COMBINED FINANCIAL STATEMENTS

AS OF APRIL 30, 2021 AND 2020

TOGETHER WITH
REPORT OF
INDEPENDENT AUDITORS

Combined Financial Statements foreword/disclaimer

SRP is a community-based not-for-profit water and energy company that serves more than 2 million people in central Arizona. In keeping with our commitment to transparency, attached are the 2021 Combined Financial Statements together with the Report of Independent Auditors. Questions or comments about this document should be addressed to Brian J. Koch, Treasurer & Senior Director, Financial Services, at (602) 236-2993.

COMBINED FINANCIAL STATEMENTS

AS OF APRIL 30, 2021 AND 2020

TOGETHER WITH
REPORT OF
INDEPENDENT AUDITORS

Report of Independent Auditors

To Management, the Board of Directors of Salt River Project Agricultural Improvement and Power District and the Board of Governors of Salt River Valley Water Users' Association

We have audited the accompanying combined financial statements of Salt River Project Agricultural Improvement and Power District and its subsidiaries and the Salt River Valley Water Users' Association (collectively, "the Company"), which comprise the combined balance sheets as of April 30, 2021 and 2020, and the related combined statements of net revenues and cash flows for the years then ended.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP, 1850 North Central Ave, Suite 700, Phoenix, AZ 85004

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Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Salt River Project Agricultural Improvement and Power District and its subsidiaries and the Salt River Valley Water Users' Association as of April 30, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

July 9, 2021

SALT RIVER PROJECT
COMBINED BALANCE SHEETS
APRIL 30, 2021 AND 2020
(Thousands)

ASSETS

	2021	2020
Utility Plant		
Plant in Service -		
Electric	$ 15,437,507	$ 15,142,330
Irrigation	557,699	531,523
Common	1,310,496	1,217,716
Total plant in service	17,305,702	16,891,569
Less - accumulated depreciation on plant in service	(9,140,769)	(8,690,625)
	8,164,933	8,200,944
Plant held for future use	56,734	44,284
Construction work in progress	597,628	532,903
Nuclear fuel, net	129,120	140,574
	8,948,415	8,918,705
Other Property and Investments		
Non-utility property and other investments	487,441	273,646
Segregated funds, net of current portion	2,010,343	1,581,377
	2,497,784	1,855,023
Current Assets		
Cash and cash equivalents	426,354	361,568
Temporary investments	133,824	118,430
Current portion, segregated funds	104,831	107,194
Receivables, net of allowance for doubtful accounts of $6,013 and $4,092, respectively	285,768	261,393
Fuel stocks	124,691	134,739
Materials and supplies	269,578	238,675
Current commodity derivative assets	46,218	22,714
Other current assets	39,749	48,646
	1,431,013	1,293,359
Deferred Charges and Other Assets		
Regulatory assets	1,131,070	1,806,699
Non-current commodity derivative assets	-	5,362
Other deferred charges and other assets	169,963	151,996
	1,301,033	1,964,057
Total Assets	$ 14,178,245	$ 14,031,144

The accompanying notes are an integral part of these combined financial statements.

SALT RIVER PROJECT
COMBINED BALANCE SHEETS
APRIL 30, 2021 AND 2020
(Thousands)

CAPITALIZATION AND LIABILITIES

	2021	2020
Long-term Debt	$ 4,744,294	$ 4,621,694
Accumulated Net Revenues	5,969,513	5,392,461
Total Capitalization	10,713,807	10,014,155
Current Liabilities		
Current portion of long-term debt	102,755	102,110
Other short-term debt	-	100,000
Accounts payable	189,715	143,958
Accrued taxes and tax equivalents	123,324	119,381
Accrued interest	70,323	69,684
Customers' deposits	114,226	107,526
Current commodity derivative liabilities	6,267	23,960
Other current liabilities	267,290	276,465
	873,900	943,084
Deferred Credits and		
Other Non-current Liabilities		
Accrued post-retirement liability	1,270,244	1,889,023
Asset retirement obligations	364,459	351,467
Non-current commodity derivative liabilities	123,521	140,255
Other deferred credits and other non-current liabilities	832,314	693,160
	2,590,538	3,073,905
Commitments and Contingencies		
(Notes 9, 10, 11, 12, 13, 14 and 15)		
Total Capitalization and Liabilities	$ 14,178,245	$ 14,031,144

The accompanying notes are an integral part of these combined financial statements.

SALT RIVER PROJECT
COMBINED STATEMENTS OF NET REVENUES
FOR THE YEARS ENDED APRIL 30, 2021 AND 2020
(Thousands)

	2021	2020
Operating Revenues		
Retail electric	$ 2,989,995	$ 2,810,421
Other electric	78,625	83,551
Wholesale	384,698	206,636
Water	22,189	20,823
Total operating revenues	3,475,507	3,121,431
Operating Expenses		
Power purchased	594,433	338,701
Fuel used in electric generation	496,256	723,418
Operations and maintenance	1,158,955	1,104,778
Depreciation and amortization	625,026	672,125
Taxes and tax equivalents	170,610	173,211
Total operating expenses	3,045,280	3,012,233
Net operating revenues	430,227	109,198
Other Income		
Investment income, net	317,661	18,778
Other expense, net	(34,151)	(1,479)
Total other income, net	283,510	17,299
Net revenues before financing costs	713,737	126,497
Financing Costs		
Interest on bonds, net	185,034	174,725
Capitalized interest	(9,671)	(9,984)
Amortization of bond discount (premium) and issuance expenses	(41,824)	(37,395)
Interest on other obligations	3,146	16,917
Net financing costs	136,685	144,263
Net Revenues (Expenses)	$ 577,052	$ (17,766)

The accompanying notes are an integral part of these combined financial statements.

SALT RIVER PROJECT
COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED APRIL 30, 2021 AND 2020
(Thousands)

	2021	2020
Cash Flows from Operating Activities		
Net Revenues (Expenses)	$ 577,052	$ (17,766)
Adjustments to reconcile net revenues to net cash provided by operating activities:		
Depreciation and amortization	625,026	672,125
Amortization of nuclear fuel	42,148	43,334
Amortization of bond discount/premium and issuance expenses	(41,824)	(37,395)
Amortization of operating lease right of use assets	9,382	9,382
Change in fair value of derivative instruments, net of collateral	(52,569)	(8,150)
Change in fair value of investment securities	(264,424)	43,343
Realized gain on investing activities	(34,940)	(32,644)
Other	87	(5,488)
Decrease (increase) in:		
Fuel stocks and materials and supplies	(20,855)	(58,697)
Receivables, net of allowance for doubtful accounts	(27,377)	(71)
Other current assets	8,897	(12,072)
Deferred charges and other assets	(23,608)	163,287
Increase (decrease) in:		
Accounts payable	19,007	(34,564)
Accrued taxes and tax equivalents	3,943	(4,325)
Accrued interest	2,040	5,732
Customers' deposits and other current liabilities	(4,198)	(56,477)
Deferred credits and other non-current liabilities	46,073	(15,478)
Net cash provided by operating activities	863,860	654,076
Cash Flows from Investing Activities		
Capital expenditures	(753,660)	(786,837)
Plant acquisition	-	(432,713)
Contributions in aid of construction	86,684	89,509
Proceeds from disposition of assets	7,625	7,298
Purchases of investments	(1,099,960)	(546,464)
Sales of investments	589,083	258,695
Maturities of investments	302,059	294,473
Other investing activities	(2,325)	(2,609)
Net cash used for investing activities	(870,494)	(1,118,648)
Cash Flows from Financing Activities		
Proceeds from issuance of Revenue Bonds, net of debt issuance costs	271,804	550,050
Proceeds from Revolving Credit Agreement loan	-	550,000
Contribution to Revenue Bond refunding	(1,401)	-
Repayment of Revenue Bonds	(102,110)	(90,835)
Repayment of Revolving Credit Agreement loan	(100,000)	(450,000)
Repayment of finance lease	-	(1,666)
Net cash provided by financing activities	68,293	557,549
Net Increase in Cash, Cash Equivalents and Restricted Cash	61,659	92,977
Balance at Beginning of Year in Cash, Cash Equivalents and Restricted Cash	567,695	474,718
Balance at End of Year in Cash, Cash Equivalents and Restricted Cash	$ 629,354	$ 567,695
Supplemental Information		
Cash paid for interest, net of capitalized interest	$ 176,469	$ 175,926

The accompanying notes are an integral part of these combined financial statements.

(1) BASIS OF PRESENTATION:

The Company

The Salt River Project Agricultural Improvement and Power District (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 Salt River Valley Water Users' Association (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 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 mine loads in an adjacent 2,400-square-mile area in Gila and Pinal counties. The Association, incorporated under the laws of the Territory of Arizona in 1903, operates an irrigation system as the agent of the District. The District and the Association are together referred to as SRP.

Principles of Combination

The accompanying Combined Financial Statements reflect the combined accounts of the Association and the District. The District's financial statements are consolidated with its wholly owned taxable subsidiaries: SRP Captive Risk Solutions, Limited (CRS), Papago Park Center, Inc. (PPC), New West Energy Corporation (New West Energy), and Horizon Acquisitions LLC (Horizon). CRS is a domestic captive insurer, incorporated and domiciled in Arizona, which is utilized to enhance the District's property and casualty insurance programs. PPC is a real estate management company. New West Energy was used to market, at retail, energy available to the District that was surplus to the needs of its retail customers and energy that might have been rendered surplus in Arizona by retail competition in the supply of generation but is now largely inactive. Horizon is a land acquisition company. Net revenues, assets and liabilities related to the District's wholly owned taxable subsidiaries' operations are not material to the accompanying Combined Financial Statements. All intercompany transactions and balances have been eliminated.

Possession and Use of Utility Plant

The United States of America retains a paramount right or claim in the Project that arises from the original construction and operation of certain of the Project's electric and water facilities as a federal reclamation project. Rights to the possession and use of, and to all revenues produced by, these facilities are evidenced by contractual arrangements with the United States of America. The Department of Interior has the right to perform audits of certain of the operations of the Project. In addition, the District seeks approval from the Department of Interior for certain transactions such as payments of in-lieu taxes. The District also gives the Department of Interior the opportunity to raise any objections it may have regarding the issuance of revenue bonds.

Basis of Accounting

The accompanying Combined Financial Statements are presented in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). The preparation of financial statements in compliance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and disclosures of contingencies. Actual results could differ from the estimates.

By virtue of SRP operating a federal reclamation project under contract, with the federal government's paramount rights, asset ownership and certain approval rights, SRP is subject to accounting standards as set forth by the Federal Accounting Standards Advisory Board (FASAB). Entities reporting in accordance with the standards issued by the Financial Accounting Standards Board (FASB) prior to October 19, 1999 (the date the American Institute of Certified Public Accountants designated the FASAB as the accounting standard-setting body for entities under the federal government), are permitted to continue to report in accordance with those standards. As permitted, SRP has elected to report its financial statements in accordance with FASB standards.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Utility Plant

Utility plant is stated at the historical cost of construction. Capitalized construction costs include labor, materials, services purchased under contract, and allocations of indirect charges for engineering, supervision, transportation and administrative expenses and an allowance for funds used during construction (AFUDC). The cost of property that is replaced, removed or abandoned, less salvage, is charged to accumulated depreciation. Repairs and maintenance costs are charged to operations and maintenance expense.

Depreciation expense is computed on a straight-line basis over recovery periods of the various classes of plant assets. Depreciation expense for utility plant totaled $614.8 million and $662.3 million for the fiscal years ended April 30, 2021 and 2020, respectively. The following table reflects the District's average depreciation rates on the average cost of depreciable assets for the fiscal years ended April 30:

	2021	**2020**
Average electric depreciation rate	3.25%	3.54%
Average irrigation depreciation rate	2.24%	2.21%
Average common depreciation rate	6.34%	6.56%

In May 2019, the District acquired all of the equity interests of Coolidge Power LLC (Coolidge Power), the owner of the Coolidge Generating Station, a 575 MW simple-cycle natural gas peaking facility, for a cash purchase price of $448.0 million. Prior to the acquisition, the District had entered into a 20-year power purchase agreement (PPA) with Coolidge Power, which was accounted for as a finance lease. The acquisition was accounted for as an asset purchase. Of the total purchase price, $397.4 million was allocated as a reduction to the finance lease obligation. The remaining purchase price was allocated to the previously existing utility plant balance ($35.3 million), inventory ($5.8 million), land ($1.5 million) and other ($8.0 million). Upon acquiring Coolidge Power, the District recorded an asset retirement obligation of $13.5 million. In September 2019, Coolidge Power was dissolved.

There was an increase of $26.8 million and a decrease of $6.8 million in property, plant and equipment purchases within accounts payable for the fiscal years ended April 30, 2021 and 2020, respectively. Such changes are considered a non-cash investing activity.

Plant Held for Future Use

Plant held for future use primarily includes the cost of land acquired for future operations, including generation, transmission and other purposes. Once development starts on the new facility, the costs will be moved to plant in service.

Allowance for Funds Used During Construction

AFUDC is the estimated cost of funds used to finance plant additions and is recovered in prices through depreciation expense over the useful life of the related asset. AFUDC is capitalized during certain plant construction and is included in capitalized interest in the accompanying Combined Statements of Net Revenues. A composite rate of 3.37% and 3.41% was applied in fiscal years 2021 and 2020, respectively, to calculate interest on funds used to finance construction work in progress, resulting in $9.7 million and $10.0 million of interest capitalized, respectively.

Nuclear Fuel

SRP amortizes the cost of nuclear fuel using the units-of-production method. The units-of-production method is an amortization method based on actual physical usage. The nuclear fuel amortization and accrued expenses for both the interim and permanent disposal of spent nuclear fuel are components of fuel expense. Nuclear fuel amortization was $42.1 million and $43.3 million in fiscal years 2021 and 2020, respectively. The balance of nuclear fuel includes $81.3 million and $86.5 million of in-process stock, which is not yet being amortized, as of April 30, 2021 and 2020, respectively.

