

PINNACLE WEST CAPITAL CORP
Form 11-K
June 16, 2017
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, 2016

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

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, 2016 and 2015, and the related statement of changes in net assets available for benefits for the year ended December 31, 2016. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2016 and 2015, and the changes in net assets available for benefits for the year ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America.

The supplemental schedule of assets (held at end of year) as of December 31, 2016 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, the schedule is fairly stated, in all material respects, in relation to the financial statements as a whole.

/s/ DELOITTE & TOUCHE LLP

Phoenix, Arizona
June 16, 2017

THE PINNACLE WEST CAPITAL CORPORATION SAVINGS PLAN
 STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
 AS OF DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS:		
Participant-directed Investments at fair value (Notes 2 and 5)	\$919,357,736	\$869,023,727
Participant-directed Investments at contract value (Notes 2 and 4)	148,637,923	144,365,278
Receivables:		
Notes receivable from participants (Note 1)	23,969,605	24,650,322
Participant contributions	2,469,788	1,920,322
Employer contributions	789,440	598,657
Interest and other	1,990,394	420,426
Total receivables	29,219,227	27,589,727
Total assets	1,097,214,886	1,040,978,732
LIABILITIES:		
Payable for securities purchased	196,125	31,522
Accrued administrative expenses	273,562	321,536
Total liabilities	469,687	353,058
NET ASSETS AVAILABLE FOR BENEFITS	\$1,096,745,199	\$1,040,625,674

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, 2016

ADDITIONS:

Contributions (Note 1):	
Participants	\$55,513,734
Employer	20,399,396
Rollover	3,138,061
Total contributions	79,051,191

Investment income (Note 2):	
Dividend, interest, and other income	10,696,606
Net realized/unrealized appreciation in fair value of investments	72,621,199
Total investment income	83,317,805

Interest income on notes receivable from participants	1,016,261
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Total additions	163,385,257
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DEDUCTIONS:

Distributions to participants	104,887,390
Administrative expenses (Note 2)	2,378,342
Total deductions	107,265,732

INCREASE IN NET ASSETS	56,119,525
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NET ASSETS AVAILABLE FOR BENEFITS:

Beginning of year	1,040,625,674
End of year	\$1,096,745,199

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 portion of the Plan invested in 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 proxies received for 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 2016) and catch—up contribution (\$6,000 for 2016) 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, 2016.

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. The benefit to which a participant is entitled is the portion of the participant's account that has vested, as defined below.

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. During 2016, the Target Retirement 2010 fund transitioned to the Retirement Income Fund and was removed from the Plan.

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 interest rate for loans issued during 2016 was 4.50%. Interest rates for outstanding loans as of

December 31, 2016 and 2015, ranged from 4.25% to 10.50%. As of December 31, 2016, participant loans have maturities through 2031.

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

Each 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). Former participants who terminated employment prior to April 1, 2006 were fully vested in their Employer contributions account if their termination was due to death or disability, was after attaining age 65, or was after completing five years of participation in the Plan. Former participants who terminated prior to April 1, 2006 and returned to service after that date could complete the five year requirement by no later than March 31, 2016, based on a graduated vesting schedule with 100% vesting after five years of service.

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

For former participants who terminated employment prior to April 1, 2006, forfeitures of non-vested Employer contributions occurred upon the earlier of full distribution following termination of employment with the Employer or the end of the fifth calendar year following the calendar year in which the participant

terminated employment. If a former participant who received a distribution and terminated service prior to full vesting at March 31, 2011, and retained non-vested funds in the plan, becomes re-employed prior to the end of the fifth calendar year following the calendar year in which the participant's earlier termination of employment occurred, the forfeited Employer contributions will be restored to the participant's Employer contribution account and they will earn additional service and be subject to the graduated vesting on these funds. Forfeitures will be restored only if the participant repays the full amount previously distributed to them within five years of their date of re-employment or, if earlier, the last day of the fifth calendar year following the calendar year in which the distribution occurred. As of March 31, 2016, all forfeitures were either fully vested or used to reduce future Employer contributions to the Plan.

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. In this event, the balance credited to the accounts of participants at the date of termination or discontinuance will be fully vested and nonforfeitable.

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, 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 \$78.03 and \$64.48 at December 31, 2016 and 2015 respectively. The valuation per unit of the Pinnacle West stock fund was \$19.27 and \$15.98 at December 31, 2016 and 2015 respectively.

