



THE POWER TO MAKE IT HAPPEN[®]



2008
Diverse Business Annual Report

The supplier highlighted on the front cover is **Bunney's Inc.** a **Certified Woman-Owned Supplier** who provides services at The Palo Verde Nuclear Generating Station.



G.D. Barri & Associates, Inc.
Certified Woman-Owned Supplier

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A WORD FROM OUR PRESIDENT

Donald E. Brandt, *President and Chief Operating Officer, Pinnacle West Capital Corporation; Chief Executive Officer, Arizona Public Service Company*

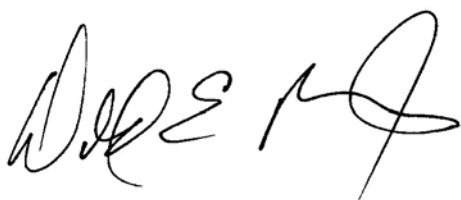
In 2008, global, national and local economies were the prevailing topics of discussion and concern. Almost every business in Arizona experienced the adverse affects of our declining economy, unfortunately, some businesses more than others. In response to these challenging economic conditions, APS made significant cost-cutting adjustments and is committed to future cost reductions with the goal of operating more efficiently while delivering the superior service our customers expect.

One of our most important assets has been the strong associations we have cultivated with all of our partners. We are appreciative of our relationships with our community partners and chambers of commerce that serve and represent Diverse Businesses. We can best describe these associations as synergistic relationships since the combined efforts are greater than the individual parts. These relationships strengthen APS' commitment to diversity and promoting inclusive business practices. Through our Supplier Diversity Program, we reach out to diverse communities of suppliers and seek competitive businesses that can partner with us.

As a major purchaser of goods and services, APS has an opportunity to help diverse businesses grow and to strengthening the foundations of local economies. How we operate our business has an impact on the local economies of our community. This impact extends to companies from whom we purchase the goods and services that are essential to our operations. Growth of local economies contributes to job development, neighborhood stabilization, and regional economic growth. A diverse supplier base not only provides economic vitality to the communities in which we live and serve, but also adds value to our company and helps us enhance our role as a community leader.

We continue to stay steadfastly committed to maximizing procurement opportunities for qualified and certified Minority, Women, Veteran, Service-Disabled Veterans and HUBZone Enterprises and provides the maximum opportunity to compete.

APS encourages the diverse business community to continue to be innovative in order to remain competitive in this difficult economic climate. Supplier diversity is smart business, and competition is good for APS and our customers.



A MESSAGE FROM OUR DIRECTOR

Ron Trafzer, Director APS Supply Chain Management

The economic conditions that we encountered in 2008 presented significant economic challenges for every business sector. APS faced these challenges head-on and used them as catalysts to drive innovation and renewal in every business unit in the company. Supply Chain Management met the challenge by implementing a strategic sourcing initiative that involved all lines of business.

The strategic sourcing initiative is a process that is long-term in nature and continuously improves, openly challenges and re-evaluates our purchasing activities and is about making sure the company gets the greatest value for the dollars spent. As we go through this process, we are finding real opportunities to save money and provide value to our customers.

APS seeks to find and develop the best suppliers, promote an inclusive procurement process that integrates Supplier Diversity strategically across APS business units and provides diverse suppliers equal access to potential procurement opportunities. This will add shareholder value, foster diverse businesses growth, contribute to sustainability and provide our customers with the best products and services at competitive prices.

Supplier Diversity is involved in each of the strategic sourcing core teams representing the interests of the diverse business community by insuring that certified and qualified diverse suppliers have the maximum opportunity to compete.

Building a strong diverse supplier base of Minority, Women, Veteran, Service-Disabled Veterans and HUBZone suppliers is critical to our mission. APS has positioned itself to succeed in a highly competitive environment and has made its commitment to Supplier Diversity an important part of its overall approach to success.

We are excited about the opportunities that lie ahead and encourage you to explore the possibilities that ultimately benefit our customers and the communities we serve.

A handwritten signature in black ink that reads "Ron Trafzer". The signature is written in a cursive, flowing style.

A WORD FROM OUR MANAGER

Robert D. Esquivel, Manager, APS Supplier Diversity and Development

APS generates and delivers electricity and energy-related products and services to more than a million customers in 11 of Arizona's 15 counties. We believe our supplier base should include businesses as diverse as the customers we serve. APS understands that the strength of our diverse business relationships have a positive economic impact on our local community and overall growth.

For almost two decades, APS has been committed to the utilization and development of certified Diverse Business in Arizona and the Southwest. Over the last five years we have spent more than \$250 million dollars directly with certified Diverse Businesses. Our success is significantly influenced by the strength of our business relationships and the economic vitality of the many communities we serve.

APS' goal is to expand our Supplier Diversity portfolio to a wider range of industries and markets than have been the norm in Supplier Diversity. Our top spend in 2008 incorporated several certified diverse businesses that are uniquely positioned to serve the nuclear electrical industry.

As Community leaders APS is dedicated to offering viable business opportunities to diverse suppliers. Our commitment to promoting Diverse Business opportunities is supported by the effort of each employee with commitment authority and has the full support of our executive management.

We challenge our suppliers to join us in finding new ideas, developing new products and innovative techniques that will enable us to continue to deliver power reliably and safely.

A handwritten signature in black ink that reads "Robert D. Esquivel". The signature is written in a cursive style with a large, looping initial "R".

DIVERSE BUSINESS OVERVIEW

Supplier Diversity is a significant part of the Arizona Public Service (APS) business strategy locally, regionally and globally. APS has positioned itself to succeed in a highly competitive environment and their commitments to Supplier Diversity by integrating Supplier Diversity spend goals across the company.

