

Environmental Performance

Pinnacle West has a long-standing and unwavering commitment to environmental stewardship. In July 1994, APS became the first electric utility to join the Coalition for Environmentally Responsible Economies (CERES), an independent, non-profit organization that promotes excellence in environmental stewardship. As a CERES member, APS endorsed the CERES Principles, an environmental code of conduct. The CERES principles continue to be part of our APS Environmental Policy, and demonstrate our commitment to excellence in environmental stewardship.

In 2007, we took a significant continuous improvement step in our environmental program with the purchase of a new Environmental Information Management System (EIMS). This electronic EIMS will enhance our ability to identify, monitor, track and improve our environmental obligations and commitments across the company.

Our primary environmental issues are related to the generation, transmission and distribution of electricity to more than 1.1 million customers. While renewable generation is a significant focus for our future capacity resources, we will continue to employ generation resources from coal, natural gas and nuclear energy far into the future. In addition, we will continue to expand our transmission and distribution systems as we respond to our growing service territory by adding significant numbers of new substations and miles of electric lines. While this infrastructure is necessary to generate and distribute electricity to serve customers, it also creates a number of environmental issues and challenges, which we discuss in detail in this section of our report.



EHS POLICY

APS Environmental, Health and Safety Policy Statement

APS is committed to a clean, safe and healthy workplace and environment. All aspects of our business will be managed in a safe and environmentally responsible manner in accordance with the principles set forth in this policy. We believe these actions benefit our customers, shareholders, employees and the public, both now and for the future, while improving the quality of the environment in which we live. This policy reaffirms our commitment to environmental stewardship and protecting the well-being of our customers, employees and the public.

Management Commitment

All levels of APS management are committed to, and accountable for, implementing, maintaining, measuring and improving the environmental, health and safety programs of the company. Self-assessments of our performance in these areas will be routinely conducted. We will measure performance and hold all employees accountable through performance enhancement processes.

Culture

We will foster a culture that encourages safe, healthy and environmentally responsible behavior by clearly defining the responsibilities of all employees. We will encourage proactive employee involvement in these efforts. Incentives for extraordinary performance will be provided.

Health & Safety

Safety is the overriding value of all aspects of our business. We will continually provide a safe and healthy environment for our employees, our customers and the community. We demand safe work behavior, practices, design and systems.

Pollution Prevention

Pollution prevention is an operating objective. We strive to prevent or reduce the generation of waste at the source. Our impact on the environment is minimized through good engineering practices. Where waste cannot be eliminated, we will seek to maximize recycling. We will, where appropriate, purchase

commodities with recycled content and other environmentally preferable attributes. Waste that must be disposed of will be managed in compliance with all applicable requirements.

Community

We support and participate in the design, development and establishment of sound public policy and educational initiatives that protect human health and the environment. We will work with governments and others in creating responsible laws, regulations and standards to safeguard the community, workplace and environment. We will share with the communities our performance in the environmental, health and safety areas.

Compliance

Compliance with all applicable environmental, health and safety laws and regulations is the minimum standard of performance. Every employee, from the officer level to the front line, is responsible and accountable for compliance and has an obligation to bring issues and concerns forward for resolution. We will go beyond regulatory requirements when there is a sound environmental or business reason to take such action.

Stewardship of Natural Resources

We will responsibly use natural resources, such as air, water, soils and forests, and we will help to conserve these natural resources through efficient use and careful planning. We will pursue an energy resource plan that emphasizes environmental protection, energy conservation and efficiency. We will responsibly address conditions that endanger health, safety or the environment.

CERES Principles

APS was the first utility to adopt the Ceres principles in 1994. Since then, under Ceres review, APS has issued an annual EHS report, and now a global reporting initiatives (GRI) report. These reports are available online at www.pinnaclewest.com/cr.

Protection of the Biosphere

We will reduce and make continual progress toward eliminating the release of any substance that may cause environmental damage to the air, water, the Earth or its inhabitants. We will safeguard all habitats affected by our operations and will protect open spaces and wilderness, while preserving biodiversity.

Sustainable Use of Natural Resources

We will make sustainable use of renewable natural resources, such as water, soils and forests. We will conserve non-renewable natural resources through efficient use and careful planning.

Reduction and Disposal of Wastes

We will reduce and where possible eliminate waste through source reduction and recycling. All waste will be handled and disposed of through safe and responsible methods.

Energy Conservation

We will conserve energy and improve the energy efficiency of our internal operations and of the goods and services we sell. We will make every effort to use environmentally safe and sustainable energy sources.

Risk Reduction

We will strive to minimize the environmental, health and safety risks to our employees and the communities in which we operate through safe technologies, facilities and operating procedures, and by being prepared for emergencies.

Safe Products and Services

We will reduce and where possible eliminate the use, manufacture or sale of products and services that cause environmental damage or health or safety hazards. We will inform our customers of the environmental impacts of our products or services and try to correct unsafe use.

Environmental Restoration

We will promptly and responsibly correct conditions we have caused that endanger health, safety or the environment. To the extent feasible, we will redress injuries we have caused to persons or damage we have caused to the environment and will restore the environment.

Informing the Public

We will inform in a timely manner everyone who may be affected by conditions caused by our company that might endanger health, safety or the environment. We will regularly seek advice and counsel through dialogue with persons in communities near our facilities. We will not take any action against employees for reporting dangerous incidents or conditions to management or to appropriate authorities.

Management Commitment

We will implement these principles and sustain a process that ensures the Board of Directors and Chief Executive Officer are fully informed about pertinent environmental issues and are fully responsible for environmental policy. In selecting our Board of Directors, we will consider demonstrated environmental commitment as a factor.

Audits and Reports

We will conduct an annual self-evaluation of our progress in implementing these Principles. We will support the timely creation of generally accepted environmental audit procedures. We will annually complete the Ceres Report, which will be made available to the public.

EHS ORGANIZATION



Pinnacle West was named to the 2007 Dow Jones North American and United States Sustainability Indexes.

Organization

Our Environmental, Health and Safety program is decentralized, with primary responsibility for complying with EHS requirements resting with the leaders and frontline employees at our various facilities. Departments such as Corporate EHS and Corporate Law are available to assist and support the operating areas with technical, strategic, regulatory and legal EHS issues. They also provide strategic direction and leadership on issues such as EHS risk analysis and companywide issues such as Superfund and remediation of historic properties. Throughout the company, each employee shares responsibility for EHS compliance and has an obligation to bring issues and concerns forward for resolution. This obligation is clearly identified in our EHS Policy and in our Corporate Ethics Policy.

APS' EHS strategic direction and leadership on company-wide safety, health and environmental issues is determined by a hierarchy of cross-departmental committees and teams. These teams make recommendations to the Vice President and Chief Sustainability Officer on matters requiring executive oversight. The teams are also responsible for developing and updating the EHS Policy and EHS Management Plan, and ensuring integrated implementation of these and other critical documents into the company's operations. These teams have various issues teams reporting to them. The issues teams are responsible for more detailed work on important cross-company issues.

EHS Management Systems

Our EHS Management System (EMS) is a systematic framework for managing our EHS practices and ensuring we meet our goals and objectives. Our EMS is modeled upon the general format of the ISO 14000 standard for Environmental Management Systems, though we have not pursued formal certification since all of Pinnacle West's operations are based within the United States. The EMS is based on APS' EHS Policy, which sets the vision and operating foundation for our EHS efforts. In addition to the EHS policy, APS has several policies, standards and plans that underscore the importance of our commitment to excellence and ethical business practices, including protection of our environment.

- The APS EHS Management Plan augments the EHS policy, and outlines our EHS organization and responsibilities for meeting federal, state, county, municipal and tribal environmental, health and safety laws and regulations under which we operate.
- The APS Accident Prevention Manual details the Safety Policy, Responsibilities, and APM rules for employees across the company.
- Our Ethics Policy helps us comply with policies, laws and regulations.
- Our Standards of Business Practices focuses on meeting company standards and legal requirements.
- The APS Code of Conduct outlines the relationship between our traditional energy delivery corporation, APS, and our competitive retail company, APS Energy Services.

In 2005, APS participated in an Environmental Compliance and Management Systems Benchmarking Study of electric utilities sponsored by the Electric Utility Benchmarking Association. In that study, APS was identified as a "Top 5" performer among participating utilities, and components of our EMS were included in the best practices final report from that study.

We believe that the foundation of sound environmental, health and safety management is compliance with all regulations. However, to build a true sustainable future requires innovation and leadership beyond basic compliance. In this respect, APS' EHS programs go beyond basic compliance in order to meet our goals of a sustainable energy future. The results of these efforts are documented in this report as well as our other EHS annual reports dating back to 1994.

