

SALT RIVER PROJECT 2021 ANNUAL REPORT

Including Five-Year Operational
and Statistical Review and
Financial Summary



Delivering water and power®

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About SRP

SRP has delivered on **ITS COMMITMENT TO PROVIDE RELIABLE AND AFFORDABLE WATER AND POWER** to the people living in central Arizona this past year and for more than a century. By providing these essential resources, we have helped the Phoenix metropolitan area develop and thrive.

We act in the best interest of the people we serve and strive to help build a better future for Arizona. In the years ahead, we will continue to lead the way by applying our forward-thinking approach and new technology to address water and energy supply challenges.

SRP's 118-year history is a story of challenges faced and challenges overcome. Throughout it, SRP has never failed to meet its commitment to shareholders, customers and the community.

From the President and the Vice President

SRP's 118-year history is a story of challenges faced and challenges overcome. Throughout it, SRP has never failed to meet its commitment to shareholders, customers and the community. The past year presented challenges that were unique and historic by any measure.

The pandemic led to a tragic loss of life, impacting families in our community and throughout the world. Since it began, we have all faced disruptions to every part of our lives at home and at work. Through it all, however, every member of the SRP team adapted and met the challenge so that despite the many far-reaching disruptions caused by the pandemic, the most essential services — affordable, reliable and sustainable SRP-supplied water and power — were always available. SRP was founded by a community commitment to the Valley's future. That spirit of community is woven into the fabric of SRP and is at the heart of who we are and everything we do. As was especially evident during the past year, when the community needs us most, SRP is always there.

Amid the pandemic crisis, SRP and energy providers throughout the West and Southwest were put to the test last summer by a combination of record heat, devastating wildfires, issues with natural gas availability and more. Generation and transmission capacity were at times stretched to their limits. Because of the hard work, preparedness, resiliency of employees and the company's comprehensive system planning process, together with some good fortune, SRP avoided the outages and other challenges faced by many utilities.

The President's Office and our elected Board and Council work closely with executive management to support the sound resource planning that is critical in times of crisis. This collaboration allows SRP to responsibly integrate the renewable energy our customers expect and learn how to most effectively use battery storage, all while maintaining reliability and meeting the Valley's growing residential, commercial and industrial demand for energy.

In FY21, SRP announced a plan to double its utility-scale solar commitment to 2,025 megawatts (MW) by 2025 by adding 1,375 MW of solar energy on top of those solar facilities already online or contracted and under development. This demonstrates SRP's commitment to sustainable resources and reinforces our position as a leader in renewable energy. It is an essential effort toward meeting the 2035 Sustainability Goals adopted by our Board.

These goals also include a strong focus on protecting and conserving our critical water resources, which is especially important during periods of extended drought such as those we are experiencing today. SRP consistently seeks to maximize water collection and storage and is working with the Bureau of Reclamation to identify the best way to increase the capacity of a reservoir system that is the envy of the West. Ultimately, this effort is expected to benefit not just the shareholders and customers of SRP, but the rest of central Arizona as well.

We and all SRP elected officials take our governance responsibility seriously. We understand that our decisions have impacted and will continue to impact not just our fellow SRP team members, but also the shareholders and customers we were elected to represent. Our core commitment is to always and in every instance act in the best interest of those shareholders and customers. FY22 will bring new challenges and opportunities, and we are confident that SRP is prepared to respond.

David Rousseau
President



John R. Hoopes
Vice President



From the General Manager & CEO

As SRP emerges from the pandemic stronger and with a vision for the future, we continue to deliver on our mission to serve our shareholders, our customers and the community.

I'm extremely proud of what we accomplished at SRP during the year and of how our team members responded to the pandemic. Our employees helped SRP meet and exceed expectations and placed us in a strong position moving forward in FY22.

KEEPING SAFETY AT THE FOREFRONT

- Throughout the year we prioritized the health and well-being of our employees and our customers, keeping responsible restrictions in place at facilities and in the field while having approximately two-thirds of our employees work remotely. Collaborating with state and local health officials, SRP offered COVID-19 vaccinations to employees, their family members and retirees.

STAYING ON TRACK

- SRP delivered a successful financial performance in FY21, including positive CNR results primarily driven by above-normal temperatures, strong customer growth and a focus on managing direct costs. Capital spending was 3.3% above budget as demand remained strong for new construction during the pandemic. Direct cost savings are 4.3% below the revised budget, or 7.8% below the original FY21 budget, due to initial expense reductions and continued savings throughout the fiscal year.

