



SECOND QUARTER REPORT

Salt River Project
Fiscal Year 2008

For the period of
July 31 - October 31, 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.

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WATER HIGHLIGHTS

Water Deliveries
(acre-feet)



Water in Storage
(capacity)



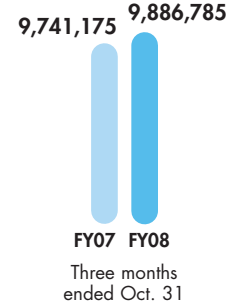
Debt Service Coverage



Debt Ratio



Total Sales
(thousand kWh)



FINANCIAL HIGHLIGHTS

MESSAGE FROM THE PRESIDENT AND THE GENERAL MANAGER

The effects of energy demand and customer growth continued to dominate the operations of SRP during the second quarter of fiscal year 2008.

Consequently, fuel costs remain a major consideration. Two significant activities regarding fuel expense are reported this quarter: an increase to the fuel and purchased power mechanism, and a sophisticated arrangement that secures about 20 percent of SRP's long-term retail natural gas needs.

SRP's Board of Directors in October approved an increase to the fuel and purchased power factor resulting in an overall average price increase of 4.7 percent, effective November 1, 2007. Previously during the quarter, the Board approved releasing \$30 million from

SRP's Rate Stabilization Fund to offset such costs. The additional revenue from the fuel factor change will help cover expenses associated with high gas prices as well as the costs of replacement power for unplanned outages at major generating facilities.

For example, Palo Verde Nuclear Generating Station has been experiencing performance issues. SRP holds a 17.5 percent share in Palo Verde, and relies a great deal upon the plant's output to serve retail customers. The plant's performance has resulted in an increased level of oversight by the Nuclear Regulatory Commission. Plant operator Arizona Public Service is implementing a far-reaching performance improvement plan.

SRP recently entered into an agreement with the Salt Verde Financial Corporation (SVFC) to buy a portion of SRP's long-term natural gas supply needs. SVFC entered into a natural gas supply agreement with Citigroup Energy, and issued approximately \$12 billion in debt to "prepay" this gas supply. Citigroup guarantees this agreement. SRP pays only for the gas that is delivered.

Progress continues on the construction of Unit 4 at Springerville Generating Station. Boiler structural steel and steel framing for the turbine building are about 50 percent complete. When complete, the 400-megawatt unit will help SRP meet future customer needs and support a more diverse generation portfolio. SRP will own Unit 4, which will be operated by Tucson

Electric Power Co. Commercial operation is planned for late 2009.

Meanwhile, the commercial new-business market continues on a record trend, with an estimated 4,500 new wired units for the year, up from last year's 2,700. Keeping up with the workload in wired unit requests is a priority. There are also significant new-service needs associated with the upcoming major events impacting our service area such as Super Bowl XLII.

We continue to make strides in our ongoing effort to convert all eligible customers to "smart" meters – passing the 200,000th smart meter installation milestone during the quarter. Computerized smart meters allow SRP to complete service orders more rapidly and also offer customers the opportunity to have online access to valuable information about their electric usage.

In water operations, reservoirs are only about 50 percent of capacity as the drought continues into its 13th year. Our public education efforts for water conservation continue, and we are expanding the popular and successful Arizona Rinse Smart[®] program. Since its inception in August 2006, the commercial-kitchen Rinse Smart program has saved more than 16,000 million gallons of water and reduced carbon emissions by 750 tons.

We remain committed to helping our customers use their electricity efficiently, which helps to reduce greenhouse gas emissions and preserve the environment. As we advance our efforts, several Valley cities have joined SRP in the Change a Light Pledge program. Residents are being asked to help the environment by installing Energy Star[®] qualified compact fluorescent lights (CFLs) in their

households. We estimate that for every 100,000 participating customers, greenhouse gas emissions will be reduced by more than 44 million pounds.

SRP also launched its Earthwise Trees for Change program in partnership with the U.S. Forest Service. This program supports planting Ponderosa pine seedlings in Arizona in a reforestation effort that by design will return beauty to fire-ravaged areas while reducing carbon dioxide in the atmosphere. Customers can include a small participation fee in their electric bill payments, which SRP matches to fund the tree plantings.

For the quarter, total operating revenues were 5 percent lower than the same period last year. The decrease in revenues is driven by a 57 percent decrease in wholesale revenues, which was partially offset by a 9 percent rise in retail electric revenues.

The increase in retail electric sales was due to growth in our customer base year-to-date and greater usage per customer due to record-setting high temperatures. The number of customers grew by 2.3 percent, and usage per customer increased by 5 percent since the second quarter of last year.


The decrease in total wholesale revenues was magnified by the volatility of market-to-market contracts and the netting of certain purchases and sale of energy as required by accounting adjustments per Generally Accepted Accounting Principles. Without these accounting adjustments, wholesale revenues were down 12 percent compared to the second quarter last year. The decreased revenues resulted from a 28 percent drop in wholesale sales volume compared to the same quarter last year.


