



10-YEAR  
**STRATEGIC  
PLAN**



## The **APS Promise**

### OUR **PURPOSE**

As Arizona stewards, we do what is right for the people and prosperity of our state.

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### OUR **VISION**

Create a sustainable energy future for Arizona.

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### OUR **MISSION**

Serve our customers with clean, reliable and affordable energy.

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## Our **Principles**

#### **DESIGN FOR TOMORROW**

See the way forward

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Innovate with courage

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Value learning

#### **EMPOWER EACH OTHER**

Embrace diverse perspectives

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Challenge respectfully

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Unite as one team

#### **SUCCEED TOGETHER**

Create clarity

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Anchor in safety

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Deliver for the community

We developed the **10-Year Strategic Plan** to outline how we will deliver on the **APS Promise**. Specifically, it defines how we will execute on our **mission** to achieve our **vision**. The Plan was developed through a collaborative, facilitated process among officers in order to create an agile learning organization. It represents a snapshot of our continuously evolving strategy that incorporates our focus on our mission, our business planning work, and extends our enterprise outlook to the next 10 years.

The Plan keeps our focus on the future as we continue on a new path in 2021. This Plan will act as a living document that we will continue to adjust and evolve as we strive to meet the needs of our customers in a dynamic landscape.

## HOW WE WILL USE THE PLAN

Ensure employees and stakeholders are aware of and aligned to the company's **long-range strategic objectives**

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Identify strategies and goals that guide resources and efforts to **address our long-term issues**

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Guide business planning to **develop measurable actions** to achieve our vision

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# DRIVERS OF CHANGE



*Broad, societal forces  
of change impacting  
the energy industry*

Broader, societal forces or “drivers” of change impacting the energy industry and utility sector are critical to understanding the environment in which we operate. To establish an effective strategy, we looked at numerous potential drivers of change to understand which are most likely to transform the future of our business and the communities we serve. We identified **six critical areas** expected to greatly impact our business over the next 10 years.

## INCREASING INFLUENCE FROM DIVERSE GROUPS OF STAKEHOLDERS

Diverse and increasingly engaged external groups exert significant influence over our company. We must understand stakeholder perspectives and effectively engage with these groups to achieve our long-term objectives.

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## THE RISE AND IMPORTANCE OF SOCIAL CAPITAL

Companies that invest in building quality relationships also build social capital by identifying shared values and building trust and cooperation with others. We believe this will lead to better outcomes for the company, our customers and the communities we serve.

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## CHANGING DEMANDS AND NEEDS OF CUSTOMERS

New generations of customers have a new range of desires and expectations regarding what they want from their electric companies. APS is a leader in many customer program and technology areas but must remain diligent in supporting our customers’ growing energy needs.

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## PUBLIC VIEWS ON CLIMATE & ENERGY

Public opinions on climate change are constantly evolving, and federal and state policies will have a strong influence on our company and our industry. We are well positioned to build on our Clean Energy Commitment as changes in climate and environmental policy continue to evolve.

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## GROWTH IN ARIZONA AND THE SOUTHWEST

Arizona and other southwestern states have seen steady population and economic growth in recent years. This growth brings great opportunities for APS and the communities we serve, along with a need to build and maintain the infrastructure to support the region’s growing energy demand.

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## THE COST AND VALUE OF CLEAN ENERGY

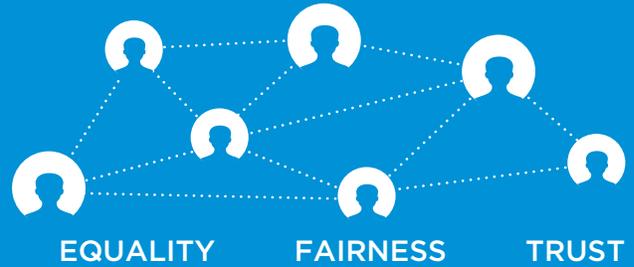
Customers’ desire for greater choice and increased input regarding how their electricity is generated and delivered will shape how we operate in the future. APS must continue to look for new ways to offer value for customers while providing the increasing level of clean energy they expect us to deliver.

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# DRIVERS OF CHANGE BY THE NUMBERS

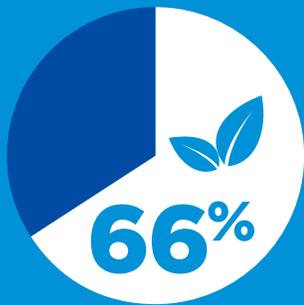


[def.] *achieving shared value solutions that resolve social issues while ensuring financial health.*



IN A CONTINUALLY EVOLVING **WORLD**

72 MILLION MILLENNIALS 1981-1998 + 67 MILLION GEN Z 1997-2012



Percent of global **MILLENNIAL** and **GEN-Z** consumers willing to **spend more** for products that are **eco-friendly** and **sustainable**.



**CLIMATE AND ENERGY\***

**62%** of adults say **climate change** is having at least some effect on their **local community**

**77%** of U.S. adults think the more **important energy priority** should be **developing alternative energy sources** (such as **wind and solar power**) and **hydrogen technology** rather than increasing U.S. production of fossil fuels

**92%** of Americans favor **expanding solar power**



**25,000**

Number of **additional people** who migrated to Arizona per quarter in **2019**

**18.5%**

Increase in **Phoenix home sales** year-over-year in **2019**

The desert southwest has **grown three times** as much as the rest of the U.S. in the last three decades.



