

PINNACLE WEST CAPITAL CORP  
Form DEF 14A  
March 28, 2019  
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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 Rule 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:
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- 1) Amount previously paid:
  - 2) Form, Schedule or Registration Statement No.:
  - 3) Filing Party:
  - 4) Date Filed:
-

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**Through Pinnacle West's core energy business, Arizona Public Service Company, we are setting the course for a sustainable energy future in Arizona.**

Fifty percent of our diverse energy mix comes from carbon-free resources, including renewables, energy efficiency and nuclear from the nation's largest producer of clean-air energy, Palo Verde Generating Station, and we're pursuing even more clean energy resources.

We stay true to our mission to safely and efficiently deliver reliable energy to our customers. Our performance consistently ranks in the top quartile for reliability based on industry standards for frequency and duration of customer outages.

We deliver safe, affordable and reliable energy for the benefit of the customers and communities that we serve while offering a growing portfolio of energy products and services to meet their changing needs.

We appreciate our role as stewards for Arizona, whether it's keeping the lights on, giving back and volunteering in the communities we serve, or providing employment opportunities for future generations.



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**Message from our Chairman, President and CEO**

To our Shareholders:

On behalf of our Board of Directors, management and employees, I invite you to participate in our 2019 Annual Meeting of Shareholders. The meeting will be held at 10:30 a.m. (MST), Wednesday, May 15, 2019. 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 strong performance as we continued to focus on delivering on our commitments to the shareholders who trust us with their investment, customers who depend on us, the communities we serve, and our dedicated team members.

**Our Commitment to our Shareholders**

Inside 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:

Pinnacle West increased the dividend for the 7<sup>th</sup> straight year, by 6% in 2018;

Total shareholder value increased \$341 million in 2018, \$3.3 billion over the last three years, and \$5.1 billion over the last five years;

Total shareholder return was 3.6%, 16.7%, 46.2% and 92.7% for the 1, 2, 3 and 5-year periods respectively, outperforming the electric utility industry and the broader market in the 2, 3 and 5-year periods; and

Our share price reached an all-time intraday high and an all-time closing price high on December 13, 2018.

In addition to delivering strong financial performance, we continue to focus on our sustainability efforts. In its November 6, 2018 report, MSCI ESG Research, LLC (“MSCI”) once again gave us an Environmental, Sustainability and Governance “A” rating. We serve our customers with an energy mix that is 50% clean energy. Our 10 grid-scale solar plants are powered by more than 1 million solar panels and our Palo Verde Generating Station, the largest nuclear power plant in the United States, provides nearly 70% of Arizona’s carbon-free energy. Palo Verde also uses recycled wastewater to cool the plant.

**Our Commitment to our Customers**

Our commitment is to provide safe, affordable and reliable electricity for approximately 1.2 million customers throughout Arizona. Placing our Sun Valley to Morgan 500kV transmission line into service, which completed a more than 10-year long program to build a loop around Phoenix, Arizona in order to improve reliability to the valley, is one example of us delivering on that commitment. We also implemented a new rate structure that provides our customers with a number of new options and plans. We successfully migrated approximately 1 million residential customers to the new rates in just a few months.

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**Message from our Chairman, President and CEO**

Our Commitment to our Communities

In 2018, we donated \$10.8 million to our communities with \$3.6 million invested in education. Our employees pledged \$2.4 million to our 2018 Community Services Fund Campaign (United Way) and contributed 121,000 volunteer hours. Our employees volunteered with a number of organizations, including St. Mary's Food Bank, Children's Museum of Phoenix, Habitat for Humanity and Big Brothers Big Sisters. In 2018 we launched our "Supply My Class-APS's Teacher Awards" program in which 1,000 K-8 teachers received \$500 each to purchase classroom supplies.

Additional highlighted accomplishments of our Company's 2018 performance are set forth in the Proxy Statement beginning on page 3."

