



SECOND QUARTER REPORT
SRP Fiscal Year 2009



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MESSAGE FROM THE PRESIDENT AND THE GENERAL MANAGER

A changing economic landscape for Arizona and the rest of the nation translates to a much different future for SRP – at least over the next three to four years.

Arizona has moved from a state with the highest rate of job creation in the country just two years ago to a ranking of 49th this winter. According to state economists, an economic recovery will be complicated by an accompanying slowdown in Arizona's population growth.

In response, we have revised our load forecast and resource plan for the coming years to reflect a significantly reduced customer growth scenario, and we are tightening organizational belts to accommodate leaner retail revenues in a contracted business environment.

We also are re-examining the timetable for building new generation. Two projects already in development will provide SRP with additional generating capacity in the next 2½ years.

Construction continues on schedule at Springerville Generating Station Unit 4, which will provide SRP with 400 megawatts (MW) of coal-fired generating capacity when it becomes operational in late 2009. In addition, permitting, design and procurement activities are proceeding for a 575MW natural gas unit near Coolidge, Ariz., being built by Calgary-based TransCanada Corp. SRP has agreed to purchase the output of the plant, which is scheduled for operation in mid-2011.

We continue to take responsible steps in our role as environmental steward. During the quarter, SRP reached an agreement with the Environmental Protection Agency to further reduce specific emissions from the Coronado Generating Station. SRP will install state-of-the-art controls on the two-unit 773MW plant. The work is estimated at \$400 million. In addition, SRP will fund \$4 million in supplemental environmental projects including solar systems at public schools and emission control upgrades on school buses in the St. Johns, Ariz., area.

Expanding SRP's renewable energy offerings is the Dry Lake Wind Project near Snowflake, Ariz. Dry Lake will be the first wind energy farm in the state, and construction is

expected to be complete by summer 2009. SRP will purchase all of the output of the 65MW plant pursuant to a 20-year contract with builder Iberdrola Renewables of Oregon.

Meanwhile, the largest customer-owned solar energy project in Arizona began generating electricity. The Gatorade manufacturing and distribution facility in SRP's West Valley service area was funded in part by an SRP incentive and state and federal tax credits. The 500-kilowatt photovoltaic system will generate enough power to serve about 50 homes each year.

In Pinal County, SRP is putting the finishing touches on a new customer service facility for retail electric customers in the Queen Creek area. Set to open this spring, the 61,000-square-foot call and business center will employ 150 call agents and will be able to accommodate nearly 400 when growth rebounds. The energy- and water-efficient building was built to meet Leadership in Energy and Environmental Design (LEED) silver certification and will include 12,000 square feet of solar panels atop the roof.

Despite the economic slowdown that became even more dramatic during the second quarter of our fiscal year, SRP's total operating revenues for the quarter were up 6% from the same period last year. The increase was due primarily to an increase in retail electric revenues that was driven by higher electric prices. The increase in revenues was offset by a 19% climb in operating expenses, primarily fuel.

The price of all forms of fuel increased significantly. Fuel expense grew 65% compared to the same period last year. Approximately \$104.5 million of the increased fuel expense resulted from changes in the "fair value" of fuel contracts, principally due to declining natural gas prices. Irrespective of the changes in the "fair value" of these contracts, the actual costs will be recovered upon settlement through SRP's fuel and purchase power adjustment mechanism.

The SRP Board of Directors in October approved an overall average increase of 6.9% to the fuel and purchase power adjustment mechanism, effective in November, to address about \$87 million in under-collected fuel and purchased

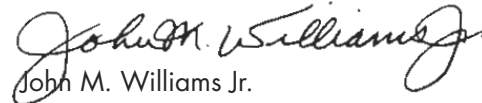
power expenses. Those costs were incurred in the first half of the calendar year when prices were higher for natural gas and wholesale power purchases. The fuel and purchase power adjustment mechanism is reviewed every six months to determine if it needs to be adjusted up or down.

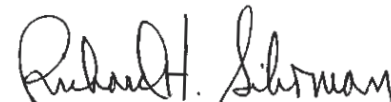
A weak market for investments and low interest rates contributed to less-than-favorable investment performance for the quarter. SRP recorded a \$100 million loss in earnings on investments and deposits, compared to a \$21 million gain for the same quarter last year. Beginning in the first quarter of FY09, SRP adopted a new accounting standard which allows entities to report certain financial assets and liabilities at fair value instead of cost, which is how SRP previously accounted for these items. Those changes in fair value are recognized in earnings, and SRP's adoption of the new standard resulted in a loss of nearly \$84 million for the quarter.

The effects of the previously mentioned activities resulted in net revenues for the quarter of \$10.5 million, compared with net revenues of \$196.5 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 \$205.4 million, compared with net revenues of \$174.8 million for the same quarter last year.

These complicated times call for careful analysis, cautious action and a conservative approach to SRP's future. We are optimistic that our service area and Arizona will return to its historic vitality despite a longer and deeper recession than previously believed. With this in mind, we are committed to our responsibility to provide the most affordable and reliable service to our electric customers and water shareholders.


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.