Total operating expenses for the quarter grew 3.3 percent from the same period last year, driven by a 35 percent increase in maintenance costs and a 13 percent increase in purchased power expenses, which were partially offset by a 12 percent reduction in fuel expenses compared to the same quarter last year. Key factors contributing to the higher maintenance expenses include costs resulting from unplanned outages at Palo Verde, as well as an unplanned outage at our Coronado Generating Station.

Interest income experienced an increase of 42 percent this quarter versus the same quarter last year, with higher interest rates, better fund performance, and increased fund balances resulting from reinvestment of prior gains contributing to the gain. Financing costs were 11 percent lower compared to the same period last

year. This is a result of higher capital expenditures on Springerville Unit 4, which is increasing the amount of interest that is capitalized and decreasing the current expense. The above factors contributed to combined net revenues for the quarter of \$197 million, 22 percent less than the same quarter last year.

In closing, we would like to acknowledge the efforts of our line crews and support staff who assisted San Diego Gas and Electric Co. in its post-wildfires efforts to replace power poles and burned lines. SRP employees prove once again their commitment to service and community.


John M. Williams Jr.
President


Richard H. Silverman
General Manager

SALT RIVER PROJECT COMBINED BALANCE SHEETS

As of October 31 Thousands - Unaudited

Assets	FY 2008	FY 2007
Utility plant, at original cost	\$10,337,908	\$9,602,888
Less: accumulated depreciation	4,569,989	4,299,206
	5,767,919	5,303,682
Other property and investments	922,188	1,065,884
CURRENT ASSETS		
Cash and cash equivalents	353,439	441,347
Rate Stabilization Fund	30,360	80,177
Temporary investments	148,559	209,992
Current portion, segregated funds	149,005	140,516
Receivables, net	299,186	264,304
Fuel stocks	32,994	33,058
Materials and supplies	121,209	102,609
Other	53,032	91,169
	1,187,784	1,363,172
Deferred charges	447,750	287,854
TOTAL ASSETS	\$8,325,641	\$8,020,592

As of October 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	243,212	350,634
Other Comprehensive Income (OCI)	(961)	(1,680)
Accumulated net revenues and OCI, end of quarter	3,849,147	3,489,816
Long-term debt	3,039,683	3,191,953
	6,888,830	6,681,769
CURRENT LIABILITIES		
Current portion, long-term debt	146,148	131,346
Accounts payable	144,977	133,668
Accrued taxes and tax equivalents	90,211	57,247
Accrued interest	47,910	49,982
Customers' deposits	75,853	71,240
Other	137,768	183,178
	642,867	626,661
Deferred credits	793,944	712,162
TOTAL CAPITALIZATION & LIABILITIES	\$8,325,641	\$8,020,592

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.

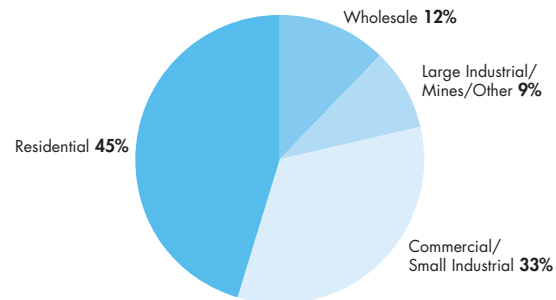
SALT RIVER PROJECT COMBINED STATEMENTS OF NET REVENUES

Thousands - Unaudited	Three months ended October 31		Six months ended October 31	
	FY 2008	FY 2007	FY 2008	FY 2007
OPERATING REVENUES				
Retail electric	\$739,592	\$677,393	1,395,321	1,317,426
Water	2,832	2,576	6,949	5,309
Other	100,980	208,184	199,126	264,779
Total operating revenues*	843,404	888,153	1,601,396	1,587,514
Operating expenses				
Fuel	178,412	203,624	403,916	348,720
Purchased power	150,891	133,116	335,326	298,122
Operations*	117,061	114,303	231,532	224,413
Maintenance	69,175	51,130	127,712	104,937
Depreciation	91,725	84,853	182,460	168,910
Taxes and tax equivalents	26,178	26,016	52,730	52,410
Total operating expenses	633,442	613,042	1,333,676	1,197,512
Net operating revenues	209,962	275,111	267,720	390,002
OTHER INCOME				
Interest income	20,957	14,765	43,643	31,632
Other income (deductions), net	(2,281)	(684)	(4,141)	(718)
Total other income	18,676	14,081	39,502	30,914
Financing costs	32,092	36,177	64,010	70,282
NET REVENUES	\$196,546	\$253,015	243,212	350,634

* Intercompany transactions eliminated

TOTAL SALES – SECOND QUARTER FY08

(Percent by kWh)



ELECTRIC OPERATING REVENUES – SECOND QUARTER FY08

(Percent by service class)

