

2018 ANNUAL REPORT

Salt River Project



Delivering water and power™

Including Five-Year Operational and
Statistical Review and Financial Summary

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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 to develop and thrive.

As a community-based, not-for-profit entity, 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.

In addition to our commitment to our natural resources, SRP has also continued to make major achievements on behalf of our customers over the past year.

From the President and the Vice President

Over the past year, SRP has seen both significant change and significant achievement for our elected officials, our executive leadership, our team members, our shareholders and our customers.

The most significant of those changes occurred in May, when General Manager & CEO Mark Bonsall retired after more than 40 years with SRP. We are grateful for his leadership in that role over the past seven years, and our organization's successes during that time would not have been possible without his efforts.

After a thorough and smooth succession process led by our elected Board, longtime SRP team member Mike Hummel was unanimously selected to become our next General Manager & CEO and lead our organization into this next chapter.

As this report details, even as we have faced these changes our organization has continued to meet its core mission to deliver reliable, affordable power and

water — and will remain committed to being leaders in our industry and the communities we serve as we fulfill this mission for generations to come. Every member of our organization understands our responsibility as a community-based, not-for-profit entity committed to always doing what is best for the community.

Stewards for water and natural resources

Following an above-average winter runoff in 2017, Arizona and most of the West are now experiencing one of the driest water years on record. However, despite these historic conditions, SRP continues to meet the water needs of the Phoenix area and we are prepared to do so for the years ahead.

That is only possible because of our longstanding process of always planning for drought — even in good water years — as well as our key partnerships with Valley municipalities, Central Arizona Project,

the Arizona Department of Water Resources, Native American communities, the Bureau of Reclamation and the Department of the Interior. In fact, this past year marked the 100th anniversary of the partnership between SRP and the Bureau of Reclamation to manage the Salt and Verde river watersheds and the series of dams that have enabled the Phoenix area to thrive for the past century.

We continue to prioritize our water planning efforts, with significant efforts directed toward infrastructure improvements, properly managing our reservoirs in the face of continued low runoff, and continuing to build and strengthen relationships with our partner organizations in securing Arizona's water future.

Supporting our customers

In addition to our commitment to our natural resources, SRP has also continued to make major achievements on behalf of our customers over the past year.

In March, the Board approved an \$18.8 million temporary price decrease for our electric customers. This marked the third price decrease in the past two years, enabled by lower fuel costs and our employees' efforts to manage expenses while still maintaining our position at the forefront of our industry for innovation, energy generation and other technologies.

The past year also saw our organization earn numerous awards and recognitions, including earning the top J.D. Power spot among large electric utilities for residential electric service for the 13th consecutive year.

Beyond these accolades, maintaining our position as an industry leader also requires a steadfast commitment to reliable service and strong labor relations. We

achieved both in November when SRP management and the leadership of the International Brotherhood of Electrical Workers Union Local 266 signed new four-year agreements that will run through 2021.

Serving our community

Our organization continues to reach major milestones and deliver industry-leading service to our customers and shareholders. We are especially proud of the recognition SRP team members and our organization have earned for our deeply rooted commitment to giving back to our community and those around us.

This includes SRP earning the prestigious Employer Support Freedom Award from the Department of Defense — an honor given yearly to only 15 employers nationwide — for supporting employees who serve in the National Guard and Reserve. Locally, SRP was honored as the Corporation of the Year by the Arizona Hispanic Chamber of Commerce and received the Community Champion Award from the Greater Phoenix Chamber of Commerce.

These fiscal year results illustrate that after more than a century, SRP continues to achieve its mission to build a better Arizona today and in the years ahead. We are proud to be a part of this organization and, on behalf of our entire Board and Council, we look forward to achieving even more in the future.

David Rousseau
President



John R. Hoopes
Vice President



I am proud of the work our SRP team members have accomplished over the past fiscal year and commend them for a job well done.

From the General Manager & CEO

Fiscal year 2018 proved to be another strong year for SRP and, as our performance illustrates, we are strongly positioned to meet our core mission for years to come thanks to the incredible work by our team members, elected officials and partners.

We continue to find new and more efficient ways to be leaner, greener and even more customer-centric. As leaders in our community and industry, we remain ever focused on protecting and improving the incredible way of life Arizona offers.