Software Costs

SRP capitalizes costs incurred to purchase and develop internal-use computer software and implementation costs incurred in a cloud computing arrangement that is a service contract and amortizes such costs over the recovery periods of the products. The following table summarizes the capitalized computer software and capitalized cloud computing arrangement implementation costs as of April 30 (in thousands):

	2021		2020	
	Software	**Cloud computing arrangements**	**Software**	**Cloud computing arrangements**
Asset balance	$ 695,297	$ 27,677	$ 664,215	N/A
Accumulated amortization	$ 502,094	$ 1,135	$ 464,762	N/A

For the fiscal years ended April 30, 2021 and 2020, amortization expense for capitalized software costs was $37.3 million and $34.2 million, respectively. For the fiscal year ended April 30, 2021, amortization expense for capitalized cloud computing arrangements implementation costs was $1.1 million.

The following table presents estimated future amortization expense pertaining to capitalized software costs and capitalized cloud computing arrangement implementation costs in fiscal years ending April 30 (in thousands):

	Software	Cloud computing arrangements
2022	$ 37,252	$ 3,099
2023	36,617	3,016
2024	31,617	2,933
2025	25,845	2,850
2026	17,427	2,767

Asset Retirement Obligations

SRP accounts for its asset retirement obligations in accordance with authoritative guidance, which requires the recognition and measurement of liabilities for legal obligations associated with the retirement of tangible long-lived assets. Liabilities for asset retirement obligations are recognized at fair value as incurred and capitalized as part of the cost of the related tangible long-lived assets. Accretion of the liabilities, due to the passage of time, is an operating expense and the capitalized cost is depreciated over the estimated useful life of the long-lived asset. Retirement obligations associated with long-lived assets are those for which a legal obligation exists under enacted laws, statutes and contracts, including obligations arising under the doctrine of promissory estoppel.

The District has identified retirement obligations for Palo Verde Nuclear Generating Station (PVNGS), Navajo Generating Station (NGS), Four Corners Generating Station (Four Corners), and certain other assets. Amounts recorded for asset retirement obligations are subject to various assumptions and determinations, such as determining whether an obligation exists to remove assets, estimating the fair value of the costs of removal, estimating when final removal will occur and determining the credit-adjusted, risk-free interest rates to be utilized in discounting future liabilities. Subsequent to the initial recognition, the liability is adjusted for any revisions to the estimated future cash flows associated with the asset retirement obligation (with corresponding adjustments to utility plant), which can occur due to a number of factors, including, but not limited to, cost escalation, changes in technology applicable to the assets to be retired, changes in federal, state and local regulations and changes to the estimated decommissioning date of the assets, as well as for the accretion of the liability due to the passage of time until the obligation is settled.

The following table summarizes the asset retirement obligation activity of the District as of April 30 (in thousands):

	2021	2020
Beginning balance, May 1	$ 351,467	$ 340,103
Additions	-	13,507
Settlements	(9,162)	(15,592)
Gain on settlement	-	(710)
Revisions to estimates	8,052	58
Accretion expense	14,102	14,101
Ending balance, April 30	$ 364,459	$ 351,467

Investments in Debt and Equity Securities

SRP invests in various debt and equity securities. Debt securities in which SRP has the intent and ability to hold to maturity are classified as held-to-maturity securities and reported at amortized cost. Debt securities that are bought and held with the likelihood of selling them in the near term are classified as trading securities and reported at fair value, with unrealized gains and losses included in investment income, net. SRP has adopted the fair value option for all debt and equity securities other than debt securities classified as held-to-maturity. All such securities are reported at fair value, with unrealized gains and losses included in investment income, net, with the exception of the Nuclear Decommissioning Trust (NDT) for which unrealized gains and losses are recorded in regulatory liabilities. (See table in Segregated Funds). SRP does not classify any securities as available-for-sale.

Temporary Investments

Debt and equity securities that are short-term in nature and are expected to be sold or converted to cash in the next twelve months are classified as temporary investments on the Combined Balance Sheets, unless they meet the definition of a cash equivalent.

Segregated Funds

The District sets aside funds that are segregated due to management intent and to support various purposes. The District also has certain segregated funds that are legally restricted. The following amounts are included in segregated funds in the accompanying Combined Balance Sheets as of April 30 (in thousands):

	2021	2020
Segregated funds – legally restricted		
Nuclear Decommissioning Trust	$ 605,688	$ 455,255
Debt Reserve Fund	80,598	80,598
Construction Fund	136,545	166,128
Other	37,389	29,994
Total segregated funds – legally restricted	860,220	731,975
Segregated funds – other		
Benefits funds	1,150,123	849,402
Debt Service Fund	104,831	107,194
Total segregated funds – other	1,254,954	956,596
Total segregated funds, including current portion	$ 2,115,174	$ 1,688,571

Nuclear Decommissioning

In accordance with regulations of the Nuclear Regulatory Commission, the District maintains a trust for the decommissioning of PVNGS. The NDT funds are invested in debt and equity securities. All NDT debt securities are reported as trading securities. SRP has elected the fair value option for such securities. Changes in fair value related to the NDT securities are included in the nuclear decommissioning regulatory liability with no impact to net revenues. The NDT funds are classified as segregated funds in the accompanying Combined Balance Sheets.

Cash and Cash Equivalents

Cash equivalents include money market funds and highly liquid short-term investments with original maturities of three months or less.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the Combined Balance Sheets and the Combined Statements of Cash Flows as of April 30 (in thousands):

	2021	2020
Cash and cash equivalents	$ 426,354	$ 361,568
Cash and cash equivalents included in non-utility property and other investments	18,937	15,726
Cash and cash equivalents included in segregated funds	104,471	110,986
Restricted cash and cash equivalents included in segregated funds	79,592	79,415
Total cash, cash equivalents and restricted cash	$ 629,354	$ 567,695

Amounts included in restricted cash represent those required to be set aside per terms of contractual agreements, bond indentures or other legal stipulations.

Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided for electric customer accounts and other non-energy receivables balances based upon a historical experience rate of write-offs, adjusted for economic factors that include expected recoveries, the current economic environment, pertinent market studies, and observed customer behavior. The allowance is adjusted periodically for this experience rate and is maintained until either receipt of payment or the likelihood of collection is considered remote, at which time the allowance and the corresponding receivable balance are written off.

The following table summarizes SRP's changes in allowance for doubtful accounts for the fiscal years ended April 30 (in thousands):

	2021	2020
Beginning balance, May 1	$ 4,092	$ 2,974
Provision for doubtful accounts	11,302	6,758
Write-offs	(9,381)	(5,640)
Ending balance, April 30	$ 6,013	$ 4,092

Fuel Stocks and Materials and Supplies

Fuel stocks and materials and supplies are stated at weighted-average cost and are valued using the average cost method.

Other Current Liabilities

The accompanying Combined Balance Sheets include the following other current liabilities as of April 30 (in thousands):

	2021	2020
Sick, vacation and holiday accrual	$ 53,370	$ 45,177
Customer prepayments	68,542	66,311
Employee Performance Incentive Compensation (EPIC)	26,518	10,312
Post-retirement benefits	34,773	33,977
Other	84,087	120,688
Total other current liabilities	$ 267,290	$ 276,465

Other Deferred Credits and Non-current Liabilities

The accompanying Combined Balance Sheets include the following other deferred credits and non-current liabilities as of April 30 (in thousands):

	2021	2020
Regulatory liabilities	$ 509,003	$ 371,790
Sick, vacation and holiday accrual	64,046	60,818
Long-term operating lease liabilities	67,000	72,644
Mine reclamation and other environmental obligations	51,220	53,002
Other	141,045	134,906
Total other deferred credits and non-current liabilities	$ 832,314	$ 693,160

Financing Costs

Bond discount, premium and issuance expenses are deferred and amortized using the effective interest method over the terms of the related bond issues.

Income Taxes

The District, as a political subdivision of the State of Arizona, is exempt from federal and Arizona state income taxes. The Association, as a private corporation, is not exempt from federal and Arizona state income taxes. However, the Association is not liable for income taxes on operations relating to its acting as an agent for the District on the basis of a settlement with the Commissioner of Internal Revenue in 1949, which was approved by the Secretary of the Treasury. The Association is liable for income taxes on activities where it is not acting as an agent of the District. Income taxes related to the Association and to the District's wholly owned taxable subsidiaries' operations are not material to the accompanying Combined Financial Statements.

Voluntary Contributions in Lieu of Taxes

As a political subdivision of the State of Arizona, the District is exempt from property taxation. In accordance with Arizona law, the District makes voluntary contributions each year to the State of Arizona, school districts, cities, counties, towns and other political subdivisions of the State of Arizona, for which property taxes are levied and within whose boundaries the District has property included in its electric system. The amount paid is computed on the same basis as ad valorem taxes paid by a private utility corporation with an allowance for certain water-related deductions. Such contributions are included in taxes and tax equivalents in the Combined Statements of Net Revenues.

Sales and Use Taxes

The District is required by various government authorities, including states and municipalities, to collect and remit taxes on certain retail sales. Such taxes are recorded on a net basis and excluded from revenues and expenses in the accompanying Combined Financial Statements.

Concentrations of Credit Risk

Financial instruments that potentially subject SRP to credit risk consist of cash and cash equivalents, temporary and other investments, and segregated funds. Certain balances exceed Federal Deposit Insurance Corporation (FDIC) insured limits or are invested in money market accounts with investment banks that are not FDIC insured. SRP's cash and cash equivalents, temporary and other investments, and segregated funds are placed in creditworthy financial institutions and certain money market accounts that invest in U.S. Treasury securities or other obligations issued or guaranteed by the U.S. government or its agencies or instrumentalities.

The use of contractual arrangements to manage the risks associated with changes in energy commodity prices creates credit risks resulting from the possibility of nonperformance by counterparties pursuant to the terms of their contractual obligations. In addition, volatile energy prices can create significant credit exposure from energy market receivables and mark-to-market valuations. The District has a credit policy for wholesale counterparties, continuously monitors credit exposures and routinely assesses the financial strength of its counterparties. The District minimizes credit risk by dealing primarily with creditworthy counterparties, entering into standardized agreements that allow netting of exposures to and from a single counterparty, and requiring letters of credit, parent guarantees or other collateral when it does not consider the financial strength of the counterparty sufficient.

COVID-19 Pandemic

The COVID-19 pandemic did not have a material effect on SRP's combined net revenues for the year ended April 30, 2021, and there are no significant operational impacts to SRP's business due to the COVID-19 pandemic; however, SRP cannot predict the future impacts of the COVID-19 pandemic, if any, on future operations or financial results.

Subsequent Events

SRP follows authoritative guidance which requires an entity to evaluate subsequent events through the date that the financial statements are either issued or available to be issued. Subsequent events for SRP have been evaluated through July 9, 2021, which is the date that the financial statements were issued.

(3) ACCOUNTING PRONOUNCEMENTS:

Pronouncements Effective in Fiscal Year 2021

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The standard was effective for SRP on May 1, 2020. The adoption of the new standard resulted in additional disclosure regarding unobservable inputs in SRP's Level 3 fair value measurements. See Note [8], FAIR VALUE MEASUREMENTS.

In August 2018, the FASB issued ASU 2018-14, *Retirement Benefits: Changes to the Disclosure Requirements for Defined Benefit Plans.* The standard amends certain disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The amendments remove disclosures that are no longer considered beneficial, clarifies specific disclosure requirements, and adds new disclosure requirements for defined benefit plans. SRP adopted the guidance on a retrospective basis in our financial statements for the fiscal year ending April 30, 2021. While the adoption of this guidance modified the disclosure requirements relating to defined benefit plans, these changes did not have a material impact on our financial statements. See Note [12], EMPLOYEE BENEFIT PLANS AND INCENTIVE PROGRAMS.

In August 2018, the FASB issued ASU 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. The standard provides guidance on the accounting for costs of implementation activities performed in a cloud computing arrangement that is a service contract. SRP adopted the standard on a prospective basis on May 1, 2020. Prior to adoption, certain implementation costs related to cloud computing arrangements were capitalized and recorded as Utility Plant on the combined balance sheets and depreciated to Depreciation and Amortization Expense; capitalized implementation costs incurred after adoption are now recorded as other deferred charges and other assets in the combined balance sheets and amortized to operations and maintenance expense. See Note [2], SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, for additional disclosure related to implementation costs related to cloud computing arrangements that are service contracts.

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*. The standard requires timely recording of lifetime expected credit losses on certain financial instruments upon initial recognition. Under the updated guidance, companies are required to consider a broader range of reasonable and supportable information in measuring expected credit losses, such as past events, current conditions, and reasonable forecasts. SRP adopted the standard, as amended, on May 1, 2020. The adoption of the standard did not have a material impact on its Combined Financial Statements.

Pronouncements Effective After Fiscal Year 2021

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform*, as amended. The amendments in this update provide optional expedients and exceptions for applying U.S. GAAP to contracts that reference the London Interbank Offered Rate or another reference rate expected to be discontinued by reference rate reform. SRP is currently evaluating the impact of reference rate reform on its contracts. If any contracts are modified to replace a reference rate, SRP will elect the expedients provided by this update. An entity may elect to apply this update any time from March 12, 2020 through December 31, 2022. Once elected, the expedients must be applied prospectively for all eligible contracts.

(4) REGULATORY MATTERS:

The Electric Utility Industry

The District operates in a regulated environment in which it has an obligation to deliver electric service to customers within its service area. In 1998, Arizona enacted the Arizona Electric Power Competition Act (the Act), which applies to public power entities like the District. The Act authorized competition in the retail sales of electric generation, recovery of stranded costs and competition in billing, metering and meter reading. While retail competition was available to all customers by 2001, only a few customers chose an alternative energy provider, and those customers have since returned to their incumbent utilities. At this time, there is no active retail competition within the District's service territory or, to the knowledge of the District, within the State of Arizona, and the District's Direct Access Program is suspended.

The Arizona Corporation Commission (ACC) regulates investor-owned and cooperatively owned utilities, called public service corporations in Arizona. The Arizona Legislature, in the Act, directed the ACC to adopt rules for competition similar to what the Arizona Legislature had enacted for public power entities. In 1999, the ACC issued its rules for retail electric competition. The rules were challenged in the courts and held to be invalid. At various times since, numerous energy service, meter reading and meter service providers, brokers, large industrial customers and merchant power plant owners have urged the ACC to reinstate some form of retail competition, but none have been successful.

