

2017 CORPORATE RESPONSIBILITY REPORT

PINNACLE WEST CAPITAL CORPORATION


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PINNACLE WEST CAPITAL CORPORATION COMBINES A SOLID FOUNDATION AND A CLEAR STRATEGY TO BUILD SHAREHOLDER VALUE...

Superior reliability and operating performance across our business

Excellent customer service and deep community involvement

Affordable electricity rates

A cleaner, more flexible power generation portfolio

A constructive regulatory environment

Targeted investments in innovative technologies

Engaged workforce

Solid financial results

...WITH A SHARPENED FOCUS ON OUR CORE UTILITY BUSINESS.

THE APS VISION
Creating a sustainable energy future for Arizona.

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

LETTER FROM THE CEO & CSO

Arizona Public Service is at the forefront of a changing energy industry. As our business undergoes a period of steady transformation, we are committed to innovative strategies and sustainable practices that will set the pace for our industry, deliver value to our customers and support a sustainable energy future for Arizona.

APS is a leader in embracing change and supporting new technologies, enabling customer choice and control, increasing the adoption of carbon-free resources, pioneering the next generation of energy efficiency programs and championing safety and security. As a result, APS customers benefit from reliable, affordable and increasingly clean energy and a smarter, more responsive energy grid.

INNOVATION

Faced with the challenges of managing peak demand, minimizing carbon emissions and integrating intermittent renewable energy, we are taking the lead in the economic deployment of controllable resources, such as energy storage and advanced inverters.

We have been a leader in the use of advanced meter technologies as well as intelligent grid devices, and over the next 15 years, we plan to add up to 500 megawatts of energy storage capacity. Energy storage enables us to support growing solar resources and offers additional flexibility by allowing electricity to be stored on the grid and deployed for later use.

ENVIRONMENTAL STRATEGY

Approximately half of the energy we currently produce at APS is carbon free, which includes the Palo Verde Generating Station, the largest carbon-free power plant in the United States. We are increasing generation from natural gas from 26 percent to 33 percent of our total energy mix, reducing our coal generation from 21 percent to 11 percent, and increasing renewable energy from 12 percent to 18 percent—all by 2032.

One way APS reduces its environmental impact is by closing older, less-efficient coal units and upgrading environmental controls on newer units. Selective catalytic reduction (SCR) technology currently is employed at four of our power plants, and SCRs are being installed at two additional facilities. The installation of SCRs at the Four Corners Power Plant in 2018 will result in a 90 percent reduction of nitrogen oxide (NOx) at that facility.

In 2017, our dedication to environmental stewardship was recognized with our first "Leadership" rating from CDP (formerly the Carbon Disclosure Project) for climate change and water management due to our governance, strategy and risk management actions. Pinnacle West was one of only two U.S. utilities awarded Leadership ratings from CDP for both climate change and water management.

EMPLOYEES

APS employees are critical to achieving our vision of creating a sustainable energy future for Arizona. Our workforce strengthens and energizes our company with a wide spectrum of backgrounds, viewpoints and ideas. We work to attract and develop a diverse workforce and leadership team that foster innovation, inclusion and high performance—valuable assets as we work to capture emerging opportunities in our changing industry and reflect the communities we serve.

Through extensive succession planning, we ensure that we are prepared to fill leadership roles with capable, experienced employees—not just at the executive level but throughout the company.

FLEXIBLE RESOURCES

Flexible resources are vital in maintaining power reliability while keeping costs low for our customers. Developing a portfolio of flexible resources, such as the fast-ramping natural gas combustion turbines we are deploying in the Ocotillo Modernization Project, helps us effectively respond to customer demand and incorporate renewable resources while operating in an increasingly integrated regional market.

Microgrids provide an excellent example of a flexible resource that is particularly well suited for our system. Not only do microgrids provide needed backup power to customers who demand the highest level of reliability, such as data centers, but they also increase flexible capacity on our system to meet peak demand requirements and enhance reliability.

