

PINNACLE WEST CAPITAL CORP
Form DEF 14A
April 04, 2014

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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 §240.14a-12

Pinnacle West Capital Corporation

(Name of Registrant as Specified In Its Charter)

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

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- No fee required.
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(3) Filing Party:

(4) Date Filed:

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Donald E. Brandt
Chairman of the Board, President
& Chief Executive Officer

Dear Fellow Pinnacle West Shareholders:

On behalf of our Board of Directors, management team and employees, I invite you to attend our 2014 Annual Meeting of Shareholders. The meeting will be held at 10:30 a.m. (Mountain Standard Time), Wednesday, May 21, 2014, at the Heard Museum located at 2301 N. Central Avenue in Phoenix, Arizona.

2013 was another successful year for Pinnacle West and your investment in our Company:

Your Board increased the common dividend by 4.0% for the second consecutive year;

Pinnacle West's stock price increased 3.8%, and our total return to shareholders a combination of stock price appreciation and dividends paid was 8.0%; and

Total shareholder value increased \$466 million in 2013 and \$3.7 billion over the past five years.

At the Annual Meeting, we will share additional updates with you on the Company's performance and operations over the past year, as well as discuss recent developments and any other business matters properly brought before the meeting. As explained in the attached Proxy Statement, we are asking you to (1) elect eleven Board of Director nominees; (2) consider and vote for an advisory resolution to approve executive compensation; and (3) ratify the appointment of our independent public accounting firm for 2014.

The attached Proxy Statement explains our voting procedures, describes the business we will conduct at the Annual Meeting and provides information about the Company that you should consider when voting your shares. To better communicate these matters, we have made a number of improvements to this year's Proxy Statement. In addition to an easier-to-read format, we have enhanced certain charts and tables to convey important information about our Board and corporate governance, as well as our compensation program and objectives.

Your vote is important. Whether you own a few shares or many, please ensure that your shares are represented and voted at the meeting. You have four ways to vote your shares: via the Internet; by telephone; by returning a signed and dated proxy card; or by voting in person at the meeting.

Thank you for your ongoing support of Pinnacle West. I hope you will be able to join us at this year's Annual Meeting.

Sincerely,

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NOTICE OF THE 2014 ANNUAL MEETING OF SHAREHOLDERS

April 4, 2014

The 2014 Annual Meeting of Shareholders of Pinnacle West Capital Corporation ("Pinnacle West" or the "Company") will be held at the Heard Museum, 2301 North Central Avenue, Phoenix, Arizona 85004, at 10:30 a.m., Mountain Standard Time, on Wednesday, May 21, 2014. The purposes of the meeting are:

- (1) to elect eleven directors to serve until the 2015 Annual Meeting of Shareholders (Proposal 1);
- (2) to hold an advisory vote to approve executive compensation (Proposal 2);
- (3) to ratify the appointment of our independent accountants for the year ending December 31, 2014 (Proposal 3); and
- (4) to transact such other business as may properly come before the meeting and at any adjournments or postponements of the meeting.

All shareholders of record at the close of business on March 14, 2014 are entitled to notice of and to vote at the meeting. Your vote is important. Whether or not you plan to attend the Annual Meeting in person, please promptly vote by telephone, via the Internet, or by proxy card or vote instruction form.

By order of the Board of Directors,

DIANE WOOD
Corporate Secretary

PINNACLE WEST CAPITAL CORPORATION

Post Office Box 53999

Phoenix, Arizona 85072-3999

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This summary highlights certain information contained in this Proxy Statement. As it is only a summary, please read the complete Proxy Statement and 2013 Annual Report before you vote.

Annual Meeting of Shareholders

Date:	May 21, 2014
Time:	10:30 a.m. Mountain Standard Time
Place:	Heard Museum 2301 North Central Avenue Phoenix, Arizona 85004
Record Date:	March 14, 2014
Admission to the Meeting:	Proof of stock ownership will be required to attend the Annual Meeting. See page 8 of this Proxy Statement for admission requirements.
Delivery of Materials:	Proxy Statement and form of proxy are first being made available to shareholders on or about April 4, 2014.

