

PINNACLE WEST CAPITAL CORP
Form DEF 14A
March 29, 2018

Table of Contents

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under §240.14a-12

Pinnacle West Capital Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
 - (1) Title of each class of securities to which transaction applies:
 - (2) Aggregate number of securities to which transaction applies:
 - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
 - (4) Proposed maximum aggregate value of transaction:

Edgar Filing: PINNACLE WEST CAPITAL CORP - Form DEF 14A

(5) Total fee paid:

- o Fee paid previously with preliminary materials.
- o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Table of Contents

Donald E. Brandt

Chairman of the Board, President
and Chief Executive Officer

To Our Shareholders:

On behalf of our Board of Directors, management and employees, I invite you to participate in our 2018 Annual Meeting of Shareholders. The meeting will be held at 10:30 a.m. (MST), Wednesday, May 16, 2018. Details regarding how to attend the meeting and the business to be conducted are in the accompanying Notice of Annual Meeting and Proxy Statement.

Pinnacle West achieved another year of outstanding performance as we continued to focus on delivering on our commitments to the customers who depend on us, the communities we serve, our dedicated team members, and the shareholders who trust us with their investment. Operational performance at our primary subsidiary, Arizona Public Service Company ("APS"), an electric utility that serves approximately 1.2 million customers throughout Arizona and operates the largest nuclear power plant in the United States, was strong in 2017. Included in the Proxy Statement Summary you will see a number of our shareholder value creation and operational accomplishments. It is an impressive list, and one that I and the senior management team are proud to share with you. Here are just a few of those achievements:

Additional highlighted accomplishments of our Company's 2017 performance are set forth in the Proxy Statement beginning on page 2.

Total shareholder value (change in market capitalization plus dividends) increased \$1.1 billion in 2017, \$2.8 billion over the last three years, and \$5.2 billion over the last five years;

Our total shareholder return (stock price appreciation/depreciation plus dividends) ("TSR") for 2017 was 12.7% and 41.2%, 38.4%, and 100.7%, for the 2, 3, and 5-year periods, respectively;

Our share price reached a new all-time closing high, and hit new 52-week intraday-highs on 29 trading days, including a new all-time intraday high;

Pinnacle West increased its dividend for the 6th straight year, by 6% in 2017;

We continued to focus on hiring diverse candidates as well as hiring from our veteran community, and at the end of 2017 over 44% of our workforce was diverse and more than 20% of our team members were veterans;

We achieved top-quartile distribution reliability and had our best summer reliability in five years; and

We achieved a positive and collaborative outcome of our first rate review in five years, which was an important milestone for us as it allows us to continue making efficient, cost-effective investments while providing safe, reliable service for our customers.

Table of Contents

In addition to delivering exceptional financial performance, we continue to focus on our sustainability efforts, fostering diversity and supporting our communities. Our usage of reclaimed water is a prime example of a sustainable balance and exemplifies our focus on the water-energy nexus. Thanks in large part to the Palo Verde Generating Station, reclaimed water accounted for 72% of the water used in our generating facilities in 2017.

Our Executive Diversity Council worked diligently in 2017 to continue improving our workforce diversity. Over 48% of candidates hired in 2017 were ethnically or gender diverse. As a Company we are committed to diversity, respect and inclusion as core to our culture and essential to our success.

In 2017 we remained steadfast in our commitment to our communities. We contributed more than \$9.8 million to our Arizona communities, with more than \$1.4 million invested in science, technology, engineering and mathematics ("STEM") education. Our men and women pledged more than \$2.4 million through our Company-sponsored charitable giving program, through which the Company provides a 50% match. This year our team members donated nearly 110,000 volunteer hours to a diverse and wide-range of organizations, including Habitat For Humanity, Treasures for Teachers, Phoenix Children's Hospital and St. Mary's Food Bank Alliance. These are only a few examples of how our men and women continuously demonstrate a commitment to excellence by living the values core to our culture. In addition, APS continued to partner with the Arizona Diamondbacks Foundation to build youth baseball fields in deserving neighborhoods. In 2017 we built our 35th field. We are proud to support efforts that unite our communities and help them thrive.

As you know, in 2016 the Board of Directors adopted a Director Retirement Policy to provide for an orderly transition of our Board members. This year the first retirement under that policy will take place. Roy Herberger will retire from the Board effective at the Annual Meeting. Over my years at Pinnacle West, I always valued Roy's counsel, wisdom and guidance. On behalf of all of us, I extend our appreciation and thanks to Roy for his many years of contributions and dedicated service to our Company and to our shareholders.

I am both privileged and proud to lead Pinnacle West. Our men and women are working to shape a better, sustainable future for our customers and our communities, and in that process, they are also building a more valuable company for our shareholders.

Thank you for the confidence you place in Pinnacle West through your investment.

Sincerely,

Table of Contents

Kathryn L. Munro
Lead Director

Dear Fellow Shareholders,

On behalf of the Board, I would like to thank you for your investment in Pinnacle West. As we approach our 2018 Annual Meeting, I would like to take this opportunity to provide you with an update on how your Board is approaching and addressing key areas of shareholder interest, particularly with respect to our governance and compensation practices.

Driving Shareholder Value Creation and Promoting a Sustainable Energy Future

As directors of Arizona's largest and longest-serving electric company, we view operational excellence as paramount to long-term value creation for our shareholders, and our long-term strategy reflects this focus. Our management team continues to drive outstanding operational execution while growing our business and leveraging technology to promote a long-term sustainable energy future. These efforts have resulted in strong returns for our shareholders: annualized total shareholder return of 18.8% since May 1, 2009, which was when Don Brandt took over as CEO. This exceeds the annualized returns of the S&P 1500 Electric Utilities Index of 11.8% and the S&P 500 Index of 16.2%. We also continue to be recognized for our safety and sustainability leadership:

2017 was another successful year with regard to safety, with APS remaining in the top decile for safety performance in the U.S. electric utilities industry; and

We earned a "Leadership" rating from CDP, a not-for-profit entity that reports on environmental performance, for climate change and water management — one of only two U.S. utilities to earn the highest rating in both categories.

Board-Driven Shareholder Engagement

Pinnacle West has an established shareholder engagement program, which was further augmented during 2017 in response to what the Board considered a disappointing level of shareholder support for our annual advisory vote on compensation. Shareholder input is very valuable to the Board's decision-making, and we wanted to ensure we had the opportunity to engage directly with our shareholders on our compensation, governance and broader Board practices. As Lead Director and member of the Human Resources Committee, I participated on behalf of the independent directors in a number of the shareholder discussions during the fall of 2017. These conversations were valuable to our Board, spurred important discussions, and have resulted in changes and disclosure enhancements that you will see detailed in this Proxy Statement.

Shareholder-Informed Compensation Program Changes

As a Board, we are committed to an executive compensation program that establishes strong pay for performance alignment and supports our ability to attract and retain a talented and proven leadership team. We seek to design compensation programs that support our long-term goals, reward achievement of long-term performance and align with the interests and feedback of our shareholders. To this end, our compensation programs have evolved with our business,

Table of Contents

including several changes made in 2016. Following shareholder discussions in 2017, we have made further changes to our program that we believe will create even greater alignment between our executives and the performance of our Company, and changes to our program and disclosures that reflect the feedback we have received from our shareholders. These changes are detailed in the Compensation Discussion and Analysis of this Proxy Statement and include:

Increase in the proportion of performance shares in our CEO's and Executive Vice Presidents' 2018 long-term incentive awards from 60% to 70% (reducing the percent of restricted stock units from 40% to 30% as well);

Revised 2018 metrics in certain key business units to better align with our priorities and emphasize top-quartile or above performance;

Adoption of a formal clawback policy;

Enhanced CD&A disclosures;

Additional transparency into our metric setting practices;

Redesigned annual incentive disclosure; and

Additional detail on how we select our peer group.

These structural and disclosure enhancements are directly in response to feedback we received from our shareholders.

Thoughtful and Systematic Management Succession Planning Process

As you would expect for a company with a highly skilled and long-tenured management team, the Board is very engaged in succession planning to ensure we are building a sustainable leadership pipeline. CEO and senior leadership succession planning continues to be a focus for the Board, and we have been executing on a very deliberate succession and development plan. Our current management team, under the leadership of Don Brandt, has delivered very strong performance and the Board and its Committees are actively involved in our succession plans for our top talent to ensure we are providing development opportunities that will allow for smooth leadership transitions in the future.

Robust Board Refreshment and Succession Planning Practices

The Board has established strong practices to support regular Board evaluation and refreshment. In 2016, the Board adopted a Director Retirement Policy to facilitate an orderly transition of Board members and implemented a five-year plan to refresh the Board and its leadership. This five-year plan encompasses the following:

Development of a matrix of our Board members' current skills and experiences;

Evaluation of the skills and experience leaving our Board over the next five years;

Assessment of skills and experience needed to guide the company's future long-term plans;

Incoming committee chairs are identified one year in advance of assuming chair leadership to ensure proper transition with Roy Herberger's retirement, Rick Fox will take over as the Chair of the Human Resources Committee effective at the Annual Meeting.

This process helps guide the Board in its recruitment efforts.

Table of Contents

On behalf of the Board, I want to thank our shareholders for their time and feedback. I am pleased to provide this additional window into the Board's activities in 2017 and express our commitment to running our business for the long-term value creation for our shareholders. We appreciate your support at our 2018 Annual Meeting.

Sincerely,

Table of Contents

Notice of the 2018 Annual Meeting of Shareholders

March 29, 2018

The 2018 Annual Meeting of Shareholders (the "Annual Meeting") of Pinnacle West Capital Corporation ("Pinnacle West", "PNW", or the "Company") will be held at 10:30 a.m., Mountain Standard Time, on Wednesday, May 16, 2018. The Annual Meeting may be accessed online at www.virtualshareholdermeeting.com/PNW. The purposes of the Annual Meeting are:

- (1) To elect ten directors to serve until the 2019 Annual Meeting of Shareholders (Proposal 1);
- (2) To hold an advisory vote to approve executive compensation (Proposal 2); and
- (3) To ratify the appointment of our independent accountants for the year ending December 31, 2018 (Proposal 3).

All shareholders of record at the close of business on March 9, 2018 are entitled to notice of and to vote at the Annual Meeting. Your vote is important. Whether you plan to participate in the Annual Meeting or not, please promptly vote by telephone, over the Internet, by proxy card, or by voting instruction form.

By order of the Board of Directors,

DIANE WOOD

Corporate Secretary

Executive Offices Address:
PINNACLE WEST CAPITAL CORPORATION
Post Office Box 53999
Phoenix, Arizona 85072-3999

Table of Contents

Table of Contents

	PAGE
<u>LETTER FROM DONALD E. BRANDT</u>	
<u>LETTER FROM KATHRYN L. MUNRO</u>	
<u>NOTICE OF THE 2018 ANNUAL MEETING OF SHAREHOLDERS</u>	
<u>PROXY STATEMENT SUMMARY</u>	1
<u>PROXY STATEMENT – GENERAL INFORMATION</u>	8
<u>Time, Date and Place</u>	<u>8</u>
<u>Notice of Internet Availability</u>	<u>8</u>
<u>Record Date: Shareholders Entitled to Vote</u>	<u>9</u>
<u>Voting</u>	<u>9</u>
<u>Quorum</u>	<u>10</u>
<u>Vote Required</u>	<u>10</u>
<u>Board Recommendations</u>	<u>10</u>
<u>Delivery of Annual Reports and Proxy Statements to a Shared Address and Obtaining a Copy</u>	<u>11</u>
<u>Shareholder Proposals or Director Nominations for the 2019 Annual Meeting</u>	<u>11</u>
<u>Proxy Solicitation</u>	<u>12</u>
<u>INFORMATION ABOUT OUR BOARD AND CORPORATE GOVERNANCE</u>	<u>13</u>
<u>Board Meetings and Attendance</u>	<u>13</u>
<u>Board Committees</u>	<u>13</u>
<u>The Board's Leadership Structure</u>	<u>19</u>
<u>Succession Planning and Board Evaluations</u>	<u>20</u>
<u>The Board's Role in Risk Oversight</u>	<u>21</u>
<u>Director Resignation Policies</u>	<u>22</u>
<u>Director Retirement Policy</u>	<u>22</u>
<u>Shareholder Engagement and Communications with the Board</u>	<u>23</u>
<u>Codes of Ethics and APS Core Strategic Framework</u>	<u>24</u>
<u>Director Qualifications and Selection of Nominees for the Board</u>	<u>26</u>
<u>PROPOSAL 1 – ELECTION OF DIRECTORS</u>	<u>28</u>
<u>Director Independence</u>	<u>38</u>
<u>STOCK MATTERS</u>	<u>40</u>

<u>Ownership of Pinnacle West Stock</u>	<u>40</u>
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	<u>41</u>
<u>RELATED PARTY TRANSACTIONS</u>	<u>42</u>

Table of Contents

	PAGE
<u>HUMAN RESOURCES COMMITTEE REPORT</u>	<u>43</u>
<u>EXECUTIVE COMPENSATION</u>	<u>44</u>
<u>Compensation Discussion and Analysis ("CD&A")</u>	<u>44</u>
<u>Named Executive Officers</u>	<u>44</u>
<u>Executive Summary</u>	<u>45</u>
<u>Our Philosophy and Objectives</u>	<u>53</u>
<u>Executive Compensation Components</u>	<u>53</u>
<u>Setting Executive Compensation</u>	<u>68</u>
<u>Other Considerations</u>	<u>72</u>
<u>Summary Compensation Table</u>	<u>75</u>
<u>Grants of Plan-Based Awards</u>	<u>77</u>
<u>Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table</u>	<u>78</u>
<u>Outstanding Equity Awards at Fiscal Year-End</u>	<u>80</u>
<u>Option Exercises and Stock Vested</u>	<u>82</u>
<u>Pension Benefits</u>	<u>84</u>
<u>Discussion of Pension Benefits</u>	<u>85</u>
<u>Nonqualified Deferred Compensation</u>	<u>88</u>
<u>Discussion of Nonqualified Deferred Compensation</u>	<u>89</u>
<u>Potential Payments upon Termination or Change of Control</u>	<u>91</u>
<u>Pay Ratio</u>	<u>98</u>
<u>HUMAN RESOURCES COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION</u>	<u>99</u>
<u>DIRECTORS' COMPENSATION</u>	<u>100</u>
<u>Discussion of Directors' Compensation</u>	<u>101</u>
<u>Director Stock Ownership Policy</u>	<u>102</u>
<u>PROPOSAL 2 ADVISORY VOTE ON EXECUTIVE COMPENSATION</u>	<u>103</u>
<u>PROPOSAL 3 RATIFICATION OF THE APPOINTMENT OF DELOITTE & TOUCHE LLP AS THE INDEPENDENT ACCOUNTANTS FOR THE COMPANY</u>	<u>104</u>
<u>ACCOUNTING AND AUDITING MATTERS</u>	<u>105</u>
<u>The Independent Accountants</u>	<u>105</u>
<u>Benefits of a Long-Tenured Independent Accountant</u>	<u>105</u>
<u>Accountant's Independence Controls</u>	<u>106</u>
<u>Pre-Approval Policies</u>	<u>106</u>
<u>Audit Fees</u>	<u>107</u>
<u>REPORT OF THE AUDIT COMMITTEE</u>	<u>108</u>

HELPFUL RESOURCES

109

ii | 2018 Proxy Statement

Table of Contents

Proxy Statement Summary

This summary highlights certain information contained elsewhere in this Proxy Statement. As it is only a summary, please read the complete Proxy Statement and 2017 Annual Report before you vote. The Proxy Statement and form of proxy are first being made available to shareholders on or about March 29, 2018.

