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PINNACLE WEST CAPITAL CORP

FORM 8-K
(Current report filing)

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Industry	Electric Utilities
Sector	Utilities
Fiscal Year	12/31

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

FORM 8-K

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

Date of report (Date of earliest event reported): May 26, 2015

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

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

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

Item 7.01 Regulation FD Disclosure.

Investor and Analyst Meetings

Pinnacle West Capital Corporation ("Pinnacle West") will be participating in various meetings with securities analysts and investors on May 27 through May 28, 2015 and will be utilizing handouts during those meetings. Copies of the handouts are attached hereto as Exhibit 99.1.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

Exhibit No.	Registrant(s)	Description
99.1	Pinnacle West Arizona Public Service Company	Pinnacle West handouts for use at meetings on May 27 through May 28, 2015.

SIGNATURES

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

PINNACLE WEST CAPITAL CORPORATION
(Registrant)

Dated: May 26, 2015

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

ARIZONA PUBLIC SERVICE COMPANY
(Registrant)

Dated: May 26, 2015

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

POWERING GROWTH DELIVERING VALUE

Investor Meetings | May 27-28, 2015

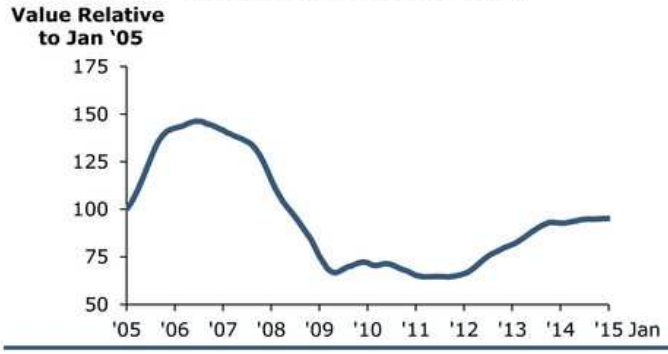
PINNACLE WEST
CAPITAL CORPORATION

FORWARD LOOKING STATEMENTS

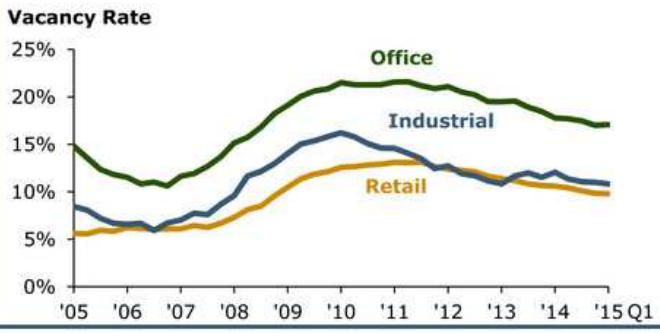
This presentation contains forward-looking statements based on current expectations, including statements regarding our earnings guidance and financial outlook and goals. These forward-looking statements are often identified by words such as "estimate," "predict," "may," "believe," "plan," "expect," "require," "intend," "assume" and similar words. Because actual results may differ materially from expectations, we caution you not to place undue reliance on these statements. A number of factors could cause future results to differ materially from historical results, or from outcomes currently expected or sought by Pinnacle West or APS. These factors include, but are not limited to: our ability to manage capital expenditures and operations and maintenance costs while maintaining reliability and customer service levels; variations in demand for electricity, including those due to weather, the general economy, customer and sales growth (or decline), and the effects of energy conservation measures and distributed generation; power plant and transmission system performance and outages; competition in retail and wholesale power markets; regulatory and judicial decisions, developments and proceedings; new legislation or regulation, including those relating to environmental requirements, nuclear plant operations and potential deregulation of retail electric markets; fuel and water supply availability; our ability to achieve timely and adequate rate recovery of our costs, including returns on debt and equity capital; our ability to meet renewable energy and energy efficiency mandates and recover related costs; risks inherent in the operation of nuclear facilities, including spent fuel disposal uncertainty; current and future economic conditions in Arizona, particularly in real estate markets; the development of new technologies which may affect electric sales or delivery; the cost of debt and equity capital and the ability to access capital markets when required; environmental and other concerns surrounding coal-fired generation; volatile fuel and purchased power costs; the investment performance of the assets of our nuclear decommissioning trust, pension, and other postretirement benefit plans and the resulting impact on future funding requirements; the liquidity of wholesale power markets and the use of derivative contracts in our business; potential shortfalls in insurance coverage; new accounting requirements or new interpretations of existing requirements; generation, transmission and distribution facility and system conditions and operating costs; the ability to meet the anticipated future need for additional baseload generation and associated transmission facilities in our region; the willingness or ability of our counterparties, power plant participants and power plant land owners to meet contractual or other obligations or extend the rights for continued power plant operations; and restrictions on dividends or other provisions in our credit agreements and ACC orders. These and other factors are discussed in Risk Factors described in Part I, Item 1A of the Pinnacle West/APS Annual Report on Form 10-K for the fiscal year ended December 31, 2014 which you should review carefully before placing any reliance on our financial statements, disclosures or earnings outlook. Neither Pinnacle West nor APS assumes any obligation to update these statements, even if our internal estimates change, except as required by law.

