

**FIRST QUARTER  
REPORT**

**Salt River Project  
Fiscal Year 2007**



## 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

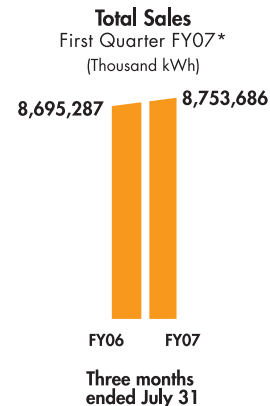
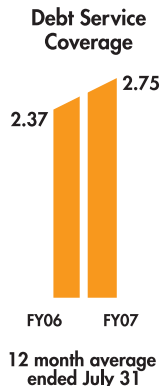
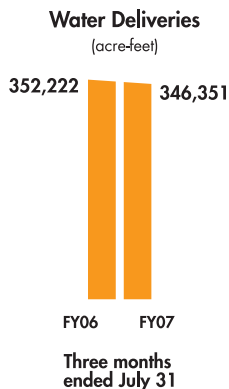
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### Financial Inquiries

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## WATER HIGHLIGHTS



## FINANCIAL HIGHLIGHTS

\*For comparative purposes, certain prior year amounts have been reclassified to conform to the current year presentation. The reclassifications had no impact on net revenues or cash flows.

## MESSAGE FROM THE PRESIDENT AND THE GENERAL MANAGER

The first quarter of fiscal year 2007 reflects the growth, successes and challenges of SRP today.

During the quarter, SRP set a new retail peak demand of 6,590 megawatts (MW) in July, up more than 16 percent from the previous year's peak. We met the continued demands of our electric customers in a very hot Arizona summer with outstanding generating plant performance.

Meanwhile, our retail customer base continues to grow and residential market growth remains at an all-time record high, although the rate of growth is showing some signs of slowing.

For the first time in several years, the annual monsoon season brought significant activity during the quarter. The monsoon provided some relief to the SRP water service area and watersheds, delivering far-above

median levels of rainfall, improving parched conditions and reducing wildfire danger. Nonetheless, the 11-year drought continues, bolstered by a January-through-May runoff season that was the second-driest on record.

SRP has several projects and programs in place to address the drought, including underground recharge. In fact, during the quarter, the initial phase of construction was completed on SRP's newest water-recharge project. The New River Agua Fria Underground Storage Project is a partnership with several Valley cities.

In addressing the future energy needs for electric customers, the SRP Board of Directors approved the construction of a 400MW coal-fired generating facility in Springerville, Ariz. SRP will own the facility and utilize the entire output. Tucson Electric Power Co., owner of the existing

Springerville Generating Station, will operate the new unit, which is scheduled for commercial operation in late 2009. SRP already has a contract for 100MW of output from Unit 3, an existing generating facility at Springerville.

In regards to the Mohave Generating Station, closed since Dec. 31, 2005, three of the owners have announced they will not pursue continued operation of the plant. These are Southern California Edison Co., the majority owner and operating agent, Nevada Power Co. and the Los Angeles Department of Water and Power. As 20 percent owner, SRP is pursuing other options, including a search for other partners, in an effort to return the plant to service in the future.

We continue to bring meaningful clean-energy solutions to our retail electric

customers. This quarter, SRP's EarthWise Solar Energy program, which offers incentives for the installation of new solar electric and solar water heating systems, was expanded to include commercial customers. Incentives are based on the projected energy production of the system, which encourages customers and installers to invest in the most efficient products available.

And speaking of our customers, we are thanking them once again for their support of SRP. In a report issued in July by J.D. Power and Associates, SRP scored highest in customer satisfaction for residential electric service among electricity providers in the nation and in the western United States.

It is the seventh time in eight years SRP has been honored as the top-rated power company in customer satisfaction in the West. SRP also scored highest in the nation

for residential customer satisfaction in 2004 and 2000, and is the only electric utility to be ranked among the top 10 utilities in the nation by J.D. Power and Associates in all eight years it has conducted the study.

