

2014 CORPORATE RESPONSIBILITY REPORT

A SUSTAINABLE ENERGY FUTURE

PINNACLE WEST CAPITAL CORPORATION



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PINNACLE WEST CAPITAL CORPORATION IS AN
ENERGY-HOLDING COMPANY BASED IN PHOENIX, ARIZONA WITH
A FOCUS ON THE BUSINESS OF ITS PRIMARY SUBSIDIARY,
ARIZONA PUBLIC SERVICE COMPANY (APS).

APS is Arizona's largest electric company, providing retail and wholesale electric service for 129 years to customers across most of the state.

Our company has published this report each year since 1994 to share our sustainability performance and vision with our stakeholders and the public.

THE APS VISION

Creating a sustainable energy future for Arizona

THE APS MISSION

We safely and efficiently generate and deliver reliable electric power and related services to our customers.

LETTER FROM THE CEO & CSO

For more than a century Arizonans have relied on APS to power their lives. During that time, we've seen a great deal of change – how power is created, how we deliver it, how it is used, and how we ensure enough electricity is available at any given moment for our 1.2 million customers across our service territory.

Today, change is happening at a faster rate than at any time in our history. Many customers want more control over their energy use. They want to see an increased use of renewable resources in making that energy. Our customers' evolving usage, including the rise of rooftop solar, coupled with new innovations, requires a grid that is more dynamic and technologically advanced than ever before.

Through efforts guided by our Integrated Resource Plan, which forecasts trends in energy usage and generation for a 15-year period, we are prepared to lead Arizona's energy future and meet customers' needs.

And by "we," we mean every one of our employees. Our engaged workforce is dedicated to providing safe, reliable and affordable power, and to supporting our communities where we live and work.

Our success is dependent on a skilled and committed workforce, and that's why we undertook an employee engagement survey in 2014, the first we've conducted in nine years. Investments we have made in our people resulted in high marks for engagement. Employees appreciate the focus the company puts on their safety, and the importance of aligning goals and performance. We provide training and advancement opportunities at all levels of the company, enabling future growth and knowledge transfer.

The company also offers and encourages volunteer opportunities for employees to show their support of the communities they serve. Our employees embrace the spirit of giving back to the community. Combining APS-sponsored activities and our employees' individual acts of service, APS employees reported 147,000 hours of volunteer time in 2014, which translates into more than \$3.3 million in service to the community.

Our support of employees in and out of the workplace results in an experienced and loyal employee base, which is vital to our sustained success, as roughly half of our workforce is becoming retirement-eligible. We have been planning for this transition through mentoring and capturing institutional knowledge, while positioning ourselves to meet the broader changes our industry is facing.

Attracting and retaining the talent needed to take APS into the future is a high priority. That's why we encourage participation in our diverse Employee Network Groups and are committed to a workplace where every employee is welcome and has the same opportunities for advancement.

We work hard to ensure we maintain an inclusive workforce. In 2014, we were awarded the Freedom Award, the U.S. Department of Defense's highest recognition given to employers, for exceptional support of Guard and Reserve employees. We also were awarded the Barry Goldwater Human Rights Corporate Award at the 23rd Annual Equality Arizona Awards, for our commitment to ending discrimination on the basis of sexual orientation and gender identity.

By hiring the best people, we were able to accomplish the impressive results and progress included in this year's report. This includes a number one ranking from Ceres for energy efficiency among 32 of the largest U.S. investor-owned utilities, and our \$1 million gift to preserve the trails in the Grand Canyon, guaranteeing access to this natural wonder and inspiring future generations to be leaders in sustainability.

Through their commitment to excellence, our employees are ensuring a successful Arizona and APS, for now and far into the future.

Thank you for your interest in APS and in this report.



Donald E. Brandt



Ann C. Becker



Donald E. Brandt
Chairman, President and Chief Executive Officer, Pinnacle West and APS



Ann C. Becker
Vice President, Environmental, and Chief Sustainability Officer, APS

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BEST CORPORATE CITIZENS

Corporate Responsibility Magazine

Pinnacle West was recognized on the annual list of 100 Best Corporate Citizens from Corporate Responsibility Magazine for the fourth consecutive year, ranking 55th overall among thousands of companies worldwide.

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Times Pinnacle West stock hit 52-week highs in 2014

4.85%

Increase to quarterly dividend

\$5B

Increase in shareholder value over last five years





SHAREHOLDER VALUE

Our financial foundation continues to be solid, with earnings and results that attract investors and enable us to continually improve our business. Our financial success is due to a keen focus on operational excellence to achieve the APS mission of providing safe, reliable and affordable electricity for Arizona.

Both Pinnacle West and the electric utility industry outperformed the overall stock market in 2014. The stock price, which began the year at \$52.92, was \$68.31 on December 31, 2014 – a 29.1 percent improvement.

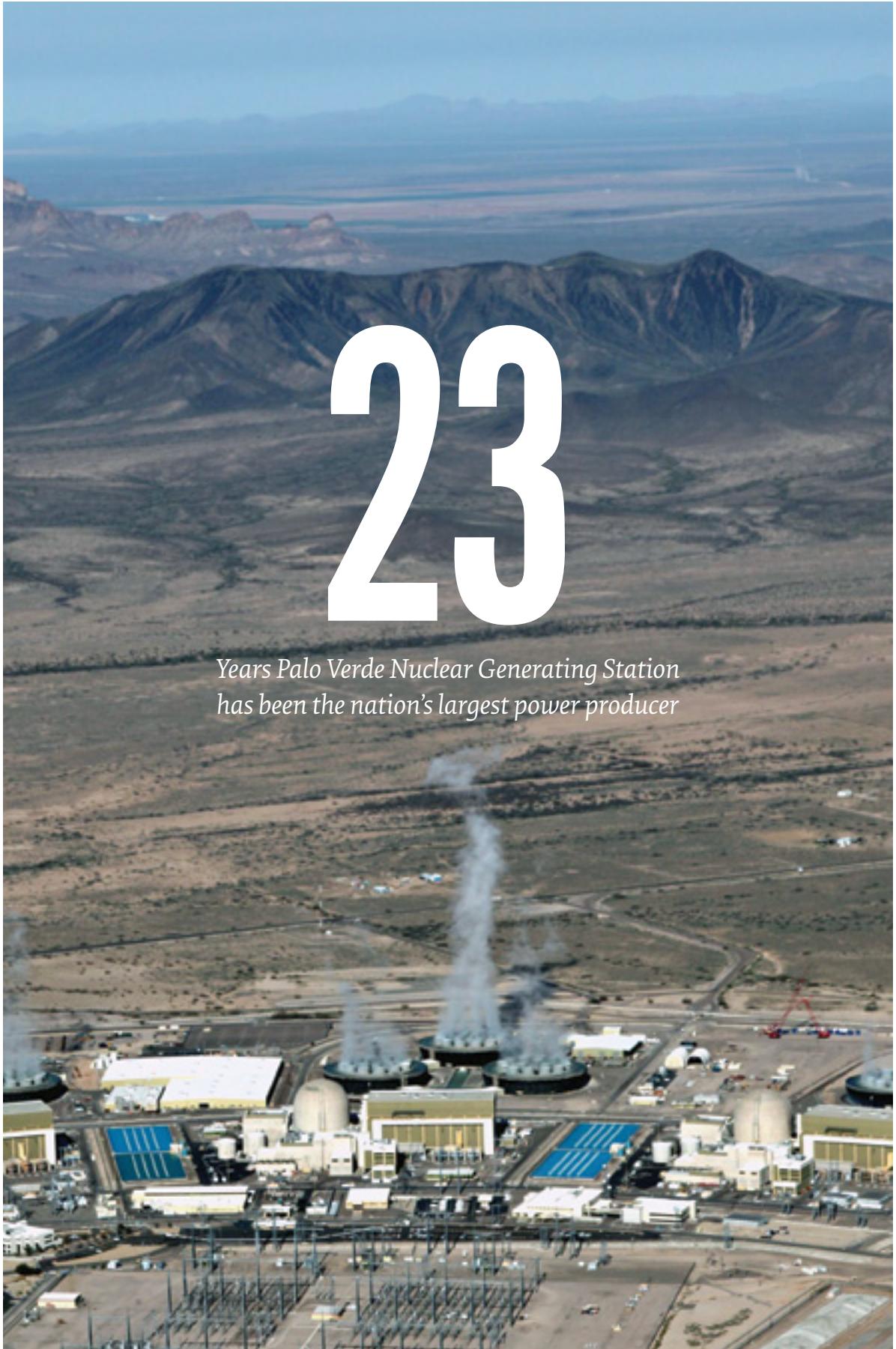
Pinnacle West reported net income of \$398 million, or \$3.58 per share in 2014, compared with \$406 million, or \$3.66 per share in 2013. Less favorable weather conditions, including lower than average summer temperatures, played a role. When the effects of weather are removed, our “weather-normalized” earnings would have been \$3.68 per share in 2014, compared to \$3.60 per share in weather-normalized 2013.

Our board of directors approved an increase to our quarterly dividend for the third consecutive year, raising it by 4.85 percent. In addition, Pinnacle West’s total shareholder value increased \$2 billion in 2014, and \$5 billion over the past five years.

A contributor to positive financial performance is our ongoing commitment to disciplined cost management. With APS’s Sustainable Cost Management Initiative (SCMI), the company is driving a culture of process improvement and cost management. The focus of SCMI in 2014 was Enterprise Process Improvement, a systematic approach to determining how to do our work more efficiently and effectively. The effort has reduced cost, redundancy and potential for error, while increasing operational efficiency.

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*Years Palo Verde Nuclear Generating Station
has been the nation's largest power producer*



OPERATIONAL EXCELLENCE

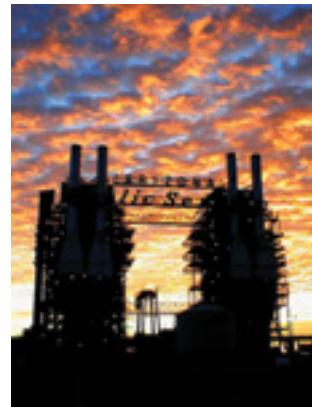
Arizona's economy is on a growth trajectory, and APS is ready to meet that growing demand – for power and for more diversity in how that power is generated.

Generation Diversification

Renewable generation is a growing piece of our power mix. Consumer demand for “green” electricity and the growth of renewables are driving the creation of new customer programs and the need to upgrade grid technology to ensure uninterrupted electricity delivery across the system. Through the APS Solar Partner program, APS plans to construct and integrate 10 megawatts of residential solar on about 1,500 customers’ roofs. This program will also enable critical research and development to advance industry knowledge related to rooftop solar, while identifying the most responsible ways to integrate residential rooftop solar for customer benefit well into the future.

Palo Verde Nuclear Generating Station still leads the entire United States in producing safe, reliable, affordable, carbon-free electricity. With all three Palo Verde units operating at 99.7 percent capacity during the summer, Palo Verde exceeded its own record for power generation for the 10th time – producing 32.3 million megawatt-hours (MWh) in 2014, beating its previous best of 31.9 million MWh in 2012. For the second consecutive year, a planned refueling outage at Palo Verde was completed in the record time of 28 days and 22 hours, 20 hours less than the previous record set in 2013.

Plans for replacing the Ocotillo Power Plant’s 1960s-era steam generators with new natural gas-fired quick start combustion turbines are under way. The new units will provide the operational flexibility needed to respond to the substantial increase in renewables on the system. By the summer of 2019, our customers will be enjoying the benefits of cleaner, more efficient and more flexible generation resources.



A modernization of the Ocotillo Power Plant will give customers cleaner, more efficient and more flexible generation.



Customers enjoy a level of service reliability that compares favorably with the best performers in the electric utility industry.

Electricity at the Flip of a Switch

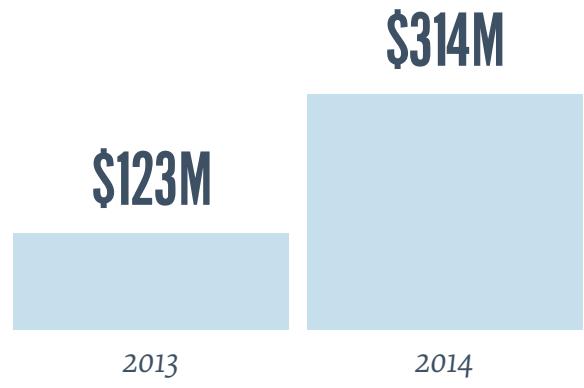
Regardless of weather conditions or unexpected events, our customers expect power to be available every minute of their lives. We're proud of our record in keeping the electricity flowing so our customers rarely experience disruptions.

Summer is the hardest time of year for system reliability, due to the usual high loads that come with consistent three-digit temperatures. During the severe storm in the Valley of the Sun on September 27, as many as 50,000 customers were without power. APS crews worked at 96 sites, replacing 80 poles and reinstalling nearly 20,000 feet of wire that was damaged, restoring the majority of customers within the first day, with full restoration by day three.

That was just one of many incidents our crews managed in 2014. On July 8, a storm knocked down 50 poles and one of APS's primary transmission lines that feeds Casa Grande in Arizona City. Even with all the damage, the redundancy and resiliency built into the system kept our customers from being impacted.

The 20,000-acre wildfire in Oak Creek Canyon marked the first formal use of the new APS Incident Command System, a systematic tool used for the command, control and coordination of emergency response. By the end of the summer, seven Incident Commands had been successfully operated, including the management of two wildfires, four major storm restorations and one call center interruption.

Even with these events and a summer peak demand of 7,007 megawatts, customers enjoyed a level of service reliability that compares favorably with



2013 2014

*Supply Chain spend with minority-
and women-owned businesses*

the best performers in the electric utility industry – a real credit to the hardworking and dedicated crews and a forward-thinking company that is always planning what's next for Arizona's energy future.

System reliability isn't just about reacting to incidents; it's also about avoiding future events. We're continually modernizing a century-old electricity grid and have launched "Project Illuminate," an effort that will usher in a new operating platform to manage APS's distribution system. New technology is also being installed to identify hotspots and other vulnerable areas on the system before they actually result in outages. Throughout 2014, this predictive maintenance identified 429 problem areas that resulted in more than \$2.2 million in avoided costs.

Supplying Excellence

Doing business with vendors who are representative of APS customers and our service area is a priority. A diverse supplier base helps us achieve this goal, and for the third year in a row, APS was inducted into the Million Dollar Circle of Excellence. Each Arizona-based enterprise in this distinguished group spends at least \$1 million

annually with certified minority- and women-owned businesses. Our diverse spend in 2014 included our new relationship with the Navajo Transitional Energy Company, which supplies the coal for the Four Corners Power Plant.

The 21 suppliers participating in the first full year of the Supplier Relationship Management program helped APS achieve \$4.5 million in cost savings. These savings, met through a close working relationship with our vendors to better understand our needs and how we do business, allow us to manage our costs and, in turn, our customers' rates.

Setting the Example

As energy leaders, we are incorporating energy-efficiency designs and programs into our own operations. APS now has five Leadership in Energy and Environmental Design (LEED)-certified facilities, and we are using many environmentally friendly and cost-efficient LEED practices in other buildings throughout the company. Across APS, our 2014 metered electricity use was 29,317 megawatt-hours (MWh), compared to 32,464 MWh in 2013.

We also launched a fleet electrification initiative to reduce our CO₂ emissions, fuel costs and fleet maintenance costs. Currently, we are targeting



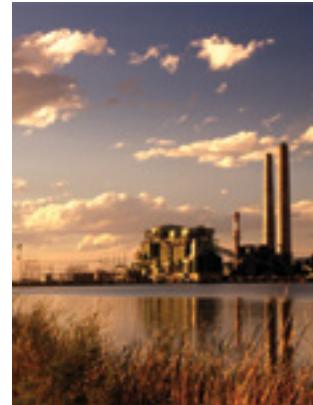
275

*Miles of new high-voltage
transmission lines
planned in next 10 years*

sedans in our fleet for replacement with plug-in hybrid electric vehicles (PHEV). We also are adding eight new Volts (and charging infrastructure) to the fleet in 2015. We will evaluate light duty trucks for replacement with PHEV as emerging technology becomes commercially available. Each qualified Class 3 sedan that switches to hybrid electric will save approximately \$8,957 on fuel and 48,160 pounds of CO₂ over 10 years.

Last year, we announced our plans to close Unit 2 at the coal-fired Cholla Power Plant. The closure, in 2016 or potentially sooner, will reduce mercury emissions by 51 percent, particulates by 34 percent, nitrogen oxides by 32 percent, and carbon dioxide and sulfur dioxide by 23 percent each. We also announced plans to work with the U.S. Environmental Protection Agency to stop burning coal at the remaining three units at Cholla by the mid-2020s. Altogether, this plan would provide greater environmental benefits and cost-savings than an earlier plan to install emissions control equipment and continue to run the plant past the mid-2020s. It also preserves a reliable low-cost generation resource for customers in the near term, allowing for a more seamless and reliable glidepath toward a more sustainable energy future.

ENVIRONMENTAL STEWARDSHIP



A sustainable future requires conserving our natural resources. To us, this includes preserving beautiful places for the enjoyment, education and inspiration of generations to come. It also means ensuring the long-term availability of resources to power Arizona's continued growth.

Our efforts are creating results – and resulting in recognition. A 2014 Ceres report named APS as the highest-ranking utility in the nation, in terms of how much electricity the company saved through energy-efficiency measures in 2012. APS also was ranked by E-Source as the number two utility in the country for energy savings in 2013 as a percentage of retail sales, with savings equivalent to 1.8 percent of the prior year's annual retail sales.

Additionally, in 2014 the U.S. Environmental Protection Agency selected APS as an ENERGY STAR Partner of the Year Sustained Excellence award winner. In early 2015, EPA honored APS with the award again. That marks six consecutive years APS has been awarded the highest honor, the Sustained Excellence award, and the ninth straight year overall as Partner of the Year.

Renewable Power

Powering Arizona's progress must be balanced with responsible and safe energy production that reduces air emissions and water usage. One way to achieve that balance is to integrate renewable energy into our long-range resource plan. We are aggressively adding solar into our generation mix to help meet the projected three percent annual load growth over the next 15 years, which will result in a peak demand of approximately 12,250 megawatts by 2029. In fact, more than 50 percent of our energy growth needs in that timeframe will be met by zero emission resources.

APS announced an effort to reduce emissions at the coal-fired Cholla Power Plant, including plans to close Unit 2.

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CONSECUTIVE

*Years as
EPA ENERGY STAR
Partner of the Year*

220,000

*Homes that can be powered
by 875 megawatts of existing
solar power capacity*

2,322

Total customers subscribed to Green Choice rates

50%

*of our energy growth needs through 2029 will be met
with zero emission resources*

A national leader in solar energy, APS ranked in the top five of all U.S. utilities in 2014 in four separate categories by the Solar Electric Power Association. In 2014, an additional 97 MW of clean solar energy was added to our generation mix, and we expect renewable energy to supply about 9.5 percent of our customers' electricity needs by 2015.



CUSTOMERS & COMMUNITIES

APS donated \$1 million to the Grand Canyon Association to establish the Grand Canyon Trails Forever Endowment.



Our customers have told us they want more control and options in how they use and receive electricity, and we are listening. APS's Customer Insights team is conducting "Customer of the Future" research to provide a view of the customer, the technology, and the role of the utility five to 10 years forward. This work has already led to improvements in existing programs like the Demand-Side Management Behavioral Report program and the Prepay program, as well as the development of new programs such as the APS Solar Partner and Home Warranty programs.

The cross-functional Customer Satisfaction Improvement team also kicked off in 2014 to discuss best practices in customer satisfaction efforts from both within and outside the utility industry. The team also measures the success of programs and initiatives and looks for continuous improvement opportunities.

Information at Customers' Fingertips

With the installation of 1.2 million automated, two-way meters completed across our service territory, customers have access to better information and control over their energy use. The meters also eliminate the need for APS personnel to physically visit the meters to obtain the meter reading.

Two-way communications extends into social media, which is becoming a preferred method of information and interaction for some of our customers. Customers started reporting outages online in September 2014, when we launched the feature on [aps.com](#) and our mobile site. Within the first two months of its launch, customers sent us nearly 3,500 outages and 1,000 outage requests during Arizona's major autumn storms.

The results of our [aps.com](#) redesign, including a new site for our 32,000 customers who prefer communicating with us in Spanish, led to APS becoming the first back-to-back Best Practices Gold Award Winner for Customer Service from Chartwell.

\$9.9M

*Corporate and
foundation contributions
(up from \$9.6 million in 2013)*

Moving Communities Forward by Giving Back

APS is committed to giving back to the communities we serve – the same communities in which we live and work. Through the APS Foundation and APS Corporate Giving programs, we make a significant impact on organizations that are making Arizona a better place for all Arizonans.

APS donated more than \$9.9 million to worthwhile causes throughout the year, including more than \$2.5 million given through the APS Foundation to nonprofit organizations with a STEM (science, technology, engineering and math) focus.

APS employees also support their communities by contributing a portion of their paychecks to the company's annual United Way Community Services Fund. More than 3,500 employees and retirees participated in the APS 2014 Community Services Fund campaign, donating more than \$4 million.

Employee contributions are matched at 50 cents on the dollar, providing even more financial resources to our local nonprofits for fulfilling their missions.

Our employees are also generous in giving their time and talents to causes they believe in. For the second year in a row, the *Phoenix Business Journal* recognized APS as having one of the top corporate volunteer programs in the Valley. Additionally, the program was recognized by St. Vincent de Paul with the Volunteer Service Award for "demonstrating excellence and inspiring others." The American Red Cross also recognized APS with the Deborah King Humanitarian Award. These recognitions are a testament to the great people who represent APS in the community, both on the job and off.

147,000

APS employee hours volunteered, valued at

\$3.3M



1,376

*Members in APS's nine
Employee Network Groups*

80%

*Reduction in recordable injuries
from 2007 to 2014*

Our success and sustainability depend on a talented and dedicated workforce committed to excellence in every area of our business and in every community we serve. That's why we work hard to create an environment that attracts top performers who will lead us into the future.

Safety First – Always

How we operate begins and ends with safety. It is our top priority to have all our employees go home in the same condition they came to work. Our second-safest year on record, 2014 reflected an 80 percent reduction in OSHA recordable injuries since 2007. The uptick in 2014 of recordable injuries over our 2013 best-ever safety performance is a strong reminder that we must remain vigilant and continue to pursue innovative ways to drive safety awareness and performance.

In 2014, we began focusing heavily on the behavioral aspects of safety, using our new Human Performance (HP) team to evaluate the behaviors that lead up to minor and significant injuries. The HP team is focused on identifying those at-risk behaviors and working with leaders to understand ways to change those behaviors, in order to avoid injury.

In addition, our Corrective Action Program helps ensure that program, equipment and behavioral issues are identified and fixed quickly, and it gives us robust information we are using to identify trends and mitigate risks before they develop into full-fledged issues.

Sustainability Through Diversity

A diverse workforce is essential to our success. We benefit from diverse perspectives and ideas, especially when our employee base reflects our customer base. Equality Arizona recognized our commitment to an

inclusive and welcoming workplace with the Barry Goldwater Human Rights Corporate Award, which is given to a company for its commitment to end discrimination on the basis of sexual orientation and gender identity or expression and working towards greater visibility, respect and equal rights for the LGBTQ community. The Human Rights Campaign also reported that APS increased its Corporate Equality Index score by 25 percent over last year, attesting to the company's commitment to promoting diversity. Additionally, our employees asked for, and management endorsed, the development of a new LGBT Employee Networking Group last year; membership in the LGBT Alliance was already at 125 people by year-end. This group's mission is to build a community at APS that facilitates open communication about the needs of this diverse group.

