PINNACLE WEST
CAPITAL CORPORATION

Investor Presentation

December 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 (including large increases in ambient temperatures), the general economy or social conditions, customer and sales growth (or decline), the effects of energy conservation measures and distributed generation, and technological advancements; the potential effects of climate change on our electric system, including as a result of weather extremes such as prolonged drought and high temperature variations in the area where APS conducts its business; 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, 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 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, 2020 and in Part II, Item 1A in of the Pinnacle West/APS Quarterly Report on Form 10-Q for the quarter ended September 30, 2021, 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.

Navigating Short-Term Challenges. Longer-Term, A Powerful Growth Story

1
Company Profile - Solid Foundation

2
Rate Case Results - A Reset

3
Growth Outlook Remains Strong

4
Customer Initiatives and ESG Leadership

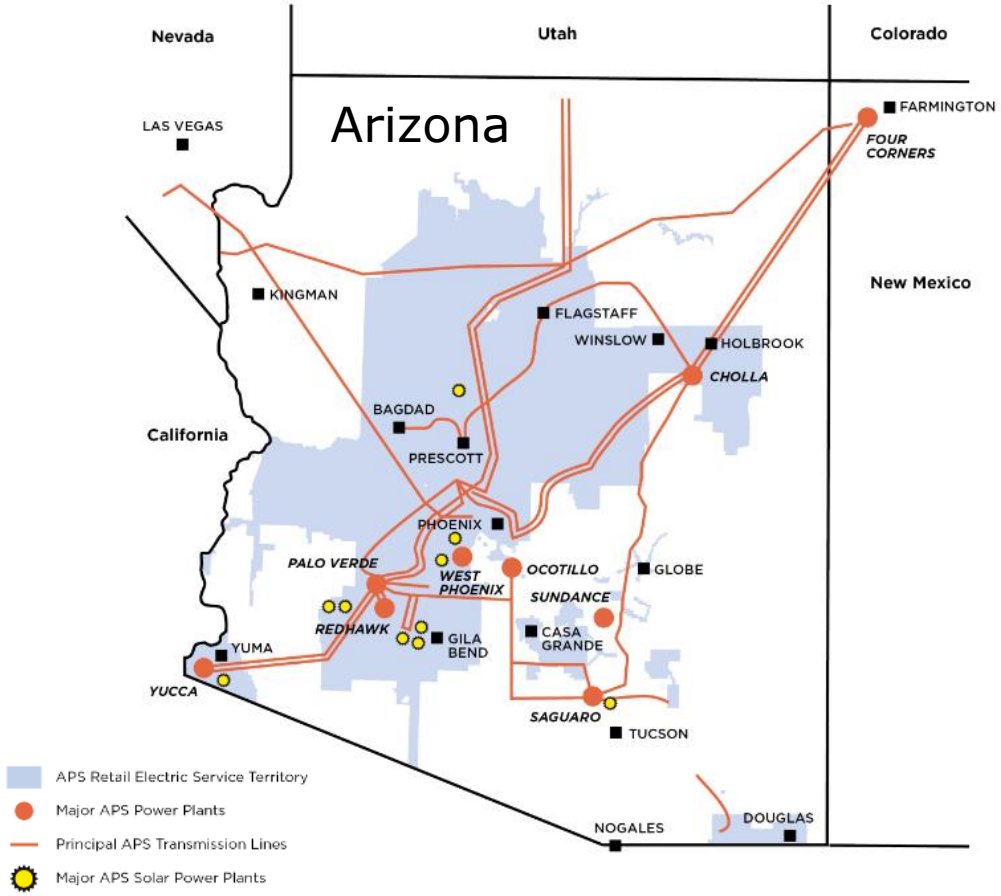
5
Financial Outlook - Sets Clear Expectations



AT A GLANCE

Arizona's Largest Electric Company

Service Territory[1]



Key Facts as of Dec. 31, 2020

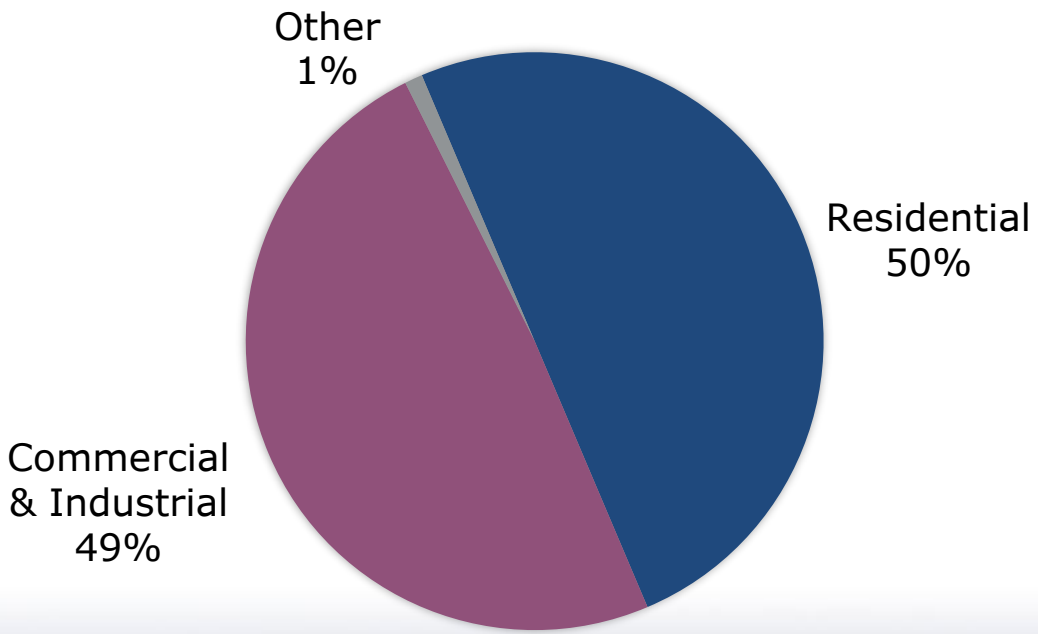
Consolidated assets	$20B
Revenues	$3.6B
Market cap	~$9B
Generating capacity owned or leased – year end	~6.3 GW
Customers	1.3M
Current % from clean energy	~50%
Nuclear plant in U.S.	Largest

[1] As of December 31,2020

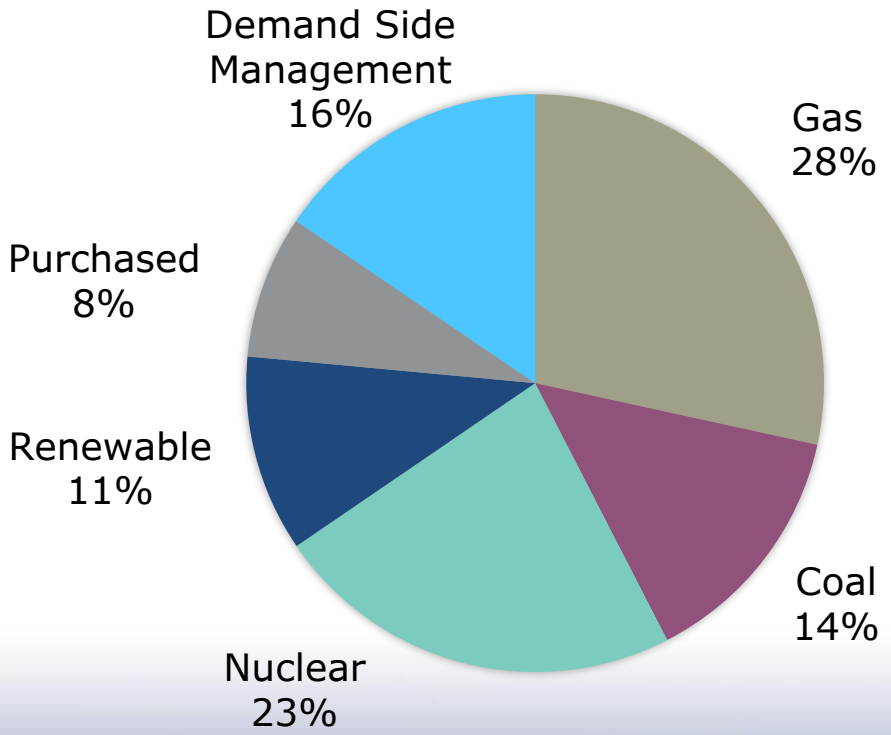
PINNACLE WEST CAPITAL CORPORATION

Attractive Customer Mix and Shifting Generation Profile

Retail Sales Mix[1]



Energy Mix – Will Shift Going Forward[1]



[1] As of December 31, 2020.

