



DELIVERING SUPERIOR SHAREHOLDER VALUE

Pinnacle West Analyst Day
November 9, 2012



PINNACLE WEST
CAPITAL CORPORATION

FORWARD-LOOKING STATEMENTS

This presentation contains forward-looking statements based on current expectations, including statements regarding our earnings guidance and financial outlook and goals. These forward-looking statements are often identified by words such as “estimate,” “predict,” “may,” “believe,” “plan,” “expect,” “require,” “intend,” “assume” and similar words. Because actual results may differ materially from expectations, we caution you not to place undue reliance on these statements. A number of factors could cause future results to differ materially from historical results, or from outcomes currently expected or sought by Pinnacle West or APS. These factors include, but are not limited to: our ability to manage capital expenditures and operations and maintenance costs while maintaining reliability and customer service levels; variations in demand for electricity, including those due to weather, the general economy, customer and sales growth (or decline), and the effects of energy conservation measures and distributed generation; power plant and transmission system performance and outages; volatile fuel and purchased power costs; fuel and water supply availability; our ability to achieve timely and adequate rate recovery of our costs, including returns on debt and equity capital; regulatory and judicial decisions, developments and proceedings; new legislation or regulation, including those relating to environmental requirements and nuclear plant operations; our ability to meet renewable energy and energy efficiency mandates and recover related costs; risks inherent in the operation of nuclear facilities, including spent fuel disposal uncertainty; competition in retail and wholesale power markets; the duration and severity of the economic decline in Arizona and current real estate market conditions; the cost of debt and equity capital and the ability to access capital markets when required; changes to our credit ratings; the investment performance of the assets of our nuclear decommissioning trust, pension, and other postretirement benefit plans and the resulting impact on future funding requirements; the liquidity of wholesale power markets and the use of derivative contracts in our business; potential shortfalls in insurance coverage; new accounting requirements or new interpretations of existing requirements; generation, transmission and distribution facility and system conditions and operating costs; the ability to meet the anticipated future need for additional baseload generation and associated transmission facilities in our region; the willingness or ability of our counterparties, power plant participants and power plant land owners to meet contractual or other obligations or extend the rights for continued power plant operations; technological developments affecting the electric industry; and restrictions on dividends or other provisions in our credit agreements and Arizona Corporation Commission orders. These and other factors are discussed in Risk Factors described in Part I, Item 1A of the Pinnacle West/APS Annual Report on Form 10-K for the fiscal year ended December 31, 2011, which you should review carefully before placing any reliance on our financial statements, disclosures or earnings outlook. Neither Pinnacle West nor APS assumes any obligation to update these statements, even if our internal estimates change, except as required by law.



NON-GAAP FINANCIAL MEASURES

In this presentation, we refer to “on-going earnings per share,” which is a “non-GAAP financial measure,” as defined in accordance with SEC rules. We believe on-going earnings per share provides investors with a useful indicator of our results that is comparable among periods because it excludes the effects of unusual items that may occur on an irregular basis. The appendix contains a reconciliation of on-going earnings per share to our earnings per share attributable to common shareholders based on diluted common shares as reported on our Consolidated Statements of Income, which is the most directly comparable financial measures calculated and presented in accordance with generally accepted accounting principles in the United States of America (GAAP).

Investors should note that non-GAAP financial measures may involve judgments by management, including whether an item is classified as an unusual item. These measures are key components of our internal financial reporting and are used by our management in analyzing the operations of our business. We believe that investors benefit from having access to the same financial measures that management uses.





DELIVERING SUPERIOR SHAREHOLDER VALUE

STRATEGIC OVERVIEW

Don Brandt



PINNACLEWEST
CAPITAL CORPORATION

PINNACLE WEST: WHO WE ARE

We are a vertically integrated, regulated electric utility.

NYSE Ticker	PNW
Market Cap	\$6 Billion
Enterprise Value	\$9 Billion
Yield	4%

Principal Subsidiary  **aps**

- Arizona's largest electric utility
- \$13 billion assets

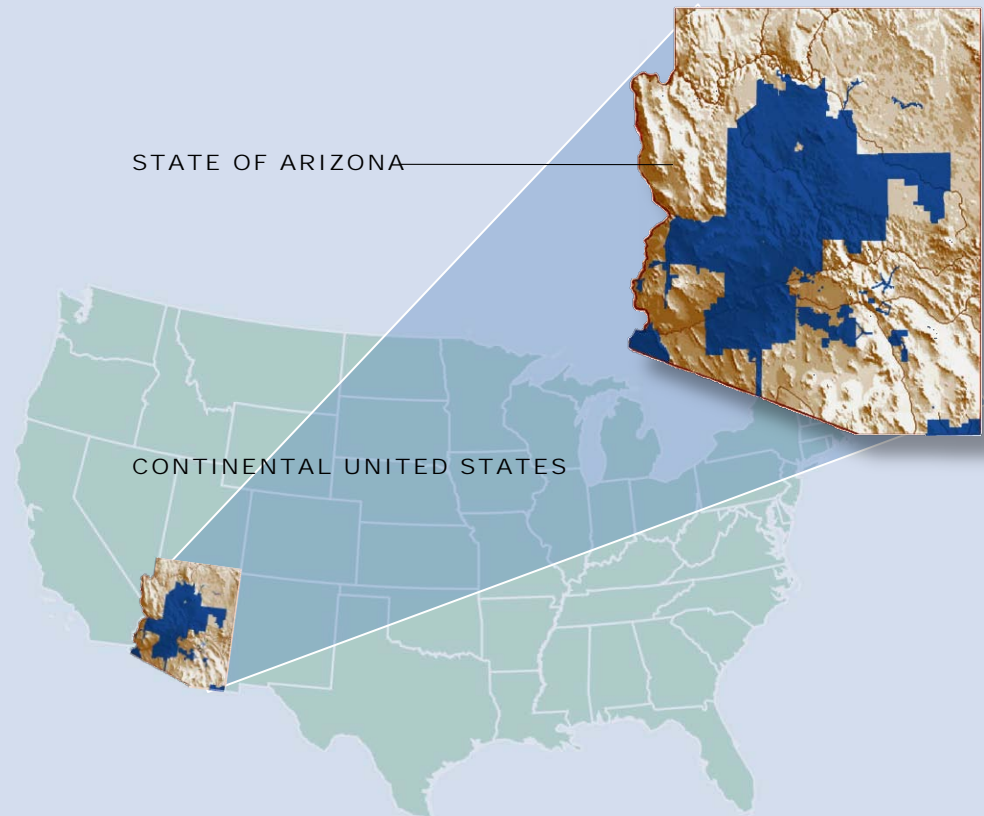
Service Territory

- 1.1 million customer accounts
- 34,646 square miles

Customer Growth






- 2.0% average annual growth expected 2012-2015
- 3-4% historical average — well above industry average

2012 Peak Demand – 7,212 MW



ARIZONA CORPORATION COMMISSIONERS

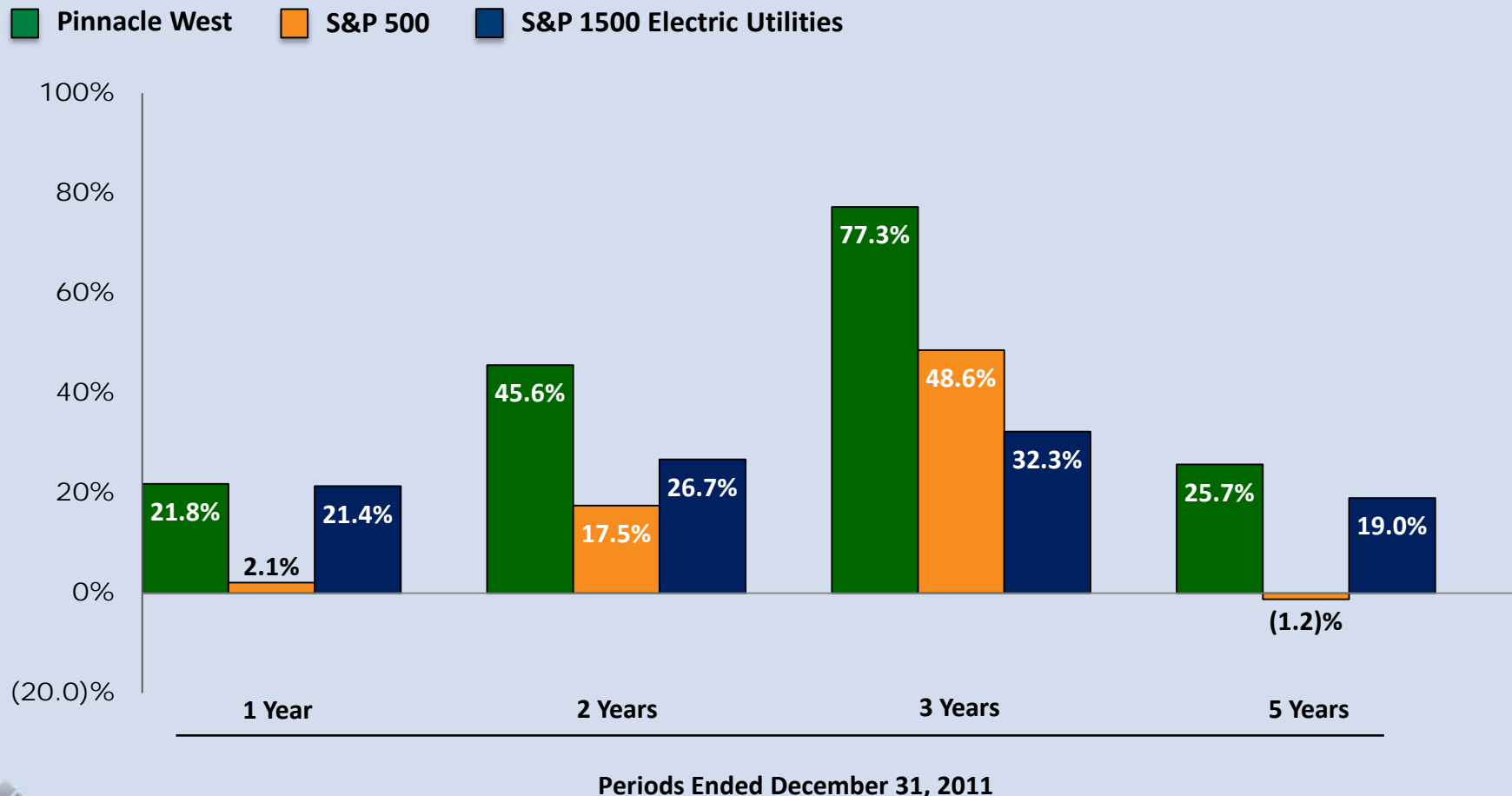
Three seats for four-year terms through January 2017 were addressed in the November 2012 election.

Terms Through 2017		Terms Through 2015		
New Commissioners		Incumbents		
				
Susan Bitter-Smith (R)	Bob Burns (R)	Bob Stump (R)*	Brenda Burns (R)	Gary Pierce (R)* Chairman

***Term limited**

SUPERIOR SHAREHOLDER RETURNS

Our total return to shareholders has outperformed our industry and the broad market over the past five years.





DELIVERING SUPERIOR SHAREHOLDER VALUE

OPERATIONS OVERVIEW

Mark Schiavoni



PINNACLE WEST
CAPITAL CORPORATION

OPERATIONS OVERVIEW AGENDA

Planning and operational execution position APS for success.

Safety

- Top decile in the industry

Resource Planning

- Meeting growing energy needs through a balanced resource mix

Energy Innovation

- Strategically piloting and implementing advanced technologies

Energy Delivery

- Making transmission investments to maintain reliability and deliver diverse resources
- Top quartile reliability in industry over past several years

Fossil Fleet

- Consistently strong summer reliability and performance
- Actively working to meet environmental regulations

Internationally Recognized Environmental, Sustainability and Governance Leader

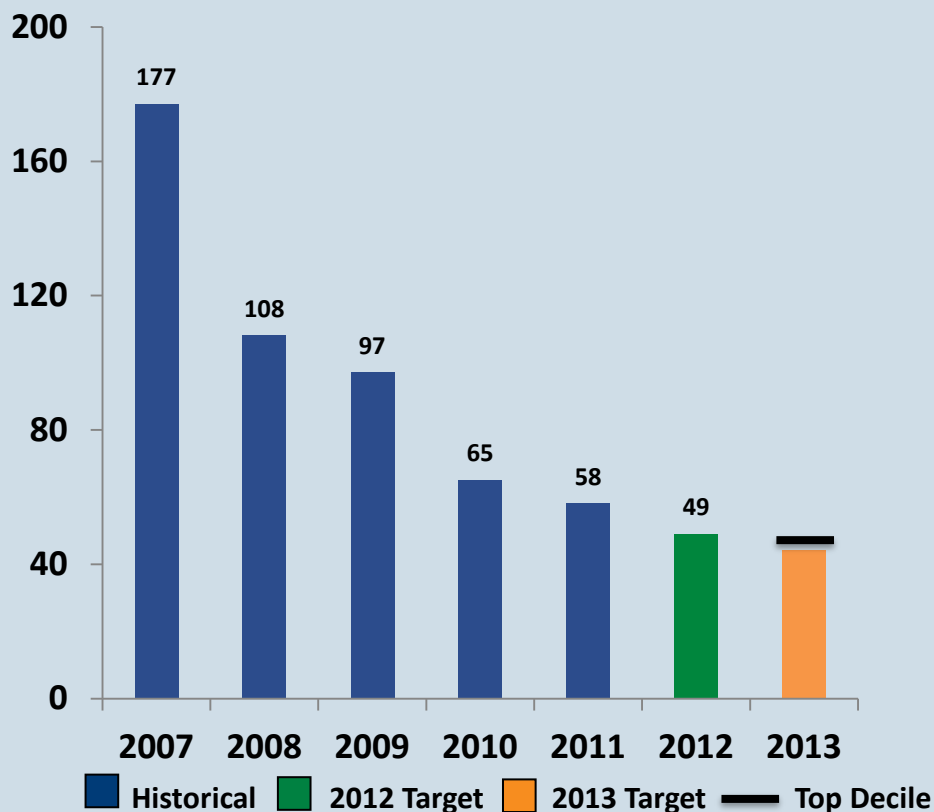
- Fossil Fleet – ISO 14001 environmental certification achieved
- Intelligent Utility Magazine's #4 Most Intelligent Utility in 2011



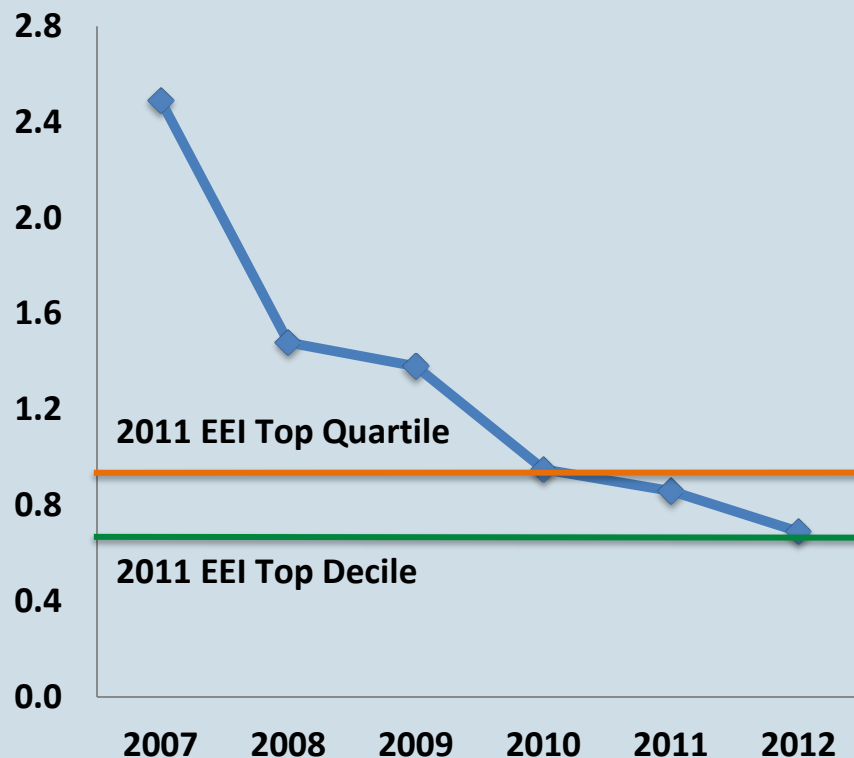
SAFETY = #1 CRITICAL AREA OF FOCUS

APS continues to build and maintain a safety-first culture that strives for "zero incidents."

OSHA Recordable Incidents

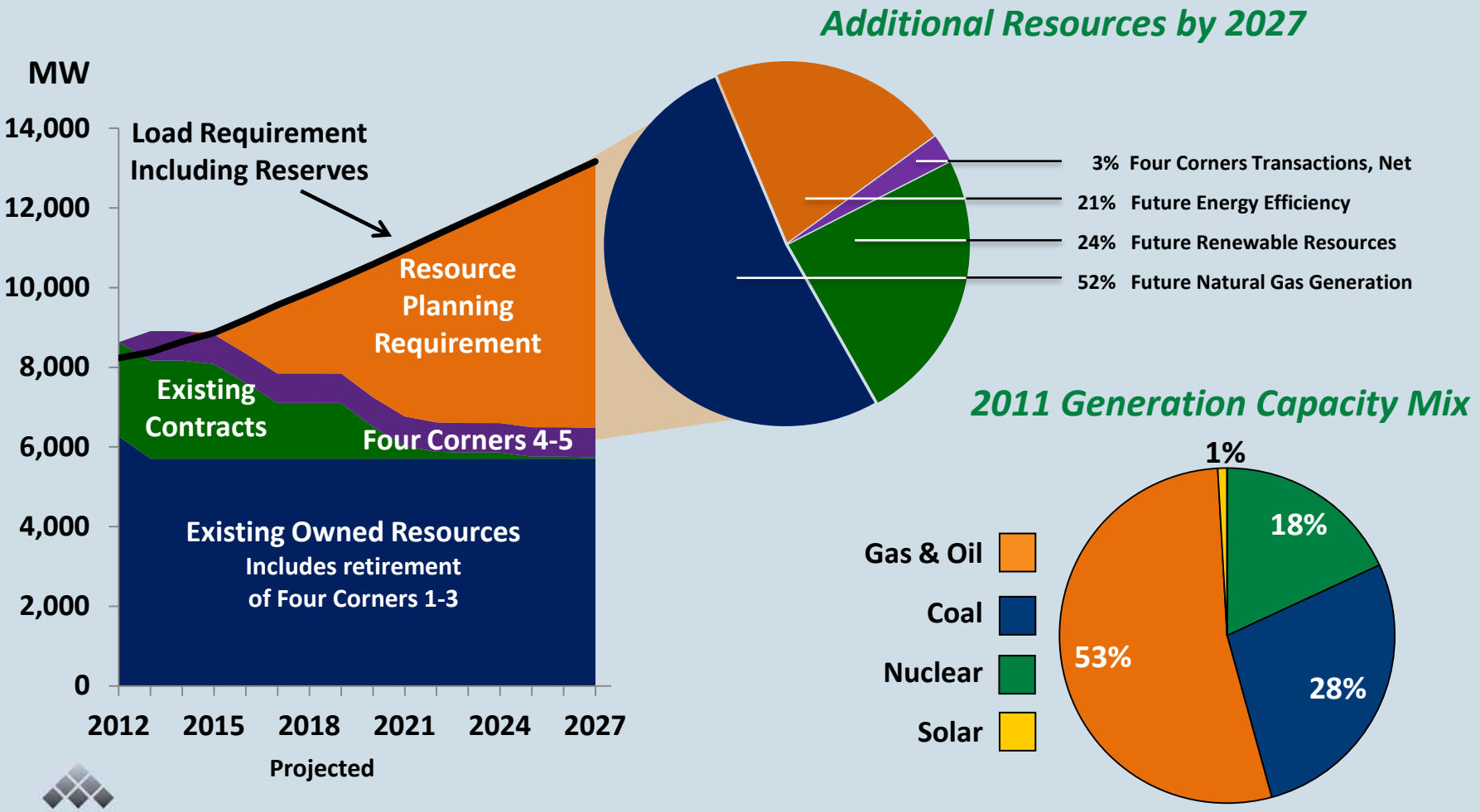


Accident Injury Rate 2007 – 3Q2012



RESOURCE PLANNING FOR RELIABILITY AND SUSTAINABILITY

We will meet future load growth through a balanced resource mix including renewable resources and energy efficiency programs.



