

Arizona Public Service Company
EEI Qualitative ESG Report
June 2022
2021 Reporting Year

I. CLEAN ENERGY COMMITMENT

At the core of our ESG strategy is our commitment to work with stakeholders to build a clean and sustainable future for all Arizonans. In 2021, we continued to advance goals of clean energy innovation, improve collaboration with stakeholders and set a course for a brighter energy future for Arizona. We continue to work towards achieving our goal to provide customers with 100 percent clean energy by 2050, in addition to a nearer-term 2030 target of achieving a resource mix that is 65% clean energy, with 45% of our generation portfolio coming from renewable energy, and a commitment to end all coal-fired generation by 2031.

Since our initial announcement in 2020, we've procured nearly 1,400 megawatts of clean energy and storage – all of which are expected to be in service for APS customers no later than 2024. All 1,400 megawatts were procured through competitive solicitations, ensuring competitive pricing for new resources as we plan to serve our growing economy. During 2021, the share of APS's energy supply from clean resources was 50%, which includes energy from nuclear, renewables and demand side management. In addition, 15% of sales were from renewable energy in 2021. We are on track to reach our 2030 target. In 2021, 15% of sales were from renewable energy.

II. COAL COMMUNITITES TRANSITION

To facilitate the shift from away from coal by 2031, APS proposed a coal communities transition plan to support the areas that are home to coal-fired power stations. We are committed to providing financial support and resources to coal communities in our region (including the Navajo Nation, the communities around the Cholla Power Plant in Navajo County and the Hopi Tribe) as they transition from fossil fuels to clean energy. The proposed framework provides for substantial financial and economic development support to build economic opportunities and addresses a transition strategy for plant employees. On November 2, 2021, the Arizona Corporation Commission approved a modified plan that will provide:

- Navajo Nation - \$10 million and up to \$1.25 million for the electrification of homes and businesses
- Navajo County Communities - \$500,000
- Hopi Tribe - \$1 million and up to \$1.25 million for electrification of homes and businesses

III. ESG GOVERNANCE

To demonstrate heightened attention on ESG, our Board of Directors amended the charter of the Corporate Governance Committee, now the Corporate Governance and Public Responsibility Committee, to add the responsibility to review ESG trends that may impact the company, ensure oversight of ESG issues by the board and its committees and make recommendations to the Board, as appropriate. We also amended the charter of the Human Resources Committee to include a requirement to periodically review and assess the company's strategies and policies related to human capital management, such as diversity, inclusion, pay equity, corporate culture, talent development and retention.

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Our ESG Executive Council is comprised of senior executives and other stakeholders who guide us in developing a common, cross-functional ESG vision and shared value across all business units; align and integrate ESG strategies with the overall corporate strategic direction; develop and maintain a common, cross-functional oversight of ESG reporting and implementation; and measure and report on activities to reach our Clean Energy Commitment, internally and externally.

We have a Sustainability Department dedicated to integrating environmental, social and governance best practices into the everyday work of APS. Its fundamental purpose is to drive our performance and enhance our reputation as a responsible corporate citizen. In addition, this team has oversight and responsibility for the Corporate Responsibility Report.

Our Culture and Inclusion team, lead by the Manager of Culture, Learning and Inclusion, is focused on developing, strengthening and implementing diversity, equity and inclusion (DEI) strategies. The team works closely with the Sustainability department at all levels of the organization to create a culture of trust that allows us to embrace diverse perspectives, create psychological safety for challenging respectfully, and unite as a team. Our revitalized Inclusion Council includes a Steering Committee and Executive Advocate group. In 2021, we added an Employee DEI Advisory Council to expand stakeholder representation and ensure that employees across the organization can add their voices and opinions to our DEI work.

In 2021, we focused on strengthening our governance and consideration of social issues through the establishment of our Social Issues Committee Framework. The purpose of the framework is to provide a process for considering emergent social issues, and for determining whether or how to best engage on issues based on a set of principles grounded in our **Promise** and our **Priority Sustainability Issues**.

