

Workplace Performance

The businesses of Pinnacle West are built upon a foundation of skilled, diverse and dedicated employees. Their ability and willingness to innovate, adapt and perform is the foundation of our current and future excellence. We must ensure employees are fully engaged in the company's successes and challenges.

We consider our employees a competitive advantage, and in order to retain and attract this talented workforce, we offer competitive compensation, strong benefits and a variety of career opportunities.

Over the next five years, we face the challenge of planning for and supporting significant workforce transition. Core skills and capabilities, including leadership, must be developed as long tenured employees retire and new employees are integrated into the workforce. Also, new skills and capabilities will be required to implement improved processes, new infrastructure and new technology. Success in this area depends on planning and executing knowledge transfer, workforce planning and development, and human performance improvement.

This section of our report shows our performance and some of the ways we will accomplish our workplace goals.

LABOR PRACTICES AND WORK PERFORMANCE

Pinnacle West's number one asset is its employees. The company offers a wide array of career opportunities in leadership, professional, technical, administrative and internship positions, as well as union and non-union positions. At Pinnacle West, our goal is to treat every employee equitably, professionally and with respect. We have a highly-skilled human resources group dedicated to ensure that labor and employment issues are addressed. We also have internal policies that spell out employees' rights, and an established code of conduct that all employees are expected to follow (See our ethics policy in the Governance Section of this report). The company also offers an Employee Concerns Program (ECP) through which employees can anonymously report any suspected wrongdoing.

Attracting Employees

Our company's Web site connects potential job seekers with employment opportunities as well as information about our family of companies. The company's School-To-Work (STW) internship program and scholarships introduce students to virtually every part of our business from engineering to trades and crafts to information systems. Students are recruited for positions throughout the Pinnacle West family of companies.

STW also targets students who are attending community colleges or universities, or who are enrolled in vocational programs tailored for the utility industry. The company also works with Arizona State University, the University of Arizona, Northern Arizona University, Community Colleges, area high schools and local organizations on scholarship opportunities, career expos and more in order to help develop and hire the local workforce.

APS also partners with the local Chandler-Gilbert Community College in the Electric Utility Technology (EUT) program. The program, the first of its kind in Arizona, is collaboration between APS and the college to address our industry's need. The two-year program provides community college students with a foundation in lineman training. The program covers an array of areas including the basics of electricity, pole climbing, cross arm installation and safety. Participants earn an associate degree in Electric Utility Technology

APS' affiliation with the National Association of Colleges and Employers (NACE) allows it to research graduation rates, new graduates' compensation and other vital information the company can use to attract top talent.



Pinnacle West has received an AAA (highest) rating from Innovest Strategic Value Advisors for its environmental and sustainability performance, and was ranked in the top 2 utilities in the nation on the Innovest survey.

We also have an active intern program, which is discussed more in the Training section of this report. According to NACE, the national conversion rate of interns to full-time employees is around 50 percent, while our conversion rate is 98 percent.

Total Rewards

Our company offers competitive compensation and rewards for outstanding performance. APS offers competitive salaries, comprehensive benefits and a sound work environment. All of our full-time employees are covered by a defined benefit plan and approximately 80 percent of our employees participate in our defined contribution plan. As of January 1, 2007 our projected benefit obligation for the defined benefit plan is 78%.

Employees hold 2.9% of the shares outstanding through the Pinnacle West 401(k) savings plan. Pinnacle West's compensation and benefits plan are discussed in more detail on the Pinnacle West Web site.

Family-Friendly Benefits

- The company offers unpaid sabbaticals to employees who have been employed for five years. General leaves of absence are also available
- Time off for mothers after giving birth falls under the company's Short-Term Disability policy. No additional paid maternity leave is available
- We have a listing of child care centers that provide a discount to Pinnacle West employees
- We have a Healthcare flexible spending account and a dependent care flexible spending account for our employees
- Where appropriate, flextime/job share schedules are used in the company
- Based on business needs, part-time work is available upon return in certain circumstances
- The company provides adoption aid reimbursement up to certain limits of qualified adoption expenses



Union Representation

The Company has Collective Bargaining Agreements (CBAs) with two Unions: The International Brotherhood of Electrical Workers Local #387 (IBEW 387), and the Security, Police, Fire Professionals of America (SPFPA), and the United Brotherhood of Carpenters and Affiliated Local Union #408 International. Nearly 30 percent of the company's employees are represented by one of these Unions.

