



Delivering water and power®

THIRD QUARTER REPORT
NOV. 1, 2020–JAN. 31, 2021
FISCAL YEAR 2021

Message from the President and the General Manager & CEO

David Rousseau
PRESIDENT

Mike Hummel
GENERAL MANAGER & CEO

NEWS AND ACHIEVEMENTS

The SRP Board recently voted to approve a price increase needed to rebalance prices calculated through the Fuel and Purchased Power Adjustment Mechanism (FPPAM) which enables SRP to recover the costs of purchasing fuel for generating stations and buying supplemental power on energy markets. In May 2019, FPPAM prices were lowered below cost to refund an over-collected balance. Now that the refunding process is complete, prices need to be adjusted. The Board voted to delay the price increase until the November 2021 billing cycle. At that time, an overall 3.9% average annual increase will take effect, resulting in an average increase of \$3.96 on the typical residential customer's monthly bill.

SRP completed demolition of several iconic structures at the now-retired Navajo Generating Station (NGS), including the three 220-foot original smokestacks, three 775-foot stacks and two large electrostatic precipitators. Retired in 2019, NGS was one of the largest coal-fired plants in the U.S. and served customers throughout the West for nearly 50 years. The goal of the demolition and decommissioning process is to restore the site in Page, Arizona, as close as possible to its pre-NGS condition.

SRP has launched a new program which allows residential customers to contribute \$3 per month to support strategic forest thinning projects. The Healthy Forest Initiative is part of SRP's 2035 Sustainability Goals and is designed to protect the health of the watersheds that provide water to the Valley and to reduce the risk and devastating impacts of catastrophic wildfires. The program expects to thin 50,000 acres per year or 500,000 acres of unhealthy overgrown

forested lands by 2035. SRP will match customer donations up to \$200,000 per year.

In January, Geri Mingura joined SRP as Associate General Manager and Chief Human Resources Executive, reporting to GM and CEO Mike Hummel. Most recently, Mingura served as Vice President of People & Culture Excellence at ON Semiconductor, where she helped reshape the HR organization for the company's 36,000 employees located around the world. The elevation of Human Resources to the top of the organization supports SRP's strong focus on diversity, inclusion and equity, and will help the company address an increasingly mobile and remote workforce, competition for key positions, compensation and focused succession planning.

SRP's Board of Directors has approved the purchase of an additional interest in Palo Verde Nuclear Generating Station, located west of Phoenix, as well as certain transmission assets for approximately \$70 million plus the cost of the associated nuclear fuel inventory. The additional 114 megawatts (MW) will help SRP meet demand that is growing significantly faster than the national average and will enable the company to defer planned capital expenditures for the construction of potential new generation. The safe, reliable and zero-carbon-emitting energy will reduce SRP's overall carbon intensity and help meet its 2035 Sustainability Goals, which call for a reduction of CO₂ emitted by generation by 65% by 2035 and 90% by 2050. The purchase of the first 104 MW is expected to be completed in January 2023 and the remaining 10 MW in 2024. When completed, the

purchase will bring SRP's ownership share of Palo Verde from 689 MW (17.5%) to 803 MW (about 20%) of the total plant capacity.

SRP brought online two new solar generation facilities near Coolidge, Arizona. Saint Solar, owned and operated by a NextEra affiliate, is a 100 MW facility and is delivering clean energy to 11 of SRP's largest business customers, helping them reduce their overall carbon emissions. East Line Solar, owned and operated by an sPower affiliate, is also a 100 MW plant and is delivering clean energy to SRP's largest customer, Intel Corporation, for the company's Ocotillo Campus in Chandler, Arizona. In addition to significantly reducing carbon intensity, SRP's new solar plants contribute to the goal of adding 1,000 MW of new utility-scale solar to the electric system by the end of fiscal year 2025.

SRP ranks highest in customer satisfaction in the western United States among large electric utilities for the 21st time in the 22 years that J.D. Power has been surveying residential electric customers — and the 19th year in a row. According to the 2020 Electric Utility Residential Customer Satisfaction Study issued by J.D. Power, electric customers gave SRP a Customer Satisfaction score of 806 on a 1,000-point scale — that's a 16-point gain from 2019. The West Large Utility region covers utilities in Arizona, California, Colorado, Idaho, Nevada, Oregon, Utah, Washington and Wyoming. Full 2020 survey results are available [here](#).