Highlighting FY18's notable achievements

Completed the Navajo Generating Station lease extension: After extensive negotiations between co-owners, the U.S. Bureau of Reclamation and the Navajo Nation, an Extension Lease was signed that will enable NGS to remain in operation through 2019. Concurrently, SRP continues to work alongside the Navajo Nation, the Hopi Tribe and the City of Page to pursue projects and

other efforts to foster economic development throughout the region.

Formed a partnership to ensure reliable future water supplies: SRP and the City of Phoenix established a 40-year partnership to ensure reliable water deliveries in the future during extreme drought and shortage conditions on the Colorado River. Under the first-of-its-kind agreement, SRP will reserve capacity in its extensive system of wells for use by Phoenix to utilize long-term storage credits for water stored within the SRP water service area.

Agreed to Kayenta Solar generation facility expansion: Facilitated by a landmark agreement with SRP, the Navajo Tribal Utility Authority (NTUA) will approximately double the size of the existing 27.3-megawatt (MW) Kayenta Solar Project located on the Navajo Nation. The expansion is expected to go commercial by June 2019. NTUA and SRP also signed a Memorandum of Understanding to work together in pursuing additional renewable projects on the Navajo Nation.

Completed an Integrated Resource Planning process:

The IRP process, conducted every three years, was completed after extensive scenario planning, modeling and stakeholder engagement. The resulting strategic conclusions will be used to help guide SRP moving forward.

Finalized an agreement to add battery storage: SRP and Tesla finalized an agreement to resolve SolarCity's 2015 lawsuit. The agreement enables the organizations to now partner through the purchase and installation of a 25 MW battery energy storage system to be installed by Tesla at the Agua Fria Generating Station, initiation of a pilot program for solar and non-solar customers, and the initiation of a limited incentive program for SRP customers toward the purchase of qualifying home energy storage systems.

Assumed operations of Gila River Power Station: After completing the purchase of blocks 1 and 2, SRP took over operational control of the gas-fired facility in May. As the owner of blocks 1, 2 and 4, we now have a combined capacity of 1,650 MW at the plant. Additionally, SRP has entered into a power purchase agreement under which SRP sells power from Block 2 to Tucson Electric Power Company.

Assisted with power restoration in Puerto Rico: Beginning in early December, SRP employees deployed to Puerto Rico on behalf of the American Public Power Association (APPA) to assist in restoring power to the island's residents in the wake of Hurricane Maria. This was part of the largest and longest restoration effort in U.S. history.

Preparing for the future

I am proud of the work our SRP team members have accomplished over the past fiscal year and commend them for a job well done. As our industry's and our customers' needs continue to change, we must continue to adapt for what lies ahead.

And we are eager to do just that, which is why we keep propelling our industry — and Arizona — forward.

The first significant step toward that goal began this year with the implementation of SRP 2035, a set of visionary, long-term sustainability goals that are being applied across our entire operation. The goals, approved by our Board of Directors in October 2017, are as follows:

- Reduce carbon footprint
- Ensure water resiliency
- Modernize the energy grid
- Promote a sustainable supply chain, reduce waste
- Engage with our communities

The goals are a culmination of an extensive two-year process of sustainability research, benchmarking and engagement of internal leadership and external stakeholders. We will continue to revisit and update these goals based on new information, technologies and other factors, but SRP 2035 provides us with a foundation to reduce risk, maintain reliability, attract and retain employees, lower costs and realize future opportunities. I encourage you to visit srpnet.com/2035 for more information about these goals as well as other resources regarding our sustainability and energy efficiency efforts.

Combined with our fiscal year-end results, I am encouraged by where SRP stands today and confident about our organization going forward.

Thank you to our amazing SRP team members for their strong performance, and thank you to our elected leaders for their support and guidance in delivering these results. As we continue to embrace innovation, secure our watershed and create a diverse energy supply, we will always remain committed to meeting our customers' water and power needs — just as we have for more than a century.

Mike Hummel

General Manager & CEO



Reviewing Fiscal Year Results

Overview of Business

SRP comprises two entities: the Salt River Project Agricultural Improvement and Power District (the District), and the Salt River Valley Water Users' Association (the Association).

