



## SECOND 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

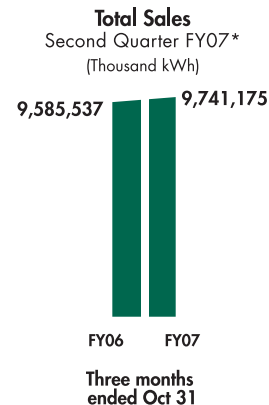
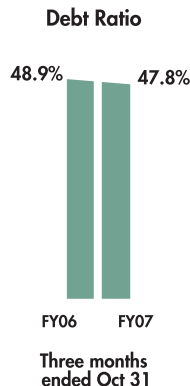
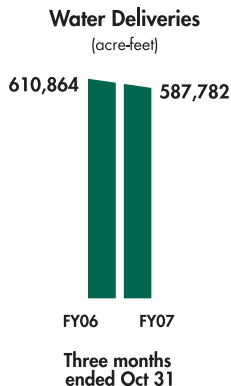
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## Financial Inquiries

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## WATER HIGHLIGHTS



\*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

SRP achieved a major milestone in the second quarter by installing our 100,000<sup>th</sup> “smart” meter. These electric meters send data via radio signals to a collector unit, which transmits information to a computer at an SRP facility. Smart meters enable us to complete service orders more rapidly than before, ensure the most accurate bills possible and, in the future, will make information available over the Internet to allow customers to better manage their electric usage.

To address an under-collection of fuel-related costs, effective Nov. 1, 2006, the SRP Board of Directors approved an increase to the Fuel and Purchased Power Adjustment Factor, a component of the

monthly electric bill. The increase will raise customers’ bills an average of 2.3% on an annual basis. Each May 1 and Nov. 1, SRP sets the factor for the next six-month period, which limits fluctuations in customer bills. This charge is a straight pass-through of fuel costs incurred by SRP to serve customers’ energy needs.

SRP continues to develop a diversified portfolio of sustainable energy resources. Currently, SRP has contracts to purchase 75 megawatts (MW) of wind energy, 25 MW of geothermal energy and 25 MW of energy associated with small hydro sources. Beginning in early 2008, SRP will be entitled to up to 10 MW from an Arizona biomass generation facility.

Additional renewable opportunities, including energy from solar and biogas facilities, are being pursued.

With respect to the Mohave Generating Station, SRP is leading an effort to form a new ownership group to return the coal-fired plant to operations sometime after 2010. The plant was closed on Dec. 31, 2005, and since then, three of the owners have announced they will not pursue continued operation of the plant. Currently, SRP owns 20% of the Mohave station.

In September, the number of SRP customers exceeded the 900,000 mark. This figure has increased by 100,000 in the last three years and doubled over the past two decades.

Projections indicate that the demand for electricity will continue to grow. In order to fulfill our obligation to meet the needs of our customers, SRP continues its long-range resource planning. To determine the economic feasibility of building more generating facilities, SRP has initiated several studies to identify possible locations of future power plants. These studies, which will explore site options for base load and peaking plants, are expected to be completed within the next two years.

Despite the significant summer rainfall on the Salt-Verde watershed, which added a net of 98,000 acre-feet of water to SRP reservoirs, Arizona is entering the 12<sup>th</sup> year of drought.

Runoff on the watershed through October 2006 was only 50% of median. However

with sufficient reservoir storage, the SRP Board of Governors allocated the usual three acre-feet of water per acre to shareholders for calendar year 2007.

Some relief from dry conditions may occur in the next quarter. Various forecast models indicate that warmer-than-normal surface temperatures in the equatorial Pacific Ocean will continue through March 2007. Warmer sea temperatures create a weather pattern known as El Niño, which is favorable for winter storms in Arizona. Historically, the Salt-Verde watershed received above median precipitation and runoff in about 75% of previous El Niño winters.

Scheduled maintenance work began on the Horse Mesa Dam at Apache Lake on the Salt River. Through a gradual drawdown achieved by routine water deliveries, no

water was spilled as a result of the dam maintenance, a normal lake level was retained for recreational purposes through Labor Day and there was limited loss of hydroelectric generation during a period of lower energy demand. The reservoir is expected to be refilled by Jan. 30, 2007.

For the quarter, total operating revenues were nearly 12% higher than the same period last year. The number of customers grew by 3.5% since the second quarter of last year, and this growth has contributed to a 4.6% increase in retail electric revenues.

