

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

FORM 8-K

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

Date of report (Date of earliest event reported): November 8, 2018

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

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

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

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

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

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

Item 2.02. Results of Operations and Financial Condition.

The following information is furnished pursuant to Item 2.02.

On November 8, 2018, Pinnacle West issued a press release regarding its financial results for the fiscal quarter ended September 30, 2018 and its earnings outlook for 2018 and 2019. A copy of the press release is attached hereto as Exhibit 99.1.

Item 7.01. Regulation FD Disclosure.

The following information is furnished pursuant to Item 7.01.

The Company is providing a copy of the slide presentation made in connection with the quarterly earnings conference call on November 8, 2018. This information contains Company operating results for the fiscal quarter ended September 30, 2018, earnings outlook for 2018 and 2019 and a quarterly consolidated statistical summary. The slide presentation is attached hereto as Exhibit 99.2 and is concurrently being posted to the Company's website at www.pinnaclewest.com.

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

Exhibit No.	Registrant(s)	Description
99.1	Pinnacle West APS	Earnings News Release issued on November 8, 2018.
99.2	Pinnacle West APS	Pinnacle West Capital Corporation Third Quarter 2018 Results slide presentation accompanying November 8, 2018 conference call.

SIGNATURES

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

PINNACLE WEST CAPITAL CORPORATION
(Registrant)

Dated: November 8, 2018

By: /s/ James R. Hatfield

James R. Hatfield
Executive Vice President and
Chief Financial Officer

ARIZONA PUBLIC SERVICE COMPANY
(Registrant)

Dated: November 8, 2018

By: /s/ James R. Hatfield

James R. Hatfield
Executive Vice President and
Chief Financial Officer

FOR IMMEDIATE RELEASE

November 8, 2018

Media Contact: Alan Bunnell, (602) 250-3376
Analyst Contacts: Stefanie Layton (602) 250-4541
Website: pinnaclewest.com

PINNACLE WEST REPORTS THIRD-QUARTER EARNINGS

- *Weather positively impacts quarterly results*
- *Retail sales and customer growth deliver bottom-line results*
- *Federal tax reform benefits both customers and the company*
- *Arizona voters reject ill-conceived Proposition 127 that would have amended Arizona's State Constitution*

PHOENIX - Pinnacle West Capital Corp. (NYSE: PNW) today reported consolidated net income attributable to common shareholders for the 2018 third quarter of \$315.0 million, or \$2.80 per diluted share. This result compares with net income of \$276.1 million, or \$2.46 per share, for the same period a year ago.

“Driven by the second hottest September on record, Arizona’s summer heat and the resulting increase in retail sales contributed to a solid quarter and sound financial results,” said Pinnacle West Chairman, President and Chief Executive Officer Don Brandt. “In addition, our employees continued to do what they do best: maintain reliable electric service for our 1.2 million customers. Our power plants operated well, and our workforce quickly restored service to customers after several volatile summer storms toppled a combined 451 poles - almost as many as in the 2016 and 2017 summers combined.”

Brandt added that delivering value to APS customers went beyond just keeping the lights on. The company’s regulatory settlement, which was approved and implemented in August 2017, is enabling the company to invest in a smarter, cleaner energy infrastructure, while also keeping electricity rates competitive. This fall, APS filed a second request with the Arizona Corporation Commission (ACC) to return federal tax savings to customers. If approved, this second tax cut will provide retail customers with total tax savings of \$205.5 million or almost \$8 per month, on average, when combined with the first reduction implemented in March.

“So far this year, we’ve reduced customer bills by about 2 percent to continue keeping electricity affordable and clean,” said Brandt. “Over the last 20 years, our price increases have been below the rate of inflation. With the refunds from tax reform and other price reductions, customer rates will be lower at the end of 2018 than they were at the beginning of the year.”

In addition to strong operational performance, the 2018 third-quarter financial results were positively impacted by the following factors compared to the same period a year ago:

- *The effects of weather variations*, which are an unpredictable driver, impacted results by \$0.23 per share compared to the year-ago period. The average high temperature for this year’s third quarter was 105.3 degrees - 1.6 percent higher than last year’s quarter and 1.2 percent greater than normal based on a rolling 10-year average. The resulting impact in
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the 2018 third quarter was that residential cooling degree-days (a measure of the effects of weather) were 13 percent higher than in the same 2017 period and 5.4 percent above 10-year historical averages.

- *The impact of federal corporate tax cuts* improved results by \$0.14 per share, driven by the timing difference between income tax expense and the passing of savings directly back to customers.
- *Greater retail electricity sales* - excluding the effects of weather variations - increased results \$0.07 per share due to customer growth of 1.6 percent, partially offset by energy efficiency and distributed generation. Weather-normalized sales were 1.2 percent higher in the third quarter compared to 2017's third quarter, while year-to-date sales were 0.1 percent higher than the first nine months in 2017.
- *Higher transmission revenues* , excluding the effects of corporate income tax rate changes, improved results \$0.05 per share compared to 2017.
- *Adoption of new accounting guidance and higher market returns* for pension and other post-retirement benefits positively impacted results by \$0.04 per share.
- *The net impacts of the company's 2017 regulatory settlement* improved earnings \$0.02 per share. This increase included a retail base rate increase, largely offset by the impact of changes in residential rate design and seasonal rates. Effective Aug. 19, 2017, the comprehensive and broadly supported settlement was APS's first base rate increase in five years.
- *The net effect of miscellaneous items* increased earnings \$0.03 per share.

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

- *Higher operations and maintenance expenses* reduced results by \$0.12 per share compared with the prior-year period. The increased costs were largely the result of an increase in public outreach costs at the parent company primarily associated with the Prop 127 ballot initiative.
- *Other operating expenses* , including higher depreciation and amortization and increased taxes other than income taxes, reduced results by \$0.12 per share compared with the prior-year period, largely because of increased plant in service, changes in rates and higher property values.

Proposition 127 Ballot Initiative Outcome

Prop 127, a ballot measure that would have amended Arizona's State Constitution and required Arizona's regulated utilities to obtain 50 percent of their energy from renewable sources by 2030 was rejected by voters on Tuesday.

"Arizona voters made it clear that Prop 127 was a bad idea," said Brandt. "With the election now behind us, it's time for Arizonans who are serious about clean energy to come together and work on a forward-thinking plan that is right for Arizona.