Navigating Short-Term Challenges. Longer-Term, A Powerful Growth Story

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An Anomaly of a Rate Case, Unique in Many Ways

- Compelled by the ACC to file this rate case
- Required to fully litigate with more than 50 parties over 2 years
- One of the primary components of this rate case request was for environmentally mandated investments in a legacy coal plant
- Case carried out during a global pandemic requiring fully virtual hearings

Rate Case Outcome Disappointing, but Clarifies the Path Forward

	APS (Rebuttal)	ALJ (ROO)	ACC Resolution
Total Revenue Change (Base Rate and Adjustors) ($MM)	$169 5.1%	$3.6 0.1%	$(4.8) (0.1)%
Base Rate Increase/Decrease ($MM)	$41	$(111.4)	$(119.8)
ROE	10.00%	9.16%	8.70%
Return on Fair Value Increment	0.80%	Implied 0.05%	0.15%
Weighted Average Cost of Capital / Rate of Return on FVRB	7.33% / 5.51%	6.87% / 4.95%	6.62% / 4.77%
Base Fuel Rate (¢/kWh)	3.1451	3.1451	3.1451
Post-Test Year Plant	12 Months	12 Months	12 Months
SCRs and Deferral	Include both	Disallow both	Partial Disallowance of $216M
OMP and Deferral	Include both	Include asset; debt return on deferral	Include asset; debt return on deferral
Capital Structure	54.7% / 45.3%	54.7% / 45.3%	54.7% / 45.3%
Residential On-Peak Time of Use	3 p.m. to 8 p.m.	3 p.m. to 8 pm.	4 p.m. to 7 p.m.

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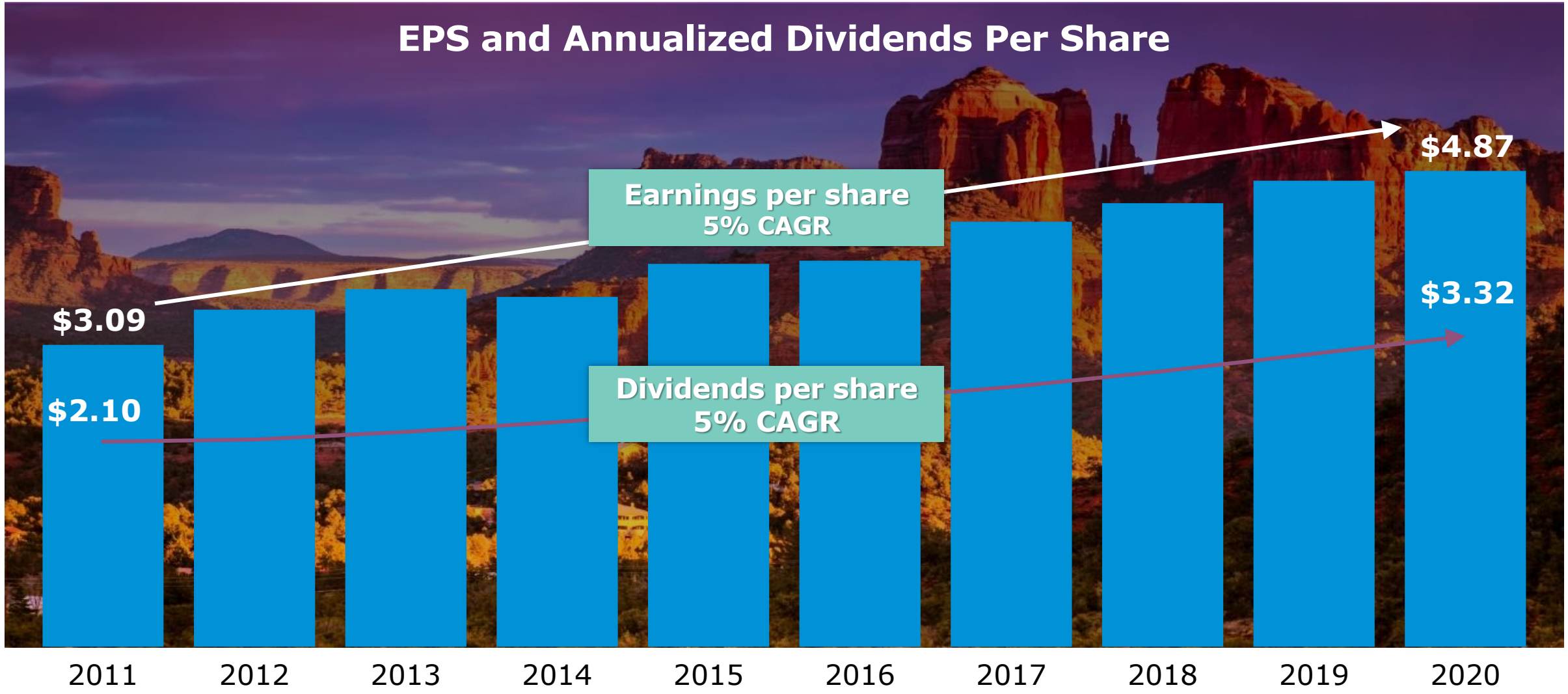
Why We Are Optimistic About the Future

Key Reasons

1. Solid long-term performance record
2. Robust economic growth in Arizona and our service territory
3. A clear plan for a clean energy transition
4. Ability to navigate the regulatory environment over time
5. Strong commitment to execute strategy

REASON #1

Last 10 Years: Strong Performance Track Record



PINNACLE WEST CAPITAL CORPORATION

REASON #1

Record of Delivering On Our Promise to Provide Affordable Energy

Increase in Residential Electricity Demand (MWH)



Decrease in Average Residential Customer Bill

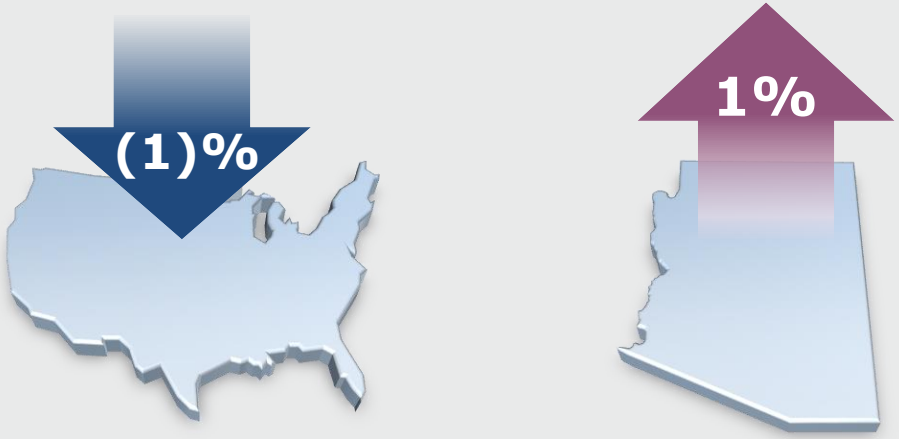


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REASON #2

Arizona Remains Among the Fastest Growing States in the U.S.

