2022

ANNUAL REPORT

INCLUDING FIVE-YEAR OPERATIONAL AND STATISTICAL REVIEW AND FINANCIAL SUMMARY

SRP

Delivering water and power®

Contents

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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

SRP has reliably served central Arizona since its founding more than a century ago, and today stands as a committed community partner that can be counted on regardless of any challenges that may arise. Throughout the COVID-19 pandemic, and now as Arizona and the nation address its ongoing economic and social impacts, SRP continues to fulfill our mission of service while delivering exceptional results.

Under the leadership of executive management and with the support of SRP's elected Board and Council, fiscal year 2022 (FY22) featured successes in financial performance, customer service, water resiliency and more. It was also a year when we were reminded of the character and capabilities of our team members, among them resilience, commitment, innovation, collaboration and caring.

The SRP team continued to not simply meet but to exceed expectations throughout the year despite the ongoing disruption and uncertainty of the pandemic. Employees continually adapted to changing circumstances and stayed locked in on SRP's mission to deliver reliable, affordable and sustainable water and power.

FINANCIAL STRENGTH AND STABILITY

SRP's FY22 combined net revenue was $394.6 million. Key drivers of that performance were higher-than-expected electric revenues, lower operating expenses, and market gains on hedging contracts, partially offset by lower retail margins as a result of higher fuel costs. Capital spending remains robust due to rapid growth. SRP ended the year with over $1 billion in the general fund and a debt ratio of 41.7%. SRP's credit rating remains strong with an AA+ rating from S&P and an Aa1 rating from Moody's.

SUSTAINABLY SUPPORTING UNPRECEDENTED GROWTH

Economic development brings the need for more power, and current forecasts indicate that SRP will need to meet expected load growth of approximately 3,400 MW by 2035. When combined with the planned retirement of 3,000 MW of coal generation during that same time period, there is clearly a significant need for new sustainable and flexible energy resources.

SRP is working to keep pace with the rapid growth and ensure we have the resources needed to meet the near- and long-term power needs of our customers. We are also working to add resources that keep us on track to achieve our 2035 Sustainability Goal of reducing our carbon emissions by 65% from 2005 levels.

In FY22, SRP continued progress toward achieving the goal of adding 2,025 MW of solar energy to the system by 2025.

- Have procured or have online 1,748 MW of solar energy.
- Brought online the 100 MW Central Line Solar facility.
- Extended the contract for the 27 MW Kayenta I solar facility and signed a contract for a new 200 MW facility called Cameron Solar, expected to go online by the end of 2023. Both sites are located on the Navajo Nation.

A top priority for SRP in making the transition to cleaner and renewable energy is maintaining reliability, which requires a balance of resources including renewables, battery storage and flexible natural gas generation. Gas generation is critical to filling in the gaps when intermittent resources are not available or cannot meet demand.

- In FY22, SRP delivered a strong Run Reliability of more than 97%.

BUILDING SUSTAINABILITY

SRP continued to upgrade natural gas generating units to improve efficiency and increase capacity, completing work on more than half of SRP's existing combined-cycle fleet. Collectively, improvements at Mesquite and Desert Basin power plants added more than 90 MW of generation capacity and significantly reduced NOx emissions.

Increasing numbers of commercial customers have aggressive sustainability goals and want 100% of their electricity to come from carbon-free resources, which aligns with SRP's 2035 Sustainability Goals and the electrification of the economy. In FY22 SRP continued to support these efforts:

- Connected 6,240 residential and small business customers to solar through SRP's Solar Choice program.
- Enabled 33 large commercial customers to account for 100% of their electricity usage with solar energy through SRP's Sustainable Energy Offering.
- Expanded the portfolio of residential and commercial EV adoption programs, enabling 26,875 new EVs within SRP's service territory.
- Exceeded targets for expanding energy efficiency and demand response programs.

SECURING ARIZONA'S WATER FUTURE

The growth throughout the Valley is also increasing the demand for water resources as the Southwest continues to be impacted by extreme drought. However, the watersheds that feed the Salt and Verde rivers and reservoirs are resilient and more resistant to drought and the effects of climate change than other river basins in the West, such as the Colorado River. SRP's reservoirs continue to be in good shape and finished FY22 at 71% of capacity.

Essential to the ongoing resilience and strength of SRP's rivers and reservoirs is ensuring that the watersheds are healthy. Forests surrounding the watersheds are overcrowded with trees and brush and vulnerable to wildfires, which could severely impact the water flowing into our system.

In FY22, SRP entered into two agreements with the U.S. Forest Service and the Arizona Department of Forestry and Fire Management to thin a total of 76,000 acres of forest in the C.C. Cragin watershed and in the Tonto National Forest. We completed thinning 1,256 acres as part of those agreements, and we continue to work with the Forest Service and the state to push for additional thinning projects.

