star® compact fluorescent light bulbs, which use less power and last longer.

The East Highline 

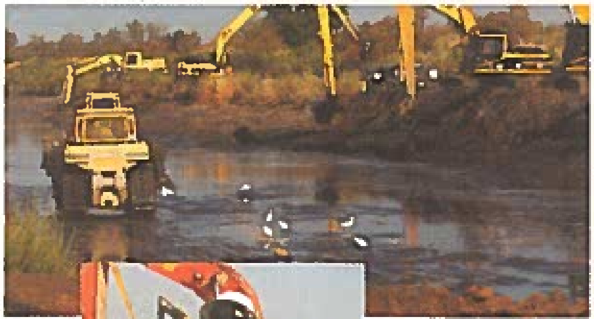
& Highway 111 Projects

Using excavators, backhoes and graders with the skill of surgeons, Imperial Irrigation District crews cut into the hard and dusty heart of the Imperial Valley to improve and upgrade service in 2001.

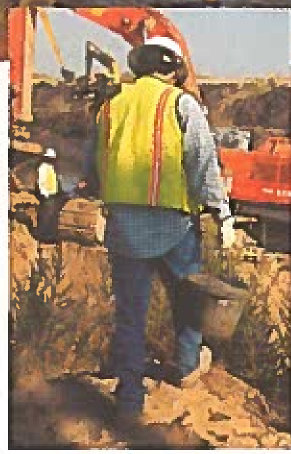
Day and night, crews pitched in on major water and highway operations.

The District began the year by calling upon an army of 100 and its heavy equipment arsenal to fortify the 45-mile East Highline Canal - the second largest water delivery system in the valley. The waterway carries the valley's lifeblood to 40 percent of the District's service area.

The Water Department stormed the East Highline with full force, removing several thousand cubic yards of



"This was a massive undertaking and we're quite pleased it went so well. This will enhance our water delivery service for years to come."



silt and replacing headings, canal structures and grade boards. While inspectors examined pipes, specialists repaired concrete sections and removed moss from laterals - all to improve water service.

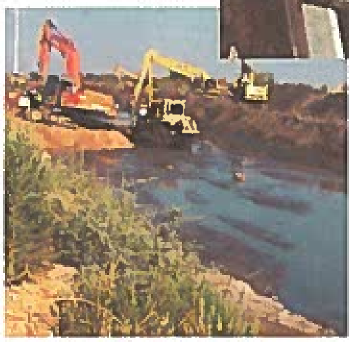
IID didn't work alone, however; customers played a major part, with many conserving water and irrigating fields in advance. In some cases, the District served stored water during the outage.

"We attacked this thing with full force with all our troops and we feel the whole project was very successful," said Jim Luker, assistant general superintendent, water construction and maintenance. "This was a massive undertaking and we're quite pleased it went so well. This will enhance our water delivery service for years to come."

IID also continued its focus on exceptional service in one of the largest earth-moving projects in the valley. Craftsmen scraped and shaped tons of clay to make way for an expanded Highway 111.

The highway carries over 7,000 vehicles a day, with 35,000 expected by the year 2020.

The District has worked long and hard to relocate and retrofit its water delivery, drainage and electrical systems to accommodate the four-lane road, deemed to be a vital shipping artery for increased traffic due to international trade.



As work progressed, IID found its skill matched only by its strength. In one instance, crews carefully maneuvered a 40-ton irrigation headwall several feet under soil. In another, the past went via the future when crews added 900 feet of 96-inch concrete pipe to the Central Main Drain - one of the first drains in the valley.

Frequently, to serve customers better and reduce public inconvenience, District crews worked during the night on these massive, yet intricate, projects.

Whether it's strengthening a major canal or making challenging utility adjustments for a mighty thoroughfare, IID is doing its part to serve its customers and paving the way for the future of the communities it serves.

