



2020 ANNUAL REPORT

SALT RIVER PROJECT



Delivering water and power®

Including Five-Year Operational
and Statistical Review and
Financial Summary

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About SRP

SRP has delivered on **ITS COMMITMENT TO PROVIDE RELIABLE AND AFFORDABLE WATER AND POWER** to the people living in central Arizona this past year and for more than a century. By providing these essential resources, we have helped the Phoenix metropolitan area develop and thrive.

We act in the best interest of the people we serve and strive to help build a better future for Arizona. In the years ahead, we will continue to lead the way by applying our forward-thinking approach and new technology to address water and energy supply challenges.

The SRP Board considers customer input an essential ingredient for thoughtful Board actions, and as the communities we serve have continued to evolve, so must our efforts to engage them.

From the President and the Vice President

WE ARE RESILIENT.

Resilience is not a product of easy times, but of times that test our strength. At the close of fiscal year 2020 and as we continue to face unprecedented uncertainty caused by the COVID-19 pandemic, SRP is once again demonstrating its resilience.

Although the current public health crisis is a particularly daunting challenge, SRP has delivered on its core mission of providing sustainable, reliable and affordable water and power to the Valley. SRP has fulfilled this mission since 1903 and has continued to do so even in the midst of challenges that in their time were no less daunting.

WE ARE ONE SRP.

Through all the challenges SRP has faced, from shortages and rationing during World War II to significant flood events in 1978 and 1980, we see a common thread. No matter the hardship, SRP's publicly elected officials, management and employees have always come together as "One SRP" to deliver on our

core mission and to be a source of stability for the communities we serve.

This deeply rooted corporate culture has allowed our organization to remain strong generation after generation. Just prior to the COVID-19 outbreak, SRP was named one of Arizona's Most Admired Companies by Az Business magazine and BestCompaniesAZ.com. The award honored SRP for its leadership excellence, innovation, workplace culture, corporate and social responsibility, and customer favorability.

Our culture also represents why we are confident that SRP will emerge from this situation as a stronger organization, in part by carrying forward the culture of caring that has developed over the past century. In addition, each member of an increasingly diverse and inclusive SRP team embraces a "growth mindset." Collectively, we do our work in new, innovative ways while adapting to conditions that change each day.

The global pandemic has presented a significant disruption, and the SRP team, including the Board and Council, has responded with speed and dedication.

We are finding ways to perform our varied roles while protecting the health and safety of colleagues, family members, power customers, water shareholders and the communities we serve.

WE ARE HERE TO HELP.

Helping neighbors is part of SRP's heritage and core culture. During 2019, SRP supported the community through monetary and in-kind contributions totaling more than \$4 million.

Earlier this fiscal year, SRP was recognized for the vital role it plays in Arizona as one of the region's most philanthropic companies. The Phoenix Business Journal awarded SRP the top spot in the Community Impact large company category of the 2019 Corporate Philanthropy Awards.

We are fond of describing SRP as "community-based," but what that really means has recently come into stark focus. More than 80% of local nonprofits are feeling the effects of the COVID-19 health crisis. SRP is stepping up to the plate at this difficult time and providing assistance to the communities and customers we serve that will help improve lives.

In March 2020, our Board of Directors approved more than \$1 million in contributions to assist SRP's residential and small business customers, \$500,000 in contributions to support several local nonprofit organizations, and \$100,000 to Arizona Together, which supports frontline workers and efforts to mitigate the medical and economic impacts of the COVID-19 pandemic in Arizona.

WE ARE ADAPTING.

SRP is a self-governed public utility. We and the elected Board and Council regard our governance role as our most important work on behalf of the SRP water shareholders and power customers we represent. As elected representatives, Board and Council members serve as the voice for our neighbors by making thoughtful and informed decisions on issues critical to the organization today and in the future.

To accomplish this goal effectively, continual improvement and education on our rapidly changing industry and technology is critical. In that spirit, the Board and Council have collaborated with SRP management to launch a series of work-study education sessions that allow our elected members to dive deeply into selected topics and better understand complex and changing issues.

The SRP Board also considers customer input an essential ingredient for thoughtful Board actions, and as the communities we serve have continued to evolve, so must our efforts to engage them. As a result of this commitment and to further our understanding of power customer views, we have formed a new advisory panel. The SRP Customer Utility Panel, made up of 14 residential electric customers from across our service area, will replace and build on the Residential Advisory Committee, which was established in 2007.

