



2015



PINNACLE WEST CAPITAL CORPORATION
IS AN ENERGY-HOLDING COMPANY BASED IN
PHOENIX, ARIZONA, WITH A FOCUS ON
THE BUSINESS OF ITS PRIMARY SUBSIDIARY,
ARIZONA PUBLIC SERVICE COMPANY (APS).

APS is Arizona's largest electric company, providing retail and wholesale electric service for 130 years to customers across most of the state.

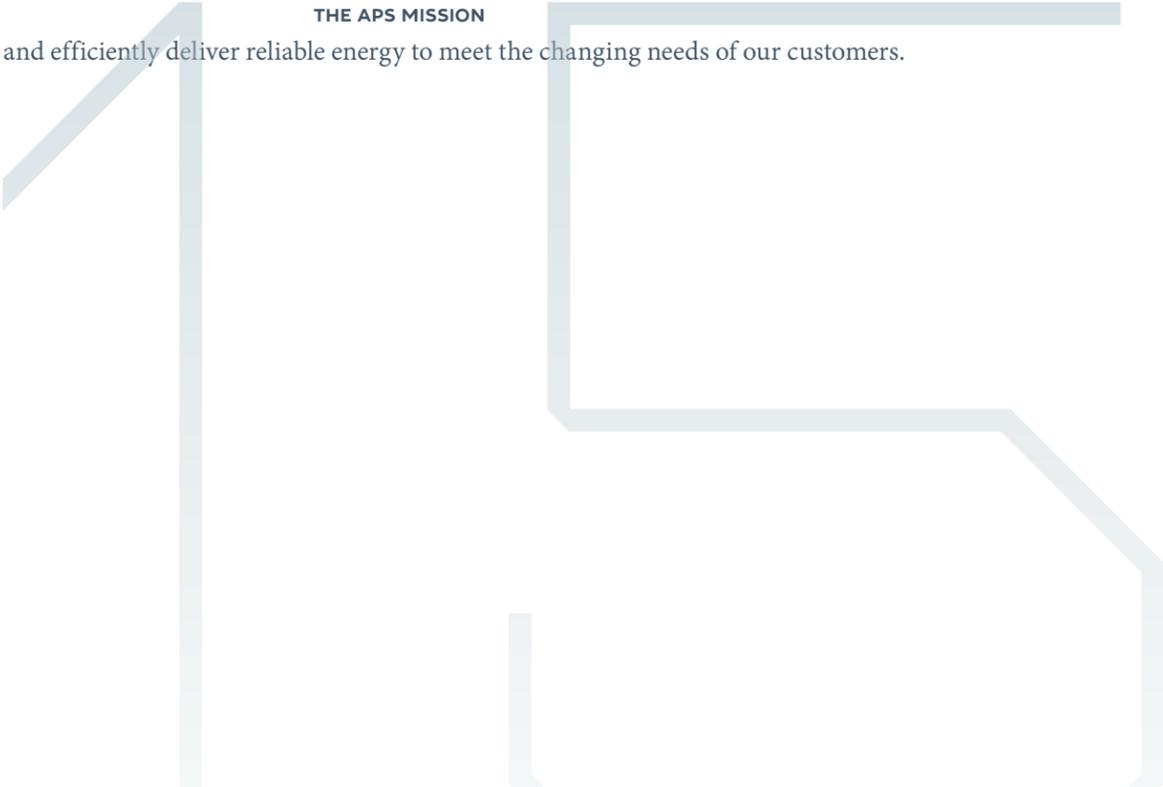
Our company has published a Corporate Responsibility Report each year since 1994 to share our sustainability performance and vision with our stakeholders and the public.

THE APS VISION

Creating a sustainable energy future for Arizona.

THE APS MISSION

We safely and efficiently deliver reliable energy to meet the changing needs of our customers.



**THIS CORPORATE RESPONSIBILITY REPORT
FEATURES ART BY ED MELL**

Mell brings an architectural eye to the desert, emphasizing graphic elements and stripping away details that do not serve his vision. From landscapes to storms, longhorn cattle to desert flowers, he presents the natural power and beauty of Arizona in bold colors and lines, energizing the vistas with his singular style.

Featured Work: Lines of Clouds (Cover & Page 8),
Morning Sun (Page 4), Desert Kings (Page 6),
High Desert Peaks (Page 10), Evening Edges (Page 12).

LETTER FROM THE CEO & CSO

Arizona Public Service has 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 APS and Arizona to thrive for years to come.