ARIZONA ECONOMIC INDICATORS

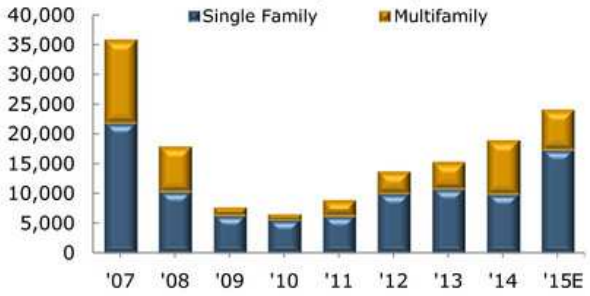
Home Prices – Metro Phoenix



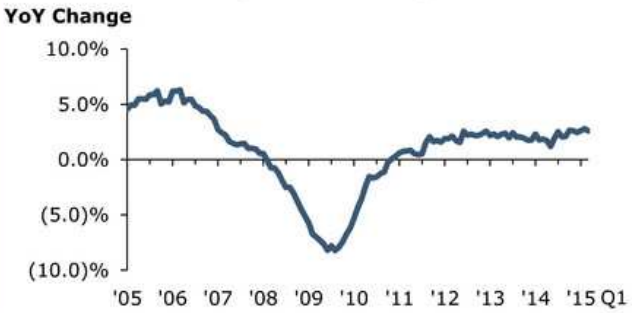
Nonresidential Building Vacancy – Metro Phoenix



Single Family & Multifamily Housing Permits
Maricopa County

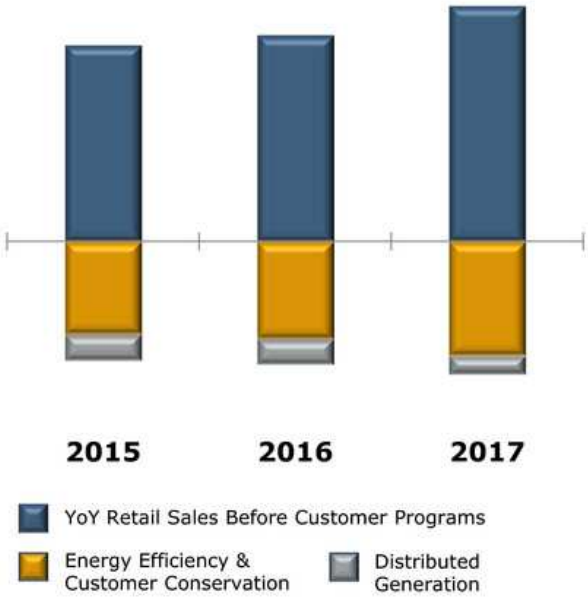


Job Growth (Total Nonfarm) - Arizona



PINNACLE WEST
CAPITAL CORPORATION

RETAIL SALES GROWTH (WEATHER-NORMALIZED)



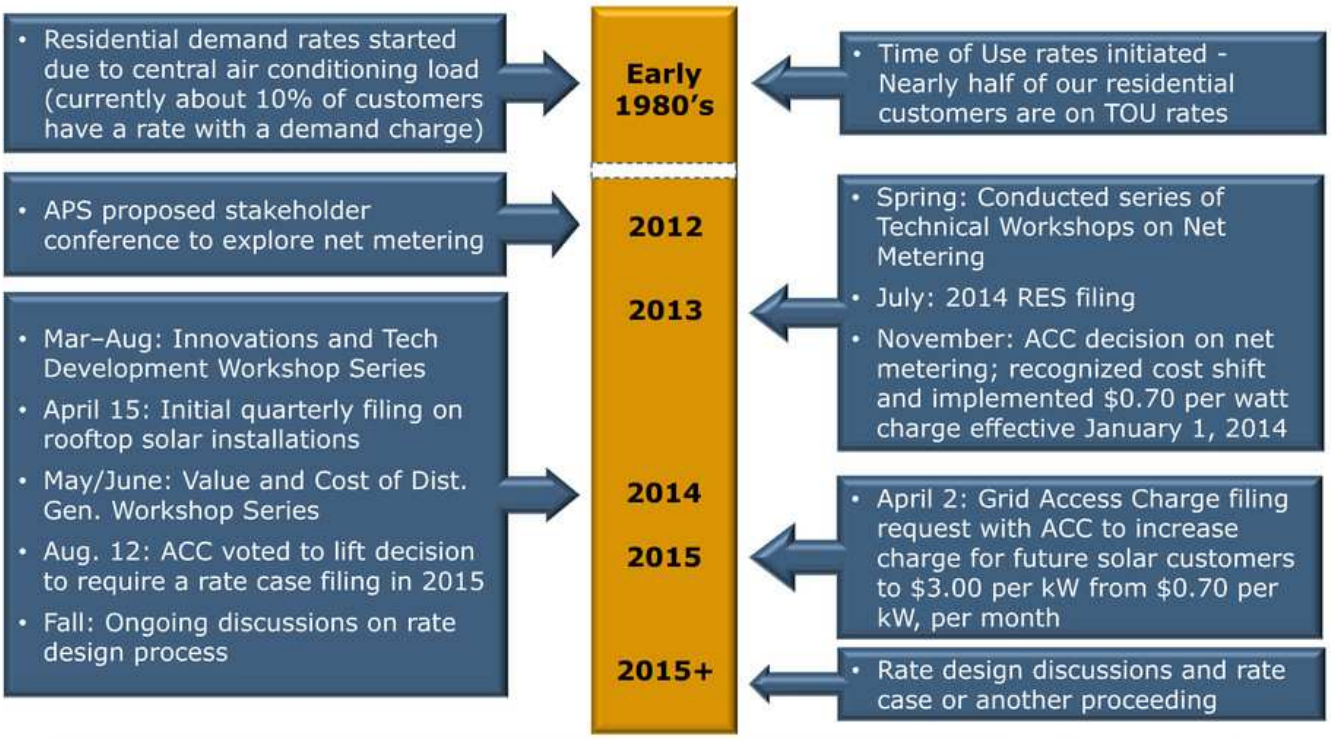
- Weather-normalized retail sales growth on average about 0.5-1.5% for 2015-2017 after impacts of energy efficiency, customer conservation and distributed renewable generation initiatives (excluding Lost Fixed Cost Recovery)