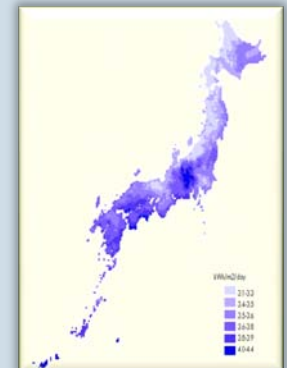
RESOURCE PLANNING FOR RELIABILITY AND SUSTAINABILITY

APS has multiple resources options to serve future energy growth.



- Plans to meet near-term needs include renewable energy and energy efficiency additions
- Options for future resource decisions
 - Intermediate term: renewable energy and natural gas tradeoffs drive resource decisions
 - Long term: natural gas is the most prevalent fuel source with renewable energy the most viable alternative to mitigate natural gas volatility and provide resource diversification
 - New technology, both traditional and advanced (e.g. battery storage), will continue to be monitored to meet load growth





Germany and Japan are among countries with highest installed solar capacity, yet have solar conditions far inferior to Arizona

APS AZ SUN PROGRAM PROVIDES EARNINGS GROWTH POTENTIAL

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Owning solar resources makes sense for our customers and the environment and provides returns to shareholders.



- Up to 200 MW utility-scale photovoltaic solar plants owned by APS
- Up to \$975 million capital investment
- In service 2011 through 2015
- Constructive rate recovery through RES until included in base rates
- Commitments to date:
 - 118 MW
 - \$504 million capital investment
- 50 MW in commercial operation to date
- Planning and procurement under way for additional projects

Projects to Date	Capacity	Actual or Target COD
Paloma	17 MW	Sept. 2011
Cotton Center	17 MW	Oct. 2011
Hyder	16 MW	Feb. 2012
Chino Valley	19 MW	Dec. 2012
Foothills – Phase 1	17 MW	1Q 2013
Foothills – Phase 2	18 MW	4Q 2013
Hyder II	14 MW	4Q 2013



SOLANA

Solana will provide more than one-quarter of APS's renewable energy target by 2015.



- **250 MW 30-year PPA for all output (~900 GWh/year)**
- **Concentrating solar trough facility 70 miles southwest of Phoenix**
- **On target for 2013 commercial operation**
- **90%+ on-peak capacity factor with use of thermal storage capability**
- **Expected to be first major U.S. solar trough plant with thermal energy storage**
- **Near existing transmission lines**
- **To be built, owned and operated by Abengoa Solar**



ARIZONA'S RENEWABLE RESOURCE AND ENERGY EFFICIENCY STANDARDS

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Our programs address Arizona's aggressive renewable energy and energy efficiency standards.

Renewable Energy (RES) Minimum Requirements

Portion of retail sales to be supplied by renewable resources

- 5% by 2015
- 15% by 2025

Distributed energy component

- 30% of total requirement by 2012

APS on track to approximately double 2015 requirement

- Pursuant to 2009 regulatory settlement

Energy Efficiency Requirements

Increasing annually 2011-2020

Cumulative energy savings as percent of retail sales

- 3% by 2012
- 9.5% by 2015
- 22% by 2020



APS ENERGY INNOVATION INITIATIVES

APS is strategically piloting and implementing a number of advanced technologies.

INFORMATION TECHNOLOGY

Cyber Security

Communications Infrastructure

APS's primary objectives to deploying a smarter grid:

- Optimize System Reliability & Performance
- Empower Customers
- Manage Alternative Energy



GENERATION

Distributed Generation

- Schools & Government
- Community Power Program (Pilot)
- DOE High Penetration Solar Study



TRANSMISSION

Transmission Applications

- PMU
- Synchrophasers



SUBSTATION

Substation Health Monitoring

- Breakers
- Bushings
- Transformers



DISTRIBUTION

Integrated Volt Var Control

- Automated Switched Capacitors
- Communicating Fault Current Indicators
- Sectionalizing Reclosers
- Distribution Asset Monitoring
- Automated Remote Switching
- Fire Mitigation



CUSTOMERS

AMI

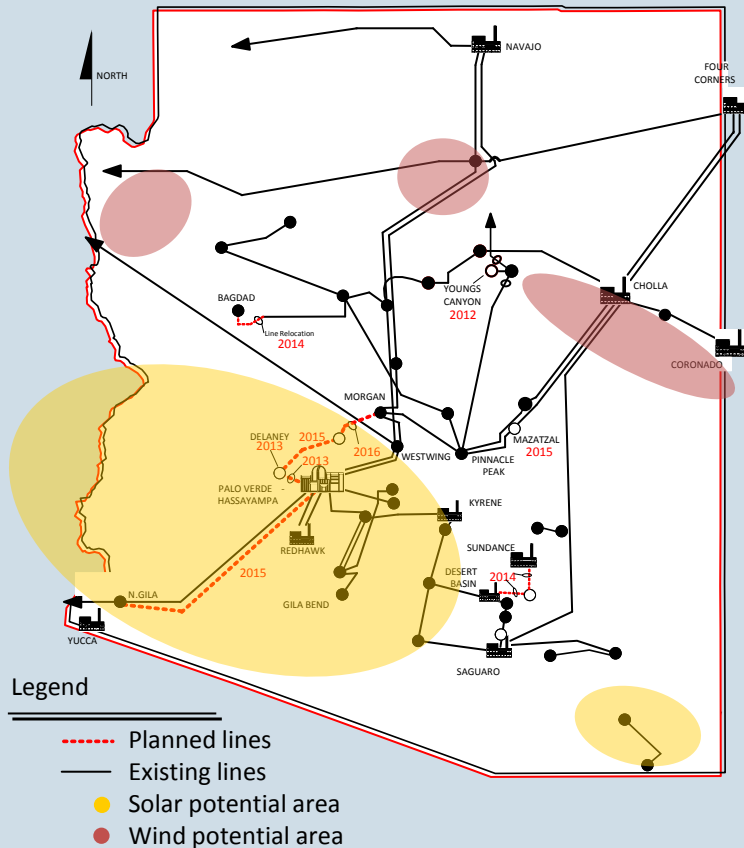
- EVs
- HEI (Pilot)
 - Prepay
 - Thermostats
 - Displays
- Demand Response
- Time of Use Rates

SMART CIRCUITS



TRANSMISSION INVESTMENT ESSENTIAL

Strategic transmission is necessary to maintain reliability and deliver diversified resources to our customers.



- **10-Year Transmission Plan (115-kV and above)**
 - \$550 million of new transmission investment
 - 269 miles of new lines
- **Projects to deliver renewable energy approved by ACC**
- **Transmission investment diversifies regulatory risk**
 - Constructive regulatory treatment
 - FERC formula rates and retail adjustor

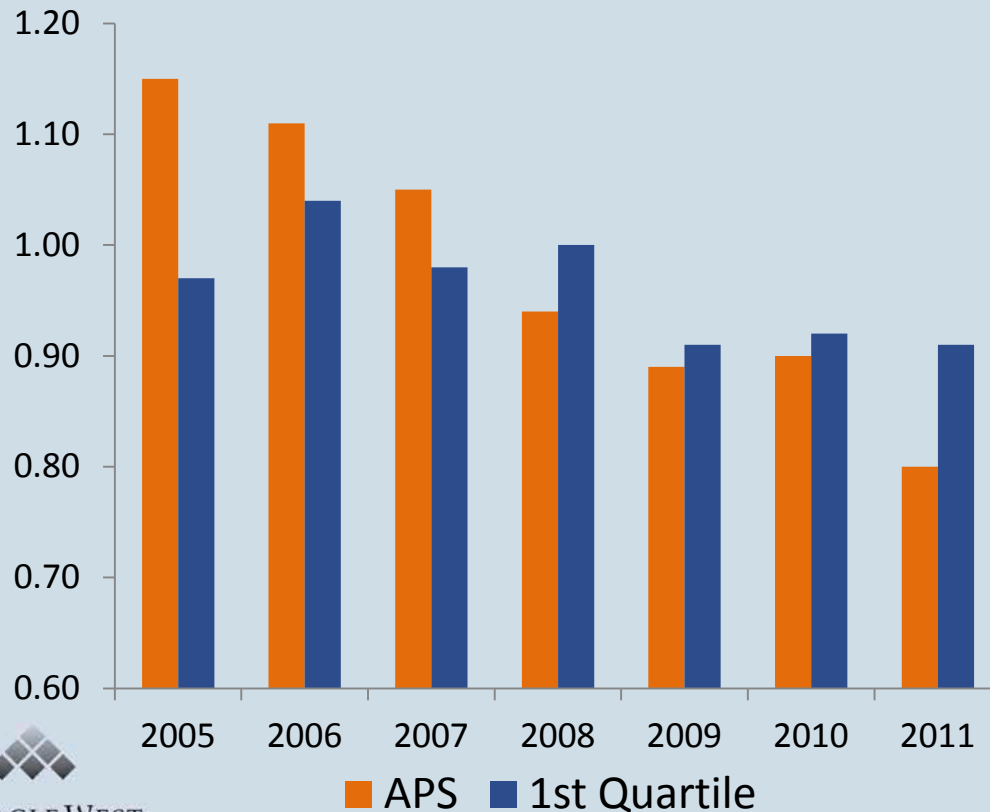


ENERGY DELIVERY PERFORMANCE

Top-quartile reliability is reducing the frequency of customer outages.

Average number of customer interruptions/year

System Average Interruption Frequency Index (SAIFI)



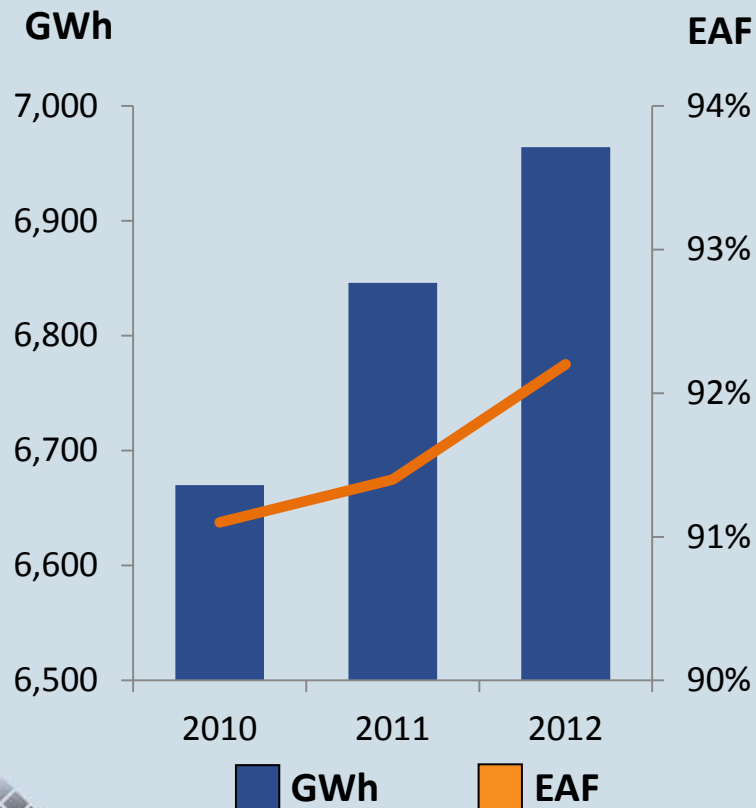
• Comprehensive maintenance and inspection program includes:

- EEI *Edison Award* winning TOAN, state-of-the-art, on-line transformer diagnostics system
- Extensive circuit breaker maintenance program
- Award-winning vegetation management program
- Direct buried cable replacement program
- Annual patrol of transmission and distribution lines
- Wide use of predictive, condition assessment technologies

FOSSIL FLEET SUMMER PERFORMANCE

APS's Fossil Fleet is delivering exceptional performance during the summer peak season.

Summer Performance June – September



Fossil Summer Equivalent Availability Factor (EAF)			
	2010	2011	2012
Coal	79.2%	90.9%	86.6%
Gas & Oil	97.6%	91.6%	95.0%
Total Fossil	91.1%	91.4%	92.2%



ENVIRONMENTAL UPDATE

APS is actively pursuing options to comply with environmental regulations.

- **Mercury and Air Toxics Standards (MATS)**
 - EPA program to control mercury and other air pollutants
- **Regional Haze**
 - EPA program to reduce visibility impact of SO₂ and NO_x
- **Cooling Water Intake Structure (316b)**
 - EPA program to protect fish and other aquatic organisms
- **Coal Combustion Residue (CCR)**
 - EPA program to regulate the management and disposal of coal ash



ENVIRONMENTAL, SUSTAINABILITY AND GOVERNANCE LEADERSHIP

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We are recognized internationally for our achievements.



Environmental Certification
Gas/Oil Fleet – 2011
Coal Fleet - 2012



Highest Ranked Utility
15th Overall



Best practices in utility
arboriculture since 1997



PINNACLE WEST
CAPITAL CORPORATION



Ranked on Dow Jones
Sustainability Index since 2005



Top 10 Utility Solar Ranking



U.S. DOE/EPA
Sustained Excellence since 2008
Partner of the Year since 2005



Rated 4th Highest Intelligent
Utility in 2011



1st utility in world to endorse
Ceres' Code of Conduct in 1994

greentechmedia:



2012 - Top 10 North American
Utility in Smart Grid Deployment



Ranked 6 of 196 energy
and utility companies



Operations Overview Appendix



PINNACLE WEST
CAPITAL CORPORATION

A WELL-BALANCED GENERATION PORTFOLIO

Fuel / Plant	Location	Units	Dispatch	Commercial Ops. Date	Ownership Interest ¹	Net Capacity (MW)
Nuclear						
Palo Verde	Wintersburg, AZ	1-3	Base	1986 - 1989	29.1%	1,146
Total Nuclear						1,146
Coal						
Cholla	Joseph City, AZ	1-3	Base	1962 - 1980	100	647
Four Corners	Farmington, NM	1-3	Base	1963 - 1964	100	560
Four Corners	Farmington, NM	4,5	Base	1969 - 1970	15	231
Navajo	Page, AZ	1-3	Base	1974 - 1976	14	315
Total Coal						1,753
Gas/Oil - Combined Cycle						
Redhawk	Arlington, AZ	1,2	Intermediate	2002	100	984
West Phoenix	Phoenix, AZ	1-5	Intermediate	1976 - 2003	100	887
Total Gas/Oil - Combined Cycle						1,871
Gas/Oil - Steam Turbines						
Ocotillo	Tempe, AZ	1,2	Peaking	1960	100	220
Saguaro	Red Rock, AZ	1,2	Peaking	1954 - 1955	100	210
Total Gas/Oil - Steam Turbines						430
Gas/Oil - Combustion Turbines						
Sundance	Casa Grande, AZ	10	Peaking	2002	100	420
Yucca	Yuma, AZ	6	Peaking	1971 - 2008	100	243
Saguaro	Red Rock, AZ	1-3	Peaking	1972 - 2002	100	189
West Phoenix	Phoenix, AZ	1,2	Peaking	1972 - 1973	100	110
Ocotillo	Tempe, AZ	1,2	Peaking	1972 - 1973	100	110
Douglas	Douglas, AZ	1	Peaking	1972	100	16
Total Gas/Oil - Combustion Turbines						1,088
Solar						
Hyder	Hyder, AZ	-	As Available	2011 - 2012	100	16
Paloma	Gila Bend, AZ	-	As Available	2011	100	17
Cotton Center	Gila Bend, AZ	-	As Available	2011	100	17
Various	Multiple Arizona Facilities	-	As Available	1996 - 2006	100	5
Total Solar						55
Total Generation Capacity						6,343

As of February 24, 2012

¹Includes leased generating plants.

