2025 COMBINED FINANCIAL STATEMENTS

TOGETHER WITH REPORT OF INDEPENDENT AUDITORS
AS OF APRIL 30, 2025 AND 2024

Delivering water and power®

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 2025 Combined Financial Statements together with the Report of Independent Auditors. Questions or comments about this document should be addressed to Jon W. Hubbard, Treasurer & Senior Director, Financial Services, at **(602) 236-5510**.

Report of Independent Auditors

To the 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

Opinion

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 (the "Company"), which comprise the combined balance sheets as of April 30, 2025 and 2024, and the related combined statements of net revenues and of cash flows for the years then ended, including the related notes (collectively referred to as the "combined financial statements").

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the financial position of the Company as of April 30, 2025 and 2024, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Combined Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the combined financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combined financial statements.

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In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

PricewaterhouseCoopers LLP

June 27, 2025

SALT RIVER PROJECT
COMBINED BALANCE SHEETS
APRIL 30, 2025 AND 2024
(Thousands)

ASSETS

	2025	2024
Utility Plant		
Plant in Service-		
Electric	$ 18,271,258	$ 17,250,489
Irrigation	631,032	606,510
Common	1,513,263	1,418,835
Total plant in service	20,415,553	19,275,834
Less: accumulated depreciation on plant in service	(10,987,952)	(10,572,916)
	9,427,601	8,702,918
Plant held for future use	66,353	45,270
Construction work in progress	1,547,876	1,407,653
Nuclear fuel, net	150,510	145,259
	11,192,340	10,301,100
Other Property and Investments		
Non-utility property and other investments	517,631	422,559
Segregated funds, net of current portion	2,191,234	1,982,219
	2,708,865	2,404,778
Current Assets		
Cash and cash equivalents	689,228	490,430
Temporary investments	162,793	146,121
Current portion, segregated funds	126,066	122,443
Receivables, net of allowance for credit losses of $7,291 and $5,418, respectively	412,003	314,463
Fuel stocks	134,192	141,146
Materials and supplies	520,202	427,154
Current commodity derivative assets	907	-
Other current assets	81,116	66,671
	2,126,507	1,708,428
Deferred Charges and Other Assets		
Accumulated post-retirement asset	270,666	264,155
Regulatory assets	475,924	302,845
Non-current commodity derivative assets	68	6,457
Other deferred charges and other assets	169,988	132,478
	916,646	705,935
Total Assets	$ 16,944,358	$ 15,120,241

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

SALT RIVER PROJECT
COMBINED BALANCE SHEETS
APRIL 30, 2025 AND 2024
(Thousands)

CAPITALIZATION AND LIABILITIES

	2025	2024
Long-term Debt	$ 6,010,377	$ 5,470,941
Accumulated Net Revenues	7,012,115	6,408,147
Total Capitalization	13,022,492	11,879,088
Current Liabilities		
Current portion of long-term debt	295,355	118,780
Accounts payable	395,752	318,925
Accrued taxes and tax equivalents	120,868	125,731
Accrued interest	86,502	83,343
Customers' deposits	160,881	148,430
Current commodity derivative liabilities	46,925	92,446
Other current liabilities	329,919	271,213
	1,436,202	1,158,868
Deferred Credits and Other Non-current Liabilities		
Accrued post-retirement liability	749,490	641,161
Regulatory liabilities	814,612	605,219
Asset retirement obligations	589,756	545,504
Non-current commodity derivative liabilities	66,405	32,181
Other deferred credits and other non-current liabilities	265,401	258,220
	2,485,664	2,082,285
Commitments and Contingencies (Notes 9, 10, 11, 12, 13, 14, and 15)		
Total Capitalization and Liabilities	$ 16,944,358	$ 15,120,241

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, 2025 AND 2024
(Thousands)

	2025	2024
Operating Revenues		
Retail electric	$ 3,983,609	$ 3,492,861
Other electric	71,550	83,681
Wholesale	470,864	543,862
Water	33,668	25,491
Total operating revenues	4,559,691	4,145,895
Operating Expenses		
Power purchased	796,277	677,439
Fuel used in electric generation	837,352	989,900
Operations and maintenance	1,522,089	1,356,527
Depreciation and amortization	652,012	613,191
Taxes and tax equivalents	174,352	166,397
Total operating expenses	3,982,082	3,803,454
Net operating revenues	577,609	342,441
Other (Expense) Income		
Investment income, net	184,354	174,256
Other income, net	33,059	51,238
Total other income (expense), net	217,413	225,494
Net revenues before financing costs	795,022	567,935
Financing Costs		
Interest on bonds, net	243,082	208,479
Capitalized interest	(28,481)	(24,172)
Amortization of bond discount (premium) and issuance expenses	(45,591)	(45,163)
Interest on other obligations	22,044	23,234
Net financing costs	191,054	162,378
Net Revenues	$ 603,968	$ 405,557

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, 2025 AND 2024
(Thousands)

	2025	2024
Cash Flows from Operating Activities		
Net Revenues (Expenses)	$ 603,968	$ 405,557
Adjustments to reconcile net revenues to net cash provided by operating activities:		
Depreciation and amortization	652,012	613,191
Amortization of nuclear fuel	40,766	40,231
Amortization of bond discount (premium) and issuance expenses	(45,591)	(45,163)
Amortization of operating lease right of use assets	9,838	9,634
Change in fair value of derivative instruments, net of collateral	(5,815)	47,091
Change in fair value of investment securities	(9,468)	(92,089)
Realized gain on investing activities	(82,870)	(17,478)
Other	(8,714)	(19,002)
Decrease (increase) in:		
Fuel stocks and materials and supplies	(86,094)	(122,628)
Receivables, net of allowance for credit losses	(27,582)	(5,707)
Other current assets	(14,445)	(18,110)
Deferred charges and other assets	(135,353)	8,285
Increase (decrease) in:		
Accounts payable	40,623	(21,053)
Accrued taxes and tax equivalents	(4,863)	3,736
Accrued interest	3,159	15,740
Customers' deposits and other current liabilities	70,045	17,867
Deferred credits and other non-current liabilities	341,630	(94,614)
Net cash provided by operating activities	1,341,246	725,488
Cash Flows from Investing Activities		
Capital expenditures	(2,015,868)	(1,507,350)
Contributions in aid of construction	278,195	264,258
Proceeds from disposition of assets	11,592	12,665
Purchases of investments	(1,240,356)	(354,347)
Sales of investments	959,112	152,384
Maturities of investments	157,011	281,254
Other investing activities	4,566	6,347
Net cash used for investing activities	(1,845,748)	(1,144,789)
Cash Flows from Financing Activities		
Proceeds from issuance of Revenue Bonds, net of debt issuance costs	1,813,724	684,688
Repayment of Revenue Bonds	(1,052,122)	(113,930)
Net cash provided by financing activities	761,602	570,758
Net Increase in Cash, Cash Equivalents and Restricted Cash	257,100	151,457
Balance at Beginning of Year in Cash, Cash Equivalents and Restricted Cash	633,926	482,469
Balance at End of Year in Cash, Cash Equivalents and Restricted Cash	$ 891,026	$ 633,926
Supplemental Information		
Cash paid for interest, net of capitalized interest	$ 233,486	$ 191,801

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 Salt River Project or 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, casualty and medical 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 $788.7 million and $507.9 million for the fiscal years ended April 30, 2025 and 2024, 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:

	2025	2024
Average electric depreciation rate	3.03%	2.95%
Average irrigation depreciation rate	2.62%	2.61%
Average common depreciation rate	4.97%	5.31%