The study is the only standardized measure of satisfaction available for the electric utility industry. Based on responses from residential electric utility customers throughout the U.S., the study compared the 76 largest electric utilities, collectively serving some 93 million households. This most recent study found SRP's overall top ranking to be based on its strength in customer service, power quality and reliability, price and value, communications, billing and payment, and company image.

During the quarter, Moody's Investors Service upgraded SRP's credit rating on its outstanding revenue bonds to Aa1 from Aa2. This important move will benefit SRP retail electric customers by providing lower

financing costs for future borrowing, which in turn helps to hold down costs for electricity. In fact, a subsequent \$296 million revenue bond sale this quarter benefited from the credit upgrade. Final prices for SRP bonds were better than many AAA insured bonds being priced the same day. Moody's cited SRP's strategic planning, self-regulated governance and competitive pricing as factors supporting the improved rating.

For the quarter, total operating revenues were about even with the same quarter the previous year. Retail electric revenues experienced growth over the first quarter last year thanks to a 3.7 percent increase in the number of retail customers and consistently higher-than-normal temperatures. However, revenues were offset by a decline in SRP wholesale revenues of 55.4 percent when compared to the same quarter last year. The outage of Unit 1 at Palo Verde Nuclear Generating Station

(in which SRP holds a 17.49 percent interest), along with strong retail loads this quarter significantly reduced generating unit availability for wholesale activity. The relatively constant market prices, which are driven by natural gas prices, had little effect on the wholesale revenue variance this quarter compared to the first quarter of the previous year.

Total operating expenses for the quarter increased 16 percent from the same period last year. Purchased power expenses saw an increase of nearly 29 percent over the same quarter last year. Favorable purchase prices compared to costs of operating gas units – along with additional purchases made to compensate for the Unit 1 outage at Palo Verde – contributed to this increase. Fuel expense also experienced increases over the same period last year. High retail loads and customer growth contributed to a 15 percent increase in fuel expenses.

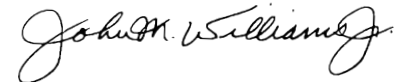
Further impacting expenses were increases in operations expense and maintenance expense of 12 percent and 20 percent, respectively. Credits realized from claims and from sales of SO<sub>2</sub> allowances during the first quarter last year of approximately \$7 million did not take place this year, and thus account for the majority of the increase in operations expense this quarter. The deferral of a planned overhaul of Kyrene Generating Station Unit 7 to this quarter from fiscal year 2006, as well as repairs to Desert Basin Generating Station's Unit 2 air intake system that was damaged by fire in March, contributed to the increased maintenance expense.

Interest income experienced an increase of nearly 126 percent this quarter versus the same quarter last year. Higher interest rates as well as increased fund balances resulting from a bond sale last year contributed to this growth.

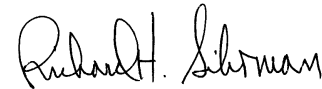
The effects of the above activities resulted in net revenues for the quarter of nearly \$98 million, 44 percent less than the same quarter last year.

As you can see, the events of the past quarter underscore the importance of sound financial and strategic planning and strong operational performance to meet the needs of today and the future. We will continue to keep you informed.

Sincerely,



John M. Williams Jr.  
President



Richard H. Silverman  
General Manager

## SALT RIVER PROJECT COMBINED BALANCE SHEETS

As of July 31 Thousands - Unaudited

<b>Assets</b>	<b>FY 2007</b>	<b>FY 2006</b>
Utility plant, at original cost	\$9,467,521	\$9,112,875
Less: accumulated depreciation	4,232,641	3,984,871
	<b>5,234,880</b>	5,128,004
Other property and investments	<b>1,023,256</b>	627,057
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	<b>467,725</b>	240,634
Rate Stabilization Fund	<b>0</b>	55,277
Temporary investments	<b>205,435</b>	71,845
Current portion, segregated funds	<b>78,790</b>	172,998
Receivables, net	<b>236,019</b>	254,189
Fuel stocks	<b>33,057</b>	38,578
Materials and supplies	<b>98,456</b>	85,448
Other	<b>74,954</b>	112,489
	<b>1,194,436</b>	1,031,458
Deferred charges	<b>285,882</b>	320,899
<b>TOTAL ASSETS</b>	<b>\$7,738,454</b>	\$7,107,418