Annual Meeting Time, Date and Voting Matters

Who We Are

Strategic Framework

The **Core** is our strategic framework. It sets forth the basis from which we operate by defining our vision, mission, critical areas of focus, and values. The framework affirms our corporate values of safety, integrity and trust, respect and inclusion, and accountability. This is the foundation from which our long term strategy is built.

For example, employees are an element of our Core and one of our greatest assets. The Core helps us focus on keeping them safe, fostering a healthy and balanced environment, supporting their development through training and mentoring and encouraging engagement. This culture not only benefits each individual employee, it also positions our Company for long-term sustainable success.

Table of Contents

Proxy Statement Summary

Strategic Priorities

The **Core** continues to serve as the foundation for all strategic and business initiatives. In turn, our performance metrics reinforce our highest priorities, including operational excellence, financial strength and leveraging economic growth, in a tangible, measurable way, and allow us to monitor and enhance our progress.

Building on that foundation, the APS Strategic Business Plan is anchored by four themes that align with industry trends shaping our future and the way we do business:

Consumer Engagement Deliver value-added programs and services that derive from consumer insights and strengthen our brand for the future

Flexible Resources Develop new initiatives and businesses that leverage our core capabilities

Employees Adopt sustainable programs to invest in our people today and in the future

Innovation Integrate new technologies to enhance performance, reliability and the overall experience of our customers and employees

2017 Highlights and Achievements

Shareholder Value

Our management team has delivered superior performance:

Financial and Operating Highlights

- ü PNW **increased its dividend for the 6th consecutive year**, by 6%;
- ü Maintained **strong credit ratings** from all three rating agencies;
- ü APS spent **\$363 million with diverse suppliers**;
- ü APS continued successful operation of the Palo Verde Generating Station, a nuclear energy facility that is the largest **clean-air** generator in the United States; and
- ü Achieved **top quartile distribution reliability metrics** for 2017, and had the best summer reliability in 5 years.

Table of Contents

Proxy Statement Summary

Achievements

- ü Received the **Distributech Renewable Integration Project of the Year** award for the Solar Partner Program;
- ü Obtained "**Leadership**" rating from CDP for climate change and water management – one of only two U.S. utilities that earned the highest rating in both categories;
- ü Recognized as the **Corporate Advocate of the Year** by the National Center for American Indian Enterprise Development; and
- ü Recognized as a **Best Corporation for Veteran's Business Enterprises** by the National Veteran-Owned Business Association.

Community Engagement

- ü Contributed more than **\$9.8 million to our Arizona communities**, with more than \$1.4 million invested in STEM education;
- ü Employees pledged more than **\$2.4 million through our Company-sponsored charitable giving program**, through which the Company provides a 50% match;
- ü **Built our 35th baseball field** in one of our Arizona neighborhoods together with the Arizona Diamondbacks Foundation; and
- ü Employees donated nearly **110,000 volunteer hours** to community organizations.

Sustainability

Our commitment to create a sustainable future for our Company and our customers will continue to light our way to success – not just today but for years to come. We continue to make progress on our **five critical areas of sustainability**:

50% of our diverse energy mix is **carbon-free**

Plan to **reduce carbon intensity by 23%** over the next 15 years

MSCI Environmental Sustainability and Governance **A rating** (as of 10/27/17)

More than 1,300 MW of installed solar capacity

Edgar Filing: PINNACLE WEST CAPITAL CORP - Form DEF 14A

Plan to add over **500 MW of energy storage** in the next 15 years

70% reduction in Occupational Safety and Health Administration ("OSHA") recordable injuries over the past 10 years

Remain top decile for safety performance in the U.S. electric utilities industry

14% reduction in groundwater use since 2014

20 billion gallons of water recycled each year to cool Palo Verde Generating Station

Average **employee tenure of 13 years** due to strong talent strategy

More than 20% of our employees are **veterans**

Palo Verde hosted a nuclear **Women in Leadership** forum

To learn more about our sustainability efforts, please see our Corporate Responsibility Report located on our website (www.pinnaclewest.com).

Table of Contents

Proxy Statement Summary

Governance Practices

Our Board remains committed to maintaining strong corporate governance practices. Our practices include:

- ü A **director retirement policy** at age 75;
- ü Proxy access rights allowing up to 20 shareholders owning 3% of our outstanding stock for at least 3 years to nominate up to 25% of the Board;
- ü **Strong ongoing shareholder engagement program** that expanded in 2017, including participation of the Lead Director in several shareholder meetings;
- ü Independent Lead Director role with clearly defined and robust responsibilities;
- ü Ten of our eleven current directors are independent and the members of all of the Board Committees are independent;
- ü Annual elections of all directors (see page 5 of this Proxy Statement Summary for a list of the nominees);
- ü **Robust board and management succession planning**;
- ü **No poison pill plan** or similar anti-takeover provision in place;
- ü No supermajority provisions in our Articles of Incorporation or Bylaws;
- ü Each of our directors **attended at least 90% of the Board meetings and any Board committee meeting** on which he or she served; and
- ü Our directors and officers are prohibited from pledging or hedging our stock.

Shareholder Engagement

We have an established shareholder engagement program to maintain a dialogue with our shareholders throughout the year, which was further augmented during 2017 in response to what our Board considered a disappointing level of shareholder support for our annual advisory vote on compensation. Each year we strive to respond to shareholder questions in a timely manner, conduct extensive proactive outreach to investors, and evaluate the information we provide to investors in an effort to continuously improve our engagement. In 2017, we contacted the holders of approximately 50% of the shares outstanding and met with the holders of approximately 40% of the shares outstanding. Our Lead Director and member of the Human Resources Committee, Kathryn Munro, participated in a number of the shareholder discussions providing shareholders with direct access to the Board.

What our shareholders think is important to us and we want to ensure we have the opportunity to engage directly with our shareholders. We seek to maintain a transparent and productive dialogue with our shareholders by:

- ü **Providing clear and timely information,**
- ü **Seeking and listening to feedback, and**
- ü

Being responsive.

A detailed discussion of this outreach and the Board's response can be found on pages 23-24 and 48-49 of this Proxy Statement.

Table of Contents

Proxy Statement Summary

Director Nominees, Their Skills and Experience

Edgar Filing: PINNACLE WEST CAPITAL CORP - Form DEF 14A

- (1) Directors' ages as of February 21, 2018.
- (2) Dr. Herberger is currently the Chairman of the Human Resources Committee and will be retiring effective at the Annual Meeting. Mr. Fox will take over as the Chair of the Human Resources Committee effective at the Annual Meeting.

Table of Contents

Proxy Statement Summary

Board Diversity

Directors' Key Skills and Experience Matrix

Succession Planning

Director succession is overseen by the Corporate Governance Committee, which regularly assesses whether the composition of the Board reflects the knowledge, skills, expertise, and diversity appropriate to serve the needs of the Company. Since 2014 three new members have joined the Board. The Board adopted a Director Retirement Policy in 2016, which is described on page 22 of this Proxy Statement, to better facilitate board refreshment and transition.

Given our need for specialized experience, we also maintain strong management succession planning practices and are focused on developing and retaining talent within our Company. Our Board's focus on attracting, developing and retaining highly skilled and experienced executives is a core consideration in structuring our executive compensation programs.

Table of Contents

Proxy Statement Summary

Executive Compensation Program Highlights

Our compensation program is designed to be transparent with a clear emphasis on putting pay at risk and retaining key executives. Our executive compensation philosophy centers on the core objectives of maintaining alignment with shareholder interests and retaining key management.

Our incentive program structure and metrics are **designed to drive sustained value creation** for shareholders, with incentive compensation tied to the Company's TSR, earnings, and the achievement of measurable and sustainable business and individual goals. See the CD&A on page 44 for further details.

Base Salary	Cash		Earnings
			CEO: 62.5%
Annual	Cash	1 year	NEOs ⁽¹⁾ : 50.0%
Incentives			Business Unit Performance
			CEO: 37.5%
			NEOs ⁽¹⁾ : 50.0%
			Relative TSR
	Performance		50%
Long-Term Incentives	Shares 60% ⁽²⁾	3 years	Relative Operational Performance
			50%
	Restricted Stock Units 40% ⁽²⁾	Vest ratably over 4 years	Stock Price

- (1) Named Executive Officers ("NEO") identified on page 44 of this Proxy Statement.
- (2) Long-term incentives award mix changed to 70% performance share awards and 30% restricted stock unit ("RSU") awards starting in 2018 for the CEO and Executive Vice Presidents.

**2017 CEO
Total Compensation
88% at risk**

**2017 Average for Other NEOs'
Total Compensation
67% at risk**

Table of Contents

Proxy Statement General Information

Time, Date and Place

The Company's 2018 Annual Meeting of Shareholders ("Annual Meeting") will be held at 10:30 a.m., Mountain Standard Time, on Wednesday, May 16, 2018. The Annual Meeting will not be held at a physical location, but will instead be held virtually, where shareholders will participate by accessing a website using the Internet. The Annual Meeting will be accessed at www.virtualshareholdermeeting.com/PNW. To participate in the Annual Meeting, you will need the 16-digit control number included on the proxy card, the Internet Notice or the voting instruction form. Online check-in will begin at 10:15 a.m. Mountain Standard Time, and you should allow ample time for the online check-in proceedings. We will have technicians standing by ready to assist you with any technical difficulties you may have accessing the virtual meeting. If you encounter any difficulties accessing the virtual meeting during the check-in or meeting time, please call: 855-449-0991. An audio broadcast of the Annual Meeting will be available by telephone toll-free at 877-328-2502 (domestic) or 412-317-5419 (international). Upon dialing in, you will need to provide your 16-digit control number.

We continue to believe that the virtual-only format, which we used for the first time last year, is in the best interests of our shareholders, given the time and expense of an in-person meeting compared to the shareholder participation at those meetings. The number of non-employee shareholders actually attending our Annual Meetings of Shareholders has significantly dwindled. For the past five in-person meetings, only about 30 shareholders attended each of the meetings. The meetings, on average, lasted less than 45 minutes, including the formal business portion of the meeting, the remarks by the CEO, a video highlighting the Company's performance, and the question and answer period. A virtual meeting allows all of our shareholders, regardless of location, the ability to participate in the Annual Meeting.

Our virtual meeting will be governed by our Rules of Conduct, which we use for both in-person and virtual meetings. Shareholders at the virtual-only meeting will have the same rights as at an in-person meeting, including the rights to vote and ask questions through the virtual meeting platform.

Notice of Internet Availability

Unless you elected to receive printed copies of the proxy materials in prior years, you will receive a Notice of Internet Availability of Proxy Materials by mail, or if you so elected, by electronic mail (the "Internet Notice"). The Internet Notice will tell you how to access and review the proxy materials. If you received an Internet Notice by mail and would like to receive a printed copy of the proxy materials, you should follow the instructions included on the Internet Notice.

The Internet Notice is first being sent to shareholders on or about March 29, 2018. The Proxy Statement and the form of proxy relating to the Annual Meeting are first being made available to shareholders on or about March 29, 2018.

Table of Contents

Proxy Statement General Information

Record Date; Shareholders Entitled to Vote

All shareholders at the close of business on March 9, 2018 (the "Record Date") are entitled to vote at the meeting. Each holder of outstanding Company common stock is entitled to one vote per share held as of the record date on all matters on which shareholders are entitled to vote, except for the election of directors, in which case "cumulative" voting applies (see "Vote Required – Election of directors"). At the close of business on the Record Date, there were 111,928,566 shares of common stock outstanding.

Voting

Vote prior to the Annual Meeting by Internet. The website address for Internet voting is on the proxy card, the Internet Notice and the voting instruction form. Internet voting is available 24 hours a day.

Vote prior to the Annual Meeting by telephone. The toll-free number for telephone voting is on the proxy card, the Internet Notice and the voting instruction form. Telephone voting is available 24 hours a day.

Vote prior to the Annual Meeting by scanning the QR code. The QR code is on the proxy card, the Internet Notice and the voting instruction form, and is available 24 hours a day.

Vote prior to the Annual Meeting by mail. You may vote by mail by promptly marking, signing, dating, and mailing your proxy card or voting instruction form (a postage-paid envelope is provided for mailing in the United States).

Vote during the Annual Meeting over the Internet. To participate in the Annual Meeting, you will need the 16-digit control number included on the proxy card, the Internet Notice or the voting instruction form. Shares held in your name or shares for which you are the beneficial owner but not the shareholder of record may be voted electronically during the formal business portion of the Annual Meeting. Shares held in the Pinnacle West 401(k) Plan cannot be voted during the Annual Meeting. If you hold shares in the Pinnacle West 401(k) Plan, you will need to submit your vote to the plan trustee by May 13, 2018 to vote your shares.

You may change your vote by: re-voting by telephone; re-voting by Internet; or re-voting during the formal business portion of the Annual Meeting. For shares held in your name you may change your vote by re-submitting a signed proxy card. In addition, for shares held in your name, you may also revoke a previously submitted proxy card by filing with our Corporate Secretary a written notice of revocation. For shares for which you are the beneficial owner but not the shareholder of record, you may change your vote by re-submitting a signed voting instruction form to your broker. In addition, for shares for which you are the beneficial owner but not the shareholder of record, you should contact

your broker if you would like to revoke your vote.

Your vote is confidential. Only the following persons have access to your vote: election inspectors; individuals who help with the processing and counting of votes; and persons who

Table of Contents

Proxy Statement General Information

need access for legal reasons. All votes will be counted by an independent inspector of elections appointed for the Annual Meeting.

Quorum

The presence, in person or by proxy, of a majority of the outstanding shares of our common stock is necessary to constitute a quorum at the Annual Meeting. In counting the votes to determine whether a quorum exists, shares that are entitled to vote but are not voted at the direction of the beneficial owner (called abstentions) and votes withheld by brokers in the absence of instructions from beneficial owners (called broker non-votes) will be counted for purposes of determining whether there is a quorum. Shares owned by the Company are not considered outstanding or present at the meeting.

Vote Required

Election of directors. Individuals receiving the highest number of votes will be elected. The number of votes that a shareholder may, but is not required to, cast is calculated by multiplying the number of shares of common stock owned by the shareholder, as of the Record Date, by the number of directors to be elected. Any shareholder may cumulate his or her votes by casting them for any one nominee or by distributing them among two or more nominees. Abstentions will not be counted toward a nominee's total and will have no effect on the election of directors. You may not cumulate your votes against a nominee. If you hold shares in your own name and would like to exercise your cumulative voting rights, you must do so by mail. If you hold shares beneficially through a broker, trustee or other nominee and wish to cumulate votes, you should follow the instructions on the voting instruction form.

Say-on-Pay vote. The votes cast "for" must exceed the votes cast "against" to approve the advisory resolution on the compensation disclosed in this Proxy Statement of our NEOs identified on page 44 the say-on-pay vote. This resolution is not intended to address any specific item of compensation, but rather the overall compensation of the NEOs and the compensation philosophy, policies and procedures described in this Proxy Statement. Because your vote is advisory, it will not be binding on the Board or the Company. The Board will review the voting results and take them into consideration when making future decisions regarding executive compensation. Abstentions and broker non-votes will have no effect on the outcome of this proposal. We will hold an advisory vote on say-on-pay on an annual basis until we next hold an advisory vote of shareholders on the frequency of such votes as required by law.