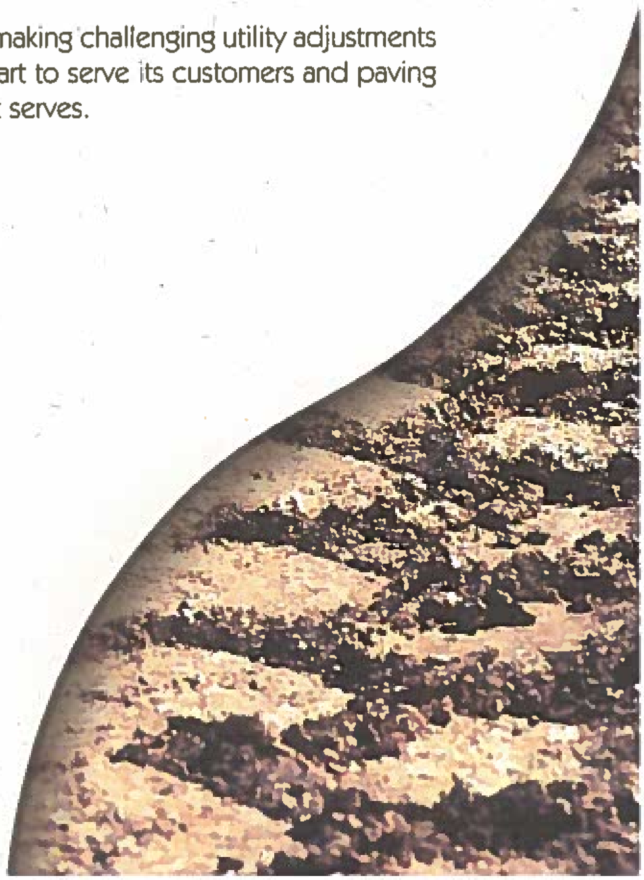
Miles of Canals & Drains

Main Canals - 230

Canals & Laterals - 1,438

Concrete lined or pipelined canals - 1,109

Drainage Ditches - 1,406



November

District agrees to purchase up to 170 megawatts of power for 20 years from a new geothermal plant CalEnergy plans to build near the Salton Sea. The plant is expected to come on line in 2005.

District workshops continue to develop rules to govern how water may be conserved on-farm to meet the terms of the water conservation and transfer agreement with the San Diego County Water Authority.

December

Board approves strategic plan with 10 major goals for 2002. The document is the result of hours of intensive work by Board, management and staff and the culmination of an effort that began in May 1999.

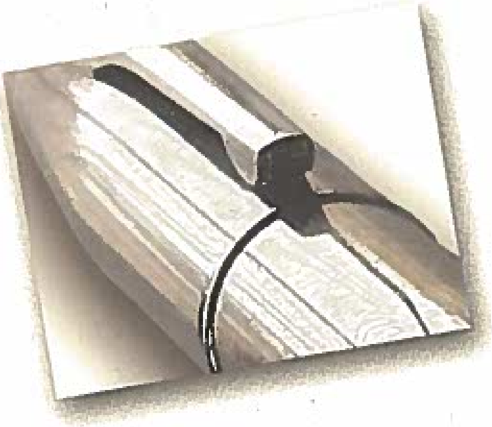
Customers, employees 

benefit from pension plan

It isn't often that an organization can enhance a benefit for its employees and still save money for its ratepayers. But that is exactly what the Imperial Irrigation District Board of Directors did when it rolled the District's fixed benefit pension fund into a 401(a) retirement plan.

Following months of staff research, the Board selected Vanguard to administer the District retirement system when it rolled into a 401(a) plan on July 1.

IID Director Bruce Kuhn said, "My goal is to save this District money when possible. Over a 30-year period, this saves the District $50 million while keeping employees whole."



Imperial Irrigation District:

Organized in 1911 under the California Irrigation District Act

Entered power business in 1936

Largest irrigation district in the nation

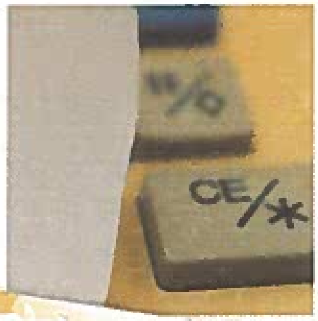
Sixth largest electric utility in California

An added benefit of the new plan is that it offers employees greater flexibility in investing the money the District contributes to their pension funds.

