



**Arizona
Environmental
Strategic
Alliance**

A Partnership to Protect and Enhance Arizona's Environment...

PO Box 67076, Phoenix, Arizona 85082-7076 Telephone and Fax: 480-422-7392 www.azalliance.org

Alliance Member Annual Report for Year 2012

PRESENTING YOUR
ENVIRONMENTAL MANAGEMENT CREDENTIALS

THE ROAD TO EXCELLENCE

PINNACLE WEST and subsidiary
ARIZONA PUBLIC SERVICE

Directions:

The following pages list some of the leadership characteristics practiced by leading environmentally conscious organizations across the country. Progressive organizations and regulatory agencies identified these characteristics and expectations when the Alliance was formed.

For Member Organizations with >100 Employees:

Please select at least two leadership characteristics for each of the first three categories and respond to the elements of category number four. Provide examples explaining how your organization excels in that area.

For Member Organizations with < 100 Employees:

Please select at least one leadership characteristic for each of the first three categories and respond to the elements of category number four. Provide examples explaining how your organization excels in that area.

PLEASE NOTE:

- The fewer the examples reported, the more compelling they should be.
- Information provided needs to be applicable to reporting year labeled above.
- Make all attempts to **quantify** and **qualify** your information so that it can be fully appreciated by the reader.
- Define and describe any references to additional or attached information.
- Members may include information or documents prepared for other purposes as a means to accomplish the Alliance report. However, if this approach is used, please provide clear cross-references between the specific leadership characteristic reported on and the page or section of the document relied on.
- Provide examples of reported improvements or new initiatives.



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This 2012 Pinnacle West / APS AESA annual report provides examples of the programs our company has in place which illustrate our commitment to the AESA Principles. These examples are drawn from our Pinnacle West 2012 Corporate Responsibility Report (CRR) which is available to the public at www.pinnaclewest.com/cr. Readers of the AESA annual report should also review the CRR in order to obtain a more complete understanding of our overall environmental and sustainability efforts.

1. A: LEADERSHIP CHARACTERISTIC: Conservation and Pollution Prevention

Trip reduction program participation and innovation;

Pinnacle West Response:

Employee Travel Reduction is an important part of our EHS programs, particularly in the Phoenix area – a U.S. Environmental Protection Agency (EPA) non-attainment area for particulate matter and eight-hour ozone standard. We encourage employee travel reduction activity and offer subsidies to further persuade our employees to use alternative means of transportation. Our subsidies cover a portion of the costs for vanpooling, bus fares and carpool parking. We accommodate compressed work weeks, telecommuting and videoconferencing. We also offer assistance to employees in finding carpool partners, and in setting up carpools. The Travel Reduction Program also has a reward program for employees participating in travel reduction on High Pollution Advisory days.

APS maintains a fleet of vans that operate daily for employees commuting between Palo Verde Nuclear Generating Station (PVNGS) and the Phoenix area. APS began operating this program in 1994 and about 60 percent of the permanent APS employees at PVNGS participate. This program has significantly contributed to the site achieving a single occupant vehicle (SOV) rate well below the 60-percent target. The fleet approaches five million commuting miles annually. The commuting miles eliminated with this outstanding program is more than 32.7 million annually, resulting in a pollution savings of approximately 442 tons each year.

Pinnacle West provides travel reduction incentives for employees including:

- \$50 monthly subsidy toward vanpool expense for employees who commute in any local Valley Metro vans. The employee monthly costs are payroll deducted
- A 100 percent subsidy of the monthly accrued bus and light rail fares up to \$68 to employee work commutes.
- Employees carpooling do not pay the monthly \$46 for parking at company headquarters



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1. B: LEADERSHIP CHARACTERISTIC: Conservation and Pollution Prevention

Programs to reduce water consumption and manage water resources;

Pinnacle West Response:

APS is recognized as an industry leader in the responsible use of water resources in arid environments. With a focus on operational excellence and environmental responsibility, APS has set a standard for other utilities in similar arid environments.

The APS Water Resource Management team is tasked with managing present water resources and planning for a reliable, economic and sustainable future. Creating a strategy to support those goals requires balancing the need for reliability with the goal of using renewable and reclaimed supplies wherever possible. The challenge is to ensure operations are reliable and economical, while striving to protect finite natural resources. We believe that finding an appropriate balance is critical to the interests of our customers and the communities we serve.

