



company profile

Pinnacle West is in Standard and Poor's 500 index and is traded on the New York Stock Exchange under the symbol: PNW. We are headquartered in Phoenix, Arizona - one of the fastest growing regions in the United States. Our assets include approximately 6,400 megawatts of plant generation capacity. We were named one of the Global 100 Most Sustainable Corporations in the World by *Corporate Knights* in 2005 and 2006. Pinnacle West was given an AAA (highest) rating, and ranked in the top two utilities in the United States in every review since 2001 by Innovest Strategic Advisory for environmental and sustainable performance. We are listed in the 2005 and 2006 Dow Jones North America Sustainability Index and in the 2005 and 2006 Dow Jones United States Sustainability Index as a sustainability leader in the electric industry.

Pinnacle West's has two principal business segments. Arizona Public Service Company, our regulated electricity segment (accounting for 77 percent of operating revenue in 2006), which consists of traditional, regulated retail and wholesale electricity businesses (primarily electric service to Native Load customers) and related activities and includes electricity generation, transmission and distribution. Our real estate segment (accounting for 12 percent of operating revenue in 2006), which consists of SunCor's real estate development and investment activities.

In addition, Pinnacle West has a small business segment in competitive energy business, including wholesale marketing and trading and retail commodity-related energy services, which is provided by our APS Energy Services company.

APS Subsidiaries



Arizona Public Service Company

Pinnacle West's largest subsidiary is Arizona Public Service Company (APS). APS, Arizona's largest and longest-serving electricity utility, serves more than one million customers in 11 of the state's 15 counties, with the major exceptions of about one-half of the Phoenix metropolitan area, the Tucson metropolitan area and Mohave County in northwestern Arizona.

Incorporated in 1920 under the laws of the state of Arizona, APS employs more than 6,000 employees, including employees at jointly-owned generating facilities for which APS serves as the generating facility manager. APS owns 29.1 percent of the Palo Verde Nuclear Generating Station located approximately 50 miles west of Phoenix. Operated by APS, Palo Verde has been the nation's top producer of electricity for the past 15 years. The company also owns and operates seven natural-gas and two coal-powered plants, and has an increasing array of renewable energy power generation. Considered by many as the state's largest construction company, APS has built an infrastructure consisting of more than 30,000 miles of transmission and distribution lines and 400 substations.

A leader in renewable technology, APS owns and operates the APS Solar Test and Research Center (STAR), the only facility of its kind in the United States. APS has solar installations across the state. APS owns and operates a variety of photovoltaic solar generation around the state. The company is an active partner in the development and testing of other renewables such as solar trough, biomass, hydrogen and wind technologies.

APS is also a strong community partner. Each year, the company and its employees give back to the community in a variety of ways. Each year, employees volunteered hundreds of thousands of hours to charitable causes and organizations. From its programs for supporting children and education; to its commitment to helping small and minority-owned businesses; to its patronage of the arts and culture; to its encouragement of economic development, APS sees itself as an active participant in Arizona's continued well-being.

Each year the company and its employees donate money and time to many charitable causes such as the United Way.

APS is regulated by the Arizona Corporation Commission (ACC). The ACC regulates APS' retail electric rates and its issuance of securities. The ACC must also approve any transfer of APS' property used to provide retail electric service and approve or receive prior notification of certain transactions between Pinnacle West, APS and their respective affiliates.

APS' principal executive offices are located at: 400 North Fifth Street, P.O. Box 53999, Phoenix, Arizona 85072-3999, 602-250-1000

SunCor Development Company



Now entering its third decade of operations, SunCor Development Company celebrated its 20th Anniversary in March 2007. It is one of the most trusted and prolific developers in the Mountain West region, with projects in Arizona, Utah, New Mexico and Idaho.

One of the key factors of its success is its diversity, with divisions in urban infill, retail, industrial, commercial, master-planned community, and golf course development, along with homebuilding. Since it was founded in 1986, SunCor has:

- created 18 master planned communities that 13,000 families now call home;
- built 26 commercial and retail centers where more than 500 entrepreneurs are doing businesses and fueling their local economies;
- provided world class amenities to 300,000 golfers every year; and
- leased or sold more than 25 million square feet of retail space.