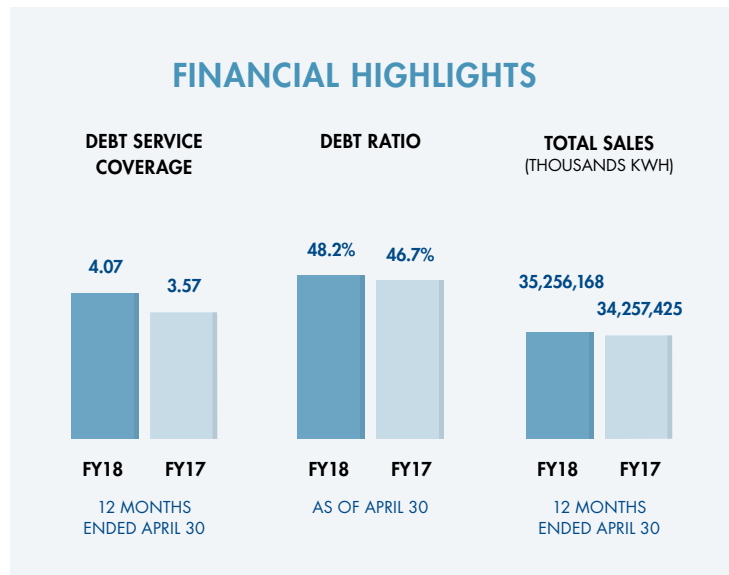
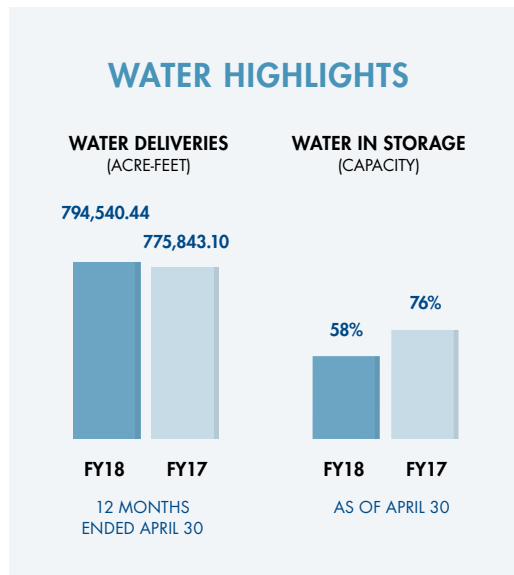
The District is an agricultural improvement district organized in 1937 under the laws of the State of Arizona. It operates the Salt River Project (the Project), a federal reclamation project, under contracts with the Association, by which it has assumed the obligations and assets of the Association, including its obligations to the United States of America for the care, operation and maintenance of the Project. The District also owns and operates an electric system that generates, purchases, transmits and distributes electric power and energy and provides electric service to residential, commercial, industrial and agricultural power users in a 2,900-square-mile service territory in parts of Maricopa, Gila and

Pinal counties, plus mining loads in an adjacent 2,400-square-mile area in Gila and Pinal counties.

The Association operates the irrigation system of the Project as the agent of the District and is responsible for the operation and maintenance of the supply system by which to deliver raw water for irrigation and municipal treatment purposes, delivering the water supply for an area of approximately 248,200 acres within the cities of Phoenix, Avondale, Glendale, Mesa, Tempe, Chandler, Peoria, Scottsdale and Tolleson; the town of Gilbert; and the Gila River Indian Community.

Results of Operations

Operating revenues were \$3.20 billion for fiscal year 2018 (FY18), compared with \$3.08 billion for FY17, an increase of \$111.8 million, or 3.6%. The increase in operating revenues was primarily due to increased retail



and wholesale electric revenues. During FY18, retail electric revenues increased \$66.2 million to \$2.85 billion while wholesale revenues increased \$40.3 million to \$257.8 million. The increase in FY18 retail revenues was primarily due to increases in kilowatt-hours (kWh) sold to residential and commercial customers. Wholesale revenues increased primarily due to increases in kWh sold and higher wholesale pricing in FY18 compared to FY17. Wholesale revenues also included an FY18 fair value loss of \$13.9 million, reflecting a \$9.0 million increase from the \$4.9 million loss recorded in FY17. Without the effect of the fair value adjustment, FY18 wholesale revenues would have been \$271.8 million compared to \$222.4 million in FY17. The total number of customers increased by 1.5% from the previous year and totaled 1,041,342 as of April 30, 2018.