Included in investments at December 31, 2016 and 2015, are shares of Pinnacle West common stock amounting to \$97,241,220 and \$87,359,438, respectively. This investment represents 9% of total investments at December 31, 2016 and 2015, 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 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, 2016 and 2015, 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, 2016, 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 2013.

The IRS has determined and informed the Company by a letter dated September 19, 2013, 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, 2016 and 2015 of \$149 million and \$144 million, respectively. The fully benefit-responsive synthetic GICs earned interest income of \$2.8 million during the year ended December 31, 2016.

5. FAIR VALUE MEASUREMENTS

The Plan applies fair value measurements to certain investments and provides disclosure of some of these 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 — Quoted prices in active markets for identical assets or liabilities. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide information on an ongoing basis.

Level 2 — 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.

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, 2016 and December 31, 2015. Investments valued using net asset value 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, 2016 and 2015.

Common and Collective Trusts: Valued, as a practical expedient, based on the trusts' net asset value of units held by the Plan at year-end. Net asset value 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 net asset value. The trusts have the ability to implement redemption safeguards which could limit the Plan's ability to transact in the trusts; these safeguards had no effect on participant redemptions at year-end, and are not expected to impact the abilities of participants to transact in the trusts. The Plan has no unfunded commitments to these trusts as of December 31, 2016 and 2015.

Mutual Funds: Valued and redeemable at the quoted net asset value of shares held by the Plan. The net asset value 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.

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 net asset value of shares held by the Plan, consistent with the methodology for valuing mutual funds as discussed above.

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

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

	December 31,	
	2016	2015
Quoted Prices in Active Markets (Level 1):		
Common Stocks	\$56,705,931	\$54,548,994
Short Term Investments	8,315,000	12,906,863
Mutual Funds	119,036,170	119,268,385
Pinnacle West Common Stock	97,241,220	87,359,438
Self-Directed Brokerage Account	60,273,349	59,360,266
Total Level 1 assets and total assets classified in the fair value hierarchy	341,571,670	333,443,946
Other:		
Common and Collective Trusts (a)	577,786,066	535,579,781
Total Investments at fair value	\$919,357,736	\$869,023,727

(a) These investments are valued using net asset value 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, 2016 and 2015, the Plan held 1,246,203 and 1,354,830 shares, respectively, of common stock of Pinnacle West, the sponsoring employer with a cost basis of \$62,287,123 and \$62,352,902, respectively.

During the year ended December 31, 2016, the Plan recorded dividend income from Pinnacle West common stock of \$3,221,511. As of December 31, 2016 and 2015, the Plan held \$8,315,000 and \$12,906,863, respectively, of short-term investments 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, 2016. 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:

	2016	2015
Net Assets Available for Benefits per the financial statements	\$1,096,745,199	\$1,040,625,674
Adjustment from contract value to fair value for fully benefit-responsive investment contracts	341,554	741,477
Deemed distribution of participant loans	(352,086) (233,023
Net Assets per Form 5500	\$1,096,734,667	\$1,041,134,128

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, 2016:

Increase in Net Assets Available for Benefits per the financial statements	\$56,119,525
Adjustment from contract value to fair value for fully benefit-responsive stable value fund - December 31, 2016	341,554
Adjustment from contract value to fair value for fully benefit-responsive stable value fund - December 31, 2015	(741,477)
Deemed distribution of participant loans - 2016	(352,086)
Deemed distribution of participant loans - 2015	233,023
Net gain per Form 5500	\$55,600,539

FORM 5500, SCHEDULE H, PART IV, LINE 4i
 PLAN # 002 EIN # 86-0512431
 SCHEDULE OF ASSETS (HELD AT END OF YEAR)
 DECEMBER 31, 2016