CONSUMER ENGAGEMENT

Technologies such as rooftop solar and smart thermostats have given customers increased ability to control their energy usage. As more emerging technologies, such as battery storage, become commercially viable, they will continue to change how customers interact with their energy company. By being proactive and working with our customers to identify and respond to their changing needs, we remain well positioned to deliver value.

Under the rate review approved in 2017, our new rate plans match demand for affordability with a desire for modernized energy choices. To incentivize electricity usage when resources are least constrained, an updated time-of-use plan is now the standard rate for our new customers. Two optional demand rate plans provide customers with additional opportunities to save. These plans will work hand-in-hand with our proposed peak-focused and load-shifting energy efficiency programs to help customers save energy and money.

SUSTAINABLE SUCCESS

At APS, we take the long view on sustainable success. Strong financial performance reinforces our ability to invest in the innovation that powers our future success. By leading the industry in deploying new technologies and modernized rates, we are better able to adapt to a rapidly changing landscape and create value for our customers and our shareholders. Engaging our employees in meaningful ways and empowering them with advanced skills helps us retain and attract the talented professionals who will lead us into the future.

Our commitment to ensure a sustainable future for our company will continue to light our way to success—not just today but for years to come.





DONALD E. BRANDT
CHAIRMAN OF THE BOARD,
PRESIDENT AND CHIEF
EXECUTIVE OFFICER

PATRICK DINKEL
VICE PRESIDENT, ENVIRONMENTAL
AND CHIEF SUSTAINABILITY OFFICER



EXECUTIVE SUMMARY

We achieve our vision—to create a sustainable energy future for Arizona—by balancing environmental stewardship, economic viability and social responsibilities. In 2017, we made strong advances along all three dimensions. Our investments in renewable energy, flexible generation units and pollution control equipment position us for a cleaner and more effective generation fleet. Paired with strong operational performance and strategic cost management controls, these actions create tremendous value for our shareholders, demonstrated by a new all-time share price high during 2017 and a total shareholder return of 12.7 percent.

In 2017, Pinnacle West received an A rating from Morgan Stanley Capital International (MSCI) Environmental Sustainability and Governance (as of 10/27/17). These environmental and economic accomplishments are balanced with our commitment to social responsibility. During 2017, our employees volunteered 110,000 hours, and we gave $9.8 million back to our community.

To ensure continued focus on a sustainable energy future for Arizona, we have added specific responsibility for oversight of sustainability matters to the charter of the Nuclear and Operating Committee of the Pinnacle West Board of Directors.



Such oversight elevates our commitment to sustainability to the highest level. Another important change is how we communicate our sustainability actions. Previously we produced a large annual Corporate Responsibility Report. Based on input from numerous stakeholders requesting a succinct, regularly updated and web-based method of communicating sustainability efforts, we are shifting the majority of the content previously documented in a full Corporate Responsibility Report to our website. In addition, on the website you can find our Political Participation Policy, which outlines our role in the political process as an advocate for a responsible and sustainable energy future for Arizona. We invite you to visit us at PinnacleWest.com.

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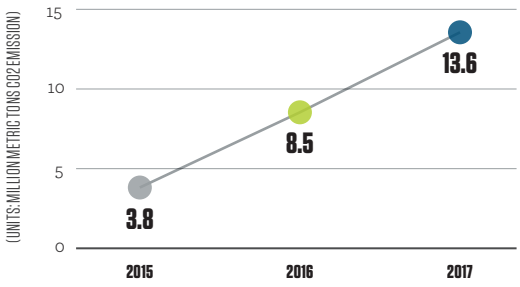
Carbon Management

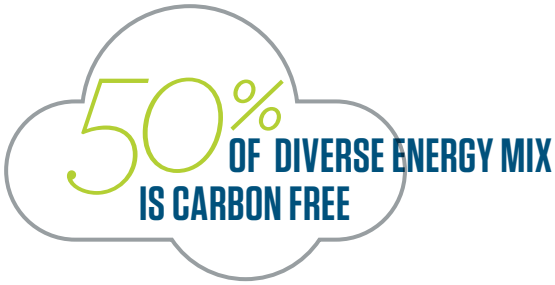
Effectively reducing our carbon intensity and deploying a diverse, increasingly cleaner energy mix is good for our customers, our communities and the environment.

