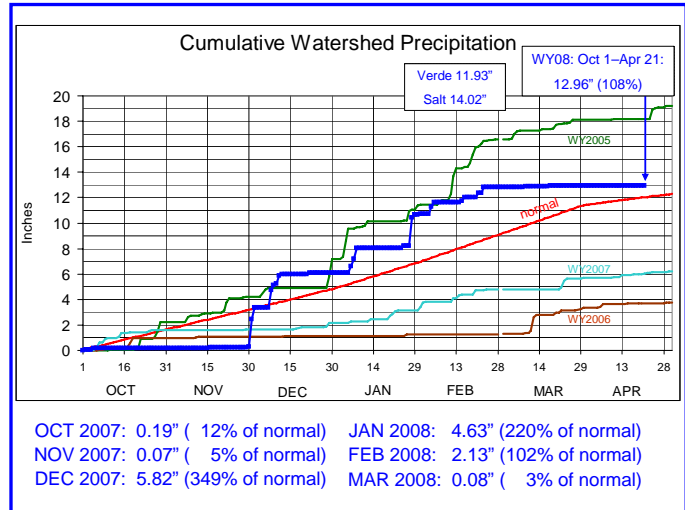


SRP Water Supply and The Drought

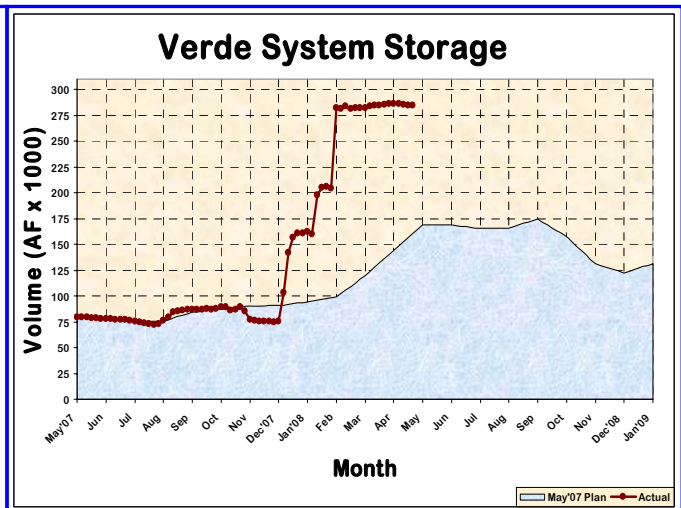
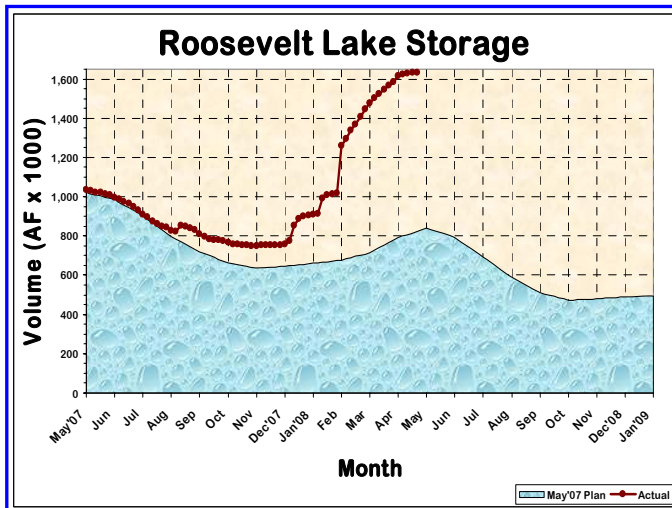
April 28, 2008

Drought In Arizona: This winter has seen a dramatic reduction in short-term drought conditions across the state. However, despite recent heavy precipitation, SRP believes Arizona will potentially remain in long-term drought conditions and is in the 13th year of this ongoing drought. The past four winter seasons have seen two types of years with 2008 and 2005 being very wet (blue and green lines) and 2006 and 2007 extremely dry (brown and light blue lines). The graph of accumulated watershed precipitation this water year through April 21st shows 108% of normal precipitation has fallen across the watershed.



