



**T**hank you for opening this report. Whether you are a shareholder, customer, community leader, or a member of an interested environmental organization I hope you will take a few minutes to read the report and provide us with your comments. While we set quantifiable measures for our EHS performance such measures would be incomplete without input from those who live in the communities we serve and others who are interested in our EHS performance.

Overall we had a good year and for the most part are pleased with our progress.

We saw some fundamental changes in 1999 as Arizona's electric market opened to competition. To be more competitive, APS and its parent, Pinnacle West Capital Corporation, continued to restructure, strengthening our focus on what we know — generating and delivering high-quality electricity in the southwestern United States. And, while our industry's future is not crystal clear and our company structure may look different, what is constant is our commitment to the environment.

This report outlines our environmental, health and safety performance during 1999. Among our notable accomplishments, here are a few that make us particularly proud:

- We reached an unprecedented agreement with a broad coalition of environmental groups to decommission by 2004 our only hydroelectric facilities, the historic 5.6-megawatt Childs-Irving plants.
- We completed our third commercial solar power plant and nearly doubled the number of customers with off-grid solar electric service.

- We reduced our reliance on solvents and other hazardous chemicals by eight percent and increased sale of ash as a component of cement by nearly 17 percent.
- All of our facilities achieved federal requirements for “small quantity generators” or “conditionally exempt small quantity generators” of hazardous waste. In addition, we continued to reduce the amounts and kinds of hazardous chemicals stored and used at our facilities through rigorous operational reviews and improved purchasing procedures.

We are pleased that our environmental accomplishments have been recognized by Innovest, a firm that prepares annual industry studies for the financial community on environmental performance. Innovest awarded Pinnacle West a “AAA” rating and ranked us third out of 30 electric companies. The study said, in part, that “since 1990, a strong environmental commitment has been integrated into APS’ overall business strategy.”

While our environmental achievements were significant, our safety performance was less than satisfactory. An employee lost his life in a motor vehicle accident and we saw an increase in the severity of the injuries. Total injuries increased 11 percent to 112, up from 101. More significantly, the severity of those injuries increased to a five-year high of 5.83, up from 3.73 in 1998. We are saddened by this performance but we are determined to get back on track. To us, these safety measures are not just numbers — they represent real employees with real lives and real families. We do not want to see anyone hurt on the job, and we maintain a goal of zero accidents — a goal we are determined to achieve.

This EHS report is, in part, a dedication to the Childs-Irving power plants. It contains both new and old images of the plants because we feel this facility played a notable role in our past and in the prosperity of Arizona. These hydroelectric units were built by nearly 600 men using 400 mules and 150 wagons in the early 1900s. While the plants are important historically, today they provide only a small amount of the power we need. We believe the environmental benefits of closing the plants far outweigh the business impact.

Fossil Creek, the stream that powers the Childs-Irving plants, is a unique Arizona water source. It originates in the mountains of northern Arizona and supplies a year-round flow of 43 cubic feet per second. Its high mineral content has formed large travertine formations that provide native fish habitats. Soon the creek will once again flow unimpeded through a largely undeveloped portion of central Arizona.

We endorse the principles of the Coalition of Environmentally Responsible Economies (CERES), an independent, non-profit organization that promotes environmental responsibility without compromising economic competitiveness. CERES holds us to a very high environmental standard. And we were the first utility in the world to adopt the organization's 10 standards of performance. This report fulfills one of the fundamental CERES tenets of open,

consistent reporting on environmental, health and safety performance and follows the 1998 CERES Electric and Gas Utilities Form.

Our principles today and in the future are:

- We create value for shareholders;
- We provide superior service to customers;
- We work to strengthen our communities and to protect our environment;
- We embrace technology to leverage our effectiveness;
- We view employees as our most valuable asset and we encourage innovation and we strive to earn their commitment.

Perhaps our president and CEO, Bill Post, said it best to our shareholders at the annual meeting. "We don't just work in communities spanning every corner of our great state; we live here, too. Yes, our employees work hard at making a living. They also work hard at making a life."



Edward Fox  
Vice President, Communications, Environment & Safety