

Community and Customers

INVESTING IN THE COMMUNITY

At Pinnacle West we see our role in the community as that of a partner. Throughout our long history of serving Arizona, we have always worked hard to find opportunities to build healthy communities, to strengthen the economy and help maintain a healthy environment. We regard these areas as highly as any other aspects of our business.

We have a strong commitment to community leadership and volunteerism, corporate sponsorship, economic development and environmental stewardship, which we believe are essential components of a successful and sustainable utility today and in the future.

The power of collaboration is at the core of everything we do. We enjoy partnerships with many key organizations throughout the state — organizations that make a difference in the lives of our neighbors. We believe our community benefits from working together towards a common goal, and we are ready to do our part as we join our partners in building a better tomorrow. It is on that commitment to excellence that we plan for the future.

We realize our role in the community is more than just an energy provider or real estate developer. At Pinnacle West we believe making an investment in the communities we serve is the blueprint that will allow both our company and the greater community to prosper.

"Your heartfelt historic and ongoing dedication benefits all our residents and the environment we share. Thank you for living up to your corporate name."

Phil Gordon, Mayor of Phoenix, while presenting a "Friend of Phoenix" award to APS in early 2008

We embrace the role of collaborator and partner with the communities we live in and serve — not only because it is the right thing to do — but because we realize that the strength of our company parallels the strength our state, its economy, its communities and its residents.

From our programs for supporting children and education; to our commitment to helping small and minority-owned businesses; to our patronage of the arts and culture; to our encouragement of economic development, APS sees itself as an active participant in the continued well-being of our entire state.

But while our various programs are the vehicles we use to give back, our dedication to the community is showcased best through the sweat equity of employees who represent our company each day. Our employees serve on the boards of some of the most important organizations in the state and spend thousands of hours volunteering at events and on organizations that make an impact on the lives of many of our neighbors.

Each year, our employees distinguish themselves and our company through their support of the United Way and other charitable organizations. Each year our employees and corporation donated millions of dollars in community support; dollars that are channeled directly into the hands of social service organizations that are making a difference each day.

We will always consider community involvement an integral part of our company's culture and place it at the head of our sustainability efforts.

COMMUNITY SUPPORT

Pinnacle West and its family of companies share a partnership with the communities they serve. Community involvement is an integral part of our company's culture and we encourage each employee, from the newly-hired to our officers, to actively participate in community events and issues. From corporate giving to volunteering to public safety programs, the company participates in the community on many levels. As you'll see in this section, the company is proud to be a good neighbor and partner and is inextricably tied to the health and vitality of this state and its communities.

CHARITABLE GIVING

APS Volunteer Matching Gifts Program

One only need look at projects like the APS Volunteer Matching Gifts program as a benchmark of the company's spirit of giving. The APS Volunteer Matching Gifts program encourages and recognizes the generosity of employees, retirees and company board members who volunteer their time and talents to educational, cultural, environmental, health and human services and community-development organizations dedicated to enhancing our quality of life.

In 2007, the Volunteer Matching Gifts program contributed \$8,500 for non-profit organizations in addition to the hundreds of volunteer hours put in by employees. The program provides \$125 grants to qualified non-profit agencies getting at least 25 volunteer hours from APS employees. It also matches any financial gift from an employee to a qualified non-profit organization by providing 50 cents to every employee dollar, up to \$1,000. In 2007, the financial matching gift program contributed over \$15,000 to qualified non-profit organizations.

Charitable Giving

Through its Corporate Giving program, the company cherishes a leadership position in corporate citizenship in Arizona. We support non-profit organizations with a 501(c)(3) Internal Revenue Service tax exempt status through cash and/or in kind services. We support our communities in five strategic areas: health and human services, community development, education, arts and culture and the environment.

APS Corporate Giving does not fund individual requests, charter or private schools, religious, political, fraternal, legislative or lobbying efforts or organizations, travel related or hotel expenses, private or family foundations, private non-profit organizations, salaries and/or debt reduction. APS prefers to give directly to recipient organizations/agencies.