Voting Matters and Board Recommendations

Matters	Board Recommendations	Page
Election of directors	FOR each nominee	16
Advisory vote to approve executive compensation	FOR	76
Ratification of Deloitte & Touche LLP ("D&T") as our independent accountants for 2014	FOR	77

Table of Contents**Our Director Nominees**

Our director nominees are:

Name	Age	Director Since	Independent		Committee Memberships				
			No	Company	AC	CGC	FC	HRC	NOC
Donald E. Brandt	59	2009	No	Company					
			President and CEO						
Susan Clark-Johnson	67	2008	Yes			X			X
Denis A. Cortese, M.D.	69	2010	Yes		X			X	X
Richard P. Fox	66	2014	Yes		X		X		
Michael L. Gallagher	69	1999	Yes			X			C
Roy A. Herberger, Jr., Ph.D.	71	1992	Yes			X	X	C	
Dale E. Klein, Ph.D.	66	2010	Yes		X				X
Humberto S. Lopez	68	1995	Yes		X		C	X	
Kathryn L. Munro*	65	2000	Yes			C	X	X	
Bruce J. Nordstrom	64	2000	Yes		C, F	X	X		
David P. Wagener	59	2014	Yes				X		X

AC Audit Committee

* Lead Director

CGC Corporate Governance Committee

C Chair

FC Finance Committee

F Financial Expert

HRC Human Resources Committee

NOC Nuclear & Operating Committee

2013 Executive Compensation

Total compensation, as reported in the Summary Compensation Table and calculated in accordance with the rules of the Securities and Exchange Commission (the "SEC"), is set forth below for Messrs. Brandt, Hatfield, Edington, Falck, Robinson and Schiavoni (the "Named Executive Officers"). The total compensation number includes a year-over-year change in pension value as determined under the SEC rules. The change in pension value is subject to many variables that are not related to Company or individual performance, such as interest rates. As such, we do not believe this number is helpful in evaluating executive compensation. We also note that the SEC rules require us to include in the stock award column the grant date fair value of equity grants given to our Named Executive Officers in

2013, even though the performance shares will not vest, if at all, until the end of a three-year performance period and then only to the extent the specified performance conditions are met, and the restricted stock units ("RSUs") will vest in installments each year through 2017.

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	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)
p;	1,203,300	0	4,000,235	1,893,994	1,020,892	26,344
p;	540,000	0	700,005	485,611	347,743	23,621
	925,000	0	500,208	814,505	96,488	21,708
p;	502,000	0	700,005	454,059	303,367	28,764
	241,622	0	1,400,231	202,912	21,755	10,253
p;	485,000	0	700,005	446,219	275,670	25,373

1

Mr. Robinson retired from APS in April 2013.

Executive Compensation Program Highlights

Highlights of our executive compensation program include:

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

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

Key Management Retention. We structure our program to provide compensation at levels necessary to attract, engage and retain an experienced management team who have the skill sets to succeed in our complex operating and regulatory environment, including operating the nation's largest nuclear power station, and to provide consistently strong operating and financial results.

A program with a few key elements. Our key compensation elements are simple and understandable: base salary; annual performance-based cash incentive; three-year performance-based equity grant; a retention-based equity grant that releases over a four-year period; pension and supplemental pension retirement benefits; and limited perquisites.

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A program with strong shareholder support. Of the shareholder votes cast at our 2013 Annual Meeting of Shareholders (the "2013 Annual Meeting"), more than 93% were "FOR" the compensation of the executives as disclosed in our 2013 Proxy Statement, excluding abstentions.

Performance Highlights

In 2013, we delivered strong financial results and operational performance. Our results included:

the Company's stock price increased 3.8% and set a new all-time high;

the Company increased the common dividend by 4% for the second straight year;

the Arizona Corporation Commission ("ACC") acknowledged net metering shifts costs between customers and implemented a new charge to lessen the non-solar customer impact;

the ACC closed its docket examining whether electric deregulation should be implemented in Arizona, protecting most APS customers from negative rate and reliability impacts;

the Palo Verde Nuclear Generating Station ("Palo Verde") had a capacity factor of 91.1%;

during its 2013 evaluation, the Institute of Nuclear Power Operations ("INPO") determined that Palo Verde had achieved excellence in nuclear power plant operations;

the Company achieved its safest year on record, placing us in the top decile in the industry; and

total shareholder return (stock price appreciation plus dividends) ("TSR") performance was solid.

Total Shareholder Return

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Auditors

We are asking our shareholders to ratify the appointment of D&T as our independent accountants for 2014. A summary of fees paid to D&T in 2012 and 2013 is set forth on page 78.

