

2014 SRP ANNUAL REPORT

making connections





Since 1908, the Granite Reef Diversion Dam has directed the flow from the Salt River into canals that distribute water throughout the Valley.

ABOUT SRP

SRP (Salt River Project) is the oldest multipurpose federal reclamation project in the United States. We have been serving central Arizona since 1903, nearly 10 years before Arizona became the 48th state.

Today the SRP power district is one of the nation's largest public power utilities. We provide electricity to approximately 984,000 retail customers in a 2,900-square-mile service area that spans three Arizona counties, including most of the metropolitan Phoenix area (known as the Valley). We are an integrated utility, providing generation, transmission and distribution services, as well as metering and billing services.

SRP's water business is one of the largest raw-water suppliers in Arizona. We deliver about 1 million acre-feet of water annually to a 375-square-mile service area and manage a 13,000-square-mile watershed that includes an extensive system of reservoirs, wells, canals and irrigation laterals.

For more than a century, SRP has demonstrated foresight in providing the essential resources to meet the needs of our power and water customers and to help the Valley grow into one of the most vibrant metropolitan areas in the country. We are continuing that mission in our second century.

ABOUT THE COVER

Lights from Mesa homes and businesses glow and water flows through SRP's Southern Consolidated Canal (lower right). This twilight view illustrates the extensive role our power and water connections play in our prosperous service area.

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This report and combined financial statements and notes are available at srpnet.com/annualreport. Visit srpnet.com for more information about SRP, our programs and our services.

LETTER FROM THE PRESIDENT AND THE VICE PRESIDENT

Most consumers don't realize that water and power are closely linked. Generating power often requires water. And water — especially in Arizona — often requires power for its delivery.

SRP was formed to provide a reliable source of water to the Valley. The generation and delivery of power was initially incidental to the operation of the dams. Over the years, it transformed SRP into one of the largest and most successful electric utilities in the nation. SRP benefits from a long history of managing both water and energy resources, and that experience and expertise helped drive the past year's achievements.

SRP's accomplishments over the past year are the product of three fundamental commitments:

1. Providing world-class power and water services
2. Effectively managing resources
3. Nurturing a high-achievement culture that continues our heritage as a good corporate citizen.

We applaud the management team and employees, working together with the SRP elected Board and Council, for applying this three-part focus to build on existing success, while pursuing a broad range of goals and objectives to ensure its future. This report highlights how SRP continues to deliver outstanding results.

RESULTS REFLECT CUSTOMERS-RESOURCES-CULTURE FOCUS

SRP exceeded its customer-satisfaction target, which reflects companywide efforts to offer an exceptional experience. Industry-leading satisfaction scores would not be possible without reliable service, and the power and water delivery systems achieved challenging goals for availability.

Combined net revenues surpassed the year-end target by \$83.1 million. Controllable spending was under budget by more than \$37 million. These results demonstrate effective management of company resources.

Total electric sales during the 2014 fiscal year (FY14) increased by 7.2%, compared with FY13. The number of SRP customers increased by 1.5% from the previous year and totaled 983,745 at the end of FY14 (April 30). The gain is a sign that Arizona's economy is improving. However, the pace of growth remains modest compared with historical trends.

Despite the slow economic recovery, SRP has maintained strong financial ratings through its performance.

PLANNING, MANAGEMENT SUPPLY WATER FOR THE FUTURE

At a time when significant media attention is being given to shrinking water supplies in the West, we are pleased to say that SRP's customers continue to enjoy robust, reliable and uninterrupted water supplies. Despite the eighth lowest runoff amount in SRP's more-than-100-year operational history, central Arizona is in good shape in large part due to SRP's stewardship and resource management.

In response to longer and more severe droughts, SRP made changes to its Project Reservoir Operations Plan a few years ago. As a result, total year-end storage remained near last year's levels (more than 50%) despite limited inflow.

We are aware that our stewardship requires ongoing vigilance. SRP continues to address future water-supply challenges through partnerships. For example, the company acquired 150,000 acre-feet of storage capacity at the Central Arizona Project's (CAP) Superstition Mountains Recharge Project, and also topped 500,000 acre-feet of CAP water stored as part of the Gila River Water Storage, LLC. SRP also supports several initiatives to preserve and promote healthy forests — the watershed upon which its water supply depends.

These and other efforts will help ensure adequate water resources and economic vitality for our customers. The Super Bowl, coming to the Valley in February 2015, will provide a unique opportunity for SRP involvement in an event that spotlights the Valley and contributes to its economic development.

FOUNDING VISION CONTINUES TO GUIDE TODAY'S SRP

The visionary pioneers who founded SRP pledged their land as collateral for federal loans that would create water security for the Valley. Our commitment to community has endured for more than a century. It continues to be manifest in SRP's cooperative efforts to wisely manage resources upon which so many Arizonans depend. This commitment extends to a widely recognized corporate and employee effort to enhance the quality of life for those we serve.

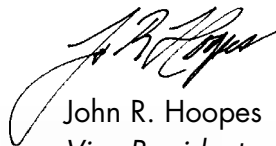
SRP founders were committed to supporting economic development, serving as stewards of natural resources and improving the quality of life in the Valley. The company continues to act from this same powerful vision today.

SRP contributes to hundreds of community organizations and events. The company supports health and human services endeavors, civic projects, art and cultural diversity. SRP funds programs to improve the education of Arizona's children. A remarkable force of SRP employee volunteers assists a broad range of efforts in their communities.

On behalf of all the elected leaders of SRP, we are pleased with the organization's direction. We look forward to working with management to continue SRP's commitment to make Arizona and the Valley a great place to live, work and play.



David Rousseau
President



John R. Hoopes
Vice President



LETTER FROM THE GENERAL MANAGER & CEO

SRP is making connections all the time. We connect with our customers through the delivery of reliable and low-cost power and water, and with the communities we serve through our stewardship, outreach and volunteer efforts.

I'm very proud of these relationships—they create bonds that keep us focused on what is important. In the coming year, we expect to strengthen these bonds by surpassing one million electric-service customers and enhancing the value of our connections.