Distributed Generation (DG) Impact

- DG makes up 0.5% (or less) of the negative impact to retail sales growth as shown in the chart; equates to approximately 60 GWh out of our total retail sales of over 28,000 GWh
- Average residential rooftop solar system produces 10,000 – 12,000 KWh per year (average metro-Phoenix customer's usage is nearly 15,000 KWh)

PINNACLE WEST CAPITAL CORPORATION

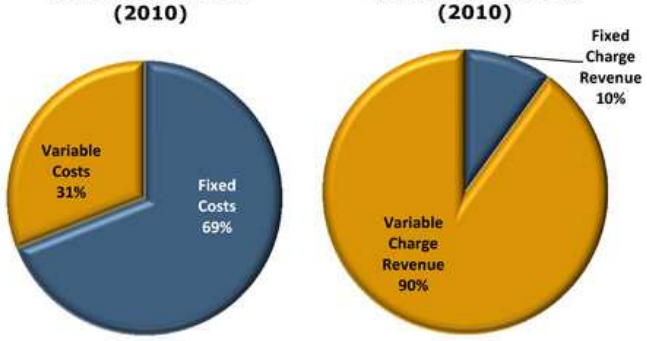
KEY DATES FOR RATE DESIGN



PINNACLE WEST CAPITAL CORPORATION

GRID ACCESS CHARGE REQUEST IS NEXT STEP IN MODERNIZING RATE DESIGN

Rate design changes needed to align fixed costs and revenue



* In Decision No. 74202, Arizona Corporation Commission found that an interim charge of $3.00 per kW per month is reasonable for new DG customers, although the Commission set the initial charge at $0.70 per kW.

TOU = Time of Use

Rate Design Principles

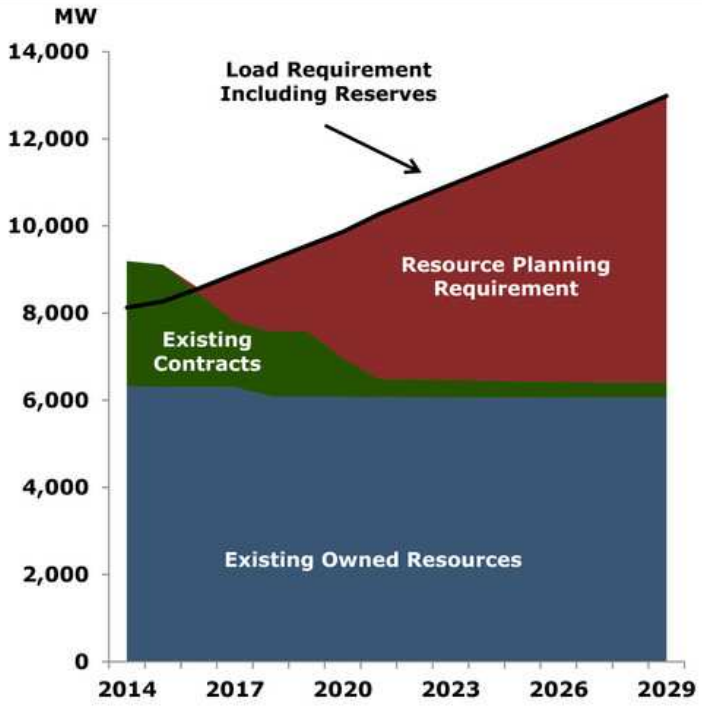
1. Customer-focused
2. Forward-Thinking
3. Affordable & Fair

Rate Design Modernization Steps:

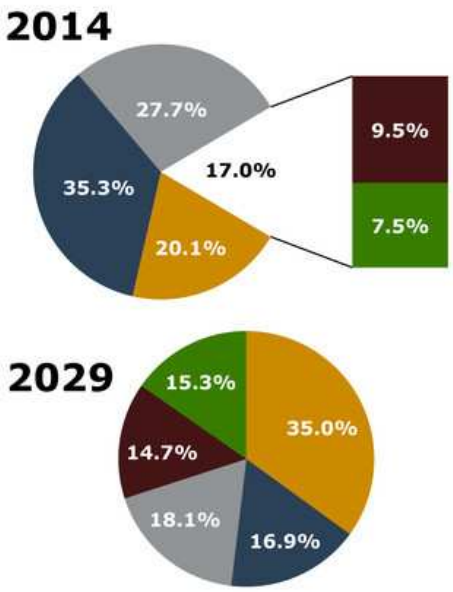
- Grid Access Charge filing on April 2, 2015
  - Interim solution
  - Seeking increase to $3.00/kw (or about $21/month) from $0.70/kw*
  - Solar customers also have option to enroll in an existing rate plan, that includes TOU rates and a demand charge
  - Requesting effective date of August 1, 2015
  - Current rooftop solar customers would be grandfathered under existing agreements
- Other modifications to be discussed in a rate case or another proceeding
  - Align TOU or peak vs. off-peak rates more closely with wholesale rates
  - Align peak rate times with load peak
  - Broaden use of demand charges