Current projects include:

- Hayden Ferry Lakeside, a nine-building mixed-use complex in Tempe
- numerous residential, commercial and industrial projects in Palm Valley and Palm Valley 303 in Goodyear
- StoneRidge, a 2,000-acre master-planned community, in Prescott Valley
- Prescott Lakes, a master-planned community in Prescott
- Coral Canyon, a 2,300-acre master-planned community near St. George, Utah
- Rancho Viejo, a 10,000-acre master-planned community in Santa Fe, New Mexico
- Avimor, a 23,000-acre master-planned community near Boise, Idaho
- Rio West, an award-winning, five-building office/industrial project in Tempe

The company also has significant land holdings in Central and Northern Arizona. SunCor has accelerated and enhanced its focus on sustainability this year. Some examples include the creation of a staff position dedicated to research, evaluation and integration of sustainable practices. An increased emphasis on urban infill projects. Support for public policy initiatives, efforts, organizations and forums that promote sustainability (e.g., Proposition 106 – State Trust Land Reform, Valley Forward's Livability Summit, and the Arizona League of Conservation Voters' Earth Day Celebration). Active participation in the Arizona Businesses Advancing Sustainability initiative, and exploration of partnerships with educational institutions seeking to integrate sustainability-focused students and graduates into the development industry.

Equally important, SunCor incorporates and is exploring ways to incorporate sustainable practices into its projects. Some examples include:

- significant water conservation measures in master-planned communities, including community landscaping with native species and xeriscaping; absence of "lawnscapes" option in residential landscape elevations; use of cisterns; significant recharge projects (including an injection well); use of effluent from residences for golf course irrigation; dual irrigation systems; and installation of conservation devices, such as low-flow toilets. In at least one community, StoneRidge, in Prescott Valley, Arizona Department of Water Resource allocation is 3 units per acre foot of water, and actual consumption is 4.5 units per acre foot of water
- in the newest master planned community by SunCor (Avimor, located near Boise, where models will be open next year), and at Rancho Viejo, in Santa Fe, homes will be and are Energy Star certified

- construction of an experimental all-solar home in the SunCor master-planned community of Rancho Viejo, located near Santa Fe
- conservation of significant (40 percent or more) property as open space
- partnership with game management agency to create wildlife management plan that requires “no net loss” of habitat within master-planned community
- exploration of use of formaldehyde-free ceiling tiles and carpet in commercial buildings, and
- exploration of use of no volatile organic compound off-gassing paint

Further information on SunCor’s developments in commercial and residential properties and golf course management can be found at www.SunCoraz.com.

APS Energy Services



APS Energy Services is the full-service energy services provider and competitive electricity subsidiary of Pinnacle West. APS Energy Services was the first Energy Service Provider (ESP) to deliver competitively priced electricity to California customers in 1997. In 1999, APS Energy Services was the first ESP to service direct access customers in the service territory of all three major Arizona utility companies.

Energy conservation is a core focus of APS Energy Services and the company seeks to promote and implement the efficient use of energy and develop comprehensive energy solutions, seeking renewable energy alternatives where applicable and conducting work in a sustainable and environmentally responsible manner. Energy projects are designed to upgrade equipment and provide sustainability to campus settings.

Energy efficiency, renewables, demand response and traditional supply side solutions all will be needed for a sustainable energy future for all and APS Energy Services will help lead the way there.

APS Energy Services is headquartered in Phoenix, Arizona with offices in Tucson, Arizona; California; Nevada; and Texas. The company currently extends services throughout Arizona, California, Nevada, New Mexico, Texas and Utah. For more information about APS Energy Services, please visit www.APSES.com

APS Energy Services responds to sustainability demands

APS Energy Services, known to many as the company that constructed a combined heat and power plant at Arizona State University and — through its wholly owned subsidiary, Northwind Phoenix — operates a district cooling network that keeps much of downtown Phoenix comfortable, also integrates renewable energy alternatives as part of its energy solutions offerings. “As our name says, we’re an energy services company,” said **Vicki Sandler**, President, APS Energy Services. “Since we were founded in 1998, our mission is to be a world-class developer and the preferred provider of superior energy solutions. We achieve this by helping our customers meet their strategic objectives through a comprehensive energy solution. As energy prices continue to rise, energy efficiency retrofit projects and the deployment of renewable technologies continue to become more viable options than ever for our customers.” Sandler added that, while there are many costs of doing business that institutional, commercial and industrial customers have little control over, energy costs can be reduced, and those savings dropped to the bottom line. To help those customers achieve these savings, APS Energy Services has completed energy efficiency and renewable projects in Arizona, California and Nevada. Among its work with renewables:

Biomass

As part of a comprehensive energy program, implemented at the White Pine County School District in Ely, Nev., and the Northern Nevada Corrections Center (NNCC) in Carson City, Nev., biomass systems burning forest waste have been included in the programs to provide low-cost heating and steam output (NNCC only) while helping the environment. The U.S. Forest Service has a long term contract to provide fallen timber as fuel. APS Energy Services expects the construction of these systems to enhance air and water quality in the surrounding areas by providing an environmentally friendly method to dispose woody biomass from forest thinning. Additional benefits include reduced emissions from controlled burning and resulting air pollution, and from the reduced volume of landfill biomass waste.

In addition to the biomass, the NNCC project also includes a photovoltaic solar application of up to 30 kilowatts (kW).

