

Company Profile

About Pinnacle West

Headquartered in Phoenix, Arizona, and serving the West for more than a century, Pinnacle West and its businesses have earned a reputation for customer satisfaction, shareholder value, operational excellence and business integrity. Through our subsidiaries we generate, sell and deliver electricity and energy-related products and services in the western United States. We also develop residential, commercial and industrial real estate properties. Pinnacle West's largest subsidiary, Arizona Public Service Company (APS), is the largest electric utility in Arizona, serving about 1.1 million customers across the state.

Pinnacle West:

- Is in Standard and Poor's 500 index and is traded on the New York Stock Exchange under the symbol: Pinnacle West
- Consolidated assets of \$11 billion, including approximately 6,400 megawatts of power plant generation capacity
- APS had 1.1 million customers at year end, in 11 of Arizona's 15 counties
- Was given a AAA (highest) rating, and ranked in the top two among utilities in the United States in every review since 2001 by Innovest Strategic Advisors for our environmental and sustainability performance
- Was listed in the 2007 Dow Jones North America Sustainability Index and in the 2007 Dow Jones United States Sustainability Index as a sustainability leader in the electric industry. This is the third consecutive year that Pinnacle West has been on the Dow Jones Sustainability Indexes

Major Products and Services

Pinnacle West has two principal business segments (determined by products, services and the regulatory environment):

- the regulated electricity segment (accounting for 83 percent of operating revenues in 2007), which consists of traditional regulated retail and wholesale electricity businesses (primarily electric service to all customers in our service territory) and related activities, and includes electricity generation, transmission and distribution; and
- the real estate segment (accounting for 6 percent of operating revenues in 2007), which consists of SunCor's real estate development and investment activities

In addition, Pinnacle West has a competitive business segment providing innovative energy and renewable solutions designed to increase energy efficiency, upgrade equipment and provide sustainability to our environment. These business segments are discussed in more detail in our 2007 Pinnacle West Annual Report, and Pinnacle West 10K, as well as in the Subsidiary Section of this report

PINNACLE WEST STRATEGIC OBJECTIVES

To provide Arizona electricity customers with outstanding service and reliable energy at fair prices.

To focus on superior long-term total returns for shareholders.

To implement business practices that support a strong economy, a healthy environment and prosperous communities for Arizona.

To actively manage our costs and business risks.

To work with regulators to achieve positive regulatory outcomes that benefit both customers and shareholders.

To maximize the long-term value of our assets.

To capture growth opportunities in our electricity markets.

To increase our resource portfolio consistent with our customer growth, environmental factors, cash flow and market conditions.

SUBSIDIARIES

Arizona Public Service Company

Pinnacle West's largest subsidiary is Arizona Public Service Company (APS).



APS, Arizona's largest and longest-serving electricity utility, serves more than 1.1 million customers in 11 of the state's 15 counties, with the major exceptions of about one-half of the Phoenix metropolitan area, the Tucson metropolitan area and Mohave County in northwestern Arizona.

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

Considered by many as the state's largest construction company, APS has built an infrastructure consisting of more than 30,000 miles of transmission and distribution lines and 400 substations.

A leader in renewable technology, APS owns and operates the APS Solar Test and Research Center (STAR), the only facility of its kind in the United States. APS owns and operates a variety of photovoltaic solar generation around the state. Recently, APS announced plans to build Solana, a 280 Megawatt (MW) solar power plant, which if operating today, would be the world's largest solar power plant. The company is an active partner in the development and testing of other renewables such as biomass, hydrogen and wind technologies.

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

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

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

APS' principal executive offices are located at:

400 North Fifth Street
P.O. Box 53999
Phoenix, Arizona 85072-3999
602-250-1000

SunCor Development Company

SunCor Development Company is a wholly-owned subsidiary of Pinnacle West Capital Corporation. SunCor's main activities involve acquisition, development, construction, operation, and sale of residential and commercial properties in the western United States, as well as golf course management. With a current asset base in excess of \$450 million and a net worth of more than \$300 million, SunCor has thousands of acres under development in Arizona, Idaho, New Mexico and Utah, and holds tens of thousands of acres yet to be developed. Previous projects and management contracts have also taken SunCor into California and Mexico.

Backed by significant financial resources, SunCor continues to break new ground, building and maintaining projects that represent aesthetic value, top-quality construction, and superior property management.



