



**FIRST QUARTER
REPORT**



SRP Fiscal Year 2009

For the period of
May 1 – July 31, 2008

MESSAGE FROM THE PRESIDENT AND THE GENERAL MANAGER

Arizona is suffering from a dramatic economic slowdown. For SRP, a drop in customer growth, volatile fuel costs and reduced consumption combined to create challenging dynamics during the first quarter of fiscal year 2009.

We continue to prepare, at a moderated pace, for the growth that is sure to return when the economy recovers. We are moving forward to site new generation to serve our retail customers, and announced a new 230-kilovolt transmission line to serve the southeast portion of our service area. Extensive public processes are being conducted for both projects.

In our commitment to renewable energy supplies, we announced the largest customer-owned solar energy project in Arizona, a Gatorade® manufacturing and distribution center in the West Valley. The roof-top solar panels will soon generate electricity thanks to an incentive from SRP. The photovoltaic system will produce enough energy to power about 50 households for a year.

SRP also signed an agreement to purchase 100% of the electricity from what will be the first wind-energy farm in Arizona. The Dry Lake Wind Project is planned 18 miles northwest of Snowflake in eastern Arizona. The 20-year contract with Oregon-based Iberdrola Renewables calls for SRP to receive 63 megawatts of wind energy by the end of 2009. That's enough electricity to power more than 15,000 homes for a year.

On the water side of the business, the quarter began just after the official end of water runoff season – and a remarkable season it was. Winter runoff on the watershed of the Salt and Verde rivers nearly filled the reservoirs that deliver the majority of water to the greater Phoenix metropolitan area. For SRP and its shareholders, this means groundwater pumping can be held to a minimum over the next year.

SRP and the town of Payson reached an agreement to secure the future water supply for the mountain community northeast of Phoenix. The agreement for 3,000-acre-feet of water will more than double the town's water supply. It also settles SRP concerns about the impact of Payson's groundwater pumping on forest lands that were reserved to protect the water resources of SRP shareholders.

During the first quarter, electric customer growth slowed to about 1%, a dramatic shift from the 3 to 4% growth we've seen in recent years. We expect slower growth to continue in the short term.

Despite the slowdown, total operating revenues were up 11% from the previous year. Increases in electric prices contributed to a 7% increase in retail revenues. Total wholesale revenues were 44% better than first quarter last year. The increased revenues were driven by greater generating unit availability for wholesale sales due to lower-than-expected retail usage and fewer plant outages compared to the same period last year. Higher average wholesale energy prices also contributed to the increase in wholesale revenues.

The increase in revenues was offset by an 18% climb in operating expenses. The price of all forms of fuel increased significantly. Expenses for fuel and purchased power grew 32% and 18%, respectively, compared to the same period last year. These results reflect the change in fair value of fuel and purchased power contracts.

A weak market for investments and low interest rates contributed to less-than-favorable investment performance for the quarter. SRP recorded a \$7.0 million loss in this category, compared to a \$22.7 million gain for the same quarter last year. Beginning in the first quarter of FY09, SRP adopted a new accounting standard which allows companies to

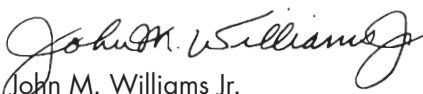
report certain financial assets and liabilities at fair value instead of cost, which is how SRP accounted for these items during earlier periods. Those changes in fair value are recognized in earnings, and SRP's adoption of the new standard resulted in a loss of \$21.1 million for the quarter.

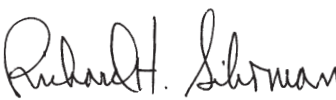
The effects of the previously mentioned activities resulted in a net loss for the quarter of about \$27 million, compared with net revenues of nearly \$47 million for the same quarter last year. Without the effects of the new accounting standard and the change in fair value of fuel and purchased power contracts, net revenues for the quarter would have been \$89 million compared with net revenues of \$79 million for the same quarter last year.

In closing, we are pleased to share the news that for the ninth time in 10 years, SRP was honored by J.D.

Power & Associates as the top-rated power company in customer satisfaction in the West. SRP scored highest in the nation for residential customer satisfaction among large utilities. Even during these uncertain times, SRP remains committed to top-notch customer service.