Escalating costs associated with the old fixed-benefit retirement system prompted IID to consider changing to the 401(a) plan. District Chief Financial Officer Kris Fontaine said interest rates, the conservative investment strategy of the pension fund and a number of other problems with defined benefits programs contributed to an increasing spiral of costs for the District.

IID initially paid into the fund an amount equal to 7 percent of an employee's salary each year. Rising costs of the pension fund caused the contribution to rise to the point that, by 2000, IID had to contribute 16 percent of each employee's salary. Maintaining the fixed benefit program in 2001 would have cost the District 19 percent of each employee's salary.

The District started to address the situation in 1999 when it set up a 401(a) plan and began making contributions to it for new hires. A Technical Advisory Group (TAG) was created to consider ways of reducing pension costs for long-time employees. A key concern was that rolling the fixed-benefit program into a 401(a) plan would have left many employees with a financial disadvantage.



Working with a consultant, the TAG concluded the best way to proceed was to borrow money through a bond issue to make employees whole when the pension fund was rolled into a 401(a) plan.

Directors agreed with the recommendation and, in June, sold pension obligation bonds totaling $75 million at the favorable rate of 7 percent to raise the money for the rollover.

In the meantime, the TAG and employee representatives went through the arduous process of recommending a firm to administer the new 401(a) program. The group even made site visits to the top three firms - Vanguard, Aetna and Fidelity - selected by the Board of Directors. In February, acting on a recommendation from the TAG and employees, Directors selected Vanguard to administer the 401(a) program.

Following an extensive training session provided for employees by Vanguard, the 401(a) program started on July 1.

Board of Directors

Andy Horne
Board President,
Division 1

From Dust to Destiny

Since the day water first arrived in the Imperial Valley 100 years ago, residents have toiled to breathe life into the dusty terrain and mold it into an agricultural wonder. In 2001, the Imperial Irrigation District Board of Directors celebrated the 100th anniversary of man's imprint on the desert by dedicating the agency to building the community's destiny.

IID Board President Andy Horne said, "There is no question that the future holds new challenges, but we face them, and will overcome them, with the ideals and dedication of the pioneers before us who created the greatest agricultural community in the world."

To that end, the Board spent countless hours working with its staff to develop a strategic plan to light the way to the future. It also commissioned an efficiency study and launched a staff-driven effort to implement measures to improve the District's operation.

"To achieve our goals, we need to put them in writing and build on them," General Manager Jesse Silva said. "This living document is an invaluable tool."

Even as it moves forward, IID will never lose sight of the ideals of innovation and customer service that brought the utility to where it is today, Horne said. His sentiments are echoed in the strategic plan vision statement:

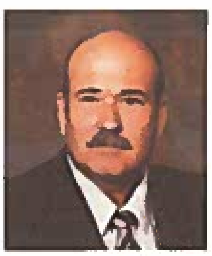
"Supplier of water and power to meet the changing needs of our customers based on excellence in performance by valued, forward-looking employees."

Following a daylong retreat, the Board and the District's managers finalized work on the strategic plan that was begun in May 1999. The document will help the District's staff develop its budget, assign staff and plan work around the goals laid out by the Board.

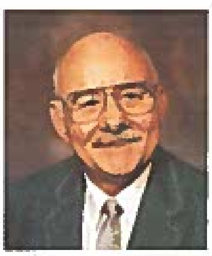
As the District celebrated its 90th year of operation, the Board ratified updates to the strategic plan to lay out the challenges the utility must confront and overcome. In its mission statement, the plan calls for the District "To provide the highest quality service at a fair and competitive price."

Among the goals set for the year are:

- Efficiently provide water, power and other services.
- Continually improve services to meet customer needs.
- Develop new service to increase customer base.
- Support and facilitate economic development within IID's service area.
- Implement appropriate recommendations of the efficiency study.
- Enhance water and power reliability.
- Upgrade facilities.



