



THIRD QUARTER REPORT

**Salt River Project
Fiscal Year 2008**

For the period of
NOVEMBER 1, 2007 - JANUARY 31, 2008



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)



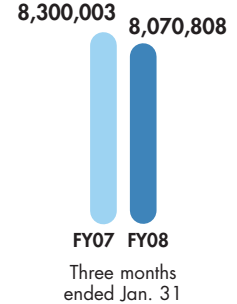
Debt Service Coverage



Debt Ratio



Total Sales
(thousand kWh)



FINANCIAL HIGHLIGHTS

MESSAGE FROM THE PRESIDENT AND THE GENERAL MANAGER

The third quarter of fiscal year 2008 saw several activities related to SRP's need for new generation resources and the increasing demand for electricity among our customer base.

SRP launched a public participation process for a pricing proposal that recommends a retail base price and fuel adjustment increase that would result in an average 3.9 percent annual increase to retail prices beginning May 1. The proposal includes price plan additions and revisions that provide a three billing-season design for all customer classes and a new, two-tier price plan during the summer for most residential customers. SRP last raised retail base prices in November 2005.

The pricing proposal is estimated to generate \$91.1 million in additional revenues in its first year, and is necessary to support SRP's six-year, \$7 billion capital

expansion program. The capital expansion program includes new generation projects and transmission facilities, and improvements to aging infrastructure.

As part of the pricing proposal, SRP is offering – and developing – new energy-efficiency programs to help customers control their energy use and electricity bills. For instance, a new, more convenient Time-of-Use program is being introduced with only three hours of peak pricing during summer days. SRP also is offering customers a 50 percent discount on the price of air conditioner tune-ups in anticipation of the coming summer months. SRP's Board of Directors was scheduled to vote on the pricing proposal in mid-March.

SRP is proceeding with plans to develop or obtain up to 2,500 megawatts (MW) of generation resources by the year 2020. These resources are expected to be located

in Pinal County, where SRP serves the northeast portion. Pinal County is experiencing surging residential growth, and represents the greatest potential for SRP's long-term customer growth. Peaking and combined-cycle generating units are being considered. Much of the new generation is needed to meet customer demand during the hot summer months, but also is necessary for SRP to maintain high reliability.

As part of this generation resource need, TransCanada has responded to an SRP Request for Proposals (RFP) for about 500 MW of peaking capacity. TransCanada plans to site a generating station in Pinal County that would provide output for SRP. The Coolidge Generating Station, as it is known, is in the public review process. TransCanada hopes to have the plant ready for commercial operation by mid-2011. In other news, SRP was the local energy

provider for Super Bowl XLII, held in February. For the first time, with SRP's assistance, the electricity needed to power the Super Bowl game came from 100 percent renewable energy resources. As part of the EarthWise Energy Program, SRP used wind, solar, landfill gas and geothermal resources to offset greenhouse gas (GHG) emissions associated with this huge event. SRP and the Super Bowl received significant positive public exposure for this major "green" effort.

Also during the quarter, a multistate consortium of Southwestern energy service providers issued an RFP for a large-scale – as much as 250 MW – solar thermal power plant to be located in either Arizona or Nevada. SRP is a member of the Southwest Energy Service Providers Consortium for Solar Development, which was formed with the goals of reducing solar energy costs and increasing efficiency through economies of scale. Responses to the RFP were due in mid-March.

Meanwhile, SRP demonstrated again its commitment to environmental leadership by becoming a Founding Reporter of The Climate Registry. The Climate Registry is a non-profit organization founded in 2007 to gather and publicly report GHG emissions in a common, accurate and transparent manner consistent across industry sectors. As a result, SRP will measure, independently verify and publicly report its GHG emissions on an annual basis using The Climate Registry's reporting protocol. More information is available at www.theclimateregistry.org.