To evaluate and strengthen our compliance management systems we have an EHS Compliance Assurance Program, which is discussed below. EHS professionals across the company are also active in many professional and industry groups which monitor regulatory changes, evolving EHS and sustainability issues, and other critical EHS matters affecting our industry. APS also has a Public Affairs department that monitors and participates in federal and state legislative processes that may impact the company. All of these efforts are coordinated within the EMS to ensure ongoing compliance and continuous improvement.

Further supporting our compliance management systems are a variety of electronic tools which we use to both identify and manage our current EMS requirements and activities, and to track emerging issues and regulations

EHS COMPLIANCE ASSURANCE (AUDIT) PROGRAM

Compliance Assurance Program

Our written Compliance Assurance Program establishes types of assessments and audits, reporting results to management, corrective actions, tracking status of open items, confidentiality of information, record retention, and roles and responsibilities. Results of the audit are reported directly to the responsible executive management and at least annually to the Board of Directors.

Officers receive annual reports on audit activities and trends in audit findings. Additionally, facility managers and EHS professionals are provided with quarterly EHS Checkpoints on EHS audit exceptions for incorporation into their EHS self-assessment activities.

In order to assure every effort is made to maintain compliance in our complex and diverse operations, the following four-tier process is established by our Compliance Assurance Program management practice.

Tier I — Ongoing Self-Assessments

The Tier I process is relatively informal and involves routine checks of EHS programs to ensure the program elements and standards are being accomplished. Each business unit or facility creates and maintains a plan describing how their Tier I process is implemented. Typical program elements include:

- Reviews of mandatory training progress reports
- Reviews of monthly trend reports
- Field observations and walk-downs
- EHS data review
- Review of company/industry event reports/lesson learned, critiques and the use of the department's performance indicators

Tier II — Focused Self-Assessments

Company EHS professionals conduct more formal and focused self-assessments annually in each business unit/department. Tier II assessments are structured, comprehensive reviews of program performance across the facility or department and/or the company. The Environmental Advisory Team and the Safety and Health Advisory team develop the Tier II assessment plan at the beginning of each year.

In 2007, APS facilities completed 70 Tier II self-assessments.

Tier III — Audit Program

Our EHS audit program is managed by a dedicated corporate EHS Audit Group, which reports organizationally to the PNW director of Audit Services, while maintaining lines of ongoing communication to the Vice President & Chief Sustainability Officer. The director of Audit Services reports directly to the Chairman and CEO of Pinnacle West and the Audit Committee of the PNW Board of Directors.

The corporate EHS Audit Group is responsible for conducting interviews with Executive Management, Management and EHS professionals as part of a risk-based scheduling process, in order to create a schedule of audits at the beginning of each year. In addition, the EHS Audit Group facilitates the auditing process so that each audit is completed. Cross-functional teams are used to conduct detailed annual compliance audits of EHS programs where appropriate. These teams can include technical and operational experts from operations across the company. Our audits incorporate applicable environmental, health and safety regulatory requirements and internal EHS policies, procedures and management practices.

The Tier III process also includes a review of the Tier I plans and to verify that a Tier II corrective action process is in place according to the APS EHS Best Management Practice.

The EHS Audit Group conducted 21 formal Tier III audits at APS facilities in 2007.

Tier IV — Periodic Compliance Reviews

Periodically, a detailed review of the compliance status of EHS programs are conducted. These reviews are used to establish the baseline of compliance within the EHS programs and identify areas for future Tier II assessments. The reviews are completed either by an independent third party, by internal teams of EHS professionals or by a combination of internal and external professionals. Such reviews may also be done at the direction of the Pinnacle West Law Department, utilizing an independent third party or an internal team of EHS professionals.

In 2007, a Third Party Review was conducted of the EHS Compliance Audit Program. The purpose of this review was to determine PNW compliance audit program conformance with selected reference standards, audit procedures and program requirements, and to identify strength and opportunities for improvement. The review did not identify any gaps between the requirements of the external standards and the design of the PNW program.

EHS TRAINING AND RECOGNITION

EHS Training

In 2007, our employees completed more than 56,000 EHS related training courses. This included training in 383 different compliance required topics, and 26 non-required topics areas. Compliance required topics included training required by agencies including OSHA, Department of Transportation (DOT), EPA, NRC and the Mine Safety and Health Administration (MSHA). Through a detailed profiling process, employees are assigned required topics based on the type of work they do. This ensures a safe and healthy work environment, while allowing the company to maintain compliance. EHS training is tracked via a dedicated computer tracking system to ensure employees are assigned and received the necessary training during the year.

EHS Excellence Awards

In addition to normal employee merit and incentive recognition, outstanding individual environmental, health and safety performances and initiatives are recognized through the APS Environmental, Health and Safety Excellence Awards program. The EHS Excellence Awards Program's goals are to encourage employees to recognize each other, individuals and teams, specifically for embracing our company values through EHS excellence, with increasingly greater participation by employees who do not have primary roles and responsibilities in EHS.

In 2007, 21 EHS Excellence Awards were given to individual employees and employee teams. The honored employees were also recognized in our internal company communications.

EHS TARGETS

Our EHS policy and Environmental Management System set the framework, goals and objectives of our EHS activities. In addition, APS sets more specific targets in certain key EHS areas. These targets are integrated into corporate and departmental level business plans, and are included as part of employee performance reviews and as a component of corporate incentive pay.

In 2005, APS developed a new long-range business plan encompassing the years 2005 to 2010. This Business Plan identifies safety and the environment as two of our six core values. The Business Plan establishes specific short- and long-term corporate targets for environmental and safety, including the following targets to be met by 2010:

Safety

- To achieve the number one ranking among like-sized investor-owned utilities for OSHA recordable injuries (all injury incident rate, lost work incident rate and severity incident rate) (current results discussed in our Employee Safety section of this report)



Environmental

- To reduce carbon intensity by 10 percent in year 2010 from a year 2000 baseline (current results discussed in the Climate Change section of this report)
- To implement voluntary emissions-reduction programs at the Cholla and Four Corners Power Plants (current results discussed in the Air Emissions section of this report)
- To meet environmental portfolio standard requirements for renewable energy (current results discussed in the Renewable Energy section of this report)

Additional targets which were included in the 2007 employee incentive plan include:

- Reportable environmental incidents
- EHS related fines
- CEMS availability
- Number of environmental self-assessments completed
- Number of recordable OSHA injuries

Each business group set individual goals for the above and achievement of those goals direct directly to employee incentive payments. These environmental goals are set annually and reviewed for improvement at the end of each calendar year

CLIMATE CHANGE

We recognize that climate change is a real world problem that needs to be addressed. It is a long-term issue requiring long-term vision and steadfast effort. APS has responded to the challenges presented by climate change since 1995 when APS signed the Department of Energy Climate Challenge and committed to limiting emissions to 1990 levels by 2000. In 2006, the United States Environmental Protection Agency awarded APS with its Climate Protection Award, which recognized the many efforts the company made over the past decade in climate change response.

We are continuing to build on those past efforts with a comprehensive climate change program that includes a broad range of actions and programs that are designed to respond in a responsible manner to this issue, recognizing the governance, regulatory and strategic risk management aspects of climate change.

Our climate change program includes:

- A climate change governance structure that includes Board and Executive management engagement and oversight
- A written company position on climate change, which sets the foundation for APS legislative and regulatory intervention
- Establishment of a voluntary carbon emission intensity reduction goal

- Voluntary inventory and reporting of greenhouse gas (GHG) emissions, including becoming a founding member of The Climate Registry
- Legislative and regulatory monitoring and involvement at the federal and state levels
- Voluntary participation in the EPA's SF6 Emission Reduction Partnership for Electric Power Systems
- Inclusion of carbon issues as a major component of our Integrated Resource Planning process for future energy sources
- Voluntary actions to reduce emissions at existing generating facilities through improved efficiencies and increased capacity
- Voluntary actions in carbon sequestration, capture and avoidance
- Technology innovation to identify low carbon energy sources, increase efficiencies, conserve energy, as well as innovative technologies to reduce emissions, or sequester, capture or avoid carbon emissions
- Addition of non-carbon emitting renewable energy resources
- An aggressive Demand Side Management / energy efficiency program to reduce electric demand both by our customers and our internal operations
- Engagement with concerned stakeholders through communications such as this report, stakeholder meetings as part of our Integrated Resource Planning process, voluntary participation in the Carbon Disclosure Project, and through the Arizona Corporation Commission regulatory process.
- Identification of potential physical, regulatory and financial risks to our company associated with climate change
- Fleet management activities, including measures to increase fleet miles per gallon and reduce miles traveled.
- Internal energy efficiency measures, includes building all new facilities in accordance with LEED standards.