SRP is moving ahead with other initiatives to improve our ability to protect, manage and conserve our precious water resources, including seeking to increase storage capacity and improve the ability to partner with Central Arizona Project and others to facilitate the movement of water to where it's needed.

INDUSTRY-LEADING CUSTOMER SERVICE

In FY22, we continued to put our customers first, delivering reliable, affordable and sustainable water and power while providing exceptional customer service. Our customers rewarded us by again making SRP No. 1 in business and residential customer satisfaction based on the J.D. Power survey for large utilities in the West.

DIVERSITY, EQUITY AND INCLUSION

As we work to serve our customers, we are also focused on our employees. SRP is committed to achieving a truly diverse, equitable and inclusive workplace, and we believe that our employees should reflect the communities we serve. FY22 was another year of movement toward achieving this vision.

- In FY22, SRP required training for leaders in areas such as finding common ground, lifting people up and creating clarity. Additional training for leaders and employees includes a program that provides tools and resources to enable individuals to speak up more frequently and productively, share ideas with increased confidence, and effectively question decisions and challenge behaviors when needed.
- SRP was named as a City of Tempe Equal Pay Partner which recognizes businesses that pay equal wages between genders for equal positions.

FOCUS ON SAFETY

SRP significantly improved its safety performance during the past year. Our OSHA Total Recordable Incident Rate (TRIR), which quantifies a company's frequency of injuries per 100 workers during a one-year period, improved and was better than the previous national average rate for all public and private utilities.

In calendar year 2020, the national average TRIR for private utilities was 1.50 and for public utilities it was 3.50. SRP's TRIR was 1.24 in 2020 and 1.20 in 2021 (national data for 2021 not available as of publication). SRP finished FY22 with significantly fewer preventable vehicular accidents (PVAs) and operational accidents than in FY21 and FY20:

- SRP recorded a total of 39 PVAs in FY22 compared to 50 in FY21 and 56 in FY20.
- There were only eight operational accidents in FY22 compared to 18 in both FY20 and FY21.

FORWARD TOGETHER

SRP successfully navigated many challenges throughout FY22, and we know that we will face many more in the coming year, including the ongoing economic disruption sparked by the pandemic as well as the uncertain road to recovery. However, SRP is strong and well positioned to build on the momentum we have established to continue to succeed in FY23, moving forward with the transition to cleaner, more sustainable energy resources and supporting the unprecedented growth taking place across Arizona.

SRP and our elected Board and Council are committed to serving our shareholders and our customers and to lifting our community by supporting organizations that assist those who need it most. We were founded to ensure the Valley and the state could grow and thrive, and that remains our mission today. Together, we will continue to improve the quality of life and build an even stronger, brighter future for all Arizonans.

David Rousseau
President

Mike Hummel
GM & CEO

Reviewing Financial Results

RESULTS OF OPERATIONS

Operating revenues were $3.6 billion for FY22 and $3.5 billion for FY21, an increase of $89.8 million, or 2.6%. The increase in operating revenues was primarily due to increased wholesale revenues. Wholesale revenues increased $78.3 million, or 20.4%, to $463.0 million compared to FY21. FY22 wholesale revenues included a fair value loss of $1.3 million compared to a $15.8 million loss in FY21. Excluding the fair value losses, FY22 wholesale revenues would have been $464.3 million compared to $400.5 million in FY21, an increase of $63.8 million, or 15.9%. The increase is primarily due to higher average sales prices compared to FY21. The total number of customers was 1,112,683 as of April 30, 2022, a 1.8% increase from the previous year.

Operating expenses were $3.0 billion in both FY22 and FY21. Power purchased expense increased $107.0 million primarily due to higher market prices caused by market conditions and additional power purchase agreements to meet demand, including renewable energy purchases. Fuel used in electric generation expense decreased $212.2 million primarily due to decreased fuel volumes purchased in electric generation caused by higher fuel costs. Combined, power purchased and fuel used in electric generation decreased $105.5 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 gains of $455.3 million in FY22 and $107.0 million in FY21, these expenses would have increased $243.1 million, or 20.3%.

Investment (loss) income, net was a $68.6 million net loss for FY22 compared to net income of $317.7 million for FY21. Investment (loss) income, net includes fair value losses of $72.1 million for FY22 and fair value gains of $312.5 million for FY21.

Net financing costs were $130.6 million and $136.7 million in FY22 and FY21, respectively.

Net revenues for FY22 were $394.6 million compared to net revenues for FY21 of $577.1 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 $12.7 million and $173.4 million for FY22 and FY21, respectively.