Use of Treated Effluent

A primary potable water conservation method is the reuse of treated effluent for power generation at the Palo Verde Nuclear Generating Station and at the Redhawk Power Plant. APS is one of the largest users of treated effluent for power generation in the United States and Palo Verde is the only nuclear facility in the world to use treated effluent as its primary water source. Using effluent significantly reduces the amount of potable surface and groundwater that would otherwise be required to support generation. Each year, Palo Verde's water reclamation facility processes about 23 billion gallons of treated effluent for power plant use, preserving enough potable water to serve approximately 400,000 people. In 2012, sixty-two percent of water used for APS power generation was treated effluent.

Another way in which APS conserves water is through extensive treatment and careful management of water chemistry. This allows a high degree of water recycling in our electricity-generation process. Reuse of water supplies is maximized to the extent possible, reducing the volume that must eventually be discharged (this is called "blowdown water") to control the salinity and maintain proper chemistry of the water used in the power plant processes.

OTHER WATER CONSERVATION EFFORTS

We incorporate water conservation ideas into facility building and maintenance as part of our voluntary participation in the LEED program.

- Planting desert/xeriscape landscaping
- Installing efficient water fixtures including waterless urinals at some facilities
- Improving HVAC cooling towers
- Increasing employee awareness of water efficiency opportunities
- Eliminating reverse osmosis filter systems



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1. C: LEADERSHIP CHARACTERISTIC: Conservation and Pollution Prevention

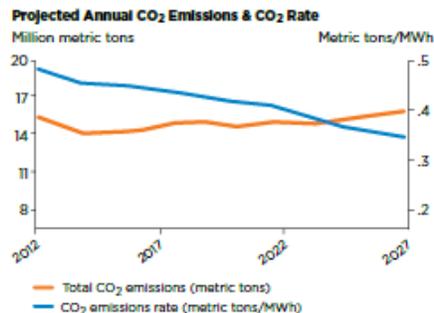
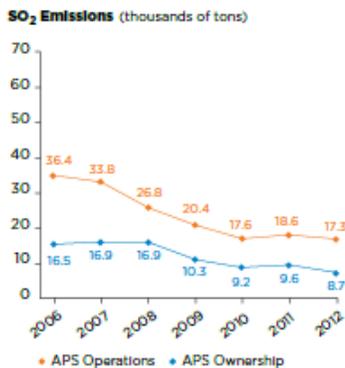
Programs to reduce air emissions.

APS Landmark Accord for Four Corners Power Plant

APS has agreed to purchase Southern California Edison's ownership in Units 4 and 5 of the Four Corners Power Plant near Farmington, N.M. APS has announced that, if our purchase of SCE's interest in Units 4 and 5 is consummated, it will close the older, less efficient Units 1, 2 and 3, and install additional emission controls on Units 4 and 5. This would dramatically reduce the region's carbon footprint and air emissions, while ensuring the plant remains compliant with state and federal environmental standards. This transaction remains subject to certain closing conditions and termination rights.

Continued operation of Units 4 and 5 is expected to provide more than \$6.3 billion in economic value to the region over the next 30 years; at least 70 percent will benefit the Navajo Nation.

APS continues to achieve significant reductions in nitrogen oxide (NOx) and sulfur dioxide (SO2) emissions. We anticipate continued reductions in NOx and SO2 emissions in future years based on the Four Corners Accord, the installation of additional pollution controls and the impact of the APS Resource Plan which emphasizes renewable energy, energy efficiency and natural gas for future generation sources. These efforts will also result in ongoing significant reductions in our CO2 emissions intensity.





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1. C: LEADERSHIP CHARACTERISTIC: Conservation and Pollution Prevention

Pinnacle West Response:

Energy Efficiency

Helping our customers use electricity more efficiently is an important part of our company's sustainability efforts. It's also important to our customers, our communities and our environment. By taking steps to conserve energy, customers can reduce their costs and also provide significant benefits to the environment. APS offers our customers a number of educational and incentive programs to help them reduce energy use. APS was awarded the EPA's Energy Star Sustained Excellence award for the 3rd consecutive year in 2012.