As a major purchaser of goods and services, APS has a significant opportunity to facilitate diverse business growth and to strengthen the economies in all our customer service areas. Growth of local economies contributes to job development, neighborhood stabilization, and regional economic growth.

The APS Supplier Diversity and Development (SDD) strategy has enabled us to be a leader in the community, contributing to the success of our business, driving business performance and reflecting the communities where we live and work. APS' success depends on our ability to understand our diverse consumers' needs and to work effectively with customers and suppliers.

Supply Chain Management's (SCM) mission is to facilitate, enhance, and support successful procurement strategies for our internal customers throughout the company. The Supplier Diversity and Development Program works in partnership with SCM to facilitate and enhance competitive business opportunities with suppliers by identifying certified and qualified diverse businesses that are capable of providing the highest quality goods and services to a challenging, dynamic, and safety conscious industry.

In 2008, changing economic conditions provided APS with significant challenges and unique opportunities. Supply Chain Management met these challenges by implementing a strategic sourcing initiative. This initiative provides opportunity to re-evaluate and challenge our purchasing process and activities. We have identified real potential for cost savings and increased value for our customers as well as new opportunities for diverse suppliers in the marketplace to compete.

As a community leader, APS is committed to maximizing procurement opportunities for Diverse Businesses and encourages each and every supplier to remain focused and competitive in this difficult economic climate.

In order to keep pace with new technologies, the Supplier Diversity and Development Program works closely with organizations who represent and support diverse businesses to encourage them to keep up with developing technologies. Supplier Diversity will continue to remain an integral part of the APS approach to success far into the future.

We are committed to promoting and facilitating the solicitation and introduction of diverse businesses to APS' procurement processes. Our objective is to offer these businesses the maximum opportunity to compete with other suppliers and contractors in the marketplace.

We are proud of our accomplishments, but even more excited about the potential for opportunity and growth.



Vargas General Engineering, LLC.
Certified Minority-Owned Supplier

INSIDE APS

The APS Supplier Diversity and Development team serves as a liaison between diverse businesses and internal business units to identify suppliers and locate purchasing or contracting opportunities within the organization. Our team facilitates effective business relationships that assist in achieving business objectives as well as providing business opportunities in our community.

To support these objectives the SDD team strives to:

1. Identify potential certified diverse suppliers from APS recognized certifying agencies.
2. Actively mentor strong diverse candidates on how to do business with APS.
3. Facilitate relationship building between APS buyers and certified diverse suppliers.
4. Intently work with individual business units to integrate strategies to include competitive sourcing opportunities for diverse suppliers.

APS internal outreach activities are a critical part of the company's SDD program, focused on engaging active participation and support from senior officers, management and staff members of various business units in achieving the corporate SDD goals and commitment.

Certification

APS requires third-party Minority Business Enterprise (MBE) and Women Business Enterprise (WBE) certification. Certification involves verifying that businesses meet the criteria of ownership to qualify as a minority, women-owned, small disadvantaged or HubZone certified firm. We identify certified potential suppliers from existing resources such as The City of Phoenix, SBA 8(a) and HubZone, GCMSDC, NMSDC, WBENC, ADOT, NMDOT, Navajo Nation Division of Economic Development and the California Clearing House. APS only partners with recognized certifying organizations that employ best practices to promote and help facilitate the certification of bona fide MBE and WBE firms.

These organizations are the nation's leading third-party certifiers of Minority and Women Business Enterprises and are recognized and accepted by the majority of the major corporations across the United States. They provide a rigorous and nationally recognized standard of certification and information on certified MWBE's to purchasing and supplier diversity managers through their Internet databases.

Being certified as a Minority - Women Business Enterprise (MWBE) means that a business concern has gone through a rigorous and stringent certification process that confirms the business is a small business concern that is at least 51 percent owned, managed, and controlled by at least one or more individuals who is a minority or a woman. Additionally, each certified firm passed an on-site inspection to verify and validate all of the information provided on their certification application.

APS' Business Unit Champions (BUC\$)

APS "Business Unit Champions" (BUC\$) objective is to increase company-wide awareness of APS' commitment to providing diverse businesses with the maximum opportunity to compete with other suppliers. No supplier diversity and development strategy can be truly successful without each employee's individual commitment to support it, particularly those employees that make or influence supplier decisions. Each of us is responsible for fostering an environment where diverse suppliers have the opportunity to compete, this is where the "Business Unit Champions" (BUC\$) play a key role. Each Business Unit in the company has a designated representative that partner with SDD to encourage increased opportunity of diverse businesses by each through integrated strategies that include competitive sourcing opportunities.

Semi-Annual meetings are conducted, with agendas addressing these key areas:

- ✚ Business Unit Goal Setting
- ✚ Vendor Sourcing Training
- ✚ Plan Implementation
- ✚ Demographics - Our Customer Base
- ✚ Results Monitoring
- ✚ Opportunity Tracking System
- ✚ MWBE Certification Training
- ✚ MWBE Supplier Presentations

from the Newline edition published
September 25, 2008

Cholla recognized as prime example for supplier diversity

The Supplier Diversity and Development (SDD) department recently praised employees at Cholla Power Plant for their achievement in utilizing diverse businesses.

The Cholla employees exceeded their 2007 supplier diversity stretch goals by 160 percent. They also have achieved 163 percent of their stretch goal year-to-date in 2008.