"Arizona is number three nationally in solar energy installed, and our APS energy mix is already 50 percent clean, with more improvements to come. We also are on the cutting edge of advanced battery storage technology, which has the potential to be a game-changer in clean energy. And, other initiatives like increased support for electric vehicles are on the way."

Financial Outlook

For 2018, the Company continues to expect its consolidated earnings guidance will be in the range of \$4.35 to \$4.55 per diluted share on a weather-normalized basis.

Looking ahead to 2019, the Company estimates its consolidated earnings will be within a range of \$4.75 to \$4.95 per diluted share, and expects to achieve a consolidated earned return on average common equity of more than 9.5 percent.

Key factors and assumptions underlying the 2018 and 2019 outlook can be found in the third-quarter 2018 earnings presentation slides on the Company's website at pinnaclewest.com/investors.

Conference Call and Webcast

Pinnacle West invites interested parties to listen to the live webcast of management's conference call to discuss the Company's 2018 third-quarter results, as well as recent developments, 11 a.m. ET (9 a.m. Arizona time) today, November 8. The webcast can be accessed at pinnaclewest.com/presentations and will be available for replay on the website for 30 days. To access the live conference call by telephone, dial (877) 407-8035 or (201) 689-8035 for international callers. A replay of the call also will be available until 11:59 p.m. (ET), Thursday, Nov. 15, 2018, by calling (877) 481-4010 in the U.S. and Canada or (919) 882-2331 internationally and entering conference ID number 37662.

General Information

Pinnacle West Capital Corp., an energy holding company based in Phoenix, has consolidated assets of almost \$18 billion, about 6,200 megawatts of generating capacity and 6,300 employees in Arizona and New Mexico. Through its principal subsidiary, Arizona Public Service, the Company provides retail electricity service to nearly 1.2 million Arizona homes and businesses. For more information about Pinnacle West, visit the Company's website at pinnaclewest.com.

Dollar amounts in this news release are after income taxes. Earnings per share amounts are based on average diluted common shares outstanding. For more information on Pinnacle West's operating statistics and earnings, please visit pinnaclewest.com/investors.

FORWARD-LOOKING STATEMENTS

This press release contains forward-looking statements based on our current expectations, including statements regarding our earnings guidance and financial outlook and goals. These forward-looking statements are often identified by words such as "estimate," "predict," "may," "believe," "plan," "expect," "require," "intend," "assume," "project" and similar words. Because actual results may differ materially from expectations, we caution readers not to place undue reliance on these statements. A number of factors could cause future results to differ materially from historical results, or from outcomes currently expected or sought by Pinnacle West or APS. These factors include, but are not limited to:

- our ability to manage capital expenditures and operations and maintenance costs while maintaining high reliability and customer service levels;
 - variations in demand for electricity, including those due to weather, seasonality, the general economy, customer and sales growth (or decline), and the effects of energy conservation measures and distributed generation;
 - power plant and transmission system performance and outages;
 - competition in retail and wholesale power markets;
 - regulatory and judicial decisions, developments and proceedings;
 - new legislation, ballot initiatives and regulation, including those relating to environmental requirements, regulatory policy, nuclear plant operations and potential deregulation of retail electric markets;
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- fuel and water supply availability;
- our ability to achieve timely and adequate rate recovery of our costs, including returns on and of debt and equity capital investment;
- our ability to meet renewable energy and energy efficiency mandates and recover related costs;
- risks inherent in the operation of nuclear facilities, including spent fuel disposal uncertainty;
- current and future economic conditions in Arizona, including in real estate markets;
- the development of new technologies which may affect electric sales or delivery;
- the cost of debt and equity capital and the ability to access capital markets when required;
- environmental, economic and other concerns surrounding coal-fired generation, including regulation of greenhouse gas emissions;
- volatile fuel and purchased power costs;
- the investment performance of the assets of our nuclear decommissioning trust, pension, and other post-retirement benefit plans and the resulting impact on future funding requirements;
- the liquidity of wholesale power markets and the use of derivative contracts in our business;
- potential shortfalls in insurance coverage;
- new accounting requirements or new interpretations of existing requirements;
- generation, transmission and distribution facility and system conditions and operating costs;
- the ability to meet the anticipated future need for additional generation and associated transmission facilities in our region;
- the willingness or ability of our counterparties, power plant participants and power plant land owners to meet contractual or other obligations or extend the rights for continued power plant operations; and
- restrictions on dividends or other provisions in our credit agreements and Arizona Corporation Commission orders.

These and other factors are discussed in Risk Factors described in Part 1, Item 1A of the Pinnacle West/APS Annual Report on Form 10-K for the fiscal year ended December 31, 2017, which readers should review carefully before placing any reliance on our financial statements or disclosures. Neither Pinnacle West nor APS assumes any obligation to update these statements, even if our internal estimates change, except as required by law.

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 30,		SEPTEMBER 30,	
	2018	2017	2018	2017
Operating Revenues	\$ 1,268,034	\$ 1,183,322	\$ 2,934,871	\$ 2,805,637
Operating Expenses				
Fuel and purchased power	389,936	310,469	844,133	777,475
Operations and maintenance	246,545	230,839	780,624	677,895
Depreciation and amortization	145,971	133,912	436,232	387,278
Taxes other than income taxes	51,375	45,169	158,582	133,294
Other expenses	900	3,385	8,497	5,479
Total	<u>834,727</u>	<u>723,774</u>	<u>2,228,068</u>	<u>1,981,421</u>
Operating Income	<u>433,307</u>	<u>459,548</u>	<u>706,803</u>	<u>824,216</u>
Other Income (Deductions)				
Allowance for equity funds used during construction	12,259	12,728	39,411	32,666
Pension and other postretirement non-service credits - net	12,449	6,534	37,314	19,601
Other income	6,958	1,091	17,541	2,055
Other expense	(5,063)	(4,993)	(12,063)	(12,495)
Total	<u>26,603</u>	<u>15,360</u>	<u>82,203</u>	<u>41,827</u>
Interest Expense				
Interest charges	61,605	55,644	181,267	162,477
Allowance for borrowed funds used during construction	(5,913)	(6,000)	(18,959)	(15,378)
Total	<u>55,692</u>	<u>49,644</u>	<u>162,308</u>	<u>147,099</u>
Income Before Income Taxes	404,218	425,264	626,698	718,944
Income Taxes	<u>84,333</u>	<u>144,319</u>	<u>127,107</u>	<u>237,497</u>
Net Income	319,885	280,945	499,591	481,447
Less: Net income attributable to noncontrolling interests	4,873	4,873	14,620	14,620
Net Income Attributable To Common Shareholders	<u>\$ 315,012</u>	<u>\$ 276,072</u>	<u>\$ 484,971</u>	<u>\$ 466,827</u>
Weighted-Average Common Shares Outstanding - Basic	112,148	111,835	112,094	111,787
Weighted-Average Common Shares Outstanding - Diluted	112,533	112,401	112,499	112,314
Earnings Per Weighted-Average Common Share Outstanding				
Net income attributable to common shareholders - basic	\$ 2.81	\$ 2.47	\$ 4.33	\$ 4.18
Net income attributable to common shareholders - diluted	\$ 2.80	\$ 2.46	\$ 4.31	\$ 4.16



