

PINNACLE WEST CAPITAL CORP
Form 11-K
June 14, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 11-K

FOR ANNUAL REPORTS OF EMPLOYEE STOCK PURCHASE, SAVINGS
AND SIMILAR PLANS PURSUANT TO SECTION 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the fiscal year ended December 31, 2017

OR

TRANSITION REPORT PURSUANT TO 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from _____ to _____

Commission file number 1-8962

The Pinnacle West Capital Corporation Savings Plan
(Full title of the plan)

Pinnacle West Capital Corporation
(Name of issuer)

400 North Fifth Street
P.O. Box 53999
Phoenix, Arizona 85072-3999
(Address of issuer's principal executive office)

THE PINNACLE WEST CAPITAL CORPORATION SAVINGS PLAN

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NOTE: Supplemental schedules required by section 2520.103-10 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, other than the schedule listed above, are omitted because of the absence of the conditions under which they are required.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Plan Participants,
Investment Management Committee
and Benefit Administration Committee of
The Pinnacle West Capital Corporation Savings Plan
Phoenix, Arizona

Opinion on the Financial Statements

We have audited the accompanying statements of net assets available for benefits of The Pinnacle West Capital Corporation Savings Plan (the "Plan") as of December 31, 2017 and 2016, and the related statement of changes in net assets available for benefits for the year ended December 31, 2017, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2017 and 2016, and the changes in net assets available for benefits for the year ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on the Plan's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Plan in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Report on Supplemental Schedule

The supplemental schedule of assets (held at end of year) as of December 31, 2017 has been subjected to audit procedures performed in conjunction with the audit of the Plan's financial statements. The supplemental schedule is the responsibility of the Plan's management. Our audit procedures included determining whether the supplemental schedule reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental schedule. In forming our opinion on the supplemental schedule, we evaluated whether the supplemental schedule, including its form and content, is presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. In our opinion, such schedule is fairly stated, in all material respects, in relation to the financial statements as a whole.

/s/ DELOITTE & TOUCHE LLP

Phoenix, Arizona
June 14, 2018

We have served as the auditor of the Plan since 1979.

THE PINNACLE WEST CAPITAL CORPORATION SAVINGS PLAN
 STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
 AS OF DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS:		
Participant-directed Investments at fair value (Notes 2 and 5)	\$1,094,716,099	\$919,357,736
Participant-directed Investments at contract value (Notes 2 and 4)	132,899,031	148,637,923
Receivables:		
Notes receivable from participants (Note 1)	24,182,156	23,969,605
Participant contributions	2,592,349	2,469,788
Employer contributions	815,554	789,440
Interest and other	560,249	1,990,394
Total receivables	28,150,308	29,219,227
Total assets	1,255,765,438	1,097,214,886
LIABILITIES:		
Payable for securities purchased	391,472	196,125
Accrued administrative expenses	316,801	273,562
Total liabilities	708,273	469,687
NET ASSETS AVAILABLE FOR BENEFITS	\$1,255,057,165	\$1,096,745,199

See notes to financial statements.

THE PINNACLE WEST CAPITAL CORPORATION SAVINGS PLAN
 STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
 FOR THE YEAR ENDED DECEMBER 31, 2017

ADDITIONS:

Contributions (Note 1):	
Participants	\$57,095,369
Employer	20,932,576
Rollover	4,929,504
Total contributions	82,957,449

Investment income (Note 2):	
Dividend, interest, and other income	15,647,095
Net realized/unrealized appreciation in fair value of investments	150,586,516
Total investment income	166,233,611

Interest income on notes receivable from participants	1,051,023
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Total additions	250,242,083
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DEDUCTIONS:

Distributions to participants	89,361,740
Administrative expenses (Note 2)	2,568,377
Total deductions	91,930,117

INCREASE IN NET ASSETS	158,311,966
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NET ASSETS AVAILABLE FOR BENEFITS:

Beginning of year	1,096,745,199
End of year	\$1,255,057,165

See notes to financial statements.

THE PINNACLE WEST CAPITAL CORPORATION SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS

1. DESCRIPTION OF THE PLAN

The following description of The Pinnacle West Capital Corporation Savings Plan (the "Plan") provides only general information. Participants should refer to the Plan document for a more complete description of the Plan's provisions.

General

The Plan is a defined contribution plan sponsored by Pinnacle West Capital Corporation ("Pinnacle West" or the "Company"). The Plan is administered by two committees, the Benefit Administration Committee and the Investment Management Committee, appointed by the Pinnacle West Board of Directors (together, the "Committee"). The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The Trustee and recordkeeper for the Plan is Fidelity Management Trust Company ("Trustee").

The Trustee is the appointed investment manager of the Pinnacle West Stock Fund, which is an investment option in the Plan. As the appointed investment manager of this option, the Trustee (1) manages the liquidity of the Pinnacle West Stock Fund and (2) accepts direction regarding the voting of shares held in the Pinnacle West Stock Fund for which no proxies are received. The Pinnacle West Stock Fund is an Employee Stock Ownership Plan. To the extent set forth by the terms of the Plan, participants may exercise voting rights by providing instructions to the Trustee related to the number of whole shares of stock represented by the units of the Pinnacle West Stock Fund allocated to their accounts. The Investment Management Committee directs the Trustee on voting shares of Pinnacle West common stock on routine matters (for those shares for which the Trustee does not receive participant directions).

Eligibility

Generally, as defined by the Plan, most active employees of Pinnacle West and its subsidiaries, including Arizona Public Service Company, El Dorado Investment Company and Bright Canyon Energy Corporation (collectively, the "Employer"), are eligible to participate in (1) the pretax, Roth 401(k), and after-tax features of the Plan immediately upon employment or, if later, their attainment of age 18 and (2) the matching feature on the first day of the month coincident with or following their attainment of age 18 and completion of six months of service.