551,639

MEGAWATT-HOURS

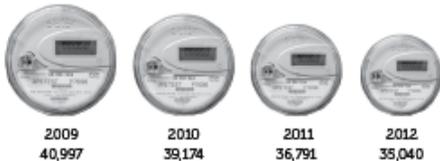
OF ELECTRICITY SAVED BY CUSTOMERS PARTICIPATING IN DEMAND SIDE MANGEMENT PROGRAMS IN 2012, ENOUGH TO POWER 40,000 HOMES FOR ONE YEAR AND MORE THAN OUR ENERGY EFFICIENCY STANDARD GOAL FOR THE YEAR

APS Facility Energy Management

Our Facilities Department participates in an annual benchmarking survey; this year's results placed us in the first quartile in cost per square foot for corporate headquarters and in the second quartile for service centers.

APS has established a voluntary internal energy use metric that measures our annual electric use at all metered facilities across our organization and sets a goal of a one- to three percent annual reduction in energy use each year between 2009 and 2013. This metric will allow us to monitor the effects of our various energy efficiency efforts at facilities across our company. We have achieved our goal in 2012:

APS FACILITY METERED ELECTRICITY USE
Megawatt-Hours



14.5 PERCENT

REDUCTION IN METERED ELECTRICITY USE IN APS FACILITIES FROM 2009 TO 2012



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APS LEEDs by Example

APS is a registered member of the U.S. Green Building Council and has committed to a voluntary goal of incorporating Leadership in Energy and Environmental Design (LEED) principles in our new building design and ongoing building maintenance. APS completed the extensive repurposing of a 90,000-squarefoot building into a critical operations center in January 2012. Constructed in the 1970s as a warehouse, we redesigned the building and renovated it to LEED Silver standards using day lighting, photovoltaics, energy and water conservation, technology and other sustainable building and operating concepts.

APS now has five LEED-certified facilities, the most LEED certified buildings in Arizona.

1. D: LEADERSHIP CHARACTERISTIC: Conservation and Pollution Prevention

Use of renewable energy technologies;

Pinnacle West Response:

APS continues to be a leader in the development and testing of renewable resources, particularly solar energy. We believe investing in renewable energy will result in environmental benefits, hedge the costs of potential climate legislation and the increasingly stringent environmental regulation of fossil-fueled generation, and provide an economic boost to our state.

We project that in 2025 our overall electricity demand will be 50 percent higher than today. Renewable energy and energy efficiency will be an important part of our long-range resource plan to meet this increased demand. Our renewable energy portfolio is already expanding rapidly, and has grown from less than one megawatt in 2001 to 667 megawatts today. That's enough power to meet the needs of 170,000 homes.

By the end of 2015, we expect renewable energy to supply about 12 percent of our retail customers' electricity needs.

148

MEGAWATTS OF SOLAR ENERGY ADDED IN 2012, A SINGLE-YEAR RECORD FOR APS AND ENOUGH ELECTRICITY TO SERVE MORE THAN 35,000 HOMES

4TH

RANKING AMONG AMERICAN ELECTRIC UTILITIES FOR MOST SOLAR MEGAWATTS ADDED TO ITS SYSTEM IN 2012; ANNUAL RANKING IS PART OF THE SOLAR ELECTRIC ASSOCIATION'S UTILITY SOLAR RANKINGS REPORT

MORE THAN 750 MEGAWATTS

SOLAR WILL BE ON THE GRID BY THE END OF 2013, GENERATING ENOUGH ELECTRICITY TO SERVE 180,000 HOMES



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2. A: LEADERSHIP CHARACTERISTIC: Education and Mentoring

Providing to the public an annual report documenting environmental performance;

Pinnacle West Response:

Engaging our stakeholders is vital to the long term success of our company and fundamental to that engagement is transparency in our performance. We have produced an annual environmental, health and safety report each year since 1994 and the report was expanded to a Corporate Responsibility Report in 2004.

Our 2012 Pinnacle West Corporate Responsibility Report, as well as archived copies of previous year's reports, may be viewed at www.pinnaclewest.com/cr. APS uses international reporting guidelines from Ceres and the [Global Reporting Initiative](#) (GRI) in writing our Report. The [GRI Content](#) section of the Report offers links to data in our report that corresponds to GRI indicators. Additionally, in some instances, we go beyond these guidelines to provide information asked for by our external stakeholders, such as socially responsible investment research groups. In May 2009, The Roberts Environmental Center at Claremont McKenna College released an extensive analysis of the corporate environmental and social reporting of the world's largest companies. In its [Utilities, Gas and Electric Industry Report](#), Pinnacle West was ranked first among utilities in the United States for sustainability reporting.