THIRD QUARTER 2018 RESULTS

PINNACLE WEST
CAPITAL CORPORATION

November 8, 2018



FORWARD LOOKING STATEMENTS AND NON-GAAP FINANCIAL MEASURES

This presentation contains forward-looking statements based on current expectations, including statements regarding our earnings guidance and financial outlook and goals. These forward-looking statements are often identified by words such as "estimate," "predict," "may," "believe," "plan," "expect," "require," "intend," "assume," "project" and similar words. Because actual results may differ materially from expectations, we caution you not to place undue reliance on these statements. A number of factors could cause future results to differ materially from historical results, or from outcomes currently expected or sought by Pinnacle West or APS. These factors include, but are not limited to: our ability to manage capital expenditures and operations and maintenance costs while maintaining high reliability and customer service levels; variations in demand for electricity, including those due to weather seasonality, the general economy, customer and sales growth (or decline), and the effects of energy conservation measures and distributed generation; power plant and transmission system performance and outages; competition in retail and wholesale power markets; regulatory and judicial decisions, developments and proceedings; new legislation, ballot initiatives and regulation, including those relating to environmental requirements, regulatory policy, nuclear plant operations and potential deregulation of retail electric markets; fuel and water supply availability; our ability to achieve timely and adequate rate recovery of our costs, including returns on and of debt and equity capital investments; our ability to meet renewable energy and energy efficiency mandates and recover related costs; risks inherent in the operation of nuclear facilities, including spent fuel disposal uncertainty; current and future economic conditions in Arizona, including in real estate markets; the development of new technologies which may affect electric sales or delivery; the cost of debt and equity capital and the ability to access capital markets when required; environmental, economic and other concerns surrounding coal-fired generation, including regulation of greenhouse gas emissions; volatile fuel and purchased power costs; the investment performance of the assets of our nuclear decommissioning trust, pension, and other postretirement benefit plans and the resulting impact on future funding requirements; the liquidity of wholesale power markets and the use of derivative contracts in our business; potential shortfalls in insurance coverage; new accounting requirements or new interpretations of existing requirements; generation, transmission and distribution facility and system conditions and operating costs; the ability to meet the anticipated future need for additional generation and associated transmission facilities in our region; the willingness or ability of our counterparties, power plant participants and power plant land owners to meet contractual or other obligations or extend the rights for continued power plant operations; and restrictions on dividends or other provisions in our credit agreements and ACC orders. These and other factors are discussed in Risk Factors described in Part I, Item 1A of the Pinnacle West/APS Annual Report on Form 10-K for the fiscal year ended December 31, 2017, which you should review carefully before placing any reliance on our financial statements, disclosures or earnings outlook. Neither Pinnacle West nor APS assumes any obligation to update these statements, even if our internal estimates change, except as required by law.

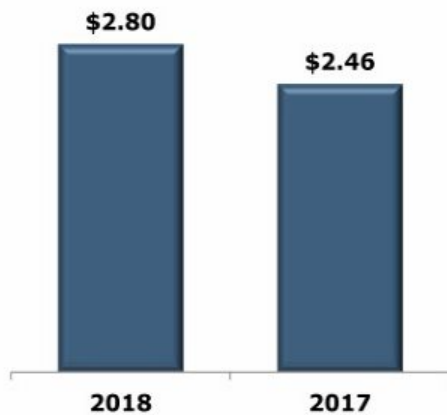
In this presentation, references to net income and earnings per share (EPS) refer to amounts attributable to common shareholders.

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

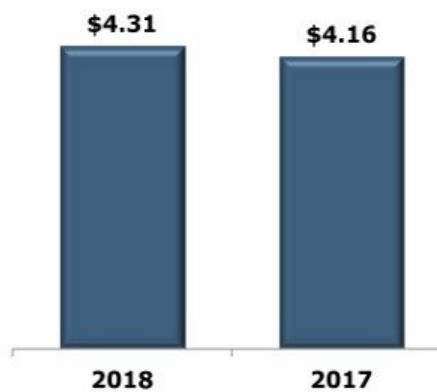
We present "adjusted interest, net of AFUDC" and "adjusted other" that have been adjusted for the deferral impacts of the Four Corner's Selective Catalytic Reduction equipment. We also present "adjusted gross margin" and "adjusted operations and maintenance" that have been adjusted to exclude costs and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

