

2023

ANNUAL REPORT

INCLUDING FIVE-YEAR OPERATIONAL AND
STATISTICAL REVIEW AND FINANCIAL SUMMARY



Delivering water and power®



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CORPORATE HEADQUARTERS

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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.

From the President and General Manager & CEO

In fiscal year 2023 (FY23), SRP continued to fulfill its mission to help the Valley and Arizona thrive as it has done for 120 years.

The company's ongoing success speaks to the commitment, dedication and resilience of our incredible team members who work tirelessly to serve our customers by always delivering reliable, affordable and sustainable water and power.

Under the steady leadership of executive management in collaboration with SRP's publicly elected officials, in FY23 the company made significant progress toward achieving key performance and sustainability goals — while strengthening and preparing for the future. In addition, SRP and our caring and compassionate employees again provided critical community support through donations of time, money and services.

SRP is in a strong position financially and operationally and is the gold standard in the utility industry for customer service. We are pleased to share several of the company's many accomplishments during a very active and productive FY23.

LEADERSHIP

SRP has a long history of strong and consistent leadership and successful transitions, which was demonstrated once again when, on March 23, the SRP Board of Directors selected Jim Pratt to be the company's new General Manager and Chief Executive Officer. He succeeds Mike Hummel, who retired in May after 41 years with SRP.

Pratt has worked in the utility industry for more than 39 years. He started at SRP in 1984 as an engineer and gained extensive experience in a variety of engineering and management positions

relating to every aspect of the company's business. In 2018, Pratt was named Associate General Manager of Customer Operations & Chief Customer Executive. In that role he led SRP teams that are responsible for servicing water and power customers, including Water Services, Customer Services & Strategy, Customer Programs and Distribution Grid Services.

RELIABLY MEETING DEMAND

The demand for power continues to increase across SRP's service territory, especially in the large industrial customer segment, including high-tech manufacturing. SRP is constantly evaluating near- and long-term needs and is implementing a comprehensive strategy to meet customer demand today and into the future. We're doing this while our customers pay some of the lowest prices in the West and we stay on track to meet or exceed the sustainability targets in our 2035 goals. In fact, current plans could result in as much as 75% of the energy delivered to SRP customers coming from carbon-free resources by 2035.

SRP's diversified energy policy taps into the most efficient, available and cost-effective mix of energy sources. This helps us maintain the reliability needed for Arizona's hot summers while strengthening economic growth in the region. This balanced, responsible approach was on display in FY23 as we put forward one of the largest battery storage commitments in the West as well as secured approval for the Coolidge Expansion Project, which adds 12 fast-ramping natural gas turbines to the existing generation at the Coolidge facility. This will help SRP cost-effectively and reliably meet the Valley's growing energy needs as we work to add even more solar, wind and

storage resources in one of the fastest-growing regions in the country.

SRP completed an all-source request for proposals (RFP) to procure additional resources that are expected to come online between 2024 and 2026. SRP negotiated power purchase agreements for five projects totaling over 2,000 megawatts (MW) of power, including a mix of solar, grid-charged batteries and natural gas. SRP also issued a new all-source RFP to identify any additional resources that may be needed in the near term and midterm.

At the same time, SRP is moving ahead with plans to locate additional generation resources. In FY23, the SRP Board of Directors voted to approve phases 1 and 2 of the Copper Crossing Energy and Research Center, which will include the installation of two flexible natural gas-fired combustion turbines, each with an output less than 50 MW and an advanced solar generation project capable of generating up to 55 MW.

HELPING BUILD SUSTAINABLE COMMUNITIES

SRP's Economic Development and Water Strategy teams collaboratively launched a pilot of the SRP Sustainable Cities Program, which provides a structure to assist cities in understanding and demonstrating their efforts regarding sustainability to ensure their future competitiveness. Four participants were engaged in the pilot: the City of Phoenix, City of Mesa, City of Tempe and Town of Gilbert.

Additionally, SRP's Economic Development team launched a customer-focused toolkit to connect sustainable practices in water and energy to new economic development projects. This included hosting educational webinars for our municipal partners focused on water management and conservation, energy efficiency, and SRP's water and power resources as they relate to economic

development projects. The team also inventoried existing SRP water and energy conservation efforts to better equip SRP to promote the respective programs and initiatives with current and future partners.

SECURING ARIZONA'S WATER FUTURE

SRP is in a unique position because our water comes from the Salt and Verde watersheds, not the Colorado River, and our system is more resilient and not impacted as severely by drought and the other effects of climate change. However, as a trusted water leader, and as Arizonans, we know that we're all in this together. SRP is actively working with a broad range of partners to find solutions that ensure the state has the water needed to support our communities and the economy.

