



POWERING GROWTH DELIVERING VALUE

PINNACLE WEST
CAPITAL CORPORATION

EI Financial Conference | November 11-13, 2018



FORWARD LOOKING STATEMENTS AND NON-GAAP FINANCIAL MEASURES

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,” “project” 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, economic 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, 2017, 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.

In this presentation, references to net income and earnings per share (EPS) refer to amounts attributable to common shareholders.

We present “gross margin” per diluted share of common stock. Gross margin refers to operating revenues less fuel and purchased power expenses. Gross margin is a “non-GAAP financial measure,” as defined in accordance with SEC rules. The appendix contains a reconciliation of this non-GAAP financial measure to the referenced revenue and expense line items on our Consolidated Statements of Income, which are the most directly comparable financial measures calculated and presented in accordance with generally accepted accounting principles in the United States of America (GAAP). We view gross margin as an important performance measure of the core profitability of our operations, and is 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.

We present “adjusted gross margin” and “adjusted operations and maintenance” that have been adjusted to exclude costs and offsetting operating revenues associated with renewable energy and demand side management programs. We also present “adjusted income taxes” that shows the impact of tax reform. Adjusted gross margin, adjusted operations and maintenance, and adjusted income taxes are “non-GAAP financial measures,” as defined in accordance with SEC rules. The appendix contains a reconciliation to show the exclusion of costs and offsetting operating revenues associated with renewable energy and demand side management programs, and the impact of tax reform. We believe the information provided in the reconciliation provides investors with useful indicators of our results that are comparable among periods because they exclude the effects of unusual items that may occur on an irregular basis, such as tax reform impacts, and exclude the effects of programs that overstate our gross margin.

PINNACLE WEST: WHO WE ARE

We are a vertically integrated, regulated electric utility in the growing Southwest United States

Our Business

Pinnacle West operates Arizona Public Service ("APS"), our principal subsidiary



\$18B

Consolidated Assets

Arizona's largest and longest-serving electric company, providing affordable and reliable electricity for approximately 1.2M customers

Our Plants



APS co-owns and operates power plants in the Southwest, with **full operational control and responsibility** for:

FOUR CORNERS

A 2-unit coal-fired power plant

1,540 MW²

CHOLLA

A 3-unit coal-fired power plant

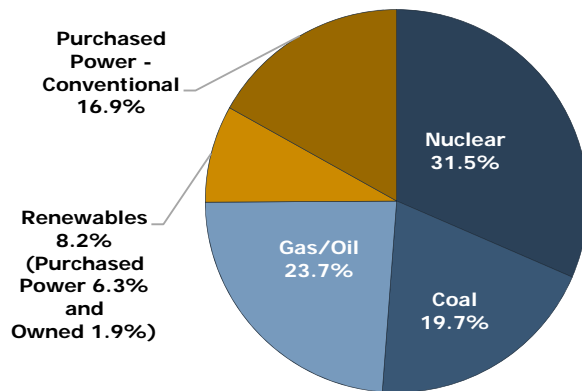
767 MW²

PALO VERDE

The largest nuclear power plant in the U.S.

3,990 MW²

Our Energy Sources¹



APS shares ownership of Palo Verde with six other utilities, but maintains sole management responsibility for the nation's largest nuclear plant

26

Years as the nation's largest power producer of any kind

>\$1B

Annual budget managed solely by APS

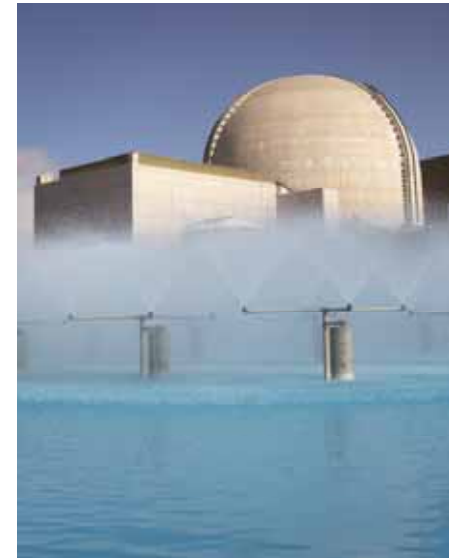
¹ APS's sources of energy by type used to supply energy to native load customers during 2017
² Net generation rating: APS owns 29.1% of Palo Verde, 63.0% of Four Corners and 50.5% of Cholla

PINNACLE WEST: OUR FUTURE

We are making clean energy and infrastructure investments to support Arizona's growth

Our future includes:

- More clean energy
- A healthier environment
- Palo Verde Generating Station, the largest clean energy producer in the country
- Infrastructure to power Arizona's growth



To get there we will:

- Continue Arizona's solar leadership
- Invest in battery storage and other clean technologies
- Invest in infrastructure to support electric vehicles
- Partner with customers to achieve their clean-energy goals

We expect 340,000 new customers and a 30% increase in our customer's energy needs by 2030.

SUSTAINABILITY

APS's vision is to create a sustainable energy future for Arizona

Progress and Achievements

Five critical areas of our sustainability efforts

Carbon Management

- Plan to **reduce carbon intensity by 23%** over the next 15 years
- MSCI Environmental Sustainability and Governance **A rating**¹

Energy Innovation

- **More than 1,300 MW** of installed solar capacity
- Plan to add over **500 MW of energy storage** in next 15 years

Safety & Security

- **Nearly 70% reduction in OSHA recordable injuries** over past 10 years
- Remain **top decile for safety** performance in U.S. electric utilities industry

Water Resources

- **14% reduction** in groundwater use since 2014
- **20 billion gallons of water recycled** each year to cool Palo Verde

People

- Average **employee tenure of 13 years** due to strong talent strategy
- More than 20% of our employees are **veterans**

✓ *Board of Directors Nuclear and Operating Committee Charter was amended in 2018 to assign oversight of sustainability initiatives and strategy*

✓ *We continue to be recognized for our sustainability leadership*

✓ *Obtained a "Leadership" rating from CDP for climate change and water management — one of only two U.S. utilities to earn the highest rating in both categories*

¹ As of October 27, 2017

CLEAN ENERGY

Clean energy plays an important role in meeting Arizona's energy needs today

Looking ahead to Arizona's growing population and expanding economic activity, APS continues supporting resources and technology to ensure our energy is clean, reliable and affordable for all Arizonans

50%
CARBON-FREE

Today, we serve customers with an energy mix that is 50% clean


1 MILLION
solar panels

Our 10 grid-scale solar plants are powered by more than 1 million solar panels

70%

The Palo Verde Generating Station provides more than 70% of Arizona's carbon-free energy and uses recycled wastewater to cool the plant

We are accomplishing this through innovative customer programs, next-generation energy efficiency programs, energy storage, the APS Solar Partner and APS Solar Communities programs and microgrids

STORAGE PROJECTS

We are leading the solar-plus-battery-storage effort, advancing innovation and conducting ground-breaking research



2018 Battery Storage RFP

- Up to 106 MW located on APS solar plant sites
- Utility owned
- Anticipated in-service by June 2020

Punkin Center Battery Storage Project

- 2 MW/8 MWH lithium ion battery
- Placed in service March 2018
- Deferred the rebuild of around 20 miles of 21 kV distribution line for approximately 5-10 years
- Acts as generating capacity to the system
- Helps regulate the voltage on the feeder

APS, First Solar Battery Storage Project

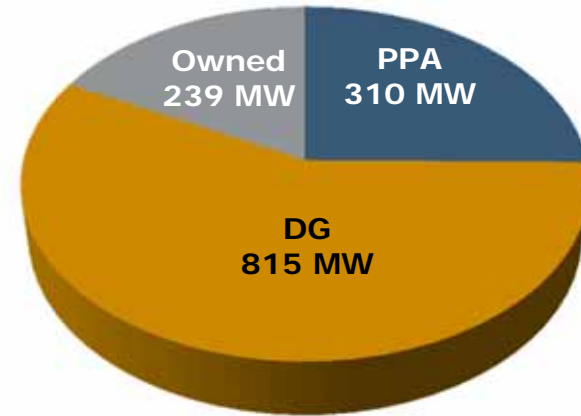
- 50 MW battery energy storage; 65 MW solar
- 15-year power purchase agreement
- Anticipated in-service 2021
- APS will be able to store power and deliver energy during peak hours (3-8 p.m.)

RENEWABLE RESOURCES

APS currently has 1,683 MW of renewable resources:

- Solar* 1,364 MW
- Wind 289 MW
- Biomass 14 MW
- Geothermal 10 MW
- Biogas 6 MW

APS Solar Portfolio*



Owned solar includes 170 MW AZ Sun Program, 25 MW of APS owned Distributed Generation (DG), 4 MW of other APS owned utility scale solar and 40 MW Red Rock Solar Plant; PPA is primarily 250 MW Solana Concentrated Solar Facility



Yuma Foothills
Solar
35 MW



Aragonne Mesa
Wind
90 MW



Snowflake
Biomass
14 MW



Salton Sea
Geothermal
10 MW



Glendale Landfill
Biogas
3 MW

* As of 9/30/18 as reported in the Third Quarter 2018 Form 10-Q – with additional 110 MW under development

CUSTOMER PROGRAMS

Introduced more programs that benefit both customers and the Company



Smart Thermostats with Demand Response and Pre-Cooling

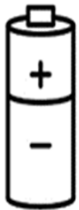
Customer Benefits

- Bill credit of \$25/year in exchange for demand response

APS Benefits

- Partner with customers to reduce system load during peak periods

Behind the Meter Battery Systems



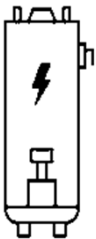
Customer Benefits

- Receive battery and one-time incentive of \$500 in exchange for joint use of the battery

APS Benefits

- APS will own, operate, and maintain the battery systems
- Batteries will help integrate solar resources
- Utilize battery storage as a load-balancing mechanism during peak hours

Residential Grid-Interactive Water Heaters



Customer Benefits

- Bill savings opportunities
- Customers receive free heat pump water heaters

APS Benefits

- APS operates water heaters when energy is abundant avoiding peak periods
- Innovative load management initiative

DEMAND SIDE MANAGEMENT (DSM)

2018 DSM Plan shifts the focus to align with APS's changing resource needs

School Bus Electrification

- Pilot program to electrify school buses that can charge in the middle of the day

Managed EV Charging Program

- Fleet, workplace and multifamily charging infrastructure
- Utility controlled providing additional demand response