"Each year, APS makes a commitment to supplier diversity by setting goals throughout the company's business units, such as power plants, to identify, utilize and purchase from certified diverse businesses," said **Robert Esquivel**, Manager, Supply Chain. "The employees at Cholla Power Plant are to be commended for exceeding their goals."

Members of the SDD department — including Esquivel; **Sandra Gilbert**, Coordinator, Supplier Diversity; and **Jesus Borboa**, Coordinator, Supplier Diversity — celebrated Cholla's success with a luncheon held at the plant on Sept. 19.

"We have a great procurement team at Cholla that is dedicated to the community and diversity while providing superior and cost-effective service to our organization" said **Jim Hofstra**, Administrative Service Manager, Cholla. "They certainly deserve this positive recognition."

SDD looks for certified diverse businesses in the communities and matches them together with APS business units who need their products or services.

"The communities where APS conducts business are made up of people from diverse backgrounds," Gilbert said. "By supporting certified diverse businesses, Cholla is directly supporting and making a positive impact on our communities."



Internal Communications

SDD uses various communication tools such as Newslines, On, and the SDD Web site to publicize awareness, success stories, corporate commitment, acknowledgement of partners and joint activities.

The banner features the Pinnacle West Capital Corporation logo on the left, a silhouette of a person pointing at a bar chart in the center, and the word "Newsline" in a large, white, sans-serif font on a teal background on the right.

from the Newsline edition published
November 26, 2008

Meeting brings together leaders from APS, diverse businesses

Solidifying existing business relationships and forging new ones were the prominent themes for the recent meeting between leaders representing the diverse business community and APS, at the semi-annual Emerging Markets Leadership Forum (EMLF).

This forum initially was designed to establish a dialogue among leaders in the diverse business community and APS. It provides for the exchange of information and develops mutually beneficial economic and business relationships that have a positive and lasting impact on APS and the business community at large.

A photograph showing six individuals (three men and three women) seated around a long conference table. They are engaged in a meeting, with some looking towards the camera and others looking at documents or laptops on the table. The setting appears to be a modern office or conference room with large windows in the background.

From left: McLeod, Hatfield, Brandt, Esquivel, Trafzer, Froggatt

The diverse business community leaders represent their member constituency in advocating for increased procurement and business opportunities. The EMLF addresses both APS' business needs and the needs of the diverse business community.

Don Brandt, PNW President/COO and APS President/CEO, told attendees that the diverse business community must continue to innovate in order to remain competitive in this difficult economic climate. And competition is good for APS and our customers.

"Supplier diversity is smart business," Brandt said. "We will continue to stay steadfastly committed to maximizing procurement opportunities for diverse businesses."

One on One Leader Meetings

SDD met with individual APS Business Unit Leaders to inform and develop strategies to increase utilization of diverse businesses in their respective business units. This helped assess business needs and match them with available resources. The follow-up meetings resulted in increased communications between BUC\$, SDD staff and MWBE's. By working with our Business Unit Leaders, we were able to identify services and products with low or no utilization of diverse businesses and to propose diverse suppliers that could meet or fill those areas of need.

Supplier Diversity Staff Support of Procurement and Other User Organizations

One of the SDD staff's key functions is to work closely with the Supply Chain Management (SCM) organizations to maximize Request For Information (RFI), Request For Proposal (RFP) and subcontracting opportunities for participation by MWBE's. On an ongoing basis, SDD staff provides diverse business sourcing support to department users and meets with them, as needed, to help resolve MWBE related issues. The SDD staff also assists with tracking MWBE certification requests referred by SCM and other user groups.

MWBE Sourcing Resources

The SDD staff maintains links on the internal web page to the following supplier sourcing resources:

- ✚ ADOT – database link
- ✚ Arizona Steps-Up – database link
- ✚ California Clearing House – WMVD Database
- ✚ City of Phoenix—Certified Vendors
- ✚ Current 2008 APS Diverse Suppliers
- ✚ EEI Supplier Diversity Utility Directory of Non-Traditional Suppliers
- ✚ Grand Canyon Minority Supplier Development Council's (GCMSDC) - database link
- ✚ Navajo Nation Division of Economic Development - list
- ✚ NMDOT – database link
- ✚ Office of Small and Disadvantaged Business Utilization – link to all state DOT databases
- ✚ Women's Business Council – Southwest - database link
- ✚ Women's Business Enterprise Council – West - database link

Online Monthly MWBE Spend Reporting

APS tracks and makes available online monthly MWBE procurement expenditure reports, performance goals and net new supplier reporting. These reports provide departments with their specific buying results relating to MWBE suppliers and the methods (e.g. purchase order, p-card) they use to procure goods and services. These reports keep APS' program visible and updates departments on their progress toward meeting MWBE goals.



Emerging Markets Leadership Forum

APS has long-standing partnerships with community organizations and Ethnic Chambers of Commerce that support and advocate equal opportunity. The continuation of the Emerging Markets Leadership Forum (EMLF) series, designed to establish a dialogue among leaders in the Diverse Business Community and APS. These forums are hosted by Donald Brandt, President and Chief Operating Officer, Pinnacle West Capital Corporation; Chief Executive Officer, APS, Supplier Diversity and Development, Community Development and Supply Chain Management.

Attendees include Diverse Business leaders representing the following organizations Arizona Hispanic Chamber of Commerce, Greater Phoenix Black Chamber of Commerce, Women Business Enterprise Council-West, Association of Minority Contractors of America, Chinese Chamber of Commerce, Asian Chamber of Commerce, United Latino Business Coalition, Grand Canyon Minority Supplier Development Council, American Indian Chamber of Commerce and the Arizona's Elite SDVOB.

