PINNACLE WEST CAPITAL CORP
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April 06, 2011

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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 ý

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

ý Definitive Proxy Statement

o Definitive Additional Materials

o 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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PINNACLE WEST CAPITAL CORPORATION

Post Office Box 53999
PHOENIX, ARIZONA 85072-3999

NOTICE AND PROXY STATEMENT
FOR THE ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON WEDNESDAY, MAY 18, 2011

To our Shareholders:

Our Board of Directors invites you to the 2011 Annual Meeting of Shareholders of Pinnacle West Capital Corporation (the "Company" or "Pinnacle West"). The meeting will be held at the Heard Museum, 2301 North Central Avenue, Phoenix, Arizona 85004-1323, at 10:30 a.m., Mountain Standard Time, on Wednesday, May 18, 2011. At this meeting, we are asking you to vote on the following proposals in addition to any other business that may properly come before the meeting:

(1) Election of 12 directors to serve until the 2012 Annual Meeting of Shareholders (Proposal 1);

(2) An advisory vote on executive compensation ("Say-on-Pay") (Proposal 2);

(3) An advisory vote to determine the frequency of future Say-on-Pay votes (Proposal 3); and

(4) Ratification of the appointment of the Company's independent accountants for the year ending December 31, 2011 (Proposal 4).

All shareholders of record at the close of business on March 21, 2011 are entitled to notice of and to vote at the meeting. Shareholders may vote their shares: (1) via the Internet; (2) by telephone; (3) by proxy card; or (4) in person at the Annual Meeting. Shares can be voted at the meeting only if the holder is present or represented by proxy.

By order of the Board of Directors,

DAVID P. FALCK
Executive Vice President, General Counsel and Secretary

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GENERAL INFORMATION

Place, Date and Time

The Company's 2011 Annual Meeting of Shareholders ("Annual Meeting") will be held at the Heard Museum, 2301 North Central Avenue, Phoenix, Arizona 85004-1323, at 10:30 a.m., Mountain Standard Time, on Wednesday, May 18, 2011.

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 instruct you as to how you may access and review the proxy materials. If you received an Internet Notice by mail and would like to receive a printed copy of our proxy materials, you should follow the instructions included in the Internet Notice.

The Internet Notice is first being sent to shareholders on or about April 6, 2011. The proxy statement and the form of proxy relating to the Annual Meeting are first being made available to shareholders on or about April 6, 2011.

Record Date; Shareholders Entitled to Vote

All shareholders at the close of business on March 21, 2011 (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" on page 2 of this proxy statement). At the close of business on the record date, there were 108,947,551 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, dating, signing and mailing a 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.

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

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 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 Company's Board of Directors (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 and frequency of Say-on-Pay. The votes cast "for" must exceed the votes cast "against" to approve the advisory vote on the compensation disclosed in this proxy statement of our Named Executive Officers the Say-on-Pay vote. This vote 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. In connection with the frequency of how often shareholders have an advisory Say-on-Pay vote, shareholders may vote for every 1, 2 or 3 years or abstain. The frequency receiving the greatest number of votes every 1, 2 or 3 years will be considered the frequency approved by the shareholders. For both the Say-on-Pay vote and the frequency vote, 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 and the frequency of Say-on-Pay votes. Abstentions and broker non-votes will have no effect on the outcome of these proposals.

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, 2011. 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 compensation of our Named Executive Officers, as disclosed in this proxy statement (Proposal 2);

FOR the option of every 3 years for future Say-on-Pay advisory votes (Proposal 3); and

FOR the ratification of the appointment of Deloitte & Touche LLP ("D&T") as the Company's independent accountants for the year ending December 31, 2011 (Proposal 4).

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 two people); or

a copy of a brokerage statement showing ownership of our stock if you hold your shares in street name.

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 can access our Annual Report via the Internet. A copy of the Annual Report is available on the Company's website (www.pinnaclewest.com) and will be provided to any shareholder upon request. Shareholders may request a copy from Shareholder Services at the telephone number or addresses set forth above or as described in the Internet Notice.

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Shareholder Proposals or Director Nominations for 2012 Annual Meeting

To be included in the proxy materials for the 2012 Annual Meeting of Shareholders (the "2012 Annual Meeting"), any shareholder proposal intended to be presented at that meeting must be received by our Corporate Secretary no later than December 8, 2011 at the following address:

Corporate Secretary
Pinnacle West Capital Corporation
400 North Fifth Street, Mail Station 9068
Phoenix, Arizona 85004

A shareholder who intends to present a proposal at the 2012 Annual Meeting, but does not wish it to be included in the 2012 proxy materials, must submit the proposal by the close of business on February 18, 2012, but not earlier than January 19, 2012. Nominations for the Board must be received by November 18, 2011. In all cases, shareholders must also comply with the applicable rules of the Securities and Exchange Commission ("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 Georgeson Inc. to assist in the distribution of proxy solicitation materials and the solicitation of proxies for $10,000, plus customary expenses. The costs of the solicitation will be paid by the Company. As required, the Company will reimburse brokerage houses and others for their out-of-pocket expenses in forwarding documents to beneficial owners of 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 at www.pinnaclewest.com.

Based on the Board's review, the Board has determined that one of the Company's 12 directors is not independent and that 11 of the directors are independent. The 11 independent directors are Messrs. Basha, Gallagher, Lopez, Nordstrom, and Parker, Drs. Cortese, Herberger and Klein, and Mses. Clark-Johnson, Grant and Munro. Mr. Brandt is not independent under the NYSE rules or the Director Independence Standards because of his employment with the Company. Messrs. Jamieson, Post and Stewart retired from the Board in May 2010. Messrs. Jamieson and Stewart were independent while on the Board. Mr. Post was not independent while on the Board due to his former employment with the Company.