Solar

APS Energy Services worked with the Yavapai-Apache Nation to install a solar array producing 30 kW on its parking structures. By designing a split system with separate photovoltaic and uninterrupted power supply subsystems, the nation’s medical facility is able to

receive 30 minutes of standby power. In addition to the solar installation, APS Energy Services also negotiated the procurement of green credits for the sale of green energy into the system, resulting in a substantial rebate to the Yavapai-Apache Nation.

The Hualapai Tribe, located predominantly along the western edge of the Grand Canyon, partnered with APS Energy Services to design and construct a solar hybrid project to provide power to the remote region (75 kW to 100 kW). Because the Hualapai Tribe is located off the grid, the energy generated from this project is the only source of electricity this community has. As a matter of fact, APS Energy Services enlisted the consulting services of APS to complete this project.

APS ES is also working with ASU and the cities of Flagstaff and Rohnert Park, Calif., on included solar as part of their comprehensive energy programs. A solar array producing 30 kW was mounted on ASU's parking structures. The Flagstaff installation is a 15-kW system mounted on a wall and covered entryway. Rohnert Park will install a 30-kW system on its sports center roof, scheduled to be coordinated with a roofing replacement.

Digester

APS Energy Services currently is engineering a unique fixed film digester plant for Classic Farms in Aurora, S.D. The farm received a grant from the USDA to construct a plant that will convert animal waste from a hog farm into biogas to run an electric generator that will serve farm operations, inclusive of water treatment. A rendering component also is part of the grant. APS Energy Services plans to bring the learnings from this project to Arizona to build the most cost-effective dairy farm biogas projects. Arizona has a hot climate and lots of cows, which make this optimal for such a solution.

In addition to these projects, APS Energy Services recently partnered with Sacred Power Corp., an American Indian-owned company based in Albuquerque, to install hybrid solar stations in 100 homes on the Navajo Nation in Arizona this past summer. This was made possible by a \$1.9 million grant the Cameron Navajo Chapter received from the U.S. Department of Agriculture (USDA).

PNW's Approach to Sustainability

Pinnacle West's largest subsidiary, APS, celebrated its 120th anniversary in April, 2006. Back in 1886, APS' first commercial customer was the City of Phoenix. Recently, the City of Phoenix presented APS with an award in recognition of APS' ongoing community service and support to the City. This type of ongoing service and collaboration with the communities we serve, to us, is the very definition of sustainability - working to meet our business needs each day while implementing strategies, business practices and policies that support a vibrant economy and a healthy environment and strong community for future generations.

We plan on building on our 120 years of service and providing exceptional, and sustainable, products and services to our customers far into the future. We don't consider sustainability a "program" or something to do on top of our regular business; rather it is an approach to planning and decision making that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and community developments.

Employing sustainable social, economic and environmental business practices is integral to the way we have done business in the past and how we will do business in the future. For many years, our family of companies have been operated under our corporate philosophy that we term "**Doing the Right Thing**," in a culture that supports and empowers employees to make decisions that make good business sense and which are also "the right thing" for our community, customers and stakeholders, as well as our environment. This simple, common-sense approach enables employees to provide a high level of customer service; to work in an ethical and honest manner and to become active in our communities through volunteerism, charitable donations and community and business leadership. It has also been the foundation that mandates that every employee be treated with dignity and respect.

We recognize, however, that while we have put a number of good, sustainable business practices in place, we need to continue to become more strategic in our sustainability efforts in order to most efficiently address all of our future risks and opportunities. Our new Eco-efficiency and Technology Innovation Department, discussed below, will help us do that.



New Eco-efficiency and Technology Innovation Department Formed

In 2006, Pinnacle West took a major step in improving our strategic approach through the creation of a new area called the Eco-efficiency and Technology Innovation Department. The department's charge is to help integrate sustainability initiatives throughout the enterprise and to better address the evolving expectations and opportunities of stakeholder groups and the general public. This department will help us to improve the strategic direction and planning of our initiatives, while allowing the company to better plan and respond to emerging issues, risks and opportunities. The department is headed by a Senior Manager, who is on direct report to the Vice President, Environmental, Health, Safety and Communication. The department does not have line authority over other PNW departments - it serves a planning, support and coordination role to other PNW Departments.

A cross-departmental team of key managers and leaders will work in tandem with the Eco-Efficiency and Technology Innovation Department to improve coordination among the company's various departments, establishing our sustainability baseline and evaluating new issues and opportunities in sustainable business practices, and helping ingrain those business practices and philosophies among our front-line employees. This team will also help develop and track sustainability performance, including appropriate metrics.

A policy group of company officers and outside experts will provide executive level oversight to this new sustainability effort. The working group will bring recommendations to the officer group for approval for new business strategies and practices in our sustainability program. The officers will interface with our Board of Directors on these sustainability issues. We believe this is an important step in our efforts to continuously improve in our sustainability efforts.