RENEWABLE PURCHASE POWER CONTRACTS

Fuel / Contract	Location	Owner/ Developer	Status ¹	PPA Signed	Commercial Operation Date	Term (years)	Capacity Net (MW)
Solar							
Solana	Gila Bend, AZ	Abengoa	UC	Feb-2008	2013	30	250
Ajo	Ajo, AZ	Duke Energy Gen Svcs	IO	Jan-2010	2011	25	5
Prescott	Prescott, AZ	SunEdison	IO	Feb-2010	2011	30	10
Solar 1	Tonopah, AZ	Not Disclosed	UC	Jan-2011	2012	30	15
Solar 2	Tonopah, AZ	Not Disclosed	UD	Jan-2012	2013	30	15
Solar 3	Maricopa County, AZ	Not Disclosed	UD	Jan-2012	2013	30	15
Total Solar							310
Wind							
Aragonne Mesa	Santa Rosa, NM	Infigen Asset Mgmt	IO	Dec-2005	2006	20	90
High Lonesome	Mountainair, NM	Foresight / EME	IO	Feb-2008	2009	30	100
Perrin Ranch Wind	Williams, AZ	NextEra Energy	IO	Jul-2010	2011	25	99
Total Wind							289
Geothermal							
CE Turbo	Imperial County, CA	Cal Energy	IO	Jan-2006	2006	23	10
Total Geothermal							10
Biomass							
Snowflake	Snowflake, AZ	Najafi	IO	Sep-2005	2008	15	14
Total Biomass							14
Biogas							
Glendale Energy	Glendale, AZ	Glendale Energy LLC	IO	Jul-2008	2010	20	3
Landfill 1	Surprise, AZ	Waste Management	IO	Dec-2010	2012	20	3
Total Biogas							6
Total Renewable Contracted Capacity							629

As of August 31, 2012

¹ IO = In Operation; UC = Under Construction; UD = Under Development



FOUR CORNERS POWER PLANT FACTS & FIGURES

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	Common	Unit 1	Unit 2	Unit 3	Unit 4	Unit 5
Commercial Operation Date		1963	1963	1964	1969	1970
Original Cost (\$M)	\$41		\$382		\$164	
Net Book Value at 6/30/12 (\$M)	\$27		\$0		\$130	
Current Depreciation Ends	2038		Mid-2012		2038	2038
Current Expiration Dates						
Site Lease			July 6, 2041			
BHP Coal Agreement			July 6, 2016			
Certain Related Rights-of-Way			July 6, 2041			
Total Employees (549) (75% Native Americans)	48 Common + 75 Matrix		193		233	
Capacity (MW)		170	170	220	770	770
Ownership Percentages						
Arizona Public Service		100%	100%	100%	15%	15%
Southern California Edison		-	-	-	48%	48%
Public Service Company of New Mexico		-	-	-	13%	13%
Salt River Project		-	-	-	10%	10%
El Paso Electric		-	-	-	7%	7%
Tucson Electric Power		-	-	-	7%	7%
Heat Rate (Btu/kWh)		10,816	11,051	10,614	9,443	10,035





DELIVERING SUPERIOR SHAREHOLDER VALUE

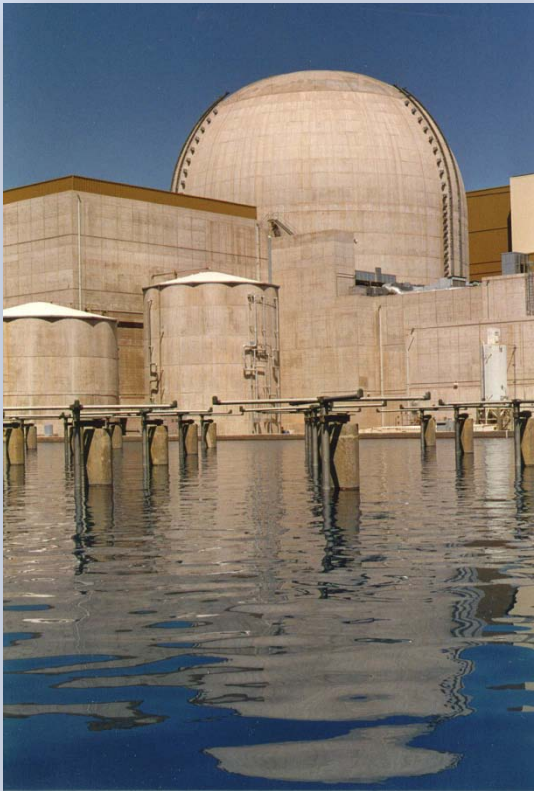
PALO VERDE OVERVIEW

Randy Edington



PINNACLE WEST
CAPITAL CORPORATION

PALO VERDE OVERVIEW AGENDA



- **Business plan/objectives**
- **Performance trends**
- **Major capital improvements**
- **Fukushima follow-up**
- **Operating license extensions**



PALO VERDE MISSION

We SAFELY and efficiently generate electricity for the long term.



PALO VERDE MISSION

We SAFELY and efficiently generate electricity for the long term.



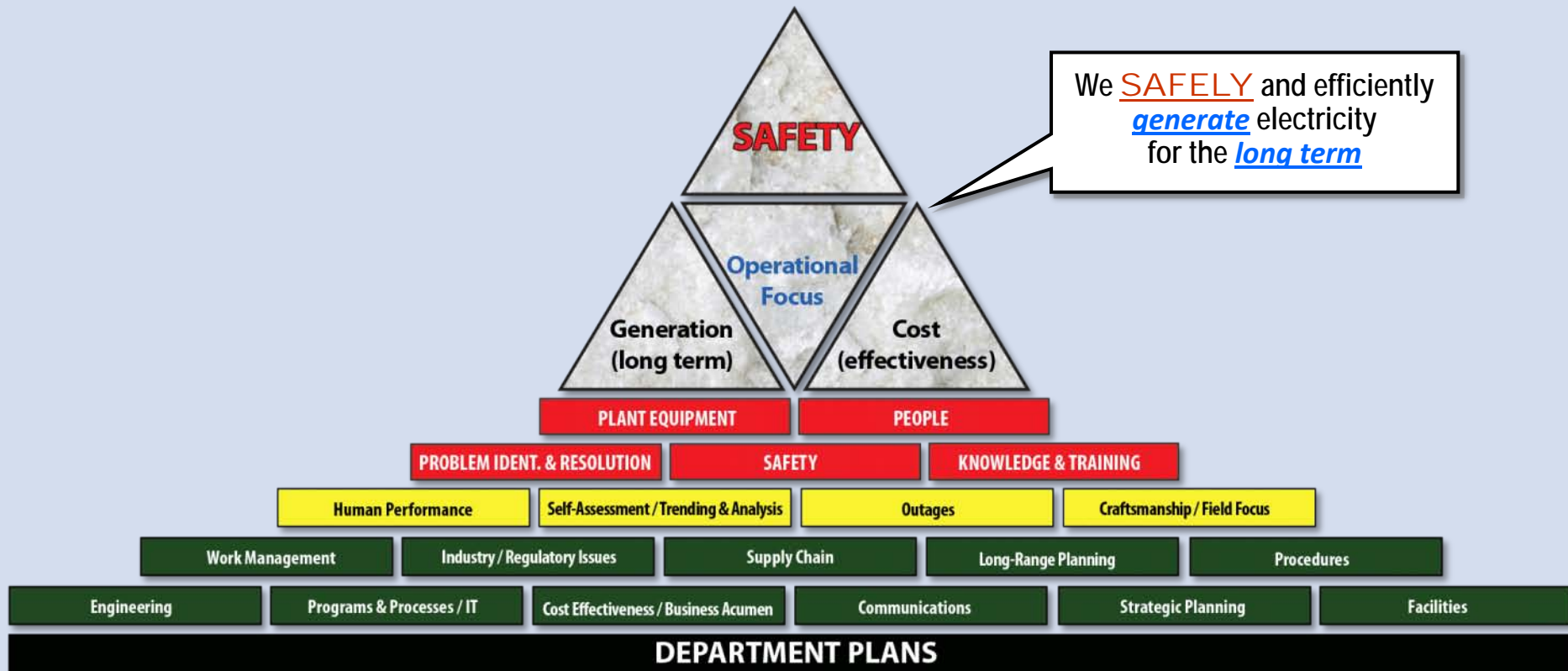
PALO VERDE MISSION

We SAFELY and efficiently generate electricity for the long term.



PALO VERDE BUSINESS PLAN

Our business plan guides all of our operations and initiatives.



PALO VERDE GOALS BY 2013/2014

We target top-quartile cost per megawatt-hour by 2014.

Safety

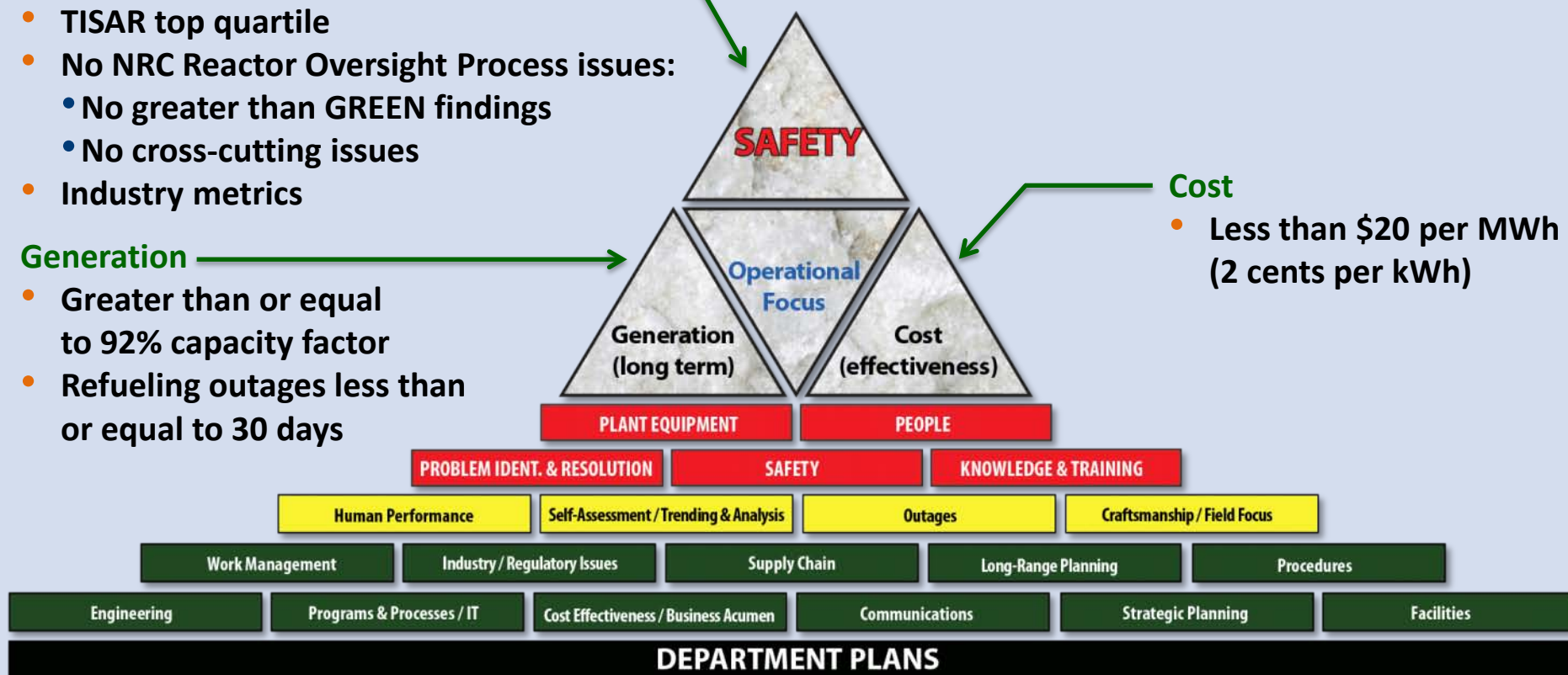
- TISAR top quartile
- No NRC Reactor Oversight Process issues:
 - No greater than GREEN findings
 - No cross-cutting issues
- Industry metrics

Generation

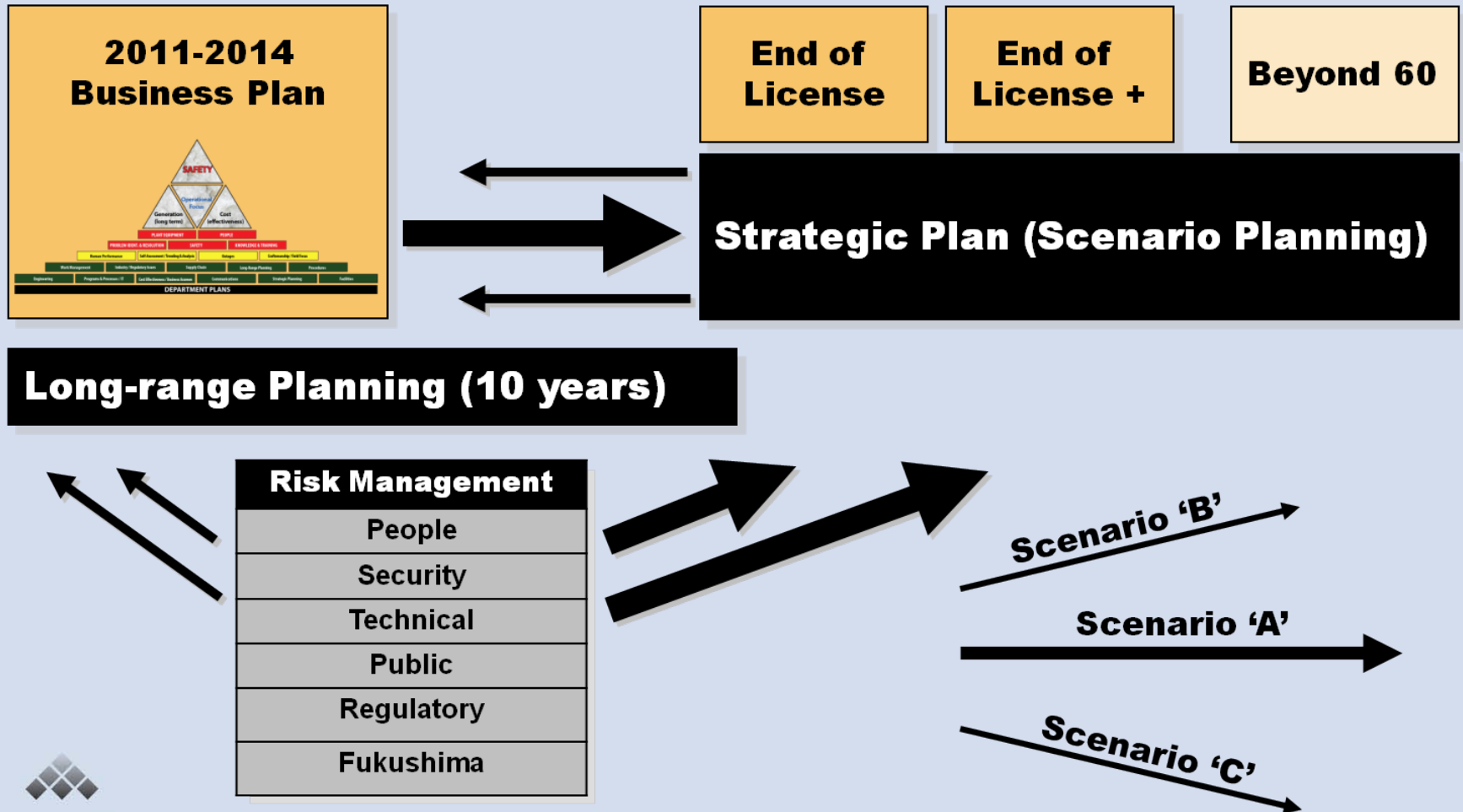
- Greater than or equal to 92% capacity factor
- Refueling outages less than or equal to 30 days

Cost

- Less than \$20 per MWh (2 cents per kWh)



PALO VERDE BUSINESS AND STRATEGIC PLANS



STARS ALLIANCE

We team with other nuclear plants to create efficiencies and purchasing power.

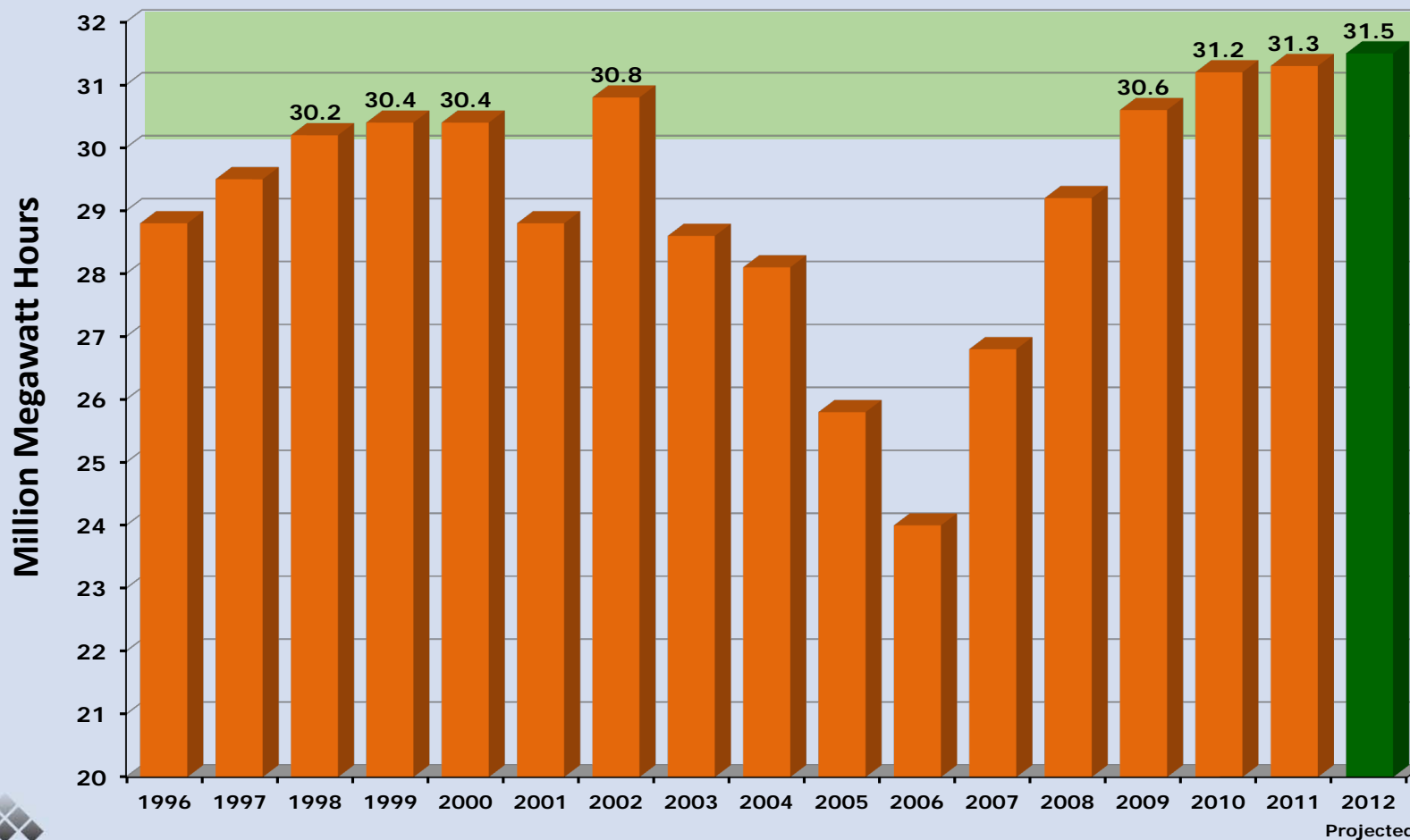
★ Headquarters

- Palo Verde (Arizona)
- Callaway (Missouri)
- Comanche Peak (Texas)
- Diablo Canyon (California)
- San Onofre (California)
- South Texas (Texas)
- Wolf Creek (Kansas)



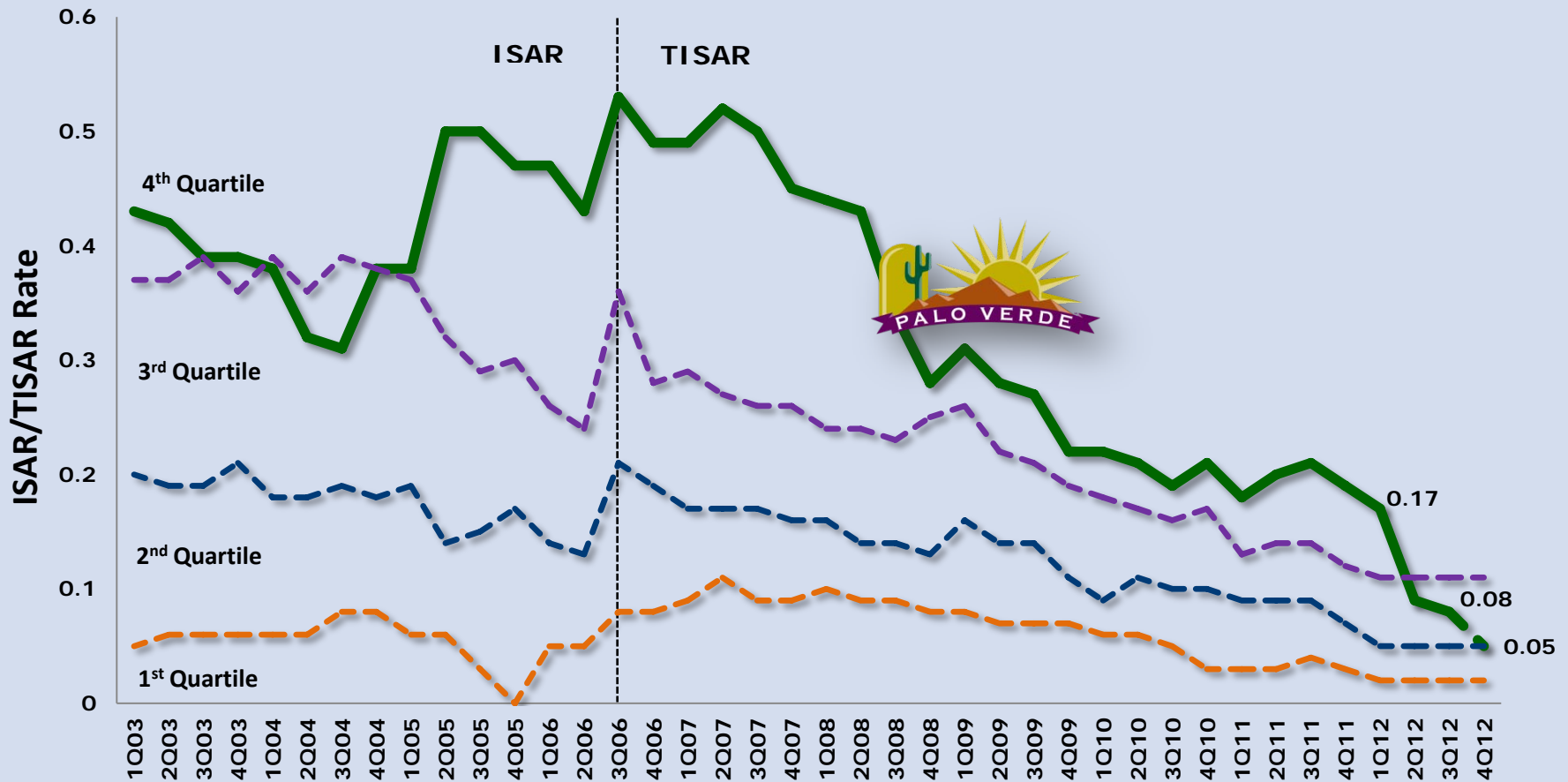
PALO VERDE NET GENERATION

Palo Verde has exceeded 30 million megawatt-hours annual production seven times – the only U.S. plant to ever do so.