Ratification of the appointment of the independent accountants. The votes cast "for" must exceed the votes cast "against" to ratify the appointment of the independent accountants for the year ending December 31, 2018. Abstentions and broker non-votes will have no effect on the outcome of this proposal.

Board Recommendations

The Board recommends a vote:

ü

FOR the election of the nominated slate of directors (Proposal 1);

ü

FOR the approval, on an advisory basis, of the resolution approving the compensation of our NEOs, as disclosed in this Proxy Statement (Proposal 2); and

10

| 2018 Proxy Statement

Table of Contents

Proxy Statement General Information

ii

FOR the ratification of the appointment of D&T as the Company's independent accountants for the year ending December 31, 2018 (Proposal 3).

The Board is not aware of any other matters that will be brought before the shareholders for a vote. If any other matters properly come before the meeting, the proxy holders will vote on those matters in accordance with the recommendations of the Board or, if no recommendations are given, in accordance with their own judgment.

Delivery of Annual Reports and Proxy Statements to a Shared Address and Obtaining a Copy

If you and one or more shareholders share the same address, it is possible that only one Internet Notice, Annual Report or Proxy Statement was delivered to your address. Registered shareholders at the same address who wish to receive separate copies of the Internet Notice, the Annual Report or Proxy Statement may:

Call the Company's Shareholder Services Department at 1-602-250-5511;

Mail a request to Shareholder Services at P.O. Box 53999, Mail Station 8602, Phoenix, Arizona, 85072-3999;
or

E-mail a request to: shareholderdept@pinnaclewest.com.

The Company will promptly deliver to you the information requested. Registered shareholders who share the same address but wish to receive one Internet Notice, Annual Report or Proxy Statement may contact the Company through the same methods listed above. Shareholders who own Company stock through a broker and who wish to receive single or separate copies of the Internet Notice, Annual Report or Proxy Statement should contact their broker.

You may access our Annual Report and Proxy Statement via the Internet. Copies of the Annual Report and Proxy Statement are available on the Company's website (www.pinnaclewest.com) and will be provided to any shareholder promptly upon request. Shareholders may request copies from Shareholder Services at the telephone number or addresses set forth above, or as described on the Internet Notice.

Shareholder Proposals or Director Nominations for the 2019 Annual Meeting

Shareholder Proposals. To be included in the proxy materials for the 2019 Annual Meeting of Shareholders (the "2019 Annual Meeting"), any shareholder proposal intended to be presented must be received by our Corporate Secretary no later than November 29, 2018 at the following address:

Corporate Secretary
Pinnacle West Capital Corporation
400 North Fifth Street, Mail Station 8602
Phoenix, Arizona 85004

A shareholder who intends to present a proposal at the 2019 Annual Meeting, but does not wish it to be included in the 2019 proxy materials, must submit the proposal no earlier than January 16, 2019 and no later than the close of business on February 15, 2019.

Table of Contents

Proxy Statement **General Information**

Shareholder Nominations. Shareholder nominations for a director to the Board must be received by the Corporate Secretary at the address set forth above by November 16, 2018 ("Shareholder Nomination").

Proxy Access. In February 2017, our Board amended the Bylaws to provide, among other things, that under certain circumstances a shareholder or group of shareholders may include director candidates that they have nominated in our annual meeting proxy statement "proxy access." Under these provisions, a shareholder or group of up to 20 shareholders seeking to include director nominees in our annual meeting proxy statement must own 3% or more of our outstanding common stock continuously for at least the previous three years. Generally the number of qualifying shareholder-nominated candidates the Company will include in its annual meeting proxy materials will be limited to the greater of 25% of the Board or two candidates. Based on the current Board size of 11 directors, the maximum number of proxy access candidates we would be required to include in our proxy materials is two.

Nominees submitted under the proxy access provisions that are later withdrawn or are included in the proxy materials as Board-nominated candidates will be counted in determining whether the 25% maximum has been reached. If the number of shareholder-nominated candidates exceeds 25%, each nominating shareholder or group of shareholders may select one nominee for inclusion in our proxy materials until the maximum number is met. The order of selection would be determined by the amount (largest to smallest) of shares of our common stock held by each nominating shareholder or group of shareholders. Requests to include shareholder-nominated candidates under proxy access must be received by our Corporate Secretary at the address set forth above not earlier than the close of business on October 30, 2018 nor later than the close of business on November 29, 2018. The number of qualifying shareholder-nominated candidates the Company will include in its proxy materials under proxy access will be reduced on a one-for-one basis in the event the Company receives a Shareholder Nomination, but at least one qualifying shareholder-nominated proxy access nominee will be included in the proxy materials.

In all cases, shareholders and nominees must also comply with the applicable rules of the Securities and Exchange Commission ("SEC") and the applicable sections of our Bylaws relating to qualifications of nominees and nominating shareholders and disclosure requirements.

Proxy Solicitation

The Board is soliciting the enclosed proxy. The Company may solicit shareholders over the Internet, by telephone or by mail. The Company has retained D.F. King & Co., Inc. to assist in the distribution of proxy solicitation materials and the solicitation of proxies for \$11,000, plus customary expenses. The costs of the solicitation will be paid by the Company. Proxies may also be solicited in person, by telephone or electronically by Company personnel who will not receive additional compensation for such solicitation. As required, the Company will reimburse brokerage houses and others for their out-of-pocket expenses in forwarding documents to beneficial owners of our stock.

Table of Contents

Information About Our Board and Corporate Governance

Board Meetings and Attendance

In 2017 each of our directors attended 90% of the Board meetings and any meetings of Board committees on which he or she served.

In 2017, our Board held seven meetings and each of our directors attended 90% of the Board meetings and any meetings of Board committees on which he or she served. Each director is expected to participate in the Annual Meeting. All Board members attended the 2017 Annual Meeting.

Board Committees

The Board has the following standing committees: Audit; Corporate Governance; Finance; Human Resources; and Nuclear and Operating. All of the charters of the Board's committees are publicly available on the Company's website (www.pinnaclewest.com). All of our committees conduct a formal review of their charters every other year and as often as any committee member deems necessary. In the years in which a formal review is not conducted, the Board has tasked management with reviewing the charters and recommending any changes management deems necessary or reflective of good corporate governance. The charters are also changed as needed to comply with any corresponding changes to any applicable rule or regulation.

Table of Contents

Information About Our Board and Corporate Governance

All of our committees are comprised of independent directors who meet the independence requirements of the New York Stock Exchange ("NYSE") rules, SEC rules, and the Company's Director Independence Standards, including any specific committee independence requirements. The duties and responsibilities of our committees are as follows:

RESPONSIBILITIES:

The Audit Committee:

Oversees the integrity of the Company's financial statements and internal controls;

Appoints the independent accountants and is responsible for their qualifications, independence, performance (including resolution of disagreements between the independent accountants and management regarding financial reporting), and compensation;

Participates in the selection of the independent accountants' new lead engagement partner each time a mandatory rotation occurs;

Monitors the Company's compliance with legal and regulatory requirements;

Sets policies for hiring employees or former employees of the independent accountants;

Reviews the annual audited financial statements or quarterly financial statements, as applicable, and the "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained therein;

Discusses with management and the independent accountants significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements;

COMMITTEE MEMBERS:

Bruce J. Nordstrom, Chair

Denis A. Cortese

Richard P. Fox

Dale E. Klein

Humberto S. Lopez

David P. Wagener

"The audit function is critical to sound risk and financial management, and the members of the Audit Committee are committed to carrying out fully our duties to the Company and our shareholders."

-Bruce Nordstrom

Edgar Filing: PINNACLE WEST CAPITAL CORP - Form DEF 14A

Reviews the Company's draft earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies;

Discusses guidelines and policies to govern the process by which risk assessment and risk management is undertaken across the Company and periodically reviews the principal risks related to the Company's financial statements, audit functions and other major financial risk exposures; and

Reviews management's monitoring of the Company's compliance with the Company's Code of Ethics and Business Practices.

The Board has determined that each member of the Audit Committee meets the NYSE experience requirements and that Mr. Nordstrom, the Chair of the Audit Committee, and Mr. Fox are "audit committee financial experts" under applicable SEC rules. None of the members of our Audit Committee, other than Mr. Fox, currently serve on more than three public company audit committees. Mr. Fox currently serves on the audit committees of four public companies, including Pinnacle West. Our Board has discussed with Mr. Fox the time and effort required to be devoted by Mr. Fox to his service on these committees and has affirmatively determined that such services do not impair Mr. Fox's ability to serve as an effective member of our Audit Committee.

Table of Contents

Information About Our Board and Corporate Governance

RESPONSIBILITIES:

The Corporate Governance Committee:

Reviews and assesses the Corporate Governance Guidelines;

Develops and recommends to the Board criteria for selecting new directors;

Identifies and evaluates individuals qualified to become members of the Board, consistent with the criteria for selecting new directors;

Recommends director nominees to the Board;

Recommends to the Board who should serve on each of the Board's committees;

Reviews the results of the Annual Meeting shareholder votes;

Reviews and makes recommendations to the Board regarding the selection of the CEO and CEO and senior management succession planning;

Reviews the Company's Code of Ethics and Business Practices for compliance with applicable law;

Recommends a process for responding to communications to the Board by shareholders and other interested parties;

Reviews the independence of members of the Board and approves or ratifies certain types of related-party transactions;

COMMITTEE MEMBERS:

Kathryn L. Munro, Chair

Michael L. Gallagher

Roy A. Herberger, Jr.

Bruce J. Nordstrom

"The Corporate Governance Committee is focused on effective and accountable governance practices in order to maximize the long-term value of the Company for its shareholders."

-Kathy Munro

Edgar Filing: PINNACLE WEST CAPITAL CORP - Form DEF 14A

Reviews and makes recommendations to the Board regarding shareholder proposals requested for inclusion in the Company's proxy materials;

Reviews and makes recommendations regarding proxy material disclosures related to the Company's corporate governance policies and practices;

Periodically reviews the principal risks relating to the Company's corporate governance policies and practices;

Oversees the Board and committee self-assessments on at least an annual basis; and

Reviews and assesses the Company's Political Participation Policy, and then reviews the Company's policies and practices with respect to governmental affairs strategy and political activities in accordance with the Company's Political Participation Policy.

The Corporate Governance Committee periodically reviews and recommends to the Board amendments to the Corporate Governance Guidelines and the Political Participation Policy. The Corporate Governance Guidelines and the Political Participation Policy are available on the Company's website (www.pinnaclewest.com).

Table of Contents

Information About Our Board and Corporate Governance

RESPONSIBILITIES:

The Finance Committee:

Reviews the historical and projected financial performance of the Company and its subsidiaries;

Reviews the Company's financial condition, including sources of liquidity, cash flows and levels of indebtedness;

Reviews and recommends approval of corporate short-term investment and borrowing policies;

Reviews the Company's financing plan and recommends to the Board approval of the issuance of long-term debt, common equity and preferred securities, and the establishment of credit facilities;

Reviews the Company's use of guarantees and other forms of credit support;

Reviews and monitors the Company's dividend policies and proposed dividend actions;

Establishes and selects the members of the Company's Investment Management Committee to oversee the investment programs of the Company's trusts and benefit plans;

Reviews and discusses with management the Company's process for allocating and managing capital;

Reviews and recommends approval of the Company's annual capital budget;

COMMITTEE MEMBERS:

Humberto S. Lopez, Chair

Richard P. Fox

Kathryn L. Munro

Paula J. Sims

David P. Wagener

"The Finance Committee plays a key role in ensuring the financial health of the Company by providing oversight of the Company's financial performance, financing strategy and dividend policies and actions."

-Bert Lopez

Edgar Filing: PINNACLE WEST CAPITAL CORP - Form DEF 14A

Reviews the Company's annual operations and maintenance budget and monitors throughout the year how the Company's actual spend tracks to the budget;

Reviews the Company's insurance programs; and

Periodically reviews the principal risks relating to the Company's policies and practices concerning budgeting, financing and credit exposures.

Table of Contents

Information About Our Board and Corporate Governance

RESPONSIBILITIES:

The Human Resources Committee:

Reviews management's programs for the attraction, retention, succession, motivation and development of the Company's human resources needed to achieve corporate objectives;

Establishes the Company's executive compensation philosophy;

Recommends to the Board persons for election as officers;

Annually reviews the goals and performance of the officers of the Company and APS;

Approves corporate goals and objectives relevant to the compensation of the CEO, assesses the CEO's performance in light of these goals and objectives, and sets the CEO's compensation based on this assessment;

Makes recommendations to the Board with respect to non-CEO executive compensation and director compensation;

Acts as the "committee" under the Company's long-term incentive plans;

Reviews and discusses with management the Compensation Discussion and Analysis on executive compensation set forth in our proxy statements;

Reviews the number, type, and design of the Company's pension, health, welfare and benefit plans; and

Periodically reviews the principal risks relating to the Company's compensation and human resources policies and practices.

COMMITTEE MEMBERS:

Roy A. Herberger, Jr., Chair

Denis A. Cortese

Richard P. Fox

Humberto S. Lopez

Kathryn L. Munro

"The members of the Human Resources Committee are committed to the development of vigorous and effective practices and programs designed to attract and retain the talent required to achieve the Company's goals and objectives and drive shareholder value."

-Roy Herberger

Edgar Filing: PINNACLE WEST CAPITAL CORP - Form DEF 14A

Under the Human Resources Committee's charter, the Human Resources Committee may delegate authority to subcommittees, but did not do so in 2017. Additional information on the processes and procedures of the Human Resources Committee is provided under the heading "Compensation Discussion and Analysis ("CD&A")".

Table of Contents

Information About Our Board and Corporate Governance

RESPONSIBILITIES:

The Nuclear and Operating Committee:

Receives regular reports from management and monitors the overall performance of Palo Verde;

Reviews the results of major Palo Verde inspections and evaluations by external oversight groups, such as the Institute of Nuclear Power Operations ("INPO") and the Nuclear Regulatory Commission ("NRC");

Monitors overall performance of the principal non-nuclear business functions of the Company and APS, including fossil energy generation, energy transmission and delivery, customer service, fuel supply and transportation, safety, legal compliance, and any significant incidents or events;

Reviews regular reports from management concerning the environmental, health and safety ("EH&S") policies and practices of the Company, and monitors compliance by the Company with such policies and applicable laws and regulations;

Reviews APS's planning for generation resources additions and significant expansions of its bulk transmission system;

Periodically reviews the principal risks related to the Company's nuclear, fossil generation, transmission and distribution, and EH&S operations;

Receives reports on the Company's sustainability initiatives and strategy;
and

Provides oversight of security policies, programs and controls for protection of cyber and physical assets.

COMMITTEE MEMBERS:

Michael L. Gallagher, Chair

Denis A. Cortese

Dale E. Klein

Bruce J. Nordstrom

Paula J. Sims

David P. Wagener

"In managing the oversight of the Company's overall operations, the N&O Committee takes enormous accountability ensuring that operations are performed in an efficient, safe, and secure manner. Cyber and physical security are key focus areas of the committee."