In May 2013, the ACC opened an inquiry into retail competition and requested that interested parties provide comments on a series of ACC-issued questions. The District participated in that inquiry. On September 11, 2013, the ACC voted to close the inquiry into whether the ACC should consider deregulation of the Arizona electricity market. The ACC's action was consistent with the position advocated by the District. However, effective July 1, 2012, the ACC approved a buy-through program for another major utility allowing a limited number of large industrial customers to purchase generation from other providers. The ACC has since modified the program and is considering another modification during the other utility's ongoing rate case, which would create the second iteration of the original buy-through program.

In December 2018, a docket was again opened at the ACC for possible modifications to the ACC rules for competition. The ACC staff filed their first report on possible modifications in July 2019, but there has been insufficient support to modify the rules for competition. However, in December 2020, the ACC approved a buy-through program for a second major utility that allows medium and large commercial and industrial customers access to non-standard generation. These efforts are consistent with ACC's policy that requires utilities to propose a buy-through program during rate cases. At this time, there is no upcoming matter to modify the rules, but this remains an ongoing matter and the District is actively monitoring the issue.

Regulation and Pricing Policies

Under Arizona law, the District's publicly elected Board of Directors (the Board) has the authority to establish electric prices. The District is required to follow certain public notice and special Board meeting procedures before implementing any changes in the standard electric price plans. The financial statements reflect the pricing policies of the Board.

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. Through a system benefits charge to the District's transmission and distribution customers, the District recovers the costs of programs benefiting the general public, such as discounted rates for low-income customers, energy efficiency and nuclear decommissioning, including the cost of spent fuel storage.

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 composed 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. 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 were released to the General Fund to offset the FPPAM under collection balance.

Regulatory Accounting

SRP accounts for the financial effects of the regulated portion of its operations in accordance with the provisions of authoritative guidance for regulated enterprises, which requires cost-based, rate-regulated utilities to reflect the impacts of regulatory decisions in their financial statements. SRP records regulatory assets, which represent probable future recovery of certain costs from customers through the pricing process, and regulatory liabilities, which represent probable future credits to customers through the ratemaking process or current collections for future expected costs. Based on actions of the Board, SRP believes the future collection of costs deferred as regulatory assets is probable. If events were to occur making recovery of these regulatory assets no longer probable, SRP would be required to write off the remaining balance of such assets as a one-time charge to net revenues. None of the regulatory assets earn a rate of return.

The accompanying Combined Balance Sheets include the following regulatory assets and liabilities as of April 30 (in thousands):

Assets	**2021**	**2020**
Pension and other post-retirement benefits (Note [12])	$ 1,025,781	$ 1,701,539
Bond defeasance	92,091	100,224
Other	13,198	4,936
Total regulatory assets	$ 1,131,070	$ 1,806,699
Liabilities		
Nuclear decommissioning	$ 417,658	$ 270,236
Depreciation	86,924	101,554
Bond defeasance	4,421	-
Total regulatory liabilities	$ 509,003	$ 371,790

The pension and other post-retirement benefits regulatory asset is adjusted as changes in actuarial gains and losses, prior service costs and transition assets or obligations are recognized as components of net periodic pension costs each fiscal year and is recovered through prices charged to customers.

Bond defeasance regulatory assets and liabilities are recovered over the remaining original amortization periods of the reacquired debt ending in various years through fiscal year 2039.

The nuclear decommissioning regulatory liability is any difference between current fiscal year costs and revenues associated with nuclear decommissioning and earnings (losses) on the NDT, such amounts are deferred in accordance with authoritative guidance for regulated enterprises and have no impact to SRP's earnings.

The depreciation regulatory liability, which results from depreciation that is accelerated in excess of straight-line depreciation, is being deferred over the estimated remaining lives of the assets.

(5) REVENUES:

SRP generates revenues primarily from the sale and delivery of electricity to retail customers. Retail revenues, including unbilled amounts, are generally recognized over time based upon volumes delivered because the customer consumes the electricity as it is delivered. Retail revenues are typically based on prices subject to regulatory oversight and are billed and received monthly. Payment is generally due in the month following delivery. See Note [4], REGULATORY MATTERS, for discussion of SRP's regulation and pricing policies. The estimated retail revenue for electricity delivered but not yet billed is recognized in retail electric revenues and is recorded as receivables, net, and was $102.7 million and $104.3 million for the fiscal years ended and as of April 30, 2021 and 2020, respectively.

SRP generates wholesale revenues primarily from excess energy sales, which are recognized over time as the energy is delivered because the customer consumes the electricity as it is delivered. Payments for wholesale sales are generally due in the month following delivery.

Some wholesale contracts are accounted for as derivative instruments. Fair value adjustments for these contracts reduced wholesale revenues by $15.8 million and $28.9 million in fiscal years 2021 and 2020, respectively. See Note [7], DERIVATIVE INSTRUMENTS.

SRP generates transmission revenues by allowing other entities to use the District's transmission facilities to transmit power. Payment for transmission services is generally due monthly and revenues are recognized over time because the customer consumes the transmission service as it is provided. Transmission revenues are included in other electric revenues.

SRP generates telecommunications revenues by allowing companies to use the District's infrastructure to place antennas that are used to transmit communications signals. Payment for telecommunication services is generally due up front and revenues are recognized over time as the service is provided. Telecommunication revenues are included in other electric revenues.

SRP generates water revenues from delivering water to SRP water customers through annual charges, supplemental water charges and various other fees. Payment of water charges and fees is generally due up front annually and revenues are recognized over time as water is delivered.

The following table summarizes SRP's sources of revenues for the fiscal years ended April 30 (in thousands):

	2021	**2020**
Electric		
Residential	$ 1,709,396	$ 1,538,583
Commercial	1,000,062	995,826
Other retail customers	280,537	276,012
Total retail electric revenues	2,989,995	2,810,421
Other electric	78,625	83,551
Wholesale	384,698	206,636
Total electric operating revenues	3,453,318	3,100,608
Water	22,189	20,823
Total operating revenues	$ 3,475,507	$ 3,121,431

Deferred revenue balances are included in other current liabilities and were $95.2 million and $88.7 million as of April 30, 2021 and 2020, respectively. The deferred revenues generally represent amounts paid by or receivable from customers for which the associated performance obligation has not yet been satisfied. Substantially all of the deferred revenue balances are expected to be recognized within one year. SRP's other contract assets are not significant.

Contracts with remaining performance obligations include the supply and delivery of various electric and water products and services. Contracts with variable volumes and/or variable pricing are excluded from disclosure of remaining performance obligations because the related consideration under the contracts are variable at inception. Contract lengths vary from cancelable to multiyear.

SRP does not disclose the value of remaining performance obligations when (1) the performance obligation is part of a contract that has an original expected duration of one year or less, (2) revenue is recognized from the satisfaction of the performance obligation in accordance with the "right to invoice" practical expedient, or (3) the consideration is allocated entirely to a wholly unsatisfied performance obligation or to a wholly unsatisfied promise to transfer a distinct good or service that forms part of a series of distinct goods or services. After applying these exemptions, SRP's contracts with customers have no material remaining performance obligations.

(6) FAIR VALUE OF FINANCIAL INSTRUMENTS:

SRP invests in U.S. government obligations, certificates of deposit and other marketable investments. Such investments are classified as cash and cash equivalents, temporary investments, other investments and segregated funds in the accompanying Combined Balance Sheets depending on the purpose and duration of the investment.

Fair Value Option

SRP adopted authoritative guidance which permits an entity to measure many financial instruments and certain other items at fair value. SRP has elected the fair value option for all investment securities other than debt securities classified as held-to-maturity. Election of the fair value option for debt securities requires the security to be reported as a trading security.

The fair value option was elected because management believes that fair value best represents the nature of the investments. While the investment securities held in these funds are reported as trading securities, the investments continue to be managed with a long-term focus. Accordingly, all purchases and sales within these funds are presented separately in the accompanying Combined Statements of Cash Flows as investing cash flows, consistent with the nature and purpose for which the securities are acquired.

Realized and unrealized gains and losses on these investments are included in investment income, net, in the accompanying Combined Statements of Net Revenues.

The following table summarizes line items included in the accompanying Combined Balance Sheets as of April 30 that include amounts recorded at fair value pursuant to the fair value option (in thousands):

	Measurement Attribute	2021	2020
Cash and cash equivalents			
Cash*	N/A	$ 86,355	$ 9,766
Money market funds	Fair value	330,000	351,802
Held-to-maturity commercial paper	Amortized cost	9,999	-
Total cash and cash equivalents		$ 426,354	$ 361,568
Non-utility property and other investments			
Money market funds	Fair value	$ 18,937	$ 15,726
Equity investments	Fair value	62,698	45,872
Held-to-maturity debt investments	Amortized cost	243,378	45,177
Non-utility property*	N/A	162,428	166,871
Total non-utility property and other investments		$ 487,441	$ 273,646
Segregated funds, net of current portion			
Cash*	N/A	$ -	$ 237
Money market funds	Fair value	79,232	82,970
Equity investments	Fair value	1,783,436	1,218,332
Trading debt investments	Fair value	7,709	108,569
Held-to-maturity debt investments	Amortized cost	139,966	171,269
Total segregated funds, net of current portion		$ 2,010,343	$ 1,581,377
Temporary investments			
Held-to-maturity debt investments	Amortized cost	$ 133,824	$ 118,430
Total temporary investments		$ 133,824	$ 118,430
Current portion of segregated funds			
Money market funds	Fair value	$ 104,831	$ 107,194
Total current portion of segregated funds		$ 104,831	$ 107,194

*Asset category not eligible for fair value option.

SRP's investments in debt securities are measured and reported at amortized cost when there is intent and ability to hold the security to maturity. SRP's amortized cost and fair value of held-to-maturity debt securities were $527.2 million and $525.7 million, respectively, as of April 30, 2021, and $334.9 million and $336.4 million, respectively, as of April 30, 2020. As of April 30, 2021, SRP's investments in debt securities have maturity dates ranging from May 2021 to February 2036.

As of April 30, 2021, the gross unrecognized holding gains and losses on held-to-maturity debt securities were approximately $0.6 million and $2.1 million, respectively.

SRP's equity investments and trading debt investments are measured at fair value with unrealized gains and losses included in investment income, net. Unrealized gains and losses on NDT investments are included in the nuclear decommissioning regulatory liability.

The following table summarizes unrealized gains (losses) recognized during the fiscal year ending April 30 on trading securities still held as of April 30 (in thousands):

	2021	2020
Non-utility property and other investments	$ 12,765	$ (2,474)
Segregated funds, net of current portion	382,187	(56,294)
Current portion of segregated funds	-	45
Total	394,952	$ (58,723)

(7) DERIVATIVE INSTRUMENTS:

Energy Risk Management Activities

The District has an energy risk management program to limit exposure to risks inherent in normal energy business operations. The goal of the energy risk management program is to measure and manage exposure to market risks, credit risks and operational risks. Specific goals of the energy risk management program include reducing the impact of market fluctuations on energy commodity prices associated with customer energy requirements, reducing excess generation and fuel expenses, meeting customer pricing needs and maximizing the value of physical generating assets. The District employs established policies and procedures to meet the goals of the energy risk management program using various physical and financial instruments, including forward contracts, futures, swaps and options.

Certain of these transactions are accounted for as commodity derivatives and are recorded in the accompanying Combined Balance Sheets as either an asset or liability measured at their fair value. Derivative instruments and the related collateral accounts, if applicable, that are subject to master netting agreements are presented as a net asset or liability in the accompanying Combined Balance Sheets. Changes in the fair value of commodity derivatives are recognized each period in net operating revenues and included in the accompanying Combined Statements of Net Revenues and classified as part of operating cash flows in the accompanying Combined Statements of Cash Flows. Some of the District's contractual agreements qualify and are designated for the normal purchases and normal sales exception and are not recorded at fair value in the accompanying Combined Balance Sheets. This exception applies to physical sales and purchases of power or fuel when it is probable that physical delivery will occur; the pricing provisions are clearly and closely related to the underlying asset; and the documentation requirements are met. If a contract qualifies for the normal purchases and normal sales scope exception, the District accounts for the contract using settlement accounting (costs and revenues are recorded when physical delivery occurs). SRP has not elected to use hedge accounting for its derivative investments.

See Note [8], FAIR VALUE MEASUREMENTS, for additional information on derivative valuation.

Derivative Volumes

The District has the following gross derivative volumes, by type, as of April 30, 2021:

Commodity	Unit of Measure	Sales Volumes	Purchases Volumes
Natural gas options, swaps and forward arrangements	MMBtu	-	349,870,000
Electricity options, swaps and forward arrangements	MWh	1,187,525	135,200
Liquefied fuel swaps	Gallon	-	4,890,400

The District has the following gross derivative volumes, by type, as of April 30, 2020:

Commodity	Unit of Measure	Sales Volumes	Purchases Volumes
Natural gas options, swaps and forward arrangements	MMBtu	8,890,000	398,350,000
Electricity options, swaps and forward arrangements	MWh	1,675,968	295,200
Liquefied fuel swaps	Gallon	-	1,421,400

Presentation of Derivative Instruments in the Financial Statements

The following tables provide information about the gross fair values, netting, and collateral and margin deposits for derivative hedging instruments in the accompanying Combined Balance Sheets (in thousands):

April 30, 2021	Current Commodity Derivative Assets	Non-current Commodity Derivative Assets	Current Commodity Derivative Liabilities	Non-current Commodity Derivative Liabilities	Net Assets (Liabilities)
Commodities	$ 52,672	$ 3,466	$ (12,814)	$ (126,987)	$ (83,663)
Netting	(6,454)	(3,466)	6,454	3,466	-
Collateral and margin deposits	-	-	93	-	93
Total	$ 46,218	$ -	$ (6,267)	$ (123,521)	$ (83,570)

April 30, 2020	Current Commodity Derivative Assets	Non-current Commodity Derivative Assets	Current Commodity Derivative Liabilities	Non-current Commodity Derivative Liabilities	Net Assets (Liabilities)
Commodities	$ 31,619	$ 9,949	$ (35,487)	$ (174,742)	$ (168,661)
Netting	(8,905)	(4,587)	8,905	4,587	-
Collateral and margin deposits	-	-	2,622	29,900	32,522
Total	$ 22,714	$ 5,362	$ (23,960)	$(140,255)	$ (136,139)

The following tables summarize the District's unrealized gains (losses) associated with derivatives not designated as hedging instruments in the accompanying Combined Statements of Net Revenues (in thousands):

April 30, 2021	Operating Revenues	Power Purchased	Fuel Used in Electric Generation	Change in Unrealized Gain (Loss)
Commodities	$ (15,835)	$ 2,960	$ 104,066	$ 91,191

April 30, 2020	Operating Revenues	Power Purchased	Fuel Used in Electric Generation	Change in Unrealized Gain (Loss)
Commodities	$ (28,879)	$ (1,926)	$ (28,519)	$ (59,324)

Credit-related Contingent Features

Certain of the District's derivative instruments contain provisions that require the District to post additional collateral upon certain credit events. If the District's debt were to fall below investment grade, the counterparties to the derivative instruments could demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions.