Reverse Demand Response Pilot

- Customers take advantage of negative pricing events

Energy Storage Initiative Expansion

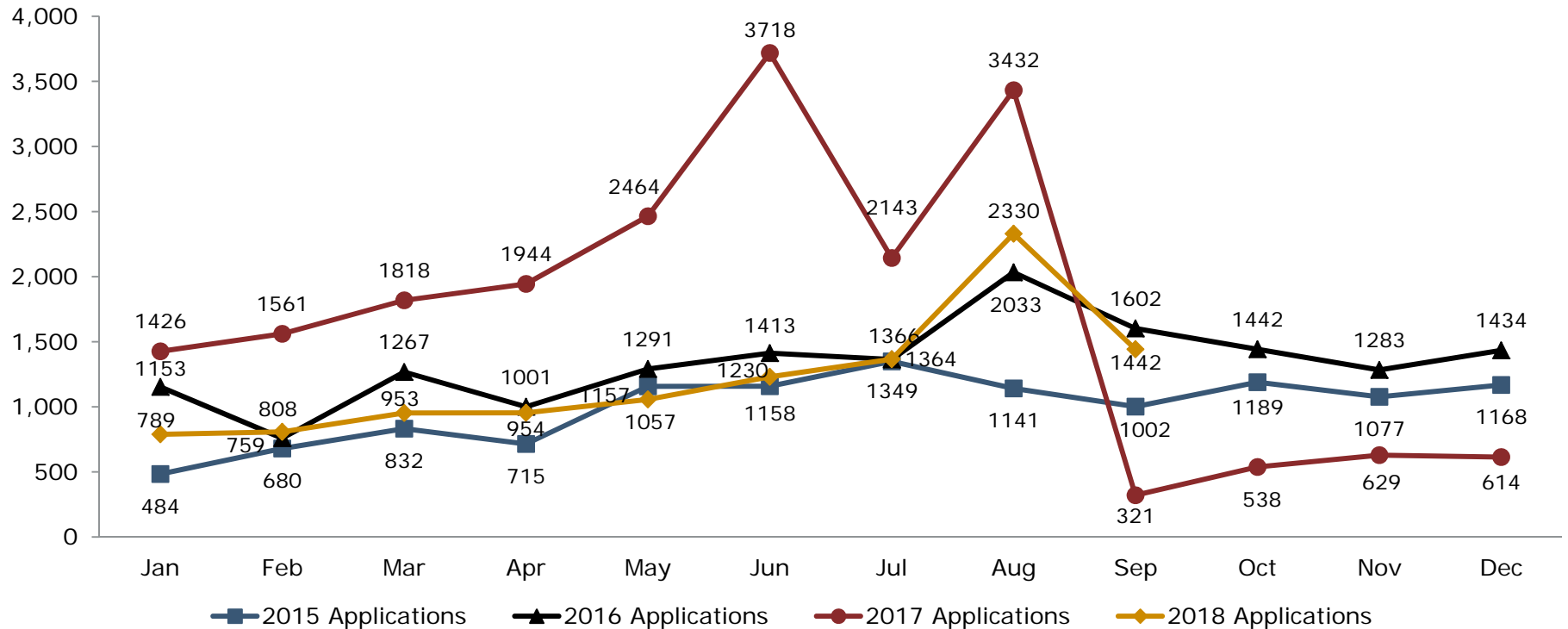
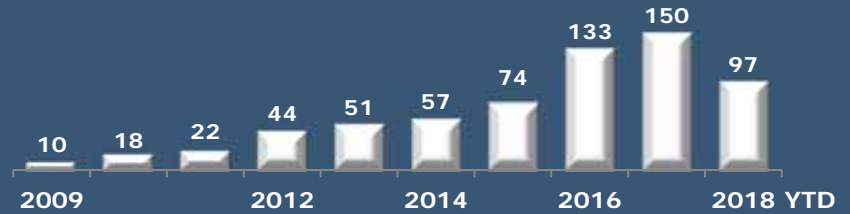
- Focus on C&I energy storage and control



2018 DSM Plan introduces new high value pilot programs to utilize the mid-day overproduction of energy

RESIDENTIAL PV APPLICATIONS¹

Residential DG (MWdc) Annual Additions



¹ Monthly data equals applications received minus cancelled applications. As of September 30, 2018, approximately 83,100 residential grid-tied solar photovoltaic (PV) systems have been installed in APS's service territory, totaling approximately 661 MWdc of installed capacity. Excludes APS Solar Partner Program residential PV systems.

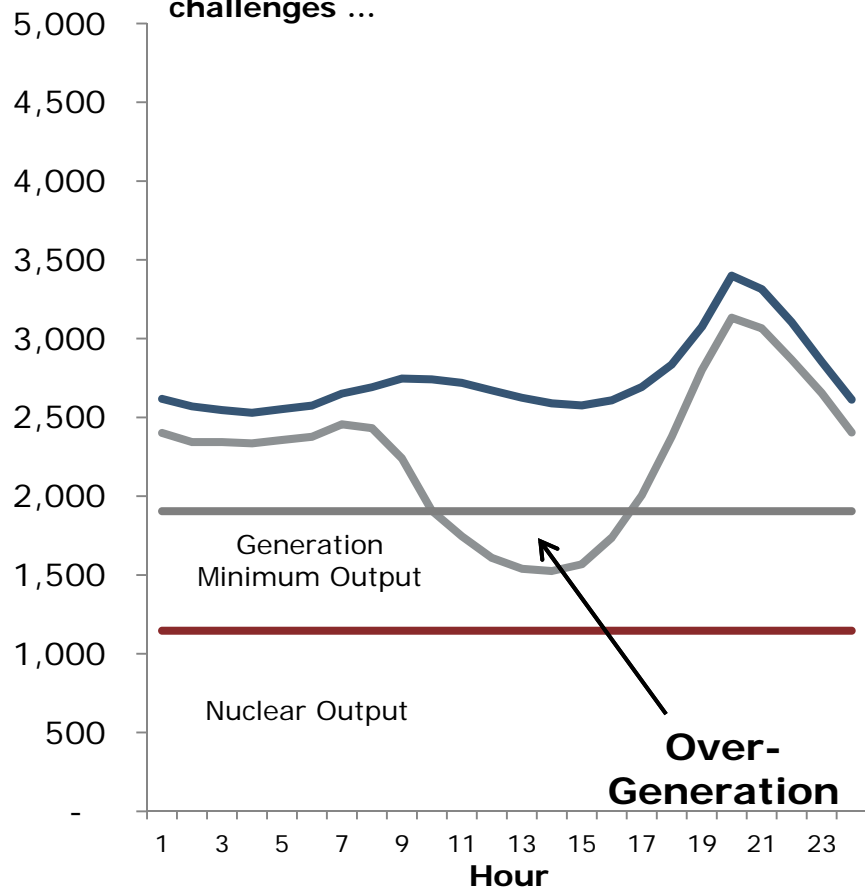
Note: www.arizonagoessolar.org logs total residential application volume, including cancellations. Solar water heaters can also be found on the site, but are not included in the chart above.

THE "DUCK CURVE"

Distributed generation is changing the load shape of the grid

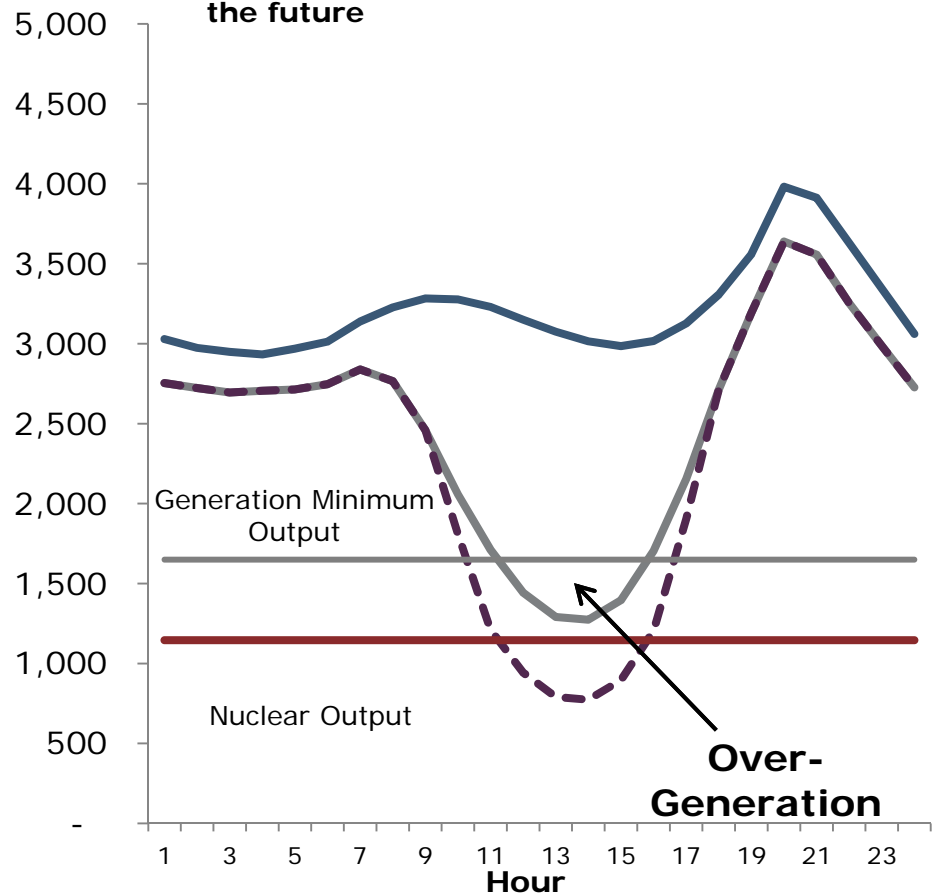
Current Spring Day

Excess renewables create over-generation challenges ...



