

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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**FORM 8-K**

**CURRENT REPORT**  
**Pursuant to Section 13 or 15(d) of the**  
**Securities Exchange Act of 1934**

Date of report (Date of earliest event reported): May 2, 2017

| Commission File Number | Exact Name of Registrant as Specified in Charter; State of<br>Incorporation;<br>Address and Telephone Number  | IRS Employer<br>Identification Number |
|------------------------|---|---------------------------------------|
| 1-8962                 | Pinnacle West Capital Corporation<br>(an Arizona corporation)<br>400 North Fifth Street, P.O. Box 53999<br>Phoenix, AZ 85072-3999<br>(602) 250-1000 | 86-0512431                            |
| 1-4473                 | Arizona Public Service Company<br>(an Arizona corporation)<br>400 North Fifth Street, P.O. Box 53999<br>Phoenix, AZ 85072-3999<br>(602) 250-1000    | 86-0011170                            |

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter). Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

This combined Form 8-K is separately filed or furnished by Pinnacle West Capital Corporation and Arizona Public Service Company. Each registrant is filing or furnishing on its own behalf all of the information contained in this Form 8-K that relates to such registrant and, where required, its subsidiaries. Except as stated in the preceding sentence, neither registrant is filing or furnishing any information that does not relate to such registrant, and therefore makes no representation as to any such information.

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**Item 2.02. Results of Operations and Financial Condition.**

The following information is furnished pursuant to Item 2.02.

On May 2, 2017, Pinnacle West Capital Corporation (the “Company” or “Pinnacle West”) issued a press release regarding its financial results for the fiscal quarter ended March 31, 2017. A copy of the press release is attached hereto as Exhibit 99.1.

**Item 7.01. Regulation FD Disclosure.**

The following information is furnished pursuant to Item 7.01.

The Company is providing a copy of the slide presentation made in connection with the quarterly earnings conference call on May 2, 2017. This information contains Company operating results for the fiscal quarter ended March 31, 2017 and a quarterly consolidated statistical summary. The slide presentation is attached hereto as Exhibits 99.2 and is concurrently being posted to the Company’s website at [www.pinnaclewest.com](http://www.pinnaclewest.com).

**Item 9.01. Financial Statements and Exhibits.****(d) Exhibits**

| <b>Exhibit No.</b> | <b>Registrant(s)</b> | <b>Description</b>  |
|--------------------|----------------------|---|
| 99.1               | Pinnacle West<br>APS | Earnings News Release issued on May 2, 2017.  |
| 99.2               | Pinnacle West<br>APS | Pinnacle West Capital Corporation First Quarter 2017 Results slide presentation accompanying May 2, 2017 conference call. |

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

PINNACLE WEST CAPITAL CORPORATION  
(Registrant)

Dated: May 2, 2017

By: /s/ James R. Hatfield  
James R. Hatfield  
Executive Vice President and  
Chief Financial Officer

ARIZONA PUBLIC SERVICE COMPANY  
(Registrant)

Dated: May 2, 2017

By: /s/ James R. Hatfield  
James R. Hatfield  
Executive Vice President and  
Chief Financial Officer

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## Exhibit Index

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|-------------|----------------------|---|
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| 99.2        | Pinnacle West<br>APS | Pinnacle West Capital Corporation First Quarter 2017 Results slide presentation accompanying May 2, 2017 conference call. |

**FOR IMMEDIATE RELEASE**

May 2, 2017

Media Contact: Alan Bunnell, (602) 250-3376  
Analyst Contact: Ted Geisler, (602) 250-3200  
Chalese Haraldsen, (602) 250-5643  
Website: pinnaclewest.com

**PINNACLE WEST REPORTS 2017 FIRST-QUARTER EARNINGS**

- *Quarterly results in line with the company's expectations*
- *Operations and maintenance expenses lower versus a year ago due to fewer planned fossil plant outages*
- *Customer growth continues as Arizona's economy continues post-recession improvement*

PHOENIX - Pinnacle West Capital Corp. (NYSE: PNW) today reported consolidated net income attributable to common shareholders of \$23.3 million, or \$0.21 per diluted share of common stock, for the quarter ended March 31, 2017. This result compares with \$4.5 million, or \$0.04 per diluted share, for the same period in 2016.

"The first quarter proved to be a strong start to our year and continued to build on the momentum of a growing customer base," said Pinnacle West Chairman, President and Chief Executive Officer Don Brandt. "According to the U.S. Census Bureau, Maricopa County - home to 70 percent of our customers - was the nation's fastest growing county in 2016. With Arizona's population expected to grow 21 percent through 2025, it's clear that people view Arizona as an attractive place to live and do business.

"And, if approved by the Arizona Corporation Commission, our regulatory settlement will position us to manage this growth through innovation and reliability and help ensure a sustainable energy future benefiting our customers, shareholders and the communities we serve."

The 2017 first-quarter results comparison was positively impacted by the following factors:

- *Lower operations and maintenance expenses* increased results by \$0.11 per share compared with the prior-year period. The lower expenses were largely the result of fewer planned fossil plant maintenance in the 2017 first quarter compared to a year ago, as well as lower employee benefit costs. These positive attributes were partially offset by higher corporate support expenses related to information technology and implementation of new customer systems. As previously indicated, we expect further planned outages at the Four Corners Power Plant later this year to install added emission controls.
  - *A lower effective income tax rate* positively impacted earnings by \$0.05 per share.
  - *Higher lost fixed cost recovery revenue* improved earnings by \$0.04 per share.
  - *The effects of weather variations* improved results by \$0.03 per share compared to the year-ago period. First-quarter 2017 residential heating degree-days (a measure of the effects of weather) were 10 percent greater than in the 2016 first quarter, albeit 10 percent
-

below 10-year historical averages. Commercial cooling degree-days were 26 percent higher in the quarter versus the year-ago period and 88 percent greater than normal.

