

### **CLEAN ENERGY COMMITMENT**

In 2020, we continued to advance goals of clean energy innovation, improve collaboration with stakeholders and set course for a brighter energy future for Arizona. During 2020, we set a **bold 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, seven years sooner than previously projected.

We made steady progress in our first year. We secured more than 400 megawatts of capacity and clean energy resources, including 200 megawatts of wind and 75 megawatts of demand response capability. We also issued requests-for-proposals to procure more energy storage we can pair with solar generation and to add between 1 and 1.4 gigawatts of new resources to our system by 2024, including more renewable energy. We remain on track to cease coal generation by 2031. Taking a broad view and in collaboration with a range of stakeholders, we proposed a coal communities transition plan to support the areas that are home to coal-fired power stations. The communities surrounding the Four Corners and Cholla power plants, including the Navajo Nation and Hopi Tribe, could use the proposed \$144 million package to help diversify and modernize their economies.

### **ESG GOVERNANCE**

**Sustainability Governance.** In 2020, we made important organizational changes at multiple leadership levels to strengthen our ESG governance structure and drive change within the organization. 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, ensure oversight of ESG issues and make recommendations to the Board, as appropriate. We also established an ESG Executive Council, composed of senior executives, to develop and maintain a common, cross-functional ESG vision and shared value across all business units.

In addition, we also formed a new Sustainability department at APS 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. Finally, we created a Culture and Inclusion team at APS to develop, strengthen and implement diversity, equity and inclusion strategies. Both teams play critical roles in supporting and evolving our efforts to design for tomorrow, empower each other, and succeed together.

**Priority Sustainability Issues.** In summer 2020, Arizona Public Service (APS), in partnership with the Electric Power Research Institute (EPRI), initiated an assessment to identify the sustainability issues that are most important to the company and its stakeholders or Priority Sustainability Issues (PSI). The assessment strengthened our existing commitment to sustainability and established a foundation on which to develop programs that address the most important sustainability issues. The project was designed to build on existing APS efforts to understand stakeholder interests; leverage EPRI

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expertise; inform future Sustainability and Corporate Responsibility Reports; and advance a robust sustainability perspective to drive performance. The most critical category, of PSI Integral Shared Value, includes four PSIs.

- Clean Energy
- Energy Access and Reliability
- Safety and Health
- Customer Experience

**Public Policy Engagement.** Pinnacle West and APS, has a responsibility to engage in the public policy process for the benefit of our customers, shareholders, employees, communities and other stakeholders. We advocate for sound, forward-looking public policy that creates shared value for our business, our community and a vibrant Arizona economy. We believe that this participation helps to create more robust and better-informed policy outcomes. APS also developed a political participation policy. APS's key public policy values include:

- Transparency in public policy advocacy, political spending, governance and reporting
- Authenticity, candor and respect in our interactions with government and elected officials, regulatory bodies, customers and other stakeholders
- Dedication to building strategic relationships with all our community partners
- Consistency in advocating for our mission to deliver reliable, clean and affordable energy to our customers
- Commitment to engage with employees on public policy issues and respect employees' differences and perspectives
- Integration of environmental, social and governance best practices throughout our enterprise

### **RISKS AND OPPORTUNITIES**

**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.

### DIVERSITY EQUITY AND INCLUSION

**Diversity Equity and Inclusion.** Our commitment to diversity, equity and inclusion is a key force driving the APS Promise and Principles. Inclusive behaviors support all three of our Principles, and they 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 succeed together when we empower each other by embracing the diverse perspectives, strengths and insights we each bring to the table. We foster an environment of involvement, respect and connection where the variety of ideas, backgrounds, demographic diversity and perspectives are harnessed to create business value.

Our more than 6,000 dedicated employees strengthen our Company with their skills, experience and diverse perspectives. Human capital measures and objectives that the Company focuses on in managing its business include the safety of its employees, diversity and inclusion, succession planning, hiring and retention of talent, compensation and benefits and employee engagement. Our commitment to diversity, equity and inclusion is demonstrated in numerous ways, internally and externally, including:

- Evolved Inclusion Council.
- Robust, long-standing Employee Network Groups.
- Listening sessions with executive participation.
- Ongoing community partners for recruiting diverse talent.

### STRATEGY AND VISION

**APS Promise.** In 2020, the Company launched the APS Promise (Promise) anchoring our commitment to our customers, community, and each other. The Promise explains why we're here (our purpose), what we're here to do (our vision and mission) and the principles and behaviors that will empower us to achieve our strategic goals. It represents the opportunity to build on our cultural strengths and develop new behaviors that will enable our future success.

The infographic is contained within a rounded rectangular border. At the top, there is a blue circle with a white outline of the state of Arizona. Below this is a blue horizontal bar with the text 'The APS Promise' in white. Underneath the bar, the text 'Our Purpose' is centered, followed by 'As Arizona stewards, we do what is right for the people and prosperity of our state.' Below this is another blue horizontal bar with the text 'Our Vision' in white, followed by 'Create a sustainable energy future for Arizona.' Below that is a third blue horizontal bar with the text 'Our Mission' in white, followed by 'Serve our customers with clean, reliable and affordable energy.' At the bottom of the infographic is a blue circle with a white outline of three stylized human figures. Below this is a blue horizontal bar with the text 'Our Principles' in white. Underneath this bar is a table with three columns and three rows. The columns are headed 'Design For Tomorrow', 'Empower Each Other', and 'Succeed Together'. The rows contain specific principles and behaviors for each column.

Our Principles		
Design For Tomorrow	Empower Each Other	Succeed Together
See the way forward	Embrace diverse perspectives	Create clarity
Innovate with courage	Challenge respectfully	Anchor in safety
Value learning	Unite as one team	Deliver for the community

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**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 areas include:

- 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

Our strategic plan keeps our eye on the future even as we navigate the dynamic present.

**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 which includes an interim target of achieving a 65% clean energy mix by 2030. 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. Here's how we plan to take our commitment to clean energy to the next level.

- Eliminate the use of coal in energy generation by 2031
- Add renewables, including solar paired with storage to harness Arizona's sunshine
- Continue to invest in vital carbon-free resources such as nuclear energy from Palo Verde Generating Station
- Engage customers through expanded energy efficiency programs and smart energy choices

### **ABOUT APS**

**Annual Report and 10K.** 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.