Our Dedicated Team Members

Our employees are one of our greatest assets and we know it. In 2018 we focused on continuing to invest in our people. We revamped our onboarding process for our new hires during 2018 in order to improve the quality, timing, and delivery of the process for new employees. We also developed a new competency framework that went into effect during the first part of 2019. This new framework will target those competencies we have decided are critical to our vision, our mission and our future, and it allows us to create more robust development plans for our team members. We continued to transfer knowledge and know-how between our team members to increase productivity, reduce cost, retain critical knowledge and minimize risk. We recognize the benefits of diversity in our workforce. Among our new hires in 2018, 36% of our external hires were ethnically or racially diverse, 30% were female and 20% were veterans. Looking at our team at the end of 2018, 31% were ethnically or racially diverse, 23% were female, and more than 20% were veterans. With respect to our employees, a few of our shareholders have inquired about #MeToo issues and our sexual harassment policies. As I recently reemphasized to each of our employees, we will not tolerate inappropriate or unethical behavior in the workplace. Period. We live by our Code of Ethics and our Core, which you can read more about on page 23 of the Proxy Statement.

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,

**Donald E. Brandt**

Chairman of the Board, President  
and Chief Executive Officer

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**Message from our Lead Director**

**Dear Fellow Shareholders,**

On behalf of the Board, I thank you for your investment in Pinnacle West. As we approach our 2019 Annual Meeting, I 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 governance and succession planning.

**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. 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: our annualized total shareholder return since May 1, 2009, when Don Brandt took over as CEO, is 17.1%, which exceeded the annualized returns of the S&P 1500 Electric Utilities Index of 11.1% and the S&P 500 Index of 13.9%.

**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 that 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. Last year we saw some of those succession plans implemented. For example, the Board promoted Jeff Guldner to the position of President of APS where he has responsibility for all aspects of APS excluding nuclear generation. Mark Schiavoni, Executive Vice President and Chief Operating Officer, retired and Daniel Froetscher became our Executive Vice President, Operations of APS. Daniel took over responsibility for all the non-nuclear operations of our business – our fossil plants, transmission and distribution and customer service. In August of 2018 we hired Robert Smith as Senior Vice President and General Counsel of Pinnacle West and APS, taking over the General Counsel position previously held by Mr. Guldner. We have strategically selected successors for our management team who we are confident will lead our Company successfully into the future with continued strong and sustainable performance.



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**Message from our Lead Director**

**Robust Board Refreshment 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. Under the policy, 70% of our current independent directors will retire by 2025. Roy Herberger, who retired in May of 2018, was the first director to retire under this policy.

In 2016, the Board adopted a Director Retirement Policy to facilitate an orderly transition of Board members and implemented a plan to refresh the Board and its leadership.”

Our plan to refresh the Board and its leadership encompasses the following:

- Development of a matrix of our Board members’ current skills and experience;

- Evaluation of the skills and experience leaving our Board;

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

- Identification of incoming committee chairs one year in advance of assuming chair leadership to ensure proper transition.

Consistent with our Board refreshment plan, the Board identified Rick Fox as the director to succeed Roy Herberger as the Chairman of the Human Resources Committee. Rick was engaged in advance of Roy’s retirement so that the transition of the Chairman position would be, and was, smooth and orderly.

We value diversity and require our outside director search firm to make diversity a focal point of all our searches, with an emphasis on women candidates. However, of equal importance is the experience and skill set an individual brings to the Board. As noted above, we have been through a transition with our senior management; bringing new leaders into place. The Board determined that a director with experience in senior management changes, as well as CEO or similar level experience, was a critical skill set we needed to target in 2018. We found those experiences in Jim Trevathan, who joined our Board in December of 2018.

Jim is an accomplished operating executive who is known for exceptional leadership skills and a strong track record of operational results over a 39-year career. Jim started at Waste Management, Inc. in 1979 and most recently served as Executive Vice President and Chief Operating Officer until his retirement at the end of 2018. Jim brings COO experience, with a focus on safety, environmental issues, customer service, disruptive technologies, and community and regulatory affairs. He also has experience with transitions in management. We are looking forward to working with Jim.