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 reviews generally take 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 2010 and is expected to provide legal services to the Company in 2011. 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; (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.

Mr. Parker is Chairman and Chief Executive Officer of US Airways Group, Inc. and US Airways, Inc. (collectively "US Airways"), a commercial airline headquartered in Phoenix, Arizona, where the Company is also headquartered. In considering the independence of Mr. Parker, the Board considered that directors and employees of the Company and its subsidiaries purchase air travel and freight services from time to time for business purposes from US Airways. The Board determined that these matters do not impact Mr. Parker's independence because they are ordinary course, arms-length transactions that are not material to either the Company or US Airways. In addition, the amounts paid to US Airways are less than the dollar thresholds set forth in the NYSE rules and the Director Independence Standards and are less than one percent of the Company's and US Airways' revenues for fiscal year 2010.

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 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 and parking leases, and the payment of various State fees and taxes. 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 Arizona Public Service Company's ("APS") service territory and receive electricity from APS. The Board considered these relationships in determining the directors' independence, but, because the rates and charges for electricity provided by APS are fixed by the Arizona Corporation Commission ("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 any director's independence. 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 any director's independence.

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Board Meetings and Attendance

In 2010, our Board held 11 meetings and none of our directors attended fewer than 75% of the Board meetings and any meetings of committees on which he or she served. All of the Board members attended the 2010 Annual Meeting.

Board Committees

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

Audit Committee

The Audit Committee held seven meetings in 2010. 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, 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 that may have a material impact on the Company's financial statements.

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 eight meetings in 2010. Among other things, the Corporate Governance Committee:

- develops 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; and
- recommends to the Board the directors who should serve on each of the Board's committees.

Prior to May 19, 2010, the Corporate Governance Committee had a Nomination Subcommittee and delegated to the subcommittee the duties to: develop and recommend to the full Board the Board's criteria for selecting new directors; identify and evaluate individuals qualified to become members of the Board; recommend director nominees to the full Board; and recommend to the Board who should serve on each of the Board committees. The Corporate Governance Committee resumed these duties and dissolved the Nomination Subcommittee on May 19, 2010. The Nomination Subcommittee met four times in 2010.

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Finance and Nuclear and Operating Committees

Prior to May 19, 2010, the Company had a Finance, Nuclear and Operating Committee. Following May 19, 2010, the Company separated the duties of the Finance, Nuclear and Operating Committee between the Finance Committee and the Nuclear and Operating Committee. The Finance, Nuclear and Operating Committee held one meeting and the Finance Committee and the Nuclear and Operating Committee each held three meetings in 2010.

Among other things, the Finance Committee:

- reviews the Company's historical and projected financial performance, annual budgets and the Company's financing plan and recommends approval of credit facilities and the issuance of long-term debt and common equity;
- reviews and recommends approval of short-term investments and borrowing guidelines; and
- reviews and recommends to the Board the Company's dividend actions, including stock dividends and other distributions.

Among other things, the Nuclear and Operating Committee:

- reviews the results of major inspections and evaluations by external oversight groups, such as the Nuclear Regulatory Commission ("NRC") and the Institute of Nuclear Power Operations ("INPO");
- reviews and assesses reports from the Palo Verde Oversight Committee (the "PVOC");
- reviews and monitors the power plant operations, energy delivery and customer service functions of the Company; and
- reviews and monitors the Company's compliance with environmental policies.

The PVOC is an independent committee of individuals who have extensive experience and expertise in the design, operation, management, and regulation of nuclear power plants. The purpose of the PVOC is to provide the Board and APS executive management with an independent assessment of the performance of the Palo Verde Nuclear Generating Station ("Palo Verde"). Performance includes nuclear safety, plant reliability, plant management, and organizational effectiveness. The PVOC performs assessments of Palo Verde compared to established nuclear industry standards and practices and corporate requirements, with a particular emphasis on safe operation of the facility and protection of public health, safety, and the environment.

Human Resources Committee

The Human Resources Committee held five meetings in 2010. Among other things, the Human Resources Committee:

- reviews management's programs for the attraction, retention, and development of the Company's human resources;
- recommends persons for election or appointment as officers to the full Board;
- annually reviews the goals and performance of our officers;
- approves corporate goals and objectives relevant to the compensation of our Chief Executive Officer ("CEO"), assesses the CEO's performance in light of these goals and objectives, and sets the CEO's compensation level 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 our 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 2010.

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 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; and
- performs such other duties as the independent directors may from time to time delegate.

Chairman and CEO Positions. The Chairman is Donald E. Brandt, the Company's 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 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 allocates responsibility for them among the Board committees, which list includes, among other things, regulatory risk, safety, nuclear operations and compliance, and business continuity. Each committee:

- receives periodic presentations from management about its assigned risk areas;
- assesses the effectiveness of the risk identification and mitigation measures being employed; and
- discusses their assessments and recommendations 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 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 internal enterprise risk management group reports to the Vice President, Strategic Initiatives and Risk, who reports to the 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 material existing risks and the emergence of additional material risks.

Director Qualification; Selection of Nominees for the Board

Director Qualifications. The Corporate Governance Guidelines contain Board membership criteria that apply to nominees recommended by the Corporate Governance Committee for a position on the Board. Under these criteria, 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; strong business judgment and understanding of corporate governance; knowledge, including regulatory and political knowledge, and nuclear expertise at the strategic level; understanding of the Company's business environment; 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 management; and technology and science experience to address the future of smart grids, communication technologies, control systems and renewable energy. The Board periodically reviews and revises these criteria.