ENERGY RISK MANAGEMENT PROGRAM

SRP'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 **srp.net/annualreport**).

The Energy Risk Management Program is managed according to a policy approved by the 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 and, as of May 1, 2019, also includes renewable purchased power agreements.

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 our customers, the pandemic and the 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. The Rate Stabilization Fund is used by the District to set aside funds for specific purposes of the District and may be released back to the General Fund at the discretion of the District. On April 30, 2021, $82.0 million was released to the General Fund to offset the FPPAM under collection balance.

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.

FY22 capital spending levels were slightly below original expectations. Generation projects accounted for 39% 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, Desert Basin and Mesquite generating stations.

Expansion of the electrical distribution system to meet future growth and to replace aging underground cable accounted for 31% of FY22 capital expenditures. Almost half of the distribution system spending was for New Business projects. The addition of new transmission facilities made up 12% of FY22 capital expenditures. These projects included transmission line additions as well as transmission pole asset management.

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 2:
Paul E. Rovey

District 3:
Mario J. Herrera

District 4:
Leslie C. Williams

District 5:
Stephen H. Williams

District 6:
Jack M. White Jr.

District 7:
Keith B. Woods

District 8:
Randy Miller

District 9:
Robert C. Arnett

District 10:
Mark V. Pace

The District Board:

Division 1:
Kevin J. Johnson

Division 2:
Paul E. Rovey

Division 3:
Mario J. Herrera

Division 4:
Leslie C. Williams

Division 5:
Stephen H. Williams

Division 6:
Jack M. White Jr.

Division 7:
Keith B. Woods

Division 8:
Randy Miller

Division 9:
Robert C. Arnett

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 2:
Jerry E. Geiger,
Suzanne Naylor,
William W. Sheely

District 3:
Aaron M. Herrera,
Richard W. Swier,
Paul A. Van Hofwegen

District 4:
Ian Rakow,
M. Brandon Brooks,
Michael G. Rakow

District 5:
John R. Augustine,
J. Weston Lines,
John R. Shelton

District 6:
Jacqueline L. Miller,
Nicholas J. Vanderwey,
Michael A. Warren

District 7:
Mark A. Lewis,
Barry E. Paceley,
Harmen Tjaarda Jr.

District 8:
Mark Mulligan,
Mark L. Farmer,
Mark C. Pedersen

District 9:
A. Allen Freeman,
Mark A. Freeman,
Adam S. Hatley

District 10:
Dave B. Lamoreaux,
William P. Schrader Jr.,
William P. Schrader III

The District Council

Division 1:
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Adam S. Hatley

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

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, Chief Water Resources Executive (retiring November 2022)

Leslie Meyers,
Associate General Manager, Chief Water Resources Executive (succeeding Dave Roberts)

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)	2022	2021	2020	2019	2018
Total operating revenues	$ 3,565,341	$ 3,475,507	$ 3,121,431	$ 3,370,610	$ 3,196,486
Retail electric revenues	2,993,392	2,989,995	2,810,421	2,902,560	2,847,104
Water revenues	25,805	22,189	20,823	18,661	18,151
Other revenues	546,144	463,323	290,187	449,389	331,231
Total operating expenses	2,978,467	3,045,280	3,012,233	2,959,389	3,064,672
Total other (expense) income, net	(61,629)	283,510	17,299	65,777	52,589
Net financing costs	130,638	136,685	144,263	171,170	165,100
Net (expenses) revenues for the year	394,607	577,052	(17,766)	305,828	19,303
Taxes and tax equivalents	177,971	170,610	173,211	166,508	176,153
Utility plant, gross	17,854,035	17,305,702	16,891,569	17,079,497	16,438,352
Long-term debt	4,560,487	4,744,294	4,621,694	4,587,689	4,742,857
Electric revenue contributions to support water operations	56,290	65,202	59,158	58,115	47,534

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

SELECTED DATA	2022	2021	2020	2019	2018
Total debt service coverage ratio	3.5	4.0	3.8	4.2	4.1
Debt ratio	41.7	44.3	46.2	45.9	48.2
Total electric sales (million kWh)	37,963	41,254	35,204	37,161	35,256
Peak-SRP retail customers (kW)	7,571,000	7,615,000	7,250,000	7,305,000	7,219,000
Water deliveries (acre-feet) (1)	–	789,820	795,160	785,126	766,288
Runoff (acre-feet) (1)	–	483,055	885,624	1,415,489	269,469
Employees at year-end	4,844	4,846	4,966	5,040	5,089
Customers at year-end	1,112,683	1,093,263	1,074,952	1,057,122	1,041,342

(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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