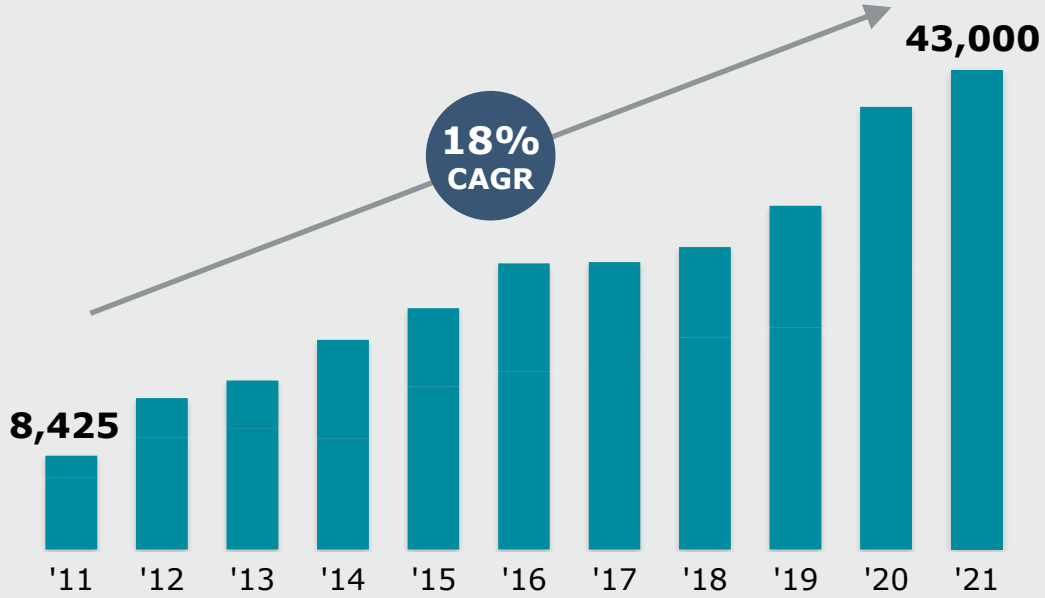
Annual Employment Growth Last Three Years[1]



[1] 2018-2020

Steady Housing Growth[2,3]

Single Family & Multifamily Housing Permits
Maricopa County



[2] Maricopa County population 4.5M, 62% of state population
[3] 2021 projection

REASON #3

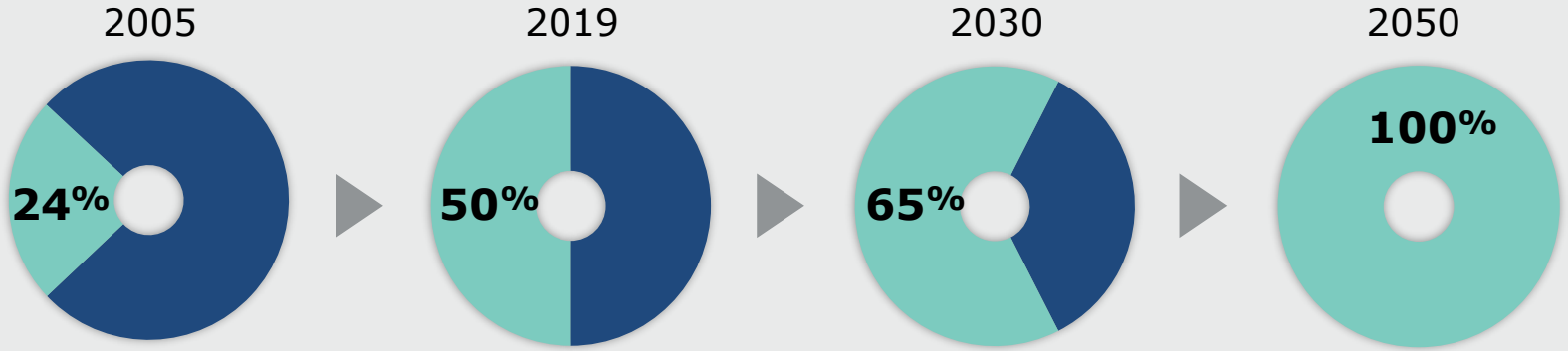
A Clear Plan for Clean Energy Transition

Progress Towards Meeting Clean Energy Commitment[1]

- Announced seasonal operations of Four Corners beginning 2023
- Procured nearly 1400 MWs of clean energy and storage to be in service for APS customers by 2024
- Charted course for healthy mix of APS-owned and third party-owned assets, to be continued through future planned RFPs



Pathway





[1] Since January 2020

REASON #2

Best-in-Class Service Territory Supports High Tech Growth and Economic Development

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**
  Began building $12B factory
- **KORE Power**
  Building 1M sq ft lithium-ion manufacturing facility
- **Stream Data Centers**
  Planning up to 200MW of load





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

REASON #4

We Will Pursue Improvements in the Regulatory Environment

- ✓ Filing a new rate case to reduce regulatory lag and improve the ROE
- ✓ Work with stakeholders on common issues including reducing regulatory lag and improving customer experience
- ✓ Continue to find alignment with the regulators
- ✓ Focus on customer affordability



REASON #5

We Have Embraced a Customer-Centric Strategy

Deliver exceptional customer service

Ensure superior reliability and operating performance, anchored in safety



Make intelligent and clean investments to support a growing Arizona

Preserve strong financial health while sustaining customer affordability

PINNACLE WEST CAPITAL CORPORATION

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EXAMPLE OF INNOVATION INNITIATIVE

Bringing the Residential Customer into the Advanced Economy

Initiatives

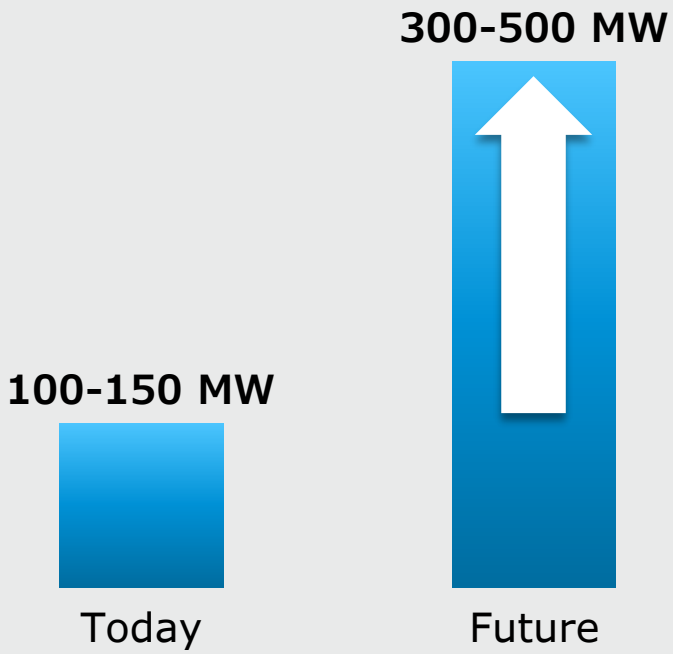
- Award-winning program to promote installation of advanced smart thermostats
  - reduces demand during peak load window
- Super off-peak electric vehicle charging rate equivalent to ~30¢ per gallon gasoline





Potential Impact

Demand Savings During Peak Afternoon Window



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Customer Driven Initiatives Underway – A Few Examples