FINANCIAL RESULTS

Operating revenues were \$612.5 million for the third quarter of fiscal year 2021 (FY21) and \$592.2 million for the third quarter of fiscal year 2020 (FY20), an increase of \$20.3 million, or 3.4%. The increase in operating revenues was primarily due to increased retail electric and wholesale revenues. Retail electric revenues increased \$15.7 million, or 3.2%. Wholesale revenues increased \$8.1 million, or 10.8%, to \$83.3 million compared to the third quarter of FY20. Wholesale revenues for the third quarter of FY21 included a fair value loss of \$4.9 million compared to a \$0.1 million gain for the same period in FY20. Excluding the fair value adjustments, wholesale revenues would have been \$88.2 million and \$75.1 million in the third quarters of FY21 and FY20, respectively, an increase of \$13.1 million, or 17.4%. The increase is primarily due to participation in the California ISO's Energy Imbalance Market (EIM) in FY21. The total number of customers as of Jan. 31, 2021, was 1,092,823, an increase of 1.3% from Jan. 31, 2020.

Operating expenses were \$819.5 million for the third quarter of FY21 and \$816.5 million for the same period of FY20, an increase of \$3.0 million, or 0.4%. Purchased power expense increased \$52.9 million due to increased purchased volumes due to participation in the EIM. Fuel used in electric generation expense decreased \$60.2 million primarily due to lower-cost natural gas and the shutdown of the Navajo Generating Station (NGS) in the third quarter of FY20. Combined, purchased power and fuel used in

electric generation decreased \$7.3 million. Fuel used in electric generation and purchased power expenses include adjustments for the fair value of fuel and purchased-power contracts. Excluding the fair value gains of \$74.9 million and \$84.3 million in the third quarters of FY21 and FY20, respectively, these expenses would have increased \$2.2 million, or 0.9%. Operations and maintenance expense increased \$26.5 million due to the timing of plant overhaul work. Depreciation and amortization expense decreased \$16.3 million primarily due to the shutdown of NGS in the third quarter of FY20.

Investment income, net was \$132.2 million for the third quarter of FY21 compared with \$40.0 million for the same period in FY20. Investment income, net includes fair value gains of \$131.2 million and \$33.2 million in the third quarters of FY21 and FY20, respectively.

Net financing costs were \$34.3 million and \$35.5 million for the third quarters of FY21 and FY20, respectively.

Net loss for the third quarter of FY21 was \$119.2 million, compared with a net loss of \$223.8 million for the third quarter of FY20. Excluding the effects of the changes in the fair value of fuel and purchased-power contracts, wholesale revenues and investment income, net, net losses would have been \$170.6 million and \$172.9 million for the third quarters of FY21 and FY20, respectively.

SRP: WATER AND POWER SUPPLIER TO THE VALLEY

SRP provides reliable, affordable water and power to more than 2 million people living in central Arizona. SRP has operated for more than a century and has helped the Phoenix metropolitan area, known as the Valley, develop into one of the nation's most vibrant regions.

SRP comprises two entities: the Salt River Project Agricultural Improvement and Power District and the Salt River Valley Water Users' Association. As a community-based organization, SRP acts in the best interest of the people it serves and strives to help build a better future for Arizona.

Service Area

Water: 375 square miles

Watershed: 13,000 square miles

Power: 2,900 square miles

SRP Corporate Offices

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Financial Inquiries

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Water Highlights

Water Deliveries (acre-feet)

FY21	576,083
FY20	626,511

Nine months ended Jan. 31

Water in Storage (capacity)

2021	77%
2020	76%

As of Jan. 31

Financial Highlights

Debt Service Coverage

2021	4.06
2020	3.74

12 months ended Jan. 31

Debt Ratio

2021	44.1%
2020	46.4%

As of Jan. 31

Total Sales (thousand kWh)