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 come to the attention of the Corporate Governance Committee through current Board members, professional search firms, shareholders, or other persons. The Corporate Governance Committee evaluates all nominees against the same criteria, regardless of the source of the nomination. 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 9068
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 18, 2011 and comply with the information requirements in the Company's Bylaws.

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Candidates may be considered at any point during the year. The Corporate Governance Committee identified Dr. Klein as a potential director based upon his experience in the nuclear industry and, in May 2010, recommended Dr. Klein for Board membership. Dr. Klein became a director effective June 1, 2010.

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, a director is required to apprise the Corporate Governance Committee and should 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 9068, P.O. Box 53999, Phoenix, Arizona 85072-3999, indicating who should receive the communication. The Corporate Secretary will transmit communications raising 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, individual service or billing complaints and complaints related to individual employment-related actions.

Company Code of Business Conduct and Ethics; Strategic Framework

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

Ethics Policy and Standards of Business Practices. "Doing the Right Thing" presents the Ethics Policy and the Standards of Business Practices of the Company and its subsidiaries. Employees and directors receive a copy of "Doing the Right Thing" when they join the Company and are provided updates periodically. "Doing the Right Thing" helps ensure that the employees, officers and directors of the Company and its subsidiaries act with integrity and avoid any real or perceived violation of the Company's ethics policy, laws, or 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, rules, 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, and persons performing similar functions at any of the Company's subsidiaries.

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The Company provides periodic online training and examination covering the principles in the Ethics Policy and Standards of Business Practices. 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 help measure understanding, and an electronic sign-off. All of the employees of the Company and APS, and all of our directors, complete the training. The codes of conduct are available on the Company's website (www.pinnaclewest.com).

The Company's Strategic Framework (the "Strategic Framework"). APS has adopted a strategic framework that defines its vision, mission, areas of focus, and values. APS' vision is to create a sustainable energy future for Arizona. APS' 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, continuous improvement, customers and communities, and shareholder value. The framework affirms our corporate values of safety, integrity and trust, accountability, and respect. Here is our Strategic Framework:

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PROPOSAL 1 ELECTION OF DIRECTORS

Current Nominees

The 12 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 2012 Annual Meeting.[1]

Edward N. Basha, Jr., age 73, has been a director since 1999. Mr. Basha is Chairman of the Board of Bashas' supermarket chain, and he has held this position since 1968. Mr. Basha was Chief Executive Officer of Bashas' from 1968 until September 2010. On July 12, 2009, Bashas' filed voluntary Chapter 11 petitions in the United States Bankruptcy Court, District of Arizona. A reorganization plan for Bashas' was confirmed in August 2010. Mr. Basha serves on the Company's Human Resources and Nuclear and Operating Committees.

Mr. Basha is an Arizona native and prominent business, civic and political leader involved in multiple Arizona community projects. His family-owned business is comprised of grocery and specialty stores in Arizona, California and New Mexico. In addition to his executive experience, Mr. Basha brings a strong marketing background to the Board.

Donald E. Brandt, age 56, has been a director since 2009. Mr. Brandt is Chairman of the Board, President and CEO of the Company. He has been Chairman of the Board and CEO since April 2009 and President since March 2008. Mr. Brandt is Chairman of the Board and CEO of APS. He has been Chairman of the Board since April 2009 and Chief Executive Officer since March 2008. Mr. Brandt served as President of APS from December 2006 to January 2009. Mr. Brandt has served as an officer of the Company in the following additional capacities: March 2008 to April 2009 as Chief Operating Officer; September 2003 to March 2008 as Executive Vice President; December 2002 to September 2003 as Senior Vice President; and as Chief Financial Officer from December 2002 to March 2008.

As Chairman of the Board, President and CEO of the Company and as Chairman of the Board and Chief Executive Officer of 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. In addition, Mr. Brandt currently serves on the boards of the Institute of Nuclear Power Operations ("INPO"), the Nuclear Energy Institute ("NEI"), the Edison Electric Institute ("EEI"), 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.

[1] Directors' ages are as of March 21, 2011.

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Susan Clark-Johnson, age 64, 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 2009. Ms. Clark-Johnson was President, 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 Nuclear and Operating and Corporate Governance Committees.

Ms. Clark-Johnson brings 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 67, 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 serves on the Company's Audit and Nuclear and Operating Committees.

As former President and Chief Executive Officer of the Mayo Clinic, Dr. Cortese has extensive experience in leading complex organizations with multiple constituencies and has led an organization that delivers strong and efficient customer service, which parallels the Company's strategies. Further, his background in public policy development, science and technology brings valuable perspectives to issues in the areas that face the Company.

Michael L. Gallagher, age 66, has been a director since 1999. Mr. Gallagher is Chairman Emeritus of Gallagher & Kennedy, Phoenix, Arizona (Arizona-based law firm). He has held this position since 2001. Mr. Gallagher served as President of Gallagher & Kennedy from 1978 through 2000. Mr. Gallagher is a director of AMERCO and a trustee of the Peter Kiewit Foundation. Within the past five years, Mr. Gallagher was also a director of Action Performance Companies, Inc. Mr. Gallagher chairs the Company's Nuclear and Operating Committee and serves on the Corporate Governance Committee.