Important Dates for the 2015 Annual Meeting of Shareholders

Shareholder proposals submitted for inclusion in our 2015 Proxy Statement must be received by us no later than December 5, 2014. Notice of shareholder proposals to be raised from the floor of the 2015 Annual Meeting of Shareholders must be received by us no earlier than January 21, 2015 and no later than February 20, 2015.

Corporate Governance Highlights

Highlights of our corporate governance include:

annual election of all directors;

ten of our eleven directors are independent;

an independent Lead Director with significant responsibilities;

all of our committees of the Board of Directors (the "Board") are comprised solely of independent directors;

last year our directors received an average 97% shareholder vote in favor of their election and no director received a vote of less than 90%;

each director attended at least 75% of the Board meetings and any Board committee meetings on which he or she served;

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

director and officer stock ownership guidelines.

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Place, Date and Time

The Company's 2014 Annual Meeting of Shareholders ("Annual Meeting") will be held at the Heard Museum, 2301 North Central Avenue, Phoenix, Arizona 85004, at 10:30 a.m., Mountain Standard Time, on Wednesday, May 21, 2014.

Notice of Internet Availability

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

The Internet Notice is first being sent to shareholders on or about April 4, 2014. The Proxy Statement and the form of proxy relating to the Annual Meeting are first being made available to shareholders on or about April 4, 2014.

Record Date; Shareholders Entitled to Vote

All shareholders at the close of business on March 14, 2014 (the "record date") are entitled to vote at the meeting. Each holder of outstanding Company common stock is entitled to one vote per share held as of the record date on all matters on which shareholders are entitled to vote, except for the election of directors, in which case "cumulative" voting applies (see "Vote Required - Election of directors"). At the close of business on the record date, there were 110,352,175 shares of common stock outstanding.

Voting

Vote by Internet. The website address for Internet voting is on the Internet Notice. Internet voting is available 24 hours a day.

Vote by telephone. The toll-free number for telephone voting is on your proxy card. Telephone voting is available

24 hours a day.

Vote by mail. You may vote by mail by promptly marking, signing, dating, and mailing your proxy card (a postage-paid envelope is provided for mailing in the United States).

Vote in person. You may come to and vote at the Annual Meeting. If you hold your shares in street name, you must obtain a proxy, executed in your favor, from the holder of record if you wish to vote these shares at the meeting.

If you vote by telephone or Internet, DO NOT mail a proxy card.

You may change or revoke your vote at any time before the proxy is exercised by: filing with our Corporate Secretary either a notice of revocation or a signed proxy card bearing a later date; re-voting by telephone; or re-voting by Internet. Your proxy will be suspended with respect to your shares if you attend the meeting in person and so request, although attendance at the meeting will not by itself revoke a previously-granted proxy.

Your vote is confidential. Only the following persons have access to your vote: election inspectors; individuals who help with the processing and counting of votes; and persons who need access for legal reasons. All votes will be counted by an independent inspector of elections appointed for the Annual Meeting.

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Quorum

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

Vote Required

Election of directors. Individuals receiving the highest number of votes will be elected. The number of votes that a shareholder may, but is not required to, cast is calculated by multiplying the number of shares of common stock owned by the shareholder, as of the record date, by the number of directors to be elected. Any shareholder may cumulate his or her votes by casting them for any one nominee or by distributing them among two or more nominees. Abstentions will not be counted toward a nominee's total and will have no effect on the election of directors. You may not cumulate your votes against a nominee. If you hold shares beneficially through a broker, trustee or other nominee and wish to cumulate votes, you should contact your broker, trustee or nominee. If you would like to exercise your cumulative voting rights, you must do so by mail. The Company's Bylaws provide that, in an uncontested election, a director nominee who receives a greater number of votes cast "withheld" for his or her election than "for" such election will promptly tender his or her resignation to the Corporate Governance Committee. The Corporate Governance Committee is required to evaluate the resignation, taking into account the best interests of the Company and its shareholders, and will recommend to the Board whether to accept or reject the resignation.

Under the current rules of the New York Stock Exchange ("NYSE"), your broker is not able to vote on your behalf in any director election unless you give your broker specific voting instructions. We encourage you to provide instructions so that your shares will be counted in the election of directors.