We will continue to keep you informed as the year unfolds.


John M. Williams Jr.
President


Richard H. Silverman
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)

328,359 280,215

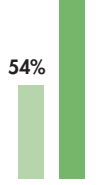


FY08 FY09

Three months ended July 31

Water in Storage (capacity)

54% 90%



FY08 FY09

Three months ended July 31

Debt Service Coverage

2.93 2.59



FY08 FY09

12-month average ended July 31

Debt Ratio

45.4% 49.1%



FY08 FY09

Three months ended July 31

Total Sales (thousand kWh)

8,712,020 8,708,366



FY08 FY09

Three months ended July 31

FINANCIAL HIGHLIGHTS

SRP COMBINED BALANCE SHEETS

As of July 31	Thousands - Unaudited	
Assets	FY 2009	FY 2008
Utility plant, at original cost	\$11,030,141	\$10,109,205
Less – Accumulated depreciation	4,762,273	4,494,541
	6,267,868	5,614,664
Other Property and Investments	1,269,012	998,269
CURRENT ASSETS		
Cash and cash equivalents	166,980	371,919
Rate Stabilization Fund	0	30,000
Temporary investments	153,400	118,785
Current portion of segregated funds	107,907	86,000
Receivables, net	287,644	247,551
Fuel stocks	36,811	32,326
Materials and supplies	131,114	117,870
Other	51,268	49,620
	935,124	1,054,071
Deferred Charges	698,888	467,485
TOTAL ASSETS	\$9,170,892	\$8,134,489

As of July 31	Thousands - Unaudited	
Capitalization and Liabilities	FY 2009	FY 2008
CAPITALIZATION		
Accumulated net revenues, beginning of year	\$3,838,833	\$3,606,896
Year-to-date net revenues (loss)	(26,873)	46,666
Other Comprehensive Income	–	127
Accumulated net revenues and Other Comprehensive Income, end of quarter	3,811,960	3,653,689
Long-term debt	3,678,740	3,040,046
	7,490,700	6,693,735
CURRENT LIABILITIES		
Current portion of long-term debt	170,728	146,148
Accounts payable	191,026	183,901
Accrued taxes and tax equivalents	74,030	76,075
Accrued interest	16,471	15,475
Customers' deposits	76,272	73,814
Other	164,907	149,866
	693,434	645,279
Deferred Credits	986,758	795,475
TOTAL CAPITALIZATION & LIABILITIES	\$9,170,892	\$8,134,489

These unaudited financial statements should be read in conjunction with the Notes to Combined Financial Statements appearing in the SRP 2008 Annual Report. For comparative purposes, certain prior year amounts have been reclassified to conform with the current year presentation.

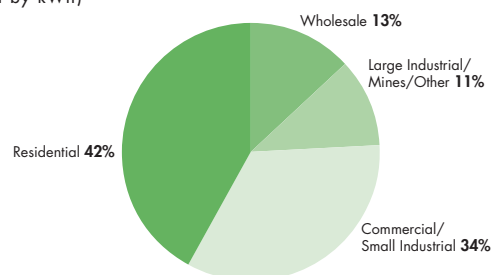
SRP COMBINED STATEMENTS OF NET REVENUES

Three months ended July 31	Thousands - Unaudited	
	FY 2009	FY 2008
OPERATING REVENUES		
Retail electric	\$701,680	\$655,729
Water	3,375	4,117
Other	132,574	98,146
Total operating revenues*	837,629	757,992
OPERATING EXPENSES		
Fuel	297,008	225,504
Purchased power	217,764	184,435
Operations*	127,105	114,471
Maintenance	59,142	58,537
Depreciation	94,946	90,735
Taxes and tax equivalents	26,730	26,552
Total operating expenses	822,695	700,234
Net operating revenues	14,934	57,758
OTHER INCOME		
Investment income (loss), net	(7,025)	22,686
Other income (deductions), net	(312)	(1,860)
Total other income	(7,337)	20,826
Financing costs	34,470	31,918
NET REVENUES	(\$26,873)	\$46,666

* Intercompany transactions eliminated

TOTAL SALES – FIRST QUARTER FY09

(Percent by kWh)



ELECTRIC OPERATING REVENUES – FIRST QUARTER FY09

(Percent by service class)