Supporting Those Who Serve

Supporting veterans and veterans' issues is a high priority. We are proud to have been honored with the Freedom Award, the U.S. Department of Defense's highest recognition given to employers for exceptional support of Guard and Reserve employees. In addition, for the second year in a row, APS was recognized by *G.I. Jobs* magazine as one of "America's Top 100 Military Friendly Employers."

Engaged Employees

Last summer, through our employee engagement survey, 81 percent of employees shared feedback on how to improve our workplace and work experience. The high response rate in itself demonstrated significant engagement: 78 percent of our employees responded in a manner indicating engagement, a positive showing benchmarked against the industry. Employees also gave high marks for the importance the company puts on safety, and its focus on goals and performance.

We also developed executive-sponsored action plans to address the areas of improvement our employees identified. The new company-wide Employee Engagement Council provides guidance on these improvements and continues the focus on improving the employee experience.



1 in 5

*APS employees has served
on active duty or is a current
member of the Guard
or Reserves*



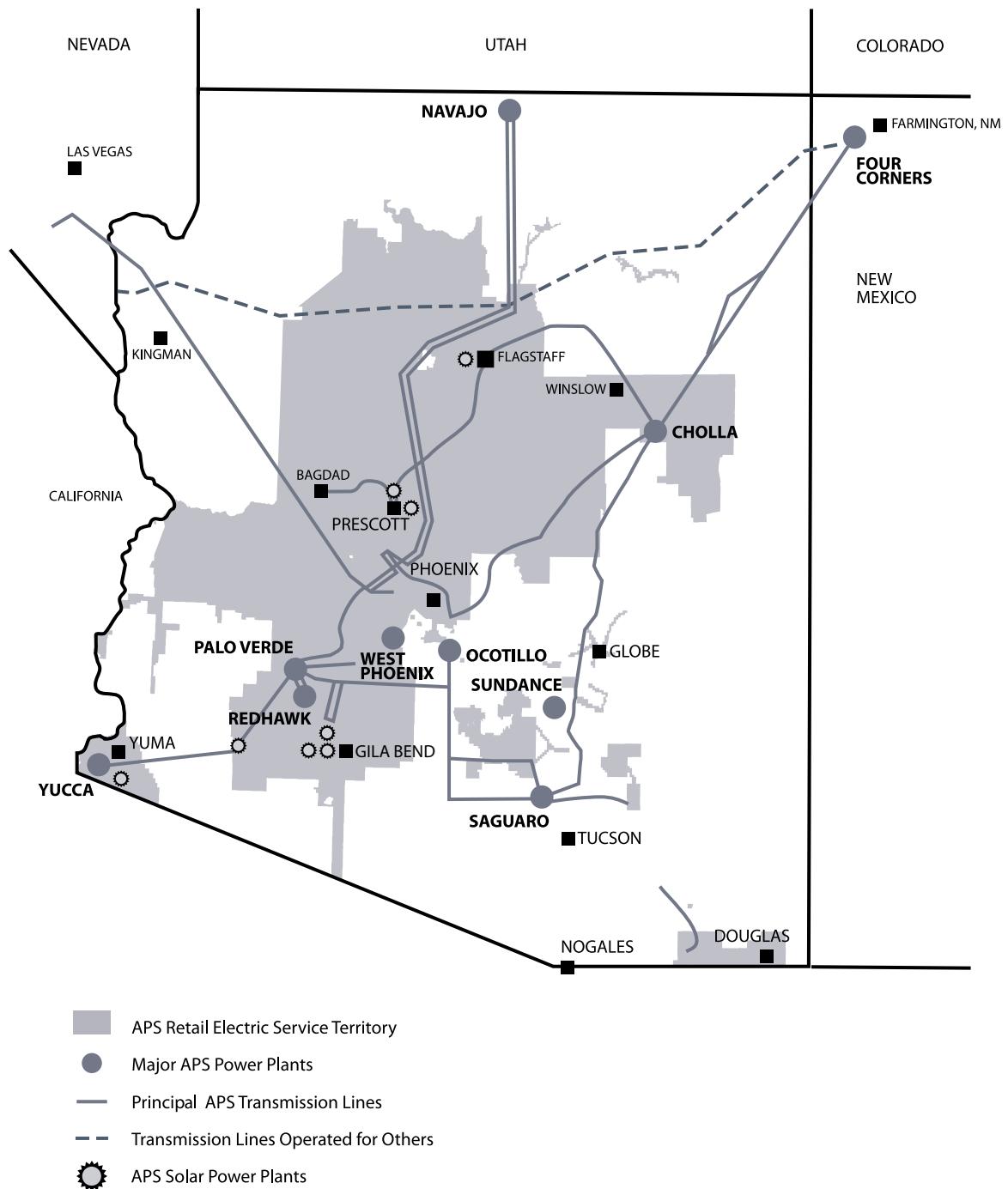
PERFORMANCE SUMMARY CHART

EMPLOYEES	2010	2011	2012	2013	2014
OSHA Recordable Incidents	65	58	47	36 ¹	44 ²
Ethics Training Completion	100%	100%	100%	100%	100%
Volunteer Hours	165,000	157,000	133,137	130,000	147,000
# of Employee Network Groups	4	5	7	8	9
OPERATIONAL EXCELLENCE					
SAIFI	0.92	0.80	0.78	0.78	0.79
Palo Verde Capacity Factor	90.5%	90.7%	92.3%	91.1%	93.7%
Total Renewable Energy (Megawatt-hours in Millions)	0.8	1.1	1.5	1.9	2.7
Energy Efficiency Savings (MWh)	319,507	397,201	551,639	538,841	495,410
ENVIRONMENTAL STEWARDSHIP					
Recordable Environmental Incidents	29	29	26	8	5
Notice of Violations	3	3	3	2	3
CUSTOMERS AND COMMUNITIES					
JD Power Residential IOU Survey	661	669	662	669	673
Total Giving	\$ 6,686,768.60	\$ 7,802,539.30	\$ 8,321,488.00	\$ 9,606,185.72	\$ 9,930,396.75
SHAREHOLDER VALUE					
PNW Earned ROE	9.3%	8.7%	9.8%	9.9%	9.3%
Total Shareholder Return	19.5%	22%	10.3%	8%	34.5%

¹ Amended to include Standard Threshold Shift in Fossil Generation

² Amended to include Standard Threshold Shift in Fossil Generation

APS SERVICE TERRITORY MAP





2014 CORPORATE RESPONSIBILITY REPORT

COMPLETE REPORT

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SHAREHOLDER VALUE

PNW 2014 CORPORATE RESPONSIBILITY REPORT



OUR COMPANY HAS PUBLISHED THIS REPORT EACH YEAR SINCE 1994 TO SHARE OUR SUSTAINABILITY PERFORMANCE AND VISION WITH OUR STAKEHOLDERS AND THE PUBLIC.



OUR METHODOLOGY

Forward-Looking Statements

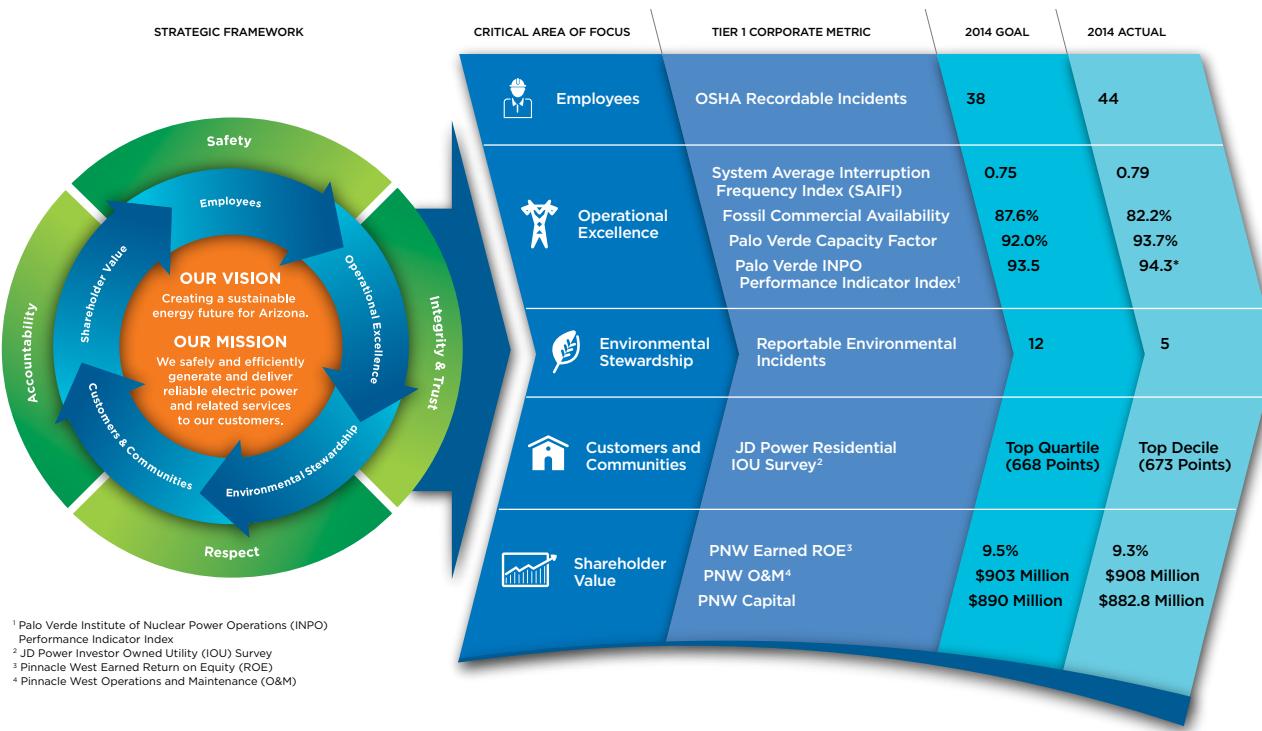
This report contains forward-looking statements based on current expectations. These forward-looking statements are often identified by words such as "estimate," "predict," "may," "believe," "plan," "expect," "require," "intend," "assume" and similar words. Because actual results may differ materially from expectations, we caution you not to place undue reliance on these statements. A number of factors could cause future results to differ materially from historical results, or from outcomes currently expected or sought by us. A discussion of some of these risks and uncertainties is contained in our annual report on Form 10-K and is available on our website at pinnaclewest.com, which you should review carefully before placing any reliance on our forward-looking statements, financial statements or disclosures. We assume no obligation to update any forward-looking statements, even if our internal estimates change, except as may be required by applicable law.

This report was prepared using guidance from the Global Reporting Initiatives (GRI) G3 guidelines and Electric Utilities Supplement and focuses on APS, our primary subsidiary. Information in this report is reviewed and verified internally. We are evaluating the use of the GRI G4 guidelines for future reports.

Our Approach: Integrate Sustainability Into Our Business Practices

At APS, we define sustainability as working to meet our business needs each day while implementing business practices that support a vibrant economy, a healthy environment and strong communities for future generations. We've incorporated the concepts of sustainability throughout our business, building strategies based on those principles and pursuing measurable goals and results. We're committed to creating a model that builds long-term strategic value and success for our company and the communities we serve.

Our Strategic Framework plays a very important role in setting the overarching rules for engagement—who we are and aspire to be; our vision and mission; how we behave; our values; and where we must excel—our Critical Areas of Focus.



OUR PLANS

Our business plans are designed to support our long-term company strategy and provide APS with a single, well-defined direction.

This sets the foundation for building sustainability into business operations. During our business planning process, we identify our corporate and business unit metrics, and the initiatives under these that align with our Critical Areas of Focus. Our business plans are designed to support our long-term company strategy and provide APS with a focused, well-defined direction. In short, these plans help us prioritize our work, collaborate across the organization, allocate our resources, and measure our progress with rigor and discipline. We've incorporated tiered metrics and a Corporate Resources Operating Model (CROM) into the business planning process. The CROM is a framework that enables APS departments to work together to achieve our business objectives, streamline our processes and focus

our time on the activities that add the most value. Our tiered metrics create a single, enterprise scorecard to define and measure success. Tiered metrics assist with gap closure and creating goals based on benchmarking. Incorporating sustainability concepts and goals into our business planning process drives sustainability deep into our organization, providing employees with a clear idea of key issues, goals and targets, and their role in achieving our vision.

Key Sustainability Issues

Our key sustainability issues are identified in our business plan and incorporated into our Tier 1 metrics, which then become part of every employee's performance plan. Shareholder value is increased by our sustainability efforts, with our focus on:

We conduct our sustainability efforts through our five Critical Areas of Focus:

- Employees
- Operational Excellence
- Environmental Stewardship
- Customers & Communities
- Shareholder Value

GOVERNANCE

Good corporate governance is an essential component of a sustainable company, enabling the company to fulfill its business, environmental and social responsibilities. Pinnacle West has a strong corporate governance structure. More information about our governance structure is on our Pinnacle West website: pinnaclewest.com.

Links

- [Pinnacle West 2015 Proxy Statement](#)
- [Fair Disclosure Policy](#)
- [Corporate Governance Guidelines](#)
- [Board Committee Summary](#)
- [Audit Committee Charter](#)
- [Finance Committee Charter](#)
- [Nuclear and Operating Committee Charter](#)
- [Human Resources Committee Charter](#)
- [Corporate Governance Committee Charter](#)

- [Code of Ethics for Financial Executives](#)
- [Code of Ethics and Business Practices](#)
- [Director Independence Standards](#)
- [Political Participation Policy](#)
- [Pinnacle West 2014 Annual Report](#)

Board of Directors

As of Jan. 31, 2015, the board of directors consisted of 10 directors, nine of whom are independent and includes one woman and one minority. The APS CEO is the only board member who is not independent.

10

*Total members of the
Pinnacle West
board of directors,
as of Dec. 31, 2014*

Public Affairs

Our [Code of Ethics and Business Practices](#) and our [Political Participation Policy](#) describe how employees and company interact with public officials. The Public Policy department takes the lead on interactions with state and federal officials. We maintain strict adherence to the laws governing campaign contributions and PACs. A formal political action committee (PAC) is available to employees who elect to contribute.

Involvement With Pesticides, GMOs, Fur, Alcohol, Tobacco, Firearms, Nuclear Weapons, Military Products, Pornography or Gambling Products

We have no direct business involvement or revenues in these product areas.



OUR VALUES

Pinnacle West has a long tradition of strong values and operating with integrity. The company's standards for ethics and business practices are described in its Code of Ethics and Business Practices (updated 2014).

Military Contracts and Percentage of Total Revenue

We do 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.

Child and Forced Labor

We have zero tolerance for the use of child or forced labor, human trafficking or slavery of any kind in the workplace. We require job candidates to be 18 years of age or older to be selected for a regular position at Pinnacle West.

Code of Ethics and Business Practices

Pinnacle West has a long tradition of strong values and operating with integrity. The company's standards for

ethics and business practices are described in its [Code of Ethics and Business Practices](#), which was updated in 2014.

The Code is based on our 10 high-level corporate policies and our corporate values of safety, integrity and trust, respect and accountability. The Code covers subjects such as the employee workplace, business integrity, operational excellence, financial records and controls, disclosures of potential conflicts of interest, records privacy and security, and legal and regulatory compliance.

The public can access the Code on the Pinnacle West and APS websites, while employees also can find the document on the Ethics Office website and on the APS intranet.

All employees, company officers and members of the board of directors are required annually to complete online training on the Code and to pass an online test. The training is available for the public to review on our website. Again in 2014, 100 percent of employees and directors complied with the training.

The Code also sets ethical expectations for contractors and third-party agents: “We expect our contractors and third-party agents to follow similar principles when working with or on behalf of our company.”

Employees, contractors and others who work with our company are strongly encouraged to report any concerns related to our Code of Ethics and Business Practices or any other issue regarding potential illegal or unethical conduct. They may go to the Ethics Office or use the company’s Helpline: 800-446-8441 or www.ethicspoint.com. A third party operates the Helpline and Helpline Web 24 hours a day, seven days a week, and provides the ability for anyone to ask questions and report concerns anonymously.

The Ethics Office investigates the reported concerns, sometimes in partnership with other departments, depending on the nature of the investigation. The company has zero tolerance for retaliation against anyone who reports a concern or participates in an investigation.

Code of Ethics for Financial Executives

The company has adopted a [Code of Ethics for Financial Executives](#), which is located on the Pinnacle West website.



BUILDING OPERATIONAL EXCELLENCE

Business planning is the roadmap of the actions we will take to make progress toward our objectives.

We are focused on three primary areas for business planning:

Prioritization: The APS officer team reviews and approves Tier 1 corporate metrics and Tier 2 business unit and corporate resource metrics on an annual basis. Tier 1 metrics include critical items such as our safety record (ex: OSHA recordable incidents) and our operating efficiency (ex: Palo Verde's capacity factor). Collectively, these metrics define our priorities and our business success.

Alignment: With the metrics in place, we can align our work across the company to make sure we are all focused on the things that matter most.

Transparency: A big part of our effort is focused on making these metrics and business plans transparent so they aren't used only within one department or business unit. Instead, the goal is to share these plans and have them understood by others across the company so we can work together toward collective success.

29.1
PERCENT

Increase in the company's stock price during 2014

16

Number of times Pinnacle West stock hit 52-week highs during 2014

This process also entails setting targets for each metric and developing a roadmap of specific initiatives to achieve the targets with associated milestones and accountabilities. Business planning also creates a back-end management review process to monitor progress, hold ourselves accountable and take action to stay on track.

We believe having a robust business planning process is critical to address the challenges we face — such as flat sales growth, higher capital investment requirements, and a quarter of our workforce being eligible for retirement.

ECONOMIC PERFORMANCE

Our economic performance is summarized in [our annual report](#). In 2014, the company's stock price increased 29.1 percent, outperforming the utility sector index, which increased 25.2 percent. Additionally, Pinnacle West stock hit 52-week highs 16 separate times in 2014.

There were a number of factors both inside and outside the company that positively impacted our financial performance. These included cost management, solid customer satisfaction, strong reliability and safety performance, as well as low interest rates and an improving regulatory environment. Pinnacle West recorded net income of \$398 million, or \$3.58 per share, in 2014, compared

with net income of \$406 million, or \$3.66 per share, in 2013. Less favorable weather conditions, including lower than average summer temperatures, played a role. Normalizing these unusual weather impacts, our earnings would have been \$3.68 per share in 2014, compared to \$3.60 per share in 2013.

Total Shareholder Return

Our board of directors increased the annual dividend in 2014 to \$2.38 per share. This was the third year in a row the dividend was increased and our goal is to continue increasing the dividend. Our performance over the last five years continues to outpace our industry and the broader market. We have increased total shareholder value by \$5 billion over that time period.

Growing Our Business

APS's core business is to power our state's bright future with safe, reliable and affordable electricity. We will do this through:

- Continuing investments in the neighborhood-level power grid to ensure reliability in communities across Arizona.
- Targeting investments in smart-grid technologies that enhance customer satisfaction, improve power quality and enable the continued growth of distributed generation and other technical advances.

- Modernizing existing assets like the Ocotillo Power Plant in Tempe to provide reliable, affordable power for our customers, day or night, rain or shine.
- Adding more environmental controls for our generating plants, including Four Corners Generating Station, to comply with increasingly strict emissions requirements.
- Constructing 275 miles of new high-voltage transmission lines in the next 10 years to support reliability and deliver energy from renewable energy projects to population centers.
- Providing more low-cost, large-scale solar to more customers through the AZ Sun program.
- Investing \$3.5 billion in Arizona's electricity infrastructure through 2017.
- Growing our rate base from \$7.3 billion in 2014 to \$9.8 billion in 2018, for compound annual growth of approximately 7 percent.

Planning for the Future

Our Sustainable Cost Management Initiative (SCM) continued to deliver value through 2014. The SCM was developed in large part due to the fact that around 55 percent of the APS workforce will be retirement eligible by 2015. Because such a large portion of our workforce is eligible to leave our organization, we are implementing proactive measures to ensure a sustainable business model for the future.



\$3.5

BILLION

*Planned investment
in Arizona's electricity
infrastructure through 2016.*

275

*Miles of new high-voltage
transmission lines to be
constructed during the
next 10 years.*

The initial efforts of the SCM centered on the Corporate Resource Operating Model (CROM), which identified organizational redundancies, functional misalignments and responsibility gaps across the enterprise. This focus resulted in documented functional responsibilities for each organization and governance authority for each functional area across the enterprise.

The next SCM effort concentrated on implementing a standard business planning approach across the organizations. This resulted in the creation of company-wide tiered metrics, business plans for each organization and an overall corporate business plan.

In preparation for the large volume of retirements by 2015, the next phase of the SCM, "Corporate Efficiencies," benchmarked each organization against best-in-class industry/functional standards. The benchmark results were compared for each organization to develop staffing and budget targets that would achieve top quartile staffing levels by 2015.

Other initiatives were undertaken to improve various parts of the organization including: project management, corporate training, change management, software licensing, and councils and committees.

The Enterprise Process Improvement initiative (EPI) is most recent focus

of the SCM. While APS has been very successful with the SCM efforts to date, we have been primarily focused on the cost management component. It is now time to direct our efforts to the sustainable phase to integrate these process improvements and changes as the norm for how we do business. A more comprehensive, controlled and structured documentation of policies, processes and procedures is underway to standardize and document our core functions. This also will facilitate a smoother transition to a new generation of APS employees.

These initiatives, with executive leadership sponsorship, have helped keep our operations and maintenance costs in line with retail sales growth over the last several years.

Economic Impact on Our Community

According to a 2010 economic impact report by Arizona State University's W. P. Carey School of Business, APS contributed \$3.4 billion annually to the Arizona economy and supported 39,200 Arizona jobs. Read more about our [economic development work at aps.com](#).

STAKEHOLDER ENGAGEMENT

Effective stakeholder engagement is a critical part of our business plan and is essential to our ongoing success. Our company has numerous programs and activities for engagement,

communication and consultation with our communities and other stakeholders. This includes working with our stakeholders on a wide range of company issues such as developing our long-range resource plan, siting transmission lines and substations, bringing new economic development into our communities, developing our renewable energy portfolio, planning alternatives for portions of our coal generation fleet, and expanding our customer energy efficiency programs. Stakeholder engagement is not just a slogan with us—collaboration is the way we operate, strategize more holistically, and improve our business.

Working With Our Customers

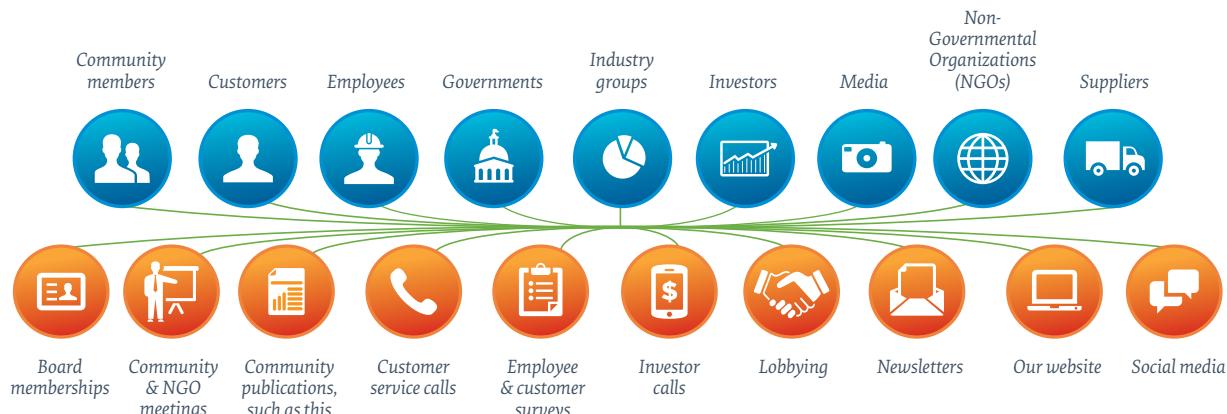
Whether it's through an Energy Forum, where we ask our customers to provide their input on our state's future energy needs, or via an online survey, our company interacts with customers in a variety of ways. We utilize newsletters, our 24-hour call center, focus groups,

office visits, our websites, personalized contact with our largest customers, and our active community outreach and volunteer programs. The company also conducts semiannual customer satisfaction surveys.