The aggregate fair value of all derivative liabilities with credit-risk-related contingent features as of April 30, 2021, was $107.0 million. As of April 30, 2021, the District posted collateral in the amount of $0.1 million as credit support under energy contracts for which the collateralization threshold was exceeded. If the credit-risk-related contingent features underlying these agreements were triggered on April 30, 2021, the District could be required to post up to $106.9 million of additional collateral to its counterparties.

(8) FAIR VALUE MEASUREMENTS:

SRP accounts for fair value in accordance with authoritative guidance, which defines fair value, establishes methods for measuring fair value by applying one of three observable market techniques (market approach, income approach or cost approach) and establishes required disclosures about fair value measurements. This guidance defines fair value as the price that would be received for an asset, or paid to transfer a liability, in the most advantageous market for the asset or liability in an arms-length transaction between willing market participants at the measurement date. SRP determines fair value of its financial instruments based on the market approach, which is defined as a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

SRP classifies its financial instruments into the fair value hierarchy based on the inputs used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are as follows:

> Level 1: Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market.
>
> Level 2: Financial assets and liabilities whose values are based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in non-active markets, pricing models whose inputs are observable for substantially the full term of the asset or liabilities and pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means.
>
> Level 3: Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management’s own assumptions about the assumptions a market participant would use in pricing the asset or liability.

Assets measured at fair value using net asset value (NAV) as a practical expedient are not categorized in the fair value hierarchy. These assets are listed in the column “Other” in the following tables to permit the reconciliation to amounts presented in the financial statements.

The following table sets forth, by level within the fair value hierarchy, SRP's financial assets and liabilities that were accounted for at fair value on a recurring basis as of April 30, 2021 (in thousands):

	Level 1	Level 2	Level 3	Other	Netting and Collateral	Total
Assets						
Cash and cash equivalents:						
Money market funds	$ -	$ 330,000	$ -	$ -	$ -	$ 330,000
Total cash and cash equivalents	-	330,000	-	-	-	330,000
Non-utility property and other investments:						
Money market funds	-	18,937	-	-	-	18,937
Mutual funds	62,698	-	-	-	-	62,698
Total non-utility property and other investments	62,698	18,937	-	-	-	81,635
Segregated funds, net of current portion:						
Money market funds	-	79,232	-	-	-	79,232
Mutual funds	1,474,761	-	-	-	-	1,474,761
Commingled funds	-	-	-	308,675	-	308,675
Government securities	-	7,709	-	-	-	7,709
Total segregated funds, net of current portion	1,474,761	86,941	-	308,675	-	1,870,377
Current portion of segregated funds:						
Money market funds	-	104,831	-	-	-	104,831
Total current portion of segregated funds	-	104,831	-	-	-	104,831
Derivative instruments:						
Commodities	3,905	47,767	4,466	-	(9,920)	46,218
Total	$ 1,541,364	$ 588,476	$ 4,466	$ 308,675	$ (9,920)	$ 2,433,061
Liabilities						
Derivative instruments:						
Commodities	$ (3,067)	$ (70,676)	$ (66,058)	$ -	$ 10,013	$ (129,788)
Total	$ (3,067)	$ (70,676)	$ (66,058)	$ -	$ 10,013	$ (129,788)

The following table sets forth, by level within the fair value hierarchy, SRP's financial assets and liabilities that were accounted for at fair value on a recurring basis as of April 30, 2020 (in thousands):

	Level 1	Level 2	Level 3	Other	Netting and Collateral	Total
Assets						
Cash and cash equivalents:						
Money market funds	$ -	$ 351,802	$ -	$ -	$ -	$ 351,802
Total cash and cash equivalents	-	351,802	-	-	-	351,802
Non-utility property and other investments:						
Money market funds	-	15,726	-	-	-	15,726
Mutual funds	45,872	-	-	-	-	45,872
Total non-utility property and other investments	45,872	15,726	-	-	-	61,598
Segregated funds, net of current portion:						
Money market funds	–	82,970	-	-	-	82,970
Mutual funds	954,919	-	-	-	-	954,919
Commingled funds	-	-	-	263,413	-	263,413
Corporate bonds	-	96,396	-	-	-	96,396
Government securities	-	12,173	-	-	-	12,173
Total segregated funds, net of current portion	954,919	191,539	-	263,413	-	1,409,871
Current portion of segregated funds:						
Money market funds	-	107,194	-	-	-	107,194
Total current portion of segregated funds	-	107,194	-	-	-	107,194
Derivative instruments:						
Commodities	111	32,321	9,136	-	(13,492)	28,076
Total	$ 1,000,902	$ 698,582	$ 9,136	$ 263,413	$ (13,492)	$ 1,958,541
Liabilities						
Derivative instruments:						
Commodities	$ (1,926)	$ (125,548)	$ (82,755)	$ -	$ 46,014	$ (164,215)
Total	$ (1,926)	$ (125,548)	$ (82,755)	$ -	$ 46,014	$ (164,215)

Valuation Methodologies

Securities

Money market funds: Investments with maturities of three months or less when purchased, including certain short-term fixed-income securities, are considered cash equivalents. The fair value of shares in money market funds are priced based on inputs obtained from Bloomberg, a pricing service whose prices are obtained from direct feeds from exchanges, that are either directly or indirectly observable. Even though the NAV of the fund(s) is kept at $1 per share, and transactions occur at that price, the underlying value of the securities may or may not be equal to $1 per share; therefore, these funds are classified as Level 2 in the fair value hierarchy.

Mutual funds: The fair values of shares in mutual funds are based on inputs that are quoted prices in active markets for identical assets and, therefore, have been categorized in Level 1 in the fair value hierarchy. This category may include exchange-traded funds, which are similar to mutual funds in their structure but trade actively on exchanges like stocks. Mutual funds are priced using active market exchanges.

Commingled funds: Commingled funds are maintained by investment companies and hold certain investments in accordance with a stated set of fund objectives, which are consistent with SRP's overall investment strategy. For equity and fixed-income commingled funds, the fund administrator values the fund using the NAV per fund share, derived from the quoted prices in active markets of the underlying securities. These funds are measured at fair value using NAV as a practical expedient and are not categorized in the fair value hierarchy. These assets are listed as "Other" in the fair value hierarchy to permit the reconciliation to amounts presented in the financial statements.

Corporate bonds: For fixed-income securities, multiple prices and price types are obtained from pricing vendors whenever possible, which enables cross-provider validations in addition to checks for unusual daily movements. A primary price source is identified based on asset type, class or issue for each security. SRP has obtained an understanding of how these prices are derived, including the nature and observability of the inputs used in deriving such prices. Additionally, SRP selectively corroborates the fair values of securities by comparison to other market-based price sources. The fair values of fixed-income securities are based on evaluated prices that reflect observable market information, such as actual trade information of similar securities, adjusted for observable differences, and are categorized as Level 2.

Government securities: The fair value of government securities is derived from quoted prices on similar assets in active or non-active markets, from pricing models whose inputs are observable for the substantially full term of the asset, or from pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means; therefore, these securities have been categorized as Level 2 in the fair value hierarchy.

Commodity Derivative Instruments

The fair values of gas swaps and power swaps that are priced based on inputs using quoted prices of similar exchange-traded items have been categorized in Level 1 in the fair value hierarchy. These include gas and power swaps traded on exchanges.

The fair values of gas swaps, power swaps, gas options, power options and power deals that are priced based on inputs obtained through pricing agencies and developed pricing models, using similar observable items in active and inactive markets, are classified as Level 2 in the valuation hierarchy.
The fair values of derivative assets and liabilities that are valued using pricing models with significant unobservable market data traded in less active or underdeveloped markets are classified as Level 3 in the valuation hierarchy. Level 3 items include gas swaps, power swaps, gas options, power options and power deals. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

SRP periodically transacts at locations, market price points or in time blocks that are non-standard or illiquid for which no prices are available from an independent pricing source. In these cases, SRP applies adjustments based on historical price curve relationships to a more liquid price point as a proxy for market prices. Such transactions are classified as Level 3.

SRP estimates the fair value of certain of its options using Black-Scholes option pricing models, which includes inputs such as implied volatility, correlations, interest rates and forward price curves.

All of the assumptions above include adjustments for counterparty credit risk, using credit default swap data, bond yields, when available, or external credit ratings.

SRP's assessments of the significance of a particular input to the fair value measurements requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. SRP reviews the assumptions underlying its contracts monthly.

The following table provides quantitative information regarding significant unobservable inputs in SRP's Level 3 fair value measurements as of April 30, 2021:

	Fair Value as of April 30, 2021 *(in thousands)*			
	Assets	**Liabilities**	**Range**	**Weighted Average***
Forward contracts:	$ 319	$ (36,031)		
Market price per gallon			$3.22 - $3.22	$3.22
Market price per MWh			$1.99 - $3.80	$2.21
Market price per MMBtu			$28.21 - $41.60	$34.80
Option contracts:	$ 4,147	$ (30,027)		
Market price per MWh			$2.19 - $129.36	$27.56
Power Volatility			19% - 123%	31%
Market price per MMBtu			$0.01 - $0.20	$0.07
Gas Volatility			18% - 20%	19%

*Unobservable inputs were weighted by the relative commodity quantity in each contract.

The following table provides quantitative information regarding significant unobservable inputs in SRP's Level 3 fair value measurements as of April 30, 2020:

	Fair Value as of April 30, 2020 *(in thousands)*		
	Assets	**Liabilities**	**Range of Unobservable Inputs**
Forward contracts:	$ 280	$ (70,842)	
Market price per MWh			$15.63 - $59.05
Market price per MMBtu			$1.75 - $2.35
Option contracts:	$ 8,856	$ (11,913)	
Market price per MWh			$17.16 - $58.09
Power Volatility			13% - 75%
Market price per MMBtu			$1.54 - $3.70
Gas Volatility			16% - 112%

(See Note [7], DERIVATIVE INSTRUMENTS, for additional detail of derivatives.)

Investments Calculated at Net Asset Value

As of April 30, 2021, the fair value measurement of investments calculated at net asset value per share (or its equivalent), as well as the nature and risks of those instruments, is as follows:

	Fair Value *(in thousands)*	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled funds:				
Fixed income funds	$ 308,675	None	Daily	N/A

As of April 30, 2020, the fair value measurement of investments calculated at net asset value per share (or its equivalent), as well as the nature and risks of those instruments, is as follows:

	Fair Value *(in thousands)*	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled funds:				
Fixed income funds	$ 263,413	None	Daily	N/A

Fixed-income commingled funds: These funds are actively managed funds used by an investment manager to diversify an overall portfolio of separately managed fixed-income securities. The funds may invest in fixed-income securities of varying duration, maturity, credit quality and geographic location. The securities may be non-U.S. securities.

Margin and Collateral Deposits

Margin and collateral deposits include cash deposited with counterparties and brokers as credit support under energy contracts. The amount of margin and collateral deposits varies based on changes in the fair value of the positions. SRP presents its margin and cash collateral deposits net with its derivative positions on the accompanying Combined Balance Sheets. Net margin deposits were $0.1 million and $32.5 million as of April 30, 2021 and 2020, respectively.

Changes in Level 3 Fair Value Measurements

The tables below include the reconciliation of changes to the balance sheet amounts for the fiscal years ended April 30 for commodity derivative instruments classified within Level 3 of the valuation hierarchy; this determination is based upon unobservable inputs to the overall fair value measurement (in thousands):

	2021	2020
Beginning balance, May 1	$ (73,619)	$ (32,414)
Transfers out of Level 3	70,818	8,974
Net realized and unrealized gain (loss) included in earnings	(54,059)	(48,179)
Net purchases (sales)	(2,660)	(7,985)
Settlements	(2,072)	5,985
Ending balance, April 30	$ (61,592)	$ (73,619)

Realized and unrealized gains and losses included in earnings identified above are included in wholesale revenues, power purchased or fuel used in electric generation, as appropriate, in the accompanying Combined Statements of Net Revenues. The transfers out of Level 3 for each fiscal year primarily represent derivative positions for which the maturity date has moved to within a time frame such that there are published price curves available to use for performing the valuations.

Fair Value Disclosures

U.S. GAAP requires disclosure of the estimated fair value of certain financial instruments and the methods and significant assumptions used to estimate their fair values. Many but not all of the financial instruments are recorded at fair value on the accompanying Combined Balance Sheets. Financial instruments held by SRP are discussed below.

Financial instruments for which fair value approximates carrying value: Certain financial instruments that are not carried at fair value on the accompanying Combined Balance Sheets are carried at amounts that approximate fair value due to their short-term nature and generally negligible credit risk. The instruments include receivables, accounts payable, customers' deposits, other current liabilities, commercial paper and loans against the District's revolving line-of-credit agreements. The carrying amount of commercial paper approximates fair value because of its short-term maturity and pricing confirmed through independent sources.

Financial instruments for which fair value does not approximate carrying value: SRP presents long-term debt at carrying value on the accompanying Combined Balance Sheets. The collective fair value of the District's revenue bonds, including the current portion, was estimated by using pricing scales from independent sources. As of April 30, 2021 and 2020, the carrying amount of the District's revenue bonds, including current portion and accrued interest, was $4.6 billion and $4.5 billion, respectively, and the estimated fair value was $4.9 billion and $4.7 billion, respectively. These estimated fair values are classified as Level 2 in the fair value hierarchy. (See Note [9], LONG-TERM DEBT, for further discussion of the District's revenue bonds.)