Take Charge AZ



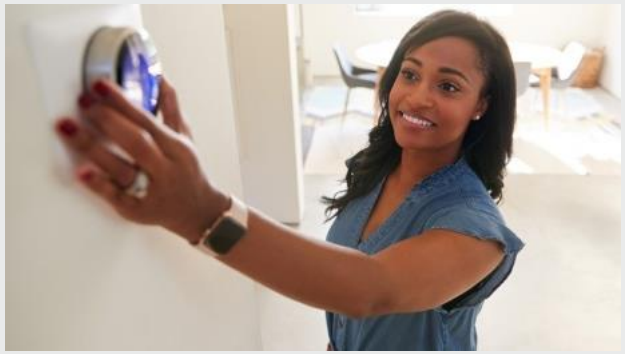
- Pilot program to encourage electric vehicle adoption by installing charging stations
- Expect to install more than 300 chargers through 2021

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

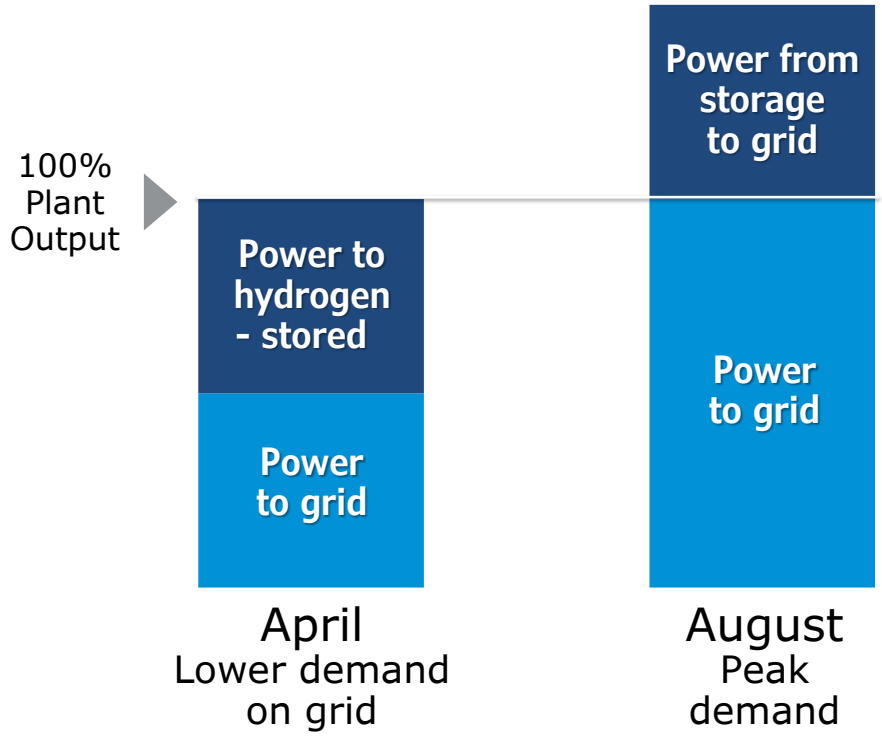
- Examine long-term cost effectiveness of hydrogen production at utility scale

Goal

- Use of hydrogen for long term storage of energy



Possible Scenario for Palo Verde Nuclear Plant



PINNACLE WEST CAPITAL CORPORATION

Leading ESG Practices Guide Our Approach – Snapshot

Environmental



- Only North American electric utility on CDP A List for Water and Climate[1]
- MSCI ESG "AA" rating[2]
- Reduced carbon by 26% since 2005 and retired over 1,000 MW of coal

Social



- Top quartile employee safety
- 36% of new hires ethnically or racially diverse
- Commitment to Support Coal Community Transition Plan

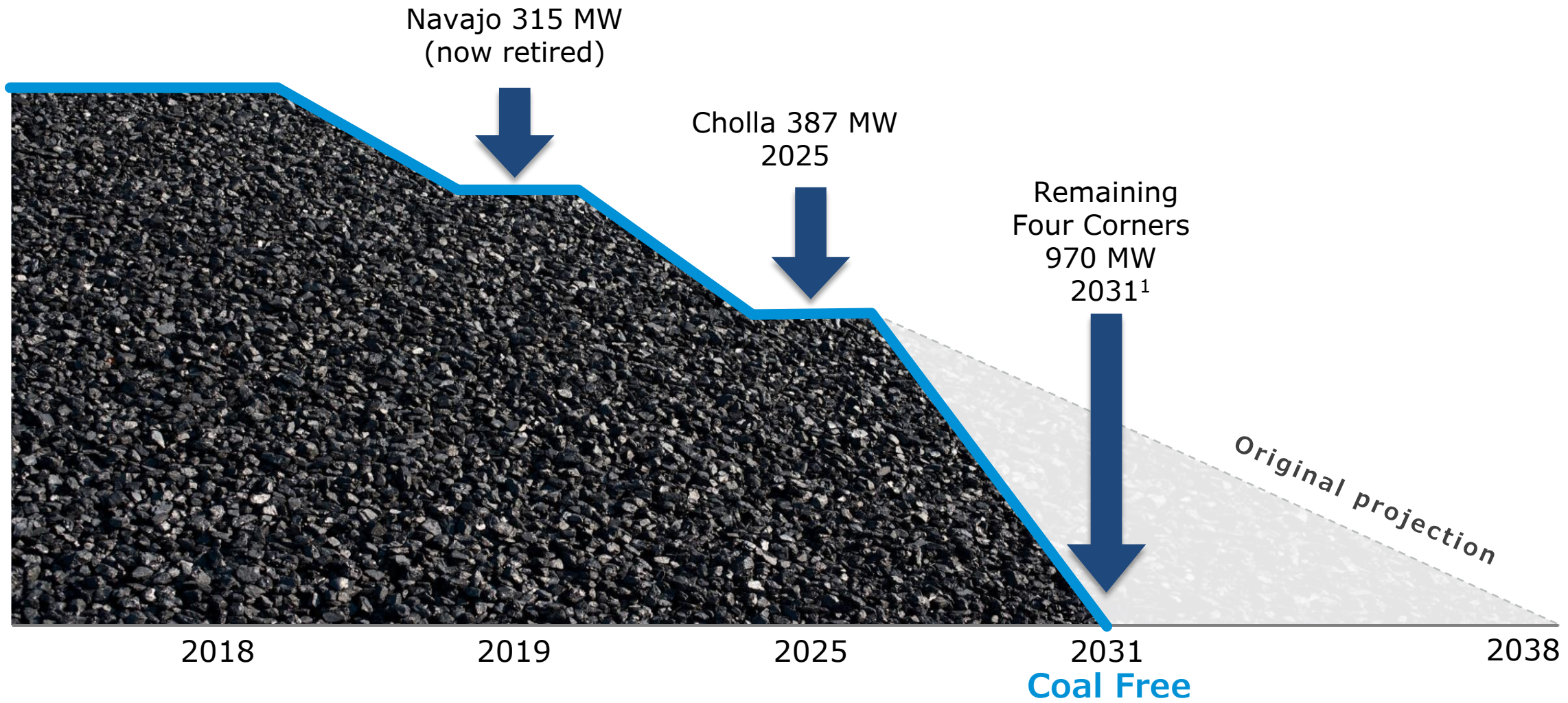
Governance



- 30% 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 27, 2021.