RESPONSIVENESS POWERS COMMERCE

One effort that deserves a special shout out is the record time (six months) in which we constructed and energized the Luna and McGinnis substations in Mesa. These substations added several hundred megawatts of load-serving capacity and allowed us to bring power to GT Advanced Technologies, which manufactures materials for use in Apple products.

The project is the quintessential example of SRP responding to customer needs. This achievement was possible through extraordinary teamwork by our employees. Our faster-than-expected response, completed safely, demonstrates one of the ways we are helping to grow Arizona's economy.

To attract new large commercial and industrial clients such as Apple, and the jobs that come with them, SRP launched PowerToGrowPHX.com. The new website targets business decision-makers and assists our economic development partners by providing information about SRP's power and water capacity and expertise. In just six months, visits to the site increased 464% compared to the same period the previous year.

Sometimes, driving economic development requires foresight and patience.

As the economy began to show signs of recovery, SRP anticipated a significant increase in the number of businesses along the city of Chandler's "Price Road Corridor." In January 2013, we began a public process to site new overhead 230-kilovolt (kV) power lines and two new 230-kV substations. This project will provide additional capacity for growth, while improving electric service reliability to an area where several high-tech businesses already require large amounts of power.

OPTIONS, IMPROVEMENTS ENHANCE EXPERIENCE

SRP's exemplary customer service and satisfaction performance continues to lead the industry.

SRP contact centers were among a select group of North American companies to receive a prestigious contact-center certification from J.D. Power this year for providing "an outstanding customer service experience."¹ We were ranked "Highest for Customer Satisfaction among Large Utilities in the West 13 years in a Row," according to a 2014 J.D. Power study.² And we are one of 50 elite U.S. companies to be named a J.D. Power 2014 Customer Champion.

These are astounding feats. SRP employees put customers first, and it shows. Customers rate us highly for our power quality and reliability, customer service and billing and payment, according to our research.

Although we receive high marks, we're continuously looking for ways to get even better. For example, this year we made several improvements to our customer construction experience. These actions get power to construction sites faster and received very favorable feedback from commercial customers.

To further enhance our service, we are working to provide customers with self-service options that are easier to use and fully accessible from all devices used by customers. Technology plays a big role in our plans to increase satisfaction.

This year SRP signed a long-term agreement with Landis+Gyr to obtain advanced metering and prepay technology. Through a phased, 10-year project, SRP will install more than one million Landis+Gyr meters to provide our customers with new credit and prepayment options, and substantially enhanced information.

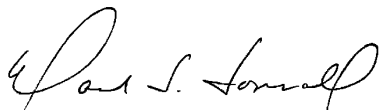
SRP employees deliver an industry-leading customer experience. We have a strong commitment to put the customer first and are working to offer greater convenience and choice.

We know prepayment helps customers manage their energy budget, resulting in higher levels of customer satisfaction. With 149,000 participants, SRP M-Power® is the largest electric prepayment program in the United States. The next generation of advanced metering technology will offer customers even greater convenience and make prepay an attractive choice for more customers.

Rooftop solar and other renewable energy options present new opportunities for SRP. As more of our customers choose to generate some of their own power, SRP is developing principles that will allow us to embrace customer choice of self-generation and improve the design and transparency of pricing for this new type of service, while continuing to provide reliable and low-cost service to our customers.

We want to help customers decide which renewable energy options are right for them. Our plan is to maintain strong connections with customers and maximize their satisfaction regardless of the level of service they choose to receive from SRP.

Behind all these efforts are SRP employees. They made 2014 another successful year. I congratulate them for their hard work and dedication, and especially their impressive safety record. Finally, thank you to the executive management team and our elected leaders, whose ongoing support is key to our future success.



Mark B. Bonsall
General Manager & CEO





When PepsiCo wanted to reduce its environmental impact the company turned to SRP. Pictured from left: PepsiCo's Tom Schaefer, Director of Resource Conservation; Tony Grinstead, Maintenance and Engineering Senior Resource; and Jeff Rutkowski, Maintenance and Engineering Senior Manager.

CONNECTING CUSTOMERS

REBATES DRIVE PEPSICO'S ENERGY-EFFICIENCY GAINS

Connecting with customers is more than just delivering power and water to homes, businesses, neighborhoods and cities. Service means providing an exceptional experience at every contact point.

SRP's energy-efficiency programs reflect a relationship-based approach. We partner with residential and commercial customers to help them decrease energy use, which defers the need for future generation, reduces emissions and decreases costs. Our collaboration with PepsiCo is a good example.

By investing in energy-efficient equipment, PepsiCo has reduced energy usage and costs at the world's largest Gatorade bottling plant by 10%. SRP's programs are helping PepsiCo to reach its commitment to improve energy efficiency by 20% by 2015.

PepsiCo has completed eight projects in its Tolleson facility with nearly \$300,000 in rebates from SRP during the past two years. The installation of new compressed-air, lighting and cooling equipment has reduced energy use by 3.7 million kilowatt hours.

ASSISTANCE AVAILABLE WITHIN SECONDS

Responsive service is another way we build valuable connections with customers. Our 24/7 contact centers answer 90% of calls within 30 seconds in winter months and 80% of calls within 20 seconds in summer months. These goals are routinely met each month. In addition, customers initiated more than 20,000 service requests last year by using our website. SRP My Account™ now provides power and water customers with similar around-the-clock online access to account information, settings and transactions.

280,000 CHOOSE TIME-OF-DAY PRICE PLANS

From time-of-day to prepayment, SRP offers several pricing options for electric service. We encourage customers to select the right plan for their lifestyle or operations. As of April 30, nearly 280,000 residential and commercial customers have selected SRP Time-of-Day prices to reduce energy costs.

Customers can choose from our extensive menu of billing, payment and other programs that enhance comfort and convenience. Research has demonstrated that customers who are aware of and participate in our programs tend to rate their satisfaction with SRP higher.