CONSOLIDATED EPS COMPARISON 2018 VS. 2017

3rd Quarter Earnings

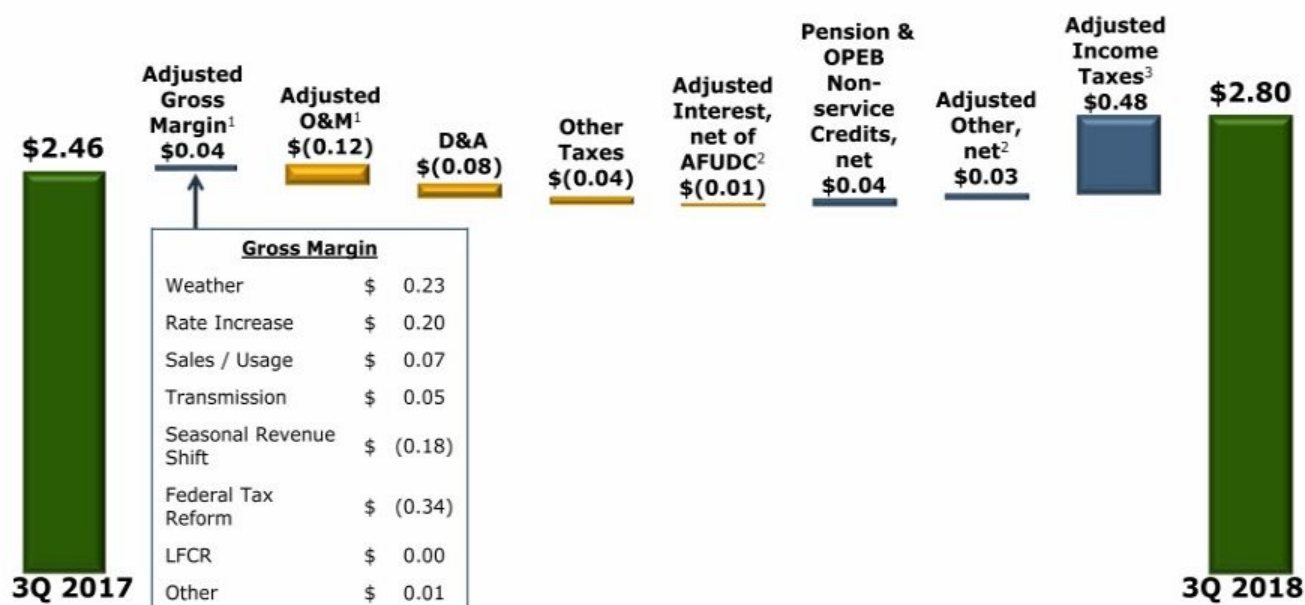


Year-to-Date Earnings



EPS VARIANCES

3RD QUARTER 2018 VS. 3RD QUARTER 2017



¹ Excludes costs and offsetting operating revenues associated with renewable energy and demand side management programs.

² Driver adjusted for the deferral impacts of the Four Corners Selective Catalytic Reduction (SCR) equipment.

³ The effects of federal corporate tax cuts positively impacted results by \$0.14 per share.

See non-GAAP reconciliation in Appendix.

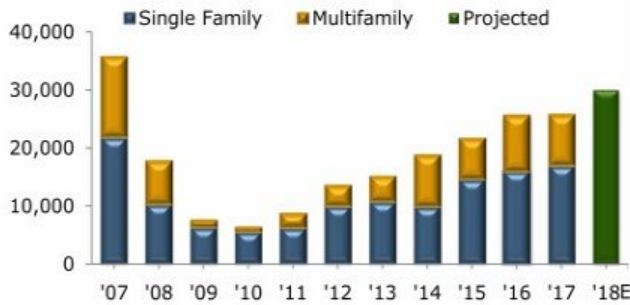
ECONOMIC INDICATORS

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

Year over Year Employment Growth



Single Family & Multifamily Housing Permits Maricopa County



- ✓ Maricopa County ranked #1 in U.S. for population growth for second straight year
- U.S. Census Bureau March 2018
- ✓ Arizona is a top 5 state in personal income growth
- U.S. Bureau of Economic Analysis March 2018
- ✓ Above-average job growth in tourism, health care, manufacturing, financial services, and construction
- ✓ APS partnered with Greater Phoenix Economic Council and Arizona Commerce Authority to welcome 21 new companies to the state in 2017
- ✓ 2017 housing construction at highest level since 2007
- ✓ Arizona #1 state in the country in 2017 for in-bound moves
- North American Moving Services January 2018

EPS GUIDANCE AS OF NOVEMBER 8, 2018



Key Drivers 2018 - 2019

- + Four Corners Selective Catalytic Reduction (SCR) step-increase
- + Modest sales growth
- + Higher transmission revenue
- + Lower O&M, primarily due to lower planned outage expense and cost management
- + Lower/flat interest expense, excluding AFUDC
- Higher D&A due to plant additions
- Higher Taxes Other Than Income Taxes, primarily higher property taxes
- Lower AFUDC

See key factors and assumptions in Appendix.



APPENDIX

PINNACLE WEST
CAPITAL CORPORATION



2018 EPS GUIDANCE

Key Factors & Assumptions as of November 8, 2018

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

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

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

2019 EPS GUIDANCE

Key Factors & Assumptions as of November 8, 2018

	2019
Adjusted gross margin ¹ (operating revenues, net of fuel and purchased power expenses)	\$2.50 – \$2.56 billion
• Retail customer growth about 1.5–2.5%	
• Weather-normalized retail electricity sales volume about 0-1% higher compared to prior year	
• Assumes normal weather	
Adjusted operating and maintenance (O&M) ¹	\$865 – \$885 million
Other operating expenses (depreciation and amortization, Ocotillo deferral, and taxes other than income taxes)	\$850 – \$870 million
Other income (pension and other post-retirement non-service credits, other income and other expense)	\$35 – \$45 million
Interest expense , net of allowance for borrowed and equity funds used during construction (Total AFUDC \$40 million)	\$195 – \$205 million
Net income attributable to noncontrolling interests	\$20 million
Effective tax rate	10%
Average diluted common shares outstanding	113.6 million
EPS Guidance	\$4.75 - \$4.95