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

Ratification of the appointment of the independent accountants. The votes cast "for" must exceed the votes cast "against" to ratify the appointment of the independent accountants for the year ending December 31, 2014. Abstentions and broker non-votes will have no effect on the outcome of this proposal.

The Board recommends a vote:

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

FOR the approval, on an advisory basis, of the resolution approving the

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compensation of our Named Executive Officers, as disclosed in this Proxy Statement (Proposal 2); and

FOR the ratification of the appointment of D&T as the Company's independent accountants for the year ending December 31, 2014 (Proposal 3).

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

Attendance at the Annual Meeting

In order to attend the Annual Meeting, you will need to present a valid picture identification, such as a driver's license or passport, and either:

the Internet Notice or the top portion of your proxy card if you are a shareholder of record (each Internet Notice or proxy card admits up to two shareholders); or

a copy of a brokerage statement showing ownership of our stock as of the close of business on the record date if you hold your shares in street name (each brokerage statement admits up to two shareholders).

Please do not carry items such as large handbags and packages to the meeting, as we reserve the right to inspect any items brought into the meeting. Weapons are prohibited in the meeting. We also reserve the right to prohibit bringing cell phones, pagers, cameras, recording devices, and other items into the meeting room.

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

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

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

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

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

The Company will promptly deliver to you the information requested. Shareholders who own Company stock through a broker and who wish to receive separate copies of the Internet Notice, Annual Report or Proxy Statement should contact their broker.

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

Shareholder Proposals or Director Nominations for the 2015 Annual Meeting

To be included in the proxy materials for the 2015 Annual Meeting of Shareholders (the "2015 Annual Meeting"), any shareholder proposal intended to be presented at that meeting must be received by our Corporate Secretary no later than December 5, 2014 at the following address:

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

A shareholder who intends to present a proposal at the 2015 Annual Meeting, but does not wish it to be included in the 2015 proxy materials, must submit the proposal no earlier than January 21, 2015 and no

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later than the close of business on February 20, 2015. Nominations for the Board must be received by November 24, 2014. In all cases, shareholders must also comply with the applicable rules of the SEC and our Bylaws.

Proxy Solicitation

The Board is soliciting the enclosed proxy. The Company may solicit shareholders over the Internet, by telephone or by mail. The Company has retained D.F. King & Co., Inc., to assist in the distribution of proxy solicitation materials and the solicitation of proxies for \$9,500, plus customary expenses. The costs of the solicitation will be paid by the Company. Proxies may also be solicited in person, by telephone or electronically by Company personnel who will not receive additional compensation for such solicitation. As required, the Company will reimburse brokerage houses and others for their out-of-pocket expenses in forwarding documents to beneficial owners of our stock.

INFORMATION ABOUT OUR BOARD AND CORPORATE GOVERNANCE

Director Independence

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

Based on the Board's review, the Board has determined that one of the Company's directors is not independent and that all of the other directors are independent. The independent directors are Messrs. Fox, Gallagher, Lopez, Nordstrom, and Wagener, Drs. Cortese, Herberger and Klein, and Mses. Clark-Johnson and Munro. Mr. Brandt is not independent under the NYSE rules or the Director Independence Standards because of his employment with the Company. Mr. Basha passed away in March 2013. He was independent while he was a member of the Board.

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

In considering the independence of Mr. Gallagher, the Board considered that the law firm of Gallagher & Kennedy, P.A. ("Gallagher & Kennedy"), where Mr. Gallagher is Chairman Emeritus, provided legal services to the Company in 2013 and is expected to provide legal services to the Company in 2014. However, since: (a) the amounts paid to Gallagher & Kennedy were less than the dollar thresholds set forth in the NYSE rules and the Director Independence Standards, and were less than one percent of the Company's and Gallagher & Kennedy's revenues for fiscal year 2013; (b) Mr. Gallagher does not furnish legal services to the Company; and (c) he has advised the Company that he receives no compensation or benefits from Gallagher & Kennedy as a result of the firm providing legal services to the Company, the Board determined that Mr. Gallagher was independent.