Mr. Gallagher has represented a broad and diverse spectrum of corporate clients. Mr. Gallagher provides guidance and judgment gained through advising senior management and boards of directors on the varied issues regularly considered by the Board. His knowledge and experience from participating on the boards of other publicly-traded companies provides valuable perspective to the Company.

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Pamela Grant, age 72, has been a director since 1985. Ms. Grant is a civic leader. Ms. Grant was President of TableScapes, Inc. (party supply rentals) from July 1989 through January 1995. Ms. Grant was President and Chief Executive Officer of Goldwaters Department Stores (general mercantile), a division of May Department Stores, from January 1987 to April 1988. From November 1978 to January 1987, Ms. Grant was President, Chairman and Chief Executive Officer of Goldwaters Department Stores, a division of Associated Dry Goods. Ms. Grant serves on the Company's Audit and Human Resources Committees.

Ms. Grant brings continuity and institutional knowledge to the Board gained over 25 years of service. As the former top executive of a large department store chain, Ms. Grant possesses skills associated with merger and acquisition activities, corporate governance and competitive retail markets.

Roy A. Herberger, Jr., Ph.D., age 68, has been a director since 1992. Dr. Herberger is President Emeritus of Thunderbird School of Global Management (graduate management school). He has held this position since November 2004. Dr. Herberger was President of Thunderbird from 1989 until August 2004. Dr. Herberger is also a director of the Apollo Group. Within the past five years, he was also a director of MedAire, Inc. and ECO_2 Plastics Inc. Dr. Herberger chairs the Company's Human Resources Committee and serves on the Corporate Governance and Finance Committees.

Dr. Herberger has both management experience and a strong understanding of business and economic trends. He also has extensive corporate board service, which aids his contributions to the Company's Board. Dr. Herberger's service as the lead director and Chair of the Compensation Committee of the Apollo Group, a Fortune 500 company, and his service as a Trustee for the Mayo Clinic, contributes to the strength of the Company's governance and human resources processes.

Dale E. Klein, Ph.D., age 63, has been a director since 2010. Dr. Klein served as Chairman of the U.S. Nuclear Regulatory Commission from July 2006 to May 2009, and thereafter as a Commissioner until March 2010. He was Assistant to the Secretary of Defense for Nuclear, Chemical and Biological Defense Programs from November 2001 to July 2006. Dr. Klein is a Professor of Mechanical Engineering and Associate Director of the Energy Institute at the University of Texas at Austin and Associate Vice Chancellor for Research at the University of Texas System. Dr. Klein is also a director of Southern Company. He serves on the Company's Audit and Nuclear and Operating Committees.

Dr. Klein brings expertise in all aspects of nuclear energy regulation, operation, technology and safety. His wide national and international experience in all aspects of nuclear energy and government brings value to the Board, not only from the perspective of our operations at Palo Verde but also as we look at new opportunities in our evolving utility business.

Humberto S. Lopez, age 65, has been a director since 1995. Mr. Lopez is President of HSL Properties, Inc. (real estate development and investment), Tucson, Arizona. He has held this position since 1975. Mr. Lopez serves on the Company's Audit and Human Resources Committees.

In addition to management and business knowledge, Mr. Lopez brings extensive investment and real estate development expertise to the Company. His understanding of real estate and associated markets has proven a valuable asset to the Company because of the importance of those markets in Arizona. Mr. Lopez also is familiar with the State's historic economic cycles, which helps the Company plan for future growth and energy needs.

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Kathryn L. Munro, age 62, has been a director since 2000. Ms. Munro is a principal of BridgeWest, LLC (investment company). She has held this position since July 2003. Ms. Munro was Chairman of BridgeWest, LLC from February 1999 until July 2003. From 1996 to 1998, Ms. Munro served as Chief Executive Officer of Bank of America's ("BofA") Southwest Banking Group and was President of BofA Arizona from 1994 to 1996. Prior to that, Ms. Munro held a variety of senior positions during her 20-year career with BofA. Ms. Munro is also a director of FLOW International Corporation and Knight Transportation, Inc. Within the past five years, Ms. Munro was a director of Capital Bancorp, Ltd. Ms. Munro is the Company's Lead Director and, as such, she chairs the Corporate Governance Committee. She also serves on the Human Resources and Finance Committees.

As principal of an investment company, and as former Chief Executive Officer of BofA's Southwest Banking Group and President of BofA Arizona, Ms. Munro brings business acumen and financial knowledge to the Company. Her experience with the cycles in Arizona's economy assists a growing infrastructure company like Pinnacle West in accessing capital and meeting its financing needs. Ms. Munro is also an experienced director, currently serving on the boards of FLOW International Corp., Knight Transportation, and Premera Blue Cross.

Bruce J. Nordstrom, age 61, has been a director since 2000. Mr. Nordstrom is President of and a certified public accountant at the firm of Nordstrom and Associates, PC, Flagstaff, Arizona. He has held that position since 1988. Mr. Nordstrom chairs the Company's Audit Committee and serves on the Corporate Governance and Finance Committees.

As the president of a Flagstaff, Arizona-based accounting firm, Mr. Nordstrom has an extensive accounting, auditing and financial skill set. Additionally, he provides familiarity with principles of risk management and oversight and the perspectives of customers in the Northern Arizona service territory of APS.

W. Douglas Parker, age 49, has been a director since 2007. Mr. Parker is Chairman of the Board and Chief Executive Officer of US Airways (airline carrier). He has held these positions since September 2005. Mr. Parker served as Chairman of the Board and Chief Executive Officer of America West Holdings ("AWH") and of America West Airlines ("AWA") from September 2001 to September 2007, and served as a director of AWH and AWA from 1999 to September 2007. Within the past five years, Mr. Parker also served as a director of Clear Channel Outdoor. Mr. Parker chairs the Company's Finance Committee and serves on the Audit Committee.