There was an increase of $30.0 million and $20.7 million in property, plant and equipment purchases within accounts payable for the fiscal years ended April 30, 2025 and 2024, 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. Composite rates of 3.83% and 3.39% were applied in fiscal years 2025 and 2024, respectively, to calculate interest on funds used to finance construction work in progress, resulting in $28.5 million and $24.2 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 $40.8 million and $40.2 million in fiscal years 2025 and 2024, respectively. The balance of nuclear fuel includes $127.0 million and $115.9 million of in-process stock, which is not yet being amortized, as of April 30, 2025 and 2024, 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. Capitalized software costs are included in utility plant and cloud computing costs are included in other deferred charges and other assets in the accompanying Combined Balance Sheets. The following table summarizes the capitalized computer software and capitalized cloud computing arrangement implementation costs as of April 30 (in thousands):

	2025		2024	
	Software	Cloud Computing	Software	Cloud Computing
Asset balance	$ 783,722	$ 44,506	$ 732,310	$ 41,927
Accumulated amortization	630,364	16,153	603,491	12,448

For the fiscal years ended April 30, 2025 and 2024, amortization expense for capitalized software costs was $26.9 million and $31.6 million, respectively. Amortization expense for capitalized cloud computing arrangements implementation costs was $3.7 million and $3.4 million for the fiscal years ended April 30, 2025 and 2024, respectively.

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
2026	$ 17,848	$ 3,751
2027	15,685	3,748
2028	15,203	3,745
2029	14,522	3,741
2030	13,412	3,738

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 recovery periods of the long-lived assets. 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 its share of 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 and for the fiscal years ended April 30 (in thousands):

	2025	2024
Beginning balance, May 1	$ 545,504	$ 377,324
Additions	9,000	-
Settlements, net	(5,189)	(4,096)
Revisions to estimates	18,981	155,108
Accretion expense	21,460	17,168
Ending balance, April 30	$ 589,756	$ 545,504

See Note [15], COMMITMENTS AND CONTINGENCIES under Environmental Matters for additional discussion.

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 (loss) 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):

	2025	2024
Segregated funds – legally restricted		
Nuclear Decommissioning Trust	$ 702,714	$ 642,173
Debt Reserve Fund	80,615	80,611
Construction Fund	54,306	15
Other	41,427	38,799
Total segregated funds – legally restricted	879,062	761,598
Segregated funds – other		
Benefits funds	1,309,469	1,218,886
Debt Service Fund	126,066	122,443
Other	2,703	1,735
Total segregated funds – other	1,438,238	1,343,064
Total segregated funds, including current portion	$ 2,317,300	$ 2,104,662

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 and recorded at fair value. 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):

	2025	2024
Cash and cash equivalents	$ 689,228	$ 490,430
Cash and cash equivalents included in non-utility property and other investments	18,754	18,062
Cash and cash equivalents included in segregated funds	125,277	121,653
Restricted cash and cash equivalents included in segregated funds	57,767	3,781
Total cash, cash equivalents and restricted cash	$ 891,026	$ 633,926

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 Credit Losses

Allowance for credit losses is provided for electric customer accounts and other non-energy receivables balances based upon the current expected credit loss, which is measured using 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 credit losses for the fiscal years ended April 30 (in thousands):

	2025	2024
Beginning balance, May 1	$ 5,418	$ 5,847
Provision for credit losses	12,928	8,866
Write-offs	(11,055)	(9,295)
Ending balance, April 30	$ 7,291	$ 5,418

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):

	2025	2024
Sick, vacation and holiday accrual	$ 61,877	$ 57,353
Customer prepayments	63,029	65,513
Employee Performance Incentive Compensation (EPIC)	52,903	27,412
Post-retirement benefits	37,022	32,846
Other	115,088	88,089
Total other current liabilities	$ 329,919	$ 271,213

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):

	2025	2024
Sick, vacation and holiday accrual	58,916	54,022
Long-term operating lease liabilities	48,671	52,413
Mine reclamation and other environmental obligations	46,148	47,563
Other	111,666	104,222
Total other deferred credits and non-current liabilities	$ 265,401	$ 258,220

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.

Reclassifications

For comparative purposes, certain amounts from prior periods have been reclassified to conform to the current period presentation. During fiscal year 2025, amounts previously included within other deferred credits and other non-current liabilities were reclassified to regulatory liabilities in the accompanying Combined Balance Sheets. The reclassifications had no impact on total assets, total liabilities, net revenues or cash flows.

Subsequent Events

SRP follows authoritative guidance which requires an entity to evaluate subsequent events through the date that the financial statements are available to be issued. Subsequent events for SRP have been evaluated through June 27, 2025, which is the date that the financial statements were available to be issued.

(3) ACCOUNTING PRONOUNCEMENTS:

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. In December 2022, the FASB issued ASU 2022-06, which amended the dates when an entity may elect to apply this update to any time from March 12, 2020 through December 31, 2024. Once elected, the expedients must be applied prospectively for all eligible contracts. SRP has not identified any contracts that would be affected by this update.

(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 legislature 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 returned to their incumbent utilities.

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 but there was insufficient support to modify the rules of competition. However, effective July 1, 2012, the ACC approved a buy-through program for a major utility allowing a limited number of large industrial customers to purchase generation from other providers. In December 2020, the ACC approved a similar buy-through program for a second major utility in the state. The ACC continues to evaluate these programs as part of rate case proceedings and continues to modify these programs as needed.

In August 2021, an entity filed application to provide competitive electric generation services in Arizona under the 1998 law. This action led to discussions which resulted in the ACC requesting a legal opinion from the Arizona Attorney General. This action resulted in an ACC directive stating that all matters be held in abeyance until a finding from the Attorney General is received. That opinion was not issued and there was a change in the Attorney General. The new Attorney General has not signaled interest in issuing an opinion.

During the 2022 legislative session, House Bill 2101 was enacted and has since become effective. House Bill 2101 repealed statutes and removed the requirement that a competitive market exist in the sale of electric generation service in Arizona. As part of the House Bill 2101 stakeholder process, the District negotiated an agreement that creates its own buy-through program. The District Board approved the program in September 2023 and the program began in January 2024.

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 September 9, 2024, the Board voted to approve a 3.9% increase to FPPAM prices effective November 1, 2024. On December 2, 2024, SRP opened a public pricing process seeking changes to standard electric price plans. On February 27, 2025, the Board voted to approve a 4.0% increase to base prices and a 1.6% decrease to FPPAM prices, for a net overall increase of 2.4% effective November 1, 2025.

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 pricing 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 return.

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

	2025	2024
Assets		
Pension and other post-retirement benefits (Note [12])	$ 402,197	$ 218,562
Bond defeasance	59,624	67,693
Other	14,103	16,590
Total regulatory assets	$ 475,924	$ 302,845
Liabilities		
Nuclear decommissioning	$ 482,276	$ 429,415
Depreciation	44,362	51,186
Bond defeasance	72,909	26,420
Accumulated cost of removal of plant assets	215,065	98,198
Total regulatory liabilities	$ 814,612	$ 605,219

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 refunded over the estimated remaining lives of the assets.

The regulatory liability for accumulated cost of removal of plant assets is an estimation of future costs of removal of plant assets not covered by an asset retirement obligation and is adjusted as actual expenses are paid.

(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, recognized in retail electric revenues and recorded as receivables, net, was $151.5 million and $137.1 million for the fiscal years ended and as of April 30, 2025 and 2024, 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 increased wholesale revenue by $7.1 million and $21.4 million in fiscal years 2025 and 2024, 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):

	2025	2024
Electric		
Residential	$ 2,089,997	$ 1,871,298
Commercial	1,478,553	1,270,553
Other retail customers	415,059	351,010
Total retail electric revenues	3,983,609	3,492,861
Other electric	71,550	83,681
Wholesale	470,864	543,862
Total electric operating revenues	4,526,023	4,120,404
Water	33,668	25,491
Total operating revenues	$ 4,559,691	$ 4,145,895

Deferred revenue balances are included in other current liabilities and were $133.4 million and $114.1 million as of April 30, 2025 and 2024, 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 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 to disclose.