Dedicated to the environment and sustainable living

One of the Southwest's premier developers, SunCor provides exceptional, meticulously planned environments. The company is known for developing integrated communities that protect the beauty of nature and offer superior places to live, work, and play.

As an investment builder, SunCor is deeply committed to the long-term value of all of its projects, overseeing developments that combine aesthetic qualities, well-planned infrastructure, and the highest quality in materials and construction. SunCor is implementing innovative actions, such as being one of the first developers to offer New Ruralist style communities and solar power as an option at our Rancho Viejo community. Listed below are some of the best practices sustainability initiatives that SunCor applies to its communities:

Preservation and Enhancement of native landscapes and habitats

In all of its latest Master Plans SunCor is preserving from 45 percent to 60 percent of the natural open space saving thousands of acres of drainage basins, wetlands, hillsides and hill tops, wildlife habitat and wildlife migration corridors.

- Lands disturbed by past agriculture and grazing are being revegetated with native plants

- Stream channels have been restored to provide protection from soil erosion and better habitat for native plants and animals

- Developed a No-Net-Loss Wildlife Mitigation Plan for Avimor community in Boise

Water conservation

SunCor has been diligent in designing communities that conserve our valued water resources. These include:

- 1 Reducing surface water runoff with using methods such as:
 - o Rainwater harvesting (infiltration) in medians and retention areas
 - o Porous paving materials such as pavers (driveways at Hayden Ferry and Avimor)
 - o Reducing roadway widths and non-porous surfaces in nearly all new master plans
- 2 Reusing water with residential cisterns and use of community effluent in parks and common areas.
- 3 Limiting water use by minimizing lawns in parks and common areas, particularly in our arid desert communities.
- 4 Community landscaping with native species and xeriscaping; significant recharge projects (including an injection well); use of effluent from residences for golf course irrigation; dual irrigation systems; and installation of conservation devices, such as low-flow toilets.

Reducing community automobile dependency

Most of SunCor's latest master planned communities are mixed-use and have a clustered development pattern. In this way they are designed to offer shopping, working and recreation within walking distance of most residents. Furthermore an emphasis on providing convenient and safe non-motorized transportation options is attained in our Master Planned communities through practices such as:

- Extensive trail systems

- Bike lanes and facilities for bike commuters

- Tree lined streets for pedestrian comfort

- Safe roadway crossings and streets designed to reduce vehicle speed

Resource and Materials Conservation

SunCor uses many methods to conserve land resources the use of construction materials. These practices include:

- Setting aside lands and resources for preservation

- Employing new technology to stabilize soils and protect from wind and water erosion

- Salvaging native plants and revegetating plant materials into parks and common areas

- Reduction of construction waste

Building Efficiencies and Technology

In the homebuilding division SunCor strives to build homes that are a step above its competitors. While all of its communities have differing needs much of what SunCor does exceeds that of the competition or municipal code requirements.

Within the scope of our Energy Star program, we perform energy inspections that exceed requirements of the municipalities

We install thermostats that provide not only energy efficiency but also help to improve the quality of indoor air

We install higher efficiency heating and cooling equipment

We use increased insulation values

We use lower maintenance and longer lasting materials, things like low maintenance all cementitious exteriors, higher quality roofing materials

We install low water use plumbing fixtures

Energy Conservation (not including building energy efficiencies)

Use of on-site construction materials such as sand, gravel, topsoil and stone to reduce energy needed for transportation

Increased use of teleconferencing to reduce employee travel

Orientation of homes and buildings to maximize energy efficiency (StoneRidge and Avimor)

Pollution reduction

SunCor works to reduce the pollutants that communities generate such as dust, emissions, noise, fertilizers and light. Our new communities have implemented several practices aimed at pollution reduction

Limited street lighting and use of “cut-off” street lights that limit light pollution into the night skies

Dust mitigation for surfaces prone to wind erosion

Multi-modal transportation systems that encourage biking and walking thereby reducing emissions and noise.

Management of fertilizer applications in parks, golf courses and common areas

Future conservation measures

SunCor is continuing to find ways to be good stewards of its resources. Here are several things that SunCor is exploring.