Contributions

The Plan allows participants to contribute up to 50% of their base pay as pretax contributions, Roth 401(k) contributions or after-tax contributions, provided that in no event can the combined total contributions made by any participant in any year exceed 50% of their base pay, or the limits imposed by the Internal Revenue Code. Eligible employees who do not affirmatively elect to participate or opt out of the Plan are automatically enrolled as soon as administratively possible after 60 days of employment. Employees automatically enrolled contribute 3% of their base pay as pretax contributions. The Plan also allows participants attaining the age of 50 before the end of the calendar year to make catch-up contributions in accordance with Section 414(v) of the Internal Revenue Code. The maximum allowable pretax contribution (\$18,000 for 2017) and catch-up contribution (\$6,000 for 2017) may increase in future years as determined

annually by the Internal Revenue Service. Participants may elect to set their pretax contributions to increase automatically on an annual basis based on the percent increase and effective date designated by the participant, up to the maximum limits permitted under the Plan and the Internal Revenue Code.

Employer contributions are fixed at 75% of the first 6% of base pay for combined pretax and/or Roth 401(k) participant contributions (excluding catch-up contributions) for all participants other than employees hired prior to January 1, 2003 and who elected not to participate in the Retirement Account Balance feature of the Pinnacle West Capital Corporation Retirement Plan. Participants hired prior to January 1, 2003, and who elected not to participate in the Retirement Account Balance feature, receive an Employer match of 50% of the first 6% of base pay contributed, in combination, as pretax and/or Roth 401(k) participant contributions (excluding catch-up contributions).

Employer contributions are invested in the same investment funds as participants elect for their participant contributions. Noncash contributions, if any, are recorded at fair value. There was no noncash contribution for the year ended December 31, 2017.

The Plan allows rollover contributions from other eligible retirement plans, including 401(k) or other qualified plans (including after-tax dollars), governmental 457(b) plans, Roth 401(k) accounts, 403(b) annuities (including after-tax dollars), or IRAs (excluding after-tax dollars), subject to certain criteria. Rollover contributions are not eligible for employer match.

Participants may elect to receive dividends on Pinnacle West stock in their account in the form of cash. If a participant does not elect to receive the dividend in the form of cash prior to the dividend payable date for that dividend, it is automatically reinvested in the Pinnacle West Stock Fund.

Participant Accounts

Individual accounts are maintained for each Plan participant. Allocations of earnings and losses are based on participant account balances. Each participant has separate accounts that are credited with the participant's pretax, Roth 401(k), after-tax contributions, rollover contributions (if any), in-plan Roth conversions (if any), the Employer's matching contributions and an allocation of Plan earnings. Each participant's account is charged with withdrawals, an allocation of Plan losses and explicit recordkeeping and administrative fees (See Note 2). A dollar amount is deducted quarterly from each participant's account for the explicit recordkeeping and administrative fees.

Investment Choices

Participants direct all contributions into one or more of the following (collectively, the "Funds"):

- Age-based investment options ("Target Retirement Date Funds")* that include:
- Retirement Income Fund
- Target Retirement 2015 Fund
- Target Retirement 2020 Fund
- Target Retirement 2025 Fund
- Target Retirement 2030 Fund
- Target Retirement 2035 Fund
- Target Retirement 2040 Fund
- Target Retirement 2045 Fund

- Target Retirement 2050 Fund
- Target Retirement 2055 Fund
- Target Retirement 2060 Fund

- Core investment options that include:
 - Stable Value Fund*
 - US Bond Index
 - Bond Fund*
 - Diversified Inflation Fund
 - US Large Cap Stock Index
 - US Large Cap Stock Fund*
 - US Small/Mid Cap Stock Index
 - US Small/Mid Cap Stock Fund*
 - Non-US Stock Index
 - Non-US Stock Fund
 - Pinnacle West Stock Fund*

* Separately managed accounts, specific to this Plan only.

The Plan provides that in lieu of making their own investment elections in the funds, participants may (a) choose to have an investment allocation set for them through the Plan's personal asset manager program, which provides a personalized mix of the Plan's Core investment options; (b) allow their balance to be invested in the Qualified Default Investment Alternative ("QDIA") which is the family of Target Retirement Date Funds (separately managed accounts) that are composed of the Core investment options; (c) establish a self-directed brokerage account ("SDA") to invest up to 90% of their vested account balance in permitted investments of the SDA (which excludes the Funds); or (d) elect to have their investment mix of Funds automatically rebalanced according to their investment elections on a quarterly, semiannual or annual basis.

Notes Receivable from Participants

Participants may borrow money from their pretax contributions account, Roth 401(k) contributions account, vested Employer contributions account, rollover contributions account (if any), and in-plan Roth conversions (if any). Participants may not borrow against their Employer transfer account or their after-tax contributions account.

The minimum participant loan allowed is \$1,000. The maximum participant loan allowed is 50% of the participant's vested account balance, up to \$50,000 reduced by the participant's highest outstanding loan balance in the 12-month period ending on the day before the loan is made. Only one loan per participant may be outstanding at any one time. Loan terms are up to five years or up to 15 years for the purchase of the participant's principal residence. An administrative fee is charged to the participant's account for each loan. Participants with an outstanding loan may continue to make loan repayments upon termination of employment with the Employer, unless they receive a full distribution of their account balance.

The interest rate for a participant loan is determined at the time the loan is requested and is fixed for the life of the loan. The interest rate will be at least as great as the interest rate charged by the Trustee to its individual clients for an unsecured loan on the date the loan is made. The Trustee currently charges interest at the prime interest rate plus one percent, determined as of the first business day of the month in which the loan is issued. The average interest rate for loans issued during 2017 was 5.08%. Interest rates for outstanding loans as of December 31, 2017 and 2016, ranged from 4.25% to 9.25%. As of December 31, 2017, participant loans have maturities through 2032.