These positive factors were offset in part by the following items:

- *Lower retail electricity sales* - excluding the effects of weather variations, but including the effects of customer conservation, energy efficiency programs and distributed renewable generation - decreased earnings \$0.04 per share. Compared to the same quarter a year ago, weather-normalized sales decreased 3.3 percent due to changes in customer usage patterns and related pricing, and the result of an additional day of sales in February 2016 from the leap year.
- *Higher depreciation and amortization expenses* related to additional plant in service reduced earnings by \$0.04 per share.

#### **Conference Call and Webcast**

Pinnacle West invites interested parties to listen to the live webcast of management's conference call to discuss the Company's 2017 first-quarter results, as well as recent developments, at 12 noon ET (9 a.m. AZ time) today, May 2. A replay of the webcast can be accessed at [pinnaclewest.com/presentations](http://pinnaclewest.com/presentations). To access the live conference call by telephone, dial (877) 407-8035 or (201) 689-8035 for international callers. A replay of the call also will be available until 11:59 p.m. (ET), Tuesday, May 9, 2017, by calling (877) 481-4010 in the U.S. and Canada or (919) 882-2331 internationally and entering conference ID number 10311.

#### **General Information**

Pinnacle West Capital Corp., an energy holding company based in Phoenix, has consolidated assets of more than \$16 billion, about 6,200 megawatts of generating capacity and 6,300 employees in Arizona and New Mexico. Through its principal subsidiary, Arizona Public Service, the Company provides retail electricity service to nearly 1.2 million Arizona homes and businesses. For more information about Pinnacle West, visit the Company's website at [pinnaclewest.com](http://pinnaclewest.com).

Earnings per share amounts are based on average diluted common shares outstanding. For more information on Pinnacle West's operating statistics and earnings, please visit [pinnaclewest.com/investors](http://pinnaclewest.com/investors).

#### **FORWARD-LOOKING STATEMENTS**

This press release contains forward-looking statements based on our 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 readers 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 investment;
- 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 Arizona Corporation Commission orders.

These and other factors are discussed in Risk Factors described in Part 1, Item 1A of the Pinnacle West/APS Annual Report on Form 10-K for the fiscal year ended December 31, 2016, which readers should review carefully before placing any reliance on our financial statements or disclosures. Neither Pinnacle West nor APS assumes any obligation to update these statements, even if our internal estimates change, except as required by law.

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**PINNACLE WEST CAPITAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(unaudited)  
(dollars and shares in thousands, except per share amounts)

|   | THREE MONTHS ENDED |                 |
|---|--------------------|-----------------|
|   | MARCH 31,          |                 |
|   | 2017               | 2016            |
| <b>Operating Revenues</b>                                     | \$ 677,728         | \$ 677,167      |
| <b>Operating Expenses</b>                                     |                    |                 |
| Fuel and purchased power                                      | 212,395            | 221,285         |
| Operations and maintenance                                    | 219,976            | 243,195         |
| Depreciation and amortization                                 | 127,627            | 119,476         |
| Taxes other than income taxes                                 | 43,836             | 42,501          |
| Other expenses  | 388                | 548             |
| Total   | <u>604,222</u>     | <u>627,005</u>  |
| <b>Operating Income</b>                                       | <u>73,506</u>      | <u>50,162</u>   |
| <b>Other Income (Deductions)</b>                              |                    |                 |
| Allowance for equity funds used during construction           | 9,482              | 10,516          |
| Other income  | 480                | 117             |
| Other expense   | (3,680)            | (4,038)         |
| Total   | <u>6,282</u>       | <u>6,595</u>    |
| <b>Interest Expense</b>                                       |                    |                 |
| Interest charges  | 51,864             | 50,744          |
| Allowance for borrowed funds used during construction         | (4,472)            | (5,227)         |
| Total   | <u>47,392</u>      | <u>45,517</u>   |
| <b>Income Before Income Taxes</b>                             | 32,396             | 11,240          |
| <b>Income Taxes</b>   | <u>4,211</u>       | <u>1,914</u>    |
| <b>Net Income</b>   | 28,185             | 9,326           |
| Less: Net income attributable to noncontrolling interests     | 4,873              | 4,873           |
| <b>Net Income Attributable To Common Shareholders</b>         | <u>\$ 23,312</u>   | <u>\$ 4,453</u> |
| <b>Weighted-Average Common Shares Outstanding - Basic</b>     | 111,728            | 111,296         |
| <b>Weighted-Average Common Shares Outstanding - Diluted</b>   | 112,195            | 111,847         |
| <b>Earnings Per Weighted-Average Common Share Outstanding</b> |                    |                 |
| Net income attributable to common shareholders - basic        | \$ 0.21            | \$ 0.04         |
| Net income attributable to common shareholders - diluted      | \$ 0.21            | \$ 0.04         |