We are also currently developing a Climate Management Report to comply with an Arizona Corporation Commission (ACC) order in which the ACC directed APS to undertake a climate management plan, carbon emission reduction study and commitment and action plan with public input and ACC review. We expect to complete the report in 2008.

Climate Change Governance

Our climate change governance structure includes:

- 1 Board of Directors and executive management engagement and oversight
- 2 Public Disclosure
- 3 Emissions accounting
- 4 Strategic Planning, including incorporation into business operations, establishment of GHG reduction targets, and development and implementation of business strategies to reduce GHG emissions and to minimize exposure to regulatory, operational and other risks from climate change.



APS is a founding member of The Climate Registry

Pinnacle West/APS Climate Change Position

APS supports a practical, long-term and sustainable approach to addressing climate change. The program must be national in scope and address all major sources of greenhouse gas emissions economy-wide.

Any program to reduce greenhouse gas emissions must realistically address the significant challenges presented by rapid growth in certain areas of the United States, like Arizona, which is one of the fastest growing states in the nation.

Under these rapid growth conditions short term mandates to roll-back greenhouse gas emissions to past levels are not realistic and will be practical only when low and no carbon technologies are commercially available to achieve the mandates AND meet the affordable energy needs of our customers.

Emission reduction goals must be predicated upon the development and commercial deployment of low and no carbon technologies. Timely and successful deployment of new energy technologies will require significant sustained levels of federal and state financial support.



In the short term, strategies should focus on (i) energy efficiency in all sectors of the economy, including transportation, construction, appliances, electric utilities and consumption patterns, (ii) deployment of cost effective renewable resources, and (iii) utilizing low and no carbon generation technologies that are available to address demand growth and fuel diversity risk.

In the longer term, APS supports a market based approach to addressing Climate Change, such as a cap and trade program. Such a program should be (i) phased-in and include a price cap to avoid the economic disruption that will occur in the event that the technology to achieve emission reductions are not developed or deployed, (ii) updated periodically to recognize and account for rapidly growing areas of the United States, (iii) conditioned to require participation by developing nations, and (iv) designed to create new economic opportunities arising from emerging new technologies and processes.

Any federal regulatory process and structure must avoid conflicts and redundancies with state climate change programs and be (i) crafted to allow regulatory rate-based treatment for associated costs, and (ii) developed to provide incentives for utilities to undertake early investment in low and no carbon technologies.

Finally, any legislation must recognize early action/investments to mitigate greenhouse gas emissions including the recognition of domestic and international greenhouse gas offsets.

APS Voluntary Climate Change Goal

We have established an internal voluntary climate change goal in our 2005-2010 business plan.

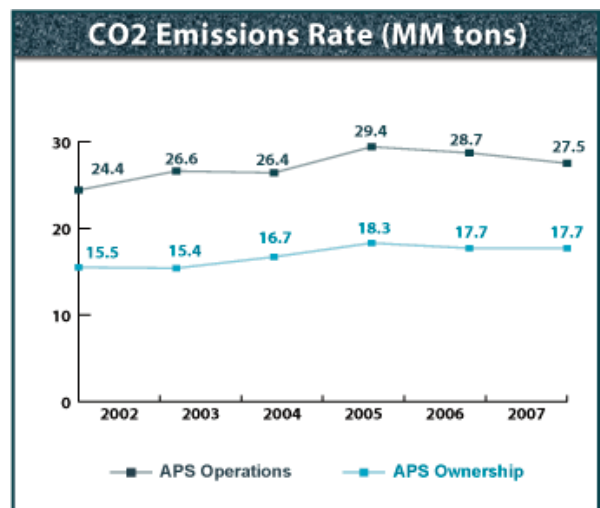
The goal: To reduce carbon intensity from electricity generated from APS owned power plant and APS purchased renewable generation by 10 percent in target year 2010 from a baseline year 2000. The carbon intensity for this goal has reduced to 1,258 lbs/MWh in 2007 from 1,324 lb/MWh in baseline year 2000. This is a 5 percent reduction. (Note that the carbon intensity number for the goal is different than the carbon intensity in the CO2 Emissions Rate graph below since the goal includes purchased renewable power, while the emissions graph is only APS owned generation).

We will continue to work towards our 2010 goal to reduce CO2 emissions intensity. In this short term time period our efforts primarily will be through increasing use of non-emitting renewable energy in our energy mix; increasing use of lower emitting natural gas; and improvements in power plant efficiencies and capacity which allows us to generate more electricity for the fuel burned.

We have considered an actual reduction goal, but with our continued growth in customers and energy demand, we will need to increase supplies such as lower carbon natural gas peaking units, at least in the short term until new technology becomes commercially available.

APS GHG Emissions Inventory

Based on an internal evaluation of APS direct emissions of greenhouse gases, more than 98 percent of GHG emissions at APS owned facilities is carbon dioxide coming from smokestack emissions at our fossil fuel power plants. About one percent of our overall GHG emissions are from sulfur hexafluoride (SF6) emissions from electrical equipment located across our system (SF6 is discussed further



below). The remaining small contribution is from activities such as our fleet transportation (line trucks, bucket trucks and other company vehicles). We have a number of programs in place to address each of these areas, examples of which are discussed in this report.

APS has participated since 1995 in the Department of Energy 1605(b) voluntary greenhouse gas emissions reporting program. In 2007, APS became a founding member of The Climate Registry, and will begin reporting to the Registry with our 2008 GHG inventory. APS also provides an annual report to the EPA (starting in 2005) regarding results in SF6 emission reduction through the EPA Utility SF6 Partnership program.

EPA SF6 Emission Reduction Partnership for Electric Power Systems

In 2004, APS joined the EPA's SF6 Emission Reduction Partnership for Electric Power Systems. This is a voluntary, collaborative effort between EPA and the electric power industry to identify and implement cost-effective solutions to reduce sulfur hexafluoride (SF6) emissions. SF6 is a highly potent greenhouse gas used for insulation and current interruption in electric transmission and distribution equipment. As part of this partnership, APS is taking voluntary efforts to significantly reduce SF6 emissions. APS' goal in the SF6 partnership is to reduce equipment leak rate from 18.38 percent in the base year of 2001, down to 5 percent by the end of 2008.

By the end of 2006, APS had reduced equipment leak rate from 18.38 percent down to 4.9%, beating our target date by 2 years. We will continue to work on voluntarily reducing our emissions even further. Our results in 2006 resulted in eliminated an estimated 19,624 pounds of SF6 emissions in 2006 compared to our baseline year of 2001. Based on the EPA's greenhouse gas equivalencies, this reduction of SF6 is equivalent to a reduction of 256,936 tons of carbon dioxide.

Please view our online report for more information on our SF6 program.

APS actions in carbon sequestration, capture and avoidance

Ash Sales to reduce GHG

U.S. power plants produce millions of tons of coal fly ash annually. APS is using its fly ash to help reduce greenhouse gases while adding to its bottom line. APS sells much of its fly ash to Salt River Materials Group for use in concrete production. This allows them to use the coal ash as a base product in cement production, eliminating their need to produce this material and significantly reducing their energy consumption in cement production. In 2007, APS recycled 943,814 tons of coal ash for cement production or other use, reducing overall greenhouse gas emissions by over 200,000 tons of carbon dioxide.

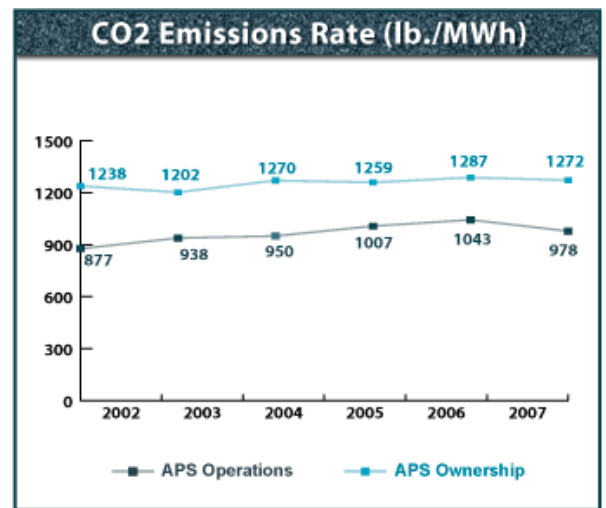
Ownership of GHG reductions from activities such as ash recycling are current established by APS in contractual language with the other parties involved, in order to prevent "double reporting" of reduction numbers and to establish potential ownership of future emission credits.

