



POWERING GROWTH DELIVERING VALUE

APS Rate Case Filing Overview | June 2016

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 high reliability and customer service levels; variations in demand for electricity, including those due to weather seasonality, 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; competition in retail and wholesale power markets; regulatory and judicial decisions, developments and proceedings; new legislation, ballot initiatives and regulation, including those relating to environmental requirements, regulatory policy, nuclear plant operations and potential deregulation of retail electric markets; fuel and water supply availability; our ability to achieve timely and adequate rate recovery of our costs, including returns on and of debt and equity capital investments; 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; current and future economic conditions in Arizona, including in real estate markets; the development of new technologies which may affect electric sales or delivery; the cost of debt and equity capital and the ability to access capital markets when required; environmental and other concerns surrounding coal-fired generation, including regulation of greenhouse gas emissions; volatile fuel and purchased power costs; 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 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; and restrictions on dividends or other provisions in our credit agreements and ACC 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, 2015, 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.

2016 APS RATE CASE APPLICATION

- Filed June 1, 2016*
- Propose new rates go into effect on July 1, 2017
- Docket Number: E-01345A-16-0036
- Additional details, including filing, can be found at <http://www.azenergyfuture.com/rate-review/>

* 1-month sufficiency review period by ACC

2016 RATE CASE KEY FINANCIALS

APS has requested a rate increase to become effective July 1, 2017

Test year ended December 31, 2015

Total Rate Base - Adjusted	\$8.01 Billion
ACC Rate Base - Adjusted	\$6.77 Billion
Allowed Return on Equity	10.5%
Capital Structure	
Long-term debt	44.2%
Common equity	55.8%
Base Fuel Rate (¢/kWh)	2.9882
Post-test year plant period	18 months

Overview of Rate Increase (\$ in Millions)

Total stated base rate increase (inclusive of existing adjustor transfers)	\$ 433.43	15.00%
Less: Transfer to base rates of various adjustors already in effect	(267.55)	(9.26)
Net Customer Bill Impact	\$ 165.88	5.74%

2016 RATE CASE FRAMEWORK

“A Bridge to the Future”

Rate Case Objectives

Focus on Clean Energy	Focus on Customers	Focus on Innovation	Focus on Sustainability
<ul style="list-style-type: none"> • Generate power from diverse portfolio and support environmental improvements • Create sustainable path forward for flexible resource portfolio 	<ul style="list-style-type: none"> • Optimize customer service and reliability • Better align rates with the true cost of service • Provide rate gradualism and bill stability for customers by managing overall rate trajectory and the transition to new rate design 	<ul style="list-style-type: none"> • Prudently invest in new technologies • Implement new customer information system to enable adaptable customer programs and rates • Modernize rates to enable advanced technologies and grid services 	<ul style="list-style-type: none"> • Achieve an earned return that provides for financial stability and allows for sustainable investments in Arizona • Maintain structure of constructive regulatory support • Improve concurrent cost recovery of plant investments