Many current diverse suppliers have seen an increase in spend in new areas with APS and we have identified some new competitive diverse suppliers that have stepped up to meet our challenge with quality products and services.

Emerging Markets Procurement Roundtable

APS seeks diverse suppliers through active involvement with diverse business development organizations and Ethnic Chambers. We host Emerging Markets Procurement Roundtables (EMPR) in the major business units to conduct one-on-one interviews with diverse suppliers, APS buyers and key decision-makers. The key is to explore procurement opportunities within the various Business Units of APS. Our goal is an inclusive procurement process which values and engages all qualified and certified M/W/DBE's providing the maximum opportunity to compete.

- ✚ Corporate Services SCM, and the Gas and Oil Power Plants – September 24, 2008
 - ✚ 36 Certified Diverse Suppliers attended
 - ✚ 39 Buyers/Internal customers attended
 - ✚ 65 Interviews held
 - ✚ 3 Community Leaders attended
 - ✚ 7 New Diverse Suppliers established in PeopleSoft vendor system

- ✚ Buy Yuma – November 14, 2008
 - ✚ 38 Diverse Suppliers attended
 - ✚ 10 Large Corporate and Governmental Agencies participated



The APS Academy for the Advancement of Small, Minority and Women Owned Enterprises (AAAME)



The APS Academy for the Advancement of Small, Minority and Women Owned Enterprises (AAAME) is a two-year business mentoring program designed, sponsored and administered by Arizona Public Service. Since 1997, 130 small businesses in the Phoenix metropolitan area have attended business training classes, built networks, developed resources and met with individual advisors all geared toward assisting them in reaching their next level of business success.

This focused and integrated mentoring has resulted in 93 AAAME graduates, with 30 companies currently in some phase of the AAAME process. All of these businesses have gained knowledge, support, insight, resources and skills that have allowed them to succeed and thrive in their chosen business. Many of the AAAME companies have increased their revenues and net profits, increased their workforce, strengthened their market position and increased their business space which adds to the economic impact in Arizona. In addition, several AAAME companies have been recognized for their achievements through various award programs.



Mentoring and Training

SDD engages in various mentoring programs to facilitate utilization, growth and success of diverse businesses. We provide technical assistance and coaching to aid in understanding APS' needs and methodology by conducting individual buyer introduction and presentations to diverse businesses on how APS does business. In addition, we discuss subcontracting opportunities with our large suppliers and promote diverse business utilization among our prime suppliers. SDD has provided presentations and workshops to the following organizations on APS' procurement needs, bid processes, contracting opportunities and competitive sourcing strategies.

- ✚ Diverse suppliers featured in APS Gallery
- ✚ Women's Business Enterprise Council – West
- ✚ City of Chandler Minority Business Seminar
- ✚ Greater Phoenix Black Chamber of Chamber of Commerce
- ✚ Grand Canyon Minority Supplier Development Council
- ✚ Prestamos / Business Workshops in Spanish



DIVERSE BUSINESS OUTREACH EVENTS

In 2008, APS participated in various MWBE trade fairs and conferences that are excellent resources for APS to identify potential diverse suppliers. These events provide an opportunity for MWBE's to learn about APS' procurement opportunities, Supplier Diversity Program and vendor certification requirements. APS' involvement included, but was not limited to, program planning, financial support, in-kind donations, technical assistance and direct participation.

The following is a listing of some of these Diverse Business Outreach events.

- ✚ 2008 Hispanic Women's Conference
- ✚ 24th Annual Hispanic Women's Scholarship Benefit Luncheon
- ✚ American Indian Chamber of Commerce Awards Dinner
- ✚ Annual Greater Phoenix Black Chamber of Commerce Awards Dinner
- ✚ Annual Small Business Persons of the Year Awards
- ✚ Arizona Hispanic Chamber
- ✚ Arizona Hispanic Chamber of Commerce Awards Banquet
- ✚ Arizona Interagency Farmworker Coalition, Inc
- ✚ Arizona Minority Enterprise Development [MED] Week Breakfast
- ✚ Arizona Woman's Networking Symposiums
- ✚ Arizona's Elite SDVOB
- ✚ Asian Chamber of Commerce Lunar New Year Banquet
- ✚ Associated Minority Contractors of America Annual Awards Banquet
- ✚ Associated Minority Contractors of America Monthly Business Mixers
- ✚ ASU Cesar Chavez Memorial Breakfast
- ✚ ASU Hispanic Business Alumni - Annual Scholarship Breakfast
- ✚ AWEE – 14th Annual Faces of Success Luncheon
- ✚ Centro Adelante Campesino Reception
- ✚ Chandler Minority Business Workshop
- ✚ Chicanos Por La Causa Annual Awards Dinner
- ✚ Chinese Chamber of Commerce - Chinese New Year
- ✚ City of Chandler Cesar Chavez Awards Reception
- ✚ City of Chandler Cesar Chavez Volunteer Day of Cleanup
- ✚ City of Chandler Hispanic Heritage Celebration
- ✚ City of Phoenix Black Expo
- ✚ City of Phoenix Cesar Chavez Luncheon
- ✚ City of Tempe Tareada Reception
- ✚ Concilio Latino De Salud Reception

The following is a listing of some of these Diverse Business Outreach events.