Loans are treated as an investment of the participant's accounts. To fund the loan, transfers are made from the participant's investment funds on a pro-rata basis. Amounts credited to a participant's SDA are not available for a loan. Loan repayments are invested in the participant's investment funds based on the participant's current investment election or in the QDIA, if the participant does not have a current investment election in place. Loan repayments, including interest, are generally made through irrevocable payroll deductions. Loan repayments for former participants are made through the automated clearing house system. Loans are secured by the participant's account balance.

Vesting

Effective April 1, 2006, each new participant is automatically fully vested in the participant's pretax contributions account, Roth 401(k) contributions account, after-tax contributions account, rollover contributions account (if any), in-plan Roth conversions (if any) (consisting of the participant's contributions and related income and appreciation or depreciation), Employer transfer account, and Employer contributions account (consisting of Employer contributions and related income and appreciation or depreciation). The non-vested balances prior to April 1, 2006, are either fully vested or used to reduce future Employer contributions to the Plan as of March, 2016.

Withdrawals and Distributions

A participant may at any time make a full or partial withdrawal of the balance in the participant's after-tax contributions account, rollover contributions account (if any), and in-plan Roth conversions (if any). No withdrawals prior to termination of employment are permitted from a participant's Employer transfer account. No withdrawals prior to termination of employment are permitted from the participant's pretax contributions account and Roth 401(k) contributions account, except under certain limited circumstances relating to financial hardship or after attaining age 59-1/2. If an employee withdraws pretax or Roth 401(k) contributions due to financial hardship, the only earnings on pretax contributions that can be withdrawn are those credited prior to January 1, 1989, and no earnings on Roth 401(k) contributions can be withdrawn. Employees taking a financial hardship are subsequently suspended from making contributions to the Plan for six months. Participants who have participated in the Plan for five complete Plan years may withdraw the amount in their Employer contributions account. Participants who are at least age 59-1/2 may withdraw any portion of their pretax contributions account, Roth 401(k) contributions account, rollover contributions account (if any), or in-plan Roth conversions (if any) while employed with no restrictions on the reason for withdrawal. For all withdrawals and distributions, penalties may apply. Amounts credited to a participant's SDA are not available for a withdrawal until transferred back into the Funds. When the participant's employment with the Employer is terminated, the participant can elect to receive a full or partial distribution, as soon as administratively possible, of the vested portion of their Employer contributions account together with the participant's contributions accounts and Employer transfer account.

Forfeitures

Effective April 1, 2006, new participants are automatically vested when they begin participating in the Plan, including the Employer match and any earnings on those contributions. The non-vested balances prior to April 1, 2006, are either fully vested or used to reduce future Employer contributions to the Plan as of March, 2016. Therefore, there are no plan forfeitures.

Termination of the Plan

It is the Company's present expectation that the Plan and the payment of Employer contributions will be continued indefinitely. However, continuance of any feature of the Plan is not assumed as a contractual obligation. The Company, at its discretion, may terminate the Plan and distribute net assets, subject to the provisions set forth in ERISA and the Internal Revenue Code, or discontinue contributions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates

The preparation of financial statements in conformity with GAAP requires the Plan's management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Risks and Uncertainties

The Plan utilizes various investment instruments, including mutual funds, common and collective trusts, separate accounts, stocks, bonds, and a stable value fund. Investment securities, in general, are exposed to various risks, such as interest rate risk, credit risk, liquidity risk, and overall market volatility. Due to the level of risk associated with certain investment securities, it is possible that changes in the value of investment securities may occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Investment Valuation

The Plan's investments are stated at fair value (except for fully benefit-responsive investment contracts, which are reported at contract value), less costs to sell, if those costs are significant. Fair value is the price that would be received upon the sale of an asset or the amount paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 5 for fair value measurements and disclosures of the Plan's investments reported at fair value.

The Plan's investment options include a separately managed account, which owns shares of Pinnacle West common stock, and together with a small portion of cash maintained for liquidity purposes, is recorded on a unit basis. Pinnacle West's common shares are traded on the NYSE and are valued at the NYSE closing price on the last business day of the plan year. (See Note 5). The valuation per share of Pinnacle West's common stock was \$85.18 and \$78.03 at December 31, 2017 and 2016 respectively. The valuation per unit of the Pinnacle West stock fund was \$21.01 and \$19.27 at December 31, 2017 and 2016 respectively.

Included in investments at December 31, 2017 and 2016, are shares of Pinnacle West common stock amounting to \$104,147,031 and \$97,241,220, respectively. This investment represents 8% of total investments at December 31, 2017 and 2016, respectively. A significant decline in the market value of the stock could have an effect on the net assets available for benefits.

Fully benefit-responsive synthetic guaranteed investment contracts ("GICs"), which are among the investments held in the Stable Value Fund option, are reported at contract value. Contract value is the relevant measure for fully benefit-responsive investment contracts because it is the amount Plan participants would receive if they were to initiate permitted transactions under the terms of the Plan. Contract value represents contributions made under each contract, plus earnings, less participant withdrawals, and administrative expenses. The Statement of Changes in Net Assets Available for Benefits presents GICs on a contract value basis. (See Note 4).

Income Recognition

Purchases and sales of securities are recorded as of the trade date. Interest income is recorded on the accrual basis. Dividend income is recorded as of the ex-dividend date.