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Ms. Clark-Johnson is an employee of Arizona State University ("ASU") in her capacity as the Executive Director of the Morrison Institute for Public Policy. Dr. Cortese is also an employee of ASU in his capacity as the Director of the ASU Health Care Delivery and Policy Program and a Foundation Professor in the Department of Biomedical Informatics, Ira A. Fulton School of Engineering and in the School of Health Management and Policy, W.P. Carey School of Business. ASU is considered a part of the reporting entity for the State of Arizona (the "State") for financial reporting purposes and, as such, the State is the entity considered in applying the independence tests. In considering the independence of Ms. Clark-Johnson and Dr. Cortese, the Board considered the fact that transactions between the State and the Company and its affiliates consist of providing electric service, utility-related construction, building leases, and the payment of various State fees, taxes, memberships, licenses, sponsorships and donations. The Board determined that these matters do not impact Ms. Clark-Johnson's or Dr. Cortese's independence since amounts paid to or received from the State are less than the dollar thresholds set forth in the NYSE rules and the Director Independence Standards. In addition, neither of these directors benefits financially, directly or indirectly, from ASU's business relationships with the Company, most of which consist of receiving electric service at regulated rates.

With respect to all of the directors, the Board considered that many of the directors and/or businesses of which they are officers, directors, shareholders, or employees are located in APS's service territory and purchase electricity from APS at regulated rates in the normal course of business. The Board considered these relationships in determining the directors' independence, but, because the rates and charges for electricity provided by APS are fixed by the ACC, and the directors satisfied the other independence criteria specified in the NYSE rules and the Director Independence Standards, the Board determined that these relationships did not impact the independence of any director. The Board also considered contributions to charitable and non-profit organizations where a director also serves as a director of such charity or organization. However, since no director is also an executive officer of such charitable or non-profit organization, the Board determined that these payments did not impact the independence of any director.

Board Meetings and Attendance

In 2013, our Board held seven meetings and none of our directors attended fewer than 75% of the Board meetings and any meetings of Board committees on which he or she served. Each director is expected to be present at the Annual Meeting. All of the Board members attended the 2013 Annual Meeting.

Board Committees

The Board has the following standing committees: Audit; Corporate Governance; Finance; Human Resources; and Nuclear and Operating. All of the charters of the Board's committees are publicly available on the Company's website (www.pinnaclewest.com). All of our committees are comprised of independent directors who meet the independence requirements of the NYSE rules, SEC rules, and the Director Independence Standards, including any specific committee independence requirements.

Audit Committee

The Audit Committee held seven meetings in 2013. Among other things, the Audit Committee:

oversees the integrity of the Company's financial statements;

appoints the independent accountants and is responsible for their qualifications,

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independence, performance, and compensation;

reviews the performance of the Company's internal audit function; and

monitors the Company's compliance with legal and regulatory requirements.

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, is an "audit committee financial expert" under applicable SEC rules.

Corporate Governance Committee

The Corporate Governance Committee held five meetings in 2013. Among other things, the Corporate Governance Committee:

reviews and assesses the Corporate Governance Guidelines;

develops and recommends to the full 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; and

reviews the results of the Annual Meeting shareholder votes.

The Corporate Governance Guidelines are available on the Company's website (www.pinnaclewest.com).

Finance Committee

The Finance Committee held four meetings in 2013. Among other things, the Finance Committee:

reviews the Company's historical and projected financial performance and the Company's financing plan and recommends approval of credit facilities and the issuance of long-term debt, common equity and preferred securities;

reviews and recommends approval of the Company's annual capital budget and reviews the annual operations and maintenance budget;

reviews and recommends approval of short-term investments and borrowing policies; and

reviews and recommends to the Board the Company's dividend actions.

Human Resources Committee

The Human Resources Committee held four meetings in 2013. Among other things, the Human Resources Committee:

reviews management's programs for the attraction, retention, and development of the Company's human resources;

recommends to the full Board persons for election as officers;

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

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

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

acts as the "committee" under the Company's long-term incentive plans.

Under the Human Resources Committee's charter, the Human Resources Committee may delegate authority to subcommittees, but did not do so in 2013. Additional information on the processes and procedures of the Human Resources Committee is provided under the heading "Compensation Discussion and Analysis ("CD&A")."

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Nuclear and Operating Committee

The Nuclear and Operating Committee held four meetings in 2013. Among other things, the Nuclear and Operating Committee:

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

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

reviews and monitors the power plant operations, energy transmission and delivery, and customer service functions of the Company; and

reviews and monitors the Company's compliance with environmental, health and safety policies.