-Mike Gallagher

Edgar Filing: PINNACLE WEST CAPITAL CORP - Form DEF 14A

In addition, the Nuclear and Operating Committee receives regular reports from the Off-Site Safety Review Committee (the "OSRC"). The OSRC provides independent assessments of the safe and reliable operations of Palo Verde. The OSRC is comprised of non-employee individuals with senior management experience in the nuclear industry and the Palo Verde Director of Nuclear Assurance.

Table of Contents

Information About Our Board and Corporate Governance

The Board's Leadership Structure

Lead Director. Kathryn L. Munro serves as the Company's Lead Director and chairs the Corporate Governance Committee. The Lead Director performs the following duties and responsibilities as set forth in our Corporate Governance Guidelines:

Serves as a liaison between the Chairman of the Board (the "Chairman") and the independent directors;

Advises the Chairman as to an appropriate schedule of Board meetings, reviews and provides the Chairman with input regarding agendas for the Board meetings and, as appropriate or as requested, reviews and provides the Chairman with input regarding information sent to the Board;

Presides at all meetings at which the Chairman is not present, including executive sessions of the independent directors (which are regularly scheduled as part of each Board meeting) and calls meetings of the independent directors when necessary and appropriate;

Oversees the Board and Board committee self-assessment process;

Is available for appropriate consultation and direct communication with the Company's shareholders and other interested parties; and

Performs such other duties as the Board may from time to time delegate.

These duties and responsibilities do not, however, fully capture Ms. Munro's active role in serving as our Lead Director. For example, Ms. Munro has regular discussions with the CEO, other members of the senior management team and members of the Board between Board meetings on a variety of topics, and she serves as a liaison between the CEO and the independent directors. Ms. Munro focuses the Board on key issues facing our Company and on topics of interest to the Board. She takes the lead on director recruitment and has a formal annual call with each non-employee director to discuss the Board, its functions, its membership, the individual's plan with respect to his or her continuing Board service, and any other topic the individual desires to discuss with our Lead Director. Her leadership fosters a Board culture of open discussion and deliberation to support sound decision-making. She also encourages communication between management and the Board to facilitate productive working relationships.

Chairman and CEO Positions. The Chairman is Donald E. Brandt, the Company's President and CEO. The independent directors believe that Mr. Brandt, as an experienced leader with extensive knowledge of the Company

and our industry, serves as a highly effective conduit between the Board and management and that Mr. Brandt provides the vision and leadership to execute on the Company's strategy and create shareholder value. The Board believes that separating the roles of the CEO and Chairman and appointing an independent Board Chairman at this time would create an additional level of unneeded hierarchy that would only duplicate the activities already being vigorously carried out by our Lead Director.

Table of Contents

Information About Our Board and Corporate Governance

Succession Planning and Board Evaluations

Management Succession. Our Board places a high priority on senior management development and succession planning. While the Corporate Governance Committee has principal responsibility for overseeing CEO and other senior management succession planning, the full Board is actively involved in reviewing our senior management succession plans that will allow for smooth and thoughtful leadership transitions in the future.

Executive succession planning and senior management development were specific areas of focus for the Corporate Governance Committee in 2017. The Corporate Governance Committee engaged in thorough and thoughtful discussions regarding the development and evaluation of current and potential senior leaders, as well as the development of executive succession plans, including succession plans for our CEO position.

Board Succession. Our Board has developed a robust process to refresh the Board and its leadership significantly over the next several years and beyond. The process is designed to continue to provide for a well-qualified, diverse and highly independent Board, with the requisite experience and skills to provide effective oversight. This process includes the identification of the current key skills and experience possessed by our members. A matrix of current key skills and experience possessed by our Board is on page 5 of this Proxy Statement. The identification of these skills and experiences, combined with a comprehensive Board evaluation process, provide visibility into the skills and experience leaving our Board in the future and allows for the identification of additional skills, experience or expertise needed to facilitate the Company's long-term strategy. This information is taken into account when identifying director nominees during the recruitment process.

Board Evaluations. The Corporate Governance Committee has established a thorough evaluation process wherein each Director completes a Board evaluation as well as an individual self-evaluation annually. The Board evaluation allows each Director the opportunity to examine and evaluate the Board's composition and effectiveness, competency, accountability, deliberations and administration, and each committee, as well as the opportunity to identify any skills, experience or expertise the Director believes should be represented, or more fully represented, on the Board. The individual self-evaluation asks each Director to evaluate different areas of their performance as a Director, including independence, expertise, judgment and skills. The Board assessment results are reviewed both on a one-year standalone basis and on a three-year basis in order to identify any year-over-year trends. The assessment results are initially reviewed by the Lead Director. The Lead Director then has a formal annual call with each Director to discuss the Board, its functions, its membership, the individual's plan with respect to his or her continuing Board service, and any other topic the individual desires to discuss with our Lead Director. The results of the evaluations and calls are presented to the Corporate Governance Committee and full Board each February. This process provides the Board the ability to assess the overall functioning of the Board as a whole, and identify any skills, experience or expertise needed to continue to provide effective oversight of the Company's long-term strategy.

Table of Contents

Information About Our Board and Corporate Governance

The Board's Role in Risk Oversight

Responsibility for the management of the Company's risks rests with the Company's senior management team. The Board's oversight of the Company's risk management function is designed to provide assurance that the Company's risk management processes are well adapted to and consistent with the Company's business and strategy, and are functioning as intended. The Board focuses on fostering a culture of risk awareness and risk-adjusted decision-making and ensuring that an appropriate "tone at the top" is established. The Board regularly discusses and updates a listing of areas of risk and a suggested allocation of responsibilities for such risks among the Board and the Board committees. The charter for each of our committees requires each committee to periodically review risks in their respective areas. Each committee:

Top risks discussed by the Board and its committees in 2017 included cybersecurity, data privacy and ownership, physical security, and utility regulation. The Board believes it is important to look at the list fresh each year as part of a diligent risk review.

Receives periodic presentations from management about its assigned risk areas;

Receives information about the effectiveness of the risk identification and mitigation measures being employed; and

Discusses their risk reviews with the Board at least annually.

Consistent with the requirements of the NYSE's corporate governance standards, the Audit Committee periodically reviews the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures. The Audit Committee also reviews the comprehensiveness of the Board's risk oversight activities and the Company's risk assessment process, and plays a coordinating role designed to ensure that no gaps exist in the coverage by the Board committees of risk areas.

The Executive Risk Committee is comprised of senior level officers of the Company and is chaired by the Chief Financial Officer. Among other responsibilities, this Committee is responsible for ensuring that the Board receives timely information concerning the Company's material risks and risk management processes. The Executive Risk Committee provides the Board with a list of the Company's top risks on an annual basis. The internal enterprise risk management group reports to the Vice President, Controller and Chief Accounting Officer, who reports to the Executive Vice President and Chief Financial Officer. The internal risk management group is responsible for (1) implementing a consistent risk management framework and reporting process across the Company, and (2) ensuring that the Executive Risk Committee is informed of those processes and regularly apprised of existing material risks and the emergence of additional material risks.

Table of Contents

Information About Our Board and Corporate Governance

Director Resignation Policies

We employ a plurality voting standard with a director resignation policy because we believe a majority voting policy is inconsistent with cumulative voting, which is mandated by the Arizona Constitution.

With respect to the election of directors, the Company's Bylaws provide that in an uncontested election, a director nominee who receives a greater number of votes cast "withheld" for his or her election than "for" such election will promptly tender his or her resignation to the Corporate Governance Committee. The Corporate Governance Committee is required to evaluate the resignation, taking into account the best interests of the Company and its shareholders, and will recommend to the Board whether to accept or reject the resignation.

Under the Company's Corporate Governance Guidelines, upon a substantial change in a director's primary business position from the position the director held when originally elected to the Board, a director is required to apprise the Corporate Governance Committee and to offer his or her resignation for consideration to the Corporate Governance Committee. The Corporate Governance Committee will recommend to the Board the action, if any, to be taken with respect to the tendered resignation.

Director Retirement Policy

Under the Company's Corporate Governance Guidelines, an individual shall not be eligible to be nominated for election or re-election as a member of the Board of the Company or APS if, at the time of the nomination, the individual has attained the age of 75 years. This policy shall apply regardless of the source of the nomination or whether the nomination was made at a meeting of the Board of Directors, at an Annual Meeting or otherwise.

Table of Contents

Information About Our Board and Corporate Governance

Shareholder Engagement and Communications with the Board

Our Goal. What our shareholders think is important to us. We seek to maintain a transparent and productive dialogue with our shareholders by:

- ü **Providing clear and timely information,**
- ü **Seeking and listening to feedback, and**
- ü **Being responsive.**

Our Plan. To accomplish this goal, we have an established shareholder engagement program designed to maintain a dialogue with our shareholders, which was further augmented during 2017 in response to what the Board considered a disappointing level of shareholder support for our annual advisory vote on compensation. Each year we strive to respond to shareholder questions in a timely manner, conduct extensive proactive outreach to investors, and evaluate the information we provide to investors in an effort to continuously improve our engagement. In 2017, we contacted the holders of approximately 50% of the shares outstanding and met with the holders of approximately 40% of the shares outstanding. Our Lead Director and member of the Human Resources Committee, Kathryn Munro, participated in a number of the shareholder discussions providing shareholders with direct access to the Board.

Our Results. We listened to our shareholders. After considering their feedback, the Board in late 2017 and early 2018 made several changes in response:

- ii **Increased the proportion of performance shares** in our CEO's and Executive Vice Presidents' 2018 long-term incentive awards from 60% to 70%;
- ii **Clarified how our performance metrics** support and align with our long-term strategy;
- ii **Revised 2018 metrics** in certain key business units to better align with our priorities and emphasize top-quartile and above performance;

Table of Contents

Information About Our Board and Corporate Governance

- ü Adopted a formal **clawback policy**;
- ü Enhanced **CD&A disclosures**;
- ü Redesigned **annual incentive disclosure**;
- ü Added detail on how we select our **peer group**;
- ü Added specific **responsibility for oversight of sustainability matters** to the charter of the Nuclear and Operating Committee; and
- ü **Included a director key skills and experience matrix** in this Proxy Statement.

Communicating with the Board. Shareholders and other parties interested in communicating with the Board may do so by writing to the Corporate Secretary, Pinnacle West Capital Corporation, 400 North Fifth Street, Mail Station 8602, Phoenix, Arizona 85004. The Corporate Secretary will transmit such communications, as appropriate, depending on the facts and circumstances outlined in the communications. In that regard, the Corporate Secretary has discretion to exclude communications that are unrelated to the duties and responsibilities of the Board, such as commercial advertisements or other forms of solicitations, service or billing matters and complaints related to individual employment-related actions.

Codes of Ethics and APS Core Strategic Framework

To ensure the highest levels of business ethics, the Board has adopted the Code of Ethics and Business Practices, which applies to all employees, officers and directors, and the Code of Ethics for Financial Executives, both of which are described below:

Code of Ethics and Business Practices ("Code of Ethics"). Employees, directors and officers receive access to and training on the Code of Ethics when they join the Company or APS, as well as annual updates. The Code of Ethics helps ensure that employees, directors and officers of the Company and APS act with integrity and avoid any real or perceived violation of the Company's policies and applicable laws and regulations. The Company provides annual online training and examination covering the principles in the Code of Ethics. This training includes extensive discussion of the Company's values, an explanation of Company ethical standards, application of ethical standards in typical workplace scenarios, information on reporting concerns, assessment questions to measure understanding, and an agreement to abide by the Code of Ethics. All employees of the Company and APS and all of our directors

complete the training.

Code of Ethics for Financial Executives. The Company has adopted a Code of Ethics for Financial Executives, which is designed to promote honest and ethical conduct and compliance with applicable laws and regulations, particularly as related to the maintenance of financial records, the preparation of financial statements, and proper public disclosure. "Financial Executive" means the Company's CEO, Chief Financial Officer, Chief Accounting Officer, Controller, Treasurer, General Counsel, the President and Chief Operating Officer of APS, and other persons designated from time to time as a Financial Executive subject to the Code of Ethics for Financial Executives by the Chair of the Audit Committee.

Both codes are available on the Company's website (www.pinnaclewest.com).

Table of Contents

Information About Our Board and Corporate Governance

Core. The Company and APS have adopted Core, which is a strategic framework that sets forth the foundation from which we operate. It defines our vision, mission, critical areas of focus, and values. APS's vision is to create a sustainable energy future for Arizona. APS's mission is to safely and efficiently deliver reliable energy to meet the changing needs of our customers. The critical areas of focus are employees, operational excellence, security, environment, customer value, community, and shareholder value. The framework affirms our corporate values of safety, integrity and trust, respect and inclusion, and accountability. Here is our Core:

Table of Contents

Information About Our Board and Corporate Governance

Director Qualifications and Selection of Nominees for the Board

Director Qualifications. The Bylaws and the Corporate Governance Guidelines contain Board membership criteria that apply to nominees recommended for a position on the Board. Under the Bylaws, a director must be a shareholder of the Company. In determining whether an individual should be considered for Board membership, the Corporate Governance Committee considers the following core characteristics:

High Standards: We look for directors that set high standards and expectations for themselves and others and the accomplishment of those standards and expectations.

Informed Judgment: Directors should be thoughtful in their deliberations. We look for directors who demonstrate intelligence, wisdom and thoughtfulness in decision-making. Their decision-making process should include a willingness to thoroughly discuss issues, ask questions, express reservations and voice dissent.

Integrity and Accountability: Directors should act with integrity. We look for directors who have integrity and strength of character in their personal and professional dealings. Our directors should be prepared to be, and are held, accountable for their decisions.

Time and Effort: Directors should spend the necessary time to properly discharge their responsibilities as directors, including reviewing written materials provided to the Board or committee in advance of Board or committee meetings. Directors are expected to be present at all Board meetings, the Annual Meeting of Shareholders, and meetings of committees on which they serve. We also expect our directors to make themselves accessible to management upon request.

Other Commitments: We expect our directors to monitor their other commitments to assure that these other commitments do not impact their service to our Company. Directors may not serve on more than three other boards of public companies in addition to the Pinnacle West Board without the prior approval of the Corporate Governance Committee. A director may not serve as a member of the Audit Committee if they serve on the audit committees of more than three public companies (including the Company) unless the Board determines that such simultaneous service would not impair the ability of such member to effectively serve on the Company's Audit Committee.

Stock Ownership: We expect our directors to have investments in the Company's stock that align with our shareholders. Our directors are expected to comply with our Director Stock Ownership Policy.

The Corporate Governance Committee considers diversity in its selection of nominees utilizing a broad meaning to include not only factors such as race and gender, but also background, experience, skills, accomplishments, financial expertise, professional interests, and the potential contribution of each candidate to the diversity of backgrounds, experience and competencies which the Board desires to have represented. The Corporate Governance Committee considers the following qualities as well:

Regulatory and political knowledge is relevant to the Company as the utility industry is heavily regulated and directly affected by public policy and the actions of federal, state and local governmental agencies.

Nuclear expertise at the strategic level is important to the Company as we operate, Palo Verde Generating Station, a nuclear power plant and the largest power plant in the United

Table of Contents

Information About Our Board and Corporate Governance

States. As we plan for our future, Palo Verde plays a large role in shaping the Company's business strategy and the future of our generation mix.