PowerTree Carbon Company

To achieve additional CO2 reductions, APS joined 24 other electric utilities in the PowerTree Carbon Company, which plants trees in ecologically sensitive areas of the lower Mississippi Valley in cooperation with local and national, governmental and conservation organizations. Planting began in 2003 and over two million tons of CO2 are expected to be sequestered over the 100-year life of the project. In 2007, APS' share of PowerTree Carbon Company sequestration results was the equivalent of a reduction of over 60 short tons of carbon dioxide.

Emission Reduction/Sequestration

APS has an active technology research and development program which is exploring new ways to reduce or sequester carbon dioxide emissions from existing and future electric generation. This includes the develop-



ment of renewal energy sources, innovate pollution reduction technologies for fossil fuel power plants and other clean energy strategies.

In addition, we are looking at other types of innovative (and sometimes unusual) technologies that can help create a sustainable energy future and reduce greenhouse gases (See Technology Innovation section for details). An example of this effort is our Emissions to Fuel project in which APS is evaluating the possibility of using carbon dioxide in stack emissions to grow algae, which will then be used for bio-fuel. Another example is West Coast Regional Carbon Sequestration Partnership (WESTCARB), a research project evaluating whether storing carbon dioxide underground may be a viable option for reducing greenhouse gas emissions into the atmosphere.

Up-Rating at PVNGS and Avoided GHG Emissions

The Palo Verde Nuclear Generating Station is the largest nuclear power plant in the U.S. It is owned by a consortium of utilities, including APS, which holds the largest share (29.1 percent) and operates the plant. On average, the plant displaces about 30 million tons of CO₂ annually when compared to the equivalent amount of power produced by coal resources. About 9.5 million tons is APS' annual share of the offset. By end of 2007, the plant's total generating capacity will be increased by 198 MW (to a total of 4,008MW), and it is estimated that it will avoid an additional 1.71 million tons of CO₂ annually. APS' share of that offset will be about 0.5 million tons per year.

We have also implementing efficiency upgrades at our Cholla Power Plant. An improved design of the steam turbine blades has improved the mechanical efficiency of the turbine, allowing the same amount of coal burn and same amount of steam flow to be used more efficiently to produce more power (watts). This results in more megawatts being provided to the customers per ton of coal being burned and thus, less CO₂ being emitted per megawatt hour produced.

Potential physical, regulatory and financial risks to our company associated with climate change

Changes in the global climate may result in regional changes that might impact the physical or operational environment of an electric utility such as APS. According to the Intergovernmental Panel on Climate Change (IPCC), North America - including the United States- is projected to warm by about 2 to 13 degrees F by 2100. Other projections for the Southwest US from climate change models include an increase in the number of extreme hot days in the summer, less precipitation in the form of snow and the earlier runoff of snowmelt, increased wildfire potential, and the potential for increased water shortages.

However, there is a great deal of uncertainty in predicting climate changes, particularly for a specific region. The US EPA warns that "projections of climate change in specific areas are not forecasts but are reasonable examples of how the climate may change".

Assuming that the primary physical and operational risks to APS from climate change are increased potential for drought or water shortage, and a mild to moderate increase in ambient temperature, we believe that we are taking the appropriate steps at this time to respond to these risks. Weather extremes in drought and high temperature variations are common occurrences in this Southwest United States desert area, and these are risk factors that we consider in the normal course of business in the engineering and construction of our electric system.

The National Electric Safety Code does not specify ambient temperatures to use, rather requires utilities to consider their local situation. APS would naturally have a higher ambient temperature than many other utilities, and engineers for higher ambient temperatures, including safety factors. APS typically assumes an ambient temperature of 120 degrees F as the starting point for determining what our materials need to be rated to. For overhead conductors, that assumption relates to a conductor temperature of 212 degrees F for determining the maximum amp rating for each conductor. Increased ambient temperature would reduce the amount of power a conductor or other material could carry before reaching its operating temperature. If climate change were to slightly increase the ambient temperature, then our materials should be fine as we build in safety factors when considering what temperature they will reach during heavy electricity usage times. Large increases in ambient temperature due to climate change might require evaluation of some materials and represents a greater challenge. These are important factors that we will continue to monitor in our resource planning and system maintenance processes.

Arizona is currently in a decade plus long period of drought, with no water supply impacts to our generating facilities. About 56% of the water used by APS owned generation comes from treated effluent from cities in the Metro Phoenix area - this is the water used by our Palo Verde Nuclear Generating Station and our Redhawk natural gas generating station. The majority of the remaining water comes from deep underground wells or on-site lakes at our power plants. Water use, source and long-term availability are criteria evaluated in our resource planning process for all new owned generation or contracts for purchased generation. Our goal is to minimize water use and insure the long term reliability of the water source. Our PNW Corporate Responsibility Report provides additional discussion on PNW water use and conservation.

Higher temperatures may decrease the snowpack, which might result in lowered soil moisture and an increased threat of forest fires that could threaten our communities and electric transmission lines. Arizona has seen an increase in forest fires with the current drought situation. We have responded to the threat in ways such as aggressively clearing our rights-of-ways to decrease fire danger to our lines.

In addition to design and engineering factors, APS prepares high temperature load forecasts that capture the possibility of experiencing more extreme temperatures than our "normal" peak day conditions. These high temperature load forecasts are then provided to our distribution system planners for use in their planning so that they know what their capacity requirements could be under such conditions.

Financial Risks

The largest financial risks to APS from climate change are likely associated with the potential costs associated with climate change legislative and regulatory programs at the federal and state levels. Potential impacts of future carbon legislation is discussed as part of our Integrated Resource Plan.

To best manage these risks, APS will maintain an active legislative monitoring and intervention and will incorporate climate change issues into our Integrated Resource Planning process. Other components of our climate change program, including DSM, renewable energy and technology innovation, will also play significant roles in managing financial risks associated with climate change.

Western Climate Initiative

In 2007, six western states, including Arizona, and two Canadian provinces entered into an accord, the Western Climate Initiative (WCI), to reduce greenhouse gas (GHG) emissions from automobiles and certain industries, including utilities. In August 2007, the WCI set a goal of reducing GHG emissions 15% below 2005 levels by 2020. By August 2008, the WCI intends to develop a plan for implementation of this goal, which includes a cap and trade program. Any such implementation would require independent action by each individual states or province's legislature or Governor to adopt a version of the plan. APS has participated in an advisory capacity in the WCI process and will continue to monitor the impact of this Initiative. As stated in our climate change position, above, APS believes that climate change programs, including cap and trade programs, should best be undertaken at the federal level rather than at the state level. Having different state climate management programs across the country is neither efficient nor sustainable for this type of global issue. It now appears that federal climate change legislation is likely within the next couple of years, and is supported by all of the presidential candidates. If Arizona is going to adopt regional programs like the WCI, the program should include legislative involvement and approval.

AIR EMISSIONS

Our company maintains air emissions per megawatt-hour at or below industry averages. This is achieved through the use of non-emitting nuclear power and renewable energy in our generation mix, emissions control technology, improved power plant efficiency and a more-diverse fuel mix which includes nuclear, gas/oil, coal and renewables. In addition, we have an aggressive demand-side management program that works to improve energy efficiency and reduce per capita demand.

Pollutant Emissions from the APS Generation System

The air emission charts, which are available in the online version of this report, show our air emissions of primary pollutants from power plant electricity generation over the last five years. These charts show a

generally continuing longer term downward trend in the emissions intensity for the priority pollutants. Carbon dioxide emissions are discussed in the Climate Change section of this report.

- Nitrous Oxides (NO_x)
- Sulfur Oxides (SO_x)
- Particulates (PM)
- Carbon Monoxide (CO)
- Volatile Organic Compounds (VOCs)
- Lead (Pb)
- Mercury (Hg)

APS plants comply with existing Clean Air Act (CAA) regulations. However, as we plan for the future, we recognize the need to continue to reduce air emissions in our operations, both in new generating facilities and in improving current facilities. Air emissions are a major consideration in our resources planning process for new generating facilities. In addition, we are taking significant steps to reduce air emissions in our existing facilities, as described below.

Voluntary air emissions reductions at Cholla Power Plant

APS initiated discussions with a variety of stakeholders, including the US EPA and the Arizona Department of Environmental Quality (ADEQ), regarding voluntary sulfur dioxide (SO₂) and nitrogen oxide (NO_x) emission reductions at the Cholla Power Plant, resulted in an agreement in 2005 to implement several pollution control enhancements at the Cholla plant. The following is the status of the projects:

Unit 1: a new fabric filter (bag-house), low-NO_x burners (LNBs) and carbon monoxide (CO) continuous emissions monitors (CEMS) have been installed. Changes to the SO₂ scrubber were completed. All equipment is now operational.