On-site nurseries to limit transportation of materials and save energy

Bioengineering techniques to stabilize slopes

LEED Certified commercial construction (Hayden Ferry Lakeside Tower III and Conference Center)

Use of bio-swales to reduce surface water and provide infiltration

Integration of agriculture and/or viticulture into our “New Ruralist” communities

Use of porous concrete for streets, drives and sidewalks

APS Energy Services

APS Energy Services is the full-service energy services subsidiary of Pinnacle West Capital Corporation, and builds on a long history of delivering competitive electricity, managing energy usage and providing superior energy and renewable solutions. With an average of 20 years of experience, team members are trusted and knowledgeable experts in the industry. The company provides flexible, customized and innovative energy and renewable solutions designed to increase energy efficiency, upgrade equipment and to provide sustainability to our environment. Since 1997, successes have included projects for a vast array of clients ranging from commercial and industrial entities; healthcare; hospitality; educational campuses; and local, State and Federal institutions.



Through its wholly owned subsidiary, Northwind™ Phoenix, APS Energy Services markets, designs, constructs, finances and operates district energy systems throughout the Southwest. District energy is an innovative centralized cooling and heating system that utilizes an extensive underground network of pipes to effectively deliver hot and cold water, steam or electricity from a central plant. In 2007, adding to its reputation of keeping much of downtown Phoenix comfortable, Northwind Phoenix

began operating a third plant in downtown Phoenix inside the new and expanded Phoenix Convention Center. By summer 2008, the downtown Phoenix system is estimated to reach 30,000 tons of installed capacity, serving 26 buildings.

In addition to its downtown operations, Northwind Phoenix continues to operate the Arizona State University combined heat and power plant constructed by APS Energy Services, and will soon begin operations of the recently constructed 1,200-ton cooling plant at the Arizona State University Polytechnic campus located in the east part of the greater Phoenix area.

Energy conservation is a core focus of APS Energy Services and the company seeks to promote and implement the efficient use of energy through the development of comprehensive energy solutions. APS Energy Services is passionate about the environment. In support of this goal, they seek to promote renewable energy alternatives when applicable and are committed to conducting work in a sustainable and environmentally responsible way. Among its renewable projects:

Solar

The Hualapai Tribe, located predominantly along the western edge of the Grand Canyon, partnered with APS Energy Services to design and construct a solar hybrid project to provide power to the remote region. The project consisted of a 17 Kilowatt (kW) solar array with fixed positioning at the air terminal and a 16-kW solar array with fixed positioning at the residential area, for a total installation of 33-kW. Because the Hualapai Tribe is located off the grid, the energy generated from this project is the only source of electricity for this community.

As part of larger comprehensive energy programs, APS Energy Services completed a 15-kW system mounted on a wall and covered entryway at the City of Flagstaff, as well as, a 30-kW system on a sports complex roof in Rohnert Park, CA and 10-kW system for Mineral County School District in Nevada.

A solar collector system, necessary piping and associated pumping and controls to offset 16,500 therms of annual natural gas usage was installed at the Signal Peak olympic aquatic center as part of a larger comprehensive energy program at Central Arizona College. The system interfaces with the existing pumping and heating system to ensure an adequate source of heat when the solar system cannot provide for full heating load.

Digester

APS Energy Services engineered a unique fixed film digester plant for Classic Farms in Aurora, S.D. The farm received a grant from the USDA to construct a plant that converts animal waste from a hog farm into biogas to run an electric generator that serves farm operations, inclusive of water treatment. A rendering component was also part of the grant.

APS Energy Services plans to bring the learnings from this project to Arizona to build the most cost-effective farm biogas projects. Arizona has a hot climate and a number of farms, which make this optimal for such a solution.

APS Energy Services constructed a cogeneration unit at the City of Flagstaff Wildcat Hill Wastewater Treatment Plant (WWTP). The project provides the Wildcat Hill WWTP with a biogas reciprocating engine intended to be fueled in whole using digester gas available from Wildcat Hill WWTP. The result of this cogeneration process will be a maximum electric utility offset of 292 kW of electric power at a 7,000 foot elevation at full load.

“As our name says, we’re an energy services company,” said Jim Lodge, president, APS Energy Services. “Since we were founded in 1998, our mission is to be a premier energy service provider. We achieve this by helping our customers meet their strategic objectives through comprehensive energy solutions. As energy prices continue to rise and the increasing importance of taking responsibility for a sustainable environment, energy efficiency projects and the deployment of renewable technologies is a cost-effective way to assist in achieving our customers’ goals.”