\$200
savings

Last summer, we let Lois Green know she could save money on our EZ-3 price plan. She gave EZ-3 a try. As part of a trial program, a programmable thermostat was installed. So far, she has decreased her annual electric bill by about \$200.





Joseph deGraft-Johnson has lowered outdoor water use and kept landscape plants healthy with the help of a "smart" irrigation controller purchased with an SRP discount.

DROP-BY-DROP, SIMPLE ACTIONS HELP CONSERVE

We've reached out to Valley residents, city officials, state and federal agencies, and other organizations to promote water conservation. These efforts are part of SRP's Together We Conserve campaign. The informational campaign emphasizes that simple actions can make a big difference when everybody helps out.

To link customers with practical conservation advice and water-saving products, such as a

"smart" irrigation controller that uses weather data to manage watering schedules, we conduct the annual Water Conservation Expo. This year's event drew nearly 1,400 attendees from throughout the Phoenix area.

Encouraging conservation is important in central Arizona, especially after the fourth consecutive year with below-median winter inflows into SRP reservoirs. The reservoir system stood at 56% full on May 1.

AGREEMENT KEEPS WATER BANK OPEN

Keeping customers connected to a reliable supply of water is a team effort. Thanks to collaborative work by SRP and other organizations, including the Salt River Pima-Maricopa Indian Community and the U.S. Bureau of Indian Affairs, a new land lease agreement will extend the life of the Granite Reef Underground Storage Project (GRUSP).

SRP's underground storage projects provide greater water supply reliability when rapid economic growth or drought occurs. GRUSP has been storing water since 1994. During this time, the facility has "banked" nearly 1 million acre-feet of water. An acre-foot of water is 325,851 gallons — sufficient water for about two single-family households for one year.

Water from the Colorado, Salt and Verde rivers, as well as reclaimed municipal water, is delivered to seven GRUSP recharge basins that cover 217 acres. The site's favorable geologic position at the edge of the Salt River allows water to infiltrate rapidly into the underlying aquifer.

50,000 RETIRED FRIDGES CLEAR THE AIR

A free pickup and a \$50 check: that's what SRP residential customers receive when they trade in their working refrigerators and freezers through SRP's Appliance Recycling Program. However, there are additional rewards from the program.

By recycling more than 50,000 appliances over the past five years, a significant milestone, SRP has:

- Reduced CO₂ emissions by an amount equivalent to taking more than 68,000 cars off the road for a year
- Saved enough energy to power 10,000 homes for one year
- Helped customers reduce energy costs by more than \$18 million



95% recycled components

Technicians disassemble refrigerators and freezers recycled by SRP customers. Up to 95% of the components are recycled. The program recovers ozone-depleting chemicals from the old appliances.

CONNECTING RESOURCES

Today, Arizona forests are overcrowded and susceptible to wildfires.

WATER SUPPLY RELIES ON HEALTHY FORESTS

SRP operates complex power and water delivery systems. We manage this infrastructure, a collection of resources, with one purpose: supply dependable service no matter what challenges we face.

Forests in northern Arizona are the lifeblood of the Valley's water supply. The runoff from rain and snow that fall on those forests flows downstream, filling reservoirs that SRP manages on the Salt and Verde rivers.

When those forests are healthy, they protect winter snowpack, preventing it from melting too fast. And they filter runoff so that water flowing into reservoirs is clean and relatively free of sediment.

Scorched forests that result from catastrophic wildfires expose snow to excessive sunlight, which causes it to melt more quickly. Runoff from fire-scarred areas drains into SRP reservoirs and brings with it ash and debris.

This waste settles at the base of our dams, reducing reservoir capacity and affecting water quality.

Since 2002, a large portion of SRP's 13,000-square-mile watershed has been impacted by megafires. These disasters are fueled by overcrowded forest vegetation. The solution is thinning to restore forests to a more natural condition.

SRP has planted more than half a million trees in burned areas and is working with numerous groups to improve forest health and watershed conditions.



This photo from a century ago shows that forests were once open with stands of large, healthy trees.

LINEMEN TAKE THEIR JOBS TO NEW HEIGHTS

The Horse Mesa Anchor Replacement project was an extraordinary effort. A crane lowered workers down the 305-foot-tall dam. The skilled crew drilled holes in the concrete face of the dam. Linemen then rappelled down 30 feet to install new anchors that attach high-voltage power lines to the dam.

The completion of the project at the Horse Mesa Dam contributes to the reliability of the SRP system. Each day, nine power lines located on the dam carry renewable energy from the dam's four hydroelectric generating units to SRP customers in the Valley and nearby mines.

305 feet tall

To maintain reliable service, SRP linemen work high above ground. In this case, Josh Koon (foreground left), assisted by Richard Jaramillo (foreground right), rappelled from atop the Horse Mesa Dam to make important power line connections.





12,000 fish

Steve Angulo was among the SRP crew that herded and relocated white amur fish for annual canal maintenance.

CANALS STAY 'CLEAN' WITH LIMITED INTERRUPTION

SRP completed the second year of a new approach to canal maintenance. Each year, SRP crews work on a different section of the 131-mile water-transmission system.

In the past, SRP would drain the entire canal system annually to allow for inspection, maintenance and construction activities. That meant no water deliveries while we made needed improvements to canal structures.

Under the new plan, we drain approximately 18 miles of canal per year: nine miles north of

the Salt River and nine miles south of the Salt River. The segmented approach enables us to continue some critical water deliveries, while maintaining the canal system.

This year, crews removed 56,000 cubic yards of silt from the canal system, and 664 cubic yards of concrete were used to replace broken canal lining. Crews also examined drained areas for evidence of invasive quagga mussels. In addition to the cleaning and repairs, 12,000 aquatic-vegetation-eating fish were relocated to nearby water-filled stretches of canal.

150-MILE POWER LINE MEETS GROWING ENERGY NEEDS

After 14 years of planning and construction, a major new transmission project is bringing additional electricity and increased reliability to the Valley.