2007 Community Giving	
Arts & Culture	\$ 600,973.50
Civic & Community	\$ 1,833,702.46
Education	\$ 386,241.37
Environment	\$ 23,150.00
Health	\$ 221,370.09
Human Services	\$ 1,583,322.86
	\$ 4,648,760.28
2007 APS Foundation Giving	\$ 2,041,750.00
<hr/>	
2007 Total Giving	\$ 6,690,510.28

**Total includes APS and SunCor charitable giving, but does not include in-kind giving or volunteer hours. The above cash donations are from the company and do not include any donations made by our employees.*

PNW reported a net income of \$307 million in 2007. Therefore the percentage of net income donated to charity is approximately 2.2%, compared to 1.95% in 2006.

United Way

Our employees are routinely recognized through our Community Services Fund campaign as the top corporate contributor to the Valley of the Sun United Way as well as other United Way chapters in Arizona and the San Juan United Way in New Mexico. For the 2006-2007 campaign, employees pledged \$2.7 million and with the APS company match, total pledges exceed \$4 million.

In-Kind Giving

In addition to cash donations and employee volunteerism, Pinnacle West provides a high level of support to community organizations through in-kind giving, especially printing services.

VOLUNTEERISM

Reaching Out: Our Employees in the Community

Each year, our employees dedicate thousands of hours to charitable causes and organizations. While not part of their jobs, volunteering is at the core of our company's culture and is just one way our employees give back to the communities in which they live and work. We are committed to being part of the fabric of our state, and that commitment will never waver.

In the past year APS employees, friends and families have walked, climbed, bowled and cleaned all in the name of charity. They've been waiters and elves as well as philanthropists assisting their fellow humans.

"Every charitable event and project APS employees and their families show up en masse. It's a testament to something that's so intrinsic to our company. It's hard to put into words, but our people truly are Team APS," said Maria Maskell, volunteer coordinator. "Our employees do so much good charitable work, the company goal is to acknowledge and honor each of them."

One such group of employees, better known as the APS Clown Troupe, has brought laughter and smiles to Arizona events for the past 19 years. The troupe has logged more than 40,000 hours of performances. While the clowns give first priority for their performances to organizations involving children, the elderly, disabled and disadvantaged, they also perform in nearly every community parade in Arizona and northern New Mexico including the Fiesta Bowl Parade, APS Fiesta of Lights and Parada del Sol.

The APS Volunteer Program is active in the more than 200 cities and towns in Arizona served by APS as well as northwestern New Mexico, where APS is a major employer. All it takes for a community, school or other nonprofit organization to benefit from the APS Volunteer Program is the presence of a single employee or retiree who wants to contribute his or her time and talents to help others.

Points of Light Foundation Finalist

In 2007, the APS Volunteer Program was named a finalist by the Points of Light Foundation for its Award for Excellence in Workplace Volunteer Programs. The recognition honors the more than 130,000 hours of volunteer time donated by employees to more than 400 charitable, cultural and educational organizations and programs throughout Arizona and New Mexico.

Here's a partial list of the many projects and hours invested by APS volunteers. In many instances, these charitable projects span more than a decade, bringing annual support to nonprofits. And frequently, APS volunteers are leaders setting the course for these events. But the list, which isn't comprehensive, doesn't begin to describe the hard work of our volunteers:

- **American Cancer Society** – In February 2007, over 400 APS employees, friends and family members participated in the Climb to Conquer Cancer at Phoenix's South Mountain Park. In August, nearly 50 APS employees, friends and family members made the 7-mile trek up the Arizona Snowbowl near Flagstaff. Through these events, participants raised more than \$30,000 for the American Cancer Society. APS has participated for more than 20 years.
- **American Diabetes Association** – APS volunteers have been instrumental in the planning and implementation of the ADA's key fundraising events – Step Out to Fight Diabetes, Tour de Cure and Team Diabetes. The Power Peddlers, APS' bicycle team help plan and participate in the Tour de Cure, and other APS employees served on planning committees. Team APS has contributed more than \$25,000 in donations and in-kind services during 2007.
- **American Heart Association** – in 2007, more than 25 Team APS members participated in the Heart Walk, collecting nearly \$11,000. These funds supported research, education and community outreach by the AHA.
- **Arizona Trail Association** – APS volunteers created a piece of Arizona that will be enjoyed for year to come when they constructed a new section of the Arizona Trail near Superior in February 2007. Twenty-two APS employees, friends and family members made the three-mile hike to the work site and worked together to move rock and brush, dig the trail, build the edge and brush the trail. The Arizona Trail is an 800-mile non-motorized border-to-border route between Mexico and Utah.
- **Back-to-School Clothing Drive Association** – APS volunteers impacted the lives of nearly 5,000 low-income children through this organization by distributing clothes, shoes and a back-pack filled with



personal hygiene items. APS has participated for more than 10 years, and APS employees serve on the board.