Unit 2: LNBs and CO CEMS have been installed, and final tuning of instruments and systems is progressing.

Unit 3: we will replace the existing hot-side electrostatic precipitators (ESPs) with a new fabric filter (bag-house), install new LNBs, CO CEMS, and a new SO₂ scrubber and controls in 2009.

Unit 4: we are replacing the existing hot-side ESPs with a new fabric filter (bag-house), installing new LNBs, CO CEMS and a new SO₂ scrubber, and the unit will be operational with this new equipment in May 2008.

This collaborative approach for voluntarily achieving more emission reductions sooner – and at lower costs – assures Cholla's economic viability and benefits APS shareholders, customers, regulators and most importantly, the environment.

Voluntary air emission reductions at Four Corners Power Plant

In 2003, APS, various Environmental Groups, Navajo EPA, U.S.EPA, and the National Park Service agreed on a proposal to test potential reductions in SO₂ emissions at the Four Corners plant, utilizing an 18-month-long test program. The test program involved certain phased operational changes and scrubber chemical process changes to increase the SO₂ control level from 72 percent to 85 percent, without triggering operational problems. APS initiated the test program in early 2004.

The test program was completed during summer 2005. APS determined that the plant was able to meet and exceed the goal of 85 percent SO₂ removal by achieving an SO₂ removal rate of 88 percent. At that elevated control level, the plant was able to cut its annual SO₂ emissions by more than 55 percent, compared to the pre-test level. APS worked with the various groups involved, including the regulatory agencies, to incorporate the higher SO₂ control level as an enforceable emission limit for the plant. The figure below shows historic and projected future Four Corners emissions, and illustrates a dramatic drop in SO₂ in 2005 from the test program.



APS has submitted a BART analysis for NO_x and PM emissions to EPA, Region 9. The analysis indicates that LNB is BART for Units 1-2 and LNB/OFA is BART for Units 3-4-5, and that existing PM controls constitute BART.

Travel Reduction Program

Employee Travel Reduction is an important part of our EHS programs, particularly in the Phoenix area – a U.S. Environmental Protection Agency (EPA) non-attainment area for particulate matter and eight-hour ozone standard. We encourage employee travel reduction activity and offer subsidies to further persuade our employees to use alternative means of transportation. Our subsidies cover a portion of the costs for vanpooling, bus fares and carpool parking. We accommodate compressed work weeks, telecommuting and videoconferencing. We also offer assistance to employees in finding carpool partners, and in setting up car-pools. The Travel Reduction Program also has a reward program for employees participating in travel reduction on High Pollution Advisory days.



APS maintains a fleet of 167 vans that operate daily for employees commuting between Palo Verde Nuclear Generating Station (PVNGS) and the Phoenix area. APS began operating this program in 1994 and almost 62 percent of the permanent APS employees at PVNGS participate. This program has significantly contributed to the site achieving a single occupant vehicle (SOV) rate well below the 60-percent target. The fleet approaches five million commuting miles annually. The commuting miles eliminated with this outstanding program is more than 32.7 million annually, resulting in a pollution savings of approximately 442 tons each year.

In 2007, Pinnacle West increased its travel reduction incentives for employees. Current travel reduction incentives for employees include:

- \$50 monthly subsidy toward vanpool expense for employees who commute in any local Valley Metro vans. The employee monthly costs are payroll deducted
- A 100 percent subsidy of the monthly accrued bus fares up to \$68 to employees who commute by bus
- Employees carpooling do not pay the monthly \$46 for parking at company headquarters

WASTES

Hazardous Wastes

We have had hazardous waste minimization programs in place for a number of years, which has resulted in significant reductions in the amount of hazardous wastes generated at APS facilities.

All our facilities are now normally classified as Small Quantity Generators (SQG) or Conditionally Exempt Small Quantity Generators (CESQG) of hazardous waste, and in 2007 none of our facilities were classified as Large Quantity Generators of Hazardous Waste. In 2007, APS has continued to show good results in hazardous waste reductions, as shown in the chart below. All of our hazardous wastes are transported by permitted companies to EPA permitted hazardous waste disposal facilities located in the United States.

APS Hazardous Waste	
Years	Tons
2007	18.5
2006	25
2005	63.5
2004	55
2003	193

Non-hazardous Wastes

We have an aggressive waste reduction, recycling and reuse program in place at facilities across our organization. Our first priority is waste reduction. Each facility reviews its waste streams and looks for opportunities to reduce waste. Some of these activities include working with suppliers to reduce packing materials and pallets, substituting products, paper reduction in offices and other strategies to try to reduce wastes. Our second approach is an extensive program to recycle materials. Our Deer Valley Service Center serves as a central management point for many recycled materials. As the chart below shows, APS recycles thousands of tons of materials each year. APS also has a very successful Investment Recovery department that manages surplus materials for reuse.

APS is a member of the EPA's WasteWise Partnership and Coal Combustion Products Partnership (C2P2). WasteWise is a voluntary EPA program through which organizations work to minimize solid waste. C2P2 is a cooperative effort between the EPA and the Utility Solid Waste Activity Group (USWAG) to help promote the beneficial use of coal combustion products and the environmental benefits that can result. Each year, APS sends almost 1 million tons of coal combustion products for reuse, which results in significant benefits to the environment, including high reductions in overall CO2 emissions as described in our Climate Change section.

Solid Wastes Sent to Off-site Landfills				
Waste Stream	2004 Volume Generated (tons)	2005 Volume Generated (tons)	2006 Volume Generated (tons)	2007 Volume Generated (tons)
Solid	14,885	4,862	4,497	6,250

Used Nuclear Materials

Nuclear waste issues as discussed in the Generation section of this report.

APS Recycled/Reused Materials (2007)

Material	Tons
Paper/Cardboard	221
Scrap Metals	6,782
Used Oil	1,475
Wood	433
Coal Combustion Products	943,814
Electronic Components	489
Miscellaneous	63

Vendor Audits

The EHS Audit Group performs audits of all vendors that provide waste disposal or recycling activities and services to company facilities. This program evaluates our vendors' facility operations, environmental management systems and financial strength in order to minimize short- and long-term liability caused by vendor actions or omissions. The audits also ensure that our waste materials are being properly managed once they leave our facilities. Twenty-six vendor audits were completed in 2007, including sixteen audits of waste treatment, storage and disposal facilities, five audits of recycling firms, four EHS service providers, and one laboratory.

Pinnacle West belongs to the Joint Utility Vendor Audit Consortium (JUVAC), CHWMEG Consortium and the Desert Utility Vendor Audit Team (DUVAT). The consortiums are made up of various organizations or partnerships that conduct vendor audits and make them available to their members. Participation in these consortiums helps to leverage auditing resources and performance.

WATER MANAGEMENT

Water is a precious resource in the Southwest, and APS' facilities strive to minimize water usage through a variety of water-conservation activities and through use of treated effluent as a water source. In fact, 60 percent of all water used by APS is treated effluent as discussed in the section below. APS' major use of water is in electricity generation.

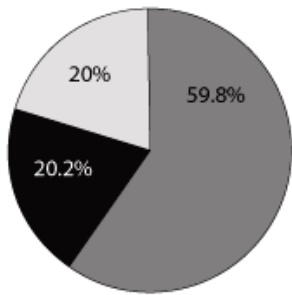
Our SunCor affiliate also has numerous water conservation efforts in place, which are discussed in the Subsidiary section of this report.

Use of Treated Effluent

One of our major water conservation methods is to use treated effluent for our water source in power generation at our Redhawk and Palo Verde power plants. APS is one of the largest users of treated effluent for power generation in the United States. This significantly reduces the amount of potable surface and groundwater required in our generation activities. As shown in the chart below, in 2007 over 60 percent of our total power plant water came from treated effluent. At the Palo Verde Nuclear Generating Station and our Redhawk natural gas-powered facility, we use treated effluent purchased from seven cities in the Phoenix metropolitan area for cooling. A 35-mile pipeline carries treated waste water from a City of Phoenix sewage treatment facility to Palo Verde, where we use an advanced waste-water treatment process capable of preparing 90 million gallons of water each day for use at both Palo Verde and Redhawk.

Each year, Palo Verde's water reclamation facility processes about 20 billion gallons of treated effluent for power plant use, preserving enough potable water for about 75,000 homes.