Spring Day 2022

... and potentially for nuclear generation in the future



ECONOMIC DEVELOPMENT

Arizona's focus on economic development continues to support growth in the state

2017

APS partnered with Greater Phoenix Economic Council and Arizona Commerce Authority to welcome 21 new companies to the state, adding an estimated:

- 39.8 MW
- 4,300 new jobs
- \$659.9M in capital investment
- Notable corporations include UPS, Ball Corporation, Aldi and Chewy.com

2018

Year to date in 2018, APS partnered with Greater Phoenix Economic Council and Arizona Commerce Authority to welcome 14 new companies to the state, adding an estimated:

- 40 MW
- 3,500 new jobs
- \$1.2B in capital investment
- Notable corporations include Anderson Windows, Nikola Motors and Seattle Box Company

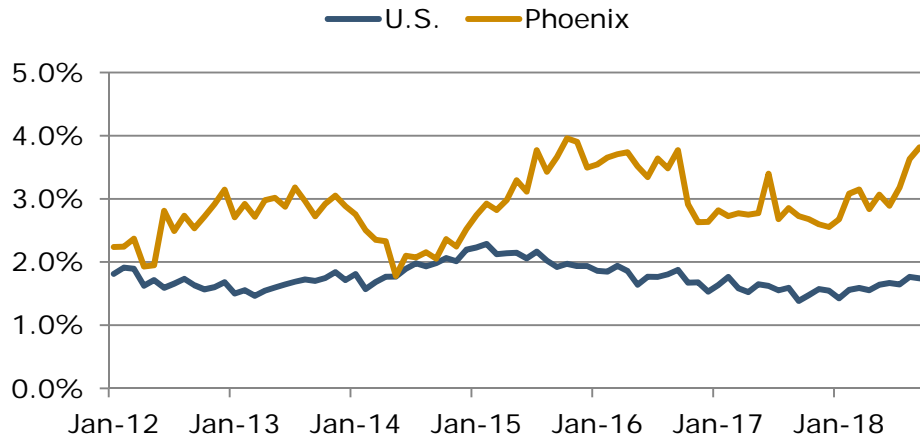
Governor Ducey approves budget for the Arizona Commerce Authority

- Supports business expansion and attraction efforts, workforce development and job training, and tax credit administration

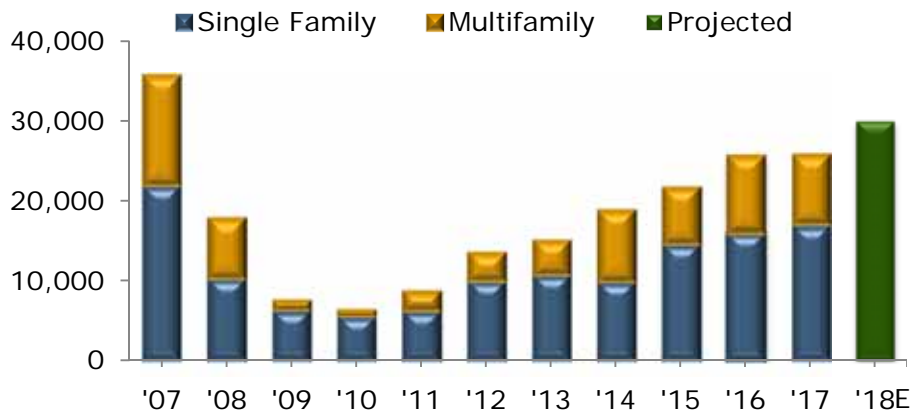
ECONOMIC INDICATORS

Arizona and Metro Phoenix remain attractive places to live and do business

Year over Year Employment Growth



Single Family & Multifamily Housing Permits Maricopa County



- ✓ Maricopa County ranked #1 in U.S. for population growth for second straight year
- U.S. Census Bureau March 2018
- ✓ Arizona is a top 5 state in personal income growth
- U.S. Bureau of Economic Analysis March 2018
- ✓ Above-average job growth in tourism, health care, manufacturing, financial services, and construction
- ✓ 2017 housing construction at highest level since 2007
- ✓ Arizona #1 state in the country in 2017 for in-bound moves
- North American Moving Services January 2018



APPENDIX

PINNACLE WEST
CAPITAL CORPORATION



SENIOR MANAGEMENT TEAM

Our management team has more than 100 combined years of creating shareholder value in the energy industry

Don Brandt

Chairman of the Board, President and Chief Executive Officer, Pinnacle West & APS



- Joined Pinnacle West in 2002 from Ameren
- Elected to Pinnacle West Board and named Chairman, CEO in 2009
- Recognized industry leader with 30+ years in the nuclear and energy industries
- Vice Chairman of the Institute of Nuclear Power Operations and Chairman of the Nuclear Energy Institute

Jim Hatfield

Executive Vice President and Chief Financial Officer, Pinnacle West & APS



- Joined as SVP and CFO in 2008 from OGE Energy Corp.
- Responsible for corporate functions including finance, investor relations, and risk management
- 38+ years of financial experience in the utility and energy business

We maintain a robust pipeline of talent to serve our complex operations and facilitate effective succession planning in a highly competitive talent environment

Daniel Froetscher

Executive Vice President of Operations, APS



- Joined APS in 1980
- Appointed EVP of Operations, February 2018
- Responsible for overseeing T&D, fossil generation, resource management, sustainability, supply chain, security and customer service
- Significant leadership and industry experience

Jeff Guldner

Executive Vice President, Public Policy, Pinnacle West & APS



- Joined APS in 2004 from Snell & Wilmer
- Promoted to EVP in 2017
- Responsible for overseeing regulatory and government affairs and legal activities
- Significant experience in public utility and energy law and regulation

Bob Bement

Executive Vice President and Chief Nuclear Officer, APS



- Joined APS in 2007 from Arkansas Nuclear One
- Promoted from SVP of Site Operations to EVP and Chief Nuclear Officer in 2016
- Responsible for all nuclear-related activities associated with Palo Verde
- Seasoned nuclear industry expert serving on several industry committees

2018 EPS GUIDANCE

Key Factors & Assumptions as of November 8, 2018

	2018
Adjusted gross margin ^{1,2} (operating revenues, net of fuel and purchased power expenses)	\$2.47 – \$2.52 billion
<ul style="list-style-type: none"> • Retail customer growth about 1.5–2.5% • Weather-normalized retail electricity sales volume about 0-1% higher compared to prior year • Actual weather through October¹; normal weather patterns remainder of year 	
Adjusted operating and maintenance (O&M) ²	\$905 – \$925 million
Other operating expenses (depreciation and amortization, Four Corners SCRs and Ocotillo deferrals, taxes other than income taxes, and other miscellaneous expenses)	\$790 – \$810 million
Other income (pension and other post-retirement non-service credits, other income and other expense)	\$50 – \$60 million
Interest expense , net of allowance for borrowed and equity funds used during construction (Total AFUDC \$75 million)	\$165 – \$175 million
Net income attributable to noncontrolling interests	\$20 million
Effective tax rate	20%
Average diluted common shares outstanding	~113 million
EPS Guidance	\$4.35 - \$4.55

¹ We expect October weather to negatively impact full-year 2018 earnings by approximately \$0.10 to \$0.15 per share.

² Excludes O&M of \$105 million, and offsetting revenues, associated with renewable energy and demand side management programs.

2019 EPS GUIDANCE

Key Factors & Assumptions as of November 8, 2018

	2019
Adjusted gross margin ¹ (operating revenues, net of fuel and purchased power expenses)	\$2.50 – \$2.56 billion
<ul style="list-style-type: none"> • Retail customer growth about 1.5–2.5% • Weather-normalized retail electricity sales volume about 0-1% higher compared to prior year • Assumes normal weather 	
Adjusted operating and maintenance (O&M) ¹	\$865 – \$885 million
Other operating expenses (depreciation and amortization, Ocotillo deferral, and taxes other than income taxes)	\$850 – \$870 million
Other income (pension and other post-retirement non-service credits, other income and other expense)	\$35 – \$45 million
Interest expense , net of allowance for borrowed and equity funds used during construction (Total AFUDC \$40 million)	\$195 – \$205 million
Net income attributable to noncontrolling interests	\$20 million
Effective tax rate	10%
Average diluted common shares outstanding	113.6 million
EPS Guidance	\$4.75 - \$4.95

¹ Excludes O&M of \$80 million, and offsetting revenues, associated with renewable energy and demand side management programs.

FINANCIAL OUTLOOK

Key Factors & Assumptions as of November 8, 2018

Gross Margin – Customer and Sales Growth (2018-2020)

Assumption	Impact
Retail customer growth	<ul style="list-style-type: none"> Expected to average about 2-3% annually Strength in Arizona and U.S. economic conditions
Weather-normalized retail electricity sales volume growth	<ul style="list-style-type: none"> About 0.5–1.5%

Gross Margin – Related to 2017 Rate Review Order

Assumption	Impact
Lost Fixed Cost Recovery (LFCR)	<ul style="list-style-type: none"> Offsets 30-40% of revenues lost due to ACC-mandated energy efficiency and distributed renewable generation initiatives
Environmental Improvement Surcharge (EIS)	<ul style="list-style-type: none"> Ability to recover up to \$14 million annually of carrying costs for government-mandated environmental capital expenditures (cumulative per kWh cap rate of \$0.00050)
Power Supply Adjustor (PSA)	<ul style="list-style-type: none"> 100% recovery Includes certain environmental chemical costs and third-party battery storage
Transmission Cost Adjustor (TCA)	<ul style="list-style-type: none"> TCA is filed each May and automatically goes into rates effective June 1 Transmission revenue is accrued each month as it is earned
APS Solar Communities	<ul style="list-style-type: none"> Additions to flow through RES until next base rate case
Four Corners Units 4 and 5 SCRs	<ul style="list-style-type: none"> 2019 step increase

Property Tax Rate Deferral: APS is allowed to defer for future recovery (or credit to customers) the Arizona property tax expense above (or below) the 2015 test year caused by changes to the applicable composite property tax rate.

