

Customers
Innovation
Community

The Power of Sustainability

Efficiency
Values
Environment

Sustainability in Difficult Economic Times

Since October 2008 when the current recession truly manifested itself, many people have asked if our support for sustainability has waned. Our answer is short—no.

Sustainability is not a flavor of the month, or a green initiative that comes and goes depending on other priorities; rather, it is our business model. All our activities whether they are economic, environmental or social are based on an analysis of what will benefit our company and customers. We don't undertake uneconomic initiatives simply because they make us look green or socially responsible. We undertake those initiatives as part of our core business strategy for short- and long-term success of the company.

In 2008, we advanced this strategy by integrating our sustainability metrics into the business plan of the company. The Strategic Framework for our business plan graphically displays our strategy and it hangs in every conference room and in many offices throughout the company. The outer ring states our values as a company and a workforce. We tell our employees if they cannot undertake their work and live up to the values then they should stop the work and ask what's wrong. Values bound our actions. They are not situational.

The inner ring represents our areas of focus against which all plans must be analyzed before being put into action. Sustainability's triple bottom line of developing and implementing environmental, social and economic business strategies is the core of this focus, but sustainability is not a static state-of-being and requires continuous effort to always do better. It also requires acknowledgement that companies, in the end, are only as good or bad as the people who work for them—only people make decisions. Thus we add employees and continuous improvement to our focus on being a sustainable business.

We should be clear that this is not our model for sustainability; it is the one and only business model for our company. Our view is that if done right, our business will be economically successful, the environment will benefit from our decisions and the communities we serve will prosper.

Last year was also significant because APS published its new Resource Plan which articulates our preferred path to serving a projected 50 percent increase in population and energy growth between now and 2025. Given the environmental challenges of climate change and the business risks associated with fossil fuels considering the likelihood of climate change

legislation, our Plan focuses on the opportunities for increased cost effective energy efficiency, renewable energy and other non-carbon emitting generation. Our goal is to meet the projected growth without increasing our carbon footprint.

Our business approach to addressing sustainability continues to be recognized by unaffiliated third parties. In 2008 we were elected to the Global 100 for the fifth year in a row and to the Dow Jones Sustainability Index for the fourth year in a row.

APS also received the electric utility industry's highest honor, the Edison Award, for developing a landmark system that uses artificial intelligence to monitor major transformers in near-real-time. The Edison Electric Institute (EEI) gives this award each year to honor an electric utility for outstanding contributions to the advancement of the power industry.

We believe innovation is essential to our long-term success. In 2008, we achieved record levels of reliability in our system to serve current customers while simultaneously developing and implementing new business plans for innovation in renewable energy resources, smart grid and smart meter technology, and other technologies that hold the promise to make our future operations cleaner, smarter, faster and more efficient—outcomes that the future will clearly demand of us.

This Report articulates the steps we took in 2008 on the path to that future.



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The Principles of Sustainability

Social

OUTREACH

- APS has conducted more than 20 summits designed to educate social service agencies about programs available for our low-income customers. Since 2006, representatives of more than 300 social service and tribal entities have attended these presentations.

VOLUNTEERISM

- In 2008, employees, their friends and family donated more than 150,000 volunteer hours to more than 400 non-profit organizations.
- More than 350 APS employees represent the company on non-profit boards across the state.

CHARITABLE PROGRAMS

- APS routinely is the top corporate giver to the Valley of the Sun United Way's annual fundraising campaign. Our employees distinguish themselves by being the largest group of Leadership Givers, committing to donating at least \$1,000.

CUSTOMER SERVICE

- APS ranked second among all investor-owned utilities in the west in the 2008 J. D. Power and Associates Residential Customer Satisfaction Survey.
- APS will have installed about 300,000 "smart meters" by the end of 2009, with a target of installing them for one million APS customers by the end of 2012.

Economic

ECONOMIC SUSTAINABILITY

- Pinnacle West was identified as one of the Corporate Knights Global 100 most sustainable companies in the world for the fifth straight year.
- The Better Business Bureau honored APS with its 2008 Business Ethics Award in recognition of APS' ethical business practices.

ECONOMIC DEVELOPMENT

- APS' 2008 economic development efforts contributed to \$100 million in new capital investment in Arizona, one million square feet of industrial/business development and 1,000 new jobs.

RESOURCE PLAN

- APS filed a new Resource Plan with the Arizona Corporation Commission that, if approved, will allow APS to satisfy an increase of more than 50 percent in customer energy consumption with no increase in CO₂ emissions.