Mr. Parker has extensive executive management and leadership experience operating in a highly regulated and volatile industry. His background and expertise are valuable to the Company as the electric utility business model evolves. Mr. Parker has significant experience addressing issues facing public companies as a result of his position as CEO of US Airways.

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

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SHARES OF PINNACLE WEST STOCK OWNED BY MANAGEMENT AND LARGE SHAREHOLDERS

The following table shows the amount of Pinnacle West common stock owned by the Company's directors, Messrs. Brandt, Edington, Falck, Hatfield, Robinson and Wheeler (the "Named Executive Officers"), our directors and executive officers as a group and those persons who beneficially own more than 5% of the Company's common stock. Unless otherwise indicated, each shareholder listed below has sole voting and investment power with respect to the shares beneficially owned.

The address of listed shareholders not otherwise set forth below is P.O. Box 53999, Mail Station 8602, Phoenix, Arizona 85072-3999. Unless otherwise indicated, all information is as of March 21, 2011, the record date for the Annual Meeting.

Name	Number of Shares Beneficially Owned[1]	Percent of Class
Directors:		
Edward N. Basha, Jr.	16,829	*
Donald E. Brandt	32,561	*
Susan Clark-Johnson	6,294	*
Denis A. Cortese, M.D.	3,758	*
Michael L. Gallagher	19,695	*
Pamela Grant	28,250	*
Roy A. Herberger, Jr., Ph.D.	22,364	*
Dale E. Klein, Ph.D.	100	*
Humberto S. Lopez	45,779	*
Kathryn L. Munro	19,725	*
Bruce J. Nordstrom	22,285	*
W. Douglas Parker	6,294	*
Other Named Executive Officers:		
Randall K. Edington	13,702	*
David P. Falck	13,591	*
James R. Hatfield	21,729	*
Donald G. Robinson	27,713	*
Steven M. Wheeler	22,851	*
All Directors and Executive Officers as a Group (22 Persons):	333,971	*
5% Beneficial Owners:[2]		
BlackRock, Inc.[3] 40 East 52nd Street New York, NY 10022	7,544,653	6.9%
Franklin Resources, Inc. and certain related entities[4] One Franklin Parkway San Mateo, CA 94403-1906	7,057,100	6.5%
State Street Corporation[5] One Lincoln Street Boston, MA 02111	7,690,732	7.1%
The Vanguard Group Inc.[6] 100 Vanguard Boulevard Malvern, PA 19355	5,811,474	5.3%

*Represents less than 1% of the outstanding common stock.

[1] Shares listed do not include performance share grants or restricted stock unit grants. Shares listed include shares that could be acquired within 60 days of March 21, 2011 under the Company's equity incentive plans. The

following shares are held in joint tenancy: Director: Dr. Herberger 14,497; Officer: Mr. Wheeler 21,765; and all Directors and Executive Officers as a group: 36,262. The following shares are held in joint trusts: Directors: Dr. Cortese 3,758; Mr. Gallagher 19,695; Mr. Lopez 45,779; and Ms. Munro 18,478; Officer: Mr. Hatfield 9,664; and all Directors and Executive Officers as a Group: 97,371. Mr. Basha has donated 16,569 of his shares to a charitable foundation and 260 of his shares are held in a custodial account; however, he has shared voting rights with respect to all such shares.

[2] The Company makes no representations as to the accuracy or completeness of the information in the filings reported in footnotes 3-6.

[3] Black Rock, Inc. Schedule 13G/A filing, dated January 21, 2011, reports beneficial ownership of 7,544,653 shares, with sole voting and dispositive power.

[4] Franklin Resources, Inc., Charles B. Johnson, Rupert H. Johnson, Jr., and Franklin Advisers, Inc. Schedule 13G/A filing, dated February 4, 2011, reports beneficial ownership collectively of 7,057,100 shares, with sole voting power as to 6,955,000 shares and sole dispositive power as to 7,055,000 shares in Franklin Advisers, Inc., and sole voting power and sole dispositive power as to 2,100 shares in Fiduciary Trust Company International.

[5] State Street Corporation Schedule 13G filing, dated February 10, 2011, reports beneficial ownership of 7,690,732 shares, with shared voting and dispositive power. The Company maintains normal commercial relationships with State Street Corporation and its subsidiaries. The Company does not consider these relationships to be material.

[6] The Vanguard Group Inc. Schedule 13G, dated February 9, 2011, reports beneficial ownership of 5,811,474 shares with sole voting and shared dispositive power as to 136,244 shares, and sole dispositive power as to 5,675,230 shares and Vanguard Fiduciary Trust Company as beneficial owner of 136,244 shares.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's directors and executive officers, and persons who own more than 10% of the Company's common stock to file reports of ownership and changes of ownership with the SEC. Based solely on the Company's review of these reports, the Company believes that its directors, executive officers, and greater than 10% beneficial owners complied with their respective Section 16(a) reporting requirements for fiscal year 2010 on a timely basis.