- **Day for Downtown** – APS volunteers joined a city-wide effort to beautify downtown Phoenix producing 3,600 community service hours to 33 non-profit organizations and schools. APS employees partnered with Booker T. Washington Child Development Center for a Literacy Project. Booker T. Washington is a comprehensive Head Start program for 192 pre-school children from low income families. Total value of sponsorships, in-kinds donations and service to the community through A Day for Downtown equals \$169,072.

- **Hunger and Homelessness** – APS Volunteers hosted a summer and a holiday food drive and collected a total of more than \$6,000 and 1,300 cans. During November many employees and their families volunteered at a local food bank or for an organization that supported homelessness issues. During National Hunger and Homelessness Awareness Week (Nov. 11-17), an APS employee spent 24 hours at Phoenix area homeless facilities as part of a unique Homeless Immersion Experience organized by the Maricopa Association of Governments Continuum of Care Regional Committee on Homelessness.
- **Junior Achievement** – APS volunteers are directly involved in the education process by being in the classroom and teaching students about topics such as entrepreneurship, personal finance, career exploration and economics.
- Volunteers also participated in the **Hula Bowl**, an annual bowl-a-thon, in which APS employees raised \$7,400 in 2007 to send over 200 Arizona children to Junior Achievement, a non-profit economic education program.
- **Ronald McDonald House** – For years, APS volunteers have cooked meals for the resident families at Ronald McDonald House. For families with children in the hospital, this is just one way APS Volunteers can make their lives a little less stressful. By providing dinner to the families three times a month, APS Volunteers are helping to feed over 3,000 families per year.
- **The Salvation Army** – volunteers provided donated items, supported holiday activities such as the Turkey Drive and Christmas Angel project and provided bell ringers. APS employees also serve on the board.
- **Santa Letters** – Close to 100 APS volunteers, also known as Santa’s elves, answered nearly 800 letters over the holiday season from boys and girls of all ages.
- **Special Olympics** – In 2007, about 50 APS Volunteers helped to coordinate the Special Olympics Indoor Athletics for over 75 special athletes. APS volunteers have participated in this event for more than 20 years, and employees serve on the board.
- **St. Joseph the Worker** – During the hot Arizona summer, APS Volunteers hosted a bottled water drive to collect funds and water to assist the homeless survive the summer heat. Monies raised and water donated went to St. Joseph the Worker, a nonprofit organization that assists homeless, low-income and other disadvantaged individuals in their efforts to become self-sufficient through permanent, full-time employment. The generous employees of APS collected nearly enough to provide three full weeks of water, hydrating approximately 300 people per day.

CORPORATE CITIZENSHIP

Pinnacle West plays an important role as a community leader in our service territories. These activities strengthen our communities and build important relationships with our stakeholders.

Pinnacle West enjoys a tradition of supporting employees who hold elected office in their communities and who serve on the boards of non-profit organizations across the state. We have a high number of employees who serve their communities in these activities, and in many other community boards, commissions and organizations.

Company representatives work to strengthen business alliances throughout the Phoenix metropolitan area, including membership in the Greater Phoenix Economic Council (GPEC), Greater Phoenix Leadership (GPL),

WESTMARC and the East Valley Partnership. In addition, APS is involved in the Valley Business Council, which consists of representatives from all the Phoenix-area chambers of commerce.

The Pinnacle West Government and Federal Affairs department gives APS and Pinnacle West a voice in the law-making process at all levels. The Government Affairs staff over the years has played an important role in a number of issues that have paid and will continue to provide substantial benefits to Arizona. These include a number of critical sustainability issues on our community such as transportation, environment, education and energy. For more information on our public affairs activities, please read our 2007 Public Affairs Report.

Pinnacle West is also active in alliances with governors, legislative leaders, trade groups and associations in the West, which focus on western-specific issues. Examples include West Connect, West Associates, Western Business Roundtable and the Western Regional Air Partnership.

The company also funds and supports civic organizations and sponsors events in a number of areas, including the arts and culture, community and economic development, education, the environment, and health and human services. These are discussed in the Charitable Giving section of this report.