(9) LONG-TERM DEBT:

Long-term debt consists of the following as of April 30 (in thousands):

	Interest Rate	2021	2020
Revenue bonds			
2009 Series A (matures 2021)	3.80%	$ -	$ 2,665
2010 Series A (mature 2040 – 2041)	4.84%	490,915	490,915
2010 Series B (matures 2021)	2.50 – 5.00%	-	108,595
2011 Series A (mature 2021 – 2030)	4.00 – 5.00%	321,295	333,610
2012 Series A (mature 2029 – 2031)	5.00%	236,185	236,185
2015 Series A (mature 2021 – 2045)	3.00 – 5.00%	880,165	886,135
2016 Series A (mature 2021 – 2038)	4.00 – 5.00%	710,895	736,965
2017 Series A (mature 2021 – 2039)	5.00%	710,290	735,240
2019 Series A (mature 2021 – 2049)	3.00 – 5.00%	453,375	460,170
2020 Series A (mature 2022 – 2048)	2.38 – 5.00%	224,670	-
2020 Series B (mature 2050)	2.57%	100,000	-
Total revenue bonds		4,127,790	3,990,480
Unamortized bond premium (discount), net		399,603	413,709
Debt issuance costs		(8,844)	(8,885)
Total revenue bonds outstanding		4,518,549	4,395,304
Revolving line of credit loan		3,500	103,500
Commercial paper		325,000	325,000
Total long-term and short-term debt		4,847,049	4,823,804
Less: Current portion of long-term debt		(102,755)	(102,110)
Short-term revolving debt		-	(100,000)
Total long-term debt, net of current		$ 4,744,294	$ 4,621,694

The annual maturities of revenue bonds as of April 30, 2021, due in fiscal years ending April 30, are as follows (in thousands):

2022	$ 102,755
2023	112,950
2024	114,060
2025	126,805
2026	129,400
Thereafter	3,541,820
Total	$ 4,127,790

Revenue Bonds

Revenue bonds are secured by a pledge of, and a lien on, the revenues of the electric system, after deducting operating expenses, as defined in the amended and restated bond resolution, effective in January 2003, as amended (Bond Resolution). The Bond Resolution requires the District to charge and collect revenues sufficient to fund the debt reserve account and pay operating expenses, debt service and all other charges and liens payable out of revenues and income. Under the terms of the Bond Resolution, the District makes debt service deposits to a non-trusteed segregated fund. Included in segregated funds in the accompanying Combined Balance Sheets are $185.4 million and $187.8 million of debt-service-related funds as of April 30, 2021 and 2020, respectively. Additionally, the Bond Resolution requires the District to maintain a debt service coverage ratio of 1.1 or greater on outstanding revenue bonds. To be eligible to issue additional revenue bonds, the District must anticipate sufficient revenues to maintain that ratio post-issuance. For the fiscal years ended April 30, 2021 and 2020, the debt service coverage ratio was 4.0 and 3.9, respectively. A substantial portion of the revenue bonds are callable by the District ten years after issuance.

In October 2010, the District issued $500.0 million of 2010 Series A Electric System Revenue Bonds as federally taxable, direct payment "Build America Bonds" under the American Recovery and Reinvestment Act of 2009 (ARRA). At the time of issuance, the District expected, in accordance with the ARRA, to receive subsidy payments from the United States Treasury equal to 35% of the interest paid on the 2010 Series A Bonds over the entire term of the bonds.

Due to federal budget sequestration, beginning March 2013, the Internal Revenue Service has reduced the subsidy amounts paid to issuers of Build America Bonds each year. The District's semi-annual subsidy payments have been reduced by amounts ranging from 5.7% to 8.7%. Subject to the District's compliance with certain provisions of the ARRA and including the effect of reductions for sequestration, the District recorded $7.9 million and $7.8 million for subsidy earned during the fiscal years ending April 30, 2021 and 2020, respectively. The subsidy earned is included in the accompanying Combined Statements of Net Revenues as a reduction to interest on bonds, net. The balance of subsidy payments receivable was $2.6 million as of April 30, 2021 and 2020.

In November 2019, the District issued $460.2 million of 2019 Series A Electric System Revenue Bonds at an average effective interest rate of 3.01%. The proceeds of the bonds were used to pay costs of issuance and to fund capital improvements of the District.

In May 2020, the District entered into a forward delivery contract to issue $193.1 million of Series A Electric System Revenue Bonds in March 2022. The proceeds of the bonds will be used to refund all 2012 Series A Bonds outstanding in June 2022. The transaction will be reflected in the Combined Financial Statements for the fiscal year ending April 30, 2022.

In October 2020, the District issued $74.7 million of 2020 Series A Electric System Revenue Bonds at an average effective interest rate of 0.6%. The proceeds of the bonds, along with a $1.4 million contribution from the District, were deposited into an externally trusteed irrevocable escrow account. The escrow account was used to refund all outstanding 2010 Series B Revenue Bonds, which have been removed from SRP's Combined Balance Sheet. The refunding is a non-cash activity on the Combined Statements of Cash Flows, except for the $1.4 million contribution which is a cash outflow for financing activities.

In October 2020 the District issued $150.0 million of 2020 Series A Electric System Revenue Bonds at an average effective interest rate of 2.7%. The proceeds of the bonds were used to pay costs of issuance and to fund capital improvements of the District.

In October 2020, the District issued $100.0 million of 2020 Series B Electric System Revenue Bonds as federally taxable at an average effective interest rate of 2.6%. The proceeds of the bonds were used to pay costs of issuance and to fund capital improvements of the District.

In October 2020, the District entered into a forward delivery contract to issue $277.4 million of Series A Electric System Revenue Bonds in September 2021. The proceeds of the bonds will be used to refund all 2011 Series A Bonds outstanding in December 2021. The transaction will be reflected in the Combined Financial Statements for the fiscal year ending April 30, 2022.

Interest, Build America Bonds subsidy payments, and the amortization of the bond discount, premium, and issuance costs on the various issues result in an effective rate of 3.5% over the remaining term of the bonds.

As of April 30, 2021, the District had authorization to issue additional Electric System Revenue Bonds totaling $523.1 million principal amount and Electric System Refunding Revenue Bonds totaling $3.0 billion principal amount.

(10) COMMERCIAL PAPER AND CREDIT AGREEMENTS:

The District is authorized by the Board to issue up to $500.0 million in commercial paper. The District had $50.0 million of Series C Commercial Paper outstanding as of April 30, 2021 and 2020, and an additional $275.0 million of Series D-1 Commercial Paper outstanding as of April 30, 2021 and 2020. As of April 30, 2021 and 2020, the Series C issue had a weighted-average interest rate to the District of 0.12% and 1.01%, respectively. As of April 30, 2021 and 2020, the Series D-1 issue had a weighted-average interest rate to the District of 0.13% and 1.17%, respectively. The commercial paper matures not more than 270 days from the date of issuance and is an unsecured obligation of the District.

The District has two revolving line-of-credit agreements of $150.0 million and $350.0 million. Both agreements support the $325.0 million of outstanding commercial paper as of April 30, 2021. The $150.0 million revolving credit agreement with US Bank expires on June 29, 2022, and the $350.0 million revolving credit agreement with J.P. Morgan Bank expires on June 29, 2023. Outstanding commercial paper is classified as long-term debt in the accompanying Combined Balance Sheets.

The revolving line-of-credit agreements contain various conditions precedent to borrowings that include, but are not limited to, compliance with the covenants set forth in the agreements, the continued accuracy of representations and warranties, no existence of default, and maintenance of certain investment grade ratings on the District's revenue bonds. The District was in compliance with the various covenants as of April 30, 2021 and 2020. As a part of the terms for the J.P. Morgan agreement, the District borrowed $3.5 million. Alternative sources of funds to support the commercial paper program include existing funds on hand or the issuance of alternative debt, such as revenue bonds.

In April 2020, the District borrowed $100.0 million against the US Bank Revolving Credit Agreement to meet short-term seasonal fluctuations in working capital. The $100.0 million was repaid in full in October 2020 from the District's General Fund.

The remaining unallocated $171.5 million in credit available under the two lines of credit as of April 30, 2021, may be used to support the issuance of additional commercial paper or for other general corporate purposes.

(11) LEASES:

SRP leases land, buildings, equipment and other property to facilitate operations of generating stations through operating rental agreements with varying terms, provisions and expiration dates. SRP also has certain power purchase agreements (PPAs) that qualify as lease arrangements. SRP's leases have remaining terms that expire in 2021 through 2045.

Lessee

SRP enters into various agreements to purchase power, electric capacity and other energy products that may be accounted for as a lease when SRP has the right to determine when and how the generating unit operates or is designed. The original terms of SRP's lease contracts are primarily 20 to 25 years for PPA leases, and 5 to 99 years for other operating leases. The District may elect to terminate certain leases if the projects are decommissioned or otherwise permanently removed from service. SRP's lease agreements do not contain any material residual value guarantees or restrictive covenants.

SRP recognizes lease assets and liabilities upon lease commencement. The following table provides information related to classification of lease balances on the Combined Balance Sheets (in thousands):

As of April 30, 2021

		Combined Balance Sheet Classification
Operating lease right-of-use assets	$ 104,240	Other deferred charges and other assets
Long-term operating lease liabilities	67,000	Other deferred credits and other non-current liabilities
Short-term operating lease liabilities	7,052	Other current liabilities
Total lease liabilities	$ 74,052	

As of April 30, 2020

		Combined Balance Sheet Classification
Operating lease right-of-use assets	$ 111,900	Other deferred charges and other assets
Long-term operating lease liabilities	72,644	Other deferred credits and other non-current liabilities
Short-term operating lease liabilities	38,419	Other current liabilities
Total lease liabilities	$ 111,063	

The following table provides information related to SRP's lease costs for the fiscal years ended April 30 (in thousands):

Year Ended April 30, 2021

	PPA Lease Contracts	Other Leases	Total
Operating lease cost	$ -	$ 9,382	$ 9,382
Variable lease cost	122,253	2,111	124,364
Short-term lease cost	-	674	674
Total	$ 122,253	$ 12,167	$ 134,420

Year Ended April 30, 2020

	PPA Lease Contracts	Other Leases	Total
Operating lease cost	$ -	$ 9,382	$ 9,382
Variable lease cost	120,876	1,577	122,453
Short-term lease cost	-	478	478
Total	$ 120,876	$ 11,437	$ 132,313

Lease costs related to PPA lease contracts are recorded in fuel and power purchased in the Combined Statements of Net Revenues. Lease costs for other leases are included as a component of operating expenses in the accompanying Combined Statements of Net Revenues. Variable lease costs are recognized in the period the costs are incurred and primarily relate to renewable energy PPA lease contracts. Payments under most renewable energy PPA lease contracts are dependent upon environmental factors, and due to the inherent uncertainty associated with the reliability of the energy source, the payments are considered variable and are excluded from the measurement of lease liabilities and right-of-use lease assets.

The following maturity analysis reconciles annual undiscounted cash flows to the operating lease liability as of April 30, 2021 (in thousands):

Fiscal year	
2022	$ 7,052
2023	7,058
2024	7,063
2025	6,917
2026	6,843
Thereafter	48,006
Total lease commitments	82,939
Less interest	(8,887)
Total lease liabilities	$ 74,052

The following tables provide other additional information related to operating lease liabilities, as of April 30:

	2021	**2020**
Weighted-average remaining lease term	14 years	11 years
Weighted-average discount rate (1)	1.83%	1.75%
Cash paid for leasing arrangements (operating cash flow), in millions	$38.7	$10.2

(1) When an implicit rate is not readily determinable, an incremental borrowing rate is utilized, determining the present value of lease payments. The rate is based on expected term and information available at the commencement date.

Lessor

SRP leases land and other assets to third parties, which are classified as operating leases. Several of these leases have an option to extend the lease term an additional 20 years after completion of the contracted term. Lease terms range from 6 to 97 years. Lease income is reported in other income in the accompanying Combined Statements of Net Revenues for all periods presented. During the fiscal years ended April 30, 2021 and 2020, lease income was $6.9 million and $6.4 million, respectively.

The undiscounted cash flows to be received from lease payments in fiscal years ending April 30 are summarized below (in thousands):

2022	$ 7,381
2023	7,375
2024	7,515
2025	7,565
2026	7,609
Thereafter	1,297,007
Total	$ 1,334,452

(12) EMPLOYEE BENEFIT PLANS AND INCENTIVE PROGRAMS:

Defined Benefit Pension Plan and Other Post-retirement Benefits

SRP's Employees' Retirement Plan (the Plan) covers substantially all employees. The Plan is funded entirely from SRP contributions and the income earned on invested Plan assets. SRP contributed $75.0 million in fiscal years 2021 and 2020.

SRP provides a non-contributory defined benefit medical plan for retired employees and their eligible dependents (contributory for employees hired January 1, 2000, or later) and a non-contributory defined benefit life insurance plan for retired employees. Employees are eligible for coverage if they retire at age 65 or older with at least five years of vested service under the Plan (ten years for those hired January 1, 2000, or later), or at any time after attainment of age 55 with a minimum of ten years of vested service under the Plan (twenty years for those hired January 1, 2000, or later). The funding policy is discretionary.

U.S. GAAP requires employers to recognize the overfunded or underfunded positions of defined benefit pension and other post-retirement plans in their balance sheets. Any actuarial gains and losses, prior service costs and transition assets or obligations must be recorded on the balance sheet with an offset to accumulated other comprehensive income until the amounts are amortized as a component of net periodic benefit costs.

The Board has authorized the District to collect future amounts associated with the pension and other post-retirement plan liabilities as part of the pricing process. The District established a regulatory asset for the amounts otherwise chargeable to accumulated other comprehensive income that are expected to be recovered through prices in future periods. The changes in actuarial gains and losses, prior service costs and transition assets or obligations pertaining to the regulatory asset are recognized as an adjustment to the regulatory asset or liability accounts, as these amounts are recognized as components of net periodic pension costs each fiscal year. The District's amortization amounts for fiscal year 2021 were $1.1 million for prior service cost and $83.0 million for net actuarial loss. The District's amortization amounts for fiscal year 2020 were $1.1 million for prior service cost and $49.0 million for net actuarial loss.