The final phase of a new 150-mile high-voltage power line project was completed just after the close of the fiscal year. The line runs from the Palo Verde Nuclear Generating Station west of Phoenix to a major SRP substation in the East Valley.

Prior to the completion of the Palo Verde-Southeast Valley-Browning project, the ability to bring a supply of energy from west to east to meet customer demand was limited.

UNDERGROUND HEAT PROVIDES POWER 24/7

Approximately 10% of SRP customers' energy needs are being met by sustainable resources. We're on track to double the amount by 2020.

Geothermal is a valuable renewable resource in our sustainable portfolio that can provide energy for customers around the clock.

In December 2013, SRP began receiving renewable energy from the 25-megawatt Cove Fort Geothermal Project in Beaver County, Utah. Geothermal power plants such as Cove Fort produce electricity from naturally occurring heat below the Earth's surface.

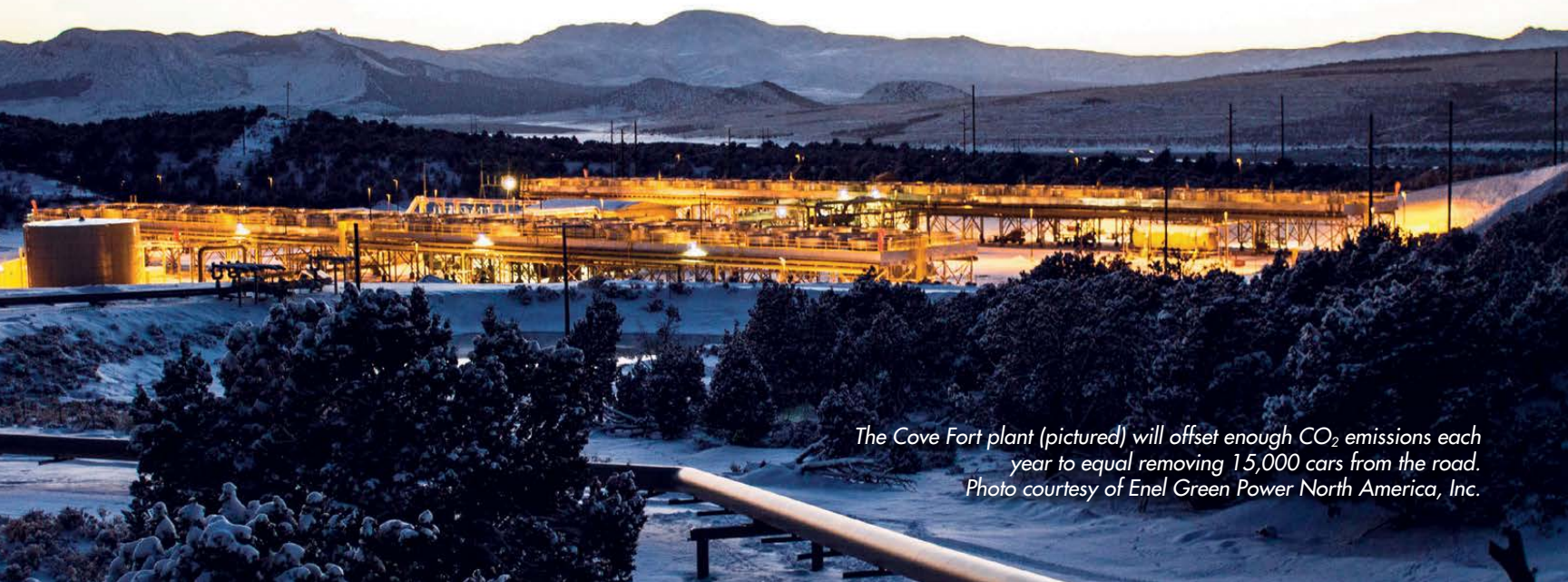
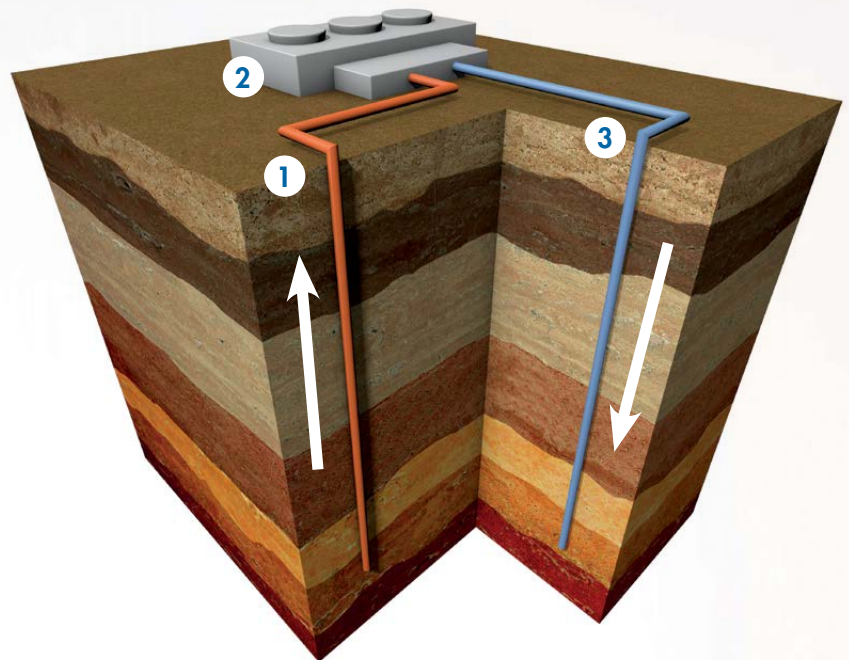
What sets Cove Fort apart from many geothermal plants is binary cycle technology. The technology allows us to tap into lower-temperature geothermal sources. This means plants similar to Cove Fort may be possible in broader geographic regions. Another plus: The plant requires virtually no water because it is air cooled.

HOW IT WORKS

1 Production Well: Hot water is brought to the surface and run through a heat exchanger to heat a secondary fluid that has a lower boiling point than water.