(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	2025	2024
Cash and cash equivalents			
Cash	N/A	$ 8,228	$ 1,430
Money market funds	Fair value	671,000	489,000
Held-to-maturity commercial paper	Amortized cost	10,000	-
Total cash and cash equivalents		$ 689,228	$ 490,430
Non-utility property and other investments			
Money market funds	Fair value	$ 18,754	$ 18,062
Equity and fixed income investments	Fair value	50,311	59,916
Held-to-maturity debt investments	Amortized cost	262,204	156,787
Non-utility property	N/A	186,362	187,794
Total non-utility property and other investments		$ 517,631	$ 422,559
Segregated funds, net of current portion			
Cash	N/A	$ -	$ 15
Money market funds and US treasury bills	Fair value	56,978	2,976
Equity and fixed income investments	Fair value	2,041,481	1,888,526
Trading debt investments	Fair value	12,980	10,911
Held-to-maturity debt investments	Amortized cost	79,795	79,791
Total segregated funds, net of current portion		$ 2,191,234	$ 1,982,219
Temporary investments			
Held-to-maturity debt investments	Amortized cost	$ 162,793	$ 146,121
Total temporary investments		$ 162,793	$ 146,121
Current portion of segregated funds			
Money market funds	Fair value	$ 126,066	$ 122,443
Total current portion of segregated funds		$ 126,066	$ 122,443

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 $514.8 million and $504.2 million, respectively, as of April 30, 2025, and $382.7 million and $363.7 million, respectively, as of April 30, 2024. As of April 30, 2025, SRP’s investments in debt securities have maturity dates ranging from May 2025 to February 2036.

As of April 30, 2025, the gross unrecognized holding gains and losses on held-to-maturity debt securities were approximately $882,000 and $11.5 million, respectively.

As of April 30, 2024, the gross unrecognized holding gains and losses on held-to-maturity debt securities were approximately $39,000 and $19.1 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):

	2025	2024
Non-utility property and other investments	$ 4,524	$ 6,404
Segregated funds, net of current portion	6,064	137,461
Total	$ 10,588	$ 143,865

(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 instruments.

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, 2025:

Commodity	Unit of Measure	Sales Volumes	Purchases Volumes
Natural gas options, swaps and forward arrangements	MMBtu	1,930,000	371,409,000
Electricity options, swaps and forward arrangements	MWh	26,040	-
Liquefied fuel swaps	Gallon	-	3,449,800

The District has the following gross derivative volumes, by type, as of April 30, 2024:

Commodity	Unit of Measure	Sales Volumes	Purchases Volumes
Natural gas options, swaps and forward arrangements	MMBtu	17,400,000	355,000,000
Electricity options, swaps and forward arrangements	MWh	205,835	-
Liquefied fuel swaps	Gallon	-	5,346,400

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 as of April 30 (in thousands):

2025

	Current Commodity Derivative Assets	Non-current Commodity Derivative Assets	Current Commodity Derivative Liabilities	Non-current Commodity Derivative Liabilities	Net Assets (Liabilities)
Commodities	$ 11,745	$ 31,485	$ (75,594)	$ (113,822)	$ (146,186)
Netting	(10,838)	(31,417)	10,838	31,417	-
Collateral and margin deposits	-	-	17,831	16,000	33,831
Total	$ 907	$ 68	$ (46,925)	$ (66,405)	$ (112,355)

2024

	Current Commodity Derivative Assets	Non-current Commodity Derivative Assets	Current Commodity Derivative Liabilities	Non-current Commodity Derivative Liabilities	Net Assets (Liabilities)
Commodities	$ 6,474	$ 40,885	$ (102,409)	$ (66,609)	$ (121,659)
Netting	(6,474)	(34,428)	6,474	34,428	-
Collateral and margin deposits	-	-	3,489	-	3,489
Total	$ -	$ 6,457	$ (92,446)	$ (32,181)	$ (118,170)

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 for the fiscal year (in thousands):

2025

	Operating Revenues	Power Purchased	Fuel Used in Electric Generation	Change in Unrealized Gain (Loss)
Commodities	$ 7,125	$ -	$ (28,437)	$ (21,312)

2024

	Operating Revenues	Power Purchased	Fuel Used in Electric Generation	Change in Unrealized Gain (Loss)
Commodities	$ 21,437	$ 500	$ (79,116)	$ (57,179)

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, 2025, was $147.1 million. As of April 30, 2025, the District posted collateral in the amount of $33.8 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, 2025, the District could be required to post up to $113.3 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 most 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. Certain derivative positions are valued using the income approach, which derives fair value from estimated future cash flows, risk-adjusted discount rates and other inputs.

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 assets 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.

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, 2025 (in thousands):

	Level 1	Level 2	Level 3	Other	Netting and Collateral	Total
Assets						
Cash and cash equivalents:						
Money market funds	$ -	$ 671,000	$ -	$ -	$ -	$ 671,000
Total cash and cash equivalents	-	671,000	-	-	-	671,000
Non-utility property and other investments:						
Money market funds	-	18,754	-	-	-	18,754
Mutual funds	50,311	-	-	-	-	50,311
Total non-utility property and other investments	50,311	18,754	-	-	-	69,065
Segregated funds, net of current portion:						
Money market funds and US treasury bills	-	56,978	-	-	-	56,978
Mutual funds	2,038,779	-	-	-	-	2,038,779
Commingled funds	-	-	-	2,702	-	2,702
Government securities	-	12,980	-	-	-	12,980
Total segregated funds, net of current portion	2,038,779	69,958	-	2,702	-	2,111,439
Current portion of segregated funds:						
Money market funds	-	126,066	-	-	-	126,066
Total current portion of segregated funds	-	126,066	-	-	-	126,066
Derivative instruments:						
Commodities	-	43,017	213	-	(42,255)	975
Total derivative instruments	-	43,017	213	-	(42,255)	975
Total assets	$2,089,090	$ 928,795	$ 213	$ 2,702	$ (42,255)	$2,978,545
Liabilities						
Derivative instruments:						
Commodities	$ -	$ (189,416)	$ -	$ -	$ 76,086	$ (113,330)
Total derivative instruments	-	(189,416)	-	-	76,086	(113,330)
Total liabilities	$ -	(189,416)	$ -	$ -	$ 76,086	$ (113,330)

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, 2024 (in thousands):

	Level 1	Level 2	Level 3	Other	Netting and Collateral	Total
Assets						
Cash and cash equivalents:						
Money market funds	$ -	$ 489,000	$ -	$ -	$ -	$ 489,000
Total cash and cash equivalents	-	489,000	-	-	-	489,000
Non-utility property and other investments:						
Money market funds	-	18,062	-	-	-	18,062
Mutual funds	59,916	-	-	-	-	59,916
Total non-utility property and other investments	59,916	18,062	-	-	-	77,978
Segregated funds, net of current portion:						
Money market funds	-	2,976	-	-	-	2,976
Mutual funds	1,576,902	-	-	-	-	1,576,902
Commingled funds	-	-	-	311,624	-	311,624
Government securities	-	10,911	-	-	-	10,911
Total segregated funds, net of current portion	1,576,902	13,887	-	311,624	-	1,902,413
Current portion of segregated funds:						
Money market funds	-	122,443	-	-	-	122,443
Total current portion of segregated funds	-	122,443	-	-	-	122,443
Derivative instruments:						
Commodities	-	47,166	193	-	(40,902)	6,457
Total derivative instruments	-	47,166	193	-	(40,902)	6,457
Total assets	$1,636,818	$ 690,558	$ 193	$ 311,624	$ (40,902)	$2,598,291
Liabilities						
Derivative instruments:						
Commodities	$ -	$ (165,128)	$ (3,890)	$ -	$ 44,391	$ (124,627)
Total derivative instruments	-	(165,128)	(3,890)	-	44,391	(124,627)
Total liabilities	$ -	(165,128)	$ (3,890)	$ -	$ 44,391	$ (124,627)

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 as 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. Investments in non-publicly traded companies held in private equity funds are valued based on good-faith estimates of fair value performed by the fund manager. Commingled 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.