2. B: LEADERSHIP CHARACTERISTIC: Education and Mentoring

Membership and active participation in voluntary federal, state, or local environmental protection or reinvention programs, e.g., Water Wise, Environmental Leadership Program, Project XL, or Partners for Pollution Prevention;

Pinnacle West Response:

Pinnacle West recognizes that participation in governmental and non-governmental organizations (NGO), and in industry and professional organizations can provide tremendous business advantages and help enhance our sustainability efforts. Many of our employees participate in professional and business associations related to every function of our business, including accounting, purchasing, environmental, health and safety, human resources, public relations, engineering and electrical trades. Our employees often take leadership roles in these organizations.

In addition to our membership in the Arizona Environmental Strategic Alliance, below are some of Pinnacle West's key affiliations and memberships relative to our sustainability efforts:

Government and NGO Partnerships and Organizations

- **Ceres**
Ceres is a national network of investors, environmental organizations and other public interest



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groups working with companies and investors to address sustainability challenges such as global climate change. APS joined Ceres in 1994 and was the first utility member.

- **PowerTree Carbon Company**

PowerTree Carbon Company LLC is an initiative sponsored by 25 U.S. power companies to plant trees in critical habitats in the Lower Mississippi River Valley in order to manage carbon dioxide levels. The projects will restore bottomland and hardwoods on marginal agricultural lands, create habitats for birds and other wildlife, and provide other environmental benefits including improved water and soil quality.

- **The National Wild Turkey Foundation (NWTf) Energy for Wildlife**

The NWTf is a grassroots, non-profit organization with 545,000 members in 50 states, Canada, Mexico and 14 other foreign countries. It supports scientific wildlife management on public, private and corporate lands.

- **The Nature Conservancy**

The Nature Conservancy is the leading conservation organization working to protect the most ecologically important lands and waters around the world for nature and people. The mission of The Nature Conservancy is to preserve the plants, animals and natural communities that represent the diversity of life on Earth by protecting the lands and waters they need to survive.

- **EPA Coal Combustion Products Partnership (C²P²)**

The Coal Combustion Products Partnership (C²P²) program is a cooperative effort between the U.S. Environmental Protection Agency, American Coal Ash Association, Utility Solid Waste Activities Group, U.S. Department of Energy, and U.S. Federal Highway Administration to help promote the beneficial use of Coal Combustion Products (CCPs) and the environmental benefits that result from their use.

- **EPA Climate Leaders**

Climate Leaders is an Environmental Protection Agency (EPA) industry-government partnership that works with companies to develop long-term comprehensive climate change strategies. Partners set a corporate-wide greenhouse gas (GHG) reduction goal and inventory their emissions to measure progress. By reporting inventory data to the EPA, partners create a lasting record of their accomplishments. Partners also identify themselves as corporate environmental leaders and strategically position themselves as climate-change policy continues to unfold.

- **EPA SF₆ Emission Reduction Partnership**

The SF₆ Emission Reduction Partnership for Electric Power Systems is a collaborative effort between the EPA and the electric power industry to identify and implement cost-effective solutions to reduce sulfur hexafluoride (SF₆) emissions.

- **EPA/DOE Energy Star Program**

ENERGY STAR is a joint program of the U.S. Environmental Protection Agency and the U.S. Department of Energy helping consumers save money and protecting the environment through energy-efficient products and practices.



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Industry Groups and Associations