2007 Water Use APS Power Plants



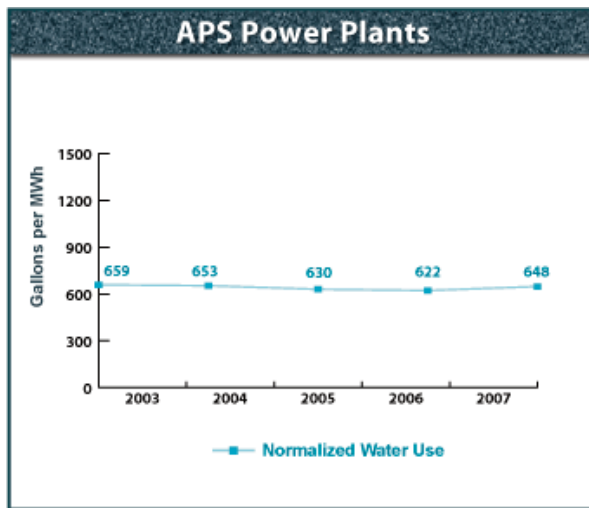
■ Effluent ■ Surface Water ■ Ground Water

The chart is based on a total water use of 35,465 million gallons (111,907 acre-feet) in 2007.

Another way in which APS conserves water is through careful water chemistry and treatment. This allows for a high level of water recycling in our electricity-generation process. We reuse our water supplies as much as possible to avoid wasting water, however, some water must be discharged (this is called "blow-down water") to control the salinity of the water used in the power plant processes.

Water use was also an important consideration in the design of our newest power plants, and APS strived to incorporate water conservation measures in these new plants, resulting in power plants that utilize less water per MWh generated. The type of cooling system used in new plants is critical to the amount of water used, and APS is committed to using dry or hybrid cooling in new power plants whenever feasible.

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APS has also been able to reduce water use in power plant generation over the past several years. However, in 2007, the water use increased slightly, primarily due to operational issues at our Four Corners Power Plant. Two factors increased the water use at this plant. One was the increased removal of SO2 by the air pollution control equipment. This equipment required more water to function properly. In addition, there were mechanical problems at Unit 5 that caused this unit to produce less power than normal. The result is the overall water use at the plant increased because proportion of power produced by the older units 1, 2 and 3 increased.

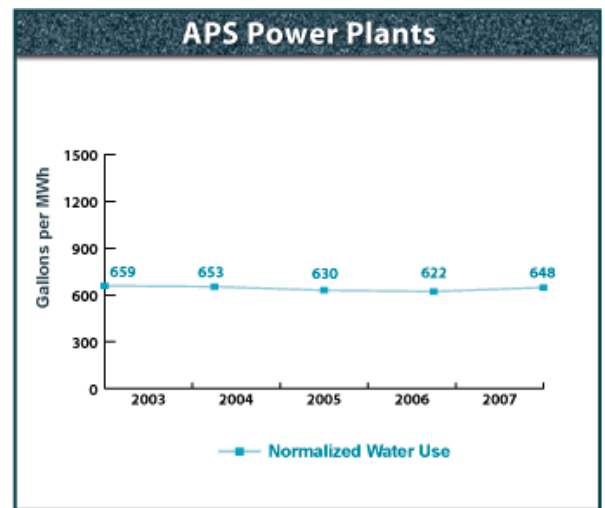
units 4 and 5. The problems at unit 5 have been corrected.

Other Water Conservation Efforts

APS also incorporates water conservation and use ideas into facility building and maintenance as part of our participation in the LEED program, and practices other water conservation measures at our office facilities, such as the use of non-flush toilets in our corporate headquarters building, and the replacement of grass with desert landscaping at some other facilities.

MATERIAL & CHEMICAL MANAGEMENT

Properly managing the materials and chemicals used in our daily operations is a high priority. Effective procurement management can result in environmental benefits, such as reduced wastes and toxicity, as well as financial benefits. We have developed procurement procedures and tools that help maximize these benefits. In addition, we have programs in place that allow us to reuse materials within the company.



Environmentally Preferred Procurement

Our EHS policy confirms our corporate support for green procurement, including sections on use of safe products and services, sustainable use of natural resources, stewardship of natural resources and pollution prevention. Our internal corporate procurement procedures further defines this policy :The purchase of all products, including chemicals and hazardous materials, will only be made after consideration of the products' total life cycle. Prior to procurement, materials must be evaluated for environmental attributes such as

The Greening of the Print Shop
APS Printing facility receives top environmental certification

recycled content, toxicity and disposal options. Employees making procurement decisions share in this responsibility in order to minimize adverse environmental impacts and future liability.

Investment Recovery

APS also has a very successful Investment Recovery department that manages surplus materials. The first objective is to re-deploy useful material within the company. For materials that can not be re-deployed, Investment Recovery may sell, recycle or donate materials. Disposal is the last option. In 2007, Investment Recovery recorded \$6.9 million of total recovered dollars (up from \$4.4 million in 2006) from recovered materials, and an additional \$400,384 of avoided costs (e.g. avoided landfill costs on recycled materials), up from \$361,368 in 2006.

In 2007, more than 12.1 million pounds of materials were recycled through Investment Recovery's programs, up from 11.4 million pounds recycled in 2006.

Chemical Management

All hazardous materials that are used by the company are required to be reviewed by a Chemical Review Team prior to purchase in order to help ensure the use of materials with lower environmental and safety impacts. The teams review new products and compare them to existing products to see which provides the greatest overall benefit to the company. These teams also provide ongoing reviews of current products to evaluate for "greener" alternatives.

All chemical products are assigned a "EHS Rating" based on the Chemical Abstract Numbers (CAS) of the ingredients in the product and the products National Fire Protection Association (NFPA) rating. This allows us to quickly evaluate and compare the potential risks and hazards of the products we use, and to make better informed decisions regarding the approval of new products.

Through this process, APS has been able to reduce the number of chemical products across our system by about 50 percent over the past 10 years, and to also reduce the potential risk of the chemical products we use by substituting products with a lower potential for health or environmental impacts.

MSDS

All chemical products used at APS are included in an electronic Material Safety Data Sheet (MSDS) system which is available to any employee across the company. APS facilities may use only those products approved for use and which are coded on this system. The electronic MSDS system provides other benefits to our EHS efforts since it allows us to quickly identify the specific chemical ingredients contained in the products at our facilities, while highlighting the risk profile of specific products. The MSDS system also allows users to print labels for secondary containers, and improves our ability to identify hazardous materials, in order to ensure such materials are properly stored and handled.

PCB Management

For a number of years, APS has had an aggressive PCB management program in place to manage PCB and PCB contaminated equipment. APS has been successful in reducing the use of PCBs in electrical equipment by targeting suspected equipment based on manufacturer name and serial numbers. The PCB status of our electrical equipment is tracked in an electronic database, which is readily available across the company, including to our field operations via computers in their trucks.

Facility Energy Management

Our company has long been a leader in energy efficiency and energy conservation, and many of our facility energy management efforts have been described in our past EHS Annual Reports. We continued our efforts with positive results in 2007. Facility energy management is also being added to our sustainability metrics and starting next year we will begin reporting actual energy use numbers for our internal facilities.

Our facilities implement a variety of energy-efficiency measures including:

- Operating air conditioning systems with energy-efficiency software that manages duty-cycling and set-backs
- Replacing out-dated air conditioning with high-efficiency equipment
- Writing all new construction specifications with energy efficiency in mind
- Requiring energy-efficient Energy Star computers whenever new computer equipment is needed

More than 97 percent of our facility space is equipped with energy-efficient fixtures. We estimate energy savings of more than 13 million kilowatt-hours (kWh) per year from the use of energy-efficient products.

In 2003, our corporate headquarters in downtown Phoenix was converted to the Northwind Cooling system which uses an industrial grade, ice-based chiller that manufactures three million pounds of ice each night when utility loads and rates are lowest. The conversion to Northwind eliminated the on-site requirement need for cooling towers and their associated air-conditioning chillers, resulting in a significant reduction in water consumption in the cooling towers, and the elimination of CFC refrigerant R-11 from the chillers.

We are currently developing a voluntary internal metric for energy conservation.

APS LEEDs By Example

APS is a registered member of the U.S. Green Building Council and has committed to a goal of incorporating Leadership in Energy and Environmental Design (LEED) principles in our building design and maintenance. LEED principles encourage “design and construction practices that significantly reduce or eliminate the negative impact of buildings on the environment and occupants in five broad areas: sustainable site planning, safeguarding water and water efficiency, energy efficiency and renewable energy, conservation of materials and resources, and indoor environmental quality.”

The LEED rating system ensures buildings meet a minimum set of criteria in each of five categories, contributing to a sustainable environment, ensuring a healthy and safe workplace and reducing operational costs.