In addition, the Nuclear and Operating Committee receives regular reports from the Offsite Safety Review Committee (the "OSRC"). The OSRC provides independent assessments of the safe and reliable operations of Palo Verde. Pursuant to Palo Verde's operating licenses, the OSRC focuses its assessment on operations, engineering, maintenance, safety, security and other support functions. The OSRC is comprised of non-employee individuals with senior management experience in the nuclear industry and the Palo Verde Director of Nuclear Assurance, and it meets periodically throughout the year.

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 functions:

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 executive sessions are regularly scheduled as part of each Board meeting;

calls meetings of the independent directors when necessary and appropriate;

oversees the Board and Board committee self-assessment process;

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

performs such other duties as the Board may from time to time delegate; and

reviews the results of the Annual Meeting shareholder votes.

Chairman and CEO Positions. The Chairman is Donald E. Brandt, the Company's President and CEO. The Board believes that combining the roles of the CEO and Chairman enhances the Board's ability to communicate clearly and effectively with management, and that an independent Board Chairman would create an additional level of hierarchy that would only duplicate the activities already being vigorously carried out by its Lead Director.

The Board's Role in Risk Oversight

The ultimate responsibility for the management of the Company's risks rests with the Company's senior management team. The Board's oversight of the Company's risk management function is designed to provide assurance that the Company's risk management processes are well adapted to and consistent with the Company's business and strategy, and are functioning as intended. The Board focuses on fostering a culture of risk awareness and

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risk-adjusted decision-making and ensuring that an appropriate "tone at the top" is established. The Board regularly discusses and updates a listing of areas of risk and a suggested allocation of responsibility for such risks among the Board committees. The charter for each of our committees requires each committee to periodically review risks in their respective areas. Each committee:

receives periodic presentations from management about its assigned risk areas;

considers the effectiveness of the risk identification and mitigation measures being employed; and

discusses their risk reviews with the full Board at least annually.

Consistent with the requirements of the NYSE's corporate governance standards, the Audit Committee periodically reviews the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures. The Audit Committee also reviews the comprehensiveness of the Board's risk oversight and the Company's risk assessment process, and plays a coordinating role designed to ensure that no gaps exist in the coverage by the Board committees of risk areas. In recommending the composition of the Board's committees and the selection of committee Chairs, the Corporate Governance Committee takes into account the effective functioning of the risk oversight role of each Board committee and the risk areas assigned to it.

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

Director Qualifications; Selection of Nominees for the Board

Director Qualifications. The Bylaws and the Corporate Governance Guidelines contain Board membership criteria that apply to nominees recommended for a position on the Board. Under the Bylaws, a director must be a shareholder of the Company. In determining whether an individual should be considered for Board membership, the Corporate Governance Committee considers the following qualities, among others: integrity; knowledge, including regulatory and political knowledge, and nuclear expertise at the strategic level; judgment; understanding of the Company's business environment; and the potential contribution of each candidate to the diversity of backgrounds, experience and competencies which the Board desires to have represented, including large organizational leadership, public company experience and risk oversight skills. The Corporate Governance Committee considers diversity in its selection of nominees utilizing a broad meaning to include not only factors such as race and gender, but also background, experience, skills, accomplishments, financial expertise, and professional interests. The Corporate Governance Committee also considers the amount of time that a person will likely have to devote to his or her duties as a director, including responsibilities as an executive

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officer, board member or trustee of businesses and charitable institutions.

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

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

Any shareholder who wishes to submit a nomination for a director to the Board must deliver that nomination to our Corporate Secretary by November 24, 2014 and comply with the information requirements in the Company's Bylaws.

The Corporate Governance Committee recommended Messrs. Fox and Wagener for Board membership. Messrs. Fox and Wagener were elected as directors on February 19, 2014. Their candidacies were initially identified by a non-management director and Mr. Brandt, respectively.

Director Resignation Due to Substantial Change in Their Primary Business Position

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

Communication with the Board

Shareholders and other parties interested in communicating with the Board may do so by writing to the Corporate Secretary, Pinnacle West Capital Corporation, 400 North Fifth Street, Mail Station 8602, Phoenix, Arizona 85004, indicating who should receive the communication, for example, the Lead Director or the independent directors. The Corporate Secretary will transmit communications not otherwise specifically addressed and that raise substantial issues to the Lead Director and to the Chair of the Board Committee most closely associated with the matter. The Corporate Secretary has discretion to exclude communications that are commercial advertisements or other forms of solicitations, service or billing complaints and complaints related to individual employment-related actions.