Arizona Businesses Advancing Sustainability

PNW also recognizes that if sustainable business practices are going to be successful, they must be the focus of the larger business community, not just for PNW. Therefore, along with Intel Corp., PNW founded a new association dedicated to improving economic, environmental and social business practices in Arizona.

The association is dedicated to improving economic, environmental and social business practices in Arizona. APS and Intel have invited more than 60 companies across Arizona to join in the association. All of the companies invited to participate either are headquartered in the state or have a major Arizona presence. Twenty companies attended the inaugural meeting in March 2007, and at the time of this report 30 companies have committed to participate in this alliance. This is a first-of-its-kind organization in Arizona.

The goal of ABAS is to discuss sustainable business practices and work collaboratively to improve business aspects in the state. And although the purpose of the association has been established, its targets and goals will be decided by the membership. Among the issues the association expects to discuss is how to work with government policy makers to improve the state's sustainability. The group also will look to build better relationships with the communities the companies serve while addressing environmental concerns.

Key Issues

A Sustainable Energy Future

Providing a reliable energy future that addresses environmental constraints is our key sustainability issue. And in that context, our rapid growth presents the central sustainability challenge and opportunity for our company in the coming decade and beyond.

Arizona is the fastest growing state in the nation and APS has been adding customers at three times the national average for electric utilities, with no signs of slowing. Each year, APS installs 40,000 new electric meters and serves an additional 100,000 customers — the equivalent of adding a medium-sized city to its service territory. The energy used by our customers is growing at about the same rate, as increases in home size, more appliances and other electrical equipment increases the amount of energy customers need, even with increasing efficiency and conservation efforts.

As shown in the chart to the right, we anticipate that both our electric demand and number of customers will about double over the next 20 years. This will require significant new power generation capacity as well as other infrastructure including transmission and distribution lines and substations. This tremendous growth poses quite a challenge as we work to ensure a sustainable energy future for our customers, balancing costs, rates, reliability, risks, environmental impacts and other issues. Many of these challenges, and our response, are discussed in this PNW Corporate Responsibility Report. Additional discussion on this issues is found in our PNW Annual Report and other reports found on our PNW Web page.

Pinnacle West believes that a sustainable energy future includes the following components:

- Providing cost-effective energy to our customers over the long term
- Effective fuel mix, including renewable energy, conventional fuels - used more efficiently (e.g. clean coal - IGCC, hydro gasification and natural gas), and nuclear power.
- Highly-efficient end users who incorporate energy efficiency and sound energy use into their daily lives
- An educated public
- Robust consumer choice
- Optimal use of resources to protect the environment and ensure sustainable fuel sources

While all of the sustainability issues discussed in this report are important to Pinnacle West, some areas have particular importance with respect to our key issue of balancing growth and the creation of a sustainable energy future. These issues are discussed in greater depth in our report, and include:

- Electric System Reliability
- Climate Change
- Renewable Energy
- Demand-Side Management
- Technology Innovation & Future Fuels (e.g. hydrogen, synthetic natural gas, biofuels)
- Customer Satisfaction

Stakeholder Engagement

Throughout the course of business, Pinnacle West and its affiliated companies interact with a wide variety of stakeholders. The company has numerous programs for engagement or consultation with our communities and other stakeholders, which cover the majority of our operations. These interactions are critical to our business success, and we make great effort to maintain communication and involvement with our stakeholders.

Our primary stakeholders include shareholders, who own our company; our employees, who manage and operate our company; and our customers. A number of other external stakeholders also share critical interactions with our companies.

A list of our major stakeholders includes:

- Customers
- Employees
- Investors and the investment community
- Municipalities and community organizations in our service territory
- Native American tribes
- Arizona, New Mexico and federal agencies
- The business community and partners
- Industry organizations
- Non-governmental organizations at the local, state and national level

Listed are examples of the numerous ways we interact with our various stakeholders on an on-going basis. Many more examples are provided throughout this report.

Customers

Pinnacle West interacts with customers in a variety of ways, including our 24-hour call center, customer surveys, focus groups, office visits, our Web sites, and through our active community outreach and volunteer programs. Our goal is to provide an on-going communication and link to our customers to ensure the highest possible customer service. This is discussed in more detail in the Customers section of this report.

From these interactions the company is also able to reward top performing individuals and teams. Company areas experiencing declines often seek additional research information in order to identify causes and develop action plans. Semi-annual customer satisfaction survey research helps Pinnacle West focus on departments that need improvement. Satisfaction results play a partial role in the annual performance assessment for most leaders and managers. Results are also used to determine a portion of APS' annual companywide incentive pay.