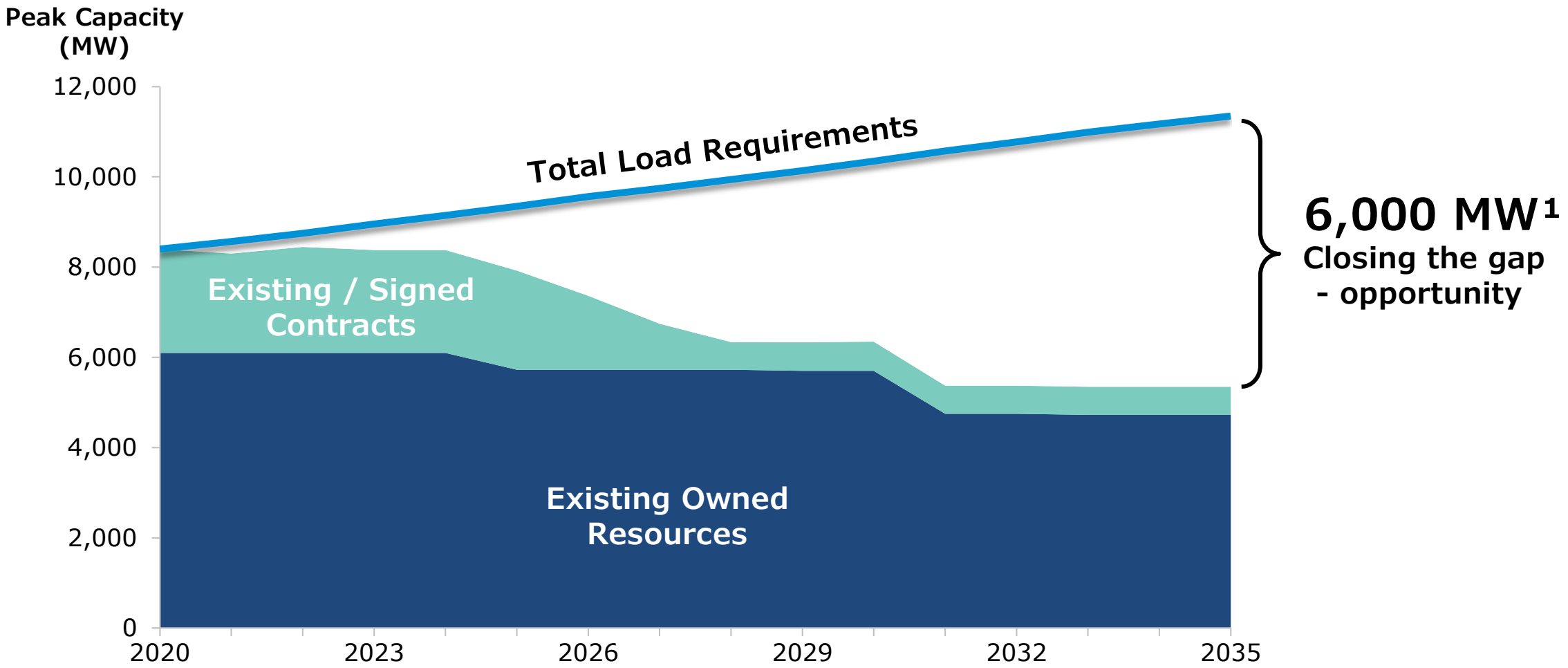
Coal Exit Strategy – 7 Years Earlier than Originally Projected



[1]Starting in 2023, Four Corners will move to a seasonal operating schedule that will further reduce annual carbon emissions at Four Corners by an estimated 20-25%.

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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).

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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%**



Navigating Short-Term Challenges. Longer-Term, A Powerful Growth Story

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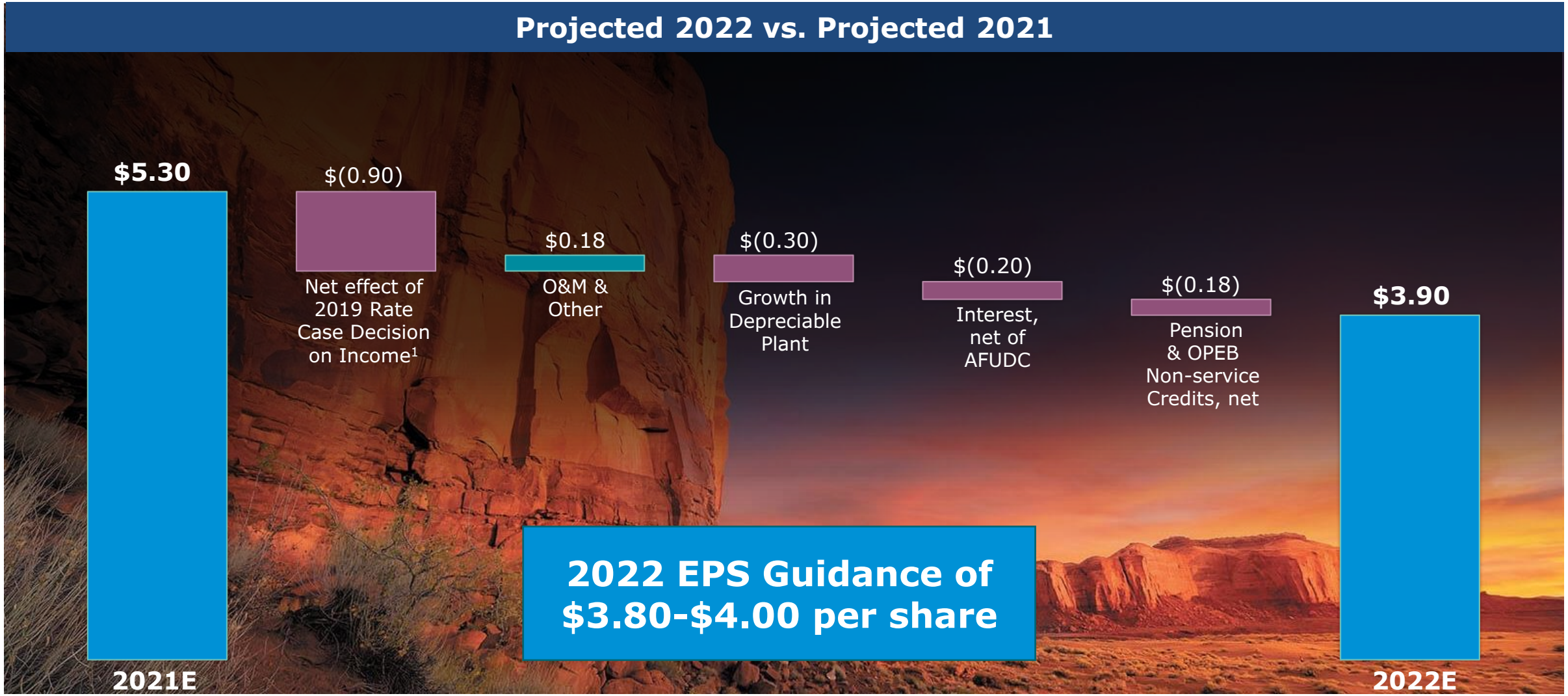
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2022 EPS Driven by Disappointing Rate Case Outcome & Other Factors[1]



[1] Amounts provided are the Company's current projections.