Bruce Kuhn
Division 2



Lloyd Allen
Division 3

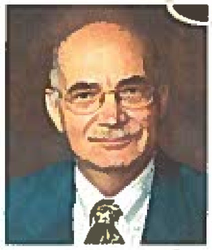
Stella Mendoza
Division 4

Rudy Maldonado
Division 5

Managers

Jesse P. Silva
General Manager

C. Jane Alsip
Finance & Treasury



Darryl Croft
Human Resources

Kristine K. Fontaine
Chief Financial Officer

Even as the Board looked ahead, it looked at the present to see where current processes could be improved. Directors hired the consulting firm of Stone & Webster to look at IID's operations and make recommendations. The final 168-page report released in September made recommendations that ranged from reducing the District's fleet and workforce to upgrading computer software and additional training.

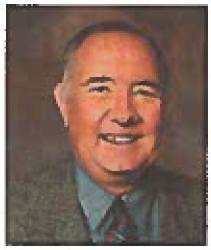
After an extensive review of the findings, IID's Board of Directors decided staff reductions would be carried out through attrition. The Board also directed its management staff to be the team to implement the efficiencies that were consistent with the strategic plan.

A more efficient fleet management system and a recommendation to use water delivery personnel to handle maintenance duties during low-flow months are among the first being slated for implementation. Additionally, staff training is a high priority.

The efficiency implementation team launched the effort with the goal of addressing all the recommendations within two years. General Manager Silva, however, said the implementation effort will go far beyond specific consultant recommendations.

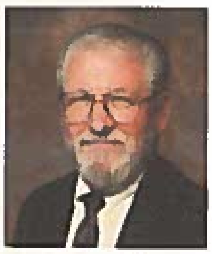
"We are changing the culture at IID," Silva said. "We are going to work together, managers and staff, to build a better future for our organization and our customers through the process of continuous measurable improvement. It is an enormous undertaking. That is how IID was built; that is how we will build the future."

Elston K. Grubaugh
Resources Planning & Management

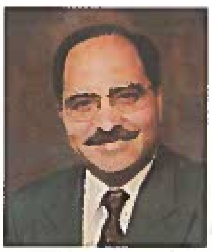


Ronald E. Hull
Public Information

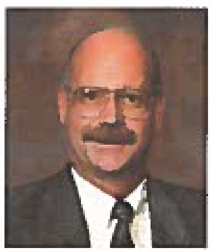
Michael L. King
Water Department



John H. Steffen
Power Department



Gabino Marcial
Information Technology



Robert B. Luckey
Executive Officer

Thomas G. King
General Services

Letter from the Board President

Andy Horne

The year 2001 will be remembered for its many firsts: the start of the new millennium, an energy crisis in California that featured "rolling blackouts" and the scourge of terrorism that visited America on a Tuesday morning in September, changing the way all of us think about our country - and each other.

But 2001 was especially poignant for another reason, at least within the Imperial Irrigation District and throughout the Imperial Valley. That's because 100 years earlier, on June 20, 1901, the first water arrived in what was then called the Imperial Settlement, and a harsh and barren landscape would be transformed into an agricultural heartland. The visionary most responsible for this transformation, Charles Rockwood, like almost everyone else involved in the ill-fated California Development Company, never realized any financial gain from the enterprise.

"Vision and purpose, combined with hard work and the will to succeed, influenced the course of history – and water – 100 years ago, creating the Imperial Valley. Ten years later, the people themselves created the IID as a means of safeguarding their future."

Even so, he lived to see the Imperial Valley succeed, as he had predicted it would, and eventually became the newly formed IID's chief engineer. It is no overstatement to say that life in the Valley officially began when that first water found its way to the tent city of Imperial, and it was largely Rockwood's engineering skill (if not his business acumen) that brought it there.

As president of the IID Board of Directors during the centennial year of the arrival of water in the Imperial Valley, I have tried to be mindful of the extraordinary lengths to which previous generations have gone to secure this precious resource, and with it the future of the Valley itself. In 2001, we faced new challenges, not only in the volatile area of ag-to-urban water transfers but also in the power arena, where the disastrous effects of industry deregulation are still being felt throughout the state.

