PINNACLE WEST
CAPITAL CORPORATION

# Investor Presentation

March 2021



# 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,” “project,” "anticipate," "goal," "seek," "strategy," "likely," "should," "will," "could," 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: the potential effects of the continued COVID-19 pandemic, including, but not limited to, demand for energy, economic growth, our employees and contractors, supply chain, expenses, capital markets, capital projects, operations and maintenance activities, uncollectable accounts, liquidity, cash flows, or other unpredictable events; 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 seasonality, the general economy or social conditions, customer and sales growth (or decline), the effects of energy conservation measures and distributed generation, and technological advancements; 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 and energy 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 through our rates and adjustor recovery mechanisms, including returns on and of debt and equity capital investments; our ability to meet renewable energy and energy efficiency mandates and recover related costs; the ability of APS to achieve its clean energy goals (including a goal by 2050 of 100% clean, carbon-free electricity) and, if these goals are achieved, the impact of such achievement on APS, its customers, and its business, financial condition and results of operations; 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 direct or indirect effect on our facilities or business from cybersecurity threats or intrusions, data security breaches, terrorist attack, physical attack, severe storms, droughts, or other catastrophic events, such as fires, explosions, pandemic health events, or similar occurrences; 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 trusts, 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, 2020, 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.

# A Refocused Company. Long Growth Runway.

**1** **A refocused company**

**2** **Favorable market dynamics**

**3** **Shift to clean**

**4** **Strong financial profile**

**5** **Clear strategic priorities**



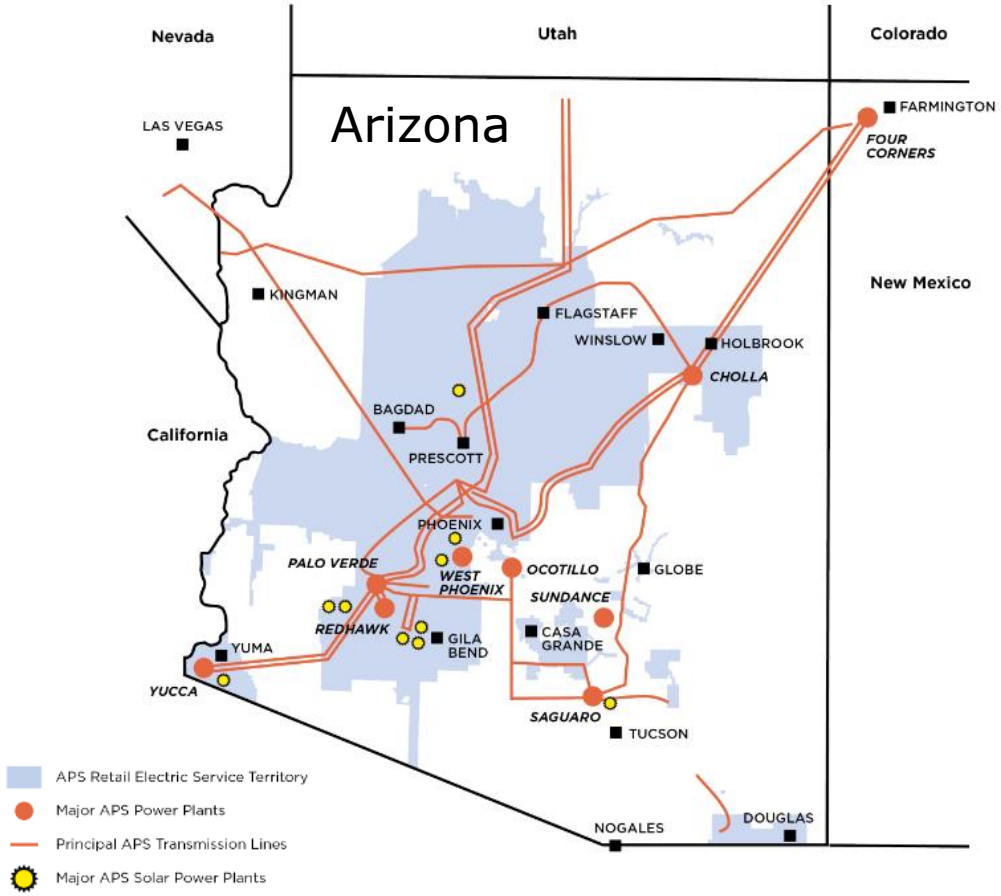


PINNACLE WEST CAPITAL CORPORATION

AT A GLANCE

# Arizona's Largest Electric Company

## Service Territory[1]




## Key Facts as of Dec. 31, 2020

| | |
|---|---|
| Consolidated assets | $20B |
| Revenues | $3.6B |
| Market cap | ~$9B |
| Generating capacity owned or leased – year end | ~6.3 GW |
| Customers | 1.3M |
| Current % from clean energy | ~50% |
| Nuclear plant in U.S. | Largest |