PINNACLE WEST CAPITAL CORPORATION

RESOURCE PLANNING*



Composition of Energy Mix by Resource*



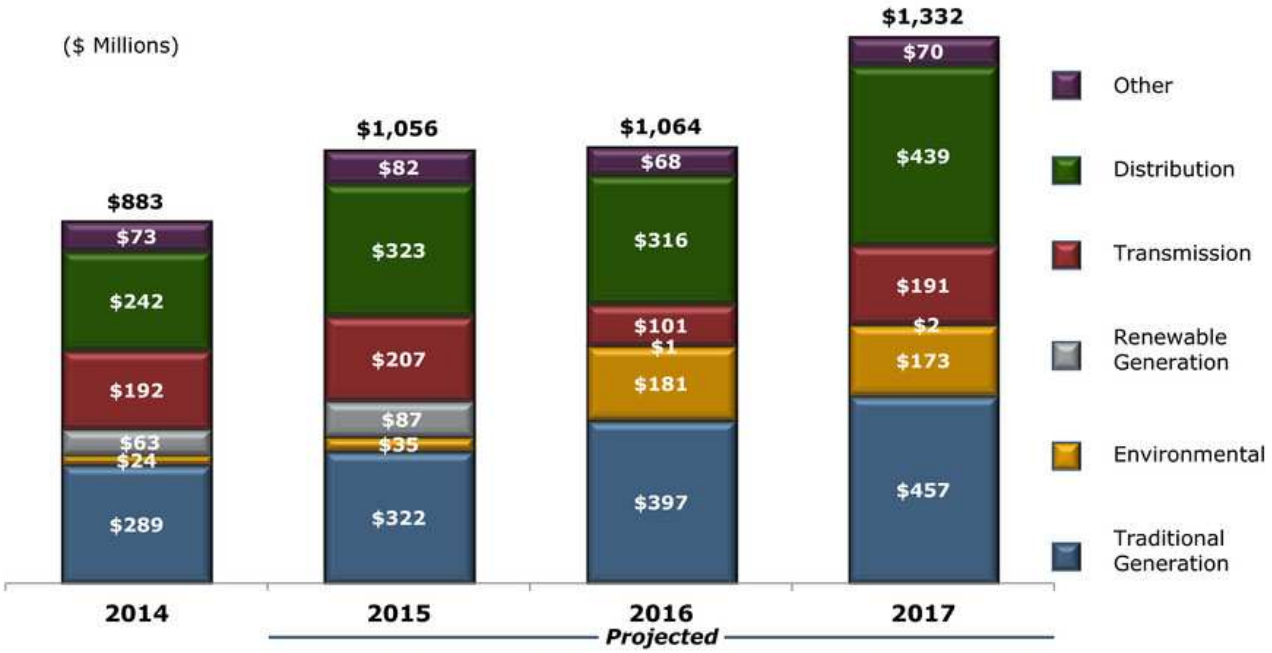
***Data shown is based on the Integrated Resource Plan Supplement filed September 17, 2014.**

Note: RE = Renewable Energy; DE = Distributed Energy; EE = Energy Efficiency

PINNACLE WEST CAPITAL CORPORATION

CAPITAL EXPENDITURES

70% of capital expenditures are recovered through rate adjustors (30%) and depreciation cash flow (40%)



- The table does not include capital expenditures related to El Paso's 7% interest in Four Corners Units 4 and 5 of $2 million in 2015, $24 million in 2016 and $24 million in 2017.
- 2015 – 2017 as disclosed in First Quarter 2015 Form 10-Q.

PINNACLE WEST CAPITAL CORPORATION

RATE BASE

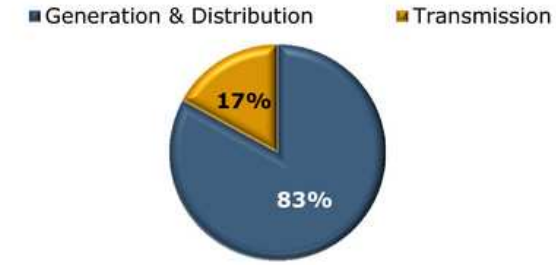
APS's revenues come from a regulated retail rate base and meaningful transmission business

APS Rate Base Growth

Year-End

Rate base $ in billions, rounded

$7.0 Billion Total Approved Rate Base



	ACC	FERC
Rate Effective Date	7/1/2012	6/1/2014
Test Year Ended	12/31/2010*	12/31/2013
Rate Base	$5.7B	$1.3B
Equity Layer	54%	58%
Allowed ROE	10.00%	10.75%

*Adjusted to include post test-year plant in service through 3/31/2012

PINNACLE WEST CAPITAL CORPORATION

BRIGHT CANYON ENERGY – TRANSMISSION GROWTH

BRIGHT CANYON ENERGY

Pinnacle West subsidiary formed to pursue new growth opportunities

TRANSCANYON

A 50/50 Joint Venture formed with BHE U.S. Transmission, subsidiary of Berkshire Hathaway Energy, to pursue transmission opportunities in the western United States