I have come to know the employees of the District in an entirely new way this past year, and that has been as the organization's president. It has been a privilege I will not soon forget. As a student of history, I think the lesson in the Imperial Valley's first 100 years of irrigated existence is that it takes a certain amount of vision to look into the future and conceive of a place like the Imperial Valley. But it takes people to make it work, whether the task at hand is the reclamation of a hostile desert, keeping our water and power flowing or ongoing protection of the region's water rights.

Vision and purpose, combined with hard work and the will to succeed, influenced the course of history - and water - 100 years ago, creating the Imperial Valley. Ten years later, the people themselves created the IID as a means of safeguarding their future. History, I believe, has proven the wisdom of what they did.

Opposite Page
H.L. Peck (Imperial), Porter N. Ferguson (Holtville), Fritz Kloke (Calexico), E.C. Pound (Brawley) and W.O. Hamilton (El Centro) served as IID's first Board of Directors in 1911.

Financial Summary
2001

Imperial Irrigation District

Combined Balance Sheets

December 31, 2001 and 2000

Assets	2001 Water Department	2001 Power Department	2001 Total	2000 Water Department	2000 Power Department	2000 Total
Current assets:						
Receivables:						
Trade	$ 6,071,932	$ 23,446,381	$ 29,518,313	$ 6,599,139	$ 16,713,045	$ 23,312,184
Interest	72,017	648,151	720,168	160,440	1,443,962	1,604,402
Other	2,921,090	7,864,791	10,785,881	6,652,458	8,191,567	14,844,025
	9,065,039	31,959,323	41,024,362	13,412,037	26,348,574	39,760,611
Less allowance for doubtful accounts	(610,454)	(4,056,078)	(4,666,532)	(798,470)	(2,610,907)	(3,409,377)
Net receivables	8,454,585	27,903,245	36,357,830	12,613,567	23,737,667	36,351,234
Inventories:						
Fuel oil	0	1,840,383	1,840,383	0	2,767,981	2,767,981
Materials and supplies	2,143,171	13,736,096	15,879,267	1,915,948	12,617,582	14,533,530
Total inventories	2,143,171	15,576,479	17,719,650	1,915,948	15,385,563	17,301,511
Prepaid expenses	149,843	1,184,768	1,334,611	183,549	477,491	661,040
Total current assets	10,747,599	44,664,492	55,412,091	14,713,064	39,600,721	54,313,785
Cash and investments, restricted as to use and allocated for:						
Debt service	5,783,907	15,436,844	21,220,751	4,655,699	16,065,307	20,721,006
Construction	19,536,134	16,182,335	35,718,469	22,218,608	34,150,175	56,368,783
Self-insurance	11,000,000	8,000,000	19,000,000	11,000,000	8,000,000	19,000,000
Other	16,456,722	17,959,554	34,416,276	14,043,364	13,781,904	27,825,268
	52,776,763	57,578,733	110,355,496	51,917,671	71,997,386	123,915,057
Other restricted assets - refundable to customers	0	1,494,038	1,494,038	0	9,516,766	9,516,766
Utility plant, at cost:						
Plant in service	366,689,303	992,417,191	1,359,106,494	350,731,893	933,824,325	1,284,556,218
Less accumulated depreciation	(91,509,978)	(354,590,183)	(446,100,161)	(88,826,681)	(326,235,451)	(415,062,132)
	275,179,325	637,827,008	913,006,333	261,905,212	607,588,874	869,494,086
Construction in process	0	4,541,352	4,541,352	0	1,576,130	1,576,130
	275,179,325	642,368,360	917,547,685	261,905,212	609,165,004	871,070,216
Prepaid pension obligation	36,061,228	36,061,228	72,122,456	0	0	0
Deferred charges	1,364,312	2,087,930	3,452,242	677,773	1,506,962	2,184,735
Other assets:						
Protection of water rights	18,172,780	0	18,172,780	11,024,638	0	11,024,638
Less accumulated amortization	(634,583)	0	(634,583)	(319,593)	0	(319,593)
	17,538,197	0	17,538,197	10,705,045	0	10,705,045
	$ 393,667,424	784,254,781	1,177,922,205	339,918,765	731,786,839	1,071,705,604