CUSTOMERS

Customer Satisfaction

At APS we know customers play a key role in determining our success. Because APS places customer focus and customer satisfaction at the core of all we do, we continue to earn high marks from our customers. In the 2007 J. D. Power and Associates Business Customer surveys, APS ranked ninth among 55 utilities surveyed nationwide. In the western region residential survey, we were rated the second highest investor-owned utility overall.



We go to some exceptional lengths to provide great customer service to our customers, including service outside the "normal" course of business, such as the outdoor lighting story.

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

For the last 10 years, customer satisfaction surveys among all APS customers help to focus the company on serving customers well. Results have driven innovation, progress and performance at every level.

Additionally, the company conducts surveys among its residential and business customers who recently made a transaction through the company's call center, in a business office, or online at aps.com. This ongoing customer satisfaction research is used to assess and continuously improve customers' experiences with APS. For example, systematic customer-centric enhancements to our Web site have culminated in recognition by E-Source as one of the top websites in North America. In 2007 aps.com was ranked 6th among 111 utilities.

Customer service is an area of emphasis in our 2005-2010 APS Business Plan, which states:

"We will strengthen our relationships with our customers by providing continued excellent service and responsive products and services. These efforts will allow us to evolve beyond customer satisfaction to true customer loyalty. Customer loyalty becomes critical especially in light of our high growth, when customers must act as references for activities such as franchise elections, rate cases, and substation and line sitings. Satisfied customers are pleased with the service we provide them; loyal customers are willing to make a personal investment in APS by supporting our efforts

The Challenge: Our customer base continues to grow at a rate three times the national average. This growth, coupled with ever greater customer expectations, increases the demand on each employee to create sustained value by providing safe, reliable, fairly priced energy; friendly and knowledgeable service; and community involvement. We will measure our progress through customer satisfaction tracking surveys. The rapid growth within our service territory provides both opportunities and challenges"

An important part of a sustainable energy future is an educated public. APS provides a variety of information and support services to help our customers become better informed users of electricity. Much of this in-

formation is available to the public on our APS Web site, including the below links:

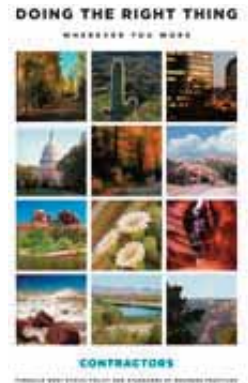
- APS Green Choice Programs
- Online Rate Comparison
- Residential and Business Energy Survey
- Online Account Management
- Ways to Save
- Using Energy Wisely
- Home Energy Test
- Energy Use History
- Low Income Assistance
- Safety tips

SUPPLIERS

Supplier Code of Conduct

Pinnacle West communicates our expectations of our contractors with regard to our Ethics Program and Standards of Business Practices in our pamphlet "Doing the Right Thing-Contractors,".

One section of the pamphlet states that our contractors are responsible to help protect the environment by complying with all company environmental rules and practices, as well as all federal, state, county and municipal environmental laws and regulations. The pamphlet is distributed to key contractors in partnership with the company's contract labor vendors. This pamphlet is available for viewing by the public on our corporate Web site (click on the link above).



Contractor Safety Program

Pinnacle West also employs a contractor safety program which communicates the minimal requirements we expect of our contractors in terms of environmental compliance and employee safety. This program is available to the public online.

Pinnacle West Supplier Diversity Program

Supplier Diversity is a significant part of APS' business strategy locally, regionally and globally. As a major purchaser of goods and services, APS has a significant opportunity to facilitate diverse business growth and to strengthen the state and local economies in all our customer service areas. APS' success depends on our ability to understand our diverse consumers' needs and to work effectively with customers and suppliers.

We have a strong commitment towards supporting the development of Minority and Women Owned Business Enterprises (MWBE). This includes educating and informing APS employees with purchasing authority, setting specific MWBE targets, and providing mentoring and other assistance to MWBE suppliers. While every department has responsibility to help meet our MWBE goals, we have also established an internal department, the Supplier Diversity & Development (SDD) Team, which is committed to facilitating and expanding competitive business opportunities with Minority, Women, Veteran, Service-Disabled Veterans and HUB Zone Enterprises primarily in Arizona and the Southwest.

Our efforts are driven by the diversity of the communities, in which we live and serve. We work with these diverse suppliers to provide greater value, innovative thinking and improve the availability of competitive goods and services to Pinnacle West. Our success is attributed to strategic relationships built on direct, honest and equitable communications.