2016 RATE CASE SUMMARY

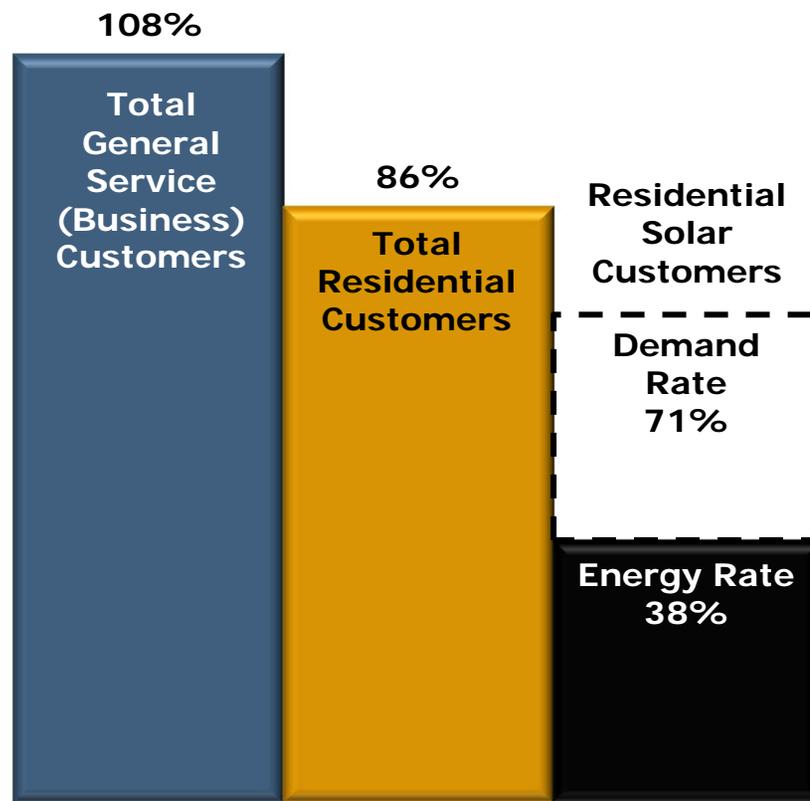
Focus on Clean Energy	Focus on Customers	Focus on Innovation	Focus on Sustainability
<p>Ocotillo Modernization Project</p> <ul style="list-style-type: none"> Requesting cost deferral order from in-service dates in 2018 and 2019 to effective date of rates in next rate case <p>Four Corners Selective Catalytic Reduction (SCR) Equipment</p> <ul style="list-style-type: none"> Requesting cost deferral order from in-service dates to incorporation of the SCR costs in rates using a step-increase beginning in 2019 	<p>Residential Rate Design Modernization</p> <ul style="list-style-type: none"> Transition to 3-part residential rate structure including a variable (energy kWh) charge, a fixed (basic service) charge, and a demand charge Modify net energy metering to differentiate compensation between energy consumed on site and exported energy <p>General Service (Business)</p> <ul style="list-style-type: none"> Retire AG-1; introduce aggregation discount for customers with multiple sites, a new rate for customers with extra high load factors and an economic development rate 	<p>Solar Partners Programs</p> <ul style="list-style-type: none"> Installing 10 MW of APS-owned residential PV systems on 1,600 homes with advanced inverters, including 4 MW of battery storage <p>Red Rock Solar Generating Station</p> <ul style="list-style-type: none"> 40 MW utility-scale solar facility (post-test year plant) <p>Microgrid Projects</p> <ul style="list-style-type: none"> Two microgrids in service by 3Q16; partnered with Marine Corps Air Station Yuma and Aligned Data Center in Phoenix 	<p>Power Supply Adjustment</p> <ul style="list-style-type: none"> Include environmental chemical costs, generation-related water costs, and energy storage products from 3rd party providers <p>Environmental Improvement Surcharge</p> <ul style="list-style-type: none"> Increase from ~\$5M total cap to \$10M year-over-year cap <p>Depreciation Rate Changes</p> <ul style="list-style-type: none"> Change depreciation life schedules including Cholla Units 1 & 3, Ocotillo Units 1 & 2, Yucca Units 1-4 and AMI meters

APS COST OF SERVICE

Appropriate to place residential solar customers into a unique sub-category of customers

- Cost of service shows disparities in ratio of allocated costs to provide electric service, and what customer classes pay for the services received
- Solar customers on an energy-based rate avoid approximately \$72 per month based on proposed rates
- Current rate structure results in 96% of customers paying more than they should to subsidize rooftop solar
- APS is the first utility to conduct a full cost of service study considering solar customers as a separate class

Percent of Cost to Serve*



* Test-year ended December 31, 2015 based on current rates

RATE DESIGN MODERNIZATION

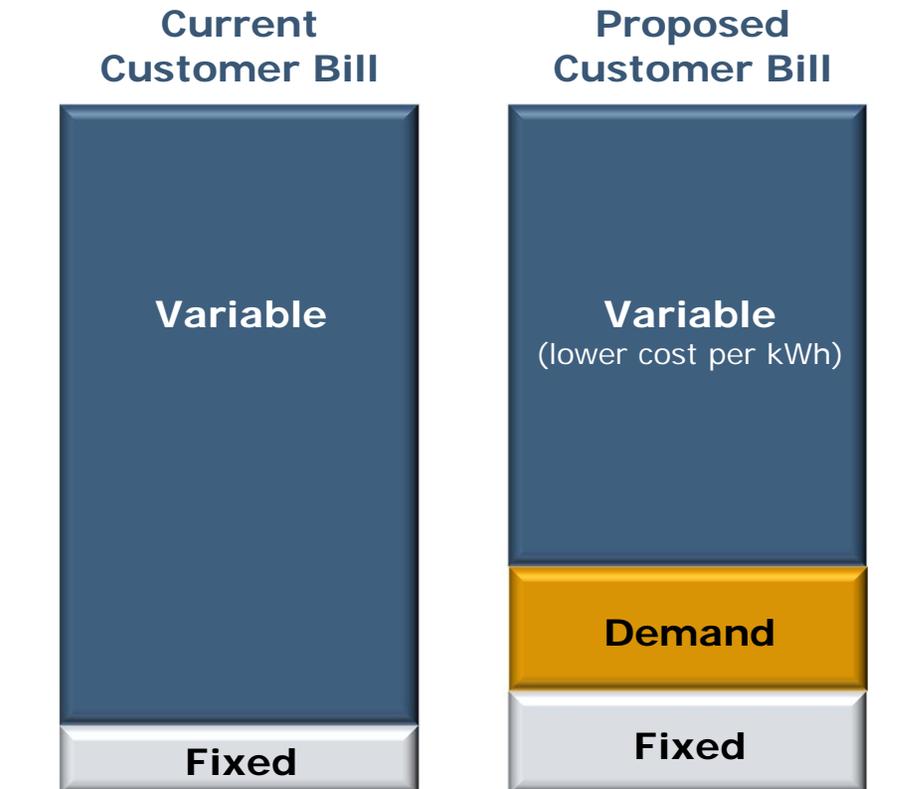
Rate design that better aligns pricing with cost to serve and leverages existing platform