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**Message from our Lead Director**

Board-Driven Shareholder Engagement

Shareholder input is very valuable to the Board's decision-making. Pinnacle West has an established shareholder engagement program where we engage with our shareholders throughout the year to discuss issues or concerns and to answer questions. We learn a great deal through our engagement program. As you may recall, in 2017 we were disappointed with our say-on-pay vote. We reached out to our shareholders to hear their concerns, particularly with respect to our executive compensation program. We addressed their concerns. In 2018 our say-on-pay vote received a "for" vote of 93%. We thank you for your input and your support.

Active and Engaged Board

Our independent Board members are expected to be active, engaged and contributing members. Our discussions are focused on oversight of Pinnacle West's business strategy, targeting the Company's critical areas of focus of shareholder value, operational excellence, environment, customer value, employees, security, and the communities we serve. This year we held a combined total of 32 Board and Board committee meetings, including an all-day session at the Palo Verde Generating Station. In addition to the Board meetings, our directors have focused on our shareholder engagement program and participated in meetings held by the Palo Verde Off-Site Safety Review Committee and by the Institute of Nuclear Power Operations.

In September the Board received presentations from engineers enrolled in and recently graduated from the incoming engineer programs with each of the Fossil, Palo Verde, and Transmission and Distribution business units. These presentations provided the Board with significant insights into the programs in place to recruit and retain engineers, as well as the work performed by the engineers and the impacts they have made across the Company.

On behalf of the Board, I thank our shareholders for their time and feedback. I am pleased to provide this additional window into the Board's activities in 2018 and express our commitment to running our business for the long-term value creation for our shareholders. We appreciate your support at our 2019 Annual Meeting.

Sincerely,

**Kathryn L. Munro**  
Lead Director

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**Notice of the 2019 Annual Meeting of Shareholders**

<b>DATE AND TIME</b>	<b>LOCATION</b>	<b>WHO CAN VOTE</b>
Wednesday, May 15, 2019 at 10:30 a.m., Mountain Standard Time	Online at <a href="http://www.virtualshareholdermeeting.com/PNW">www.virtualshareholdermeeting.com/PNW</a>	All shareholders of record at the close of business on March 8, 2019 are entitled to notice of and to vote at the Annual Meeting
<b>VOTING ITEMS</b>		<b>BOARD RECOMMENDATION</b>
<b>Proposal 1</b>	To elect eleven directors to serve until the 2020 Annual Meeting of Shareholders	<b>FOR each director nominee</b>
<b>Proposal 2</b>	To hold an advisory vote to approve executive compensation	<b>FOR</b>
<b>Proposal 3</b>	To ratify the appointment of our independent accountant for the year ending December 31, 2019	<b>FOR</b>
<b>Proposal 4</b>	A shareholder proposal asking the Company to amend its governing documents to reduce the ownership threshold to 10% to call special shareholder meetings, if properly presented at the Annual Meeting of Shareholders	<b>AGAINST</b>

**ADVANCE VOTING METHODS**

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.

**INTERNET** [www.proxyvote.com](http://www.proxyvote.com)  
**TELEPHONE** 1-800-690-6903  
**MAIL** Mark, sign, date, and mail your proxy card or voting instruction form (a postage-paid envelope is provided for mailing in the United States).

By order of the Board of Directors,  
**Diane Wood**  
 Corporate Secretary  
 March 28, 2019

The Proxy Statement and form of proxy are first being made available to shareholders on or about March 28, 2019.

**EXECUTIVE OFFICES ADDRESS:**  
 PINNACLE WEST CAPITAL CORPORATION  
 Post Office Box 53999  
 Phoenix, Arizona 85072-3999

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### 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 2018 Annual Report before you vote. The Proxy Statement and form of proxy are first being made available to shareholders on or about March 28, 2019.

