

EEI Sustainability Qualitative Section

Sept 1, 2017

Reporting Year: 2016

ABOUT APS

Pinnacle West Capital Corporation is an energy holding company with a focus on the business of its primary subsidiary, Arizona Public Service Company (APS). APS is Arizona's largest and longest serving electric company. We have been powering Arizona's economic 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. In addition, we are making the next generation of power cleaner and more efficient through a balanced energy mix, investments in renewable energy and upgrades to power plants. 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, 2017, the Board of Directors consisted of 11 directors, 10 of whom are independent, and the makeup of the Board included 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 is conducted primarily through the committee most closely aligned with the particular area or topic of the company’s sustainability model. For example, the Nuclear and Operating Committee has oversight of sustainability issues associated with nuclear and non-nuclear generation, including carbon and water management, fuel supply, transportation, environmental stewardship and security controls for the protection of cyber and physical assets. The Human Resources Committee is responsible for oversight of our programs to attract, retain, motivate and develop our employees.

COMMITMENT

APS remains committed to meeting the demands and interests of our customers: increasingly clean, reliable and affordable energy, and more choice and control in how they use it. Our company stands at the forefront of a changing energy industry.

Our commitment is reflected in our advances in customer technologies, new and more renewable energy sources for our customers and a greater use of carbon-free resources. It is our corporate responsibility to ensure future success and sustainability as we provide the service our customers desire and deserve. Sustainability encompasses a triple bottom line —balancing the needs of people, planet and performance. This means every decision must take into account not only environmental stewardship, but also customer and community considerations, economics and the reliability of our operations.

Our ability to actively manage environmental risks and opportunities is a significant part of our progress. Our dedication to environmental stewardship was recognized by the CDP (formerly Carbon Disclosure Project) in 2016. The CDP noted that Pinnacle West is “taking coordinated action” on climate change issues and graded the company above industry and regional averages for both climate change

management and water resources management. This recognition provides further validation of our efforts to implement long-term solutions for sustainable energy production, distribution and use.

APS contributes more than \$3.4 billion annually to Arizona's economy, and we remain focused on the future of our state. Our commitment to safety and reliability guides our strategies. Enriching our communities through corporate giving and volunteerism programs is an ongoing goal. A diverse and empowered workforce strengthens every area of our company. Embracing emerging technologies and staying ahead of changes to our business cultivates innovation. Through it all, we strive to make APS a stronger, more resilient enterprise that is better prepared to shape a sustainable future for our company and the customers who count on us to power their homes and businesses.

A RELIABLE AND DIVERSE PORTFOLIO

We are the first utility outside California to have more than one gigawatt of solar on our system. To foster the development of this growing resource and provide a cleaner energy future for Arizona, APS has invested about \$2 billion in solar deployment and research. Growth in renewable energy resources and advanced grid technologies expands customer choices and bolsters our portfolio diversity. Natural gas resources continue to represent a significant segment of our generation assets, providing relatively low cost, and the flexible, responsive energy needed to meet customers' real-time needs. In addition, Palo Verde Generating Station – the largest U.S. power producer of any kind – generates reliable, carbon free energy for four million people in Arizona, California, New Mexico and Texas. By the end of 2032, Palo Verde, our natural gas fleet, renewables and energy efficiency resources will provide the bulk of our energy mix.

ENHANCED CUSTOMER ENGAGEMENT

Advanced grid technologies and innovations such as home energy-management systems and smart thermostats are allowing customers to manage their energy like never before. Our job is to make sure these technologies integrate seamlessly into the electric grid. APS is pioneering two research programs designed to enhance our understanding of emerging technologies, including the Solar Innovation Study and the Solar Partner Program. Both programs provide insight into how rooftop solar interacts with the grid and other distributed energy resources.

CARBON REDUCTION

APS is proud of the progress we have made to reduce our greenhouse gas (GHG) emissions. Our approach to climate change strategy includes participation in legislative and regulatory actions related to carbon management, stakeholder engagement, identification of physical, financial and regulatory risks of climate change, decarbonization of generation resources, and extensive carbon emission monitoring. Most of our decarbonization is being driven by our changing generation mix. We have already permanently closed four coal-fired units and several more coal-fired units are slated to stop burning coal over the next few years. As a result of the coal-fired units that have already closed, the percent of coal-fired generation in our generation mix has dropped to 21 percent. We expect this percentage to drop to about 11 percent after the closure or transition of the other units by 2032. Also, during this time we expect the continued addition of renewable energy and energy efficiency to meet over 50 percent of our energy growth. We have an energy efficiency target to achieve cumulative energy savings equivalent to 22 percent of prior year annual retail sales by 2020, one of the most aggressive energy efficiency goals in the nation. In 2016, we anticipated to provide over 573,000 MWh of energy savings. Since 2005, the lifetime energy savings from APS energy efficiency programs have avoided approximately 17 million metric tons of carbon emissions.