DELANEY COLORADO RIVER TRANSMISSION LINE

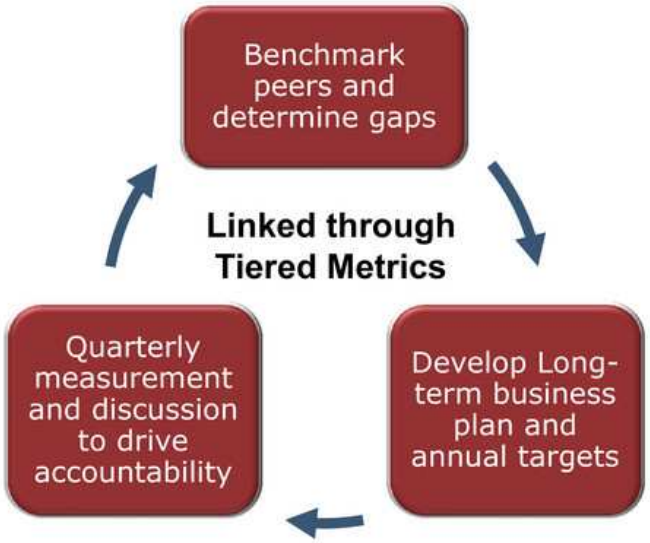
New 500kV line between the planned Delaney substation near Palo Verde Nuclear Generating Station in Arizona and the Colorado River substation, located just west of Blythe, California

In July 2014, California ISO Board approved DCR and is working through selection process; decision expected summer 2015

PINNACLE WEST CAPITAL CORPORATION

SUSTAINABLE COST MANAGEMENT INGRAINED IN BUSINESS PLANNING FRAMEWORK

Enterprise Process Improvement *is current phase of Sustainable Cost Management -- a standardized, systematic approach to determining how to do our work better including documentation, driven by retiring workforce and need to control costs*



Results to Date:

- Reduction of 300+ positions
- Palo Verde Unit Production Cost reduced from 2.2¢ to 2.0¢ per kWh
- Fossil Generation shifted to fleetwide model in 2010 to streamline costs
- Annual Supply savings of $30 million
- Realigned corporate resource model
- Documented nearly 1,000 policies, processes and procedures documented and completed over 150 process improvements

PINNACLE WEST CAPITAL CORPORATION

OPERATIONS & MAINTENANCE OUTLOOK

Targeting to be top quartile in peer benchmarking for staffing

2015+ Outlook

- Goal is to keep O&M per kWh flat
- Complete documentation of over 1,800 policies, processes and procedures, including more than 275 process improvements to drive additional efficiencies
- Execute targeted initiatives to address specific gaps and inefficiencies

*Renewable energy and demand side management expenses are offset by revenue adjustors.

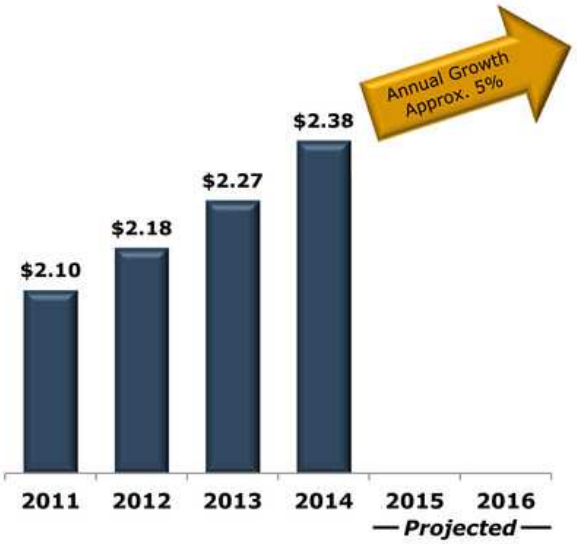
PINNACLE WEST CAPITAL CORPORATION

DIVIDEND GROWTH

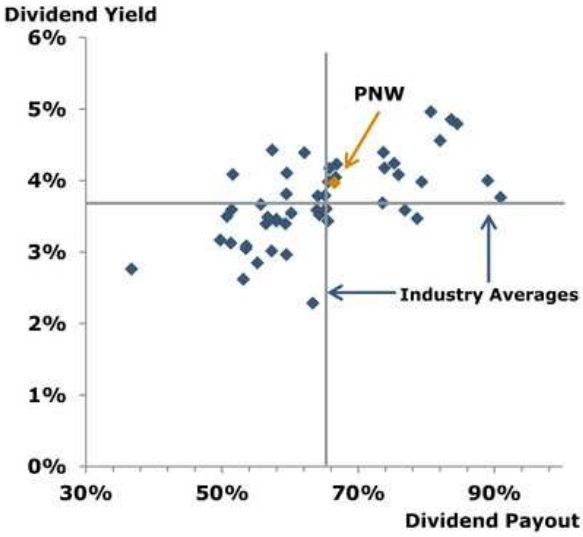
Pinnacle West's annual dividend is $2.38 per share; targeting ~5% annual dividend growth

Dividend Growth Goal

Indicated Annual Dividend Rate at Year-End



Future dividends subject to declaration at Board of Directors' discretion



Yield as of May 15, 2015
Payout 12 Months Ended March 31, 2015

PINNACLE WEST CAPITAL CORPORATION

2015 KEY DATES

ACC Key Dates	Docket #	Q1	Q2	Q3	Q4
Key Recurring Regulatory Filings					
Lost Fixed Cost Recovery	E-01345A-11-0224	Jan 15			
Net Metering – Quarterly Installation Filings	E-01345A-13-0248	Jan 15	Apr 15	Jul 15	Oct 15
Transmission Cost Adjustor	E-01345A-11-0224		May 15		
Renewable Energy Surcharge	TBD			Jul 1	
2014 Integrated Resource Plan (Biennial) and Cholla Unit 2 Retirement Proposal	E-00000V-13-0070		Apr 14: ACC Review		
Ocotillo Modernization Project	L-00000D-14-0292-00169	Jan – Q2: RFP			
Grid Access Charge Filing	E-01345A-13-0248		Apr 2		
Inquiry into Solar DG business models and practices (Generic Docket)	E-00000J-14-0415	ACC to outline next steps			
ACC Open Meetings	-	*ACC Open Meetings Held Monthly*			

