



PINNACLE WEST
CAPITAL CORPORATION

2006 Corporate Responsibility Report

*sustainability
is not just a word
it is a mindset
a culture
a call to action*



Pinnacle West Capital Corporation



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introduction

BEST IN CLASS
environmental and
social performance
STOREBRAND SRI



Welcome to the 2006 Pinnacle West Capital Corporation Corporate Responsibility Report.

This report aims to transparently communicate our corporation's environmental, health, safety and sustainability goals and performance. We have issued an environmental, health and safety annual report every year since 1994, which we expanded to a Corporate Responsibility Report in 2004.

In developing this report, we have used international reporting guidelines from CERES and the Global Reporting Initiative. Additionally, in some instances we have gone beyond these guidelines to provide information our external stakeholders, such as socially responsible investment research groups, have asked us to include.

We continue to use a Web-based format for this report, which allows readers to quickly navigate to areas of interest, and also offers links to additional information. Many of these links are to other resources outside of the Corporate Responsibility Report, such as our PNW and subsidiary websites. This allows the reader to research additional information on these topics, if desired, while keeping the report format more readable.

This Web-based format also allows us to reduce our report's environmental impact by reducing the amount of paper, ink, electricity and other resources needed to create a full-color, printed report.

We believe that continuous improvement is important in a sustainability program, and we value our stakeholders input into our efforts. We have included a feedback mechanism in this year's report so readers can post suggestions and comments via a feedback link on the left-hand navigational menu. We appreciate any feedback we can use to make our report better, and as our way of saying thanks, we will send all respondents an Energy Star® approved energy-efficient compact fluorescent lightbulb (CFL).

The promotion of CFLs is one of our demand-side management programs and something we feel will help consumers save money while significantly reducing electricity use and the number of light bulbs going to landfills.

Since the inception of APS' CFL program in late 2005, almost two million CFLs have been sold at reduced pricing throughout the state. Those sales also mean estimated energy savings of more than 500 million kilowatt-hours – enough energy to power over 40,000 homes for one year and save consumers about \$50 million in energy costs over the life of the bulbs.

This report provides information on Pinnacle West Capital Corporation and our major subsidiaries, Arizona Public Service Company (APS) and SunCor Development Company. We also provide information on our retail subsidiary, APS Energy Services.

Since our most significant environmental issues are associated with Pinnacle West's largest subsidiary, APS, the Environmental Performance section of this report focuses on APS' environmental performance. Information on the company's other subsidiaries can be found in our Subsidiaries Section.

On behalf of our more than 6,000 employees and our community partners, thank you for your interest in our 2006 Pinnacle West Capital Corporation Corporate Responsibility Report.

Executive Message

For Pinnacle West and its family of companies, sustainability is a decision-making process that requires us to address current needs always in the context of how the decision can support long-term economic vitality, environmental health and strong communities. It is not an end-state to be achieved and victory declared; but rather, it is a continuous-improvement practice that chal-

lenges us to be successful today in ways that establish the foundation for a better tomorrow.

The challenge for Pinnacle West and its electric utility subsidiary, APS, is multiplied by the rapid growth in Arizona. With a population growth three times the national average and electricity consumption four times the national average, the challenge of making decisions that meet the reliability and affordability expectation of our community is made increasingly difficult by the potential environmental impacts of those decisions. But we are working to meet that challenge head on and measure our success by the results.

For example:

- Our voluntary emissions-reductions program is designed to reduce both our regulatory risk and achieve environmental benefits. The outcome will be an increase from 72 to 88 percent in the control level for sulfur dioxide emissions and an agreement with regulators and the business certainty that these low cost generators will meet forthcoming standards.
- The voluntary decommissioning of the Childs and Irving Hydroelectric Power Plants, which will restore historic Fossil Creek to a pristine natural condition has clear benefits for biodiversity and the environment.
- The APS Solar Test and Research (STAR) Center which was built more than 30 years ago to facilitate the development of solar power and other renewable technologies. Not only is it a showcase for our work in renewables, but it has provided hands-on experience on how to reliably integrate these technologies into our operations and provided the basis for new intellectual property that create new revenue opportunities for the company.
- Our financial need for a rate increase in 2006 clearly presented potential financial impact on our low-income customers. Accordingly, the plan to implement the increase included a robust outreach program to these customers to help raise awareness and increase participation in our energy assistance (E-3) programs, where low-income customers receive a discount on their electricity bills. These efforts resulted in an increase of approximately 32 percent of customers enrolled in the E-3 program, including a 135-percent increase for customers living on Tribal lands.

Throughout this report there are other examples of the integrated decision making that reflects APS' commitment to sustainability. And, while it's not about accolades, we are proud that our efforts have received the following recognition:

- APS and its partner, GreenFuel Technologies, recently shared the Emissions Energy Project of the Year Award for our work using emissions (including CO₂) from one of our natural gas combined-cycle power plants to grow algae and converting the algae into biodiesel and ethanol.
- The Environmental Protection Agency and the Department of Energy named APS its 2007 ENERGY STAR Partner of the Year for its promotion of compact fluorescent lights (CFLs).
- In 2006, Pinnacle West was once again named one of the Global 100 Most Sustainable Corporations in the World by Corporate Knights.

- Pinnacle West has received the highest rating (AAA) 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.
- APS received the 2006 Climate Protection Award given to the company by the U.S. Environmental Protection Agency. This award recognizes exceptional leadership, dedication and technical achievements in protecting the earth's climate.

But awards are not a prediction of future success. Our focus is on new opportunities, and to maintain our forward momentum we have:

Created a new Eco-Efficiency and Technology Innovation Department to integrate and drive sustainability practices throughout the enterprise.

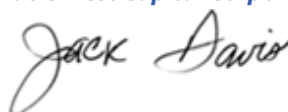
- Established a company goal to generate 15 percent of our energy sales from renewable resources by 2020 - five years sooner than required by the Arizona Corporation Commission's Renewable Energy Standard.
- Formed a consortium, including BHP and Liquid Air, with a Department of Energy grant to commercialize the "hydrogasification" of coal. This is the gasification of coal in the presence of hydrogen to make methane for use in power plants.
- With Intel Corp. founded Arizona Businesses Advancing Sustainability, an association dedicated to improving and promoting sustainable business practices in Arizona. Thirty companies have committed to participate in this first-of-its-kind organization in Arizona.
- Our goal: meeting the reliable affordable energy needs of our customers while building the foundation for a better tomorrow.

A better tomorrow starts today, and we hope that this report gives you a better understanding of our commitment to that future and its new generations.

Thank you for your interest in our company and this report.



Jack E. Davis
President
Pinnacle West Capital Corporation



Edward Z. Fox
Vice President, EHS
Arizona Public Service

