

SECOND QUARTER REPORT

SRP Fiscal Year 2012



Delivering more than power.™

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MESSAGE FROM THE PRESIDENT AND THE GENERAL MANAGER

SRP tested spillways at Theodore Roosevelt Dam (cover) on Oct. 11, raising both gates and releasing water at a maximum rate of 15,000 cubic-feet-per-second from Roosevelt Lake into Apache Lake.

The spillways are tested every year, as required by the U.S. Bureau of Reclamation. However, test duration is limited when lake levels are low. This is the first time since the dam was modified in 1996 that both were opened at the same time.

The U.S. Senate and House of Representatives approved House Resolution (H.R.) 489, which clarifies jurisdictional issues involving C.C. Cragin Dam and Reservoir, located about 25 miles north of Payson.

With President Barack Obama's signature on Nov. 7, this legislation (Public Law 112-45) clears the way for SRP to assume full operational control of Cragin. The measure also helps jump-start pipeline projects involving the Town of Payson. The town is scheduled to start receiving water from Cragin during the next several years, which will more than double the town's existing water supply.

A biomass plant that uses forest thinning and waste recycled paper fibers will produce electricity for SRP customers.

Under a one-year agreement announced Oct. 12, SRP will purchase as much as 13 megawatts of energy generated from Snowflake Power LLC, in northern Arizona. The purchase amount is enough to power 6,800 average residential homes in the Phoenix area.

This unique renewable energy power plant will contribute to SRP's sustainable energy goals and support the state's Healthy Forest Initiative, which seeks to protect forestlands against catastrophic fires through responsible clearing of dense undergrowth and brush.

Two public charging stations debuted at SRP's Project Administration Building this quarter as part of collaborative electric vehicle (EV) efforts. SRP is one of more than 60 partners in The EV Project, funded by the U.S. Department of Energy and managed by San Francisco-based ECOtality Inc. The chargers at SRP are among approximately 14,000 stations planned in six states.

More than 100 schools in the Phoenix area are tapping into the power of the sun to offset a portion of their electric needs. The school districts participate in SRP's new Community Solar

program and are among the first customers to receive energy from the new Copper Crossing Solar Ranch in Florence.

The school districts will purchase energy from Copper Crossing, the largest solar plant in Arizona, at a fixed price for 10 years. SRP's Community Solar program offers an alternative to installing solar systems on rooftops and allows more schools to invest in clean energy.

Two new rooftop solar projects were made possible through other SRP solar programs. Gilbert's Higley Unified School District and the East Valley Institute of Technology in Mesa will benefit from solar panel arrays that will help reduce operating costs and expose students to renewable energy technology.

Snowmelt runoff from the Salt and Verde watershed from January through May 2011 was reported in August. This year's total was the 22nd driest on record and about one-sixth the 2010 runoff total. As of Oct. 31, SRP's total reservoir system was two-thirds full and working just as it was designed: capturing runoff in wet years such as 2010 and storing it for the dry years.

With the forecast of another dry winter in 2012, SRP is stepping up its efforts to promote water conservation and remind Valley residents that drought is a way of life in the desert. Beginning next quarter, SRP will launch several initiatives to extend the Together We Conserve campaign that was unveiled last year in the weeks leading up to the 100th anniversary of the completion of Roosevelt Dam.

FINANCIAL RESULTS

During the second quarter of FY12, the number of electric customers grew by 1% compared with the same quarter of FY11. We expect similar growth to continue until the Arizona economy recovers.

Retail electric revenues for the second quarter of FY12 increased \$30.9 million, or 4%, compared with the second quarter of FY11. The increase resulted from significantly warmer-than-normal temperatures during the second quarter of FY12.

Total operating revenues for the second quarter were up 1% compared with the same quarter in FY11. Increased retail revenues were offset by decreased wholesale revenues (a drop of \$23.4 million, or 37.4%). The decrease resulted from the change in fair value and limited opportunities for sales in the wholesale electric market.

Total operating expenses for the quarter decreased by \$11 million, or 1.7%, compared with the same period last year. The decrease was driven by a drop in purchased-power costs (\$20.8 million), which was partially offset by increased fuel expenses (\$5.2 million).

Purchased power decreased because of the slower wholesale market compared with the same quarter last year. Increased fuel expenses resulted from changes in the fair value of fuel contracts (\$8.6 million loss). Excluding the effects of fair-value changes, fuel expenses would have decreased \$3.4 million, or 1.8%, reflecting reduced electric production.

Investments lost \$63.6 million during the second quarter of FY12, compared with a \$45.7 million gain in the same period last year. The decrease resulted from volatile conditions in the equity markets and unfavorable changes in the fair value of investments and deposits. Without fair-value changes, investment income would have remained relatively flat compared with the same quarter last year.

Financing costs increased \$16.4 million, or 45.7%, compared with the same period last year. The increase is because of

interest expense related to a capital lease for the new Coolidge Generating Station, which began operation May 1, 2011.

Net revenues for the second quarter of FY12 totaled about \$111 million, compared with net revenues of \$218.2 million for the same quarter last year. Excluding fair-value changes related to fuel and wholesale positions and certain investments, net income for the quarter would have totaled \$182.0 million, compared with \$175.6 million for the second quarter of FY11.

Our next report will update you about our performance during the third quarter, which ends Jan. 31.



David Rousseau
President



Mark Bonsall
General Manager

SRP: POWER AND WATER SUPPLIER TO THE VALLEY

SRP provides electricity in a 2,900-square-mile area in the metropolitan Phoenix area known as the "Valley."