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

FINANCIAL OUTLOOK

Key Factors & Assumptions as of November 8, 2018

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

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

Gross Margin – Related to 2017 Rate Review Order

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

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

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

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

TAX REFORM

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

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



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

EPS Impacts

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

EPS Variances

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

Rate Base Growth

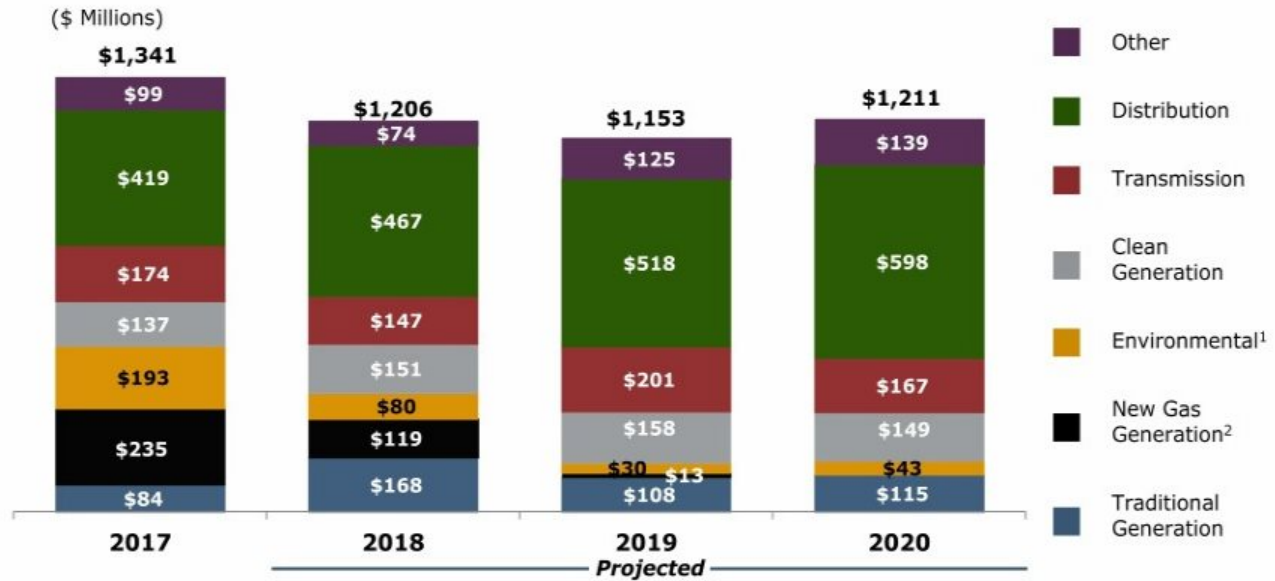
- Higher incremental rate base of \$110 million in 2018 and \$150 million in 2019

Cash Taxes

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

APS CAPITAL EXPENDITURES

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



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

¹ Includes Selective Catalytic Reduction controls at Four Corners with in-service dates of Q4 2017 (Unit 5) and Q2 2018 (Unit 4).
² Ocotillo Modernization Project: 2 units scheduled for completion in Q4 2018, 3 units scheduled for completion in Q2 2019.

DISTRIBUTION GRID INVESTMENTS

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

Customer Growth

Approximately 51% of distribution capex



Reclosers – Supervisory Controlled Switches, Trip Savers

Average annual spend ~ \$13M

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



Monitors – Transformers, Breakers, Bushings

Average annual spend ~ \$0.5M

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

Grid Modernization

Approximately 9% of distribution capex



Advanced Distribution System Platform

Project in planning phase

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



Communications Backhaul

Average annual spend ~ \$4M

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

Run and Maintain

Approximately 40% of distribution capex



Cap Bank Controllers, Substation Regulators, Voltage Management Algorithms

Average annual spend ~ \$7M

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



Sensors – Current, Voltage

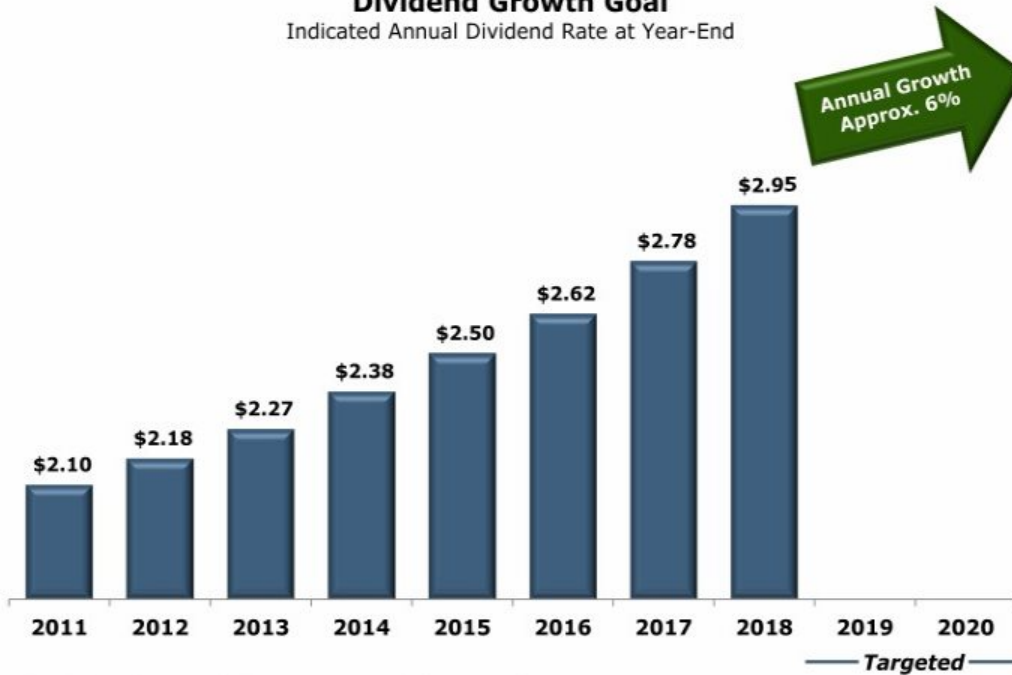
Average annual spend ~ \$2.5M

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

DIVIDEND GROWTH

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

Dividend Growth Goal
Indicated Annual Dividend Rate at Year-End

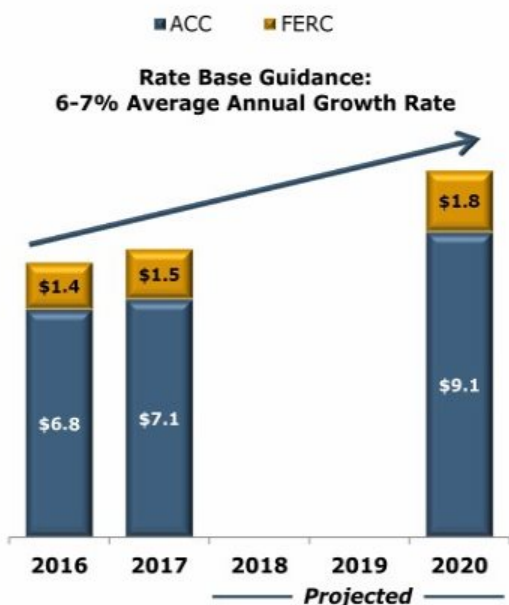


Future dividends subject to declaration at Board of Directors' discretion.