Throughout APS, customer input and feedback is sought prior to and following major initiatives and events (such as new bill designs, rate increases and major curtailment efforts) to help direct communications and assess the impact on overall customer satisfaction. Additionally, results from customer satisfaction research are used to identify and prioritize opportunities to improve, to support and assist in decision-making and allocating of customer service and related resources and to assess the success of major initiatives undertaken.

Employees

Pinnacle West produces a daily employee e-mail newsletter (called *Newsline*) and a monthly written publication (called *On*), to help keep employees informed on issues and news affecting the company and its employees. Other communications tools are also used to keep employees informed of important news and events affecting the company. Processes are also in place for employees to provide feedback to the company, anonymously if desired. These processes are discussed in further detail in other sections of this report, including Workplace Performance and Corporate Governance.

Our Community

APS works closely with municipalities, government agencies and the public to build consensus and to proactively plan transmission and distribution resources to accommodate the state's rapid customer and business growth. As part of the process, APS conducts environmen-

tal studies and extensive public outreach to identify sensitive areas with respect to the affected communities. This process is described in more detail in the Land Use and Biodiversity section of this report.

APS brings together various stakeholders in special Focus teams to obtain feedback on specific issues or programs, on an ad hoc basis. APS has also formed a stakeholder Demand-Side Management (DSM) Collaborative team which works with APS in the development of DSM portfolio projects.

We also have a formal corporate volunteer program that is an important part of our community outreach efforts. This effort is extensive and partners Pinnacle West with communities across our service territory on an ongoing basis.

Likewise, our small business development program, minority and women owned business development program, state-wide economic development program and other business and community outreach programs all provide formal and ongoing outreach to our communities.

A Community Advisory Panel (CAP) was formed in 1999 by Pinnacle West Energy prior to the construction of the Redhawk Power Plant. CAP members are composed of a broad range of local community interests. Typical members will include local residents, members of civic and homeowners organizations, environmental groups, education institutions, business associations and community leaders. The purpose of the group was to establish two-way communication to review issues of concern and to create a responsive, proactive partnership between the company and the surrounding communities where the plant was to be built.

In the building of Redhawk, the CAP was instrumental in the decision of the formation of the Community Funds (contributions are made annually by the company) and to return the unused portion of the Redhawk plant property to its natural state (previously used for farming).

After the construction of Redhawk (completed in 2002), the CAP continued meeting with Redhawk Power Plant representatives and requested that the Palo Verde Nuclear Generating Station be included in the meetings. Since that time, the group has had periodic meetings with representatives from both plants and covers a wide range of subjects that include:

- Identifying community concerns and issues regarding the power plants
- Providing operational issues at the plants that could affect members of the community
- Assisting APS in distributing information regarding the plants to the community

Organizations and other Stakeholders

The decommissioning of the Childs-Irving Hydroelectric Plants, and restoration of Fossil Creek to its native flow, was the product of a unique cooperative effort between APS, Native American tribes, government agencies, conservation groups and academia. This unprecedented restoration resulted in restoration of a perennial stream in the arid Southwest to a condition similar to that seen a century ago.

APS worked with four environmental interest groups involved in environmental issues in the western United States: Environmental Defense, the Grand Canyon Trust, Western Resource Advocates and the New Mexico Citizens for Clean Air and Water, on the issue of visibility in the western United States, and planned voluntary emission controls at the APS Cholla and Four Corners plants. Throughout this report we provide other examples of how we engage our stakeholders to work in a cooperative and mutually beneficial way.

Corporate Governance

Recent federal legislation, New York Stock Exchange (NYSE) proposals and Securities and Exchange Commission (SEC) pronouncements are changing the way many companies do business. Pinnacle West welcomes these changes, many of which affirm the practices we've had in place for many years. At Pinnacle West, we remain committed to sound corporate governance practices and financial integrity. Key corporate governance information is available to the public on our Web site. These discuss Board responsibilities, independence of board members, compensation, committee responsibilities and other key corporate governance issues at the Company:

Independent Directors

The Board of Directors consists of 11 directors, 9 of which are independent under the applicable criteria. See page 3 of the 2007 Proxy Statement under "Do we have independent directors" and "How did the Board make its independence determinations" for a discussion of the elements for independence and the determinations.

The Chairman of the Board of Directors is William J. Post. His biography appears on page 11 of the 2007 Proxy Statement. The Corporate Governance Committee has considered separating the Chairman and CEO roles but concluded that the Company is best served by a structure in which the CEO also serves as Chairman

Board Diversity

As of the end of 2006, two women and one minority serve on the company's 11-member Board of Directors

Director Qualification and Compensation

Director qualifications and compensation are discussed starting on page 5 and 16 of our 2007 Proxy Statement.

Mechanisms for shareholders and employees to provide recommendations or direction to the Board of Directors

Please see page 5 of the 2007 Proxy Statement, "Shareholder Nominations"; page 8 of the 2007 Proxy Statement, "How can Shareholders communicate with the Board"; and page 49, "How do we submit shareholder proposals or director nominations for the next Annual Meeting?"