- ✚ DATOS Presentation – Focus on Arizona’s Hispanic Market
- ✚ East Valley Procurement Fair – Chandler, AZ
- ✚ Edison Electric Institute Small Business Best Practices Workshop
- ✚ Edison Electric Institute Supplier Diversity Conference & Trade Fair
- ✚ Emerging Markets Leadership Forum - Corporate
- ✚ Emerging Markets Leadership Forum – Palo Verde
- ✚ Friendly House Scholarship Awards Dinner
- ✚ Grand Canyon Minority Supplier Development Council Awards Banquet
- ✚ Grand Canyon Minority Supplier Development Council Business Summit
- ✚ Grand Canyon Minority Supplier Development Council Holiday Reception
- ✚ Grand Canyon Minority Supplier Development Council Quarterly Networking
- ✚ Latino Perspectives Magazine Quarterly Luncheon
- ✚ Martin Luther King Celebration Breakfast
- ✚ MUJER, INC. Fiesta de Amistad
- ✚ National Association of Women Business Owners - B2B Mentoring Program
- ✚ National Center for American Indian Economic Development First American Leadership Award
- ✚ National Minority Supplier Development Council Conference
- ✚ Native American Recognition Day
- ✚ Prestamos / Business Workshops in Spanish
- ✚ SBA/GSA 8-A Showcase
- ✚ Si Se Pueda Foundation Awards Dinner
- ✚ Small Business Development Center Reception
- ✚ The Latino Institute Annual Conference Luncheon
- ✚ The National Center for American Indian Economic Development Financial Business Acumen Seminars
- ✚ United Latino Business Coalition Dinner
- ✚ Valle Del Sol-Profiles of Success Luncheon
- ✚ Yuma Emerging Markets Procurement Roundtable – BUY YUMA

AWARDS AND RECOGNITION RECEIVED

The APS SDD Program is recognized locally and nationally for its innovative programs that promote and foster business success for small, minority and women owned businesses. This results in achieving our goal to advocate use and participation of diverse suppliers in all areas of company procurement, in the most cost-effective manner. We are proud of our progress, the partnerships we have created and the recognition we receive for this program.

- ✦ Edison Electric Institute (EEI)
 - ✦ Supplier Diversity Excellence Award (2007)
 - ✦ Minority Business Development Award (1993)
 - ✦ Minority Business Development Chairperson's Award (1997, 2001)
- ✦ Greater Phoenix Black Chamber of Commerce
 - ✦ Corporation of the Year (2005)
- ✦ Grand Canyon Minority Supplier Development Council
 - ✦ Corporate Board Member of the Year (1994, 1999, 2003)
 - ✦ Individual Advocate of the Year (2007)
 - ✦ Corporation of the Year (1994, 2001, 2003, 2008)
 - ✦ Presidents Award (2004)
- ✦ Women's Business Enterprise Council-West
 - ✦ Corporation of the Year (2003)
 - ✦ Founding Member Award (2003)
- ✦ Minority Enterprise Development (MED) Week Awards
 - ✦ Corporate Advocate of the Year (1995, 1999)
 - ✦ Individual Advocate of the Year (1996, 1997)
- ✦ Small Business Administration, AZ District Office
 - ✦ Women in Business Champion of the Year award (2006)
- ✦ Industry Liaison Group
 - ✦ Innovation In Providing Business Assistance Award (2006)
- ✦ Equal Employment Opportunity Council
 - ✦ Freedom to Compete Award (AAAME; 2006)



SUPPLIER DIVERSITY SUPPORT SERVICES TO MWBE'S

The goal of the Supplier Diversity and Development Team (SDD) is to maximize procurement opportunities for Diverse Businesses. APS works closely with all of our community partners who are viable conduits for identifying certified and qualified diverse suppliers. SDD provides strategic opportunities for diverse businesses to develop meaningful business relationships with key decision makers. Supplier Diversity responds to numerous telephone, email, website and personal inquiries regarding APS supplier registration, MWBE Certification requirements, pre-qualifications; we conduct one-on-one interviews, and facilitate supplier/user introductions.

In our quest to find and develop diverse suppliers, SDD makes frequent community presentations on "How to do business with APS", provide individual mentoring and coaching to assist to diverse businesses in understanding APS' procurement needs and methodology.



Edison Electric Institute (EEI) Minority Business Development Committee (MBDC)

The EEI MBDC encourages supplier participation reflective of the diverse business community and promotes economic development with corporate members. EEI and its corporate members propose to establish long-term relationships with diverse suppliers that provide quality products and services which help our industry succeed in a highly competitive environment. EEI acts as a medium to disseminate political and legislative issues pertaining to minority and women-owned business development initiatives. Arizona Public Service (APS) is a corporate member of EEI and the APS Manager of Supplier Diversity & Development serves on the Minority Business Development Committee.

Arizona Minority Business Green Conference

In 2008, APS sponsored AzBizGreen, the nation's first global sustainability conference focused on diverse business opportunities in the sustainability arena. Supplier Diversity Department participated in conjunction with the APS Eco-Efficiency/Technology Innovations (EETI) Department to show small businesses how being green can improve their bottom line. As part of APS' ongoing commitment to sustainability, we encouraged potential suppliers of environmentally responsible goods and services to obtain Leadership in Energy and Environmental Design (LEED) compliance and certification.

Women's Business Enterprise Council – West (WBEC-West)

As a founding member of WBEC-West, APS takes pride in supporting our regional partner of the Women's Business Enterprise National Council (WBENC). WBEC-West brings together corporations and government entities with certified Women's Business Enterprises (WBE's) to promote a shared interest in supplier diversity. With its home base in Mesa, Arizona, WBEC-West certifies women business owners in the southwest United States, including Arizona, Southern California, Colorado, Nevada, Utah, Wyoming and Hawaii.