As the state prepared to enter its 14th consecutive year of drought, winter storms on the Salt and Verde watersheds boosted reservoir levels significantly. Despite the rain and snow, however, the drought continues. It will take many years to replenish the long-term water deficits in the state. Nonetheless, water releases in anticipation of wet conditions meant that residents in the greater Phoenix metropolitan area

witnessed water flowing in the normally dry lower Salt River.

SRP's community outreach efforts continue to touch many lives with positive change. In this case, SRP commended local schools for their efforts in gathering pledges for SRP's CFL (compact fluorescent lighting) School Challenge. SRP also supports the ENERGY STAR® Change a Light Pledge, with a goal of inspiring at least 100,000 people to take the pledge to replace just one incandescent bulb with a CFL. When reached, this goal will result in an estimated savings of 28.2 million kilowatt-hours of energy, \$2.8 million in energy costs and will prevent more than 44 million pounds of GHG emissions.

For the quarter, total operating revenues are 5 percent higher than the same period last year. The increase in revenues is driven by a 9 percent increase in retail electric revenues, which is partially offset by a 6 percent decrease in wholesale revenues.

The increase in retail electric sales was due to growth in our customer base, increased usage per customer and an increase to SRP's fuel and purchased power component of electric prices. The 4.7 percent increase to SRP's fuel and purchased power component of electric prices was effective Nov. 1, 2007. This price adjustment resulted in a \$12.7 million increase in revenues compared to the same quarter of fiscal year 2007.

The 6 percent decrease in total wholesale revenues is due to the volatility of mark-to-market contracts and the netting of certain purchases and sales of energy as required by accounting adjustments per Generally Accepted Accounting Principles. Without these adjustments, wholesale revenues were up 1 percent compared to the third quarter last year.

Total operating expenses for the quarter increased 7 percent from the same period last year. The increase is driven by a 15 percent increase in fuel expense, a

10 percent increase in maintenance and a 9 percent increase in operations expense. These were partially offset by a 9 percent reduction in purchased power expense compared to the same quarter last year. Key factors that led to the increased maintenance include expenses resulting from the Nuclear Regulatory Commission findings, and extended outages, at the Palo Verde Nuclear Generating Station. The extended outages also contributed to higher fuel expenditures since more of SRP's energy needs had to be satisfied by using more-expensive natural gas generation.

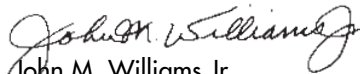
Interest income increased 12 percent this quarter versus the same quarter last year. The increase was driven by better fund returns and increased fund balances, which resulted from reinvestment of prior gains.


Financing costs were 19 percent lower compared to the same period last year. This decrease is largely a result of current increased capital expenditures, which caused a higher amount of interest to be

capitalized on the balance sheet rather than expensed on the income statement. The maturity of \$6.6 million 1994 Series B bonds in January also contributed to the decrease.

The above factors have contributed to combined net revenues for the quarter of \$19 million, 13 percent less than the same quarter last year.

As we near the end of SRP's fiscal year, we anticipate a continued focus on resource needs and energy demand. Through it all, we remain dedicated to outstanding customer service and to the commitments to the communities we serve.


John M. Williams Jr.
President


Richard H. Silverman
General Manager

SALT RIVER PROJECT COMBINED BALANCE SHEETS

As of January 31

Thousands - Unaudited

Assets	FY 2008	FY 2007
Utility plant, at original cost	\$ 10,554,667	\$ 9,738,243
Less: accumulated depreciation	4,620,895	4,395,095
	5,933,772	5,343,148
Other property and investments	919,576	1,061,427
CURRENT ASSETS		
Cash and cash equivalents	198,338	444,117
Rate Stabilization Fund	0	81,228
Temporary investments	126,419	175,925
Current portion, segregated funds	23,500	20,000
Receivables, net	281,075	240,842
Fuel stocks	32,121	31,166
Materials and supplies	135,435	102,070
Other	43,349	77,125
	840,237	1,172,473
Deferred charges	434,349	319,953
TOTAL ASSETS	\$ 8,127,934	\$ 7,897,001