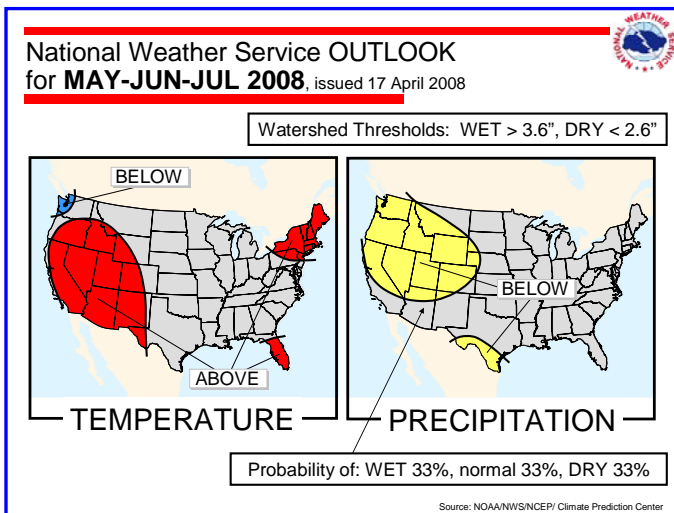
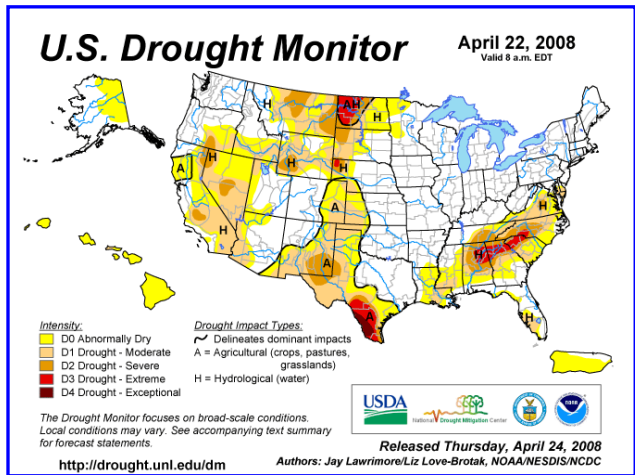
When Might Conditions Reverse?: Arizona depends upon wet winters to reverse drought conditions so clearly conditions are greatly improved. Indications for this winter had projected a moderate strength La Niña pattern—a situation likely to bring dry winter weather. Fortunately, abundant rain and snow this winter have occurred. This winter is only the third wet winter in the 13-year long drought. The other two wet winters occurred in 1998 and 2005. It takes more than one isolated wet winter to relieve the cumulative effects of the ongoing drought.

Runoff and Reservoir Storage: In late November, total reservoir storage was a scant 49 percent full with little prospect of improving in this La Niña winter. After 4 major storms and several small events, runoff has dramatically increased reservoir storage. Since November 30, storage has increased by 1,128,000 acre feet. Last runoff season's total inflow to the reservoirs was just 211,000 acre feet. The Verde reservoirs are full. Roosevelt Lake is 99% full and recorded the highest elevation in history this runoff season at 2150.03 feet. Because of the improved conditions, SRP's Board has approved a full 3.0 acre feet per acre allocation composed of 100% surface water.



What Is The Current Drought Situation?:

According to the latest Drought Monitor, drought conditions have greatly improved in all of Arizona except for the far western portions of the state. In the Colorado River basin, current system storage is 52% full, just 4 percent lower than last year at this time. Because of heavy snows in Colorado, the forecast inflow to Lake Powell this runoff season is currently 122%, or 9.7 million acre feet. This level of storage and potential inflow will allow the Colorado River reservoirs to provide full allocations to the lower basin states in 2008 and 2009. The improved drought conditions may not last as we saw similar improvements after the wet winter of 2005, yet severe drought conditions returned within a year. Recent history and results from recent tree-ring research with the University of Arizona indicate that a wet year, like 2005 or this winter, in the midst of an extended drought is not unusual. Furthermore, a wet year in the midst of a severe drought does not relieve the cumulative harm to our forests, range, wildlife, and surface and groundwater supplies. Yet another result of the tree ring research indicates that the current drought is about as severe to date as the drought of the 1950's, and that droughts as severe or worse occurred eight times in the last 800-years. This evidence simply reinforces SRP's drought management philosophy.



Drought Management Philosophy:

Provide an adequate and reliable supply of water to our shareholders by managing our water resources in the most prudent and effective manner. The management goal is to reduce the probability of having to cut the allocation of water to 2.0 af/ac to less than a 1% chance two years out into the future. SRP assumes that the end of every wet runoff season is the start of the next severe sustained drought period. SRP will continue to manage the water supplies of the Valley to provide a reliable and adequate supply necessary for maintaining the vibrant economy and lifestyle we enjoy in the Valley of the Sun.

Remaining Spring Forecast: The forecast for Arizona during the months of April through July is for dry conditions to prevail. This is a forecast based on spring season La Niña patterns. The entire state with the exception of southwest and southeast AZ is forecast to enjoy relatively drought free conditions through early summer as a result of precipitation earlier this winter. SRP believes the drought conditions of recent years may return after this short respite. Regardless, the reservoir storage benefits of this wet winter will be enjoyed for several years even if drought conditions return immediately.