Other Key Dates	Docket #	Q1	Q2	Q3	Q4
Arizona State Legislature	n/a	*In Session Jan 12 – Apr 3 (Adjourned)*			
Delaney Colorado River Transmission Line (California ISO)	n/a	Jan: Bidders posted		Summer: Cal ISO selects winning bid	

APPENDIX

PINNACLE WEST
CAPITAL CORPORATION

ARIZONA CORPORATION COMMISSION

Terms to January 2017			Terms to January 2019	
Susan Bitter Smith (R) Chairman	**Bob Burns (R)**	**Bob Stump (R)***	**Tom Forese (R)**	**Doug Little (R)**

* Term limited - elected to four-year terms (limited to two consecutive)

PINNACLE WEST CAPITAL CORPORATION

OCOTILLO POWER PLANT (TEMPE, AZ)

Ocotillo modernization project will maintain valley grid reliability and increase APS's generating capacity by 290 MW

- Benefits:
  - Maintains system reliability through retirement of aging steam units
  - Replacement units meet need for increased portfolio responsiveness
  - Aids integration of renewables
- Estimated project cost of $500M (2015 – 2019)
- Expected timeline:
  - Early 2016: Planned start of construction
  - 2019: Project completion

Site Capacity (MW)	Current	Future
(2) Westinghouse 110 MW steam units - constructed 1960	220	Retire
(2) Westinghouse 55 MW combustion turbines - constructed 1972/73	110	110
Install (2) GE 102 MW combustion turbines	0	204
Install 3 combustion turbines	0	306
Total	**330**	**620**
Net site capacity increased by 290 MW		

PINNACLE WEST CAPITAL CORPORATION

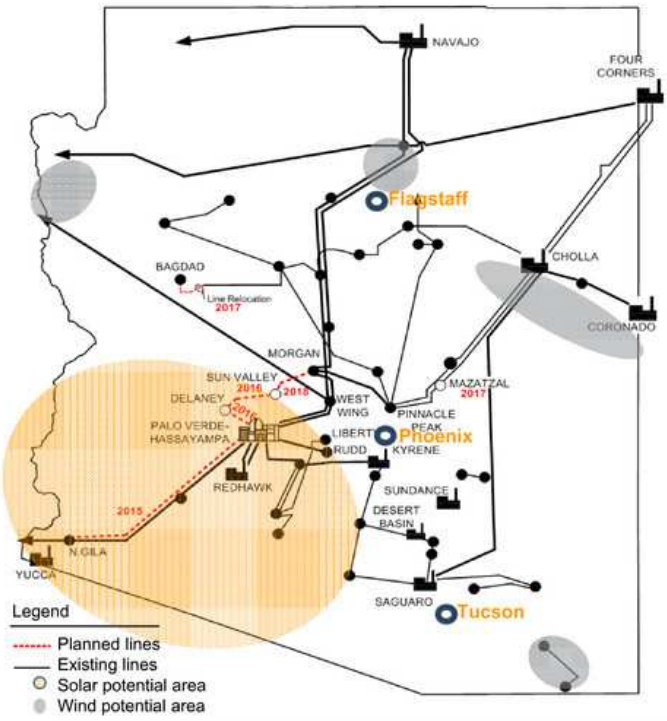
FOUR CORNERS POWER PLANT

- APS owns 970 MW (63% of Four Corners generating capacity) and is the plant's sole operator
  - Four Corners-specific revenue requirement ($57.1 million) rates effective January 1, 2015 (docket 11-0224)

- APS notified EPA that the Four Corners participants selected the BART alternative requiring APS to retire Units 1-3 by January 1, 2014 and install and operate Selective Catalytic Reduction ("SCR") control technology on Units 4-5 by July 31, 2018
  - EPA permitting process is in underway; construction expected to begin by early 2016 after approval of final EPA permit
  - Estimated environmental compliance: Approximately $400 million, primarily in 2016-2017
- In February 2015, APS and El Paso Electric entered into an asset purchase agreement for the purchase of El Paso's 7% interest in each of Units 4 and 5
  - Completion of the purchase is subject to receipt of certain regulatory approval expected to occur in July 2016
  - Navajo Transitional Energy Company will have an option to purchase the 7% interest

