

**EEI Sustainability Qualitative Section**  
**Sept 1, 2018**  
**Reporting Year: 2017**

**ABOUT APS**

Pinnacle West Capital Corporation is an energy holding company with a focus on its primary subsidiary, Arizona Public Service Company (“APS”; “Company”). APS is Arizona’s largest and longest serving electric company. We have been powering Arizona’s growth since our company’s founding in 1886. Today, new technologies and evolving customer expectations are leading to rapid changes in our company and our industry. We are investing in innovative technologies to build an energy infrastructure that will be smarter and stronger. We continue to make our generation resources cleaner through decarbonization actions and investments to reduce other emissions from our existing power plants. We are also committed to the future of the Palo Verde Generating Station, the nation’s largest carbon-free energy resource. Through these efforts, we intend to succeed as a next-generation energy company, while preserving the reliability, affordability and service our customers have come to expect from us. We have the responsibility and challenge of powering our unique desert state. Creating a sustainable energy future demands a commitment to forward-thinking practices that will allow our company and Arizona to thrive for years to come.

**SUSTAINABILITY GOVERNANCE**

At APS, sustainability means we work to support a vibrant economy, a healthy environment and strong communities for future generations. Sustainability drives business value, mitigates risks, enhances brand reputation and ingrains our culture of excellence and commitment to continuous improvement. Our Vice President, Environmental and Chief Sustainability Officer oversees the company’s strategic efforts to integrate sustainable practices into our core business operations.

Our sustainability priority areas integrate directly into the APS “Core”-- our strategic framework that outlines how we operate and maintain focus on the right things. The core’s center is our vision and mission. The core is surrounded by our values to guide our decisions and behaviors and our critical areas of focus that direct our work to drive success.

Our corporate and business unit metrics, and the initiatives supporting them, align with the critical areas of focus. Our business plans support our long-term company strategy and provide a single, well-defined direction. These business plans help us prioritize our work, collaborate across the organization, align our resources and measure our progress with rigor and discipline.



Our executive officers' compensation is connected to business unit performance, individual performance and value-driving business metrics. The business unit performance is tied to operational excellence, shareholder value, environment and measures related to customers, communities and our employees.

#### **BOARD OF DIRECTORS' ROLE IN SUSTAINABILITY OVERSIGHT**

As of January 31, 2018 the Board of Directors consisted of 11 directors, 10 of whom are independent. The makeup of the board includes two women and one director of Hispanic descent. The Pinnacle West President and CEO is the only Board Member who is not independent, and he serves as Chairman of the Board, while a separate independent director serves as the Lead Director.

The Board of Directors has five standing committees: Audit, Corporate Governance, Finance, Human Resources, and Nuclear and Operating. Starting in 2018, the Board's oversight of sustainability initiatives and strategy is conducted primarily through the Nuclear and Operating Committee. In addition, board's oversight of sustainability may also be conducted through the committee most closely aligned with a particular area of the company's sustainability model. For example, the Human Resources Committee is responsible for oversight of our programs to attract, retain, motivate and develop our employees.

#### **RISKS and OPPORTUNITIES**

Due to the complexity of the operating, financial, and regulatory environments, the Company has numerous risks and obligations, which are addressed by policies and controls, processes, and programs at both the Enterprise and the Business Area level. In addition, select Board Committees are updated on climate change risks by a Vice President on an annual basis. The Executive Risk Committee also provides the Board of Directors with a report of the Company's top risks on an annual basis. Company risks are also reviewed by executive management and the Audit Committee of the board of directors in connection with our SEC reporting process. For APS, climate change risks include drought, frequency and intensity of monsoon storms, and forest fires. The Enterprise-wide risk identification and assessment process contemplates short, medium and longer term risks.