### Who We Are

We are Pinnacle West Capital Corporation (“Pinnacle West”, “PNW” or the “Company”). We are an investor owned electric utility holding company based in Phoenix, Arizona with consolidated assets of about \$18 billion. For over 130 years, Pinnacle West and our affiliates have provided energy and energy-related products to people and businesses throughout Arizona. Our success enables us to reinvest in our home state’s growth and give back to our communities, enhancing Arizona’s continued economic and cultural vitality.

Pinnacle West derives essentially all of our revenues and earnings from our principal subsidiary, Arizona Public Service Company (“APS”). APS is a wholly-owned, vertically-integrated electric utility that provides either retail or wholesale electric service to most of the State of Arizona. APS is also the operator and co-owner of the Palo Verde Generating Station – a primary source of electricity for the Southwest and the largest nuclear power plant in the United States.

**APS** is Arizona’s largest and longest-serving electric company that generates safe, affordable and reliable electricity for approximately 1.2 million retail and residential customers in 11 of Arizona’s 15 counties.

### Our Strategy to Drive Value

**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.

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**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 Business Plan is anchored by four themes that align with industry trends shaping our future and the way we do business:

Deliver value-added programs and services that derive from consumer insights and strengthen our brand for the future <a href="#">2018 Highlights and Achievements</a>	Develop new initiatives and businesses that leverage our core capabilities	Adopt sustainable programs to invest in our people today and in the future	Integrate new technologies to enhance performance, reliability and the overall experience of our customers and employees
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Shareholder Value

Our management team has delivered superior performance:

<b>TOTAL SHAREHOLDER RETURN*</b>	<b>\$8.8</b>	<b>VALUE OF \$100 INVESTED AS OF DECEMBER 31, 2008</b>
	BILLION	
	2009-2018	

\*Periods ending December 31, 2018

2018 Financial and Operating Highlights

<b>PNW increased its dividend for the 7<sup>th</sup> consecutive year</b> , by 6%	APS continued successful operation of the Palo Verde Generating Station, a nuclear energy facility that is the largest <b>clean-air</b> generator in the United States	Maintained <b>strong credit ratings</b> from all three rating agencies
<b>Robust training and development opportunities for employees</b> including leadership academies, rotational programs, individual development plans, mentoring programs, industry certifications and loaned executive programs	Four Corners Power Plant <b>\$400 million pollution control equipment installation completed on time and under budget</b>	



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**Proxy Statement Summary**

Achievements

Awarded the **HIRE Vets Medallion Award** presented by the U.S. Department of Labor for excellence in veteran hiring

Earned **2018 IMPACT Award as “Arizona Advocate”** from the Greater Phoenix Chamber of Commerce

Received the **Torch of Liberty award** from the Arizona Anti-Defamation League for our support of diversity and inclusion

Community Engagement

Employees pledged **\$2.4 million through our Company-sponsored charitable giving program**, through which the Company provides a 50% match

Contributed **\$10.8 million to our communities**, with \$3.6 million invested in education

Employees donated **121,000 volunteer hours** to community organizations

APS completed its 20<sup>th</sup> Diverse Supplier Training Program offering training to small and diverse business owners

Launched “Supply My Class-APS Teacher Awards” program in which **1,000 K-8 teachers received \$500 each** to purchase classroom supplies

Each year we set aside \$1.25 million crisis bill support for customers in need – we increased that support for the benefit of customers in 2018 by \$1.0 million for a total of \$2.25 million, and then increased it again for the benefit of customers in 2019 by \$1.5 million for a total of \$2.75 million, \$500,000 of which was designated for Arizonans affected by the federal government shutdown

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 **five critical areas of sustainability**:

Carbon Management **CUMULATIVE CARBON AVOIDANCE**  
Effectively reducing our carbon intensity and deploying a diverse, increasingly cleaner energy mix is **good for our customers, our communities and the environment.**