In each case there is a negotiated Labor agreement that establishes the working rules and other terms and conditions of employment. The company's philosophy is to work cooperatively with unions where they are in effect and to honor the agreements we have made in our negotiations.

Pinnacle West and APS enjoy a healthy mutual respect with IBEW Local 387, the largest union representing employees within the company. Through this partnership with IBEW, several initiatives have been implemented, including a multi-skill-training program, a process to hire supplemental workers, a drug-free workplace program, an apprenticeship program, a driver qualification program and numerous safety projects. The union and the company often join in community-minded causes such as the Valley of the Sun United Way's Community Service Fund campaign and a baseball field building program with Major League Baseball's Arizona Diamondbacks.

We respect the rights of our union employees to bargain collectively. We strive to retain positive labor relations and we always try to resolve issues internally and at the lowest level possible to ensure positive outcomes for the employee and for the company.

The company also has a positive discipline program in which leaders work in conjunction with employees and human resources representatives to achieve positive resolution.

Workforce Succession Planning

As our workforce gets older, the company faces the daunting task of replacing many years of experience as employees plan their retirements. The company has taken steps to ensure that not only are key positions filled when experienced employees leave; but also they are filled with employees who are ready and well trained.

Although our workforce is aging, our turnover rate including retirements remains low, which gives the company the time needed to accelerate our training, development and recruitment efforts.

Pinnacle West has had a formal succession planning processes for years, which includes all key leaders throughout the enterprise. This means the company has identified potential successors for key positions and has a strong focus on their development.

So while the company stands to lose half of its current employee population to retirement in the next ten years, we're putting together tools to look at the entire organization to ensure we fill those positions and maintain a transfer of that knowledge.

One of the tools is the "dashboard," a matrix (resembling the layout of a car's dashboard) that can be tailored for any business unit in the company. It provides a snapshot of an individual business unit's workforce, taking into account turnover statistics and more. The dashboard allows each unit to better plan which positions require backup and knowledge transfer.

Another key way to help business units understand their potential staffing and training needs is the "Knowledge Management Tool," which ensures that business units plan for positions that are either "critical" or "unique."

Our Succession planning is a multi-pronged approach which includes:

- Developing and preparing current employees with a focus placed on succession planning
- Transferring knowledge
- Attracting new talent
- Process improvement for succession planning

And, APS' succession-planning efforts aren't confined to the company. For many years APS has recruited interns and employees from the community as well. The company sponsors several apprentice programs through local high schools and colleges aimed at recruiting, training and retaining talented students into the workforce. Please see the Training and Development section of this report for more information on these efforts.

EMPLOYMENT PROFILE & DIVERSITY

At APS and Pinnacle West, we believe our differences can often be our strengths. That's why we're committed to support diversity: in our workforce, in the vendors and business partners we work with and in the community. Diversity of culture and experiences are tangible assets that bring a flavor and newness to the table. We also believe the ideas and perspectives born of diversity will lead to the sustainable growth of our company and our communities.

At Pinnacle West and APS, we share a strong diversity commitment in our workplaces, in our procurement practices and in our community activities.