Sustainability is a priority for our company, our customers and our shareholders. It informs the work we do every day to deliver on our vision. As you dig into this year's report, you'll find it is structured around five areas that drive our sustainability efforts.

ENERGY INNOVATION. Our industry is in a period of change, driven by technological advances and evolving customer expectations. Pursuing innovative technologies today speeds our transition to the utility of tomorrow. In our Solar Innovation Study, for example, we integrate rooftop solar, battery storage and energy management systems in customer homes to study their impact on energy use and on our system. We are also modernizing the energy grid for greater automation, analytics and control. This will help us provide customers with improved reliability, enhanced outage information and an increased ability to integrate new home-energy tools.

SAFETY AND SECURITY. Our work begins and ends with safety. We take pride in the company's strong safety culture and the fact that we have reduced serious injuries by 73 percent over the past 10 years. Physical and cybersecurity also have become priorities for us. Breaches at other companies, including some in the utility sector, underscore the importance of ever-increasing vigilance. Our physical and cybersecurity efforts include both defense in depth and employee awareness campaigns to keep data and operations secure. In addition, infrastructure security enhancements better safeguard the assets critical to our mission.

WATER RESOURCES. It's a challenge to be among the fastest growing states and located in a desert. To meet this challenge, we continue to seek out new ways to use less water and to use the water we consume more efficiently. Looking ahead, we are committed to reduce water intensity—the number of gallons it takes to produce one megawatt-hour (MWh) of electricity—by 20 percent over the next 10 years.

CARBON MANAGEMENT. An efficient, diverse portfolio is critical to delivering sustainable power for Arizona, even more so in the face of federal environmental regulations and changing economic conditions. In 2015, 47 percent of our energy came from carbon-free resources, including a record-breaking 32.5 million MWh from the Palo Verde Nuclear Generating Station. We expect to reduce the share of coal in our energy mix from the current level of 25 percent to about 14 percent by 2031.

PEOPLE. Our employees execute our vision of a sustainable energy future, and they are at the center of a multi-year plan to strengthen engagement across our company. Customers put us in the top quartile for customer satisfaction and give us a particularly high score for power quality and reliability. We also remain deeply invested in the communities we serve. APS donated more than \$10 million in 2015 to support worthwhile causes in the state. Our employees volunteered 127,000 hours with local nonprofits. The APS Foundation invested \$2.5 million to strengthen STEM (science, technology, engineering and math) education—building a dynamic workforce for the future.

Whether we are reducing groundwater use, modernizing the Ocotillo Power Plant or funding a science teacher's robotics program, we are focused on the future of Arizona.

For APS, sustainability is about creating a better Arizona—a better place to live, to work, to learn, to do business—for years to come.



Donald E. Brandt



Ann C. Becker



DONALD E. BRANDT
CHAIRMAN, PRESIDENT AND
CHIEF EXECUTIVE OFFICER,
PINNACLE WEST AND APS



ANN C. BECKER
VICE PRESIDENT,
ENVIRONMENTAL, AND CHIEF
SUSTAINABILITY OFFICER, APS

ENERGY INNOVATION

In the midst of emerging technologies and evolving customer behaviors that are changing the future of energy, APS is building a smarter energy infrastructure to ensure success as a next generation energy company. The industry in general is investing in an increasingly digital and distributed grid network that is a platform for new technologies, providing increasingly customized services to meet customer needs and expectations, and forming relationships with technology companies to enhance products and services to customers.

At APS, we are at the forefront of utilities studying and deploying advanced infrastructure to enable reliable and cost-efficient integration of emerging technologies, both into the grid and with customers. As we integrate these new technologies and approaches with our current solutions, we enhance reliability, increase productivity and better serve our customers.



Our energy innovation work has three primary focus areas:

- Advanced grid technologies, the focus of which is automated metering infrastructure, control of the grid and advanced grid data analytics and visualization;
- Technology assessment, the focus of which is rooftop solar research and development, solar innovation study, energy storage and microgrids; and
- Business performance innovation, or new ways of doing business, such as joining the Energy Imbalance Market and interacting with customers through a new technology platform called Project Cinergy.

25

MW MICROGRID

AT MARINE CORPS AIR STATION YUMA
(THE FIRST MILITARY BASE
WITH 100 PERCENT BACKUP POWER)

\$20

MILLION

COST SAVINGS

FROM AMI TECHNOLOGY

17

MILLION

FIELD ORDERS AVOIDED

FROM AMI TECHNOLOGY

SOLAR PARTNER PROGRAM

1,500

CUSTOMERS

10

MW APS-OWNED ROOFTOP SOLAR

SAFETY AND SECURITY



At APS, safety and security is everyone’s responsibility. Safety and security includes: employee safety, public safety, cybersecurity, data privacy, physical security, and the implementation of Critical Infrastructure Protection (CIP) version 5 requirements.