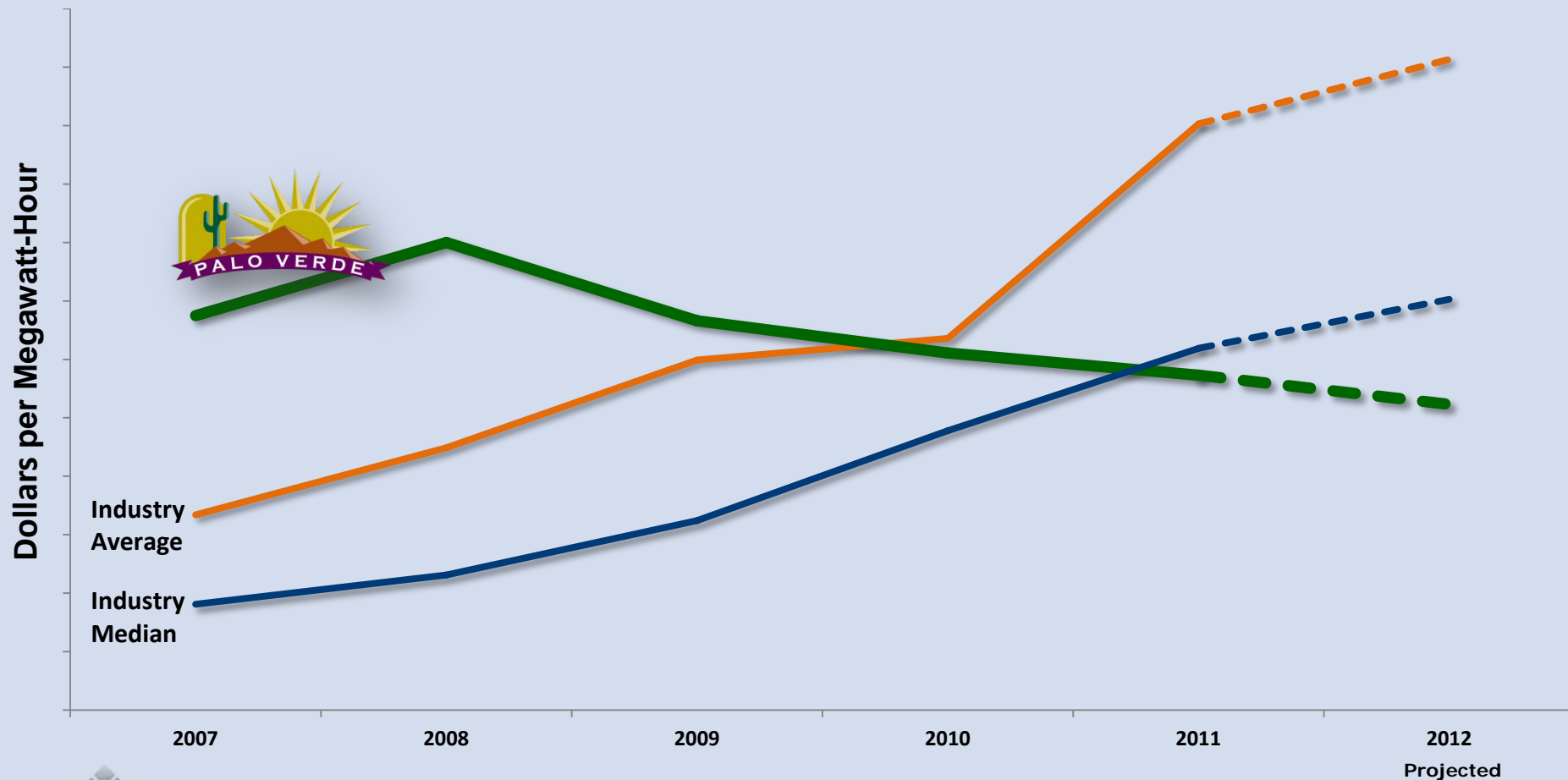
TOTAL INDUSTRIAL ACCIDENT RATE

Palo Verde's safety metrics compare favorably with industry norms and are improving.



U.S. NUCLEAR OPERATING COSTS

Palo Verde operating costs are below industry averages and improving.



PALO VERDE MAJOR CAPITAL PROJECTS

Completed capital projects position Palo Verde well for safe, efficient operations for the long term.

- **Major capital projects completed in past 10 years**
 - **Steam generator replacements**
 - **Reactor vessel head replacements**
 - **New rapid refueling packages**
 - **Main transformers**
 - **Main generator rotors**
 - **Circulating water system tie-in for future cooling towers**
 - **Energy Education Center**
- **Cooling tower replacement update**



PALO VERDE MAJOR CAPITAL PROJECTS

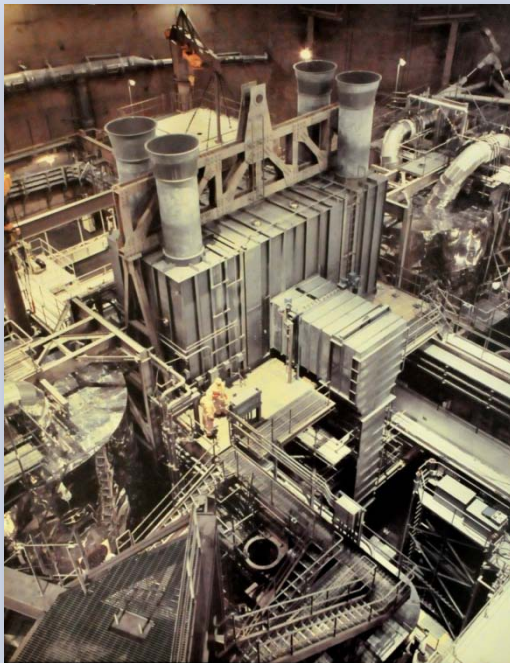


- **Steam generators**
 - Installed 2003-2007
- **Reactor vessel heads**
 - Installed 2009-2010



PALO VERDE MAJOR CAPITAL PROJECTS

Before



- **Rapid refueling packages**
 - Installed 2009-2010
 - Increased efficiency and safety
 - Reduced future outage durations

After



PALO VERDE MAJOR CAPITAL PROJECTS

- **Main transformers**
 - 2008 to 2018
- **Main generator rotors**
 - Most recent outage
- **Circulating water system tie-in for potential future cooling towers**
 - 2009-2010



PALO VERDE MAJOR CAPITAL PROJECTS

Energy Education Center

- Public education
- Response coordination in state-of-the-art Emergency Operations Facility
- Joint Information Center



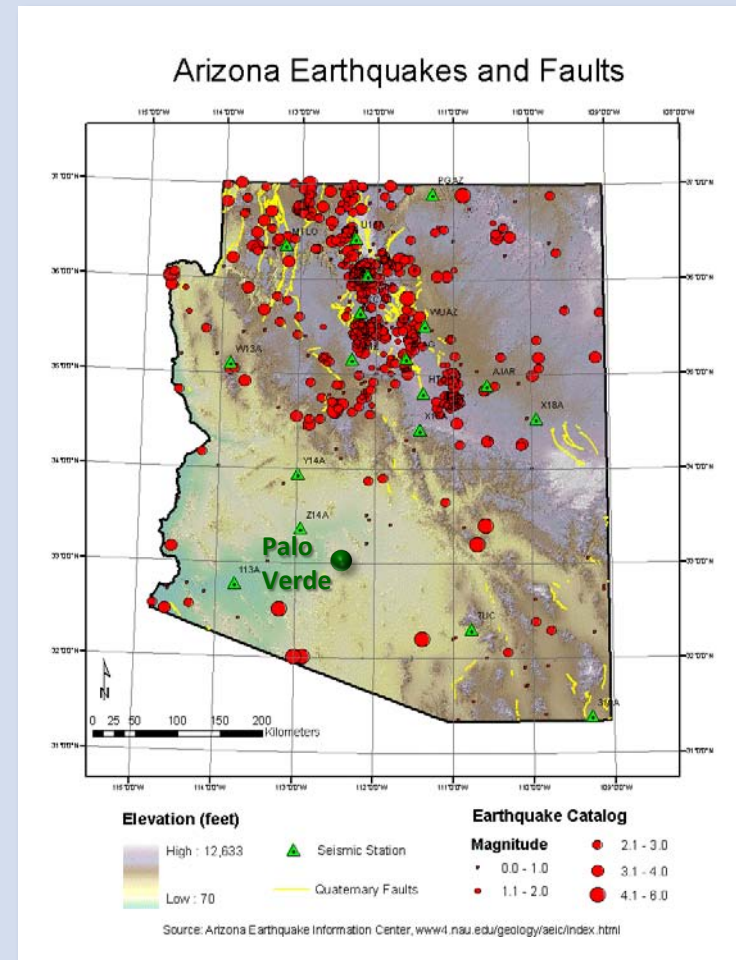
FUKUSHIMA FOLLOW-UP

Fukushima Event Response Team Room



FUKUSHIMA FOLLOW-UP

- **Low risk of natural events at Palo Verde**
- **Seismic and flooding walk-downs conducted**
- **Changes in NRC regulations and industry standards**



FUKUSHIMA FOLLOW-UP

- **FLEX / Beyond Design Bases Event Mitigation**
- **Enhanced Procedures and Emergency Plans**
- **Significant Investment in Safety**



PALO VERDE ECONOMIC IMPACT

Palo Verde is estimated to favorably impact Arizona by \$1.8 billion each year.

- **Largest single commercial taxpayer in Arizona**
 - **Nearly \$50 million in property taxes annually**
- **Local purchases of materials and services**
- **Palo Verde employees donate approximately \$1 million annually to local charities**
- **Approximately 2,800 employees**



PALO VERDE LICENSE RENEWAL

We SAFELY and efficiently generate electricity for the long term.





DELIVERING SUPERIOR SHAREHOLDER VALUE

REGULATORY OVERVIEW

Jeff Guldner



PINNACLE WEST
CAPITAL CORPORATION

REGULATORY OVERVIEW AGENDA

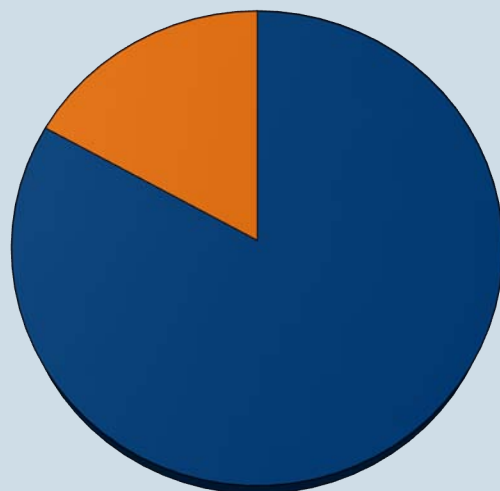
- **Regulatory Landscape**
- **Regulatory Strategic Framework**
- **Goals and Initiatives**
- **FERC Developments**
- **Conclusions**



OUR REGULATORY MIX

The bulk of APS's revenues comes from a regulated retail rate base and a meaningful transmission business.

\$6.9 Billion Total Approved Rate Base



- **Generation & Distribution (83%)**
- **Transmission (17%)**

Most Recent Rate Decisions

	ACC	FERC
Rate Effective Dates	7/1/2012	6/1/2012
Test Year Ended	12/31/2010*	12/31/2011
Rate Base	\$5.7 B	\$1.2 B
Equity Layer	54%	55%
Allowed ROE	10.00%	10.75%

*Adjusted to include post test-year plant in service through March 31, 2012



CONSTRUCTIVE REGULATORY ENVIRONMENT

Enables creative solutions towards a common goal: healthy utility that will help Arizona's sustainable energy future.

Constructive Environment



- **Commission and Stakeholder Engagement**
- **Productive and Constructive Regulatory Relationships**
- **Culture of Compliance**



IMPROVING OUR REGULATORY ENVIRONMENT: HISTORICAL PERSPECTIVE

5

We have reduced our rate case cycle length significantly while achieving increasingly constructive outcomes.



CURRENT REGULATORY FRAMEWORK

Traditional themes are trending towards sustained constructive outcomes.

Themes

Regulatory Lag

Historical Test Year

Critical Regulatory Relationships

Multiple Active Stakeholders

Four Year Stay Out

Progress

Recovery of post-test year plant in rates and certain capital through adjustors.

Enhanced Commission engagement, constructive regulatory relationships.

More collegial environment, willingness to pursue creative solutions.

Supported by structure of ongoing financial support.



BEYOND A HISTORICAL TEST YEAR

Retail rate mechanisms mitigate strict historical test-year framework.

Current Arizona Retail Rate Structure

Traditional Historical Test Year

- Rates based on finances experienced during 12 months preceding rate application preparation, adjusted only for known and measurable changes

Post-Test Year Plant in Rate Base

- Fifteen months or more past test year

Adjustors that Recover Revenue Requirements

- AZ Sun
- Environmental costs

Cost Deferrals

- Property taxes
- Four Corners acquisition costs

Enhanced Fixed Cost Recovery

- Lost Fixed Cost Recovery Mechanism
- Rate design changes for commercial customers



FERC OVERVIEW

We have achieved constructive transmission rate treatment and actively engage in key policy matters.

- **Ratemaking**
 - **Formula rates updated annually**
 - **Retail transmission cost adjuster**
- **Policy Development**
 - **Transmission returns on equity**
 - **FERC Order 1000 compliance**
 - **Non-RTO performance metrics**



REGULATORY INITIATIVES

We have a near-term business plan that supports the Company's overall objectives

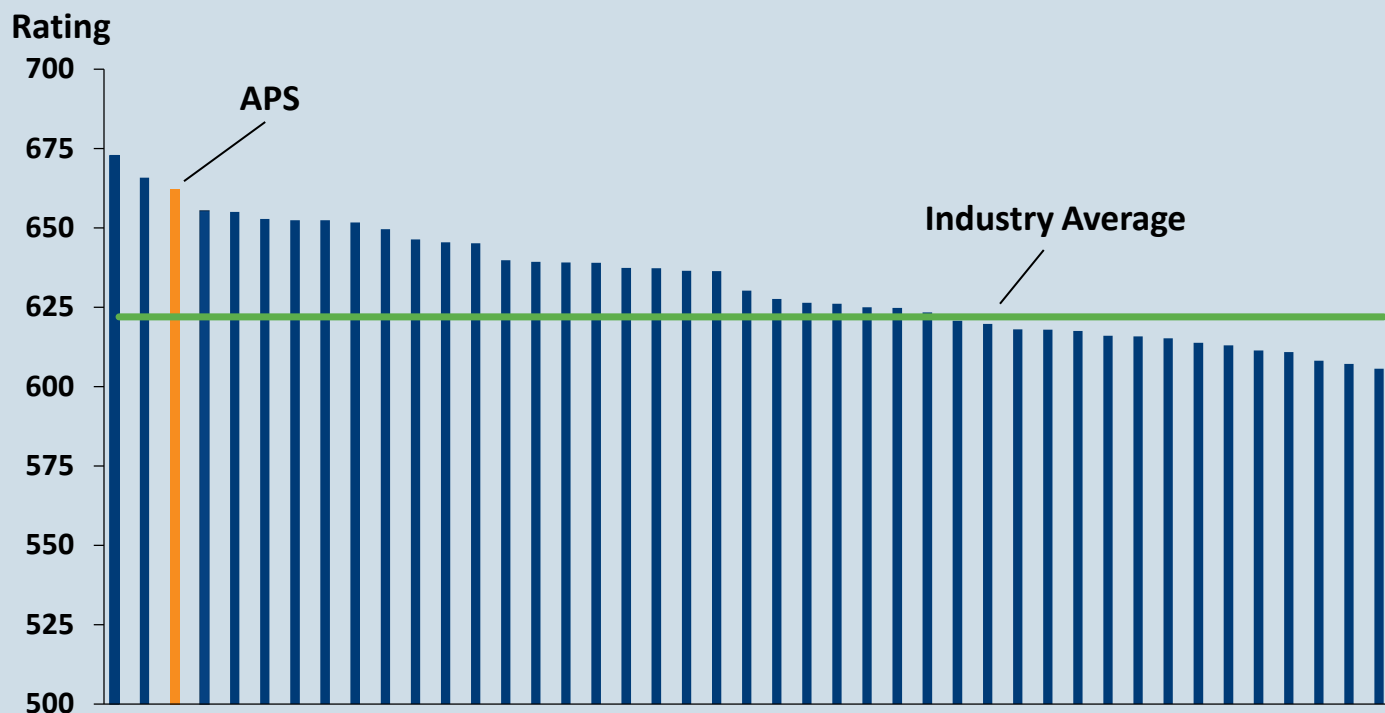
- **Begin recovery of Four Corners acquisition by end of 2013**
- **Target next retail rate decision by mid-2016**
- **Continue active engagement of stakeholders in integrated resource planning process to meet long-term customer needs for reliable, cost effective power**
- **Continue active engagement with regional FERC Order 1000 compliance team to achieve structure that supports customer and shareholder needs**



CUSTOMER SATISFACTION: A KEY PRIORITY

Strong customer service supports constructive regulatory outcomes.