RELATED PARTY TRANSACTIONS

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

To identify Related Party Transactions, as defined in the Policy, each year the Company requires our directors and officers to complete Director and Officer Questionnaires identifying any transactions with the Company in which a Related Party has an interest. We review Related Party Transactions due to the potential for a conflict of interest. A conflict of interest occurs when an individual's private interest interferes, or appears to interfere, in any way with our interests. Our Ethics Policy and Standards of Business Practices, *"Doing the Right Thing,"* require all directors, officers, and employees who may have a potential or apparent conflict of interest to notify the Company's management. In addition, the Policy specifically provides that any Related Party Transaction must be approved or ratified by the Corporate Governance Committee. A Related Party Transaction is any transaction or a series of similar transactions in which the Company or any of its subsidiaries is or was a participant, where the

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amount involved exceeds $120,000 in the aggregate, and in which any Related Party has a direct or indirect material interest, other than:

- transactions in which rates or charges are fixed in conformity with law or governmental authority (such as APS rates approved by the ACC);
- transactions in which the rates or charges are determined by competitive bid; or
- the payment of compensation by the Company to the executive officers, directors, or nominees for directors.

REPORT OF THE HUMAN RESOURCES COMMITTEE

The Human Resources Committee submitted the following report:

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

In accordance with SEC rules, the Human Resources Committee discussed and reviewed the Compensation Discussion and Analysis beginning on page 19 of this proxy statement with management and, based on those discussions and review, the Human Resources Committee recommended to the Board that the Compensation Discussion and Analysis be included in this proxy statement.

HUMAN RESOURCES COMMITTEE CHAIR	HUMAN RESOURCES COMMITTEE MEMBERS
Roy A. Herberger, Jr., Ph.D	Edward N. Basha, Jr.
	Pamela Grant
	Humberto S. Lopez
	Kathryn L. Munro

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis ("CD&A")

Overview of 2010 Company Performance

Last year was a successful year for our Company despite challenging economic conditions. Our significant accomplishments and improvements in 2010 include:

- the Company's total shareholder return ("TSR") in 2010 was 20% compared with 4% for the S&P 1500 Super Composite Electrics Index (the "S&P 1500");
- the Company's common share price increased more than 13%, compared to a 0.5% decrease in the S&P 1500;
- Palo Verde achieved a capacity factor of 90.5% and the fossil power plants achieved a commercial availability factor of 92.2%;
- we achieved our safest year on record, placing us in the first quartile of our industry;
- we continued to effectively implement our wind-down strategy for the Company's non-regulated businesses;
- APS signed contracts for the first 70 megawatts of utility-owned solar power under the AZ Sun program through which APS plans to invest up to $500 million for the construction of 100 MW of multiple solar photovoltaic power plants across Arizona; and
- APS ranked fifth among all 59 large segment utilities in J.D. Power and Associates 2010 Residential Customer Satisfaction Study.

Compensation Objectives

The fundamental objectives of the Company's executive compensation strategy are:

- Alignment with Shareholder Interests. A significant portion of compensation should be tied to the Company's stock performance through performance-based or other stock incentives so that executives' interests are tied to the success of the Company and aligned with those of our shareholders.
- Business Performance Accountability. Compensation should be tied to the Company's performance in several key areas, including furthering our Strategic Framework, so that executives are focused on specific strategic and operating objectives and are held accountable through their compensation for the performance of the Company.
- Individual Performance Accountability. Compensation should be tied to an individual's performance so that individual contributions to the Company's performance are rewarded.
- Retention. Compensation should be designed to promote key employee retention.
- Competitiveness. The compensation program should be designed to attract and reward key leaders critical to the Company's success by providing total compensation levels and programs that are competitive and fair.

Setting Executive Compensation

The Human Resources Committee. The Human Resources Committee (for purposes of this CD&A, the "Committee") monitors executive officer compensation throughout the year and undertakes a thorough analysis of our executive officer compensation each Fall. This review includes consideration of competitive positions relative to specified labor markets, the mix of elements of compensation, the degree and type of performance focus, and a consideration of individual officer evaluations. From December through February, the Committee then makes adjustments to executive officer compensation, including salary and cash and non-cash incentives.

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Role of Executive Officers in Determining Executive Compensation. The Committee makes all compensation decisions relating to our CEO's compensation, makes awards under the 2007 Long-Term Incentive Plan (the "2007 Plan"), and determines the awards under the 2010 Incentive Plans (as defined on page 27 of this proxy statement). The Committee recommends other executive officer compensation decisions, which are approved by the Board. Management works with the Committee in establishing the agenda for Committee meetings and in preparing meeting information. Management conducts evaluations and provides information on the performance of the executive officers for the Committee's consideration and provides such other information as the Committee may request. Management also assists the Committee in recommending salary levels, annual incentive plan structure and design, including corporate and business unit performance targets or other goals, long-term incentive plan structure and design, including award levels, and the type, structure, and amount of other awards. The executive officers are available to the Committee's compensation consultant to provide information as requested by the consultant. At the request of the Chair of the Committee, the CEO or other officers may attend and participate in portions of the Committee's meetings.

Role of Compensation Consultants. The Committee's charter gives the Committee the sole authority to retain and terminate any consulting firm used by the Committee in evaluating non-employee director and officer compensation. The Committee engaged Frederick W. Cook & Co. to assist the Committee in its evaluation of 2010 compensation for our executive officers (the "Consultant"). The Committee instructed the Consultant to prepare a competitive analysis of the compensation of the executive officers of the Company and of APS, and to make recommendations for changes to the existing compensation program. The Consultant does not provide any other services to the Company or any of its subsidiaries.

Consultant's Report and Comparator Group. The Consultant reviewed our executive compensation practices against the market and considered the extent to which these practices support our executive compensation strategy.