Total wholesale revenues are 50% more than second quarter last year. However, these results reflect the volatility with mark-to-market contracts and the netting of certain purchases and sale of energy as required accounting adjustments per

Generally Accepted Accounting Principles (GAAP). Without these accounting adjustments, wholesale revenues were down 43% compared to the second quarter last year. These decreased revenues resulted from a 32% drop in the average wholesale energy sales price, which is affected by natural gas prices, and a 19% decrease in wholesale sales volume compared to the same quarter last year.

Total operating expenses for the quarter increased almost 20% from the same period last year. Fuel costs and purchased power expenses are 95% more and 12% less, respectively, from the same period last year and reflect required accounting adjustments per GAAP. Without these adjustments,

actual fuel expenses were comparable to the same period last year and purchased power went down by 27%.

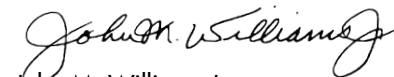
Maintenance expenses, which increased nearly 13% compared to the same quarter last year, significantly impacted total operating expenses. Repairs to the Desert Basin Generating Station Unit 2 air intake system, which was damaged by fire, as well as planned maintenance work at Palo Verde Nuclear Generating Station in September and October, both contributed to the increase in maintenance expenses.

Interest income rose by 20% this quarter versus the same quarter last year. Higher interest rates, as well as increased fund balances resulting from a September 2005 bond sale, both contributed to this growth.

Financing costs reflected a similar 20% increase this quarter. Interest payments related to the September 2005 bond sale drove this increase compared to the second quarter last year.

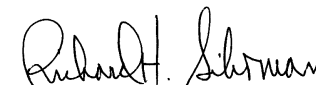
The above factors contributed to net revenues for the quarter of \$253 million, 4% less than the same quarter last year.

Sincerely,



John M. Williams Jr.

President



Richard H. Silverman

General Manager



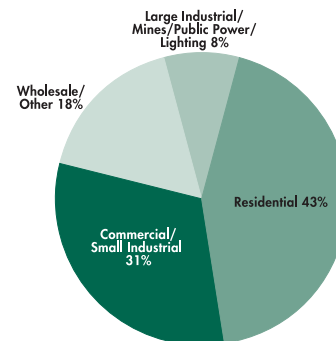
## SALT RIVER PROJECT COMBINED STATEMENT OF NET REVENUES

Thousands - Unaudited	Three months ended October 31		Six months ended October 31	
	FY 2007	FY 2006	FY 2007	FY 2006
<b>OPERATING REVENUES</b>				
Retail electric	\$677,393	\$647,565	\$1,317,426	\$1,216,315
Water	2,576	2,294	5,309	4,649
Other	208,184	144,201	264,779	271,010
Total operating revenues*	888,153	794,060	1,587,514	1,491,974
<b>Operating expenses</b>				
Fuel	203,624	104,327	348,720	230,889
Purchased power	133,116	151,317	298,122	279,658
Operations*	114,303	107,269	224,413	205,666
Maintenance	51,130	45,306	104,937	90,259
Depreciation	84,853	78,094	168,910	155,634
Taxes and tax equivalents	26,016	26,026	52,410	52,299
Total operating expenses	613,042	512,339	1,197,512	1,014,405
Net operating revenues	275,111	281,721	390,002	477,569
<b>OTHER INCOME</b>				
Interest income	14,765	12,259	31,632	19,725
Other income (deductions), net	(684)	(21)	(718)	(716)
Total other income	14,081	12,238	30,914	19,009
Financing costs	36,177	30,046	70,282	59,628
<b>NET REVENUES</b>	<b>\$253,015</b>	<b>\$263,913</b>	<b>350,634</b>	<b>436,950</b>

\* Intercompany transactions eliminated

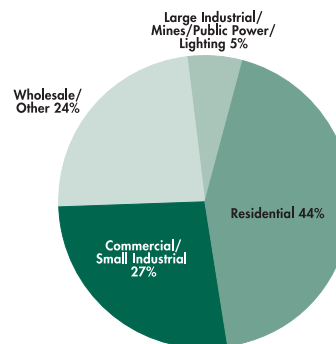
## TOTAL SALES – SECOND QUARTER FY07

(Percent by kWh)



## ELECTRIC OPERATING REVENUES – SECOND QUARTER FY07

(Percent by service class)





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