PNW EEO Employer Information Report						
Job Categories	Overall Totals	White (not of Hispanic origin)	Black (not of Hispanic origin)	Hispanic	Asian or Pacific Islander	American Indian or Alaskan Native
Executives/Sr Officials & Managers	24	17 (M) 2 (F)	0 (M) 0 (F)	3 (M) 1 (F)	1 (M) 0 (F)	0 (M) 0 (F)
Officials/Managers	816	580 (M) 107 (F)	10 (M) 6 (F)	45 (M) 12 (F)	13 (M) 1 (F)	38 (M) 4 (F)
Professionals	1913	1118 (M) 404 (F)	30 (M) 13 (F)	115 (M) 67 (F)	89 (M) 20 (F)	34 (M) 23 (F)
Technicians	533	374 (M) 63 (F)	13 (M) 3 (F)	46 (M) 12 (F)	5 (M) 2 (F)	12 (M) 3 (F)
Sales Workers	12	6 (M) 4 (F)	0 (M) 0 (F)	1 (M) 1 (F)	0 (M) 0 (F)	0 (M) 0 (F)
Administrative Support	883	215 (M) 383 (F)	8 (M) 24 (F)	54 (M) 143 (F)	5 (M) 4 (F)	9 (M) 38 (F)
Craft Workers	2089	1356 (M) 40 (F)	37 (M) 5 (F)	206 (M) 11 (F)	7 (M) 0 (F)	369 (M) 58 (F)
Operatives	195	141 (M) 10 (F)	7 (M) 0 (F)	28 (M) 3 (F)	2 (M) 1 (F)	3 (M) 0 (F)
Laborers & Helpers	63	36 (M) 3 (F)	1 (M) 0 (F)	23 (M) 0 (F)	0 (M) 0 (F)	0 (M) 0 (F)
Service Workers	237	144 (M) 29 (F)	14 (M) 3 (F)	36 (M) 5 (F)	3 (M) 0 (F)	3 (M) 0 (M)
Total	6765	3987 (M) 1045 (F)	120 (M) 54 (F)	557 (M) 255 (F)	125 (M) 28 (F)	468 (M) 126 (F)
Previous Total	6556					

*(M)Male, (F)Female

Employee Management Count

	2003	2004	2005	2006	2007
Employee Count					
Total Employees	6368	6416	6430	6556	6765
Total Female	23%	23%	22%	22.5%	22.5%
Total Minorities	25%	25%	26%	25.3%	25.6%
Management					
Total Management	766	740	785	803	840
Total Female	15%	15%	17%	17.6%	15.8%
Total Minorities	13%	13%	15%	15.6%	15.9%

In 2007, Pinnacle West had 6,765 employees, compared to 6,556 in 2006

We are committed to being an equal-employment and affirmative-action employer. We understand the value of diversity in our workforce and actively seek opportunities for incorporating diversity within our company. Pinnacle West strives to provide every employee an equal opportunity to succeed professionally. Our work environment is one wherein every employee is treated with dignity and respect. Decisions about employment, training, compensation

and promotion are based on job-related qualifications. Not only does our company prohibit discrimination, our policy explicitly prohibits sexual harassment or harassment of any nature in the workplace. Annual affirmative-action training is required of all leaders.

APS has a dedicated corporate Affirmative Action/Diversity Team, headed by the manager of Workforce Services, that focuses on workforce analysis, compliance, affirmative action, diversity, maintaining a harassment-free workplace, and training and education.



DEVELOPMENT & TRAINING

On-going employee training and development is critical to the success of our company. Pinnacle West offers employees excellent opportunities for career and employee development training. This includes numerous internal training opportunities as well as external training and tuition reimbursement for formal college and university training. We also

have several apprenticeship and intern programs.

Dedicated Training Facilities and Resources

The company has six dedicated training facilities which include a plant-specific nuclear control room training simulator; other power plant operations simulators; maintenance, electrical, instrumentation, chemistry, customer service, line worker and other technical training laboratories and equipment mock-ups. Employees have access to fully-equipped classrooms for instructor-led as well as computer-based training. The company also provides online business and information technology "referenceware" and courses that are accessible to employees at work or at home, 24-hours-a-day.

The company has more than 124 full-time professional staff members dedicated to providing engineering, craft, trade, technical, customer service, professional, business practices, environmental, health and safety training and individual and team development. The ratio is one full-time professional for every 50 employees.

Significant Dollar Investment

The company spends more than \$30 million annually for facilities, staff, materials, supplies, tuition, fees and travel to provide training and development for its employees. This is an average of more than \$4,800 per employee. This figure does not include cost of the participants' time spent in training and development activities.

Apprenticeship and Intern Programs

Fossil Joint Apprenticeship program

The Fossil Joint Apprenticeship program was formed by APS and the International Brotherhood of Electrical Workers Local 387 to develop qualified employees for all company fossil-fueled power plants. The program, registered in 2001 with the Arizona Department of Commerce and the Federal Department of Labor, offers on-the-job training for maintenance technician automotive/heavy equipment mechanic; maintenance technician-machinist; and Electrical & Instrumentation (E&I) Technician.

The Fossil Joint Apprenticeship Committee administers the program and works with San Juan College in Farmington, NM, Northland Pioneer College in northern Arizona, and Education Direct (an online distance learning program) to provide off-the-job training classes. In addition, journeymen in each craft teach both on and off the job to help apprentices become proficient in their chosen craft. Fossil apprenticeship positions are posted and applicants for apprenticeships must meet the minimum requirements.