APS is well positioned to generate the energy demanded by our customers with a cleaner, more flexible generation fleet. The company's 2017 Integrated Resource Plan (IRP) details our comprehensive strategies to meet customers' projected energy needs, fulfill regulatory targets and manage environmental impacts over the next 15 years. The plan is projected to reduce our carbon intensity by 23 percent during this period.

We work to achieve a cleaner energy mix through efforts that include closing older coal units, increasing environmental controls at existing units, modernizing natural gas plants, using more renewable energy and increasing energy efficiency. In addition, the Palo Verde Generating Station, the nation's largest carbon-free energy resource, provides more than 70 percent of Arizona's carbon-free energy.

CUMULATIVE CARBON AVOIDANCE





The IRP outlines planned reduction of coal generation from 21 percent in 2017 to 11 percent of the APS generation mix by 2032 while increasing renewable generation by approximately 50 percent.

Increased environmental controls contribute to a cleaner energy mix. The Four Corners Power Plant will see a 90 percent reduction of nitrogen oxide (NOx) levels after the installation of selective catalytic reduction technology in 2018.

Flexible natural gas capacity will help us integrate the nearly 5,000 MW of renewable energy capacity that will be on our system by 2032. The $500 million project to modernize our Ocotillo Power Plant in

First ever Leadership rating from CDP for climate change and water management

Tempe, Arizona, will support our ability to maintain a balanced, reliable power supply, particularly during periods when renewable resources ramp up or down, or are not generating power. In addition, with the installation of the five new, highly efficient gas-fired turbines, the plant's NOx and carbon monoxide emissions rates will be reduced by 50 percent while more than doubling the plant's energy generation capacity.

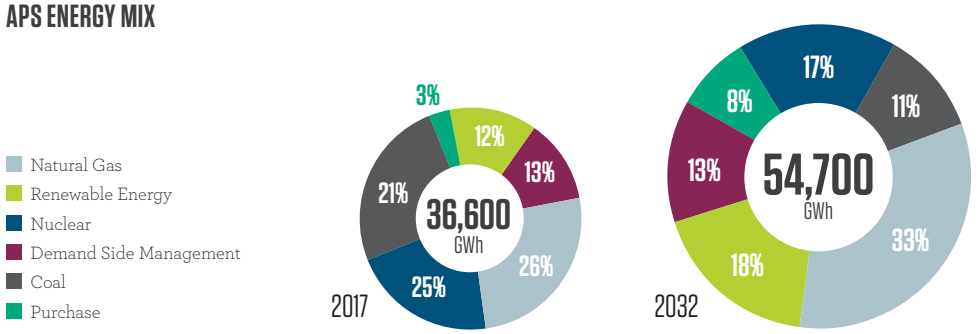
Living in the desert, we want to take advantage of our most abundant resource: the sun. By the end of 2017, our system had over 1,600 megawatts of renewable energy capacity, of which approximately 1,300 megawatts came from solar resources.

Flexibility is critical as we integrate private rooftop solar and other variable resources while maintaining reliability and keeping costs low for customers.

Approximately half of our anticipated new energy growth will be realized through the increased use of renewable energy and energy efficiency. We have committed to invest $10 million to $15 million per year for a three-year period in the APS Solar Communities program, which will provide access to solar for limited-income and moderate-income customers.

