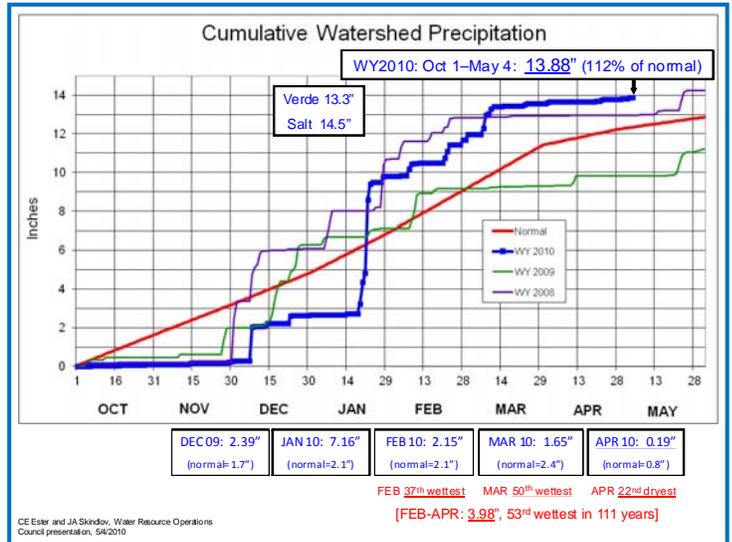


SRP Water Supply and Drought

May 7, 2010

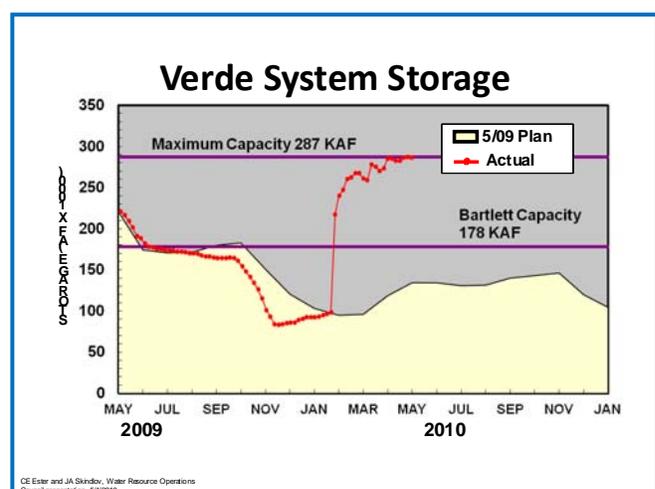
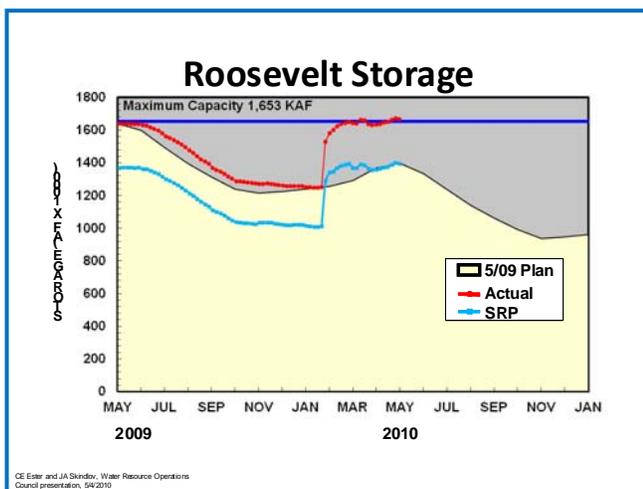
Arizona, Drought?: The 2009 winter runoff season produced below median runoff despite well above normal snow pack conditions in early January of 2009. The following monsoon did little to help the situation as the SRP watershed recorded the third driest monsoon in its 110-year record. This winter season began with the third wet December in a row. However, it is the record setting precipitation in January that provides the best argument against the drought. Cumulative watershed precipitation for the water year is 13.88", or 112% of normal. The change in precipitation can be partially explained as 2009 saw a transition from La Niña conditions



(below normal sea surface temperatures over the equatorial Pacific) to El Niño conditions (above normal sea surface temperatures over the equatorial Pacific). With relief from winter precipitation and runoff already received it is no surprise that drought conditions in the State are improving.