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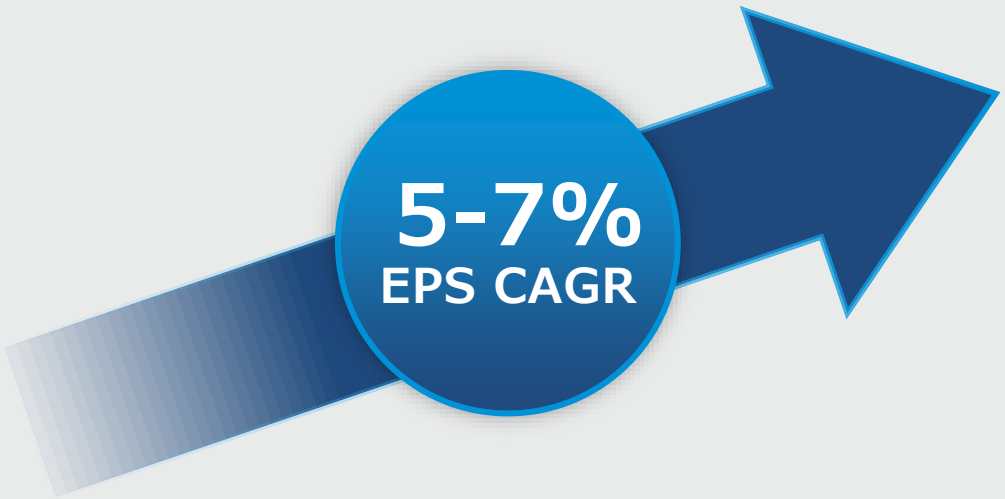
What Investors Can Expect From Us Moving Forward

1	**Strong EPS growth off 2022**
2	**Managing capital plan to support customer growth, reliability and clean transition**
3	**Steady rate base growth**
4	**Limiting equity dilution**
5	**Declining O&M per kWh**
6	**Dividend growth commitment**
7	**Optimize our balance sheet in support of investment**

EXPECTATION #1

Projected 5-7% EPS Growth Off 2022[1]

Long-Term Outlook



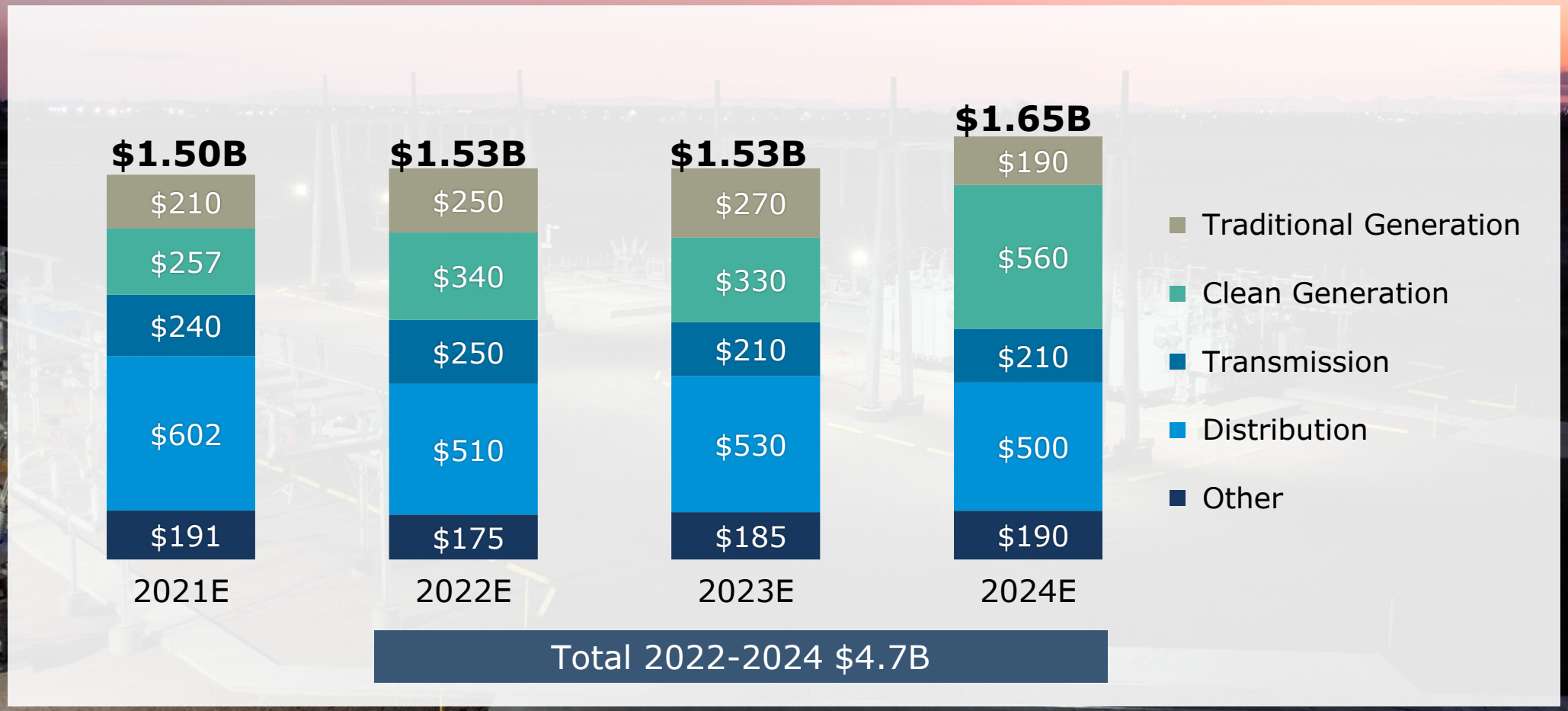
Long-Term Upside Potential

- Remainder of SCRs in rates
- Acceleration of clean energy transition
- Economic Development driving sales and customer growth
- Continued cost management
- Reduction of regulatory lag

[1] Amounts provided are the Company's current 5-year compound annual growth rate projections

EXPECTATION #2

Managing Capital Plan to Support Customer Growth, Reliability and Clean Transition



2021–2024 as disclosed in the Third Quarter 2021 Form 10-Q.

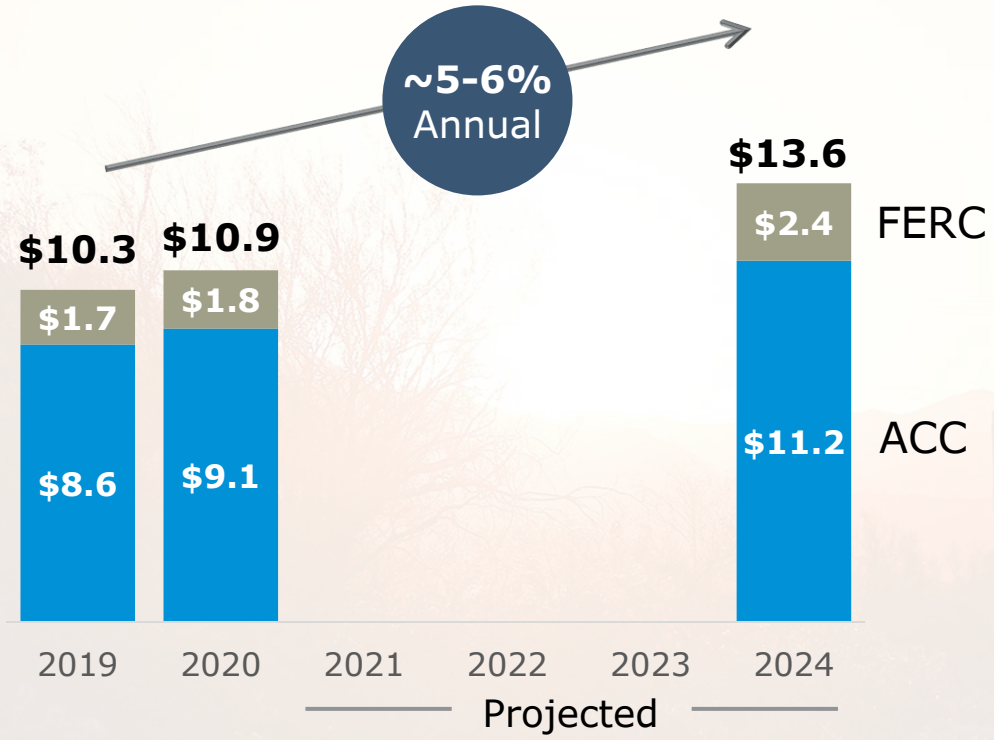
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EXPECTATION #3