APS has achieved significant progress with our efforts to reduce carbon emissions and make our diverse energy mix cleaner. In addition to coal retirement, we have increased carbon avoidance through growth in solar generation (both owned and purchased), energy efficiency programs for our customers, and improvements made to our facilities and vehicle fleet to reduce emissions. Through these combined efforts, in 2017 APS avoided 5.1 million metric tons of carbon dioxide emissions.

APS ENERGY MIX





Water Resources

As an energy company operating in the water-constrained Southwest desert region, APS is challenged to maximize our use of recycled water resources and minimize our use of non-renewable water resources, such as groundwater. Effectively managing water helps us ensure that a sustainable supply is available to produce reliable energy for our growing customer base well into the future.

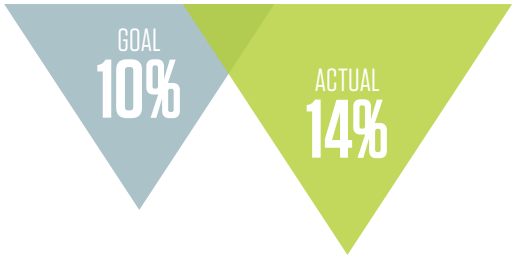
Over many years of carefully managing our water resources in the Arizona desert, APS has become an expert in what has come to be known as the water-energy nexus. Utilities in Arizona are aware that efficient use of water is important to all water users in our state. Currently less than 3 percent of the Arizona water budget is used for power generation, well below the national average.

72%

WATER USED FOR POWER GENERATION THAT COMES FROM RECLAIMED WATER

CONSERVATION OF NON-RENEWABLE WATER SUPPLIES

DECREASE FROM 2014 BASELINE USAGE



Non-renewable groundwater is the most at-risk water supply in Arizona, and APS has committed to a long-term goal of reducing groundwater use. In 2017, we reduced groundwater use by 14 percent compared to 2014 usage, surpassing our goal of a 10 percent reduction. As we continue to implement our water-management strategies, we project reductions of 45 percent by 2020 and 60 percent by 2026 (compared to the 2014 baseline).

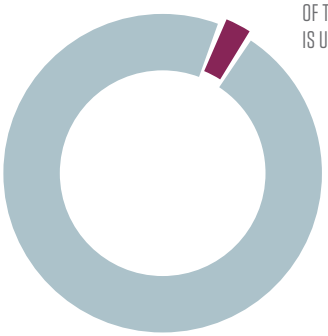
We are committed to preserving the long-term quality and availability of our water resources. As power plants get older and are eventually retired, we plan to replace these more water-intensive units with newer, more water-efficient technologies.

A prime example of this strategy is a project to modernize our Ocotillo Power Plant, which uses 100 percent groundwater for cooling. We are replacing two 1960s era water-intensive steam units with five new, quick-start turbines with hybrid cooling towers. The new cooling towers will use much less water for cooling than the old steam units, reducing water consumption at the plant by more than 80 percent.

Additional groundwater conservation measures have been implemented through an initiative focused on the reliability of well and pumping equipment that has increased operational performance and reduced water consumption. For example, installing new wells with variable frequency drives allows more precise withdrawals from wells with no water waste. These measures helped us achieve a 96 percent rate of reliability for well and pumping equipment in 2017.

WATER FOR GENERATION

LESS THAN 3%
OF THE ARIZONA WATER BUDGET IS USED FOR POWER GENERATION



Our usage of reclaimed water sets an industry standard. Reclaimed water accounted for 72 percent of the water used in our generating facilities in 2017. Key to our water resource strategy is Palo Verde Generating Station, an internationally recognized leader in the use of reclaimed water for power generation. As the nation's only nuclear plant not located on a body of water, every year Palo Verde recycles more than 20 billion gallons of wastewater from surrounding municipalities to cool the plant.