Outstanding Residential Customer Satisfaction Rating



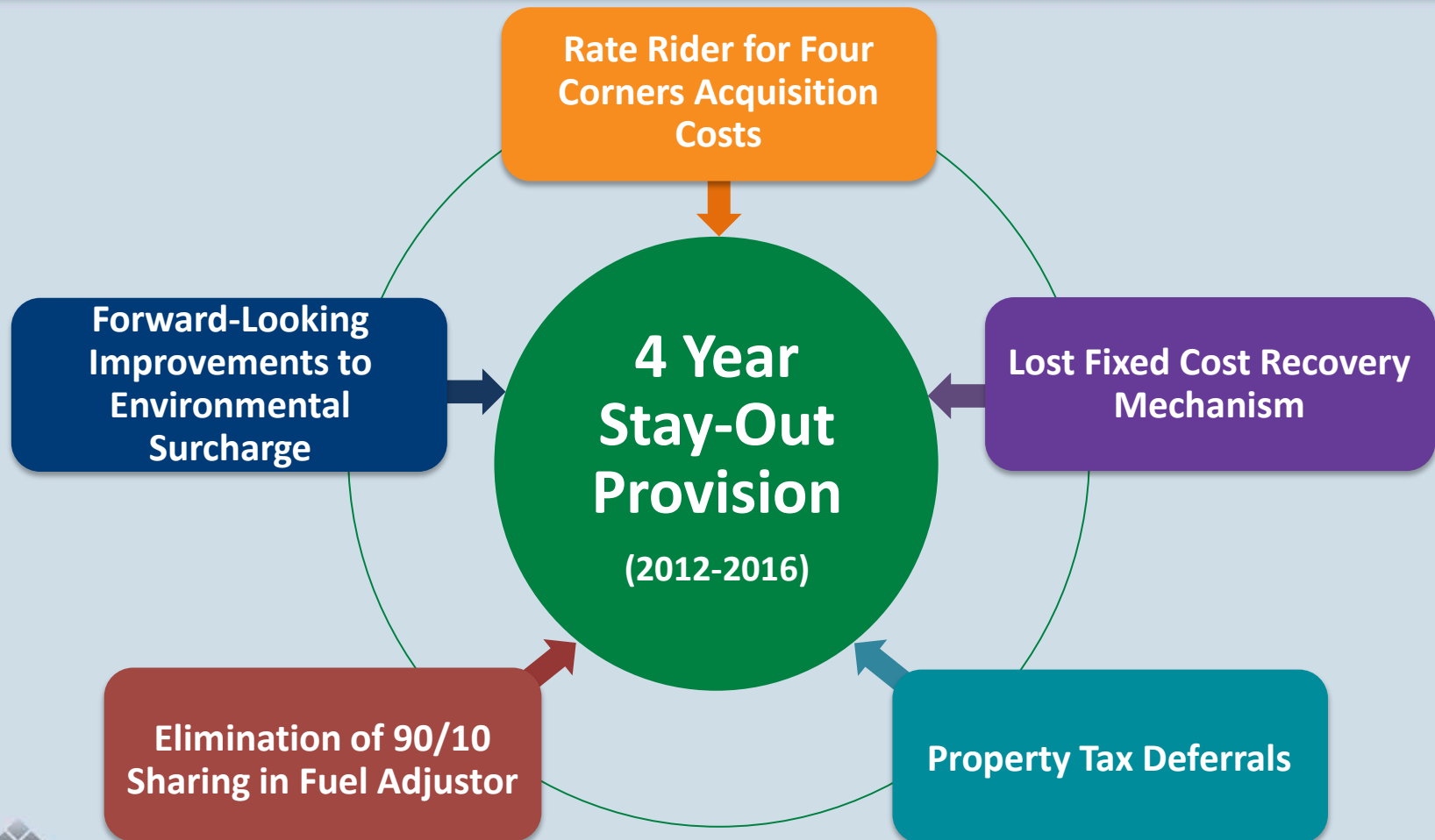
2012 J.D. Power Residential Customer Survey



2012 REGULATORY SETTLEMENT POSITIONED APS WELL THROUGH 2016

11

An intentional structure of on-going financial support buttresses a four-year stay-out.



CONCLUSIONS

We remain focused on achieving supportive regulatory structures and productive cost recovery process and timing.

- **Positive regulatory developments**
- **Constructive on-going relationships**
- **Address future of continuing change**





Regulatory Overview Appendix



PINNACLE WEST
CAPITAL CORPORATION

2012 RETAIL RATE CASE SETTLEMENT

KEY BENEFITS

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The settlement contains a number of benefits for shareholders and customers.

Shareholder Benefits

- **Regulatory certainty**
 - Base rate stay-out until at least mid-2016
 - Rate gradualism through adjustment mechanisms
- Financial support APS needs to achieve Arizona's energy goals
- 10% allowed return on equity

Customer Benefits

- **Rate certainty**
 - No base rate change until at least mid-2016
 - Rate gradualism through adjustment mechanisms
- Support for renewable energy and energy efficiency

Mutual Benefits

- Encourages progress toward sustainable energy future
- Continuation of constructive regulatory framework established in 2009 settlement
- Collaboration and cooperation among APS, ACC and numerous stakeholders



2012 RETAIL RATE CASE SETTLEMENT KEY FINANCIAL PROVISIONS – BASE RATES & TIMING

15

The provisions of the settlement became effective July 1, 2012, as originally requested by APS.

	Annual Revenue Change
Annualized Base Rate Revenue Changes (\$ millions)	
Non-fuel base rate increase	\$ 116.3
Fuel-related base rate decrease	(153.1)
Revenues related to AZ Sun and other solar projects to be transferred from Renewable Energy Surcharge to base rates	36.8
Net base rate change	\$ -0-



2012 RETAIL RATE CASE SETTLEMENT KEY PROVISIONS – OTHER THAN BASE RATES

16

Other key provisions continue constructive regulatory treatment and limit regulatory lag.

- **Post test-year plant additions – 15 months' additions included in rate base**
- **Constructive new or modified adjustment mechanisms**
 - **Lost Fixed Cost Recovery (LFCR) rate mechanism to address ratemaking effects of energy efficiency and distributed renewable energy**
 - **Power Supply Adjustor (PSA) – 100% pass-through**
 - **Transmission Cost Adjustor (TCA) – streamlined for future rate changes**
 - **Environmental Improvement Surcharge (EIS) – recovery of certain carrying costs for government-mandated environmental capital expenditures**
- **Four Corners transaction – procedure to allow APS to request related rate adjustments, if transaction consummated**
- **Property tax expense deferrals for future tax rate changes**
- **Current PSA credit on customer bills to continue until February 1, 2013, rather than reset when base rates change effective July 1, 2012**
- **Next general rate case may be filed on or after May 31, 2015 for rates to become effective on or after July 1, 2016 (4-year stay-out)**



2012 RETAIL RATE CASE SETTLEMENT KEY FINANCIAL ASSUMPTIONS

17

Updated rate base, cost of capital and fuel prices underpin the settlement amounts.

Rate base	\$5.7 billion
Allowed return on equity	10%
Capital structure	
Long-term debt	46.1%
Common equity	53.9%
Base fuel rate (¢/kWh)	3.21¢
Projected fuel-price year for base fuel rate	2012
Test year ended December 31, 2010 adjusted for post-test year plant additions	





DELIVERING SUPERIOR SHAREHOLDER VALUE

FINANCIAL OVERVIEW

Jim Hatfield



PINNACLE WEST
CAPITAL CORPORATION

FINANCIAL OVERVIEW AGENDA

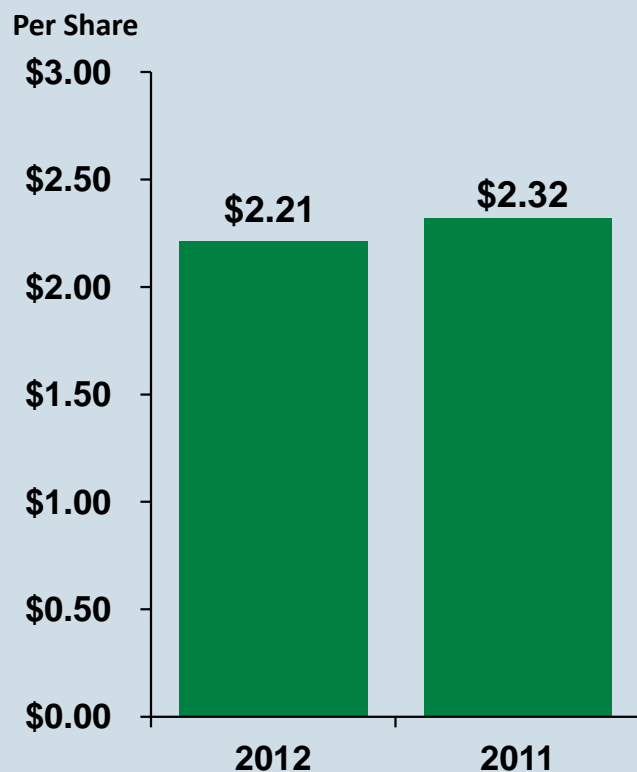
- **Third quarter earnings**
- **Financial objectives**
- **2012 – 2015 outlook**
 - **Capital expenditures**
 - **O&M cost management initiatives**
 - **Earnings guidance and dividend outlook**
 - **Debt and liquidity profile**
- **Value proposition**



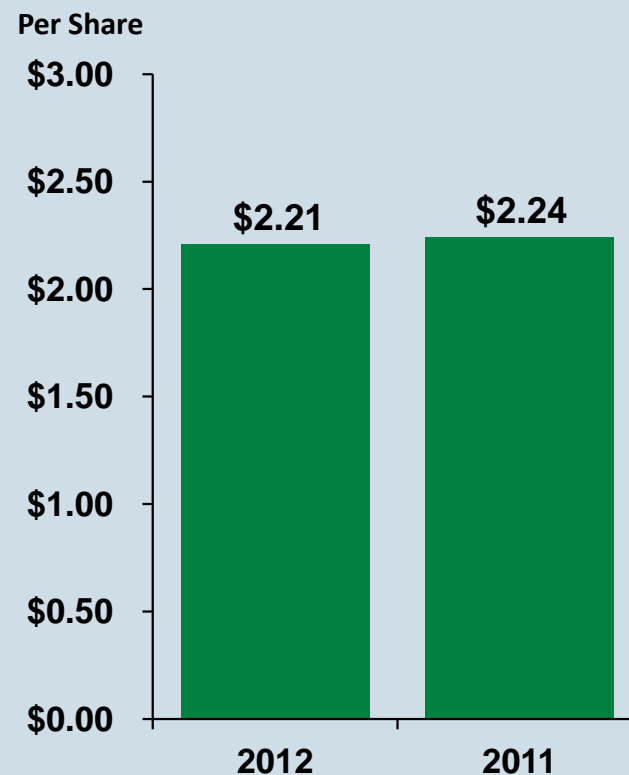
CONSOLIDATED EPS COMPARISONS

3rd Quarter 2012 versus 3rd Quarter 2011

Net Income



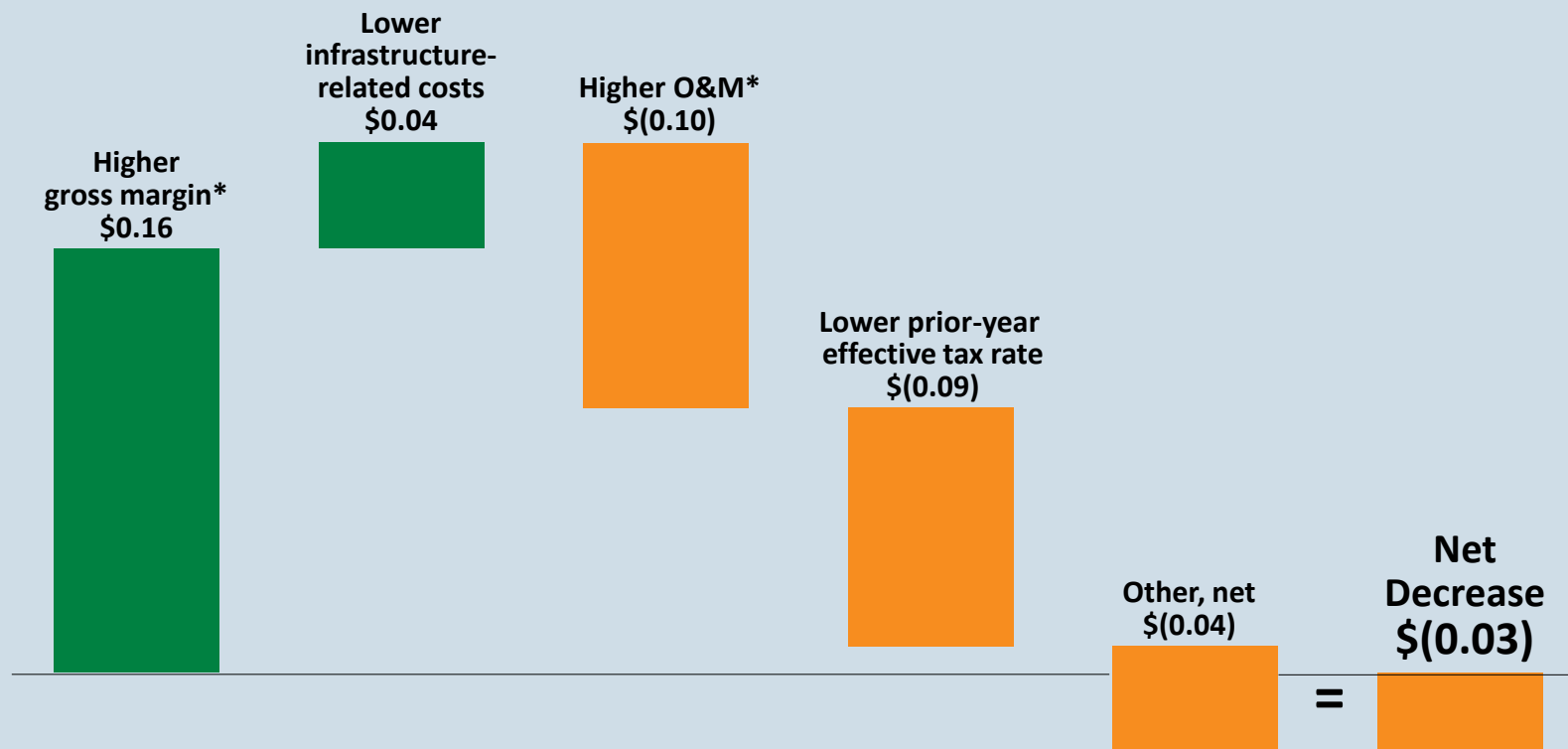
On-Going Earnings



See non-GAAP reconciliation in appendix

ON-GOING EPS VARIANCES

3rd Quarter 2012 versus 3rd Quarter 2011

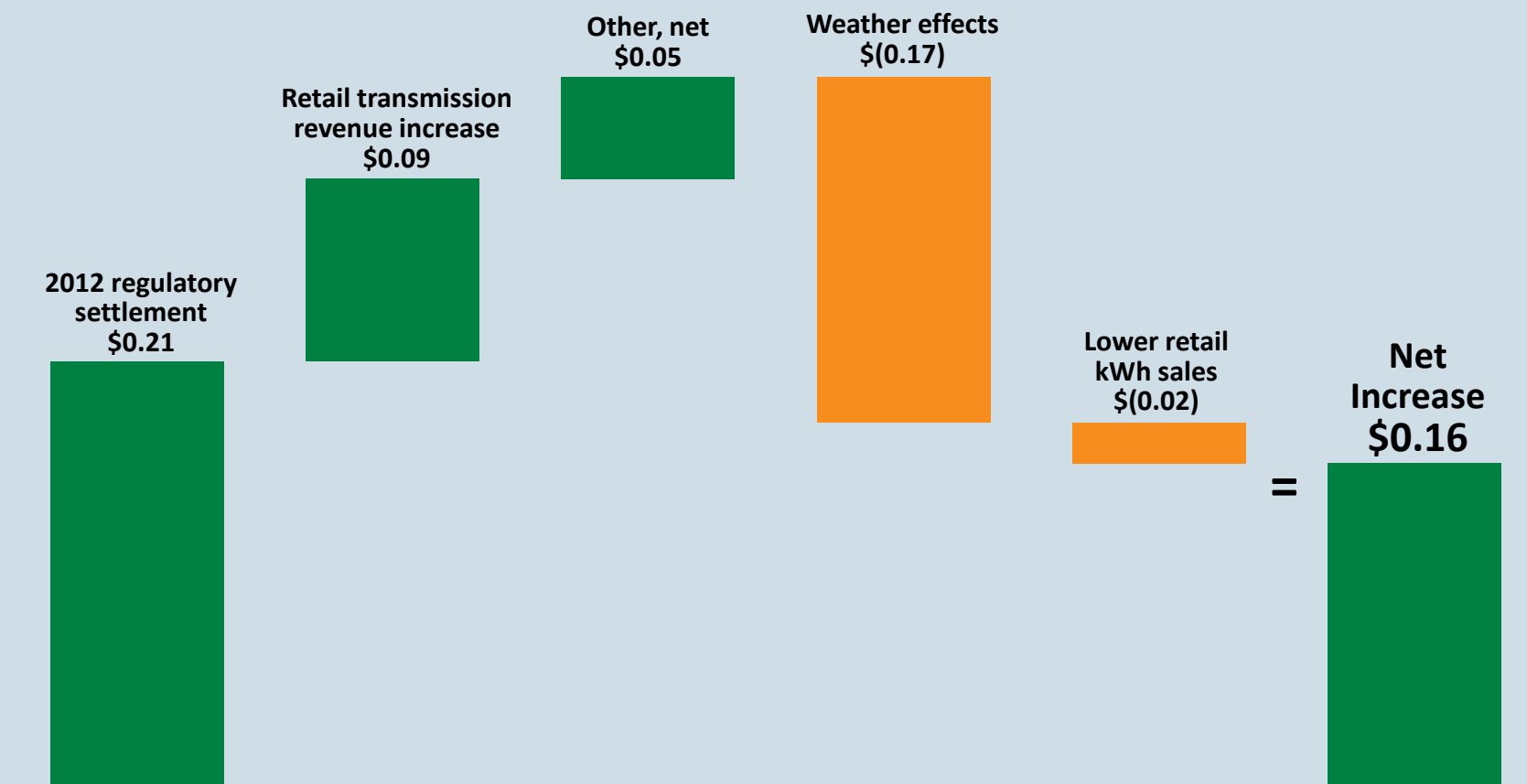


* Excludes costs, and offsetting operating revenues, associated with renewable energy (net of AZ Sun), energy efficiency and similar regulatory program. See non-GAAP reconciliation for gross margin in appendix.