Employee safety is of paramount concern and a strong focus at APS. We want all employees to go home in the same condition as they came to work.

In the last five years, we have reduced the number of Occupational Safety and Health Administration (OSHA) recordable injuries by 37 percent. Our new challenge is improving on good to become the best. New areas of focus include grass-roots safety committees that give employees ownership of local safety performance and improved tracking of close calls (incidents that didn’t cause an injury but could have) to remedy potential hazards and prevent future injuries.

Educating the public about electrical safety is another important component of our safety work. We reach thousands of Arizonans each year with our public safety programs, including our electrical safety trailer presentations in which line workers show first-hand what contact with electricity can do to a hot dog “hand” or grapefruit “head.”

In addition, our Benjamin Franklown program brings age-appropriate messages about electrical safety to more than 15,000 students across Arizona each year.

In a world of evolving security threats, keeping our data and operations secure is an increasingly critical area of focus. We have established strong data privacy controls across the organization and use a variety of protective methods to safeguard vital systems. Employees are an important line of defense, and all have completed cybersecurity awareness training. Strong physical security around our facilities and assets, from power plants to transmission towers to substations and beyond, is also critical to our mission of delivering reliable power to our customers.

73%

REDUCTION
IN OSHA-RECORDABLE
INJURIES TO EMPLOYEES

SINCE 2005

15,000+
STUDENTS

PARTICIPATED IN

BENJAMIN FRANKLOWN
ELECTRIC SAFETY
PROGRAM

21

MILLION

UNIQUE PERSONAL DATA RECORDS

PROTECTED

1,346

DISTRIBUTION CIRCUITS

MONITORED BY TROUBLEMEN
ON SAFETY LINE PATROL



WATER RESOURCES

Water plays a vital role in our business. As a major electric utility in the desert southwest, the acquisition and utilization of water is even more important for APS than for most utilities. Of the types of water used in Arizona, the highest percentage (43 percent) is groundwater, which is considered a non-renewable water resource. Conservation of this non-renewable resource is a focus area for APS, and we have a new company-wide goal of reducing groundwater use.

We are committed to ensuring we use our water resources as efficiently as possible. One of the most efficient uses of water in the desert is the reuse of water. APS, and the Palo Verde Nuclear Generating Station in particular, has provided national and international leadership on the use of reclaimed water for power generation. A full

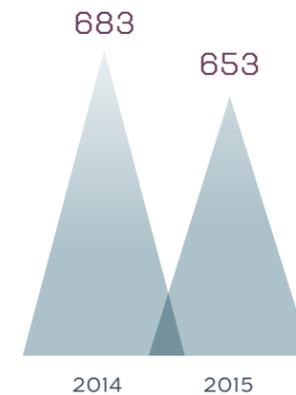
68 percent of the water we used in our generating facilities in 2015 was reclaimed water.

Our water use and efficiency objectives are driven by our Water Resource Management Strategic Plan, which provides APS timely and reliable information to manage our water resources portfolio efficiently and effectively. The plan also helps ensure that we have long-term water supplies and water contingency plans for each of our facilities, even in times of extended drought. Each APS power plant has a unique water strategy, developed to promote efficient and sustainable use of water. In addition, other efforts, such as retiring or upgrading water-intensive power plants and increasingly using renewable energy and implementing energy efficiency, add to our overall water conservation.

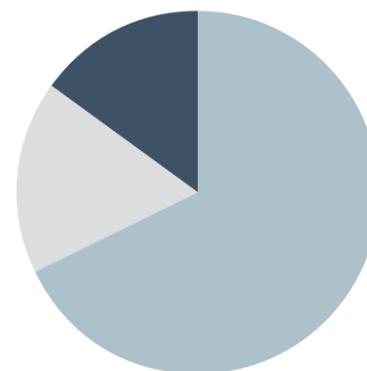
20%

OUR GOAL FOR INCREASED WATER EFFICIENCY

OVER THE NEXT DECADE



WATER INTENSITY (GALLONS PER MWH GENERATED)