**CLEAN ENERGY**

- Customer Choice
- Carbon and Clean Energy Focused Policy
- New Technology Options
- Green/Clean Pricing Programs



\*Funk, Cary and Meg Hefferon. "U.S. Public Views on Climate and Energy."Pew Research Center, Science and Society (2019).

# LONG-TERM STRATEGIC ISSUES



*LTI: a priority area of focus for our business to address over the next 10 years*

Based on the drivers of change, we identified **five Long-Term Strategic Issues (LTIs)** as priority areas of focus during the next 10 years. For each LTI, we established the following to guide our work:

## STRATEGIES

*Actions to address our LTIs to achieve positive outcomes*

## ASPIRATIONS

*Where or what we want to be in 10 years*



## FOCUS ON CUSTOMER EXPERIENCE AND COMMUNITY STEWARDSHIP

Critical to our success is our ability to deliver value to our customers and build quality relationships with our stakeholders. We have an opportunity to improve the customer experience and strengthen our community stewardship by increasing our customer focus, investing in the community in new ways and building on our emerging environmental, social and governance (ESG) objectives.

### STRATEGIES

Focus on our stakeholders through consistent and open engagement

Produce shared value with and for our customers

Demonstrate a commitment to support economic growth in Arizona

Define and deliver on our Environmental, Social and Governance (ESG) objectives

### ➔ ASPIRATIONS

Be recognized for creating value through fair pricing, quality service and superior performance

Support Arizona's economic health through constructive stakeholder engagement

Achieve and sustain positive public perception of APS



## SUPPORT AN EVOLVING WORKFORCE

As our industry experiences social and economic change, employees continue to be the key differentiators of our success. We must plan and prepare to employ the workforce of the future in order to achieve long-term success. The creation of the APS Promise and a focus on cultural principles will allow us to drive innovation and create a sense of belonging for employees.

### STRATEGIES

- Align the culture of the organization to the APS Principles
- Develop an inclusive and diverse workforce that fosters belonging
- Motivate, implement and reward employee innovation
- Prepare for and invest in the workforce and workplace of the future

### ➔ ASPIRATIONS

- Establish an empowered and customer-focused mindset and culture
- Demonstrate and reward innovation and creativity
- Become an employer of choice with an engaged and skilled workforce



## DECARBONIZE AND MANAGE GENERATION RESOURCES

National sentiment toward environmental and climate issues increasingly challenges our use of fossil resources and accelerates the transition to **renewable** and **clean energy sources**. APS must thoughtfully navigate these transitions to optimize our existing generation fleet, integrate customer-sited resources and strategically invest in the clean energy fleet needed to meet our **Clean Energy Commitment**.

### STRATEGIES

- Decarbonize our generation fleet with a focus on asset optimization
- Integrate distributed energy resources to support grid reliability
- Prepare for regional and wholesale market opportunities and risks
- Build capabilities for research and development, operation and transacting with emerging and clean technology resources

### ➔ ASPIRATIONS

- Establish a diversified, affordable and carbon-free portfolio
- Become a leading integrator of grid-scale and behind-the-meter technologies
- Maintain operational excellence in fleet performance



## ACHIEVE A CONSTRUCTIVE REGULATORY ENVIRONMENT

As a regulated utility, our business outcomes are shaped by regulatory outcomes at the federal, state and local level. This requires us to work from a strong foundation of trust and accountability, and to focus our engagements with the customer top of mind. We must continue to build from a long history of productive relationships and engagement to achieve our long-term objectives.

### STRATEGIES

- Establish and maintain trust with regulators and key stakeholders
- Develop programs and rate options that satisfy customer needs and interests
- Improve cost recovery mechanisms to support the company's financial health
- Prioritize regulatory engagement on highest-value business matters

### ➔ ASPIRATIONS

- Constructive, informed relationships and messaging related to APS business
- Adaptability to a broader range of regulatory outcomes
- Efficient, productive processes



## ENSURE LONG-TERM FINANCIAL HEALTH

We must keep rates affordable while meeting investor growth expectations and reliability goals. Long-term financial health is essential to our ability to make the investments needed to deliver on our vision and achieve our Clean Energy Commitment.

### STRATEGIES

- Focus on keeping rates affordable for customers
- Provide effective cost management by strengthening strategic financial acumen
- Execute on a long-term financial plan focused on the Clean Energy Commitment
- Meet investor growth expectations

### ➔ ASPIRATIONS

- Embed financial acumen in all planning and operations
- Ensure both the PNW and APS value proposition is well defined and known by investors
- Achieve strong financial performance supported by sound pricing models and investment diversification

# THE PLAN DRIVES BUSINESS PLANNING

The **10-Year Strategic Plan** guides the business planning process as we work to identify the specific metrics that measure our success. Moving forward, business planning will be focused on and designed around the 10-Year Strategic Plan with each business unit's plan outlining specific strategies and metrics they own that support the strategy.



**DRIVERS OF CHANGE**

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**LONG-TERM ISSUES**

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**STRATEGIES**

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**BUSINESS PLANS**

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