APS TRANSMISSION

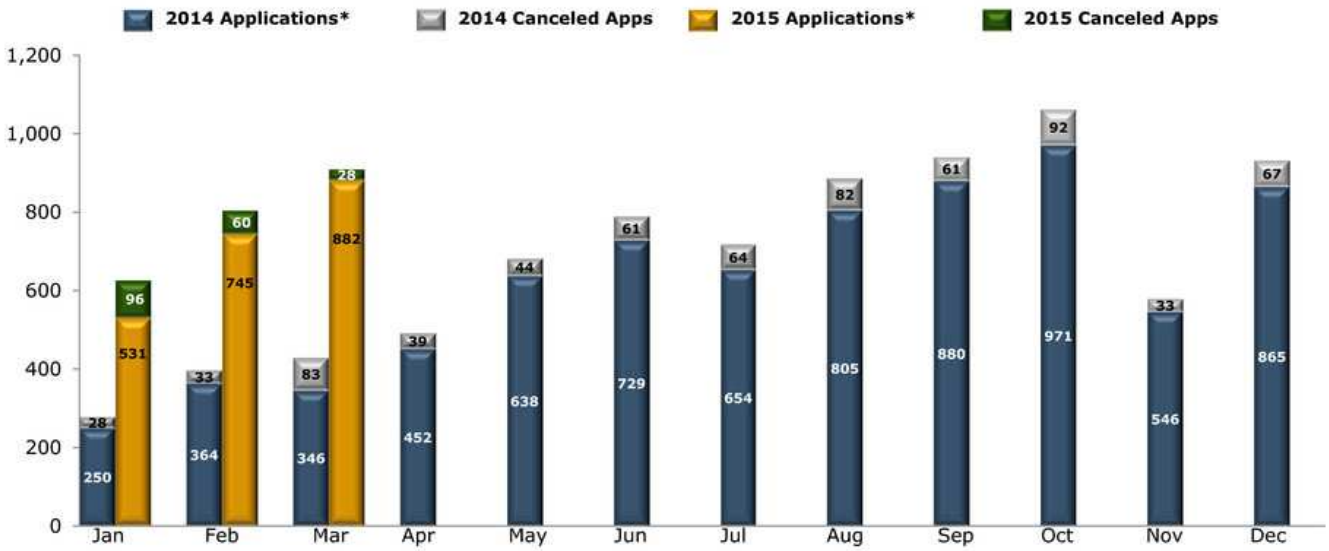
Strategic transmission investment is essential to maintain reliability and deliver diversified resources to customers



- 10-Year Transmission Plan filed January 2015 (115 kV and above)
  - 275 miles of new lines
  - Includes Hassayampa-North Gila (HANG2)
    - ~110 miles; 500kV
    - Construction started March 2013
    - Estimated in-service mid 2015
- Also includes other planned lines
  - Palm Valley-TS2-Trilby Wash 230kV (2015)
  - Delaney-Palo Verde 500kV (2016)
  - Delaney-Sun Valley 500kV (2016)
  - Sun Valley-Trilby Wash 230kV (2016)
  - Morgan-Sun Valley 500kV (2018)
- Projects to deliver renewable energy approved by ACC
- Transmission investment diversifies regulatory risk
  - Constructive regulatory treatment
  - FERC formula rates and retail adjustor

PINNACLE WEST CAPITAL CORPORATION

RESIDENTIAL PV APPLICATIONS



As of March 31, 2015, more than 31,000 residential grid-tied solar photovoltaic (PV) systems have been installed in APS's service territory, equivalent to over 200 MW.

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

PINNACLE WEST CAPITAL CORPORATION

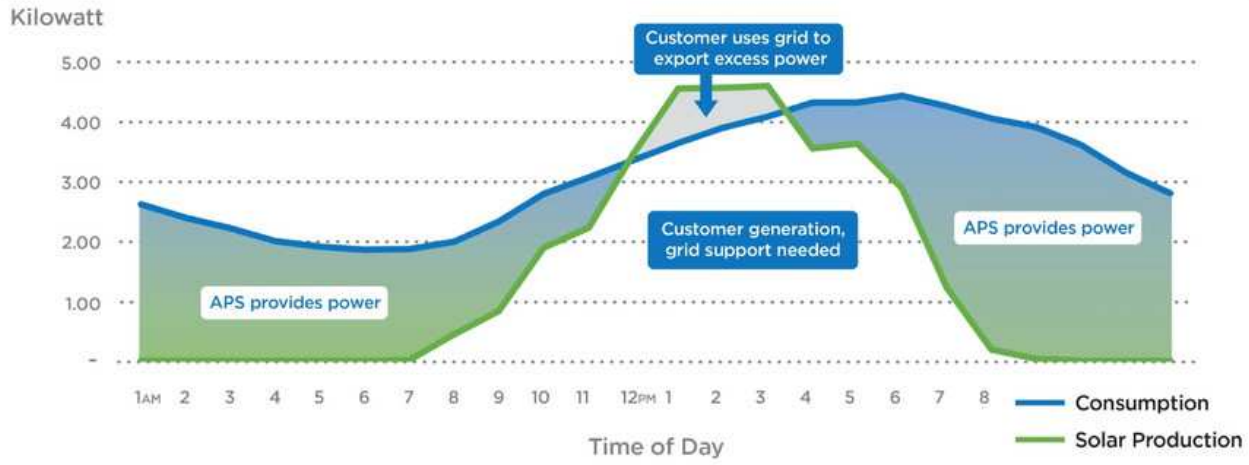
APS SOLAR PARTNERS PROGRAM

- APS to implement 10 MW of APS-owned residential rooftop solar
  - On December 19, 2014, ACC voted that it had no objection to APS implementing the program
  - Equates to approximately 1,500 customers
  - Will be filed for recovery in next general rate case
  - 2 MW (of the 10 MW) will only de deployed if coupled with distributed storage
- Benefits:
  - Provides an alternative for those who cannot afford solar or do not want a lease
  - Study system benefits (i.e. west or SW oriented panels, advanced inverters, etc.)
  - Participating customers receive monthly credit on their bill through the 20-year life
  - Support and partner with Arizona solar installers
- APS has track record through the Flagstaff Community Power Project
  - Launched in 2010
  - 1.5 MW of distributed energy from solar panels owned by APS, spread across:
    - 125 residential rooftops
    - Schools
    - Neighborhood-scale solar power plant

NET METERING

Rooftop solar customers still use the grid 24 hours a day

TYPICAL GRID INTERACTION FOR ROOFTOP SOLAR



- Customers with rooftop solar systems do not pay for all of the electric services they use (i.e. rooftop customers still need support from the grid 24 hours a day)
- These unpaid costs are then paid, through higher rates, by non-rooftop solar customers
- The issue will get bigger over time as applications and installs continue to increase