(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			\$1,029,608
AMC NETWORKS INC CL A			489,379
APPLE INC			402,475
CARNIVAL CORP			924,065
COMCAST CORP CL A			901,103
DIAGEO PLC SPON ADR			1,039,400
DISNEY (WALT) CO			1,068,255
ESTEE LAUDER COS INC CL A			292,574
FACEBOOK INC A			1,029,698
HEINEKEN NV SPN ADR			987,624
LULULEMON ATHLETICA INC			742,511
LVMH MOET HENNESSY ADR			921,379
MARRIOTT INTL INC A			789,594
MICROSOFT CORP			851,318
MCDONALDS CORP			1,034,620
NESTLE SA REG ADR			896,750
NIKE INC CL B			1,039,474
PAYPAL HLDGS INC			902,876
PRICELINE GROUP INC			593,754
STARBUCKS CORP			691,224
TIME WARNER INC			914,622
UNITED PARCEL SVCS CL B			664,912
VISA INC CL A			505,180
WAL MART STORES INC			1,057,536
WILLIAMS-SONOMA INC			447,608
BBH STIF FUND			16,376
SUBTOTAL			20,233,915
Robeco Boston Partners Large Capitalization Value Equity Fund	US Large Cap Stock Fund		
AES CORP			173,684
ALLSTATE CORPORATION			201,681
ALLY FINANCIAL INC			182,896
ALPHABET INC CL A			328,867
ANTHEM INC			108,546
APPLE INC			384,986
BANK OF AMERICA CORPORATION			807,136
BARRICK GOLD CORP (USA)			125,938
BERKSHIRE HATHAWAY CL B			733,084
BEST BUY CO INC			55,044
BORGWARNER INC			200,237

FORM 5500, SCHEDULE H, PART IV, LINE 4i
 PLAN # 002 EIN # 86-0512431
 SCHEDULE OF ASSETS (HELD AT END OF YEAR)
 DECEMBER 31, 2016

(a)(b) Identity of Issuer, Borrower, Lessor, or Similar Party	(c) Description	(d) Cost**	(e) Current Value
CANADIAN NATL RESOURCES			207,316
CAPITAL ONE FIN CORP			262,854
CBS CORP CL B			118,460
CHEVRON CORP			552,131
CHUBB LTD			295,552
CIGNA CORP			204,620
CITIGROUP INC			512,881
COCA-COLA EUROPEAN PARTNERS			118,315
COGNIZANT TECH SOLUT CL A			103,319
COMCAST CORP CL A			150,115
COMPUTER SCIENCES CORP			280,403
CONOCOPHILLIPS			255,614
CRH PLC SPON ADR			158,079
CVS HEALTH CORP			112,683
DAVITA INC			123,200
DELTA AIR INC			238,867
DIAMONDBACK ENERGY INC			264,474
DISCOVER FIN SVCS			483,075
DOW CHEMICAL CO			342,862
DR HORTON INC			52,064
EBAY INC			258,451
ENERGEN CORP			101,499
EOG RESOURCES INC			143,562
EQT CORPORATION			153,036
EXPRESS SCRIPTS HLDG CO			151,200
FIFTH THIRD BANCORP			152,488
FLEX LTD			202,861
GENERAL DYNAMICS CORPORATION			271,767
GILEAD SCIENCES INC			323,319
GOLDMAN SACHS GROUP INC			367,795
GULFPORT ENERGY CORP			79,116
HARRIS CORP			228,098
HEWLETT PACKARD ENTERPRISE			270,993
HONEYWELL INTL INC			100,442
INTERPUBLIC GROUP OF COS			148,771
JOHNSON & JOHNSON			821,102
JPMORGAN CHASE & CO			1,073,879
KLA TENCOR CORP			103,307
LABORATORY OF AMER HLDGS			93,076
LEIDOS HOLDINGS INC			78,653
LIBERTY GLOBAL PLC CL C			64,063
LIBERTY LILAC GROUP-C			63,743
LYONDELLBASELL INDS CLASS			63,735

FORM 5500, SCHEDULE H, PART IV, LINE 4i
 PLAN # 002 EIN # 86-0512431
 SCHEDULE OF ASSETS (HELD AT END OF YEAR)
 DECEMBER 31, 2016