APS is taking an active role in LEED in order to ensure the sustainability of our own facilities, and to allow us to generate interest for the program as well as educate our customers who may be interested in participating in the LEED program.

APS has three registered LEED projects: the Wickenburg and Flagstaff Service Centers and the new Ocotillo Service Center, and has a voluntary commitment to build all new facilities in compliance with LEED standards.

Mobile Fleet

APS has 2,209 company-owned vehicles, which are managed by the APS Transportation Services department. These vehicles are used to operate and maintain our electric generation, transmission and distribution facilities, business offices and other operations which are located throughout the state of Arizona.



We have been able to significantly increase our fleet fuel efficiency over the past several years, improving from an average of 4.9 miles per gallon in 2001 to an average just over 9 miles per gallon in 2007.

APS is also evaluating the use of hybrid line trucks and will purchase hybrid cars for future fleet use in order to further improve mile per gallon.



LAND USE AND BIODIVERSITY

Wildlife Protection Programs

The APS Forestry and Special Programs Department (APS F&SP) is responsible for administering a variety of operations-related environmental programs associated with vegetation management, wildlife protection, landscaping, wood preservation and electrical hardware inspection. To meet the compliance requirements of the National Environmental Policy Act (NEPA), Endangered Species Act (ESA) and other pertinent regulations, the department has evolved to include a dedicated staff of degreed natural resource professionals including foresters, arborists, wildlife specialists, biologists, an environmental resources specialist, a herpetologist, and an archaeologist.

Arizona's environment provides ideal habitats for a variety of birds of prey, or raptors. Raptors are naturally drawn to power poles because they offer a high place to perch, roost, nest and hunt. The large wing spans of raptors, however, make them vulnerable to harm by the electricity being carried on the power lines. The most common raptors affected in the APS territory include Harris hawks, red-tailed hawks and great horned owls.

APS F&SP, in partnership with the U.S. Fish and Wildlife Service (USFWS), has developed a comprehensive Avian Protection Plan. Also, the company has implemented new construction design standards that require the installation of raptor protection devices and coverings to shield electrical components. All new construction is installed in accordance with these raptor safe standards and hardware on over 800 existing poles was modified with protection coverings. Likewise, on all new substation installations, wildlife protective coverings are installed. In addition, 90 substations were retrofitted with wildlife protection devices in 2007.

Protecting birds from electrical contact also increases safety for members of the cat family, raccoons, squirrels and other wildlife whose curiosity and foraging habits draw them to climb power poles and other electrical facilities. APS is a member of the Avian Power Line Interaction Committee and has worked closely with this group to revise the industry's "Suggested Practices for Avian Protection on Power Lines" manual.

As a continuation of the Condor Project, APS donated and installed a 1.5-ton array of nine solar panels – enough to supply 30 amps of power to the holding pen and to a field lab on top of the cliffs. This will keep the water supply thawed through the winter, make it possible for the staff to utilize video cameras for remote observation and supply electricity directly to the field lab.

APS has completed habitat enhancement projects in partnership with the National Wild Turkey Federation and has developed right-of-way corridor vegetation management plans that will improve habitat for wild turkeys and other wildlife. APS is currently collaborating with the Federation, the Forest Service, and the Arizona Game and Fish Department on a wild turkey habitat restoration project on Mingus Mountain in central Arizona.

The company also conducts a comprehensive nest-management program. When birds build their nests on electrical equipment it becomes necessary to take action. If the nest is occupied, permits must be obtained from the USFWS permitting office. APS has developed a nest platform that is installed on the pole in a safe place, the nest is relocated to this platform, and the chicks are placed back in the nest. The adults return soon after to care for their young. In most cases birds return year after year to these same nests.

APS is involved in many other environmental and wildlife protection efforts:

- Wildlife specialists work closely with wildlife rehabilitation organizations to construct artificial homes for burrowing owls displaced as a result of development. APS provides the equipment and people necessary to construct underground burrows that serve to hold an entire colony of burrowing owls.
- The department is currently involved in a biological-assessment project in conjunction with the USFWS. More than 1,000 miles of the company's right-of-way corridors are being evaluated to determine their value to wildlife habitat and to identify areas of concern as they relate to the company's field operations. This multi-year project began in 2006. The company has dedicated two degreed bi-

ologists to this project on a full-time basis and the project is expected to be completed in May of 2008.

- APS collaborates on projects and partnerships with other agencies and non-profit groups for public awareness and education. APS partnered with Liberty Wildlife at several birding events including the Tres Rios Nature and Earth Festival, ASU Earth Day, and National Public Lands Day.
- The company works closely with the Southwest Bald Eagle Association. Each year the company donates approximately 20 hours of helicopter flight time to transport Arizona Game and Fish personnel on their annual Bald Eagle Nest inspections

Cultural Resource Program

Arizona's landscape has a long rich history, and many culturally significant areas. To reduce the possibility of damaging national historical treasures and to ensure the company is in compliance with current regulations, APS added a professional archaeologist to its staff. In addition to coordinating the cultural resource compliance component of new construction projects, efforts are underway to survey the majority of the company's existing transmission system.

Forestry Program

The Forestry Program includes the maintenance and control of trees, shrubs and brush growing around APS facilities and equipment – including overhead power lines, poles, guys and underground electrical equipment. Our Vegetation Management program follows professional industry tree-trimming standards to limit damage and improve overall tree health. We follow the Edison Electric Institute's (EEI) strategy on minimizing pesticide use.

Staff arboricultural professionals including both degreed Foresters and Arborists direct these programs. All operations are performed in accordance to ANSI A-300 Standards for Tree Care. All supervisors and crew leaders are required to earn and maintain professional certification as International Society of Arboriculture (ISA) Certified Arborists. Crew members are required to earn and maintain certification as ISA Tree Workers. APS provides an extensive amount of ongoing arboricultural training.



The high-quality standards of the Forestry and Special Programs' vegetation management efforts have been recognized for the tenth consecutive year with the National Arbor Day Foundation's "Tree Line USA Utility" distinction. The department was lauded for administering a superior program of professional tree care, providing annual worker training, as well as implementing tree planting and public education programs related to proper tree care.

It is often necessary to remove established tall-growing species of trees that are growing near power lines. In many circumstances the company provides the customer with low-growing replacement trees. The department has launched a massive tree replacement project in the Phoenix metropolitan area. Thousands of existing street trees which normally require routine trimming in order to provide safe clearances from overhead wires are being removed and replaced with appropriate low-water use trees that do not grow tall enough to affect power lines. This is truly a win-win project.

Every year, APS F&SP visits at least ten local elementary schools to host Arbor Day celebrations. These events involve an educational component involving the importance of trees in the environment. This is followed by a tree-planting ceremony on the school's grounds.

APS F&SP has developed a Website to educate and inform customers about the department's wildlife protection and vegetative management programs, and to address questions and concerns.

Underground Quality Assurance Program

The Underground Quality Assurance Program is a proactive approach to reducing environmental impacts caused by failed or leaking transformers. The group consists of planners, vegetation crews, line crews and a paint crew. The planners inspect the transformers for safety and maintenance issues and submit jobs to the required crews. The planners along with the vegetation crew's partner with the customer to prune/remove the minimum clearance required for field personnel to safely operate and maintain APS pad mounted equip-

ment. The goal is to inspect all of the transformers statewide to ensure that all leaking, rusting, PCB and sub-surface transformers are repaired.

APS' infrastructure "Footprint"

APS operates a large number of facilities located throughout Arizona and in the Farmington, New Mexico area that generate, transmit and distribute electricity to our customers. One of our highest priorities is to construct and operate these facilities in a safe, sustainable and environmentally conscious manner, protecting our land and our wildlife.

Transmission and Distribution

Transmission lines are the power lines that bring electricity from power plants to substations in customer areas, where the voltage is lowered. Distribution lines carry electricity at lower voltages and go from substations to transformers near homes and businesses. The transformers, often located on power poles, decrease the voltage lower still so it can be used by appliances in homes or businesses.

Distribution Lines:

APS' distribution system includes 12,471 miles of overhead lines and 16,210 miles of underground lines, along with 34 distribution substations.

Transmission Lines:

APS transmission facilities include 5,759 pole miles of overhead lines and 45 miles of underground lines, along with 5 transmission substations

While the majority of APS' customers reside in the metropolitan Phoenix area, we serve a large portion of the rest of Arizona, which is largely rural. APS averages 23 customers per square mile of service territory.