PINNACLE WEST CAPITAL CORPORATION

EMERGING TECHNOLOGIES RELY ON THE GRID

All of these technologies are part of an integrated grid

Rooftop Solar

Battery Storage

Home Energy Management

Electrical System

Electric Vehicles

Fuel Cells

Microgrids

PINNACLE WEST CAPITAL CORPORATION

ARIZONA'S RENEWABLE RESOURCE AND ENERGY EFFICIENCY STANDARDS

Renewable Energy (RES) Requirements

- Portion of retail sales to be supplied by renewable resources
  - 5% by 2015*
  - 15% by 2025
- Distributed energy component
  - 30% of total requirement

APS on track to double 2015 requirement*

Energy Efficiency Requirements

- Cumulative savings from energy efficiency programs must be equivalent to 22% of annual retail sales by 2020
- Annual milestones in place to measure progress toward cumulative 2020 goal
  - 9.5% by 2015
  - 22% by 2020

APS on track to meet target

* In APS's 2009 retail rate case settlement agreement, APS committed to have 1,700 GWh of new renewable resources in service by year-end 2015 in addition to its 2008 renewable resource commitments.

PINNACLE WEST CAPITAL CORPORATION

REGULATORY MECHANISMS

We have achieved a more supportive regulatory structure and improvements in cost recovery timing

Mechanism	Adopted / Last Adjusted	Description
Power Supply Adjustor ("PSA")	April 2005 / February 2015	• Recovers variance between actual fuel and purchased power costs and base fuel rate • Includes forward-looking, historical and transition components
Renewable Energy Surcharge ("RES")	May 2008 / January 2015	• Recovers costs related to renewable initiatives • Collects projected dollars to meet RES targets • Provides incentives to customers to install distributed renewable energy
Demand-Side Management Adjustment Clause ("DSMAC")	April 2005 / March 2015	• Recovers costs related to energy efficiency and DSM programs above $10 million in base rates • Provides performance incentive to APS for net benefits achieved • Provides conservation education, rebates and other incentives to participating customers
Environmental Improvement Surcharge ("EIS")	July 2007 / April 2015	• Allows recovery of certain carrying costs for government-mandated environmental capital projects • Capped at $5 million annually
Transmission Cost Adjustor ("TCA")	April 2005 / June 2014	• Recovers FERC-approved transmission costs related to retail customers • Resets annually as result of FERC Formula Rate process (see below)
FERC Formula Rates	2008 / June 2014	• Recovers transmission costs based on historical costs per FERC Form 1 and certain projected data
Lost Fixed Cost Recovery ("LFCR")	July 2012 / March 2015	• Mitigates loss of portion of fixed costs related to ACC-approved energy efficiency and distributed renewable generation programs

CREDIT RATINGS

Investment Grade Credit Ratings

	APS	Parent
Corporate Credit Ratings		
Moody's	A3	Baa1
S&P	A-	A-
Fitch	BBB+	BBB+
Senior Unsecured		
Moody's	A3	-
S&P	A-	-
Fitch	A-	-
Outlook		
Moody's	Positive	Positive
S&P	Stable	Stable
Fitch	Positive	Positive

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

S&P CREDIT METRICS

Key credit metrics remain strong

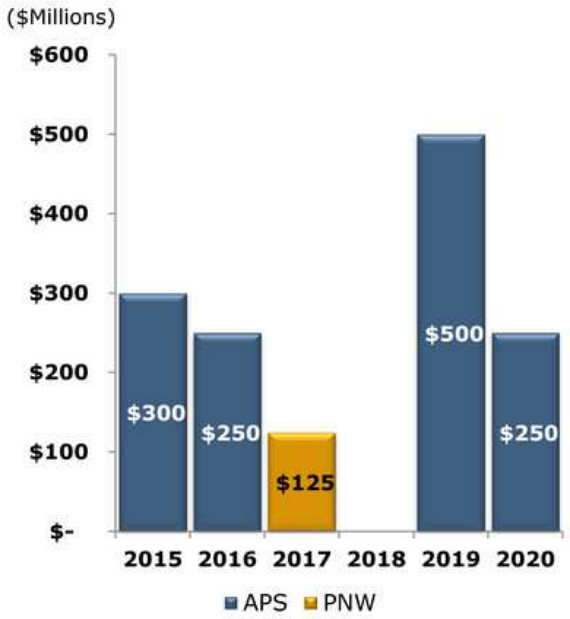
	2010	2011	2012	2013	2014
APS					
FFO / Debt	23.7%	23.6%	27.7%	31.5%	26.6%
FFO / Interest	3.3x	4.2x	4.8x	5.6X	5.8x
Debt / Capitalization	52.6%	52.9%	50.7%	47.7%	46.3%
Pinnacle West					
FFO / Debt	22.3%	23.0%	26.7%	29.8%	23.6%
FFO / Interest	3.1x	3.8x	4.4x	4.9X	5.6x
Debt / Capitalization	54.6%	54.4%	52.1%	49.1%	47.7%

Source: Standard & Poor's

PINNACLE WEST CAPITAL CORPORATION

FINANCING

Debt Maturity Schedule



2015 Major Financing Activities

- $250 million 5-year 2.20% APS senior unsecured notes issued in January 2015
- Currently expect up to an additional $325 million of new long-term debt, in addition to refinancing maturing debt
  - Refinanced $300 million APS long-term debt from 4.65% to 3.15%, due May 15, 2025
- In addition, there will be tax-exempt series remarketed or refinanced

PINNACLE WEST CAPITAL CORPORATION

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