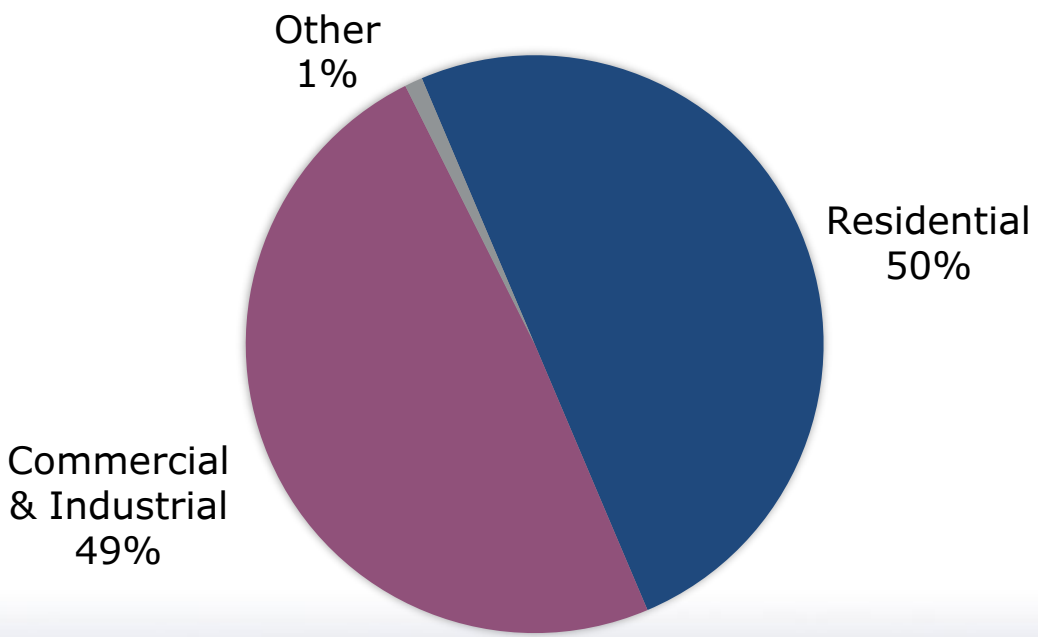
[1] As of December 31,2020



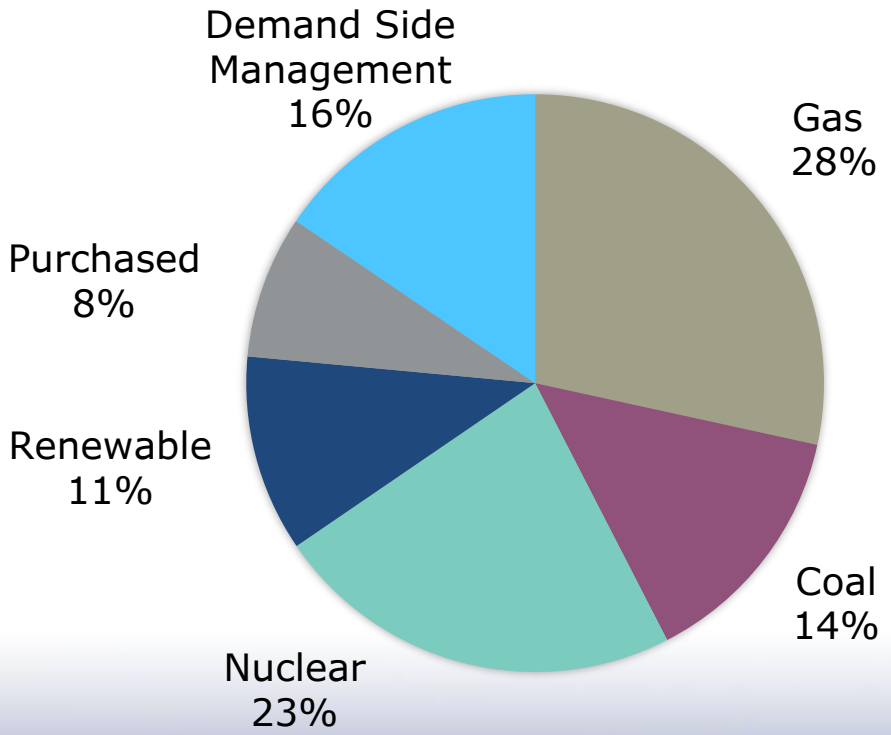
PINNACLE WEST CAPITAL CORPORATION

# Attractive Customer Mix and Shifting Generation Profile

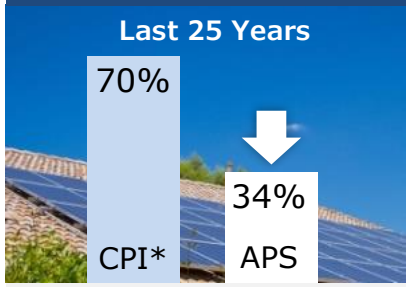
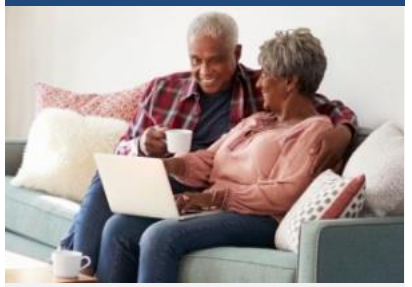
## Retail Sales Mix




## Energy Mix – Will Shift Going Forward



# Building on a Strong Performance Track Record

| Safety Profile | Affordable Energy | Reducing Residential Bills | Reliability | Customer Growth | Operating Costs |
|---|---|---|---|---|---|
|  |  |  |  |  |  |
| **Top Quartile** | **25 years** | **7.3%** | **Top Quartile** | **2%** | **Flat** |
| consistent ranking | residential rates increased less than inflation | decline in average residential bill since 2018 | invest >$1B annually in upgrades and infrastructure | average annual growth last 3 years | APS core operating costs per kWh last 3 years |



* Consumer Price Index

# Solid Underlying Financial Performance – Goal is More Consistent Growth

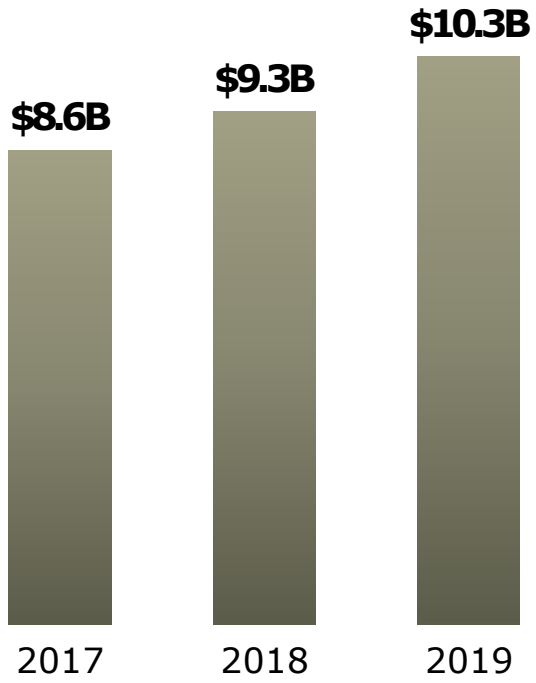
## Net Income
($M)




## Adjusted EPS
($)




## Rate Base
($B)



# Entering a New Era

| Prior to 2019 | 2019-2020 | 2021+ |
|---|---|---|



## Build

- Built Arizona's leading power utility with strong performance track record

## Transformation

- New culture and clean energy goals
  - Lean principles supporting customer affordability

## New Focus

- Investing in clean energy, stakeholder alignment and innovation

# Building the New Pinnacle West

| Focus | Past | Future |
|---|---|---|
| **Customer Experience** | Average | Best in Class |
| **Clean Energy** | Moderate | Priority / accelerating |
| **Regulatory Relations** | Challenging | Aligned |
| **Earnings Performance** | Strong / Inconsistent | Strong / More consistent |

# Leading ESG Practices Guide Our Approach – Snapshot

## Environmental



- Only North American electric utility on CDP A List for Water and Climate[1]
- MSCI ESG "A" rating[2]
- $144M Coal Community Transition Plan

## Social



- Top quartile employee safety
- 36% of external hires ethnically or racially diverse
- Employees donated approximately 82,000 volunteer hours

## Governance



- 36% of independent directors gender or ethnically diverse
- ESG executive council
- Board oversight of strategy and risk



[1] Climate Change and Water Security "A Lists" by CDP: One of only 16 North American companies worldwide to receive two A scores.
[2] Report dated April 14, 2020.

# Recent Positive Results Show Evidence of Repositioning

- Improved regulatory transparency
  - delivered on customer issues
- External recognition growing
  - Customer Advisory Board featured by Public Utilities Fortnightly Top Innovators
- Improved customer experience
  - 24/7 care center support
  - Enhanced digital engagement



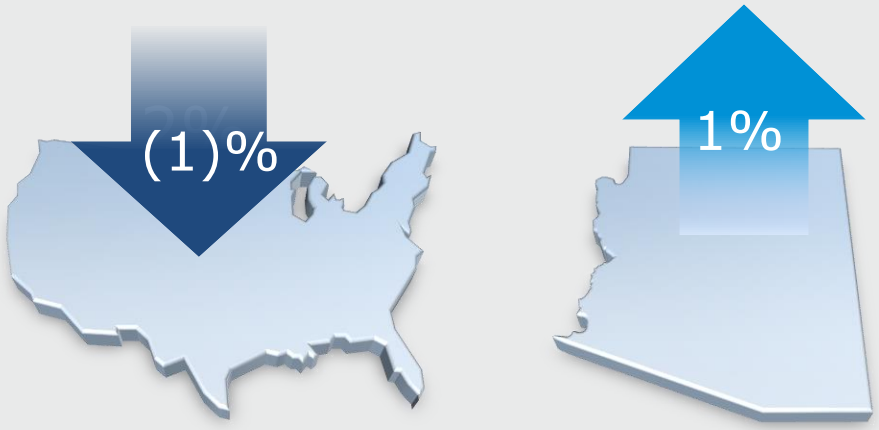
# A Refocused Company. Long Growth Runway.

| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|
| **A refocused company** | **Favorable market dynamics** | **Shift to clean** | **Strong financial profile** | **Clear strategic priorities** |



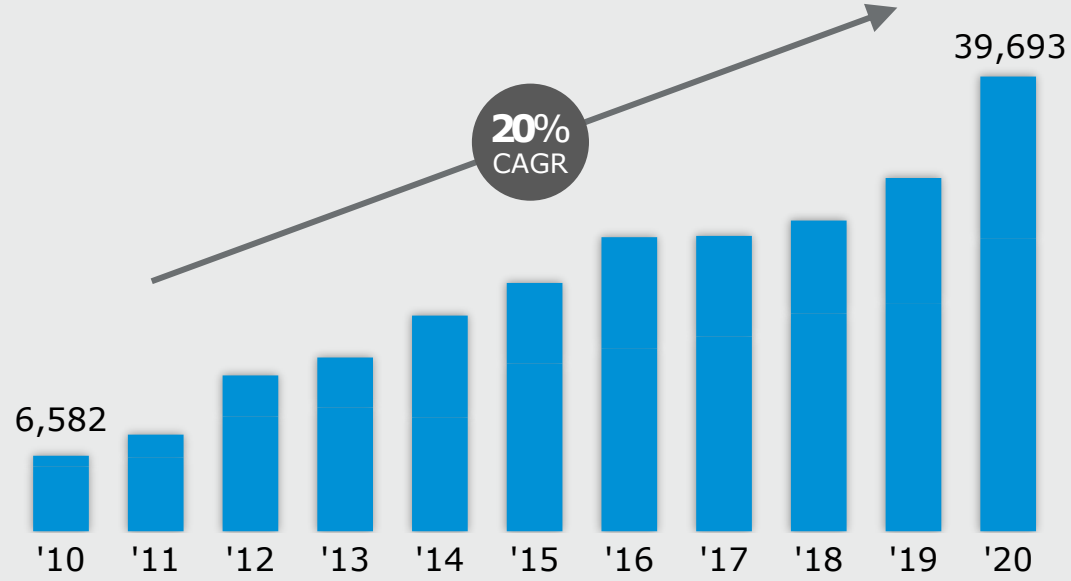
# Fast Growing Service Territory

## Annual Employment Growth Last Three Years[1]




## Steady Housing Growth[2]

Single Family & Multifamily Housing Permits
Maricopa County




Arizona – Third fastest growing state[3]

[1]2018-2020
[2]Maricopa County population 4.5M, 62% of state population
[3] U.S. Census Bureau's 2020 population estimates



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# System Supports High Tech Growth in Economy

## Our Approach: Focus on Four Main Areas

- Business attraction and expansion
- Community development
- Entrepreneurial support
- Infrastructure support





## Supports Influx of Tech and Data Centers – Examples

- Microsoft – constructing 3 new mega data centers
- Taiwan Semiconductor – plans to build $12B factory
- Stack Infrastructure – building 1M sq ft data center on 79 acres
- Stream Data Centers – 418,000 sq ft, up to 200MW of load

**Data centers are projected to create up to 640 MW of capacity needs by 2035**





# A Refocused Company. Long Growth Runway.

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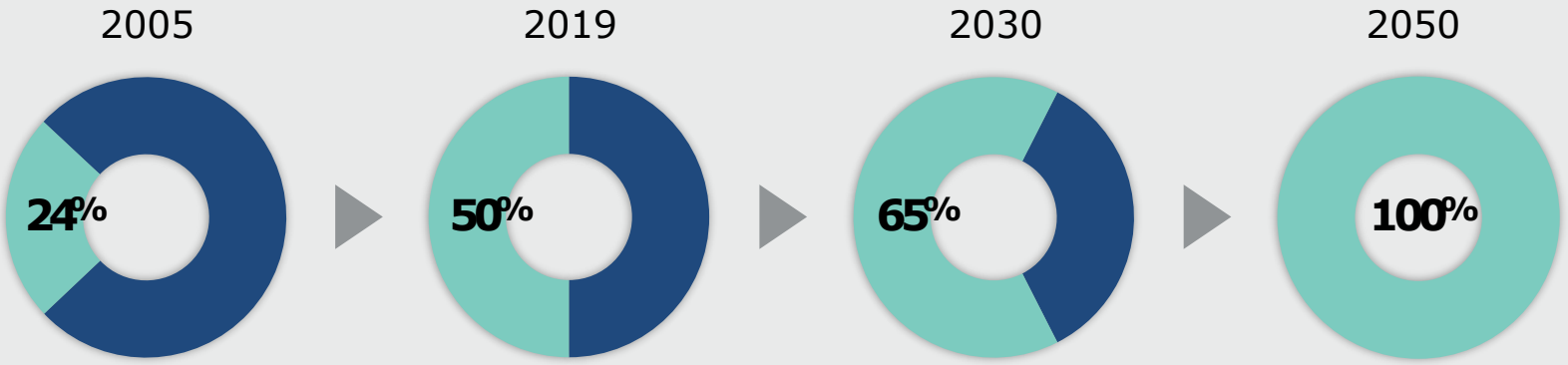
# Our Clean Energy Plan

## Commitments

1. 100% clean, carbon-free electricity by 2050
2. 65% clean energy by 2030 with 45% renewable energy
3. End APS's use of coal-fired generation by end of 2031