Office and Support Facilities

At the end of 2007, PNW owned or leased 106 facilities to support our operations, with a total of 1,558,073 square feet of building space. This included 18 APS Service Centers and 32 APS Customer Service Business Offices located across Arizona.

Transmission and Distribution Line Siting

APS conducts extensive environmental reviews for siting new transmission and distribution systems. For new power lines rated at greater than 115 kilovolts (kV), the Arizona Corporation Commission requires a Certificate of Environmental Compatibility (CEC) to be issued prior to construction. APS conducts a thorough siting process covering a broad range of environmental issues and factors including, land use, cultural resources, biological resources and habitat studies for rare and endangered species.

APS also conducts a multi-faceted public process which consists of direct mailings, open houses, newspaper advertising and multiple jurisdictional, governmental and public meetings. APS also maintains a Transmission and Facility Siting Web site that providing ongoing information about siting projects to the public.

Beyond the regulatory programs, APS has a voluntary siting process for new transmission lines that are less than 115kV and are not required to follow the state process. This voluntary process is much like the CEC process where numerous environmental factors are evaluated and the public participation process seeks to communicate transmission line siting information to local citizenry to obtain their input. This allows APS to site transmission lines in the most sustainable manner that meets project requirements.

SPILLS & REMEDIATION PROGRAMS

Potentially Responsible Party (PRP) Issues

APS was named in 2003 as a Potential Responsible Party in the Motorola 52nd Street Operable Unit 3 Superfund Site located in Phoenix, Arizona. In July 2004, APS completed negotiations with the EPA and signed a formal agreement, an Administrative Order of Consent. The agreement obligates APS to determine the extent, if any, of its contribution to the regional groundwater impacts, and if so, to identify options for addressing the company's contribution to those impacts under the EPA's oversight and guidelines.

MGP Remediation Program Status

Site Location/ Name	Media Impacted	Remedial Option	Status
Prescott	Soils, Groundwater Surface Water	Excavation	Post Remediation Monitoring
Yuma	Soils, Groundwater	Excavation	Post Remediation Monitoring
Phoenix/ Washington St	Soils	Excavation	Remediation Complete
Phoenix/ Grant St	Soils	Interim-Courtyard Cap Final Excavation	Interim Remedy Completed 2003 Final Remedial Action Plan Scheduled 2013
Phoenix 505	Soils	Not Selected	Site Characterization Complete Remedial Action Plan Scheduled 2009-2010
Globe	Soils	Excavation	Site Characterization Completed Final Remediation Scheduled 2008-2009
Miami	Soils	Not Selected	Site Characterization Complete Remedial Action Plan Scheduled 2011
Douglas	Soils	Not Selected	Site Characterization Complete Remedial Action Plan Scheduled 2011

APS is currently implementing the scope of work specified in the Administrative Order on Consent to evaluate potential groundwater impacts at our facility. The results of the groundwater investigation to date, indicate that volatile organic compounds have been detected in both the up and down gradient monitor wells at the APS facility at concentrations below the EPA's Maximum Contaminant Level for drinking water with the exception of one down gradient well which has had concentrations of one volatile organic compound just above the Maximum Contaminant Level. Additional characterization of the soil and groundwater will continue as APS continues to implement the Administrative Order on Consent.

APS continues to provide funding for the clean-up of the Hassayampa Landfill superfund site. APS sent industrial solid waste to this municipal landfill until it closed in the late 1970s. The facility was

later designated as a Federal superfund site and APS named as one of a number of PRPs. APS' contribution to this clean-up effort is small, representing approximately 1.5 percent of the total annual assessment.

MGP Voluntary Remediation Program Status

Manufactured Gas Plants (MGPs) operated from the late 1800s to about 1950, making synthetic gas for domestic heating and lighting purposes. Several predecessors of APS operated plants in Arizona communities including Phoenix, Globe, Miami, Prescott, Douglas and Yuma. The manufactured gas process created by-products including lampblack, tar and oils, some of which remained at the sites after operations ceased.

APS has voluntarily investigated and characterized our historical MGP sites. We have entered the MGP sites into the Arizona Department of Environmental Quality Voluntary Remediation Program, which is a program specifically addressing the voluntary investigation and remediation of environmentally impacted sites in Arizona. The company began evaluating each site in 1993 to address any remaining material that may have been generated by MGP activities. We began remediating the sites in 1996. Below is the current status of our MGP remediation sites:

Other Remediation Projects

The following table describes the current status of APS' non-MGP remediation projects.

MGP Remediation Program Status

Site Location/ Name	Media Impacted	Remedial Option	Status
Prescott	Soils, Groundwater Surface Water	Excavation	Post Remediation Monitoring
Yuma	Soils, Groundwater	Excavation	Post Remediation Monitoring
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Miami	Soils	Not Selected	Site Characterization Complete Remedial Action Plan Scheduled 2011
Douglas	Soils	Not Selected	Site Characterization Complete Remedial Action Plan Scheduled 2011

Toxic Release Inventory

Our company is required by the Environmental Protection Agency (EPA) to report applicable releases of chemicals listed by the EPA through its Toxic Release Inventory (TRI) program. Our reportable releases under the TRI program are primarily contained in our air emissions from power plant smokestacks, or are contained within coal ash. While the TRI quantities reported by our company are fairly large (as is the case with all utility companies), the majority of these releases are captured by pollution control equipment, or are contained with our waste coal ash (much of which is recycled for beneficial use). The below chart lists our 2006 TRI summary (2007 TRI report is due in July 2008 and was not available at the publication of this report).

2006 Tri Release Estimates (APS Operations)				
	Released to Land	Released to water	Release to Air	Total Released
Arsenic Compounds	15,897	0	64	15961
Barium	4,307,400	2,100	3,360	4,312,860
Benzo(g,h,i) perylene	0	0	1	1
Beryllium	28,560	0	30	28,590
Chromium	176,580	140	589	177,309
Cobalt	49,072	83	134	49,289
Copper	229500	3	669	230,172
Dioxin	0	0	1	1
Hydrochloric Acid	0	0	234,064	234,064
Hydrofluoric Acid	0	0	490,090	490,090
Lead	185,902.00	2	635	186,539.00
Manganese	520,940	1,300	1440	523,680
Mercury	497	0	881	1,378.00
Naphthalene	0	0	50	50
Nickel	101,190	260	582	102,032
PACS	0	0	9	9
Selenium	0	0	3,606	3,606
Sulfuric Acid	0	0	168,078	168,078
Thallium	18,662	0	40	18,702
Vanadium	400,750	940	694	402,384
Zinc	190,360	480	2,265	193,105
TOTAL	6,225,310	5,308	907,282	7,137,900
2005 Total	6,065,060	2,196	858,403	6,925,659
2004 Total	4,961,737	5,435	651,338	5,618,510
2003 Total	4,741,688	3,690	591,209	5,336,587
2002 Total	4,014,728	7,405	658,932	4,681,065

EHS COMPLIANCE

Compliance with all applicable laws and regulations is a minimum performance standard and all our managers and employees are required to uphold regulatory compliance as part of their daily activities and business planning. We consider compliance the foundation of our sustainability efforts, with our focus really being "beyond compliance" in that we look for innovation in our business practices to achieve the best sustainable practices and results.

As an energy supplier and producer, we are subject to environmental, health and safety regulations on the federal, state, county and local levels. In addition, the Four Corners Power Plant located on the Navajo Nation near Farmington, New Mexico, works with the Navajo Nation Environmental Protection Agency to address certain environmental issues. We maintain a goal of zero notices of violation (NOVs) resulting in fines or penalties. Success in meeting this target is reflected in individual employee performance evaluations and compensation.

In 2007, APS received the following Notice of Violations (NOV's):

1. On November 2, 2007, Maricopa County issued NOV # 100900 to Palo Verde for an alleged violation of our PM10 permit limits based on cooling tower testing done in 2005. This NOV was for violating our monthly permit limits. This NOV was resolved along with two previous NOV's (from 2005 and 2006) from Maricopa County for a total of \$79,619 in fines.
2. An NOV was issued on June 20, 2007 at the West Phoenix Power Plant for a permit deviation which resulted from an equipment malfunction that occurred while the unit was still in normal operation and descending in load. A \$2,100 fine was paid to Maricopa County to resolve this NOV.
3. An NOV was issued to our Energy Delivery group in November for not obtaining a Stormwater Discharge permit coverage for a utility relocation project in Sedona. APS subsequently obtained coverage from ADEQ, and no further action was taken by the agency.

Reportable Releases

In 2007, we had a reportable release of 1,700 pounds of sulfuric acid to soil at our Cholla Power Plant due to an equipment failure. This release was reported to the NRC, AZSERC and LEPC and was remediated.