APS 2015 FLEET WATER USE BY SOURCE TYPE



8%

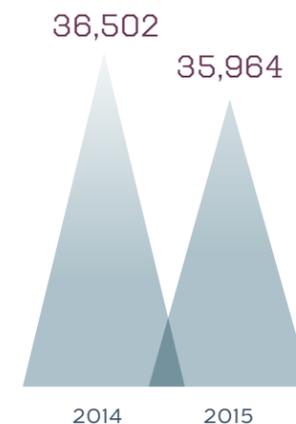
OUR GOAL FOR GROUNDWATER USE REDUCTION

IN 2016 COMPARED TO 2014

20

BILLION

GALLONS OF MUNICIPAL EFFLUENT USED ANNUALLY BY PALO VERDE



GALLONS OF WATER USED

CARBON MANAGEMENT

Delivering safe, reliable, affordable energy to our customers requires a balanced energy mix, something APS has achieved with a combination of traditional and renewable sources of energy. As we continue to provide our customers with increasingly cleaner energy, that mix remains balanced. But it is changing.

By closing coal units, modernizing natural gas plants, deploying renewable energy and energy efficiency, and operating Palo Verde Nuclear Generating Station, the country's largest source of carbon-free energy, we are reducing our carbon footprint. APS is proud to be a leader in Arizona with an energy transition that will fulfill our mission to create a sustainable energy

future for the state. In 2015, 47 percent of our energy came from carbon-free resources, and we expect renewable energy and energy efficiency to meet over 50 percent of our energy growth through 2031.

Our efforts to reduce our carbon footprint are not limited to energy generation. We also have increased the efficiency of our facilities and transportation fleet, lowering our own energy usage and reducing vehicle emissions. Through these combined efforts, we avoided 3.8 million metric tons of carbon dioxide emissions that otherwise would have been emitted in 2015. This is equivalent to removing over 800,000 automobiles from the road.



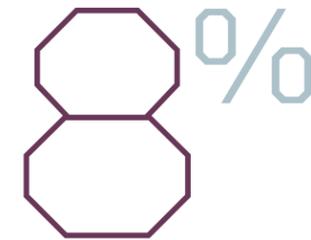
OF OUR 2015 ELECTRICITY CAME FROM

CARBON-FREE RESOURCES



GIGAWATT-HOURS OF SAVINGS

FROM 2015 ENERGY EFFICIENCY PROGRAMS



REDUCTION IN 2015 APS VEHICLE FLEET

CARBON EMISSIONS

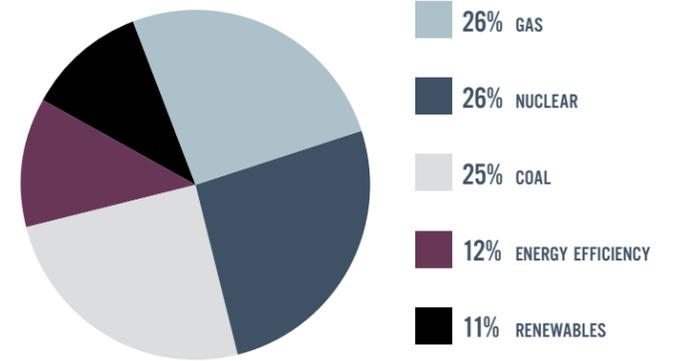


MW OF COAL GENERATION

RETIRED OVER THE LAST THREE YEARS

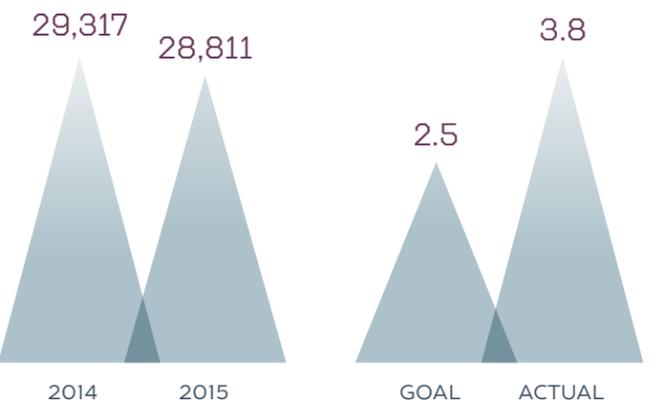
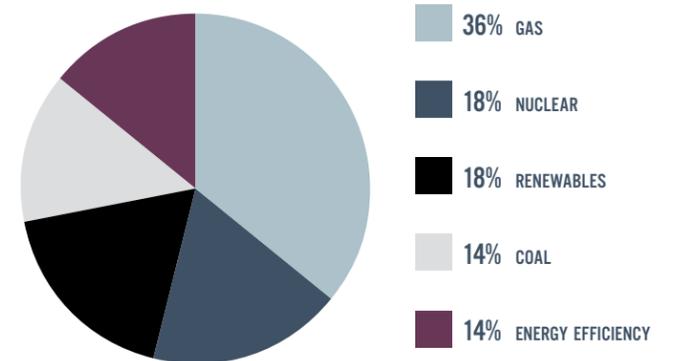
GENERATION PORTFOLIO BY RESOURCE