Code of Conduct and Ethics

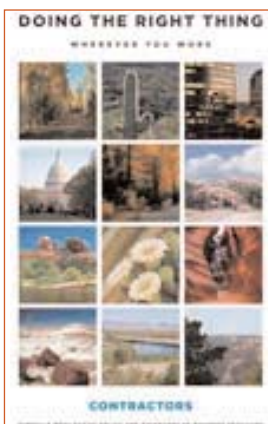
Pinnacle West has specific policies in place to ensure a high level of corporate conduct and ethics. These Pinnacle West Ethics Policies and Standards of Business Practices are summarized in an internal booklet called "Doing the Right Thing."

All Employees receive a copy of "Doing the Right Thing" when they join the company and are provided updates periodically throughout their employment. In addition, Pinnacle West makes the book available for viewing by our external stakeholders on our Web site (click on the link above to view).

All Company officers, Board Members, and employees (including full-time, part-time, supplementals, and interns) are required to take annual training on corporate conduct and ethics, and to pass an on-line test on that training.

Some key sections of the "Doing the Right Thing" booklet include:

- Corporate Ethics Policy (Page 5)
- Supplier/Contractor Relationships (Page 6)
- Giving & Accepting Gifts (Page 6)
- Conflict of Interest (Page 9)
- Reporting Violations of the Ethics Policy (Page 12)
- Employment (Page 14)
- Labor Management Relations/right to organize and collective bargain (Page 16)
- Health and Safety (Page 18)
- Environmental Protection (Page 20)
- Dealings with Public Officials (Page 27)
- Political Participation (Page 28)
- Antitrust (Page 29)
- Sarbanes-Oxley Act of 2002 (Page 31)
- ACC Code of Conduct (Page 34)
- FERC Codes and Standards of Conduct (Page 34)
- Compliance (Page 35)



In 2006, Pinnacle West created a new booklet called *Doing the Right Thing-Contractors*, which provides an abbreviated version of the booklet's content as it applies specifically to contractors. The pamphlet is distributed to key contractors in partnership with the company's contract labor vendors. Again, this is available for viewing by the public on our corporate Web site.

APS employees are encouraged to report any questions or concerns related to our Ethics and Standards of Business Practices to our Business Practices Department or the company's Help Line. The Help Line is administered by an outside third party that is set up to receive employee concerns and allegations, and is available 24 hours a day, seven days a week. Employees can report questions and concerns anonymously if desired. A quote from our internal Employee Concerns procedure to our employees clarifies:

"Concerns/allegations are reported either confidentially or anonymously. Confidentially means that those with a business need-to-know may be informed of the concerned individual's identity or the details of the allegation and investigation. Anonymously means that the concerned individual's identity is unknown because the concerned individual does not identify himself/herself at any time."

Public Affairs

Electricity is critical to our economy. We believe that the electricity dialogue is a key policy issue, and that shaping an effective public policy is crucial to building a reliable energy future. Every year it becomes more important to inform our community leaders and elected and appointed officials about the importance of electricity to jobs, growth and economic efficiency.

Our ethics policy, described in the *Doing the Right Thing* book above, describes how our employees and our company interact with public officials. PNW has a Government Affairs Department which takes the lead on PNW's interactions with State and Federal officials. In addition, Pinnacle West has a formal Political Action Committee (PAC) for employees of the company who elect to join the PAC. Pinnacle West maintains strict adherence to the laws governing campaign contributions and PACs.

Involvement with pesticides, GMOs, fur, alcohol, tobacco, firearms, nuclear weapons, military products, pornography or gambling products

We do not have any business involvement/revenues in these product areas

Military contracts and percentage of total revenue

Pinnacle West does not have any specific military related contracts. However, as a public service utility, we provide electric services to all customers within our service territory, including military facilities.

Affiliations and Memberships

Pinnacle West recognizes that participation in governmental and non-governmental organizations (NGO), and in industry and professional organizations can provide tremendous business advantages and help enhance our sustainability efforts. Many of our employees participate in professional and business associations related to every function of our business, including accounting, purchasing, environmental, health and safety, human resources, public relations, engineering and electrical trades. Our employees often take leadership roles in these organizations. Here are some of Pinnacle West's key affiliations and memberships:

Government and NGO Partnerships and Organizations

Coalition of Environmentally Responsible Economies (CERES)

Ceres is a national network of investors, environmental organizations and other public interest groups working with companies and investors to address sustainability challenges such as global climate change

EPA Coal Combustion Products Partnership (C²P²)

The Coal Combustion Products Partnership (C²P²) program is a cooperative effort between the U.S. Environmental Protection Agency, American Coal Ash Association, Utility Solid Waste Activities Group, U.S. Department of Energy, and U.S. Federal Highway Administration to help promote the beneficial use of Coal Combustion Products (CCPs) and the environmental benefits that result from their use.