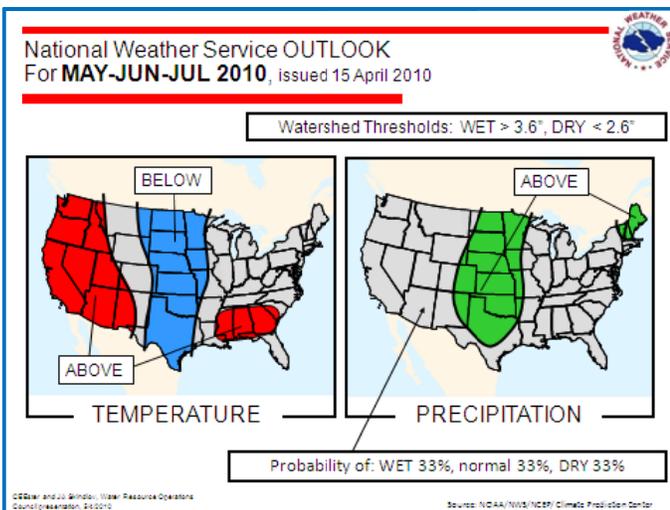
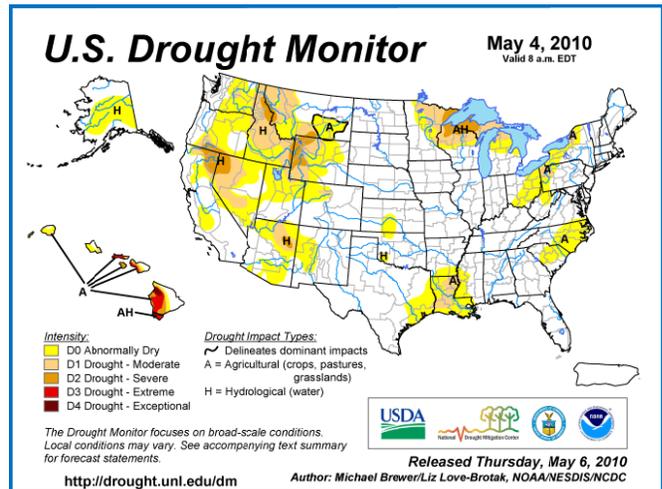
When Might Conditions Reverse?: Arizona depends upon wet winters to reverse drought conditions. The Climate Prediction Center declared an El Niño for 2010. The sea surface temperatures reflected a borderline moderate to strong El Niño event. This was significant because the watershed has never seen a dry winter (at least since sea surface temperature data became reliable – 1950 to current) with a moderate or strong El Niño. This winter was no exception. Drought conditions are greatly diminished but it will be impossible to erase the effects of the severe drought after just one wet winter, although SRP water supplies are certainly abundant.

Runoff and Reservoir Storage: Reservoir storage has remained abundant after the surprisingly productive La Niña winter in 2008/09 and the current El Niño. The Salt and Verde Systems nearly reached capacity from runoff this January. The reservoir system is 100% full now and should be near capacity heading into the summer. SRP's Board has approved a full 3.0 acre feet per acre allocation composed of 100% surface water for 2010, and will likely approve the same for 2011.



What Is The Current Drought Situation?:

According to the latest Drought Monitor, moderately dry to abnormally dry conditions remain throughout most of Arizona, with the exception of the Salt and Verde watersheds. In the Colorado River basin, current system storage is 55% full, which is 1% more than last year at this time. The benefits Arizona experiences from El Niño years do not correlate to the upper Colorado basin. Therefore, inflow into Lake Powell for water year 2010 is projected at 7.9 million acre-feet which is only 66% of normal. Water year precipitation in the Colorado Basin is 85% of normal. This level of storage and inflow will allow the Colorado River reservoirs to provide full allocations to the lower basin states in 2010. The NWS forecasts above normal chance of precipitation for the upper Colorado basin from April through June. However, it is unlikely there will be a sufficient amount of precipitation to reverse the meager runoff forecast for this runoff season. Recent history and results from recent tree-ring research with the University of Arizona indicate that a wet year, like 2005 and 2010, 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 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 economy and lifestyle we enjoy in the Valley of the Sun.

Spring/Summer Forecast: Arizona is forecast to have equal chances of above, normal or below normal precipitation for May through July. Temperatures are forecast to be above normal. The drought outlook for Arizona forecasts little change in drought conditions through June. The reservoir storage benefits will be enjoyed for several years even if drought conditions return immediately.

