



### POLICIES, ORGANIZATION AND MANAGEMENT SYSTEMS

Employees from APS and all Pinnacle West companies are held to the highest standards of ethical business conduct. Two documents, the *Ethics Policy* and *Standards of Business Practices* guide our conduct. Our values: honesty, integrity, fairness, accountability, caring and respect comprise the foundation of both the *Ethics Policy* and the *Standards of Business Practices*.

Our *Ethics Policy* provides guidelines for ethical business performance. These guidelines help us act with integrity, and avoid any violations of the policy, laws or regulations. Our *Standards of Business Practices* establish a comprehensive set of rules that focus on company standards and legal requirements to guide the way we conduct ourselves, treat one another and engage in business. The *Standards of Business Practices* also stipulate that we not attempt to interfere or influence an employee's right to organize or bargain collectively, nor will we punish anyone who reports suspected illegal activity by the company or other employees. The *Ethics Policy* and the *Standards of Business Practices* were both updated in 2000 to better guide employees through the complexities of our transition to competition.

In addition to the *Ethics Policy* and the *Standards of Business Practices*, we follow a very specific *APS Code of Conduct* that strictly outlines the relationship between our traditional energy delivery company, APS, and our competitive retail company, APS Energy Services. The *Code of Conduct*, approved by the Arizona Corporation Commission, directs business conduct between APS and APS Energy Services to ensure APS does not violate Arizona's rules of electric utility competition.

The *Environmental, Health and Safety (EHS) Policy* and the *EHS Management Plan* direct employee decisions to ensure regulatory compliance and encourage environmental, health and safety excellence.

The *EHS Policy* (page 56) covers all environmental, health and safety aspects of our operations. The policy outlines our commitment to protecting the environment, employee and community health, and safety; and protects adherence to the Coalition for Environmentally Responsible Economies (CERES) principles (page 57).

The *EHS Management Plan* emphasizes employee accountability and recognizes that individual facilities are subject to many environmental, health and safety requirements. Those requirements include federal, state, county, municipal and applicable tribal environmental, health and safety laws and regulations. As these requirements become more complex and demanding each year, it is more important than ever that we understand our EHS responsibilities. The *EHS Management Plan* supports accountability throughout the company by providing environmental, health and safety direction and structure in a single document.

ISSUES DIRECTLY ADDRESSED BY APS POLICIES AND PROCEDURES

ENVIRONMENTAL	HEALTH & SAFETY	SOCIAL
<ul style="list-style-type: none"> <li>• Water Quality</li> <li>• Air Quality</li> <li>• Energy Conservation Opportunities</li> <li>• Solid/Hazardous Waste</li> <li>• Storage Tanks</li> <li>• Chemical Releases</li> <li>• Spill Prevention/Leak Detection</li> <li>• Site Remediation</li> <li>• Chemical Inventory Reporting</li> <li>• Resource Use</li> <li>• Incident Investigation</li> <li>• Risk Management</li> </ul>	<ul style="list-style-type: none"> <li>• Emergency Planning</li> <li>• Personal Safety</li> <li>• Transportation Safety</li> <li>• Materials/Equipment Safety</li> <li>• Industrial Health/Hygiene</li> <li>• Occupational Medicine</li> <li>• Public Safety</li> <li>• Fire Protection and Prevention</li> <li>• Incident Investigation</li> <li>• Risk Management</li> <li>• Substance Abuse</li> </ul>	<ul style="list-style-type: none"> <li>• Diversity</li> <li>• Organized Labor</li> <li>• Contract Labor</li> <li>• Nuclear Safety</li> <li>• Confidentiality</li> <li>• Insider Trading</li> <li>• Political Participation</li> <li>• Antitrust</li> <li>• Foreign and Corrupt Practices</li> </ul>