EPA Climate Leaders

Climate Leaders is an Environmental Protection Agency (EPA) industry-government partnership that works with companies to develop long-term comprehensive climate change strategies. Partners set a corporate-wide greenhouse gas (GHG) reduction goal and inventory their emissions to measure progress. By reporting inventory data to the EPA, partners create a lasting record of their accomplishments. Partners also identify themselves as corporate environmental leaders and strategically position themselves as climate-change policy continues to unfold.

EPA SF₆ Emission Reduction Partnership

The SF₆ Emission Reduction Partnership for Electric Power Systems is a collaborative effort between the EPA and the electric power industry to identify and implement cost-effective solutions to reduce sulfur hexafluoride (SF₆) emissions.

EPA WasteWise

WasteWise is a voluntary EPA program through which organizations eliminate costly municipal solid waste and select industrial wastes, beneficially effecting their bottom line and the environment. WasteWise is a flexible program that allows partners to design their own waste-reduction programs tailored to their needs.

EPA/DOA EnergyStar Program

ENERGY STAR is a joint program of the U.S. Environmental Protection Agency and the U.S. Department of Energy helping consumers save money and protecting the environment through energy-efficient products and practices.

PowerTree Carbon Company

PowerTree Carbon Company LLC is an initiative sponsored by 25 U.S. power companies to plant trees in critical habitats in the Lower Mississippi River Valley in order to manage carbon dioxide levels. The projects will restore bottomland and hardwoods on marginal agricultural lands, create habitats for birds and other wildlife, and provide other environmental benefits including improved water and soil quality.

The National Wild Turkey Foundation (NWTf) Energy for Wildlife

The NWTf is a grassroots, non-profit organization with 545,000 members in 50 states, Canada, Mexico and 14 other foreign countries. It supports scientific wildlife management on public, private and corporate lands.

The Nature Conservancy

The Nature Conservancy is the leading conservation organization working to protect the most ecologically important lands and waters around the world for nature and people. The mission of The Nature Conservancy is to preserve the plants, animals and natural communities that represent the diversity of life on Earth by protecting the lands and waters they need to survive.

Industry Groups and Associations

American Council on Renewable Energy (ACORE)

The ACORE is focused on accelerating the adoption of renewable energy technologies into the mainstream of American society. ACORE promotes all renewable energy options for the production of electricity, hydrogen, fuels and end-use energy including, solar, wind, geothermal, hydro/ocean, waste energy and fuels, biomass and biofuels.

American Wind Energy Association (AWEA)

The AWEA is a national trade association that represents wind power plant developers, wind turbine manufacturers, utilities, consultants, insurers, financiers, researchers and others involved in the industry. AWEA provides up-to-date, accurate information about the domestic and international wind energy industry.

Arizona Solar Energy Association (ASEA)

The ASEA's mission is to educate the people of Arizona about solar energy, its applications and the benefits of utilizing solar technologies.

CEA Technologies Inc. (CEATI)

CEATI brings electrical utility industry professionals together, through focused interest groups and collaborative projects, to identify and address technical issues that are critical to their organizations.

Common Ground Alliance (CGA)

The Common Ground Alliance (CGA) is a member-driven association dedicated to ensuring public safety, environmental protection, and the integrity of services by promoting effective damage prevention practices.

Edison Electric Institute (EEI)

EEI is a trade association for U.S. shareholder-owned electric companies. EEI advocates equitable policies in legislative and regulatory arenas and provides advocacy, authoritative analysis and critical industry data to its members, Congress, government agencies, the financial community and other opinion-leader audiences. It provides forums for member company representatives to discuss issues and strategies to advance the industry and to ensure a competitive position in a changing marketplace.

Electric Power Research Institute (EPRI)

EPRI manages a broad public/private collaborative research program covering generation, environmental protection, power delivery, retail use and power markets on behalf of the electric utility industry, the industry's customers and society at large.

Institute of Nuclear Power Operations (INPO)

The nuclear electric utility industry created the Institute of Nuclear Power Operations (INPO) in 1979. INPO's mission is to promote the highest levels of safety and reliability - to promote excellence - in the operation of nuclear electric generating plants.

U.S. Green Building Council (USGBC)

The USGBC is the nation's foremost coalition of leaders from across the building industry working to promote buildings that are environmentally responsible, profitable and healthy places to live and work.

Utility Solid Waste Activities Group (USWAG)

USWAG is responsible for addressing solid and hazardous waste regulatory issues on behalf of the utility industry and supports a balanced and reasonable approach to waste management that helps ensure cost-effective protection to the environment. Scott Davis, APS EHS Director, is the current Chairman for USWAG.