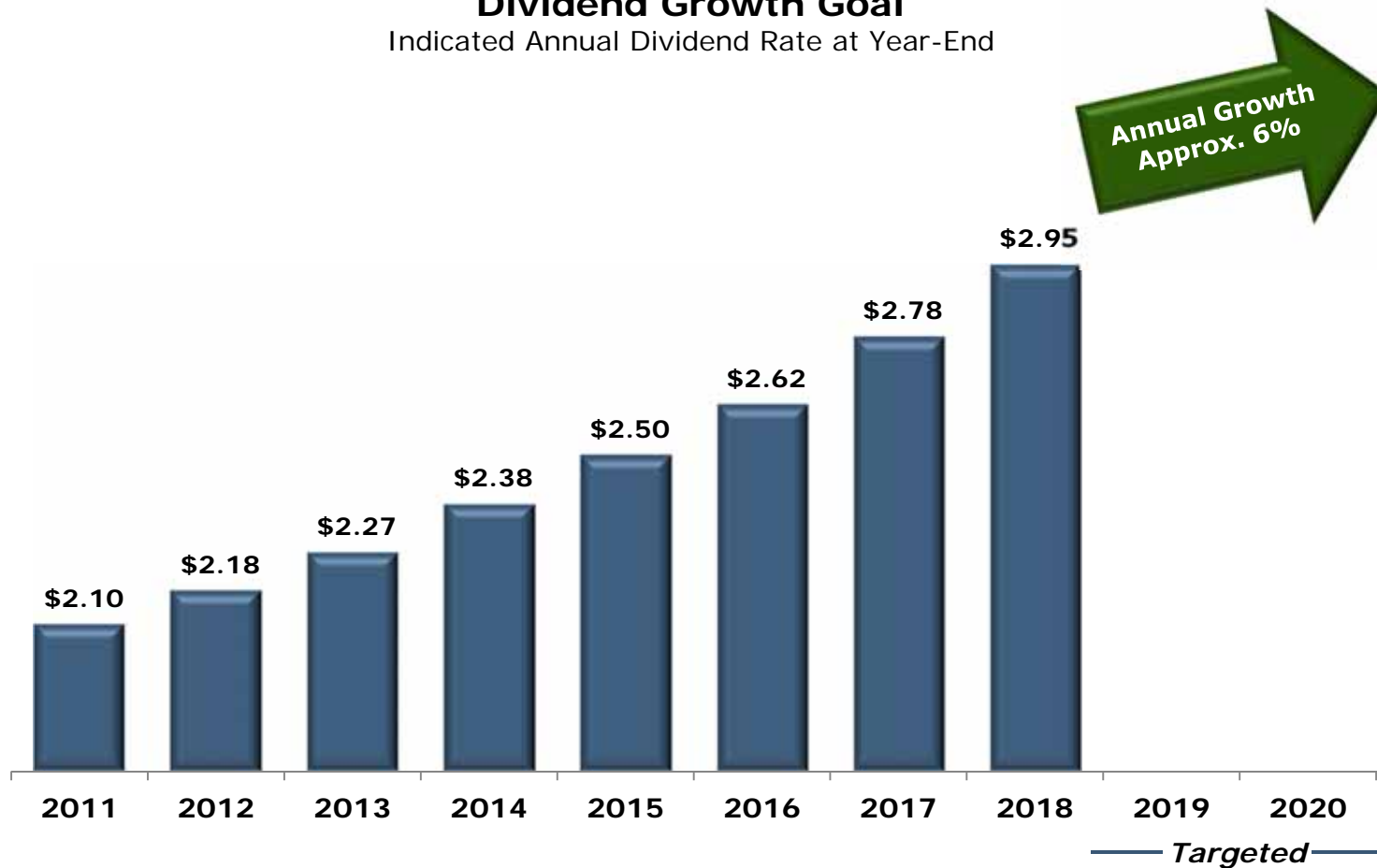
Outlook Through 2020: Goal of earning more than 9.5% Return on Equity (earned Return on Equity based on average Total Shareholder’s Equity for PNW consolidated, weather-normalized)¹

¹ In 2018, we expect to infuse up to \$150 million of equity capital from Pinnacle West into APS.

DIVIDEND GROWTH

Pinnacle West's indicated annual dividend is \$2.95 per share; targeting ~6% annual dividend growth

Dividend Growth Goal
Indicated Annual Dividend Rate at Year-End

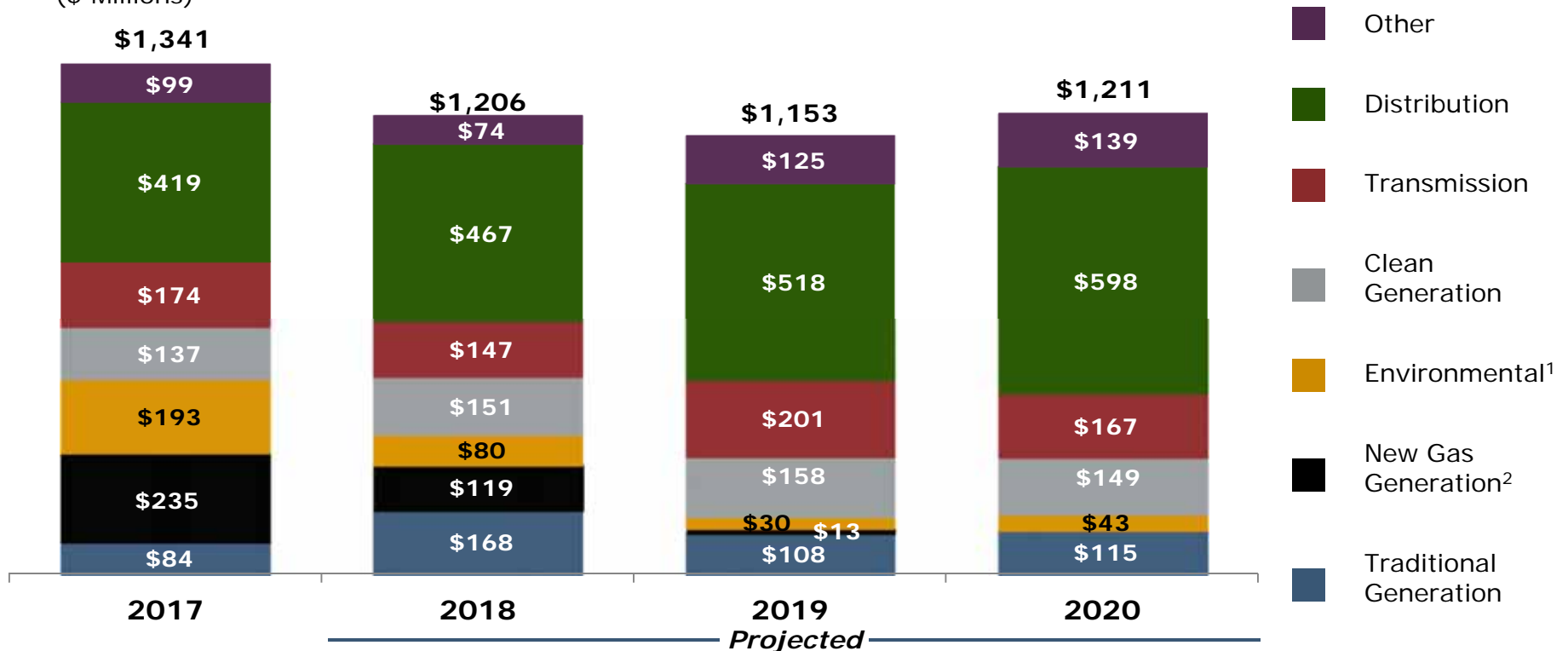


Future dividends subject to declaration at Board of Directors' discretion.

APS CAPITAL EXPENDITURES

Capital expenditures will support our growing customer base and utilization of advanced technology

(\$ Millions)



- The chart does not include capital expenditures related to 4CA's 7% interest in the Four Corners Power Plant Units 4 and 5 of \$29 million in 2017 and \$10 million in 2018.
- 2018 – 2020 as disclosed in the Third Quarter 2018 Form 10-Q.

¹ Includes Selective Catalytic Reduction controls at Four Corners with in-service dates of Q4 2017 (Unit 5) and Q2 2018 (Unit 4).

² Ocotillo Modernization Project: 2 units scheduled for completion in Q4 2018, 3 units scheduled for completion in Q2 2019.

DISTRIBUTION GRID INVESTMENTS

Grid Operations and Investment Projected to be \$1.6 billion from 2018-2020

Customer Growth

Approximately 51% of distribution capex



Reclosers – Supervisory Controlled Switches, Trip Savers
Average annual spend ~ \$13M

- Automated switches controlled from the Distribution Operations Center
- Manage load without sending field personnel to manually operate the switch



Monitors – Transformers, Breakers, Bushings
Average annual spend ~ \$0.5M

- New technologies such as APS's Transformer Oil Analysis & Notification system leverage advances in communications and sensing to remotely monitor health of transformers, enabling proactive maintenance actions to prevent critical failures and increase reliability

Grid Modernization

Approximately 9% of distribution capex



Advanced Distribution System Platform
Project in planning phase

- Integrated operational platform
- Increases efficiency and life of distribution system; improves safety and communication; increases ability to manage overall reliability; and enables Distributed Energy Resources



Communications Backhaul
Average annual spend ~ \$4M

- Leveraging AMI for distribution automation
- Strategically deploying Fiber for communications backhaul
- Transitioning to Internet Protocol based networks for future growth & scalability

Run and Maintain

Approximately 40% of distribution capex



Cap Bank Controllers, Substation Regulators, Voltage Management Algorithms
Average annual spend ~ \$7M

- Controls regulators and capacitor banks to manage power quality such as power factor and voltage