Administrative Expenses

Participants pay a quarterly Plan recordkeeping fee. Participants may also pay administrative fees for the origination of a loan, distributions, qualified domestic relation order processing or for other services provided by the Trustee. Participants pay investment, sales, recordkeeping, income taxes and administrative expenses charged by the Funds, if any, which are deducted from income and reflected as a reduction of investment return for the Fund. Pinnacle West pays the remaining Plan administrative expenses, such as legal and trustee expenses of the Plan.

Management fees and operating expenses charged to the Plan for investments in mutual funds are deducted from income earned on a daily basis and are not separately reflected in the financial statements. Consequently, management fees are reflected as a reduction of investment return for such investments.

Notes Receivable From Participants

Notes receivable from participants are measured at their unpaid principal balance plus any accrued but unpaid interest. Delinquent participant loans are recorded as distributions based on the terms of the Plan.

Payment of Benefits

Benefit payments to participants are recorded upon distribution. As of December 31, 2017 and 2016, there were no amounts allocated to accounts of persons who have elected to withdraw from the Plan, but have not yet been paid.

Excess Contributions Payable

The Plan is required to return contributions received during the Plan year in excess of the Internal Revenue Code limits.

Net Appreciation/Depreciation

Net appreciation/depreciation includes the Plan's gains and losses on investments bought and sold during the year as well as unrealized gains and losses related to investments held at year end.

3. FEDERAL INCOME TAX STATUS

GAAP requires Plan management to evaluate tax positions taken by the Plan and recognize a tax liability if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service ("IRS"). Plan management has concluded that, as of December 31, 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Plan is subject to routine audits by the IRS, however, there are currently no audits for any tax periods in progress. Plan management believes the Plan is no longer subject to income tax examinations for years prior to 2014.

The IRS has determined and informed the Company by a letter dated March 16, 2018, that the Plan was designed in accordance with applicable requirements of the Internal Revenue Code. The Company and the Plan's management believe that the Plan is currently designed and operated in compliance with the applicable requirements of the Internal Revenue Code, and the Plan and related trust continue to be tax-exempt. Accordingly, no provision for income taxes has been included in the Plan's financial statements.

4. INVESTMENT CONTRACTS

The Plan's Stable Value Fund includes fully benefit-responsive synthetic guaranteed investment contracts. A synthetic GIC is an investment contract issued by an insurance company or other financial institution ("Wrap Agreement"), backed by a portfolio of bonds, mortgages, or other fixed income instruments. The realized and unrealized gains and losses on the underlying assets are not reflected immediately in the value of the contract, but rather are amortized, usually over the time to maturity or the duration of the underlying investments, through adjustments to the future interest crediting rate. Formulas are provided in each contract that adjust the interest crediting rate to recognize the difference between the fair value and the book value of the underlying assets. The contract provides for an interest crediting rate that may not be less than zero percent per annum. Interest crediting rates are reviewed monthly for resetting. The Wrap Agreement is intended to guarantee that the qualified participant withdrawals will occur at contract value.

Certain events may limit the ability of the Plan to transact at contract value with the issuer. While the events may differ from contract to contract, the events typically include: Plan amendments or changes, company mergers or consolidations, participant investment election changes, group terminations or layoffs, implementation of an early retirement program, termination or partial termination of the Plan, failure to meet certain tax qualifications, participant communication that is designed to influence participants not to invest in the Stable Value Fund, transfers to competing options without meeting the equity wash provisions of the Stable Value Fund (if applicable), Plan sponsor withdrawals without the appropriate notice to the Stable Value Fund's investment manager and/or wrap contract issuers, any changes in laws or regulations that would result in substantial withdrawals from the Plan, and default by the Plan sponsor in honoring its credit obligations, insolvency, or bankruptcy if such events could result in withdrawals. In general, GIC issuers may terminate the contract and settle at other than contract value due to changes in the qualification status of the company or the Plan, breach of material obligations under the contract and misrepresentation by the contract holder, or failure of the underlying portfolio to conform to the pre-established investment guidelines. Plan management believes that the occurrence of such events that would cause the Plan to transact at less than contract value is not probable.

The Plan's fully benefit-responsive synthetic GICs are included in the Statements of Net Assets Available for Benefits at contract value at December 31, 2017 and 2016 of \$133 million and \$149 million, respectively. The fully benefit-responsive synthetic GICs earned interest income of \$2.7 million during the year ended December 31, 2017.

5. FAIR VALUE MEASUREMENTS

The Plan applies fair value measurements to certain investments and provides disclosures of certain assets according to a fair value hierarchy. The hierarchy ranks the quality and reliability of the inputs used to determine fair values, which are then classified and disclosed in one of three categories. The three levels of the fair value hierarchy are:

Level 1 — Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 — Other significant observable inputs including quoted prices in active markets for similar assets or liabilities; quoted prices in markets that are not active; and model-derived valuations whose inputs are observable (such as yield curves).

Level 3 — Model-derived valuations with unobservable inputs that are supported by little or no market activity.

Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. Valuation methodologies maximize the use of observable inputs and minimize the use of unobservable inputs. The Plan's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. The Plan recognizes transfers among Level 1, Level 2, and Level 3 based on the fair values at the beginning of the period and are triggered by a change in the lowest significant input as of the end of the period. There were no transfers between the hierarchy levels during the years ended December 31, 2017 and December 31, 2016. Investments valued using net asset value (NAV) as a practical expedient are not classified within the fair value hierarchy.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2017 and 2016.

Common Stocks: Valued at the closing price reported on the active market on which the individual securities are traded. See Note 2 for additional discussion of Pinnacle West Common Stock.

Short-Term Investments: Consists primarily of mutual funds that seek to provide safety of principal, daily liquidity and a competitive yield by investing in U.S. Government Securities, or money market funds. Valuation is based on the quoted NAV of shares held by the Plan, consistent with the methodology for valuing mutual funds as discussed below.