Codes of Ethics and Strategic Framework

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

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Code of Ethics and Business Practices (the "Code of Ethics"). Employees, directors and officers receive the Code of Ethics when they join the Company or APS, as well as any subsequent updates. The Code of Ethics helps ensure that employees, directors and officers of the Company and APS act with integrity and avoid any real or perceived violation of the Company's policies and applicable laws and regulations.

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

The Company provides periodic online training and examination covering the principles in the Code of Ethics. This training includes extensive discussion of the Company's values, an explanation of Company ethical standards, application of ethical standards in typical workplace scenarios, assessment questions to measure understanding and an agreement to abide by the Code of Ethics. All employees of the Company and APS and all of our directors complete the training.

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

The Company's Strategic Framework. APS has adopted a strategic framework that defines its vision, mission, areas of focus, and values. APS's vision is to create a sustainable energy future for Arizona. APS's mission is to safely and efficiently generate and deliver reliable electric power and related services to its customers. The areas of focus are employees, operational excellence, environmental stewardship, customers and communities, and shareholder value. The framework affirms our corporate values of safety, integrity and trust, respect, and accountability. Here is our Strategic Framework:

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The eleven nominees for election as directors are set forth below, where we provide a description of their occupation, business background and other directorships, as well as a discussion of the specific skills that the Board believes qualifies each of our nominees to serve as a director. All nominees will be elected for a one-year term that will expire at the 2015 Annual Meeting. The directors' ages are as of February 21, 2014. All of our directors also serve as directors of APS.

Donald E. Brandt, age 59, has been a director since 2009. Mr. Brandt is Chairman of the Board, President and CEO of the Company and APS. He has been Chairman of the Board and CEO of the Company since April 2009 and President of the Company since March 2008. He has been President of APS since May 2013, Chairman of the Board of APS since April 2009, and CEO of APS since March 2008. Mr. Brandt also served as President of APS from December 2006 to January 2009. Mr. Brandt has also served as an officer of the Company in the following additional capacities: March 2008 to April 2009 as Chief Operating Officer; September 2003 to March 2008 as Executive Vice President; December 2002 to September 2003 as Senior Vice President; and from December 2002 to March 2008 as Chief Financial Officer.

As Chairman of the Board, President and CEO of the Company and APS, and with nearly three decades of experience in the utility industry, Mr. Brandt has a broad understanding of the factors affecting the Company's business. Mr. Brandt currently serves on the boards of INPO, the Nuclear Energy Institute ("NEI"), the Edison Electric Institute, and Nuclear Electric Insurance Limited ("NEIL"), all major industry organizations that provide insights into operational, financial and policy matters of great importance to the Company.

Susan Clark-Johnson, age 67, has been a director since 2008. Ms. Clark-Johnson is Executive Director of the Morrison Institute for Public Policy, ASU. She has held this position since May 2008. Ms. Clark-Johnson was President of Gannett Newspaper Division, Gannett Co., Inc. (newspaper publishing) from September 2005 until her retirement in May 2008. Ms. Clark-Johnson was Chairman and Chief Executive Officer of Phoenix Newspapers, Inc., from August 2000 to September 2005. Ms. Clark-Johnson is also a director of Chyron Corporation. Ms. Clark-Johnson serves on the Company's Corporate Governance and Nuclear and Operating Committees.

Ms. Clark-Johnson brings to the Company a breadth of operational and managerial experience from running a major division of a Fortune 500 company. Also, as the former Publisher of the Arizona Republic newspaper, Ms. Clark-Johnson has a keen understanding of Arizona's political, economic and cultural spheres.

Denis A. Cortese, M.D., age 69, has been a director since 2010. Dr. Cortese is the Director of the ASU Health Care Delivery and Policy Program and a Foundation Professor in the Department of Biomedical Informatics, Ira A. Fulton School of Engineering and in the School of Health Management and Policy, W.P. Carey School of Business. He has held these positions since February 2010. Dr. Cortese has been Emeritus President and Chief Executive Officer, Mayo Clinic (medical clinic and hospital services) since November 2009 and was President and Chief Executive Officer of Mayo Clinic from March 2003 until his retirement in November 2009. Dr. Cortese is also a director of Cerner Corporation. Dr. Cortese serves on the Company's Audit,