SRP reservoirs ended FY23 at full capacity as a result of the wet and productive winter and spring runoff seasons on both the Verde and Salt River watersheds. Measurements showed the snowpack on the Verde watershed was the deepest in three decades. The intense runoff from the snowmelt and rain required SRP to spill approximately 730,000 acre-feet from reservoirs on both river systems for an extended period during the spring.

The situation clearly underscores the urgent need for infrastructure improvements, which SRP is pursuing. These important projects include the proposal to raise Bartlett Dam, the plan to increase short-term storage capacity by temporarily using the flood control space at Roosevelt Dam and completing the SRP to Central Arizona Project (CAP) Interconnection Facility, which will support cross-system exchanges of water. These proposals would not only help secure water for SRP shareholders into the future but would also provide Valley communities outside of the SRP system with access to the additional, non-project water that is collected and stored.

SETTING THE BAR FOR CUSTOMER SERVICE

SRP achieved the top rating in customer satisfaction from J.D. Power for the 21st consecutive year. SRP's customer satisfaction index of 796 (on a 1,000-point scale) is not only highest among the West Large utilities but also among all large utilities (more than 500,000 residential customers). This is the 23rd time SRP has ranked first in the residential study's West Large segment.

SRP also ranked first in customer satisfaction among business customers in the West Large segment and first in the nation in the J.D. Power 2022 Business Customer Satisfaction Study.

CREATING AN INCLUSIVE AND EQUITABLE WORKPLACE

At SRP, we believe every employee should feel respected and valued for their unique background, experiences and contributions to the team. That is critically important as we work to build a diverse and inclusive workplace in which we recruit, retain and develop team members with the skills

and abilities needed to take the company into the future in a rapidly evolving industry. To support this commitment, SRP's Human Resources team led an "Attracting Talent" initiative with input from leaders across the company to improve and streamline the recruiting process.

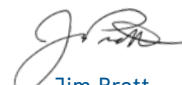
As part of this effort, Talent Acquisition developed a comprehensive strategic plan and talent acquisition process map that includes key principles of diversity, equity and inclusion (DEI). SRP will embed these core DEI principles into our processes, practices and policies to support our efforts to identify and hire quality talent.

BUILDING ON OUR MOMENTUM

Looking ahead to FY24, SRP will continue to meet challenges head on, as we have since our founding. We will also take advantage of the many opportunities present within this dynamic period of change by proactively extending our strategic vision to 2050, continuing our reliable transition to a lower-carbon resource portfolio, and remaining focused on helping our customers, our communities and our team members be successful.



David Rousseau,
President



Jim Pratt,
General Manager &
Chief Executive Officer

Reviewing Financial Results

RESULTS OF OPERATIONS

Operating revenues were \$4.0 billion for fiscal year 2023 (FY23) and \$3.6 billion for fiscal year 2022 (FY22), an increase of \$456.2 million, or 12.8%. The increase in operating revenues was due to increased retail electric and wholesale revenues. FY23 retail electric revenues increased \$218.0 million, or 7.3%, to \$3.2 billion, primarily due to higher volumes sold and higher average temperatures in FY23 compared to FY22.

Wholesale revenues increased \$236.7 million, or 51.1%, to \$699.6 million compared to FY22. FY23 wholesale revenues included a fair value gain of \$13.8 million compared to a \$1.3 million fair value loss in FY22. Excluding the fair value adjustments, FY23 wholesale revenues would have been \$685.8 million compared to \$464.3 million in FY22, an increase of \$221.5 million or 47.7%. The increase is primarily due to significantly higher average sales prices compared to FY22. The total number of customers was 1,135,988 as of April 30, 2023, a 2.1% increase from the previous year.

Operating expenses were \$4.3 billion for FY23 and \$3.0 billion for FY22, an increase of \$1.3 billion, or 44.8%. The increase in operating expenses was due to higher fuel used in electric generation expense, driven by higher natural gas prices. Fuel used in electric generation includes adjustments for the fair value of certain fuel contracts. Excluding the fair value loss of \$427.1 million in FY23 and fair value gain of \$456.3 million in FY22, fuel used in electric generation expense would have increased \$369.8 million, or 49.9%.

Investment income (loss), net was a \$30.8 million net income for FY23 compared to a net loss of \$68.9 million for FY22. Investment income (loss), net includes a fair value gain of \$13.1 million for FY23 and a fair value loss of \$72.1 million for FY22.

Net financing costs were \$131.9 million and \$130.6 million in FY23 and FY22, respectively.

Net expenses for FY23 were \$361.5 million compared to net revenues for FY22 of \$394.6 million. Excluding the effects of the changes in the fair value of fuel and purchased-power contracts, wholesale positions and investments, net revenues would have been \$39.2 million and \$12.7 million for FY23 and FY22, 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/about/about-srp).