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 on published exchanges or indexes have been categorized as 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 fair value 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 fair value 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 include inputs such as implied volatility, correlations, interest rates and forward price curves.

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

SRP's assessment 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, 2025:

	Fair Value *(in thousands)*		**Unobservable Inputs**	
	Assets	**Liabilities**	**Range**	**Weighted Average***
Option contracts	$ 213	$ -		
Market price per MWh			$27.02 - $27.02	27.02
Power volatility			41.41% - 41.41%	41.41%
Market price per MMBtu			$1.79 - $1.79	$1.79
Gas volatility			76.40% - 76.40%	76.40%

*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, 2024:

	Fair Value *(in thousands)*		Unobservable Inputs	
	Assets	**Liabilities**	**Range**	**Weighted Average***
Option contracts	$ 193	$ (3,890)		
Market price per MWh			$19.48 - $103.14	59.42
Power volatility			37.56% - 82.08%	50.47%
Market price per MMBtu			$1.07 - $7.31	$3.11
Gas volatility			35.10% - 114.00%	57.89%

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

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

Investments Calculated at Net Asset Value

As of April 30, 2025, the fair value measurement of investments calculated at NAV (or its equivalent), as well as the nature and risks of those investments, is as follows:

	Fair Value *(in thousands)*	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
Commingled funds:				
Private equity fund	2,702	$2.2 million	N/A	N/A
Total commingled funds	$ 2,702			

As of April 30, 2024, the fair value measurement of investments calculated at NAV (or its equivalent), as well as the nature and risks of those investments, is as follows:

	Fair Value *(in thousands)*	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
Commingled funds:				
Fixed income funds	$ 309,888	None	Daily	N/A
Private equity fund	1,736	$3.0 million	N/A	N/A
Total commingled funds	$ 311,624			

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.

Private equity commingled fund: This fund invests primarily in privately held early stage and emerging growth technology companies and businesses primarily based in, or having existing or potential strategic and economic ties to, the State of Arizona.

Margin and Collateral Deposits

Margin and collateral deposit assets and liabilities include cash deposited with, and received from, 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 and collateral deposits (liabilities) were $33.8 million and $3.5 million as of April 30, 2025 and 2024, respectively. See Note [7], DERIVATIVE INSTRUMENTS.

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 as Level 3 in the fair value hierarchy; this determination is based upon unobservable inputs to the overall fair value measurement (in thousands):

	2025	2024
Beginning balance, May 1	$ (3,697)	$ (18,650)
Transfers out of Level 3	-	103
Net realized and unrealized gain (loss) included in earnings	-	4,412
Net purchases (sales)	213	-
Settlements	3,697	10,438
Ending balance, April 30	$ 213	$ (3,697)

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.

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 industry leading pricing services from independent sources. As of April 30, 2025 and 2024, the carrying amount of the District's revenue bonds, including current portion and accrued interest, was $6.2 billion and $5.3 billion, respectively, and the estimated fair value was $5.9 billion and $5.0 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):

	Maturity	Interest Rate	2025	2024
Revenue bonds				
2010 Series A	2040 – 2041	4.84%	$ 490,915	$ 490,915
2015 Series A	2034 – 2036	3.00%	172,035	867,285
2016 Series A	2026 – 2038	4.00%-5.00%	597,080	626,280
2017 Series A	2026 – 2039	5.00%	600,035	623,555
2019 Series A	2026 – 2049	3.00%-5.00%	422,610	430,875
2020 Series A	2026 – 2048	2.38%-5.00%	174,530	177,330
2020 Series B	2048 – 2050	2.57%	100,000	100,000
2021 Series A	2026 – 2029	5.00%	150,880	205,875
2022 Series A	2030 – 2032	5.00%	193,065	193,065
2023 Series A	2029 – 2050	5.00%	500,000	500,000
2023 Series B	2043 – 2053	5.00%-5.25%	650,000	650,000
2024 Series A	2026 – 2054	5.00%-5.25%	555,135	-
2024 Series B	2039 – 2042	5.00%	144,865	-
2025 Series A	2041 – 2046	5.00%	277,930	-
2025 Series B	2026 – 2037	5.00%	637,230	-
Total revenue bonds			5,666,310	4,865,180
Unamortized bond premium (discount), net			510,502	409,969
Unamortized debt issuance costs			(13,650)	(10,428)
Total revenue bonds outstanding			6,163,162	5,264,721
Commercial paper			142,570	325,000
Total long-term debt and short-term debt			6,305,732	5,589,721
Less: Current portion of long-term debt			(295,355)	(118,780)
Total long-term debt			$ 6,010,377	$ 5,470,941

The annual maturities of revenue bonds as of April 30, 2025, due in fiscal years ending April 30, are as follows (in thousands):

2026	$ 152,785
2027	157,960
2028	165,220
2029	174,760
2030	180,935
Thereafter	4,834,650
Total	$ 5,666,310

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 $206.7 million and $203.1 million of debt-service related funds as of April 30, 2025 and 2024, respectively. Additionally, the Bond Resolution requires the District to maintain a revenue bond 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, 2025 and

2024, the revenue bond debt service coverage ratio was 4.4 and 4.0, respectively. A substantial portion of the revenue bonds are callable by the District ten years after issuance.

In February 2023, the District issued $500.0 million of 2023 Series A Electric System Revenue Bonds at an average effective interest rate of 4.2%. The proceeds of the bonds were used to pay costs of issuance and to fund capital improvements of the District.

In November 2023, the District issued $650.0 million of 2023 Series B Electric System Revenue Bonds at an average effective interest rate of 4.8%. The proceeds of the bonds were used to pay costs of issuance and to fund capital improvements of the District.

In October 2024, the District issued $555.1 million of 2024 Series A Electric System Revenue Bonds at an average effective interest rate of 4.2%. The proceeds of the bonds were used to pay costs of issuance and to fund capital improvements of the District.

In October 2024, the District issued $144.9 million of 2024 Series B Electric System Revenue Bonds at an average effective interest rate of 3.6%. The proceeds of the bonds were used to pay costs of issuance and to fund capital improvements of the District.

In March 2025, the District issued $277.9 million of Series A Electric System Revenue Bonds at an average effective interest rate of 4.3%. The proceeds of the bonds, along with a $3.8 million contribution from the District, were deposited into an externally trusteed irrevocable account. The escrow account was used to refund $300.0 million of outstanding 2015 Series A Bonds. The refunding is a non-cash activity on the Combined Statements of Cash Flows, except for the $3.8 million contribution which is a cash outflow for financing activities.

In March 2025, the District issued $637.2 million of Series B Electric System Revenue Bonds at an average effective interest rate of 3.1%. A portion of the proceeds of the bonds, along with a $4.9 million contribution from the District, was deposited into an externally trusteed irrevocable account. The escrow account was used to refund $395.3 million of outstanding 2015 Series A Bonds. Remaining proceeds of the bonds were used to pay costs of issuance and to fund capital improvements of the District. The refunding is a non-cash activity on the Combined Statements of Cash Flows, except for the $4.9 million contribution which is a cash outflow for financing activities.