GROSS MARGIN EPS DRIVERS

3rd Quarter 2012 versus 3rd Quarter 2011



See non-GAAP reconciliation in appendix

LONG-TERM FINANCIAL OBJECTIVES

Our long-term goal is to provide continued superior returns to our shareholders.

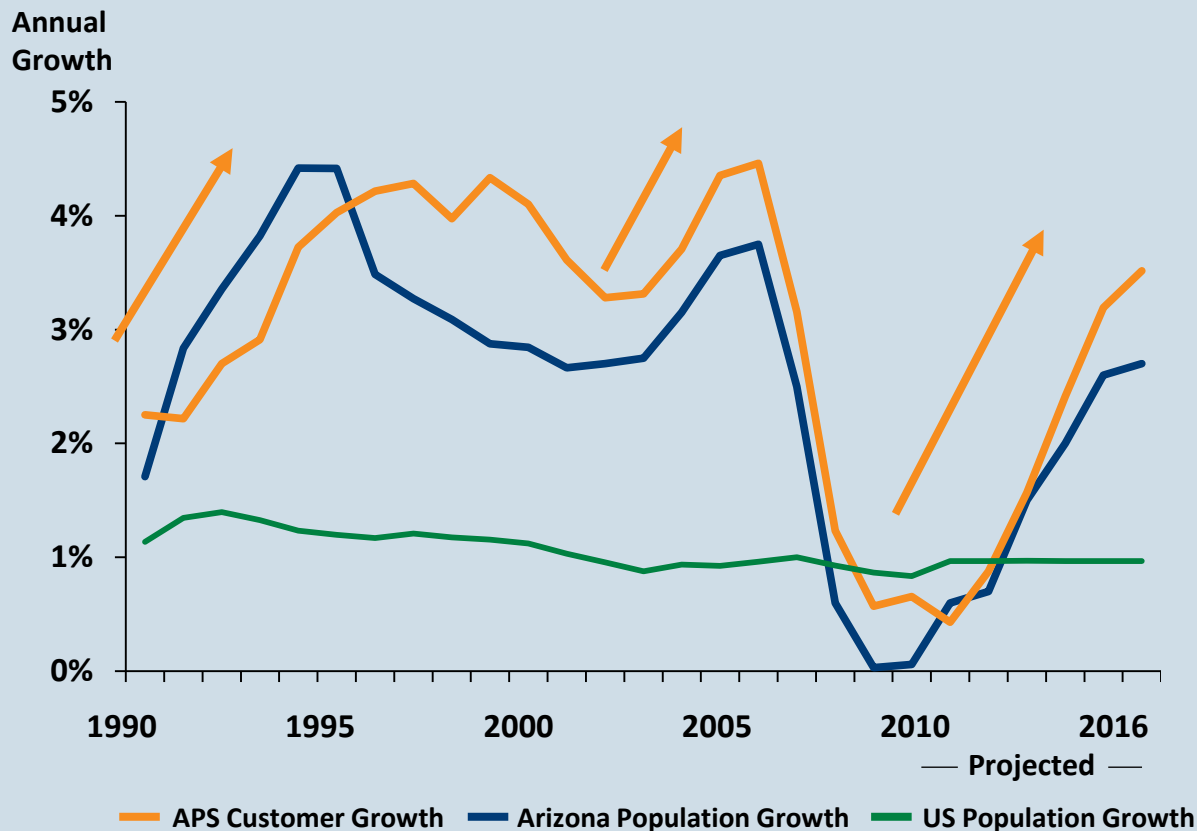
- **Deliver strong consistent total return**
- **Capitalize on dynamic service territory growth**
- **Emphasize capital and O&M budgeting disciplines**
- **Maintain solid investment-grade credit ratings**
- **Improve financial strength and agility**



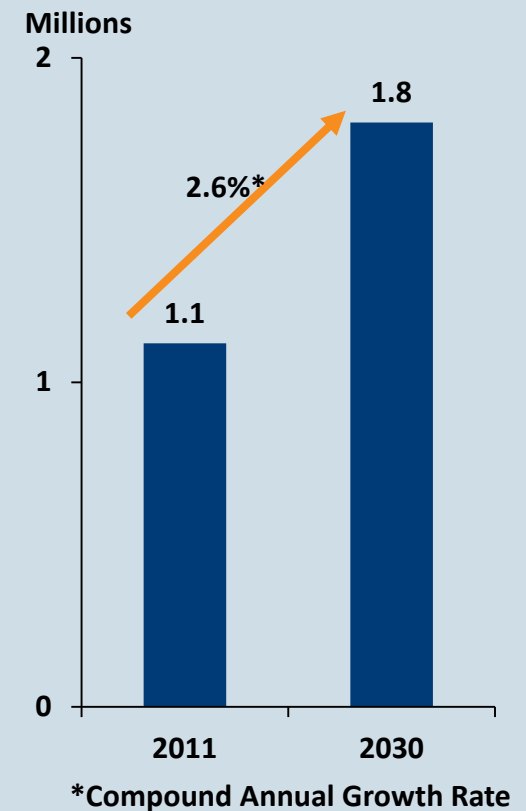
POSITIVE LONG-TERM DEMOGRAPHICS

APS's customer growth generally outpaces U.S. and Arizona population growth.

Superior Growth



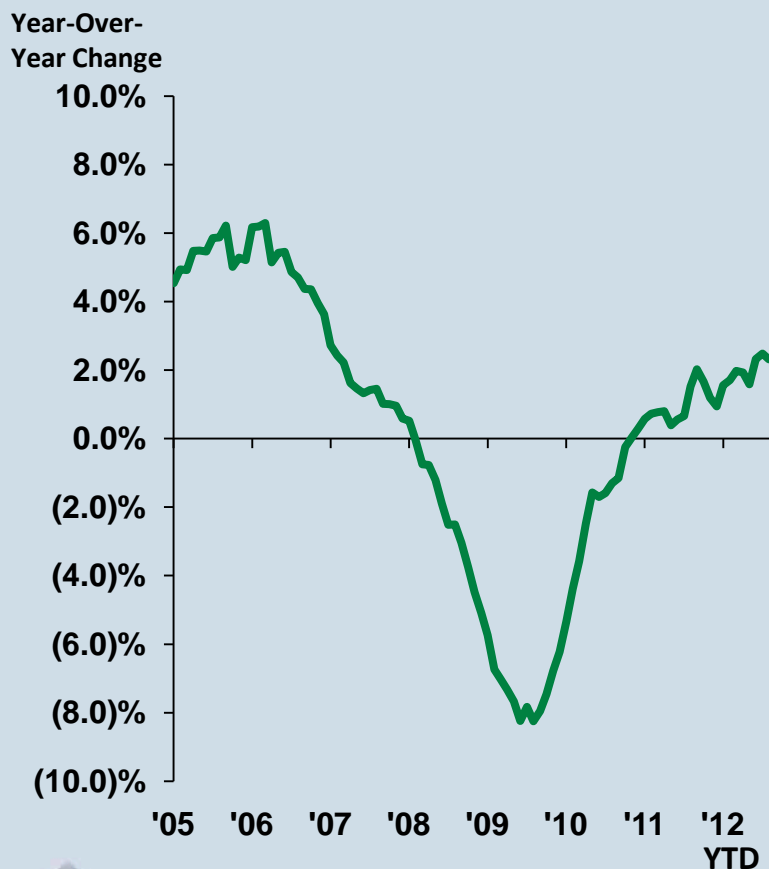
APS Customer Growth



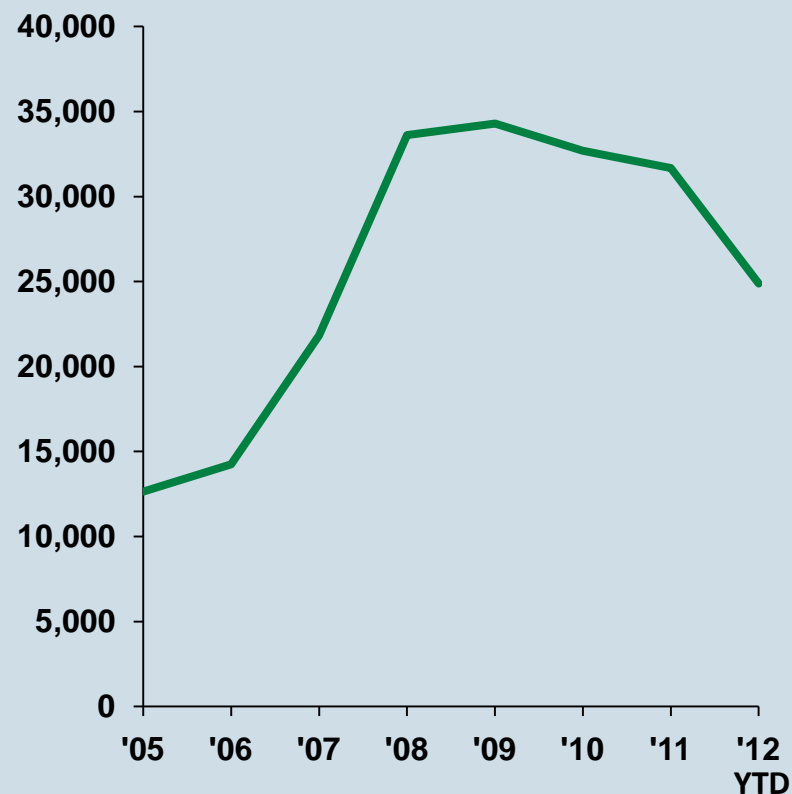
POSITIVE NEAR-TERM TRENDS

Arizona's economy is reflecting more sustained growth and activity.

Non-Farm Job Growth



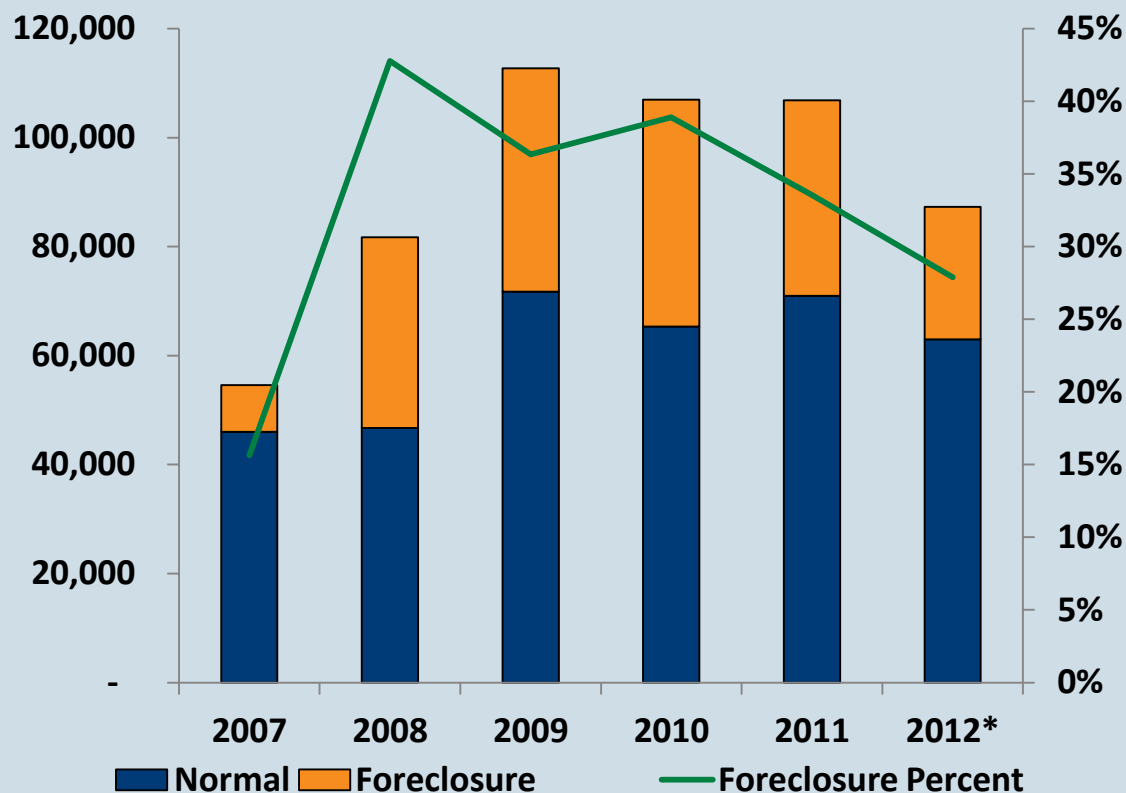
Metro Phoenix Vacant Housing APS Service Territory



FORECLOSURE HEADWINDS WINDING DOWN

Metro Phoenix home foreclosure sales are the lowest since 2007.

Existing Single Family Home Sales



Key Trends

- Existing home sales activity remains robust
- Investor interest peaked in Q1 2012
 - 20% of market Q1
 - < 15% in Q3
- Lender-owned sales down 70% in Q3 2012 vs 2011
- 190,000 homes have been sold through foreclosure since 2007

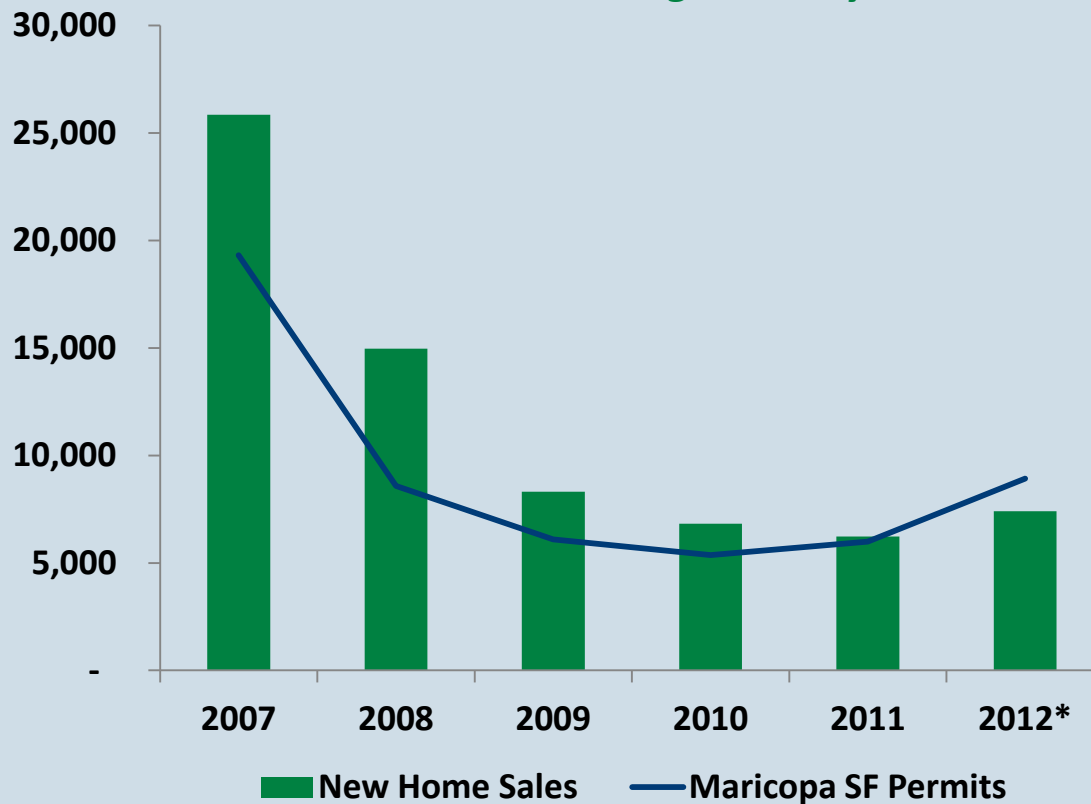
* 4QE Sep 2012



NEW HOME MARKET BREATHING AGAIN

Metro Phoenix new home construction beginning to see benefits from lower vacancies and higher prices in existing housing.

New Home Sales & Single Family Permits



* 4QE Sep 2012

Key Trends

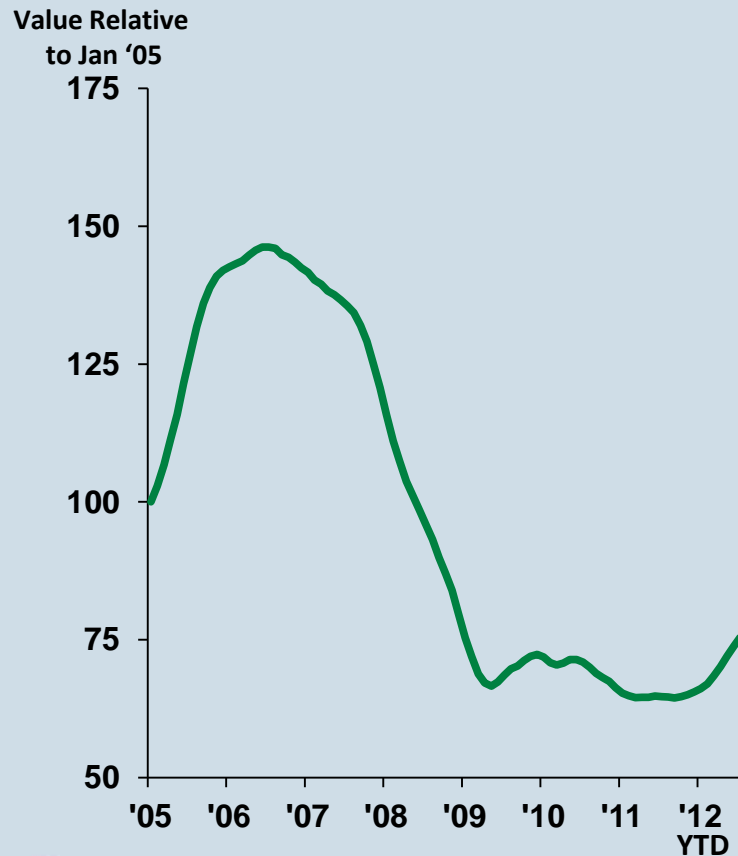
- After three very weak sales years, Metro Phoenix new home construction is turning up
- Q3 2012 new home sales at highest level in two years
- Single family permits up 40% over prior year
 - Total housing permits up 20%
- Increasing demand reflects declining value gap with existing homes



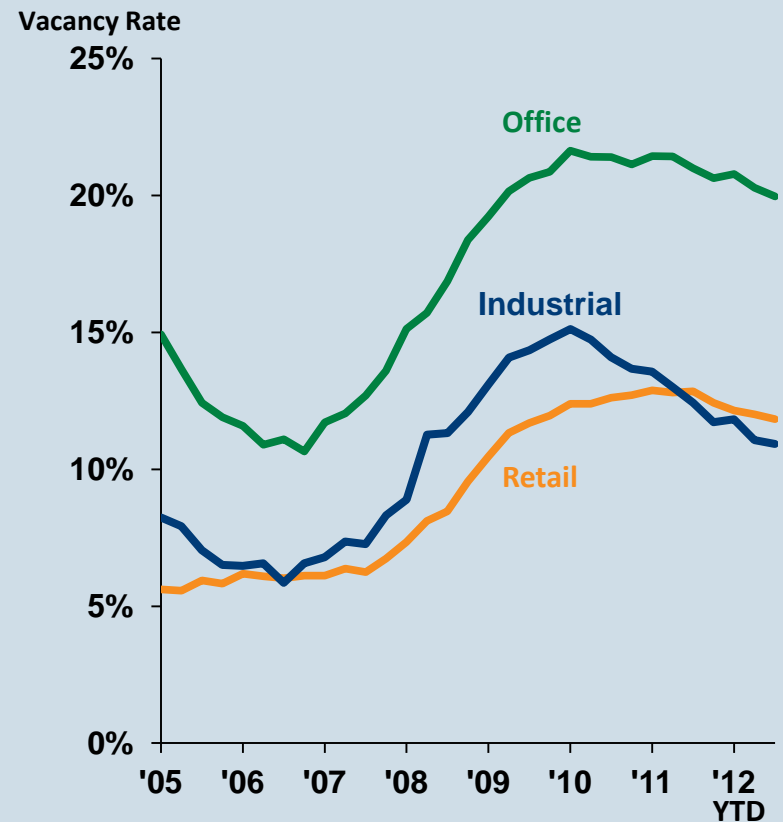
POSITIVE NEAR-TERM TRENDS

Housing and non-residential sectors are showing steady improvement.