2007 Pinnacle West MWBE Targets and Results

Pinnacle West set aggressive MWBE spending targets in 2007 of \$44 million minimum and \$48 million as stretch target. Pinnacle West exceeded both of those targets in 2007, with a total of \$54.9 million spending in with MWBE suppliers. Pinnacle West's MWBE program is a major driver for MWBE business development in Arizona

Vendor Audits

Pinnacle West and APS perform audits of all vendors that provide waste disposal or recycling activities and

services to company facilities. This is discussed in the vendor audits of the Waste section of this report.

Taking AAAME at Small Business

The APS Academy for the Advancement of Small, Minority and Women Owned Enterprises (AAAME) is a two-year business mentoring program designed, sponsored and administered by Arizona Public Service. AAAME CEO's meet twice a month as a group, once a month with their assigned advisors and once a month with the AAAME Director. Since 1997, 116 small businesses in the Phoenix metropolitan area have attended business training classes, built networks, developed resources and met with individual advisors all geared toward assisting them in reaching their next level of business success.

This focused and integrated mentoring has resulted in 80 AAAME graduates, with 30 companies currently in some phase of the AAAME process. All of these businesses have gained knowledge, support, insight, resources and skills that have allowed them to succeed and thrive in their chosen business. Many of the AAAME companies have increased their revenues and net profits, increased their workforce, strengthened their market position and increased their business space which adds to the economic impact to the area. In addition, several AAAME companies have been recognized for their achievements through various award programs.

The AAAME program combines the following elements:

- It is a two-year commitment.
- There is no cost to the AAAME participant.
- It utilizes the resources of several community based organizations as well as individuals who contribute to small business.
- It is a combination of classroom training, group projects and individualized company action plans and meetings.
- It is a personalized approach towards mentoring which holds the business owner accountable for his or her own success.
- There is a continual assessment of the AAAME participant's implementation of the program elements as it relates to the two year business targets.
- It is peer-to-peer mentoring via the CEO twice a month meetings.

While these factors are unique and valued in the community, AAAME is really about the successful implementation of solid business practices, utilizing a wide variety of delivery methods and the continual assessment of each AAAME participant's progress in the program.

PUBLIC SAFETY

Safety is our number one priority and we carry that commitment to safety into the community. To that end, we staff a Public Safety department to ensure the public is safe and informed about any possible dangers of electricity.

Both our Customer Service and Public Safety departments work to ensure our customers have access to accurate information on the proper use and handling of electricity. In an effort to educate and protect children, our Public Safety employees target students throughout Arizona through an outreach program aimed at safety and awareness. The department also has reached hundreds of maintenance workers, city employees, firefighters and arborists with targeted electrical safety presentations.



The Energy Delivery organization maintains three electrical safety trailers that provide live demonstrations of the potential danger of electrical conductors and the dramatic impact of electrical current on living tissue to audiences across Arizona..

Emergency Response

At Pinnacle West and APS, we train our employees and continually improve and test our systems in order to be ready for emergencies.

APS employs and trains fire and emergency response teams at the Palo Verde Nuclear Generating Station plant and the Four Corners and Cholla coal plants. Emergency response plans at each facility detail the roles of APS employees in responding to emergencies. We actively participate in local emergency planning committees and provide emergency planning and on-site chemical storage and hazard information to state and local agencies through SARA (Superfund Reauthorization Act of 1986) Tier I and Tier II reports.

The Palo Verde Nuclear Generating Station annually provides neighbors with information on plant operations, emergency planning zone maps, emergency classifications, important telephone numbers, procedures, locations of care centers and suggested protective actions. Palo Verde also conducts joint emergency planning drills with local, state and federal emergency response agencies at least twice per year.

The APS Energy Delivery and Sales division also maintains an emergency response plan that helps the organization quickly respond to disasters, both natural and man-made. Periodic reviews and drills help the division improve its emergency response procedures for use during potentially dangerous emergency outages.

PNW and APS also cooperate with local fire and police departments, and state and federal emergency response agencies in homeland security planning, and participates in periodic drills with various agencies, particularly with respect to electric utility system security issues.

APS also routinely shares intelligence reports with the Arizona Counter Terrorism Information Center (ACTIC) and has an ongoing relationship with the Department of Homeland Security in securing our Critical Infrastructure.