APS requires third-party WBE certification and WBENC certification is nationally recognized. APS partners with WBEC-West to promote and help facilitate the certification process. Sandra Gilbert, APS Supplier Diversity and Development Coordinator, is on the Board of Directors and is the current Vice Chair.

Hispanic Women's Corporation

APS was a sponsor of the Hispanic Women's Corporation (HWC) National Conference in 2008. HWC is nationally recognized for being a proactive leader in the development of Hispanic women. This two-day conference is filled with exciting plenary sessions, speakers, and current topics that are of interest to Latinas seeking educational, economic, and political empowerment. HWC utilizes the diverse resources in corporations, government, and educational institutions to develop mechanisms to empower Hispanic women.

National Center for American Indian Enterprise Development

APS sponsors the First American Leadership Awards (FALA) a high-profile awards event that recognizes accomplishments and contributions made by American Indians and those who support their economic and personal endeavors. Each year they present awards to deserving American Indian individuals and business owners. APS has been a longstanding supporter of this organization's goal to provide management and procurement assistance to American Indian businesses and entrepreneurs.

Minority Enterprise Development Week

APS was a sponsor of Minority Enterprise Development (MED) Week Awards Breakfast for 2008. The MED - Week Awards Breakfast is an annual celebration and is the foremost Minority business recognition event of the year honoring the contributions of Arizona's minority entrepreneurs and those individuals and organizations that actively support minority business development. MED-Week provides a forum for raising the nation's awareness of the significant contributions made by this rapidly increasing segment of the business community to its economy.

Grand Canyon Minority Supplier Development Council (GCMSDC)

APS is a founding member of the Grand Canyon Minority Supplier Development Council (GCMSDC). The GCMSDC provides nationally recognized third-party Minority Business Enterprise (MBE) certification, opportunities for corporations and government entities to connect with MBEs to form mutually beneficial business relationships.

APS participates in GCMSDC's annual Business Summit and Trade Fair where MBEs present themselves to hundreds of prospective buyers from the corporate and governmental sector. At the Summit, MBEs also explore procurement opportunities and to develop relationships that will provide both parties with positive economic benefits.

APS COMMUNITY INVOLVEMENT

Strategic Relationships

APS' commitment to Supplier Diversity and Development is achieved through many strategic activities and relationships. APS supports, contributes and partners with local, regional and national associations that share our goal for finding, developing and utilizing diverse suppliers within our community. These organizations value the power that energizes our region's economy by championing entrepreneurial spirit.

Trade Association Support

The following is a listing of some of the councils, chambers and associations we support.

- ✚ American Indian Chamber of Commerce, Corporate Sponsor
- ✚ Arizona Asian American Association
- ✚ Arizona Department of Veteran Services
- ✚ Arizona Hispanic Chamber of Commerce
- ✚ Arizona Small Business Association
- ✚ Asian Chamber of Commerce, Corporate Sponsorship
- ✚ Association of Minority Contractors of America
- ✚ Chinese Chamber of Commerce, Corporate Sponsorship
- ✚ Edison Electric Institute Supplier Diversity Committee
- ✚ Elite Disabled Veterans Enterprise Network
- ✚ Grand Canyon Minority Supplier Development Council (GCMSDC), Board Member and Corporate Sponsorship
- ✚ Greater Phoenix Black Chamber of Chamber of Commerce, Board Member and Corporate Sponsorship
- ✚ Greater Phoenix Chamber of Commerce, Corporate Sponsor
- ✚ Minority Business Development Center
- ✚ National Association of Women Business Owners, Corporate Sponsor
- ✚ National Center for American Indian Enterprise Development, Corporate Sponsor
- ✚ National Veteran's Organization
- ✚ Navajo Nation Division of Economic Development
- ✚ The Association of Service Disabled Veterans
- ✚ Women & Minority Business Enterprise Clearinghouse – California
- ✚ Women's Business Enterprise Council – West, Board Member, Vice Chair and Corporate Sponsorship

ANNUAL MWBE RESULTS

2008 MWBE Spend By Ethnicity

To qualify as a MWBE supplier, you must meet the following criteria as defined by the Small Business Administration pursuant Federal Acquisition Regulations under 13 CFR 124-1.

- A. Small Disadvantaged Business concern, as used in this provision, means a small business concern that (1) is at least 51 percent owned by one or more individuals who are both socially and economically disadvantaged, or a publicly-owned business having at least 51 percent of its stock owned by one or more socially and economically disadvantaged individuals and (2) has its management and daily business controlled by one or more such individuals.

Qualified Groups, socially and/or economically disadvantaged individuals shall be presumed to include African Americans (Black), Hispanic Americans, Native Americans, Asian Pacific Americans and Asian Indian Americans.

- B. Women-owned Small Business Concern, as used in this provision, means a small business that is at least 51 percent owned by a woman or women who are U.S. citizens and who also control and operate the business.

APS requires third-party Minority Business Enterprise (MBE) and Women Business Enterprise (WBE) certification with recognized certifying organizations

Minority Type	Women Owned	Total Spend
Non-Minority	Y	\$ 30,612,629
Hispanic American	N	\$ 20,551,334
Native American	N	\$ 8,076,565
Black American	Y	\$ 3,605,731
Asian Indian American	N	\$ 3,221,104
Non Specified	Y	\$ 2,881,344
Asian Pacific American	N	\$ 1,437,592
Asian Pacific American	*	\$ 1,361,693
Hispanic American	Y	\$ 350,649
Hispanic American	*	\$ 128,007
Asian Pacific American	Y	\$ 123,301
Black American	N	\$ 90,044
Asian Indian American	*	\$ 76,829
Black American	*	\$ 32,020
Native American	Y	\$ 15,061
Asian Indian American	Y	\$ 5,262
Native American	*	\$ 3,434
Total		\$ 72,572,600

By advocating diversity and reflecting our customers' various demographics in our supplier base, we create valuable relationships that help strengthen our communities.