APS Apprenticeship Program

The APS apprenticeship program, started in 1948, is a training ground for those interested in a career in the electric utility fields. Apprentices receive statewide on-the-job training along with trade-related classroom training. On successful completion of the apprenticeship program, apprentices become journeymen linemen, electricians, polyphase metermen and mechanics. APS also has a Utility Tree Worker Apprenticeship, one of the first of its kind in the nation. The mechanic program is college accredited and the APS apprentice trade programs qualify for the Montgomery GI Bill.

Quest for Excellence (QFE) program

The Quest for Excellence (QFE) program is a Palo Verde-sponsored partnership with West Valley/Phoenix area high schools. Students participate in a seven-week program studying advanced math including algebra and physics. After completing the high school program, graduating seniors are eligible for the summer intern program. All college intern graduates are eligible for fulltime employment based on the availability of entry level positions, performance standards met and workforce needs of the business units.

Other Accredited, Certified Training Programs

Eleven nuclear training programs are accredited by the Institute of Nuclear Power Operations (INPO)
Six craft apprenticeship programs meet state certification requirements
Environmental, health and safety training programs meet and exceed requirements of the Occupational, Safety and Health Administration (OSHA), Environmental Protection Agency (EPA), Department of Transportation (DOT) and Nuclear Regulatory Commission (NRC)

Formal Training Requirements

All employees are required to complete annual ethics, safety, environmental and business practices training, averaging four hours per employee. Training completion is tracked and reported
Approximately 70 percent of the company's employees work in highly specialized craft, operations, technical, engineering, and customer service positions and have annual job specific training requirements. These training requirements range in duration from 16 to 400 hours annually, for an average of 46 hours of annual continuing training per employee in these job groups. Training completion is tracked and reported

Formal Development Processes

The company has a formal succession planning processes which includes all key leaders throughout the enterprise. Succession planning development plans are directed by a panel comprised of the CEO and the executive vice-presidents for officers and candidates to officer positions. Succession planning development plans for senior managers and candidates to senior management positions are directed by panels comprised of executive vice-presidents, vice-presidents and appropriate senior managers.

The company has formal leadership development processes:

- Employees have access to an e-Learning system which can assist them in identifying their aptitude and/or interest in becoming a leader
- Once an employee is identified to fill a leadership role he or she is provided with additional e-Learning and in person training opportunities. First-time leaders are provided with courses covering leadership, communication, performance management, and business skills which prepares them for their formal leadership role. Leaders receive ongoing communications on leadership development topics and business relevant materials throughout the year
- All company leaders at the manager level and above participate in three to four Leadership Forums per year, to stay focused on the company's business direction, results and challenges
- Each business unit executive directs an annual program for his or her leaders to address changes in

management, culture, and human-performance improvement issues unique to the business unit
The company has formal employee development processes:

- The company provides an educational assistance program for employees seeking college credit or degrees. Employees are reimbursed 80 percent of tuition upon successful completion of a course. Within the annual limit of \$5,000, employees may also be reimbursed the remaining 20 percent of tuition costs upon successful completion of a degree
- Performance Review (non-union) employees receive an annual performance plan, which includes identification of learning and development objectives. Approximately 70 percent of the company's employees are performance

EMPLOYEE HEALTH & PRODUCTIVITY



Pinnacle West provides a variety of programs that encourage healthy lifestyles and informed decision making to better manage health costs and positively impact individual health and productivity.

We view health management as a corporate business strategy that focuses upon prevention and health promotion to control escalating health benefit costs while improving the success and health of our employees and the company as a whole. We know that disability costs and the effects of an aging workforce can be minimized through effective implementation of processes and programs designed to promote healthy behaviors and lifestyle practices.

We have Health Services Clinics at our CHQ, Deer Valley, 4 Corners, Cholla and Palo Verde facilities.