APS Energy Services is headquartered in Phoenix, Arizona and has completed energy efficiency and renewable projects throughout the southwest. For more information about APS Energy Services, please visit their Web page at www.apses.com.

OUR APPROACH

Sustainability at Pinnacle West: An integrated business model

Sustainable business practices are a critical component of our business plan. Sustainability is not a program at Pinnacle West, it is the way we do business; a business model for accomplishing our goals. For many years, our company has had a formal corporate philosophy of "doing the right thing" which basically means focusing on ethical business decisions that are good for the company while also being good for our customers, our communities, our employees and the environment. We continue to build on that philosophy in our sustainability efforts. Sustainable business practices are becoming part of every employees' mindset and way of doing business, because they are the right thing to do and make good business sense. As such, we strive to incorporate sustainability concepts into our daily operations and to drive "ownership" of sustainability to each and every employee, just as we have with other corporate core values.

"Because sustainability is becoming ingrained in our corporate culture, our employees understand the positive impact they can have on the environment, our communities and Arizona's economy. They embrace this kind of responsibility and accountability. They realize the importance of their roles, and the ownership they feel in building Arizona's future motivates them to be more productive, more efficient and more focused"

-Bill Post-

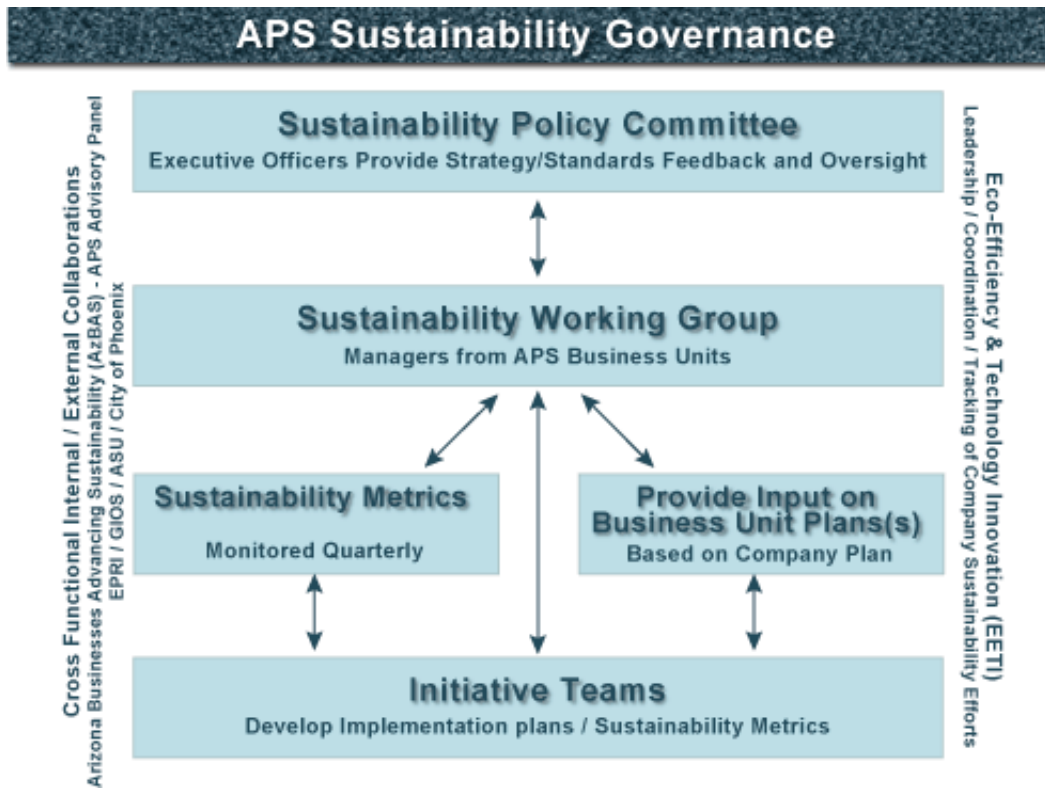
PNW Chairman and CEO in the PNW 2007 annual report

We have established a strong sustainability governance system which includes:

- 1 Board of Director and executive engagement and oversight, including establishing a Chief Sustainability Officer position.
- 2 Public disclosure of sustainability goals and performance through this annual Corporate Responsibility Report.
- 3 Establishment, communication and ongoing monitoring of sustainability goals and metrics.
- 4 Ongoing dialogue and interaction with our employees about our sustainability efforts.
- 5 Establishment of a formal sustainability organizational structure for effective evaluation, communication and management of our sustainability efforts.

