

Corporate Governance Guidelines

Effective June 20, 2012

These Corporate Governance Guidelines (the “Guidelines”) have been adopted by the Board of Directors (the “Board”) of Pinnacle West Capital Corporation (the “Company” or “Pinnacle West”) to assist the Board in the exercise of its responsibilities. These Guidelines are in addition to and are not intended to change or interpret any Federal or state law or regulation, or the Articles of Incorporation or Bylaws of the Company. The Guidelines are subject to modification from time to time by the Board.

DUTIES AND RESPONSIBILITIES

1. General Responsibilities of the Board.

The business and affairs of the Company are managed by or under the direction of the Board, which delegates certain responsibilities to its Committees and to management consistent with the Bylaws of the Company and Arizona law.

2. Specific Principal Responsibilities of the Board.

(a) *Compliance with Law and Maintenance of Ethical Business Environment.* The Board recognizes the importance of the Company operating as an ethical and law-abiding company. The Board is responsible for reviewing and assessing that the Company's Code of Ethics and Business Practices (the “Code of Ethics”) are consistent with the applicable rules of the New York Stock Exchange (the “NYSE”) and applicable law, and approving any changes therein from time to time, and overseeing the Company's compliance therewith.

(b) *Provision of Critical Oversight.* The Board is responsible for providing critical oversight of the Company's business in the best interests of its shareholders.

(c) *Chairman of the Board/Chief Executive Officer (“CEO”).* The Board will select a Chairman of the Board and a CEO. These positions may be held by the same individual or separate individuals as determined by the Board. The Board is responsible for periodically approving policies and procedures for the election of the CEO and CEO succession planning.

(d) *Role of Board Committees.* The Board has five standing Committees, each of which performs the responsibilities reflected in its respective Charter:

- (i) Audit Committee;
- (ii) Corporate Governance Committee;
- (iii) Finance Committee;
- (iv) Human Resources Committee; and
- (v) Nuclear and Operating Committee.

(e) *Risk Oversight.* The Board, directly and through its Committees, will periodically review, with management, the principal topics relating to or arising out of risks inherent in the Company's business and assess the effectiveness of the Company's measures to address these risks.

3. Duties and Responsibilities of Individual Directors.

(a) *General.* Each Director is expected to contribute individually to the Board's discharge of its responsibilities.

(b) *Attendance at Meetings.* Each Director is expected to be present at all Board meetings, the Annual Meeting of Shareholders and meetings of Committees on which he or she serves. The Board recognizes that, on occasion, meetings will need to be scheduled on short notice and conflicts in schedules will arise that preclude a Director's attendance. However, the Board expects that each Director will make every effort to keep absences to a minimum. The Board encourages personal attendance and discourages attendance telephonically, unless required by special circumstances.

(c) *Commitment of Sufficient Time.* Each Director is expected to spend the necessary time to properly discharge his or her responsibilities as a Director, including reviewing written materials provided to the Board or Committee in advance of Board or Committee meetings. The Company will provide the Board and Committees with the necessary written materials sufficiently in advance of each meeting to permit appropriate review by each Director.

(d) *Service on Other Boards.* Directors may not serve on more than three other boards of public companies in addition to the Pinnacle West Board without the prior approval of the Corporate Governance Committee. Without Board approval, a Director may not serve as a member of the Audit Committee if he or she serves on the audit committees of more than three public companies (including the Company). Prior to accepting an invitation to serve as a director or trustee of any public or private company or significant non-profit enterprise, a Director shall submit a letter to the Corporate Governance Committee so as to allow the Corporate Governance Committee to review potential conflicts and time demands of the new directorship. The Corporate Governance Committee shall take into account the specific facts and circumstances, including whether service on a greater number of boards would impair that individual Director's ability to serve effectively on the Company's Board.

STRUCTURE, COMPOSITION AND OPERATIONS OF THE BOARD

4. Independence of the Board.

The Board shall be comprised of a majority of directors who qualify as independent directors ("Independent Directors") under listing standards of the NYSE, any other applicable rules and laws and the Company's Director Independence Standards attached hereto as Appendix A.

5. Size of the Board.

Pursuant to the Bylaws, the Board shall consist of at least nine and no more than twenty-one directors. The Corporate Governance Committee regularly assesses the appropriate size of the Board, whether any vacancies on the Board are expected due to retirement or otherwise, and whether the Board reflects the appropriate balance of knowledge, skills, expertise, and diversity.

6. Board Membership Criteria and Diversity.

The Corporate Governance Committee is responsible for identifying and recommending to the Board individuals qualified to become Directors. The Board believes that the following qualities, among others, should be taken into account when determining whether to nominate an individual as a Director: integrity; knowledge, including regulatory and political knowledge, and nuclear expertise at the strategic level; judgment; understanding of the Company's business environment; and the potential contribution of each candidate to the diversity of backgrounds, experience and competencies which the Board desires to have represented, including large organizational leadership, public company experience and risk oversight skills. The Corporate Governance Committee shall consider nominations from shareholders that comply with the director nomination procedures described in the Bylaws.