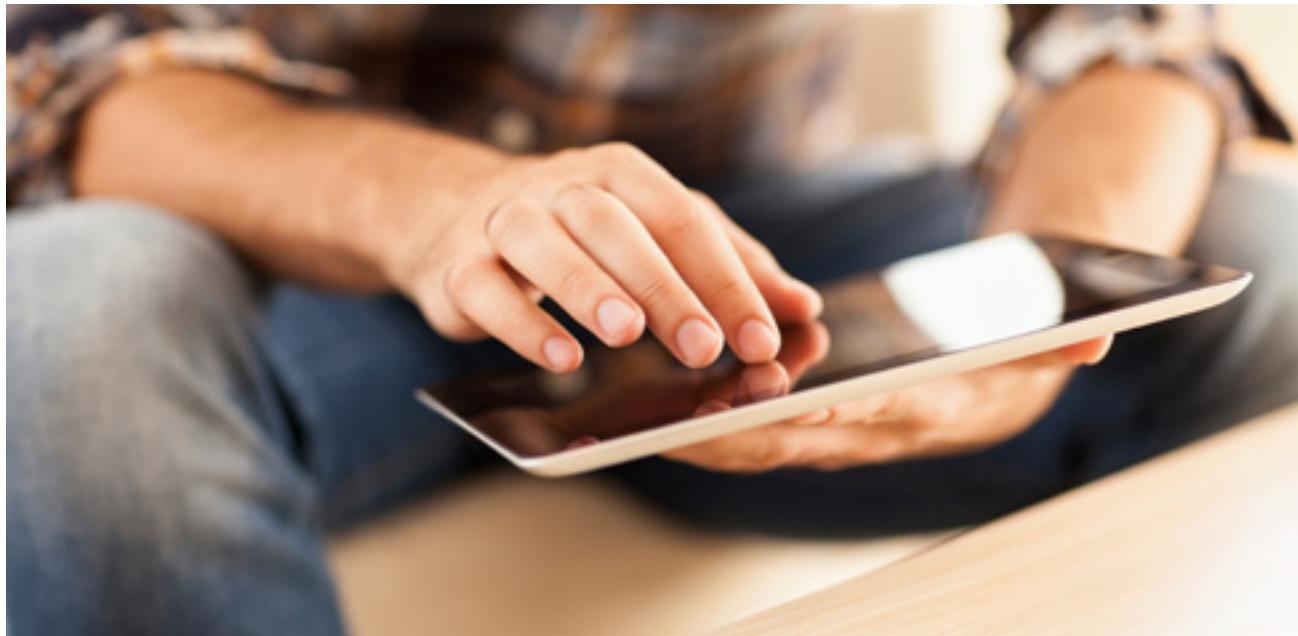
APS is using popular digital communication channels to engage customers in new ways and open lines of dialogue. APS's social media presence on Facebook (facebook.com/apsFYI) and Twitter (@apsFYI) keeps customers aware of the status of large outages, mainly during Arizona's summer monsoon season. In addition, the instant access nature of Twitter helps us keep the news media updated with accurate information, which benefits those customers who rely on the news. Twitter also allows us to proactively reach out to and assist customers who have experienced an issue and wrote about it online.

Social media is a two-way medium, and a new online outage reporting feature

OUR STAKEHOLDERS



ENGAGEMENT MECHANISMS



Customers started reporting outages online in September when we launched the feature on [aps.com](#) and our mobile site. Within the first two months of its launch, customers sent us nearly 3,500 outages and 1,000 outage requests during Arizona's major autumn storms.

allows customers to tell us when their power is out and to sign up for up-to-the-minute outage information. Customers started reporting outages online in September 2014 when we launched the feature on [aps.com](#) and our site for mobile devices. Within the first two months of its launch, customers sent us nearly 3,500 outages and 1,000 outage requests during Arizona's major autumn storms.

Customers can view entertaining and instructional videos on the APS YouTube channel, and even learn about energy efficiency programs that can help lower their electric bills. APS is committed to using these digital channels to benefit customers and will continue to look for more opportunities to do so.

Our goal is to provide the highest level of customer service to all of our

customers. That includes new site for our 32,000 customers who prefer communicating with us in Spanish. These customers can also request a Spanish-language bill and access to Spanish-speaking associates at our call center.

From these customer interactions, we are better 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 role in the annual performance assessment for most leaders and managers. Results are also used to determine a portion of APS's annual company-wide incentive pay. Throughout APS, customer input and feedback is sought prior

to and following major initiatives and events, such as new bill designs, rate adjustments, participation in our billing and energy efficiency programs, and major curtailment efforts, to help direct communications and assess the impact on overall customer satisfaction. Additionally, customer satisfaction research results are used to identify and prioritize opportunities to improve and assist in decision-making and allocating customer service and related resources.

Our Community

Some of a community's greatest assets are the businesses that call it home. Over the years, we've helped communities boost their local economies by taking a leadership role in creating a robust statewide economic development environment. This includes establishing economic development programs that help Arizona communities attract and retain successful companies and encourage job creation.

The APS Economic Development program uses the following tools, among others:

- ArizonaProspector.com
- Industry trade shows
- Tools for Business Success
- Focused Future series
- Support of the Arizona Business Incubator network

APS considers itself a partner in Arizona's economic development and in developing a cohesive strategy for success in the state. APS helps new and existing businesses to grow and strengthen the communities they are in and is pursuing opportunities to work with developers and municipalities to facilitate bringing new business to Arizona. Specific high-power users, such as data centers, are good examples of businesses that support both the community and the company.

The APS Economic Development department worked with our partners to locate many quality projects, including manufacturers and distribution centers in Arizona in 2014. One project of special note was assisting the La Paz County Economic Development Corporation to locate the nation's second largest egg producer, Rose Acre Farms, to Bouse, Ariz. Rose Acre Farms purchased the 2,600 acres for the project from APS. The first phase of this project will produce millions of eggs and egg products, and create over 100 new jobs, which include comprehensive employee benefits. They will start with several layer houses, a pullet farm and feed mill served by a new rail spur. This first phase alone will have a capital investment of over \$80,000,000, and is one of the largest projects in the past 20 years for La Paz County and created a major economic boost to the local economy.



The APS Economic Development department assisted the La Paz County Economic Development Corporation to locate the nation's second largest egg producer, Rose Acre Farms, to Bouse, Ariz.

APS works with community leaders to facilitate economic development strategic planning through our Focus Future program. This program works to align all local stakeholders around a community-adopted strategic plan that leverages assets such as infrastructure, workforce and commercial real estate availability in order to increase business investment opportunities.

APS also recognizes the influence the small business and entrepreneurial communities have on the economic health of the state. In 2014, APS supported many organizations focused on entrepreneurial and small business advancement such as the Northern Arizona Center for Entrepreneurship and Technology, Invest Southwest, City of Surprise TechCelerator and Seed Spot. APS partners with these organizations and other state agencies such as the Arizona Commerce Authority and the Arizona Business Incubation Association to better understand industry trends and provide resources to those facilitating strategic business growth in Arizona.

APS also works with many community leaders to facilitate economic development strategic planning through our Focus Future program. This program works to align all local stakeholders around a community-adopted strategic plan that leverages assets such as infrastructure, workforce and commercial real estate availability in order to increase business investment opportunities.

In 2014, APS partnered with the Northern Arizona Council of Governments, Town of Camp Verde, City of San Luis and Town of Cottonwood to assist in the development of an economic development strategic plan specific to their communities.

APS works closely with municipalities, government agencies and the public

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

Being a true partner involves listening to our stakeholders. APS brings various stakeholder groups together in focus teams to obtain feedback on specific issues or programs on an ad hoc basis. One example of this stakeholder process is our Demand-Side Management Collaborative Team. This group of external stakeholders is assembled on a regular basis to solicit input on the development and implementation of the company's energy efficiency and demand response programs for customers. In addition, this group addresses and develops solutions for some of the issues facing our demand side management programs, such as customer incentives and customer participation.

As part of an effort to engage community stakeholders, APS hosts a Community Partner Academy for local leaders. The two-day experience provides participants with an overview of the company and serves as a powerful tool for communicating with key constituents.



We also have a formal corporate volunteer program, "Community Connectors," that is an important part of our community outreach efforts. This extensive program partners APS employees with the more than 200 cities and towns across our service territory. In 2014, APS employees volunteered 147,000 hours, valued at \$3.3 million.

Likewise, our Small Business Development, Minority- and Women-owned Business Development, Statewide Economic Development and other business and community outreach programs all provide formal and ongoing outreach to our communities.

With a new year comes a new approach for the APS Foundation. Arizona student performance in science, technology, engineering and mathematics, commonly referred to as STEM, now is the focus of the

private, grant-making charity. The APS Foundation annually awards STEM grants to non-profits located throughout the state of Arizona. Supporting STEM and other education programs is the foundation's goal and focus because STEM is such an important investment into our community. To best equip Arizona's future leaders, the APS Foundation is supporting programs that improve STEM learning by awarding grants twice a year. A majority of the funding will go to helping educators increase content knowledge in STEM subjects or strengthen their teaching techniques. By supporting STEM teachers, the Foundation is having an ongoing, tangible impact on increasing academic achievement.

These programs and our philanthropic activities are discussed further in the Customers & Community section of this report.

Above: A busy evening at the Flagstaff Amtrak Station.

As part of an effort to engage community stakeholders, APS hosts a Community Partner Academy for local leaders. The two-day experience provides participants with an overview of the company and serves as a powerful tool for communicating with key constituents.

Line Siting

APS conducts extensive environmental reviews for siting new power line systems. For new power lines rated at greater than 115 kilovolts (kV), the Arizona Corporation Commission requires a Certificate of Environmental Compatibility (CEC) to be issued prior to construction. APS conducts a thorough siting process covering a broad range of environmental issues and factors including land use, cultural resources, biological resources and habitat studies for rare and endangered species. APS also conducts a multi-faceted public process consisting of direct mailings, open houses, newspaper advertising and multiple jurisdictional, governmental and public meetings. APS also maintains a Transmission and Facility Siting website that provides ongoing information about siting projects to the public.

Beyond the regulatory process mentioned above, APS has a voluntary siting process for new power lines less than 115 kV that are not required to follow the process. This voluntary process is much like the CEC process with the evaluation of environmental factors and public participation for communicating power line siting and gathering public input. This allows APS to site power lines in the most sustainable and community-engaging manner.

SELECTED AWARDS AND RECOGNITION

100 Best Corporate Citizens - Corporate Responsibility Magazine

In March 2014, Pinnacle West was listed on *Corporate Responsibility Magazine's* 14th annual list of "100 Best Corporate Citizens" for the fourth consecutive year. Pinnacle West ranked 55th overall from among thousands of companies worldwide. Recognized by PR Week as one of America's top three most prestigious rankings for public companies, *Corporate Responsibility Magazine's* "100 Best Corporate Citizens" list evaluates companies on their performance and transparency in five primary segments of corporate responsibility: energy and the environment, risk management, governance and compliance, employee relations and human rights.

Sustained Excellence Award - U.S. Department of Energy/ Environmental Protection Agency

In April 2015, the U.S. Environmental Protection Agency (EPA) presented APS with its Sustained Excellence Award for the utility's continued leadership in protecting the environment through energy efficiency. This was the sixth consecutive year the EPA recognized APS with this award. The honor recognizes APS as a national leader in promoting energy efficiency and reducing greenhouse gas emissions.

Award winners were selected from more than 17,000 organizations across the country participating in the ENERGY STAR program. Prior to 2012, just eight utilities nationwide earned the Sustained Excellence Award since the ENERGY STAR program began in 1992.

This is the ninth consecutive year APS has been recognized nationally by the EPA. In 2007, the company won Partner of the Year for Excellence in Program Delivery for its APS Residential CFL Lighting Program, and for the subsequent three years, APS won Partner of the Year for Excellence in Program Delivery for the ENERGY STAR Homes program.

Solar Electric Power Association

In the Solar Electric Power Association (SEPA) Utility Solar Rankings for 2014, APS ranked in the top five among utilities in four separate categories, including fourth in most cumulative megawatts (MW) of solar by an investor-owned utility. By the end of 2014, APS had 875 of solar available for customers. APS also ranked sixth among American electric utilities for the most solar megawatts added to its system in 2014. In 2014, APS added 97 MW of solar to its generation portfolio. This annual ranking is part of the SEPA's Utility Solar Rankings report, which identifies national leaders in solar energy development.

SEPA is a non-profit group comprised of electric utilities, solar companies and

other companies with an interest in solar electricity and conducts research projects, national events, one-on-one counseling and peer matching services.

Benchmarking Utility Clean Energy Deployment Report – Ceres

Ceres has recognized Pinnacle West as the top utility parent company for incremental energy efficiency. Ceres, an organization that works with businesses to become more sustainable, studied 32 parent companies of the largest investor-owned utilities in the U.S. and ranked them according to their investment in clean energy solutions. APS increased energy efficiency by 1.77 percent through various efficiency programs. The three main solutions Ceres analyzed were incremental annual energy efficiency, total amount of renewable electricity sold to retail customers, and renewable energy sales.

Bishop Award – American Gas Association and Edison Electric Institute

APS was awarded the Bishop Award from the American Gas Association and Edison Electric Institute (AGA/EEI).

The Bishop Award is given annually to a company that goes above and beyond to serve the utility industry through customer service leadership and significant investment in advancing AGA/EEI's DataSource benchmarking program.

DataSource is the utility industry's premier tool for benchmarking



In April 2015, the U.S. Environmental Protection Agency (EPA) presented APS with its Sustained Excellence Award for the utility's continued leadership in protecting the environment through energy efficiency.



In the Solar Electric Power Association (SEPA) 2014 Utility Solar Rankings, APS ranked third among American electric utilities for the most solar megawatts added to its system in 2013.

customer service programs. It was created by the AGA/EEI Customer Service Conference to establish conversations about processes and enhancing overall industry performance.

and reservists for going far beyond what federal law requires to support military employees. APS and the other 2014 Freedom Award recipients were honored at a ceremony in the Pentagon on September 26.

Barry Goldwater Human Rights Corporate Award

In September 2014, APS was awarded the Barry Goldwater Human Rights Corporate Award at the 23rd Annual Equality Arizona Awards Dinner. The mission of Equality Arizona is to achieve and maintain equal legal rights and protections for the LGBTQ community. The Barry Goldwater Human Rights Corporate Award is given to a company for its commitment to end discrimination on the basis of sexual orientation and gender identity or expression, and to work toward greater visibility, respect and equal rights for the LGBTQ community.

Secretary of Defense Employer Support Freedom Award

APS was one of 15 recipients of the 2014 Secretary of Defense Employer Support Freedom Award, selected by the Employer Support of the Guard and Reserve (ESGR), a U.S. Department of Defense (DOD) office.

The Freedom Award is the DOD's highest recognition given to employers for exceptional support of Guard and Reserve employees. This year's recipients were selected from 2,864 nominations received from guardsmen

J.D. Power Electric Utility Customer Satisfaction Study for 2014

APS once again was named an industry leader in overall customer satisfaction by J.D. Power, ranking fifth out of 54 large investor-owned utilities with a score of 673 out of 1,000. The company preserved its spot in the top quartile and received its highest ratings in the categories of power quality and reliability, customer service and corporate citizenship. The J.D. Power Study measures customer satisfaction with electricity companies by examining six factors: power quality and reliability; price; billing and payment; corporate citizenship; communications; and customer service.

American Red Cross – Deborah King Humanitarian Award

The American Red Cross recognized APS as the recipient of the Deborah King Humanitarian Award for its partnership with the nonprofit to provide emergency relief services to communities and people in crisis. The Deborah King Humanitarian Award is presented to an organization that reflects the true spirit of the Red Cross and its principles. Honorees have demonstrated their commitment and

support to the American Red Cross locally and nationally through their generous contributions of resources, knowledge and time.

APS has a longstanding relationship with the Red Cross and over the years has donated more than \$340,000 to assist in the organization's humanitarian efforts. APS employees have also helped Red Cross in times of natural disaster, volunteered for phone banks, and coordinated activities such as the Holiday Mail for Heroes.

Phoenix Business Journal - Top Corporate Volunteer Program

The *Phoenix Business Journal*'s annually ranks the top corporate volunteer programs in Metro Phoenix. APS came in at number two in 2014, with 147,000 total hours of volunteer time given by our employees. This is the second year in a row that the *Phoenix Business Journal* recognized APS as having one of the top corporate volunteer programs in the Valley. The *Business Journal* bases its rankings on total number of volunteer hours donated in the last full calendar year. Additionally, St. Vincent de Paul recognized our program with the Volunteer Service Award for "demonstrating excellence and inspiring others."

Arizona Diamondbacks' Lifetime Achievement Award

Arizona's Major League Baseball team, the Arizona Diamondbacks, awarded APS with the Arizona Diamondbacks' Lifetime Achievement Award at the

D-backs' Most Valuable Partner Awards event in January 2014, acknowledging APS for its work with the team in serving the community. APS and the D-backs have partnered in branding, marketing and community service since the team's inception. For the past five years, the two organizations have helped educate baseball fans on energy efficiency at the annual APS Green Series. The partnership extended further in 2011 as APS, the D-backs and the Maricopa County Stadium District collaborated in the development of the APS Solar Pavilion at Chase Field Plaza.

APS also has partnered with the Diamondbacks Foundation on the Diamonds Back Field Building program, constructing and dedicating baseball fields in communities throughout APS territory. The field-building program continues the organizations' collaborative commitment to creating quality facilities in communities across Arizona.

PREVIOUS RECOGNITION

Challenger Space Center Founder's Supernova Award

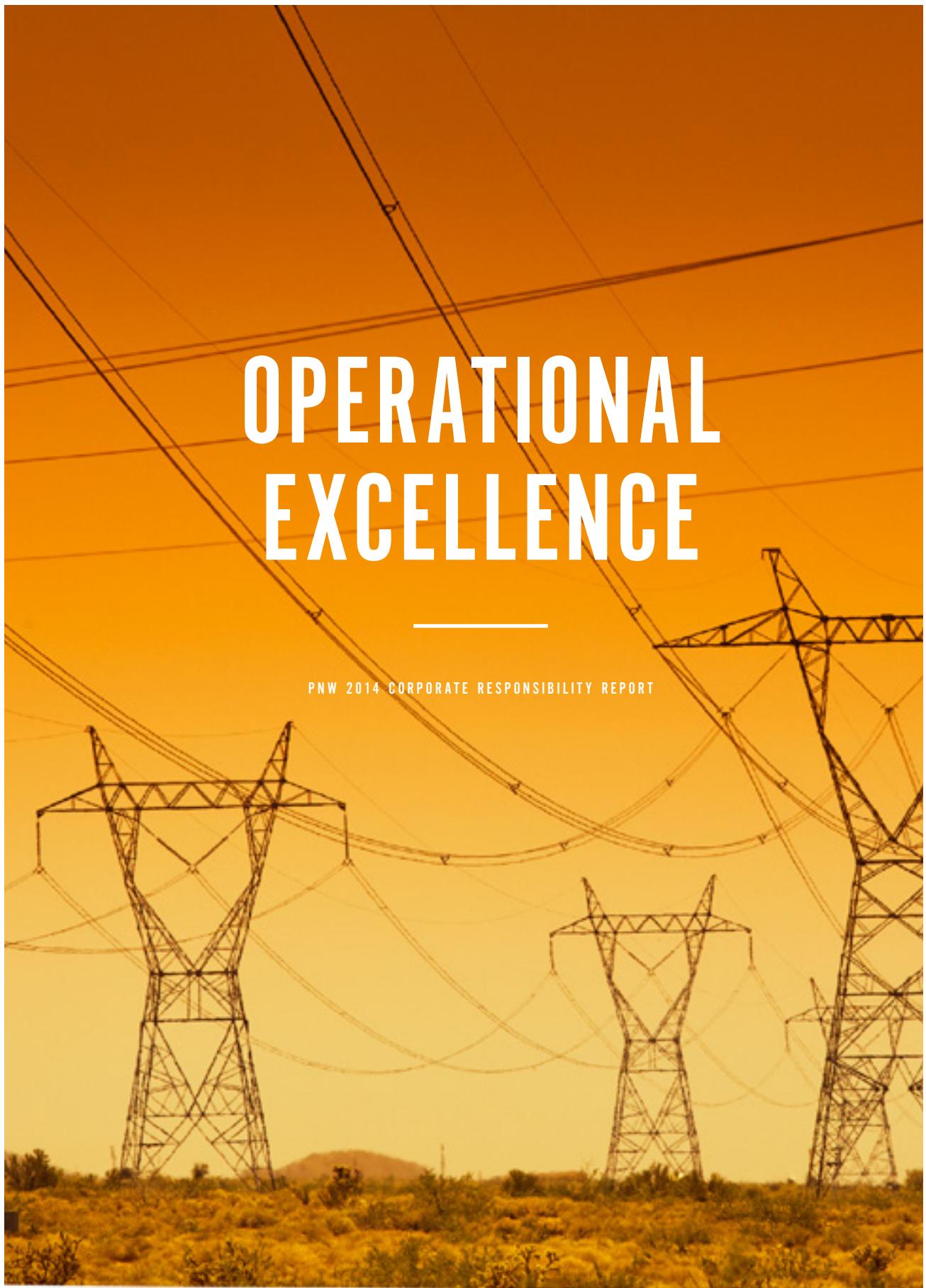
APS was presented the 2013 Founder's Supernova Award by the Challenger Space Center. According to the Challenger Center, the Supernova Award is presented to a company, individual or organization that has been a longstanding supporter of the center and its mission.



APS was one of 15 recipients of the 2014 Secretary of Defense Employer Support Freedom Award, for going far beyond what the federal law requires to support their military employees.

OPERATIONAL EXCELLENCE

PNW 2014 CORPORATE RESPONSIBILITY REPORT



CONSUMERS HAVE CLEAR EXPECTATIONS FOR
ELECTRIC SERVICE AND OUR COMPANY, APS,
PROVIDES SAFE, RELIABLE AND INSTANTANEOUS
ENERGY TO MEET THOSE EXPECTATIONS
IN A FAST-PACED WORLD.



OUR COMMITMENT

Our Electric System

APS manages a statewide energy system that includes power plants generating electricity from traditional and renewable energy sources. Transmission lines carry this energy to the substations where it is regulated and transferred to the 29,157 miles of our distribution system. APS utilizes this energy system to meet the demands of our 1.2 million residential, commercial and industrial consumers across Arizona.

Customers expect our energy to be there at the flip of a switch, 24 hours a day, 7 days a week. We take this responsibility seriously and are proud to report another year of exceptional system reliability.

System Reliability

System reliability is a critical component of customer satisfaction, and customer satisfaction with APS is clearly reported in the results in the J.D. Power survey. Customers expect our energy to be there at the flip of a switch, 24 hours a day, 7 days a week. We take this responsibility seriously and are proud to report another year of exceptional system reliability, which puts the company in the top quartile performance category for system reliability in the electric utility industry for 2014.

The company has made a concentrated effort over the last decade to improve the health of the electric grid to minimize outage risk. APS customers saw an average of .79 system interruptions in 2014. In addition, the System Average Interruption Duration Index (SAIDI) in 2014 was 79 minutes. Last year's severe storm season in metropolitan Phoenix led to a significant increase in SAIDI.

During the severe storm in the Valley of the Sun on September 27, as many as 50,000 customers were without power. APS crews worked at 96 sites, replacing 80 poles and reinstalling nearly 20,000 feet of wire that was damaged, restoring the majority of customers within the first day, with full restoration by day three.