The chart below illustrates our sustainability governance structure.

The Eco-Efficiency and Technology Innovation Department's charge is to help integrate sustainability initiatives throughout the enterprise and to better address the evolving expectations and opportunities of stake-



holder groups and the general public. This department helps us to improve the strategic direction and planning of our initiatives, while allowing the company to better plan and respond to emerging issues, risks and opportunities. The department is headed by a Senior Manager, who reports directly to the Chief Sustainability Officer. The department does not have line authority over other Pinnacle West departments, rather it serves a planning, support and coordination role in our sustainability efforts.

The Sustainability Working Group (SWG), a cross-departmental team of key managers and leaders, works in tandem with the Eco-Efficiency and Technology Innovation Department to improve coordination among the company's various departments; establish our sustainability baseline and evaluate new issues and opportunities in sustainable business practices; and help ingrain those business practices and philosophies among our front-line employees. This team also helps develop and track sustainability performance, including appropriate metrics. The SWG forms Initiatives Teams from employees across the company as needed to work on specific sustainability issues.

A policy group of company officers and senior managers provides executive level oversight to our sustainability effort. The policy group and Chief Sustainability Officer interfaces with our Board of Directors on sustainability issues.

Arizona Businesses Advancing Sustainability

In order to help advance sustainable business practices across our community, Pinnacle West partnered with Intel Corporation in 2007 to found a new business association, called Arizona Businesses Advancing Sustainability or AzBAS. AzBAS is dedicated to improving economic, environmental and social business practices in Arizona, with a goal to discuss sustainable business practices and work collaboratively to improve business aspects in the state. Among the issues the association expects to discuss is how to work with government policy makers to improve the state's sustainability. The group also will look to build better relationships with the communities the companies serve while addressing environmental concerns.

Re-Establishing our Sustainability Baseline and Setting Future Goals

In 2007, our SWG, in conjunction with an outside consultant, conducted a comprehensive benchmarking study of corporate sustainability goals and metrics, with particular focus on the electric utility industry. Following that benchmarking study, the SWG completed a detailed review of all sustainability metrics at Pinnacle West. Based on those two studies, Pinnacle West re-established our sustainability foundation, ensuring that the goals, metrics and key issues being used were appropriate to our company. As part of that baseline setting, the SWG identified several new goals and metrics for key issues related to water use, customer energy conservation and employee engagement, which have been reviewed with the Policy Committee for incorporation in 2008

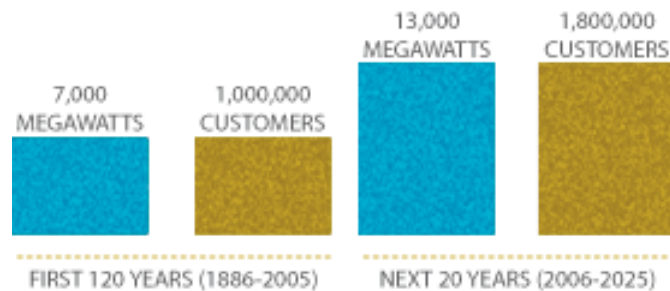
KEY ISSUES

A Sustainable Energy Future

The electric utility company of the future will look much different than the utility company of today. At Pinnacle West our primary sustainability challenge lies in responding to this changing future to provide reliable and affordable energy service to our customers, while maintaining a high level of social responsibility, workplace performance and environmental stewardship. We realize we must maintain this level of performance while responding to issues such as global climate change. And as a regulated utility company, we must work cooperatively with our customers, Arizona and federal regulators, and our other key stakeholders in achieving the goal of a sustainable energy future for our customers and a successful business enterprise for our shareholders.

Despite the current economic slow down, our long-term projection for our service territory is for continued strong growth in both the number of customers and the amount of electricity used per customer. It took nearly 120 years for our company to add its one millionth customer. It will take a little more than 25 years to double that number. Detailed discussions on our projected growth and resource planning can be found in our Integrated Resource Plan at www.aps.com/resources.