Interest, Build America Bonds subsidy payments, and the amortization of bond discount, premium and issuance costs on the various issues result in an effective rate of 3.8% over the remaining term of the bonds.

As of April 30, 2025, the District had authorization to issue additional Electric System Revenue Bonds totaling $6.6 billion in principal amount and Electric System Refunding Revenue Bonds totaling $11.7 billion in principal amount.

(10) COMMERCIAL PAPER AND CREDIT AGREEMENTS:

The District is authorized by the Board to issue up to $800.0 million in commercial paper. The District had $39.9 million and $50.0 million of Series C Commercial Paper outstanding as of April 30, 2025 and 2024, respectively, and an additional $102.7 million and $275.0 million of Series D-1 Commercial Paper outstanding as of April 30, 2025 and 2024, respectively. As of April 30, 2025 and 2024, the Series C issue had a weighted average interest rate to the District of 3.10% and 3.54%, respectively. As of April 30, 2025 and 2024, the Series D-1 issue had a weighted average interest rate to the District of 4.40% and 5.37%, respectively. The commercial paper matures not more than 270 days from the date of issuance and is an unsecured obligation of the District.

As of April 30, 2025, the District has four revolving line-of-credit agreements (in thousands):

Credit Institution	Credit Amount	Expiration
U.S. Bank National Association	$ 200,000	June 27, 2025
Bank of America, N.A.	250,000	December 9, 2025
J.P. Morgan Chase Bank, National Association	175,000	June 29, 2026
TD Bank, N.A.	175,000	July 14, 2026

The revolving line-of-credit agreements support the $142.6 million of outstanding commercial paper as of April 30, 2025. Commercial paper is classified as current portion of 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, 2025, and 2024. 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.

The remaining unallocated $657.4 million in credit available under the four lines of credit as of April 30, 2025, 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 that qualify as lease arrangements (PPA Leases). SRP's leases have remaining terms that expire in 2025 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. SRP 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 the classification of lease balances on the Combined Balance Sheets as of April 30 (in thousands):

	2025	2024
Assets		
Other deferred charges and other assets		
Operating lease right-of-use assets	$ 76,525	$ 82,653
Total lease assets	$ 76,525	$ 82,653
Liabilities		
Other current liabilities		
Short-term operating lease liabilities	$ 7,176	$ 7,149
Other deferred credits and other non-current liabilities		
Long-term operating lease liabilities	48,671	52,413
Total lease liabilities	$ 55,847	$ 59,562

The following table provides information related to SRP's lease costs for the fiscal year ended April 30, 2025 (in thousands):

	PPA Leases	Other Leases	Total
Operating lease cost	$ -	$ 9,838	$ 9,838
Variable lease cost	337,667	-	337,667
Short-term lease cost	-	385	385
Total	$ 337,667	$ 10,223	$ 347,890

The following table provides information related to SRP's lease costs for the fiscal year ended April 30, 2024 (in thousands):

	PPA Leases	Other Leases	Total
Operating lease cost	$ -	$ 9,634	$ 9,634
Variable lease cost	164,045	-	164,045
Short-term lease cost	-	341	341
Total	$ 164,045	$ 9,975	$ 174,020

Lease costs related to PPA Leases are recorded in 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 Leases. Payments under most renewable energy PPA Leases 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 expected undiscounted cash flows in years ending April 30 to the operating lease liability as of April 30, 2025 (in thousands):

2026	$	7,471
2027		7,512
2028		7,542
2029		7,565
2030		7,339
Thereafter		26,690
Total lease commitments		64,119
Less: interest		(8,272)
Total	$	55,847

The following table provides additional information related to operating lease liabilities, as of April 30:

	2025	2024
Weighted-average remaining lease term	12 years	11 years
Weighted-average discount rate*	2.03%	1.87%
Cash paid for leasing arrangements (operating cash flow), in millions	$7.4	$7.2

*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 that are classified as operating leases. These leases have varying terms, provisions, expiration dates and term extension options. Remaining lease terms range from 1 to 90 years. Lease income is reported in other income in the accompanying Combined Statements of Net Revenues. During the fiscal years ended April 30, 2025 and 2024, lease income was $6.8 million and $7.8 million, respectively.

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

2026	$	8,130
2027		7,919
2028		7,854
2029		7,994
2030		8,120
Thereafter		933,919
Total	$	973,936

(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 each fiscal year ended April 30, 2025 and 2024.

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 2025 were $4.8 million for prior service cost and $4.3 million for net actuarial gain. The District's amortization amounts for fiscal year 2024 were $4.8 million for prior service cost and $0.3 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, as of and for the years ended April 30 (in thousands):

	Pension Benefits		**Post-retirement Benefits**	
	2025	**2024**	**2025**	**2024**
Change in benefit obligation				
Benefit obligation at beginning of year	$ 2,490,176	$ 2,645,635	$ 674,007	$ 725,032
Service cost	61,639	68,047	15,909	19,136
Interest cost	141,024	132,178	38,310	36,316
Actuarial loss (gain)	45,941	(217,390)	93,956	(73,236)
Benefits paid	(141,795)	(138,294)	(36,947)	(33,241)
Plan amendment	-	-	1,277	-
Benefit obligation at end of year	2,596,985	2,490,176	786,512	674,007
Change in plan assets				
Fair value of plan assets at beginning of year	2,754,331	2,623,649	-	-
Actual return on plan assets	180,115	193,976	-	-
Employer contributions	75,000	75,000	36,947	33,241
Benefits paid	(141,795)	(138,294)	(36,947)	(33,241)
Fair value of plan assets at end of year	2,867,651	2,754,331	-	-
Funded status at end of year	$ 270,666	$ 264,155	$ (786,512)	$ (674,007)
Amounts recognized in Combined Balance Sheets				
Accumulated post-retirement asset	$ 270,666	$ 264,155	$ -	$ -
Other current liabilities	-	-	(37,022)	(32,846)
Accrued post-retirement liability	-	-	(749,490)	(641,161)
Net asset (liability) recognized	$ 270,666	$ 264,155	$ (786,512)	$ (674,007)
Amounts recognized as a regulatory asset				
Prior service cost	$ 43,721	$ 48,404	$ 1,453	$ 244
Net actuarial loss (gain)	386,712	297,873	(29,689)	(127,959)
Net regulatory asset (liability)	$ 430,433	$ 346,277	$ (28,236)	$ (127,715)

Actuarial losses related to changes in the benefit obligation during the year ended April 30, 2025, were $45.9 million and $94.0 million for pension benefits and post-retirement benefits, respectively, primarily due to a change in the discount rate from 5.83% in fiscal year 2024 to 5.76% in fiscal year 2025.

Actuarial gains related to changes in the benefit obligation during the year ended April 30, 2024, were $217.4 million and $73.2 million for pension benefits and post-retirement benefits, respectively, primarily due to a change in the discount rate from 5.13% in fiscal year 2023 to 5.83% in fiscal year 2024.

The accumulated benefit obligation for pension benefits was $2.3 billion and $2.2 billion as of April 30, 2025 and 2024, respectively.