Understanding of the Company's business environment is a critical attribute in planning our short- and long-term business strategies. Possessing knowledge of the Company's business environment includes not only experience in the broader utility industry, but also experience with factors unique to the Southwest and Arizona, including understanding the business from the perspective of the customer.

Large organizational leadership of complex operations provides a broad range of skills and experience beneficial to our decision-making, including human resource management, business strategy, finance and capital allocation.

Public company experience, as a member of a public company board or as CEO or other senior leader, gives a director an understanding of many of the structural and business strategy challenges facing a public company. This experience provides invaluable leadership skills in auditing matters, investment strategy and corporate governance.

Risk oversight and management skills are essential to the Board's role in overseeing and managing the risk associated with operating in the utility industry.

Selection of Nominees for the Board. The Corporate Governance Committee uses a variety of methods to identify and evaluate nominees for a director position. The Corporate Governance Committee regularly assesses the appropriate size of the Board, whether any vacancies on the Board are expected due to retirement or otherwise, and whether the Board reflects the appropriate balance of knowledge, skills, expertise, and diversity required for the Board as a whole. In the event that vacancies are anticipated, or otherwise arise, the Corporate Governance Committee may consider various potential candidates. Candidates may be considered at any point during the year and come to the attention of the Corporate Governance Committee through current Board members, professional search firms or shareholders. The Corporate Governance Committee evaluates all nominees from these sources against the same criteria.

Table of Contents

Proposal 1 Election of Directors

The ten nominees for election as directors are set forth below. All nominees will be elected for a one-year term that will expire at the 2019 Annual Meeting. The directors' ages are as of February 21, 2018. All of our directors also serve as directors of APS for no additional compensation.

BACKGROUND

Age 63

Mr. Brandt has been Chairman of the Board and CEO of the Company since April 2009 and President of the Company since March 2008. He has been President of APS since May 2013, Chairman of the Board of APS since April 2009, and CEO of APS since March 2008.

Director since 2009

Mr. Brandt also served as President of APS from December 2006 to January 2009.

Chairman of the Board, President and CEO of the Company and APS

Mr. Brandt has served as an officer of the Company in the following additional capacities: March 2008 to April 2009 as Chief Operating Officer; September 2003 to March 2008 as Executive Vice President; December 2002 to September 2003 as Senior Vice President; and December 2002 to March 2008 as Chief Financial Officer.

Mr. Brandt not only serves as our Chairman of the Board, President and CEO, he has been recognized as a leader in the industry, currently serving as Chairman of Nuclear Energy Institute ("NEI") and a Board Member of the Institute of Nuclear Power Operations ("INPO"), Nuclear Energy Insurance Limited ("NEIL") and Edison Electric Institute ("EEI"). Mr. Brandt brings the following key attributes to the Company:

QUALIFICATIONS

As Chairman of the Board, President and CEO of the Company and APS, Mr. Brandt has hands-on experience in leading a large, complex organization. This leadership, combined with nearly three decades of leadership experience in the utility industry, gives Mr. Brandt extensive knowledge of the factors affecting the Company's business environment and business strategy, including utility-specific financial and operational experience and public policy and regulatory knowledge. Mr. Brandt also has strategic nuclear expertise and currently serves as Chairman of NEI and as a Board Member of INPO, NEIL and EEI, all major industry organizations that provide insight into nuclear, operational, financial and policy matters of great importance to the Company.

Business strategy experience

CEO/senior leadership experience

*Complex operations
experience*

*Extensive knowledge of the
Company's business
environment*

*Government/public
policy/regulatory knowledge*

Nuclear experience

Utility industry experience

Table of Contents

Proposal 1 Election of Directors

BACKGROUND

Age 73

Director since 2010

Committees

Audit

Dr. Cortese is the Director of the ASU Health Care Delivery and Policy Program and a Foundation Professor in the Department of Biomedical Informatics, Ira A. Fulton School of Engineering and in the School of Health Management and Policy, W.P. Carey School of Business. He has held these positions since February 2010. Dr. Cortese has been Emeritus President and Chief Executive Officer of the Mayo Clinic (medical clinic and hospital services) since November 2009, and was President and Chief Executive Officer of the Mayo Clinic from March 2003 until his retirement in November 2009. Dr. Cortese is also a director of Cerner Corporation.

QUALIFICATIONS

Human Resources

Nuclear and Operating

As former President and Chief Executive Officer of the Mayo Clinic, a multi-state, complex hospital and medical care system, Dr. Cortese gained extensive experience in human resources management, risk oversight and risk management, customer perspectives, and leading complex organizations with multiple constituencies. He led an organization that delivers strong and efficient customer service, which parallels the Company's strategies. Through his service at Mayo, he developed experience in finance, capital allocation, accounting, and regulation, and his background in public policy development, science and technology brings valuable perspective to issues that face the Company.

INDEPENDENT DIRECTOR

Dr. Cortese, former President and CEO of Mayo Clinic, a worldwide leader in medical care with operations located throughout the United States, brings the following key attributes to the Company:

Complex operations experience

Customer perspectives

Finance/capital allocation

Financial literacy/accounting

*Government/public
policy/regulatory*

*Human resources
management/compensation*

Risk oversight and management

Table of Contents

Proposal 1 Election of Directors

BACKGROUND

Age 70
Director since 2014

Committees

Audit

Finance

Human Resources

Mr. Fox has served as a consultant and independent board member since 2001 for companies in various industries. Mr. Fox previously held executive, operational and financial positions at CyberSafe Corporation ("CyberSafe"), Wall Data, Incorporated ("Wall Data") and PACCAR Inc., and is a former Managing Partner of Ernst & Young's Seattle office. Mr. Fox is also a director of Acxiom Corporation, Univar, Inc., and ServiceMaster Global Holdings. Within the past five years, Mr. Fox has served as a director of FLOW International Corporation and Pendrell Corporation.

QUALIFICATIONS

As a former Managing Partner of Ernst & Young and as former Chief Financial Officer of Wall Data and President and Chief Operating Officer of CyberSafe, Mr. Fox has a deep understanding of auditing, financial and accounting matters. Mr. Fox has also served on the boards of several companies throughout his career, including seven public companies, giving him extensive insights into business strategy, human resources management and compensation, risk oversight and risk management, and the customer perspective. His extensive board experience, including service on various audit committees and finance committees, including chairmanships, adds to the Board's depth and capabilities.

**INDEPENDENT
DIRECTOR**

As a former Managing Partner of Ernst & Young, one of the "Big Four" auditing firms with multinational operations, Mr. Fox brings the following key attributes to the Company:

Audit expertise

Business strategy

Customer perspectives

Financial literacy/accounting

*Human resources
management/compensation*

Public board service

Risk oversight and management

30

| 2018 Proxy Statement

Table of Contents

Proposal 1 Election of Directors

BACKGROUND

Age 73

Director since 1999

Committees

Nuclear and Operating
(Chair)

Corporate Governance

Mr. Gallagher is Chairman Emeritus of Gallagher & Kennedy P.A. ("Gallagher & Kennedy") in Phoenix, Arizona (an Arizona based law firm). He has held this position since 2001. Mr. Gallagher served as President of Gallagher & Kennedy from 1978 through 2000. Mr. Gallagher is also a director of Werner Enterprises Inc. Within the past five years Mr. Gallagher served as a director of AMERCO, the parent company of U Haul International, Inc., and chaired its Independent Governance Committee. He is currently serving as a Trustee of the Peter Kiewit Foundation.

QUALIFICATIONS

Mr. Gallagher has represented a broad and diverse spectrum of corporate clients. Mr. Gallagher provides guidance and judgment gained through advising senior management and boards of directors on the varied issues regularly considered by the Board. His knowledge and experience from participating on the boards of other publicly-traded and private companies provides valuable perspective to the Company with regard to business strategy, finance/capital allocation, human resources management and compensation and risk oversight and risk management. He also has extensive experience addressing corporate governance matters, making him a good fit for the Corporate Governance Committee. Mr. Gallagher's tenure with the Company and service on the Nuclear and Operating Committee has provided him extensive knowledge of the Company and its business environment and, as a long-time resident and founder of an Arizona-based business, he is familiar with the perspectives of customers in the Central Arizona service territory of APS.

**INDEPENDENT
DIRECTOR**

As a founding member of Gallagher & Kennedy, Mr. Gallagher built a successful law practice in Arizona. In his role as Chair of the Nuclear and Operating Committee, Mr. Gallagher has devoted significant time in becoming familiar with the Company's generation, transmission and distribution operations. Mr. Gallagher has represented the Company before the NRC and has participated on the Company's behalf in meetings of the World Organization of Nuclear Operators. Mr. Gallagher brings the following key attributes to the Company:

Business strategy

Corporate governance

Customer perspectives

*Extensive knowledge of the
Company's business
environment*

Finance/capital allocation

*Human resources
management/compensation*

Risk oversight and management

Table of Contents

Proposal 1 Election of Directors

BACKGROUND

Age 70

Director since 2010

Committees

Dr. Klein served as Chairman of the NRC from July 2006 to May 2009, and thereafter continued as a Commissioner until March 2010. He was Assistant to the Secretary of Defense for Nuclear, Chemical and Biological Defense Programs from November 2001 to July 2006. Dr. Klein is a Professor of Mechanical Engineering at the University of Texas at Austin. He has held this position since September 1977. Dr. Klein is also Associate Vice Chancellor for Research at the University of Texas System. He has held this position since January 2011. He is also a director of Southern Company.

Audit

QUALIFICATIONS

Nuclear and Operating

The NRC oversees nuclear power plant operations in the United States. As the former Chairman of the NRC, Dr. Klein brings expertise in all aspects of nuclear energy regulation, operation, technology and safety. His broad national and international experience in all aspects of the nuclear utility industry, nuclear energy, government and regulation brings value to the Board, not only from the perspective of our operations at Palo Verde, but also as the Company and APS look at new opportunities in our evolving utility business. His service with the NRC, including his tenure as Chairman, gives him senior leadership experience in operating large, complex organizations, financial literacy and human resources management and compensation experience.

**INDEPENDENT
DIRECTOR**

As former Chairman of the NRC, the entity that formulates policies and regulations governing nuclear reactor and materials safety, issues orders to licensees, and adjudicates legal matters brought before it, Dr. Klein brings the following key attributes to the Company:

CEO/senior leadership

Complex operations experience

Financial literacy/accounting

*Government/public
policy/regulatory*

*Human resources
management/compensation*

Nuclear experience

Utility industry experience

32

| 2018 Proxy Statement

Table of Contents

Proposal 1 Election of Directors

BACKGROUND

Age 72
Director since 1995

Mr. Lopez is Chairman of the Board of HSL Properties, Inc. (real estate development and investment), in Tucson, Arizona. He has held this position since January 2016. Mr. Lopez was President of HSL Properties, Inc. from 1975 to January 2016.

Committees

QUALIFICATIONS

Finance (Chair)

Audit

Human Resources

In addition to management and business knowledge, Mr. Lopez brings extensive investment and real estate development expertise to the Company. His understanding of real estate and associated markets has proven to be a valuable asset to the Company due to the importance of those markets in Arizona. Mr. Lopez is also extensively familiar with the Company's business environment, including our customers' perspective and the State's historic economic cycles, which help the Company plan for future growth and energy needs. As an entrepreneur who built his own real estate development business, Mr. Lopez has gained essential knowledge and skills and experience in accounting, finance and capital allocation, human resources, and risk oversight and risk management.

**INDEPENDENT
DIRECTOR**

Mr. Lopez is an accomplished real estate developer throughout Arizona and brings the following key attributes to the Company:

Customer perspectives

Extensive knowledge of the Company's business environment

Finance/capital allocation

Financial literacy/accounting

*Human resources
management/compensation*

Investment experience

Risk oversight and management

Table of Contents

Proposal 1 Election of Directors

BACKGROUND

Age 69
Director since 2000
Lead Director

Committees

Ms. Munro is a principal of BridgeWest, LLC (an investment company). She has held this position since July 2003. Ms. Munro was Chairman of BridgeWest, LLC from February 1999 until July 2003. From 1996 to 1998, Ms. Munro served as Chief Executive Officer of Bank of America's ("BofA") Southwest Banking Group and was President of BofA Arizona from 1994 to 1996. Prior to that, Ms. Munro held a variety of senior positions during her 20-year career with BofA. Ms. Munro is also Chairman of the Board of Premera Blue Cross and Lead Director of Knight-Swift Transportation Holdings, Inc. ("Knight-Swift").

Ms. Munro is the Company's Lead Director.

Corporate Governance
(Chair)

QUALIFICATIONS

Finance

Human Resources

As principal of an investment company, and as former Chief Executive Officer of BofA's Southwest Banking Group and President of BofA Arizona, Ms. Munro brings business and investment acumen, financial knowledge, and leadership skills to the Company. Her extensive knowledge of the Company's business environment includes experience with the cycles in Arizona's economy, which assists a growing infrastructure company like Pinnacle West in accessing capital and meeting its financing needs. Ms. Munro is an experienced director, currently serving on the boards of Knight-Swift and Premera Blue Cross, providing her experience in human resources management and compensation, corporate governance, and risk oversight and risk management.

**INDEPENDENT
DIRECTOR**

As a former CEO of BofA's Southwest Banking Group, Ms. Munro brings a wealth of experience to the Company, including the following key attributes:

CEO/senior leadership experience

Corporate governance

*Extensive knowledge of the
Company's business
environment*

*Human resources
management/compensation*

Investment experience

Public board service

Risk oversight and management

Table of Contents

Proposal 1 Election of Directors

BACKGROUND

Age 68 Mr. Nordstrom is President of and a certified public accountant at the firm of Nordstrom & Associates, P.C., in Flagstaff, Arizona. He has held this position since 1988.

Director since 2000

QUALIFICATIONS

Committees

Audit (Chair) As the president of an accounting firm, Mr. Nordstrom has an extensive accounting, auditing and financial skill set, as well as familiarity with principles of risk oversight and risk management. His tenure with the Company in addition to operating an Arizona-based business has provided him with extensive knowledge of the Company's business environment. Furthermore, as an individual who built and currently heads an accounting firm in Flagstaff, Arizona, Mr. Nordstrom has obtained experience in human resources management and compensation and corporate governance as well as a familiarity with the perspectives of customers in the Northern Arizona service territory of APS.

Corporate Governance

Nuclear and Operating

**INDEPENDENT
DIRECTOR**

As the President of Nordstrom and Associates and a practicing CPA, Mr. Nordstrom brings the following key attributes to the Company:

Audit expertise

Corporate governance

Customer perspectives

*Extensive knowledge of the
Company's business
environment*

Financial literacy/accounting

*Human resources
management/compensation*

Risk oversight and management

Table of Contents

Proposal 1 Election of Directors

BACKGROUND

Age 56
Director since 2016
Committees

Ms. Sims is a Professor of Practice and Executive Coach at the University of North Carolina Kenan-Flagler Business School. She has held this position since May 2012. Ms. Sims was Senior Vice President of Corporate Development and Improvement at Progress Energy Inc. from July 2010 to June 2012 and Senior Vice President of Power Operations of Progress Energy from July 2007 to July 2010.

QUALIFICATIONS

Finance
Nuclear and Operating

Ms. Sims worked directly in the utility industry for more than 13 years. She brings extensive leadership experience to the Company in business strategy, electric utility operations, nuclear strategy, and operating in a regulated environment. In her prior roles at Progress Energy, Ms. Sims was responsible for complex business operations and strategy, including new generation, supply chain and information technology, as well as overall process and efficiency improvements. Her experience gives her extensive insight into the operational, regulatory, and risk-related matters that are of ever-increasing significance to the Company.