2 Power Plant: Inside the plant, the secondary fluid turns the turbine blades to generate electricity.

3 Injection Well: The water from below the surface is then returned to the Earth, where it will be reheated.



The Cove Fort plant (pictured) will offset enough CO₂ emissions each year to equal removing 15,000 cars from the road. Photo courtesy of Enel Green Power North America, Inc.



CONNECTING CULTURE

Ruud Deheij is one of the many SRP employees who bicycle to nearby SRP offices and local destinations to reduce the amount of single-occupancy vehicle trips.

STEWARDSHIP ETHIC CUTS EMISSIONS AND WASTE

Although SRP's power and water infrastructure is the most visible connection to people we serve, there is a strong emotional tie too. Our conservation and stewardship ethic is part of our deep-rooted legacy.

Environmental excellence is a core value. One of the ways we have demonstrated this commitment is by lowering our emissions profile. Since 1995, we have reduced SO₂ and NO_x emissions by 80%, while customer demand for electricity has increased by 60%.

About half of our current fleet of vehicles use alternative fuels, resulting in fewer greenhouse-gas emissions. Within the next year, we plan to include 30 electric sedans and two light-duty electric trucks in our fleet.

A key element of our stewardship efforts is reducing the amount of waste going from our facilities into landfills. In 2013, we recycled 322 tons of paper, plastic and aluminum, and about 325,000 tons of fly ash, a byproduct from two coal-fired power plants.

PROGRAMS ENCOURAGE CLEANER COMMUTES

Our Stewardship in Action program helps employees understand their role in SRP's conservation and stewardship ethic, while providing opportunities to take action. For example, Ride Share encourages employees to carpool, vanpool, bicycle and ride the bus or light rail whenever possible. Through our Bike Share program, employees can check out a bike to use to travel between several of our facilities. These are just two simple ways we're working to improve local air quality.

NEW LINES EMPOWER NAVAJO NEIGHBORS

Helping neighbors was a core value when SRP formed a century ago. It's just as important today.

The LeChee Electrification Project is a joint effort of the Navajo Tribal Utility Authority, SRP's Navajo Generating Station (NGS) and the LeChee Chapter of the Navajo Nation.

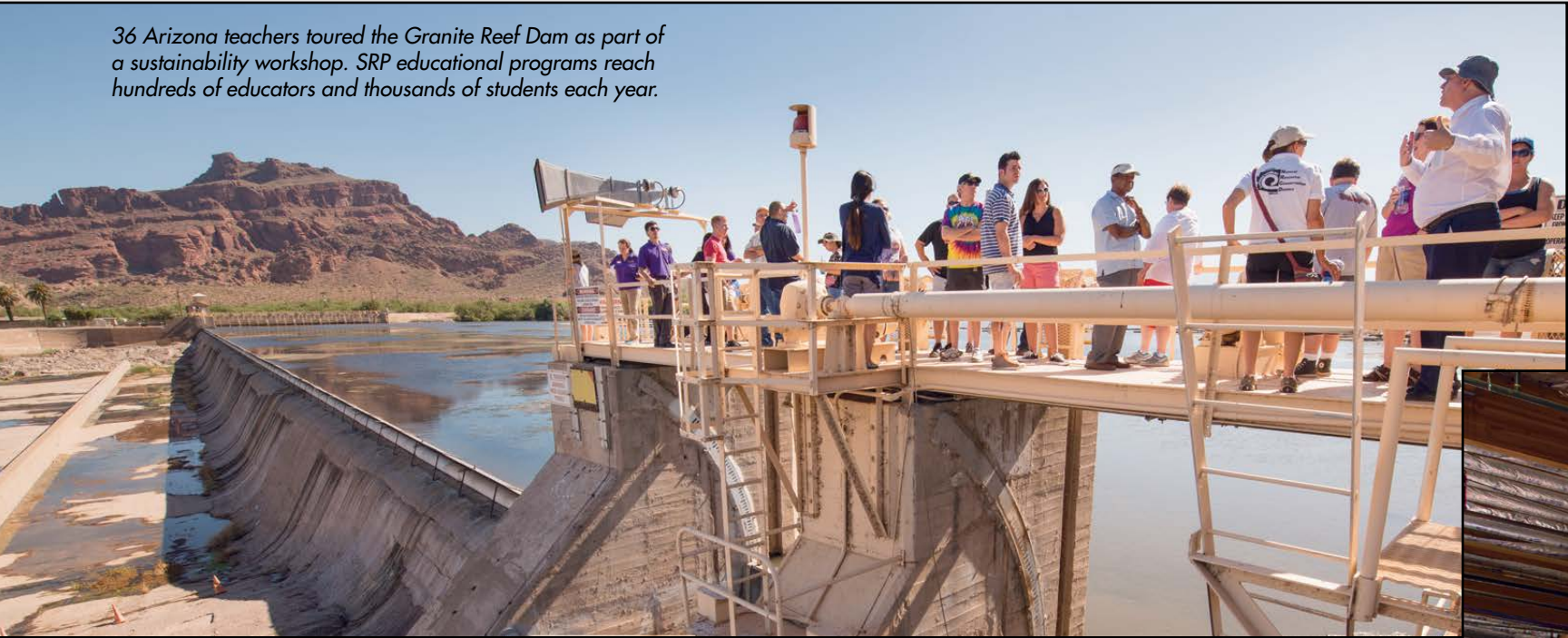
Since 2012, more than 75 miles of power poles and lines have been constructed to bring electricity to the LeChee community near NGS in northern Arizona. Families will be able to add lights and basic household appliances such as refrigerators, stoves, washers and dryers.

50 homes

Alva Secody's house is one of 50 residences on LeChee Chapter land that have been connected to electric service for the first time. SRP provided \$2 million to help fund the electrification project.



36 Arizona teachers toured the Granite Reef Dam as part of a sustainability workshop. SRP educational programs reach hundreds of educators and thousands of students each year.