We continue to invest in comprehensive programs that improve the health, productivity and well being of our employees by promoting healthy behaviors, disease management and healthy lifestyles. Through these efforts we have been able to control escalating health-benefit costs while improving the success of our employees and our company and will continue our medical strategy focus to:

- Reduce health risks and improve long-term health status
- Reduce medical claims costs
- Motivate positive change in modifiable health risk behaviors
- Integrate health promotion, preventive services and care management for employees along the health care continuum

The company offers a variety of programs to employees to assist with, and support individual personal health management, including:

Healthquest is a voluntary, company-paid health screening conducted by an outside worksite wellness vendor at more than 28 site locations throughout the company. Healthquest offers a convenient way for employees to help identify and support healthy lifestyle behaviors. Participants receive a health evaluation and comprehensive lab screening. After the screening, a confidential report is sent to the participant's home, along with information and resources to help interpret results and take action in managing personal health

Employee Assistance Program provides no-cost, employee-assistance counseling and referral services to all employees and their family members seeking solutions to personal difficulties such as (but not limited to): emotional stress, marital and family discord, drug or alcohol abuse, financial or legal burden, death of a loved one, grief, anxiety, depression or other personal problems which may occur

Weight/Lifestyle Management Classes provides educational instruction and resources to support a healthy lifestyle and promote behavioral change

Flu Shots are provided for free to employees

Mobile Onsite Mammogram (MOM) screening services at company facilities

Healthy Lifestyle loans which are interest-free loan up to \$1,500 toward healthy lifestyle programs and services. These include annual fitness center membership, home use fitness equipment, personal

training, nutritional counseling/weight management and programs to help employees quit smoking/tobacco

Ergonomics Program which was created to minimize the potential health impacts to employees from ergonomic stress related injuries and illnesses

Mayo Clinic Web Access provides online health information and resources, including a health risk assessment and interactive lifestyle management tools and programs

Healthy Returns Care Management offers care-management services to assist those in better managing chronic diseases or conditions

Flu pandemic plan, Since APS is a critical part of the local infrastructure, a flu pandemic scenario is one possible crisis being addressed in the company's Business Resumption Plan (BRP). A cross-functional team of employees from Energy Delivery, Generation and Shared Services is developing plans to address the impact of sustaining operations during a flu outbreak. Such an outbreak could affect employees and the company's business operations.

In addition, recognizing that a good defense is a healthy offense, the company's Health Services team is providing employees with information on good health practices. By following this information, employees and their families can minimize their risk of becoming part of the flu pandemic.

EMPLOYEE SAFETY

Safety is the overriding value of all aspects of our business. A primary responsibility of all APS employees is to ensure their safety, that of their co-workers and the public at large. While the growth of our service territory dictates greater efficiency and productivity, these added demands cannot come at the expense of the health and safety of our employees. Every employee must have the opportunity to return home at the end of their shift in the same condition in which they arrived.

With the amount of work necessary to meet our rapidly growing service territory, the challenge to work safely will continue into the future. This challenge is increasingly significant as many experienced employees reach retirement age and new team members join our company. In the APS 2005-2010 Business Plan, the management team asks each employee to "Own the Challenge." Until APS employees can achieve zero recordable injuries and sustain that performance, there will always be room for improvement.

"As leaders, we have a responsibility to ensure our people work safely. Let me be clear: Nothing is more important than the safety of our people, and I need your help in regaining our focus. The number of injuries we are experiencing is trending upward, and the severity of our injuries is a serious concern. We need to reverse these trends. I will hold leaders accountable for the safe work practices of their team members."

-Don Brandt-

APS President and Chief Executive Officer

Specifically, we continue to ask employees to focus on six fundamental principles of safety:

- Use the right tool for the job
- Get the necessary training
- Wear appropriate personal protective equipment
- Conduct thorough tailboard (pre-job) briefings
- Stop work if there is a safety concern or question
- Report all close calls

Throughout 2007 emphasis was placed on employee participation in behavior-based initiatives designed to focus the attention of our workforce on safety awareness and minimizing at-risk behavior and conditions.

Leading Safety Performance

Our management team is responsible and accountable for safety performance. However, we recognize that employees and their immediate supervisors also have a key role in driving personal behavior and therefore our safety results. Working in concert with our full-time safety and health professionals also is critical to our success. The following describes our internal safety infrastructure:

Safety and Health Advisory Team

The Safety and Health Advisory Team is responsible for providing cross-functional strategic direction and leadership on companywide health and safety issues. The team consists of safety and health professionals from each of the company's business units. These professionals represent their respective business unit and communicate health and safety issues. The team makes recommendations to the company's officers on all matters requiring executive oversight.