Focus Area	Current State	Rate Case Objective
Time-of-Use Rates (TOU)	<ul style="list-style-type: none"> > 50% of residential customers are on a TOU rate On-peak hours from 12-7 PM (M-F) TOU difference in on-peak prices that are 4 times the off-peak prices 	<ul style="list-style-type: none"> Most residential customers on a TOU rate On-peak hours from 3-8 PM (M-F) to better align with system peak TOU difference in on-peak prices that are 2 times the off-peak prices
Demand Rates	<ul style="list-style-type: none"> 11% of residential customers are on demand rates, more than any other electric utility 	<ul style="list-style-type: none"> Most residential customers on demand rates Calculated on the highest demand averaged over a one-hour period during the on-peak period each month
Basic Service (Fixed) Charge	<ul style="list-style-type: none"> Customers pay basic service charge ranging from \$8.67 - \$16.91 per month 	<ul style="list-style-type: none"> Set basic service charge for all rate classes ranging from \$14 - \$24 per month
Net Metering	<ul style="list-style-type: none"> Excess power compensated at full retail price 	<ul style="list-style-type: none"> Excess power compensated at export price aligned with avoided cost Recovery of cost to purchase through existing PSA mechanism Grandfather qualified rooftop solar customers
Lost Fixed Cost Recovery (LFCR)	<ul style="list-style-type: none"> 1% year-over-year adjustment cap based on total revenues Recovers portion of costs reduced by energy efficiency (EE) and distributed generation (DG) programs 	<ul style="list-style-type: none"> Similar construct, but increase year-over-year adjustment cap to 2% based on total revenues Increased portion of lost fixed costs eligible for recovery

RATE DESIGN MODERNIZATION

Key residential rate proposals
designed to reduce cost shift
among customers

- Streamlined rate choices for residential customers including combinations of the following:
 - Reductions to kWh (variable) charges;
 - Increases in basic service (fixed) charges; and
 - Variations of demand (kW) charges applied to on-peak hours
- Modify the net energy metering transaction, while providing a grandfathering program for qualifying customers with rooftop solar



OCOTILLO MODERNIZATION PROJECT AND FOUR CORNERS SCR_s

- Requesting Accounting Deferral Orders for two large generation-related capital investments
 - Ocotillo Modernization Project: Retiring two aging, steam-based, natural gas units, and replacing with 5 new, fast-ramping, combustion turbine units
 - Four Corners Power Plant: Install Selective Catalytic Reduction (SCR) equipment to comply with Federal environmental standards

	Ocotillo Modernization Project	Four Corners SCR _s
In-Service Dates	Units 6, 7 – Fall 2018 Units 3, 4 and 5 – Spring 2019	Unit 5 – Late 2017 Unit 4 – Spring 2018
Total Cost (APS)	\$500 million	\$400 million
Estimated Cost Deferral	\$45 million (through 2019)	\$30 million (through 2018)
Rate Request	Requesting cost deferral from date of commercial operation to the effective date of rates in next rate case	Requesting cost deferral order from time of installation to incorporation of the SCR costs in rates using a step increase beginning in 2019



APPENDIX

PINNACLE WEST
CAPITAL CORPORATION



RATE BASE

APS's revenues come from a regulated retail rate base and meaningful transmission business