ENERGY EFFICIENCY

- In 2008, APS' Demand Side Management (DSM) programs cost more than \$24 million and resulted in energy savings of almost \$73 million, achieving about \$3 in benefits for each \$1 spent and saving more than three million megawatt hours of electricity.

RELIABILITY

- In 2008, APS achieved all-time best results in reliability by reducing customer outages, and expects to be in the top quartile of utilities nationwide.

Environmental Stewardship

RENEWABLE ENERGY

- In 2008, APS customers received 609,926 megawatt hours of energy produced from renewable sources, about double the amount from 2007 and nearly six times more electricity from renewable resources than in 2006.
- In February 2008, we announced plans for the 280-megawatt Solana Generating Station, which when built, will produce enough electricity to power 70,000 homes.

CLIMATE CHANGE

- Renewable energy and energy efficiency are major components of our proposed Resource Plan, and will prevent emissions of 30 million metric tons of carbon dioxide over the plan timeframe compared to fossil fuel generation.
- APS joined The Climate Registry as a founding member in 2008 and will voluntarily report all greenhouse gas emissions.

CONSERVING NATURAL RESOURCES AND MINIMIZING IMPACTS

- More than 61 percent of water used at APS power plants is treated city waste water.
- In 2008, APS recycled 617,684 tons of coal ash for cement production or other use, reducing overall greenhouse gas emissions by over 130,000 tons of carbon dioxide. In 2008, fly ash from our Four Corners Power Plant was used to make the concrete for a three-mile runway at Edwards Air Force Base for use by the space shuttle.

Workforce and Continuous Improvement

EMPLOYEES

- Over the past decade, APS has added more than 300,000 new customers, while improved efficiency has allowed the company's workforce numbers to remain stable.
- Sustainability efforts focused on the employees in October 2008 as we looked to anchor sustainable business concepts into our daily corporate culture and actions. Site visits by officers to discuss sustainability were supported by activities and daily articles in our employee communications.

SAFETY

- In 2008, APS' emphasis on improving safety performance resulted in a 39 percent reduction in OSHA recordable injuries over the previous year.

TECHNOLOGY INNOVATION

- The applied artificial intelligence which allows us to monitor transformers in near-real time, garnered APS the electric utility industry's highest honor, The Edison Award for its landmark TOAN system. The Edison Electric Institute (EEI) gives this award each year to honor an electric utility for outstanding contributions to the advancement of the power industry.
- APS is conducting an exciting demonstration project that uses carbon dioxide from power plant emissions to grow algae which is then used to produce biofuels.

2008

THE POWER OF SUSTAINABILITY

Pinnacle West 2008 Corporate Responsibility Report

- Learn how our company is responding to the challenge of global climate change.
- Read about our Integrated Resource Plan which will allow APS to satisfy an increase of more than 50 percent in customer energy consumption with no increase in CO₂ emissions in 2025 over the baseline year of 2009.
- Learn about the increasing role of renewable energy and energy efficiency in our plan to create a sustainable energy future.
- See how our technology innovation efforts are producing exciting results that will help us to improve customer service, reduce costs and meet evolving challenges such as climate change.
- Check out our programs designed to help customers become greener and more energy efficient.
- Learn more about our company's volunteerism efforts and our role in building better communities.

Some of Our Significant Changes for 2008

- APS has developed a new Climate Change Management Plan which provides detailed discussion about APS' climate change issues, risks, greenhouse gas inventory and the company's strategic response.
- In 2008, APS joined the Electric Utility Industry Sustainable Supply Chain Alliance. The Alliance will help APS further develop sustainable supply chain practices while providing value for our customers and shareholders.
- Recognizing the increasing importance of water resources in our sustainable energy future, in 2008 APS formed a new corporate Water Resource Management Department, with the mission of ensuring sustainable, cost-effective and more efficient use of water.
- APS increased its annual expenditures in its Demand Side Management programs from \$18.5 million in 2007 to \$24 million in 2008, achieving about \$3 in net benefits for each dollar invested and reducing more than 3.2 gigawatt hours of electricity use.
- Pinnacle West has adopted specific sustainability metrics for inclusion in the Corporate Business Plan.
- APS has added a Spanish-language information section to aps.com to enhance communications with more than 32,000 customers who have indicated a preference for Spanish-language communications.



All of this and much more can be found in the Pinnacle West 2008 Corporate Responsibility Report, online now at: www.pinnaclewest.com/cr



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