2008 MWBE Spend by Product and Service commodity

At APS, we procure a wide variety of products and services for all of our business unit needs. SDD strives to ensure that our annual spend with certified MWBE's represents the actual marketplace for goods and services. We are very proud that our portfolio of qualified and certified MWBE's spans across dozens of commodity areas that includes cutting-edge engineering and manufacturing firms, businesses that exclusively support the electrical generation industry, and businesses in traditional spend areas.

APS' 2008 spend with certified MWBE's includes the following commodity areas:

Products	Minority Business Enterprises	Women Business Enterprises
Chemicals	\$ 16,842	\$ 176,039
Fuel	\$ 5,149,715	
Power Plant Materials	\$ 417,523	\$ 4,245,788
Customer Service	\$ 309,228	\$ 2,009,398
Facilities		\$ 3,556,764
Business Support	\$ 1,406,635	\$ 651,530
APS Energy Services		\$ 96,991
Services	Minority Business Enterprises	Women Business Enterprises
Business Support	\$ 2,326,495	\$ 1,860,262
Power Plant Services	\$ 2,408,043	\$ 11,188,441
Customer Service	\$ 3,013,562	\$ 9,591,980
IT Labor	\$ 4,946,298	\$ 1,915,684
Engineering Consulting	\$14,718,600	\$ 918,887
Power Plant - Contract Labor	\$ 140,245	
Transportation	\$ 66,866	\$ 961,178
Facilities	\$ 58,569	\$ 421,037

NOTE: Coal and Nuclear Fuel commodity opportunities exist however, there are limited certified Small Business Concerns.

ANNUAL GOAL ATTAINMENT

Business leaders analyze trends in current usage to project procurement opportunities for their respective areas. Information is gathered as to the availability of MWBE suppliers for the identified upcoming opportunities. Business leaders and SDD collaborate to set MWBE goals based on last year's performance and projections for new contracts and opportunities. Individual business unit goals on MWBE Business participation are then rolled into an overall company plan and submitted to senior management for approval and support.

2008 MWBE GOALS AND ACTUALS

	Year End 2007	2008 Corporate Minimum Target	2008 Corporate Stretch Target	Year End 2008
Cholla	\$1,810,555	\$845,000	\$973,000	\$1,675,555
Four Corners	\$5,565,980	\$5,450,000	\$6,000,000	\$7,582,954
Redhawk	\$1,584,241	\$775,000	\$865,000	\$1,721,922
Saguaro	\$61,781	\$49,000	\$59,000	\$369,819
Yucca	\$22,214	\$35,500	\$45,000	\$49,572
West Phoenix	\$975,218	\$525,000	\$575,000	\$2,011,884
Ocotillo	\$274,080	\$275,000	\$315,000	\$692,048
Sundance	\$152,359	\$105,000	\$115,000	\$124,669
Gen Engineering	\$173,180	\$190,000	\$204,000	\$98,762
Fossil/Fuel Projects & Support	\$6,532	\$29,500	\$30,000	\$31
Fossil Admin (Denman)	\$104,992	\$14,500	\$21,000	\$161,244
TOTAL FOSSIL (DENMAN)	\$10,731,131	\$8,293,500	\$9,202,000	\$14,488,460
Palo Verde (Edington)	\$16,484,590	\$11,450,000	\$12,115,000	\$28,289,281
TOTAL GENERATION	\$27,215,721	\$19,743,500	\$21,317,000	\$42,777,742
Energy Delivery	\$10,703,547	\$11,709,000	\$13,450,000	\$11,470,520
Customer Service	\$4,377,518	\$3,585,000	\$3,950,000	\$4,381,857
Rates and Regulation	\$18,566	\$17,500	\$20,000	\$9,145
CUST SRV/REG	\$15,091,116	\$15,311,500	\$17,420,000	\$15,861,322
PLANNING & ADMINISTRATION	\$9,356,779	\$8,815,000	\$9,920,000	\$12,568,507
Accounting & Financial Control	\$2,136,956	\$1,995,000	\$2,130,000	\$535,642
Treasurer	\$4,844	\$5,000	\$7,000	\$6,539
TREASURY/ACCTG/FINANCE ADM	\$2,141,800	\$2,000,000	\$2,137,000	\$542,180
CORPORATE BUSINESS SERVICES	\$99,476	\$80,000	\$90,000	\$82,129
LAW AND BUSINESS PRACTICES	\$23,028	\$275,000	\$310,000	\$50,144
APS ENERGY SERVICES	\$829,168	\$675,500	\$700,000	\$613,649
SPECIAL SERVICES/ADMINISTRATION	\$115,742	\$99,500	\$106,000	\$74,703
MWBE SPEND TOTALS	\$54,910,717	\$47,000,000	\$52,000,000	\$72,572,600

Many current diverse suppliers have seen an increase in spend in new areas with APS and we have identified some new competitive diverse suppliers that have stepped up to meet our challenge with quality products and services. As a result, in 2008, the company succeeded in meeting and exceeding their 2008 SDD targets. Several other MWBE's are being considered as bids are being processed. We must remain focused to the overall business needs of APS as we increase utilization of MWBE's.