There are challenges ahead and the road to recovery may be difficult. We know SRP can accomplish its goals and fulfill its responsibility to deliver sustainable, affordable and reliable water and power to the Valley residents and businesses SRP proudly serves. Despite this intense period of uncertainty, the availability of essential services provided by SRP will remain certain.

On behalf of SRP's elected officials and the hundreds of thousands we represent, we applaud the past year's achievements and look forward to continuing our teamwork with management, employees and all of our stakeholders.

David Rousseau
President



John R. Hoopes
Vice President



The two-year plan is aimed at maintaining SRP's overall financial strength and flexibility, which will ensure our services meet the standards that water shareholders and power customers value and respect.

From the General Manager & CEO

WE ARE STRONG.

As fiscal year 2021 (FY21) begins, SRP will rely on its position of financial and operational strength to continue providing sustainable, reliable and affordable water and power to the Valley. By focusing on this core mission, SRP will again play a key role in leading the future prosperity of Arizona.

Before I address FY21 plans in more detail, I want to thank our employees and publicly elected Board and Council members for their substantial efforts and recognize the following FY20 achievements that advanced our mission.

- SRP announced it will invest in 1,000 megawatts (MW) of new utility-scale solar energy by 2025 and initiated two new solar energy projects with battery storage. The two new resources are scheduled to be online by June 2023 and will enable SRP to meet its renewable energy targets, achieve its commitment to reduce carbon emissions and make SRP one of the nation's largest investors in energy storage.
- Crews at Theodore Roosevelt Dam successfully conducted an annual test of spillway gates to ensure proper operation in the event of a flood.
- SRP successfully raised \$550 million in proceeds through a revenue bond sale. The proceeds will fund electric system improvements, including upgrades to distribution and other facilities.
- Standard & Poor's (S&P) upgraded SRP's credit rating from AA to AA+. With this upgrade from S&P, SRP received the highest ratings among Large Public Power Council entities with both an Aa1 rating from Moody's Investors Service and an AA+ rating from S&P.
- After an extensive generation and transmission scheduling software overhaul, SRP joined the Western Energy Imbalance Market. Participation in the regional market will help us keep power costs down and integrate more renewables in the future.

- SRP issued a request for proposals (RFP) for up to 400 MW of new solar energy. The RFP seeks proposals for up to 200 MW of solar to be sited on the Navajo Nation, while the remaining 200 MW is not location-specific but must deliver electricity to SRP's transmission system.
- SRP selected an operational strategy to limit emissions from two coal-fired units at the Coronado Generating Station near St. Johns, Arizona. The plan will help SRP reliably and economically meet customer energy needs and enable the achievement of SRP's goals to reduce carbon dioxide emissions by more than 60% by 2035 and 90% by 2050.
- SRP crews performed canal construction and maintenance activities "in the wet." This approach enabled area municipal treatment plants to receive water while the Central Arizona Project performed maintenance on its delivery system.
- Forbes magazine recognized SRP as one of America's Best Employers for Diversity, ranking in the Top 500 companies with 1,000 or more employees. This honor follows SRP's recent Forbes ranking as a Best Employer overall.
- For the sixth time in the last seven years, SRP ranked highest in business customer satisfaction among large electricity providers in the West Large Region, according to a study issued by J.D. Power. It's the ninth time in the study's last 11 years that SRP was ranked highest in the region by its business customers. SRP was also ranked highest in the western United States among large electric utilities in the 2019 Electric Utility Residential Customer Satisfaction Study for the 20th time in the 21 years that J.D. Power has been surveying residential electric customers.

WE ARE FOCUSED.

The pandemic has had a major impact on all of us. For more than a century, SRP has been committed to helping Arizona thrive. Despite the challenges we face, we intend to extend that legacy. We will accomplish that by delivering on our core mission and by continuing to act in the best interest of the customers, shareholders and communities we serve.

SRP leaders have analyzed several scenarios given the current environment. At this time, we feel it is prudent to plan for a multiyear reduction to our bottom line. With that in mind, we've adjusted our typical six-year financial plan horizon to focus on the next two years. Under that two-year plan, we are actively examining ways to reduce our costs in FY21 and FY22 in response to a weaker economic outlook.

The two-year plan is aimed at maintaining SRP's overall financial strength and flexibility, which will ensure our services meet the standards that water shareholders and power customers value and respect. We have set FY21 Objectives that support our six prioritized areas of focus: Customers, Innovation and Sustainability, Workforce, Leadership, Community, and Finances.