WATER

Imperial Irrigation District

Combined Balance Sheets
December 31, 2001 and 2000

Liabilities and District Equity	2001 Water Department	2001 Power Department	2001 Total	2000 Water Department	2000 Power Department	2000 Total
Current liabilities:						
Current maturities of long-term debt and capital leases	$ 1,168,940	$ 2,085,836	$ 3,254,776	$ 1,409,037	$ 3,003,373	$ 4,412,410
Accounts payable	4,398,869	13,539,573	17,938,442	1,075,266	12,911,633	13,986,899
Accrued interest payable	2,391,648	2,576,680	4,968,328	21,830	1,226,642	1,248,472
Accrued compensation and payroll taxes	904,581	725,102	1,629,683	2,581,597	2,982,129	5,563,726
Accrued vacation and sick leave	160,231	97,020	257,251	120,113	103,416	223,529
Deferred revenue - water availability charges	144,837	965	145,802	145,261	0	145,261
Total current liabilities	9,169,106	19,025,176	28,194,282	5,353,104	20,227,193	25,580,297
Liabilities payable from restricted assets:						
Current maturities of long-term debt	1,770,000	10,985,221	12,755,221	1,090,000	7,315,837	8,405,837
Other accrued expenses, noncurrent portion	11,000,000	8,000,000	19,000,000	11,000,000	8,000,000	19,000,000
Advances and deposits from customers	40,054	1,845,103	1,885,157	40,054	1,889,430	1,929,484
Total liabilities payable from restricted assets	12,810,054	20,830,324	33,640,378	12,130,054	17,205,267	29,335,321
Long-term debt:						
Certificates of participation	41,011,256	106,644,414	147,655,670	42,535,564	117,779,488	160,315,052
Bonds payable	38,503,466	37,181,023	75,684,489	1,411,983	0	1,411,983
Capital leases	912,940	1,527,691	2,440,631	1,085,354	2,117,054	3,202,408
Total long-term debt	80,427,662	145,353,128	225,780,790	45,032,901	119,896,542	164,929,443
Deferred credits and other liabilities:						
Advances for construction	308,640	581,906	890,546	2,240	7,370	9,610
Accrued vacation and sick leave, noncurrent portion	3,500,742	3,256,082	6,756,824	3,398,018	3,090,510	6,488,528
Total deferred credits and other liabilities	3,809,382	3,837,988	7,647,370	3,400,258	3,097,880	6,498,138
Total liabilities	106,216,204	189,046,616	295,262,820	65,916,317	160,426,882	226,343,199
District equity:						
Contributions in aid of construction	101,350,685	34,233,386	135,584,071	105,607,024	35,977,833	141,584,857
Retained earnings	186,100,535	560,974,779	747,075,314	168,395,424	535,382,124	703,777,548
Total District equity	287,451,220	595,208,165	882,659,385	274,002,448	571,359,957	845,362,405
	$ 393,667,424	784,254,781	1,177,922,205	339,918,765	731,786,839	1,071,705,604