Operating expenses were \$3.08 billion for FY18 and \$2.76 billion for FY17, reflecting an increase of \$321.0 million, or 11.6%. Fuel and purchased-power expenses increased \$194.3 million, reflecting the majority of the increase in operating expenses. SRP's fuel and purchased-power costs include adjustments for the fair value of fuel and purchased-power contracts. Without the fair value adjustments, fuel and purchased-power costs would have increased \$1.4 million, or 0.1%, from the previous year. Operations and maintenance expense increased \$23.7 million, depreciation and amortization increased \$93.8 million and taxes and tax equivalents increased \$9.3 million compared to FY17. The increase in depreciation and amortization in FY18 is due to asset additions placed into service in recent periods and recovery periods being shortened for certain coal assets.

Investment income resulted in a \$63.3 million gain for FY18 compared with a \$94.0 million gain for FY17.

Investment income includes a fair value gain of \$51.9 million in FY18, compared to an \$87.7 million gain recorded in FY17. Financing costs were \$165.1 million and \$177.3 million in FY18 and FY17, respectively.

The effects of the previously mentioned activities resulted in net revenues for FY18 of \$19.3 million, compared with net revenues of \$247.8 million for FY17. Without the effects of the change in the fair value of fuel and purchased-power contracts, wholesale positions and investment income, net revenues would have been \$123.6 million for FY18, compared with net revenues of \$114.4 million for FY17.

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, the District 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, originally Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." For a detailed explanation of the effects of ASC 815 on SRP's financial results, see Note 5

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, the District 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, the District offers prices on a time-of-use basis for residential, commercial and industrial customers.

The District's retail electric prices consist of three components: base prices, a Fuel and Purchased Power Adjustment Mechanism (FPPAM) and an Environmental Programs Cost Adjustment Factor (EPCAF). Base prices can be changed only through a formal public price process, while the FPPAM and EPCAF can be changed

during a price process or with the approval of the Board of Directors outside of a formal price process, but not more than once per quarter.

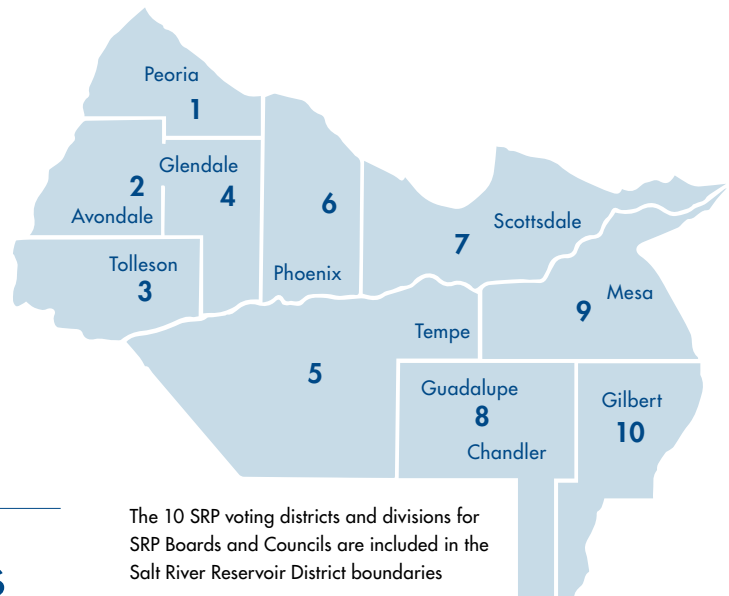
On June 23, 2016, the Board approved a temporary 1.0% decrease for the EPCAF and a 2.7% decrease for the FPPAM for the two-month summer peak season (July and August 2016). On Dec. 5, 2016, the Board approved a temporary 1.2% reduction to the EPCAF and a 0.4% reduction to the FPPAM for 10 months (January 2017 billing cycle through October 2017 billing cycle). On March 27, 2018, the Board approved a temporary 1.0% reduction to the FPPAM for six months (May 2018 billing cycle through October 2018 billing cycle).

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.

FY18 capital spending levels were somewhat below original expectations. Generation projects accounted for 28% of the year's expenditures. These projects included the purchase of Gila River Generating Station Power Block 4, plant modification costs for Palo Verde Generating Station, and emission controls activity at Four Corners Generating Station and Craig Generating Station.

Expansion of the electrical distribution system to meet future growth and to replace aging underground cable accounted for 33% of FY18 capital expenditures. More than one quarter of the distribution system spending was for New Business projects. The addition of new transmission facilities made up 10% of FY18 capital expenditures. These projects included transmission pole asset management as well as transmission substation improvements.