WE ARE OPTIMISTIC.

In addition to the COVID-19 outbreak, external forces, including climate change, evolving customer expectations and technological advances, are all happening at once. SRP has overcome difficult situations in the past. And I remain confident that we will persevere and succeed in FY21 and the years ahead.

We have taken steps to ensure that we continue to achieve our core mission while finding new ways to innovate and adapt. As we have done throughout this past fiscal year, we will continue to evaluate how we respond to situations and do everything we can to stay agile in these uncertain times.

Once again, I want to thank SRP employees and our leadership team for their commitment and engagement during this challenging period. Their efforts are recognized and greatly appreciated and have enabled SRP to maintain its position of strength. By working together as One SRP, we will see this through and emerge even stronger than before.

Mike Hummel
General Manager & CEO



The District has a diversified customer base, with no single retail customer providing more than 3% of its retail electric revenues.

Reviewing Financial Results

RESULTS OF OPERATIONS

Operating revenues were \$3.1 billion for fiscal year 2020 (FY20) and \$3.4 billion for fiscal year 2019 (FY19), a decrease of \$249.2 million, or 7.4%. The decrease in operating revenues was primarily due to decreased retail electric and wholesale revenues. FY20 retail electric revenues decreased \$92.1 million to \$2.8 billion and wholesale revenues decreased \$173.4 million to \$206.6 million compared to FY19 primarily due to reduced demand due to mild weather in FY20 relative to FY19. Additionally, FY20 wholesale revenues included a fair value loss of \$28.9 million compared to a \$0.2 million loss in FY19. Excluding the fair value losses, FY20 wholesale revenues would have been \$235.5 million compared to \$380.2 million in FY19. The total number of customers was 1,074,952 as of April 30, 2020, a 1.7% increase from the previous year.

Operating expenses were \$3.0 billion for FY20 and FY19. Fuel used in electric generation and power purchased expenses increased \$102.5 million. SRP's

fuel used in electric generation and power purchased expenses include adjustments for the fair value of certain fuel and purchased power contracts. Excluding the fair value adjustments, these expenses would have decreased \$14.6 million, or 1.4%, from the previous year. In addition to the increase of fuel and purchased power expenses, depreciation and amortization expense increased \$9.7 million and taxes and tax equivalents increased \$6.7 million when compared to FY19. These increases were partially offset by a decrease in operations and maintenance expense of \$66.1 million when compared to FY19 due to the timing of scheduled plant maintenance projects.

Investment income, net, was \$18.8 million for FY20 compared to \$76.8 million for FY19. Investment income, net, includes fair value losses of \$5.8 million for FY20 and fair value gains of \$46.2 million for FY19.

Financing costs were \$144.3 million and \$171.2 million in FY20 and FY19, respectively. The decrease in financing costs is primarily due to lower interest

expense related to a power purchase agreement that was accounted for as a finance lease, which was terminated in FY20.

Net expenses for FY20 were \$17.8 million compared to net revenues for FY19 of \$305.8 million. Excluding the effects of the changes in the fair value of fuel and purchased power contracts, wholesale positions and investment income, net revenues would have been \$47.4 million and \$173.2 million for FY20 and FY19, respectively.

ENERGY RISK MANAGEMENT PROGRAM

The District's mission to serve its retail customers is the cornerstone of its risk management approach. SRP builds or acquires resources to serve retail customers, not the wholesale market. However, as a summer-peaking utility, there are times during the year when the District's resources and/or reserves are in excess of its retail load, thus giving rise to wholesale activity. The District has an Energy Risk Management Program to limit exposure to risks inherent in retail and wholesale energy business operations by identifying, measuring, reporting and managing exposure to market, credit and operational risks. To meet the goals of the Energy Risk Management Program, SRP uses various physical and financial instruments, including forward contracts, futures, swaps and options. Certain of these transactions are accounted for under Accounting Standards Codification (ASC) 815, "Derivatives and Hedging." For a detailed explanation of the effects of ASC 815 on SRP's financial results, see Note 7 in the notes to the Combined Financial Statements (available at srpnet.com/annualreport).

The Energy Risk Management Program is managed according to a policy approved by the District's Board of Directors (Board) and overseen by a Risk Oversight

Committee. The policy covers market, credit and operational risks and includes portfolio strategies, authorizations, value-at-risk limits, stop-loss limits, and notional and duration limits. The Risk Oversight Committee is composed of senior executives. The District maintains an Energy Risk Management Department, separate from the energy marketing area, which regularly reports to the Risk Oversight Committee. SRP believes that its existing risk management structure is appropriate and that risks are properly measured, reported and managed.