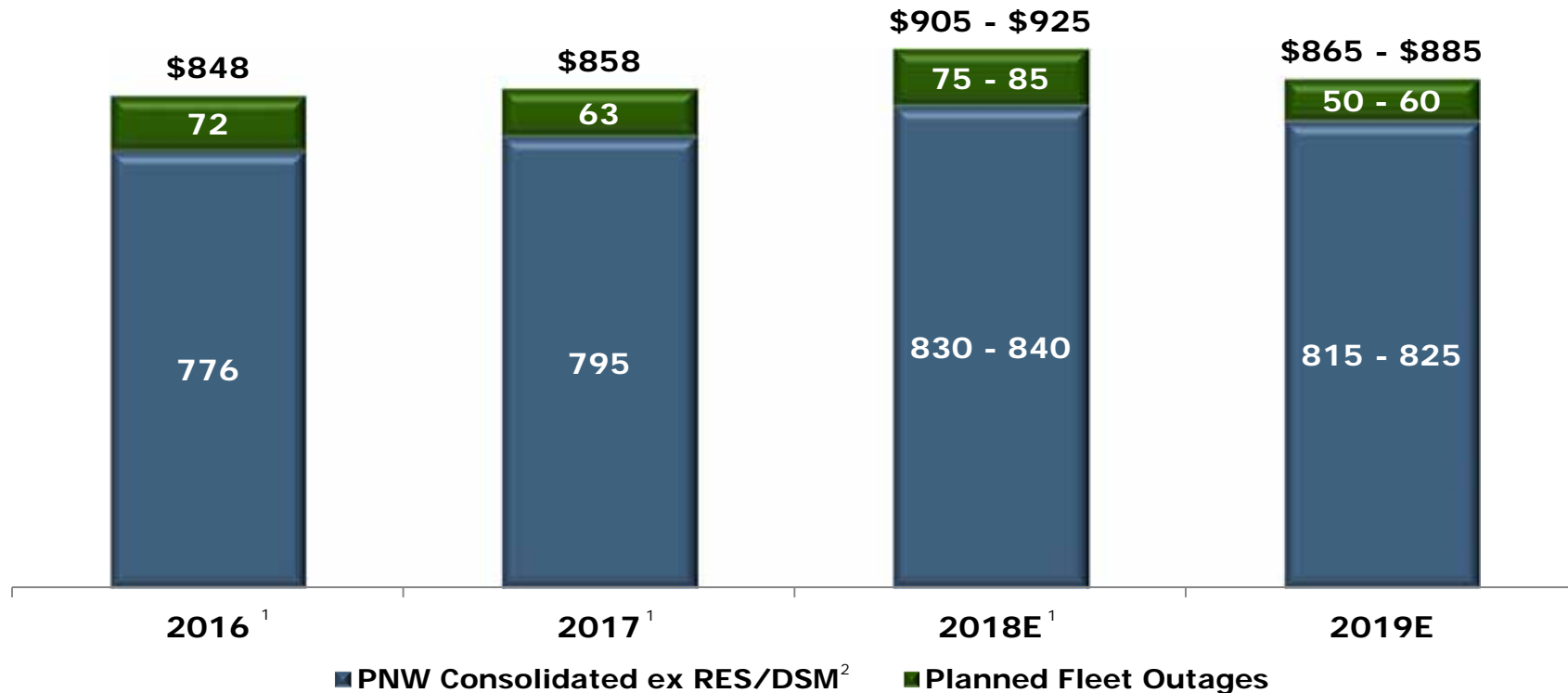
Sensors – Current, Voltage
Average annual spend ~ \$2.5M

- Line sensors to measure & identify fault current, fault location and voltage
- Improves outage restoration time and operations efficiency

OPERATIONS & MAINTENANCE

Goal is to keep O&M per kWh flat, adjusted for planned outages

(\$ Millions)



¹ Reclassified to reflect the adoption of the new accounting requirements for presenting pension and other postretirement non-service costs ("Pension & OPEB Presentation"). Increases in O&M due to the Pension & OPEB Presentation change are approximately \$20 million in 2016, \$25 million in 2017 and \$35 million in 2018, which are offset in pension and other postretirement non-service credits on the income statement. See Notes 5 and 13 in the Third Quarter 2018 Form 10-Q for additional information.

² Excludes RES/DSM of \$83 million in 2016, \$91 million in 2017, \$105 million in 2018E, and \$80 million in 2019E.

2019 PLANNED OUTAGE SCHEDULE

Coal, Nuclear and Large Gas and Oil Planned Outages

Q1		
Plant	Unit	Estimated Duration in Days
Four Corners	4	12
Four Corners	5	12
Cholla*	1	30
Redhawk*	2	29

Q2		
Plant	Unit	Estimated Duration in Days
Palo Verde	1	30
Cholla*	1	16
Redhawk*	2	28

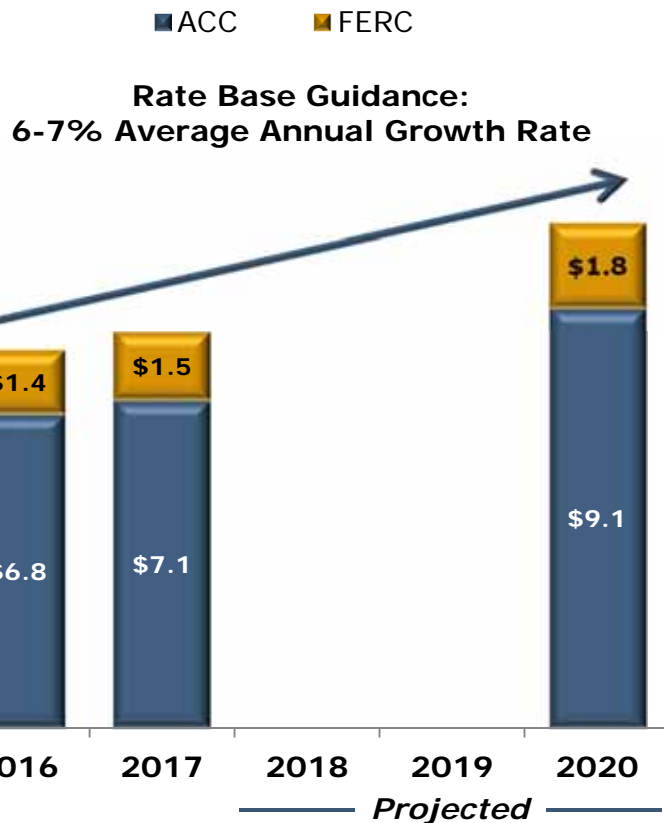
Q4		
Plant	Unit	Estimated Duration in Days
Palo Verde	3	44
West Phoenix	4	62

*Outage duration spans Q1-Q2. Number of days noted per quarter.

RATE BASE

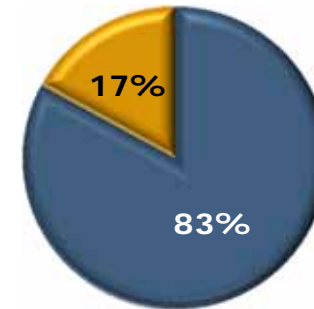
APS's revenues come from a regulated retail rate base and meaningful transmission business

APS Rate Base Growth
Year-End



Total Approved Rate Base

■ Generation & Distribution ■ Transmission



	ACC	FERC
Rate Effective Date	8/19/2017	6/1/2018
Test Year Ended	12/31/2015 ¹	12/31/2017 ¹
Rate Base	\$6.8B	\$1.6B
Equity Layer	55.8%	53.4%
Allowed ROE	10.0%	10.75%

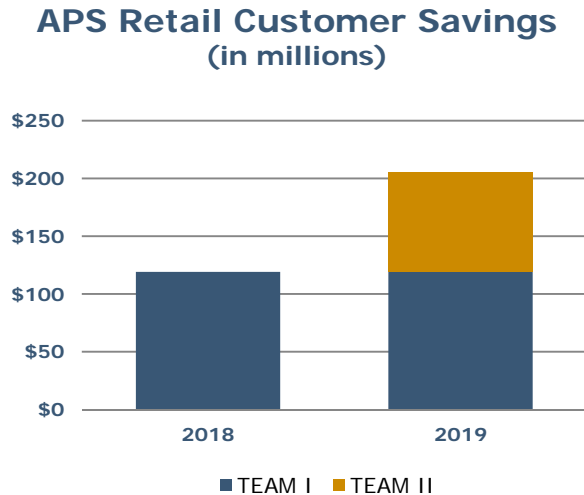
¹ Adjusted to include post test-year plant in rates

Rate base \$ in billions, rounded

TAX REFORM

Tax Cuts and Jobs Act provides benefits to both our customers and shareholders

- **TEAM PHASE I:** The ACC approved \$119 million annual rate reduction reflecting the lower federal tax rate. Effective for the March 2018 billing cycle
- **TEAM PHASE II:** Filed in August 2018, returns an additional \$86.5 million in “excess” deferred taxes previously collected to ACC customers, beginning January 1, 2019. Currently subject to ACC review



- **FERC FORMULA:** In May 2018, APS received approval from FERC to provide for a \$57 million annual rate reduction, beginning June 1, 2018 through its wholesale transmission rates

EPS Impacts

- The impact of the lower federal income tax rate is based on our quarterly pre-tax earnings
- The reduction to customers’ rates through the TEAM is based on a per kWh sales credit

EPS Variances

	Q1	Q2	Q3	YTD
Gross Margin (Rate Refunds)	(\$0.20)	(\$0.20)	(\$0.34)	(\$0.74)
Adjusted Income Taxes	\$0.00	\$0.30	\$0.48	\$0.78

Rate Base Growth

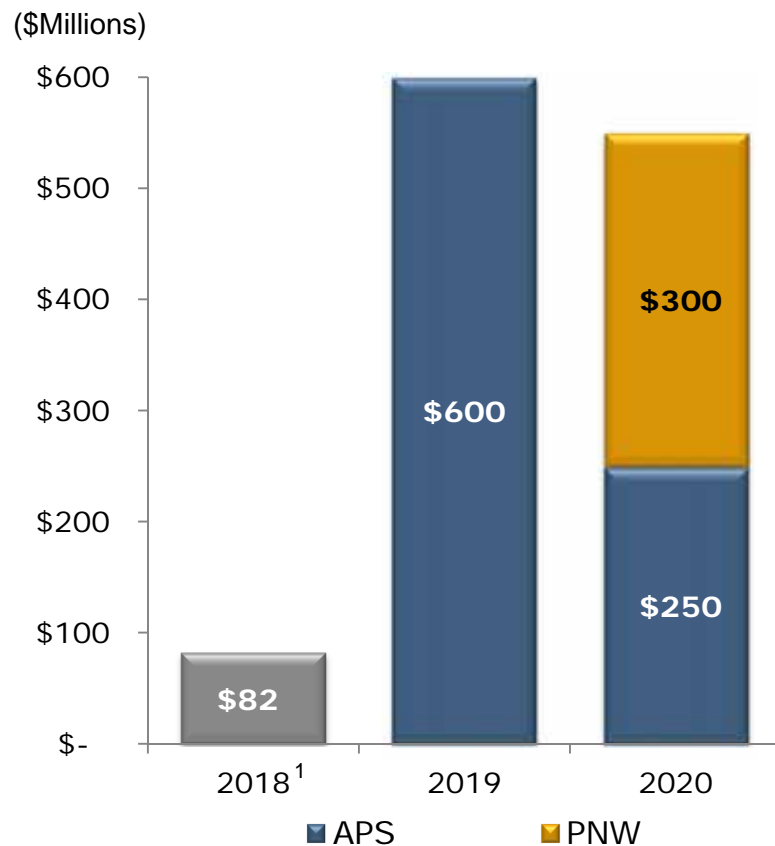
- Higher incremental rate base of \$110 million in 2018 and \$150 million in 2019

Cash Taxes

- Minimal cash tax payments in 2018 and 2019 due to utilization of existing tax credit carryforwards
- Cash taxes trend to normalized level in 2020 after tax credit carryforward balance is fully utilized

BALANCE SHEET STRENGTH

Long-Term Debt Maturity Schedule



¹ Maturities paid off in the second quarter of 2018.