**FIRST QUARTER 2017 RESULTS**

**PINNACLE WEST**  
CAPITAL CORPORATION

May 2, 2017



# 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, 2016, 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.

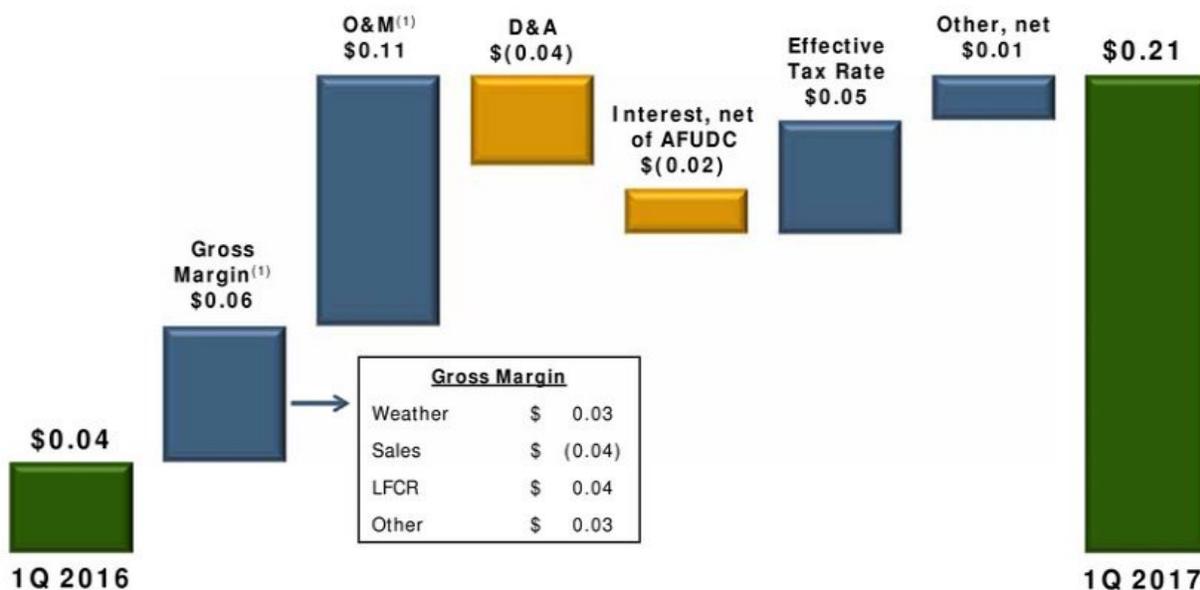
In this presentation, references to net income and earnings per share (EPS) refer to amounts attributable to common shareholders.

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.

We refer to "on-going earnings" in this presentation, which is also a non-GAAP financial measure. We also provide a reconciliation to show the impacts associated with certain regulatory adjustments. We believe on-going earnings and these adjustments included in the reconciliation provide investors with a useful indicator of our results that is comparable among periods because it excludes the effects of unusual items that may occur on an irregular basis.

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

# ON-GOING EPS VARIANCES 1ST QUARTER 2017 VS. 1ST QUARTER 2016

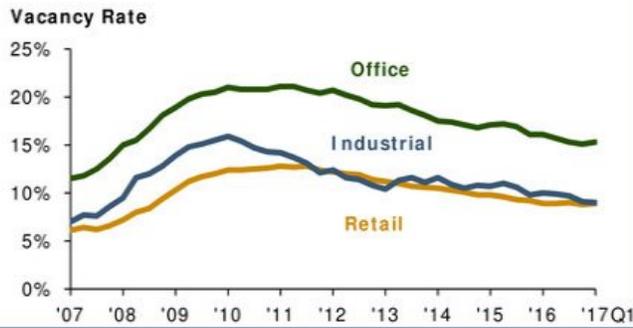


(1) Excludes costs and offsetting operating revenues, associated with renewable energy (excluding AZ Sun) and demand side management programs.  
See non-GAAP reconciliation.

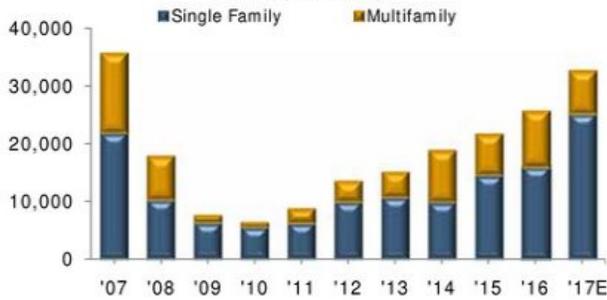
# ECONOMIC INDICATORS

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

Nonresidential Building Vacancy – Metro Phoenix



Single Family & Multifamily Housing Permits Maricopa County



- ✓ Maricopa County ranked # 1 in U.S. for population growth in 2016  
- U.S. Census Bureau March 2017
- ✓ Above-average job growth in financial services
- ✓ Vacancy rates in office and retail space have fallen to pre-recessionary levels
- ✓ Housing construction on pace to have its best year since 2007
- ✓ Scottsdale ranked best place in the U.S. to find a new job in 2017;  
4 other valley cities ranked in Top 20  
- WalletHub January 2017