GENERATING RELIABLE, SUSTAINABLE POWER

- SRP reliably met customers' power needs during an intense summer that included an all-time system record peak demand and two major wildfires that threatened key transmission lines and other infrastructure. The entire West was dealing with these challenging conditions at the same time, critically stressing energy availability. SRP's customers continued to receive power during this period and throughout the year with a level of reliability among the best in the nation.
- Key Power System indicators remained on track to meet or beat reliability performance targets for this fiscal year, including Run Reliability that exceeded 98% from May to September.
- We continue to upgrade SRP's existing gas plants to increase efficiency and output. Crews recently completed work on the Unit 1 turbine system at Desert Basin Power Plant, increasing total output by more than 21 MW, reducing the minimum load by 30 MW and slashing NOx emissions by 36%.
- Just as importantly, SRP announced it has more than doubled its solar commitment and will add a total of 2,025 megawatts of new utility-scale solar energy by the end of fiscal year 2025. As part of that commitment, we brought two new 100 MW solar facilities online last December — East Line Solar and Saint Solar — and construction will soon start on another 100 MW project, Central Line Solar. SRP has also contracted for the output of the largest solar-charged battery storage project in Arizona and plans to add more storage going forward.

DEMONSTRATING WATER LEADERSHIP

- Arizona and the West continue to experience extreme drought that has gripped the region for two decades. SRP is partnering with our shareholders, customers and the communities we serve to create awareness and increase water conservation through public campaigns, public and private partnerships, and strategic planning.
- Recent research shows that SRP's watersheds and system are more resilient and resistant to climate change than other river basins. Because we are always managing for drought conditions, reservoir storage levels are good, and shareholders and customers will receive full allocations in FY22.
- SRP recently reopened the Granite Reef Underground Storage Project (GRUSP), which had been closed due to storm damage. SRP operates the facility, which it jointly owns in a partnership with local communities. GRUSP is part of the effort to replenish natural underground aquifers and to store water for use when needed during drought conditions.
- Wildfire remains a constant and significant threat to the watershed. SRP continues to advocate for effective forest management and has launched the Healthy Forest Initiative to support thinning of overgrown forests.
- The Bureau of Reclamation and SRP continue to conduct stakeholder meetings for the Verde Reservoirs Sediment Mitigation Study (VRSMS) appraisal report. The draft appraisal report for stakeholder review was completed on May 17, 2021, which included the results of the stakeholder evaluations.
- SRP took additional steps toward its 2035 Sustainability Goals as the Board approved new water pricing principles, established a 2035 water support goal and aligned the allocation of associated expenses and revenues with our governing documents. In March, the Board approved the pricing changes needed to support continued progress toward achieving the goal of reducing water support to not more than 60% of Association expenses by 2035.

PRIORITIZING DIVERSITY, EQUITY AND INCLUSION

- As part of SRP's strong focus on diversity, equity and inclusion as well as our transition to a hybrid workplace for the future, we elevated Human Resources to the top of the organization and hired Geri Mingura as Associate General Manager and Chief Human Resources Executive. Geri's extensive experience will be critical to SRP's Diversity, Equity and Inclusion efforts as well as reshaping other important HR functions.

DEVELOPING INNOVATIVE PARTNERSHIPS

- SRP continued its dedication to helping our customers and the community continue to grow and thrive, and that includes investing in the future through research and innovation. SRP expanded its longtime partnership with Arizona State University to focus on developing energy solutions and stronger communities of the future, with a core goal of comprehensively addressing resilience and adaptation to climate change.

LOOKING AHEAD WITH CONFIDENCE

There are still many unknowns as we move ahead in FY22, but what doesn't change is our mission to serve our shareholders and our customers with reliable, affordable and sustainable water and power and to support the community.

Based on the resilience, skill and dedication of our employees and what they have accomplished during the past year, I am confident that SRP will continue to meet and exceed expectations going forward.

I want to especially thank our publicly elected Board and Council members for their perseverance and support throughout a very challenging FY21. As we move forward in FY22, I'm incredibly optimistic and excited about what's ahead.

Mike Hummel

General Manager & CEO



Investment income, net was \$317.7 million for FY21 compared to \$18.8 million for FY20. Investment income, net includes fair value gains of \$312.5 million for FY21 and fair value losses of \$5.8 million for FY20.