Steady Rate Base Growth

APS Rate Base Growth Guidance

Year-End



Rate base $ in billions, rounded

Total Approved Rate Base



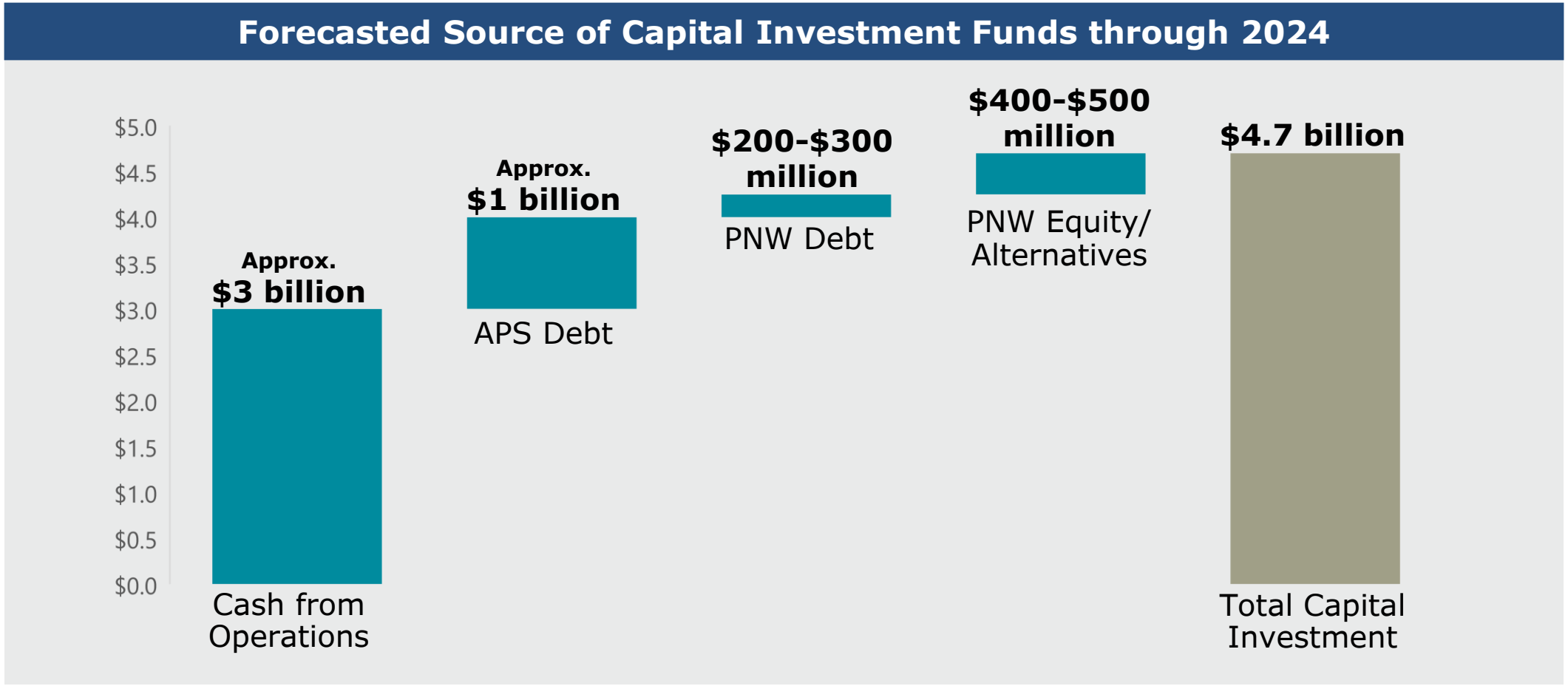
	ACC	FERC
Rate Effective Date	12/01/2021	6/1/2021
Test Year Ended	06/30/2019[1]	12/31/2020
Rate Base	$8.6B	$1.8B
Equity Layer	54.7%	51.6%
Allowed ROE	8.7%	10.75%

[1] Adjusted to include post test-year plant in service through 06/30/2020

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EXPECTATION #4

No Plans to Issue Equity Before End of Next Rate Case



Note: cash from operations is net of shareholder dividends. APS and PNW debt issuance is net of maturities.

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EXPECTATION #5

Our Goal is Flat Total O&M and Declining O&M per MWh

O&M per MWh

$29/MWh



2021 2022 2023 2024

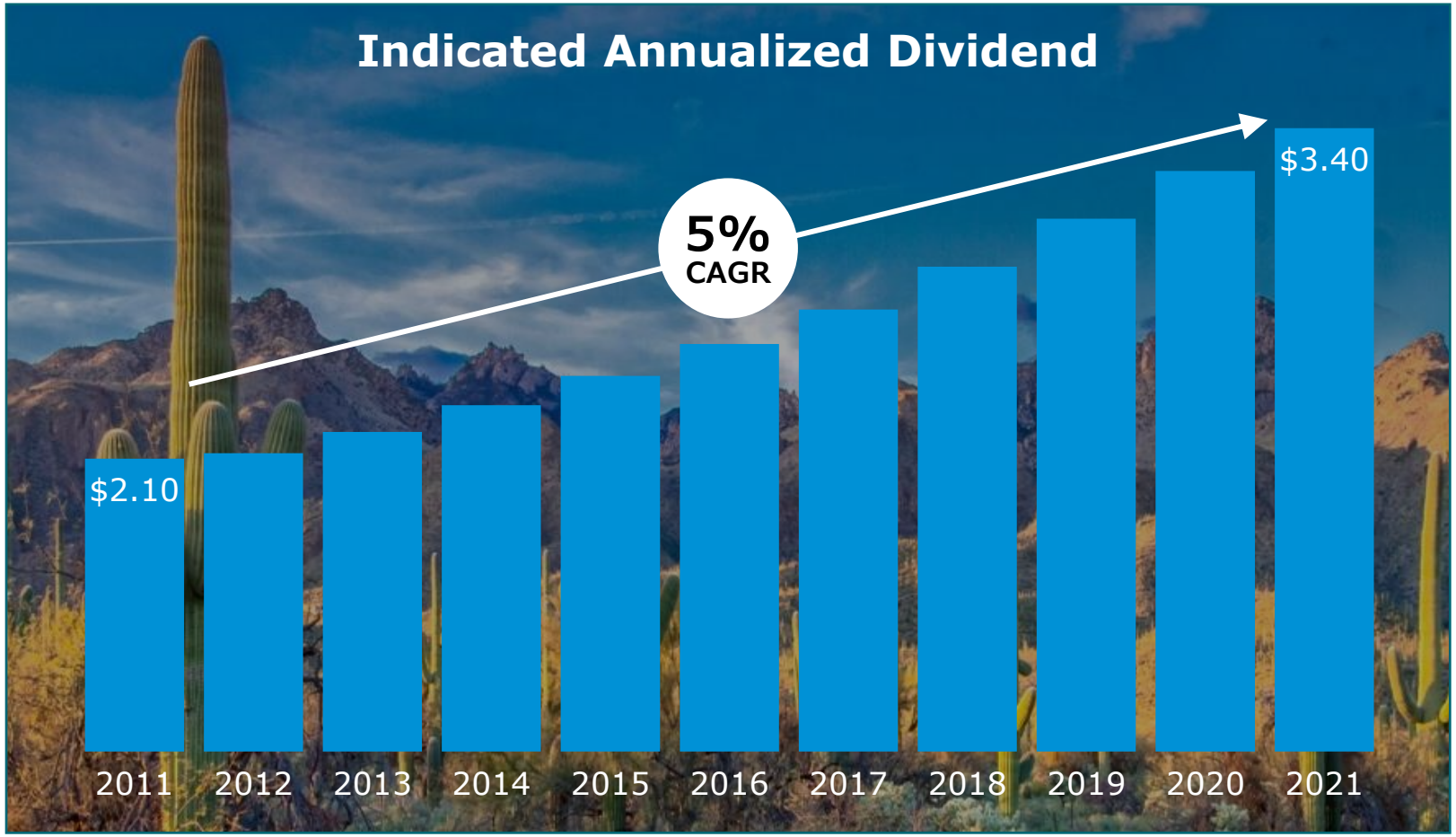
Total O&M[1]
2021: $845M-$865M
2022: $820M-$840M

[1] Total O&M amounts exclude RES/DSM, and include planned outage amounts of $45M-55M in 2021 and $40M-$50M in 2022.