ELECTRICITY PRICING

The District has a diversified customer base, with no single retail customer providing more than 3% of its retail electric revenues. The District has implemented projects and programs geared toward enhancing customer satisfaction by offering customers a range of pricing and service options. Moreover, SRP is one of the low-price leaders in the Southwest.

The District is a summer-peaking utility, and it has made efforts to balance the summer-winter load relationships through seasonal price differentials. In addition, SRP offers prices on a time-of-use basis for residential, commercial and industrial customers.

The District's retail electric prices consist of three components: base prices, a Fuel and Purchased Power Adjustment Mechanism (FPPAM) and, through April 2019, an Environmental Programs Cost Adjustment Factor (EPCAF). 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. The EPCAF was implemented in November 2009 to cover costs incurred by the District to comply with requirements imposed by mandate that are related to renewable energy, energy efficiency and climate change.

On March 25, 2019, the Board concluded a public process by approving changes and adjustments to its price plans including an overall average annual price decrease of 2.2%, effective with the May 2019 billing cycle. The overall average decrease was composed of an average 3.9% decrease to FPPAM, partially offset by an average base price increase of 1.7%. Additionally, the Board discontinued EPCAF as a separate price plan component. The costs of energy efficiency are instead recovered through base rates in the System Benefits Charge (SBC), and expenses for all renewable purchased power agreements are included in the FPPAM component. SRP-owned renewable resources are now included in the base pricing components as capital, operations and maintenance, and taxes, consistent with standard accounting practices.

CAPITAL IMPROVEMENT PROGRAM

The Capital Improvement Program is driven by the need to sustain the generation, transmission and distribution systems of the District to meet customer electricity needs and to maintain a satisfactory level of service reliability.

FY20 capital spending levels were slightly above original expectations. Generation projects accounted for 19% of the year's expenditures. These projects included the acquisition of Coolidge Generating Station as well as plant modification costs for Palo Verde, Gila River and Four Corners generating stations.

Expansion of the electrical distribution system to meet future growth and to replace aging underground cable accounted for 38% of FY20 capital expenditures. More than one quarter of the distribution system spending was for New Business projects. The addition of new transmission facilities made up 15% of FY20 capital expenditures. These projects included the Price Road Industrial Expansion as well as transmission pole asset management.

SRP Boards and Councils

SRP BOARDS

The District is governed by a 15-member Board of Directors. The District Board, among other things, establishes overall District policy, approves the annual budget and major contracts, authorizes major purchases and sales of assets, sets electric prices for the District as per Arizona statutes, and authorizes the issuance of revenue bonds. The District Board members are elected from among the District electors (landowners) for four-year terms and consist of the President, who is an ex officio member, plus one member from each of the 10 voting divisions of the District, plus four additional members who are elected at large, half being elected biennially for four-year terms. The President and Vice President are elected at large by the electors of the District. With the exception of the four at-large Board members, all are elected by votes weighted in proportion to the amount of eligible land owned by each elector. The four at-large Board positions are elected based on one person, one vote by eligible District electors.

The Association is governed by an 11-member Board of Governors. Among other things, the Board is involved in establishing the policies, annual budget, major contracts, water rates and fees for the Association. The Association Board members are elected from among the Association's shareholders (landowners) for four-year terms and consist of the President, who is an ex officio member, plus 10 additional members (one from each of the 10 voting districts), half being elected biennially

for four-year terms. The President and Vice President are elected at large by eligible shareholders of the Association. The Board members, the President and the Vice President are elected by votes weighted in proportion to the amount of eligible land owned by each shareholder. Members of both boards are elected by property owners within the respective boundaries and serve staggered four-year terms.

SRP COUNCILS

Both the District and the Association have 30-member Councils — three members from each of the 10 voting districts (Association) or voting divisions (District), half being elected biennially for four-year terms. All Council members are elected by votes weighted in proportion to the amount of eligible land owned by each shareholder/elector. Most often, candidates seek election to both Councils. The two Councils, among other things, enact and amend bylaws of the respective organizations and set compensation of elected officials, and the District Council approves the issuance of revenue bonds.

Visit srpnet.com/about/map.aspx for a detailed map of the 10 SRP voting districts and divisions for SRP Boards and Councils.