HISTORICAL MWBE GOALS SPEND

The table shows the total direct dollars spent on products and services with **certified minority and women-owned suppliers** in the last five years. Evidence of our executive management support APS has experienced a substantial breakthrough in Diverse spending. The company spent in excess of \$72 million in 2008; this represents the highest level of diverse spend in the history of APS Supplier Diversity.

Year	MWBE Spend
2008	\$72,037,370
2007	\$53,598,986
2006	\$49,301,996
2005	\$40,884,140
2004	\$36,494,292
Total Spend	\$252,316,785

FIVE YEAR STRATEGIC GOAL

APS' commitment to SDD resulted in a directive to develop an aggressive strategic goal that will both challenge and invigorate the organization; specifically, we will achieve \$100 million in direct spend with Diverse Businesses by the end of fiscal year 2013. The following table indicated the annual targets that we expect to reach to meet these goals.

5 Year MWBE Spend Goals		
Year	Minimum Target	Stretch Target
2009	\$56,159,500	\$63,300,500
2010	\$64,000,000	\$72,000,000
2011	\$73,000,000	\$81,000,000
2012	\$82,500,000	\$90,500,000
2013	\$93,000,000	\$100,000,000

SDD has identified several key organizational commitments in order to achieve its goal of \$100 million direct spend with certified Diverse businesses. This commitment allows APS to maintain its position as a community leader, add shareholder value, foster diverse businesses growth, contribute to sustainability and provide our customers with the best products and services at competitive prices.

2008 2ND TIER SPEND

	Direct	Indirect	Total 2nd Tier Spend
1ST QTR	\$ 679,833	\$ 12,909,961	\$ 13,589,794
2ND QTR	\$ 1,073,807	\$ 14,190,617	\$ 15,264,424
3RD QTR	\$ 882,722	\$ 17,379,373	\$ 18,262,095
4TH QTR	\$ 1,317,743	\$ 15,719,917	\$ 17,037,660
Totals	\$ 3,954,105	\$ 60,199,868	\$ 64,153,973

APS is a strong supporter of the development of diverse businesses and sets utilization goals to optimize the use of certified diverse businesses for APS procurement. In 2008, APS changed the participation of large contractors in the program from voluntary to mandatory, and it changed the contract language “best efforts” to requiring its major Suppliers provide certified diverse businesses the maximum practicable opportunity to participate in the course of performing subcontracting services.

Key changes include a requirement that work or services provided under APS Agreements or any Orders that exceed a cumulative total dollar amount of \$500,000. These changes are made in accordance with the laws and policies regulated by the General Services Administration (GSA) with whom APS has an “Area Wide contract” to provide Electricity and Electrical Services.

Second Tier language is imbedded in the Supply Chain Managements Contract Standards, the reporting instructions and process for subcontracting utilization of diverse businesses have been revised to meet the current requirements of the General Services Administration (GSA) guidelines. SCM professionals with contract commitment authority received training on the revised contract changes. Suppliers shall submit written reports quarterly that identify their utilization activities with certified suppliers.



ANNUAL PLAN

APS has a strong commitment of strengthening communities by reaching out to diverse suppliers. Reaching out to find and develop diverse suppliers has become a cornerstone of our corporate strategy. APS recognizes the bottom-line economic significance of developing and utilizing this business sector, the value of a diverse business environment and proactively seeks to promote opportunities for qualified Minority and Women-Owned Businesses. We are taking a progressive approach to maintaining and growing our impact on these business sectors. The following are ongoing initiatives of the Supplier Diversity and Development team.

- ✦ Business leaders analyze trends in current usage to project procurement opportunities for their respective areas, collaborate with SDD to set MWBE goals based on last year's performance and projections for new contracts and opportunities.
- ✦ Individual Business Unit goals are then rolled into an overall company plan and submitted to Senior Management for approval and support.
- ✦ President and Chief Operating Officer, Pinnacle West Capital Corporation; Chief Executive Officer, Arizona Public Service Company communicates the corporate MWBE goals and commitment to VP's, and upper-management.
- ✦ SDD continues to communicate corporate MWBE goals and commitment to front-line management and employees company-wide.
- ✦ Host BUC\$ meetings Semi-Annually to encourage continuing support and promote MWBE utilization.
- ✦ Facilitate individual buyer presentations and procurement fairs for small business concerns regarding procurement procedures and bidding opportunities.
- ✦ Conduct workshops and focus groups to discuss subcontracting opportunities with our large suppliers and promote small business concern usage among our prime suppliers.
- ✦ Coordinate and provide training opportunities for qualified small business concerns regarding procurement procedures and bidding method.
- ✦ Ensure that small business concerns have the highest practical opportunity to compete for available contracts awarded by the Company.
- ✦ Facilitate introductions, meetings and procurement events between the internal users and small business concerns to promote opportunities to market their products and services.

The General Services Administration (GSA) Subcontracting Plan for 2008 is available through the GSA.

If you require a copy of the contract, please contact Jerard Butler, Energy Center of Expertise via e-mail at jerard.butler@gsa.gov.

SUPPLIER DIVERSITY WEBSITE

Arizona Public Service (APS) is the largest affiliate, of Pinnacle West. It generates, sells and delivers electricity and energy-related products and services. APS serves more than a million customers in 11 of Arizona's 15 counties, and is the operator and co-owner of the Palo Verde Nuclear Generating Station – a primary source of electricity for the Southwest.



THE POWER TO MAKE IT HAPPEN[®]



The APS Supplier Diversity and Development Website resides on the APS Website at <http://www.aps.com> and the Pinnacle West Capital Corporation Website at <http://www.pinnaclewest.com/supplierdiversity>



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