RESOURCES AID CLASSROOM ACHIEVEMENTS

Community outreach is the hallmark of SRP's corporate culture. We invest our time, resources and energy in making Arizona a great place to live.

More than 200,000 students benefit from SRP educational programs each year. We help Arizona students by providing grants, curriculum support and comprehensive energy education programs for teachers.

Last year, we conducted 376 presentations about energy and conservation that reached 10,465 Valley students. We also awarded \$148,287 in grants to support classroom activities.

Free workshops for teachers address state educational objectives and standards. We also provide comprehensive in-service programs and resources, such as videos, downloadable teaching materials and standards-based lesson plans. Our 23 training sessions about water, electricity and renewable energy engaged 501 teachers and at least 12,525 students last year.

Our goal is to equip teachers with relevant information and proven classroom resources. Educators who participate in our programs are expertly prepared to teach students about water, electricity and renewable-energy technologies.

VOLUNTEERS SUPPLY HANDS-ON HELP FOR NONPROFITS

Employee volunteers breathe life into SRP's commitment to help build stronger communities through personal efforts of giving. This volunteer spirit not only provides vital services in the community, but also helps define SRP.

During the past year, 87 agencies received 25,404 volunteer hours from 120 employees, resulting in \$83,500 in grant funding for these nonprofits through SRP Dollars for Doers. Altogether, 1,591 SRP volunteers assisted 103 community agencies. In addition, SRP employees donated more than \$1.5 million to nonprofit organizations through the annual Employee Boosters Association campaign.

FOOD BANK STORAGE REMAINS COOL

SRP is proud to support community nonprofits. Our contributions (\$3.1 million in cash and in-kind donations last year) assist a variety of local charitable organizations, including St. Mary's Food Bank Alliance. St. Mary's, the world's first food bank, has provided aid to individuals in crisis since 1967.

Aging refrigeration equipment for St. Mary's 20,000-square-foot cooler needed to be replaced to maintain the proper temperature. Funds from SRP helped pay for new equipment, which will reduce energy and water costs significantly and enable St. Mary's to procure additional food.



70 million meals

St. Mary's Food Bank will continue to keep perishable food fresh, in part through a \$10,000 SRP contribution. St. Mary's serves thousands of hungry Arizonans. The food bank warehouse stores and distributes food for 70 million meals each year.



MANAGEMENT SUMMARY

OVERVIEW OF BUSINESS ENTITIES

SRP is two entities: the Salt River Project Agricultural Improvement and Power District, a political subdivision of Arizona, and the Salt River Valley Water Users' Association, a private corporation.

SRP's power business (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 spanning portions of Maricopa, Gila and Pinal counties, plus mining loads in an

adjacent 2,400-square-mile area in Gila and Pinal counties.

SRP's water business (the Association) manages a system of dams and reservoirs, and it is responsible for the construction, maintenance and operation of a supply system to deliver raw water for irrigation and municipal treatment purposes. The Association provides the water supply for an area of approximately 248,200 acres within the major portions of the cities of Phoenix, Avondale, Glendale, Mesa, Tempe, Chandler, Peoria, Scottsdale and Tolleson; the Town of Gilbert; and the Gila River Indian Community.

FINANCIAL RESULTS OF OPERATIONS

Operating revenues were \$3.0 billion for FY14, compared with \$2.8 billion for FY13, an increase of 5.7%. The increase in operating revenues was primarily due to increased wholesale revenues. Wholesale revenues were \$137.6 million, or 79%, higher in FY14 than in FY13. The increase in wholesale revenues was primarily due to an increase in kWh sold and increased wholesale electric prices in FY14 as well as a \$38.6 million higher gain realized from fair value adjustments on wholesale

positions. Without the higher gain on fair value adjustments, wholesale revenues would have increased \$99 million, or 56.9%, from the previous year. The total number of customers increased by 1.5% from the previous year and totaled 983,745 as of April 30, 2014. Arizona's economy improved somewhat during FY14 but continued to be sluggish compared with historical growth trends, and SRP expects the slower customer growth to continue until the economy in Arizona recovers further.

Operating expenses were \$2.7 billion for FY14 and \$2.5 billion for FY13, an increase of 9.2%. Fuel and purchased-power expenses increased \$152.7 million, or 17.5%, compared to FY13. SRP's fuel and purchased-power costs include adjustments for the fair value of fuel and purchase-power contracts.

Without the fair value adjustments, fuel and purchased-power costs would have increased \$89.7 million, or 10.3%, from the previous year. This increase is primarily because of increases in both price and volume compared to the prior year. Maintenance expense decreased by \$38.1 million, or 11.9%, due primarily to a reduction in planned major maintenance as compared to the prior year. Depreciation and amortization expense increased by \$39.1 million, or 8.9%, compared with FY13 primarily as a result of a large amount of assets placed into service in FY13

and FY14. Taxes and tax equivalents expense increased by \$18.7 million compared with FY13 primarily because of increases to utility plant.

Investment income resulted in a \$75.5 million gain for FY14 compared with a \$70.4 million gain for FY13. Financing costs decreased by \$6.5 million, or 3.3%, from the previous year primarily as a result of the redemption of revenue bonds and other debt.

The effects of the previously mentioned activities resulted in net revenues for FY14 of \$212.1 million, compared with \$235 million for the prior year. Without the effects of the change in the fair value of fuel and purchased-power contracts, wholesale positions and investment income, net revenues would have been \$86.4 million for FY14, compared with net revenues of \$92.1 million for FY13.





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. 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 comprised of senior executives. 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, originally Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." For a detailed explanation of the effects of ASC 815 on SRP's financial results, see Note 5 in the notes to the Combined Financial Statements (available at srpnet.com/annualreport).

SUMMARY OF ELECTRICITY PRICING

SRP 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 an effort 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.