The Corporate Governance Committee considers diversity in its selection of nominees utilizing a broad meaning to include not only factors such as race and gender, but also background, experience, skills, accomplishments, financial expertise, professional interests, personal qualities and other traits desirable in achieving an appropriate group of qualified individuals. The Corporate Governance Committee also considers the amount of time that a person will likely have to devote to his or her duties as a Director, including responsibilities as an executive officer, board member or trustee of businesses and charitable institutions..

7. Change in Status and Resignations.

Each Director shall apprise the Corporate Governance Committee of a substantial change in the Director's principal occupation, position or responsibility from that which he or she held when he or she was elected to the Board and will submit a letter to the Committee offering to resign from the Board. The Board does not believe that in every instance a Director who undertakes or assumes a new occupation, position or responsibility should necessarily leave the Board. The Corporate Governance Committee will review the relevant details of such Director's new circumstances and recommend to the Board the action, if any, to be taken.

Any Director may resign at any time by written notice. Any nominee for election as a director at a meeting of shareholders, in an uncontested election, who receives a greater number of votes cast "withheld" for his or her election than "for" such election shall promptly submit a letter to the Corporate Governance Committee offering to resign from the Board. The Corporate Governance Committee shall evaluate the Director's offer to resign taking into account the best interests of the Company and its shareholders and shall recommend to the Board of Directors whether to accept or reject such offer.

8. Board Compensation.

The form and amount of Director compensation is recommended to the full Board of Directors by the Human Resources Committee in accordance with its Charter. Board compensation should reflect both the workload and scope of responsibilities associated with Board service, with due consideration being given to applicable rules and regulations. It is the Company's policy that a significant portion of the Director's compensation be equity-based.

The Company's executive officers shall not receive additional compensation for their service as Directors.

9. Director Stock Ownership and Transactions.

Each Director is required to own beneficially Company stock with a value of at least three times the annual cash retainer fee paid to the Directors within three years after his or her election to the Board. Directors are required to report transactions involving Company securities to the Corporate Secretary. The Company assists Directors and executive officers in the preparation and filing of Section 16 reports. Directors are required to comply with the Company's Insider Trading Policy.

10. No Pre-Determined Term Limits.

The Corporate Governance Committee does not believe it is appropriate to set absolute limits on the length of a Director's term. Directors who have served on the Board for an extended period of time are able to provide valuable insight into the operations and future of the Company based on their experience with and understanding of the Company's history, policies and objectives. The Corporate Governance Committee will evaluate each Director's continued service on the Board in connection with each annual decision regarding whether each such Director should be renominated to the Board and at such other times as may be appropriate in particular circumstances.

11. Board and Committee Self-Assessment.

The Board and its Committees shall each conduct an annual self-assessment concerning whether the Board and such Committees are functioning effectively. The Corporate Governance Committee is responsible for developing the Board and Board Committee self-assessments, implementing the self-assessment process, and reporting a summary of the results back to the Board. The Board's self-assessment form provides the opportunity to comment on individual Director performances.

12. Board Access to Management and Independent Advisors.

Directors shall have full and free access to the management of the Company and as necessary or appropriate, independent advisors.

13. Communication with the Board.

Shareholders and other interested parties may communicate directly with the Board, including the non-management Directors, by writing to the Corporate Secretary of the Company and indicating who should receive the communication. The Corporate Secretary will transmit communications raising substantial issues to the Lead Director and to the Chair of the Board Committee most closely associated with the matter, provided that the Corporate Secretary has discretion to exclude from the transmittal communications that are commercial advertisements or other forms of solicitation, service or billing complaints and complaints related to individual employment-related actions (although all communications are available to the Directors upon request).

14. Director Orientation and Continuing Education.

All new Directors will participate in the Company's orientation program, which will be conducted shortly after a new Director is elected or appointed. Continuing education is provided to Directors on topics of importance to the business, finances and governance of the Company.

15. Executive Sessions.

The Board regularly meets in executive session without management in attendance. In addition, the independent Directors will meet in executive session at least once a year with only independent Directors present (if there are any non-management Directors who are not independent).

16. Code of Ethics and Conflicts of Interest.

The Board endorses the Code of Ethics and operates in accordance therewith. If a Board member, or an immediate member of his or her family, encounters a conflict of interest or proposes to accept a position with an entity which may present a conflict of interest, he or she will notify the Chair of the Corporate Governance Committee, so that the issue can be considered by the Corporate Governance Committee in consultation with the General Counsel. Following its review, the Corporate Governance Committee will make such provisions as are necessary to address any potential conflict. Potential conflicts of interest to be reported by Directors include, but are not limited to, positions Directors and their immediate family members hold as Directors, officers, or employees of other companies with which the Company does business or proposes to do business and charitable and other tax-exempt organizations to which the Company makes contributions or proposes to make contributions.

