

PRODUCT STEWARDSHIP

APS encourages both architects and home-builders to consider energy conservation and environmental impacts in their design projects.

The Company maintains affiliate membership in the American Institutes of Architecture and sponsors the APS Energy Award to acknowledge architects who use energy efficiency and environmental principles in their designs. In 1999, APS sponsored an architecture seminar on incorporating photovoltaics into building design. Approximately 50 architectural professionals attended the seminar.

APS also maintains the APS Environmental Showcase Home, which demonstrates how to implement recycled and environmentally responsible materials into residential home design. In 1999, more than 1,000 people toured the home.

PROMOTING ENERGY EFFICIENCY

APS offers a variety of brochures in customer service offices on ways to conserve energy. Topics include sunscreens, planting trees, electric heat pumps and ways to reduce summer and winter electric bills. The brochures offer helpful hints for customers who are looking for ways to use less energy. There are no tracking devices to determine the effectiveness or impact of these programs.

OFFERING DEMAND SIDE MANAGEMENT TO COMMERCIAL CUSTOMERS

Our independent retail company, APS Energy Services, offers a variety of energy efficiency products to its commercial customers. Examples of APS Energy Services energy efficiency offerings include on-site efficiency audits, preventive maintenance, installation of new equipment and engineering and design services. In 1999, APS Energy Services saved its customers 254,949

kWH through its energy efficiency offerings.

APS Energy Services also developed a district cooling plan for the downtown Phoenix area in 1999. Fueled by water that will be frozen at night, when energy rates and demand are low, the district cooling system will circulate chilled water through underground pipes within the downtown district. The chilled water will then be used for cooling buildings within the district and returned to the cooling plant for reconditioning. Scheduled for completion in late-2000, the APS Energy Services district cooling plant will allow downtown area buildings to meet their thermal energy needs while eliminating the need for additional ozone-depleting chlorofluorocarbons (CFCs).

RATES ENCOURAGE CONSERVATION

APS offers residential customers three rate plans, the Standard Plan, the Time Advantage Plan and the Combined Advantage Plan. While each of the rates is charged by consumption, the Standard Plan offers the lowest rates for the least consumption. As of December 31, 1999, 45 percent of APS residential customers had selected the Standard Plan.

PROMOTING ELECTRICAL SAFETY

Although electricity is safe when handled properly, it can be extremely dangerous and sometimes deadly if misused. The APS Public Safety department is responsible for keeping APS customers and the public safe and informed about the possible dangers of electricity. The APS Customer Service department works closely with Public Safety to ensure APS customers have access to accurate, relevant information on the proper use and handling of electricity. In 1999, APS Public Safety employees conducted 58 school presentations for more than 1,500 students and 33 adult presentations for more than 650 people.

In 1999, the APS Customer Service department conducted a summer monsoon briefing instructing the media and the public about what to do if a monsoon storm knocks out a power line. Several monsoon storms hit the Phoenix area in 1999, some knocking down power lines. However, no one was seriously injured by electrical contact from a downed power line.

The Customer Construction department maintains three electrical safety demonstration trailers that can

send 7,000 volts of electricity through a hot dog or a grapefruit to illustrate the impact of electrical current. The trailer is operated only by trained, experienced personnel to ensure the highest level of safety. In 1999, APS conducted approximately 100 demonstrations for more than 7,000 people.

SECTION 6

SUPPLIER RELATIONSHIPS

APS does not have a specific Company policy that incorporates environmental criteria into the selection of fuel suppliers. The APS Generation Business Unit Strategic Plan, however, states that environmental, health and safety compliance is the minimum standard of performance and that the Company will strive to go beyond compliance whenever feasible.

APS uses three primary fuel types: coal, nuclear and natural gas. Most of the fuel is purchased through long-term contracts.

FUEL SUPPLIERS

All APS fuel suppliers are expected to maintain permits from applicable federal, state and local agencies that mandate each supplier's adherence to environmental standards. The regulating agencies are responsible for conducting formal inspections to ensure compliance with all requirements.

APS works with fuel suppliers to develop environmentally preferable processes, materials and products by providing funding for environmental studies and monitoring that work toward improving ground water, land vegetation, animal habitats and air quality.

It is APS policy to provide energy from natural resources in the most efficient and economical means available. When it is feasible, APS produces energy from local or regional fuel sources to limit the economic and environmental impacts of transportation. Approximately 97 percent of APS coal is purchased from local sources, the remaining 3 percent is procured regionally.

Power plant specifications for fuel quality and composition are incorporated into fuel contracts. The Fuels Procurement department monitors supplier activity and associated costs for reclamation, and health and safety practices, to ensure the work is cost effective and that environmental criteria are met. APS fuel contracts at the Four Corners Power Plant include the cost of