OCOTILLO WATER SAVINGS WITH MODERNIZATION PROJECT



WATER USAGE WITH NEW UNITS BEING BUILT AT OCOTILLO

CURRENT WATER USAGE AT OCOTILLO



People

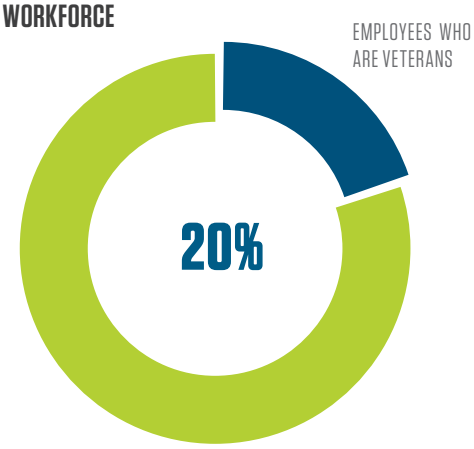
APS employees power our mission to safely and efficiently generate and deliver reliable energy for our customers. Implementing processes and strategies to attract, retain and engage a diverse group of high-performing employees is a primary focus.

We join other industry, education and community partners to create opportunities for Arizona students and unlock the potential in the energy workers of the future. For example, in Buckeye, Arizona, we partner with West-MEC, a career and technical public school district, to offer programs in energy and industrial technology designed to connect today's young people to the jobs of tomorrow.

Numerous programs help to ensure that we continually support the changing needs, skills and priorities of our employees. As our industry evolves and our workforce requirements change, we assess needs and develop training programs to ensure that our employees have the technical skills and competencies required. Among our many training initiatives in 2017 was a two-day leadership skills segment delivered to more than 100 crew foremen, preparing them to lead crews more effectively in the field.

A focus on succession planning prepares us to fill critical positions with qualified, experienced employees. Succession plans are in place for key positions from the executive level to frontline employees.

VETERANS IN THE WORKFORCE



$363 MILLION
SPENT WITH DIVERSE SUPPLIERS

110,000 VOLUNTEER HOURS DONATED BY EMPLOYEES

We develop employees through a leadership training program that prepares them for roles of greater scope and responsibility. Through gap analysis and diagnostic work, we continually elevate their skills and performance by assessing their competency gaps, creating strong development plans and raising awareness about how they communicate with their teams.

COMMUNITY GIVING SUMMARY



$1.4M
TO SCIENCE, TECHNOLOGY, ENGINEERING AND MATH EDUCATION PROGRAMS

APS is committed to diversity and inclusion in our workforce. Our Executive Diversity Council helps to sharpen our emphasis on attracting talent with varied background and perspective. In 2017, for example, a council initiative increased the number of diverse applicants for our Customer Project Manager hiring class through outreach to relevant community partners and a targeted social media campaign. We also strengthen our employee base through our commitment to support America's veterans, which represent about 20 percent of our workforce.



Safety and Security

At APS, a commitment to safety and security is fundamental to our business. We maintain a constant state of awareness for emerging physical and cyber security threats.

Organizational changes allowed us to integrate and reinforce security functions. In 2017, we combined our Cybersecurity and Corporate Security groups to form the Enterprise Security Unit. This new unit defends against both cyber and physical threats to our facilities, systems and employees.

Cybersecurity plays an increasingly critical role in protecting data privacy. Our comprehensive Enterprise Security program is built on three essential elements: awareness, defensive posture and resiliency. We work with regulators, industry, government entities, law enforcement, the U.S. Department of Homeland Security, the FBI and third-party experts to protect the grid from the threat of physical and cyber attacks.

CRITICAL INFRASTRUCTURE PROTECTION

$2.8 MILLION

IMPLEMENTING (CIP) STANDARDS

ESSENTIAL ELEMENTS OF ENTERPRISE SECURITY



Protecting our facilities around the clock is a top priority. Through ongoing security upgrades, we have spent approximately $2.8 million implementing new Critical Infrastructure Protection (CIP) standards established by the North American Electric Reliability Corporation (NERC) at substations and critical facilities. Upgrades include hardening the perimeters of our critical sites as well as enhancements to intrusion detection and video monitoring systems. Additionally, we have invested $1.75 million to upgrade security cameras at generation plants and other substations to provide improved assessment capability against potential intruders.