- **Arizona Businesses Advancing Sustainability**
Founded by APS and Intel, AzBAS is a business association dedicated to improving economic, environmental and social business practices in Arizona.
- **American Council on Renewable Energy (ACORE)**
The ACORE is focused on accelerating the adoption of renewable energy technologies into the mainstream of American society. ACORE promotes all renewable energy options for the production of electricity, hydrogen, fuels and end-use energy including, solar, wind, geothermal, hydro/ocean, waste energy and fuels, biomass and biofuels.
- **American Wind Energy Association (AWEA)**
The AWEA is a national trade association that represents wind power plant developers, wind turbine manufacturers, utilities, consultants, insurers, financiers, researchers and others involved in the industry. AWEA provides up-to-date, accurate information about the domestic and international wind energy industry.
- **Arizona Solar Energy Association (ASEA)**
The ASEA's mission is to educate the people of Arizona about solar energy, its applications and the benefits of utilizing solar technologies.
- **CEA Technologies Inc. (CEATI)**
CEATI brings electrical utility industry professionals together, through focused interest groups and collaborative projects, to identify and address technical issues that are critical to their organizations.
- **Common Ground Alliance (CGA)**
The Common Ground Alliance (CGA) is a member-driven association dedicated to ensuring public safety, environmental protection, and the integrity of services by promoting effective damage prevention practices.
- **Edison Electric Institute (EEI)**
EEI is a trade association for U.S. shareholder-owned electric companies. EEI advocates equitable policies in legislative and regulatory arenas and provides advocacy, authoritative analysis and critical industry data to its members, Congress, government agencies, the financial community and other opinion-leader audiences. It provides forums for member company representatives to discuss issues and strategies to advance the industry and to ensure a competitive position in a changing marketplace.
- **Electric Power Research Institute (EPRI)**
EPRI manages a broad public/private collaborative research program covering generation, environmental protection, power delivery, and retail use and power markets on behalf of the electric utility industry, the industry's customers and society at large.
- **Institute of Nuclear Power Operations (INPO)**
The nuclear electric utility industry created the Institute of Nuclear Power Operations (INPO) in 1979. INPO's mission is to promote the highest levels of safety and reliability – to promote excellence – in the operation of nuclear electric generating plants.



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- **U.S. Green Building Council (USGBC)**
The USGBC is the nation's foremost coalition of leaders from across the building industry working to promote buildings that are environmentally responsible, profitable and healthy places to live and work.
- **Utility Solid Waste Activities Group (USWAG)**
USWAG is responsible for addressing solid and hazardous waste regulatory issues on behalf of the utility industry and supports a balanced and reasonable approach to waste management that helps ensure cost-effective protection to the environment. Scott Davis, APS EHS Director, is the current Chairman for USWAG.
- **Utility Water Activities Group (UWAG)**
The UWAG deals with water-related regulatory issues of importance to electric utilities and supports a balanced and reasonable approach to water quality management that helps ensure cost-effective protection of the environment.
- **Utility Air Regulatory Group (UARG)**
The Utility Air Regulatory Group is a nonprofit, unincorporated organization of individual electric utilities and national trade associations.
- **Water Reuse Association, Arizona Chapter**
The mission of the Water Reuse Association is to advance the beneficial and efficient use of water resources through education, sound science, and technology using reclamation, recycling, reuse, and desalination for the benefit of members, the public, and the environment.
- **AMR Sustainability Peer Forum**
The Sustainability Peer Forum brings together environmental and sustainability leaders from across industries to share and discuss best practices, lessons learned, and how to create industry-leading companies with innovative products and service.
- **The Product Development and Management Association (PDMA)**
PDMA is global advocate for product development and management professionals. Our mission is to improve the effectiveness of individuals and organizations in product development and management. This is accomplished by providing resources for professional development, information, collaboration and promotion of new product development and management.

3. A: LEADERSHIP CHARACTERISTIC: Organizational Environmental Policies

Implementing a policy requiring vendors to meet the member's environmental requirements;

Pinnacle West Response:

We strive to acquire goods and services from suppliers who share our commitment to social, environmental and economic sustainability goals. During our selection process we evaluate suppliers on their sustainability and environmental performance. We work with suppliers to align our goals and measure performance using agreed upon Key Performance Indicator scorecards. In 2012 we developed a written APS Contractor Ethic Expectations, which apply to all our suppliers and are available to the public on aps.com



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Electric Utility Industry Sustainable Supply Chain Alliance

APS has been a member of the Electric Utility Industry Sustainable Supply Chain Alliance since 2008 and our Vice President of Supply Chain Management currently serves as Chair. We work with other U.S. electric companies to develop voluntary consensus standards that improve environmental and sustainability performance in industry supply chains.

The overarching goal of the Alliance is to reduce energy consumption and associated Green House Gas (GHG) emissions by focusing on the following two strategic goals that have been adapted by member utilities:

- By the end of 2012, a majority of the participating surveyed suppliers of Alliance Members will measure GHG emission and will have established voluntary GHG emission reduction goals.
- By the year 2015, Alliance Members will reduce aggregate supply chain operations energy use by 10 percent from a 2008 baseline. Further information on the Alliance can be found at the Alliance website: <http://www.euissca.org/default.aspx>

3. B: LEADERSHIP CHARACTERISTIC: Organizational Environmental Policies

An environmental management system and audit program;

Pinnacle West Response:

Our Environmental Policy applies to all Pinnacle West and APS operations. In 1994, APS joined Ceres, a national network of investors, environmental organizations and other public interest groups working with companies and investors to address environmental stewardship and sustainability challenges. We adopted the Ceres principals for environmental stewardship and protection into our corporate environmental policy. Our Environmental Policy and our organization have continued to evolve in response to changing issues, trends and regulations.