Reviewing Financial Results

RESULTS OF OPERATIONS

Operating revenues were \$3.5 billion for fiscal year 2021 (FY21) and \$3.1 billion for fiscal year 2020 (FY20), an increase of \$354.1 million, or 11.3%. The increase in operating revenues was primarily due to increased retail electric and wholesale revenues. FY21 retail electric revenues increased \$179.6 million, or 6.4%, primarily due to higher average temperatures in FY21 compared to FY20. Wholesale revenues increased \$178.1 million, or 86.2%, to \$384.7 million compared to FY20. FY21 wholesale revenues included a fair value loss of \$15.8 million compared to a \$28.9 million loss in FY20. Excluding the fair value losses, FY21 wholesale revenues would have been \$400.5 million compared to \$235.5 million in FY20, an increase of \$165.0 million, or 70.1%. The increase is primarily due to the higher average temperatures in FY21 and the District's participation in California ISO's Energy Imbalance Market (EIM). The total number of customers was 1,093,263 as of April 30, 2021, a 1.7% increase from the previous year.

Operating expenses were \$3.0 billion both for FY21 and FY20. Power purchased expense increased \$255.7 million due to increased purchased volumes to meet the higher demand caused by the higher temperatures and participation in the EIM. Fuel used in electric generation expense decreased \$227.2 million primarily due to lower-cost natural gas and the shutdown of Navajo Generating Station (NGS) in FY20. Combined, power purchased and fuel used in electric generation increased \$28.6 million. Fuel used in electric generation and purchased power expenses include adjustments for the fair value of certain fuel and purchased-power contracts. Excluding the fair value gain of \$107.0 million in FY21 and the fair value loss of \$30.4 million in FY20, these expenses would have increased \$166.0 million, or 16.1%. In addition to the increase of fuel and power purchased expenses, operations and maintenance expense increased \$54.2 million when compared to FY20 due to the timing of scheduled plant maintenance projects. These increases were partially offset by a decrease

in depreciation and amortization expense of \$47.1 million primarily due to the shutdown of NGS.

Investment income, net was \$317.7 million for FY21 compared to \$18.8 million for FY20. Investment income, net includes fair value gains of \$312.5 million for FY21 and fair value losses of \$5.8 million for FY20.

Net financing costs were \$136.7 million and \$144.3 million in FY21 and FY20, respectively.

Net revenues for FY21 were \$577.1 million compared to net expenses for FY20 of \$17.8 million. Excluding the effects of the changes in the fair value of fuel and purchased-power contracts, wholesale positions and investment income, net revenues would have been \$173.4 million and \$47.4 million for FY21 and FY20, respectively.

ENERGY RISK MANAGEMENT PROGRAM

The District's mission to serve its retail customers is the cornerstone of its risk management approach. SRP builds or acquires resources to serve retail customers, not the wholesale market. However, as a summer-peaking utility, there are times during the year when the District's resources and/or reserves are in excess of its retail load, thus giving rise to wholesale activity. The District has an Energy Risk Management Program to limit exposure to risks inherent in retail and wholesale energy business operations by identifying, measuring, reporting and managing exposure to market, credit and operational risks. To meet the goals of the Energy Risk Management Program, SRP uses various physical and financial instruments, including forward contracts, futures, swaps and options. Certain of these transactions are accounted for under Accounting Standards Codification (ASC) 815, "Derivatives and Hedging." For a detailed explanation of the effects of ASC 815 on SRP's

financial results, see Note 7 in the notes to the Combined Financial Statements (available at srpnet.com/annualreport).

The Energy Risk Management Program is managed according to a policy approved by the District's Board of Directors (Board) and overseen by a Risk Oversight Committee. The policy covers market, credit and operational risks and includes portfolio strategies, authorizations, value-at-risk limits, stop-loss limits, and notional and duration limits. The Risk Oversight Committee is composed of senior executives. The District maintains an Energy Risk Management Department, separate from the energy marketing area, which regularly reports to the Risk Oversight Committee. SRP believes that its existing risk management structure is appropriate and that risks are properly measured, reported and managed.

ELECTRICITY PRICING

The District has a diversified customer base, with no single retail customer providing more than 3% of its retail electric revenues. The District has implemented projects and programs geared toward enhancing customer satisfaction by offering customers a range of pricing and service options. Moreover, SRP is one of the low-price leaders in the Southwest.

The District is a summer-peaking utility, and it has made an effort to balance the summer-winter load relationships through seasonal price differentials. In addition, SRP offers prices on a time-of-use basis for residential, commercial and industrial customers.

The District's price plans include a base price component and a Fuel and Purchased Power Adjustment Mechanism (FPPAM). Base prices recover costs for generation, transmission, distribution, customer services, metering,

meter reading, billing and collections, and system benefits charges that are not otherwise recovered through the FPPAM. The FPPAM was implemented in May 2002 to adjust for increases and decreases in fuel costs.

On March 25, 2019, the Board concluded a public process by approving changes and adjustment to its price plans including an overall average annual price decrease of 2.2%, effective with the May 2019 billing cycle. The overall average decrease was comprised of an average 3.9% decrease to FPPAM, partially offset by an average base price increase of 1.7%.