Credit Ratings²

- **APS Senior Unsecured:** A- or equivalent ratings or better at S&P, Moody's and Fitch
- **PNW Senior Unsecured:** BBB+ or equivalent ratings or better at S&P, Moody's and Fitch

2018 Major Financing Activities

- \$300 million 30-year 4.20% APS senior unsecured notes issued August 2018
- Expect to issue up to \$150 million of registered or bank market debt at PNW
- No additional long-term debt expected at APS

2019 Major Financing Activities

- Currently expect up to \$950 million of term debt issuance at APS

² We are disclosing credit ratings to enhance understanding of our sources of liquidity and the effects of our ratings on our costs of funds.

CREDIT RATINGS AND METRICS

	APS	Pinnacle West
Corporate Credit Ratings¹		
Moody's	A2	A3
S&P	A-	A-
Fitch	A-	A-
Senior Unsecured¹		
Moody's	A2	A3
S&P	A-	BBB+
Fitch	A	A-
Note: Moody's, Fitch and S&P rate the outlooks for APS and Pinnacle West as Stable.		

	2015	2016	2017
APS			
FFO / Debt	29.7%	26.5%	26.9%
FFO / Interest	5.8x	5.0x	5.2x
Debt / Capitalization	45.8%	47.7%	47.3%
Pinnacle West			
FFO / Debt	28.9%	25.1%	24.7%
FFO / Interest	5.6x	4.9x	4.8x
Debt / Capitalization	47.0%	49.0%	50.3%

Source: Standard & Poor's

¹We are disclosing credit ratings to enhance understanding of our sources of liquidity and the effects of our ratings on our costs of funds.

OCOTILLO MODERNIZATION PROJECT AND FOUR CORNERS SCR_s

- Included in the 2017 Rate Review Order¹, APS has been granted 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: Installed 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)
Accounting Deferral	<ul style="list-style-type: none"> • Cost deferral from date of commercial operation to the effective date of rates in next rate case • Includes depreciation, O&M, property taxes, and capital carrying charge² 	<ul style="list-style-type: none"> • Cost deferral from time of installation to incorporation of the SCR costs in rates using a step increase beginning in 2019 • Includes depreciation, O&M, property taxes, and capital carrying charge²

¹ The ACC’s decision is subject to appeals.

² APS will calculate the capital carrying charge using the 5.13% embedded cost of debt established in the 2017 Rate Review Order.

FOUR CORNERS SCR STEP INCREASE

Hearing concluded on September
7, 2018

Key Components of APS's Filed Request

Financial	Cost of Capital	Bill Impact
<ul style="list-style-type: none"> Consistent with prior disclosed estimates 	<ul style="list-style-type: none"> 7.85% Return on Rate Base¹ <ul style="list-style-type: none"> Weighted Average Cost of Capital (WACC) 	<ul style="list-style-type: none"> Rate rider applied as a percentage of base rates for all applicable customers
<ul style="list-style-type: none"> \$390 million direct costs vs. \$400 million¹ contemplated in APS's recent rate case 	<ul style="list-style-type: none"> 5.13% Return on Deferral¹ <ul style="list-style-type: none"> Embedded Cost of Debt 	<ul style="list-style-type: none"> \$67.5 million revenue requirement²
<ul style="list-style-type: none"> \$40 million in indirect costs (overhead, AFUDC) 	<ul style="list-style-type: none"> 5% Depreciation Rate <ul style="list-style-type: none"> 20-year useful life (2038-depreciation study) 	<ul style="list-style-type: none"> ~2% bill impact
	<ul style="list-style-type: none"> 5-year Deferral Amortization 	

¹ Based on 2017 Rate Review Order

² Arizona Corporation Commission Staff recommended a \$58.5 million revenue increase.

ARIZONA CORPORATION COMMISSION*

Terms to January 2019



**Tom
Forese (R)
Chairman**



**Justin
Olson (R)*****

Terms to January 2021



**Bob
Burns (R)****



**Boyd
Dunn (R)**



**Andy
Tobin (R)**

Other State Officials

**ACC Interim Executive Director – Matthew Neubert
RUCO Director – David Tenney**

*2018 Election results pending: Rodney Glassman (R); Justin Olson (R); Sandra Kennedy (D); Kiana Sears (D)

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

***Governor Doug Ducey appointed Justin Olson to fill the remainder of former Commissioner Doug Little's term.

2018 KEY DATES

ACC Key Dates / Docket #	Q1	Q2	Q3	Q4
Lost Fixed Cost Recovery E-01345A-11-0224	Filed Feb 15			
Transmission Cost Adjustor E-01345A-11-0224		Filed May 15 Implemented Jun 1		
2019 DSM/EE Implementation Plan E-01345A-18-0105				Dec: File 2019 Plan
2019 RES Implementation Plan E-01345A-18-0226		Jun 12: 2018 RES Plan approved June 29: Filed 2019 Plan		
APS Rate Review/ Four Corners SCR Step Increase E-01345A-16-0036	Feb: Customer Transition began	Apr 27: Filed Four Corners SCR Request May 1: Filed Year Two RCP Export Rate	Sep 7: Four Corners SCR Hearing concluded	Oct 1: Year Two RCP Export Rate Implemented
Resource Planning and Procurement E-00000V-15-0094	ACC declined to acknowledge Arizona utility's IRPs			
Modification of the Federal Tax Reform Rate Adjustment AU-00000A-17-0379	Implemented March 1		Aug: Second filing under TEAM	
Possible Modification to Commission Energy Rules RU-00000A-18-0284			Aug: New Docket Opened	
Customer Complaint – Stacey Champion E-01345A-18-0002				Oct 1: Hearing Concluded Nov 16: Final Briefs Due
Other Key Dates	Q1	Q2	Q3	Q4
Arizona State Legislature	In session Jan 8 – May 4			
Elections			Aug 28: Primary	Nov 6: General

REGULATORY MECHANISMS

We have achieved a supportive regulatory structure and improvements in cost recovery timing

Mechanism	Adopted / Last Adjusted	Description
Power Supply Adjustor ("PSA")	April 2005 / February 2018	<ul style="list-style-type: none"> Recovers variance between actual fuel and purchased power costs and base fuel rate Includes forward-looking, historical and transition components
Renewable Energy Surcharge ("RES")	May 2008 / July 2018	<ul style="list-style-type: none"> Recovers costs related to renewable initiatives Collects projected dollars to meet RES targets Provides incentives to customers to install distributed renewable energy
Demand-Side Management Adjustment Clause ("DSMAC")	April 2005 / August 2017	<ul style="list-style-type: none"> Recovers costs related to energy efficiency and DSM programs above \$20 million in base rates Provides performance incentive to APS for net benefits achieved Provides conservation education, rebates and other incentives to participating customers
Environmental Improvement Surcharge ("EIS")	July 2007 / April 2018	<ul style="list-style-type: none"> Allows recovery of certain carrying costs for government-mandated environmental capital projects Capped at \$0.00050/kWh (up to \$14 million annually)
Transmission Cost Adjustor ("TCA")	April 2005 / June 2018	<ul style="list-style-type: none"> Recovers FERC-approved transmission costs related to retail customers Resets annually as result of FERC Formula Rate process (see below)
FERC Formula Rates	2008 / June 2018	<ul style="list-style-type: none"> Recovers transmission costs based on historical costs per FERC Form 1 and certain projected data
Lost Fixed Cost Recovery ("LFCR")	July 2012 / August 2017	<ul style="list-style-type: none"> Mitigates loss of portion of fixed costs related to ACC-approved energy efficiency and distributed renewable generation programs

REGULATORY MECHANISMS (TCA)

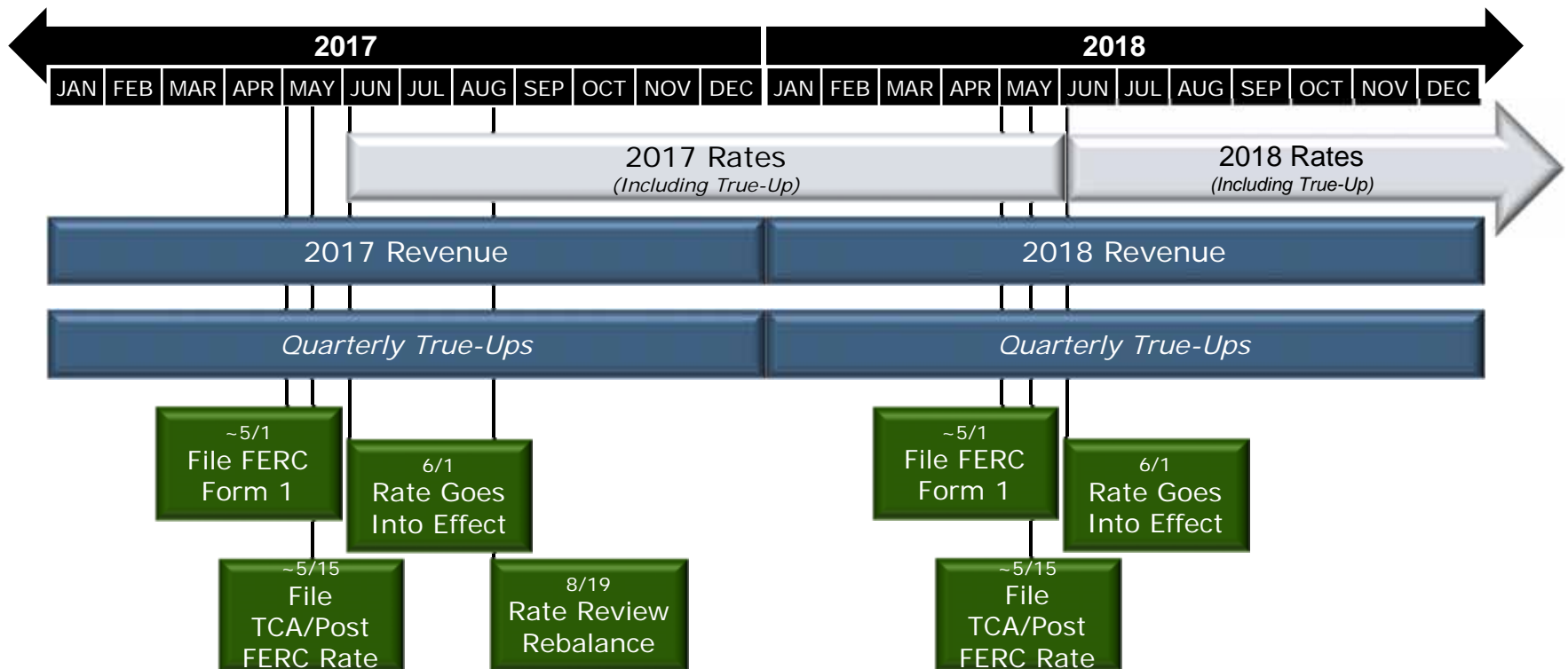
We have achieved constructive transmission rate treatment with annual adjustments