## Pathway

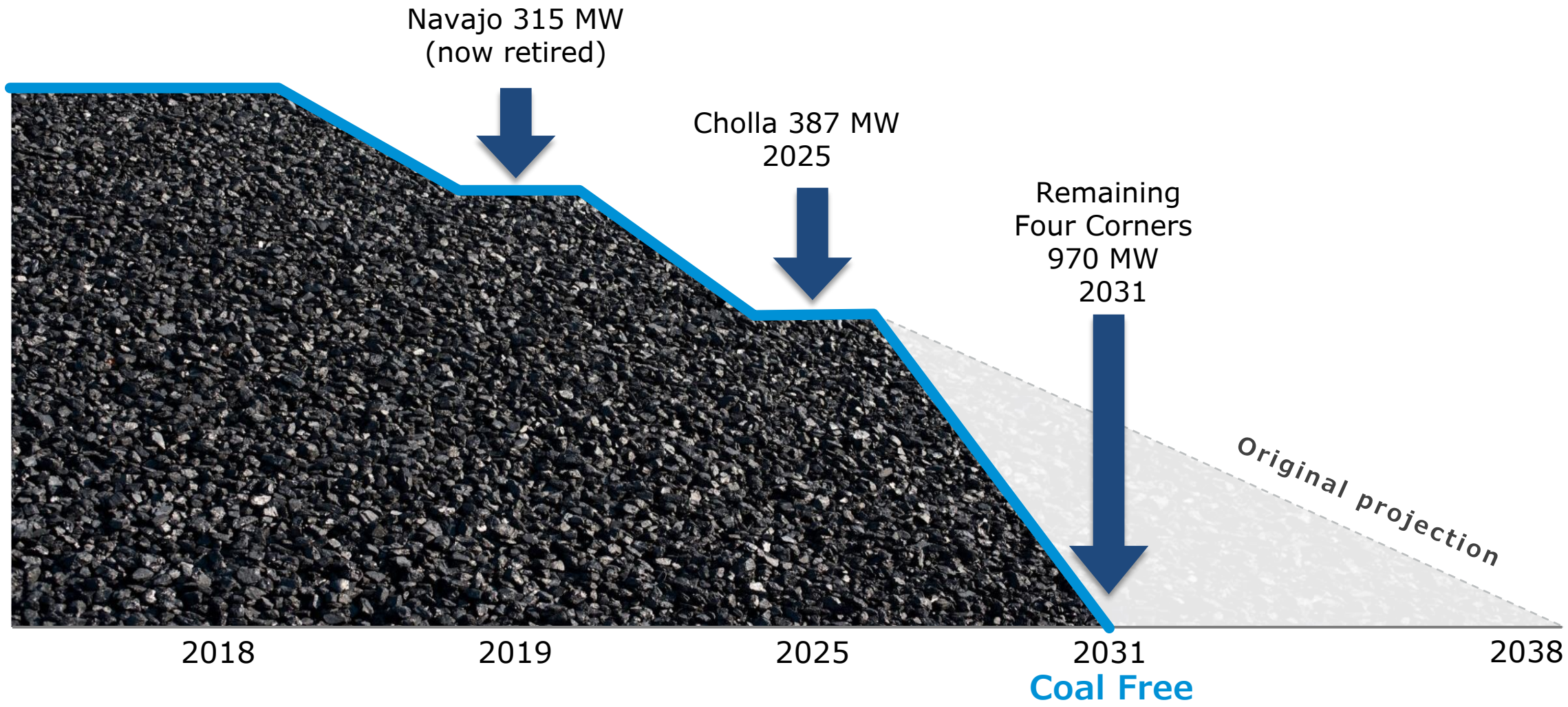







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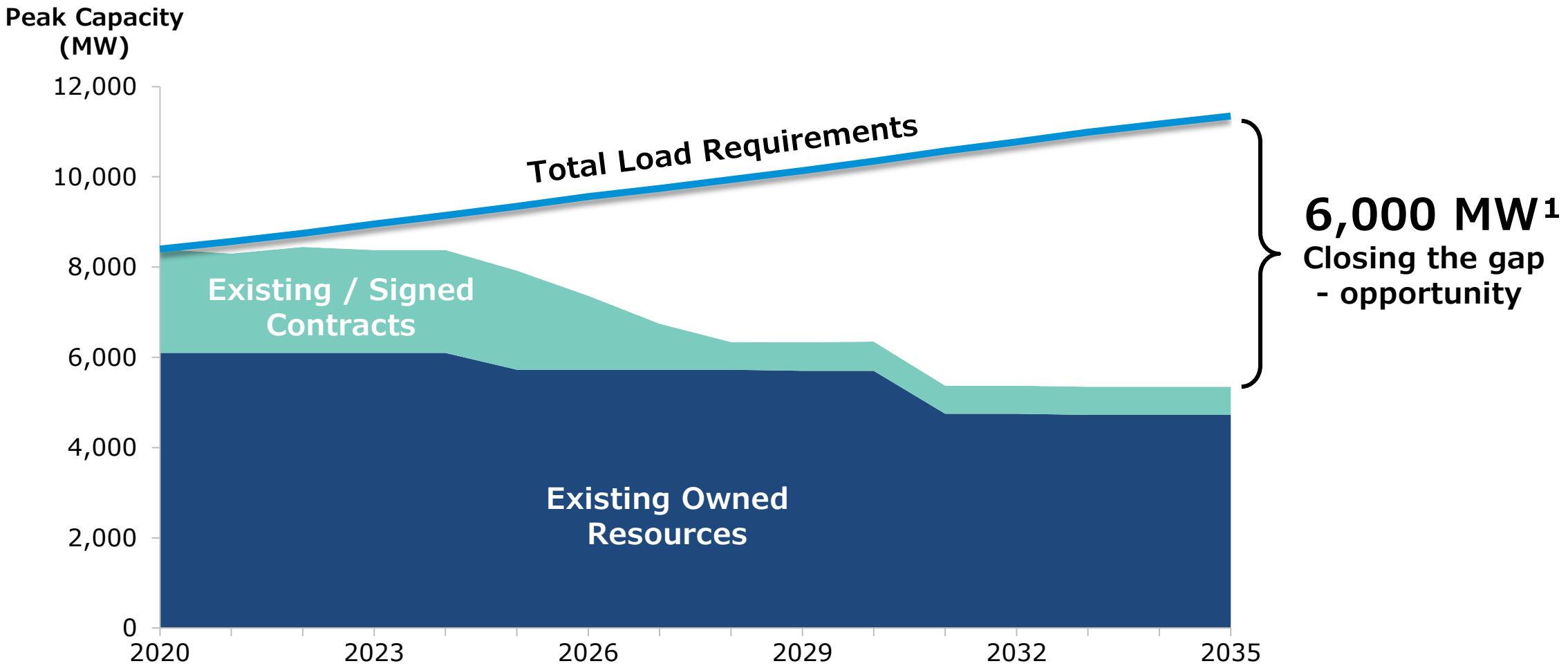
# Coal Exit Strategy – 7 Years Earlier than Originally Projected






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# Coal Exit and Expiring Purchase Contracts Will Create a 6,000 MW Supply-Demand Gap by 2035




[1] Will need more additions than 6,000 MW due to new resources being paired to meet reliability requirements (i.e., solar with storage requires 100 MW solar plus 100 MW of storage).

# Key New Energy Sources to Achieve Goals

## Initiatives

- Solar generation
- Wind generation
- Gas as a bridge fuel
- Demand-side management
- Energy storage solutions
- Innovation