We have an Environmental Management System conforming to the International Organization for Standards (ISO) 14001 Environmental Standards and all APS fossil fuel power plants are ISO 14001 certified. In addition, we are currently pursuing ISO 14001 certification for our Deer Valley transmission and distribution complex. ISO 14001 certification is an important step in our continuous improvement goals. Per the International Organization for Standards and EMS, meeting the requirements of ISO 14001 is a management tool enabling an organization of any size or type to:

- Identify and control the environmental impact of its activities, products or services, and to
- Improve its environmental performance continually, and to
- Implement a systematic approach to setting environmental objectives and targets, to



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achieving these and to demonstrating that they have been achieved

Compliance Assurance (Audit) Program

Our Compliance Assurance program establishes assessments and audits, reports results to management, establishes corrective and preventive actions, tracks the status of open items, ensures the confidentiality of information, is responsible for record retention and establishes roles and responsibilities.

Summaries of the completed compliance audits from selected EHS programs and facilities are provided to the Audit Committee of Pinnacle West's board of directors. In addition, the results from the compliance audits are reported to facility management, the vice president and chief sustainability officer, the responsible officer, and the CEO and president.

In order to ensure every effort is made to maintain compliance in our company's complex and diverse operations, our compliance assurance program follows a four-tier approach which includes:

- Ongoing self-assessments of EHS programs by the operating facilities.
- Focused self-assessments conducted by company EHS professionals.
- Formal EHS audits conducted by a dedicated EHS Audit Team which reports to the Pinnacle West Director of Audit Services.
- Periodic compliance reviews, in which the company conducts a detailed review of the compliance status of EHS programs.

3. C: LEADERSHIP CHARACTERISTIC: Organizational Environmental Policies

Implementation of sustainability practices.

Pinnacle West Response:

"Arizona Public Service will make decisions with the goal of creating long-term corporate value. In doing so; we will always consider our societal, economic and environmental impact, now and for generations to come. That is how you get to be a company that is 125 years old. That is how we will achieve our corporate vision of creating a sustainable energy future for Arizona.

That statement was made by APS Chairman and CEO Don Brandt during his keynote address at the International Corporate Citizenship Conference, presented by the Center for Corporate Citizenship at the Boston College Carroll School of Management.

We strive to continuously improve and develop our sustainability efforts. To us, sustainability is a business practice, rather than an initiative or "green" program. We take a long-term strategic approach to our decisions and their economic, environmental, and social implications. To help achieve this, we've built the sustainability concept into our corporate strategic framework, shown on the following page.



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Supporting our strategic framework, we incorporate key sustainability issues into our business planning efforts, establishing business goals and associated metrics in key business areas. We are developing an expanded approach to goals planning in the form of Tiered Metrics. Through the lens of our tiered metrics, key performance goals will be aligned and integrated into our overall business planning, providing a more disciplined way of defining and integrating objectives and tracking our performance.

Strategic Framework



We believe it will also promote continuous improvement and allow us to more effectively recognize and reward outstanding efforts.

Our key business goals and metrics are then further incorporated into specific business unit plans and employee individual performance plans. This moves “sustainability” deep into the organization so that our employees have a clear idea of our key issues, goals and targets, which focuses work on a daily basis to achieve our sustainability vision. We also have a formal sustainability organizational structure which communicates our goals, policies, direction and performance up and down our organization from the Board of Directors to the Front Line. An officer policy group provides executive-level oversight for our sustainability efforts. The policy group establishes sustainability policy and monitors performance.



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- Tier 1**
Corporate Metrics
- Tier 2**
Business Unit/
Corporate Resource Functions
- Tier 3**
Department Metrics
- Tier 4**
Supporting Department Metrics

Pinnacle West's performance has been recognized nationally in 2012, including:

- Pinnacle West was listed in the 2012 Dow Jones North America Sustainability Index for the eighth year in a row.
- Pinnacle West was listed in Corporate Responsibility Magazine's 2012 annual list of "100 Best Corporate Citizens" for the third year in a row.
- APS was named to the Target Rock Advisors Sustainability Utility Leaders Index for the third year in a row.

