

EI Sustainability Qualitative Section

May 29, 2020

Reporting Year: 2019

ABOUT APS

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. 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 through 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. Our transition to more clean energy will contribute to a future low-carbon economy that may create new growth opportunities while providing environmental benefits. We 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

Sustainability is at the core of everything we do. At APS, sustainability means that we are creating value for all of our stakeholders, including our customers, our employees, the communities we serve, our shareholders and the planet itself. We strive to create shared value, where positive societal and environmental impacts, and favorable financial results, are synergistic and interdependent, rather than mutually exclusive. Sustainability drives business value, mitigates risks, enhances brand reputation, and ingrains our culture of excellence and commitment to continuous improvement. Our Vice President of Sustainability oversees the Company’s strategic efforts to integrate sustainable practices into our core business operations.

BOARD OF DIRECTORS’ ROLE IN SUSTAINABILITY OVERSIGHT

As of May 20th, 2020, the Board of Directors (the “Board”) consisted of 11 directors, 10 of whom are independent. The makeup of the Board includes three women and two directors who are racially or ethnically diverse. The Pinnacle West President and CEO is the only board member who is not independent, and he serves as chairman of the board.

The Board of Directors has five standing committees: Audit, Corporate Governance, Finance, Human Resources, and Nuclear and Operating. The Board’s oversight of our sustainability strategy and initiatives is conducted primarily through the Nuclear and Operating Committee.

RISKS AND OPPORTUNITIES

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. The Executive Risk Committee, comprised of senior level executives, routinely reviews our key risks, and provides the Board of Directors

with a report of the Company’s top risks on an annual basis. The enterprise-wide risk identification and assessment process contemplates short, medium- and longer-term risks. 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.

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. Our Energy Policy Committee, also comprised of senior-level executives, identifies, and evaluates opportunities, including opportunities associated with climate change, at the company and asset levels. The Energy Policy Committee, using input from stakeholders and subject matter experts, provides strategic direction, business planning and management method recommendations consistent with the company’s business direction.

STRATEGY

The APS Core outlines our values and the critical areas of focus for our business. The APS Strategic Plan outlines our company’s long-term strategy and how short-term initiatives lay the groundwork for future success. It gives individual employees, departments and business units direction in setting their own priorities, along with measurable goals that connect to this broader plan, align with our Core and support our vision of a sustainable energy future for Arizona.

We have a series of strategic planning tools and resources that build on 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. These tools also allow us to track emerging trends in our industry through strategic signposts and metrics, so that we can continually evolve to meet our customers’ changing needs.

This planning informs our Corporate Strategic Initiatives (“CSI”), which are designed to evaluate gaps, build competencies, showcase issues or capitalize on opportunities. CSIs for 2020 include:

- **Clean Energy Commitment:** Deliver on our clean energy targets that advance our clean energy transition
- **Customer First:** Transform the way we engage with our customers
- **Empowered Culture:** Create an inclusive, high performing and empowered team culture
- **Innovative Growth:** Pursue long-term growth and innovation opportunities
- **Market Evolution:** Plan ahead for evolving markets
- **Palo Verde for the Long Term:** Prepare Palo Verde to support our clean energy commitment



With our corporate strategic planning goals established, we move next to business unit planning efforts. This includes establishing business unit priorities and identifying additional tiered metrics, which complete our operational target development.

Our corporate and business unit metrics and the initiatives supporting them align with our critical areas of focus: operational excellence, shareholder value, environment, customer value, community, employees and security. Our business plans support our long-term company strategies and provide a focused, well-defined direction. These 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-driven business metrics.

Advancing technologies, growing renewable energy resources and increasing customer sentiment for cleaner energy are accelerating change in the energy industry. The APS Integrated Resource Plan ("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. These trends are shaping the current planning objectives by:

- Developing cleaner energy resources
- Increasing investment in the energy grid
- Participating in energy markets to lower customer bills
- Increasing system flexibility to maintain reliable service that our customers require

We are engaging our stakeholders to review and discuss current and future resource plans, and their input will be reflected in our 2020 IRP.

Specific efforts from 2019 that demonstrate APS's commitment to be responsible stewards of the environment include:

- APS currently supplies 50 percent of its energy from clean energy sources, which include renewables, energy efficiency and clean, carbon-free energy from Palo Verde Generating Station.
- Named to the annual ranking of the world's Top 100 Green Utilities by Energy Intelligence.
- Named to the CDP "A Lists" for Climate Change and Water Security; APS was the only electric utility appearing on the list and just one of ten U.S. companies with "A's" in both categories.
- Pinnacle West obtained an Environmental Sustainability Governance "A" rating from Morgan Stanley Capital International ("MSCI") (as of June 25, 2019).
- Current renewable capacity of 1,828 MW, with plans to add at least 950 MW of clean energy technologies, including solar and storage by 2025.
- Total groundwater consumption was 22% below 2014 levels.

LOOKING AHEAD:

In January 2020, we set a bold goal to provide 100 % clean, carbon-free electricity to our customers by 2050. We are committed to achieving this goal while maintaining reliable service and affordable rates for customers. Getting the balance right – clean, reliable, affordable – is central to achieving our vision of a sustainable energy future for Arizona.

This goal to provide a clean energy future for our customers has three parts:

- An aspirational goal to provide 100 percent clean, carbon-free electricity by 2050

- A nearer-term 2030 target of achieving a resource mix that is 65 percent clean energy, with 45 percent of our generation portfolio coming from renewable energy
- A commitment to end all coal-fired generation by 2031, seven years sooner than previously projected

Our clean energy plan will be guided by sound science and focused on achieving environmental and economic gains—all while maintaining affordable, reliable service for our customers. Collaboration with customers, regulators and other stakeholders is key to our plan's ultimate success. We look forward to working alongside those who believe in this vision to move forward together to keep Arizona clean, beautiful and thriving.

Our clean energy commitment is ambitious, and we are not waiting for tomorrow to take action. The steps we take today and the partnerships we build with our customers, regulators and stakeholders will help support a healthy environment, a vibrant economy and strong communities for generations to come.

Learn more at pinnaclewest.com.