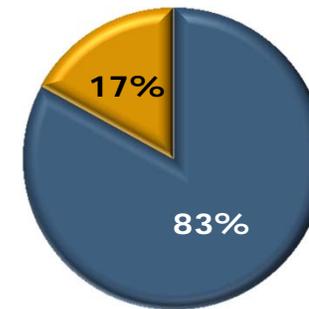
APS Rate Base Growth
Year-End



Rate base \$ in billions, rounded

Total Approved Rate Base

■ Generation & Distribution ■ Transmission

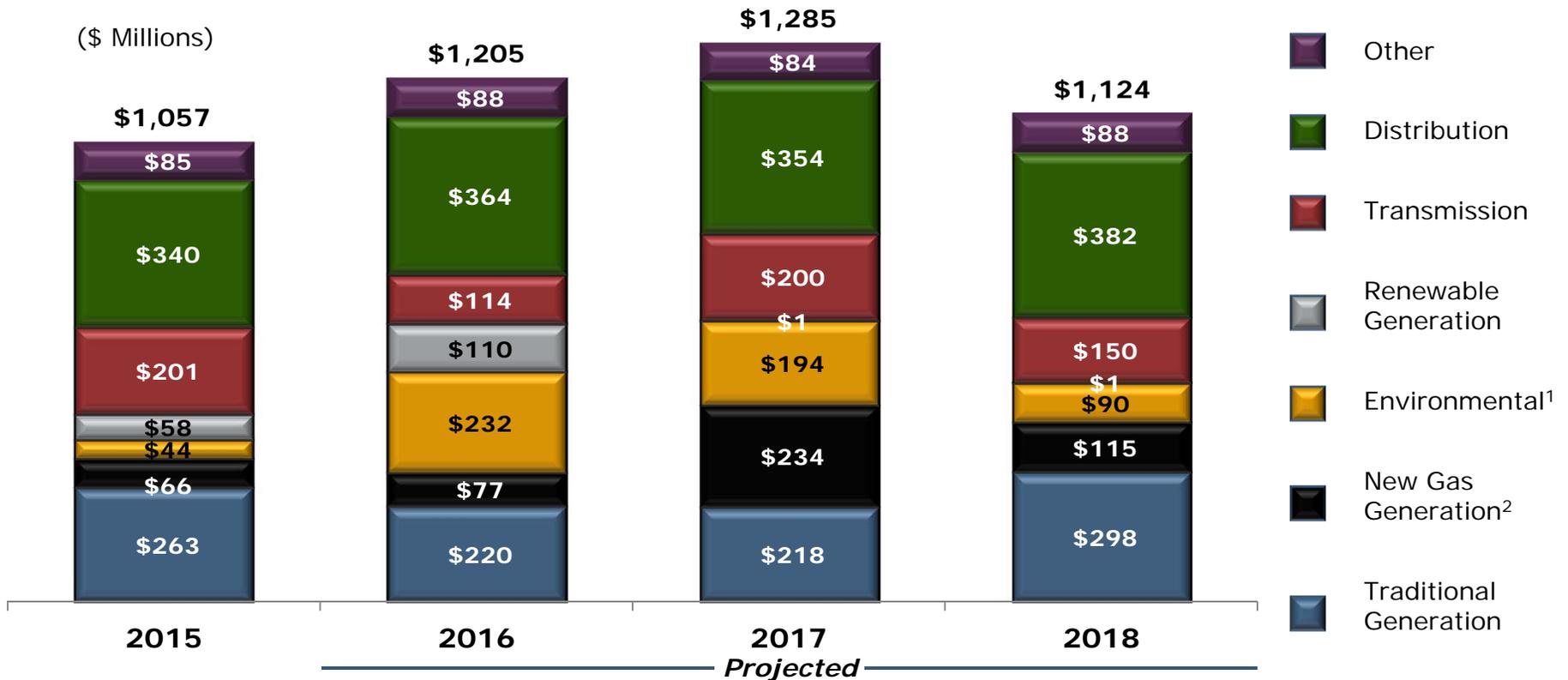


	ACC	FERC
Rate Effective Date	7/1/2012	6/1/2016
Test Year Ended	12/31/2010*	12/31/2015
Rate Base	\$5.7B	\$1.4B
Equity Layer	54%	56%
Allowed ROE	10.00%	10.75%

*Adjusted to include post test-year plant in service through 3/31/2012

CAPITAL EXPENDITURES

Capital expenditures are funded primarily through internally generated cash flow



- The table does not include capital expenditures related to El Paso's 7% interest in Four Corners Units 4 and 5 of \$3 million in 2015, \$30 million in 2016 and \$25 million in 2017.
- 2016 – 2018 as disclosed in First Quarter 2016 Form 10-Q.