99.98

PERCENT

APS's system availability metric in 2014

80

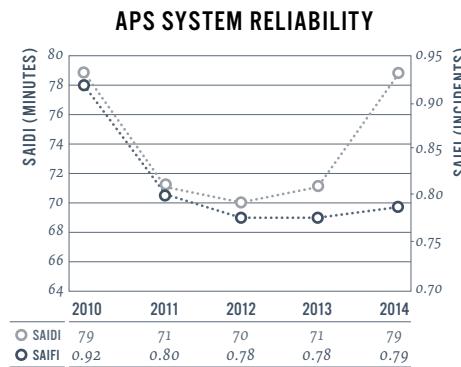
Number of power poles replaced after the severe central Arizona storm of September 27, 2014

That was just one of many incidents our crews managed in 2014. On July 8, a storm knocked down 50 poles and one of APS's primary transmission lines that feeds Casa Grande in Arizona City. Even with all the damage, the redundancy and resiliency built into the system kept our customers from being impacted.

The 20,000-acre wildfire in Oak Creek Canyon marked the first formal use of the new APS Incident Command System, a systematic tool used for the command, control and coordination of emergency response. By the end of the summer, seven Incident Commands had been successfully operated, including the management of two wildfires, four major storm restorations and one call center interruption.

Even with these events and a summer peak demand of 7,007 megawatts, customers enjoyed a level of service reliability that compares favorably with the best performers in the electric utility industry — a real credit to the hardworking and dedicated crews and a forward-thinking company that is always planning what's next for Arizona's energy future.

System reliability isn't just about reacting to incidents; it's also about avoiding future events. We're continually modernizing our electricity grid and have launched "Project Illuminate," an effort that will usher in a new operating platform to manage



APS's distribution system. New technology is also being installed to identify hotspots and other vulnerable areas on the system before they actually result in outages. Throughout 2014, this predictive maintenance effort identified 429 problem areas that resulted in more than \$2.2 million in avoided costs. Through our technological advancements and swift action by our talented employees, APS's system availability metric in 2014 was 99.98 percent.

When measuring the average number and duration of service interruptions experienced by the typical customer, APS continues to be one of the nation's most reliable electric utilities.

Emergency Operations

In 2014, APS's Emergency Operations Center (EOC) supported company operations and responded to emergency events. The EOC is a location where key individuals from throughout the company can be deployed to share information and make critical decisions. There is a primary and a backup facility



to provide a variety of communications technologies supporting operations in emergency circumstances.

In addition to the physical infrastructure, APS has business continuity and emergency response plans to ensure we have the best chance possible of minimizing system impacts and reduce the impact of contingency scenarios.

GRID UPDATES AND SMART TECHNOLOGIES

Over the last 50 years, electric utilities have seen a number of changes in the needs of their customers. Population and economic growth have resulted in both the physical expansion

of utility service territories, as well as the total number of customers served. The evolution of customer end-use technologies (i.e., central air conditioning, computers, consumer electronics and electric vehicles) have increased both the total amount of power and energy consumed per customer, and customers' reliability and power quality expectations.

The continuing rapid advancement of the solar industry, specifically photovoltaics, has resulted in a dramatic increase in the total number of customer-sited distributed energy installations. To date, more than 32,000 APS customers have installed solar on their homes or businesses.

APS has business continuity and response plans in place to ensure the best possible chance of minimizing system impacts during emergency events.



Historically, the power grid has been, for the most part, a one-way power flow from source to load. With the integration of renewable resources, the system must evolve to accommodate two-way power flows and generation resources that will vary based on time of day and weather conditions, regardless of customer loads.

These systems range in size from 2 kilowatts to 20 megawatts, depending on customer type and location. As the number of installations increase, APS will need to accommodate thousands of interconnection points of intermittent resources into a system traditionally designed to take power generated at a few central plant locations; transmit and distribute that power over the transmission and distribution systems; and deliver it to homes and businesses in a safe and reliable manner. Historically, the overall system has been, for the most part, a one-way power flow from source to load. With the integration of renewable resources, the system must evolve to accommodate two-way power flows and generation resources that will vary based on time of day and weather conditions, regardless of customer loads.

All of these changes, along with technology advancements on the utility side of the meter, have necessitated the need for grid modernization to meet the changing needs of our customers in the 21st century. The strategic deployment of advanced two-way communicating (“smart grid”) devices enable the utility to have greater visibility and automation of the grid to more efficiently manage this dynamic system, while providing more timely information to its customers to help them manage their individual energy needs.

By utilizing these types of devices, the utility gains a wide range of benefits. Along with increased situational awareness, utilities can reduce labor costs associated with patrolling utility lines when determining outage locations and/or performing manual field switching. This results in lower maintenance costs and shorter outage restoration times. Other technologies provide greater asset health status, which in turn aid in the reduction of equipment failures and unplanned outages. Customer benefits include increased reliability (fewer outages and faster restoration times), access to greater and timelier information (energy consumption history or system outage details), and the ability to take advantage of additional customer offerings (more rate options or new customer programs) to help them manage their overall energy utilization.

Automated Metering Infrastructure (AMI)

In July 2014, APS reached full deployment of its Advanced Meter Infrastructure (AMI), with 1.25 million meters installed, including 30,000 solar production meters. More than 1.7 million AMI field orders have been avoided, resulting in nearly \$20 million in cost savings.

These savings are achieved through multiple means: reduced system costs through remote meter reads and service connections, minimized system outage durations, and improved

customer access, awareness, and proactive management of their energy use and needs.

Advanced Distribution Management System (ADMS)

ADMS is an advanced operational platform that manages the operations of the distribution portion of the electric grid at a level of sophistication historically reserved for the transmission system. In 2016, APS plans to place ADMS into service system-wide, which will lead to far greater visibility and control of the APS distribution system, improved outage management (return-to-service), optimized trouble-call management, and enablement of condition-based maintenance programs. The ADMS provides the centralized monitoring and control necessary to effectively and efficiently run the increasingly more dynamic distribution system.

Communicating Fault Indicators

Communicating Fault Indicators (CFI) are devices that indicate rapid changes in current. They provide real-time data to system operators for detecting and locating problems on the system which enables faster power restoration. The devices can be installed on overhead and underground distribution lines to detect whether current is flowing abnormally on the line, and then communicate that status via cellular communications or visual indication on the device.

This information can be used to identify the location of system problems. Having this information upfront will help operations personnel patrol a line more efficiently and enhance system reliability. Without CFIs, many outages take longer to resolve as APS operators must spend additional time locating the problem. With the installation of this technology, APS operators can move efficiently to the affected area and begin necessary repairs and resolutions. CFIs therefore improve not only APS system reliability metrics like CAIDI and SAIDI by reducing outage time, they also drive enhanced customer satisfaction by providing better service. In 2014, 536 devices on 83 feeders were installed. We plan to install 542 devices on 186 feeders in 2015.

Community Power Project/ High Penetration Solar Deployment Study

APS and its partners received a \$3.3 million grant from the U.S. Department of Energy as part of the American Recovery and Reinvestment Act to study the effects of a high concentration of solar energy along a single electric distribution line. In 2010, APS began the procurement process to generate 1.35 megawatts of power from distributed sources, primarily solar panels. All installations began generating energy and sending it to the grid in early 2012. One-third of the energy comes from solar panels on 125 residential rooftops,

1.7
MILLION

Field orders avoided under the deployment of APS's new Advanced Meter Infrastructure

\$3.3M

Grant provided to APS and partners by the U.S. Department of Energy in order to study the effects of a high concentration of solar energy along a single electric distribution line



The Load Research Data Analysis Tool analyzes data from AMI meters to more accurately determine customer demands and energies by rate class.

one-third from a solar panel installation at an elementary school, and one-third from banks of solar panels at a neighborhood-scale solar plant.

This multi-year study was completed in February 2015 and the deliverables from the project included new and more effective electrical distribution modeling tools and processes. These tools will help APS better manage increased solar penetration in the electrical system in the future.

Load Research Data Analysis Tool

In 2014, APS developed the Load Research Data Analysis Tool (LRDAT) to analyze the interval data from AMI meters to more accurately determine customer demands and energies by rate class. Historically, APS performed

Cost of Service analysis using data from a sample of 4,800 meters. Now we are able to leverage the data from more than one million meters without performing any statistical analysis. The LRDAT feeds the customer rate class data to the Cost of Service Model. Along with numerous other sources of information, the Cost of Service Model can then determine the cost APS incurs to serve the various rate classes and also determine the revenue APS needs to cover those costs and earn a fair rate of return.

Integrated Volt/Var Control Pilot: Pioneer & Mazatzal

Integrated Volt/VAR Control (IVVC) is a software application with field hardware that continuously controls regulators and capacitor banks

to manage power quality such as power factor and voltage. IVVC mitigates low power quality and lowers the need for peak generation. IVVC also alerts operators when a line is experiencing abnormal voltage conditions (high or low) that will harm customer equipment such as motors and air conditioners. We began utilizing this technology in 2013 for a pilot study that was completed in 2014. In 2015, APS plans to deploy 11 more feeders in the metro, northwestern and northeastern divisions and 47 more feeders per year from 2016-2018.

Network Protectors

Network Protectors (NP) are breakers and relays fitted with Supervisory Control and Data Acquisition (SCADA). Installed in facilities with multiple feeders, NPs prevent power backflow onto the grid. SCADA provides real-time status, voltage, current data and control capability to the Distribution Operations Center (DOC). Without SCADA to NP, APS depends on customers and troublemen to identify adverse conditions. With the installation of this technology, APS improves the opportunity to identify problems and take mitigating actions prior to a catastrophic event. These benefits increase system visibility for improved operator risk management. Visibility can reduce cost of operations and maintenance by proactively monitoring the NP system. APS has been utilizing NPs since 2005.

Phasor Measurement Units

As a part of our overall strategy to modernize the grid, APS has deployed phasor measurement units (PMU) from 2013-2014. A phasor measurement unit (PMU), or synchrophasor, is a device that measures alternating current (AC) waves on the high voltage transmission. These synchrophasors identify and analyze system vulnerabilities in real time, and detect evolving disturbances to minimize the possibility of widespread system blackouts. This information can also help determine the contributing factors in a transmission-level event. This technology is relatively new and several applications are currently being developed to leverage the benefits of this technology. As of May 2015, APS has implemented 15 PMUs.

Solar Production Meters

A solar production AMI meter measures a solar installation's energy production and communicates the information back to APS. APS then uses this information to help system operators better understand the amount of solar being generated and predict future solar generation. This information is also used to help refine the prediction algorithms used to help APS manage real-time power purchases to meet system needs. APS began installing solar production meters in 2013, and will continue the process as new solar installations come online. APS invested in this technology because it enabled reading the meter



A solar production AMI meter measures a solar installation's energy production, allowing system operators to better understand the amount of solar being generated and predict future solar generation.



The Transformer Oil Analysis and Notification system is a device added to existing substation transformers to monitor their health (see above). APS has two patents on the system, the first of its kind in the country.

to be done wirelessly and eliminated the need for APS personnel to physically visit the meter. This cuts cost and associated vehicle emissions.

Supervisory Control Switches

Supervisory Controlled Switches (SCS) are automated switches that can be controlled from within the Distribution Operations Center (DOC). The switch can be operated remotely, eliminating the need for APS field personnel to manually operate the switch. An automated switch allows operations to pick up, shed, or move load without sending out a troubleman to manually operate the switch.

Supervisory controlled switches have been in place on APS's system for over 10 years. The switches are used to provide a point in the field that can be operated quickly from the operations center to help trouble shoot outages and switch load to other feeders when there is a reason to move the load to another source for outage restoration and or equipment maintenance.

Substation Health Monitoring

Transformers are one of the most critical elements in the proper functioning of the utility grid. New technologies such as APS's Transformer Oil Analysis & Notification (TOAN) system leverage advances in communications and sensing to remotely monitor the health of transformers, allowing APS

to take proactive maintenance actions to prevent critical failures. Once enabled, TOAN alerts APS operators when a transformer is experiencing abnormal conditions such as an increase in dissolved gases in the transformer oil. TOAN is twice as accurate (greater than 93 percent) as industry-standard diagnostic techniques. TOAN also helps APS proactively maintain substation transformers. APS's TOAN project created the first automated system in the nation to combine online monitoring of transformer-dissolved gases with analysis and notification of abnormal conditions. APS has two patents on the system. Starting in 2014, the monitoring capabilities are being added to 69/12kV distribution transformers and transmission bushing monitors. APS already has monitoring on its extreme high voltage (EHV) transformers. In 2016, APS plans to start adding monitoring capabilities to transmission breakers as well.

Downed Conductor Detection

Downed Conductor Detection (DCD) is a software application with field hardware that continuously monitors existing control devices on power lines. Once enabled, it alerts operators when a line is experiencing abnormal conditions such as a break and a fall to the ground. This information can be used to identify the location of system problems and prevent fires. Having this information

available will help operations personnel patrol a line more efficiently and enhance system reliability. DCD has been in the operations center since the beginning of 2014 and is still in the pilot stage.

Advanced Data Analytics and Visualization

Advanced Data Analytics & Visualization are a series of software analytical applications designed to leverage APS's investment in AMI and other data sources to transform raw data into business intelligence. One example of the ways that APS is creating value with AMI data is precise load calculations on transformers, which will ultimately result in customer savings through more economic use of grid resources. APS started developing these applications in 2013 and launched an enterprise data analytics initiative in 2014 to develop such applications across various business units. An example of how this is being implemented is utilizing visualization applications in Transmission & Distribution to help with improving operational excellence.

Microgrids

APS is also expanding its scope of services to customers by building, owning, and maintaining microgrid infrastructure on customer sites when the need for reliability and/or energy security is high. This Distributed Energy Resource (DER) locates

generation closer to critical high use customer loads to provide faster response. These microgrid projects include generators and can be expanded to also add photovoltaics (PV) and batteries. The microgrid can operate flexibly either in support of the customer when the grid is unavailable or in support of the APS grid when additional energy resources are needed for peak shaving and frequency response. The additional value proposition is that APS shares in the cost of the microgrid with the customer to improve asset utilization and improve energy efficiency for both parties. The first microgrid projects will start construction in 2015.

Integrated Residential Solar Generation

Increasing distributed solar generation on customer rooftops and businesses has the potential to cause local power quality issues on the electrical distribution system if left unchecked. In the next two years, APS Solar Partner program plans to construct and integrate 10 megawatts of residential solar photovoltaic (PV) power on customers' roofs to test the ability of advanced inverters to mitigate the effects of increased solar penetration. By targeting certain feeders for installations, APS can better evaluate the full capabilities of advanced inverters to regulate voltage, VARs and overall power quality.

10

Megawatts of residential solar photovoltaic power to be installed on customers' roofs in the next two years in order to test the ability of advanced inverters to mitigate the effects of increased solar penetration.

189

Customers on the electric vehicle time-of-use rate as of the end of 2014

Transformer Load Management

Transformer Load Management (TLM) is a software application using AMI meters to determine the load on neighborhood transformers. TLM adds up hour-by-hour meter reads to calculate the hour-by-hour load on the transformer. With this loading information, APS can determine if a transformer is sized properly or if it should be upgraded to a more appropriate size. This tool is used by APS planners and designers when a customer adds load—such as an electric vehicle, pool pump or Jacuzzi—to the transformer. Additionally, this tool is used by DOC operators to determine proper sizing whenever there is an outage caused by a failed transformer. APS began using this application in the beginning of 2013 to enable more efficient and effective management of transformers. This technology is relatively new and helps ensure APS is able to provide reliable service to customers.

Electric Vehicle Program

Electric vehicles decrease emissions, reduce reliance on foreign oil, help the local economy and are cheaper and easier for the customer to own. As such, in 2011 the Arizona Corporation Commission (ACC) approved a residential time-of-use rate to support customers purchasing electric vehicles (EVs). The four-year pilot enables customers to save money by charging their EVs at night when

demand on the system is at its lowest.

At the end of 2014, 189 customers were on the ET-EV time-of-use-rate compared to 83 customers in 2013. APS is also working with local stakeholders to develop policies that promote the adoption of electric vehicles through the founding of the EVAZ Stakeholder Group.

Through the use of these advanced operational platforms, robust system health monitors and remote automation, APS is ensuring a flexible and adaptable grid that meets the future needs of its customers while delivering safe, reliable and cost-effective energy.

APS GENERATION

Electrical generation is part of our core business. We obtain most of our energy from APS-owned generating sources, supplemented by long-term power purchase agreements and spot market purchases. APS maintains a diversified mix of energy sources, including coal, natural gas and nuclear energy, as well as an increasing portfolio of renewable energy sources.

A diverse fuel mix is critical to effectively manage overall price volatility for our customers, and to insulate against risks in commodity supply chains such as price spikes or infrastructure issues. As APS continues to develop our renewable portfolio, we are providing an even better energy supply diversity for our



customers. From 2014 to 2029, APS will significantly diversify its energy mix meeting 52 percent of growth with non-emitting resources.

Cholla Power Plant

Last year, we announced our plans to close Unit 2 at the coal-fired Cholla Power Plant. The closure, in 2016 or possibly sooner, will reduce mercury emissions by 51 percent, particulates by 34 percent, nitrogen oxides by 32 percent, and carbon dioxide and sulfur dioxide by 23 percent each. We also announced plans to work with the U.S. Environmental Protection Agency to stop burning coal at the remaining three units at Cholla by the mid-2020s. Altogether, this plan would provide greater environmental benefits and cost-savings than an earlier plan to install emissions control equipment and continue to run the plant past the mid-2020s. It also preserves a reliable low-cost generation resource for customers in the near term, allowing

for a more seamless and reliable glidepath towards a more sustainable energy future.

Ocotillo Power Plant

Plans for replacing the Ocotillo Power Plant's 1960s-era steam generators with new natural gas-fired quick start combustion turbines are under way. The new units will provide the operational flexibility needed to respond to the substantial increase in renewables on the system. By the summer of 2019, our customers will be enjoying the benefits of cleaner, more efficient and more flexible generation resources from the modernized Ocotillo plant.

Above: Palo Verde Nuclear Generating Station

APS NUCLEAR – PALO VERDE

APS is the operator and part owner of the Palo Verde Nuclear Generating Station, located 50 miles west of Phoenix, Arizona. Palo Verde has been the largest power generation facility of any kind in the United States

Following the 2011 Tōhoku earthquake and tsunami, and the resulting issues at Fukushima Daiichi, Palo Verde initiated an internal review of risk evaluation and emergency preparedness issues.

for 22 consecutive years. Its three units have produced over 30,000 gigawatt hours of energy in nine different years since entering operation.

In 2014, Palo Verde exceeded its own record for generation, generating 32.3 million megawatt-hours (MWh); the previous Palo Verde best was 31.9 million MWh in 2012. The plant is the only U.S. generating facility to ever produce more than 30 million MWh in a year, a feat that has been achieved each of the past six years and a total of 10 times.

Since it began operation in 1986, Palo Verde has produced more than 750 million MWh, providing reliable, cost-effective and carbon-free energy to millions of people across the Southwest.

Thanks to the operational dedication and safe efforts by the talented staff, in 2014 Palo Verde:

- Completed two scheduled refueling outages in 60 days
- Provided a strong operational run during the summer window and monsoon season, operating at a 98.6 percent capacity
- Installed the site's first-ever FLEX equipment and modifications
- Made strides to lead the industry in nuclear and radiological safety, and employee engagement

APS owns 29.1 percent of Palo Verde's units 1 and 3. APS owns about 17 percent of unit 2 and leases

an additional 12.1 percent, resulting in a 29.1 percent combined interest.

Nuclear power is a critical aspect of our climate change response, generating large amounts of electricity with essentially no carbon emissions. With the 2011 license extension, Palo Verde units 1, 2 and 3 are expected to operate until at least 2045, 2046 and 2047, respectively.

Nuclear Waste

Like all nuclear power plants, Palo Verde produces nuclear waste in the form of spent fuel, along with low-level waste such as used protective clothing, filters and other contaminated items. We take seriously the responsibility of managing all of the waste generated by our operations.

Palo Verde has been aggressively moving spent fuel from cooling pools to dry cask storage as quickly as possible. Dry cask storage is safe, low-maintenance and effective interim storage of nuclear waste until the U.S. Department of Energy meets its responsibility to provide a permanent nuclear waste storage facility. In addition to the on-site

PV LOW-LEVEL RADIOACTIVE WASTE



maintenance of high-level waste, Palo Verde currently ships low-level waste to permitted disposal facilities.

For more on nuclear fuel cycle issues, please see the discussion starting on page 7 of our [2014 Pinnacle West 10K](#).

Fukushima

Following the 2011 Tōhoku earthquake and tsunami, and the resulting issues at Fukushima Daiichi, Palo Verde initiated an internal review of risk evaluation and emergency preparedness issues, treating the disaster as a lesson-learned opportunity to drive continual improvement, and included the formation of an internal Fukushima Response Team. This group from Palo Verde served on a task force formed by the Nuclear Regulatory Commission to develop a strategy for mitigation of events like the one at Fukushima in Japan caused by a tsunami. The team's leadership and dedication to the project helped align the industry to a common strategy and established Palo Verde as a recognized leader in the area of mitigation strategy implementation. In 2014, the Palo Verde Fukushima Response Team was awarded APS' Chairman's Award, our highest internal employee award, for their efforts.

APS RENEWABLE ENERGY

APS continues to be a leader in the development and testing of renewable resources, particularly solar energy.

We believe investing in renewable energy will result in environmental benefits, hedge the costs of potential climate legislation and the increasingly stringent environmental regulation of fossil-fueled generation, and provide an economic boost to our state.

In 2015, we expect renewable energy to supply about 12 percent of our retail customers' electricity needs. Renewable energy is a critical component of our long-range resource plan. APS projects less than three percent annual load growth over the next 15 years, resulting in a peak demand of approximately 13,000 megawatts (MW) by 2029. In fact, we will meet over 50 percent of the energy growth needs in our service territory through renewable energy and energy efficiency in that timeframe. Accelerating the development of renewable energy is a linchpin in meeting this growth. For more information about APS's renewable resources, look at our renewable portfolio.

Renewable Energy Standard and Distributed Energy

In 2006, the ACC adopted the Arizona Renewable Energy Standard (RES). Under this standard, APS must supply an increasing percentage of retail electric energy sales from eligible renewable resources, including solar, wind, biomass, biogas and geothermal technologies. The renewable energy requirement increases annually until



The APS Solar Partner program is an innovative way for APS to provide up to 1,500 residential customers a cost- and hassle-free way to have solar installed on their rooftops.

it reaches 15 percent in 2025. In APS's 2009 regulatory settlement agreement, APS committed to an interim renewable energy target of approximately 10 percent by year-end 2015, which was double the existing RES target of five percent for 2009.

For detailed information on our renewable energy performance in 2014, please see our [Renewable Energy Standard Compliance Report](#).