17. Corporate Spokesperson.

The Board believes that management should speak for the Company. Individual Directors may, from time to time, meet or otherwise communicate with various constituencies that are involved with the Company, but it is expected that Board members will do this with the knowledge of management, and in most cases, at the request of management. Board members shall refer any requests for public comment to the CEO.

18. Lead Director.

(a) Qualifications. In the event the positions of Chairman of the Board and CEO are held by the same individual, the Board shall select a Lead Director. The Lead Director must be independent within the meaning of NYSE listing standards and the Director Independence Standards. The Lead Director may be changed by the full Board at any time.

(b) Duties and Responsibilities. The Lead Director shall have the following specific duties and responsibilities:

- Serve as a liaison between the Chairman of the Board and the independent Directors.
- Advise the Chairman of the Board as to an appropriate schedule of Board meetings, review and provide the Chairman of the Board with input regarding agendas for the Board meetings and, as appropriate or as requested, review and provide the Chairman of the Board with input regarding information sent to the Board.
- Preside at all meetings at which the Chairman of the Board is not present, including executive sessions.
- Call meetings of the independent Directors when necessary and appropriate.
- Oversee the Board and Board committee self-assessment process.

- Be available for consultation and direct communication with the Company's shareholders and other interested parties.
- Perform such other duties as the Board may from time to time delegate.

APPENDIX A

Director Independence Standards

The Board of Directors of Pinnacle West Capital Corporation ("Pinnacle West") has adopted the following director independence standards to comply with New York Stock Exchange corporate governance rules and to evaluate each director's independence in light of these standards.

DIRECTOR INDEPENDENCE STANDARDS

1. For purposes of these Director Independence Standards, (a) the term "Independent" has the meaning ascribed to such term in NYSE Rule 303A.02 and (b) the term "Company" means Pinnacle West and its consolidated subsidiaries.
2. Pinnacle West will publicly disclose director independence determinations in accordance with NYSE rules and/or applicable law.
3. No director qualifies as Independent unless the Board of Directors affirmatively determines that the director has no material relationship with the Company (either directly or as a partner, shareholder, or officer of an organization that has a relationship with the Company). The Board may make this determination upon its finding that a director does not have any of the relationships or interests described in Paragraphs 4 - 8 below.
4. A director is not Independent who is, or has been within the last three years, an employee of the Company, or whose immediate family member is, or has been within the last three years, an executive officer, of the Company.
5. A director is not Independent if the director or an immediate family member has received, during any twelve-month period within the last three years, more than \$120,000 in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service).
6. A director is not Independent if (a) the director or an immediate family member is a current partner of a firm that is the Company's internal or external auditor; (b) the director is a current employee of such a firm; (c) the director has an immediate family member who is a current employee of such a firm and who personally works on the Company's audit; or (d) the director or an immediate family member was within the last three years a partner or employee of such a firm and personally worked on the Company's audit within that time.
7. A director is not Independent if the director or an immediate family member is, or has been within the last three years, employed as an executive officer of another company where any of the Company's present executive officers at the same time serves or served on that company's compensation committee.
8. A director is not Independent if the director is a current employee, or an immediate family member is a current executive officer, of a company that has made payments to, or received payments from, the Company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million or 2% of such other company's consolidated gross revenues. In the case of Company contributions to tax-exempt organizations that exceed the threshold in the previous sentence, a director will not be considered Independent only if the director is a paid executive officer (exclusive of expense reimbursements) of any such organization.
9. For purposes of Paragraphs 4 - 8 above, (a) "immediate family members" consist of a person's spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law, and anyone (other than domestic employees) who shares such person's home and (b) the term "executive officer" means Pinnacle West's president, principal financial officer, principal accounting

officer (or, if there is no such accounting officer, the controller), any Pinnacle West vice-president in charge of a principal business unit, division or function (such as sales, administration or finance), any other Pinnacle West officer who performs a policy-making function, or any other person who performs similar policy-making functions for Pinnacle West. Officers of Pinnacle West's subsidiaries shall be deemed officers of Pinnacle West if they perform such policy-making functions for Pinnacle West.

10. Nothing in these Director Independence Standards prohibits the Board of Directors from determining that a director is not Independent based on other relationships or transactions not specifically described in Paragraphs 4 - 8 above.
11. Nothing in these Director Independence Standards prohibits the Board of Directors from adopting additional or different qualifications for director membership on a Board committee, it being understood that such qualifications will be separately approved by the Board and included in such Board committee's charter.