¹ Includes Selective Catalytic Reduction controls at Four Corners with in-service dates of late 2017 (Unit 5) and Spring 2018 (Unit 4)

² Ocotillo Modernization Project: 2 units scheduled for completion in Fall 2018, 3 units schedule for completion in Spring 2019

THE GRID IS EVOLVING – INCREASINGLY DYNAMIC AND COMPLEX

- Grid stability, power quality and reliability remain the core of a sustainable electrical system
- APS is at the forefront of utilities designing and planning for the electric grid
- Rates need to be modernized to enable advanced technologies and to reflect the true cost of service

Drivers for Change

- Traditional grid built for one-way flow
- Technology advancements (storage, home energy management)
- Changing customer needs and demands
- Proliferation of distributed solar energy, which does not align with peak

The Modern Grid

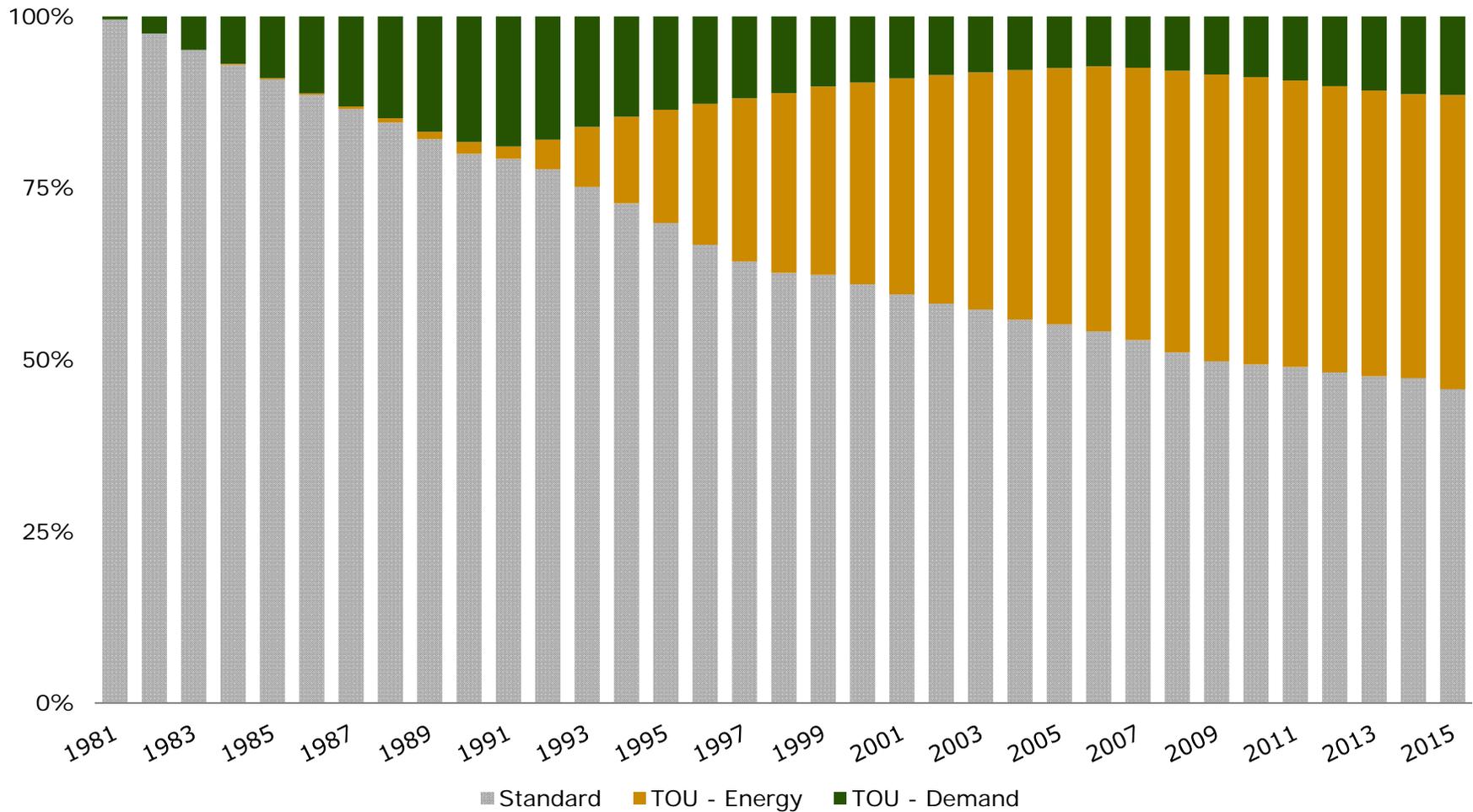
- New technologies to enable two-way flow
- Proactive vs. reactive operations and maintenance
- Modern rate structure
- New ways to interact with customer
- Mobility for our field personnel
- Smarter, more flexible real-time system operations
- Support consumer products and services
- Addresses cybersecurity