**APPENDIX X**

**PINNACLE WEST**  
CAPITAL CORPORATION



# 2017 KEY DATES

| ACC Key Dates / Docket #   | Q1                             | Q2                       | Q3    | Q4                      |
|--|--------------------------------|--------------------------|-------|-------------------------|
| <b>Key Recurring Regulatory Filings</b>  |                                |                          |       |                         |
| Lost Fixed Cost Recovery<br>E-01345A-11-0224   | Jan 15                         |                          |       |                         |
| Transmission Cost Adjustor<br>E-01345A-11-0224   |                                | May 15                   |       |                         |
| 2018 DSM/EE Implementation Plan  |                                | Jun 1                    |       |                         |
| 2018 RES Implementation Plan for Reset of Renewable Energy Adjustor                                  |                                |                          | Jul 1 |                         |
| <b>APS Rate Case</b><br>E-01345A-16-0036   | ----- See Slide 7 -----        |                          |       |                         |
| <b>Resource Planning and Procurement</b><br>E-00000V-15-0094   |                                | April 10: Final 2017 IRP |       | Oct 1: Staff Report Due |
| <b>Reducing System Peak Demand Costs</b><br>E-00000J-16-0257   | ----- TBD -----                |                          |       |                         |
| <b>Review, Modernization and Expansion of Arizona Renewable Energy Standards</b><br>E-00000Q-16-0289 |                                | Jun 7: Workshop          |       |                         |
| <b>Investigation Concerning the Future of the Navajo Generating Station</b><br>E-00000C-17-0039      | ----- TBD -----                |                          |       |                         |
| <b>ACC Open Meetings</b>   | ACC Open Meetings Held Monthly |                          |       |                         |
| <b>Other Key Dates</b>   | Q1                             | Q2                       | Q3    | Q4                      |
| <b>Arizona State Legislature</b>   | In session Jan 9 – End of Q2   |                          |       |                         |

# APS RATE CASE

- Filed June 1, 2016
- Docket Number: E-01345A-16-0036
- Additional details, including filing, can be found at <http://www.azenergyfuture.com/rate-review/>

| Procedural Schedule  |                |
|--|----------------|
| File Settlement Agreement  | March 27, 2017 |
| Direct Testimony in Support of/in Opposition to the Settlement Agreement (All Parties)   | April 3, 2017  |
| Rebuttal Testimony in Support of/in Opposition to the Settlement Agreement (All Parties) | April 17, 2017 |
| Hearing Commencement Date  | April 24, 2017 |

# 2017 PROPOSED RATE CASE SETTLEMENT

## Key Financial Proposals – Base Rate Changes

### Annualized Base Rate Revenue Changes (\$ millions)

|   |           |             |
|---|-----------|-------------|
| Non-fuel, Non-depreciation Base Rate Increase     | \$        | 87.2        |
| Decrease fuel and Purchased Power over Base Rates |           | (53.6)      |
| Increase due to Changes in Depreciation Schedules |           | 61.0        |
| <b>Total Base Rate Increase</b>                   | <b>\$</b> | <b>94.6</b> |

## Key Financial Assumptions

|                                    |                  |
|------------------------------------|------------------|
| <b>Allowed Return on Equity</b>    | <b>10.0%</b>     |
| <b>Capital Structure</b>           |                  |
| Long-term debt                     | 44.2%            |
| Common equity                      | 55.8%            |
| <b>Base Fuel Rate (¢/ kWh)</b>     | <b>3.0168</b>    |
| <b>Post-test year plant period</b> | <b>12 months</b> |

# 2017 PROPOSED RATE CASE SETTLEMENT

## Key Proposals – Revenue Requirement

|                                       |   |
|---------------------------------------|---|
| <b>Four Corners</b>                   | <ul style="list-style-type: none"> <li>Cost deferral order from in-service dates to incorporation of SCRs in rates using a step-increase no later than January 1, 2019</li> </ul> |
| <b>Ocotillo Modernization Project</b> | <ul style="list-style-type: none"> <li>Cost deferral order from in-service dates to effective date in next rate case</li> </ul>   |
| <b>Power Supply Adjustor (PSA)</b>    | <ul style="list-style-type: none"> <li>Modified to include certain environmental chemical costs and third-party battery storage</li> </ul>  |
| <b>Property Tax Deferral</b>          | <ul style="list-style-type: none"> <li>Defer for future recovery the Arizona property tax expense above or below the test year rate</li> </ul>                                    |

## Key Proposals – Rate Design

|  |  |
|--|--|
| <b>Lost Fixed Cost Recovery (LFCR)</b>           | <ul style="list-style-type: none"> <li>Modified to be applied as a capacity (demand) charge per kW for customer with a demand rate and as a kWh charge for customers with a two-part rate without demand</li> </ul>  |
| <b>Environmental Improvement Surcharge (EIS)</b> | <ul style="list-style-type: none"> <li>Increase cumulative per kWh cap rate from \$0.00016 to a new rate of \$0.00050 and include a balancing account</li> </ul>   |
| <b>Time-of-Use Rates (TOU)</b>                   | <ul style="list-style-type: none"> <li>Modified on-peak period for residential, and extra small through large general service of 3:00 pm – 8:00 pm weekdays</li> <li>After May 1, 2018, a new TOU rate will be the standard rate for all new customers (except small use)</li> </ul> |
| <b>Distributed Generation</b>                    | <ul style="list-style-type: none"> <li>New DG customers eligible for TOU rate with Grid Access Charge or Demand rates</li> <li>Resource Comparison Proxy (RCP) for exported energy of \$0.129/kWh in year one</li> </ul>   |
| <b>AZ Sun II</b>                                 | <ul style="list-style-type: none"> <li>Proposed new program for utility-owned solar distributed generation, recoverable through the Renewable Energy Adjustment Clause (RES), to be no less than \$10 million per year, and not more than \$15 million per year</li> </ul>           |