Solar

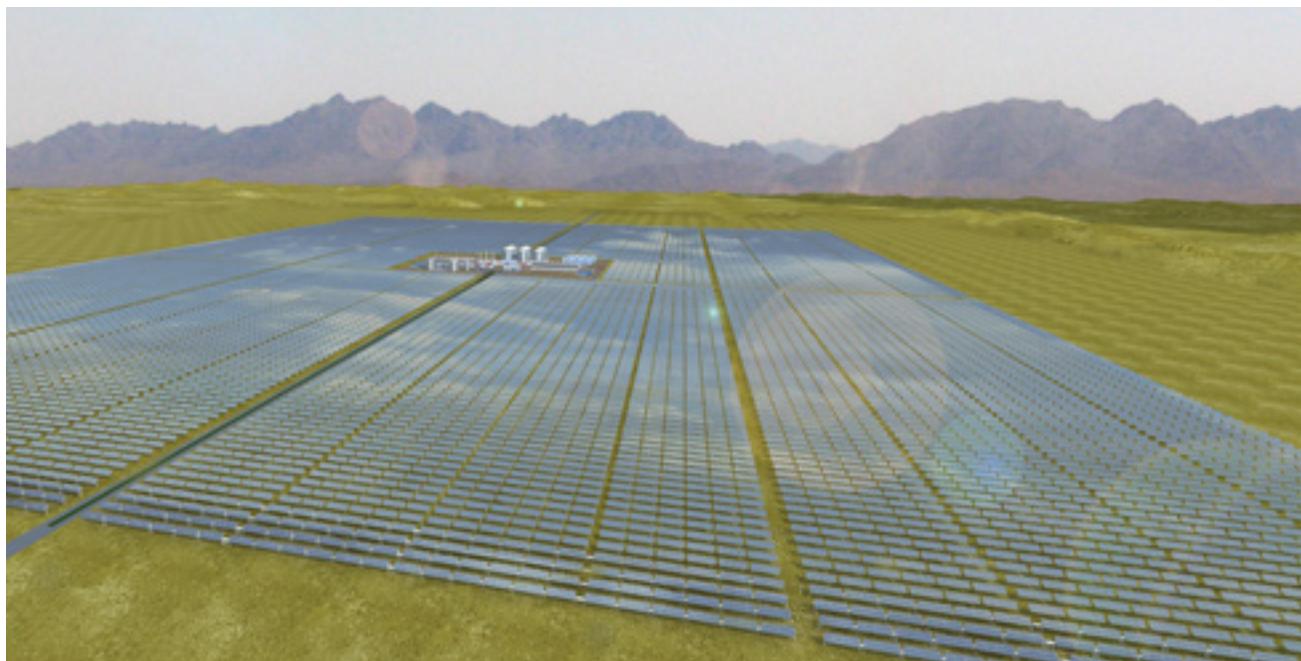
In 2014, APS added approximately 97 megawatts of solar capacity to our system. To date, APS has spent nearly \$1 billion on solar projects in the state and has 875 MW of solar capacity available on its system—enough to serve approximately 220,000 homes.

The success of the new Solana Generating Station—one of the largest in the world—has demonstrated the feasibility of storing solar energy for use after the sun goes down.

AZ Sun Program

With the AZ Sun program, APS is investing in the development of photovoltaic (PV) solar projects in Arizona. The five-year program is expected to have 10 solar facilities online by the end of 2015 and create more than 2,000 Arizona construction jobs. The program allows APS to partner with third-party developers and equipment providers to design and construct the facilities, which increase the opportunity for more developers to participate, since project financing is provided by APS.

Currently, the AZ Sun program is producing 150 MW of clean, renewable energy for customers, with an additional 20 MW on the way in 2015. The two newest AZ Sun facilities—one located



on Luke Air Force Base and the other to be built in partnership with the City of Phoenix—will be owned and operated by APS.

APS Solar Partner Program

The APS Solar Partner program is an innovative way for APS to provide up to 1,500 residential customers a cost- and hassle-free way to have solar installed on their rooftops. APS will own and operate the systems, local installers will build the systems, and customers will receive a \$30/month bill credit. We anticipate up to 10 MW-AC of solar capacity will be installed in 2015 as part of this program.

Solana Generating Station

In 2013, construction on the 250-MW Solana Generating Station was completed and the plant was placed into service. Throughout 2014, this highly anticipated concentrating solar project—one of the largest in the world—had a continued record of success in demonstrating the feasibility of storing solar energy for use after the sun goes down. Solana is able to provide six hours of full-capacity operation from stored solar energy. Unlike PV solar power, concentrating solar power plants allow for the storage of thermal energy in molten salt heat storage vessels. The plant design is similar to a traditional coal or natural gas power plant—except the heat source

to produce steam is the sun, rather than fossil fuel. When the sun is at its peak, Solana is able to collect 1.75 times as much heat as the turbine can use. This extra energy is stored by melting salt in insulated vessels. The energy stored in the molten salt can provide heat to drive the turbines at full output for six hours after the sun goes down.

Green Choice Rate Program

APS offers three Green Choice rates approved by the ACC. Green Choice 1 is a fixed level of “green” power customers can subscribe to each month. Green Choice 2 varies month-to-month per customer and is based on a percentage of a customer’s monthly usage. Green Choice 3 is a single block of “green” power that can be used for special events.

At the close of 2014, 2,322 customers subscribed to the family of Green Choice rates. Sales for the year were approximately 114,000 megawatt-hours (MWhr) and the revenue for the program was just over \$1 million. The revenue associated with the Green Choice rates supplements the overall Renewable Energy Standard revenue collections, ultimately facilitating the development of additional renewable resources.

Green-E Certification

Green-e is a national certification and verification program for renewable energy developed and offered by the nonprofit Center for Resource Solutions

100
PERCENT

Amount of APS's Green Choice renewable energy sold under the Green-e certification program since 2008

2,322

Subscribers to the Green Choice rates as of the end of 2014



(CRS). This certification recognizes renewable energy for meeting environmental and consumer protection standards. Through certification, the APS Green Choice program utilizes the Green-e logo on the APS website. Since 2008, all of APS's Green Choice renewable energy has been sold under this certification program.

Energy Efficiency

Helping our customers use electricity more efficiently is a critical component of our sustainability work. By taking steps to conserve energy, customers can reduce their costs and also provide significant benefits to the environment. APS offers a wide variety of demand-side management (DSM) and energy efficiency programs to our residential and business customers. These include rebates and incentives for installing energy efficient equipment, as well as training and energy information services to help customers improve operating efficiency and reduce demand.

Conserving energy means less power needs to be generated to meet customer demand, resulting in reduced levels of emissions impacting the environment and fewer resources consumed in energy production. Looking to the future, energy efficiency allows APS to defer the construction of new generation to meet the demand for electricity.

In 2010, the ACC established one of the most aggressive energy

efficiency standards in the nation. The policy requires APS to achieve a savings equivalent to 22 percent of retail sales by 2020, and provides performance-based incentives when we achieve those savings.

APS has a wide range of energy efficiency programs for both our residential and business customers. These programs include rebates and other incentives, as well as educational resources. Examples of our energy efficiency programs include:

Residential

- Residential high efficiency lighting
- Energy efficient pool pump incentive
- Appliance recycling (refrigerator and freezer)
- Residential new home energy efficiency
- Residential existing home energy efficiency, ventilation and air conditioning program
- Residential Conservation Behavior pilot program
- Multi-family energy efficiency program
- Energy wise low income weatherization

Business

- Large existing facility energy efficiency improvement program
- New construction and major renovation energy efficiency program

- Small business program
- Schools energy efficiency program
- Energy information services program

For more information on these programs and additional information on APS energy efficiency programs for our customers please see the [energy efficiency section of the APS website](#).

APS's Energy Efficiency and Demand-Side Management programs achieved 495,410 MWh of energy savings in 2014, on target to meet the ACC requirements.

For more detailed information about the 2014 performance of our DSM and energy efficiency programs, please see our [2014 DSM Annual Progress Report](#).

APS SUPPLY CHAIN

Informed Sourcing

At APS, we seek to acquire goods and services from suppliers who share our values in regard to social, environmental and economic sustainability. We strive to do business with companies who wish to contribute to Arizona's sustainable energy future. To help identify suppliers who share our values, our sourcing events for goods and services routinely request information that can help us make informed decisions about a supplier's sustainability practices. Suppliers are also encouraged to provide alternate proposals in addition to the original request for proposal. This alternative proposal information can potentially help APS identify a better way of doing business.

Our strategic suppliers' ongoing performance and improvements on sustainability matters are discussed during regularly held supplier performance review meetings.

Supply Chain Management (SCM) maintains extensive relationships with these suppliers, engaging them in value-enhancing partnerships.

We work with our suppliers to mutually align our goals and measure performance to develop process improvements.

In 2014, the first full year of the Supplier Relationship Management (SRM) program was completed.

The 21 suppliers in the program helped APS achieve \$4.5 million in cost savings, including hard savings and cost avoidance. APS and our strategic suppliers have mutual respect for each other's expertise and ideas; together we look for opportunities to enhance each other's business and sustainability practices.

Energy Utility Industry Sustainable Supply Chain Alliance

In 2008, APS joined the Electric Utility Industry Sustainable Supply Chain Alliance (EUISSCA), a group of North American electric utility companies formed to improve the environmental performance in electric utility industry supply chains. The Alliance seeks to do this by developing voluntary consensus standards for the creation of a supply chain that is environmentally

\$4M

Supply Chain Management costs avoided during 2014 by exercising care and diligence when placing orders

8

New Volt vehicles currently being added to APS fleet

48,160

POUNDS

CO₂ saved over 10 years for each qualified Class 3 APS sedan that switches to hybrid electric

responsible, efficient, cost effective and positively impacts communities. In addition, the Alliance provides an opportunity for utilities to share best practices and learn from each other.

In 2014, the Alliance distributed its annual supplier survey to gather more relevant data on supplier sustainability practices. APS uses the results of this survey to analyze supplier's sustainability trends, as well as to facilitate discussions with our strategic suppliers about their practices. Learning from our suppliers' sustainability practices can help influence APS's practices. To gather information about our suppliers, APS participates in the annual Electric Utility Industry Sustainable Supply Chain Alliance Supplier Sustainability survey. This survey allows APS to gauge the sustainability maturity levels of our suppliers. The responses from our strategic suppliers are reviewed and discussed during quarterly business review meetings to discuss awareness, trends and risk mitigation.

Sourcing Activities Supporting a Sustainable Supply Chain

A regular part of supply chain operations is requesting project proposals from qualified bidders. APS continually seeks ways of doing business that are more cost effective, efficient and sustainable. This includes refurbishing existing equipment when possible, seeking supplier expertise

on comparable products that can meet our needs, and working with end users to clarify requests and avoid extraneous orders. In 2014, SCM procurement staff recognized just over \$4,000,000 in avoided costs by exercising care and diligence when placing orders.

Suppliers' ethical performance is an important part of doing business with APS. To ensure that our suppliers are aware of our expectations, we direct them to [our Supplier Code of Conduct](#). This code of conduct is also referenced and supported in our contracts.

Transportation: Fleet Electrification

APS is a key committee member in the development of the Edison Electric Institute (EEI) Electrification Initiative, with the goal of accelerating the adoption of plug-in hybrid electric vehicles (PHEVs) throughout the electric utility industry. Involvement in this program allows APS to exchange valuable ideas, understand emerging technologies and identify potential opportunities within our fleet.

In 2014, we launched the fleet electrification initiative to lead by example through reducing our CO₂ emissions, fuel costs and fleet maintenance costs. The initiative includes:

- Identifying key stakeholders to assist in the definition of specifications, requirements and to champion the company's initiative committee

- Researching existing vehicle and battery markets to document emerging trends, risks and opportunities
- Participating in the Electric Power Research Institute (EPRI) light- and medium-duty truck electrification project to determine economic and operation feasibility
- Participating in the Edison Electric Institute (EEI) Fleet Electrification Initiative to develop formal report
- Identifying existing Federal and State policies and document pending/proposed legislation
- Review of electric charging station technology and infrastructure as it applies to APS's statewide territory and develop deployment strategy
- Developing a business case for vehicle types
- Determining the feasibility of incorporating electric vehicles into the vehicle portfolio

Currently, the electrification project is targeting APS sedans for replacement with plug-in hybrid electric vehicles (PHEVs) where appropriate. We also are adding eight new Volts and the charging infrastructure to the fleet in 2015. Each qualified Class 3 sedan that switches to hybrid electric is estimated to save approximately \$8,957 on fuel and 48,160 pounds of CO₂ over 10 years based on 2013 fuel costs. Light-duty

trucks will also be evaluated for replacement as emerging technology becomes commercially available.

Material Logistics Information System Modernization Phase 1 – Update Material Request System

A new, modernized version of the Material Logistics Information System (MLIS), APS's Enterprise Resource Planning (ERP) software, was created and delivered in December 2014. This enhancement improved how employees request materials from an APS warehouse. Employees can simply search the inventory by either the APS part number or a description, add items to a virtual shopping cart and check out, just as they would at a major online retailer. This improvement made it easier for users to keep track of requests and adjust orders before checking out or submitting a request.

Contractor Safety

In 2014, APS launched a new contractor safety program that focuses on the qualification and selection process. This program provides APS a company-wide methodology for selecting and assessing contractors to ensure they consistently use safe work practices. Contractors complete a safety questionnaire at least once a year to gather information about key safety statistics. Contractors are required to meet or exceed the safety performance requirements established



The new contractor safety program provides APS a company-wide methodology for selecting and assessing contractors to ensure they consistently use safe work practices.

4,000

*Number of APS suppliers
during 2014*

\$1.2B

*Spent with suppliers
during 2014*

for APS employees. For contractors who do a substantial amount of work at APS sites, their current safety record and related metrics are reviewed and discussed during periodic supplier performance reviews. Procurement staff are notified on a monthly basis of any contractors who do not meet the minimum requirements established by APS and work with their business unit partners to identify qualified alternate suppliers.

Supplier of the Year Award

In 2014, APS worked with more than 4,000 suppliers and spent more than \$1.2 billion while building dependable and cost effective relationships. APS awarded six Supplier of the Year Awards to suppliers who delivered exceptional value to the company and its customers, while also exhibiting a commitment to APS's company values. Companies were nominated for the awards by APS employees. The nominees were evaluated based on their support of elements represented in APS's strategic framework, such as commitment to sustainability, active involvement in the community, and a focus on health, safety and environmental concerns. Companies were also assessed on customer service and overall performance.

Supplier Relationship Management

The APS Supply Chain Management team kicked off the second Key Supplier Forum in October, featuring

attendees from 21 of APS's key Supplier Relationship Management (SRM) suppliers. These key suppliers represented approximately 25.8 percent of APS supply chain spend in 2014 and provide critical products and services to multiple areas of the company. The concept behind the forum was to bring together suppliers and APS's senior leaders for a day of relationship building and knowledge sharing. APS leaders expressed their interest in suppliers becoming more than just commodity providers, but becoming true partners for the mutual success of each company.

Supplier Diversity and Development Program

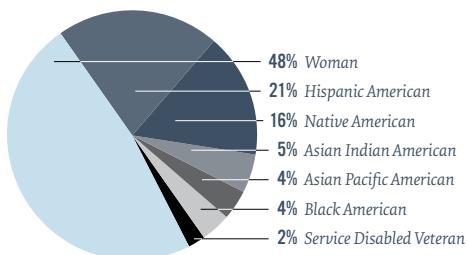
APS's commitment to supplier diversity is ingrained in the understanding that the participation of diverse suppliers in the procurement process is "just good business." While the basis of our commitment to diversity may appear straightforward, the effects of this strategy are complex and far reaching. Our efforts have a positive and influential effect on targeted sectors of our local economy that might not otherwise engage in business with large corporate partners. In the end, the supplier diversity goal is to leverage diverse business participation to ensure the highest quality goods and services purchased at competitive prices are integrated into the company's supply chain. The Supplier Diversity and Development (SDD) program continues to grow

by introducing mentoring and education initiatives to assist diverse businesses in building their capacity. By identifying existing high quality diverse businesses, these efforts will develop today's tactical vendors into tomorrow's strategic partners.

In the last four years, the SDD program has achieved record spend levels with diverse businesses in each year. The diverse spend incurred in 2014 reached a new and unprecedented high – an increase of 154 percent from the previous year. This dramatic spend increase is due to the recognition of the Navajo Transitional Energy Company (NTEC), a wholly-owned enterprise of the Navajo Indian Nation. NTEC is contracted to provide coal for the Four Corners Power Plant in Farmington, New Mexico. In addition to the recognition of coal spend with NTEC, SDD also had a \$22.5M increase in the amount of decisionable spend with diverse businesses. SDD divided spend into two spend types: decisionable and non-decisionable. The first type of spend occurs when SDD has a direct impact (decisionable); and the second type occurs when SDD has an indirect impact (non-decisionable). The latter



SUPPLIER COUNT BY DIVERSITY TYPE



contains payments for rights-of-way, leases or taxes to federally recognized tribal entities.

2014 Supplier Diversity and Development Targets and Results

Since the inception of the Supplier Diversity program over 20 years ago, APS has spent more than \$1.9 billion with certified diverse businesses. Every year, APS aims to increase not only spend with our diverse suppliers, but also the number of our diverse suppliers. In 2014, we conducted business with nearly 200 diverse suppliers in the various areas of our company. To engage more diverse suppliers, the Supplier Diversity group hosts "How To Do Business with APS" workshops and attends select conferences related to diverse supplier business opportunities.

Diverse Supplier Excellence Awards

APS celebrated five diverse businesses based on their 2013 performance at the APS Diverse Supplier Excellence Awards. The annual event spotlights the top minority- and women-owned suppliers who have provided exceptional service and a commitment

200

Number of companies that have participated in the APS Diverse Supplier Training Program over the last 15 years

to APS's core values of community involvement, high performance and operational excellence, commitment to sustainability and value-added partnership. Two of the 2014 winners were also awarded the distinguished title of Supplier of the Year. In addition, two other winners were multi-year awardees for the Diverse Supplier Excellence awards and Supplier of the Year awards. This year we added a new category – Business Unit Champion. It is given to an APS employee who goes the extra mile in working with the SDD team to achieve the company's supplier diversity objectives.

Diverse Supplier Training Program

The APS Diverse Supplier Training Program (DSTP) is a nine-month business mentoring program designed, sponsored and administered by APS. This program's focus is to better support diverse businesses that will contribute to building a sustainable, reliable energy future for Arizona. DSTP has supported small businesses by providing valuable resources and tools to inspire success. However, recent changes have shifted its focus to coordinate with the values of APS.

For the last 15 years, APS has seen more than 200 companies take part in this program. Through the always evolving program, the focus is on helping businesses develop new ways to improve and add value to the utility industry.

The program is delivered annually for an 8-month time period to a class of 12 to 15 small diverse businesses whose efforts contribute to our industry. The class meets twice a month and highlights the core business practices of APS, the utility industry, business growth and strategic planning.

Additionally, APS has established a partnership with Arizona State University's W.P. Carey School of Business to complement the program. Through this partnership, MBA-level ASU professors provide sessions on leadership, negotiations and building strategy for competitive advantage.

APS REAL ESTATE AND FACILITY MANAGEMENT

The Real Estate and Facilities department manages all APS-owned facilities throughout the state of Arizona. This includes approximately 1.9 million square feet of space, encompassing 118 occupied facilities and about 450 unoccupied sites (substations, communication and solar sites). In addition, the department manages 38 leases across Arizona, New Mexico and the District of Columbia, spanning a total of 643,000 square feet. Managing this portfolio in a socially responsible fashion is of the upmost importance. Great emphasis is placed on the environmental, business operational and safety aspects of facilities management.

The Real Estate and Facilities department strives to care for our corporate real estate assets to ensure a clean, safe and healthy work environment for our employees, guests and customers. Optimizing the utilization of our buildings and land, while ensuring a productive business operation, is key. It is of upmost importance to be vigilant in minimizing the risk associated with our critical corporate assets and operations by ensuring the sound health of our facilities.

2014 Highlights:

- Energy Management:** Work continues to aggressively pursue energy efficiency in our facilities. Our Building Management System is utilized to help us optimize our electricity consumption. Our 2014 metered electricity usage was 29,317 megawatt-hours (MWh), compared to 2013 usage of 32,464 MWh, a 10 percent improvement in just one year.

- HVAC System Replacement:** 70 air-conditioning units were replaced with more reliable and energy efficient systems in 2014. That resulted in the reduction of ozone-depleting refrigerant by 700-800 pounds. Our AC units will continue to be replaced to meet our new standard at a rate of 5-10 percent annually.

- Obsolete Lighting Replacement:** We are systematically replacing

obsolete lighting fixtures with energy efficient lighting to eliminate harmful polychlorinated biphenyls (PCBs). Our initial focus is on substations and we completed the lighting replacement at two substations in 2014. The plan is being developed to replace all remaining PCB-filled ballasts at APS facilities over the next few years.

- Leased Office Space Reduction:**

One key area of effort in our cost and energy management is the reduction of office space in use. In 2014, we moved out of three rented Black Canyon office buildings and reduced our overall leased space by 120,000 square feet.

An even greater emphasis on strategic planning and performance measurement in 2015 will ensure sound facilities management practices while we persevere toward a sustainable, safeguarded and eco-friendly collection of APS-owned facilities.

Proactive assessments of the health and use of our buildings, utilization of the most current technologies as we renovate, re-using materials where possible and further replacement of ozone-depleting technologies will be a basis for our decision making. In addition, we will continue to design, construct, operate and maintain our new and remodeled facilities to the ENERGY STAR and Leadership in Energy and Environmental Design (LEED) standards.



The APS Learning Center is a Silver LEED certified facility.



ENVIRONMENTAL STEWARDSHIP

PNW 2014 CORPORATE RESPONSIBILITY REPORT

APS IS WORKING PROACTIVELY TO REDUCE EMISSIONS, CONSERVE WATER AND MITIGATE OUR IMPACT ON NATURE TO ENSURE WE ARE PROTECTING OUR STATE'S NATURAL RESOURCES FOR THE ENJOYMENT OF FUTURE GENERATIONS.



OUR ENDEAVOR

Policy and Organization

Our environmental policy applies to all Pinnacle West and APS operations. In 1994, APS joined Ceres, a national network of investors, environmental organizations and other public interest groups working with companies and investors to address environmental stewardship and sustainability challenges.

We adopted the Ceres principles for environmental stewardship and protection into our corporate environmental policy. Our environmental policy and our organization have continued to evolve in response to changing issues, trends and regulations.

We are committed to sound environmental stewardship. Our environmental policy contains specific sections on stewardship of natural resources, pollution prevention, protection of the biosphere and sustainable use of natural resources.

Our Environmental Organization

APS has implemented an environmental management system that conforms to the International Organization for Standards (ISO) 14001 Environmental Standards.

APS has achieved ISO 14001 certifications for all of our fossil-fueled generating facilities, as well as at Deer Valley, our primary Transmission & Distribution Service Center. From 2015 through 2017, we will pursue certification for the bulk of our Transmission & Distribution Service Centers.

ISO 14001 certification is an important step in our continuous improvement goals.

So far, our ISO 14001 program has helped to:

- Identify and control the environmental impact of our activities, products and services
- Improve our environmental performance continually
- Implement a systematic approach to setting environmental objectives and targets, achieving these targets, and demonstrating that they have been achieved

Over the past three years, APS has implemented an enterprise-wide corrective action and human performance program. The system encourages any employee who notices any issue in need of evaluation or correction to submit a corrective action request. From there, a robust triage and work-down process is conducted to ensure the issue is appropriately resolved.

To remember our commitment to ISO 14001 Environmental Standards, we have implemented our “Be Environmentally SMART” campaign:

- Strive for continuous improvement
- Manage all environmental risk
- Always communicate
- Reduce environmental footprint
- Target beyond compliance

Environmental and Safety Compliance Assurance Program

Our compliance assurance program establishes assessments and audits, reports results to management, establishes corrective and preventive actions, tracks the status of open items, ensures the confidentiality of information, is responsible for record retention and establishes roles and responsibilities.

Summaries of the completed compliance audits from selected Environmental, Health & Safety (EHS) programs and facilities are provided to the audit committee of Pinnacle West’s board of directors. In addition, the results from the compliance audits are reported to facility management, the vice president and chief sustainability officer, the responsible officer, and the CEO and president.