As of July 31 Thousands - Unaudited

<b>Capitalization &amp; Liabilities</b>	<b>FY 2007</b>	<b>FY 2006</b>
<b>CAPITALIZATION</b>		
Accumulated net revenues, beginning of quarter	<b>\$3,140,862</b>	\$2,714,561
Net revenues for the quarter	<b>97,619</b>	173,037
Net unrealized gain (loss) on securities, for the quarter	<b>(13,361)</b>	5,583
Accumulated net revenues, end of quarter	<b>3,225,120</b>	2,893,181
Long-term debt	<b>3,193,333</b>	2,725,289
	<b>6,418,453</b>	5,618,470
<b>CURRENT LIABILITIES</b>		
Current portion, long-term debt	<b>131,346</b>	274,778
Accounts payable	<b>128,203</b>	111,757
Accrued taxes and tax equivalents	<b>75,330</b>	71,648
Accrued interest	<b>15,560</b>	13,678
Customers' deposits	<b>69,628</b>	57,994
Other	<b>185,525</b>	162,986
	<b>605,592</b>	692,841
Deferred credits	<b>714,409</b>	796,107
<b>TOTAL CAPITALIZATION &amp; LIABILITIES</b>	<b>\$7,738,454</b>	\$7,107,418

These unaudited financial statements should be read in conjunction with the Notes to the Financial Statements appearing in Salt River Project's 2006 Annual Report. For comparative purposes, certain prior year amounts have been reclassified to conform with the current year presentation.

## SALT RIVER PROJECT COMBINED STATEMENT OF NET REVENUES

For the quarter ended July 31

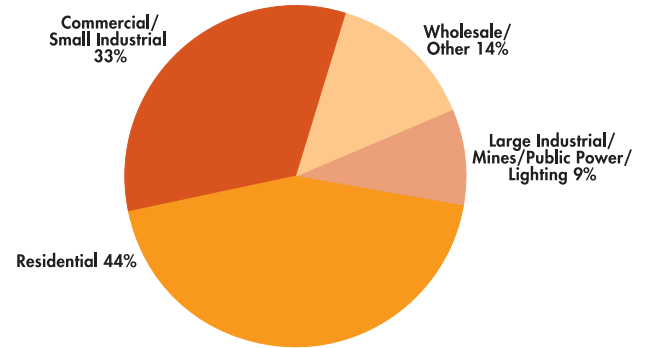
Thousands - Unaudited

	FY 2007	FY 2006
<b>OPERATING REVENUES</b>		
Retail electric	\$640,033	\$568,750
Water	2,733	2,355
Other	56,595	126,809
Total operating revenues*	699,361	697,914
<b>Operating expenses</b>		
Fuel	145,096	126,562
Purchased power	165,006	128,341
Operations*	110,110	98,397
Maintenance	53,807	44,953
Depreciation	84,057	77,540
Taxes and tax equivalents	26,394	26,273
Total operating expenses	584,470	502,066
Net operating revenues	114,891	195,848
<b>OTHER INCOME</b>		
Interest income	16,867	7,466
Other income (deductions), net	(34)	(695)
Total other income	16,833	6,771
Financing costs	34,105	29,582
<b>NET REVENUES</b>	<b>\$97,619</b>	<b>\$173,037</b>

\* Intercompany transactions eliminated

## TOTAL SALES FIRST QUARTER FY07

(Percent by kWh)



## ELECTRIC OPERATING REVENUES FIRST QUARTER FY07

(Percent by service class)