## Other Considerations

|                              |   |
|------------------------------|---|
| <b>Rate Case Moratorium</b>  | <ul style="list-style-type: none"> <li>No new general rate case application before June 1, 2019 (3-year stay-out)</li> </ul>  |
| <b>Self-Build Moratorium</b> | <ul style="list-style-type: none"> <li>APS will not pursue any new self-build generation (with exceptions) having an in-service date prior to January 1, 2022 (extended to December 31, 2027 for combined-cycle generating units) unless expressly authorized by the ACC</li> </ul> |

## 2017 ON-GOING EARNINGS KEY DRIVERS

- EPS guidance issuance pending timing and outcome of APS rate case
- Retail customer growth about 1.5-2.5%
- Weather-normalized retail electricity sales volume growth about 0.0-1.0% after customer conservation and energy efficiency and distributed renewable generation
- Transmission rate increase
- Operations and maintenance - Planned outages (e.g. Four Corners SCRs)
- Depreciation and amortization - Higher plant balances
- Interest rates
- Higher AFUDC, driven by higher CWIP balances

# FINANCIAL OUTLOOK

Key Factors & Assumptions as of  
May 2, 2017

## Gross Margin – Customer Growth and Weather (2017-2019)

| Assumption  | Impact  |
|---|---|
| Retail customer growth                                    | <ul style="list-style-type: none"> <li>Projected to average in the range of about 2-3%</li> <li>Modestly improving Arizona and U.S. economic conditions</li> </ul>  |
| Weather-normalized retail electricity sales volume growth | <ul style="list-style-type: none"> <li>About 0.5-1.5% after customer conservation and energy efficiency and distributed renewable generation initiatives</li> </ul> |

## Gross Margin – Related to 2012 Retail Rate Settlement

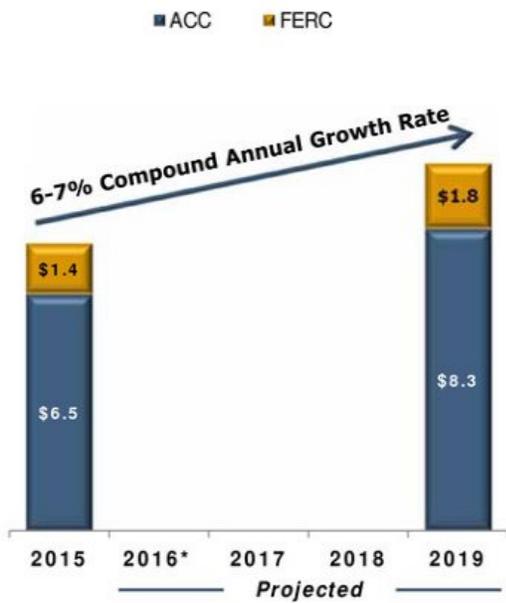
| Assumption                                | Impact  |
|---|---|
| AZ Sun Program                            | <ul style="list-style-type: none"> <li>Additions to flow through RES until next base rate case</li> <li>First 50 MW of AZ Sun is recovered through base rates</li> </ul>  |
| Lost Fixed Cost Recovery (LFCR)           | <ul style="list-style-type: none"> <li>Offsets 30-40% of revenues lost due to ACC-mandated energy efficiency and distributed renewable generation initiatives</li> </ul>  |
| Environmental Improvement Surcharge (EIS) | <ul style="list-style-type: none"> <li>Assumed to recover up to \$5 million annually of carrying costs for government-mandated environmental capital expenditures</li> </ul>  |
| Power Supply Adjustor (PSA)               | <ul style="list-style-type: none"> <li>100% recovery as of July 1, 2012</li> </ul>  |
| Transmission Cost Adjustor (TCA)          | <ul style="list-style-type: none"> <li>TCA is filed each May and automatically goes into rates effective June 1</li> <li>Beginning July 1, 2012 following conclusion of the regulatory settlement, transmission revenue is accrued each month as it is earned.</li> </ul> |
| Four Corners Acquisition                  | <ul style="list-style-type: none"> <li>Four Corners rate increase effective January 1, 2015</li> </ul>  |

**Potential Property Tax Deferrals (2012 retail rate settlement):** Assume 60% of property tax increases relate to tax rates, therefore, will be eligible for deferrals (Deferral rates: 50% in 2013; 75% in 2014 and thereafter)

# RATE BASE

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

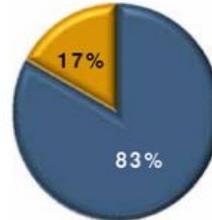
**APS Rate Base Growth**  
Year-End



\* 2016 rate base pending update following FERC Form 1 filing  
Rate base \$ in billions, rounded