Mutual Funds: Valued and redeemable at the quoted NAV of shares held by the Plan. The NAV is based on the quoted price at the end of the day on the active market in which the individual funds are traded. Mutual funds are open-ended funds that are registered with the Securities and Exchange Commission.

Self-Directed Brokerage Account: Consists primarily of common stocks, mutual funds, and short-term investments that are valued on the basis of readily determinable market prices.

Common and Collective Trusts: Valued, as a practical expedient, based on the trusts' NAV of units held by the Plan at year-end. NAV is based on the market prices of the underlying securities owned by the trusts. The trusts are similar to mutual funds, except that the trusts' shares are offered to a limited group of investors and are not traded on an exchange. Participant redemptions in the trusts do not require a notification period, and may occur on a daily basis at the NAV. The trusts have the ability to implement redemption safeguards which, theoretically, could limit the Plan's ability to transact in the trusts. However, no such safeguards were

in effect during the year and, as such, these safeguards had no effect on participant redemptions during the year or on year-end NAV valuation. Furthermore, redemption safeguards are not expected to impact the abilities of participants to transact in the trusts in the future because the Plan holds relatively immaterial amounts of these funds. The Plan has no unfunded commitments to these trusts as of December 31, 2017 and 2016.

The following table presents by level within the fair value hierarchy, the Plan's assets reported at fair value:

	December 31,	
	2017	2016
Quoted Prices in Active Markets (Level 1):		
Common Stocks	\$73,849,290	\$56,705,931
Short-Term Investments	7,181,403	8,315,000
Mutual Funds	152,233,366	119,036,170
Pinnacle West Common Stock	104,147,031	97,241,220
Self-Directed Brokerage Account	68,775,951	60,273,349
Total Level 1 assets and total assets classified in the fair value hierarchy	406,187,041	341,571,670
Other:		
Common and Collective Trusts (a)	688,529,058	577,786,066
Total Investments at fair value	\$1,094,716,099	\$919,357,736

(a) These investments are valued using NAV as a practical expedient, and therefore have not been classified in the fair value hierarchy.

6. EXEMPT PARTY-IN-INTEREST TRANSACTIONS

Certain Plan investments consist of Pinnacle West common stock and short-term investments which are managed by the Trustee. These transactions qualify as exempt party-in-interest transactions. As of December 31, 2017 and 2016, the Plan held 1,222,670 and 1,246,203 shares, respectively, of common stock of Pinnacle West, the sponsoring employer with a cost basis of \$66,254,773 and \$62,287,123, respectively. During the year ended December 31, 2017, the Plan recorded dividend income from Pinnacle West common stock of \$3,287,207. As of December 31, 2017 and 2016, the Plan held \$7,181,403 and \$8,315,000, respectively, of short-term investments, with the majority held within the Stable Value Fund, managed by the Trustee.

Transactions under the Plan's revenue share agreement with the Trustee qualify as exempt party-in-interest transactions. Amounts received under this revenue share agreement were immaterial for the year ended December 31, 2017. These revenue share amounts are currently allocated back to participants.

The Plan issues loans to participants which are secured by the vested balances in the participants' accounts.

Certain employees and officers of the Company, who may also be participants in the Plan, perform financial reporting and other services for the Plan, at no cost to the Plan. The Plan Sponsor pays for these services.

7. RECONCILIATION OF FINANCIAL STATEMENTS TO FORM 5500

The following is a reconciliation of Net Assets Available for Benefits per the financial statements to Form 5500:

	2017	2016
Net Assets Available for Benefits per the financial statements	\$1,255,057,165	\$1,096,745,199
Adjustment from contract value to fair value for fully benefit-responsive investment contracts	(212,209) 341,554
Deemed distribution of participant loans	(326,191) (352,086
Net Assets per Form 5500	\$1,254,518,765	\$1,096,734,667

The following is a reconciliation of the Changes in Net Assets Available for Benefits per the financial statements to Form 5500 for the year ended December 31, 2017:

Increase in Net Assets Available for Benefits per the financial statements	\$158,311,966
Adjustment from contract value to fair value for fully benefit-responsive investment contracts - December 31, 2017	(212,209)
Adjustment from contract value to fair value for fully benefit-responsive investment contracts - December 31, 2016	(341,554)
Deemed distribution of participant loans - 2017	(326,191)
Deemed distribution of participant loans - 2016	352,086
Net income per Form 5500	\$157,784,098

FORM 5500, SCHEDULE H, PART IV, LINE 4i
 PLAN # 002 EIN # 86-0512431
 SCHEDULE OF ASSETS (HELD AT END OF YEAR)
 DECEMBER 31, 2017

(a)(b) Identity of Issuer, Borrower, Lessor, or Similar Party	(c) Description	(d) Cost**	(e) Current Value
Common Stocks			
HS Large Capitalization Growth Equity Fund	US Large Cap Stock Fund		
ALPHABET INC CL C			\$1,134,298
ANHEUSER-BUSCH INBEV SPN			792,076
CARNIVAL CORP			1,106,720
COCA COLA CO			1,683,796
COMCAST CORP CL A			1,679,096
DARDEN RESTAURANTS INC			1,149,840
DIAGEO PLC SPON ADR			1,270,461
DISNEY (WALT) CO			1,798,105
DUNKIN BRANDS GROUP INC			256,268
FACEBOOK INC A			48,527
HEINEKEN NV SPN ADR			1,353,817
HERSHEY CO (THE)			791,732
KELLOGG CO			1,284,822
LULULEMON ATHLETICA INC			1,045,247
LVMH MOET HENNESSY ADR			1,097,690
MCDONALDS CORP			1,574,898
MICROSOFT CORP			1,614,568
NESTLE SA REG ADR			1,657,072
NIKE INC CL B			896,029
PROCTER & GAMBLE CO			1,086,481
SCHWAB CHARLES CORP			102,740
ULTA BEAUTY INC			1,112,709
VISA INC CL A			76,964
WAL MART STORES INC			1,634,313
BBH STIF FUND			279,643
SUBTOTAL			26,527,912
Robeco Boston Partners Large Capitalization Value Equity Fund	US Large Cap Stock Fund		
ABB LTD SPON ADR			61,820
ALLSTATE CORPORATION			310,675
ALPHABET INC CL A			246,496
AMERICAN INTL GROUP			262,807
ANDEAVOR			414,711
ANTHEM INC			361,366
APPLE INC			538,659
BANK OF AMERICA CORPORATION			1,290,113
BARRICK GOLD CORP (USA)			124,341
BERKSHIRE HATHAWAY CL B			1,054,530
BORGWARNER INC			282,834
CAPITAL ONE FIN CORP			238,594