(a)(b) Identity of Issuer, Borrower, Lessor, or Similar Party	(c) Description	(d) Cost**	(e) Current Value
MARATHON OIL CORP		191,172	
MARATHON PETROLEUM CORP		262,777	
MERCK & CO INC NEW		468,311	
METHANEX CORP (USD)		82,125	
METLIFE INC		237,655	
MICROSOFT CORP		263,225	
NAVIENT CORP		139,047	
NEWFIELD EXPLORATION CO		88,857	
NUCOR CORP		137,670	
ORACLE CORP		265,997	
PFIZER INC		357,605	
PHILIPS NV (KON) (NY REG)		231,782	
PHILLIPS 66		295,781	
PPG INDUSTRIES INC		80,830	
PULTEGROUP INC		119,433	
RAYTHEON CO		255,884	
SANOFI SPON ADR		183,193	
SEALED AIR CORP		99,703	
SHIRE PLC SPON ADR		31,520	
STEEL DYNAMICS INC		128,764	
SYNCHRONY FINANCIAL		151,899	
TE CONNECTIVITY LTD		314,046	
TESORO CORP		103,628	
TEXAS INSTRUMENTS INC		258,825	
TEXTRON INC		105,618	
TIME WARNER INC		373,668	
UNITED CONTINENTAL HLDGS		162,304	
UNITED PARCEL SVCS CL B		136,536	
UNITED TECHNOLOGIES CORP		269,336	
UNITEDHEALTH GROUP INC		199,730	
WABCO HOLDINGS INC		62,522	
WALGREENS BOOTS ALLIANCE		96,829	
WESTROCK CO		180,690	
BBH STIF FUND		477,421	
SUBTOTAL		20,340,989	
Robeco Small/Mid Capitalization Value Equity Fund	US Small/Mid Cap Stock Fund		
ABM INDUSTRIES INC		60,035	
AECOM		93,227	
AEGION CORP		48,230	
AES CORP		82,676	
AGNC INVESTMENT CORP		49,586	
AIR LEASE CORP CL A		238,010	

FORM 5500, SCHEDULE H, PART IV, LINE 4i
 PLAN # 002 EIN # 86-0512431
 SCHEDULE OF ASSETS (HELD AT END OF YEAR)
 DECEMBER 31, 2016

(a)(b) Identity of Issuer, Borrower, Lessor, or Similar Party	(c) Description	(d) Cost**	(e) Current Value
ALLY FINANCIAL INC			93,369
AMDOCS LTD			123,607
AMERICAN EAGLE OUTFITTERS			94,585
AMERICAN HOMES 4 REN CL A			124,244
ANWORTH MTG ASSET CORP			31,547
ARES CAPITAL CORP			91,717
ARES COMMERCIAL REAL ESTATE			107,671
ARROW ELECTRONICS INC			242,277
ASSURANT INC			46,244
ASSURED GUARANTY LTD			115,463
ATHENE HOLDING LTD			31,961
AVNET INC			186,584
AXIS CAPITAL HOLDINGS LTD			148,750
BANC OF CALIFORNIA INC			108,975
BELDEN INC			45,834
BERRY GLOBAL GROUP INC			180,983
BLACKSTONE MORTGAGE CL A			45,767
BMC STK HLDGS INC			110,351
BOOZ ALLEN HAMILTON CL A			51,328
BRISTOW GROUP INC			93,266
BROCADE COMM SYS			109,100
BROOKS AUTOMATION INC			66,197
BRUNSWICK CORP			54,431
CABOT CORP			42,100
CDW CORPORATION			165,386
CENTENE CORP			41,930
CHATHAM LODGING TRUST			87,091
CHEMED CORP			186,717
CLUBCORP HLDGS INC			144,763
COHERENT INC			150,024
COLONY CAPITAL INC			113,663
COLUMBIA BANKING SYS INC			48,388
COMMSCOPE HOLDING CO INC			122,053
CONVERGYS CORP			47,794
CROWN HOLDINGS INC			44,159
CUBIC CORP			44,546
CURTISS WRIGHT CORPORATION			83,114
CYS INVESTMENTS INC			142,819
DIAMONDBACK ENERGY INC			187,972
DREW INDUSTRIES INC			287,585
DRIL-QUIP INC			41,074
E TRADE FINANCIAL CORP			52,529
EAST WEST BANCORP INC			160,267

FORM 5500, SCHEDULE H, PART IV, LINE 4i
 PLAN # 002 EIN # 86-0512431
 SCHEDULE OF ASSETS (HELD AT END OF YEAR)
 DECEMBER 31, 2016