**Total Rate Base**

■ Generation & Distribution ■ Transmission

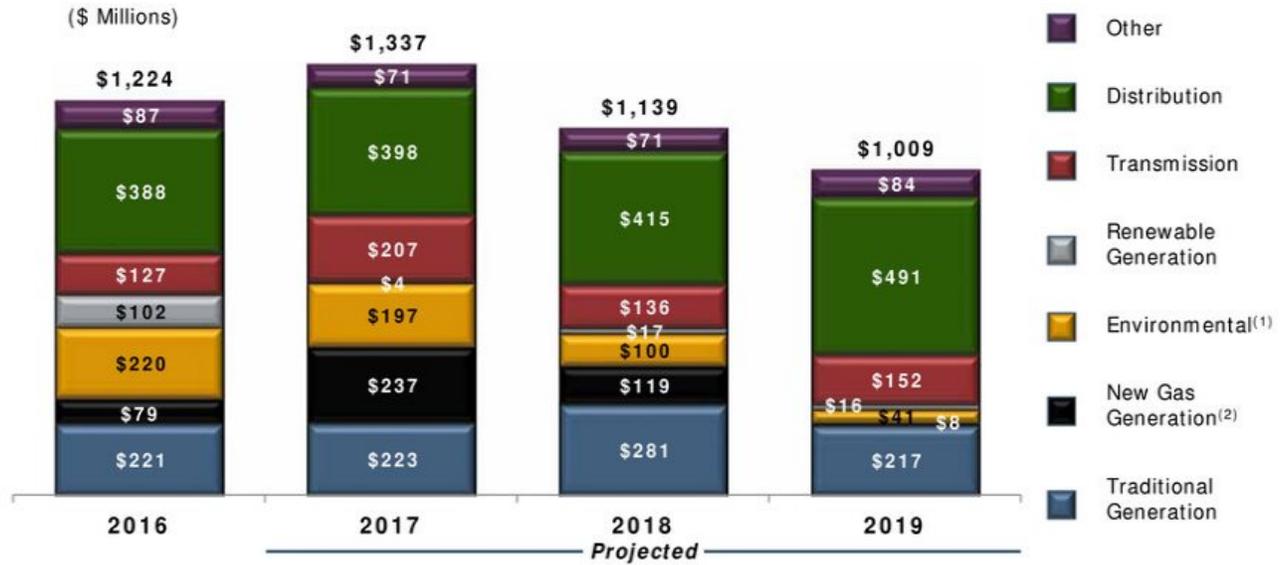


|                     | ACC                      | FERC       |
|---------------------|--------------------------|------------|
|                     | <i>As Filed 6/1/2016</i> |            |
| Rate Effective Date | 7/1/2017                 | 6/1/2016   |
| Test Year Ended     | 12/31/2015 <sup>1</sup>  | 12/31/2015 |
| Rate Base           | \$6.8B                   | \$1.4B     |
| Equity Layer        | 56%                      | 56%        |
| Allowed ROE         | 10.5%                    | 10.75%     |

<sup>1</sup> Adjusted to include post test-year plant in service through 6/30/2017

# APS CAPITAL EXPENDITURES

Capital expenditures are funded primarily through internally generated cash flow



• The table does not include capital expenditures related to 4CA's 7% interest in the Four Corners Power Plant Units 4 and 5 of \$30 million in 2016, \$27 million in 2017, \$15 million in 2018 and \$6 million in 2019.

• 2017 – 2019 as disclosed in First Quarter 2017 Form 10-Q.

<sup>(1)</sup> Includes Selective Catalytic Reduction controls at Four Corners with in-service dates of Q4 2017 (Unit 5) and Q1 2018 (Unit 4)

<sup>(2)</sup> Ocotillo Modernization Project: 2 units scheduled for completion in Q4 2018, 3 units scheduled for completion in Q1 2019

# OPERATIONS & MAINTENANCE

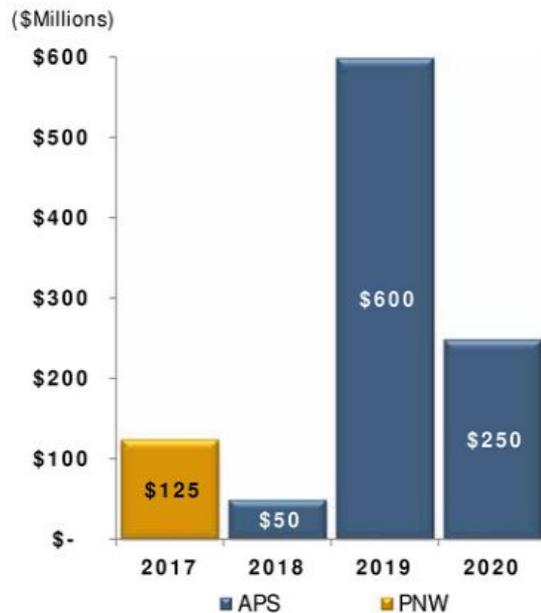
Goal is to keep O&M per kWh flat, adjusted for planned outages



\* Renewable energy and demand side management expenses are offset by adjustment mechanisms.