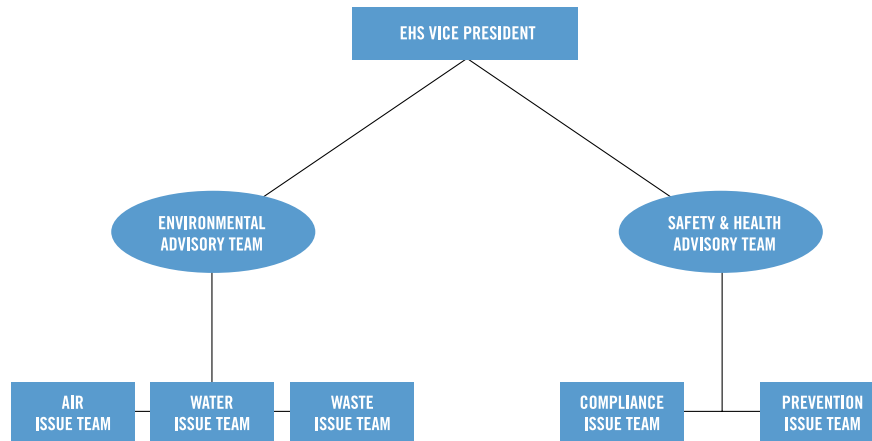
*The policies which cover these issues are available upon request.*

Ed Fox, Pinnacle West vice president of communications, environment and safety, oversees the communication of our EHS goals and manages our EHS performance. Mr. Fox provides updates on EHS activities to executive management monthly, and on an as-needed basis, and updates the Board of Directors at least annually.

The core of Mr. Fox's EHS management team are two cross-departmental committees, the Environmental Advisory Team and the Safety and Health Advisory Team. These committees unite EHS professionals and tools from

throughout the company to provide strategic direction, effective management and consistent implementation of our EHS programs. The teams also update the EHS Policy and the EHS Management Plan to ensure integrated implementation of these practices into our operations.

## ORGANIZATION AND MANAGEMENT



With more than 100 years of experience serving Arizona customers, we are prepared for industry competition.

Because most environmental, health and safety issues arise in the field, we utilize a decentralized management structure. In 2000, 54 environmental, health and safety professionals were assigned to operating areas. These professionals report to their respective facility management and have primary responsibility for implementing day-to-day EHS compliance strategies at their workplaces. Decentralization allows for more rapid response to issues and places the accountability where it belongs, at the operations level.

There are 47 professionals assigned to our corporate EHS functions. The purpose of the EHS department is to support the needs of our field operations. EHS department professionals serve as technical experts for facilities applying for environmental permits and offer counsel to regulators on operational matters. The department also develops strategies and programs that sharpen our competitive edge in the EHS field and tracks the regulatory rule-making process by proactively seeking comments from the field and submitting those comments to regulators. Our corporate EHS professionals also monitor technical and market trends, allowing us to embrace opportunities and address challenges in a timely manner.

#### *SUSTAINABILITY*

Sustainability holds out hope that communities, business and nature can all thrive together – that the health of the individual component is strengthened by the health of the whole. Throughout this report, you'll see examples of the initiatives we have undertaken to enhance and improve the natural, cultural and business environments of the communities we serve.

#### *INDICATORS*

Our goal for environmental, health and safety reporting is to provide far-reaching information that can be used not only in judging our performance, but also in comparing us to others in our industry. Accordingly, we feel the following indicators offer a balanced perspective of APS and the industry:

- *HISTORIC ENVIRONMENTAL RISK*

We have an aggressive manufactured gas plant (MGP) remediation program and have completed projects at two of our eight sites.

- *SUPERFUND SITES*

We are listed as a Potentially Responsible Party (PRP) at one EPA Superfund site. We have cleaned the site and expect to settle with EPA in 2001.

- *RATIO OF ENVIRONMENT-RELATED FINES TO REVENUES*

In 2000, we paid \$28,000 in environment-related fines and achieved \$3.5 billion in revenues.