RATE BASE

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

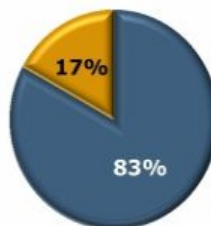
APS Rate Base Growth
Year-End



Rate Base Guidance:
6-7% Average Annual Growth Rate

Total Approved Rate Base

■ Generation & Distribution ■ Transmission



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

¹ Adjusted to include post test-year plant in rates

Rate base \$ in billions, rounded

OPERATIONS & MAINTENANCE

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

(\$ Millions)



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

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

2019 PLANNED OUTAGE SCHEDULE

Coal, Nuclear and Large Gas and Oil Planned Outages

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

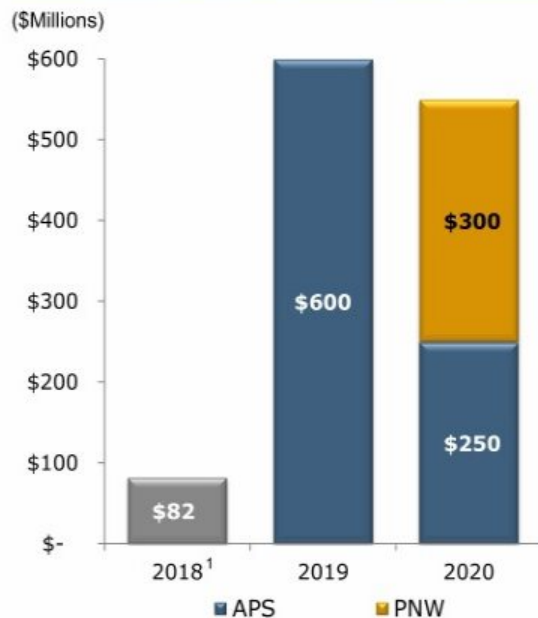
Q2		
Plant	Unit	Estimated Duration in Days
Palo Verde	1	30
Cholla*	1	16
Redhawk*	2	28

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

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

BALANCE SHEET STRENGTH

Long-Term Debt Maturity Schedule



¹ Maturities paid off in the second quarter of 2018.

Credit Ratings²

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

2018 Major Financing Activities

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

2019 Major Financing Activities

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

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

CREDIT RATINGS AND METRICS

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

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

Source: Standard & Poor's

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

OCOTILLO MODERNIZATION PROJECT AND FOUR CORNERS SCRs

- Included in the 2017 Rate Review Order¹, APS has been granted Accounting Deferral Orders for two large generation-related capital investments
 - Ocotillo Modernization Project: Retiring two aging, steam-based, natural gas units, and replacing with 5 new, fast-ramping, combustion turbine units
 - Four Corners Power Plant: Installed Selective Catalytic Reduction (SCR) equipment to comply with Federal environmental standards

	Ocotillo Modernization Project	Four Corners SCRs
In-Service Dates	Units 6, 7 – Fall 2018 Units 3, 4 and 5 – Spring 2019	Unit 5 – Late 2017 Unit 4 – Spring 2018
Total Cost (APS)	\$500 million	\$400 million
Estimated Cost Deferral	\$45 million (through 2019)	\$30 million (through 2018)
Accounting Deferral	<ul style="list-style-type: none"> • Cost deferral from date of commercial operation to the effective date of rates in next rate case • Includes depreciation, O&M, property taxes, and capital carrying charge² 	<ul style="list-style-type: none"> • Cost deferral from time of installation to incorporation of the SCR costs in rates using a step increase beginning in 2019 • Includes depreciation, O&M, property taxes, and capital carrying charge²

¹ The ACC's decision is subject to appeals.