The following tables outline changes in benefit obligations, plan assets, the funded status of the plans and amounts included in the accompanying Combined Financial Statements (in thousands):

	Pension Benefits		Post-retirement Benefits	
	2021	2020	2021	2020
Change in benefit obligation				
Benefit obligation at beginning of year	$ 3,247,999	$ 2,737,958	$ 960,068	$ 825,538
Service cost	105,311	83,846	27,216	21,746
Interest cost	101,088	108,922	29,887	32,831
Actuarial loss (gain)	(121,214)	429,002	(34,008)	110,523
Benefits paid	(118,569)	(111,729)	(32,798)	(30,570)
Benefit obligation at end of year	$ 3,214,615	$ 3,247,999	$ 950,365	$ 960,068
Change in plan assets				
Fair value of plan assets at beginning of year	$ 2,285,067	$ 2,265,391	$ -	$ -
Actual return on plan assets	618,465	56,405	-	-
Employer contributions	75,000	75,000	32,798	30,570
Benefits paid	(118,569)	(111,729)	(32,798)	(30,570)
Fair value of plan assets at end of year	2,859,963	2,285,067	-	-
Funded status at end of year	$ (354,652)	$ (962,932)	$ (950,365)	$ (960,068)
Amounts recognized in Combined Balance Sheets:				
Other current liabilities	$ -	$ -	$ (34,773)	$ (33,977)
Accrued post-retirement liability	(354,652)	(962,932)	(915,592)	(926,091)
Net asset (liability) recognized	$ (354,652)	$ (962,932)	$ (950,365)	$ (960,068)
Amounts recognized as a regulatory asset:				
Prior service cost (credit)	$ 22,226	$ 24,294	$ (787)	$ (1,760)
Net actuarial loss (gain)	783,146	1,413,025	221,196	265,980
Net regulatory asset	$ 805,372	$ 1,437,319	$ 220,409	$ 264,220

Actuarial gains related to changes in the benefit obligation during 2021 were $121.2 million and $34.0 million for pension benefits and post-retirement benefits, respectively. This was primarily due to a change in the discount rate from 3.17% in fiscal year 2020 to 3.39% in fiscal year 2021. Actuarial losses related to changes in the benefit obligation during 2020 were $429.0 million and $110.5 million for pension benefits and post-retirement benefits, respectively, primarily due to a change in the discount rate from 4.06% in fiscal year 2019 to 3.17% in fiscal year 2020.

The following table represents the amortization amounts expected to be recognized during the fiscal year ending April 30, 2022 (in thousands):

	Pension Benefits	Post-retirement Benefits
Prior service cost/(credit)	$ 2,068	$ (787)
Net actuarial loss	$ 53,275	$ 8,080

The accumulated benefit obligation for pension benefits was $2.8 billion as of April 30, 2021 and 2020.

SRP internally funds its other post-retirement benefits obligation. As of April 30, 2021 and 2020, $1.2 billion and $849.4 million of segregated funds, respectively, were designated for this purpose.

The weighted-average assumptions used to calculate actuarial present values of benefit obligations as of April 30 were as follows:

	Pension Benefits		Post-retirement Benefits	
	2021	**2020**	**2021**	**2020**
Discount rate	3.39%	3.17%	3.39%	3.17%
Rate of compensation increase	4.58%	4.58%	N/A	N/A

Weighted-average assumptions used to calculate net periodic benefit costs were as follows:

	Pension Benefits		Post-retirement Benefits	
	2021	**2020**	**2021**	**2020**
Discount rate	3.17%	4.06%	3.17%	4.06%
Expected return on Plan assets	7.75%	7.75%	N/A	N/A
Rate of compensation increase	4.58%	4.59%	N/A	N/A

A 6.35% annual increase in per capita costs of healthcare benefits was assumed during 2021; these rates were assumed to decrease uniformly until equaling 4.60% in all future years.

The components of net periodic benefit costs for the fiscal years ended April 30 are as follows (in thousands):

	Pension Benefits		Post-retirement Benefits	
	2021	**2020**	**2021**	**2020**
Service cost	$ 105,311	$ 83,846	$ 27,216	$ 21,746
Interest cost	101,088	108,922	29,887	32,831
Expected return on Plan assets	(181,981)	(175,808)	-	-
Amortization of net actuarial loss	72,182	43,957	10,776	5,030
Amortization of prior service cost	2,068	2,068	(973)	(973)
Net periodic benefit cost	$ 98,668	$ 62,985	$ 66,906	$ 58,634

Plan Assets

The Board has established an investment policy for Plan assets and has delegated oversight of such assets to a compensation committee (the Committee). The investment policy sets forth the objective of providing for future pension benefits by targeting returns consistent with a stated tolerance of risk. The investment policy is based on analysis of the characteristics of the Plan sponsors, actuarial factors, current Plan condition, liquidity needs and legal requirements. The primary investment strategies are diversification of assets, stated asset allocation targets and ranges, and external management of Plan assets. The Committee determines the overall target asset allocation ratio for the Plan and defines the target asset allocation ratio deemed most appropriate for the needs of the Plan and the risk tolerance of the District.

The market value of investments (reflecting returns, contributions and benefit payments) within the Plan trust appreciated 27.56% during fiscal year 2021, compared to appreciation of 2.54% during fiscal year 2020. Changes in the Plan's funded status affect the assets and liabilities recorded on the balance sheet in accordance with authoritative guidance for regulated enterprises. Due to the District's regulatory treatment, the recognition of funded status is offset by regulatory assets or liabilities and is recovered through prices. The Pension Protection Act of 2006 establishes new minimum funding standards and restricts plans underfunded by more than 20% from adopting amendments that increase plan liabilities unless they are funded immediately. In December 2008, the Worker, Retiree, and Employer Recovery Act (WRERA) was enacted. Among other provisions, the WRERA provides temporary funding relief to defined benefit plans during the current economic downturn. The Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act of 2010 (PACMBPRA) was signed into law during fiscal year 2011. During fiscal year 2013, the Moving Ahead for Progress in the 21st Century Act (MAP-21) was passed, which included a provision related to pension funding. All three acts subsequent to the passage of the Pension Protection Act, WRERA, PACMBPRA and MAP-21 will favorably affect the level of minimum required contributions.

The Plan's weighted-average asset allocations are as follows:

	Target Allocations	**2021**	**2020**
Equity securities	65%	66%	62%
Debt securities	25%	23%	28%
Real estate	10%	11%	10%
Total	100%	100%	100%

The investment policy, as authorized by the Board, allows management to reallocate Plan assets at any time within a tolerance range up to plus or minus 5% from the target asset allocation which allows for flexibility in managing the assets based on prevailing market conditions and does not require automatic rebalancing if the actual allocation strays from the target allocation.

Fair Value of Plan Assets

Assets measured at fair value using NAV are not categorized in the fair value hierarchy. These assets are listed in the column "Other" in the following tables to permit reconciliation to amounts presented elsewhere.

The following table sets forth the fair value of Plan assets, by asset category, as of April 30, 2021 (in thousands):

	Level 1	**Level 2**	**Other**	**Total**
Cash and cash equivalents	$ 10,803	$ -	$ -	$ 10,803
Mutual funds	175,073	-	-	175,073
Government securities	-	74,300	-	74,300
Corporate bonds	-	570,986	-	570,986
Common stocks	126,072	-	-	126,072
Commingled funds	-	-	1,593,452	1,593,452
Real estate	-	-	309,277	309,277
Total assets	$ 311,948	$ 645,286	$ 1,902,729	$ 2,859,963

The following table sets forth the fair value of Plan assets, by asset category, as of April 30, 2020 (in thousands):

	Level 1	Level 2	Other	Total
Cash and cash equivalents	$ 5,528	$ 582	$ -	$ 6,110
Mutual funds	137,092	-	-	137,092
Government securities	-	34,935	-	34,935
Corporate bonds	-	578,408	-	578,408
Common stocks	103,073	-	-	103,073
Commingled funds	-	-	1,206,046	1,206,046
Real estate	-	-	219,403	219,403
Total assets	$ 245,693	$ 613,925	$ 1,425,449	$ 2,285,067

For a description of the fair value hierarchy, refer to Note [8], FAIR VALUE MEASUREMENTS.

Valuation Methodologies

Common stocks: The fair values of shares in preferred and common corporate stocks are based on inputs that are quoted prices in active markets for identical assets and, therefore, have been categorized as Level 1 in the fair value hierarchy. Equity securities held individually are primarily traded on exchanges that contain only actively traded securities due to the volume trading requirements imposed by these exchanges. Common stocks that are valued based on quoted prices from less active markets, such as over-the-counter stocks, are categorized as Level 2 in the fair value hierarchy.

Real estate: Real estate commingled funds are funds with a direct investment in a pool of real estate properties. These funds are valued by investment managers on a periodic basis using pricing models that use independent appraisals from sources with professional qualifications. The valuations of the real estate funds are sensitive to market factors outside the control of the Plan, including interest rate levels and economic activity. The valuations, although done quarterly by independent qualified appraisers, may vary due to these factors.

For an explanation of the valuation methodologies used to determine fair value of the assets of the Plan that are not listed above, refer to Note [8], FAIR VALUE MEASUREMENTS.

Long-term Rate of Return

The expected return on Plan assets is based on a review of the Plan asset allocations and consultations with a third-party investment consultant and the Plan actuary, considering market and economic indicators, historical market returns, correlations and volatility, and recent professional or academic research.

Employer Contributions

SRP expects to contribute $75.0 million to the Plan over the next fiscal year.

Benefits Payments

SRP expects to pay benefits in the amounts as follows (in thousands):

Fiscal year ended April 30:

	Pension Benefits	Post-retirement Benefits	
		Before Subsidy*	**Net**
2022	$ 122,843	$ 36,102	$ 35,358
2023	127,671	37,545	36,788
2024	132,261	38,924	38,162
2025	136,872	40,144	39,379
2026	141,430	41,311	40,548
2027 through 2031	$ 766,942	$ 220,175	$ 216,496

*Estimated future benefit payments, including prescription drug benefits, prior to federal drug subsidy receipts expected as a result of the Medicare Prescription Drug, Improvement and Modernization Act of 2003.

Defined Contribution Plan

SRP's Employees' 401(k) Plan (the 401(k) Plan) covers substantially all employees. The 401(k) Plan receives employee pre-tax and post-tax contributions and partial employer matching contributions. Employees who have one year of service in which they have worked at least 1,000 hours and who are also contributing to the 401(k) Plan are eligible to receive partial employer matching contributions of $0.90 on every dollar contributed up to the first 6% of their base pay that they contribute to the 401(k) Plan. Employer matching contributions to the 401(k) Plan were $23.9 million and $23.4 million during fiscal years 2021 and 2020, respectively.

Employee Performance Incentive Compensation Program

The EPIC program, a cash-based incentive program, covers substantially all regular employees and is based on the achievement of pre-established targets for each fiscal year. The total compensation expense, including payroll taxes, recognized for the EPIC program for fiscal years 2021 and 2020 was $28.5 million and $11.1 million, respectively.

Employee Sick Leave Plan

The SRP Employee Sick Leave Plan provides payment to employees for unused sick leave. Employees accumulate sick days at a rate of one day per month. The accumulation, up to the personal maximum, can be carried forward year after year. For most employees, the personal maximum is 720 hours. For sick leave hours accumulated in excess of the personal maximum, a lump sum payment at half pay is made annually in January of each year based on the hourly rate at time of payment, and the accumulated sick leave is then returned to the personal maximum. Upon death or retirement, payment is made for any unused sick leave hours. The payments for death or retirement are based on the hourly rate of pay at death or retirement. SRP has an accrual for unpaid sick leave of approximately $68.6 million and $65.3 million as of April 30, 2021 and 2020, respectively. The accrual is recorded in other current liabilities and other deferred credits and noncurrent liabilities on the Combined Balance Sheets. The accrual is determined actuarially based on various assumptions, including future pay raises, discount rate and the amount of the accrual that will ultimately be paid out.

(13) INTERESTS IN JOINTLY OWNED ELECTRIC UTILITY PLANTS AND TRANSMISSION FACILITIES:

The District has entered into various agreements with other electric utilities for the joint ownership of electric generating and transmission facilities. Each participating owner in these facilities must provide for the cost of its ownership share. The District's share of expenses of the jointly owned plants and transmission facilities is included in operating expenses and maintenance in the accompanying Combined Statements of Net Revenues.

The following table reflects the District's ownership interests in jointly owned facilities at electric utility plants as of April 30, 2021 (in thousands):

Generating Station	Ownership Share	Plant in Service	Accumulated Depreciation	Construction Work In Progress
Four Corners (NM) (Units 4 & 5)	10.00%	$ 271,950	$ (176,335)	$ 7,120
Hayden (CO) (Unit 2)	50.00%	190,125	(158,507)	561
Craig (CO) (Units 1 & 2)	29.00%	362,517	(319,382)	845
Mesquite Common (AZ)	50.00%	79,770	(12,482)	71
PVNGS (AZ) (Units 1, 2 & 3)	17.49%	1,541,097	(1,116,447)	26,196
Springerville Common (AZ)	17.05%-50.00%	41,783	(6,395)	390
Gila River Common (AZ)	50.00%	41,964	(2,363)	2,339
		$ 2,529,206	$ (1,791,911)	$ 37,522

In February 2017, the non-federal owners of NGS decided to discontinue their participation in the plant beyond the end of the then existing lease with the Navajo Nation for the land on which the plant was constructed. In December 2019, the lease ended and decommissioning activities, including required monitoring activities, began and will continue for thirty-four years. The District holds a 23.2% decommissioning participation rate; consequently, the District owns 23.2% of the monitoring assets and their infrastructure which will remain at NGS and will be depreciated over their remaining life. In March 2020, decommissioning activities were suspended due to the Stay-At-Home order issued by the Arizona state governor related to the COVID-19 pandemic and were resumed in July 2020.