# BALANCE SHEET STRENGTH

## Debt Maturity Schedule



## Credit Ratings

- A- or equivalent ratings or better at S&P, Moody's and Fitch

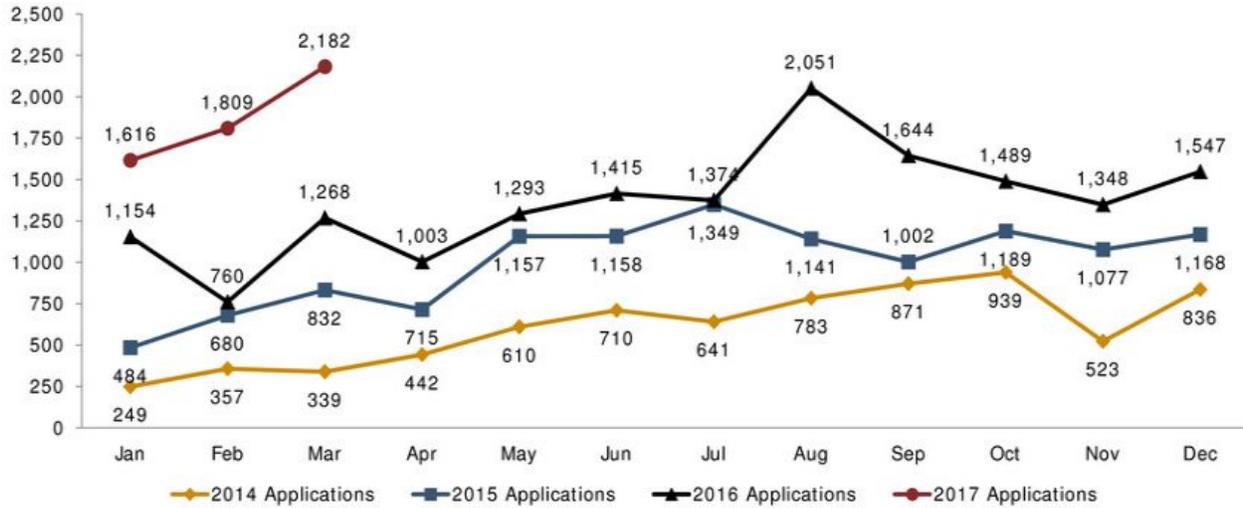
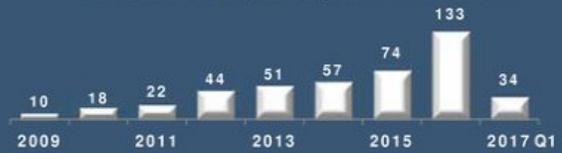
### 2017 Major Financing Activities

- \$250 million re-opening in March of APS's outstanding 4.35% senior unsecured notes due November 2045
- Currently expect up to \$600 million of long-term debt issuance from two transactions, one at PNW (including refinancing of its \$125 million term loan) and one at APS

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

# RESIDENTIAL PV APPLICATIONS\*

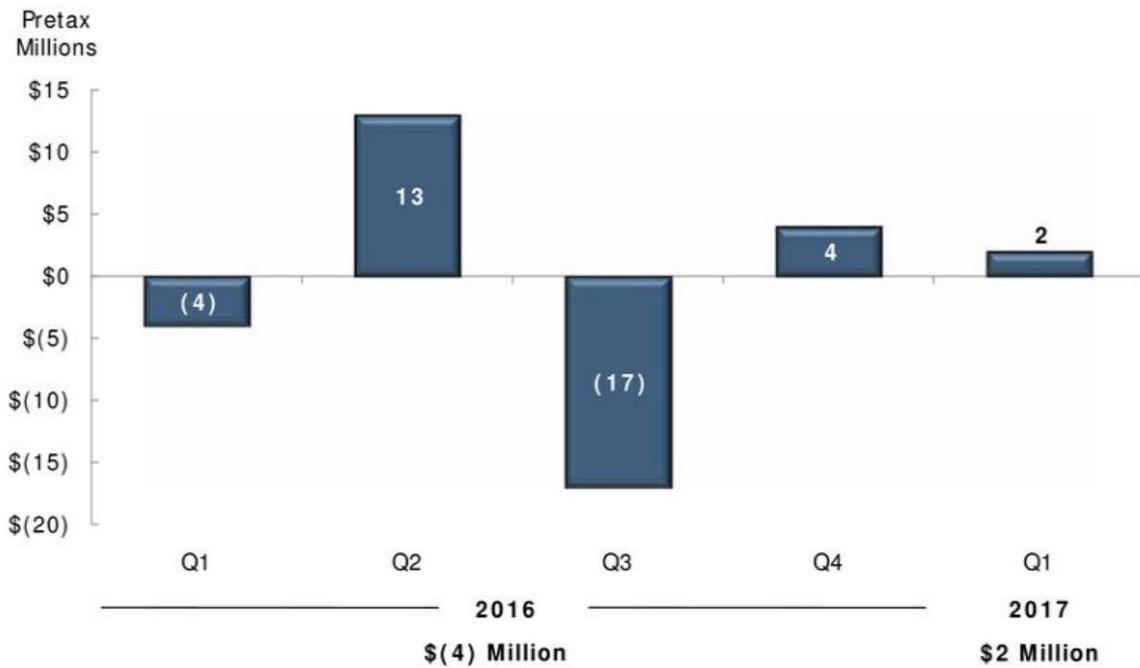
Residential DG (MWdc) Annual Additions



\* Monthly data equals applications received minus cancelled applications. As of March 31, 2017 approximately 58,000 residential grid-tied solar photovoltaic (PV) systems have been installed in APS's service territory, totaling more than 445 MWdc of installed capacity. Excludes APS Solar Partner Program residential PV systems.

Note: [www.arizonagoessolar.org](http://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.