Risks are identified, defined, assessed, and prioritized based on the likelihood and impact of their occurrence. Business areas maintain an inventory of their most significant risks and associated risk mitigation plans. Annually, business areas record this information in a prescribed format, for analysis, categorization, and prioritization of risks to support development of an enterprise risk profile. APS uses an Energy Policy Committee to identify and evaluate opportunities, including opportunities associated with climate change, at the Company and asset level. The Energy Policy Committee, using input from informed stakeholders and subject matter experts provides strategic direction, business planning and management method recommendations consistent with the Company business direction.

#### **STRATEGY**

The Company is currently at a critical point of conventional electricity generation, transmission and distribution technologies and the deployment of innovative energy generation and advances transmission and distribution technologies that can support a low- and ultra-low carbon future. More than 15 years ago, APS began transitioning to a lower carbon future by incorporating solar energy, energy efficiency and moving away from carbon intensive generation assets. And the Company continues to consistently assess various business strategies based on current and future technology, climate data, the market, and various growth models to develop scenarios to help inform business strategy that includes the potential of a lower carbon future.

Our vision at APS is to create a sustainable energy future for Arizona. APS's executive team recognizes that we must strike a balance between delivering reliable, affordable energy and being responsible stewards of the environment. We are committed to reduce our carbon intensity as outlined in our Integrated Resource Plan ("IRP") by deploying a diverse, increasingly cleaner energy mix that is good for our customers, communities, and the environment. Of the seven plans evaluated in the 2017 IRP process, the Flexible Resource portfolio was chosen as the best suited to meet customer demand during the 2017 – 2032 IRP planning period. This portfolio delivers an increasing flexible set of resources and helps integrate more renewable resources, lowers carbon intensity, and helps maintain affordability.

Our IRP shows that we work to achieve a cleaner energy mix through efforts that include closing older coal units, increasing environmental controls at existing units, modernizing natural gas plants, using more renewable energy and increasing energy efficiency. In addition, the Palo Verde Generating Station provides more than 70 percent of Arizona's carbon-free energy.

Specific efforts that show APS's commitment towards being responsible stewards of the environment include:

- APS currently supplies 50 percent of its energy from clean energy sources.
- By taking advantage of our most abundant resource -- the sun -- by the end of 2017, our system had over 1,600 megawatts of renewable energy capacity, of which approximately 1,300 megawatts came from solar resources.
- APS has committed to invest \$10 million to \$15 million per year for a three-year period in the APS Solar Communities program, which will provide access to solar for limited-income and moderate-income customers.
- Since 2013 we have permanently retired 820 MW of coal-fired generation and by 2025 we intend to retire another 387 MW of coal-fired generation. Because of these actions coal-fired generation will only account for 11 percent of the APS generation mix by 2032. During this same period, our renewable generation is expected to increase by approximately 50 percent.
- APS has increased environmental controls contribute to a cleaner energy mix. The Four Corners Power Plant will see a 90 percent reduction of nitrogen oxide ("NOx") levels after the installation of selective catalytic reduction technology in 2018. With the reduced NOx emissions at Four Corners, company-wide NOx emissions have been reduced by 80 percent from 2005 levels.

Planned increase of our flexible natural gas capacity to help us integrate the nearly 5,000 MW of renewable energy capacity that will be on our system by 2032. The \$500 million project to modernize our Ocotillo Power Plant in Tempe, Arizona, will support our ability to maintain a balanced, reliable power supply, particularly during periods when renewable resources ramp up or down, or are not generating power.

In addition, we launched three new APS programs that incentivize customers to adopt advanced technologies in their homes and businesses to help harness an abundance of midday solar energy. These programs make it easier for customers to consume electricity at midday when solar energy is plentiful

and to conserve power in the late afternoon and early evening when it is in greatest demand and, therefore, costs more. The APS Rewards program goes beyond using traditional batteries and helps to harness the use of thermal storage, through hot water heaters and smart thermostats. Making use of midday solar is an important part of delivering on a cleaner energy future and furthering Arizona's solar leadership.

APS has achieved significant progress with our efforts to reduce carbon emissions, make our diverse energy mix cleaner, reliable and affordable.