POWER

Imperial Irrigation District

Combined Statements of Income
Years Ended
December 31, 2001 and 2000

	2001 Water Department	2001 Power Department	2001 Total	2000 Water Department	2000 Power Department	2000 Total
Operating revenues:						
Power sales	$ 0	$ 251,992,019	$ 251,992,019	$ 0	$ 227,677,482	$ 227,677,482
Water sales	42,880,769	0	42,880,769	40,297,730	0	40,297,730
Water availability charges	1,992,639	0	1,992,639	1,969,390	0	1,969,390
Interdepartmental charges:						
Use of All-American Canal	3,962,400	(3,962,400)	0	3,930,700	(3,930,700)	0
Power sales	(1,446,633)	1,446,633	0	(1,523,553)	1,523,553	0
Wheeling charges	0	12,029,786	12,029,786	0	10,092,608	10,092,608
Other	0	1,311,793	1,311,793	0	989,560	989,560
	47,389,175	262,817,831	310,207,006	44,674,267	236,352,503	281,026,770
Operating expenses:						
Purchased power	0	63,438,431	63,438,431	0	85,179,044	85,179,044
Cost of fuel	0	87,122,818	87,122,818	0	47,301,744	47,301,744
Other power expenses	0	41,019,786	41,019,786	0	28,866,990	28,866,990
Operation and maintenance of All-American Canal	2,648,425	0	2,648,425	2,659,706	0	2,659,706
Operation and maintenance of irrigation system and dams	33,252,060	0	33,252,060	34,841,735	0	34,841,735
General and administration expense	4,297,470	19,233,074	23,530,544	9,753,723	17,889,610	27,643,333
Loss on disposal of utility plant assets	654,574	535,316	1,189,890	211,994	1,961,629	2,173,623
Provision for depreciation and amortization	7,052,398	30,700,363	37,752,761	6,092,891	28,645,474	34,738,365
	47,904,927	242,049,788	289,954,715	53,560,049	209,644,491	263,204,540
Operating income (loss)	(515,752)	20,768,043	20,252,291	(8,885,782)	26,708,012	17,822,230
Nonoperating revenues (expenses):						
Investment income	2,816,909	4,820,868	7,637,777	2,806,263	4,426,963	7,233,226
Decrease in fair value of investments	0	0	0	(475,700)	(659,682)	(1,135,382)
Interest expense	(4,440,334)	(8,589,274)	(13,029,608)	(1,183,576)	(8,967,557)	(10,151,133)
Other income	555,377	2,547,272	3,102,649	3,176,204	3,188,474	6,364,678
Other expenses	0	(51,070)	(51,070)	(220)	(40,391)	(40,611)
Capital grants	15,032,572	4,352,369	19,384,941	0	0	0
	13,964,524	3,080,165	17,044,689	4,322,971	(2,052,193)	2,270,778
Net income (loss)	$ 13,448,772	23,848,208	37,296,980	(4,562,811)	24,655,819	20,093,008

WATER

Comparative Statistics
Water Department

Water Department Revenues from Water Sales ($000)

	2001	2000	1999	1998	1997	1996
Agricultural	$ 40,198	$ 40,772	$ 37,588	$ 36,699	$ 34,672	$ 34,855
Industrial	1,625	1,531	1,209	1,184	1,089	1,134
Municipal	471	495	447	416	398	430
Miscellaneous	595	540	513	492	444	499
	$ 42,889	$ 43,338	$ 39,755	$ 38,791	$ 36,603	$ 36,918

Water Delivered (acre feet)

	2001	2000	1999	1998	1997	1996
Agricultural	2,771,787	2,795,767	2,728,923	2,740,661	2,803,640	2,821,987
Industrial	22,774	20,511	17,246	17,573	17,458	18,130
Municipal	47,558	68,682	31,905	30,858	31,734	34,267
	2,842,119	2,884,960	2,778,074	2,789,092	2,852,832	2,874,384

Historical Water Rates

	2001	2000	1999	1998	1997	1996
Water (per acre foot)	$ 15.00	$ 14.00	$ 14.00	$ 13.50	$ 12.50	$ 12.50
Water (July 1)		$ 14.50				
Water Availability (per acre)	$ 3.80	$ 3.80	$ 3.80	$ 5.70	$ 5.70	$ 5.70

Fund Balances ($000) (December 31)

	2001	2000	1999	1998	1997	1996
Water Operating Fund	$ 35,037	$ 36,338	$ 13,197	$ 19,581	$ 22,889	$ 26,921
Capital Reserves	4,200	2,806	2,763	2,869	3,363	939
Indirect Reserve Fund	13,540	12,774	23,927	19,106	22,162	16,512
	$ 52,777	$ 51,918	$ 39,887	$ 41,556	$ 48,414	$ 44,372

Reconciliation of Net Earnings to Balance Available for Debt Service ($000)