- *CONCENTRATION OF HIGH-RISK PRODUCTS IN THE PRODUCT PORTFOLIO*

With the completion of our new natural gas-fired generation, our fuel mix will be about a third coal, a third nuclear and a third natural gas.

- *EMISSIONS FROM INDIVIDUAL PLANT SITES*

All of our power plants hold Title V air permits and are in compliance. Systemwide, we maintain emissions in pounds per megawatt-hour that are below industry averages.

- *ENVIRONMENTAL MANAGEMENT CAPABILITY*

We place environmental management at the facility level to ensure maximum accountability while providing assistance from the corporate level.

- *ENVIRONMENTAL AUDIT CAPACITY, FREQUENCY AND TRANSPARENCY*

We have an internal environmental audit group that functions independently of the environmental, health and safety department. We use the results of audits to improve performance but maintain the confidentiality of individual audit reports.

- *ADEQUACY OF STAFF TRAINING ON ENVIRONMENTAL RISK MANAGEMENT*

Employees annually participate in an average of five environmental, health and safety training courses.



From customer service to generation, our employees are our greatest asset.

## INDUSTRY PARTICIPATION

As a company, we maintain membership in the Edison Electric Institute and the Electric Power Research Institute. Our employees maintain memberships in numerous professional and business associations that cover every function of our business, including accounting, purchasing, environmental, health and safety, human resources, public relations, engineering and electrical trades.

Our employees participate in the creation of public policy at the local, state, national and global levels. We believe being a good corporate citizen involves participation in the formation of sound public policy. We encourage our employees to hold elected office in their communities, and we have vice presidents of government and federal affairs to give APS a voice in the law-making process. Additionally, we participate in the formation of global climate change policy at the regional and global level.

## TECHNICAL RESEARCH

We support and sponsor a variety of research activities devoted to EHS technology, management and performance at educational institutions and company facilities.

We also partner with Arizona State University and Northern Arizona University to collect performance data from our solar generating facilities in Tempe and Flagstaff.

## ATTRACTING EMPLOYEES

To attract and train future employees, we offer school-to-work and scholarship opportunities. Our internship program introduces students to virtually every part of our business, while specific programs target students seeking education in finance, accounting, engineering, mathematics and electrical trades. In 2000, 94 students participated in our internship programs. Our partnership with the Phoenix Suns National Basketball Association (NBA) franchise also offers \$1,000 mini-grants to schools wishing to implement projects that link energy and environmental education into core subjects. We extended \$13,368 to schools for their energy and environmental programs in 2000.

Outstanding individual environmental, health and safety performance and initiative are recognized through the Environmental, Health and Safety Excellence Awards Program. This program is designed to reward employees who contribute significantly to improving our overall environmental, health and safety performance. In 2000, 202 employees received EHS Excellence Awards.

Individuals receive recognition for a variety of accomplishments. One of the most noteworthy awards in 2000 went to a group of employees from our Palo Verde power plant who witnessed a serious motor vehicle accident on their way to work. The group administered first aid and CPR for nearly 40 minutes until emergency help arrived.

Employee training is an important part of our successful EHS management. We have an active EHS training program that employs a variety of training media, including internal classes, pre-job safety meetings, external seminars and certification, computer-based instruction, hands-on training and video presentations.

In 2000, our employees completed training on 228 EHS topics. Each employee completed an average of five training courses during the year, totaling 30,858 individual course completions. The corporate EHS department maintains a computer-based training tracking system called TrainKing. The system helps facilities throughout the company track and implement required EHS training.

As part of our employee orientation program, new employees view an environmental awareness video that explains our EHS compliance requirements and our beyond-compliance commitment and vision.

In addition to formal training, we also sponsor luncheon seminars on a variety of environmental, health, safety and new technology issues to educate and motivate employees. The lunch seminars are open to all employees, and employees in remote areas may participate via videoconference. In 2000, 244 employees attended the nine seminars offered.