To ensure every effort is made to maintain compliance in our company’s complex and diverse operations, our compliance assurance program follows a four-tiered approach:

- Ongoing self-assessments of EHS programs by the operating facilities
- Focused self-assessments conducted by company EHS professionals
- Formal EHS audits conducted by a dedicated EHS audit team, which reports to the Pinnacle West director of Audit Services
- Periodic compliance reviews, a detailed review by the company of the compliance status of EHS programs

Corrective Action Program

Over the past three years, APS has implemented an enterprise-wide corrective action and human performance program. This program is used to identify and eliminate human performance errors. EHS has been a key user of the system. All regulatory compliance and standards conformance issues are tracked from identification through resolution. The system encourages any employee who notices any issue in need of evaluation or correction to submit a corrective action request. From there, a robust triage and work-down process is conducted to ensure the issue is appropriately resolved. A final key aspect is the effectiveness review, used to ensure the solutions that are devised are effective over the long term.

Notice of Violations (NOV)

The company continued to have an excellent environmental and

safety compliance history in 2014. The company received three minor environmental NOVs during 2014:

- West Phoenix Power Plant: NOV from Maricopa County Air Quality Department for a carbon monoxide excessive emission during a start-up. NOV closed with a \$2,266 fine.
- West Phoenix Power Plant: NOV from Maricopa County Air Quality Department for a nitrous oxide excessive emission detected by the plants' continuous emissions monitoring system. NOV closed with a \$1,932 fine.
- Palo Verde Energy Education Center: NOV issued by Maricopa County for a late payment for a permit fee for a back-up generator at the facility. NOV closed with payment of the permit fee.

Environmental Stewardship Beyond Compliance

We are committed to sound environmental stewardship. Our environmental policy contains specific sections on stewardship of natural resources, pollution prevention, protection of the biosphere and sustainable use of natural resources.

We strive to go beyond compliance with our environmental efforts, when feasible, as part of our commitment to sustainable environmental stewardship. For example, the Arizona Department of Environmental Quality (ADEQ) has welcomed Ocotillo Power Plant as a charter member of the state's Arizona Voluntary Environmental Stewardship Program (VESP). The Arizona legislature established VESP in 2012 to recognize organizations with

The Arizona Department of Environmental Quality has welcomed Ocotillo Power Plant (below) as a Platinum-level member of the state's Arizona Voluntary Environmental Stewardship Program. The program recognizes organizations which have a good environmental compliance history and commitment to going above and beyond compliance with environmental law.





a good environmental compliance history and have shown they are committed to going above and beyond compliance with environmental law. Ocotillo Power Plant was also accepted at the Platinum level. Platinum level is for those organizations with fully implemented environmental management systems. The plant's commitment to continuous improvement and voluntarily exceeding environmental regulatory requirements also earned it the added designation of "Superior Compliance History." Ocotillo was one of six businesses/organizations accepted into the program.

In addition, the Environmental Department has been utilizing the Environmental Management Information System, abbreviated as EMIS, to manage our daily compliance activities for several years. Last year, we launched a new EMIS system, called Enviance, replacing the old system. The new system moves us from old technology architecture to a leading-edge software technology. The first phase of the new system was rolled out in mid-2004, which includes compliance task tracking, task reporting, and compliance dashboard. It provides us with an effective compliance management tool to ensure we stay in compliance with the permit/off permit requirements, federal, state and local regulations and mitigate the risk of REIs and NOVs. The second phase of the system

was just released at the end of 2014. The second phase implements data monitoring and trending, waste tracking and management, regulatory reporting (e.g., emissions inventory, SMRF report, DMR report). This phase also implements a very important feature, data integration with other real-time data system so the data can be pulled EMIS and analyzed.

Climate Change

Climate change is a significant sustainability issue requiring long-term vision and a steadfast effort. Since 1995, APS has responded to the challenges presented by climate change when the company accepted the U. S. Department of Energy's Climate Challenge. At that time, we committed to limiting emissions to 1990 levels by 2000. We are proud to say we met that goal. In 2006, the U.S. Environmental Protection Agency (EPA) honored APS with its Climate Protection Award, recognizing the many efforts the company has made in response to climate change.

Our Position on Climate Change

We have undertaken a number of initiatives to address emission concerns, including renewable energy procurement and development, promotion of programs and rates that encourage energy conservation, renewable energy use and energy efficiency. APS currently has a diverse portfolio of renewable resources—

solar, wind, geothermal, biogas and biomass—and we expect the percentage of renewable energy in our resource portfolio to increase in the coming years. As of the end of 2014, APS had a total of 875 MW of solar energy, including distributed energy, power purchase agreements and utility scale solar installations, in addition to a variety of other renewable resources. Climate change is also a critical consideration throughout our 2014 Integrated Resource Plan.

Climate Change Governance

Our climate change governance structure includes:

1. Public disclosure
2. Emissions inventory
3. Strategic planning, including:
 - a. Incorporation into business operations
 - b. Establishment of GHG avoidance targets
 - c. Development and implementation of business strategies to reduce greenhouse gas (GHG) emissions and minimize exposure to regulatory, operational and other risks from climate change

APS's climate change strategy includes the following components:

Strategic Management

- Legislative and regulatory monitoring and involvement at the federal and state levels

- Engagement with concerned stakeholders through communications such as this report, stakeholder meetings as part of our integrated resource planning process, voluntary participation in the Carbon Disclosure Project, and through the ACC regulatory process
- Identification of potential physical, regulatory and financial risks to our company associated with climate change

GHG Management and Reduction

- An aggressive demand-side management/energy efficiency program to reduce electric demand both by our customers and our internal operations
- Addition of significant non-carbon emitting renewable energy resources
- Inventory and reporting of GHG emissions
- Voluntary participation in the EPA's SF6 Emission Reduction Partnership for Electric Power Systems
- Inclusion of carbon issues as a major component of our integrated resource planning process for future energy sources
- Voluntary actions to reduce emissions at existing generation facilities through improved efficiencies and increased capacity

875
MW

*APS solar generation
as of the end of 2014*



APS is reusing its fly ash to help reduce its environmental footprint while adding to its bottom line. APS sells much of its fly ash for use in concrete production.

- Voluntary actions in carbon sequestration, capture and avoidance
- Technology innovation to identify low-carbon energy sources; increase efficiencies; conserve energy; reduce emissions; or sequester, capture or avoid carbon emissions
- Fleet-management activities, including measures to increase fleet miles per gallon and reduce miles traveled
- Internal energy efficiency measures, including building all new facilities in accordance with LEED standards

APS GHG Emissions Inventory

APS has conducted a thorough analysis of our GHG emissions. Based on our inventory, our primary GHG emissions are from our fossil fueled power plants, accounting for about 99 percent of our total direct GHG emissions. Our next two largest sources are emissions from our mobile fleet and sulfur hexafluoride (SF6) fugitive emissions, which together account for less than one percent of total direct emissions. Miscellaneous small (de minimis) sources such as emergency generators and small equipment account for the remainder of total direct emissions (under one-half percent).

Our major indirect emissions come from electricity consumption in our various offices and buildings.

Other Emission Reduction Sequestration Activities

Sf6 Reduction

In 2004, APS joined the EPA's SF6 Emission Reduction Partnership for Electric Power Systems. This is a voluntary, collaborative effort between the EPA and the electric power industry to identify and implement cost effective solutions to reduce sulfur hexafluoride (SF6) emissions. SF6 is a highly potent GHG used for insulation and current interruption in electric transmission and distribution equipment.

As part of this partnership, APS took voluntary efforts to significantly reduce SF6 emissions from 18.4 percent in the base year of 2001, down to 2.6 percent by the end of 2012. APS is continuing our efforts to minimize SF6 emission through a variety of best management practices and reports our SF6 emissions annually to the EPA. SF6 has a very high global warming potential (GWP)— 23,900 times the warming effect of carbon dioxide per ton emitted. Therefore, reducing leak rate is an important component of our overall GHG emissions reduction efforts.

Ash Reuse

APS is reusing its fly ash to help reduce its environmental footprint while adding to its bottom line. APS sells much of its fly ash for use in concrete production. This allows

APS GHG INVENTORY

	2009	2010	2011	2012	2013	2014
SCOPE 1 (DIRECT)						
APS Owned Generation (Metric Tons CO ₂ E)	15,547,932	15,165,000	15,207,857	14,614,070	14,147,286	14,387,679
SF6 Fugitive Emissions (Metric Tons CO ₂ E)	61,230	59,831	38,038	4,391	59,476	38,876
Mobile Fleet (Metric Tons CO ₂ E)	21,972	20,552	20,332	19,504	20,533	17,084
SCOPE 2 (INDIRECT)						
Electricity Use (MWH)	39,148	40,997	36,791	35,040	32,464	29,317
Electricity Use (Metric tons CO ₂ E)	22,267	23,319	20,927	19,931	18,466	16,676

ASH REUSE APS

	2013 Wet Ash Produced	2014 Wet Ash Produced	2013 Dry Ash Produced	2014 Dry Ash Produced	2013 Ash Sold	2014 Ash Sold	2013 % of Total	2014 % of Total	2013 % of Dry	2014 % of Dry
Four Corners	486,276	222,136	1,207,577	888,546	350,720	323,709	20.7%	29.1%	29.0%	36.4%
Cholla	N/A	N/A	374,415	409,721	344,881	381,355	92.1%	93.0%	92.1%	93.0%

concrete manufacturers to use the coal ash as a base product in cement production, eliminating the need to produce this material themselves and significantly reducing their energy consumption to produce cement. Cholla Power Plant sells a significant amount of its total ash production for reuse; due to its remote location, Four Corners Power Plant has a limited market for ash reuse, selling only 29.1 percent in 2014. APS generated 1,520,403 tons of ash at its coal plants in 2014 and recycled 705,064 (33.6 percent of the total production). This

estimated emission reduction is 424,316 metric tons of carbon dioxide.

Potential Climate Change Legislative Impacts

Although the EPA has released proposed carbon regulation on new and existing electricity generating units, there have been no recent attempts by Congress to pass legislation that would regulate GHG emissions, and it is unclear if and when Congress will consider a climate change bill. In the event climate change legislation ultimately passes, the actual economic and operational impact of such



Air emissions of sulfur dioxide (SO₂) and nitrogen oxides (NO_x) have shown a sharp decrease over the past several years as a result of the voluntary installation of additional pollution controls at our coal-fired Cholla (above) and Four Corners power plants.

legislation on APS depends on a variety of factors, none of which can be fully known until a law is enacted and the specifics of the resulting program are established. These factors include the terms of the legislation with regard to allowed GHG emissions; the cost to reduce emissions; in the event a cap-and-trade program is established, whether any permitted emissions allowances will be allocated to source operators free of cost or auctioned (and if so, the cost of those allowances in the marketplace) and whether offsets and other measures to moderate the costs of compliance will be available; and, in the event of a carbon tax, the amount of the tax per pound of CO₂ equivalent emitted.

In addition to federal legislative initiatives, state-specific initiatives may also impact our business. While Arizona has no pending legislation and no proposed agency rule regulating GHGs in Arizona, the California legislature enacted AB 32 and SB 1368 in 2006 to address GHG emissions. In October 2011, the California Air Resources Board approved final regulations that established a statewide cap on GHG emissions beginning on January 1, 2013, and established a GHG allowance trading program under that cap. The first phase of the program, which applies to, among other entities, importers of electricity, commenced

on January 1, 2013. Under the program, entities selling electricity into California, including APS, must hold carbon allowances to cover GHG emissions associated with electricity sales into California from outside the state. APS is authorized to recover the cost of these carbon allowances through the Power Supply Adjuster (PSA). Further discussion on potential impacts to APS of federal and state climate change legislation and regulation, including new EPA rules, can be found starting on page 17 of our 2014 Pinnacle West 10-K report. Also, the potential cost of carbon and impact of GHG emissions are considered in our resource planning, which can be reviewed at www.aps.com/resources.

Carbon Disclosure Project

Pinnacle West has participated in the Carbon Disclosure Project since 2006. Our detailed responses are available for public review on the [Carbon Disclosure Project website](http://www.cdp.net).

Air Emissions

The air emission charts which follow show our primary pollutants from power plant electricity generation over the past 10 years.

APS's SO₂ and NO_x Emissions Show Sharp Decreases

Air emissions of sulfur dioxide (SO₂) and nitrogen oxides (NO_x) have shown a sharp decrease over the past several years as a result

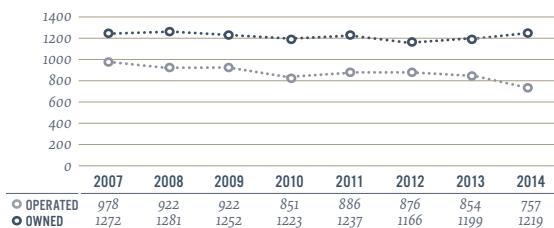
of the voluntary installation of additional pollution controls at our coal-fired Cholla and Four Corners power plants (see air emissions charts). As shown in the charts, we anticipate continued significant reduction in NOx and SO₂ emissions based on the impact of the Four Corners Accord, the installation of additional pollution controls at our coal-fired power plants, and the impact of APS's Resource Plan, which emphasizes non-emitting renewable energy and lower emitting natural gas generation for future resources, and has no future coal plants planned.

Regional Haze

Over a decade ago, the EPA announced regional haze rules to reduce visibility impairment in national parks and wilderness areas. The rules require states (or the EPA for sources located on tribal land) to determine what pollution control technologies constitute the best available retrofit technology (BART) for certain older major stationary sources. This impacts our Cholla and Four Corners power plants. A detailed discussion of this issue can be found starting on page 18 of our 2014 Pinnacle West 10-K report, as can a discussion of mercury and other hazardous air pollutants.



CO₂ EMISSION RATE (LB/MWh)



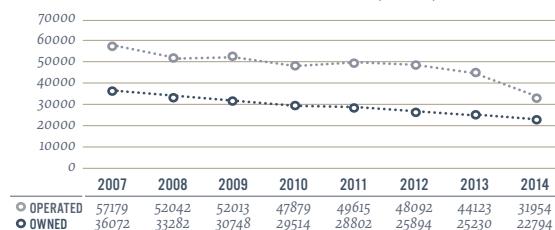
NOX EMISSION RATE (LB/MWh)

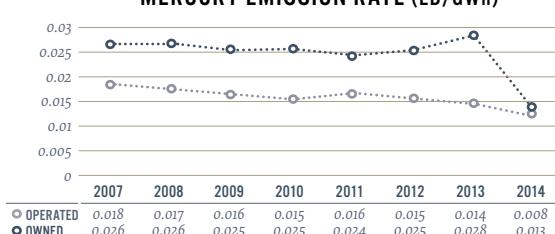
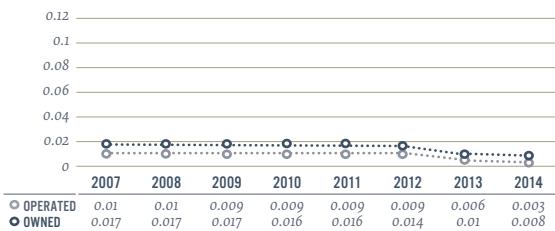
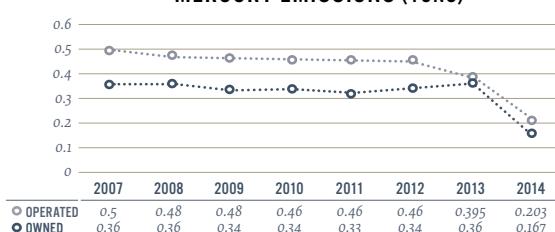
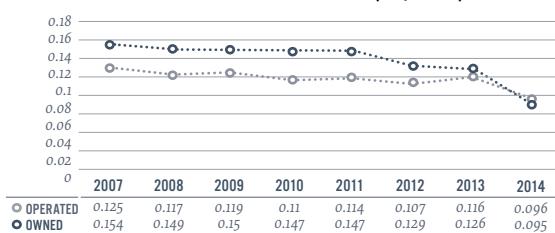
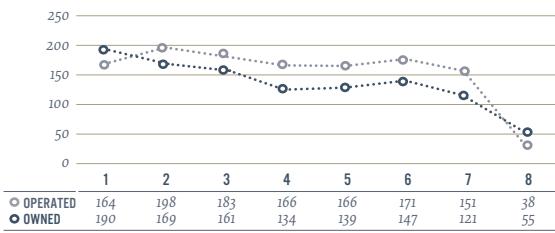


CO₂ EMISSIONS (MILLION METRIC TONS)



NOX EMISSIONS (TONS)



SO₂ EMISSION RATE (LB/MWh)**PM10 EMISSION RATE (LB/MWh)****SO₂ EMISSIONS (TONS)****PM10 EMISSIONS (TONS)****MERCURY EMISSION RATE (LB/GWh)****LEAD EMISSION RATE (LB/MWh)****MERCURY EMISSIONS (TONS)****LEAD EMISSIONS (TONS)****CO EMISSION RATE (LB/MWh)****VOC EMISSION RATE (LB/MWh)****CO EMISSIONS (TONS)****VOC EMISSIONS (TONS)**



WATER

APS owns and operates eight power generation plants in Arizona and one in New Mexico. Each requires water, primarily as cooling water to support generation. In 2009, APS created a Water Resource Management department to better coordinate and manage water-related business for the company at a corporate level. This department developed the following vision and mission statements:

Vision: To secure and maintain a sustainable and cost-effective supply of water to enable reliable energy production for APS customers.

Mission: To develop and implement a strategic water resource management

program that will provide APS timely and reliable information to manage APS's water resources portfolio in support of the safe and efficient generation of electricity for the long term.

A Water Resource Management strategic plan was developed in 2009 and has been updated annually. This plan describes initiatives that have been developed to ensure that the vision and mission statements are effectively implemented. This is accomplished in part through the timely acquisition of water supplies, evaluation of alternative supplies for future needs, and promoting conservation by the efficient use of water at each APS power generation plant.

With a focus on operational excellence and environmental responsibility, APS has set a standard for other utilities in similar arid environments.

23

BILLION

Gallons of reclaimed
water processed
by Palo Verde each year

Increasing demand for electricity and the likelihood of continued pressure on water supplies in the Southwest is expected. Therefore, it was determined to be in APS's best interest, and in the interest of our customers, to invest strategically in water to meet the needs of future generation. With anticipated regional growth and a limited supply of water resources, it became evident that not only primary water supplies were of importance, but contingencies also needed to be identified and implemented. Therefore, APS has identified both primary water supplies and contingencies for each plant in order to ensure reliable long-term operation, even in times of possible shortage, such as extended drought. At this time, eight of the nine APS plants have contingencies in place, and the final contingency will be implemented in 2016. Options for future water supplies include increased utilization of renewable supplies, such as reclaimed water and surface water, and investigating potential new sources that cannot currently be used, such as impaired groundwater.

With the increased emphasis on the importance of water resources in the Southwest, future generating stations will need to consider alternative cooling technologies to reduce consumptive use of water, or alternative water supplies that will likely require pre- and post-treatment. APS has committed to research with entities such

as Sandia National Laboratories, Electric Power Research Institute (EPRI), U.S. Department of Energy (DOE) and Idaho National Laboratory (INL) to evaluate new technologies, determine the cost of practical implementation, and to reduce water intensity at generating sites by increasing cycles of concentration in cooling towers. Alternative water supplies have been considered, specifically evaluating new treatment technologies to utilize the most efficient processes for the quality of water being treated. Further, we are developing a comprehensive understanding of capital and operations and maintenance (O&M) costs (current and future) associated with varying technologies.

Water resources at APS generating stations are a critical component of plant reliability and capacity factor. One action taken by APS was to implement a Well and Pumping Equipment Reliability program, developed as a water resource management initiative in 2014 and being implemented in 2015. This program encompasses critical components of the water supply, including groundwater wells and well infrastructure, plus maintenance, testing, inspection and rebuild strategies for wells. It will ensure that wells are properly maintained and operated in a manner that results in reliable, cost-effective and efficient use of water.

In 2014, a water intensity metric was developed for power provided to APS customers. This metric includes power generated by APS or purchased for APS customers, plus renewable power that consumes very little water, such as wind and photovoltaic (PV) solar. It also takes credit for energy efficiency strategies that result in more efficient use of power, and eliminates the need to add new, water-consuming generation plants. This metric has annual goals and is reported monthly, and will document expected decreasing water intensity over time. APS currently predicts that the water intensity for power delivered to APS customers will decrease from 536 gallons per megawatt-hour

(gal/MWh) in 2014 to 424 gal/MWh in 2028, based upon our current Integrated Resource Plan.

In 2014, a wellfield management plan was developed at APS's Cholla Power Plant and is currently being implemented, tested and revised. This plan will result in more efficient use of higher quality groundwater, decreased water consumption, and more strategic use of water resources. Evaluation of feasibility to develop similar wellfield management plans at other APS power plants is under way.

Water Resource Management has established an extensive data collection, reporting and dashboard system, which is used to track water

APS, and Palo Verde in particular, has provided national and international leadership on the use of reclaimed water for power generation.



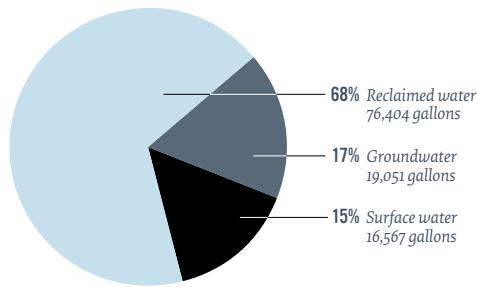
use performance throughout the fleet. On a continual basis, the team uses this information to evaluate the ongoing performance of the fleet for the following purposes:

- Ensuring that regulatory requirements are met, including annual reporting
- Ensuring that supplies of water with specific allotments are not overdrawn
- Evaluating and maintaining operational water-use efficiency
- Understanding abnormal operating conditions and the impacts on water usage
- Tracking the fleet's performance for the performance indicator reports

Each APS power plant has unique water strategies, developed to promote efficient and sustainable use of water. One strategy that has been implemented is focus on use of reclaimed water as a cooling water source. APS uses reclaimed water at Palo Verde Nuclear Generating Station and the Redhawk Power Plant as the primary cooling water supplies. The chart above demonstrates the commitment APS has made to use of reclaimed water.

Sixty-eight percent of all water used at APS plants is reclaimed water; that is 76,404 acre-feet, or 24,896,319,804 gallons. Reclaimed water is a renewable resource that is reliable, provided at a predictable and competitive cost,

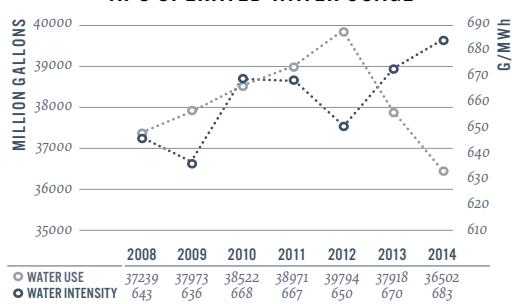
APS FLEET WATER USE BY SOURCE TYPE



and frees up other freshwater supplies for other uses. APS plans to maximize use of renewable resources in the future and minimize use of non-renewable resources.

As Arizona and the APS customer service area continues to grow, new generation is being developed, or existing plants are updated to meet the needs of new customers. APS has made a commitment at the Ocotillo Power Plant to retire two older steam units, and to replace them with five new, water efficient combustion turbines. In order to maximize water efficiency at this site, these new generating units will utilize a hybrid cooling system, designed to reduce water consumption by approximately 50 percent.

APS OPERATED WATER USAGE



The Ocotillo Power Plant uses groundwater as plant cooling water, therefore, this reduction in groundwater consumption demonstrates APS's commitment to minimize use of non-renewable resources.

Another way that APS has demonstrated commitment to efficient water use is in development of efficient water treatment systems that enable very high cycles of concentration in cooling towers, thus conserving water.

At the Palo Verde Water Reclamation Facility, water is treated to such high quality that Palo Verde's cooling towers are able to achieve 25 cycles of concentration, far surpassing conventional industry standards.