FORM 5500, SCHEDULE H, PART IV, LINE 4i
 PLAN # 002 EIN # 86-0512431
 SCHEDULE OF ASSETS (HELD AT END OF YEAR)
 DECEMBER 31, 2017

(a)(b) Identity of Issuer, Borrower, Lessor, or Similar Party	(c) Description	(d) Cost**	(e) Current Value
CBS CORP CL B			119,770
CELANESE CORP SER A			224,440
CEMEX SAB DE CV SPON ADR			133,830
CHEVRON CORP			750,764
CHUBB LTD			322,363
CIGNA CORP			289,403
CISCO SYSTEMS INC			753,476
CITIGROUP INC			952,225
COCA-COLA EUROPEAN PARTNER			163,744
COMCAST CORP CL A			404,185
CONOCOPHILLIPS			339,550
CRH PLC SPON ADR			14,219
CUMMINS INC			237,934
CVS HEALTH CORP			343,215
DELTA AIR INC			240,688
DIAMONDBACK ENERGY INC			317,519
DISCOVER FIN SVCS			313,834
DOWDUPONT INC			331,458
DXC TECHNOLOGY CO			362,518
EATON CORP PLC			304,742
EBAY INC			208,476
ENERGEN CORP			118,652
EQT CORPORATION			42,007
EVEREST REINSURANCE GROUP			129,658
FIFTH THIRD BANCORP			70,541
FLEX LTD			228,347
FMC CORP NEW			118,420
GENERAL DYNAMICS CORPORATION			184,733
GILEAD SCIENCES INC			319,658
GOLDMAN SACHS GROUP INC			396,407
HOME DEPOT INC			357,643
HP INC			299,140
JOHNSON & JOHNSON			776,703
JPMORGAN CHASE & CO			1,451,176
KEYCORP			186,976
KLA TENCOR CORP			79,433
L3 TECHNOLOGIES INC			167,975
LABORATORY OF AMER HLDGS			192,369
LIBERTY LILAC GROUP-C			65,299
LLOYDS BANKING GROUP PLC			155,100
MARATHON PETROLEUM CORP			301,793
MASCO CORPORATION			46,005
MERCK & CO INC NEW			488,086

FORM 5500, SCHEDULE H, PART IV, LINE 4i
 PLAN # 002 EIN # 86-0512431
 SCHEDULE OF ASSETS (HELD AT END OF YEAR)
 DECEMBER 31, 2017

(a)(b) Identity of Issuer, Borrower, Lessor, or Similar Party	(c) Description	(d) Cost**	(e) Current Value
METHANEX (FIL USD ONLY)		188,189	
MICROSOFT CORP		251,145	
NETAPP INC		169,943	
NUCOR CORP		95,751	
ORACLE CORP		545,753	
PFIZER INC		660,870	
PHILLIPS 66		146,870	
PRICELINE GROUP INC		125,117	
RAYTHEON CO		123,605	
REGIONS FINANCIAL CORP		294,952	
ROYAL DUTCH SHELL SP CL A		555,094	
SANOFI SPON ADR		212,377	
SHIRE PLC SPON ADR		170,787	
SOUTHWEST AIRLINES CO		154,658	
SPIRIT AEROSYSTEM HLD INC		113,861	
STEEL DYNAMICS INC		256,753	
SYNCHRONY FINANCIAL		176,293	
TE CONNECTIVITY LTD		541,253	
TIME WARNER INC		268,190	
TJX COMPANIES INC NEW		151,009	
TWENTY FIRST CENTURY FOX		257,836	
UNITED TECHNOLOGIES CORP		366,764	
UNITEDHEALTH GROUP INC		274,252	
VERIZON COMM INC		322,979	
WELLS FARGO & CO		710,021	
WESTROCK CO		245,318	
XL GROUP LTD		160,119	
BBH STIF FUND		459,196	
SUBTOTAL		26,490,375	
Robeco Small/Mid Capitalization Value Equity Fund	US Small/Mid Cap Stock Fund		
ABM INDUSTRIES INC		61,333	
ACCO BRANDS CORP		133,614	
AECOM		157,293	
AEGION CORP		57,243	
AES CORP		85,200	
AGNC INVESTMENT CORP		61,055	
AIR LEASE CORP CL A		322,203	
ALASKA AIR GROUP INC		129,304	
ALLEGHANY CORP DEL		94,778	
ALLY FINANCIAL INC		158,339	
AMC NETWORKS INC CL A		125,682	
AMDOCS LTD		153,682	

FORM 5500, SCHEDULE H, PART IV, LINE 4i
 PLAN # 002 EIN # 86-0512431
 SCHEDULE OF ASSETS (HELD AT END OF YEAR)
 DECEMBER 31, 2017

