

EI Sustainability Qualitative Section
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Reporting Year: 2018

ABOUT APS

Pinnacle West Capital Corporation (“Pinnacle West”) is an energy holding company with a focus on its primary subsidiary, Arizona Public Service Company (“APS” or “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 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. APS’s transition to more clean energy will contribute to a future low-carbon economy that may create new growth opportunities while providing environmental benefits. APS recently developed a set of [principles](#) to guide our path toward a low-carbon economy. 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. 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.

The APS Strategic Plan ensures our many business units and individual employees are aligned with that Core, and all are working within a set of values and focus areas to help us deliver our vision of a sustainable energy future for Arizona.



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

BOARD OF DIRECTORS' ROLE IN SUSTAINABILITY OVERSIGHT

As of March 1, 2019 the Board of Directors (the "Board") 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. The Board's oversight of sustainability initiatives and strategy is conducted primarily through the Nuclear and Operating Committee. In addition, the 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.

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. The Executive Risk Committee also provides the Board with a report of the Company's top risks on an annual basis. The Audit Committee, together with the other members of the board, annually reviews the Company's risk assessment and risk management policies. 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 long 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 ("EPC") to identify and evaluate opportunities, including opportunities associated with climate change, at the Company and asset level. The EPC, 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

We have a series of strategic planning tools and resources that build from the APS vision and allow us to conduct scenario planning to test our business model against what the world might look like in the future. They also allow us to track emerging trends in our industry through strategic signposts and metrics so we can continually evolve to meet our customers' changing needs.

From that planning we determine our Corporate Strategic Initiatives ("CSI"), which are designed to allow us to close a gap, build a competency, showcase an issue or capitalize on an opportunity. CSIs for 2019 include:

Clean: Palo Verde for the Long Term: Prepare Palo Verde Generating Station for changing markets; Arizona Electrification and Promote opportunities for electrification

Affordable: Market Evolution: Plan ahead for evolving power markets

Reliable Data Maximization: Harness big data for improved performance and Grid Modernization: Increase visibility into and flexibility of the energy grid

Customer Focused People First: Recruit and retain great people; Customer Innovation: Develop innovative new customer solutions; Infrastructure Growth: Pursue growth opportunities and Reputation Management: Enhance and protect our reputation

The Company is currently at a critical point of conventional electricity generation, transmission and distribution technologies and the deployment of innovative energy generation and advanced 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. 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.

The APS executive team recognizes that to achieve a vision of a sustainable energy future for Arizona, the Company 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. 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 battery storage and increasing energy efficiency. In addition, the Palo Verde Generating Station provides more than 70 percent of Arizona’s carbon-free energy.

We are actively engaging our stakeholders to review and discuss current and future resource plans. Through the IRP process, we expect to file a preliminary update to our plan later this year and update the entire plan in the first half of 2020.

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 2032, we expect our carbon-emission rate to decrease to less than 600 lb/MWh, which is a 48% reduction from our 2005 baseline year.

-APS is adding nearly 1 gigawatt of clean energy projects by the summer of 2025. These projects include 850 megawatts (“MW”) of new solar storage with batteries and at least 100 MW of new solar generation.

- We have committed to exit coal by 2038. Since 2013 we have permanently retired 820 MW of coal-fired generation and the Navajo Generating Station (315 MW) will cease all coal burning generation in 2019, increasing our total to 1,135 MW retired by the end of 2019.

-APS has increased environmental controls that contribute to a cleaner energy mix. The Four Corners Power Plant have seen a 90 percent reduction of nitrogen oxide (“NOx”) levels after the installation of selective catalytic reduction technology in 2018, leading to a Company target of a Company-wide NOx emissions reduction by almost 90 percent from 2005 levels.

-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.

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

Learn more at pinnaclewest.com