



## 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.

Back to Safety Basics was established as a clear, uncompromising focus on safety. Driven by executive management, the back to basics program focuses on four basics of working safely: 1) gain the skills; 2) apply the rules; 3) know the job or task and 4) recognize the environment. A series of videos, posters, materials and increased accountability for working safely are being used to support the program. Since implementation,

the program has resulted in marked improvement throughout the company. As a result of Back to Safety Basics, our Energy Delivery and Sales division reduced its reportable injuries by half from previous quarters and our Shared Services division reported zero injuries for the remainder of the year.

#### SAFETY PERFORMANCE

	2000	1999	1998	1997	1996
<b>TOTAL RECORDABLE CASES</b>					
• APS Total	140	112	101	114	122
– Target Maximum	0	0	0	0	0
• APS All Injury Incident Rate (AIIR) <sup>a</sup>	2.26	1.88	1.74	1.95	1.96
– Target Maximum	0	0	0	0	0
– Electric & Gas Utility Industry Average <sup>b</sup>	n/a	3.47	3.87	3.79	4.11
<b>LOST WORK DAY CASES</b>					
• APS Total	23	24	16	12	13
– Target Maximum	0	0	0	0	0
• APS Lost Work Day Incident Rate (LWIR) <sup>a</sup>	0.37	0.40	0.28	0.21	0.21
– Target Maximum	0	0	0	0	0
– Electric and Gas Utility Industry Average <sup>b</sup>	n/a	0.81	0.85	0.83	0.71
<b>LOST WORK DAYS</b>					
• APS Total	458	348	216	301	283
– Target Maximum	0	0	0	0	0
• APS Severity Incident Rate (SIR) <sup>a</sup>	7.40	5.83	3.73	5.17	4.54
– Target Maximum	0	0	0	0	0
– Electric & Gas Utility Industry Average <sup>b</sup>	n/a	19.02	19.54	18.18	15.63
• APS Fatalities	1	1	0	0	0

(a) All Injury Incident Rate (AIIR): The total of all recordable cases multiplied by 200,000 and divided by the actual employee exposure hours worked. Lost Work Day Incident Rate (LWIR): The total of all lost work day cases multiplied by 200,000 and divided by the actual employee exposure hours worked. Severity Incident Rate (SIR): The total of all workdays lost multiplied by 200,000 and divided by the actual employee exposure hours worked. (b) Source: Accident Facts, National Safety Council, 1994, 1995, 1996 and 1997 editions and Edison Electric Institute Safety Survey, 1998. Industry averages for 2000 were not available by press time.



Our employees are encouraged to further their careers through company-sponsored training and tuition reimbursement.

#### **EMPLOYEE INVESTMENT AND PARTICIPATION**

We value employee participation in the management process and provide numerous opportunities for employee comment in shaping management decision making. Our union contracts allow for comment and include a grievance process. We conduct leadership all-hands meetings giving employees a direct line to executives and our executives host meals with employee groups. Our Palo Verde plant has a corrective action deficiency report process to address problems with facilities, equipment, procedures and processes. We also use a differing professional opinion process for dealing with facilities, equipment, engineering designs and analysis.

Employees may generate a management investigation tracking procedure to request review of employee selection and promotion, pay applications, discipline and treatment. Employees also can initiate the complaint resolution process to request a review of management decision making related to selection, discipline and termination.

In addition to company procedures, we offer training classes in problem solving and decision making, interpersonal effectiveness, influencing without authority, a pre-supervisory academy and many others to prepare employees for career advancement and improvement. In 2000, every employee participated in nearly two company-sponsored training classes equating to 11,926 individual course completions.