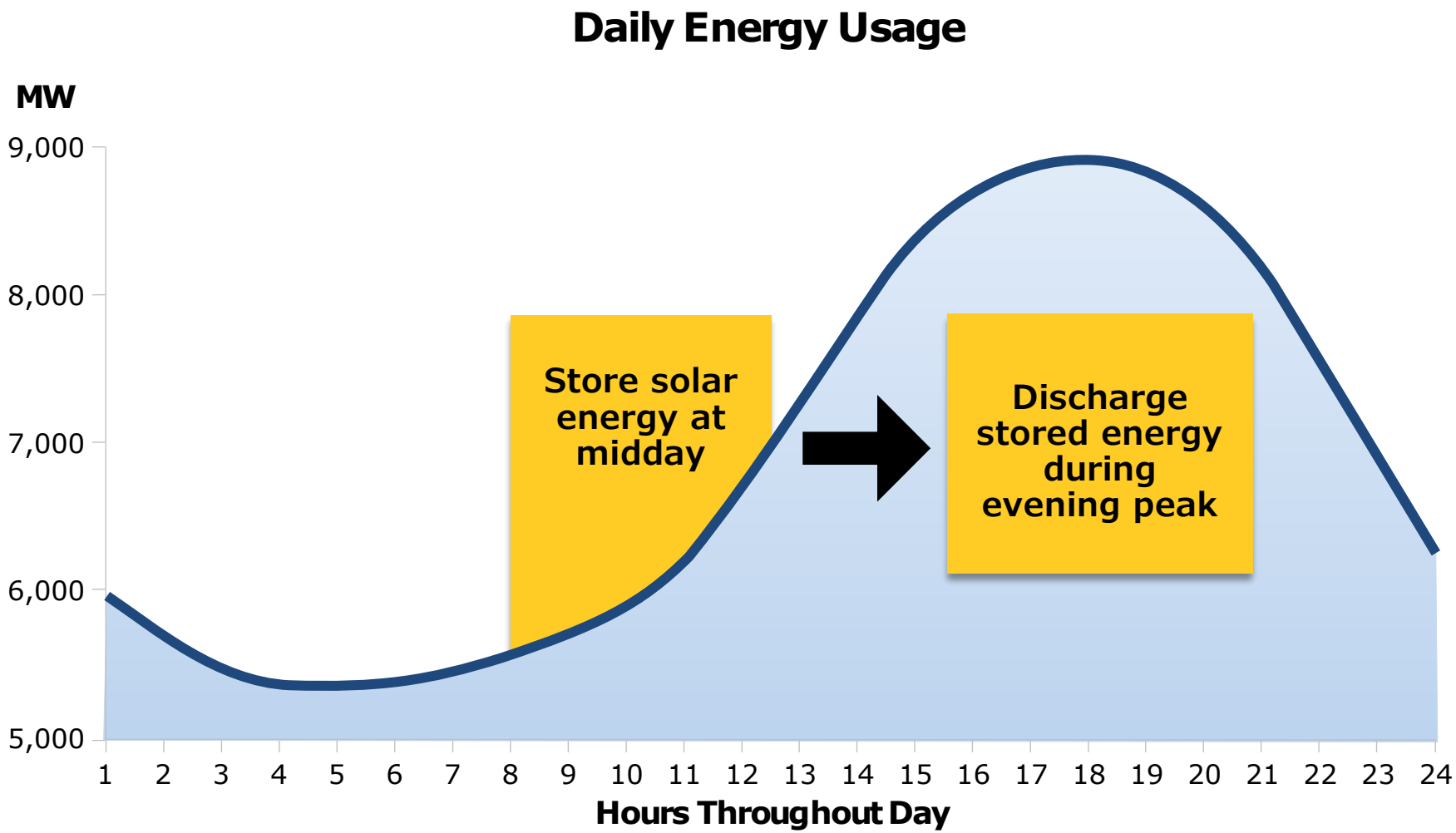


## Resource Mix Change

| | Today | | 2035 |
|---|---|---|---|
| Coal | **14%** | → | **0%** |
| Gas | **28%** | → | **6%-17%** |
| Nuclear | **23%** | → | **16%** |
| Purchased | **8%** | → | **11%** |
| Renewable/ DSM | **27%** | → | **56%-67%** |



# Energy Storage A Key Element of Our Renewal Energy Plan




Plan includes 300 MW/year of energy storage 2022-2030

## Storage Advantages

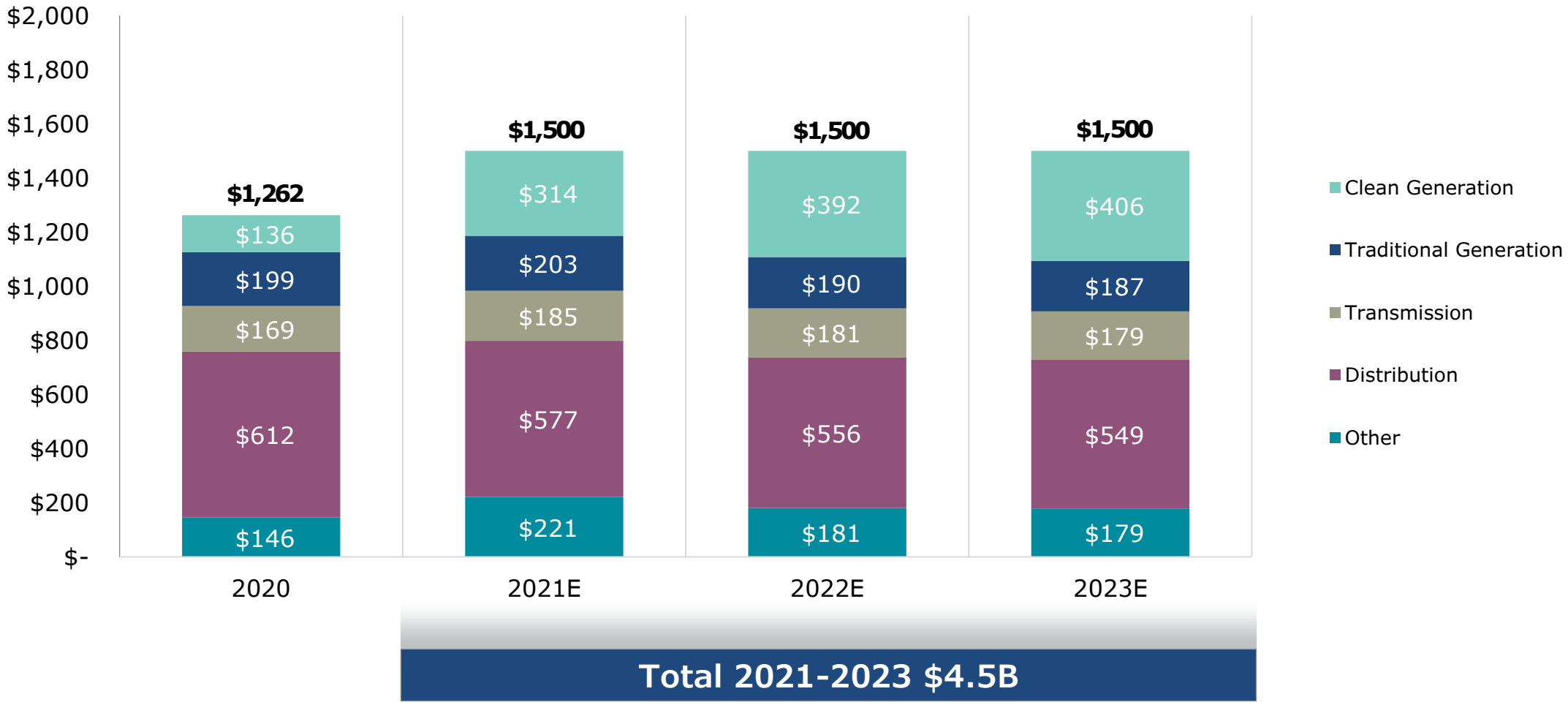
- Absorbs negative priced excess energy at noon
- Provide opportunity to save customers more through the Energy Imbalance Market





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# Advancing On Path to 100% Clean Energy – Three Year Capital Plan of $4.5B[1]




[1] As disclosed in the Annual Report on Form 10-K for the period ended December 31, 2020.



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# Shift to Clean Energy is a Win, Win, Win, Win

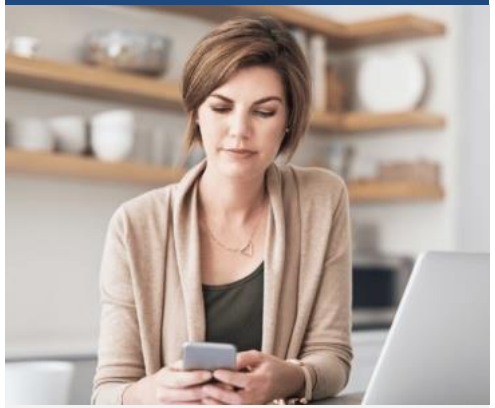
## WIN for clean air



- Lower carbon

+

## WIN for customers



- Maintain affordability

+

## WIN for relations with regulators



- Aligned goals

+

## WIN for EPS growth



- Expanded capital base

# A Refocused Company. Long Growth Runway.

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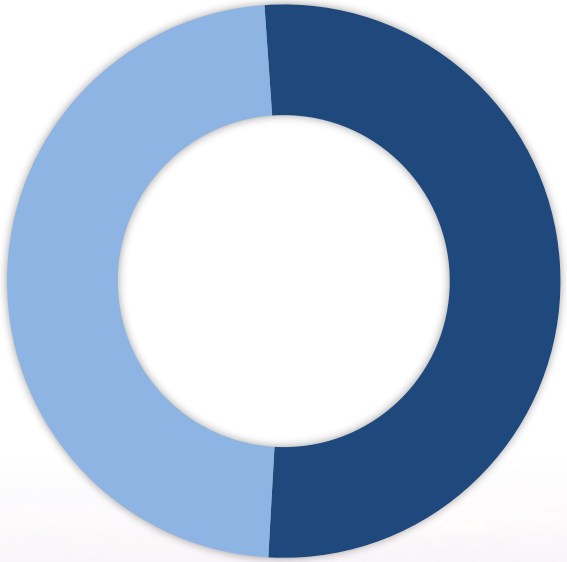
**4** **Strong financial profile**