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 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 land owned by each elector. The four at-large Board positions are elected based on one person, one vote.

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 shareholders of the Association. The Board members, the President and the Vice President are elected by votes weighted in proportion to the amount of land owned by each shareholder.

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 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.

SRP Boards and Councils

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:
Deborah S. Hendrickson

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:
Deborah S. Hendrickson

Division 9:
Robert C. Arnett

Division 10:
Mark V. Pace

Directors at-large:

Seat 11:
Paul W. Hirt

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,
John R. Starr

District 2:
Jerry E. Geiger,
Kimberly A. Owens,
William W. Sheely

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

District 4:
Garvey M. Biggers,
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,
Robert W. Warren

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

District 8:
Christopher J. Dobson,
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:
Tyler M. Francis,
Ronald S. Kolb,
John R. Starr

Division 2:
Jerry E. Geiger,
Kimberly A. Owens,
William W. Sheely

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

Division 4:
Garvey M. Biggers,
M. Brandon Brooks,
Michael G. Rakow

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

Division 6:
Jacqueline L. Miller,
Nicholas J. Vanderwey,
Robert W. Warren

Division 7:
Mark A. Lewis,
Barry E. Pacey,
Harmen Tjaarda Jr.

Division 8:
Christopher J. Dobson,
Mark L. Farmer,
Mark C. Pedersen

Division 9:
Laron J. Dewitt,
A. Allen Freeman,
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

John R. Hoopes,
Vice President

John M. Felty,
Corporate Secretary

Steven Hulet,
Treasurer

Executive Management

Mike Hummel,
General Manager &
Chief Executive Officer

Alaina Chabrier,
Associate General
Manager & Chief
Communications Executive

Peter Hayes,
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 Systems Executive

Jim Pratt,
Associate General Manager,
Customer Operations
& Services, and Chief
Customer Executive

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

Hank Courtright,
Senior Director,
Corporate Strategy,
Planning and Innovation

Five-Year Operational and Statistical Review

FINANCIAL DATA (\$000)	2018	2017	2016	2015	2014
Total operating revenues	\$ 3,196,486	\$ 3,084,688	\$ 3,047,272	\$ 3,022,854	\$ 2,959,948
Retail Electric Revenues	2,847,104	2,780,916	2,749,131	2,648,484	2,566,587
Water Revenues	18,151	16,238	15,853	15,802	14,171
Other Revenues	331,231	287,534	282,288	358,568	379,190
Total operating expenses	3,079,972	2,758,949	2,705,929	2,946,353	2,654,300
Total other income (loss), net	67,889	99,373	(11,467)	66,981	96,741
Net financing costs	165,100	177,275	185,273	184,632	190,306
Net revenues for the year	19,303	247,837	144,603	(41,150)	212,083
Taxes and tax equivalents	176,153	166,898	164,475	161,644	160,492
Utility plant, gross	16,438,352	15,698,318	15,139,862	14,659,479	13,956,662
Long-term debt	4,742,857	4,465,538	4,579,919	4,274,885	4,413,028
Electric revenue contributions to support water operations	47,534	58,209	60,511	59,033	62,184

SELECTED DATA	2018	2017	2016	2015	2014
Total debt service coverage ratio	4.07	3.57	3.36	3.21	3.19
Debt ratio	48.2	46.7	48.6	47.7	48.2
Total electric sales (million kWh)	35,256	34,257	33,912	34,227	33,429
Peak-SRP retail customers (kW)	7,219,000	6,873,000	6,806,000	6,716,000	6,567,000
Water deliveries (acre-feet) (1)	–	773,527	779,466	747,239	721,993
Runoff (acre-feet) (1)	–	1,136,862	572,533	581,961	348,373
Employees at year-end	5,089	5,186	5,230	5,021	5,132
Customers at year-end	1,041,342	1,026,118	1,009,108	996,682	983,745

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

FINANCIAL INQUIRIES

STEVEN HULET

Treasurer & Senior Director, Financial Services

(602) 236-2675

BONDHOLDER INFORMATION

SRP Treasury Department

(602) 236-2222

CORPORATE HEADQUARTERS

STREET ADDRESS

SRP / 1500 N. MILL AVE. / TEMPE, AZ 85281-2389

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SRP / P.O. BOX 52025 / PHOENIX, AZ 85072-2025

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