Founded in 1903, SRP is an integrated electric utility, providing generation, transmission and distribution services. It also is the third-largest public power utility in the United States.

SRP also is the Valley's largest raw-water supplier, delivering about 1 million acre-feet annually in a service area that spans 375 square miles. SRP manages the 13,000-square-mile watershed that supplies the majority of the Valley's surface water.

SRP Corporate Offices

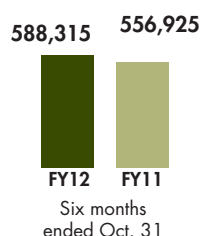
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WATER HIGHLIGHTS

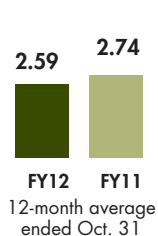
Water Deliveries
(acre-feet)



Water in Storage
(capacity)



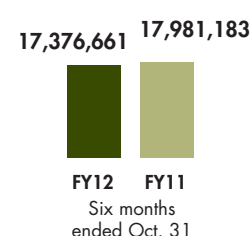
Debt Service
Coverage



Debt Ratio



Total Sales
(thousand kWh)



FINANCIAL HIGHLIGHTS

SRP COMBINED BALANCE SHEETS

As of Oct. 31	Thousands — Unaudited	
ASSETS	FY12	FY11
Utility Plant, at Original Cost	\$13,315,025	\$12,615,125
Less: Accumulated Depreciation	5,704,174	5,478,865
	7,610,851	7,136,260
Other Property and Investments	1,156,166	1,321,006
CURRENT ASSETS		
Cash and Cash Equivalents	465,835	629,735
Temporary Investments	323,956	171,041
Current Portion, Segregated Funds	378,817	348,548
Receivables, Net	311,260	333,148
Fuel Stocks	38,727	34,127
Materials and Supplies	140,162	139,685
Other	27,515	36,685
	1,686,272	1,692,969
Deferred Charges	839,464	898,165
TOTAL ASSETS	\$11,292,753	\$11,048,400

As of Oct. 31	Thousands — Unaudited	
CAPITALIZATION AND LIABILITIES	FY12	FY11
CAPITALIZATION		
Accumulated Net Revenues, Beginning of Year	\$ 4,267,341	\$ 3,962,788
Year-to-Date Net Revenues	261,637	420,893
Accumulated Net Revenues and Other Comprehensive Income	4,528,978	4,383,681
Long-Term Debt	4,910,839	4,565,546
	9,439,817	8,949,227
CURRENT LIABILITIES		
Current Portion, Long-Term Debt	144,995	147,180
Commercial Paper	50,000	0
Accounts Payable	143,320	114,546
Accrued Taxes and Tax Equivalents	59,813	80,272
Accrued Interest	66,708	65,745
Customers' Deposits	87,773	84,213
Other	369,108	329,032
	921,717	820,988
Deferred Credits	931,219	1,278,185
TOTAL CAPITALIZATION AND LIABILITIES	\$11,292,753	\$11,048,400

These unaudited financial statements should be read in conjunction with the Notes to Combined Financial Statements appearing in the SRP 2011 Annual Report. For comparative purposes, certain prior-year amounts have been reclassified to conform with the current-year presentation.

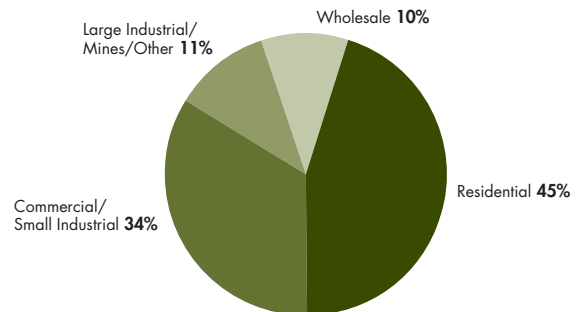
SRP COMBINED STATEMENTS OF NET REVENUES

Thousands — Unaudited	Three Months Ended Oct. 31		Six Months Ended Oct. 31	
	FY12	FY11	FY12	FY11
OPERATING REVENUES				
Retail Electric	\$802,948	\$772,096	\$1,602,331	\$1,586,715
Water	3,049	2,313	6,460	5,576
Wholesale	39,248	62,686	78,833	101,633
Other	20,795	20,037	38,563	36,309
Total Operating Revenues*	\$866,040	\$857,132	\$1,726,187	\$1,730,233
OPERATING EXPENSES				
Purchased Power	75,059	95,902	167,585	195,902
Fuel Used in Electric Generation	201,553	196,381	395,862	363,477
Other Operating Expenses*	156,411	156,107	306,805	296,560
Maintenance	64,310	60,999	132,747	112,880
Depreciation and Amortization	105,432	107,770	207,320	215,392
Taxes and Tax Equivalents	29,370	25,944	58,435	51,443
Total Operating Expenses	632,135	643,103	1,268,754	1,235,654
Net Operating Revenues	233,905	214,029	457,433	494,579
OTHER INCOME				
Investment Income (Loss), Net	(63,587)	45,653	(79,903)	9,462
Other Income (Deductions), Net	(7,003)	(5,498)	(9,142)	(7,940)
Total Other Income	(70,590)	40,155	(89,045)	1,522
Financing Costs	52,376	35,956	106,751	75,208
NET REVENUES	\$110,939	218,228	261,637	\$ 420,893

*Intercompany transactions eliminated

TOTAL SALES — SECOND QUARTER FY12

(Percent by kWh)



ELECTRIC OPERATING REVENUES — SECOND QUARTER FY12

(Percent by service class)