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

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

Commitment to **exit coal by 2038**

Surpassed the Paris Agreement

greenhouse gas  
reduction goal 9 years  
early  
MSCI Environmental  
Sustainability and  
Governance **“A” rating**  
(as of November 6,  
2018)

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**Proxy Statement Summary**

Energy Innovation

Our **10 grid-scale** solar plants are powered by more than **1 million solar panels**

APS is in the midst of one of the **greatest periods of change in our Company's 130-plus year history.**

More than **1,400 MW** of installed solar capacity

Plan to add at least **950 MW of clean energy technologies**, including solar and storage, by 2025

Safety and Security

At APS, a commitment to safety and security is **fundamental to our business.**

Ongoing cyber threat awareness training and multiple cyber-incident response drills to enhance preparedness

Nearly **50% reduction** in physical security false alarms since 2016

Reducing Water Consumption

**CONSERVATION OF NON-RENEWABLE WATER SUPPLIES**

Operating in the water-constrained Southwest desert, APS is challenged to **maximize our use of recycled water resources.**

Decrease from 2014 baseline usage

**13% reduction** in groundwater use since 2014

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

Focused on our People  
APS employees power our mission to **safely and efficiently generate and deliver reliable energy for our customers.**

Average **employee tenure of 12.5 years** due to strong talent

strategy

Total turnover for 2018 was 8.4% (3.3% of which were related to retirements)

Palo Verde hosted a Diversity and Inclusion Leadership Symposium

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

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**Proxy Statement Summary**

Governance Practices

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

**Board Independence**

Independent Lead Director role with clearly defined and robust responsibilities

Ten of our eleven directors are independent and the members of all of the Board Committees are independent

**A director retirement policy** at age 75

**Board Performance**

Annual Board and Director evaluations and discussions with the Lead Director

Director skills and experience necessary to provide oversight of our strategy and operations

**Shareholder Rights**

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

Annual elections of all directors (see pages 8-9 of this Proxy Statement Summary for a list of the nominees)

**No poison pill plan** or similar anti-takeover provision in place

**No supermajority provisions** in our Articles of Incorporation or Bylaws

**Board Policies and Practices**

**Robust board refreshment and management succession planning**

**Strong ongoing shareholder engagement program** that continued in 2018, with increased emphasis on environmental, social, and governance practices

Our directors and officers are prohibited from pledging or hedging our stock

**Our strong corporate governance practices demonstrate the Board's commitment to enabling an effective structure to support the successful execution of our strategic priorities**

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**Proxy Statement Summary**

Shareholder Engagement

We have an established shareholder engagement program to maintain a dialogue with our shareholders throughout the year. 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.

**WE LISTEN TO OUR SHAREHOLDERS**

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:

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

**SHAREHOLDER  
OUTREACH**

In 2018, we contacted the holders of approximately 50% of the shares outstanding.

**BOARD ACCESS**

Our Board is focused on shareholder feedback. Our Lead Director and other members of the Board, depending on the topic to be discussed, have participated in shareholder discussions, providing shareholders with direct access to the Board.

**MATTERS DISCUSSED IN OUR FALL 2018 OUTREACH**

Our strategy  
Our performance  
Succession planning at the senior leadership level and Board refreshment  
Our people  
Executive compensation  
Sustainability

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**Proxy Statement Summary**

**Director Nominees, their Skills, Experience, Diversity and Tenure**

**INDEPENDENCE AND DIVERSITY**

**10/11**

independent directors

**3/11**

directors are gender or ethnically diverse: Mses. Munro and Sims are women and Mr. Lopez is Hispanic

**DENIS A. CORTESE, M.D.**

**INDEPENDENT**

**Director, Health Care Delivery and Policy Program, Arizona State University, and Emeritus President and CEO of the Mayo Clinic**