SRP internally funds its other post-retirement benefits obligation. As of April 30, 2025 and 2024, $1.3 billion and $1.2 billion 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	
	2025	**2024**	**2025**	**2024**
Discount rate	5.76%	5.83%	5.76%	5.83%
Rate of compensation increase	4.50%	4.55%	N/A	N/A

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

	Pension Benefits		Post-retirement Benefits	
	2025	**2024**	**2025**	**2024**
Discount rate	5.83%	5.13%	5.83%	5.13%
Expected return on Plan assets	7.75%	7.75%	N/A	N/A
Rate of compensation increase	4.50%	4.55%	N/A	N/A

A 6.75% annual increase in per capita costs of healthcare benefits was assumed during fiscal year 2025; these rates were assumed to decrease uniformly until equaling 4.75% 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	
	2025	**2024**	**2025**	**2024**
Service cost	$ 61,639	$ 68,047	$ 15,909	$ 19,136
Interest cost	141,024	132,178	38,310	36,316
Expected return on Plan assets	(223,013)	(215,200)	-	-
Amortization of net actuarial loss (gain)	-	136	(4,314)	182
Amortization of prior service cost	4,682	4,682	68	68
Net periodic benefit cost	$ (15,668)	$ (10,157)	$ 49,973	$ 55,702

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 6.67% during fiscal year 2025, compared to appreciation of 7.54% during fiscal year 2024. Changes in the Plan's funded status affect the assets and liabilities recorded on the Combined Balance Sheets 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 customer rates. There have been numerous legislative changes in recent years that have affected funding requirements. The Moving Ahead for Progress in the 21st Century Act (MAP-21), the Highway and Transportation Funding Act of 2014 (HAFTA), the Bipartisan Budget Act of 2015 (BBA15), the American Rescue Plan Act of 2021 (ARPA), and the Infrastructure Investment and Jobs Act (IIJA) were signed into law between mid-2012 and the end of 2021. All of these acts have decreased the level of minimum required contributions.

The Plan's weighted-average asset allocations as of April 30 are as follows:

	2025		2024	
	Target Allocations	**Actual Allocations**	**Target Allocations**	**Actual Allocations**
Equity securities	56%	56%	60%	62%
Debt securities	35%	35%	30%	29%
Real estate	9%	9%	10%	9%
Total	100%	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, 2025 (in thousands):

	Level 1	**Level 2**	**Other**	**Total**
Cash and cash equivalents	$ 9,839	$ -	$ -	$ 9,839
Mutual funds	188,433	-	-	188,433
Government securities	-	88,188	-	88,188
Corporate bonds	-	922,066	-	922,066
Common stocks	98,523	-	-	98,523
Commingled funds	-	-	1,302,447	1,302,447
Real estate	-	-	258,155	258,155
Total assets	$ 296,795	$ 1,010,254	$ 1,560,602	$ 2,867,651

The following table sets forth the fair value of Plan assets, by asset category, as of April 30, 2024 (in thousands):

	Level 1	Level 2	Other	Total
Cash and cash equivalents	$ 6,598	$ -	$ -	$ 6,598
Mutual funds	147,543	-	-	147,543
Government securities	-	95,068	-	95,068
Corporate bonds	-	692,344	-	692,344
Common stocks	97,795	-	-	97,795
Commingled funds	-	-	1,458,621	1,458,621
Real estate	-	-	256,362	256,362
Total assets	$ 251,936	$ 787,412	$ 1,714,983	$ 2,754,331

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

Valuation Methodologies

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.

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.

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 fiscal years ending April 30 (in thousands):

		Post-retirement Benefits	
	Pension Benefits	Before Subsidy*	Net
2026	$ 146,518	$ 38,073	$ 37,377
2027	150,964	39,809	39,093
2028	154,866	41,299	40,570
2029	158,698	42,659	41,921
2030	162,432	44,134	43,389
2031 through 2035	866,864	245,459	241,770

*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 are 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 $31.9 million and $29.0 million during fiscal years ended April 30, 2025 and 2024, 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 ended April 30, 2025 and 2024, was $57.5 million and $29.8 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 $64.6 million and $59.2 million as of April 30, 2025 and 2024, 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 operations and maintenance expense 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, 2025 (in thousands):

Generating Station	Ownership Share	Plant in Service	Accumulated Depreciation	Construction Work in Progress
Four Corners (NM) (Units 4 & 5)	10.00%	$ 316,393	$ (235,575)	$ 13,994
Hayden (CO) (Unit 2)	50.00%	193,053	(188,021)	2,498
Craig (CO) (Units 1 & 2)	29.00%	366,890	(365,821)	1,514
Mesquite Common (AZ)	50.00%	86,959	(42,283)	451
PVNGS (AZ) (Units 1, 2 & 3)	17.49%-25.42%	1,894,529	(1,233,923)	44,548
Springerville Common (AZ)	17.05%-50.00%	46,767	(12,274)	597
Gila River Common (AZ)	50.00%	55,717	(29,071)	3,111
Total		$ 2,960,308	$ (2,106,968)	$ 66,713

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.

The following table reflects the District's investment in jointly owned transmission facilities as of April 30, 2025 (in thousands):

Transmission Facility	Plant in Service	Accumulated Depreciation	Construction Work in Progress
Mead Phoenix	$ 54,033	$ (26,278)	$ 383
Southwest Valley	98,622	(31,730)	12,551
Southeast Valley	296,169	(73,974)	3,831
Morgan-Pinnacle Peak	73,008	(19,880)	252
Southern Transmission	63,122	(42,972)	870
Mesquite	17,646	(7,516)	76
ANPP	100,381	(39,550)	4,983
Kyrene-Knox	12,443	(2,617)	6
Total	$ 715,424	$ (244,517)	$ 22,952

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, 2025 or 2024, 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. During fiscal year 2025, the capacity of all these facilities combined was approximately 298MW. The amounts that the District paid to these projects were $121.3 million and $119.0 million for fiscal years 2025 and 2024, 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 did not make capital contributions nor receive capital distributions in fiscal years 2025 and 2024. The District's investment in the LLC was $8.1 million and $7.2 million as of April 30, 2025 and 2024, 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, 2025, 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 thousands):

	Purchased Power Contracts	Fuel Supply Contracts	Total
2026	$ 28,467	$ 220,989	$ 249,456
2027	28,670	127,330	156,000
2028	28,959	79,512	108,471
2029	29,099	60,511	89,610
2030	29,324	44,639	73,963
Thereafter	187,765	51,793	239,558

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

Gas Purchase Agreements

In October 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 2026 through 2030, and 83,360,000 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 $10.1 million and $20.8 million in fiscal years 2025 and 2024, 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 $2.3 million and $3.2 million in fiscal years 2025 and 2024, respectively. SVFC is a related party to the District.

In October 2024, the District entered into a 14-year gas purchase agreement with JPMorgan Chase Bank. Under the agreement, the District is committed to purchase 65,000 MMBtu per day for the entirety of the term. The price per MMBtu will be based on a price index plus an applicable delivery charge. The following table presents estimated future purchase volumes to the gas purchase agreement (in thousands):

2027	21,710
2028	23,790
2029	23,725
2030	23,725
2031	23,725
Thereafter	225,680

Commodity Purchase Agreements

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) began in November 2021 and will 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 natural gas or 12,254,393 MWh of electricity.

In June 2022, the District entered into a second commodity purchase agreement with SEA. Under this 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 3,620,000 MMBtu of natural gas each year) began in January 2023 and will end in June 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 June 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 90,020,000 MMBtu of natural gas or 10,851,011 MWh of electricity.

In March 2023, the District entered into a third commodity purchase agreement with SEA. Under this 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 2,760,000 MMBtu of natural gas each year) began in July 2023 and will end in May 2029. 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 to terminate the agreement or 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 July 2029, 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 72,010,000 MMBtu of natural gas or 7,018,383 MWh of electricity.

In January 2025, the District entered into a fourth commodity purchase agreement with SEA. Under this 30-year agreement, SRP assigned two existing purchased power agreements into a prepay commodity purchase agreement. SEA will sell and deliver to the District, and the District will purchase specified quantities of electricity supplies at the purchased power agreements contractual price, less a specified discount. The initial electricity delivery period (during which time the District is committed to purchase on average approximately 596,000 MWh of electricity each year) will begin July 2025 and will end in April 2035. 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 continue in the prepay commodity purchase agreement, in which event the District will have to revert to the original two purchase power agreements.