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

FOUR CORNERS SCR STEP INCREASE

Hearing concluded on September
7, 2018

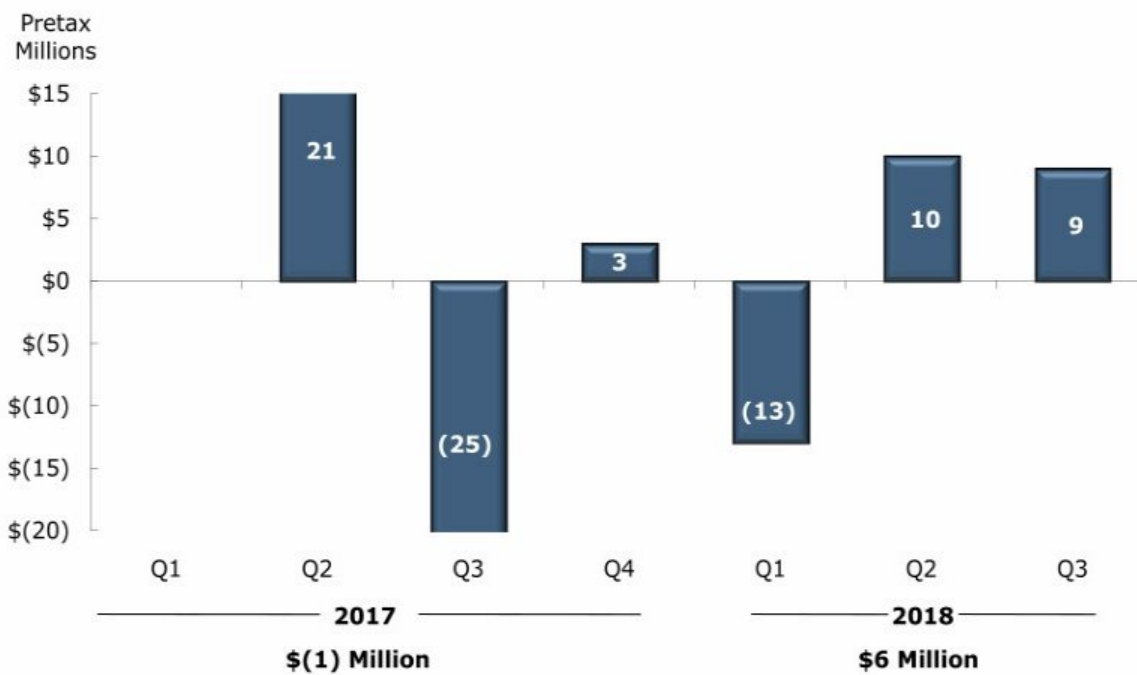
Key Components of APS's Filed Request

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

¹ Based on 2017 Rate Review Order

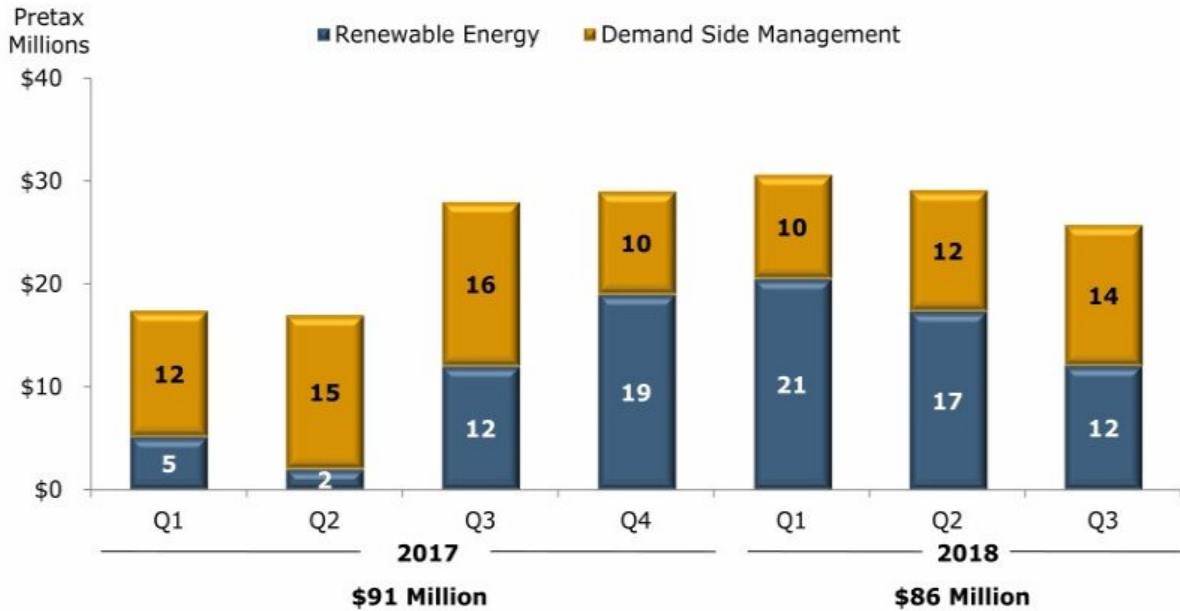
² Arizona Corporation Commission Staff recommended a \$58.5 million revenue increase.

GROSS MARGIN EFFECTS OF WEATHER VARIANCES VS. NORMAL



All periods recalculated to current 10-year rolling average (2006 - 2015)

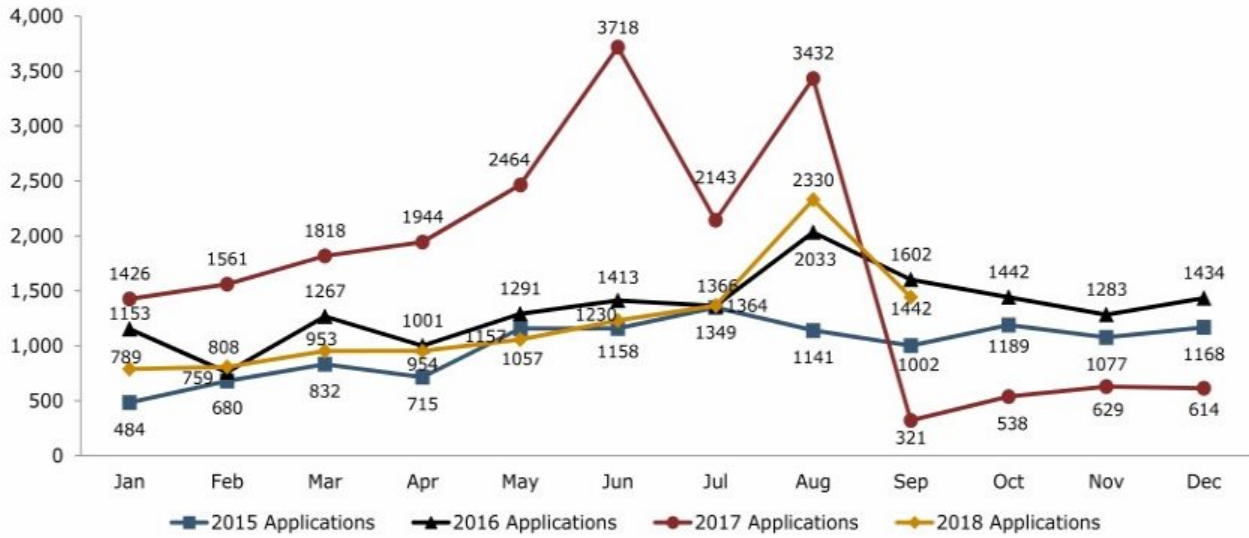
RENEWABLE ENERGY AND DEMAND SIDE MANAGEMENT EXPENSES¹



¹ Renewable energy and demand side management expenses are offset by adjustment mechanisms.

RESIDENTIAL PV APPLICATIONS¹

Residential DG (MWdc) Annual Additions



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

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

2018 KEY DATES

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

NON-GAAP MEASURE RECONCILIATION

Three Months Ended September 30,									
\$ millions pretax, except per share amounts	2018 ¹	RES/ DSM	Four Corners Deferral ²	Tax Benefit of Lower Pre-Tax Income	2018 Adjusted	2017 ^{1,3}	RES/ DSM	2017 Adjusted	EPS Impact
Operating revenues	\$1,268	\$ (27)	\$ -	\$ -	\$ 1,241	\$ 1,183	\$ (28)	\$ 1,155	
Fuel and purchased power expenses	(390)	-	-	-	(390)	(310)	-	(310)	
Gross margin	878	(27)	-	-	851	873	(28)	845	\$ 0.04
Operations and maintenance	247	(26)	-	-	221	231	(28)	203	\$(0.12)
Allowance for equity funds used during construction	(12)	-	-	-	(12)	(13)	-	(13)	
Interest charges	62	-	(5)	-	57	56	-	56	
Allowance for borrowed funds used during construction	(6)	-	-	-	(6)	(6)	-	(6)	
Interest expense, net of AFUDC	44	-	(5)	-	39	37	-	37	\$(0.01)
Other expenses (operating)	1	-	-	-	1	3	-	3	
Other income	(7)	-	5	-	(2)	(1)	-	(1)	
Other expense	5	-	-	-	5	5	-	5	
Renewable energy and demand side management and similar regulatory programs, net	-	(1)	-	-	(1)	-	-	-	
Other	(1)	(1)	5	-	3	7	-	7	\$ 0.03
Income taxes	84	-	-	6	90	144	-	144	\$ 0.48

¹ Line items from Consolidated Statements of Income.