**5** **Clear strategic priorities**



# Strong Balance Sheet – Pinnacle West

## Debt to Capitalization
(TME 9/30/2020)



53.5%
Debt/Cap

FFO/Debt: 20.0%
(TME 9/30/2020)
Source: Standard & Poor's

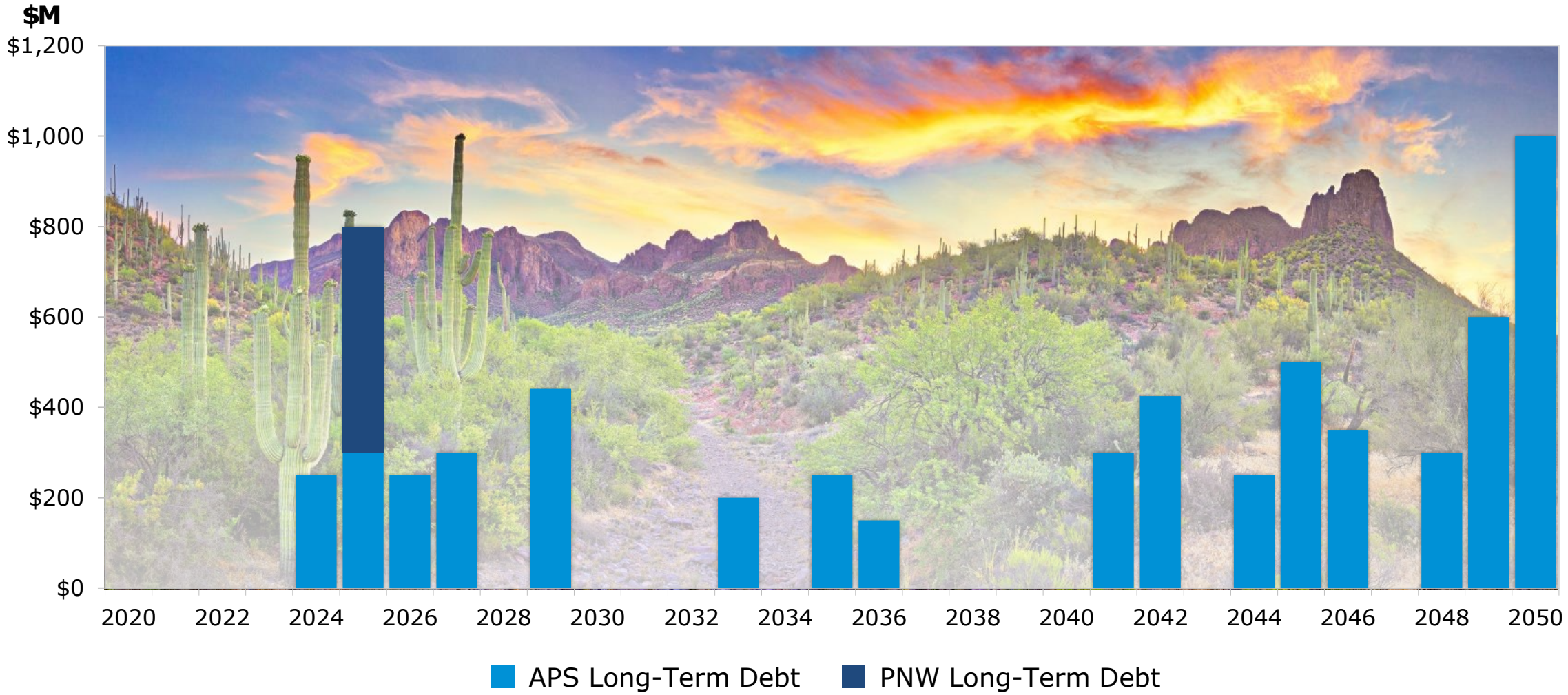
## Corporate Credit Ratings[1]

| | |
|---|---|
| Moody's | A3 |
| S&P | A- |
| Fitch | A- |

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



# Well-Balanced Long-Term Debt Maturity Profile



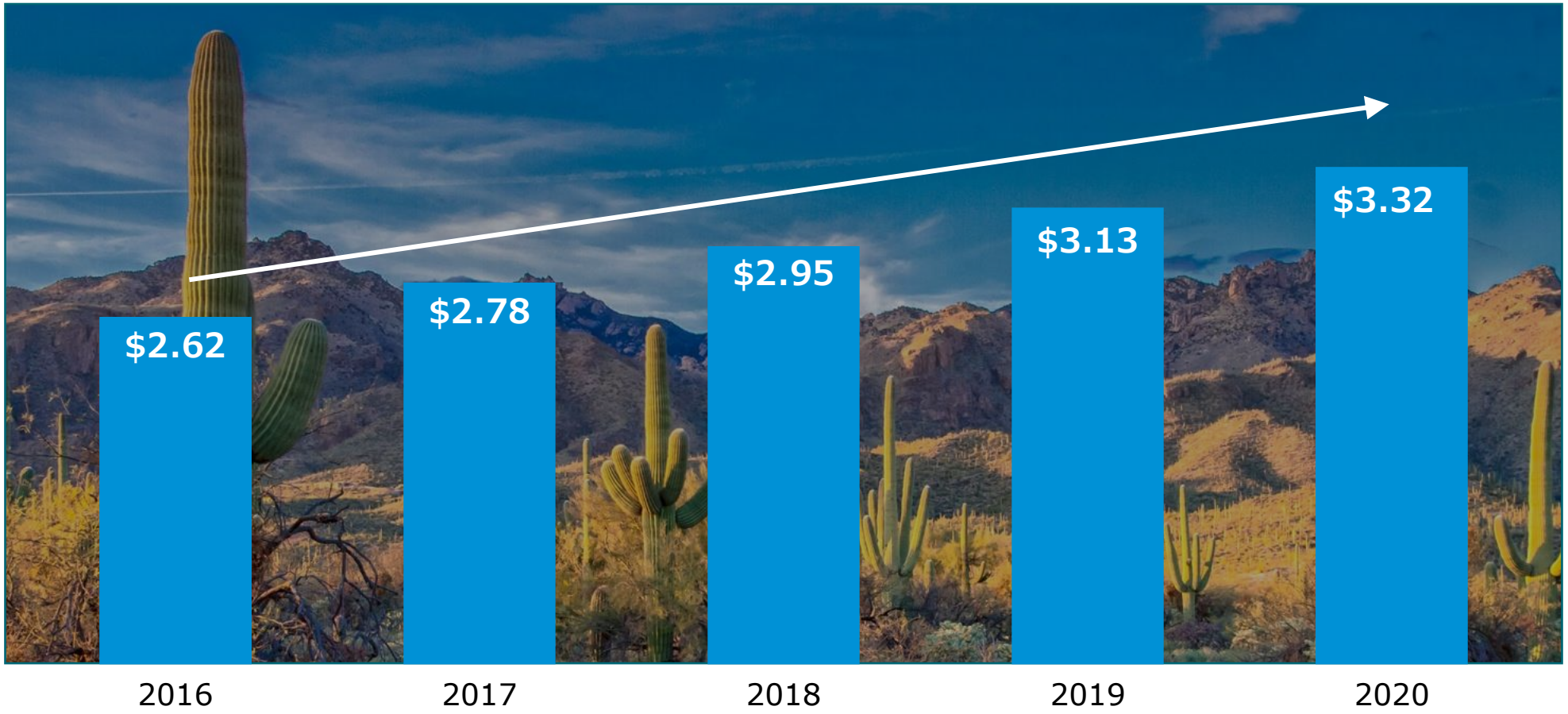

As of December 31, 2020



PINNACLE WEST CAPITAL CORPORATION

# Increased Dividend, 9 Year History of Increases[1]

**Indicated Annual Dividend – Year End**




[1] Future dividends are subject to declaration at Board of Directors' discretion.