APS Laying Foundation for the Future

- Solar R&D initiatives
 - Solar Partner Program
 - Solar Innovation Study
- Smart meters fully deployed
- Investing in peaking capacity upgrades (Ocotillo)
- Evaluating storage
 - Battery pilot investments
 - Microgrids (Marine Corps Air Station Yuma)
- Software upgrades for distribution operations and customer service
- Ensuring our people have the relevant skill sets

APS RATE DESIGN: A SOLID FOUNDATION TO BUILD ON

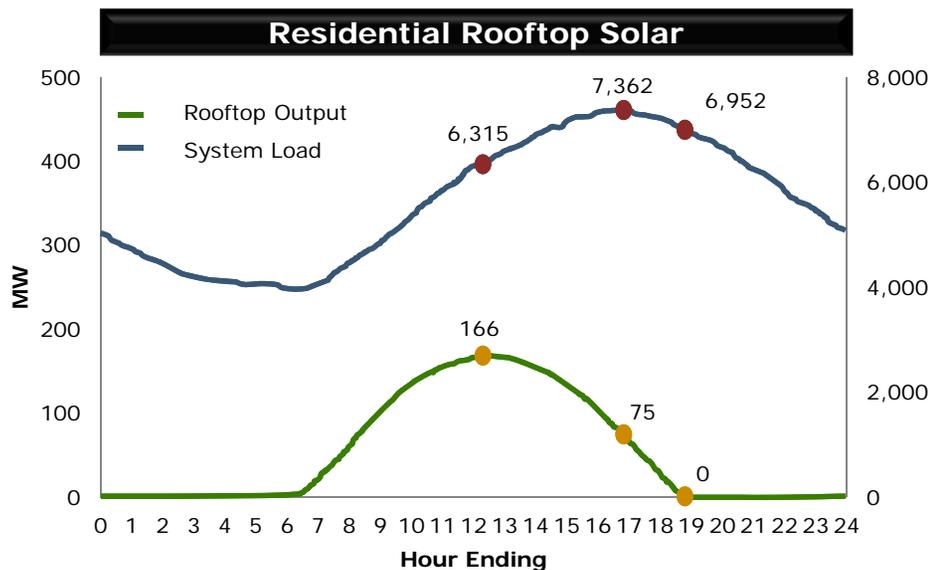
Over 50% of APS residential customers are already on time-of-use rates, including 11% on demand rates



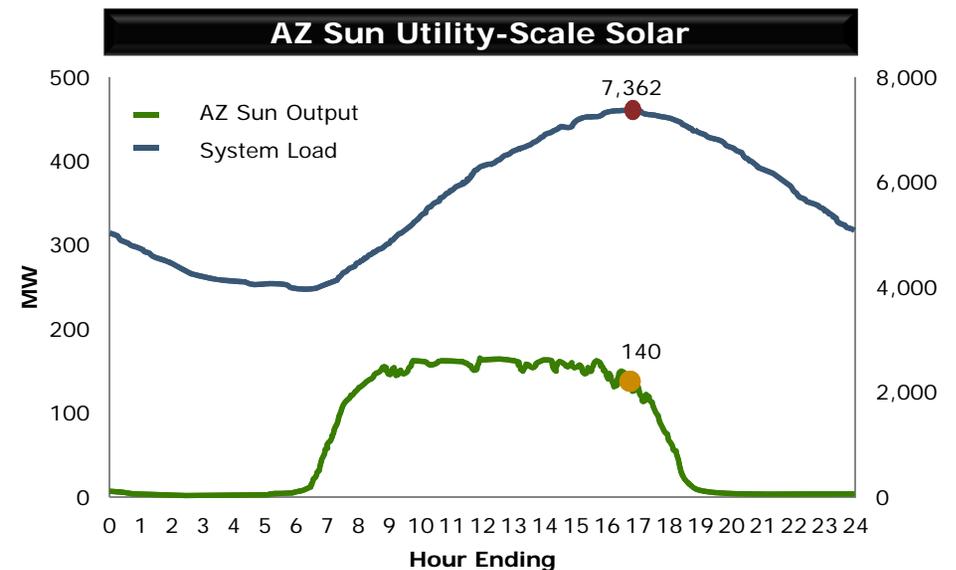
RESIDENTIAL VS. UTILITY-SCALE SOLAR

Performance at system peak

On August 15th, APS customers hit “peak demand” for 2015 using more than 7,300 MW of electricity