# GROSS MARGIN EFFECTS OF WEATHER VARIANCES VS. NORMAL



All periods recalculated to current 10-year rolling average (2005-2014)

# RENEWABLE ENERGY AND DEMAND SIDE MANAGEMENT EXPENSES\*



\* O&M expenses related to renewable energy and demand side management programs are partially offset by comparable revenue amounts

# NON-GAAP MEASURE RECONCILIATION

| \$ millions pretax, except per share amounts                               | Three Months Ended<br>March 31, |        | EPS<br>Impact |
|--|---------------------------------|--------|---------------|
|  | 2017                            | 2016   |               |
| Operating revenues*  | \$ 677                          | \$ 677 |               |
| Fuel and purchased power expenses*   | (212)                           | (221)  |               |
| Gross margin   | 465                             | 456    | \$ 0.05       |
| Adjustments:   |                                 |        |               |
| Renewable energy (excluding AZ Sun) and<br>demand side management programs | (13)                            | (15)   | 0.01          |
| Adjusted gross margin  | \$ 452                          | \$ 441 | \$ 0.06       |
| Operations and maintenance*  | \$ 220                          | \$ 243 | \$ 0.12       |
| Adjustments:   |                                 |        |               |
| Renewable energy and demand<br>side management programs                    | (17)                            | (20)   | (0.01)        |
| Adjusted operations and maintenance  | \$ 203                          | \$ 223 | \$ 0.11       |

\* Line items from Consolidated Statements of Income

# CONSOLIDATED STATISTICS

|  | 3 Months Ended March 31, |           |             |
|--|--------------------------|-----------|-------------|
|  | 2017                     | 2016      | Incr (Decr) |
| <b>ELECTRIC OPERATING REVENUES (Dollars in Millions)</b>         |                          |           |             |
| Retail   |                          |           |             |
| Residential  | \$ 302                   | \$ 299    | \$ 3        |
| Business   | 337                      | 341       | (4)         |
| Total Retail   | 639                      | 640       | (1)         |
| Sales for Resale (Wholesale)                                     | 24                       | 20        | 4           |
| Transmission for Others  | 10                       | 8         | 2           |
| Other Miscellaneous Services                                     | 4                        | 9         | (5)         |
| Total Electric Operating Revenues                                | \$ 677                   | \$ 677    | \$ -        |
| <b>ELECTRIC SALES (GWH)</b>                                      |                          |           |             |
| Retail   |                          |           |             |
| Residential  | 2,457                    | 2,509     | (52)        |
| Business   | 3,261                    | 3,312     | (51)        |
| Total Retail   | 5,718                    | 5,821     | (103)       |
| Sales for Resale (Wholesale)                                     | 1,074                    | 995       | 79          |
| Total Electric Sales   | 6,792                    | 6,816     | (24)        |
| <b>RETAIL SALES (GWH) - WEATHER NORMALIZED</b>                   |                          |           |             |
| Residential  | 2,454                    | 2,601     | (147)       |
| Business   | 3,245                    | 3,292     | (47)        |
| Total Retail Sales   | 5,699                    | 5,893     | (194)       |
| Retail sales (GWH) (% over prior year)                           | (3.3)%                   |           |             |
| <b>AVERAGE ELECTRIC CUSTOMERS</b>                                |                          |           |             |
| Retail Customers   |                          |           |             |
| Residential  | 1,079,381                | 1,063,751 | 15,630      |
| Business   | 132,520                  | 131,162   | 1,358       |
| Total Retail   | 1,211,901                | 1,194,913 | 16,988      |
| Wholesale Customers  | 45                       | 44        | 1           |
| Total Customers  | 1,211,946                | 1,194,957 | 16,989      |
| Total Customer Growth (% over prior year)                        | 1.4%                     |           |             |
| <b>RETAIL USAGE - WEATHER NORMALIZED (KWh/ Average Customer)</b> |                          |           |             |
| Residential  | 2,273                    | 2,445     | (172)       |
| Business   | 24,489                   | 25,097    | (608)       |

|   | 3 Months Ended March 31, |       |             |
|---|--------------------------|-------|-------------|
|   | 2017                     | 2016  | Incr (Decr) |
| <b>WEATHER INDICATORS - RESIDENTIAL</b> |                          |       |             |
| Actual                                  |                          |       |             |
| Cooling Degree-Days                     | -                        | -     | -           |
| Heating Degree-Days                     | 436                      | 396   | 40          |
| Average Humidity                        | -                        | -     | -           |
| 10-Year Averages (2005 - 2014)          |                          |       |             |
| Cooling Degree-Days                     | -                        | -     | -           |
| Heating Degree-Days                     | 482                      | 482   | -           |
| Average Humidity                        | -                        | -     | -           |
| <b>ENERGY SOURCES (GWH)</b>             |                          |       |             |
| Generation Production                   |                          |       |             |
| Nuclear                                 | 2,512                    | 2,545 | (33)        |
| Coal                                    | 2,134                    | 1,302 | 832         |
| Gas, Oil and Other                      | 1,118                    | 1,758 | (640)       |
| Renewables                              | 99                       | 111   | (12)        |
| Total Generation Production             | 5,863                    | 5,716 | 147         |
| Purchased Power                         |                          |       |             |
| Conventional                            | 593                      | 647   | (54)        |
| Resales                                 | 204                      | 78    | 126         |
| Renewables                              | 482                      | 437   | 45          |
| Total Purchased Power                   | 1,278                    | 1,162 | 116         |
| Total Energy Sources                    | 7,141                    | 6,878 | 263         |
| <b>POWER PLANT PERFORMANCE</b>          |                          |       |             |
| Capacity Factors - Owned                |                          |       |             |
| Nuclear                                 | 102%                     | 101%  | 1%          |
| Coal                                    | 59%                      | 35%   | 24%         |
| Gas, Oil and Other                      | 16%                      | 25%   | (9)%        |
| Solar                                   | 24%                      | 30%   | (6)%        |
| System Average                          | 44%                      | 42%   | 2%          |