FY21	33,251,433
FY20	28,058,624

Nine months ended Jan. 31

SRP Combined Balance Sheets

As of Jan. 31	(In Thousands - Unaudited)	
ASSETS	JAN 31, 2021	JAN 31, 2020
Utility Plant, at Original Cost	\$17,914,805	\$17,254,591
Less: Accumulated Depreciation	9,028,314	8,246,468
	8,886,491	9,008,123
Other Property and Investments	2,366,417	2,016,197
CURRENT ASSETS		
Cash and Cash Equivalents	537,809	379,649
Temporary Investments	172,962	134,395
Current Portion, Segregated Funds	28,332	31,374
Receivables, Net	337,171	310,694
Fuel Stocks	134,189	129,645
Materials and Supplies	263,089	231,717
Current Commodity Derivative Assets	27,042	1,856
Other	37,681	25,263
	1,538,275	1,244,593
DEFERRED CHARGES AND OTHER ASSETS		
Regulatory Assets	1,800,092	1,200,001
Non-Current Commodity Derivative Assets	2,480	4,395
Other Deferred Charges and Other Assets	125,826	30,028
	1,928,398	1,234,424
TOTAL ASSETS	\$14,719,581	\$13,503,337

As of Jan. 31	(In Thousands - Unaudited)	
CAPITALIZATION & LIABILITIES	JAN 31, 2021	JAN 31, 2020
CAPITALIZATION		
Accumulated Net Revenues	\$6,037,238	\$5,474,024
Long-Term Debt	4,754,825	4,742,871
	10,792,063	10,216,895
CURRENT LIABILITIES		
Current Portion, Long-Term Debt	102,755	102,110
Accounts Payable	112,030	104,192
Accrued Taxes and Tax Equivalents	89,947	93,180
Accrued Interest	22,961	22,784
Customers' Deposits	115,855	107,460
Current Commodity Derivative Liabilities	14,035	111,010
Other	200,933	195,681
	658,516	736,417
DEFERRED CREDITS		
Accrued Post-Retirement Liability	1,989,705	1,333,368
Asset Retirement Obligations	354,996	355,822
Non-Current Commodity Derivative Liabilities	129,088	214,289
Other Deferred Credits and Other Non-Current Liabilities	795,213	646,546
	3,269,002	2,550,025
TOTAL CAPITALIZATION & LIABILITIES	\$14,719,581	\$13,503,337

These unaudited financial statements should be read in conjunction with the 2020 Notes to Combined Financial Statements.

SRP Combined Statements of Net Revenues

(In Thousands - Unaudited)	3 Months Ended Jan 31	
	FY 2021	FY 2020
OPERATING REVENUES		
Retail Electric	\$501,451	\$485,794
Water	8,842	8,758
Wholesale	83,338	75,199
Other	18,898	22,438
Total Operating Revenues*	612,529	592,189
OPERATING EXPENSES		
Purchased Power	120,195	67,261
Fuel Used in Electric Generation*	197,249	257,437
Operations and Maintenance*	303,423	276,927
Depreciation and Amortization	156,250	172,548
Taxes and Tax Equivalents	42,401	42,295
Total Operating Expenses	819,518	816,468
Net Operating Revenues	(206,989)	(224,279)
OTHER INCOME		
Investment Income (Loss), Net	132,241	39,855
Other Income (Deductions), Net	(10,157)	(3,923)
Total Other Income (Loss), Net	122,084	35,932
Net Revenues (Expenses) before Financing Costs	(84,905)	(188,347)
FINANCING COSTS		
Interest on Bonds	47,017	45,938
Capitalized Interest	(2,444)	(2,466)
Amortization of Bond Discount/Premium and Issuance Expenses	(10,893)	(10,169)
Interest on Other Obligations	644	2,190
Net Financing Costs	34,324	35,493
NET REVENUES	\$(119,229)	\$(223,840)

TOTAL SALES - THIRD QUARTER FY21

(Percent by kWh; nine months ended Jan. 31)



ELECTRIC OPERATING REVENUES - THIRD QUARTER FY21

(Percent by service class; nine months ended Jan. 31)



These unaudited financial statements should be read in conjunction with the 2020 Notes to Combined Financial Statements. *Intercompany transactions eliminated.