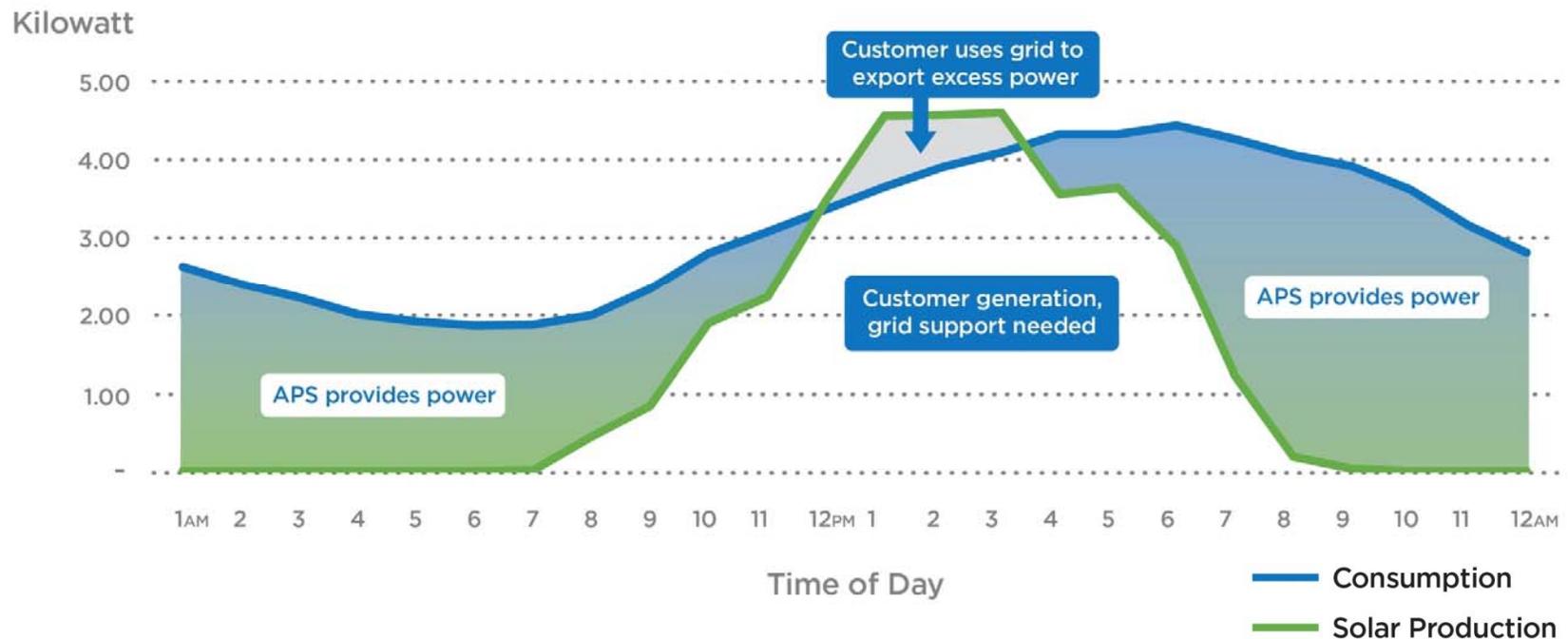
- Noon: Customer demand still increasing; rooftop solar peaks and begins to decline
- 5PM: Customer demand peaks; rooftop solar producing at 38% of total capacity
- 7PM: Rooftop output at zero, but demand still above 6,900 MW of power



- Solar panels at 8 of the AZ Sun plants rotate to track the sun, achieving highest production earlier in the day and maintaining it later
- At peak demand, utility-scale solar producing at nearly 80% of total capacity

ROOFTOP SOLAR CUSTOMERS USE THE GRID 24 HOURS PER DAY

TYPICAL GRID INTERACTION FOR ROOFTOP SOLAR



- Customers with rooftop solar systems **do not pay for all of the electric services they use**
- These **unpaid costs are then paid by other customers** (through higher rates) that can't have or don't want solar
- This issue will only get **bigger over time**

ARIZONA CORPORATION COMMISSION

Terms to January 2017



**Bob
Burns (R)**



**Bob
Stump (R)***



**Andy
Tobin (R)**

Terms to January 2019



**Tom
Forese (R)**



**Doug
Little (R)
Chairman**

Other State Officials

**ACC Utility Division Director - Tom Broderick
RUCO Director - David Tenney**

* Term limited - elected to four-year terms (limited to two consecutive terms)

