

# Introduction

## Welcome to the 2007 Pinnacle West Capital Corporation (Pinnacle West) Corporate Responsibility Report

Engaging our stakeholders is vital to the long term success of our company and fundamental to that engagement is transparency in our performance. We have produced an annual environmental, health and safety report each year since 1994 and the report was expanded to a Corporate Responsibility Report in 2004. We have had more than 75,000 visits to the online version of our 2006 Pinnacle West Corporate Responsibility Report.

In developing this report, we used international reporting guidelines from Ceres and the Global Reporting Initiative (GRI). The GRI Content section offers links to data in our report that corresponds to GRI indicators. 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. While this results in a somewhat lengthy report, we believe this level of detail allows our stakeholders to more fully understand and evaluate our sustainability goals and progress. This on-line report is written as a "point in time" report for end of year 2007, and is not updated on an ongoing basis.

Pinnacle West believes this Corporate Responsibility Report is written in accordance with Application level B of the Global Reporting Initiative.

The Subsidiaries Section of this report, available on the on-line version, provides information on Pinnacle West Capital Corporation and its 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 focus on APS' environmental performance.

External assurance has not been conducted on this report, due primarily to budgetary reasons. It is the company's intent to conduct external assurance starting with the 2008 report. We participate in the Ceres report review process as described below. Internal assurance includes the use of the Enablon electronic corporate responsibility reporting system to manage data, and internal review.

## Improving sustainability reporting — working with 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. Ceres mission is to integrate sustainability into capital markets for the health of the planet and its people.



Under Ceres review, APS has issued an annual EHS report since 1994, which evolved to a Corporate Responsibility Report in 2004. The Ceres stakeholder review process allows Pinnacle West to interact with a number of stakeholders from across the nation, including environmental organizations, investment companies, other businesses and Ceres professionals, to obtain their review and input into the content and organization of our report. Each year we receive detailed comments and recommendations from the Ceres review on our draft report, which allows us to continue to improve our report and meet evolving stakeholder expectations.

## '07 SIGNIFICANT CHANGES

In 2007, the company made important changes to its sustainability efforts including the following:

The company implemented a new sustainability governance structure, which is discussed in the Approach section of this report.

Pinnacle West created a new executive level position of Vice President/Chief Sustainability Officer, which was filled by Edward Z. Fox.

APS' focus on the customers also included the establishment in 2007 of a new executive position of Vice President/Chief Customer Officer, which was filled by Tammy McLeod.

A new department, Eco-Efficiency & Technology Innovation, was created to help manage and coordinate our various sustainability initiatives across the enterprise.

Our internal Sustainability Working Group completed a comprehensive sustainability benchmarking study, and then conducted a complete review and evaluation of all sustainability related metrics in the company. Based on this review, our sustainability baseline was established and several new key sustainability goals and associated metrics were formulated and are currently in review with our officer Sustainability Policy group.

APS was one of the first companies in the nation to join The Climate Registry in 2007 as a founding member. We will be voluntarily reporting our GHG emissions to The Climate Registry starting with the 2008 report.

In 2007, APS and GreenFuel Technologies were the first to convert power plant emissions grown algae into commercial grade biodiesel and ethanol which can be used for fuel. This is an example of the success of our technology innovation efforts discussed in the Eco-Efficiency section of this report.

We continued to increase our renewable power resources, tripling the amount of renewable energy utilized in 2007 over our 2006 numbers, and announcing plans to build one of the world's largest solar power plants. When completed in 2011, the Solana Generating Station will give APS more solar energy per customer than any other utility nationwide.

New "green" rates were offered in 2007, allowing customers to purchase up to 100 percent of their power from renewable energy.

A new business coalition, Arizona Business Advancing Sustainability (AzBAS), was co-founded by APS and Intel to promote sustainable business practices in Arizona. Currently AzBAS is represented by more than 30 member companies statewide.

The company increased its annual expenditures in its Demand Side Management program to 18.5 million in 2007.