The following table reflects the District's investment in jointly owned transmission facilities as of April 30, 2021 (in thousands):

Transmission Facility	Plant in Service	Accumulated Depreciation	Construction Work In Progress
Mead Phoenix	$ 53,810	$ (22,180)	$ 84
Southwest Valley	82,204	(23,381)	3,190
Southeast Valley	293,867	(53,852)	1,953
Morgan-Pinnacle Peak	73,008	(13,723)	-
Southern Transmission	61,892	(39,717)	1,726
Mesquite	18,227	(2,460)	2
ANPP	90,182	(33,067)	3,041
Kyrene-Knox	10,757	(2,418)	-
	$ 683,947	$ (190,798)	$ 9,996

The District's ownership interests in the jointly owned transmission facilities vary by facility and for the various projects within each facility.

(14) VARIABLE INTEREST ENTITIES:

SRP follows guidance that defines a variable interest entity (VIE) as a legal entity whose equity owners do not have sufficient equity at risk or lack certain characteristics of a controlling financial interest in the entity. This guidance identifies the primary beneficiary as the variable interest holder that has the power to direct the activities that most significantly affect the VIE's economic performance (power criterion) and has the obligation to absorb losses or the right to receive benefits from the VIE (losses/benefits criterion). The primary beneficiary is required to consolidate the VIE unless specific exceptions or exclusions are met. SRP considers both qualitative and quantitative factors to form a conclusion whether it, or another interest holder, meets the power criterion and the losses/benefits criterion. SRP performs ongoing reassessments of its VIEs to determine if the primary beneficiary changes each reporting period.

Unconsolidated VIEs

While SRP is not required to consolidate any VIE as of April 30, 2021 or 2020, it held variable interests in certain VIEs as described below.

The District has entered into various long-term power purchase agreements with renewable energy generation facilities that extend for periods of 20 to 30 years. The District receives the power and renewable energy credits from these facilities. The capacity of all the facilities combined is approximately 298 MW. The amounts that the District paid to these projects were $112.1 million and $116.3 million for fiscal years 2021 and 2020, respectively. With the exception of projects for which the District is obligated to pay operating and maintenance expenses, the District is obligated to pay only for actual energy delivered and will have no obligation with respect to any facilities that do not start commercial operations. Some of these agreements include a price adjustment clause that will affect the future cost. While certain of these agreements provide a minimum production or performance guarantee, the District considers all production-based payments from renewable fuel source facilities to be contingent on future production of the facility. Therefore, even though certain of these agreements may be considered finance leases, SRP has not recorded a finance lease obligation for guaranteed minimum lease payments due to the contingent nature of such payments. The District has concluded that it is not the primary beneficiary of these VIEs since it does not control operations and maintenance, which it believes are the primary activities that most significantly affect the economic activities of the entity.

The District is a part owner of a limited liability company (LLC) formed during fiscal year 2010 to market long-term water storage credits. The District made net capital contributions of $2.3 million and received net capital distributions of $2.1 million from the LLC in fiscal years 2021 and 2020, respectively. The District's investment in the LLC was $8.8 million and $6.4 million as of April 30, 2021 and 2020, respectively. The District accounts for its investment in the LLC as an equity method investment within non-utility property and other investments in the accompanying Combined Balance Sheets. The District has a future maximum exposure up to a $25.0 million contribution limit. The primary risks associated with this VIE relate to the marketing of the water storage credits. The District has concluded that it is not the primary beneficiary of this VIE since it does not have power to direct the activities related to the marketing of the long-term water storage credits, which it believes are the primary activities that most significantly affect the economic activities of the entity.

(15) COMMITMENTS AND CONTINGENCIES:

Purchased Power and Fuel Supply

The District had various firm, non-cancelable purchase commitments as of April 30, 2021, which are not recognized in the accompanying Combined Balance Sheets. The following table presents estimated future payments pertaining to firm purchase commitments with remaining terms greater than one year (in millions):

	Purchase Commitments					
	2022	2023	2024	2025	2026	Thereafter
Purchase power contracts	$ 28.1	$ 28.3	$ 28.6	$ 28.7	$ 29.0	$ 310.5
Fuel supply contracts	205.0	140.1	107.3	107.7	102.4	266.1
Total	$ 233.1	$ 168.4	$ 135.9	$ 136.4	$ 131.4	$ 576.6

In addition to the commitments in the table above, the District has long-term commodity purchase agreements described below.

Gas Purchase Agreement

In 2007, the District entered into a 30-year gas purchase agreement with Salt Verde Financial Corporation (SVFC), an Arizona nonprofit corporation formed for the primary purpose of supplying natural gas to the District. Under the agreement, the District is committed to purchase 10,420,000 MMBtu each year during fiscal years 2022 through 2026, and 125,040,000 MMBtu over the balance of the term. The District receives a discount from market prices and is obligated to pay only for gas delivered. Payments, net of the discount, to SVFC under the agreement were $9.9 million and $10.4 million in fiscal years 2021 and 2020, respectively. The agreement also provides for payment from SVFC to the District of certain excess cash resulting from a portion of SVFC’s investment income, which effectively reduces the price the District pays for the gas. The excess cash amounts received by the District from SVFC were $4.7 million and $3.3 million in fiscal years 2021 and 2020, respectively. SVFC is a related party to the District.

Commodity Purchase Agreement

In April 2021, the District entered into a commodity purchase agreement with Southeast Energy Authority (SEA), a Cooperative District and public corporation organized and existing pursuant to the laws of the State of Alabama. Under the 30-year agreement, SEA will sell and deliver to the District and the District will purchase, specified quantities of natural gas at a market index price, less a specified discount. The initial gas delivery period (during which time the District is committed to purchase approximately 5,500,000 MMBtu of natural gas each year) will begin in November 2021 and end in August 2028. That initial delivery period will be followed by one or more reset periods, during which a recalculated available discount will be applicable. If the available discount during any reset period is less than the minimum discount specified in the agreement, the District may elect not to take the contracted quantity of gas, in which event the District will have no rights or obligations to take or purchase any gas for the duration of that reset period.

After November 2028, the District may choose to switch the commodity being delivered from natural gas to electricity, in which event electricity will be delivered for the duration of the term.

After the initial discount period, the District’s total potential commitment under this agreement is 126,320,000 MMBtu or 12,254,393 MWh. Expense for the commodity delivered, net of discount, will be recognized in total operating expenses in the Combined Statement of Net Revenues.

PVNGS Purchase Contracts

The District has entered into certain contracts for the purchase of capacity of PVNGS, which is currently owned by certain lessors and leased to Public Service Company of New Mexico (PNM). In addition, the District will acquire additional transmission capacity from PNM. The purchase is expected to be completed in phases in fiscal years 2022, 2024 and 2025, subject to regulatory approval, at a cost of approximately $70.0 million plus the cost of the associated nuclear fuel. The purchase of the additional interest in PVNGS will increase the District's ownership share of PVNGS to approximately 20%.

Nuclear Matters

Nuclear Insurance: Under existing law, public liability claims arising from a single nuclear incident are limited to $13.9 billion. PVNGS participants insure for this potential liability through commercial insurance carriers to the maximum amount available, $450.0 million, with the balance covered by an industrywide retrospective assessment program as required by the Price-Anderson Act. The maximum assessment per reactor per nuclear incident under the retrospective program is $137.6 million, including a 5% surcharge applicable in certain circumstances. Based on the District's ownership share of PVNGS, the maximum potential assessment would be $72.2 million, including the 5% surcharge.

PVNGS participants also maintain "all risk," including nuclear hazards, insurance for property damage to, and decontamination of, property at PVNGS in the aggregate amount of $2.8 billion. The District also secured insurance against portions of any increased cost of generation or purchased power and any business interruption resulting from a sudden and unforeseen accidental outage of any of the three units. The insurance coverage discussed in this and the previous paragraph is subject to certain policy conditions and exclusions.

Spent Nuclear Fuel: Under the Nuclear Waste Policy Act of 1982, the District was required to pay $0.001 per kilowatt-hour on its share of net energy generation at PVNGS to the U.S. Department of Energy (DOE) through April 30, 2015. However, to date, for various reasons, the DOE has not constructed a site for the storage of spent nuclear fuel. Accordingly, Arizona Public Service Company, the operating agent for PVNGS, has constructed an on-site dry cask storage facility to receive and store PVNGS spent fuel. PVNGS has sufficient capacity at its on-site spent fuel storage installation to store all nuclear spent fuel until December 2027, the end of its first operating license period, and a portion of the future spent fuel during the period of extended operation, ending in December 2047. As a result of the DOE not constructing a storage site for the spent nuclear fuel, the DOE has made payments to nuclear facilities to reimburse a portion of the costs that have been incurred for fuel storage to date. SRP received $2.1 million for fiscal year 2021 and $4.5 million for fiscal year 2020. Effective May 15, 2014, the per-kilowatt-hour charge on energy generation at PVNGS was reduced to zero. A similar charge could be reinstated in the future.

The District's share of on-site interim storage at PVNGS is recovered through the District's base rates as a component of the system benefit charge. As of April 30, 2021 and 2020, the District's accrued spent fuel storage cost was $21.8 million and $22.5 million, respectively, and is included in deferred credits and other non-current liabilities on the accompanying Combined Balance Sheets.

Environmental Matters

SRP is subject to numerous legislative, administrative and regulatory requirements at the federal, state and local levels, as well as lawsuits relative to air quality, water quality, hazardous waste disposal and other environmental matters. Contingent losses and environmental liabilities are recorded when it is probable a loss has occurred and the amount of the loss can be reasonably estimated. When a range of the probable loss exists and no amount within the range is a better estimate than any other amount, SRP records a loss contingency at the minimum amount in the range, which is included in deferred credits and other non-current liabilities on the accompanying Combined Balance Sheets. As of April 30, 2021 and 2020, SRP had accrued $31.5 million and $32.7 million, respectively, for environmental matters. The following topics highlight some of the major environmental compliance issues affecting the District.

Superfund: The United States and the State of Arizona have superfund programs to govern cleanup of groundwater contamination. Nineteen state superfund sites and six federal superfund sites targeting contamination are active within the Greater Phoenix metropolitan area. SRP has wells that are threatened or impacted by groundwater contamination located in sixteen of the nineteen state superfund sites and in two of the six federal superfund sites. The Association has agreed with other responsible parties to clean up one federal superfund site, and one District facility has been identified as a possible source of contamination for another federal superfund site. While SRP is unable at this time to predict the outcome of these superfund matters, it has recorded estimated liabilities to cover expected liabilities related to these issues.

Air quality: Compliance with air quality regulations designed to reduce emissions from fossil fuel power plants will increase the cost of, and add to the difficulty of, siting, constructing and operating electric generating units (EGUs). As a result of legislative and regulatory initiatives, the District has reduced emissions of mercury and other pollutants at its coal-fired power plants. The District continually assesses the risk of policy initiatives on its generation assets and develops contingency plans as necessary to comply with future laws and regulations relating to renewable energy and restricting greenhouse gas emissions.

EPA Carbon Regulations for Electric Generating Units – On July 8, 2019, the Environmental Protection Agency (EPA) published in the *Federal Register* the "Affordable Clean Energy" (ACE) rule that repeals and replaces the Clean Power Plan (CPP). Unlike the CPP, the ACE rule does not set state and tribal targets for carbon emission reductions. Instead, the rule requires states to set carbon emissions performance standards for coal-fired EGUs based on a revised determination that the "best system of emission reduction" (BSER) is application of heat rate improvement technologies. The American Lung Association and the American Public Health Association challenged the rule on July 8, 2019, and in August 2019, numerous states and cities and environmental groups also filed suit and several industry groups moved to intervene in the litigation. On January 19, 2021, the D.C. Circuit Court vacated and remanded the ACE rule to EPA finding that ACE, as well as the repeal of the CPP, "hinged on a fundamental misconstruction of" Section 111(d). On February 12, 2021, EPA asked the court to stay its mandate in American Lung Ass'n, et al. v. EPA until EPA issues a new rulemaking. On February 22, 2021, the D.C. Circuit Court granted EPA's motion until it responds to the court's remand by promulgating a new Section 111(d) rule to regulate greenhouse gas emissions from existing EGUs. The District cannot predict the effect of this matter on its financial condition, net revenues, and cash flows at this time.

On December 6, 2018, EPA proposed to revise the Clean Air Act Section 111(b) new source performance standards (NSPS) for greenhouse gas emissions for new, modified and reconstructed fossil fuel-fired EGUs. The EPA proposes to determine that the BSER for newly constructed coal-fired units is the most efficient demonstrated steam cycle in combination with the best operating practices. This proposed BSER would replace the determination from the CPP October 2015 rule. The comment period for this proposal ended February 19, 2019. On January 7, 2021, EPA issued a final rule finalizing a significant contribution finding for purposes of regulating greenhouse gas emissions under Section 111(b) for EGUs. States and environmental groups subsequently filed petitions for review of the rule in the D.C. Circuit Court of Appeals. On April 5, 2021, the court granted EPA's unopposed motion for voluntary vacatur and remand of the greenhouse gas Significant Contribution Rule. EPA did not revise the BSER or NSPS for new, modified and reconstructed EGUs. The District is monitoring the rulemaking and cannot predict the effects of this matter on its financial condition, net revenues and cash flows at this time.

Regional Haze – Provisions of the EPA's Regional Haze Rule require emissions controls known as Best Available Retrofit Technology (BART) for coal-fired power plants and other industrial facilities that emit air pollutants that reduce visibility in Class I areas, such as national parks. The District has financial interests in several coal-fired power plants that underwent BART analysis during the first planning period of the Regional Haze Rule. Sources that underwent BART analysis during the first planning period are not exempt from making further required reductions to achieve reasonable progress. The Arizona Department of Environmental Quality (ADEQ) conducted an initial analysis of Coronado Generating Station and Springerville Unit 4 as part of the State Implementation Plan (SIP) development process. ADEQ has issued preliminary determinations that additional controls are not warranted for either facility. The District is monitoring this activity and cannot predict the effect on its financial condition, net revenues and cash flows at this time.