## MANAGEMENT SYSTEMS

At APS, we believe managing costs is more than looking at the bottom line, and we consider EHS implications to ensure both sound business and EHS practices. We manage our costs at all levels: product, process, facility, division and corporate.

Central to our EHS management is a number of computer-based programs that allow us to track and manage the diverse EHS issues we face daily. Our Material Safety Data Sheet (MSDS) system is integrated with our purchasing system, providing our employees with necessary information on a chemical's properties and usage, as well as whether the chemical has been approved for company use. The MSDS and purchasing systems help us better manage the number of chemicals in our inventory, reducing our compliance exposure and offering bulk-purchasing opportunities for the safest, most appropriate chemicals for the job. Our other computer-based programs include an in-house equipment trading system (see page 29) and safety and health incident tracking and reporting software.

Each year, we develop targets for financial, environmental, health, safety and individual operating area performance, and rewards outstanding achievement through annual incentive pay. In 2000, those targets were:

### FOR GENERATION

- **Safety:** 10 percent improvement of the three-year average of Occupational Safety & Health Administration (OSHA) recordable injuries. **Result:** Did not meet target.
- **Environment:** Achieve two of four environmental targets. These targets included zero reportable environmental incidents, zero environmental fines or penalties, completion of 21 EHS self-assessments, and 10 percent reduction of approved hazardous products in the MSDS system. **Result:** Achieved two of the four targets (EHS self-assessments and reduction of hazardous materials).

### FOR NUCLEAR

- **Safety:** 10 percent improvement of the three-year average of OSHA recordable injuries. **Result:** Target met.
- **Nuclear safety:** Achieve two of four nuclear safety targets. The targets included reactor trips, maintenance rule, collective radiation exposure and significant preventable events. **Result:** Achieved goal, meeting three of the four targets.