By 2025, APS Customers and Electric Demand will nearly double



Our sustainability efforts are widespread and include efforts throughout our operations and in the communities we serve. We monitor and report on more than 200 different sustainability issues and associated metrics, which you will find throughout this report. All of these issues are important to us as part of our ongoing business operations. However, we have identified the following key issues as being particularly critical in responding to the challenge of a sustainable energy future at this time. These issues represent some of the greatest challenges, and competitive opportunities, for our company and industry, and each of these key issues is discussed in detail in this Corporate Responsibility Report.

1 Climate Change

Climate change, and the move to a low carbon future, is one of the most critical issues facing the electric utility industry. The decisions we make in the near future will impact our customers and communities for decades to come.

2 Integrated Resource Planning

The resource planning process plays an essential role in meeting future customer needs in an economic manner while minimizing impacts to the environment. The challenge is even greater for APS than for many other utilities due to the strong load growth that APS projects in the future. In planning for future resource needs, APS faces a number of challenges, including electric load growth, natural gas fuel price volatility, limited availability of regional generation capacity, transmission constraints, construction cost escalation and climate change issues.

3 Demand Side Management and Energy Conservation

While we are taking many steps to reduce the environmental impact of energy generation and delivery, the other side of the equation is reducing the increasing demand for energy. We must help our customers understand and help implement ways to achieve energy conservation.

4 Renewable Energy

Renewable energy is an crucial part of our energy future, helping to meet the challenge of climate change, while also being an important part of our fuel mix diversification. Done right, renewable energy can provide price stability and be a cost effective, reliable and non-polluting component of an utilities overall energy mix.

5 Electric System Reliability

Providing reliable electrical service is vital to a successful utility company. There are many challenges to providing a high level of system reliability which APS meets in a number of different ways, including innovative new technologies that will help reshape the future of electric power.

6 Customer Satisfaction

A high level of customer satisfaction is essential to our ongoing business success. In the face of rising energy costs, achieving high levels of customer satisfaction becomes even more challenging.

7 Technology Innovation

Improvements in technology are necessary for us to meet evolving challenges, such as climate change and system reliability and efficiency. Future leaders in the utility industry must also be technology leaders. APS has an aggressive technology innovation effort that helps us meet these challenges.

8 Employee Workforce development and maintenance

Our employees are our most critical asset in meeting our future challenges and achieving ongoing business success. Maintaining a safe workplace, and continuing to develop our workforce and meet the challenge of the retiring "boomer" generation is a critical sustainability issue for Pinnacle West.

STAKEHOLDER ENGAGEMENT

Effective Stakeholder engagement is a critical part of our business plan and essential to our ongoing success. Our company has numerous programs and activities for engagement, communication and consultation with our communities and other stakeholders, which cover the majority of our operations.

Our major stakeholders include:

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

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

Customers

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

From these interactions the company is able to evaluate the results of our customer satisfaction efforts, reward top performing individuals and teams, and identify areas for continuous improvement. Customer satisfaction results play a partial role in the annual performance assessment for most leaders and managers. Results are also used to determine a portion of APS' annual companywide incentive pay.



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

Employees

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

An online Sustainability Discussion Board was launched in mid-March of 2007 to promote employee participation in dialogue about sustainability topics and ideas. To date, more than 1,000 employees have visited the site.

Our Community

APS works closely with municipalities, government agencies and the public to build consensus and to proactively plan the generation, transmission and distribution resources necessary to accommodate the state's rapid customer and business growth. As part of the process, APS conducts environmental studies and extensive public outreach to identify sensitive areas with respect to the affected communities. This process is described in more detail in the Land Use and Biodiversity section of this report.

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

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

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

A Community Advisory Panel (CAP) was formed in 1999 by Pinnacle West Energy prior to the construction of the Redhawk Power Plant. CAP members are composed of a broad range of local community interests. Typical members will include local residents, members of civic and homeowners organizations, environmen-

tal groups, education institutions, business associations and community leaders. The purpose of the group was to establish two-way communication to review issues of concern and to create a responsive, proactive partnership between the company and the surrounding communities where the plant was to be built.

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

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

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

Organizations and other Stakeholders

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

APS worked with four environmental interest groups involved in environmental issues in the western United States: Environmental Defense, the Grand Canyon Trust, Western Resource Advocates and the New Mexico Citizens for Clean Air and Water, on the issue of visibility in the western United States, and planned voluntary emission controls at the APS Cholla and Four Corners plants.

Emergency planning for the Palo Verde Nuclear Generating Station is a cooperative effort involving Pinnacle West Capital Corporation/Arizona Public Service Company (Operating Manager for Palo Verde), the State of Arizona, Maricopa County and the Town of Buckeye.