- FERC Formula Rates adopted in 2008
- Adjusted annually with 10.75% allowed ROE
- Based on FERC Form 1 and projected closings
 - Update filed each May
 - Annual rate true-up compares projected revenue requirement to actual, with variance incorporated into next annual update
 - Balancing account added as part of the 2017 Rate Review Order
- Non-base rate retail portion flows through ACC Transmission Cost Adjustor (TCA)

As Filed	2018		2017		2016	
	Annual Rate Increase	Rate Effective Date	Annual Rate Increase	Rate Effective Date	Annual Rate Increase	Rate Effective Date
Retail Portion (TCA)	(\$27M)	6/1/2018	\$37M	6/1/2017	\$25M	6/1/2016
Wholesale Portion	\$4M	6/1/2018	(\$2M)	6/1/2017	--	6/1/2016
Total Increase (Decrease)	(\$23M)		\$35M		\$25M	
Equity Ratio	53%		55%		56%	
Rate Base (Year-End)	\$1.65B		\$1.5B		\$1.4B	
Test Year	2017		2016		2015	

REGULATORY MECHANISMS (TCA)

We have achieved constructive transmission rate treatment with annual adjustments

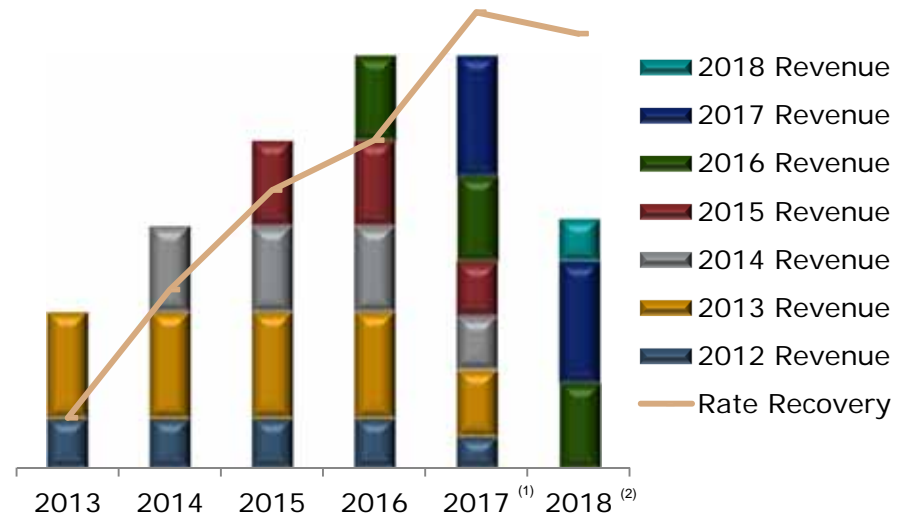


- 2012 Rate Review Order resulted in the TCA becoming an automatic adjustor
- 2017 Rate Review Order included the addition of a balancing account
- Quarterly true-ups can occur throughout the year

REGULATORY MECHANISMS (LFCR)

Lost Fixed Cost Recovery

- Lost Fixed Cost Recovery (LFCR) was implemented as part of the July 2012 settlement
 - Estimated to offset 30-40% of revenues lost due to ACC-mandated energy efficiency (EE) and distributed renewable generation (DG) initiatives
- 2017 Rate Review Order changed the annual filing date to February 15th with new rates expected to be in effect 1st billing cycle in May based on the EE and DG savings from the preceding calendar year
 - Subject to an annual 1% year-over-year cap based on applicable company revenues
- Revenue accrued each month as it is earned, creating a regulatory asset since the rates lag



	2014 ACC Order	2015 ACC Order	2016 ACC Order	2017 ACC Order	2018 ACC Filing ⁽³⁾
Rates Effective	March 2014	March 2015	May 2016	April 2017	Pending
LFCR Rate	0.95%	1.46%	1.71%	2.30%	\$0.00288/kWh
Residential rate per lost kWh	\$0.031	\$0.031	\$0.031	\$0.025	\$0.025
Non-residential rate per lost kWh	\$0.023	\$0.023	\$0.023	\$0.025	\$0.025
LFCR Adjustment (Annualized)	\$25.4 Million	\$38.5 Million	\$46.4 Million	\$63.7 Million	\$60.8 Million
LFCR Revenue (Accrued in prior year)	\$22.6 Million	\$34.5 Million	\$46.0 Million	\$62.2 Million	\$58.9 Million

(1) Reflects 2012-2015 prorated revenues transferred to base rates in 2017 rate review.

(2) Reflects 2012-2015 full year revenues transferred to base rates in 2017 rate review.

(3) Filed February 2018

CARBON AVOIDANCE AND EMISSION REDUCTIONS

APS has reduced carbon dioxide emissions by 35% since 2005

Carbon Avoidance Metric

- Metric used to measure our overall carbon reduction, not just generation but Company wide

Carbon Avoidance Opportunities

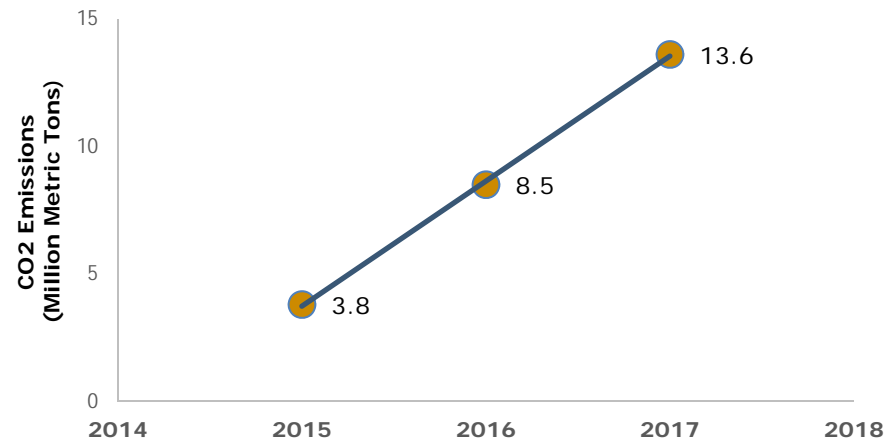
- Retiring coal plants
- Renewable energy generation
- Purchase power agreements
- Energy efficiency programs for customers
- Energy efficient buildings
- Fleet electrification

Since 2015 APS has avoided 13.6 million metric tons of carbon dioxide emissions that would have been emitted – equivalent of removing almost 3 million automobiles from the road

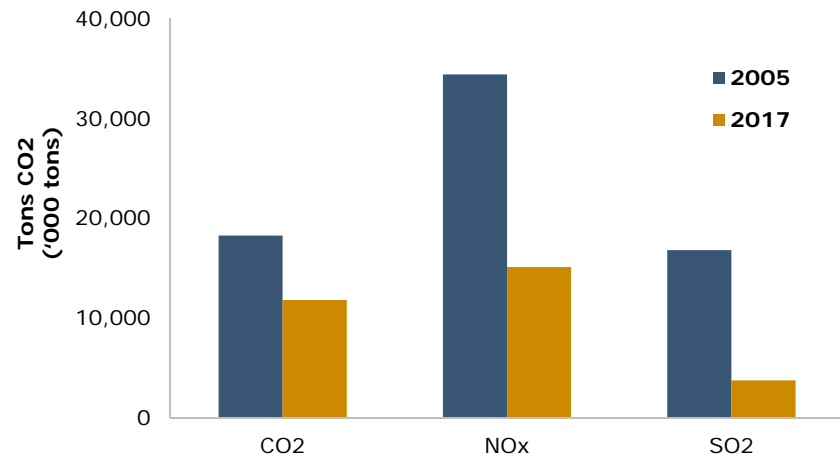
Clean Energy

- Since 2005 we have reduced
 - CO2 emissions by 35%
 - SO2 emissions by 78%
 - NOx emissions by 56%
- As a result of the recent emission controls added to our Four Corners Plant, by 2019 we expect NOx emission to be reduced by 80% compared to 2005

Cumulative Carbon Avoidance



Emission Reductions



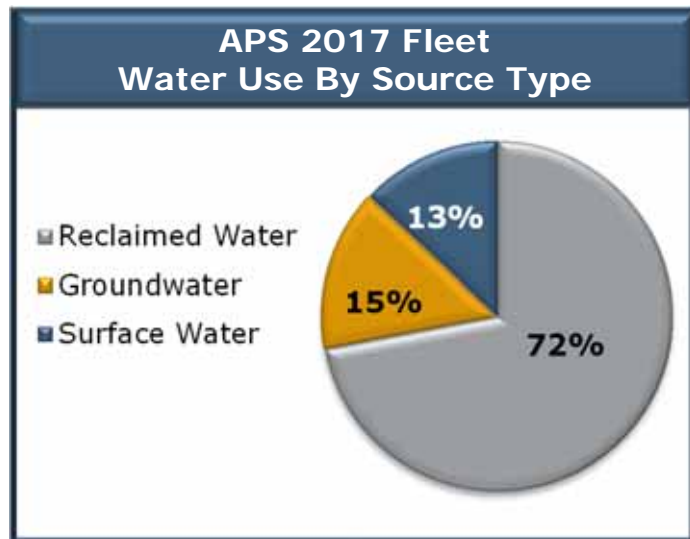
WATER STRATEGY

APS, and Palo Verde in particular, has provided national and international leadership on the use of reclaimed water for power generation

Vision: APS continues to strive for sustainable and cost-effective water supplies for energy production for APS customers

Mission: To execute a strategic water resource management program that provides APS timely and reliable information to manage our water resources portfolio efficiently and effectively, and helps ensure long-term water supplies and water contingency plans for each of our facilities, even in times of extended drought

- Each APS power plant has a unique water strategy, developed to promote efficient and sustainable use of water. Since 2014, we have reduced groundwater use by 14%