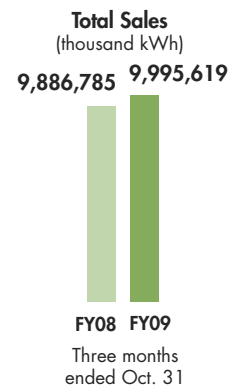
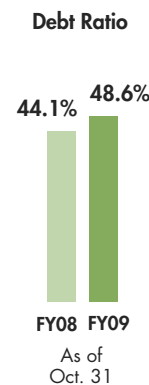
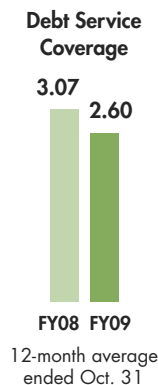
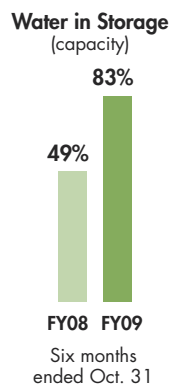
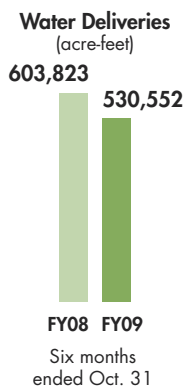
SRP Corporate Offices

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Financial Inquiries

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WATER HIGHLIGHTS



FINANCIAL HIGHLIGHTS

SRP COMBINED BALANCE SHEETS

As of October 31

Thousands - Unaudited

Assets	FY 2009	FY 2008
Utility plant, at original cost	\$ 11,287,496	\$ 10,337,908
Less - Accumulated depreciation	4,838,387	4,569,989
	6,449,109	5,767,919
Other Property and Investments	1,039,430	922,188
CURRENT ASSETS		
Cash and cash equivalents	151,054	353,439
Rate Stabilization Fund	-	30,360
Temporary investments	224,837	148,559
Current portion of segregated funds	187,118	149,005
Receivables, net	301,409	299,186
Fuel stocks	31,227	32,994
Materials and supplies	126,912	121,209
Other	59,776	53,032
	1,082,333	1,187,784
Deferred Charges	686,919	447,750
TOTAL ASSETS	\$9,257,791	\$8,325,641

As of October 31

Thousands - Unaudited

Capitalization and Liabilities	FY 2009	FY 2008
CAPITALIZATION		
Accumulated net revenues, beginning of year	\$3,838,835	\$3,606,896
Year-to-date net revenues (loss)	(16,395)	243,212
Other Comprehensive Income	-	(961)
Accumulated net revenues and Other Comprehensive Income, end of quarter	3,822,440	3,849,147
Long-term debt	3,677,552	3,039,683
	7,499,992	6,888,830
CURRENT LIABILITIES		
Current portion of long-term debt	170,697	146,148
Accounts payable	148,835	144,977
Accrued taxes and tax equivalents	56,910	90,211
Accrued interest	58,976	47,910
Customers' deposits	79,360	75,853
Other	237,601	137,768
	752,379	642,867
Deferred Credits	1,005,420	793,944
TOTAL CAPITALIZATION & LIABILITIES	\$9,257,791	\$8,325,641

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.

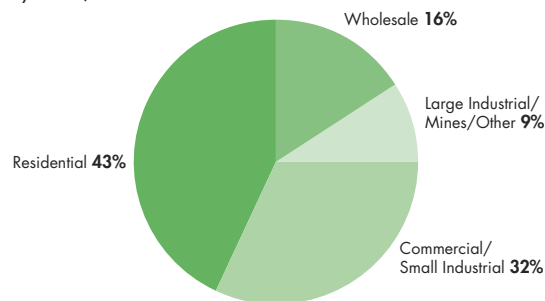
SALT RIVER PROJECT COMBINED STATEMENTS OF NET REVENUES

Thousands - Unaudited	Three months ended October 31		Six months ended October 31	
	FY 2009	FY 2008	FY 2009	FY 2008
OPERATING REVENUES				
Retail electric	\$ 786,578	\$ 739,592	1,488,258	1,395,321
Water	2,261	2,832	5,636	6,949
Other	108,531	100,980	241,105	199,126
Total operating revenues*	897,370	843,404	1,734,999	1,601,396
OPERATING EXPENSES				
Fuel	294,200	178,412	591,208	403,916
Purchased power	151,146	150,891	368,910	335,326
Operations*	123,555	117,061	250,660	231,532
Maintenance	62,697	69,175	121,839	127,712
Depreciation	95,904	91,725	190,850	182,460
Taxes and tax equivalents	26,709	26,178	53,439	52,730
Total operating expenses	754,211	633,442	1,576,906	1,333,676
Net operating revenues	143,159	209,962	158,093	267,720
OTHER INCOME				
Investment income (loss), net	(99,976)	20,957	(107,001)	43,643
Other income (deductions), net	560	(2,281)	248	(4,141)
Total other income	(99,416)	18,676	(106,753)	39,502
Financing costs	33,265	32,092	67,735	64,010
NET REVENUES	\$10,478	\$196,546	(16,395)	243,212

* Intercompany transactions eliminated

TOTAL SALES - SECOND QUARTER FY09

(Percent by kWh)



ELECTRIC OPERATING REVENUES - SECOND QUARTER FY09

(Percent by service class)