	2001	2000	1999	1998	1997	1996
Net Earnings	$ 13,449	$ (4,564)	$ 5,090	$ 9,976	$ (237)	$ 3,914
Miscellaneous						
Add Back:						
Depreciation	7,052	6,093	5,870	7,727	7,339	6,747
Interest Expense	4,440	1,184	1,160	1,151	1,215	416
Unrealized Loss on Invest		476				
Balance Available for Debt Service	$ 24,941	$ 3,189	$ 12,120	$ 18,854	$ 8,317	$ 11,077
Debt Service	3,708	1,594	1,593	1,597	1,555	145
Coverage on Debt Service	6.73	2.00	7.61	11.81	5.35	76.39
Add Back Obligation Service	3,003	-				
Balance Available for Debt and Obligation Services	$ 27,944	$ 3,189	$ 12,120	$ 18,854	$ 8,317	$ 11,077
Coverage on Debt and Obligation Services	4.16	2.00	7.61	11.81	5.35	76.39

WATER

Comparative Statistics

Power Department

	2001	2000	1999	1998	1997	1996
Revenues from Energy Sales ($000)						
Residential	$ 109,048	$ 97,661	$ 87,186	$ 81,949	$ 80,210	$ 76,310
Commercial/Industrial	121,668	101,262	90,747	98,969	104,537	99,759
Other	15,905	28,754	23,615	13,872	13,304	13,157
	$ 246,621	$ 227,677	$ 201,548	$ 194,790	$ 198,051	$ 189,226
Energy Sold (MWh)						
Residential	1,158,796	1,096,389	1,084,937	983,589	952,866	942,020
Commercial/Industrial	1,377,703	1,157,604	1,111,631	1,139,335	1,297,306	1,272,742
Other	174,822	302,921	184,345	230,935	162,161	167,684
	2,711,321	2,556,914	2,380,913	2,353,859	2,412,333	2,382,446
Electric Customers						
Residential	87,291	85,193	78,737	75,521	74,213	72,995
Commercial/Industrial	15,447	15,596	14,347	12,242	12,256	11,972
Other	1,825	2,031	1,982	2,889	2,634	2,598
	104,563	102,820	95,066	90,652	89,103	87,565
Electric Plant						
Net Utility Plant	$ 642,368,360	$ 609,165,005	$ 577,195,213	$ 557,701,980	$ 535,722,843	$ 518,824,995
Miles of Lines:						
Transmission	1,672	1,842	1,638	1,543	1,643	1,648
Distribution	3,830	3,648	3,648	3,393	3,583	3,499
Bonded Indebtedness	$ 120,998,162	$ 125,095,325	$ 130,611,842	$ 136,613,593	$ 145,973,898	$ 157,145,735
Power Supply (MWh)						
Purchases	1,957,006	1,962,842	1,834,918	1,493,146	1,869,842	1,945,076
Generation	1,138,640	1,304,318	887,759	1,025,792	943,125	806,068
Peak Demand (MW)	712	705	680	684	632	639
Historical Average Electric Rates (cents)						
Base Rate	9.08	8.62	8.05	7.92	7.84	7.94
Energy Cost Adjustment	0.02	0.05	0.05	0.05	0.16	-
	9.10	8.67	8.10	7.97	8.00	7.94

Comparative Statistics
Power Department

Power Department
Reconciliation of Net Earnings to Balance Available for Debt Service ($000)

	2001	2000	1999	1998	1997	1996
Net Earnings	$ 23,848	$ 24,656	$ 21,744	$ 24,371	$ 34,409	$ 33,169
Miscellaneous	0	0	(376)	(378)	(2,472)	(8,208)
Add Back:						
Depreciation	30,700	28,646	28,271	23,153	21,887	21,253
Unrealized Loss on Invest		660				
Interest Expense	8,589	8,967	8,082	8,672	8,923	9,696
Balance Available for Debt Service	$ 63,137	$ 62,929	$ 57,721	$ 55,818	$ 62,747	$ 55,910
Debt Service	$ 13,941	$ 13,508	$ 13,960	$ 20,467	$ 20,499	$ 20,512
Coverage on Debt Service	4.53	4.66	4.13	2.73	3.06	2.73
Add Back Obligation Service	20,202	17,199	$ 14,460	$ 14,460	$ 14,460	$ 12,743
Balance Available for Debt and Obligation Services	$ 83,339	$ 80,128	$ 72,181	$ 70,278	$ 77,207	$ 68,653
Coverage on Debt and Obligation Services	2.44	2.61	2.54	2.01	2.21	2.06

POWER

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