As of January 31

Thousands - Unaudited

Capitalization & Liabilities	FY 2008	FY 2007
CAPITALIZATION		
Accumulated net revenues, beginning of year	\$3,606,896	\$3,140,862
Year-to-date net revenues	262,688	372,916
Other Comprehensive Income (OCI)	(21,752)	12,278
Accumulated net revenues and OCI, end of quarter	3,847,832	3,526,056
Long-term debt	2,867,888	3,028,216
	6,715,720	6,554,272
CURRENT LIABILITIES		
Current portion, long-term debt	170,784	162,489
Accounts payable	160,083	132,857
Accrued taxes and tax equivalents	60,950	60,266
Accrued interest	6,671	14,494
Customers' deposits	78,587	72,543
Other	131,412	157,275
	608,487	599,924
Deferred credits	803,727	742,805
TOTAL CAPITALIZATION & LIABILITIES	\$8,127,934	\$7,897,001

These unaudited financial statements should be read in conjunction with the Notes to the Financial Statements appearing in Salt River Project's 2007 Annual Report. For comparative purposes, certain prior year amounts have been reclassified to conform with the current year presentation.

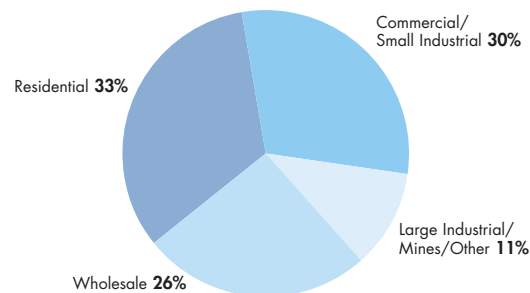
SALT RIVER PROJECT COMBINED STATEMENTS OF NET REVENUES

Thousands - Unaudited	Three months ended January 31		Nine months ended January 31	
	FY 2008	FY 2007	FY 2008	FY 2007
OPERATING REVENUES				
Retail electric	\$419,015	\$385,369	\$1,814,336	\$1,702,795
Water	5,760	5,357	12,709	10,666
Other	158,402	165,909	357,528	430,688
Total operating revenues*	583,177	556,635	2,184,573	2,144,149
Operating expenses				
Fuel	164,892	143,140	568,808	491,860
Purchased power	88,728	97,015	424,054	395,137
Operations*	124,568	114,778	356,100	335,716
Maintenance	75,993	68,813	203,705	173,750
Depreciation	92,842	87,645	275,302	260,030
Taxes and tax equivalents	18,133	14,945	70,863	67,355
Total operating expenses	565,156	526,336	1,898,832	1,723,848
Net operating revenues	18,021	30,299	285,741	420,301
OTHER INCOME				
Interest income	29,535	26,375	73,178	58,007
Other income (deductions), net	506	853	(3,635)	135
Total other income	30,041	27,228	69,543	58,142
Financing costs	28,586	35,245	92,596	105,527
NET REVENUES	\$ 19,476	\$ 22,282	\$ 262,688	\$ 372,916

* Intercompany transactions eliminated

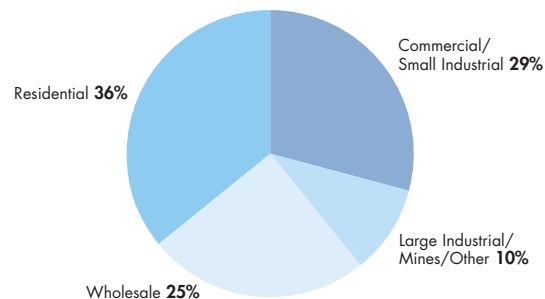
TOTAL SALES – THIRD QUARTER FY08

(Percent by kWh)



ELECTRIC OPERATING REVENUES – THIRD QUARTER FY08

(Percent by service class)





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