(a)(b) Identity of Issuer, Borrower, Lessor, or Similar Party	(c) Description	(d) Cost**	(e) Current Value
ENERSYS INC			93,408
ENVISION HEALTHCARE CORP			74,872
ESSENT GROUP LTD			120,837
EXPRESS INC			41,437
EXTRACTION OIL & GAS			16,633
FCB FIN HLDGS INC CL A			73,744
FEDERATED INVS CL B NV			59,275
FERRO CORP			41,012
FERROGLOBE PLC			26,490
FINISH LINE INC CL A			80,939
FIRST AMERICAN FIN CORP			62,381
FIRST CITIZEN BANCSHARES			78,455
FIRST REPUBLIC BANK			56,298
FIRST SOLAR INC			39,214
FIRSTCASH INC			103,776
FLEX LTD			141,659
FNF GROUP			65,814
FTD COS INC			49,349
FTI CONSULTING INC			48,551
G & K SERVICES INC CL A			43,113
GRANITE CONSTRUCTION INC			71,225
GRAPHIC PACKAGING HLDGS C			134,622
GROUP 1 AUTOMOTIVE INC			54,246
GULFPORT ENERGY CORP			57,606
HANMI FIN CORPORATION			76,117
HANOVER INSURANCE GROUP			57,245
HEIDRICK & STRUGGLES INTL			52,333
HILLENBRAND INC			51,926
HUNTINGTON BANCSHARES INC			56,833
HUNTINGTON INC W/I			152,509
IAC/INTERACTIVECORP			112,281
ICON PLC			128,066
INFINITY PPTY & CASUALTY			43,071
INSIGHT ENTERPRISES INC			56,414
INTEGRA LIFESCIENCES HLDS			45,898
INVESTORS BANCORP INC NEW			76,111
JACOBS ENGINEERING GROUP			117,819
JONES LANG LASALLE INC			82,651
KAR AUCTION SERVICES INC			139,538
KOSMOS ENERGY LTD			47,219
LASALLE HOTEL PPTYS REIT			83,214
LEUCADIA NATIONAL CORP			133,967
LIFEPOINT HEALTH INC			53,846

FORM 5500, SCHEDULE H, PART IV, LINE 4i
 PLAN # 002 EIN # 86-0512431
 SCHEDULE OF ASSETS (HELD AT END OF YEAR)
 DECEMBER 31, 2016

(a)(b) Identity of Issuer, Borrower, Lessor, or Similar Party	(c) Description	(d) Cost**	(e) Current Value
LIONS GATE ENT CORP B			36,491
LITHIA MOTORS INC CL A			150,377
LIVE NATION ENTERTAINMENT			41,443
MAIDEN HLDGS LTD			246,830
MANPOWERGROUP INC			46,568
MAXIMUS INC			41,173
MFA FINANCIAL INC			128,283
MINERALS TECHNOLOGIES INC			164,697
MTGE INVESTMENT CORP			32,201
MULTI PACKAGING SOLUTIONS			77,132
NATIONSTAR MORTGAGE HLDGS			97,542
NAVIENT CORP			213,294
NAVIGANT CONSULTING INC			108,045
NELNET INC CL A			114,289
NU SKIN ENTERPRISES CL A			96,133
OFFICE DEPOT INC			50,393
OLIN CORP			96,883
ON ASSIGNMENT INC			55,332
ON SEMICONDUCTOR CORP			217,481
OWENS AND MINOR INC			38,219
PACKAGING CORP OF AMERICA			45,548
PAREXEL INTL CORP			124,802
PARSLEY ENERGY INC CL A			298,095
PHARMERICA CORP			41,422
PNM RESOURCES INC			51,244
PRA GROUP INC			63,850
PULTEGROUP INC			40,914
QEP RESOURCES INC			140,137
RADIAN GROUP INC			139,309
RAYMOND JAMES FIN INC.			47,935
REALOGY HOLDINGS CORP			35,276
REINSURANCE GROUP OF AMERICA			152,758
RICE ENERGY INC			124,833
RPX CORP			76,864
RSP PERMIAN INC			81,922
SCHOLASTIC CORP			39,844
SCHWEITZER-MAUDUIT INTL			131,354
SCRIPPS NETWORK INTE CL A			83,217
SELECT MEDICAL HLDGS CORP			55,836
SERVICE CORP INTL INC			53,080
SKECHERS USA INC CL A			149,741
SLM CORP			89,582
STARWOOD PROPERTY TR INC			123,732