After May 2035, the District may choose to switch the commodity being delivered from electricity to natural gas, in which event natural gas will be delivered for the duration of the term. After the initial discount period, the District's total potential commitment under this agreement is 22,385,000 MWh of electricity or 237,405,000MMBtu of natural gas.

For all four commodity purchase transactions with SEA, the expense for the commodity delivered, net of discount, is recognized in total operating expenses in the Combined Statement of Net Revenues.

Nuclear Matters

Nuclear Insurance: Under existing law, public liability claims arising from a single nuclear incident are limited to $16.3 billion. PVNGS participants insure for this potential liability through commercial insurance carriers to the maximum amount available, $500.0 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 $165.9 million, including a 5% surcharge applicable in certain circumstances. Based on the District's ownership share of PVNGS, the maximum potential assessment would be $101.5 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, for the construction of a site for the storage of spent nuclear fuel. However, to date, for various reasons, the DOE has not constructed a storage site. 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 $7.0 million for fiscal year 2025 and did not receive a payment for fiscal year 2024. 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 prices as a component of the system benefits charge. In November 2023, the updated decommissioning cost study for PVNGS identified spent fuel storage costs to be part of the District's asset retirement obligations for PVNGS. As of April 30, 2024, the District's accrued spent fuel storage cost is included in asset retirement obligations 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, 2025 and 2024, SRP had accrued liabilities of $25.1 million and $26.9 million, respectively, for environmental matters. The following topics highlight some of the major environmental compliance issues affecting SRP.

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 and one state 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 May 9, 2024, EPA published a final rule (Section 111 GHG Rule) regulating greenhouse gases (GHGs) from EGUs. The Section 111 GHG Rule sets forth New Source Performance Standards (NSPS) for new, modified, and reconstructed stationary combustion turbine EGUs and emissions guidelines for existing coal- and oil/gas-fired steam generating EGUs. The rule establishes distinct "best systems of emission reduction" (BSER) and standards of performance for affected units using defined subcategories. The standards for each subcategory are based on developing and established technologies, including carbon capture and sequestration (CCS) and natural gas co-firing. For some subcategories, BSER is implemented in phases to accommodate anticipated availability of developing control technologies.

Several petitions for review of the Section 111 GHG Rule were filed in the D.C. Circuit Court and have been consolidated into *West Virginia v. EPA*, Case No. 24-1120. Various motions to stay the Section 111 GHG Rule were filed and denied. The D.C. Circuit Court granted EPA's request to hold this case in abeyance to allow it time to issue a proposed reconsideration rule in Spring 2025 and a final reconsideration rule by December 2025. On June 17, 2025, EPA published its proposal to repeal, or secondarily to revise the Section 111 GHG Rule. Comments are due by August 7, 2025. The District cannot predict the effects of this matter on its financial condition, net revenues, and cash flows at this time.

Mercury and Air Toxics Standards – On May 7, 2024, EPA published a final rule establishing new emission standards for hazardous air pollutants (HAPS) from coal-and oil-fired EGUs (May 2024 Rule). For coal-fired EGUs, the May 2024 Rule lowered the emission limit for filterable particulate matter (fPM,) which serves as a surrogate for non-mercury HAP metals, from the current 0.030 lbs/MMBtu to 0.010 lbs/MMBtu. The May 2024 Rule requires continuous emissions monitoring systems (CEMS) to demonstrate compliance with the fPM standard with an averaging period of 30 operating days. Affected EGUs have to comply with the revised standards by July 8, 2027. On April 8, 2025, President Trump issued a proclamation, *Regulatory Relief for Certain Stationary Sources to Promote American Energy* (Proclamation), granting a two-year compliance exemption to EPA's May 2024 Rule. Forty-seven companies were notified that their sources have been granted an exemption until July 8, 2029. None of the District's sources are included in this exemption. On June 17, 2025, EPA published its proposal to repeal the majority of the May 2024 Rule. Comments are due by August 11, 2025. The District cannot predict the effects of this matter on its financial condition, net revenues, and cash flows at this time.

Regional Haze – Provisions of 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. 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. The ADEQ has issued preliminary determinations that additional controls are not warranted for either facility. On August 15, 2022, the ADEQ submitted its SIP revision to EPA. On May 31, 2024, the EPA published a proposed rule to partially approve and partially disapprove ADEQ's SIP. On December 18, 2024, EPA published a final rule partially disapproving portions of Arizona's SIP pertaining to the long-term strategy and reasonable progress goals (Final Rule). EPA's Final Rule establishes a two-year deadline for EPA to promulgate a Federal Implementation Plan (FIP), unless Arizona submits, and EPA approves within that timeframe, a SIP revision that satisfies all statutory and regulatory requirements contained in the Clean Air Act (CAA). On February 14, 2025, the District and Tucson Electric Power Company (TEP) jointly filed a Petition for Review of the Final Rule in the United States Court of Appeals for the Ninth Circuit and an administrative Petition for Reconsideration of the Final Rule with EPA. On March 20, 2025, the Ninth Circuit issued an order staying the briefing schedule. The District is evaluating the proposed rule and cannot predict the effects on its financial condition, net revenues and cash flows at this time.

Ozone National Ambient Air Quality Standards – Pursuant to the Clean Air Act (CAA), 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. On October 1, 2015, the EPA finalized revisions to the NAAQS and lowered both the primary and secondary ozone standard from the 2008 limit of 75 parts per billion (ppb) down to 70 ppb based on an eight hour average. In September 2018, Arizona submitted its SIP for the 2015 ozone NAAQS to the EPA.

On February 16, 2024, EPA published a proposed supplemental rule partially disapproving Arizona's SIP and expanding an existing federal implementation plan referred to as Good Neighbor Plan to apply to Arizona (Proposed Supplemental Rule). Under the Proposed Supplemental Rule, power plants and other industries in Arizona will be subject to additional emission control requirements, emission monitoring and reporting, and power plants in Arizona will be subject to a NOx emission trading program during ozone season that will occur from May 1 to September 30 each year, beginning in 2025. The trading requirements apply to all fossil generation with nameplate capacity in excess of 25MW. The allocation of emission allowances will decrease over a five-year period by fixed amounts before transitioning to dynamic budgeting. In its current form, the Proposed Supplemental Rule could require the installation of selective catalytic reduction (SCR) on Agua Fria Unit 3, or equivalent emission reductions. The District submitted extensive comments on the Proposed Supplemental Rule and cannot predict the effects on its financial condition, net revenues and cash flows at this time.

On September 16, 2022, EPA determined that Maricopa County and portions of Pinal and Gila counties, collectively called the Phoenix-Mesa nonattainment area, failed to attain the 2015 ozone NAAQS by the attainment date of August 3, 2021, and reclassified the Phoenix-Mesa nonattainment area from marginal to moderate for the 2015 ozone pollution standard. As a result of the moderate 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 (NNSR) requirements. The Phoenix-Mesa nonattainment area was required to attain the 2015 standard no later than August 3, 2024. On April 7, 2025, EPA announced it was rescinding its Guidance on the Preparation of the CAA Section 179b Demonstrations for Nonattainment Areas Affected by International Transport of Emissions. According to EPA, this guidance made it unnecessarily difficult for states to demonstrate that foreign air pollution is harming Americans within their borders. Following the rescission of the guidance, EPA intends to work with state and local air agencies, like Arizona, to develop the evidence necessary to grant regulatory relief under CAA

Section 179b. On April 8, 2025, the Center for Biological Diversity (CBD) and Center for Environmental Health (CEH) filed a complaint, alleging EPA missed a CAA deadline to determine if the Phoenix-Mesa nonattainment area failed to meet the 2015 NAAQS standards.