Our ability to respond to incidents also improved in 2017 with the continued maturation of our Integrated Operations



Center. Colocating our Security Operations, Network Operations and Information Security groups into a shared space allows the teams to provide a common operational picture and real-time intelligence. Both are critical to response and recovery efforts as well as incident management.

Our Physical and Cybersecurity Index—which measures the company's overall level of awareness, defensive posture and resiliency—achieved measurable success in 2017. We continue to drive security improvements throughout the organization.

To promote public safety, we provide electrical safety awareness training and educational programs that reach thousands of Arizonans each year. We also work closely with Arizona 811 to assist homeowners and contractors in locating underground electric lines prior to excavation. In 2017, our public safety campaign featured outdoor, radio and digital ads in English and Spanish.

Safety is deeply ingrained in our employee culture, and our industrial safety performance consistently ranks in the top decile of investor-owned electric utilities, according to the most recent Edison Electric Institute (EEI) survey. Over the past 10 years, we reduced the number of Occupational Safety and Health Administration (OSHA) recordable injuries by 70 percent.

Among the initiatives that have helped drive this improvement is a focus on increased engagement with our safety committees. These committees empower frontline employees to take the lead in strengthening our safety culture with their peers.

We develop safety practices and programs that ensure all APS employees and contractors have safe and secure workplaces. Employee security is reinforced through training companywide in situational awareness and responding to violence in the workplace. This year, over 500 of our suppliers engaged in our new contractor safety program.

A sustained focus on safety and continuous improvement is driven by the principles of Human Performance (HP) and the Corrective Action Program (CAP). APS is one of the few energy companies in the nation to implement a companywide CAP, which allows us to identify the causes of problems and implement corrective actions that reduce the likelihood those problems will reoccur. Through our training and support of HP, we have improved our processes and created a culture that better manages risk.



Energy Innovation

APS is in the midst of one of the greatest periods of change in our company's 130-plus year history. As emerging technology continues to drive the evolution of the energy industry, and our customers' needs and expectations continue to grow, our ability to innovate is more crucial than ever.

With an abundance of solar energy on our system at midday and peak demand shifting later into the evening, we are deploying innovative strategies to provide our customers with more energy options while maintaining reliability and managing costs. These strategies include advanced time-of-use (with demand) rate plans and next-generation, peak-focused energy efficiency (EE) programs. The rate plans and EE programs are designed to work hand-in-hand to help customers lower their energy bills by using power when energy is abundant and conserving it when power is most expensive.

500 MW
BATTERY STORAGE TO BE ADDED
OVER THE NEXT 15 YEARS

WESTERN ENERGY IMBALANCE MARKET

$30 MILLION
NET SAVINGS TO APS CUSTOMERS
DURING FIRST YEAR

We are also at the forefront of the development of advanced grid technologies, such as batteries and microgrids, which will help us to better manage peak demand and strengthen reliability. The APS Integrated Resource Plan calls for continued investment in these technologies, including plans to add up to 500 megawatts of energy storage capacity during the next 15 years.

Strategic implementation of battery storage is key to its sustained success. APS is building two battery storage systems in rural Punkin Center, Arizona, to provide us with a cost-effective alternative to rebuilding about 20 miles of poles and wires over rough terrain.

When this new battery storage operation comes online in 2018, we will become one of the nation's first electric utilities to use batteries to defer investment in traditional infrastructure. The Punkin Center system was named one of the "top energy storage projects driving the sector in 2017" by Utility Dive, a news site for the electric utility industry. We also recently announced a partnership between APS and First Solar to bring a first-of-its-kind 50-megawatt solar-fueled battery to the desert. This project models how solar and storage can work together to deliver power to customers during peak hours.