The team is supported by the Prevention Team, which advances programs and practices that promote employee wellness and accident prevention, and the Compliance Team, which addresses regulatory compliance matters and interpretation of best management practices.

Joint Health and Safety Committee

The Accident Prevention Manual (APM) Rules/Revision Committee is comprised of company and Local IBEW employees who review the safety rules and any employee requests for revisions to the manual. In addition to fielding requests, the Committee periodically reviews the manual to ensure it remains timely and useful in helping to prevent accidents.

Craft Observation Teams

The Energy Delivery business unit at APS has established four full-time IBEW positions that conduct field observations of membership work practices and work conditions. This practice enhances trust among union membership and creates an environment that is open to immediate corrective or improvement actions. A similar approach is used at several APS Generation facilities during critical overhauls and outages.

Critical Success / Performance Indicators

We report safety statistics in an effort to measure and improve our performance. As stated in the 2005 - 2010 Business Plan, our goal is to be ranked number one among peer utilities by 2010 as measured by:

- All Injury Incident Rate - total OSHA Recordable injuries reported;
- Lost Work Incident Rate - total number of OSHA Recordable injuries resulting in lost workdays; and,
- Severity Incident Rate - total number of workdays lost due to OSHA Recordable injuries.

APS Safety Performance					
	2003	2004	2005	2006	2007
Total Recordable Cases					
APS Total	130	98	152	156	177
APS Injury Incident Rate (AIIR)^(a)	2.04	1.52	2.28	2.31	2.49
Electric & Gas Utility Industry Average^(b)	3.12	3.7	3.07	3.21	N/A
Lost Work Day Cases					
APS Total	16	31	43	41	61
APS Injury Incident Rate (LWIR)^(a)	0.25	0.49	0.64	0.61	0.86
Electric & Gas Utility Industry Average^(b)	0.61	0.70	0.73	.75	N/A
Lost Work Days					
APS Total	691	1149	1070	1218	1636
APS Injury Incident Rate (SIR)^(a)	10.83	17.81	16.02	18.00	22.97
Electric & Gas Utility Industry Average^(b)	18.48	35.7	30.85	24.64	N/A
APS Fatalities	0	0	0	0	0

(a) All injury Incident Rate (AIIR) : The total of all recordable cases multiplied by 200,000 and divided by the actual employee exposure hours worked. Lost Work Day Incident Rate (LWIR) : The total of all recordable cases multiplied by 200,000 and divided by the actual employee exposure hours worked. Severity Incident Rate (SIR) : The total of all recordable cases multiplied by 200,000 and divided by the actual employee exposure hours worked.

(b) Source: Edison Electric Institute Safety Survey.

(Note: 2007 Edison Electric Institute utility industry safety statistics were not available at the time this report was published.)

APS First Aid & Close Call Events History

	2003	2004	2005	2006	2007
First Aid Cases	223	218	320	271	292
Close Call Events	236	288	339	348	312

While APS continues to rank well in safety performance against its electric and gas utility industry peers, safety performance in 2007 fell far below our standards. For some perspective, in 2004 – the company’s safest year – we had 101 recordable injuries, of which 31 involved lost work days. However, in 2007, we incurred a total of 177 recordable injuries, 61 involving lost work days.

Safety is a core value at APS, and we are taking steps to improve our performance in 2008 by holding all of- ficers, managers and front-line supervisors personally accountable for safety performance in their opera- tions.

“As leaders, we have a responsibility to ensure our people work safely. Let me be clear: Nothing is more im- portant than the safety of our people, and I need your help in regaining our focus. The number of injuries we are experiencing is trending upward, and the severity of our injuries is a serious concern. We need to reverse these trends. I will hold leaders accountable for the safe work practices of their team members.”

--Don Brandt, APS President and Chief Executive Officer

At the beginning of 2008 all leaders were required to participate in a Leader Safety Awareness training pro- gram and to conduct safety meetings with their employees. These and other efforts will be ongoing throughout 2008.

Incidents are reported through an electronic Event Notification and Tracking System, and managers are strongly encouraged to also report close calls. By evaluating close calls and making corrections when appro- priate, we believe we can identify potential problem areas before they result in an accident. The number of close calls reported has increased over the past several years as we have communicated our reason for doing so.