The moderate nonattainment designation also resulted in a requirement for the State of Arizona to modify its SIP to address the required controls necessary to achieve the 2015 standard in accordance with the moderate nonattainment deadlines. On October 18, 2023, EPA published a final action finding that the 11 states, including Arizona, failed to submit SIP revisions to address the required controls necessary to achieve the 2015 70 ppb standard. This action starts an eighteen-month sanction clock requiring emissions offsets equivalent to a two-to-one ratio from new or modified major facilities and a twenty-four-month sanction clock imposing restrictions on federal highway funding. In addition, this final action triggers a two-year deadline for EPA to issue a federal implementation plan (FIP) for each state that does not submit and receive EPA approval for an acceptable SIP revision addressing the outstanding requirements. The sanctions clock can only be stopped if the Phoenix-Mesa nonattainment area demonstrates attainment with the standard, or the State submits and receives approval for an acceptable SIP revision addressing the outstanding requirements. On February 16, 2024, EPA published a proposed rule partially disapproving infrastructure SIP submissions for five states, including Arizona, and expanding the existing Good Neighbor Federal Implementation Plan (Good Neighbor Plan) to apply to these states (Proposed Supplemental Rule). Under the Proposed Supplemental Rule, power plants and other industries in Arizona would be subject to additional emission control requirements, emission monitoring and reporting, and power plants would also be subject to a NOx emission ozone season trading program that will be applicable between May 1 to September 30 each year, beginning in 2025. The trading requirements would apply to all fossil generation with nameplate capacity in excess of 25MW. The allocation of emission allowances would decrease over a five-year period by fixed amounts before transitioning to dynamic budgeting in 2030. On December 19, 2024, EPA withdrew from the Office of Management and Budget review its rule to take final action on the infrastructure SIP submission for Arizona and the other four states included in the Proposed Supplemental Rule. It is unknown at this time when EPA will take further action on the Arizona SIP. The District cannot predict the effects on its financial condition, net revenues and cash flows at this time.

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 increased costs 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 at CGS 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 the landfill as part of the NGS decommissioning process. The District also owns interests in joint participation plants, such as Four Corners, 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. Costs to comply with this rule include costs for new groundwater monitoring wells, compliance monitoring and the eventual closure of residual ponds and storage areas.

On November 12, 2020, the EPA finalized a second rule entitled "Hazardous and Solid Waste Management System: Disposal of Coal Combustion Residuals from Electric Utilities: A Holistic Approach to Closure Part B: Alternate

Demonstrations for Unlined Surface Impoundments (Part B rule).” The Part B rule establishes procedures to allow a limited number of facilities to continue using alternate liners at existing CCR surface impoundments.

On November 25, 2020, the District submitted an application under the provisions of the Part B rule to make an alternate liner demonstration for the CGS wet surface impoundment. The District submitted its alternate liner demonstration on November 30, 2021. On January 11, 2022, the EPA notified the District that its application had been deemed complete. Under the Part B rule, the submission of a complete application tolls the April 11, 2021, cease receipt of waste deadline.

On January 15, 2025, EPA issued an order denying the District’s Part B application (Part B Order). The District is evaluating options to challenge the Part B Order. The District estimates that the cost to construct alternate disposal capacity, as required by the Part B Order, will exceed $90 million.

On May 8, 2024, the EPA promulgated a rule that would extend the federal CCR regulations to two new types of units: (1) inactive CCR surface impoundments at inactive facilities (called legacy surface impoundments); and (2) coal combustion residual management units (CCRMUs). A CCRMU is any area of land on which any non-containerized accumulation of CCR is received, is placed, or is otherwise managed that is not currently regulated as a new or existing landfill or surface impoundment under the existing CCR regulations. Under the proposed rule, active facilities with CCRMUs containing more than 1,000 tons of CCR must comply with the CCR Rule’s groundwater monitoring, corrective action, closure, and post-closure requirements. Prior to 2015, the District beneficially reused CCR material in several areas or applications of NGS. While the District believes EPA’s rule is unlawful as applied to CCR material beneficially used onsite, if EPA’s rule is upheld, the District will need to undertake additional monitoring and closure activities at NGS. The District estimates that the total cost for the plant to comply with the proposed rule for NGS would be approximately $106 million and the District’s pro rata share would be approximately $24 million. As of April 30, 2025, the District has recorded an additional $9.0 million as an asset retirement obligation related to this matter. See Note [2], SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES under Asset Retirement Obligation. The rule became effective on November 8, 2024. Several groups filed suit in the D.C. Circuit Court alleging the rule exceed EPA’s authority. On February 13, 2025, EPA’s request to hold the case in abeyance to allow the Trump administration time to review the underlying rule was granted.

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 Horseshoe and Bartlett Dams on the Verde River in 2003 and 2008. The ITPs and associated Habitat Conservation Plans (HCPs) 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 District obtained an amendment to the Roosevelt ITP on March 22, 2024, to cover impacts to the Northern Mexican Garter snake (NMGS), which was listed as a threatened species in 2014. The NMGS amendment requires the District to add to the Roosevelt Dam trust account sufficient funds to implement the requirement mitigation by March 2029.

In December 2020, the USFWS announced that listing the Monarch Butterfly as endangered or threatened under the ESA is warranted but precluded by other higher priority listings. In January 2021, the Center for Biological Diversity sued the Department of Interior/USFWS for failure to list the monarch. The lawsuit resulted in a settlement requiring USFWS to submit a proposed finding for the Monarch Butterfly by December 4, 2024. Listing of this species may have implications for construction and maintenance activities along the District’s power line corridors. If the species is listed, the District’s potential for “take” liability is being assessed to coverage may be required under ESA Section 7 for federal rights-of-way or Section 10 ITPs for non-federal rights-of-way activities.

Per- and Poly Fluoroalkyl Substances (PFAS): When necessary, the District supplements surface water from its Salt River and Verde River reservoirs with groundwater pumped from its extensive network of 270 groundwater wells. In cooperation with municipal and other partners, the District also operates and maintains two underground storage facilities and one groundwater savings facility. Effluent from municipal water treatment plants is recharged into underlying aquifers through the District's underground storage facilities.

PFAS are a group of environmentally persistent, widespread man-made chemicals used in industrial applications and commercial household products that have received attention as emerging contaminants of concern in the environment. On June 15, 2022, EPA issued interim updated drinking water health advisories for perfluorooctanoic acid (PFOA) and perfluorooctane sulfonic acid (PFOS). The updated health advisories indicate that some negative health effects may occur with concentrations in drinking water above 0.004 parts per trillion (ppt) for PFOA and 0.02 ppt for PFOS. EPA's health advisories are non-enforceable and non-regulatory.

On April 10, 2024, EPA promulgated the final National Primary Drinking Water Regulation (NPDWR) under the Safe Drinking Water Act (SDWA) for six per- and polyfluoroalkyl PFAS substances (PFAS). The rule establishes legally enforceable maximum contaminant levels for the PFAS substances identified in the rule. The limits would require public water systems to monitor for these chemicals and subsequently notify the public and reduce the levels of these PFAS compounds if levels exceed the regulatory standards. In addition, these standards are likely to be taken into account in establishing cleanup levels at contaminated sites and may be incorporated into applicable state water quality standards. On May 8, 2024, EPA designated PFOA and PFOS, including their salts and structural isomers, as CERCLA (Comprehensive Environmental Response Compensation and Liability Act) hazardous substances.

There are no state regulatory limits for PFAS in Arizona. The District is monitoring the regulatory developments regarding PFAS and may incur increased capital expenditures and maintenance costs as a result thereof. The District 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. 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.

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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