On Sept. 27, 2012, SRP's Board approved an overall 3.9% annual system average increase effective with the November 2012 billing cycle. In March 2013, the Board approved an overall 1.2% temporary summer system average decrease effective with the May 2013 billing cycle. This overall temporary decrease was composed of a 0.8% decrease in the Environmental Programs Cost Adjustment Factor and a 0.4% decrease to the Fuel and Purchased Power Adjustment Mechanism, effective for the six summer billing months. Prices returned to their November 2012 levels effective with the November 2013 billing cycle.

CAPITAL IMPROVEMENT PROGRAM

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

Generation projects accounted for 20% of the FY14 capital expenditures. These projects included final Unit 2 expenditures related to the Coronado Emission Controls project that is being completed in FY15 as well as plant modification costs for Palo Verde.

Expansion of the electrical distribution system to meet future growth and to replace aging underground cable accounted for 38% of FY14 capital expenditures. More than one quarter

of the distribution system spending was for New Business projects. The addition of new transmission facilities made up 17% of FY14 capital expenditures. Over one half of the

SRP has a diversified customer base and offers a range of pricing and service options. We are one of the low-price leaders in the Southwest.

transmission spending included support for the Southeast Valley transmission project as this project moves toward completion in the summer of 2014.

FY14

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Financial Statements
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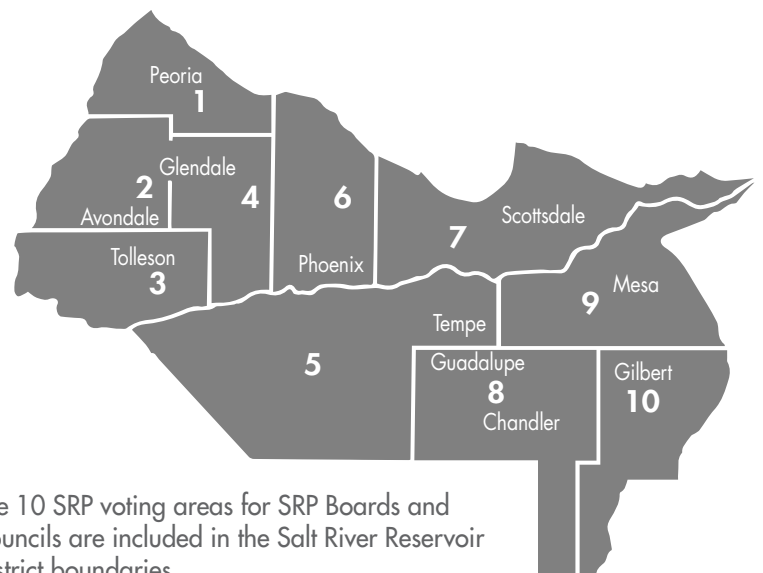
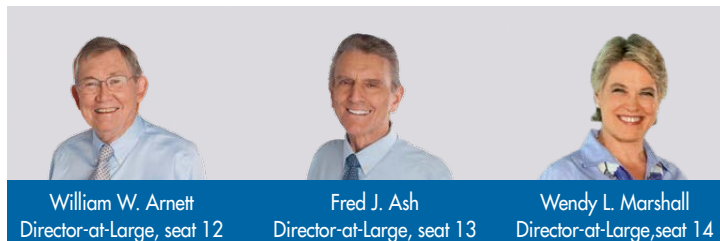
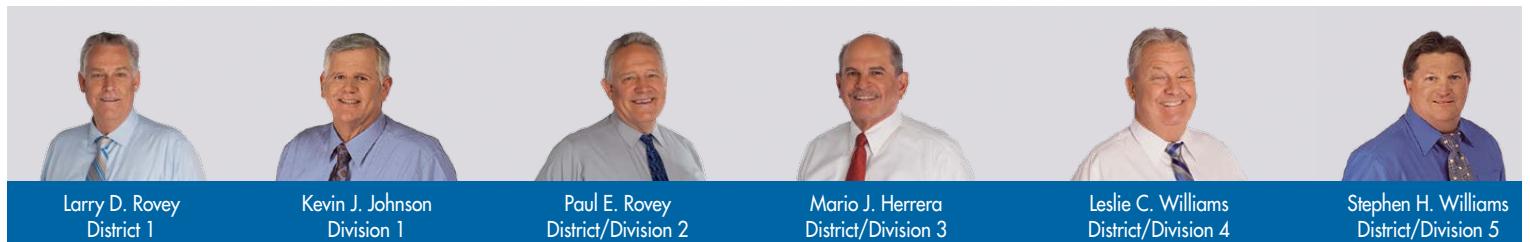


SRP BOARDS

The two Boards work with management to establish policies to further the business affairs of SRP.

The Salt River Valley Water Users' Association (the Association) is SRP's private water corporation. It administers the water rights of SRP's 375-square-mile water service area, and it operates and maintains the irrigation and drainage system. The 10 members of the Association Board of Governors serve staggered four-year terms and are elected from voting districts by the landowners within the water service territory.

The Salt River Project Agricultural Improvement and Power District (the District) is SRP's public power utility and a political subdivision of Arizona. The 14 members of the District Board of Directors serve staggered four-year terms. Ten District Board members are elected from voting divisions, and four are elected at-large by landowners within the District's boundaries. Most often, candidates seek election to both Boards.



The 10 SRP voting areas for SRP Boards and Councils are included in the Salt River Reservoir District boundaries.

SRP COUNCILS

The two Councils enact and amend bylaws relating to the governance of SRP.

As with the SRP Boards, there is one Council for the Association and one for the District. The 30 Association Council members are elected to staggered four-year terms from 10 voting districts.

The 30 District Council members are elected to staggered four-year terms from 10 voting divisions. Most often, candidates seek election to both Councils.