Age: **74**

Director since: **2010**

Committees: **Audit, Human Resources, Nuclear and Operating**

**DALE E. KLEIN, PH.D.**

**INDEPENDENT**

**Professor of Mechanical Engineering, University of Texas at Austin**

Age: **71**

Director since: **2010**

Committees: **Audit, Nuclear and Operating**

**HUMBERTO S. LOPEZ**

**INDEPENDENT**

**Chairman of the Board, HSL Properties**

Age: **73**

Director since: **1995**

Committees: **Audit, Finance (Chair), Human Resources**

**PAULA J. SIMS**

**INDEPENDENT**

**Professor of Practice and Executive Coach, UNC Kenan Flagler Business School**

Age: **57**

Director since: **2016**

Committees: **Finance, Nuclear and Operating**

**JAMES E. TREVATHAN, JR.**

**INDEPENDENT**

**Former Executive Vice President and Chief Operating Officer, Waste Management, Inc.**

Age: **65**

Director since: **2018**

Committees: **Human Resources, Nuclear and Operating**

(1) Directors ages as of February 22, 2019.

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Proxy Statement Summary

**RICHARD P. FOX**

**INDEPENDENT**

**Independent Consultant and former Managing Partner of Ernst & Young**

Age: **71**

Director since: **2014**

Committees: **Audit (Financial Expert), Finance, Human Resources (Chair)**

**MICHAEL L. GALLAGHER**

**INDEPENDENT**

**Chairman Emeritus, Gallagher and Kennedy, P.A.**

Age: **74**

Director since: **1999** Committees:

**Corporate Governance, Nuclear and Operating (Chair)**

**BRUCE J. NORDSTROM**

**INDEPENDENT**

**President and CPA, Nordstrom & Associates, P.C.**

Age: **69**

Director since: **2000**

Committees: **Audit (Chair, Financial Expert), Corporate Governance, Nuclear and Operating**

**TENURE**

**ANTICIPATED PERCENTAGE OF CURRENT INDEPENDENT DIRECTORS RETIRED BY 2025**

Year No Longer Eligible for Nomination

**DAVID P. WAGENER**

**INDEPENDENT**

**Managing Partner, Wagener Capital Management**

Age: **64**

Director since: **2014**

Committees: **Audit, Finance, Nuclear and Operating**

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**Proxy Statement Summary**

**DIRECTORS' KEY SKILLS AND EXPERIENCE**

Business Strategy	
CEO/Senior Leadership	Extensive Knowledge of Company's Business Environment
Complex Operations Experience	Government/Public Policy/Regulatory
Nuclear Experience	Utility Industry Experience
<b>DENIS A. CORTESE, M.D.</b>	
Complex Operations Experience	
Customer Perspectives	Government/Public Policy/Regulatory
Finance/Capital Allocation	Human Capital Management
Financial Literacy/Accounting	Risk Oversight and Risk Management
<b>RICHARD P. FOX</b>	
Audit Expertise	
Business Strategy	Financial Literacy/Accounting
Customer Perspectives	Public Board Service
Human Capital Management	Risk Oversight and Risk Management
<b>MICHAEL L. GALLAGHER</b>	
Business Strategy	
Corporate Governance	Extensive Knowledge of Company's Business Environment
Customer Perspectives	Human Capital Management
Finance/Capital Allocation	Public Board Service
<b>DALE E. KLEIN, PH.D.</b>	
CEO/Senior Leadership	
Complex Operations Experience	Human Capital Management
Financial Literacy/Accounting	Nuclear Experience
Government/Public Policy/Regulatory	Utility Industry Experience
<b>HUMBERTO S. LOPEZ</b>	
Customer Perspectives	Financial Literacy/Accounting
Extensive Knowledge of Company's Business Environment	Human Capital Management
Finance/Capital Allocation	Investment Experience
	Risk Oversight and Risk Management
	Human Capital Management
CEO/Senior Leadership	Investment Experience
Corporate Governance	Public Board Service
Extensive Knowledge of Company's Business Environment	Risk Oversight and Risk Management
<b>BRUCE J. NORDSTROM</b>	
Audit Expertise	
Corporate Governance	Financial Literacy/Accounting
Customer Perspectives	Human Capital Management
Extensive Knowledge of Company's Business Environment	Risk Oversight and Risk Management
<b>PAULA J. SIMS</b>	
Business Strategy	
CEO/Senior Leadership	Government/Public Policy/Regulatory
Complex Operations Experience	Risk Oversight and Risk Management
Nuclear Experience	Utility Industry Experience
<b>JAMES E. TREVATHAN, JR.</b>	
Business Strategy	Government/Public Policy/Regulatory
CEO/Senior Leadership	Human Capital Management

