



FIRST QUARTER REPORT

SRP Fiscal Year 2010



Delivering more than power.™

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MESSAGE FROM THE PRESIDENT AND THE GENERAL MANAGER

During the first quarter of SRP's fiscal year 2010, Arizona's economy continued to sputter. SRP electric customer growth slowed to less than 0.5% over the last year. This is a dramatic change from the 3% to 4% annual growth range for most of the past decade. We expect slower growth to continue until the economy in Arizona begins to recover.

As we navigate change in the electric industry and an uncertain economy, we continue to advance our efforts in energy efficiency, conservation and diversification of energy resources.

In the first quarter, we announced the successful test run of a new program that provides commercial and industrial customers with incentives to participate in a demand-response program that will help SRP better control power generation costs during peak demand periods. With SRP PowerPartner™ Demand Response, customers work with us to develop energy-reduction plans that are activated if SRP calls a demand-response event. The program supports green initiatives by lowering demand, in turn reducing the need for peaking power plants to run.

The Dry Lake Wind Project, the largest of its kind in Arizona, is on schedule and should become commercially operational this fall. By contract the wind farm will provide SRP with its entire output of 63 megawatts (MW) — enough to power about 15,000 typical residential homes.

Both the wind purchase and the demand-response program fold into our Sustainable Portfolio Plan, which calls for 15% of SRP retail sales to be from sustainable resources by 2025. This will be achieved systematically beginning with a 5% target through 2015 that increases at a rate of 1% per year until the goal is reached.

Even while we're developing new resources to meet future energy needs, some of today's power must continue to rely on fossil fuels. Testing is under way on the new Unit 4 at Springerville Generating Station in northeast Arizona, which will be commercially operational in December. Springerville will provide about 400MW of energy to the SRP system and bring our total installed capacity system-wide to about 6,108MW.

One constant at SRP is the need to upgrade our infrastructure to provide reliable power and keep pace with emerging technologies. Given the state of the economy and constrained revenues, we're looking at new options to help pay for that work. A potential resource is the American Recovery and Reinvestment Act (ARRA), also known as the economic stimulus. SRP is working hard on behalf of our customers to get the maximum benefit from stimulus funding for many energy-related programs.

In managing the watersheds of the Salt and Verde rivers, we have taken to Congress for approval the recent agreement with the White Mountain Apache Tribe that quantifies the tribe's water rights (H.R. 1065/S. 313). The pact helps ensure certainty for SRP water shareholders and allows development of a reliable domestic surface water supply for tribal members.

Despite the slowdown, retail electric revenues for the quarter were up 4% from the same period last year, primarily driven by higher retail prices. Total operating revenues for the first quarter, however, were down 5% compared with the same period last year. The reduced overall revenues were largely the result of greatly decreased opportunities in the wholesale electric market caused by economic conditions and increased energy-efficiency measures. The decreased demand reduced both the quantity and price of energy that SRP was able to sell on the wholesale market. This resulted in a 62% drop in wholesale revenues compared with the first quarter of last year.

SRP continues to reduce costs to help offset the impact of reduced revenues. Total operating expenses for the quarter were down 30% compared with the same period last year. These reductions were the result of decreasing fuel prices and energy production, as well as operational cost-cutting measures. Fuel and purchased power expenses were down 56% and 43%, respectively, compared with the same period last year. Approximately \$181.8 million of the decreased fuel and purchased power expenses resulted from changes in the fair value of fuel and purchased power contracts.

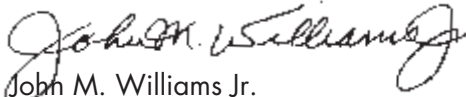
Without the effects of these changes, fuel and purchased power expenses were down 13% and 25%, respectively.


First quarter investment income was substantially better than the same period last year, as the market for investments continued to recover from the lows reached during FY09. SRP recorded a \$26.8 million gain in this category, compared with a \$7 million loss for the same quarter last year.

The effects of the previously mentioned activities resulted in net revenues for the quarter of about \$212 million, compared with a net loss of nearly \$27 million for the same quarter last year. Without the change in fair value of fuel and purchased power contracts, net revenues for the quarter would have been \$131.5 million, compared with net revenues of \$74.8 million for the same quarter last year.

In recognition of the outstanding service our employees provide, SRP once again was ranked No.1 for residential customer satisfaction among large utilities in the West, according to a study by J.D. Power and Associates. It's the 10th time in 11 years SRP has received this top honor, and we acknowledge our exceptional workforce for this significant accomplishment.

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


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.