**INDEPENDENT
DIRECTOR**

Ms. Sims brings hands-on experience in electric utility operations, including, generation, renewable energy, energy efficiency, fuels and energy trading, and customer service, as well as an understanding of the role of management and executive oversight, and brings the following key attributes to the Company:

Business strategy

CEO/senior leadership experience

Complex operations experience

*Government/public
policy/regulatory*

Nuclear experience

*Risk oversight and
management*

Utility industry experience

Table of Contents

Proposal 1 Election of Directors

BACKGROUND

Age 63
Director since 2014

Committees

Mr. Wagener is the Managing Partner of Wagener Capital Management, an investment and advisory firm serving utility and private equity companies. He has held this position since June 1995. Mr. Wagener previously held executive positions at Salomon Brothers and Goldman, Sachs & Co. Mr. Wagener served as a director of SunCor Development Company from January 2011 to March 2013.

QUALIFICATIONS

Audit
Finance

Mr. Wagener brings to the Board over 35 years of experience in the power/energy industry, project finance and investment banking experience, and knowledge of utility regulation. Through his financial experience and service on boards of public companies he has developed key experience in capital allocation, accounting, and risk oversight and risk management. His participation brings value to the Company and the Board as we address structural and business strategy challenges facing the utility industry.

Nuclear and Operating

**INDEPENDENT
DIRECTOR**

As the Managing Partner of Wagener Capital Management, Mr. Wagener is experienced at analyzing business strategies, and brings the following key attributes to the Company:

Business strategy

Finance/capital allocation

Financial literacy/accounting

Investment experience

Public board service

*Risk oversight and
management*

Utility industry experience

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE
ELECTION OF THE NOMINATED SLATE OF DIRECTORS**

Current Director Not Standing for Reelection. Dr. Roy A. Herberger, Jr. will retire from the Board effective at the Annual Meeting. The Board recognizes Dr. Herberger's distinguished service over the years and thanks Dr. Herberger for his tireless labor, devotion and service to the Company.

Table of Contents

Proposal 1 Election of Directors

Director Independence

NYSE rules require companies whose securities are traded on the NYSE to have a majority of independent directors. These rules describe certain relationships that prevent a director from being independent and require a company's board of directors to make director independence determinations in all other circumstances. The Company's Board has also adopted Director Independence Standards to assist the Board in making independence determinations. These Director Independence Standards are available on the Company's website (www.pinnaclewest.com).

Based on the Board's review, the Board has determined that one of the Company's directors is not independent and that all of the other directors are independent. The independent directors are Messrs. Fox, Gallagher, Lopez, Nordstrom, and Wagener, Drs. Cortese, Herberger and Klein, and Mses. Munro and Sims. Mr. Brandt is not independent under the NYSE rules or the Director Independence Standards because of his employment with the Company.

Ten of our eleven directors are independent.

In accordance with the NYSE rules and the Director Independence Standards, the Board undertakes an annual review to determine which of its directors are independent. The review generally takes place in the first quarter of each year; however, directors are required to notify the Company of any changes that occur throughout the year that may impact their independence.

Dr. Cortese is independent under the tests imposed by the NYSE rules and our Director Independence Standards.

Dr. Cortese is an employee of Arizona State University ("ASU") in his capacity as the Director of the ASU Health Care Delivery and Policy Program and a Foundation Professor in the Department of Biomedical Informatics, Ira A. Fulton School of Engineering and in the School of Health Management and Policy, W.P. Carey School of Business. ASU is considered a part of the reporting entity for the State of Arizona (the "State") for financial reporting purposes and, as such, the State is the entity considered in applying the independence tests. In considering the independence of Dr. Cortese, the Board considered the fact that transactions between the State and the Company and its affiliates consist of providing electric service, the payment of various State fees, taxes, memberships, licenses, sponsorships and donations, and the payment by each party of utility-related costs. The Board determined that these matters do not impact Dr. Cortese's independence, since amounts paid to or received from the State are less than the dollar thresholds set forth in the NYSE rules and the Director Independence Standards. In addition, Dr. Cortese did not and does not benefit, financially, directly or indirectly, from ASU's business relationships with the Company, most of which consist of receiving electric service at regulated rates.

Table of Contents

Proposal 1 Election of Directors

Mr. Fox is independent under the tests imposed by the NYSE rules and our Director Independence Standards.

Mr. Fox serves as a director of Univar, Inc. APS purchases chemicals that are used in the operation and maintenance of our power plants, primarily in controlling our water chemistry, from Univar. However, since: (a) the amounts paid to Univar were less than the dollar thresholds set forth in the NYSE rules and our Director Independence Standards and were less than one percent of the Company's and Univar's revenues for fiscal year 2017; (b) the relationship between APS and Univar pre-dates Mr. Fox joining the Board; and (c) our purchases from Univar are negotiated at arm's length, the Board determined that these transactions do not impact Mr. Fox's independence.

Mr. Gallagher is Chairman Emeritus of the law firm of Gallagher and Kennedy, P.A. The law firm did not provide any services to the Company or APS in 2017 and services that were provided to the Company and APS in 2016 and 2015 were less than the dollar thresholds set forth in the NYSE rules and the Director Independence Standards and were less than one percent of the Company's and Gallagher and Kennedy's revenues for fiscal years 2016 and 2015, respectively. With respect to all of the directors, the Board considered that many of the directors and/or businesses of which they are officers, directors, shareholders, or employees are located in APS's service territory and purchase electricity from APS at regulated rates in the normal course of business. The Board considered these relationships in determining the directors' independence, but, because the rates and charges for electricity provided by APS are fixed by the Arizona Corporation Commission (the "ACC"), and the directors satisfied the other independence criteria specified in the NYSE rules and the Director Independence Standards, the Board determined that these relationships did not impact the independence of any director. The Board also considered contributions to charitable and non-profit organizations where a director also serves as a director of such charity or organization. However, since no director is also an executive officer of such charitable or non-profit organization, the Board determined that these payments did not impact the independence of any director.

Table of Contents

Stock Matters

Ownership of Pinnacle West Stock

The following table shows the amount of Pinnacle West common stock owned by the Company's directors, the NEOs, our directors and executive officers as a group, and those persons who beneficially own more than 5% of the Company's common stock. Unless otherwise indicated, each shareholder listed below has sole voting and investment power with respect to the shares beneficially owned.

The address of each of the listed shareholders not otherwise set forth below is P.O. Box 53999, Mail Station 8602, Phoenix, Arizona 85072-3999. Unless otherwise indicated, all information is as of March 9, 2018, the Record Date for the Annual Meeting.

NAME	NUMBER OF SHARES BENEFICIALLY OWNED ⁽¹⁾ (#)	PERCENT OF CLASS (%)
Directors:		
Donald E. Brandt	105,291	*
Denis A. Cortese, M.D.	13,968	*
Richard P. Fox	6,522	*
Michael L. Gallagher	20,475	*
Roy A. Herberger, Jr., Ph.D.	36,859	*
Dale E. Klein, Ph.D.	15,545	*
Humberto S. Lopez	55,904	*
Kathryn L. Munro	27,776	*
Bruce J. Nordstrom	34,810	*
Paula J. Sims	2,416	*
David P. Wagener	9,221	*
Other NEOs:		
Robert S. Bement	18,226	*
Randall K. Edington	37,630	*
David P. Falck	52,739	*
James R. Hatfield	41,710	*
Mark A. Schiavoni	42,888	*
All Directors and Executive Officers as a Group (23 Persons):	596,829	*
5% Beneficial Owners:⁽²⁾		
BlackRock, Inc. and certain related entities ⁽³⁾ 40 East 52 nd Street New York, NY 10055	11,354,305	10.20%
State Street Corporation and certain related entities ⁽⁴⁾ One Lincoln Street Boston, MA 02111	5,825,397	5.21%

Edgar Filing: PINNACLE WEST CAPITAL CORP - Form DEF 14A

The Vanguard Group Inc.⁽⁵⁾
100 Vanguard Boulevard
Malvern, PA 19355

12,139,068

10.86%

*

Represents less than 1% of the outstanding common stock.

(1)

Includes: vested Supplemental RSUs (as defined on pages 82-83 of this Proxy Statement) for the NEOs; vested RSUs and stock units ("SU") payable in stock for the directors; and associated dividends payable in

Table of Contents

Stock Matters

stock; as follows: Mr. Brandt 28,268; Mr. Bement 7,858; Mr. Falck 7,858; Mr. Hatfield 7,858; Mr. Schiavoni 7,858; Mr. Fox 1,474; Mr. Gallagher 7,688; Dr. Klein 15,445; Dr. Herberger 4,958; and Ms. Munro 12,145. The following shares are held jointly: Dr. Klein 100; and Mr. Nordstrom 33,310. The following shares are held in joint trusts: Dr. Cortese 13,968; Mr. Edington 37,630; Mr. Gallagher 12,787; Mr. Hatfield 33,852; Dr. Herberger 15,848; Mr. Lopez 55,904; Ms. Munro 13,986; and Mr. Wagener 9,221.

- (2) The Company makes no representations as to the accuracy or completeness of the information in the filings reported in footnotes 3-5.
- (3) BlackRock, Inc. Schedule 13G/A filing, dated January 19, 2018, relating to a parent holding company and certain affiliates, reports beneficial ownership as of December 31, 2017 of 11,354,305 shares, with sole voting power as to 10,249,504 shares and sole dispositive power as to 11,354,305 shares. The Company maintains normal commercial relationships with BlackRock, Inc. and its subsidiaries. The Company does not consider these relationships to be material.
- (4) State Street Corporation Schedule 13G filing, dated February 14, 2018, relating to a parent holding company and certain affiliates, reports beneficial ownership as of December 31, 2017 of 5,825,397 shares, with shared voting and dispositive power. The Company maintains normal commercial relationships with State Street Corporation and its subsidiaries. The Company does not consider these relationships to be material.
- (5) The Vanguard Group, Inc. Schedule 13G/A, dated February 9, 2018, reports beneficial ownership as of December 31, 2017 of 12,139,068 shares with shared voting power as to 51,289 shares, sole voting power as to 168,940 shares, shared dispositive power as to 201,540 shares, and sole dispositive power as to 11,937,528 shares; Vanguard Fiduciary Trust Company as beneficial owner of 120,713 shares; and Vanguard Investments Australia, Ltd., as beneficial owner of 128,516 shares.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), requires the Company's directors and executive officers, and persons who own more than 10% of the Company's common stock, to file reports of ownership and changes of ownership with the SEC. Based solely on the Company's review of these reports, the Company believes that its directors, executive officers, and greater than 10% beneficial owners complied with their respective Section 16(a) reporting requirements for fiscal year 2017 on a timely basis.

Table of Contents

Related Party Transactions

The Corporate Governance Committee is responsible for reviewing and approving all transactions with any related party, which consists of any of our directors, director nominees, executive officers, shareholders owning more than 5% of the Company's common stock and, with respect to each of them, their immediate family members and certain entities in which they are an officer or a shareholder, partner, member or other participant who, directly or indirectly, has a substantial ownership interest in or otherwise substantially controls or shares control of such entity (a "Related Party"). This obligation is set forth in writing in our Statement of Policy Regarding Related Party Transactions (the "Policy").

To identify Related Party Transactions, as defined in the Policy, each year the Company requires our directors and officers to complete director and officer questionnaires identifying any transactions with the Company in which a Related Party has an interest. We review Related Party Transactions due to the potential for a conflict of interest. A conflict of interest occurs when an individual's private interest interferes, or appears to interfere, in any way with our interests. The Code of Ethics requires all directors, officers, and employees who may have a potential or apparent conflict of interest to notify the Company's management. In addition, the Policy specifically provides that any Related Party Transaction must be approved or ratified by the Corporate Governance Committee. A "Related Party Transaction" is any transaction or a series of similar transactions in which the Company or any of its subsidiaries is or was a participant, where the amount involved exceeds \$120,000 in the aggregate, and in which any Related Party has a direct or indirect material interest, other than:

Transactions in which rates or charges are fixed in conformity with law or governmental authority (such as APS rates approved by the ACC);

Transactions in which the rates or charges are determined by competitive bid; or

The payment of compensation by the Company to the executive officers, directors, or nominees for directors.

Based on the Policy, SEC rules, and our review, we had no Related Party Transactions in 2017.

Table of Contents

Human Resources Committee Report

The Human Resources Committee submitted the following report:

The Human Resources Committee is composed of non-employee directors, each of whom is independent as defined by NYSE rules and the Company's Director Independence Standards.

In accordance with SEC rules, the Human Resources Committee discussed and reviewed the Compensation Discussion and Analysis with management and, based on those discussions and review, the Human Resources Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

HUMAN RESOURCES COMMITTEE CHAIR

Roy A. Herberger, Jr., Ph.D.

HUMAN RESOURCES COMMITTEE MEMBERS

Denis A. Cortese, M.D.

Richard P. Fox

Humberto S. Lopez

Kathryn L. Munro

Table of Contents

Executive Compensation

Compensation Discussion and Analysis ("CD&A")

Named Executive Officers

Our NEOs for 2017 were:

Donald E. Brandt

Chairman of the Board, President and Chief Executive Officer of PNW and APS

James R. Hatfield

Executive Vice President and Chief Financial Officer of PNW and APS

Robert S. Bement

Executive Vice President and Chief Nuclear Officer of Palo Verde Generating Station, APS

Randall K. Edington

Former Executive Vice President and Advisor to the Chief Executive Officer of APS⁽¹⁾

David P. Falck

Executive Vice President, Law, PNW

Mark A. Schiavoni

Executive Vice President and Chief Operating Officer of APS

(1)

Mr. Edington retired on March 22, 2017

Table of Contents

Executive Compensation

Executive Summary

Business Overview

Pinnacle West is an electric utility holding company based in Phoenix, Arizona, one of the fastest growing metropolitan areas in the United States. Through our principal subsidiary, APS, we provide retail electricity service to approximately 1.2 million customers in 11 of Arizona's 15 counties.

APS is a vertically-integrated, regulated utility company that maintains full operational control of several power plants, including Palo Verde Generating Station, a nuclear power plant and the country's largest power producer of any kind for more than 25 years.

Plants for which APS has full operational control and responsibility include:

- (1) Net generation rating

Palo Verde is a significant source of our energy supply and while we share ownership of this plant with six other utilities, APS retains full day-to-day operational responsibility. This responsibility includes regulatory responsibility to the NRC. The size of Palo Verde and the complexity of running a nuclear plant of this magnitude requires a highly specialized and experienced management team.

Between our CEO and our Executive Vice Presidents, we have more than 200 combined years of experience in the energy industry, including relevant specialized nuclear experience. This highly skilled team has driven strong performance and value creation for our shareholders. Given our need for specialized experience within our organization, we maintain strong succession planning practices and are focused on developing and retaining talent within our Company. Our Board's focus on attracting, developing and retaining highly skilled and experienced executives is a core consideration in structuring our executive compensation programs.