4. A: LEADERSHIP CHARACTERISTIC: Other Topics to Report

Include any other innovation or environmental leadership activities not covered earlier that support the Alliance Principles.

Pinnacle West Response:

Pinnacle West and APS have a number of innovative, leadership environmental programs in place, which are discussed in more detail in our Pinnacle West 2012 Corporate Responsibility Report (www.pinnaclewest.com/cr). These programs include technology innovation, reduction of air emissions, climate protection, and wildlife and vegetative management.



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4. B. LEADERSHIP CHARACTERISTIC: Include any potentially adverse matters concerning your environmental performance.

Pinnacle West Response:

Compliance with all applicable laws and regulations is a minimum performance standard at Pinnacle West and all our managers and employees are required to uphold regulatory compliance as part of their daily activities and business planning. We consider regulatory compliance the foundation of our sustainability efforts, with our focus being "beyond compliance" in that we look for innovation in our business practices to achieve the best sustainable practices and results.

As a major energy producer and distributor with hundreds of company sites across Arizona, we are subject to numerous environmental, health and safety regulations on the federal, state, county and local levels.

We report our environmental and safety compliance history each year in our Corporate Responsibility Report. The company continued to have an excellent environmental and safety compliance history in 2012. The company did not receive any OSHA citations during 2012. Throughout our entire enterprise, we received three minor environmental citations:

- Unpermitted diesel generator cited by Maricopa County at APS 502 facility; closed with \$270 fine
- Three-hour excess emission due to injection system trip cited by Maricopa County at West Phoenix Power Plant; closed with \$2,199 fine
- Exceedance of sewer discharge pH permit limit cited by City of Phoenix at West Phoenix Power Plant; closed with no fine



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ALLIANCE PRINCIPLES

- **Management Commitment** - Alliance members implement these Principles and make evident their commitment to environmental responsibility. They demonstrate environmental leadership and implement management processes that ensure public accountability and are consistent with their own environmental policy.
- **Protection of the Ecosphere** - Alliance members continually strive to reduce and eliminate releases of substances that may cause environmental damage to the air, water, earth or its inhabitants.
- **Sustainable Use of Natural Resources** - Alliance members promote the responsibility for resource stewardship and sustainability through planning and wise management by prudent use of natural resources, conserving nonrenewable natural resources, and promoting the development and use of renewable resources.
- **Environmental Restoration and Community Relations** - Alliance members act promptly and responsibly to correct conditions that endanger health, safety, or the environment and to restore the environment where opportunities within their means exist. They inform the community of conditions that may affect public health and welfare. They strive to communicate effectively by providing both comprehensive and comprehensible information, and tailor their communications to ensure appropriateness for various audiences. Alliance members seek advice and counsel through dialogue with community members and respond to community concerns about facility operations.
- **Energy Conservation** - Alliance members conserve energy and improve the energy efficiency of their internal operations used in producing their goods/services. Alliance members promote travel efficiency and strive to reduce transportation impacts to the ecosystem.
- **Risk Management and Reduction** - Alliance members strive to reduce the environmental health and safety risks to employees and communities, and endorse environmentally-responsible management practices. Members also inform customers about the environmental impacts and costs of consumer choices and provide information about practices that can result in an improved environment.
- **Environmental Education and Monitoring** - Alliance members educate peers, customers, employees, and communities about the importance of maintaining regulatory compliance and integrating environmental performance into business management practices. They seek opportunities to mentor other organizations and offer information about environmentally-responsible actions, lifestyle choices, behavior practices, and decision-making.
- **Pollution Prevention and Source Reduction** - Alliance members regard pollution prevention as an important component of sustainable development. They actively employ source reduction and recycling to minimize waste, while handling and disposing waste materials in a safe and responsible manner.
- **Environmental Performance and Integrity** - Alliance members demonstrate their commitment to these Principles by maintaining compliance with all applicable environmental regulations. They support and adopt environmental audit procedures and conduct annual self-evaluations of their progress in implementing these Principles. They retain their membership status by conducting their business operations in a manner consistent with performance standards as established by these Principles.
- **Public Responsibility and Reporting** - Alliance members believe that the public and other members deserve, and hold the right, to review performance of activities conducted by the Alliance as a whole, as well as those Alliance activities conducted by individual members. Through disclosure of Alliance activity performance reports and open decision-making, the Alliance and its members are committed to promoting the highest standards of organizational integrity and public responsibility.