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# Clear Strategy Going Forward

**1**

**Deliver exceptional customer service**

**2**

**Ensure superior reliability and operating performance**




**4**

**Make intelligent investments to support a growing Arizona**

**3**

**Maintain strong credit ratings and financial health**

EXAMPLE OF INNOVATION INNITIATIVE

# Bringing the Residential Customer into the Advanced Economy

## Initiatives

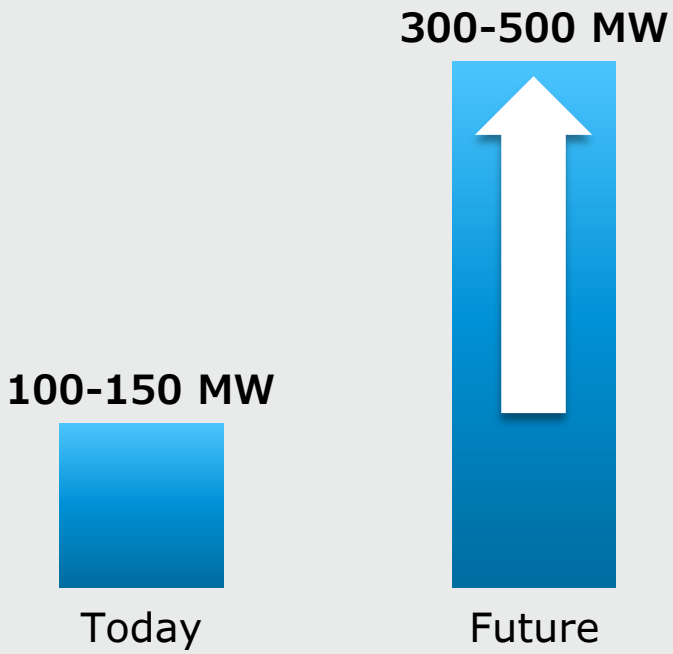
- Award-winning program to promote installation of advanced smart thermostats
  - reduces demand during 3-8 pm peak load window
- Super off-peak electric vehicle charging rate equivalent to ~30¢ per gallon gasoline






## Potential Impact

**Demand Savings During Peak Afternoon Window**






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# Customer Driven Initiatives Underway – A Few Examples

## Take Charge AZ



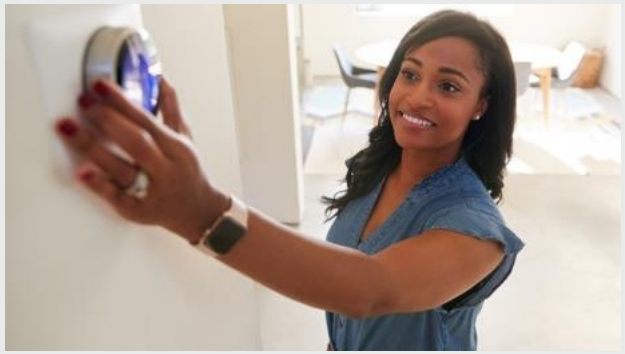
- Pilot program to encourage electric vehicle adoption by installing charging stations
- Expect to install more than 250 chargers through 2021

## Customer Advisory Board



- Gathers direct insight from residential customers
- Identify customer concerns to shape solutions

## Energy Efficiency



- Demand response programs to reward shift of energy usage to lower-cost times
  - smart thermostats
  - residential battery systems
  - grid-interactive water heaters

EXAMPLE OF INNOVATION INNITIATIVE

# Pilot Project Exploring Hydrogen as Potential Solution for Long Duration Storage

## Profile of Project

**Collaborators**

- Palo Verde nuclear plant and Idaho National Laboratory

**Pilot Program 2020-2023**

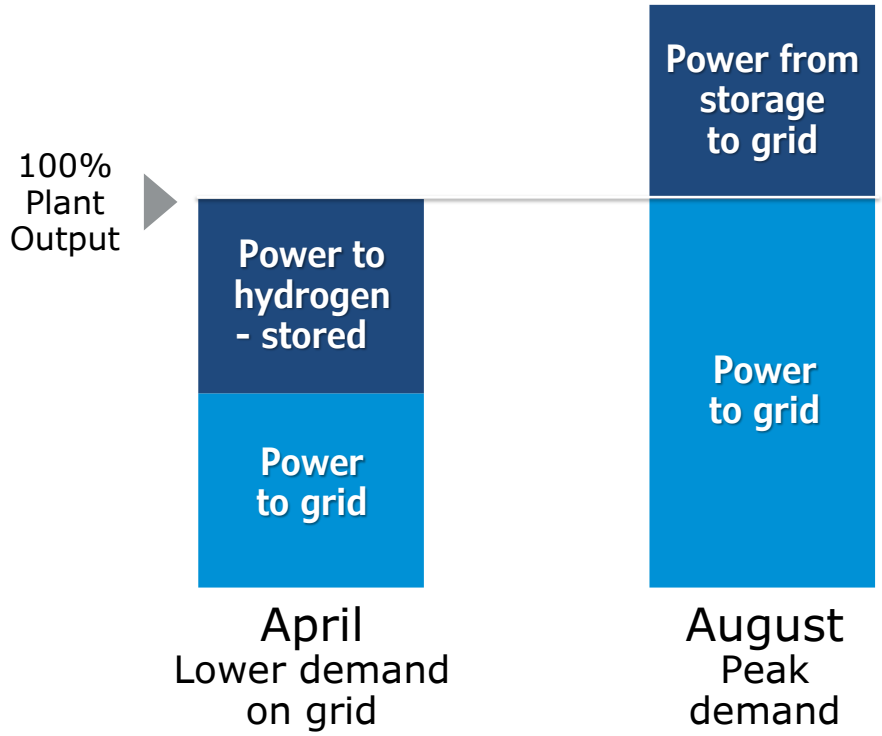
- Examine long-term cost effectiveness of hydrogen production at utility scale