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EXPECTATION #6

Continue Our Track Record of Consistent Dividend Growth[1]



Dividend Targets

- Committed to long-term dividend growth
- Attractive dividend yield
- Managing long term dividend payout ratio to 65-75%

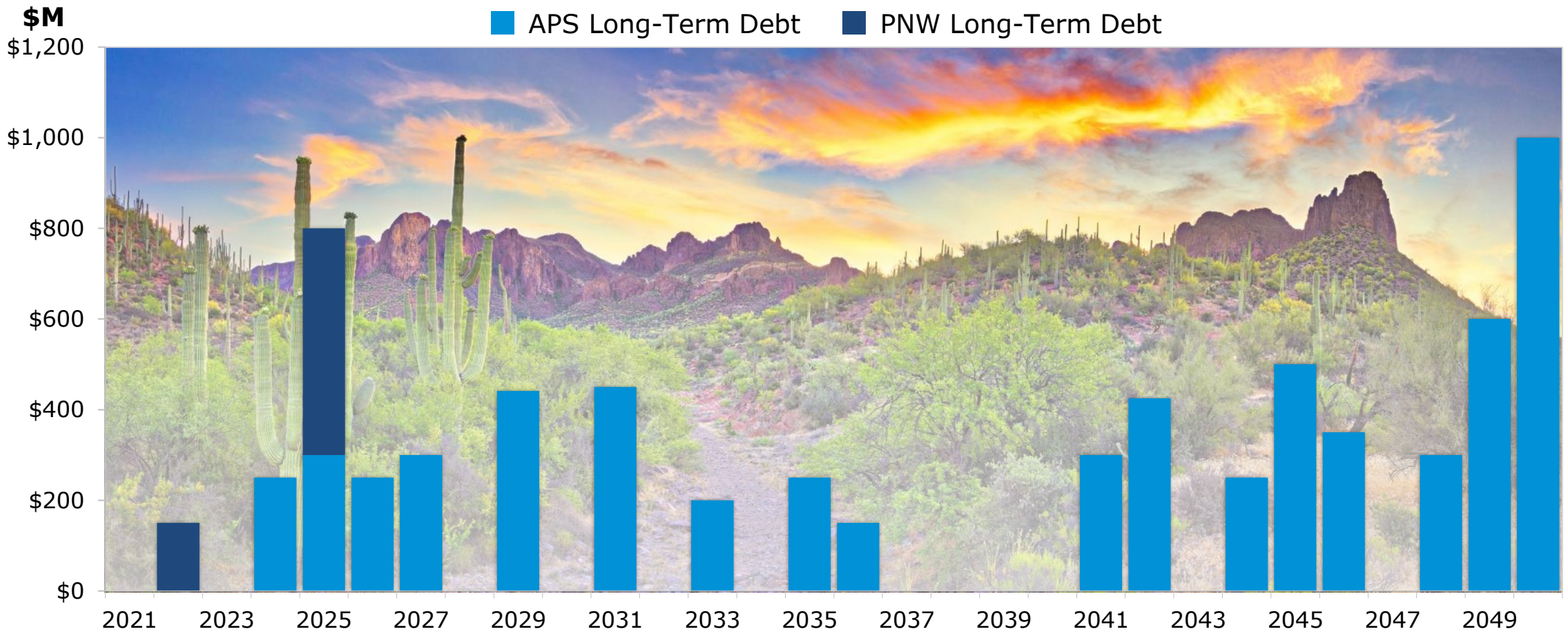


[1] Future dividends are subject to declaration at Board of Directors' discretion.

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EXPECTATION #7

Strong Balance Sheet with Attractive Long-Term Debt Maturity Profile



As of September 30, 2021

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EXPECTATION #7

Our Credit Ratings Support Growth Opportunities

	Corporate Ratings	Senior Unsecured Ratings	Short-Term Ratings	Outlook
APS[1]				
Moody's	A3	A3	P-2	Negative
S&P	BBB+	BBB+	A-2	Negative
Fitch	BBB+	A-	F2	Negative
Pinnacle West[1]				
Moody's	Baa1	Baa1	P-2	Negative
S&P	BBB+	BBB	A-2	Negative
Fitch	BBB+	BBB+	F2	Negative

Balance Sheet Targets

- Strong investment grade credit ratings
- APS equity layer >50%
- FFO/Debt range of 16%-18%



[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. Ratings are as of November 17, 2021.

Attractive Financial Profile Beyond 2022[1]

Management Actions

- **Deferring equity issuance**
- **Reducing O&M**
- **Optimizing balance sheet**

EPS Growth

5-7%
Target

Dividend Yield

5%
Committed to growing dividend

Total Shareholder Return

10-12%

[1] Amounts provided are the Company's current projections

IN SUMMARY

We are Optimistic for the Future: The Growth Story Remains Intact

- Building on proven long-term, 10-year track record
- Working to improve regulatory environment over time
- Service territory is among the fastest growing in the U.S.
- Executing on clear growth strategy including transition to clean energy
- Attractive financial profile building from 2022

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APPENDIX



ESG Leadership – Recognition

CDP DISCLOSURE INSIGHT ACTION A LIST 2020

CLIMATE

CDP DISCLOSURE INSIGHT ACTION A LIST 2020

WATER

MSCI

Environmental Sustainability and Governance "AA" 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 27, 2021

2021 EPS Guidance

Key Factors and Assumptions as of November 5, 2021	2021
Adjusted gross margin (operating revenues, net of fuel and purchased power expenses, x/RES,DSM,CCT) • Retail customer growth about 1.5-2.5% • Weather-normalized retail electricity sales volume about 3-4% higher compared to prior year (includes impacts of new large manufacturing facilities and several large data centers) • Assumes year-to-date weather impacts and normal weather balance of year	$2.52 – $2.54 billion
Adjusted operating and maintenance (O&M x/RES,DSM,CCT)	$845 – $865 million
Other operating expenses (depreciation and amortization, deferrals, and taxes other than income taxes)	$886 – $890 million
Other income (pension and other post-retirement non-service credits, other income and other expense)	$131 – $137 million
Interest expense, net of allowance for borrowed and equity funds used during construction (Total AFUDC ~$63 million)	$189 – $194 million
Net income attributable to noncontrolling interests	$17 million
Effective tax rate	15.0%
Average diluted common shares outstanding	113.3 million
EPS Guidance	$5.25 – $5.35

2022 EPS Guidance

Key Factors and Assumptions as of November 5, 2021	2022
Adjusted gross margin (operating revenues, net of fuel and purchased power expenses, x/RES,DSM,CCT)	$2.50 – $2.53 billion
• Retail customer growth about 1.5-2.5%	
• Weather-normalized retail electricity sales volume about 1.5-2.5% higher compared to prior year (includes impacts of new large manufacturing facilities and several large data centers)	
• Assumes normal weather for full-year forecast	
Adjusted operating and maintenance (O&M x/RES,DSM,CCT)	$820 – $840 million
Other operating expenses (depreciation and amortization, deferrals, and taxes other than income taxes)	$987 – $998 million
Other income (pension and other post-retirement non-service credits, other income and other expense)	$62 – $66 million
Interest expense, net of allowance for borrowed and equity funds used during construction (Total AFUDC ~$64 million)	$214 – $232 million
Net income attributable to noncontrolling interests	$17 million
Effective tax rate	13.5%
Average diluted common shares outstanding	114.0 million
EPS Guidance	$3.80 – $4.00