FORM 5500, SCHEDULE H, PART IV, LINE 4i
 PLAN # 002 EIN # 86-0512431
 SCHEDULE OF ASSETS (HELD AT END OF YEAR)
 DECEMBER 31, 2016

(a)(b) Identity of Issuer, Borrower, Lessor, or Similar Party	(c) Description	(d) Cost**	(e) Current Value
STEEL DYNAMICS INC			186,617
STEVEN MADDEN LTD			110,325
STIFEL FINANCIAL CORP			184,066
SVB FINL GROUP			225,905
SYKES ENTERPRISES INC			61,097
SYNNEX CORP			133,485
TAILORED BRANDS INC			198,089
TEGNA INC			51,079
TELETECH HOLDINGS INC			150,670
TEMPUR SEALY INTL INC			56,946
TERADYNE INC			98,044
TETRA TECH INC			115,987
TORCHMARK CORP			97,216
TUTOR PERINI CORP			43,288
TWO HBRS INVT CORP			140,122
UNIVERSAL CORP			119,404
VALIDUS HOLDING			158,924
WALKER & DUNLOP INC			197,371
WESCO INTERNATIONAL INC			230,729
WESTERN REFINING INC			125,511
WILDHORSE RESOURCE DEVELOPMENT CORP			83,687
WORLD FUEL SERVICES CORP			199,938
BBH STIF FUND			646,423
SUBTOTAL			16,131,027
Total common stocks			56,705,931
Common and Collective Trusts			
Blackrock US Debt Index NL Fund M	US Bond Index		114,464,520
Northern Trust Collective 1-10 Yr Treasury Inflation-Protected Securities (TIPS) Index Fund - NL - Tier Three	Diversified Inflation Fund		30,761,032
SSgA Global All Cap Equity Ex US Index Non-Lending Series Fund Class A	Non-US Stock Index		107,108,597
SSgA S&P 500 Index Non-Lending Series Fund Class A	US Large Cap Stock Fund/Index		230,634,667
SSgA Russell Small/Mid Cap Index Non-Lending Series Fund Class A	US Small/Mid Cap Stock Fund/Index		78,003,540
William Blair Small/Mid Cap Growth Collective Fund	US Small/Mid Cap Stock Fund		16,813,710
Total common and collective trusts			577,786,066
Mutual Funds			
* Fidelity Institutional Money Market: Government Portfolio - Class I	Short-Term Investments***		6,933,778

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* Fidelity Institutional Money Market: Money Market Portfolio - Class I	Short-Term Investments***	1,379,846
Federated Treasury Obligations Fund — Institutional Shares	Short-Term Investments***	1,376

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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, 2016

(a)(b) Identity of Issuer, Borrower, Lessor, or Similar Party	(c) Description	(d) Cost**	(e) Current Value
American Funds EuroPacific Growth Fund R6 Shares	Non-US Stock Fund		73,877,795
Dodge & Cox Income Fund 1 Shares	Bond Fund		22,777,267
Metropolitan West Total Return Bond Fund Institutional Shares	Bond Fund		22,381,108
Total mutual funds			127,351,170
Synthetic GICs	Stable Value Fund		
RGA Reinsurance Co yield 1.782%			
Morley Stable Income Bond Fund Common and Collective Trust			48,241,815
Principal Life Ins Co yield 1.753%			
Morley Stable Income Bond Fund Common and Collective Trust			50,874,490
Transamerica Premier Life Ins Co yield 2.045%			
Morley Stable Income Bond Fund Common and Collective Trust			49,863,172
Total Synthetic GICs			148,979,477
Other Investments			
* Pinnacle West Common Stock	Pinnacle West Stock Fund		97,241,220
Self-Directed Brokerage Account	Self-Directed Brokerage Account		60,273,349
* Various participants****	Participant loans		23,617,519
Total other investments			181,132,088
Total Assets Held for Investment Purposes			\$1,091,954,732

*Party-in-interest

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

***Short-Term Investments represent \$6,933,778 held in the Stable Value Fund, \$1,379,846 in the Pinnacle West Stock Fund and \$1,376 in the Treasury Fund.

****Interest rates for participant loans as of December 31, 2016, ranged from 4.25% to 9.25% with maturity dates ranging from 2017 to 2031. Presented net of \$352,086 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 16, 2017 By/s/ Barbara M. Gomez
Barbara M. Gomez
Senior Vice President Human Resources
Arizona Public Service Company