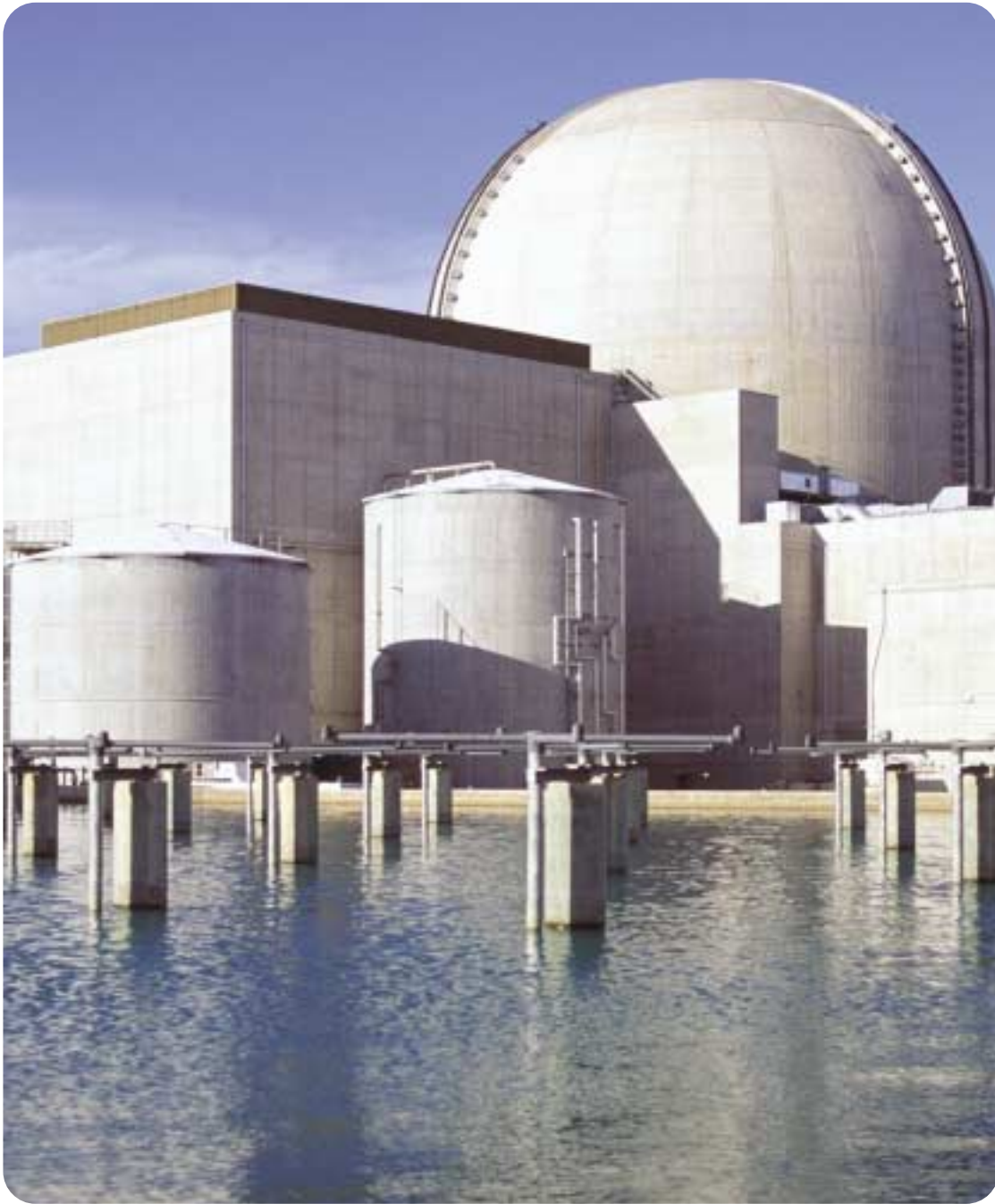
### FOR ENERGY DELIVERY AND SALES

- **Safety:** 10 percent improvement of the three-year average of OSHA recordable injuries. **Result:** Did not achieve target.
- **Environment:** Zero reportable environmental incidents. **Result:** Target not met.

### FOR CORPORATE BUSINESS SERVICES

- **Safety:** 10 percent improvement of the three-year average of OSHA recordable injuries. **Result:** Did not achieve target.





The Palo Verde nuclear power plant is one of the largest, safest and most efficient nuclear power plants in the United States.

## **AUDITS**

We have an aggressive environmental, health and safety audit program. Our auditors use a comprehensive EHS audit manual and are Board of Environmental Auditor Certifications (BEAC) certified to ensure thorough and consistent EHS audits.

In 2000, our audit department began reporting to the Audit Services director of Pinnacle West. The move will give our EHS auditors more autonomy and increase our facilities' accountability in correcting EHS audit exceptions.

We use a risk-based audit scheduling process to determine audit frequency for specific facilities. Risk-based audit scheduling assesses the quality of the facility's EHS management system and determines the risk the facility poses to APS business, operations, personnel, the community and the environment. The process identifies facilities that may pose EHS exposure to the company and develops risk assessment criteria for evaluation and scheduling. Risk factors are placed into two categories: EHS compliance and operation factors, and business factors.

### ***EHS COMPLIANCE AND OPERATIONAL RISK FACTORS INCLUDE***

- Audit history
- Compliance history
- Facility complexity
- Current practices and procedures
- Organizational changes
- Frequently-cited EHS regulations
- EHS incidents

### ***BUSINESS RISK FACTORS INCLUDE***

- Proximity to sensitive receptors
- EHS planning and budgeting
- Age of the facility
- Impact to company reputation

The risk-based audit scheduling process is reviewed annually to ensure all criteria are current and applicable. The scope of individual audits is determined prior to an on-site audit

based on the facility's risk factors. Even if the scope of an audit is expected to be limited, auditors may, once on site, perform a more comprehensive evaluation.