Home Prices



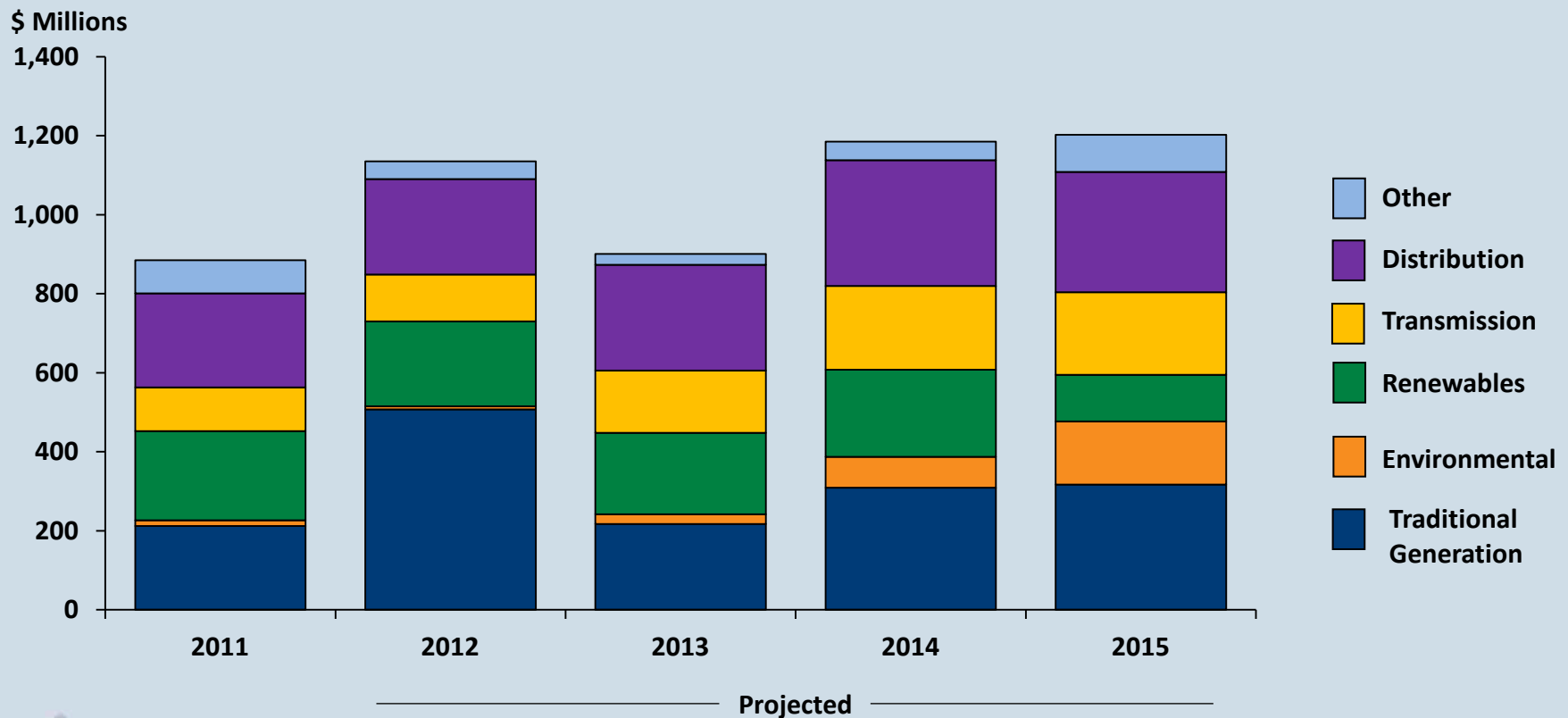
Nonresidential Building Vacancy



LONG-TERM GROWTH DRIVES CAP EX

Investment is required throughout the business to meet expected demand growth.

APS Capital Expenditures by Function

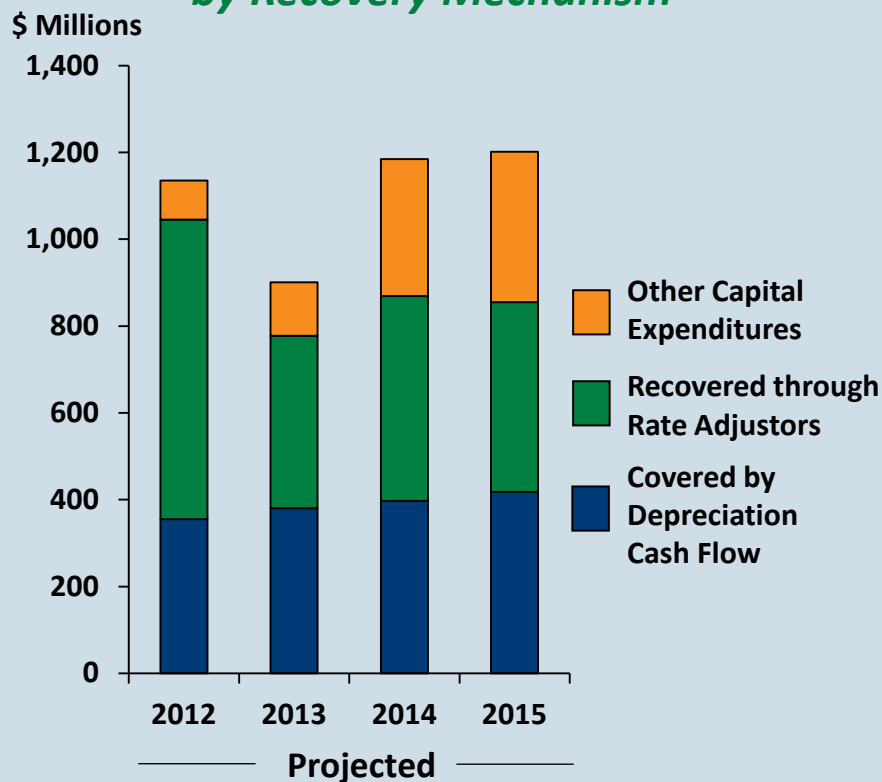


SOLID CAPITAL RECOVERY AND STRONG RATE BASE GROWTH

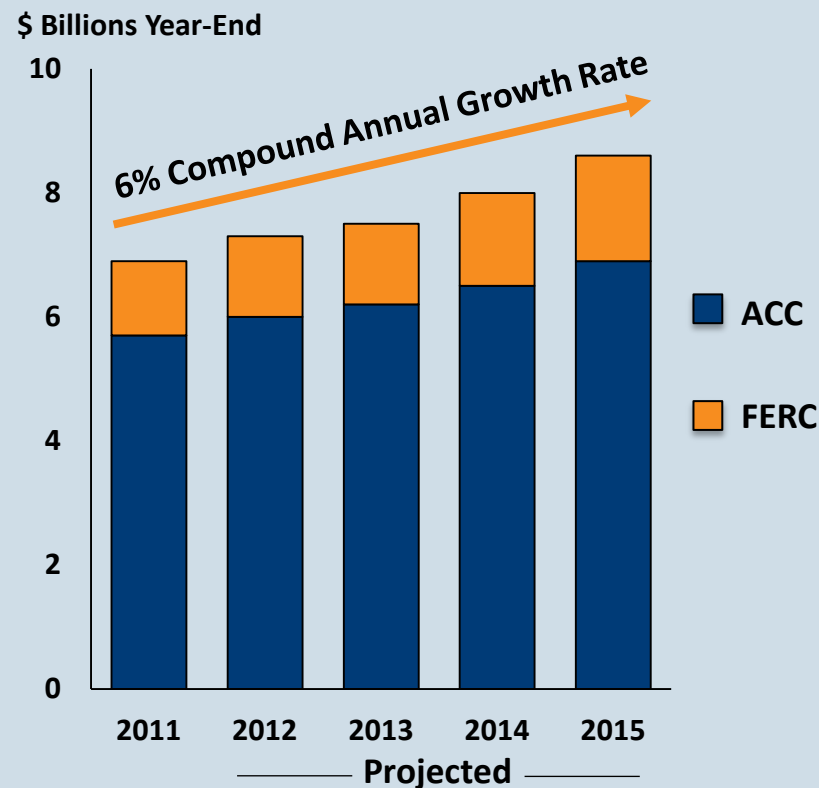
13

We expect our rate base will grow 6% per year on average, and we have constructive recovery of capital expenditures.

*APS Capital Expenditures
by Recovery Mechanism*



APS Rate Base Growth



RATE ADJUSTORS COMPLEMENT BASE RATE INCREASES

14

Regulatory structure provides support for gross margin growth throughout base rate stay-out period.

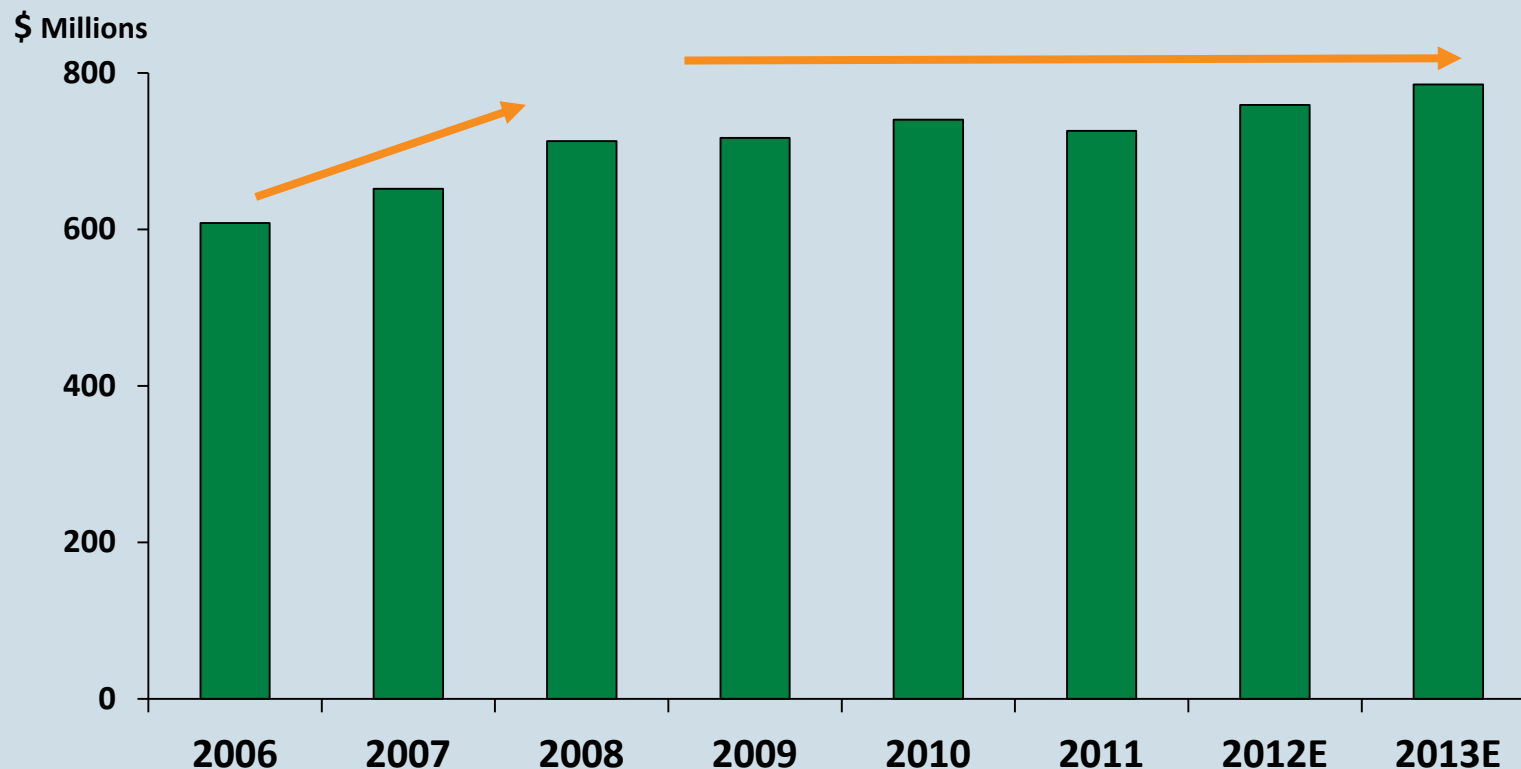
	2012	2013	2014	2015
Base Rate Increase	55%	45%	—	—
Four Corners	—	55%	45%	—
Transmission Cost Adjustor	X	X	X	X
AZ Sun	X	X	X	X
Lost Fixed Cost Recovery	X	X	X	X
Environmental Improvement Surcharge	—	—	X	X



STRONG COST MANAGEMENT FOCUS

Our goal is to keep O&M growth in line with retail sales growth.

APS O&M Expense Trends



Excludes RES and demand-side management costs. 2011 also excludes \$28 million related to prior-period transmission rights-of-way settlement.



SUSTAINABLE COST MANAGEMENT INITIATIVE ("SCMI")

16

Continued success requires a more rigorous, standardized approach to running the business.

Motivation

- **Recognize combined challenges**
 - Costs
 - Capital
 - Sales growth
 - Stayout
- **Improve organizational efficiencies**
- **Strengthen governance and clarify accountability**
- **Refine understanding of cost structure to better identify opportunities**

Sustainable Changes

Tiered Metrics

Business Planning

Corporate Resources Operating Model ("CROM")

Centralize Financial Planning and Analysis

Centralize Information Technology

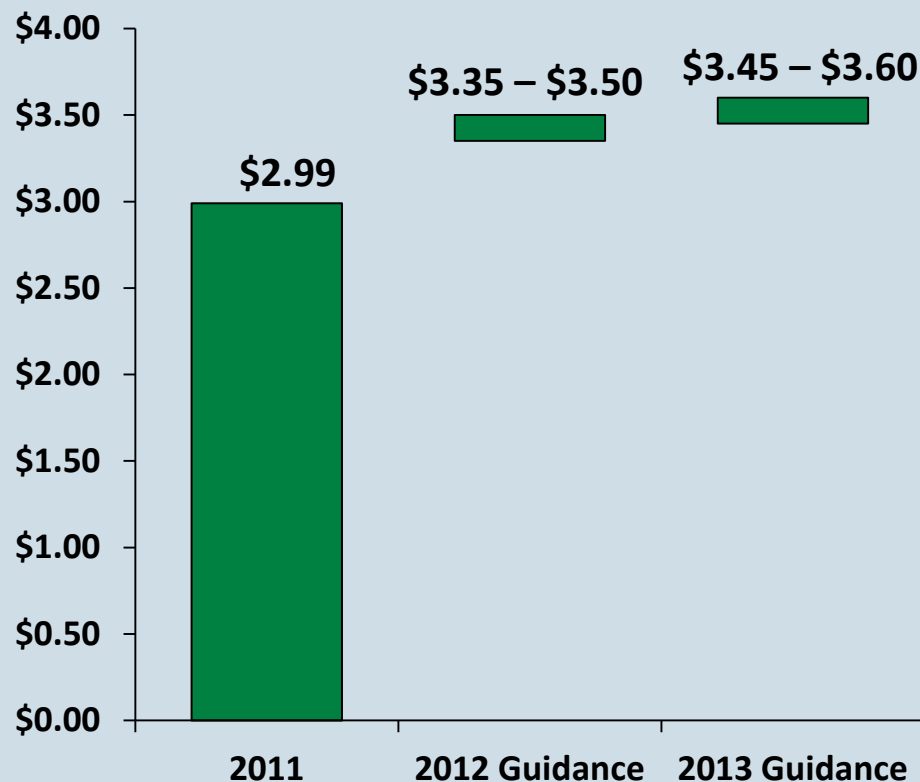
Enterprise Process Improvement



CONSOLIDATED FINANCIAL OUTLOOK

Our strategies and financial performance are producing earnings growth.

On-Going EPS



Outlook Through 2015

- 6% rate base growth,* but regulatory recovery not perfect
- Adjustment mechanisms provide substantial recovery during stay-out, but incomplete
- Limited sales growth
- EPS expected to grow somewhat below rate base growth

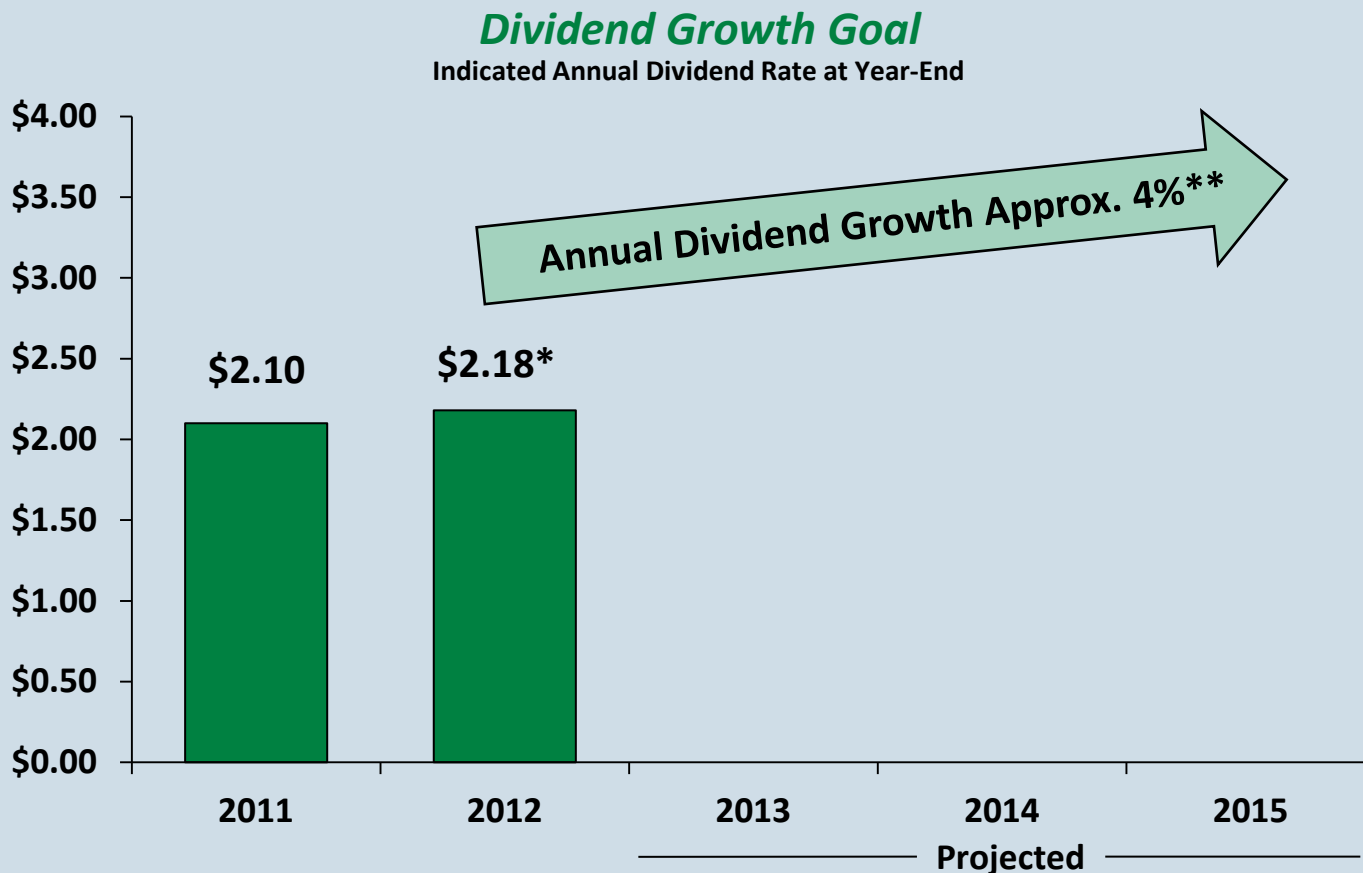
Guidance as of November 9, 2012
See key factors and assumptions in appendix

* Compound annual growth rate



CONSOLIDATED FINANCIAL OUTLOOK

Our financial results facilitate growing cash returns to our shareholders.