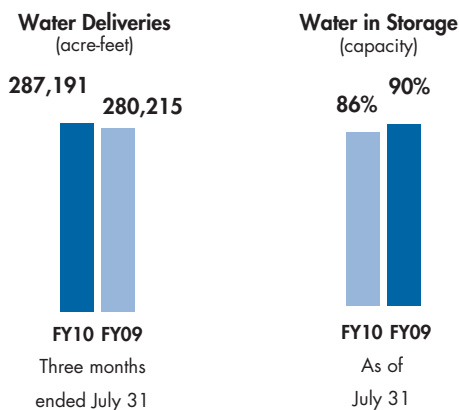
SRP Corporate Offices

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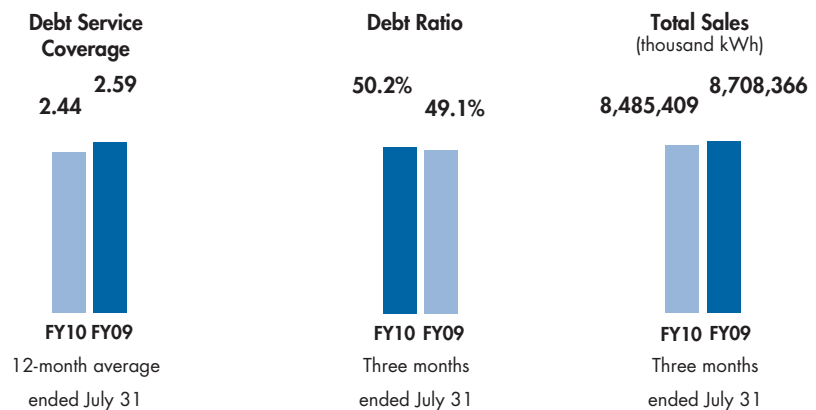
Financial Inquiries

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WATER HIGHLIGHTS



FINANCIAL HIGHLIGHTS



SRP COMBINED BALANCE SHEETS

As of July 31

Thousands — Unaudited

Assets	FY10	FY09
Utility plant, at original cost	\$ 11,927,933	\$ 11,030,141
Less — Accumulated depreciation	5,070,376	4,762,273
	6,857,557	6,267,868
Other property and investments	1,180,185	1,269,012
CURRENT ASSETS		
Cash and cash equivalents	370,818	166,980
Temporary investments	117,697	153,400
Current portion of segregated funds	189,600	107,907
Receivables, net	272,759	287,644
Fuel stocks	50,837	36,811
Materials and supplies	135,882	131,114
Other	45,741	51,268
	1,183,334	935,124
Deferred charges	849,373	698,888
TOTAL ASSETS	\$ 10,070,449	\$ 9,170,892

As of July 31

Thousands — Unaudited

Capitalization and Liabilities	FY10	FY09
CAPITALIZATION		
Accumulated net revenues, beginning of year	\$ 3,591,813	\$ 3,838,833
Net revenues (expenses) for the year	211,547	(26,873)
Accumulated net revenues, end of quarter	3,803,360	3,811,960
Long-term debt	3,830,228	3,203,740
	7,633,588	7,015,700
CURRENT LIABILITIES		
Current portion of long-term debt	132,645	170,728
Commercial paper	375,000	475,000
Accounts payable	123,263	191,026
Accrued taxes and tax equivalents	72,526	74,030
Accrued interest	17,959	16,471
Customers' deposits	81,622	76,272
Other	394,105	164,907
	1,197,120	1,168,434
Deferred credits	1,239,741	986,758
TOTAL CAPITALIZATION & LIABILITIES	\$ 10,070,44	\$ 9,170,892

These unaudited financial statements should be read in conjunction with the Notes to Combined Financial Statements appearing in the SRP 2009 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

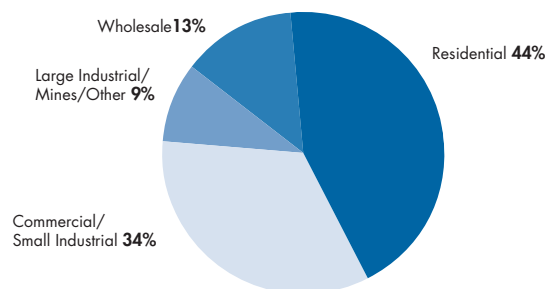
Three months ended
July 31

	FY10	FY09
OPERATING REVENUES		
Retail electric	\$ 731,070	\$ 701,680
Water	2,991	3,375
Other	57,620	132,574
Total operating revenues*	791,681	837,629
OPERATING EXPENSES		
Fuel	131,605	297,008
Purchased power	123,881	217,764
Operations*	130,021	127,105
Maintenance	64,867	59,142
Depreciation	97,401	94,946
Taxes and tax equivalents	26,075	26,730
Total operating expenses	573,850	822,695
Net operating revenues	217,831	14,934
OTHER INCOME		
Investment income (loss), net	26,838	(7,025)
Other income (deductions), net	398	(312)
Total other income	27,236	(7,337)
Financing costs	33,520	34,470
NET REVENUES (EXPENSES)	\$ 211,547	\$ (26,873)

* Intercompany transactions eliminated

TOTAL SALES — FIRST QUARTER FY10

(Percent by kWh)



ELECTRIC OPERATING REVENUES — FIRST QUARTER FY10

(Percent by service class)

