

**THIRD 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 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

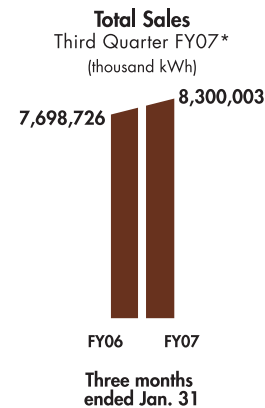
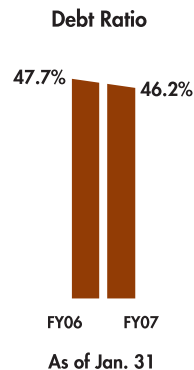
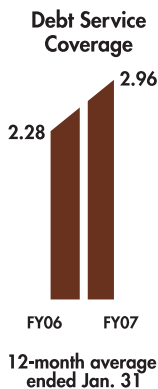
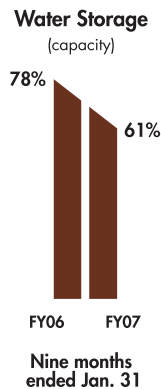
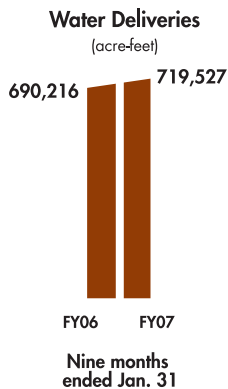
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### Financial Inquiries

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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

Arizona is the fastest growing state in the nation, according to the U.S. Census Bureau. For SRP, this means more customers and higher energy demands. To meet future electricity needs, SRP plans to use a mix of technologies and fuel sources.

SRP's efforts to extend the life of the Mohave Generating Station ceased when SRP and a new ownership group were unable to reach agreement with Southern California Edison (SCE) on purchase price and terms. SCE is the majority owner and operator of the plant located near Laughlin, Nevada. SCE continues to pursue the sale of the facility, in which SRP holds a 20% share, and indicates those efforts should be completed soon. SRP has turned its attention to alternative resource additions, while it awaits the results of SCE's sale process.

SRP is one of seven Southwestern utilities studying the development of a 250-megawatt solar power plant, which could serve up to 200,000 homes in the region.

Currently, SRP and Arizona State University are evaluating fuel cell technology's performance in a desert environment. This technology produces electricity (from hydrogen extracted from natural gas) with zero emissions.

The solar and fuel cell projects relate to another significant issue—global climate change. SRP operates plants that use fossil fuels to produce electricity. These plants emit carbon dioxide (CO<sub>2</sub>), a greenhouse gas linked to global warming. Emission limits

are part of the legislative agenda at both the state and federal levels.

The power industry is being encouraged to participate in the development of new laws and regulations. SRP is involved in this dialogue through its membership in the Large Public Power Council and the American Public Power Association. In addition, SRP is part of an Electric Power Research Institute study of CO<sub>2</sub> capture and storage technology.

Power line projects also are part of SRP's efforts to meet the rapidly growing demand for energy and to provide greater reliability. For example, construction of the Browning Substation portion of the recently permitted Palo Verde-to-Southeast Valley/Browning Project is underway. This project consists of

a new double-circuit 500-kilovolt (kV) and 230-kV transmission line that will serve central Arizona.

SRP is planning a new 230-kV transmission line from the Desert Basin Generating Station to the recently permitted Pinal South substation to provide a more reliable path between the SRP-owned Desert Basin plant and customer load in Pinal and Maricopa counties.

To help offset higher fuel and purchased power costs expected this summer, SRP's Board of Directors approved the May 1 release of \$80 million previously put into SRP's Rate Stabilization Fund. The current Fuel and Purchased Power Adjustment Factor, part of the overall electricity price, will remain unchanged through customers' October 2007 bills.

With 53,000 participants, SRP M-Power® has developed into the most successful prepayment program in North America. Energy is purchased in advance on a "smart" card, and then run through an in-home display unit, which sends the information to the electric meter. Studies indicate that SRP M-Power customers, on average, are reducing their annual electricity usage by 12.8%. Approximately 10,000 customers are added to the program each year, and SRP hopes to have 80,000 participating in M-Power by 2010.

The anticipated influence of El Niño (warming of the equatorial waters in the eastern Pacific Ocean) failed to produce significant precipitation this quarter on SRP's watershed. Unfortunately, the dry third quarter may place this winter (December-March) into the driest one-third historically,

and confirms the continuation of the 12-year drought.

For the quarter, total operating revenues increased nearly 2% compared to the same period last year. Retail electric revenues climbed almost 13% from the third quarter 2006 figure. While the number of customers has continued to grow, 3.3% gain versus the same period last year, higher electricity use resulting from the coldest January in the Valley since 1979 contributed to the larger retail revenues. In addition, a 2.3% increase to SRP's fuel and purchased power component of electric prices was effective Nov. 1, 2006. This price adjustment added \$13.6 million to revenues during this quarter.