WASTES

Hazardous Waste

We have had a hazardous waste minimization program in place for a number of years, resulting in significant reductions in the amount of hazardous wastes generated at APS facilities, as shown in the chart above. APS hazardous waste has been reduced from 193 tons per year in 2003 to 28.1 tons in 2014.

In 2014, the Palo Verde Nuclear Generating Station had its best year ever as far as hazardous waste generation, generating less than 2,500 pounds of hazardous waste during the year. In prior years, a number of our facilities were large-quantity



generators of hazardous waste. Our goal is to have all of our facilities be either small-quantity generators or conditionally exempt small-quantity generators of hazardous waste. The increase in APS total hazardous waste generation in 2014 over 2013 was due primarily to an episodic generation of hazardous waste at the Elden substation. The company does not anticipate further generation of hazardous wastes at this substation.

Our current goal is to maintain our hazardous wastes at the lowest possible level, recognizing the majority of our hazardous wastes are episodic in nature and often the result of maintenance, upgrade or remediation projects rather than ongoing business operations. All of our hazardous wastes are transported by permitted companies to EPA-permitted hazardous-waste-disposal facilities located in the United States.

Solid Wastes, Waste Reduction and Recycling

We have an aggressive waste reduction, recycling and reuse program in place at facilities across our organization.

164.9
TONS

Reduction in APS hazardous waste volume from 2003 to 2014

4,595

TONS

*Material recycled through
the Investment Recovery
department during 2014*

Each facility reviews its waste streams and looks for waste reduction opportunities. Some of these activities include working with suppliers to reduce packing materials and pallets, substituting products, paper reduction in offices and other strategies.

Our second approach is an extensive program to recycle materials. APS's Deer Valley Service Center serves as a central management point for many recycled materials. Our power plants also work with local recycling agencies. This program strives to recycle essentially all of our paper, cardboard, scrap metal, used oil, antifreeze and wood waste.

Vegetative waste from our line-clearance activities is also a major component of our landfill waste. We currently recycle about one-third of our vegetative waste and are looking at alternatives to significantly increase the amount of this waste to be recycled.

2014 RECYCLING BY TYPE (TONS)

	2013	2014
Pallets	666.2	694.08
Paper	82.4	101.75
Corrugated Paper	96.8	138.2
Single Stream (Comingled)	62.8	81.92
Scrap Metal	2101	2597.42
Small pole and padmount transformers	1257.28	937.35
E-waste	45.42	26.57
Other	70.3	15.95

Investment Recovery

In 2014, APS recycled 17.6 percent of waste that was tracked through Investment Recovery (IR). This is a subset of the total company, and reflects the work tracked only through IR. While nearly 21,600 tons of waste was shipped to outside landfills, over 62 percent of the landfill waste total was due to episodic events. Episodic events encompass the closure and dismantling of the units at Four Corners Power Plant. When these events are omitted, 36.1 percent of waste tracked through IR was recycled. Material is recycled through both specialized streams (such as paper, metal, wood, reels and spools), and single-stream recycling of common materials. The total amount recycled through the Investment Recovery department for 2014 was 4,595 tons, which was a year-over-year increase of 4.8 percent.

Coal Combustion Waste

On December 19, 2014, the EPA issued the pre-publication copy of the 2014 final rule, Disposal of Coal Combustion Residuals (CCRs) for Electric Utilities. The rule will become effective six months after publication in the Federal Register, which is expected at the beginning of the second quarter of 2015. The EPA opted to regulate CCR as Subtitle D solid waste and not Subtitle C hazardous waste. The self-implementing rule contains significant provisions regarding CCR

landfills and surface impoundments have stated intentions of reducing the potential for impoundment failures, protecting groundwater and establishing clear inspection, operating and recordkeeping requirements for utilities that produce and manage CCRs.

APS currently disposes of CCRs in ash impoundments and landfills at the Cholla and Four Corners power plants, and also sells a portion of its fly ash for beneficial reuse as a constituent in concrete production.

Waste/Recycling Vendor Audits

The Vendor Audit program evaluates our vendors' operations, environmental management systems and financial strength in order to minimize short- and long-term liability caused by vendor actions or omissions. The audits also help to ensure our waste materials are being properly managed once they leave our facilities. These audits are conducted prior to using any new vendors who provide waste disposal and/or recycling services to the company, and periodically thereafter.

Polychlorinated Biphenyls (PCB) Management

For a number of years, APS has had an aggressive PCB management program in place to manage PCB and PCB-contaminated equipment. APS has been successful in reducing the

use of PCBs in electrical equipment by targeting suspected equipment based on manufacturer name and serial numbers. The PCB status of our electrical equipment is tracked in an electronic database, which is readily available across the company. Between 2000 and 2014, APS removed 17,266 pieces of equipment from the distribution and substation systems, resulting in the disposal of over 3.9 million pounds of PCB-containing material. APS continues to proactively identify and manage PCB-containing equipment.



SPILLS AND REMEDIATION PROGRAMS

Superfund Issues

In 2003, APS was named as a potential responsible party in the Motorola 52nd Street Operable Unit 3 (OU3) Superfund site located in Phoenix, Arizona. In July 2004, APS completed negotiations with the EPA and signed an Administrative Order of Consent (AOC). This formal agreement binds APS to determine the extent, if any, of its contribution to the regional groundwater impacts and to identify options for addressing the company's contribution to those impacts under the EPA's oversight and guidelines.

APS has received a notice of completion from EPA for the scope of work specified in the AOC to evaluate potential groundwater impacts at our facility. EPA's review of the work

conducted under the AOC concluded that no further work or remediation of the soil, soil vapor and groundwater is required at our facility.

APS will continue to monitor the groundwater as part of the ongoing regional groundwater evaluation of OU3. APS entered into an AOC with EPA for the Remedial Investigation and Feasibility Study for the OU3 on September 23, 2009. This order requires APS to conduct environmental work along with Honeywell in the OU3 Superfund site. Completion of the Remedial Investigation and Feasibility Study Report for OU3 groundwater is currently scheduled for 2015.

APS continues to provide funding for the clean-up of the Hassayampa Landfill Superfund site. APS sent industrial solid waste to this municipal landfill until it closed in the late 1970s. The facility was later designated as a federal superfund site and APS was named as one of a number of responsible parties. APS's contribution to this clean-up effort is small, representing approximately 1.5 percent of the total annual assessment.

Manufactured Gas Plants

Manufactured Gas Plants (MGP)s operated from the late 1800s to about 1950, making synthetic gas for domestic heating and lighting purposes. Several predecessors of today's APS operated plants in Arizona communities including Phoenix, Globe, Miami, Prescott, Douglas and Yuma. The

manufactured gas process created byproducts including lampblack, tar and oils, some of which remained at the sites after operations ceased. APS has voluntarily investigated and characterized our historical MGP sites. We have entered the MGP sites into the Arizona Department of Environmental Quality's Voluntary Remediation program, which specifically addresses the voluntary investigation and remediation of environmentally impacted sites in Arizona. We have completed and received closure from the Arizona Department of Environmental Quality (ADEQ) for the Prescott, Yuma and Globe sites. APS has completed the soil removal and utility isolation activities at the 501/505 Phoenix MGP site and will implement bioventing in 2015.

Spills

APS had no reportable spills of hazardous materials in 2014.

Toxic Release Inventory

APS is required by the EPA to report applicable releases of chemicals listed by the EPA through its Toxic Release Inventory (TRI) program. Our reportable releases under the TRI program are primarily contained in our air emissions from power plants, or are contained within coal ash. Our reporting facilities are the Four Corners Generating Station in Farmington, New Mexico, and the Cholla Power Plant in Joseph City, Arizona.

While the TRI quantities reported by our coal-fired power plants are fairly large (as is the case with most utility companies), the majority of these releases are actually captured by pollution control equipment, or are contained within our waste coal ash, which is either recycled for beneficial use or stored in coal ash ponds.

LAND USE AND BIODIVERSITY

APS Forestry and Special Programs

The APS Forestry & Special Programs includes the maintenance and control of trees, shrubs and brush growing around APS facilities and equipment—including overhead power lines, poles and underground electrical equipment—to ensure the safe and

reliable delivery of electrical service. APS Forestry maintains more than 20,000 miles of overhead power lines throughout the state.

APS Forestry & Special Programs is responsible for administering a variety of operations-related environmental programs associated with vegetation management, wildlife protection, landscaping, and natural resource planning and management. In addition to environmental benefits, the activities of this department also have a great impact on system reliability and public safety.

- **Vegetation Management Manual -** The APS Forestry & Special Programs' Vegetation Management Manual is the department's guiding



At APS, the desired outcome of Integrated Vegetation Management is the development of lush, low-growing shrub/grass/forb communities that do not interfere with overhead power lines, pose a fire hazard or impede access.

document which provides general guidance and advice, and to describe minimum standards of work methods and work quality for APS Forestry & Special Programs team members and associated contractors.

- **IVM - Electric utilities** use a combination of control methods to provide vegetation management using the Integrated Vegetation Management (IVM) system. IVM involves a planned and systematic process of determining the best-suited method for managing vegetation on individual sites that considers compatible and incompatible vegetation, action threshold, and evaluates, selects and implements the most appropriate control methods to achieve established objectives. Control methods may include a variety of methods based on environmental impact and anticipated effectiveness along with site characteristics, social, economics and current land use factors.

At APS, the desired outcome of IVM is the development of lush, low-growing shrub/grass/forb communities that do not interfere with overhead power lines, pose a fire hazard or impede access. By using the proper vegetation management technique, low-growing vegetation will eventually dominate the right-of-way and inhibit the growth of tall-growing and noxious vegetation, providing cultural and biological control of the incompatible

species and reducing the need for future treatments. This translates into reduced soil disturbance and erosion. A well-managed utility corridor is truly ecosystem management that can convert a fragmented landscape to a habitat-enriched ecosystem, or create habitat connectivity between ecosystems and provide natural habitat for the survival of rare and endangered plants and animals.

The IVM follows professional industry arboriculture standards and best management practices approved through the American National Standards Institute (ANSI A300).

- **Landscaping Maintenance -** APS Forestry & Special Programs is also responsible for landscaping maintenance for company substations and service centers. Several substations and service centers are landscaped each year, many with reclaimed native vegetation from the corridor of a new transmission line project. The reclaimed vegetation was not the appropriate species for the overhead transmission line corridor but was an excellent fit for landscaping around these substations. The reclaimed vegetation planted at all of the new sites consists of low-water-use plants that require no irrigation.

- **Cultural Resource Program -** To reduce the possibility of damaging national historic treasures and to ensure

the company is in compliance with current regulations, APS has two professional archaeologists on staff. In addition to coordinating the cultural resource compliance component of new construction projects, efforts have been made to survey the majority of the company's existing transmission system. Archeologists conducted these surveys to determine historical properties and archaeological sites, covering approximately 5,000 miles of transmission line corridors. APS documented more than 2,000 archaeological sites requiring special considerations during all construction and maintenance operations.

The Cultural Resource program coordinates IVM and other maintenance activities with federal, state, local, and tribal lands. The Cultural Resource team members also:

- o Serve as the liaison between APS Forestry & Special Projects and agencies
- o Ensure compliance with state and federal environmental laws
- o Responsible for departmental GIS mapping and data management
- o Conduct FERC compliance documentation and reporting
- o Oversee avian protection
- o Ensure archaeological compliance with State Historic Preservation Office (SHPO)

The National Arbor Day Foundation recognized the high-quality standards of APS's Forestry & Special Programs department's vegetation management efforts with its "Tree Line USA Utility" distinction for the 18th consecutive year.





The company has implemented new construction design standards that require the installation of avian-safe devices and coverings to minimize potential hazards for raptors and other birds.

- **Wildlife Protection Programs** - APS is a member of the Avian Power Line Interaction Committee (APLIC) and has worked closely with this group to revise the industry's Suggested Practices for Avian Protection on Power Lines and Mitigating Bird Collisions with Power Lines manuals.

To meet the compliance requirements of the National Environmental Policy Act (NEPA), the Endangered Species Act (ESA), the Migratory Bird Treaty Act (MBTA) and many other pertinent regulations, the department has evolved to include a dedicated staff of degreed natural resource professionals including foresters, arborists, biologists and an archaeologist.

APS, in partnership with the U.S. Fish and Wildlife Service (USFWS), has developed a comprehensive Avian Protection Plan. The company has implemented new construction design standards that require the installation of avian-safe devices and coverings to minimize potential hazards for raptors and other birds. All new construction is installed in accordance with the APS avian-protection standards. Each year the company modifies more than 800 existing poles to meet these avian-safe design standards. Substations are likewise retrofitted with wildlife protection as necessary.

The company conducts a comprehensive nest management program to protect birds that build their nests on electrical equipment. APS developed a nest platform that can be installed on the pole in a safe place when the nest creates a hazard for the birds and the electrical equipment.

APS collaborates with various environmental and conservation organizations and agencies on education and awareness programs, habitat enhancement projects, biological assessments and species conservation plans. Organizations and agencies include:

- o National Arbor Day Foundation
- o Pollinator Partnership
- o Liberty Wildlife
- o Wild at Heart
- o National Wild Turkey Federation
- o Southwest Bald Eagle Association
- o United States Forest Service
- o United States Fish and Wildlife Service
- o Bureau of Land Management
- o Arizona Game and Fish.

- **Fire Mitigation** - The Fire Mitigation project is an initiative taken by APS to help reduce the likelihood of fire caused by the electrical system. This project involves deployment of new fuses that minimize discharge, a software program that helps

determine ground faults and devices that communicate when the power goes out. In addition, APS Forestry & Special Projects began a pilot Pole Clearing project to create combustible-free space and to allow access for equipment. The goal is to remove flammable material within a 10-foot radius around the pole. In 2015, 10,000 poles will be maintained in this pilot.

- **Tree Replacement Program -**

It is often necessary to remove tall trees growing under or near power lines. In many circumstances, APS provides customers with low-growing replacement trees. In addition, APS provides a brochure to communities we serve encourage planting the “Right Tree in the Right Place,” and actively works with customers and communities to relay this message. The brochure is a homeowner’s guide to choosing and planting trees for a lifetime of beauty, safety and energy efficiency.

- **Arbor Day Celebrations -** Every year,

APS visits several local elementary schools and city parks around the state to host Arbor Day celebrations. These events involve an educational component involving the importance of trees in the environment. This is followed by a tree-planting ceremony on the school or park grounds.

- **Tree Line USA Utility -** The National

Arbor Day Foundation recognized

the high-quality standards of APS’s Forestry & Special Programs department’s vegetation management efforts with its “Tree Line USA Utility” distinction for the 18th consecutive year. The department was lauded for administering a superior program of professional tree care, providing annual worker training as well as implementing tree planting and public-education programs.

A close-up photograph of a man with dark hair and a beard, wearing a light blue denim jacket over a white shirt. He is focused on working on a bicycle wheel, which is held vertically in front of him. The background is blurred, showing an indoor workshop environment.

CUSTOMERS AND COMMUNITIES

PNW 2014 CORPORATE RESPONSIBILITY REPORT

THE SATISFACTION OF OUR CUSTOMERS IS A PRIORITY OF APS AND WE BELIEVE THAT STRONG CUSTOMER SATISFACTION LEADS TO STRONG SHAREHOLDER VALUE AND A SUSTAINABLE FUTURE.



Supporting the community is the right thing to do—it's also smart business and an investment in our sustainable future.

Improving Customer Satisfaction

The Customer Insights team (formerly Market Research) in our Marketing department utilizes a variety of tools to track and improve the satisfaction levels of APS customers. These include:

- **The J.D. Power Utility Customer Satisfaction Studies** – APS scores and rank among large investor owned utilities are tracked on an ongoing basis for both the residential and business segments of customers. While the overall satisfaction score is a Tier 1 corporate objective, several operational units have developed goals from the study's key drivers (including power quality and reliability, corporate citizenship and customer service).
- **Customer Satisfaction Tracking** – This research measures customer satisfaction as it relates to numerous brand image attributes. Marketing and Communications teams review the results to drive strategies in communication, advertising and media efforts. The research includes analysis of residential, business, key account and Hispanic market segments, and breaks down the data by demographic and behavioral segments (including age, income and geography).
- **Customer Contact Tracking** – This research tracks the customer experience at a wide variety of touch points including the call center, Interactive Voice Response (IVR), [aps.com](#), correspondence/email, payment offices and energy efficiency/renewable energy programs. This research has led to new training for phone center associates, improved communication to provide better explanations to customers, and a variety of process improvements.



Customers who participate in special programs show higher levels of engagement and are more likely to express satisfaction with APS.

- **Customer Satisfaction Improvement Team** – This cross-functional team was developed in 2014 and meets on a monthly basis to discuss customer satisfaction results from a wide variety of research, best practices from within and outside of the utility industry, the level of success from recently enacted initiatives and process improvements, and the identification and development of new initiatives and improvements that may be required.

Marketing Most Efficiently to Achieve Program Goals

While the Communications team manages the brand and overall awareness of APS programs, products, and services, the Marketing team meets program participation goals through the identification of those customers most likely to participate in those same programs, products and services. These may include energy efficiency or renewable energy programs, billing and payment options as Equalizer and Pick-A-Due-Date, or [aps.com](#) services such as AutoPay and paperless billing. Customers who participate in these programs show higher levels of engagement and are more likely to express satisfaction with APS.

Through the development of strong mailing and email lists, and the use of campaign tracking analytics,

APS is able to improve marketing campaign response rates on a regular basis. The key is to provide the right message at the right time to the right customer through their preferred channel or source of communication.

Recent success stories include:

- The most recent campaign for the AC Tune-up program focused on those customers who previously participated in other energy efficiency programs. This campaign saw a significant increase in program participation rates and a significant decline in enrollment costs per participant.
- The paperless billing campaign developed customized messages for four different web usage segments (Web Warriors, Social Butterflies, Practical Users and Technology Averse); communicating different reasons to go paperless for each audience. The campaign significantly increased response rates in all categories.
- Another energy efficiency program marketing campaign incorporated Facebook. Through social media, geographic targeting, and leads from those completing an online home energy audit, this campaign more than tripled program participation rates when compared to earlier marketing efforts.

New Product and Program Development; the Customer of the Future

The Customer Insights research team at APS recognizes that customer needs and expectations may change over time and, as technology evolves, the services that are provided will need to evolve with them. This planning will further enable APS to maintain a strong and sustainable future. In 2014, research was conducted that led to the evolution of several existing programs, including the Demand-Side Management (DSM) Behavioral Report program and the Prepay program. It also led to the development of the new APS Solar Partner program. Research also helped lead to the development of the [aps.com](#) Notification Center and alert system for outage and bill amount messages.

The Customer of the Future research began in 2014 and is continuing throughout 2015 to provide a view of the customer, the technology and the role of the utility five to 10 years forward. This research is critical in our efforts to identify and meet customer needs and expectations, develop the internal expertise and partnerships that may be required to meet those needs and expectations, and to place ourselves in a position of strength for whatever the future may hold. It is yet another way to maintain and improve our sustainability efforts.

Our Community Involvement is Key to a Sustainable Future

At Pinnacle West and APS, supporting the community is the right thing to do—and it's also smart business and an investment in our sustainable future. The APS Foundation and APS Corporate Giving programs allow APS to make a significant impact in the communities where our families, neighbors and customers live and work.

Community Connectors, our employee volunteer program, regularly ranks at or near the top of the *Phoenix Business Journal*'s list of corporate volunteer programs. APS and our employees engage with the community in numerous ways, some examples of which are highlighted below.

APS Partners With EPA to Update Home for Veterans

APS and the U.S. Environmental Protection Agency (EPA), through its EPA ENERGY STAR program, combined to rehabilitate a West Phoenix facility that offers safe, secure housing to help homeless veterans get back on their feet. The U.S. Vets facility, which provides transitional housing to 135 veterans who have faced chronic homelessness, received energy efficient upgrades that will save the organization \$40,000 a year in energy costs. Over the lifetime of the equipment, savings will total more than \$675,000.



APS and the EPA joined forces to rehabilitate a West Phoenix facility that offers safe, secure housing to help homeless veterans get back on their feet.

200 HOURS

*Donated by 50 APS
Community Connectors
to various St. Vincent de Paul
events during 2014*

\$25,000

*Provided by APS to support
St. Vincent De Paul's
community dining
room program*

Upgrades to the Phoenix transitional housing facility included replacing inefficient windows, light bulbs, insulation and refrigerators in all of the 135 units with high efficiency ENERGY STAR products. New commercial-grade washers and dryers were installed in the common area for all veterans to use. In addition, a new ENERGY STAR flat-panel high-definition television was provided for the U.S. Vets recreation room. The overall effort was organized by APS in cooperation with EPA. APS volunteers donated 60 hours of time to help with the transformation.

APS Contributes to the Society of St. Vincent de Paul

For hundreds of thousands of Arizonans, hunger is a chronic condition directly associated with

poverty. Low-income, working poor families often do not know how they will feed their children or themselves today, tomorrow or next week. The Society of St. Vincent de Paul is one of the Arizona nonprofit agencies working to change that equation and APS has been there to help.

St. Vincent de Paul counts on thousands of volunteers to annually provide the more than 1.4 million nutritious meals to low-income and homeless individuals and families at 29 locations. During 2014, 50 APS Community Connectors volunteered 200 hours at various St. Vincent de Paul events, from serving meals to baking cookies or helping out at the organization's annual Restore Hope Breakfast. In addition, APS provided \$25,000



to support St. Vincent De Paul's community dining room program. Without the dining room offering daily meals, even more children and adults would go to sleep hungry.

Addressing hunger has been an emerging concern in Arizona and APS is answering the call. Through its partnerships with Arizona food banks, APS provided more than 240,000 meals to those in need last year.

APS Volunteers Aid - United Methodist Outreach Ministries

For more than a decade APS and its employees have supported United Methodist Outreach Ministries (UMOM), one the state's premier organizations addressing homelessness in our community. UMOM incorporates innovative strategies and housing solutions that meet the unique needs of each family and individual. For many Arizona families, shelter is the first step on the road to permanent housing. That's why UMOM provides families with basic needs assistance and supportive services to stabilize, and then prepare them to move into and maintain permanent housing.

UMOM celebrated its 50th Anniversary in 2014 and put out a challenge to the community: help UMOM reach its goals of 50,000 volunteer hours. APS committed to that challenge and, over the course of the year, 188 volunteers from APS donated more than 560 hours. Each month, newly hired

workers spent a half day at UMOM's main campus, tending to its community garden, sorting books for UMOM's Read to Me program, filling bags with toiletries and a number of other volunteer tasks.

Foundation Supports NAU, Rural Teachers

Take a peek inside the classrooms at 12 schools in rural Arizona and you may see science teachers transformed through science, technology, engineering and math (STEM)-based training from the Center for Science Teaching and Learning at Northern Arizona University (NAU). The APS Foundation awarded \$200,000 for its APS STEM Focus Schools for the Future program at NAU, which provides tools to educators to develop school capacity to implement effective STEM education for today's learners.

Teachers accepted in this program are already knowledgeable in math and science; the center offers tools to deliver that knowledge to students. Teachers better understand how to respond appropriately to students at different ages and in different situations. Furthermore, the program introduces engineering practices along with science and math to help prepare students for 21st-century skills and STEM careers.

The program is one of many supported by the APS Foundation to help Arizona students improve in skills critical to their future success and the success



The APS Foundation awarded \$200,000 for its APS STEM Focus Schools for the Future program at NAU, which provides tools to educators to develop school capacity to implement effective STEM education for today's learners.

\$9.9M

APS corporate and foundation contributions during 2014

of Arizona. The NAU approach creates classroom environments in which teachers can cultivate a vision of what is possible in science, engineering and math, in turn preparing students to fill necessary roles in STEM-related industries.

Philanthropic Commitment

The APS Foundation and APS Corporate Giving programs allow us to make a significant impact throughout Arizona. In 2014, APS made \$9.9 million in corporate and foundation contributions, an increase from \$9.6 million in 2013.