These are just a few of the ways we work with our stakeholders. Throughout this report we provide other examples of how we engage our stakeholders to work in a cooperative and mutually beneficial way.

CORPORATE GOVERNANCE

There has been an increased interest in companies corporate governance practices since 2001, due to the collapse of a number of high-profile U.S businesses. In 2002, Congress passed the Sarbanes-Oxley Act, which was intended to restore public confidence in corporate governance. In addition, various New York Stock Exchange (NYSE) proposals and Securities and Exchange Commission (SEC) pronouncements have addressed corporate governance, and are changing the way many companies do business. Pinnacle West welcomes these changes, many of which affirm the practices we've had in place for many years. We are committed to sound corporate governance practices and financial integrity.

Corporate Governance and Sustainability

At Pinnacle West, we are striving to go beyond the traditional concept of corporate governance by applying sound corporate governance practices to key sustainability issues. For example, our climate change program contains the following key corporate governance practices:

- Board of Directors engagement and oversight
- Management execution, including top management involvement, and integration into risk management and resource planning processes
- Public disclosure
- Emissions accounting



The Better Business Bureau awarded APS with its' Business Ethics Award in recognition of APS ethical business practices, including our "Doing the Right Thing" philosophy

- Strategic planning, including incorporation into business operations, establishment of GHG reduction targets, and development and implementation of business strategies to reduce greenhouse gas (GHG) emissions and to minimize exposure to regulatory, operational and other risks from climate change.

These strategies are discussed in more detail in our Climate Change section of this report. We have also created a sustainability governance structure, which is discussed in the Pinnacle West Approach section of this report.

Independent Directors

The Board of Directors currently consists of 12 directors, 11 of whom have been determined to be independent. See page 3 of the 2008 Proxy Statement under “Do we have independent directors” and “How did the Board make its independence determinations” for a discussion of the elements for independence and the determinations.

The Chairman of the Board of Directors is William J. Post. His biography appears on page 12 of the 2008 Proxy Statement. The Corporate Governance Committee has considered separating the Chairman and CEO roles but concluded that the Company is best served by a structure in which the CEO also serves as Chairman.

Board Diversity

Three women and one minority serve on the company's 12-member board of directors.

Director and Executive Compensation

Director and executive compensation is discussed starting on page 9 and 17 respectively of our 2008 Proxy Statement.

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

Please see page 7 of the 2008 Proxy Statement, “How are nominees for the Board selected”; page 10 of the 2008 Proxy Statement, “How can Shareholders communicate with the Board”; and page 49, “How do we submit shareholder proposals or director nominations for the next Annual Meeting?”

Code of Conduct and Ethics

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

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

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

Some key sections of the “Doing the Right Thing” booklet include:

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



Pinnacle West also has a booklet called Doing the Right Thing-Contractors, which provides key components of our ethics and business practices policy as it applies specifically to contractors. The pamphlet is distributed to key contractors in partnership with the company's contract labor vendors. Again, this is available for viewing by the public on our corporate Web site.

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

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

Public Affairs

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

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

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

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

Military contracts and percentage of total revenue

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

Pinnacle West Governance is Transparent

Key corporate governance information is available to the public on our Pinnacle West Web site. This includes detailed information on Board responsibilities, independence of board members, compensation, committee responsibilities and other key corporate governance issues at the Company. Below are some of the sections that are available to the public:

- Corporate Governance Guidelines
- Committee Summary
- Audit Committee/Charter
- Corporate Governance Committee/Charter
- Finance, Nuclear and Operating Committee/Charter
- Human Resources Committee/Charter
- Code of Ethics for Financial Professionals
- Ethics Policy and the Standards of Business Practices
- Director Independence Standards
- Executive Officer Stock Ownership Guidelines
- Restricted Stock Retention Policy

AFFILIATIONS AND MEMBERSHIPS

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

Here are some of Pinnacle West's key affiliations and memberships relative to our sustainability efforts:

Government and NGO Partnerships and Organizations

Coalition of Environmentally Responsible Economies (CERES)

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



PowerTree Carbon Company

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

The National Wild Turkey Foundation (NWTF) Energy for Wildlife

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

The Nature Conservancy

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



EPA Coal Combustion Products Partnership (C2P2)

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

EPA Climate Leaders

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



EPA SF6 Emission Reduction Partnership

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

EPA WasteWise

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

EPA/DOA EnergyStar Program

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

Industry Groups and Associations

Arizona Businesses Advancing Sustainability

Founded by APS and Intel, AzBAS is a business association dedicated to improving economic, environmental and social business practices in Arizona.