Complex Operations Experience

Financial Literacy/Accounting

**DAVID P. WAGENER**

Business Strategy

Finance/Capital Allocation

Financial Literacy/Accounting

Investment Experience

**FINANCE AND ACCOUNTING**

Risk Oversight and Risk Management

Public Board Service

Risk Oversight and Risk Management

Utility Industry Experience

## **BUSINESS OPERATIONS AND STRATEGY**

## **LARGE ORGANIZATIONAL LEADERSHIP**

## **THE COMPANY'S INDUSTRY**

## **PUBLIC POLICY AND REGULATORY COMPLIANCE**

## **RISK OVERSIGHT AND RISK MANAGEMENT**

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**Proxy Statement Summary**

**Executive Compensation Program**

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 total shareholder return (“TSR”), earnings, and the achievement of measurable and sustainable business and individual goals. See the CD&A on page 43 for further details.

<b>Pay Element</b>		<b>Performance Link</b>
<b>Annual Base Salary</b>	Fixed cash compensation	
<b>Annual Incentives</b>	At risk cash compensation <b>Measurement Period:</b> 1 year	<b>Earnings</b> CEO: 62.5% Other NEOs <sup>(1)</sup> : 50.0% <b>Business Unit Performance</b> CEO: 37.5% Other NEOs <sup>(1)</sup> : 50.0% <b>Relative TSR</b> 50%
<b>Long-Term Incentives</b>	At risk equity compensation <b>Measurement Period:</b> 3 years <b>Measurement Period:</b> Vest ratably over 4 years	<b>Relative Operational Performance</b> 50% <b>Stock Price</b>

<sup>(1)</sup> Named Executive Officers (“NEO”) identified on page 43 of this Proxy Statement, excluding the CEO.

<sup>(1)</sup> Includes 2017 CEO Performance-Contingent Award (defined on page 48 of this Proxy Statement).

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**Information about our Board and Corporate Governance**

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. The Corporate Governance Committee is responsible for identifying and recommending to the Board individuals qualified to become Directors. The Board believes that its membership should be composed of a combination of knowledge, skills, and experience in the areas discussed below.

Skills and Experience Possessed by our Board as a Group

**Attributes and Characteristics**

**Relevance to our Company**

Because we are a publicly traded company subject to the rules of the SEC and the New York Stock Exchange (“NYSE”), and because we operate in a complex financial environment and are regulated by multiple regulators, we require strong financial, accounting and capital allocation skills and experience.

**Finance and Accounting**

As a large organization with complex operations, our Board must have a comprehensive combination of skills and experience in business operations and strategy in order to guide the development of our near- and long-term operational and strategic goals, which requires knowledge about the Company, our business environment and our customers’ perspectives.

**Business Operations and Strategy Large**

Large organizational leadership experience, at both the management and director level, provides directors with the ability to effectively oversee management in setting, implementing and evaluating the Company’s strategic objectives.

**Organizational Leadership**

Possessing an understanding of both the utility industry and the nuclear industry is vital to understanding the challenges we face as we develop and implement our business strategy.

**The Company’s Industry Public Policy and**

Operating in the heavily regulated utility industry, we are directly affected by public policy and the actions of various federal, state and local governmental agencies.

**Regulatory Compliance Risk Oversight and**

Operations in our industry require the development of policies and procedures that allow for the oversight of and effectively manage risk.