As part of this study, the Consultant performed competitive pay comparisons for our executive officers based on:

- compensation information as disclosed in 2009 SEC filings for the comparator group described below;
- general industry data based on surveys published by Hewitt Associates, Inc. (averaging data for companies in the $2.5 $5 billion revenue bracket and the $5 $10 billion revenue bracket) and Towers, Perrin, Forster & Crosby, Inc. ("Towers Perrin") (averaging data for companies in the $3 $6 billion revenue bracket and the $6 $10 billion revenue bracket); and
- industry-specific survey data from the Towers Perrin Energy Services Industry Survey (reflecting the average between companies in the $3 $6 billion revenue bracket and companies with revenues greater than $6 billion).

From these sources, the Consultant developed a competitive consensus, with industry-specific data assigned a two-thirds weighting and general industry data assigned a one-third weighting. For the Named Executive Officers with position matches in all three peer sets (Messrs. Brandt, Hatfield, Falck and Robinson), the data reflects one-third proxy statement data, one-third Energy Services Industry Survey, and one-third general industry surveys. For the Named Executive Officers without a matching general industry survey position (Mr. Edington and Mr. Wheeler), the data reflects one-half proxy statement data and one-half Energy Services Industry Survey.

As part of the executive compensation review for 2010, the Committee reviewed the comparator group for its continued appropriateness with the assistance of the Consultant. As a result of such

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review, the Committee approved the continuing use of the comparator group used in setting 2009 executive compensation with the exception of Puget Energy, Inc., which was removed from the comparator group when it ceased to be a publicly-traded company. The comparator group is broadly similar to the Company with respect to industry, complexity, business lines and size, and positions the Company closer to the median with respect to revenues, assets, market cap, and total megawatts owned or managed. The 2010 comparator group consists of the following companies (the "Comparator Group"):

Comparator Group

Allegheny Energy	Alliant Energy	Ameren Corporation	DTE Energy Company
Entergy Corporation	NextEra Energy (formerly "FPL Group Inc.")	Northeast Utilities	NV Energy, Inc.
OGE Energy Corporation	PPL Corporation	Progress Energy, Inc.	SCANA Corporation
Southern Company	TECO Energy, Inc.	Wisconsin Energy Corporation	Xcel Energy, Inc.

The Consultant considered that APS' reported revenues do not reflect the actual size and complexity of its operations since APS is a minority owner in both Palo Verde and the Four Corners Power Plant but APS manages the facilities on behalf of all the owners. This issue was addressed by adjusting APS revenues to take revenues attributable to managed assets into account. As a result, APS adjusted revenues approximate the median of the Comparator Group.

In providing information to the Committee with respect to setting 2010 compensation, the Consultant reviewed the total compensation of the Named Executive Officers and the individual elements of that compensation, including the type and balance of annual incentives and long-term incentives, and evaluated the competitiveness of the total compensation and individual elements of compensation of each such officer based on the survey data discussed above.

In its analysis, presented in October 2009 and based upon data for 2008 as disclosed in proxy statements, the Consultant looked at actual compensation paid to the Named Executive Officers as compared to the 25th, 50th and 75th percentile (data was treated at the 25th, 50th or the 75th percentile if it was within +/- 10%). The conclusions of the report as to the comparative positions of the actual compensation of the Named Executive Officers at the time the analysis was performed are as follows:

Officer	**Base Salary**	**Actual Annual Incentive**[1]	**Long-Term Incentive**[2]
Mr. Brandt	at the 25th percentile	above the 50th percentile	above the 25th percentile
Mr. Hatfield	at the 25th percentile	above the 50th percentile	below the 25th percentile
Mr. Edington[3]	above the 75th percentile	at the 75th percentile	above the 75th percentile
Mr. Falck	at the 50th percentile		above the 75th percentile
Mr. Robinson	at the 25th percentile	at the 50th percentile	below the 50th percentile
Mr. Wheeler	at the 50th percentile	above the 50th percentile	at the 25th percentile

[1] Actual annual incentive earned for performance in 2008. Mr. Falck joined the Company in July 2009 and did not participate in the 2008 annual incentive plan.
[2] Messrs. Edington's and Falck's amounts include the annualized value of special deferred compensation awards of $1,000,000 and $50,000 respectively. Mr. Falck's amount includes performance shares and RSUs that were part of his hiring package. In determining the amount of the initial equity grant to Mr. Falck, the Committee took into consideration equity grants from his prior employer that Mr. Falck forfeited when he became an employee of the Company.
[3] Mr. Edington's base salary was increased in June 2008 to $800,000. This increase was based on the significant performance improvements at Palo Verde and existing market conditions for individuals with his experience in the nuclear industry. The participant owners of Palo Verde share Mr. Edington's compensation expense.

Application of the Committee's Judgment. The analysis in the Consultant's report and its recommendations regarding the competitiveness and structure of compensation are factors that the Committee takes into account in its evaluation of compensation for the Named Executive Officers. In addition, the Committee considers how the Consultant's recommendations regarding particular elements of compensation may differ from management's recommendations. The Committee also focuses on the individual executives and their individual responsibilities, skills, expertise, value added through performance, internal equity, and other external factors, and applies these views in conjunction with the information provided by the Consultant. The performance of each officer is formally reviewed each year by management and shared with the Committee. Individual performance evaluations consider individual goals and include a discussion of the officer's strengths and overall value to the Company. CEO performance is separately reviewed by the Committee.

The Committee also considers written commitments in determining or recommending executive pay. For example, under the offer letters pursuant to which Messrs. Edington, Hatfield, and Falck were hired, each is entitled to a fixed starting salary and other specified benefits that are described in more detail below under "Narrative Disclosure" on page 46 of this proxy statement. The Committee approved the terms of these offer letters after considering the entire compensation package in the context of the desirability of hiring these officers.