2016



GENERATION PORTFOLIO BY RESOURCE

2031



ENERGY USAGE IN APS FACILITIES (MWH)

2015 CARBON AVOIDANCE (MILLION METRIC TONS)

PEOPLE



People—employees, customers, suppliers and community members—make the difference at APS. Employees are critical to our success now and in the future. We maintain a diverse and inclusive work environment because we know that the different backgrounds, perspectives and ideas of our 6,400 employees are essential to our success. In 2015, 32 percent of new hires were ethnically diverse and 21 percent were veterans. For the

second year in a row, we were named to *GI Jobs Magazine's* list of America's Top 100 Military-Friendly Employers in 2015. These new hires enter a workplace dedicated to developing the best in its employees. In fact, employee development has been designated as one of our four Corporate Strategic Initiatives in 2015, with a focus on “adopting sustainable programs to invest in our people today and in the future.”

Customers are at the core of what we do, and they continue to rank APS among the top utilities for customer satisfaction and reliability. The way customers use energy is changing—from smart thermostats, to plug-in electric vehicles, to rooftop solar—and the way they want to interact with their energy company also is evolving. We strive to provide new resources to help them manage their service, such as an email or text notification to let them know when they've hit a usage threshold and an outage map on aps.com that provides easy access to restoration updates.

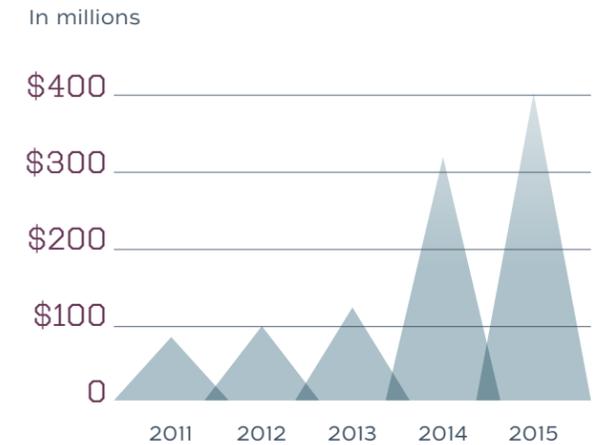
In addition, our industry-leading Supplier Diversity and Development program reached \$2 billion spent with diverse businesses from 1992 to 2015 and received the Edison Electric Institute's Supplier Diversity Award for Innovation.

Building strong communities is important to APS and our employees. Our 2015 investment in the community, including grants, scholarships and in-kind donations from APS and the APS Foundation, totaled more than \$10 million. APS employees volunteered 127,000 hours with nonprofits, resulting in an economic impact of \$2.9 million.

\$396
MILLION

SPENT WITH DIVERSE SUPPLIERS IN 2015, AN INCREASE OF MORE THAN \$82 MILLION OVER 2014.