**Risk Management**

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### **Information about our Board and Corporate Governance**

The Board believes that diversity, utilizing a broad meaning that includes race, gender, background, ethnicity, accomplishments, and other traits, is an important consideration in selecting candidates. We require our outside director search firm to make diversity a focal point of any of our searches, with an emphasis on women candidates. Additionally, each Director should possess the following core characteristics:

#### **Core Attributes and Characteristics Possessed by All Director Nominees**

##### **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 ensure 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 he or she serves 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.

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### **Information about our Board and Corporate Governance**

#### Selection of Nominees for the Board

The Corporate Governance Committee uses a variety of methods to identify and evaluate nominees for a director position:

#### **BOARD SIZE**

The Corporate Governance Committee regularly assesses the appropriate size of the Board, including whether any vacancies on the Board are expected due to retirement or otherwise.

#### **BOARD KNOWLEDGE, SKILLS, EXPERTISE AND DIVERSITY**

The Committee considers whether the Board reflects the appropriate balance of knowledge, skills, expertise, and diversity required for the Board as a whole.

#### **SOURCING 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. Other than Mr. Trevathan, all directors were elected at the 2018 Annual Meeting of Shareholders. In recruiting Mr. Trevathan, the Corporate Governance Committee retained the search firm of Spencer Stuart to help identify director prospects, perform candidate outreach, assist in reference and background checks, and provide related services. Candidates who passed the initial screening were then interviewed by members of the Corporate Governance Committee and Mr. Brandt. The Corporate Governance Committee recommended Mr. Trevathan for Board membership, and Mr. Trevathan was added to the Board in December 2018.

#### Shareholder Recommendation of Board Candidates for the 2020 Annual Meeting

Shareholder nominations for a director to the Board must be received by the Corporate Secretary at the address set forth below by November 22, 2019 (“Shareholder Nomination”):

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

#### 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.



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### **Information about our Board and Corporate Governance**

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, 2019 nor later than the close of business on November 29, 2019. 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.

### **Board Structure and Processes**

#### **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.

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**Information about our Board and Corporate Governance**

**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.

**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](http://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.

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**Information about our Board and Corporate Governance**

All of our committees are comprised of independent directors who meet the independence requirements of the 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 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

**2018 MEETINGS: 6**

**COMMITTEE MEMBERS:**

**Bruce J. Nordstrom, Chair**

Denis A. Cortese

Richard P. Fox

Dale E. Klein

Humberto S. Lopez

David P. Wagener

**KEY MEMBER SKILLS**

**2/6** Audit Expertise

**3/6** Finance/Capital Allocation

**6/6** Financial

Literacy/Accounting

**5/6** Risk Oversight and Risk

Management

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;
- 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 discusses the Company’s major financial risk exposures and the steps management has taken to monitor and control such exposures, and periodically reviews principal risks related to the Company’s financial statements, audit functions, or other matters addressed by the Audit Committee; 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.



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**Information about our Board and Corporate Governance**

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

**2018 MEETINGS: 4**

**COMMITTEE MEMBERS:**

**Kathryn L. Munro,  
Chair**

Michael L. Gallagher  
Bruce J. Nordstrom

**KEY MEMBER SKILLS**

**3/3** Corporate Governance

**3/3** Extensive Knowledge of the Company’s Business Environment

**3/3** Human Capital Management

**2/3** Public Board Service

**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;
  - 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 principal risks relating to the Company’s corporate governance policies and practices or other matters addressed by the Corporate Governance Committee;
  - 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](http://www.pinnaclewest.com)).



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**Information about our Board and Corporate Governance**

**RESPONSIBILITIES:**

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."

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, capital and/or financing leases or other arrangements incorporating the effective intent or purpose of providing any form of financing, 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;
- 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 principal risks relating to the Company's policies and practices concerning budgeting, financing credit exposures, or other matters addressed by the Finance Committee.

-Bert Lopez

**2018  
MEETINGS:  
4**