In making any decision regarding an executive's compensation, the Committee considers the officer's total compensation, but with an increased emphasis on performance-based or other long-term compensation. While compensation competitiveness is a priority, Company, business unit, and individual officer performance are the primary factors determining the level of total direct compensation for the Named Executive Officers. While the Committee considers internal pay equity in making compensation decisions, we do not have a policy requiring any set levels of internal pay differentiation. Finally, the Committee considers other factors that it considers relevant, such as the financial condition of the Company and APS. The Company does not have a pre-established policy or target for allocation between cash and non-cash compensation or between short-term and long-term incentive compensation.

Compensation Design

Performance-Based Compensation. The Company believes that a significant portion of each Named Executive Officer's total compensation opportunity should be performance-based, reflecting both upside potential and downside risk. The illustrations that follow show the allocation of the Named Executive Officers' total compensation between nonperformance-based (base salary and hiring and retention payments) and performance-based (annual and other cash incentive, performance shares, and restricted stock units ("RSUs")) components.

2010 Average for CEO Total Compensation

2010 Average for Other NEO Total Compensation

Risk-Taking. The compensation program is designed to reward performance but not encourage unacceptable risk-taking. The Committee evaluates the potential for unacceptable risk-taking in compensation design on an ongoing basis. We believe that the design of our executive compensation

program does not unduly incentivize our executives to take actions that may conflict with our risk-based decision-making. Material risk in our compensation design is mitigated in several ways:

- base salaries are intended to constitute a sufficient component of total compensation to discourage inappropriate risk-taking;
- earnings goals and award opportunities in our annual cash incentive programs are at levels intended to be attainable without the need to take inappropriate risks;
- approximately 50% of our long-term incentives are time-based RSUs that vest over a multi-year period and the other 50% are in the form of performance shares that are earned at the end of a three-year period, both of which provide upside potential and downside risk. Moreover, the use of RSUs in our long-term incentive program mitigates the likelihood of risk-taking because RSUs, as opposed to stock options, for example, retain some value even in a depressed market;
- payouts are capped under the annual and long-term incentive plans;
- more than one performance metric is used in our long-term performance share awards and the award opportunities under our annual incentive program are based on multiple considerations, thereby minimizing the ability of the executive to manipulate results;
- the stock components inherent in our long-term incentive program, combined with our stock ownership guidelines and retention requirements, align the interests of our executives with a goal of long-term appreciation of shareholder value;
- compensation is generally targeted to the median of the competitive consensus and compensation elements used by comparator companies are considered in compensation design, thereby avoiding unusually high pay opportunities relative to Company peers;
- our program is consistent throughout the Company so that no one area or group is incentivized in a manner that would encourage risk-taking; and
- although the Company may pay hiring bonuses and agree to certain severance benefits for limited periods as part of a hiring package for senior executives, the Company's executives generally do not have guaranteed bonuses or high-value severance packages on terminations not involving a change-in-control.

Executive Compensation Components

The Company's 2010 executive compensation program consists of the following components:

In addition, the Company provides pension programs, a deferred compensation program, change-in-control arrangements and limited perquisites.

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The chart below indicates how each element of our 2010 executive compensation program was intended to achieve our stated compensation objectives of aligning the interests of executives and shareholders, paying for business and individual performance, and attracting and retaining qualified, experienced executives.

2010 Compensation Element	**Alignment**	**Performance**	**Attract and Retain**	**Comments**
Base Salary			ü	Salary is based on experience and responsibilities, with market review compared to the Comparator Group to maintain salary at competitive levels. Corporate financial performance can affect the timing and amount of adjustments.
Annual Cash Incentive	ü	ü	ü	Annual cash incentive is designed to reward achievement of annual performance measures, which measures are designed to enhance shareholder value.
Performance Shares	ü	ü	ü	Performance shares reward achievement of long-term performance measures payout is tied to seven performance metrics that are intended to enhance shareholder value and the payout is determined at the end of a three-year performance cycle. Performance shares also encourage retention.
RSUs	ü	ü	ü	RSUs reward share price appreciation, which enhances alignment with shareholder interests. Four-year vesting encourages retention.
Benefits	ü		ü	Our pension programs and deferred compensation program are designed to attract and retain talented executives. Our change-in-control agreements provide alignment in change of control situations by removing job loss concern and have retention value. Because the Company offers limited perquisites, we do not believe that they are a material element of our program. However, we offer them to attract and retain talented executives.

Alternate 2010 Compensation Table

The following Alternate 2010 Compensation Table shows the 2010 compensation paid to the Named Executive Officers as considered by the Committee in setting compensation and differs from the Summary Compensation Table shown on page 41 of this proxy statement. The differences are that this table: (i) excludes the Bonus column since the only amount paid in 2010 that would fall into this column was the second-year hiring incentive to Mr. Falck that was paid pursuant to his 2009 hiring package; (ii) includes the full grant date fair value of the Supplemental RSUs that were granted to the Named Executive Officers in 2011 because the grants were given in recognition of outstanding performance in 2010 (see the discussion of the Supplemental RSUs on page 35 of this proxy statement); (iii) excludes the "Change in Pension Value" and "All Other Compensation" columns as the Committee did not consider these post-retirement elections in setting salary, annual cash incentives and equity awards for the Named Executive Officers for 2010; and (iv) excludes information for Mr. Wheeler due to his retirement in September 2010:

Name	**Salary ($)**