(a)(b) Identity of Issuer, Borrower, Lessor, or Similar Party	(c) Description	(d) Cost**	(e) Current Value
ANWORTH MTG ASSET CORP			36,731
ARES CAPITAL CORP			123,779
ARES COMMERCIAL REAL ESTATE CORP			111,843
ARROW ELECTRONICS INC			302,261
ASPEN INSURANCE HLDGS LTD			55,663
ASSURANT INC			55,563
ASSURED GUARANTY LTD			114,447
ATHENE HOLDING LTD			55,485
AVNET INC			93,939
AXIS CAPITAL HOLDINGS LTD			43,475
BANKUNITED INC			193,339
BELDEN INC			142,765
BERRY GLOBAL GROUP INC			192,086
BLACKSTONE MORTGAGE CL A			54,159
BMC STK HLDGS INC			158,353
BOOZ ALLEN HAMILTON CL A			59,978
BROOKS AUTOMATION INC			102,293
CABOT CORP			56,724
CAMBREX CORP			138,768
CARLISLE COS INC			62,280
CDW CORPORATION			243,979
CHATHAM LODGING TRUST			61,725
CHEMED CORP			141,438
CIENA CORP			103,938
COHERENT INC			340,922
COLONY NORTHSTAR INC CL A			103,820
COLUMBIA BANKING SYS INC			52,041
COMMSCOPE HOLDING CO INC			137,209
CONVERGYS CORP			85,258
COOPER TIRE & RUBBER COMP			61,580
CROWN HOLDINGS INC			52,256
CURTISS WRIGHT CORPORATION			65,312
CYS INVESTMENTS INC			164,045
DIAMONDBACK ENERGY INC			259,570
DICKS SPORTING GOODS INC			63,745
DRIL-QUIP INC			36,109
E TRADE FINANCIAL CORP			201,254
EAST WEST BANCORP INC			212,114
ENERGIZER HLDGS INC			64,389
ENERSYS INC			171,081
ENGILITY HOLDINGS INC			67,833
ENVISION HEALTHCARE CORP			106,237
EQT CORPORATION			136,153

FORM 5500, SCHEDULE H, PART IV, LINE 4i
 PLAN # 002 EIN # 86-0512431
 SCHEDULE OF ASSETS (HELD AT END OF YEAR)
 DECEMBER 31, 2017

(a)(b) Identity of Issuer, Borrower, Lessor, or Similar Party	(c) Description	(d) Cost**	(e) Current Value
ESSENT GROUP LTD			179,194
EVEREST REINSURANCE GROUP			137,624
EXTRACTION OIL & GAS			107,568
FCB FIN HLDGS INC CL A			86,817
FERRO CORP			81,268
FERROGLOBE PLC			119,378
FIRST CITIZEN BANCSHARES			98,735
FIRST MERCHANTS CORP			89,924
FIRST MIDWEST BANCORP DEL			55,703
FIRSTCASH INC			200,799
FLEX LTD			196,091
FNF GROUP			57,016
FOOT LOCKER INC			82,978
FORUM ENERGY TECH INC			61,951
FRESH DEL MONTE PRODUCE			81,373
FTI CONSULTING INC			104,522
GARDNER DENVER HLDGS INC			140,979
GRANITE CONSTRUCTION INC			61,464
GRANITE POINT MORTGAGE TR			42,966
GRAPHIC PACKAGING HLDGS COMPANY			262,465
GROUP 1 AUTOMOTIVE INC			54,647
GULFPORT ENERGY CORP			72,107
HANMI FIN CORPORATION			73,356
HANOVER INSURANCE GROUP			105,702
HILLENBRAND INC			64,726
HUNTINGTON INGALLS INDUSTRIES INC			54,682
HURON CONSULTING GROUP			88,424
ICON PLC			182,805
INC RESEARCH HLDGS INC-A			128,664
INFINITY PPTY & CASUALTY			57,452
INSIGHT ENTERPRISES INC			59,005
INTEGRA LIFESCIENCES HLDS			56,666
JAGGED PEAK ENERGY INC			142,493
JAZZ PHARMA PLC			100,180
JONES LANG LASALLE INC			134,782
KAR AUCTION SERVICES INC			182,897
KOSMOS ENERGY LTD			75,597
LA Z BOY INC			121,274
LCI INDUSTRIES			215,020
LEUCADIA NATIONAL CORP			168,741
LIFEPPOINT HEALTH INC			129,131
LIONS GATE ENT CORP B			52,181
LITHIA MOTORS INC CL A			194,920

FORM 5500, SCHEDULE H, PART IV, LINE 4i
 PLAN # 002 EIN # 86-0512431
 SCHEDULE OF ASSETS (HELD AT END OF YEAR)
 DECEMBER 31, 2017

(a)(b) Identity of Issuer, Borrower, Lessor, or Similar Party	(c) Description	(d) Cost**	(e) Current Value
MAIDEN HLDGS LTD			182,549
MANPOWERGROUP INC			73,270
MARVELL TECH GROUP LTD			179,811
MAXIMUS INC			58,409
MFA FINANCIAL INC			147,241
MINERALS TECHNOLOGIES INC			162,348
MTGE INVESTMENT CORP			41,958
NATIONAL GEN HLDGS CORP			135,496
NAVIENT CORP			218,102
NAVIGANT CONSULTING INC			88,607
NCR CORP			152,785
NELNET INC CL A			136,457
NETAPP INC			204,131
OLIN CORP			63,688
ON ASSIGNMENT INC			239,277
ON SEMICONDUCTOR CORP			202,930
OWENS ILLINOIS INC			85,355
PARSLEY ENERGY INC CL A			275,411
PEAPACK GLADSTONE FINANCIAL CORP			17,930
POLYONE CORP			25,796
PORTLAND GENERAL ELECTRIC CO			56,063
PQ GROUP HOLDINGS INC			143,773
PRA GROUP INC			59,959
QEP RESOURCES INC			80,551
QORVO INC			103,030
RADIAN GROUP INC			176,566
RAYMOND JAMES FIN INC.			68,225
REALOGY HOLDINGS CORP			40,201
REINSURANCE GROUP OF AMERICA INC			209,258
RPX CORP			105,773
RSP PERMIAN INC			168,375
SCHOLASTIC CORP			34,695
SCHWEITZER-MAUDUIT INTL			206,297
SELECT MEDICAL HLDGS CORP			51,150
SKECHERS USA INC CL A			254,247
SLM CORP			287,721
STANDARD MOTOR PRODUCTS			55,554
STARWOOD PROPERTY TRUST INC			166,381
STEEL DYNAMICS INC			250,197
STEVEN MADDEN LTD			217,809
STIFEL FINANCIAL CORP			242,707
SUNCOKE ENERGY INC			160,606
SVB FINL GROUP			101,924