Microgrids, which can quickly connect and disconnect from the larger grid, provide backup power and greater reliability to our customers. In their first full year of operation, our 25-MW microgrid at Marine Corps Air Station Yuma and our 13-MW microgrid at the Aligned Data Centers campus in Phoenix provided additional resiliency to the grid in their respective locales.

Distibutech Renewable Integration Project of the Year for the Solar Partner Program

We continue to be a leader in research on customer-sided energy technology, gaining valuable data from projects that evaluate how solar, energy storage and other emerging technologies interact with each other.

The APS Solar Partner Program studies the use of smart inverters and energy storage to determine how to best integrate solar onto the grid in areas with a high penetration of solar. The Solar Innovation Study allows us to research the intelligent combination of solar, battery storage, smart thermostats and load controllers in a residential setting.

APS is building the energy grid of the future. We will invest more than $1 billion in infrastructure updates and maintenance over the next three years. Planned projects include the installation of technologically advanced devices that help our operators run the grid more efficiently while improving reliability for our customers. Our new Advanced Distribution Management System will also increase the grid's efficiency by allowing our operations center to manage power flow more effectively.

PERFORMANCE SUMMARY

	2013	2014	2015	2016	2017
EMPLOYEES					
OSHA Recordable Injuries	36	44	43	32	33
Employee Engagement Score[1]	NA	78%	NA	81%	NA
OPERATIONAL EXCELLENCE					
SAIFI[2]	0.78	0.78	0.82	0.86	0.75
Total Renewable Energy (MWh)[3]	1,913,285	2,710,644	2,835,779	2,873,099	2,905,708
Energy Efficiency Savings (MWh)[4]	538,841	495,410	552,424	572,189	628,539
Total Energy Sources (MWh)[5]	33,511,000	34,447,000	35,274,000	33,433,000	32,762,000
ENVIRONMENT					
Reportable Environmental Incidents[6]	8	5	4	6	8
Environmental Notices of Violation[7]	2	3	0	1	3
Carbon Avoidance (million metric tons)[8]	NA	NA	3.8	4.7	5.1
Total Water for Generation (acre-feet)[9]	116,366	112,022	110,369	101,915	107,579
CUSTOMERS & COMMUNITIES					
Total Giving	$9,606,186	$9,930,397	$10,684,068	$10,000,000	$9,800,000
Volunteer Hours	130,000	147,000	127,000	120,000	110,000
SHAREHOLDER VALUE					
Total Shareholder Returns	7.9%	34.5%	-2.0%	25.3%	12.7%
PNW Earnings Per Share	$3.66	$3.58	$3.92	$3.95	$4.35

[1] Employee Engagement Score: Reflects the percentage of employees that feel connected to their own success, success of their teams and the organization as measured by a standardized survey. Surveys are conducted every two to three years.

[2] SAIFI (System Average Interruption Frequency Index): Indicates average number of interruptions a customer experiences in a given year.

[3] Total Renewable Energy: Includes APS-owned solar, purchase power agreements (solar, wind, geothermal, biogas) and distributed energy.

[4] Energy Efficiency Savings: Includes savings generated from customer demand side management programs.

[5] Total Energy Sources: Includes total generation production and purchased power.