**Goal**

- Use of hydrogen for long term storage of energy



**Possible Scenario for Palo Verde Nuclear Plant**






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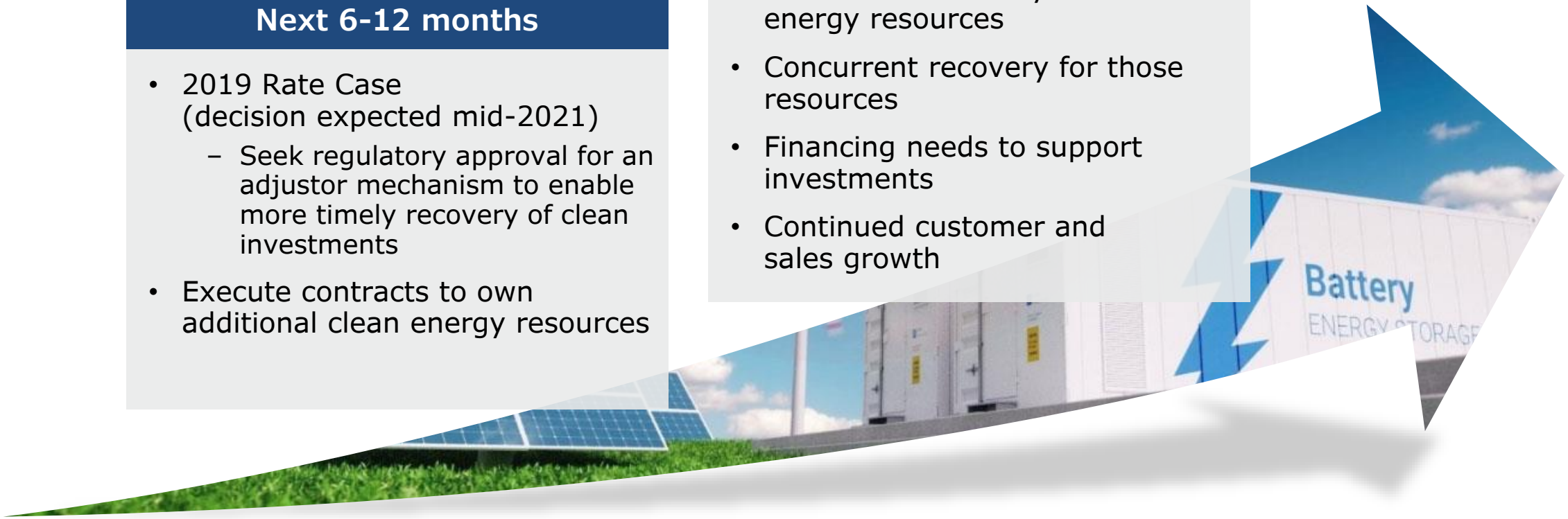
# Key Value Drivers Going Forward

## Next 6-12 months

- 2019 Rate Case (decision expected mid-2021)
  - Seek regulatory approval for an adjustor mechanism to enable more timely recovery of clean investments
- Execute contracts to own additional clean energy resources

## Longer Term Next 3-5 Years

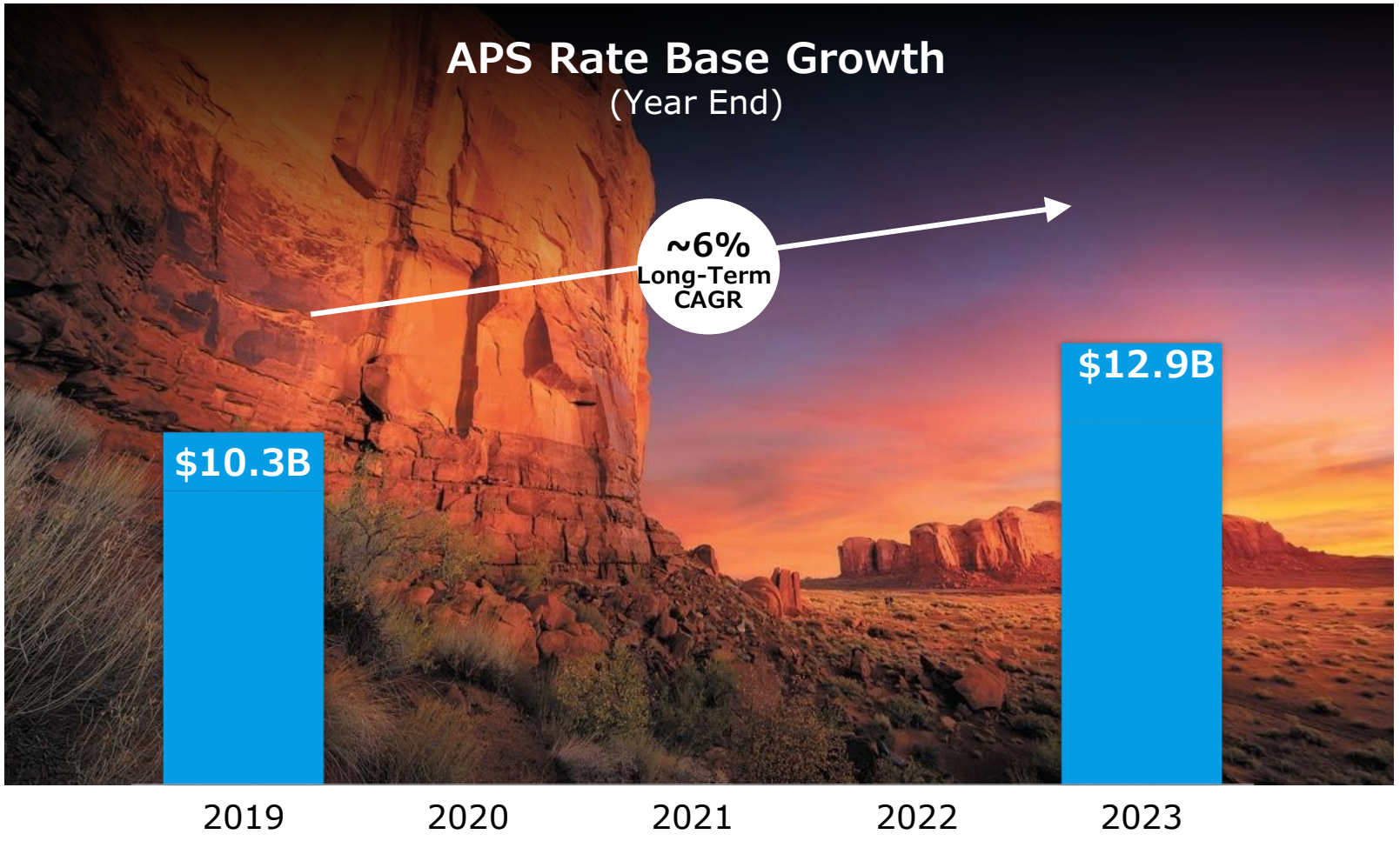
- Investment in utility-owned clean energy resources
- Concurrent recovery for those resources
- Financing needs to support investments
- Continued customer and sales growth




**Focus to Avoid Regulatory Lag:**

- Enhanced recovery mechanisms
- Or more frequent rate case filings

# Outlook: Steady Growth in Rate Base




Plan to continue dividend growth[1]

**Expect annual renewable additions of 300-500MW 2022-2030**

[1] Future dividends are subject to declaration at Board of Directors' discretion.



PINNACLE WEST CAPITAL CORPORATION

IN SUMMARY

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# Appendix



# Effective COVID-19 Response for Customers and Employees




**Customer and Community Relief Fund**
Provided more than $15M in pandemic aid

**Customer Support Initiatives**
Suspended disconnects, waived late fees

**Employee Safety**
New procedures, physical distancing

# ESG Leadership – Recognition

CDP DISCLOSURE INSIGHT ACTION A LIST 2020

**CLIMATE**

CDP DISCLOSURE INSIGHT ACTION A LIST 2020

**WATER**

MSCI

**Environmental Sustainability and Governance "A" rating[1]**

A.E.S.P. ASSOCIATION OF ENERGY SERVICES PROFESSIONALS ENERGY AWARDS

OUTSTANDING ACHIEVEMENT

**Emerging Tools & Technologies**

training

**Training Magazine**

**Top 100 Learning and Development Organization**

**HIRE Platinum Medallion Award 2018-2020**

US Department of Labor

20th Anniversary U.S. WIN®

**Women in Nuclear National Award for Best Public Outreach**

[1] As of April 14, 2020