Coronado Generating Station (CGS) – CGS is subject to source-specific terms as an alternative to BART under the Arizona Regional Haze SIP. The CGS SIP Revision consists of an interim operating strategy that is in effect from December 5, 2017, to December 31, 2025, and a final operating strategy that would take effect on January 1, 2026. The interim operating strategy requires CGS to curtail Unit 1 for various time periods during certain winter months. The District is proceeding with a final operating strategy to reconfigure the Selective Catalytic Reduction (SCR) equipment on Unit 2 to allow it to control the flue gases from both Unit 2 and Unit 1. The District will couple the SCR operation on both units with continued seasonal curtailments of CGS' operation. Both units will retire no later than 2032.

Ozone National Ambient Air Quality Standards – Pursuant to the Clean Air Act, the EPA is required to review and, if appropriate and necessary, revise each of the established National Ambient Air Quality Standards (NAAQS) at five-year intervals. The 2008 ozone standard was set at 75 parts per billion (ppb) based on an eight-hour average. On November 12, 2019, the EPA published its determination that the Phoenix nonattainment area had attained the 2008 ozone standard by July 20, 2018. To be redesignated to attainment, the Maricopa Association of Governments (MAG) will need to develop a maintenance plan for the Phoenix-Mesa ozone nonattainment area that demonstrates maintenance of the 2008 ozone standard for ten years after redesignation and would require EPA approval. On June 2, 2020, the EPA published in the *Federal Register* a final rule approving portions of the MAG 2017 Ozone Plan. On August 3, 2020, the Arizona Center for Law in the Public Interest filed suit challenging EPA's approval of the SIP for the Phoenix-Mesa area to attain the 2008 NAAQS for ozone of 75 ppb. Briefing was completed and oral argument was heard on March 4, 2021.

On October 1, 2015, the EPA finalized revisions to the NAAQS and lowered both the primary ozone standard and the secondary ozone standard from the 2008 limit of 75 ppb to 70 ppb (the 2015 ozone standard). Several states, including the State of Arizona, challenged the final rule. On August 23, 2019, the D.C. Circuit Court of Appeals denied the petitions for review, except with respect to the secondary ozone standard, which was remanded for reconsideration. On July 13, 2020, the EPA proposed a rule to retain the current primary and secondary NAAQS for ozone at 70 ppb. The proposal for the secondary standard addresses the remand from the August 2019 court decision. On December 23, 2020, the EPA finalized the rule retaining the 70 ppb primary and secondary standards.

With respect to the 2015 standard, the EPA published a notice in the June 4, 2018, *Federal Register* designating parts of Gila, Maricopa, Pinal and Yuma counties in Arizona as marginal nonattainment areas.

After the effective date of a final nonattainment designation, no permit may be issued for a new stationary source, or for a project at an existing stationary source in a nonattainment area, except in conformance with applicable Nonattainment New Source Review requirements. The District anticipates that the SIPs outlining controls to achieve the 2015 70 ppb standard will be in place between 2021 and 2022.

The full significance of air quality standards and emissions reduction initiatives to the District in terms of costs and operational problems is difficult to predict. In addition, the cost of fossil fuel purchased by the District may increase and permit fees may increase significantly, resulting in potentially material cost to the District as well as reduced generation. The District cannot predict whether additional legislation or rules will be enacted that will affect the District's operations, the impact of any initiatives on the District and, if such laws or rules are enacted, what the costs to the District might be in the future because of such action.

Solid and Hazardous Waste Management: The District disposes of coal combustion residuals (CCRs), such as fly ash, bottom ash and flue gas desulfurization sludge in a dry landfill and a wet surface impoundment. At NGS disposal of CCRs was limited to a dry ash landfill; the District will close this facility as part of the NGS decommissioning process. The District also owns interests in joint participation plants, such as Four Corners Generating Station, Craig Generating Station, Hayden Generating Station and Springerville Generating Station (Springerville), which dispose of CCRs in dry storage areas and in wet surface impoundments.

On October 19, 2015, federal criteria for management of CCRs as solid non-hazardous waste (CCR rule) became effective. The CCR rule is self-implementing and generally requires CCR disposal units to meet certain performance criteria. Units that do not meet the criteria must stop receiving CCRs and either retrofit to attain compliance or close.

On August 21, 2018, the United States Court of Appeals for the District of Columbia issued its ruling addressing challenges to the 2014 CCR rule in *Utility Solid Waste Activities Group v. EPA* (USWAG decision) regarding the 2015 rule promulgated by EPA regulating CCRs. As a result of the decision, which became effective October 15, 2018, the District is required to develop alternative disposal capacity for the CCR and non-CCR waste streams presently disposed of in the unlined surface impoundment at CGS. According to the EPA, regulated entities must cease placing material in unlined surface impoundments on or before April 11, 2021. However, entities may provide notice of intent to follow alternative closure provisions of the CCR rule or file an application to submit an alternate liner demonstration showing that based on the construction of the unit and the surrounding site conditions, operation of the impoundment will not pose a risk to human health or the environment.

The District believes that the wet unlined surface impoundment at CGS is eligible to make the alternate liner demonstration and submitted an application to make the demonstration on November 25, 2020. If EPA rejects the District's application or alternate liner demonstration, the District intends to seek site-specific alternate closure provisions to support construction of replacement facilities for the current surface impoundment.

The rules addressing unlined wet surface impoundments also impact operations at Four Corners. The CCR impoundments at Four Corners were anticipated to require closure under the CCR rules prior to the USWAG decision, and accordingly the operator of Four Corners has been implementing wet-waste reduction strategies and alternative CCR management practices, and moving forward with construction of CCR surface impoundments that meet CCR rule criteria.

Endangered Species: Several species listed as threatened or endangered under the Endangered Species Act (ESA) have been discovered in and around reservoirs on the Salt and Verde rivers, as well as C.C. Cragin Reservoir, which is operated by the District. Potential ESA issues also exist along the Little Colorado River in the vicinity of CGS and Springerville. The District obtained Incidental Take Permits (ITPs) from the U.S. Fish and Wildlife Service (USFWS), which allow full operation of Roosevelt Dam on the Salt River and of Horseshoe and Bartlett dams on the Verde River. The ITPs and associated Habitat Conservation Plans identify the obligations, such as mitigation and wildlife monitoring, the District must undertake to comply with the ESA. The District has established trust funds to pay mitigation and monitoring expenses related to the implementation of both the Roosevelt HCP and Horseshoe-Bartlett HCP and believes it has recorded adequate reserves to cover its related obligations.

The USFWS finalized the listing of northern Mexican and narrow-headed garter snakes as threatened in 2014. The District continues to assess the potential ESA liabilities regarding the northern Mexican and narrow-headed garter snakes. The District has initiated a process to amend the HCP and ITPs addressing operation of the Roosevelt Dam to address the northern Mexican garter snake. These species are included in the HCP and ITPs for operation of the Horseshoe and Bartlett dams.

On April 28, 2020, the USFWS released its proposed designation of critical habitat for the northern Mexican and narrow-headed garter snakes. The District submitted its comments to the proposal on June 29, 2020. On April 28, 2021, the USFWS released the final rule designating critical habitat for the northern Mexican garter snake. This rule became effective on May 28, 2021. The District is reviewing the final critical habitat rule and cannot predict the effects on its financial condition, net revenues and cash flows at this time. The USFWS also listed the western distinct population segment of the yellow-billed cuckoo as threatened in 2014. Critical habitat was proposed for the species in 2014 and finalized on April 21, 2021. The District submitted comments on the proposed listing and the proposed critical habitat designation. The USFWS critical habitat designation became effective May 21, 2021. The District is reviewing the final critical habitat rule and cannot predict the effects on its financial condition, net revenues and cash flows at this time.

Legal Matters

Water Rights: The District and the Association are parties to a state water-rights adjudication proceeding initiated in 1974 that encompasses the entire Gila River System (the Gila River Adjudication). This proceeding is pending in the Superior Court for the State of Arizona, Maricopa County, and will eventually result in the determination of all conflicting rights to water from the Gila River and its tributaries, including the Salt and Verde rivers. The District and the Association are unable to predict the ultimate outcome of this proceeding.

In 1978, a water-rights adjudication was initiated in the Apache County Superior Court for the State of Arizona with regard to the Little Colorado River System and will eventually result in the determination of all conflicting rights to water from the Little Colorado River and its tributaries, including East Clear Creek, the location of C.C. Cragin Dam and Reservoir. The District is unable to predict the ultimate outcome of this proceeding but believes an adequate water supply for CGS will remain available and that the rights to C.C. Cragin Dam and Reservoir will be confirmed.

2015 Price Process Litigation: On February 26, 2015, the Board concluded a public process by approving changes and adjustments to its retail electric price plans, including an overall average annual price increase of 3.9%, to be phased in beginning with the April 2015 billing cycle. This overall increase was composed of a 4.4% base increase and a 0.5% decrease to the Environmental Programs Cost Adjustment Factor.

In addition to other approved changes and adjustments, the Board approved a new price plan for residential customers who, after December 8, 2014, add solar or other technologies to generate some of their energy requirements (the E-27 Customer Generation Price Plan). The price plan includes a demand charge to better recover fixed costs related to the distributed generation customers' service facilities and their use of the grid, but also reduces the price such customers pay per kilowatt-hour for energy.

On February 22, 2019, four District customers who enrolled in the E-27 Customer Generation Price Plan filed a complaint in United States District Court for the District of Arizona, seeking class action status for all E-27 customers (the "Ellis Complaint"). The plaintiffs filed a First Amended Complaint on April 22, 2019. The Ellis Complaint alleges, among other things, that the District, by its adoption of the Customer Generation Price Plan, acted unlawfully by treating solar customers differently than non-solar customers. The suit asserts claims for unspecified damages and injunctive relief pursuant to federal and Arizona antitrust laws, price discrimination claims, equal protection claims, and an Arizona consumer fraud claim. The District moved to dismiss the First Amended Complaint on May 7, 2019; the plaintiffs filed their opposition to the motion to dismiss on June 4, 2019; and the District filed its reply in support of its motion to dismiss on June 18, 2019. The court granted the District's motion to dismiss the lawsuit on various grounds, including dismissal of the claims for antitrust damages pursuant to the Local Government Antitrust Act. On February 20, 2020, plaintiffs filed a notice of appeal with the 9th Circuit Court of appeals. The matter was briefed and oral argument was held on February 2, 2021. While it is too soon to predict the outcome of this matter, the District believes that the lawsuit is without merit and will aggressively defend the suit.

Connect 202 Partners, LLC Notice of Claim: On December 11, 2018, the District received a notice of claim from Connect 202 Partners, LLC (Connect 202) asserting damages resulting from the District's alleged failure to use reasonable care in the preparation of preliminary budget estimates for utility relocation expenses relating to the construction of an extension of Arizona State Route 202 in the Phoenix metropolitan area around South Mountain (the South Mountain Freeway Project). The Arizona Department of Transportation (ADOT) retained Connect 202 as its general contractor to design, build and maintain the South Mountain Freeway Project. Under that contract, Connect 202 was responsible for, among other things, the relocation of utility facilities and infrastructure, including certain irrigation and electric transmission and distribution facilities owned by the District. Connect 202 claims that it budgeted $33.6 million for the cost to relocate the District utility facilities but that ADOT was seeking to require Connect 202 to indemnify ADOT for amounts that ADOT may be required to pay the District in excess of the Connect 202 contract amount. Although Connect 202 alleges that it does not yet know the full extent of the sum at issue and its potential damages, it currently estimates the sum may be as high as $55.0 million. The District does not believe it has any liability to Connect 202. The parties entered into an agreement on June 10, 2019, tolling the statute of limitations and other defenses initially through May 31, 2020. The tolling agreement has since been extended to August 26, 2021. The District does not believe it has any liability to Connect 202 and will vigorously defend the suit if filed.

Sturgeon Matter: On May 13, 2020, the District received a Notice of Claim filed on behalf of three persons asserting personal injuries and damages in the aggregate amount of $144.7 million, allegedly caused by a significant flash fire incident that occurred on November 18, 2019, while they were attempting to de-energize a three-phase, pad-mounted transformer pursuant to a contract between the District and Sturgeon Electric. The Notice of Claim asserts claims sounding in negligence and premises liability related to the alleged low oil condition of the transformer at the time of the incident. The District's contract with Sturgeon Electric contains an indemnity agreement in favor of the District and the District is additionally insured on Sturgeon Electric's Commercial General Liability Policy. The District tendered the defense of this matter to Sturgeon, Sturgeon's excess carrier and Sturgeon's workers' compensation carrier (Zurich), seeking defense and indemnity with respect to all claims. The District also tendered this matter to its own insurers, including Associated Electric and Gas Insurance Services and Energy Insurance Mutual. Zurich has accepted the District's tender of defense under a reservation of rights, as have several of Sturgeon's excess liability carriers. A complaint was filed in Maricopa County Superior Court against the District as the only defendant, and the District was served on November 15, 2020. The District filed an answer to the complaint and asserted a counterclaim seeking declaratory judgment on January 8, 2021. On May 27, 2021, the District filed a Motion for Judgment on the Pleadings claiming that the plaintiffs' claims are barred by the "statutory employee" defense. The trial court judge converted the District Motion of Judgement on the Pleading to a Motion for Summary Judgement, which will be briefed in the October to December 2021 timeframe. The trial court has issued a stay of discovery until after the parties participate in a mediation in late July 2021. The matter is still in its early stages and the District cannot predict the ultimate outcome of this matter. The District will vigorously defend this matter and will also seek to resolve the matter, if possible, within its applicable insurance coverages.

Other Litigation: In the normal course of business, SRP is exposed to various litigations or is a defendant in various litigation matters. In management's opinion, except as otherwise noted herein, the ultimate resolution of these matters will not have a material adverse effect on SRP's financial position or results of operations.

Other Matters

Self-Insurance: SRP maintains various self-insurance retentions for certain casualty and property exposures. In addition, SRP has insurance coverage for amounts in excess of its self-insurance retention levels. SRP provides reserves based on management's best estimate of claims, including incurred but not reported claims. In management's opinion, the reserves established for these claims are adequate and any changes will not have a material adverse effect on SRP's financial position or results of operations. SRP records the reserves in deferred credits and other non-current liabilities on the accompanying Combined Balance Sheets.

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