Utility Water Activities Group (UWAG)

The UWAG deals with water-related regulatory issues of importance to electric utilities and supports a balanced and reasonable approach to water quality management that helps ensure cost-effective protection of the environment.

WEST Associates

WEST Associates is a group of 17 public and private electric utility companies that serve 15 million consumers in the rapidly growing 11 Western states and North Dakota. WEST Associates has played a constructive role on energy and environmental issues in the West since 1964. C.V. Mathai, APS Manager for Environmental Policy, was elected President of WEST Associates in 2006.

Western Business Roundtable (WBRT)

The WBRT is a non-profit business trade association comprised of CEOs and senior executives of organizations doing business in the Western United States. WBRT advocates economic development, environmental protection, regulatory reform, energy policy, public lands use, waste management and air and water quality.

2006 Awards and Recognitions

While we do not manage our EHS and sustainability efforts with a goal of winning awards, we do believe that awards and recognition of our efforts by external organizations are another way for our stakeholders to evaluate our performance.

In 2006, the company received the following external awards and recognitions of our corporate responsibility efforts:

- Pinnacle West was named one of the **Global 100 Most Sustainable Corporations** in the World by *Corporate Knights* at the 2006 World Economic Forum in Davos, Switzerland. Pinnacle West was also named to this list in 2005.
- Pinnacle West has the highest rating (AAA) and is **ranked in the top two of utilities** in the United States by Innovest Strategic Value Advisors in a comprehensive analysis on the U.S. Electric Power Sector covering the environmental, social and governance factors of the largest publicly-traded utility companies. PNW has received the AAA rating from Innovest each time since Innovest started evaluating the company in 2001
- Pinnacle West was listed in the 2006 Dow Jones North America Sustainability Index and the 2006 Dow Jones United States Sustainability Index as a **sustainability leader in the electric industry** indexes, for the second year in a row
- The Company earned “best in class” status in 2006 by Storebrand Socially Responsible Investment for its leading environmental and social performance
- The **2006 Climate Protection Award** was given to APS by the U.S. Environmental Protection Agency. This prestigious national award recognizes exceptional leadership, dedication and technical achievements in protecting the earth’s climate
- APS’ Redhawk Power Plants “Emission to Biofuels” project was awarded the **Emissions Energy Project of the Year for 2006** at the eighth annual Platts Global Energy Awards in New York. APS’ Saguaro Solar Power Plant was a finalist in the Global Energy Project of the Year category
- APS’ Saguaro Solar power plant was named **Energy Project of the Year for 2006** by the Association of Energy Engineers (AEE), and was also named one of the top 12 power plants in the world by Power Magazine
- The **2006 Freedom to Compete award** was given to APS by the U.S. Equal Opportunity Commission in recognition of excellence in equal-employment opportunity practices that promote access and inclusion and which can be emulated by other employers or organizations
- APS was identified as a **2006 National Industry Liaison Group “Best Practices Winner”**
- APS was awarded the **Spirit of Caring award** by the United Way in recognition of the company’s culture of giving, volunteerism and philanthropy
- APS was awarded the **first American Corporate Leadership Award** by the National Center for American Indian Enterprise Development for its leadership on behalf of Native American businesses and economic development with Native American communities
- **2006 Economic Engines of Arizona award** from the Arizona Business Magazine for its economic development efforts across the state of Arizona
- APS was awarded the **2006 Community Sustainer Award** by The Volunteer Center and the *Business Journal* in recognition of outstanding corporate citizenship demonstrated by the scope and effect of a company’s employee volunteer program
- Pinnacle West received the **2006 Outstanding Investor Relations Web site** by the Web Marketing Association
- The Education Foundation of Yuma County inducted APS in 2006 to its **Hall of Fame** in recognition of APS’ long history of support to education within Yuma County
- APS was awarded the **2006 Governor’s Heritage Preservation Award** by the Arizona Preservation Foundation and Arizona State Preservation Office for its efforts related to the Childs and Irving hydroelectric plants
- **Tree Line USA Award** for APS by the Arizona Community Tree Council in recognition of APS’ leadership in urban forestry and environmental stewardship
- Bill Post, Pinnacle West Chairman, was awarded **Valley Leadership’s 2006 Man of the Year**, an award which recognizes one man and woman who have demonstrated significant visionary leadership and community service in the Valley of the Sun (Metro Phoenix area)
- Art Othon, Pinnacle West Director of Economic/Community Development was awarded the **2006 Golden Heart award** by the City of Phoenix. The award is presented each year to recognize an individual who has given a lifetime of community investment
- Marty Schultz, Pinnacle West Vice President of Government Affairs, was awarded the **Tree of Life Award** by the Jewish National Fund. This award recognizes an individual for his outstanding service and commitment to his community
- Donna Phipps, APS Community Development, was awarded the **2006 Community Service Award** by the National Association for the Advancement of Colored People (NAACP)