* Increase effective 4th quarter 2012

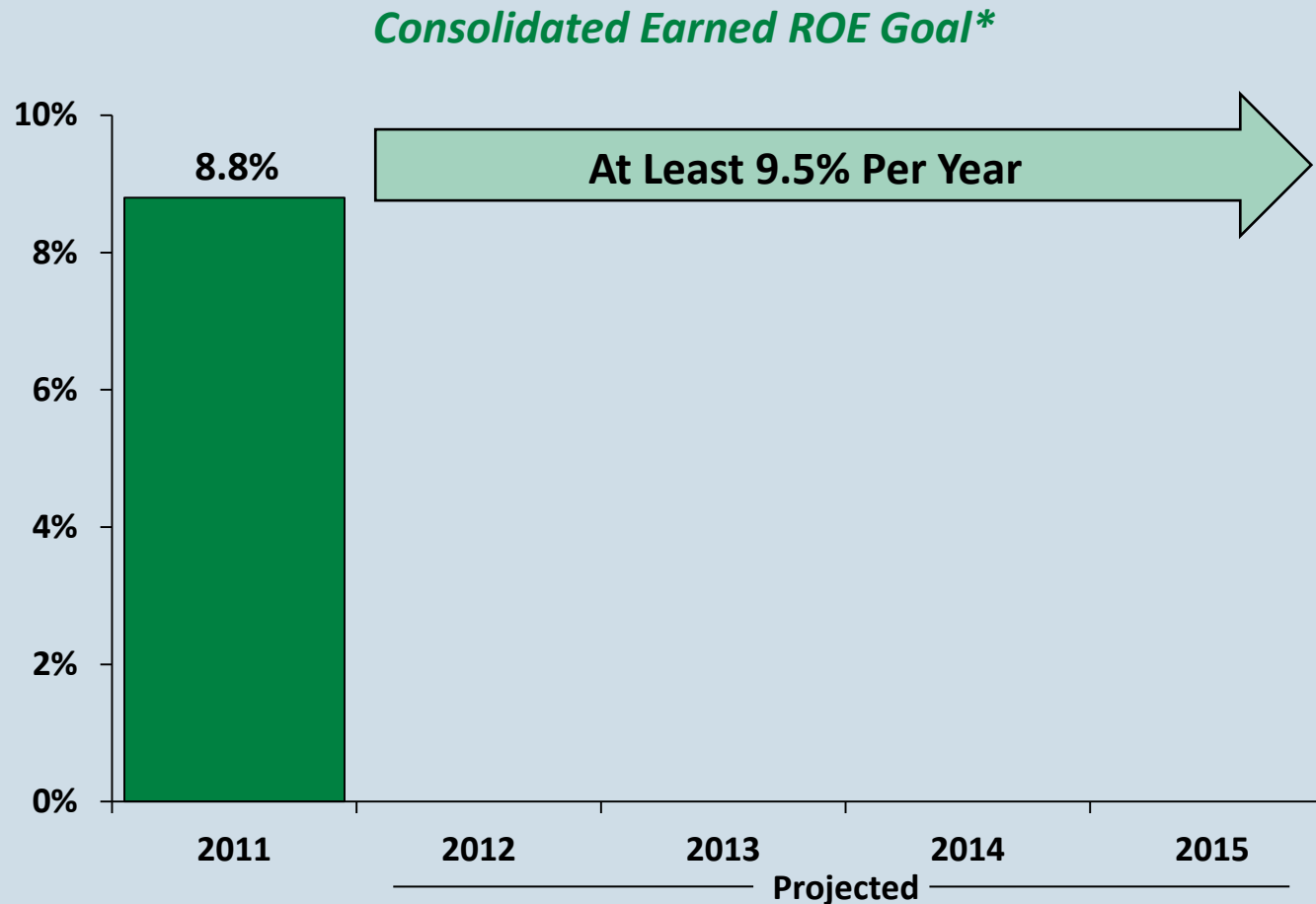
** As of November 9, 2012

Future dividends subject to declaration at Board of Directors' discretion



CONSOLIDATED FINANCIAL OUTLOOK

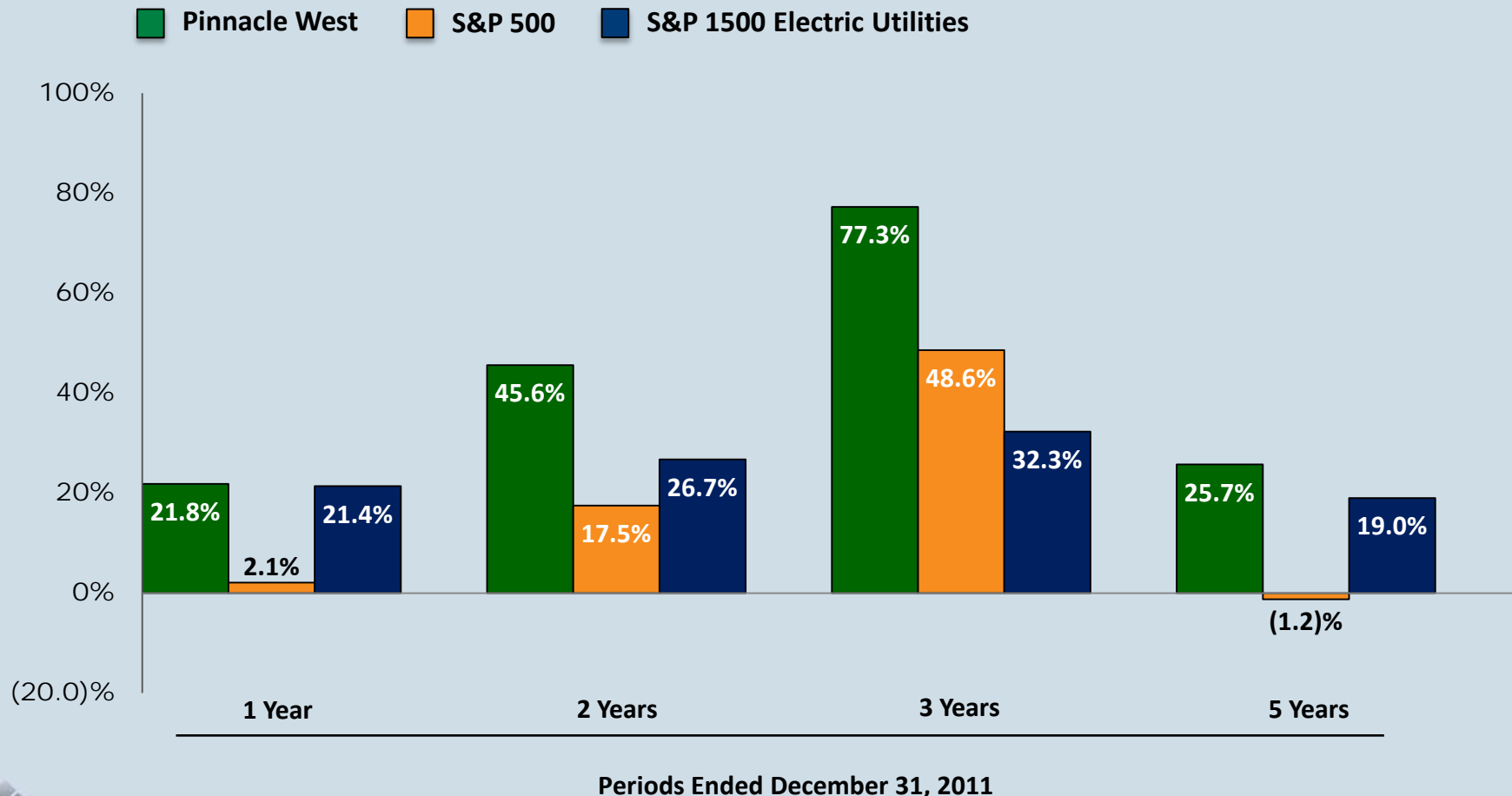
Our goal is to consistently earn a competitive return on average common equity.



* As of November 9, 2012

SUPERIOR SHAREHOLDER RETURNS

Our total return to shareholders has outperformed our industry and the broad market over the past five years.



READY ACCESS TO CAPITAL

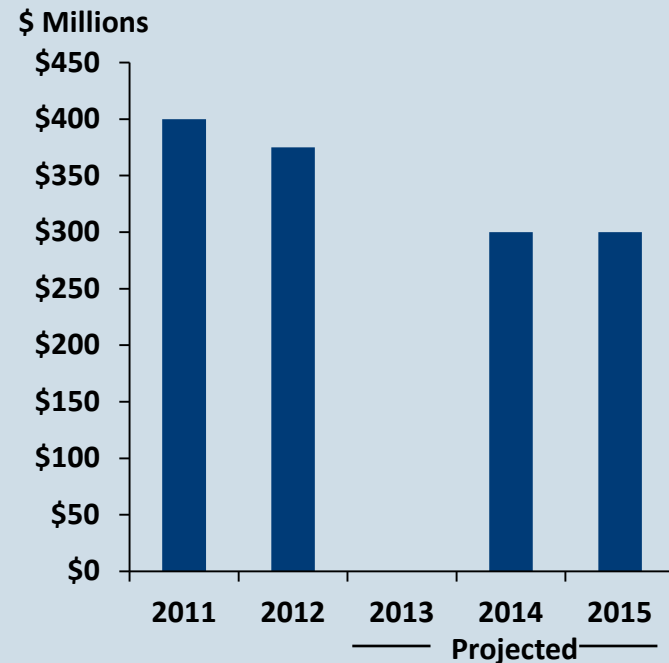
Strong access to capital resources is supported by solid credit ratings, manageable debt maturities and ample liquidity.

2012 Major Financing Activities

- **\$375M APS senior notes refinancing***
- **Remarketing of \$32MM Maricopa 2009B tax-exempts – VRDN mode with L/C ***
- **Remarketing of \$38.15MM Navajo 2009A tax-exempts – 2-year put mode***
- **\$90M redemption of Maricopa 2002A tax-exempts***
- **APS potential new debt issuance**

*Completed

APS Long-Term Debt Maturities



SOLID CREDIT RATINGS

Available liquidity remains substantial and our credit ratings have improved.

*Credit Facilities and Liquidity**

<u>Borrower</u>	<u>Capacity (\$ Millions)</u>	<u>Maturities</u>
APS	\$ 500	Feb. '15
APS	500	Nov. '16
PNW	<u>200</u>	Nov. '16
Consolidated	1,200	
Cash	<u>79</u>	
Total Liquidity	<u><u>\$1,279</u></u>	

*As of September 30, 2012

Corporate Credit Ratings

Moody's

S&P

Fitch

Senior Unsecured

Moody's

S&P

Fitch

Outlook

Moody's

S&P

Fitch

APS	Parent
Baa1	Baa2
BBB	BBB
BBB	BBB
Baa1	-
BBB	-
BBB+	-
Stable	Stable
Positive	Positive
Stable	Stable

We are disclosing these ratings to enhance understanding of our sources of liquidity and the effects of our ratings on our costs of funds.



PINNACLE WEST: OUR VALUE PROPOSITION

Our commitment to investors...

Delivering Superior Shareholder Returns





Financial Overview Appendix



PINNACLE WEST
CAPITAL CORPORATION

2012 ON-GOING EPS GUIDANCE

Key Factors and Assumptions as of November 9, 2012

- **Electricity gross margin*** (operating revenues, net of fuel and purchased power expenses) about \$2.13 billion to \$2.18 billion
 - Retail customer growth about 1%
 - Weather-normalized retail electricity sales volume slightly below prior year taking into account effects of customer conservation and energy efficiency and distributed renewable generation initiatives
 - Actual weather for first 9 months of year and normal weather patterns for remainder of year
- **Operating expenses*** (operations and maintenance, depreciation and amortization and taxes other than income taxes) about \$1.32 billion to \$1.35 billion (which was previously \$1.33 billion to \$1.36 billion)
- **Interest expense**, net of allowances for borrowed and equity funds used during construction, about \$180 million to \$190 million
- **Net income attributable to noncontrolling interests** about \$30 million to \$35 million
- **Effective tax rate** about 35%

* Excludes O&M of \$127 million, and offsetting operating revenues, associated with renewable energy and energy efficiency programs



2013 ON-GOING EPS GUIDANCE

Key Factors and Assumptions as of November 9, 2012

- **Electricity gross margin*** (operating revenues, net of fuel and purchased power expenses) about \$2.20 billion to \$2.25 billion
 - Retail customer growth about 1.5%
 - Weather-normalized retail electricity sales volume about flat to prior year taking into account effects of customer conservation and energy efficiency and distributed renewable generation initiatives
 - Normal weather patterns
- **Operating expenses*** (operations and maintenance, depreciation and amortization and taxes other than income taxes) about \$1.36 billion to \$1.39 billion
- **Interest expense, net of allowances for borrowed and equity funds used during construction, about \$190 million to \$200 million**
- **Net income attributable to noncontrolling interests about \$30 million to \$35 million**
- **Effective tax rate about 35%**

* Excludes O&M of \$132 million, and offsetting operating revenues, associated with renewable energy and energy efficiency programs



2012 – 2015 FINANCIAL OUTLOOK

Key Drivers and Assumptions as of November 9, 2012

2012 retail rate settlement effective July 1, 2012

- **Revenue provisions**
 - Retail base rate changes effective July 1, 2012
 - Adjustment mechanisms
 - Four Corners acquisition
 - AZ Sun additions to flow through RES until next base rate case
 - Lost Fixed Cost Recovery (LFCR) mechanism assumed to offset 30-40% of revenues lost due to ACC-mandated energy efficiency and distributed renewable generation initiatives
 - Environmental Improvement Surcharge (EIS) assumed to recover up to \$5 million annually of carrying costs for government-mandated environmental capital expenditures
- **Cost mitigation provisions**
 - Power Supply Adjustor (PSA) – 100% pass-through
 - Potential property tax deferrals – assume 60% of property tax increases relate to tax rates, therefore, will be eligible for deferrals
 - Deferral rates: 25% in 2012; 50% in 2013; 75% in 2014 and thereafter

(continued)

2012 – 2015 FINANCIAL OUTLOOK

Key Drivers and Assumptions as of November 9, 2012 (continued)

- Modestly improving Arizona and U.S. economic conditions; specifically, no major disruptions to the on-going national economic recovery [resulting from political action or inaction]
- Retail customer growth to average 2% annually
- Weather-normalized retail electricity sales volume growth:
 - Relatively flat after customer conservation and energy efficiency and distributed renewable generation initiatives
 - Average 2.5% annually before customer conservation and energy efficiency and distributed renewable generation initiatives
- Rate base growth to average 6% annually
- AZ Sun Program – additional 150 MW placed into service in 2012-2015
- Transmission rate increases (FERC formula rates and retail adjustor)
- Four Corners cost deferrals between dates acquired and included in retail rates
- Company-wide operating and capital cost management
- Financing to maintain balanced capital structure and support credit ratings
- Interest rates
- Normal weather (except actual for first 9 months of 2012)



NON-GAAP EPS RECONCILIATION

Consolidated On-Going EPS Guidance

	<u>Year 2011 Actual</u>	<u>Year 2012 Guidance*</u>	<u>Year 2013 Guidance*</u>
Net income attributable to common shareholders	\$ 3.09		
Less income (loss) from discontinued operations:			
Real estate	(0.01)		
Energy services business	<u>0.11</u>		
On-going EPS	<u>\$ 2.99</u>	<u>\$ 3.35 - \$ 3.50</u>	<u>\$ 3.45 - \$ 3.60</u>

*As of November 9, 2012



S&P CREDIT METRICS

Our key credit metrics have been improving.

	2007	2008	2009	2010	2011
APS					
FFO / Debt	17.2%	22.1%	22.8%	22.3%	20.8%
FFO / Interest	4.1x	5.1x	4.8x	4.6x	4.6x
Debt / Capitalization	55.2%	57.4%	56.8%	53.0%	53.0%
Pinnacle West					
FFO / Debt	15.7%	18.0%	18.4%	22.5%	20.3%
FFO / Interest	3.7x	4.3x	4.0x	4.6x	4.5x
Debt / Capitalization	57.0%	59.4%	59.8%	55.1%	54.5%

Source: S&P Credit Stats



NON-GAAP EPS RECONCILIATION

3rd Quarter 2012 vs. 3rd Quarter 2011

	<u>3rd Qtr 2012</u>	<u>3rd Qtr 2011</u>	<u>Change</u>
EPS as reported	\$ 2.21	\$ 2.32	\$ (0.11)
Less income from discontinued operations	-	(0.08)	0.08
On-going EPS	<u>\$ 2.21</u>	<u>\$ 2.24</u>	<u>\$ (0.03)</u>



NON-GAAP MEASURE RECONCILIATION

3rd Quarter 2012 vs. 3rd Quarter 2011 Gross Margin

\$ millions pretax, except per share amounts	Three Months Ended September 30,		EPS Change
	2012	2011	
Operating revenues*	\$ 1,110	\$ 1,125	
Fuel and purchased power expenses*	(303)	(338)	
Gross margin	807	787	\$ 0.11
Less:			
Renewable energy (excluding AZ Sun), energy efficiency and similar regulatory programs	(35)	(44)	0.05
Gross margin - adjusted	<u>\$ 772</u>	<u>\$ 743</u>	<u>\$ 0.16</u>

* Line items from Consolidated Statements of Income.