2016 KEY DATES

ACC Key Dates	Docket #	Q1	Q2	Q3	Q4
Key Recurring Regulatory Filings					
Lost Fixed Cost Recovery	E-01345A-11-0224	Jan 15			
Transmission Cost Adjustor	E-01345A-11-0224		May 15		
Renewable Energy Surcharge	TBD			Jul 1	
APS Rate Case	E-01345A-16-0036	Jan 29: Notice of Intent Filing	Jun 1: Initial filing	TBD	TBD
Resource Planning and Procurement	E-00000V-15-0094	Mar 1: Preliminary IRP filed			Oct 1: File updates to preliminary IRP*
Value and Cost of Distributed Generation	E-00000J-14-0023	Feb 25: DG Methodologies & supporting testimony filed	Apr 7: Rebuttal testimony and alternate proposals due Apr 15: Pre-hearing Apr 18: Hearing; Jun 8-9 Hearing Jun 13: Responses Due Jun 20: Initial briefs	Jul 8: Reply briefs TBD: ALJ Order	
ACC Open Meetings	-	<i>ACC Open Meetings Held Monthly</i>			
Other Key Dates	Docket #	Q1	Q2	Q3	Q4
Arizona State Legislature	n/a	In session Jan 11- May 7 (Adjourned)			
Elections	n/a			Aug 30: Primary	Nov 8: General
All Source Request for Proposal (RFP)	n/a	Mar 11: RFP Issued	Jun 9: Responses Due		

* April 2017: Final IRP due

ARIZONA ELECTRIC UTILITIES GENERAL RATE CASES

<p>UNS Electric (93,000 customers) Docket # E-04204A-15-0142</p> <p>Application filed May 5, 2015 Direct testimony - ex rate design, cost of service (Nov 6, 2015) Direct testimony - rate design, cost of service (Dec 9, 2015) Rebuttal testimony (Jan 19, 2016) Surrebuttal testimony (Feb 23, 2016) Rejoinder testimony (Feb 29, 2016) Pre-hearing (Feb 26, 2016) Hearing (Mar 1, 2016) Post hearing initial briefs (April 25, 2016) Reply briefs (May 11, 2016) ALJ order expected in July; followed by ACC decision</p>	<p>Tucson Electric Power Company (415,000 customers) Docket # E-01933A-15-0322</p> <p>Application filed Sep 4, 2015 Direct testimony – ex rate design and cost of service (Jun 3, 2016) Direct testimony – rate design and cost of service (Jun 24, 2016) Rebuttal testimony (Jul 25, 2016) Surrebuttal testimony (Aug 18, 2016) Rejoinder testimony (Aug 25, 2016) Pre-hearing (Aug 25, 2016) Hearing (Aug 31, 2016)</p>
<p>Sulphur Springs Valley Electric Cooperative (58,000 customers) Docket # E-01575A-15-0312</p> <p>Application filed Aug 31, 2015 Direct testimony - ex rate design, cost of service (Mar 18, 2016) Direct testimony - rate design, cost of service (Apr 1, 2016) Rebuttal testimony (Apr 15, 2016) Surrebuttal testimony (May 4, 2016) Rejoinder (May 11, 2016) Pre-hearing (May 13, 2016) Hearing (May 17, 2016) <i>Settlement discussions began April 15, 2016</i></p>	<p>Trico Electric Cooperative (38,000 customers) Docket # E-01461A-15-0363</p> <p>Application filed Oct 23, 2015 Direct testimony - ex rate design, cost of service (May 4, 2016) Direct testimony - rate design, cost of service (May 25, 2016) Rebuttal testimony (Jun 22, 2016) Surrebuttal testimony (Jul 8, 2016) Rejoinder (Jul 15, 2016) Pre-hearing (Jul 18, 2016) Hearing (Jul 19, 2016)</p>

INVESTOR RELATIONS CONTACTS

Paul J. Mountain, CFA

General Manager, Investor Relations & Audit Services
(602) 250-4952
paul.mountain@pinnaclewest.com

Ted Geisler

Director, Investor Relations
(602) 250-3200
ted.geisler@pinnaclewest.com

Chalese Haraldsen

(602) 250-5643
chalese.haraldsen@pinnaclewest.com

Pinnacle West Capital Corporation
P.O. Box 53999, Mail Station 9998
Phoenix, Arizona 85072-3999

Visit us online at: www.pinnaclewest.com