² See Note 4, Regulatory Matters, in Form 10-Q for the period ended September 30, 2018, for total Four Corners deferral impacts.

³ No impact to 2017 Consolidated Statements of Income related to Four Corners deferral.

NON-GAAP MEASURE RECONCILIATION

2018 GUIDANCE

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

¹ Line items from Consolidated Statements of Income.

NON-GAAP MEASURE RECONCILIATION

2019 GUIDANCE

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

¹ Line items from Consolidated Statements of Income.

CONSOLIDATED STATISTICS

	3 Months Ended September 30,			9 Months Ended September 30,		
	2018	2017	Incr (Decr)	2018	2017	Incr (Decr)
ELECTRIC OPERATING REVENUES (Dollars in Millions)						
Retail						
Residential	\$ 695	\$ 661	34	\$ 1,512	\$ 1,439	\$ 73
Business	497	474	23	1,275	1,245	30
Total Retail	1,192	1,136	56	2,787	2,684	103
Sales for Resale (Wholesale)	54	22	32	80	63	17
Transmission for Others	16	14	2	46	35	11
Other Miscellaneous Services	5	7	(2)	16	17	(1)
Total Electric Operating Revenues	\$ 1,267	\$ 1,178	89	\$ 2,929	\$ 2,799	\$ 130
ELECTRIC SALES (GWH)						
Retail						
Residential	5,002	4,753	249	10,686	10,655	31
Business	4,470	4,310	160	11,390	11,421	(31)
Total Retail	9,472	9,063	409	22,076	22,076	-
Sales for Resale (Wholesale)	1,042	655	387	1,781	2,278	(497)
Total Electric Sales	10,514	9,718	796	23,857	24,354	(497)
RETAIL SALES (GWH) - WEATHER NORMALIZED						
Residential	4,930	4,915	15	10,680	10,655	25
Business	4,450	4,353	97	11,373	11,381	(8)
Total Retail Sales	9,380	9,268	112	22,053	22,036	17
Retail sales (GWH) (% over prior year)	1.2%	0.5%	0.7%	0.1%	(0.3)%	0.4%
AVERAGE ELECTRIC CUSTOMERS						
Retail Customers						
Residential	1,098,916	1,079,344	19,572	1,097,607	1,078,672	18,935
Business	134,606	134,830	(224)	134,390	133,667	723
Total Retail	1,233,522	1,214,174	19,348	1,231,997	1,212,339	19,658
Wholesale Customers	40	40	-	35	42	(7)
Total Customers	1,233,562	1,214,214	19,348	1,232,032	1,212,382	19,650
Total Customer Growth (% over prior year)	1.6%	1.9%	(0.3)%	1.6%	1.7%	(0.1)%
RETAIL USAGE - WEATHER NORMALIZED (KWh/Average Customer)						
Residential	4,486	4,554	(68)	9,730	9,878	(148)
Business	33,062	32,282	780	84,629	85,142	(513)

CONSOLIDATED STATISTICS

	3 Months Ended September 30,			9 Months Ended September 30,		
	2018	2017	Incr (Decr)	2018	2017	Incr (Decr)
ENERGY SOURCES (GWH)						
Generation Production						
Nuclear	2,462	2,514	(52)	7,078	7,146	(68)
Coal	2,612	2,093	519	5,443	5,634	(191)
Gas, Oil and Other	2,833	2,666	167	6,044	5,682	362
Renewables	182	174	8	496	446	50
Total Generation Production	8,090	7,447	643	19,061	18,908	153
Purchased Power						
Conventional	2,396	2,223	173	4,669	4,644	25
Resales	17	238	(221)	169	633	(464)
Renewables	468	390	78	1,543	1,467	76
Total Purchased Power	2,882	2,851	31	6,381	6,744	(363)
Total Energy Sources	10,971	10,298	673	25,442	25,652	(210)
POWER PLANT PERFORMANCE						
Capacity Factors - Owned						
Nuclear	97%	99%	(2)%	94%	95%	(1)%
Coal	71%	57%	14%	50%	52%	(2)%
Gas, Oil and Other	40%	38%	2%	29%	27%	2%
Solar	36%	34%	2%	33%	30%	3%
System Average	59%	54%	5%	46%	46%	0%

CONSOLIDATED STATISTICS

	3 Months Ended September 30,			9 Months Ended September 30,		
	2018	2017	Incr (Decr)	2018	2017	Incr (Decr)
WEATHER INDICATORS - RESIDENTIAL						
Actual						
Cooling Degree-Days	1,304	1,153	151	1,817	1,724	93
Heating Degree-Days	-	-	-	323	439	(116)
Average Humidity	32%	32%	(0)%	26%	26%	0%
10-Year Averages (2006 - 2015)						
Cooling Degree-Days	1,236	1,236	-	1,725	1,725	-
Heating Degree-Days	-	-	-	473	473	-
Average Humidity	31%	31%	-	25%	25%	-

To estimate the impact of weather conditions on energy sales, Pinnacle West typically uses 65°F as the Heating Degree-Days (HDD) threshold and 80°F as the Cooling Degree-Days (CDD) threshold, but may upon occasion consider other weather-related factors when it is deemed appropriate. The following table illustrates the months in which the HDD and CDD are most relevant:

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
HDD	X	X	X	X							X	X
CDD					X	X	X	X	X	X		

Pinnacle West and the US National Oceanic and Atmospheric Administration (NOAA) consider different time periods when calculating normal CDD/HDD. NOAA uses a 30-year period for calculation of normal weather and Pinnacle West uses a 10-year average to determine normal weather.

The National Weather Service has a website that provides temperature and humidity data for Phoenix Sky Harbor: <http://weather.gov/climate/index.php?wfo=psr>. Internal analysis shows a strong correlation between weather conditions at Phoenix Sky Harbor and energy demand in APS service territory.