On February 1, 2021, the Board voted to approve an eventual overall average annual price increase of 3.9% by approving new FPPAM prices. In consideration of customers, the pandemic and overall economic environment, the proposal delayed implementation of the increased prices until November 2021. In order to help manage the FPPAM under collection balance, the Board also approved to transfer \$82.0 million to the Rate Stabilization Fund which was applied to offset the FPPAM under collection balance on April 30, 2021.

CAPITAL IMPROVEMENT PROGRAM

The Capital Improvement Program is driven by the need to sustain the generation, transmission and distribution systems of the District to meet customer electricity needs and to maintain a satisfactory level of service reliability.

FY21 capital spending levels were slightly above original expectations. Generation projects accounted for 19% of the year's expenditures. These projects included plant modification costs for Palo Verde, Gila River and Desert Basin generating stations.

Expansion of the electrical distribution system to meet future growth and to replace aging underground cable accounted for 40% of FY21 capital expenditures. More than one quarter of the distribution system spending was for New Business projects. The addition of new transmission facilities made up 17% of FY21 capital expenditures. These projects included the Price Road Industrial Expansion as well as transmission pole asset management.

SRP Boards and Councils

SRP BOARDS

The District is governed by a 15-member Board of Directors. The District Board, among other things, establishes overall District policy, approves the annual budget and major contracts, authorizes major purchases and sales of assets, sets electric prices for the District as per Arizona statutes, and authorizes the issuance of revenue bonds. The District Board members are elected from among the District electors (landowners) for four-year terms and consist of the President, who is an ex officio member, plus one member from each of the 10 voting divisions of the District, plus four additional members who are elected at large, half being elected biennially for four-year terms. The President and Vice President are elected at large by the electors of the District. With the exception of the four at-large Board members, all are elected by votes weighted in proportion to the amount of eligible land owned by each elector. The four at-large Board positions are elected based on one person, one vote by eligible District electors.

The Association is governed by an 11-member Board of Governors. Among other things, the Board is involved in establishing the policies, annual budget, major contracts, water rates and fees for the Association. The Association Board members are elected from among the Association's shareholders (landowners) for four-year terms and consist of the President, who is an ex officio

member, plus 10 additional members (one from each of the 10 voting districts), half being elected biennially for four-year terms. The President and Vice President are elected at large by eligible shareholders of the Association. The Board members, the President and the Vice President are elected by votes weighted in proportion to the amount of eligible land owned by each shareholder. Members of both boards are elected by property owners within the respective boundaries and serve staggered four-year terms.

SRP COUNCILS

Both the District and the Association have 30-member Councils — three members from each of the 10 voting districts (Association) or voting divisions (District), half being elected biennially for four-year terms. All Council members are elected by votes weighted in proportion to the amount of eligible land owned by each shareholder/elector. Most often, candidates seek election to both Councils. The two Councils, among other things, enact and amend bylaws of the respective organizations and set compensation of elected officials, and the District Council approves the issuance of revenue bonds.

Visit srpnet.com/about/map.aspx for a detailed map of the 10 SRP voting districts and divisions for SRP Boards and Councils.

SRP Boards and Councils

The Association Board:

District 1: Larry D. Rovey	District 6: Jack M. White Jr.
District 2: Paul E. Rovey	District 7: Keith B. Woods
District 3: Mario J. Herrera	District 8: Deborah S. Hendrickson
District 4: Leslie C. Williams	District 9: Robert C. Arnett
District 5: Stephen H. Williams	District 10: Mark V. Pace

The District Board:

Division 1: Kevin J. Johnson	Division 6: Jack M. White Jr.
Division 2: Paul E. Rovey	Division 7: Keith B. Woods
Division 3: Mario J. Herrera	Division 8: Deborah S. Hendrickson
Division 4: Leslie C. Williams	Division 9: Robert C. Arnett
Division 5: Stephen H. Williams	Division 10: Mark V. Pace

Directors at-large:

Seat 11: Anda G. McAfee
Seat 12: Corey J. Hawkey
Seat 13: Nicholas R. Brown
Seat 14: Randy J. Miller

The Association Council:

District 1: Tyler M. Francis, Ronald S. Kolb, Clifford M. Leatherwood	District 6: Jacqueline L. Miller, Nicholas J. Vanderwey
District 2: Jerry E. Geiger, Suzanne Naylor, William W. Sheely	District 7: Mark A. Lewis, Barry E. Paceley, Harmen Tjaarda Jr.
District 3: Aaron M. Herrera, Richard W. Swier, Paul A. Van Hofwegen	District 8: Christopher J. Dobson, Mark L. Farmer, Mark C. Pedersen
District 4: Garvey M. Biggers, M. Brandon Brooks, Michael G. Rakow	District 9: A. Allen Freeman, Mark A. Freeman, Adam S. Hatley
District 5: John R. Augustine, J. Weston Lines, John R. Shelton	District 10: Dave B. Lamoreaux, William P. Schrader Jr., William P. Schrader III

The District Council:

Division 1: Tyler M. Francis, Ronald S. Kolb, Clifford M. Leatherwood	Division 6: Jacqueline L. Miller, Nicholas J. Vanderwey
Division 2: Jerry E. Geiger, Kimberly A. Owens, William W. Sheely	Division 7: Mark A. Lewis, Barry E. Paceley, Harmen Tjaarda Jr.
Division 3: Aaron M. Herrera, Richard W. Swier, Paul A. Van Hofwegen	Division 8: Christopher J. Dobson, Mark L. Farmer, Mark C. Pedersen
Division 4: Garvey M. Biggers, M. Brandon Brooks, Michael G. Rakow	Division 9: A. Allen Freeman, Adam S. Hatley
Division 5: John R. Augustine, J. Weston Lines, John R. Shelton	Division 10: Dave B. Lamoreaux, William P. Schrader Jr., William P. Schrader III

SRP Officers and Executives

Corporate Officers

David Rousseau,
President

John R. Hoopes,
Vice President

John M. Felty,
Corporate Secretary

Brian J. Koch,
Treasurer

Executive Management

Mike Hummel,
General Manager &
Chief Executive Officer

Alaina Chabrier,
Associate General
Manager & Chief
Communications Executive

Rob Taylor,
Associate General
Manager & Chief
Public Affairs Executive

Michael O'Connor,
Associate General Manager
& Chief Legal Executive

Dave Roberts,
Associate General Manager,
Water Resources

Aidan McSheffrey,
Associate General Manager
& Chief Financial Executive

John Coggins,
Associate General
Manager & Chief
Power System Executive

Geri Mingura,
Associate General Manager
& Chief Human
Resources Executive

Jim Pratt,
Associate General Manager
& Chief Customer Executive

Kelly Barr,
Associate General Manager
& Chief Corporate
Services and
Sustainability Executive

Five-Year Operational and Statistical Review

FINANCIAL DATA (\$000)	2021	2020	2019	2018	2017
Total operating revenues	\$ 3,475,507	\$ 3,121,431	\$ 3,370,610	\$ 3,196,486	\$ 3,084,688
Retail electric revenues	2,989,995	2,810,421	2,902,560	2,847,104	2,780,916
Water revenues	22,189	20,823	18,661	18,151	16,238
Other revenues	463,323	290,187	449,389	331,231	287,534
Total operating expenses	3,045,280	3,012,233	2,959,389	3,064,672	2,741,432
Total other income, net	283,510	17,299	65,777	52,589	81,856
Net financing costs	136,685	144,263	171,170	165,100	177,275
Net (expenses) revenues for the year	577,052	(17,766)	305,828	19,303	247,837
Taxes and tax equivalents	170,610	173,211	166,508	176,153	166,898
Utility plant, gross	17,305,702	16,891,569	17,079,497	16,438,352	15,698,318
Long-term debt	4,744,294	4,621,694	4,587,689	4,742,857	4,465,538
Electric revenue contributions to support water operations	65,202	59,158	58,115	47,534	58,209

For comparative purposes, certain prior-year amounts have been reclassified to conform with the current-year presentation.

SELECTED DATA	2021	2020	2019	2018	2017
Total debt service coverage ratio	4.0	3.8	4.2	4.1	3.6
Debt ratio	44.3	46.2	45.9	48.2	46.7
Total electric sales (million kWh)	41,254	35,204	37,161	35,256	34,257
Peak-SRP retail customers (kW)	7,615,000	7,250,000	7,305,000	7,219,000	6,873,000
Water deliveries (acre-feet) (1)	-	795,160	785,126	766,288	773,527
Runoff (acre-feet) (1)	-	885,624	1,415,489	269,469	1,136,862
Employees at year-end	4,846	4,966	5,040	5,089	5,186
Customers at year-end	1,093,263	1,074,952	1,057,122	1,041,342	1,026,118

(1) Water data is by calendar year, all other data is by fiscal year ending April 30.

FINANCIAL INQUIRIES

BRIAN J. KOCH

Treasurer & Senior Director, Financial Services

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BONDHOLDER INFORMATION

SRP Treasury Department

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