SRP Boards and Councils

The Association Board:

District 1:
Larry D. Rovey

District 2:
Paul E. Rovey

District 3:
Mario J. Herrera

District 4:
Leslie C. Williams

District 5:
Stephen H. Williams

District 6:
Jack M. White Jr.

District 7:
Keith B. Woods

District 8:
Deborah S. Hendrickson

District 9:
Robert C. Arnett

District 10:
Mark V. Pace

The District Board:

Division 1:
Kevin J. Johnson

Division 2:
Paul E. Rovey

Division 3:
Mario J. Herrera

Division 4:
Leslie C. Williams

Division 5:
Stephen H. Williams

Division 6:
Jack M. White Jr.

Division 7:
Keith B. Woods

Division 8:
Deborah S. Hendrickson

Division 9:
Robert C. Arnett

Division 10:
Mark V. Pace

Directors at-large:

Seat 11:
Anda G. McAfee

Seat 12:
Corey J. Hawkey

Seat 13:
Nicholas R. Brown

Seat 14:
Randy J. Miller

The Association Council:

District 1:
Tyler M. Francis,
Ronald S. Kolb,
Clifford M. Leatherwood

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

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

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

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

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

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

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

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

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

The District Council:

Division 1:
Tyler M. Francis,
Ronald S. Kolb,
Clifford M. Leatherwood

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

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

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

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

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

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

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

Division 9:
A. Allen Freeman,
Adam S. Hatley

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

SRP Officers and Executives

Corporate Officers

David Rousseau,
President

John R. Hoopes,
Vice President

John M. Felty,
Corporate Secretary

Brian J. Koch,
Treasurer

Executive Management

Mike Hummel,
General Manager &
Chief Executive Officer

Alaina Chabrier,
Associate General
Manager & Chief
Communications Executive

Rob Taylor,
Associate General
Manager & Chief
Public Affairs Executive

Michael O'Connor,
Associate General Manager
& Chief Legal Executive

Dave Roberts,
Associate General Manager,
Water Resources

Aidan McSheffrey,
Associate General Manager
& Chief Financial Executive

John Coggins,
Associate General
Manager & Chief
Power System Executive

Jim Pratt,
Associate General Manager
& Chief Customer Executive

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

Five-Year Operational and Statistical Review

FINANCIAL DATA (\$000)	2020	2019	2018	2017	2016
Total operating revenues	\$ 3,121,431	\$ 3,370,610	\$ 3,196,486	\$ 3,084,688	\$ 3,047,272
Retail Electric Revenues	2,810,421	2,902,560	2,847,104	2,780,916	2,749,131
Water Revenues	20,823	18,661	18,151	16,238	15,853
Other Revenues	290,187	449,389	331,231	287,534	282,288
Total operating expenses	3,012,233	2,959,389	3,064,672	2,741,432	2,681,443
Total other income (loss), net	17,299	65,777	52,589	81,856	(35,953)
Net financing costs	144,263	171,170	165,100	177,275	185,273
Net (expenses) revenues for the year	(17,766)	305,828	19,303	247,837	144,603
Taxes and tax equivalents	173,211	166,508	176,153	166,898	164,475
Utility plant, gross	16,891,569	17,079,497	16,438,352	15,698,318	15,139,862
Long-term debt	4,621,694	4,587,689	4,742,857	4,465,538	4,579,919
Electric revenue contributions to support water operations	59,158	58,115	47,534	58,209	60,511

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

SELECTED DATA	2020	2019	2018	2017	2016
Total debt service coverage ratio	3.8	4.2	4.1	3.6	3.4
Debt ratio	46.2	45.9	48.2	46.7	48.6
Total electric sales (million kWh)	35,204	37,161	35,256	34,257	33,912
Peak-SRP retail customers (kW)	7,250,000	7,305,000	7,219,000	6,873,000	6,806,000
Water deliveries (acre-feet) (1)	–	785,126	766,288	773,527	779,466
Runoff (acre-feet) (1)	–	1,415,489	269,469	1,136,862	572,533
Employees at year-end	4,966	5,040	5,089	5,186	5,230
Customers at year-end	1,074,952	1,057,122	1,041,342	1,026,118	1,009,108

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

FINANCIAL INQUIRIES

BRIAN J. KOCH

Treasurer & Senior Director, Financial Services

(602) 236-2993

BONDHOLDER INFORMATION

SRP Treasury Department

(602) 236-2222

CORPORATE HEADQUARTERS

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

MAILING ADDRESS

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

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