Table of Contents

Executive Compensation

Building Shareholder Value Through Operational Excellence and a Sustainable Energy Future

As Arizona's largest and longest-serving electric company, we're proud of our heritage and performance. We also recognize the implications of new technologies and growing customer expectations, which are leading to changes at our Company and in our industry. Our strategy for building long-term value is driven by our core operational excellence and financial strength while also capitalizing on technology advances that promote a sustainable energy future:

Sustaining our operational excellence

Integrating technology to modernize the grid

Maintaining our financial strength

Taking steps to address rate design

Leveraging economic growth

2017 Rate Review Order. As an Arizona-based regulated electric utility company, APS periodically submits requests to the ACC for a comprehensive review of our electricity rates. Approval of a rate adjustment enables us to generate revenue with which we fund improvements in our operations and investments that benefit our customers. In June 2016, we initiated our first rate review in five years, and in August 2017, after working with the ACC Staff and key stakeholders, we received approval for our comprehensive rate review. This approval allows for a 3% increase in overall revenues, as well as additional funds for our AZ Sun II rooftop solar program, a refund of surplus of energy efficiency program funds to customers, increased funding for programs assisting limited-income customers, and other key investments in Arizona's energy future. This was an important milestone for us as it allows us to continue making efficient, cost-effective investments while providing safe, reliable service for our customers.

Table of Contents

Executive Compensation

Track Record of Delivering Results

Our management team has maintained a focus on our core business of operating and investing in a vertically-integrated electric utility. Under the leadership of the senior officer team, since 2009 Palo Verde Generating Station has become one of the top performing nuclear power plants in the U.S., and we have seen strong, sustained gains in shareholder returns and significant improvements in our credit rating.

Performance Transformation

- (1) TSR reflects dividend-adjusted share price between the periods of April 30, 2002-April 30, 2009 and April 30, 2009-December 31, 2017.

During 2017 we continued to deliver strong performance and hit key milestones:

Total shareholder value increased \$1.1 billion in 2017, \$2.8 billion over the last three years, and \$5.2 billion over the last five years;

Our TSR for 2017 was 12.7%; since May 1, 2009, Pinnacle West has delivered an annualized TSR of 18.8%, exceeding the annualized returns of the S&P 1500 Electric Utilities Index of 11.8% and the S&P 500 Index of 16.2%;

Pinnacle West increased its dividend for the 6th straight year, by 6% in 2017;

2017 was another successful year for APS with regard to safety, remaining in the top decile for safety performance in the U.S. electric utilities industry; and

Pinnacle West 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.

Table of Contents

Executive Compensation

Shareholder Engagement and Board Responsiveness

2017 Shareholder Engagement. We have an established shareholder outreach program to maintain a dialogue with our shareholders, and feedback from our shareholders informs our Human Resources Committee's (for purposes of this CD&A, the "Committee") actions. We were disappointed with the level of shareholder support for the 2017 say-on-pay vote, and during the fall following our 2017 Annual Meeting:

We specifically sought direct feedback on our compensation program from shareholders;

Our Lead Director and Human Resources Committee member, Kathy Munro, participated in a number of the meetings with our shareholders to receive their direct feedback and share it with the Board; and

We contacted the holders of approximately 50% of shares outstanding and met with the holders of approximately 40% of shares outstanding, including many of our largest institutional shareholders as well as smaller holders to collect a range of perspectives.

2017 Board Responsiveness. As in prior years, the feedback received from shareholders during this outreach was an important input into the Committee's and Board's review process. While many of the investors that we spoke to believed our compensation structure was well-aligned with performance, we received valuable feedback about how we could improve the program and make it more transparent.

Following thoughtful discussion of shareholder feedback and a review of the compensation program, the Committee made several changes that it believes align with feedback received and further support our commitment to pay-for-performance.

Table of Contents

Executive Compensation

2017 Shareholder Feedback and Changes Made in Response

We can provide better and simpler disclosure

Streamlined our compensation-related disclosure

Provided additional disclosure around our goal setting processes and Committee decisions

Increased the proportion of performance shares in our CEO's and Executive Vice Presidents' 2018 long-term incentive awards from 60% to 70%

Revised 2018 metrics in certain key business units to better align with our priorities and emphasize top quartile performance and/or improve on historical trends

Investors are highly focused on the performance-based aspects of our program

Earnings goals set for 2018 reflect the August 2017 approval of our comprehensive rate review and represent meaningful year-over-year increases

Adopted a formal clawback policy covering short- and long-term incentive awards

Clarified how our performance metrics support and align with our business strategy (pages 54-56)

Questions about retention awards to our CEO

Provided additional disclosure regarding the 2017 CEO Performance-Contingent Award made to our CEO in 2017, including a more detailed discussion of the rationale for the award and the specific goals that must be achieved for payout to occur (page 65)

Provided additional information regarding our succession planning process and how our limited use of performance-contingent awards supports Pinnacle West's continued success (pages 20 and 65)

These changes follow several prior changes to our program in recent years as we seek to align our compensation structure with the evolution of our business and the feedback from our shareholders. Recent changes include:

The Committee limited its use of discretion to adjust the CEO's annual incentive awards solely to the occurrence of unanticipated events beginning in 2015;

We formally introduced detailed business unit metrics to the CEO's incentive plan to tie the incentive directly to overall operational performance and financial results beginning in 2015;

We increased the stock ownership guideline for the CEO to 5x base salary starting in 2016; and

We increased the proportion of our annual long-term equity awards allocated to performance-based measures from 55% to 60% beginning in 2016.

Table of Contents**Executive Compensation**
2017 Compensation Design

For 2017, the Company's core executive compensation program consisted of the following key components:

Base Salary	Cash			Salary is based on experience, performance and responsibilities and is benchmarked to a peer group and market survey data to align with competitive levels.
Annual Incentives	Cash	1 year	Earnings CEO: 62.5% NEOs: 50.0%	Universal measure of business financial performance; encourages achievement of bottom-line earnings growth goals.
			Business Unit Performance⁽¹⁾ CEO: 37.5% NEOs: 50.0%	Pre-established operational business unit performance goals that include safety, customer satisfaction and operational quality and efficiency metrics.
	Performance		Relative TSR 50%	Relative measures incentivize sustained
Long-Term Incentives	Shares 60% ⁽²⁾	3 years	Relative Operational Performance⁽³⁾ 50%	shareholder value creation and strong performance on operational benchmarks.
	Restricted Stock Units 40% ⁽²⁾	Vest ratably over 4 years	Stock Price	Encourages retention; value dependent upon share price appreciation and four-year vesting to encourage retention.
Benefits	We provide benefits, including pension and deferred compensation programs, change of control agreements and limited perquisites, designed to attract and retain our executive talent.			

- (1) Based on the following business units, as applicable: Corporate Resources (Communications, Finance/Accounting, Human Resources, Information Technology, Legal, Public Policy, Resource Management, Supply Chain, Sustainability), Palo Verde, Customer Service, Fossil Generation, and Transmission and Distribution. For additional details regarding our goal-setting process and the specific business unit goals for 2017, please refer to pages 54 and 59.
- (2) Long-term incentives award mix changed to 70% performance share awards and 30% RSU awards starting in 2018 for the CEO and Executive Vice Presidents.

Table of Contents

Executive Compensation

- (3) Based on the following benchmarks: Customer reliability, customer-to-employee improvement ratio, OSHA all-incident injury rate, nuclear generation capacity factors, coal generation capacity factors; all of which are based on comparisons to companies selected by independent, objective data providers. For additional details regarding our goal-setting process and the specific relative long-term operational goals for 2017 performance share awards, please refer to page 63.

Pay at Risk. The Company believes that a significant portion of each NEO's total compensation opportunity should reflect both upside potential and downside risk.

The charts below illustrate the strong emphasis that we place on performance-based, shareholder-aligned incentive compensation:

**2017 CEO
Total Compensation
88% at risk**

**2017 Average for Other NEOs'
Total Compensation
67% at risk**

Key 2017 Compensation Decisions

For the year ended December 31, 2017, the Committee approved the following compensation decisions for our NEOs:

2017 Base Salary Adjustments. For fiscal 2017, the Committee increased Mr. Brandt's salary by 3%; Messrs. Hatfield, Bement, Falck and Schiavoni received base salary increases of between 3.2%-4.4%.

2017 Annual Incentive Award. Our 2017 annual incentive performance goals were set within the context of the business and economic circumstances known at that time. As a regulated utility, we are generally unable to adjust our base retail prices outside of a rate case. As such, in years in which we do not expect a retail rate adjustment, changes in our revenues over the previous year would depend largely on factors beyond our control, such as customer growth, weather and customer usage patterns.

Consistent with this methodology, we set the APS 2017 earnings target at \$453 million for 2017, essentially flat to 2016 actual earnings of \$452 million. Likewise, we set Pinnacle's 2017 target earnings range such that its projected midpoint was \$440 million, again essentially flat to Pinnacle's 2016 actual earnings of \$442 million. In both cases the earnings goals were set while the decision regarding our comprehensive rate review

was still pending. Because we had no visibility to how the rate adjustment would ultimately conclude in mid-2017, the earnings targets excluded any potential impact of a rate adjustment.

Earnings for APS and Pinnacle West for incentive plan purposes were 7% and 8% above the 2017 targets, respectively as shown on pages 57 and 58. The improvement in 2017

Table of Contents

Executive Compensation

earnings was driven in part by effective cost controls and higher revenues. To be consistent with the exclusion of rate adjustment revenues in setting the earnings targets, actual results were adjusted to also exclude the impact of 4.5 months' worth of additional revenues from our rate adjustment, which became effective August 19, 2017. Actual results were further adjusted as permitted by the 2017 Incentive Plans to reflect unusual or non-recurring matters, primarily the impact of a reduction in deferred taxes due to the implementation of the Tax Cuts and Jobs Act of 2017 (the "2017 Tax Act"), which became effective December 2017.

As noted above on page 49, our 2018 goals reflect the approval of our 2017 rate adjustment and thus a meaningful year-over-year increase in the target.

2017 CEO Performance-Contingent Award. As previously disclosed in advance of our 2017 Annual Meeting, in March 2017 the Committee granted the CEO a two-year, performance-based cash award ("2017 CEO Performance-Contingent Award"). This award is designed to incent Mr. Brandt, a retirement eligible CEO, to remain in his current role while further emphasizing the Board's succession planning priorities. Given the specialized skill sets required of the senior management team in our industry and our Company, a major priority of the CEO is to ensure that the Company's succession strategy and workforce development pipeline is sufficiently robust and continues to be effective. The Committee believed that this award was critical to retaining a retirement-eligible CEO for what was perceived to be a multiple-year succession planning period. The 2017 CEO Performance-Contingent Award is subject to clearly-defined performance goals. The performance goals, as detailed further on page 65, are structured to incentivize continued financial performance while ensuring that succession- and development-related milestones are met. As discussed further below, for Mr. Brandt to fully realize this award, return on equity, earnings, and succession and development hurdles must be achieved in 2017 and 2018.

Compensation Governance

Our executive compensation program is overseen by the Committee. Through ongoing shareholder engagement and regular assessment of our compensation governance practices, we seek to continue to improve our compensation governance:

Shareholder feedback informs compensation program design

Substantial proportion of target compensation **is at risk** (88% for the CEO and 67% for other NEOs)

Performance shares are 100% tied to relative performance (50% on relative TSR and 50% on relative operational metrics) and require 90th percentile performance for maximum payouts

No excise tax gross-up provisions in new or materially amended Change of Control Agreements with our NEOs

Anti-hedging and anti-pledging policy

Stock ownership guidelines for all NEOs (all NEOs' actual ownership levels exceed guidelines)

Table of Contents

Executive Compensation

Our Philosophy and Objectives

Our compensation program is designed to be transparent with a clear emphasis on putting pay at risk and retaining key executives. Our executive compensation philosophy incorporates the following core principles and objectives:

Alignment with Shareholder Interests. We structure our annual cash and long-term equity incentive compensation to put pay at risk and reward business performance. Payouts under these plans are tied predominantly to the Company's total return to shareholders, earnings, and the achievement of measurable and sustainable business and individual goals, so that executives' interests are tied to the success of the Company and are aligned with those of our shareholders.

Key Management Retention. We structure our program to provide compensation at levels necessary to attract, engage and retain an experienced management team who have the skill sets and industry experience to succeed in our complex operating and regulatory environment, including operating the Palo Verde Generating Station, and who can provide consistently strong operating and financial results.

Executive Compensation Components

Base Salary

Base salaries are set at competitive levels to attract and retain qualified, experienced executives. Salary levels are based on experience, performance and responsibilities, and benchmarked to a peer group and market survey data to align with competitive levels. The Committee reviews competitive salary information and individual salaries for executive officers on an annual basis. In considering individual salaries, the Committee reviews the scope of job responsibilities, individual contributions, business performance, retention concerns, and current compensation compared to market practices. In setting base salaries, the Committee also considers that base salary is used as the basis for calculating annual incentive awards.

In December of 2016, the Committee, based on the considerations set forth above, made the following adjustments to the base salaries of the following NEOs for fiscal year 2017:

Mr. Brandt	\$1,315,000	\$1,355,000
------------	-------------	-------------

Mr. Hatfield	\$620,000	\$640,000
Mr. Bement	\$575,000	\$600,000
Mr. Falck	\$565,000	\$585,000
Mr. Schiavoni	\$680,000	\$710,000

Mr. Edington retired on March 22, 2017 and his salary remained at \$1,100,000 for 2017.

Annual Cash Incentives

Our annual cash incentives are strongly performance-based and designed to both reward achievement of pre-determined annual performance objectives that are critical to our business operations and to attract and retain qualified, experienced executives. Performance for NEOs is measured based on relevant and objective earnings and business unit metrics.

CEO. For fiscal year 2017, Mr. Brandt participated in the CEO Incentive Plan.

Table of Contents**Executive Compensation**

Other NEOs. Messrs. Hatfield, Falck and Schiavoni participated in the APS 2017 Annual Incentive Award Plan (the "APS Incentive Plan") and Messrs. Bement and Edington participated in the APS 2017 Annual Incentive Award Plan for Palo Verde Employees (the "Palo Verde Incentive Plan").

The APS Incentive Plan and the Palo Verde Incentive Plan are collectively referred to as the "APS Incentive Plans," and the APS Incentive Plans and the CEO Incentive Plan are collectively referred to as the "2017 Incentive Plans". In December 2016, the Committee approved the CEO Incentive Plan and the Board, on the recommendation of the Committee, approved the APS Incentive Plans.

2017 Incentive Plan Opportunities

Mr. Brandt	50%	125% ⁽¹⁾	200%	170.8%	\$2,314,340
Mr. Hatfield	17.5%	70%	140%	105.3%	\$673,994
Mr. Bement	18.75%	75%	150%	132.0%	\$792,000
Mr. Edington	16.25%	65%	130%	25.4%	\$279,264 ⁽²⁾
Mr. Falck	16.25%	65%	130%	98.5%	\$576,155
Mr. Schiavoni	18.75%	75%	150%	114.6%	\$813,633

(1) Reflects a representative target amount under the CEO Incentive Plan the Committee structured the CEO Incentive Plan so that if Pinnacle West earnings came in at the mid-point between threshold and maximum amounts and each business unit achieved its target performance levels, Mr. Brandt would receive an incentive award equal to 125% of his 2017 base salary.

(2) Mr. Edington retired on March 22, 2017, and under the terms of the Palo Verde Incentive Plan, he received a pro-rated award for his service during the year.