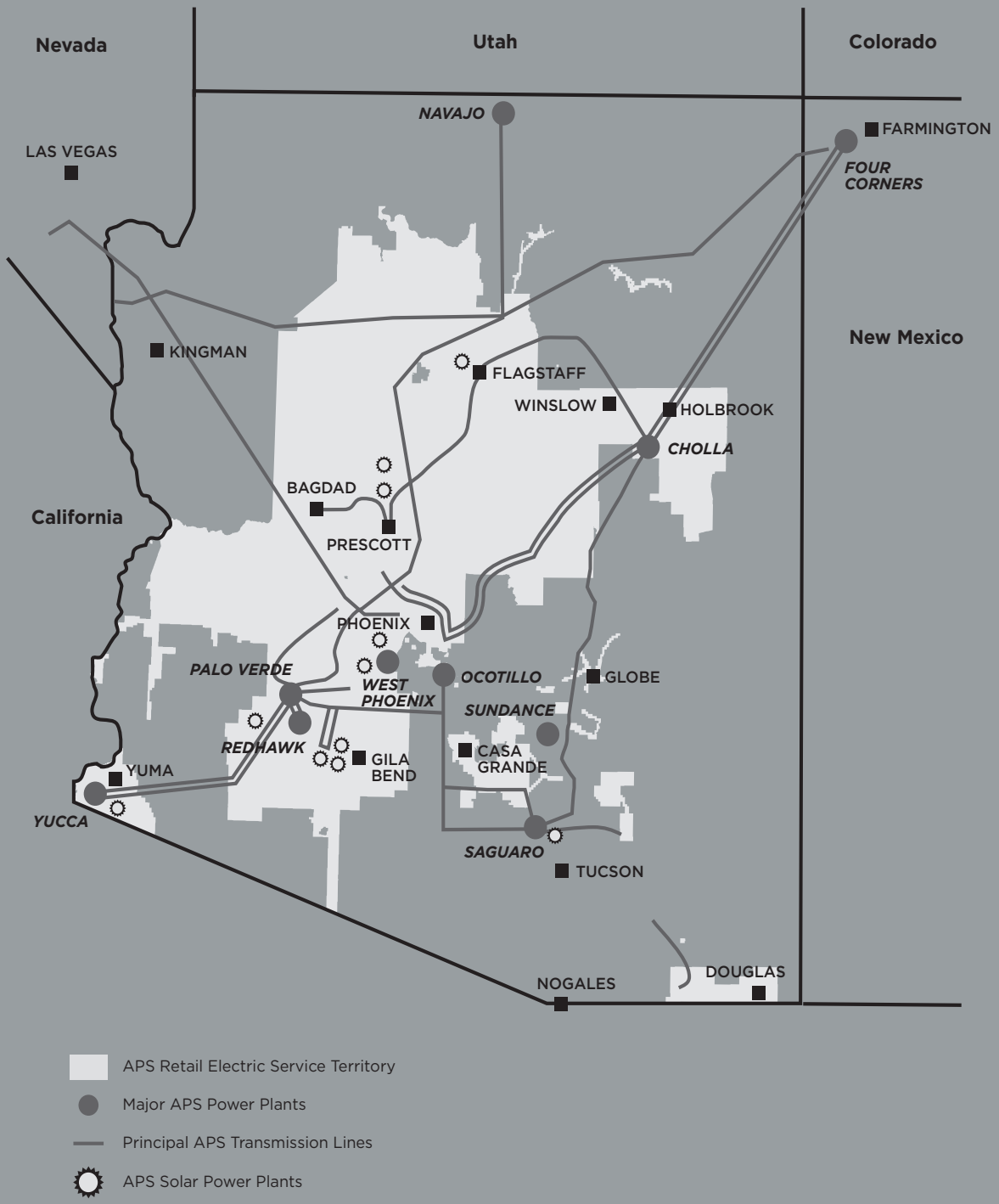
[6] Reportable Environmental Incidents: The number of reports or notices required to be submitted to a regulatory agency due to a violation of an environmental law, regulation or permit or as a result of a spill, release or any unauthorized discharge.

[7] Environmental Notices of Violation: A notice received from a regulatory agency that a violation of an environmental law, regulation, or permit has occurred.

[8] Carbon Avoidance: Reflects carbon savings from renewable energy, energy efficiency, closing coal units, facility efficiencies and fleet electrification.

[9] Total Water: Includes groundwater, surface water and effluent.

APS SERVICE TERRITORY MAP



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