Offsetting increases in retail revenues, SRP wholesale revenues were down 17% compared to the same quarter last year.

Higher retail loads, particularly in January, coupled with several unplanned outages during the quarter, significantly reduced generation unit availability for wholesale sales activity. Lower market prices, which are driven by natural gas prices, also contributed to the decrease in wholesale revenues. SRP's average wholesale energy sales price was 13% lower this quarter compared to the same quarter last year.

Total quarterly operating expenses decreased 6% from the same period in 2006. Although purchased power costs were relatively constant, with only a slight increase compared to the same time last year, fuel costs were 30% lower. Changes in the natural gas market prices were the primary drivers of the reduction. SRP's average monthly delivered price for gas was 33% less this quarter than the same quarter last year. Offsetting the decrease in

fuel expenses, maintenance expenses increased 35% quarter to quarter. This increase results from a scheduled overhaul at the Santan Generating Station that was delayed from last year. In addition, overhaul activities took place at the Desert Basin Generating Station during the third quarter, which, in the prior year, occurred at the latter part of the fiscal year. Significant maintenance expenses also were incurred at the Navajo and Coronado stations for unplanned outage repairs.

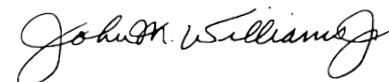
Interest income rose by 55% this quarter versus the same quarter last year. Higher interest rates and better fund performance have contributed to this increase.

In January 2006, SRP recorded realized gains on the sale of securities of \$97 million. This was a one time transaction associated with the diversification of

Post-Retirement Medical and Nuclear Decommissioning Funds and as such, no comparable amount has been recorded subsequently.

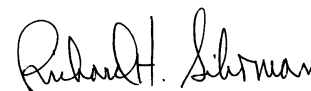
Before the effect of the \$97 million transaction noted in the prior paragraph, net revenues for the quarter were \$53 million better than the same quarter last year. After accounting for the \$97 million transaction, net revenues were \$44 million less than the third quarter last year.

Sincerely,



John M. Williams Jr.

President



Richard H. Silverman

General Manager



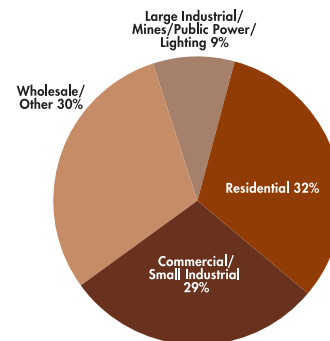
## SALT RIVER PROJECT COMBINED STATEMENT OF NET REVENUES

Thousands – Unaudited	Three months ended Jan. 31		Nine months ended Jan. 31	
	FY 2007	FY 2006	FY 2007	FY 2006
<b>OPERATING REVENUES</b>				
Retail electric	\$385,369	\$341,325	\$1,702,795	\$1,557,640
Water	5,357	5,125	10,666	9,774
Other	165,909	200,818	430,688	471,828
Total operating revenues*	556,635	547,268	2,144,149	2,039,242
<b>Operating expenses</b>				
Fuel	143,140	204,620	491,860	435,509
Purchased power	97,015	94,792	395,137	374,450
Operations*	114,778	111,429	335,716	313,838
Maintenance	68,813	50,986	173,750	141,245
Depreciation	87,645	79,874	260,030	238,765
Taxes and tax equivalents	14,945	18,610	67,355	70,909
Total operating expenses	526,336	560,311	1,723,848	1,574,716
Net operating revenues	30,299	(13,043)	420,301	464,526
<b>OTHER INCOME</b>				
Interest income	26,375	16,958	58,007	36,683
Other income (deductions), net	853	(238)	135	(954)
Total other income	27,228	16,720	58,142	35,729
Financing costs	35,245	34,375	105,527	94,003
Gain on the sale of available for sale securities	0	97,041	0	97,041
<b>NET REVENUES</b>	<b>\$22,282</b>	<b>\$66,343</b>	<b>\$372,916</b>	<b>503,293</b>

\* Intercompany transactions eliminated

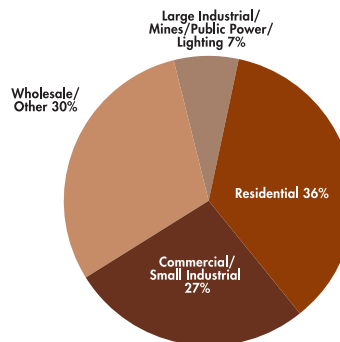
## TOTAL SALES – THIRD QUARTER FY07

(Percent by kWh)



## ELECTRIC OPERATING REVENUES – THIRD QUARTER FY07

(Percent by service class)





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