FORM 5500, SCHEDULE H, PART IV, LINE 4i
 PLAN # 002 EIN # 86-0512431
 SCHEDULE OF ASSETS (HELD AT END OF YEAR)
 DECEMBER 31, 2017

(a)(b) Identity of Issuer, Borrower, Lessor, or Similar Party	(c) Description	(d) Cost**	(e) Current Value
SYKES ENTERPRISES INC			73,656
SYNNEX CORP			165,723
TEGNA INC			37,185
TELETECH HOLDINGS INC			219,926
TEMPUR SEALY INTL INC			53,851
TERADYNE INC			102,623
TETRA TECH INC			143,535
TORCHMARK CORP			62,590
TRINSEO SA			103,237
TUTOR PERINI CORP			120,920
TWO HARBORS INVESTMENT CORP			207,803
UNIVERSAL CORP			108,728
VALIDUS HOLDING			156,666
VALVOLINE INC			195,744
WALKER & DUNLOP INC			301,483
WESCO INTERNATIONAL INC			271,646
WHITE MOUNTAINS INS GROUP			134,502
WILDHORSE RESOURCE DEVELOPMENT CORP			116,683
WORLD FUEL SERVICES CORP			331,095
BBH STIF FUND			600,862
SUBTOTAL			20,831,003
Total common stocks			73,849,290
Common and Collective Trusts			
Blackrock US Debt Index NL Fund M	US Bond Index		122,841,484
Northern Trust Collective 1-10 Yr Treasury Inflation-Protected Securities (TIPS) Index Fund - NL - Tier Three	Diversified Inflation Fund		37,229,812
SSgA Global All Cap Equity Ex US Index Non-Lending Series Fund Class A	Non-US Stock Index		136,087,398
SSgA S&P 500 Index Non-Lending Series Fund Class A	US Large Cap Stock Fund/Index		277,573,349
SSgA Russell Small/Mid Cap Index Non-Lending Series Fund Class A	US Small/Mid Cap Stock Fund/Index		94,336,113
William Blair Small/Mid Cap Growth Collective Fund	US Small/Mid Cap Stock Fund		20,460,902
Total common and collective trusts			688,529,058
Mutual Funds			
* Fidelity Institutional Money Market: Government Portfolio - Class I	Short-Term Investments***		5,551,803
* Fidelity Institutional Money Market: Treasury Portfolio - Class I	Short-Term Investments***		1,629,592
Federated Treasury Obligations Fund — Institutional Shares			8

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	Short-Term Investments***	
American Funds EuroPacific Growth Fund R6 Shares	Non-US Stock Fund	99,442,451
Dodge & Cox Income Fund 1 Shares	Bond Fund	26,717,559
Metropolitan West Total Return Bond Fund Institutional Shares	Bond Fund	26,073,356
Total mutual funds		159,414,769

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FORM 5500, SCHEDULE H, PART IV, LINE 4i
 PLAN # 002 EIN # 86-0512431
 SCHEDULE OF ASSETS (HELD AT END OF YEAR)
 DECEMBER 31, 2017

(a)(b) Identity of Issuer, Borrower, Lessor, or Similar Party	(c) Description	(d) Cost**	(e) Current Value
Synthetic GICs	Stable Value Fund		
RGA Reinsurance Co yield 1.949%			
Morley Stable Income Bond Fund Common and Collective Trust			44,067,313
Principal Life Ins Co yield 1.937%			
Morley Stable Income Bond Fund Common and Collective Trust			44,145,383
Transamerica Premier Life Ins Co yield 2.152%			
Morley Stable Income Bond Fund Common and Collective Trust			44,474,127
Total Synthetic GICs			132,686,823
Other Investments			
* Pinnacle West Common Stock	Pinnacle West Stock Fund		104,147,031
Self-Directed Brokerage Account	Self-Directed Brokerage Account		68,775,951
* Various participants****	Participant loans		23,855,965
Total other investments			196,778,947
Total Assets Held for Investment Purposes			\$1,251,258,887

*Party-in-interest

**Cost information is not required for participant-directed investments and therefore is not included.

***Short-Term Investments represent \$5,551,803 held in the Stable Value Fund, \$1,629,592 in the Pinnacle West Stock Fund and \$8 in the Treasury Fund.

****Interest rates for participant loans as of December 31, 2017, ranged from 4.25% to 9.25% with maturity dates ranging from 2018 to 2032. Presented net of \$326,191 in deemed loan distributions.

See accompanying Report of Independent Registered Public Accounting Firm.

Exhibits Filed

Exhibit No. Description

23.1 Consent of Independent Registered Public Accounting Firm

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SIGNATURE

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

THE PINNACLE WEST CAPITAL
CORPORATION SAVINGS PLAN

Date: June 14, 2018 By/s/ Donna M. Easterly
Donna M. Easterly
Vice President Human Resources & Ethics
Arizona Public Service Company