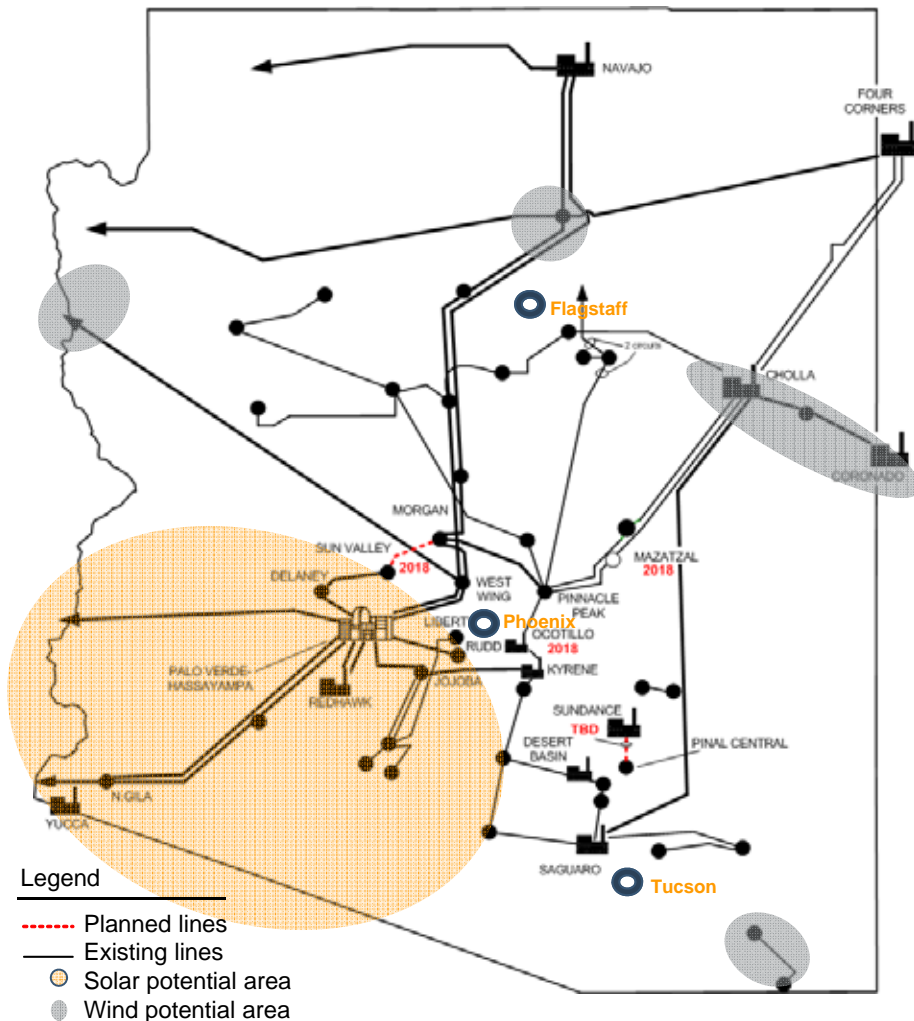
Water Usage and Intensity: Our goal is to reduce water intensity company-wide by 30% by 2032 compared to a 2014 baseline

Palo Verde Generating Station: The only nuclear power plant in the world that is not located next to a large body of water. Instead, it uses treated effluent, or wastewater, from several area municipalities, recycling approximately 20 billion gallons of wastewater each year

Ocotillo Modernization Project: State-of-the-art hybrid cooling technology for new units being constructed will decrease water use from 900 gallons per MWh to 140 per gallon per MWh, a reduction of more than 80%

APS TRANSMISSION

Strategic transmission investment is essential to maintain reliability and deliver diversified resources to customers



- 10-Year Transmission Plan filed January 2018 (115 kV and above)
 - 52 miles of new lines
 - 13 bulk transformer additions
- Also includes:
 - Sun Valley-Morgan 500kV (2018)
 - North Gila-Orchard 230kV (2021)
 - Cholla Synchronous Condenser (2019)
- Transmission investment diversifies regulatory risk
 - Constructive regulatory treatment
 - FERC formula rates and retail adjustor

GENERATION PORTFOLIO*

	Plant	Location	No. of Units	Dispatch	COD	Ownership Interest ¹	Net Capacity (MW)
NUCLEAR 1,146 MW	Palo Verde	Wintersburg, AZ	3	Base	1986-1989	29.1%	1,146
COAL 1,672 MW	Cholla	Joseph City, AZ	2	Base	1962-1980	100	387
	Four Corners	Farmington, NM	2	Base	1969-1970	63	970
	Navajo	Page, AZ	3	Base	1974-1976	14	315
GAS - COMBINED CYCLE 1,871 MW	Redhawk	Arlington, AZ	2	Intermediate	2002	100	984
	West Phoenix	Phoenix, AZ	5	Intermediate	1976-2003	100	887
GAS - STEAM TURBINE 220 MW	Ocotillo	Tempe, AZ	2	Peaking	1960	100	220
GAS / OIL COMBUSTION TURBINE 1,088 MW	Sundance	Casa Grande, AZ	10	Peaking	2002	100	420
	Yucca	Yuma, AZ	6	Peaking	1971-2008	100	243
	Saguaro	Red Rock, AZ	3	Peaking	1972-2002	100	189
	West Phoenix	Phoenix, AZ	2	Peaking	1972-1973	100	110
	Ocotillo	Tempe, AZ	2	Peaking	1972-1973	100	110
	Fairview	Douglas, AZ	1	Peaking	1972	100	16
SOLAR 239 MW	Hyder & Hyder II	Hyder, AZ	-	As Available	2011-2013	100	30
	Paloma	Gila Bend, AZ	-	As Available	2011	100	17
	Cotton Center	Gila Bend, AZ	-	As Available	2011	100	17
	Chino Valley	Chino Valley, AZ	-	As Available	2012	100	19
	Foothills	Yuma, AZ	-	As Available	2013	100	35
	Distributed Energy	Multiple AZ Facilities	-	As Available	Various	100	25
	Gila Bend	Gila Bend, AZ	-	As Available	2015	100	32
	Luke Air Force Base	Glendale, AZ	-	As Available	2015	100	10
	Desert Star	Buckeye, AZ	-	As Available	2015	100	10
	Red Rock	Red Rock, AZ	-	As Available	2016	100	40
	Various	Multiple AZ Facilities	-	As Available	1996-2006	100	4
Total Generation Capacity							6,236 MW

* As disclosed in 2017 Form 10-K.

¹ Includes leased generation plants

PURCHASED POWER CONTRACTS*

	Contract	Location	Owner/Developer	Status ¹	PPA Signed	COD	Term (Years)	Net Capacity (MW)
SOLAR 310 MW	Solana	Gila Bend, AZ	Abengoa	IO	Feb-2008	2013	30	250
	RE Ajo	Ajo, AZ	Duke Energy Gen Svcs	IO	Jan-2010	2011	25	5
	Sun E AZ 1	Prescott, AZ	SunEdison	IO	Feb-2010	2011	30	10
	Saddle Mountain	Tonopah, AZ	SunEdison	IO	Jan - 2011	2012	30	15
	Badger	Tonopah, AZ	PSEG	IO	Jan-2012	2013	30	15
	Gillespie	Maricopa County, AZ	Recurrent Energy	IO	Jan-2012	2013	30	15
WIND 289 MW	Aragonne Mesa	Santa Rosa, NM	Ingifen 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	2012	25	99
GEOTHERMAL 10 MW	Salton Sea	Imperial County, CA	Cal Energy	IO	Jan-2006	2006	23	10
BIOMASS 14 MW	Snowflake	Snowflake, AZ	Novo Power	IO	Sep-2005	2008	15	14
BIOGAS 6 MW	Glendale Landfill	Glendale, AZ	Glendale Energy LLC	IO	Jul-2008	2010	20	3
	NW Regional Landfill	Surprise, AZ	Waste Management	IO	Dec-2010	2012	20	3
INTER-UTILITY 540 MW	PacifiCorp Seasonal Power Exchange	-	PacifiCorp	IO	Sep-1990	1991	30	480
	Not Disclosed	Not Disclosed	Not Disclosed	IO	May-2009	2010	10	60
CONVENTIONAL TOLLING 1,695 MW	CC Tolling	Not Disclosed	Not Disclosed	IO	Aug-2007	2010	10	560
	CC Tolling	Arlington, AZ	Arlington Valley	IO	Dec-2016	2020	6	565
	CC Tolling	Not Disclosed	Not Disclosed	IO	Dec - 2017	2020	7	570
DEMAND RESPONSE 25 MW	Demand Response	Not Disclosed	Not Disclosed	IO	Sep-2008	2010	15	25
SOLAR PLUS BATTERY STORAGE 65 MW	Solar Plus Battery Storage	Arlington, AZ	First Solar	UD	Feb - 2018	2021	15	65
Total Contracted Capacity								2,954 MW

* As disclosed in 2017 Form 10-K.

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

NON-GAAP MEASURE RECONCILIATION

2018 GUIDANCE

	<u>2018 Guidance</u>
\$ millions pretax	
Operating revenues¹	\$ 3,665 - \$ 3,725
Fuel and purchased power expenses¹	<u>(1,090) - (1,100)</u>
Gross margin	2,575 - 2,625
Adjustments:	
Renewable energy and demand side management programs	<u>(105) - (105)</u>
Adjusted gross margin	<u>\$ 2,470 - \$ 2,520</u>
Operations and maintenance¹	\$ 1,010 - \$ 1,030
Adjustments:	
Renewable energy and demand side management programs	<u>(105) - (105)</u>
Adjusted operations and maintenance	<u>\$ 905 - \$ 925</u>

¹ Line items from Consolidated Statements of Income.

NON-GAAP MEASURE RECONCILIATION

2019 GUIDANCE

	<u>2019 Guidance</u>	
\$ millions pretax		
Operating revenues¹	\$ 3,625	- \$ 3,695
Fuel and purchased power expenses¹	<u>(1,045)</u>	<u>(1,055)</u>
Gross margin	2,580	2,640
Adjustments:		
Renewable energy and demand side management programs	<u>(80)</u>	<u>(80)</u>
Adjusted gross margin	<u>\$ 2,500</u>	<u>\$ 2,560</u>
Operations and maintenance¹	\$ 945	- \$ 965
Adjustments:		
Renewable energy and demand side management programs	<u>(80)</u>	<u>(80)</u>
Adjusted operations and maintenance	<u>\$ 865</u>	<u>\$ 885</u>

¹ Line items from Consolidated Statements of Income.

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