IV. DIVERSITY EQUITY AND INCLUSION

Our commitment to diversity, equity and inclusion (DEI) is a key force driving the APS Promise. Inclusive behaviors are foundational to Empower Each Other. By taking actions to include each team member, we create a culture of trust that allows us to embrace diverse perspectives, create psychological safety for challenging respectfully, and unite as a team. We create this sense of belonging through our commitment to inclusion, which involves embracing the unique perspectives of each employee. True inclusion brings greater appreciation for our diversity. Our commitment to diversity, equity and inclusion is demonstrated in numerous ways, including:

- **Multi-Year DEI Strategy and Roadmap.** In 2021, we launched a comprehensive DEI strategic roadmap to provide clarity around our DEI efforts. The strategy was created with input from key stakeholders throughout APS and incorporated the extensive, candid feedback received from the Listening Sessions with executives held in 2020 and 2021.

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- Employee Network Groups. Our 10, self-organized were formed around the basis of common attributes. These groups are open to all APS employees and promote engagement, inclusion, and leadership opportunities through programs and activities.
- Recruiting Diverse Talent. In the past three years, an average of one-third of the company's pre-apprentice programs hires for lineman, electrician and polyphase meterman positions were ethnically diverse. APS partners with numerous organizations to recruit diverse talent into the company's internship and emerging talent pipelines.

V. RISKS AND OPPORTUNITITES

Due to the complexity of the operating, financial and regulatory environments, the company has numerous risks and obligations, which we manage and mitigate through policies, processes, programs and other controls, at both the enterprise and the business area level. Executive leadership reviews the enterprise risk profiles and provides the board of directors with a report of the company's top risks on an annual basis. Consistent with the NYSE rules (NYSE Rule 303A), the Audit Committee 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 longer-term risks.

VI. 10-YEAR STRATEGIC PLAN

The 10-year Strategic Plan (Strategic Plan) was developed concurrently with the Promise and describes how we will execute our Mission to achieve our Vision. Our Strategic Plan is designed to be the strategic instrument that articulates where we are headed, and the actions needed to progress. It provides direction with measurable milestones to undertake and achieve our long-range goals and will influence APS's business planning process. The plan identifies five long-term strategic issues that are priority focus areas for the business to address over the next ten years:

- Focus on Customer Experience and Community Stewardship
- Support an Evolving Workforce
- Decarbonize and Manage Generation Resources
- Achieve a Constructive Regulatory Environment
- Ensure Long-Term Financial Health

VII. INTEGRATED RESOURCE PLAN

In addition to the Promise and the Strategic Plan, we lay the framework for meeting our customers future needs as part of our 2020 Integrated Resource Plan (IRP). The IRP includes a 5-year action plan and a 15-year view of how we plan to provide customers with clean, reliable and affordable energy, fulfill regulatory targets and manage environmental impacts. Together with our team of resource experts, energy planners and input from cross-sector stakeholders, we have developed a strategic road map on our path to a 100% carbon-free generation mix by 2050. We are focused on integrating renewable resources, empowering customers with flexible energy efficiency options and incorporating advanced technology to produce 100% clean and affordable energy—all while providing reliable service and remaining good stewards of Arizona's diverse environment.

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VIII. [ANNUAL REPORT AND 10-K](#)

Pinnacle West Capital Corporation (“Pinnacle West”) is an energy holding company based in Phoenix. Its primary subsidiary, Arizona Public Service Company (“APS” or “Company”), is Arizona’s largest and longest serving electric company. We have been powering Arizona’s growth since our company’s founding in 1886.

IX. [ESG TRANSPARENCY AND MEASUREMENT](#)

ESG disclosures and information can be found in our web-based [Corporate Responsibility Report](#). We know that measurement and transparency help us prioritize efforts and resources. In February of 2022, the Pinnacle West Human Resources Committee revised the metrics for our performance share grants and added a new clean megawatt installed metric. This revision tracks our near-term progress towards achieving our Clean Energy Commitment.

As part of our commitment to [ESG transparency](#), we expanded our existing reporting efforts, aligning to the Task Force on Climate-Related Financial Disclosures framework and the Sustainability Accounting Standards Board standards for electric utilities, and we also released [EEO-1 diversity data](#).