District/Division 1



Eldon R. Hart

Ronald S. Kolb

John R. Starr

District/Division 2



Jerry E. Geiger

Kimberly A. Owens

William W. Sheely

District/Division 3



Aaron M. Herrera

Richard W. Swier

Paul A. Van Hofwegen

District/Division 4



Garvey M. Biggers

M. Brandon Brooks

Michael G. Rakow

District/Division 5

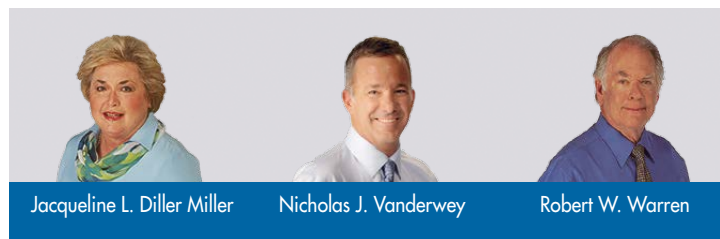


John R. Augustine

J. Weston Lines

John R. Shelton

District/Division 6

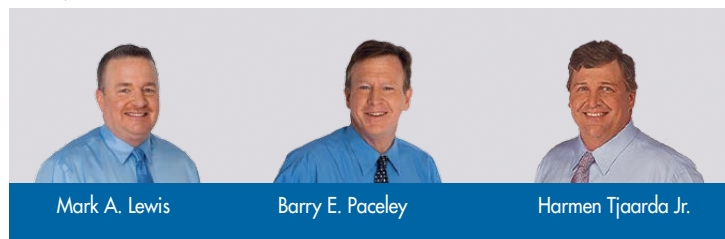


Jacqueline L. Diller Miller

Nicholas J. Vanderwey

Robert W. Warren

District/Division 7



Mark A. Lewis

Barry E. Paceley

Harmen Tjaarda Jr.

District/Division 8



Christopher J. Dobson,
Chairman

Mark L. Farmer
Vice Chairman

Mark C. Pedersen

District/Division 9

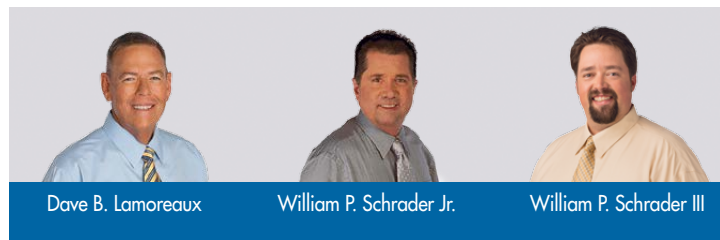


Robert C. Arnett

W. Curtis Dana

Laron J. DeWitt

District/Division 10



Dave B. Lamoreaux

William P. Schrader Jr.

William P. Schrader III

CORPORATE INFORMATION



Peter Hayes
AGM

Michael O'Connor
AGM

Gena Trimble
AGM

John Sullivan
DGM

Aidan McSheffrey
AGM

Mike Hummel
AGM

Michael Lowe
AGM

CORPORATE OFFICERS

David Rousseau
President

John R. Hoopes
Vice President

Terrill A. Lonon
Secretary

Steven Hulet
Treasurer

EXECUTIVE MANAGEMENT

Mark B. Bonsall
General Manager & Chief Executive Officer

John Sullivan
Deputy General Manager & Chief Strategic Initiatives Executive

Peter Hayes
Associate General Manager & Chief Public Affairs Executive

Mike Hummel
Associate General Manager & Chief Power System Executive

Michael Lowe
Associate General Manager & Chief Customer Executive

Aidan McSheffrey
Associate General Manager & Chief Financial Executive

Michael O'Connor
Associate General Manager & Chief Legal Executive

Gena Trimble
Associate General Manager & Chief Communications Executive

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Steven Hulet, Treasurer & Senior Director, Financial Services
(602) 236-2675

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The South Canal, part of SRP's water delivery system, serves customers in the southeast Valley.

FIVE-YEAR OPERATIONAL AND STATISTICAL REVIEW

Financial Data (\$000)	2014	2013	2012	2011	2010
Total operating revenues	\$2,980,828	\$ 2,823,796	\$ 2,752,951	\$ 2,762,531	\$ 2,701,613
Retail electric revenues	2,587,467	2,566,464	2,488,906	2,463,007	2,361,274
Water revenues	14,171	15,163	14,868	14,169	14,373
Other revenues	379,190	242,169	249,177	285,355	325,966
Total operating expenses	2,675,180	2,450,564	2,509,690	2,360,459	2,320,623
Total other income (loss), net	96,741	58,596	(20,350)	61,005	128,375
Net financing costs	190,306	196,808	203,468	159,399	138,390
Net revenues for the year	212,083	235,020	19,443	303,678	370,975
Taxes and tax equivalents	160,492	141,788	129,383	105,054	102,092
Utility plant, gross	14,638,933	14,260,038	13,487,735	12,633,538	12,405,997
Long-term debt	4,413,028	4,624,547	4,786,995	4,419,099	4,051,931
Electric revenue contributions to support water operations	62,184	54,438	39,360	34,718	25,149

Selected Data

Debt service coverage ratio	3.19	2.56	2.59	2.78	2.48
Debt ratio	48.2	50.6	52.7	51.0	50.6
Total electric sales (million kWh)	34,787	32,452	31,485	31,960	32,591
Peak — SRP retail customers (kW) ...	6,567,000	6,663,000	6,394,000	6,350,000	6,438,000
Water deliveries (acre-feet) (1)	—	736,041	767,445	862,558	809,825
Runoff (acre-feet) (1)	—	716,148	344,608	397,781	1,696,193
Employees at year-end	5,132	4,772	4,390	4,322	4,374
Customers at year-end	983,745	969,046	956,757	949,388	942,024

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

From page 4:

1 For J.D. Power 2014 Contact Certification ProgramSM (for Live Phone, IVR Self-Service and Web Self-Service Channels) information, visit jdpower.com.

2 Salt River Project received the highest numerical score among large utilities in the West region in the proprietary J.D. Power 2002-2014 Electric Utility Residential Customer Satisfaction StudiesSM. 2014 study based on a total of 104,460 online interviews and ranking 13 providers in the West (AZ, CO, ID, MT, OR, SD, TX, WA). Proprietary study results are based on experiences and perceptions of consumers surveyed in July 2013-May 2014. Your experiences may vary. Visit jdpower.com.



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