Our audits cover all regulatory requirements for air, water, waste, industrial hygiene, safety, Emergency Planning and Community Right to Know Act (EPCRA), Department of Transportation (DOT), pollution prevention, and internal EHS policies, procedures and management practices.

Upon completion of an audit, our auditors meet with the facility's manager to discuss the results of the audit and note any areas of concern or accomplishments. Significant areas of concern are noted as audit exceptions and are reported in a formal audit report. The primary causes of audit exceptions are identified in the final audit report. A correction plan must then be completed by the facility within 30 days. The audit team then enters the audit findings into a database to track the facility's progress toward correction, as well as identifying companywide trends.

Results of EHS audit exceptions are reported quarterly to senior management and at least annually to the Board of Directors. Officers receive quarterly and annual reports on audit activities and trends in audit findings. Additionally, facility managers are provided with quarterly summary reports on EHS audit exceptions for incorporation into their EHS self-assessment activities.

We adjust the scope of our audits according to the diversity of each facility's operations and risk factors. In general, we conduct audits of power plants and service centers every one-to-two years and audits of our business offices every two-to-three years.

In 2000, our audit team conducted unannounced audits of five service centers, five power plants and three shared services facilities, exceeding its goal of 10 unannounced audits. The audit team also conducted two announced audits, both of APS power plants, meeting its goal of two.

We utilize an EHS self-assessment program to augment our audit program. With the EHS self-assessment program, individual facilities review their EHS programs and identify strengths and weaknesses. In 2000, 10 APS facilities completed 27 self-assessments.





Working safely is paramount in our business. Our line crews conduct safety meetings prior to doing any job.



## SUPPLIER RELATIONSHIPS

### FUELS PROCUREMENT

We use three primary fuel types: nuclear, natural gas and coal. Most of our fuel is purchased through long-term contracts. All of our 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 inspections to ensure compliance with all requirements.

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

It is our policy to provide energy from natural resources in the most efficient and economical means available. When feasible, we produce energy from local and regional fuel sources to limit the economic and environmental impacts of transportation. About 97 percent of our coal is purchased from local sources, the remaining three percent is procured regionally.

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 environmental criteria are met. Our fuel contracts at the Four Corners Power Plant include the cost of reclamation.

We purchase the majority of our natural gas from numerous companies under contracts with several natural gas suppliers. Our natural gas supply is transported pursuant to a firm transportation service contract with El Paso Natural Gas Company.

## ENCOURAGING MINORITY AND WOMEN-OWNED BUSINESSES

As a major employer and service provider in Arizona, we believe it is good practice to encourage business growth and community diversity. Accordingly, we ardently support the development of minority and women-owned business enterprises (MWBES). In 2000, we purchased more than \$50 million worth of goods and services from MWBE vendors – exceeding our goal of \$37 million.

The APS Academy for the Advancement of Minority and Women Owned Enterprises offers a two-year program that teaches strategic planning, finance, operations, management and marketing to small minority and women-owned businesses. In 2000, five minority and women-owned businesses completed the Academy and nine more were accepted into the program.

## EMPLOYEE WELL-BEING

Safety is one of our overriding values and no accident is acceptable. We have held a goal of zero preventable recordable accidents since 1995. To achieve that goal, we implement a variety of activities encouraging leaders and employees to create a safe work environment.

We use numerous internal communication vehicles to promote and encourage health and safety programs and practices. Those communication vehicles include internal news publications, a daily electronic newsletter, general safety meetings, job-specific safety meetings, training opportunities and safety interventions.

Safety has been one of our biggest challenges for the past two years. In 2000, we saw the number of recordable injuries increase by 25 percent following an 11 percent jump in injuries the previous year. Not only did the number of injuries increase dramatically in 2000, the severity of employee injuries showed an alarming increase, and we had an employee fatality – the second in as many years. Recognizing the need to reverse this trend quickly, we introduced the "Back to Safety Basics" program in September 2000.