By focusing APS Foundation giving on advancing STEM programs, we are strengthening our commitment to support teachers and students. STEM education is critical to create a more robust economy and develop a stronger, more educated workforce. The APS Corporate Giving program

also supports arts and culture, human services, the environment, non-STEM education and civic organizations.

Grand Canyon Trails Forever Endowment

As part of our commitment to preserve and protect Arizona's heritage, APS donated \$1 million to the Grand Canyon Association to establish the Grand Canyon Trails Forever Endowment. The donation from the APS Foundation is considered one of the most significant private, philanthropic gifts in the Grand Canyon's history.

The endowment will provide ongoing funding vital to improve and maintain the over 350 miles of backcountry and main corridor trails such as the Bright Angel Trail, South Kaibab and North Kaibab trails and the River Trail. APS is encouraging other businesses across Arizona and the country to also take an active role in preserving and protecting our national treasures.

	2013	Percentage	2014	Percentage
APS TOTAL GIVING	\$9,606,185.72		\$9,930,396.75	
APS Foundation Total	\$3,023,685		\$2,583,840	
APS Corporate Giving Total	\$6,582,500.72		\$7,346,556.75	
Arts & Culture	\$839,864.05	8.74%	\$690,189.86	6.95%
Civic	\$1,021,552.23	10.63%	\$1,193,428.19	12.02%
Economic Development	\$638,819.23	6.65%	\$853,073.66	8.59%
Education	\$2,411,419.73	25.10%	\$3,547,485.30	35.72%
Environmental	\$1,148,190.02	11.95%	\$453,348.08	4.57%
Health Services	\$749,964.65	7.81%	\$309,036.23	3.11%
Human Services	\$2,744,754.65	28.57%	\$2,817,339.45	28.37%
Matching Gifts Dollars For Doers	\$51,621.16	0.54%	\$66,495.98	0.67%
TOTAL	\$9,606,185.72		\$9,930,396.75	



In 2013, Grand Canyon National Park hosted over 37,000 overnight backcountry users and many more day hikers. This donation will help keep Grand Canyon trails open for the public to enjoy.

Employee Engagement Further Supports Our Community

The philosophy of the APS volunteer program, Community Connectors, is to encourage and facilitate employees' efforts to support the

company's values of serving our customers and improving the quality of life in our communities.

Through Community Connectors, we help provide our employees with the organizational and financial support they need to ensure the success of their community service efforts and activities.

Community Connectors is active in the more than 200 cities and towns in Arizona served by APS, as well

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\$2.7M

*Donations pledged to the
APS 2014 Community Service
Fund campaign*

147,000

*APS employee hours
volunteered in 2014*

as in northwestern New Mexico, where APS is a major employer. All it takes for a community, school or other nonprofit organization to benefit from Community Connectors is the presence of a single employee or retiree who wants to contribute his or her time and talents to help others.

The Community Connectors volunteer program sponsors and supports efforts ranging from nonprofit organizations supported by small, loosely organized teams, to projects involving hundreds of employees, retirees and their families in dozens of communities.

Volunteer projects may be initiated by employees anywhere in the company, regardless of their job classification, work location or time with the company. APS also has a full-time volunteer program coordinator whose job includes identifying and organizing volunteer projects and partnerships.

APS volunteer activities range from helping at clothing and food drives and the Special Olympics, to mentoring in schools, coaching amateur athletics, serving on boards of directors and as members and docents for hospitals and museums. APS also sponsors major one-time projects such as trail building in local and state parks, neighborhood cleanups and community fund-raisers.

Sponsored activities must meet APS's general standards for social responsibility, wise use of resources

and positive impact on APS customers or employees. Optimally, APS prefers to direct its resources to service efforts and organizations in health and human services, youth and education, arts and culture, the environment and community development.

In 2014:

- More than 300 APS employees served on nonprofit and community boards
- 147,000 APS employee hours volunteered, valued at \$3.3 million
- More than 3,500 employees and retirees participated in the APS 2014 Community Service Fund campaign, donating more than \$2.7 million in pledges. APS matches employee contributions at fifty cents on the dollar.

APS Matching Gifts

The APS Financial Matching Gifts program recognizes the generosity of contributions made by APS employees, retirees and company board members to nonprofit organizations by providing a grant to any qualifying 501(c)(3) nonprofit organization. APS will match employee and retiree donations to approved charitable organizations, \$0.50 for every dollar contributed with a minimum donation of \$50 up to \$1,000.

APS Dollars for Doers

The Dollar for Doers program recognizes the time APS employees and retirees volunteer to nonprofit

organizations dedicated to enhancing our quality of life. APS provides a grant to area nonprofits where employees and retirees volunteer based on the number of hours served. If an employee donates 25 to 50 hours, the agency receives \$125; 51 to 100 donated hours earns \$250; and if the employee volunteers more than 101 hours, APS awards a grant of \$500 per year per employee.

APS Community Partner Academy

The APS Community Partner Academy provides community leaders with an illuminating overview of the electric utility business while building an understanding of how decisions and investments made today will impact Arizona's economy, environment and communities for decades to come. This unique opportunity offers selected community leaders to enjoy a behind-the-scenes look at Arizona's largest electric utility during a two-day program. Attendees participate in:

- In-depth discussions with APS leaders on Arizona energy operations and policy
- Tours of key APS facilities
- Up-close observations of how APS manages energy resources and minimizes electric outages



OUR EMPLOYEES

PNW 2014 CORPORATE RESPONSIBILITY REPORT

OUR EMPLOYEES, WHO NUMBERED
6,366 AT YEAR-END, ARE VITAL TO
ACHIEVING OUR VISION OF A SUSTAINABLE
ENERGY FUTURE FOR ARIZONA.



They exemplify our values in support of our customers, communities, shareholders and other key stakeholders.

In addition to ensuring our success, our employees form the public face of our company. We are committed to providing our employees with the information and resources they need to be our ambassadors in their daily interactions with customers, family and friends. APS's Internal Communications department produces a daily online newsletter, *Newsline*, for employees and retirees with news and information on company issues and events. Important and late-breaking news is available through various communication vehicles. The company's intranet site, *Inside APS*, can be accessed through all company workstations and provides a one-stop resource for all company information. Employees can comment on articles and provide feedback.

In addition to being our ambassadors to the public, we work hard to engage our employees at work. Last summer, through our employee engagement survey, 81 percent of employees shared feedback on how to improve our workplace and work experience. The high response rate in itself demonstrated significant engagement: 78 percent of our employees responded in a manner indicating engagement, a positive showing benchmarked against the industry. Employees also gave high marks for the importance the company puts on safety, and its focus on goals and performance.

Based on survey results, the company selected two areas on which to focus:

- Improve communication between leaders and employees, especially during times of change
- Work with employees to identify and remove obstacles preventing them from doing their jobs effectively and efficiently

In addition to ensuring our success, our employees form the public face of our company.

APS also offers employees an online sustainability discussion board to promote employee dialogue about sustainability topics and ideas.

We also developed executive-sponsored action plans to address these two areas and established a company-wide Employee Engagement Council to provide guidance and support on these plans. We continue the focus on improving the employee experience.

The APS Employee Suggestion Program gives employees an opportunity to submit online their ideas around innovation, cost savings and waste elimination. An employee “champion” from the appropriate area will follow up on suggestions and employees receive status updates. The Employee Suggestion Program is part of our

larger employee engagement program called the Power of One, which showcases how the power of one employee’s contributions, one team working together in the same direction, and even one idea can improve how we work.

APS also offers employees an online sustainability discussion board to promote employee dialogue about sustainability topics and ideas. In addition, some APS officers share their viewpoints on relevant and current topics with employees through their blogs. This provides a forum for employees to hear from



leadership and to comment and ask questions about company issues both internal and external.

Employees are also encouraged to report workplace problems and issues they see through the Corrective Action Program (CAP), a systematic process used to address:

- Human performance issues
- Equipment failures
- Deficient programs and processes
- Safety issues
- Unwanted repeat events of any kind

These issues are entered into an online tracking system, evaluated to determine the underlying cause of the event, assigned appropriate corrective actions, and followed through to correction. CAP promotes a self-critical and continuous learning environment by:

- Identifying, evaluating and addressing the underlying causes of human performance errors, equipment failures and programmatic and other deficiencies;
- Providing the tools required to implement best practices to remedy problems, prevent their recurrence, and ensure continuous improvement

As our workforce evolves, we are committed to creating a work environment that embraces dynamic

change. We are ensuring our workforce has the skills, knowledge and commitment to meet Arizona's energy needs, now and in the future, by:

- Strengthening leadership
- Creating a high-performing culture
- Cultivating workplace diversity
- Attracting, developing and retaining strong talent

Strengthening Leadership

We offer a variety of leadership development programs to support emerging and established APS leaders.

Leadership Fundamentals, launched in 2013, trains newly hired leaders and employees promoted into their first leadership role. The nine-day course is designed for new leaders to complete within six months of being hired or promoted. The course covers the leadership development curriculum offered to all leaders at APS (described below), as well as an introduction to the resources and tools available to new leaders. Subject-matter experts partner with Corporate Training & Development to present information specific to APS and the utility industry. Each class provides new leaders with a network of peers as they begin their leadership roles.

Leaders at the Palo Verde Nuclear Generating Station complete the *Leadership Development Academy*, a three-week program that includes the *Leadership Fundamentals* class and

Leadership Fundamentals, launched in 2013, trains newly hired leaders and employees promoted into their first leadership role.

100 PERCENT

All APS leaders may take advantage of leadership development courses to help them select talent, develop and manage people, lead union employees and understand and adhere to employment laws and APS policies.

additional training on hiring and developing top talent.

All leaders across APS can take advantage of leadership development courses to help them select talent, develop and manage people, lead union employees and understand and adhere to employment laws and APS policies.

The *Symphony*, *Conductor*, *Applause* and *Audition* courses focus, respectively, on leading peak performance, coaching and feedback, managing performance, and building, interviewing and selecting top talent.

Management Associated Results Company (MARC), a three-day training program, helps leaders of union employees manage labor-related supervisory situations and ensure a non-threatening work environment.

Employment Law Boot Camp, a half-day session, covers topics such as sexual harassment, wage and hour issues, and discrimination.

At least twice a year, APS brings together leaders from across the company for Leadership Forums. In 2014, topics included economic development, expanding customer markets, and business planning.

Creating a High-Performing Culture

We are committed to being a high-performing company, and we continue to take steps to embed performance in our culture.

Performance Management

Our annual performance management process helps ensure employees are aligned with and support our business goals, objectives and values. It forges the link between pay and performance and encourages candid conversations between employees and leaders about performance against documented goals and professional development plans.

Employee Network Groups

Almost 2,000 employees—31 percent of our workforce—participate in one of the nine APS employee networks:

In 2014, two additional Employee Network Groups launched: the Native American Networking Organization and the LGBT Alliance.

- Hispanic Organization for Leadership and Advancement (HOLA)
- LGBT Alliance
- Native American Networking Organization (NANO)
- Network for Urban Engagement (NUE)
- Next Generation at APS: Professionals new to the utility
- Palo Verde Women in Nuclear
- Palo Verde Young Generation in Nuclear: Palo Verde Nuclear Generating Station employees age 35 and younger
- Veteran Engagement, Transition & Retention Network (VETRN)
- Women in Search of Excellence (WISE)

These groups provide an opportunity for employees with similar views, experiences or other interests to enjoy professional development, networking, community outreach and opportunities to learn more about APS and our industry.

Rewards and Recognition

APS sponsors programs to recognize outstanding performance by employees and suppliers. These include the Chairman's Awards, Living the Vision Awards, Supplier Excellence Awards, and Business Unit Champion Awards.

Electric Utility Technology Program

APS partners with Chandler-Gilbert Community College on this two-year program that provides students with a foundation in lineworker training. Participants who complete the program—the first of its kind in Arizona—earn an associate's degree in electric utility technology.

Quest for Excellence

This Palo Verde-sponsored partnership with West Valley and Phoenix-area high schools enables students to participate in a seven-week program of advanced math, including algebra and physics. Upon completion, graduating seniors are eligible for our summer intern program.

Other Accredited and Certified Training Programs

- 11 nuclear training programs are accredited by the Institute of Nuclear Power Operations.

- 6 craft apprenticeship programs meet state certification requirements.
- Environmental, health and safety training programs meet and exceed requirements of the U.S. Occupational Safety and Health Administration, U.S. Environmental Protection Agency, U.S. Department of Transportation and Nuclear Regulatory Commission



Learning and Training

The APS Learning Center is our corporate employee and leadership development center. We also have several other dedicated training facilities:

- 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 may access on-demand or scheduled Web-based training through the Enterprise Learning Management (ELM) system. The system allows each business unit to assign mandatory training to applicable leaders and employees so they stay current on their learning requirements and track compliance. Employees may register for assigned and elective courses in the ELM system.

Employees may access on-demand or scheduled Web-based training through the Enterprise Learning Management (ELM) system.

The Palo Verde Energy Education Center, opened in 2011, serves as an offsite emergency operations facility and joint information center. The facility is LEED Gold certified and includes four training rooms for employee development and industry conferences.

About 70 percent of our employees work in highly specialized craft, operations, technical, engineering and customer-service positions. These positions have job-specific training requirements that range from 16 to 400 hours annually. Our innovative programs are designed to train, develop and engage talented women and men.

Cultivating Workplace Diversity

We believe workplace diversity is good business and are continuing to build a corporate culture that respects and values different backgrounds,

experiences and viewpoints. This focus helps us to succeed in our changing industry and to reflect the diversity of the communities we serve. The Human Rights Campaign also reported that APS increased its Corporate Equality Index score by 25 percent higher than the previous year.

We demonstrate diversity through the following actions:

Workforce: We endeavor to attract and develop a diverse workforce and leadership team to foster innovation, inclusion and high performance.

Workplace: We encourage and support an open and engaging environment that recognizes employees' unique needs and values diverse talent.

Marketplace: We engage in the community, select diverse suppliers and work to meet the changing needs of the customers we serve.

PNW EEO EMPLOYER INFORMATION REPORT

JOB CATEGORIES	Hispanic/Latino		Male/Non-Hispanic or Latino						Female/Non-Hispanic or Latino						OVERALL TOTALS
	MALE	FEMALE	WHITE	AFRICAN AMERICAN	PACIFIC ISLANDER	ASIAN	NATIVE AMERICAN	TWO OR MORE RACES	WHITE	AFRICAN AMERICAN	PACIFIC ISLANDER	ASIAN	NATIVE AMERICAN	TWO OR MORE RACES	
EXECUTIVE/SR.OFFICIAL/MGR.	5	4	91	1	0	2	1	0	30	2	0	1	0	0	137
FIRST/MID OFFICIAL/MGR.	54	13	565	11	0	14	42	3	93	7	0	3	7	1	813
PROFESSIONAL	142	94	960	38	3	74	42	15	401	15	0	29	29	7	1849
TECHNICIAN	69	20	403	27	0	7	82	5	75	4	0	3	12	1	708
SALES WORKER	1	2	4	0	0	0	0	0	4	0	0	0	0	0	11
ADMINISTRATIVE SUPPORT	39	135	119	9	1	4	4	1	274	22	0	5	32	9	654
CRAFT WORKER	212	7	1192	30	1	14	200	9	32	2	0	0	31	0	1730
OPERATIVES	11	2	74	2	0	1	1	0	5	0	0	1	0	0	97
LABORERS/HELPERS	19	0	16	1	0	0	4	0	0	0	0	0	1	0	41
SERVICE WORKERS	44	4	197	15	0	3	2	3	17	1	0	0	1	0	287
TOTAL	596	281	3621	134	5	119	378	36	931	53	0	42	113	18	6327
PREVIOUS REPORT TOTAL	608	287	3707	129	4	124	395	37	972	52	1	45	117	15	6493

Equal Employment Opportunity

Decisions about employment, training, compensation and promotion are based on job-related qualifications. We prohibit discrimination based on race, color, national origin, religion, veteran status, marital status, sex, pregnancy, sexual orientation, gender identity, age, disability and any other legally protected basis. We explicitly prohibit sexual harassment, and any other harassment, in the workplace. Our Affirmative Action/Equal Employment Opportunity programs focus on workforce analysis, compliance, affirmative action and training.

ATTRACTING AND RETAINING STRONG TALENT

In 2014, APS filled 1,149 positions with a combination of internal and external talent.

Valuing Veterans

Supporting those who have served our country is a priority at APS, and part of a broader commitment to serving the communities where our employees live, work and raise families. Veterans are an integral part of the workforce and our customers benefit from the skills, experiences and values these committed individuals bring to work every day.

The U.S. Department of Defense named APS one of only 15 recipients of the 2014 Secretary of Defense Employer

Support Freedom Award, the highest recognition given to employers for exceptional support of Guard and Reserve employees. APS has long recognized the dedication and skills that veterans bring to the utility industry. In 2014, military veterans made up 21 percent of the total number of men and women APS hired.

Arizona Energy Workforce Consortium

We are an industry partner in the Arizona Sun Corridor – Get Into Energy Consortium, which focuses on strengthening state utility and energy education. The consortium is implementing a three-year, \$13.5 million grant awarded in 2012 by the U.S. Department of Labor. The consortium, which includes five community colleges across our state, is building an industry-recognized common curriculum that includes stackable credentials and a statewide industry forecast of needed utility skills and positions.

Graduate Recruiting

We target new employees from diverse sources, including students attending community colleges, universities or vocational programs tailored for the energy industry. We work with Arizona State University, the University of Arizona, Northern Arizona University, local community colleges, area high schools and other local organizations to offer scholarships and career information. Our affiliation with



The APS internship program offers students real-world, hands-on work that may lead to full-time opportunities after graduation.

the National Association of Colleges and Employers helps us benchmark graduation rates, new-graduate compensation and other information that enables us to compete successfully for talent.

Internship Program

The APS internship program offers students real-world, hands-on work that may lead to full-time opportunities after graduation. The program exposes students to virtually every part of our business, from engineering and human resources to trades and information systems. We target students who attend universities known for their business and engineering-related programs, as well as students specifically interested in careers in the energy industry.

The majority of internship assignments occur during the summer to accommodate students' academic calendars. In 2014, we engaged 56 summer interns, up from 30 the previous year. Two-thirds of our interns were ethnically diverse. In addition, 11 young engineers (some of whom were former APS interns) began rotational assignments to gain training in engineering and operations specific to our industry.

We also work with area high schools and local organizations on scholarship opportunities, learning opportunities for young teachers, career expos and professional panels to develop and hire top talent.

Offering Competitive Total Rewards

We offer market-competitive pay and benefits to help attract, retain and reward top talent.

Compensation

We continuously work to ensure that our pay policies and processes reflect best practices for our market and industry and reward strong performance. Our annual incentive plan calls for an employee's incentive award to be based on achieving goals for company performance, business-unit results and the individual's own performance (for performance-review employees only).

Savings Plan

APS helps employees achieve their financial retirement goals by offering a 401(k) savings plan that provides a generous company match up to the first 6 percent of eligible pay and a variety of investment options. From their date of hire, employees can contribute 1-50 percent of their base pay, up to the IRS plan limits.

Benefits

In 2014, the company announced changes to its 2015 employee health care plans to reflect the federal Affordable Care Act. The Consumer Choice plan is a consumer-driven medical and prescription drug plan designed to encourage employees to become more active in managing their health and health care budget.

This plan offers lower employee premiums in exchange for higher out-of-pocket costs. The Point of Service plan is similar to the Consumer Choice plan but features higher premiums in exchange for lower deductibles.

Health Screening and Assessment

Each year, at no cost to employees, we offer voluntary on-site health screenings to help employees proactively monitor their health and wellness. We also encourage employees to obtain a biometric screening as part of their annual preventive physical exam, which is covered under the medical plan. Using data from the screening or annual physical exam, employees can complete an online health assessment to understand better how to implement a healthier lifestyle, access related tools and programs and create a personalized plan to achieve their goals.

In 2014, 35 percent of employees participated in the health screening, and 27 percent completed the online health assessment.

Other Preventive Health Programs

APS continued offering free flu shots to employees to help keep our workforce healthy and productive.

For tobacco smokers, we offered the Quit for Life program, a proven tobacco cessation method that treats tobacco use as an addiction instead of a bad habit.

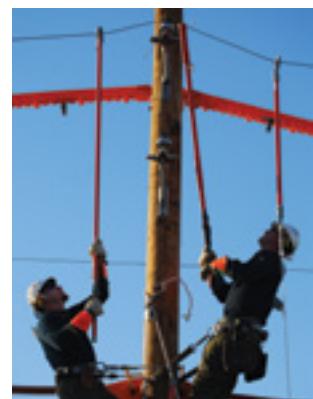
Employee Assistance Program

Our employee assistance program helps employees cope with personal issues, such as stress from caring for a seriously ill family member. Offered through the UnitedHealthcare/Optum Health Network, services include short-term counseling services, family support, financial and legal advice and referrals for extended care.

Employee Safety Performance

Our business plan includes a safety goal: to create a zero-incidents culture and operating model through event-free and injury-free work. The performance metric for this goal is to achieve top quartile of investor-owned utilities nationwide in Occupational Safety and Health Administration (OSHA) recordable injuries. We continue to improve our safety performance. Between 2007 and 2014, our increased emphasis on safety produced an 80 percent reduction in recordable accidents.

That said, 2014 was the first year in the past six years that we did not set a new low in APS injuries, with 44 total recordable injuries for the year. However, our 2014 recordable injury rate placed APS in the top 25 percent of utilities for safety performance industry based on Edison Electric Institute (EEI) rankings. Nonetheless, our focus on safety is unwavering and we continue toward our goal of a zero-accident workplace.



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Safety Improvements

Traffic safety and defensive driving are an important part of our safety training and culture. In 2014, we significantly reduced the amount of motor vehicle accidents at APS. We also continued our efforts to integrate human performance tools and behaviors into our workforce and use these tools to continue striving toward a higher performance level, one that supports a reduction in both safety and production events. We use event reporting and behavioral observation programs to identify lagging and leading indicators to help us improve. We developed new software tools to support these programs and help us better identify potential problem areas before they result in an accident and subsequently help us avoid future injuries.

OSHA RECORDABLE INJURIES	2010	2011	2012	2013	2014
APS Total	65	58	47	36	44
APS AIIR	0.95	0.86	0.71	0.56	0.69
EEI Avg AIIR	2.37	2.06	1.94	1.40	1.48
EEI Top Quartile AIIR		1.00	0.99	0.86	1.00
LOST WORK DAY CASES					
APS Lost Work Day Cases Total	18	19	15	9	7
APS LWIR	0.26	0.28	0.23	0.14	0.11
EEI Avg LWIR	0.61	0.55	0.50	0.50	0.42
EEI Top Quartile LWIR		0.25	0.28	0.25	0.23
LOST WORK DAYS					
APS Total Lost Work Days	352	636	357	301	137
APS SIR	5.16	9.46	5.43	4.68	2.15
EEI Avg SIR	19.48	18.50	16.36	20.89	19.00
EEI Top Quartile SIR		7.03	7.02	9.80	6.92

PINNACLE WEST & ARIZONA PUBLIC SERVICE

Operating Profile

- Customers: 1.2 million
- 2014 Peak Demand: 7,007 megawatts (MW)
- Service Territory:
 - 34,646 square miles
 - 11 of the 15 Arizona counties
- Generation Capacity: 6,426 MW
- Additional Contracted Generation: 3,008 MW
- Transmission & Distribution: 34,937 miles
 - Transmission: 5,958 miles
 - Distribution: 28,979 miles

Financial Profile

- Pinnacle West Enterprise Value: \$11.3 billion
- Pinnacle West Equity Market Capitalization: \$7.55 billion
- APS Credit Ratings (Moody's/S&P): A3/A-
- APS Credit Rating Outlook (Moody's/S&P): Positive/Stable

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