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 4% 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 tried 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, including renewable purchased power agreements.

On September 12, 2022, the Board voted to approve two increases to FPPAM prices: the first overall 4.7% increase effective November 1, 2022, and the second increase of the same magnitude effective a year later, November 1, 2023. The Board also approved forgoing future collection of \$124 million of the under-collected FPPAM balance, using the District's strong financial position to reduce the need for price increases in the future. On March 28, 2023, the Board voted to approve an additional overall increase through FPPAM rates of 4.9% to the already approved increase of 4.7% effective November 1, 2023, for a total overall price increase of 9.6% compared to current price levels.

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.

FY23 capital spending levels were slightly below original expectations. Generation projects accounted for 24% of the year's expenditures. These projects included generation resources to meet near-term capacity growth, as well as plant modification costs for Palo Verde, Santan and Coronado generating stations.

Expansion of the electrical distribution system to meet future growth and to replace aging underground cable accounted for 29% of FY23 capital expenditures. Almost half of the distribution system spending was for New Business projects. The addition of new transmission facilities made up 28% of FY23 capital expenditures. These projects included customer driven work as well as transmission line and station additions.

SRP Boards and Councils

Association President and Vice President

David Rousseau,
President

John R. Hoopes,
Vice President

District President and Vice President

David Rousseau,
President

Christopher Dobson,
Vice President

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:

Randy Miller

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:

Randy Miller

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:

Krista O'Brien

Seat 13:

Nicholas R. Brown

Seat 14:

Kathy L. Mohr-Almeida

The Association Council

District 1:

Tyler M. Francis,
Ronald S. Kolb,
Clifford M. Leatherwood

District 6:

Jacqueline L. Miller,
Nicholas J. Vanderwey,
Michael A. Warren

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:

Mark Mulligan,
Mark L. Farmer,
Mark C. Pedersen

District 4:

Ian Rakow,
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

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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

Christopher Dobson, John R. Hoopes,
Vice Presidents

John M. Felty,
Corporate Secretary

Brian J. Koch,
Treasurer

Executive Management

Jim Pratt,
General Manager &
Chief Executive Officer

Alaina Chabrier,
Associate General
Manager & Chief
Communications Executive

Rob Taylor,
Associate General
Manager & Chief Public
Affairs and Corporate
Services Executive

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

Leslie Meyers,
Associate General Manager,
Chief Water Resources and
Services Executive

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

Rudy Navarro,
Interim Associate
General Manager & Chief
Customer Executive

Bobby Olsen,
Associate General Manager
& Chief Planning, Strategy
and Sustainability Executive

Five-Year Operational and Statistical Review

FINANCIAL DATA (\$000)	2023	2022	2021	2020	2019
Total operating revenues	\$ 4,021,546	\$ 3,565,341	\$ 3,475,507	\$ 3,121,431	\$ 3,370,610
Retail electric revenues	3,211,366	2,993,392	2,989,995	2,810,421	2,902,560
Water revenues	24,019	25,805	22,189	20,823	18,661
Other revenues	786,161	546,144	463,323	290,187	449,389
Total operating expenses	4,313,633	2,978,467	3,045,280	3,012,233	2,959,389
Total other (expense) income, net	62,412	(61,629)	283,510	17,299	65,777
Net financing costs	131,855	130,638	136,685	144,263	171,170
Net (expenses) revenues for the year	(361,530)	394,607	577,052	(17,766)	305,828
Taxes and tax equivalents	165,514	177,971	170,610	173,211	166,508
Utility plant, gross	18,621,890	17,854,035	17,305,702	16,891,569	17,079,497
Long-term debt	4,950,900	4,560,487	4,744,294	4,621,694	4,587,689
Electric revenue contributions to support water operations	60,730	56,290	65,202	59,158	58,115

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

SELECTED DATA	2023	2022	2021	2020	2019
Total debt service coverage ratio	3.4	3.5	4.0	3.8	4.2
Debt ratio	45.2	41.7	44.3	46.2	45.9
Total electric sales (million kWh)	37,401	37,963	41,254	35,204	37,161
Peak SRP retail customers (kW)	7,620,000	7,571,000	7,615,000	7,250,000	7,305,000
Water deliveries (acre-feet) (1)	-	756,780	792,505	795,160	785,126
Runoff (acre-feet) (1)	-	575,223	483,055	885,624	1,415,489
Employees at year-end	5,132	4,844	4,846	4,966	5,040
Customers at year-end	1,135,988	1,112,683	1,093,263	1,074,952	1,057,122

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

FINANCIAL INQUIRIES

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