Assessing Performance and Payouts

The Board oversees the Company's business strategy. The Company maintains a rigorous performance goal-setting process wherein goals are set based on our annual business planning process and reviewed for relevance and appropriate alignment with our business strategy. This goal-setting approach is integrated into our performance tracking and business reporting, providing a clear line of sight across the Company on an ongoing basis.

The Committee annually reviews the metrics utilized under the annual cash incentive plans to ensure that they remain relevant, with target performance goals set at levels that are intended to be challenging without incentivizing inappropriate risk taking.

Individual awards under our annual cash incentive plans are based on the achievement of relevant and objective earnings and business unit goals, which tie payouts directly to core measures of business performance and key operational business unit results and ultimately serve to enhance shareholder value.

Table of Contents

Executive Compensation

2017 Annual Incentive Plan Component Summary

(1) Weightings are shown as a percentage of total incentive opportunity

Earnings Component Target Setting

In designing the annual cash incentives, the Committee sets earnings levels based on a reasonable range of expectations for the year, while taking into account prior year performance and economic conditions.

Due to the regulated nature of the utility industry, earnings growth is impacted by the base rates approved by regulators. Given that the rates we charge customers are generally fixed for several years, our revenue streams don't increase in a linear year-over-year fashion. As a result, our annual earnings are impacted by our ability to manage costs associated with our operations and investments while our revenues typically remain relatively flat in years following a rate adjustment. Furthermore, planned outages, weather patterns and varying electricity demand can lead to cyclical earnings fluctuations. These factors are considered in our annual business planning and ultimately reflected in the earnings targets that are approved by the Committee.

2017 Earnings Goals. For fiscal year 2017, the Committee set threshold, target and maximum Pinnacle West and APS earnings goals above prior year goals, however, as discussed previously, target earnings were set relatively flat to achieved earnings for purposes of the 2017 Incentive Plans since at the time 2017 goals were set, the outcome of APS's rate review was still pending and the timing of the decision and magnitude of impact on Pinnacle West's revenues was as yet undetermined. As a result, fiscal 2017 earnings goals were set based on the expectation of earnings in the context of the business and economic conditions at that time, and did not take into account any projection of revenue and earnings in a new rate environment.

The August 2017 approval of our comprehensive rate review is reflected in earnings goals set for 2018. Given the increase in revenues enabled by the rate adjustment, 2018 earnings goals represent meaningful year-over-year increases in the earnings metrics in our annual incentive plans.

Business Unit Component Target Setting

The business unit metrics component of our annual plan ensures that our compensation program appropriately focuses our employees on core measures of overall Company health and performance. Our use of business unit metrics in our NEOs' incentive plans promotes our

Table of Contents

Executive Compensation

continued success as a safe, sustainable, and overall well-run vertically-integrated and regulated electric utility.

Determination Process. The determination of business unit metrics and targets is a year-long, multi-step process guided by our strategic priorities. The Board oversees the Company's business strategy. The Company maintains a rigorous performance goal-setting process wherein goals are set based on our annual business planning process and reviewed for relevance and appropriate alignment with our business strategy. Individual business unit targets are developed using a variety of methods depending on the metric under consideration, including internal trends, external considerations, opportunities to improve performance, and use of industry benchmark data. Targets are intended to incentivize performance while still being attainable. The business unit metrics and targets are then shared and discussed with the Committee and the Board before final metrics and targets are approved by the Committee and the Board.

Under the business unit components of the 2017 Incentive Plans, the range of potential achievement for each business unit metric was zero to 200% of the target level. In addition to a target level, some of the performance measures also provided for a threshold level (equal to 50% of target) and a maximum level (equal to 200% of target). Performance above the maximum level resulted in achievement of 200% of target. If performance fell between threshold and target or between target and maximum, linear interpolation was used to determine the actual percentage of target performance achieved.

2017 Business Unit Goals. The 2017 Incentive Plans measured NEOs on pre-established business unit performance in up to five key areas: Corporate Resources, Customer Service, Fossil Generation, Palo Verde, and Transmission and Distribution. Within each of these categories are specific metrics designed to incentivize achievements in operational excellence, customer satisfaction, safety and employee performance, and cost management, ultimately resulting in shareholder value creation.

The CEO was evaluated against metrics within each of these five categories to tie the CEO's incentive to overall operational performance of the Company, and not to emphasize any one unit's performance over the others. Other NEOs were evaluated based on performance in the business units that correlate to their responsibilities.

See "Business Unit Components Under the 2017 Incentive Plans" on page 59 for additional details regarding the metrics, targets and 2017 achievement levels for each business unit. As discussed above, we have revised our 2018 metrics in certain key business units to more closely align with our priorities and emphasize top quartile performance and/or improve on

Table of Contents**Executive Compensation**

historical trends, with year-over-year backtesting conducted to ensure that we are maintaining or increasing the rigor of our goals.

2017 Annual Cash Incentive Outcomes***CEO Incentive Plan***

Earnings Component. For Mr. Brandt, the earnings portion of the annual cash incentive was determined based on PNW earnings. The component was weighted at 62.5% of the award, with 25% of the award (50% of base salary) earned based on achievement of threshold performance. The CEO Incentive Plan provided that if the threshold earnings number is not met, no incentive payment will be awarded, regardless of business unit performance.

Under the terms of the CEO Incentive Plan, earnings calculations are made excluding the impact of rate adjustments related to actions of the ACC within the plan year, and the Committee evaluates the impacts of unusual or non-recurring adjustments on actual earnings and may make adjustments to reflect such impacts. As such, the Committee adjusted the Pinnacle West earnings number to exclude primarily the impacts of the rate adjustment and the impact of the 2017 Tax Act. The net effect of these adjustments was to reduce Pinnacle West earnings from \$488.5 million to \$475.4 million.

PNW Earnings	\$390	\$440 ⁽¹⁾	\$490	\$475.4
---------------------	-------	----------------------	-------	---------

(1) Reflects a representative target amount under the CEO Incentive Plan. The Committee structured the CEO Incentive Plan so that if Pinnacle West earnings came in at the mid-point between threshold and maximum amounts and each business unit achieved its target performance levels, Mr. Brandt would receive an incentive award equal to 125% of his 2017 base salary.

Business Unit Component. As noted above, Mr. Brandt was evaluated against metrics within each of the five business unit areas to tie his incentive to overall operational performance. The business unit component of the CEO Incentive Plan was weighted at 37.5% of the award.

See "Business Unit Components Under the 2017 Incentive Plans" for detailed goals and achievement levels for each business unit.

2017 CEO Incentive Plan Results

The metrics, weightings, and results for Mr. Brandt under the 2017 CEO Incentive Plan are outlined below:

Mr. Brandt	171% ⁽¹⁾	142% ⁽²⁾	94%	160%	190%	174%	152%
<i>Weighting</i>	(62.5%)	(7.5%)	(7.5%)	(7.5%)	(7.5%)	(7.5%)	(37.5%)

- (1) As a percentage of midpoint; and as noted above, midpoint reflects a representative target amount under the CEO Incentive Plan the Committee structured the CEO Incentive Plan so that if Pinnacle West earnings came in at the mid-point between threshold and maximum amounts and each business unit achieved its target performance levels, Mr. Brandt would receive an incentive award equal to 125% of his 2017 base salary.
- (2) Reflects the average of the following Corporate Resources business units: Communications, Finance/Accounting, Human Resources, Information Technology, Legal, Public Policy, Resource Management, Supply Chain, Sustainability.

Table of Contents**Executive Compensation**

Mr. Brandt's incentive award was determined exclusively based on the metrics set forth in the CEO Incentive Plan. Other than the earnings adjustments previously discussed that were contemplated by the terms of the CEO Incentive Plan, the Committee did not exercise any discretion to make adjustments to the award based on unanticipated events.

APS Incentive Plans

Earnings Component. For all NEOs other than the CEO, the earnings portion of the annual cash incentive was weighted at 50% of the award and determined based on APS earnings. The APS Incentive Plan provided that if the threshold earnings number is not met, no incentive payment will be awarded, regardless of business unit performance.

The Palo Verde Incentive Plan provided that if the threshold earnings number is not met, the APS portion of the incentive payment will not be awarded. In addition, under the Palo Verde Incentive Plan, Palo Verde's overall business unit performance was required to achieve at least 100% of the target level for 2017 before Messrs. Edington and Bement could receive any payout under the APS earnings portion.

Under the terms of the APS Incentive Plans, the Committee may adjust plan targets or incentive results and may make other changes to the plan deemed necessary or appropriate due to unanticipated events that arise during the performance period or unusual or non-recurring adjustments on actual earnings that arise during the performance period, including without limitation, ACC rate-related impacts on earnings. As such, the Committee adjusted the APS earnings number to exclude primarily the impacts of the rate adjustment and the impact of the 2017 Tax Act. The net effect of these adjustments was to reduce APS earnings from \$504.3 million to \$483.8 million.

APS Earnings	\$403	\$453	\$503	\$483.8
---------------------	-------	-------	-------	---------

Business Unit Component. As indicated above, NEOs other than the CEO are evaluated based on performance in the business units that correlate to their responsibilities. The business unit component for each NEO other than the CEO was weighted at 50%, with multiple business unit results averaged for applicable NEOs. The APS Incentive Plans allow the Committee to make adjustments for individual performance, and the Committee may exercise discretion under the APS Incentive Plans due to unanticipated events that might arise during the performance period. The Committee did not make any such adjustments for the NEOs in 2017.

See "Business Unit Components Under the 2017 Incentive Plans" for detailed goals and achievement levels for each business unit.

Table of Contents**Executive Compensation****2017 APS Incentive Plan Results**

The metrics, weightings, and results for Messrs. Hatfield, Falck, and Schiavoni under the APS Incentive Plan, and Messrs. Bement and Edington under the Palo Verde Incentive Plan, are outlined below:

Mr. Hatfield	162%	139% ⁽¹⁾				139%
<i>Weighting</i>	<i>(50.0%)</i>	<i>(50.0%)</i>				<i>(50.0%)</i>
Mr. Bement	162%			190%		190%
<i>Weighting</i>	<i>(50.0%)</i>			<i>(50.0%)</i>		<i>(50.0%)</i>
Mr. Edington ⁽²⁾	162%			190%		190%
<i>Weighting</i>	<i>(50.0%)</i>			<i>(50.0%)</i>		<i>(50.0%)</i>
Mr. Falck	162%	141% ⁽³⁾				141%
<i>Weighting</i>	<i>(50.0%)</i>	<i>(50.0%)</i>				<i>(50.0%)</i>
Mr. Schiavoni	162%	146% ⁽⁴⁾	94%	160%	174%	144%
<i>Weighting</i>	<i>(50.0%)</i>	<i>(12.5%)</i>	<i>(12.5%)</i>	<i>(12.5%)</i>	<i>(12.5%)</i>	<i>(50.0%)</i>

(1) Reflects the average of the following Corporate Resources business units: Finance/Accounting, Human Resources, Information Technology.

(2) Mr. Edington retired on March 22, 2017, and under the terms of the Palo Verde Incentive Plan, he received a pro-rated award for his service during the year.

(3) Reflects the following Corporate Resources business unit: Legal.

(4) Reflects the average of the following Corporate Resources business units: Resource Management, Supply Chain, Sustainability.

Business Unit Components under the 2017 Incentive Plans

The following table summarizes the metrics used for each business unit, in addition to individual weightings, targets, and 2017 results. The percentage of target performance achieved reflects the comparison of our actual achievement of a particular measure for 2017 to the target established for that measure.

Corporate Resources (Communications; Finance/Accounting; Human Resources; Legal; Public Policy; Supply Chain)				141%
Employees (15%)	OSHA Recordables(1) (15%)	2	5	0%
Operational Excellence (60%)	Average of All Business Unit Results(2) (60%)	100%	154.6%	155%
Shareholder Value (25%)	Total Corporate Resources O&M Budget (25%)	Budget	1.9% Under Budget	193%
Corporate Resources (Information Technology)				135%
Employees (15%)	OSHA Recordables(1) (15%)	2	5	0%
Operational Excellence (70%)	Average of All Business Unit Results(2) (60%)	100%	154.6%	155%
	Capital Project Execution (10%)	90%	91.43%	129%
Shareholder Value (15%)	Total Corporate Resources O&M Budget (15%)	Budget	1.9% Under Budget	193%

Table of Contents**Executive Compensation**

Corporate Resources (Resource Management)				155%
Employees (15%)	OSHA Recordables(1) (15%)	2	5	0%
	ERMG Violations (20%)	5	4	150%
Operational Excellence (60%)	Passing EIM T-55 Hourly Balancing Test (20%)	90%	94.2%	184%
	Transmission Unreserved Use (20%)	\$150K	\$65.0	200%
Shareholder Value (25%)	Total Corporate Resources O&M Budget (25%)	Budget	1.9% Under Budget	193%
Corporate Resources (Sustainability)				142%
Employees (15%)	OSHA Recordables(1) (15%)	2	5	0%
Operational Excellence (70%)	Average of All Business Unit Results(2) (60%)	100%	154.6%	155%
	Capital Project Execution (10%)	90%	96.77%	200%
Shareholder Value (15%)	Total Corporate Resources O&M Budget (15%)	Budget	1.9% Under Budget	193%
Palo Verde(3)(4)				190%
	Reactivity Management (4%)	95	97.4	200%
Employees (22.5%)	Site Safety Index(5) (5%)	5 G/W; No Red	6 of 6 G	200%

	INPO Recordable Rate (5%)	≤ 0.110	0.256	0%
	Collective Radiation Exposure (3.5%)	70	55.02	200%
	Accreditation (5%)	Split Vote	Unanimous	200%
	Site Capacity Factor (20%)	92%	93.8	200%
Operational Excellence (30%)	Spring Outage Days (5%)	≤ 31	30D 23H	200%
	Fall Outage Days (5%)	≤ 31	30D 18H	200%
	Equipment Reliability Index (5%)	93	98	200%
	Corrective Action Performance Scorecard (CAP)(5) (5%)	4 G/W; No Red	5 G/W	200%
Performance Improvement (27.5%)	Site Clock Resets (Less Safety) (5%)	1	0	200%
	Site Operational Focus Indicator(5) (of 8) (7.5%)	7 G/W; No Red	8 of 8 G/W	200%
	Continuous Improvement Process (5%)	800	1,018	200%
	O&M Budget (15%)	≥ \$1.25M Under Budget & 10 Months Forecast Cashflow Performance ±5%	\$6.2M Under & 12 months	200%
Shareholder Value (20%)	Capital Budget (5%)	≤ Budget & 10 Months Forecast Cashflow Performance ±10%	\$8.5M Under & 12 months	200%
Customer Service				94%

Employees (15%)	OSHA Recordable Incidents (15%)	1	3	0%
	Self-Service Transactions per Customer (20%)	8.53	8.66	165%
Operational Excellence (45%)	Average Speed to Answer (in seconds) (10%)	157	234	0%
	Percentage of Billing To-Dos Completed by Day 3 (15%)	93.71%	64.95%	0%

Table of Contents

Executive Compensation

Customer Value (15%)	Customer Outcome Satisfaction CCT (15%)	85%	82.6%	76%
Shareholder Value (25%)	Customer Service O&M Budget (25%)	Budget	2.6% Under Budget	200%
Fossil Generation				160%
Employees (15%)	OSHA Recordable Incidents (15%)	6	&n	