American Council on Renewable Energy (ACORE)

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

American Wind Energy Association (AWEA)

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



Arizona Solar Energy Association (ASEA)

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

CEA Technologies Inc. (CEATI)

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

Common Ground Alliance (CGA)

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



Edison Electric Institute (EEI)

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

Electric Power Research Institute (EPRI)

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



Institute of Nuclear Power Operations (INPO)

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

U.S. Green Building Council (USGBC)

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



Utility Solid Waste Activities Group (USWAG)

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

Utility Water Activities Group (UWAG)

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

Utility Air Regulatory Group (UARG)

The Utility Air Regulatory Group is a nonprofit, unincorporated organization of individual electric utilities and national trade associations.

Water Reuse Association, Arizona Chapter

The mission of the Water Reuse Association is to advance the beneficial and efficient use of water resources through education, sound science, and technology using reclamation, recycling, reuse, and desalination for the benefit of members, the public, and the environment.

WEST Associates

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

Western Business Roundtable (WBRT)

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



AMR Sustainability Peer Forum

The Sustainability Peer Forum brings together environmental and sustainability leaders from across industries to share and discuss best practices, lessons learned, and how to create industry-leading companies with innovative products and service.



The Product Development and Management Association (PDMA)

PDMA is global advocate for product development and management professionals. Our mission is to improve the effectiveness of individuals and organizations in product development and management. This is accomplished by providing resources for professional development, information, collaboration and promotion of new product development and management.



AWARDS AND RECOGNITIONS

While the company does not take part in sustainable practices to garner awards, Pinnacle West and its subsidiaries received third party recognition for its sustainability programs in 2007. Here are some highlights:



- Pinnacle West was named one of the Global 100 Most Sustainable Corporations in the World by Corporate Knights at the 2007 World Economic Forum in Davos, Switzerland. This is the fourth year in a row that Pinnacle West has been named a Global 100 company.
- Pinnacle West has the highest rating (AAA) and is ranked in the top two of utilities in the United States by Innovest Strategic Value Advisors in a comprehensive analysis on the U.S. Electric Power Sector covering the environmental, social and governance factors of the largest publicly-traded utility companies. Pinnacle West has received the AAA rating from Innovest each time since Innovest started evaluating the company in 2001.
- Pinnacle West was listed in the 2007 Dow Jones North America Sustainability Index and the 2006 Dow Jones United States Sustainability Index as a sustainability leader in the electric industry indexes, for the third year in a row.
- The Company earned "best in class" status in 2007 by Storebrand Socially Responsible Investment for its leading environmental and social performance.
- APS was named EPA/DOE 2007 Energy Star Partner of the Year from the U.S. Environmental Protection Agency for the APS Energy Star Residential Lighting Program.
- APS won an Award of Merit in the Valley Forward Environmental Excellence Awards, for the APS educational program "Road to Renewable Energy"
- APS was awarded an Exemplary Award from the American Council for an Energy-Efficient Economy (ACEEE), recognizing the APS Energy Star Residential Lighting Program as one of America's leading energy efficiency programs
- For the 11th straight year, APS won the Tree Line USA Award by the Arizona Community Tree Council in recognition of APS' leadership in urban forestry and environmental stewardship
- The Better Business Bureau (BBB) awarded APS with its 2008 Business Ethics Award for APS' business ethics approach and our "Doing the Right Thing" corporate philosophy.
- In 2007, the APS Volunteer Program was named a finalist by the Points of Light Foundation for its Awards for Excellence in Workplace Volunteer Programs. As a finalist, the recognition honors the more than 170,000 hours of volunteer time donated by employees to more than 400 charitable, cultural and educational organizations and programs throughout Arizona and New Mexico.
- The APS Saguaro solar trough was featured on ABC News' live 20/20 program, Planet Earth 2007: Seven Ways to Help Save the World, a live ABC News program that aired in April, and was also featured in a special green section produced by The New York Times in March, 2007.
- The company's emissions-to-biofuels project at the Redhawk Power Plant was featured in an October 2007 National Geographic cover story about how plants are being developed into fuel.