5-YEAR DIVERSE SUPPLIER SPEND



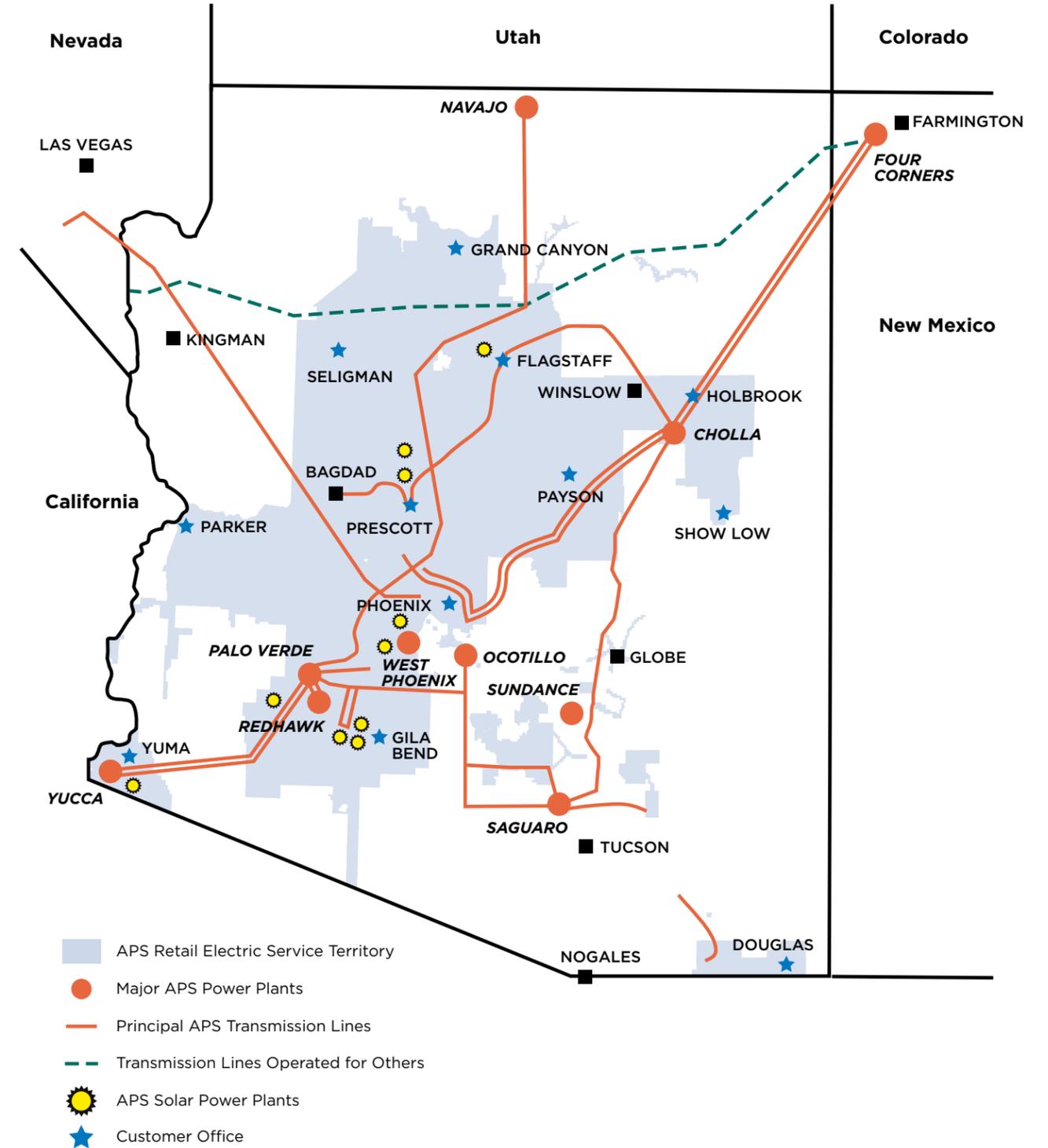
127,000

HOURS VOLUNTEERED BY APS EMPLOYEES

PERFORMANCE SUMMARY CHART

	2011	2012	2013	2014	2015
EMPLOYEES					
OSHA Recordable Injuries	58	47	36	44	43
Volunteer Hours	157,000	133,137	130,000	147,000	127,000
OPERATIONAL EXCELLENCE					
SAIFI	0.80	0.78	0.78	0.79	0.82
Palo Verde Capacity Factor	90.7%	92.3%	91.1%	93.7%	94.3%
Total Renewable Energy (Megawatt-hours in Millions)	1.1	1.5	1.9	2.7	2.8
Energy Efficiency Savings (MWh)	397,201	551,639	538,841	495,410	552,424
ENVIRONMENTAL STEWARDSHIP					
Reportable Environmental Incidents	29	26	8	5	4
Environmental Notices of Violation	3	3	2	3	0
CUSTOMERS AND COMMUNITIES					
Residential Customer Satisfaction Survey (IOU)	669	662	669	673	692
Total Giving	\$ 7,802,539	\$ 8,321,488	\$ 9,606,186	\$ 9,930,397	\$ 10,684,068
SHAREHOLDER VALUE					
PNW Earned ROE	8.7%	9.8%	9.9%	9.3%	9.77%
Total Shareholder Return	22%	10.3%	8%	34.5%	2.0%

APS SERVICE TERRITORY MAP



**CORPORATE RESPONSIBILITY
REPORT CONTACT**

Jeffrey Jennings

P.O. Box 53999, MS 9303

Phoenix, AZ 85072-3999

(602) 250-3528

Jeffrey.Jennings@aps.com

PINNACLE WEST
CAPITAL CORPORATION