

PINNACLE WEST CAPITAL CORP

FORM 10-Q (Quarterly Report)

Filed 05/16/94 for the Period Ending 03/31/94

Address	400 NORTH FIFTH STREET MS8695 PHOENIX, AZ 85004
Telephone	602 250 1000
CIK	0000764622
Symbol	PNW
SIC Code	4911 - Electric Services
Industry	Electric Utilities
Sector	Utilities
Fiscal Year	12/31

PINNACLE WEST CAPITAL CORP

FORM 10-Q (Quarterly Report)

Filed 5/16/1994 For Period Ending 3/31/1994

Address	400 NORTH FIFTH STREET . PHOENIX, Arizona 85004
Telephone	602-379-2500
CIK	0000764622
Industry	Electric Utilities
Sector	Utilities
Fiscal Year	12/31

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

QUARTERLY REPORT UNDER SECTION 13 or 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1994 OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from to *Commission file number 1-8962*

PINNACLE WEST CAPITAL CORPORATION

(Exact name of registrant as specified in its charter)

Arizona
(State or other jurisdiction
of incorporation or organization)

86-0512431
(I.R.S. Employer Identification No.)

400 E. Van Buren St., P. O. Box 52132, Phoenix, Arizona 85072-2132
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code 602-379-2500

Former name, former address and former fiscal year, if changed since last
report

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days.

Yes / X / No //

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Number of shares of common stock, no par value, outstanding as May 6, 1994 87,413,597

Glossary

ACC - Arizona Corporation Commission

ACC Order - Final order of the ACC approving the Settlement Agreement

ACC Staff - Staff of the Arizona Corporation Commission

AFUDC - Allowance for funds used during construction

ALJ - DOL Administrative Law Judge

APS - Arizona Public Service Company

cents/kWh - Cents per kilowatt-hour

Company - Pinnacle West Capital Corporation

DOL - U. S. Department of Labor

El Dorado - El Dorado Investment Company

EPEC - El Paso Electric Company

Four Corners - Four Corners Power Plant

ITCs - Investment tax credits

1991 Settlement - December 1991 rate case settlement

1993 10-K - Pinnacle West Capital Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 1993

Malapai - Malapai Resources Company

MeraBank - MeraBank, A Federal Savings Bank

NRC - Nuclear Regulatory Commission

Palo Verde - Palo Verde Nuclear Generating Station

Pinnacle West - Pinnacle West Capital Corporation

SFAS No. 106 - Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Post-retirement Benefits Other Than Pensions"

SFAS No. 112 - Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits"

Settlement Agreement - Rate Settlement Agreement between APS and the ACC Staff dated April 20, 1994

SunCor - SunCor Development Company

PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements.

**PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME**

(Unaudited)

(Dollars in thousands, except per share amounts)

	Three Months Ended March 31,	
	1994	1993
Operating Revenues		
Electric	\$ 365,176	\$ 371,303
Real estate	9,424	3,799
Total	374,600	375,102
Fuel Expenses		
Fuel for electric generation	57,968	55,008
Purchased power	10,063	10,496
Total	68,031	65,504
Operating Expenses		
Utility operations and maintenance	97,621	91,111
Real estate operations	8,661	3,870
Depreciation and amortization	58,195	55,726
Taxes other than income taxes	53,622	51,556
Total	218,099	202,263
Operating Income	88,470	107,335
Other Income (Deductions)		
Allowance for equity funds used during construction	846	652
Palo Verde accretion income	19,980	17,990
Interest on long-term debt	(56,364)	(61,418)
Other interest	(3,987)	(3,888)
Allowance for borrowed funds used during construction	1,167	886
Preferred stock dividend requirements of APS	(7,510)	(7,889)
Other--net	230	288
Total	(45,638)	(53,379)
Income From Continuing Operations Before Income Taxes	42,832	53,956
Income Tax Expense	21,213	26,482
Income From Continuing Operations Cumulative Effect of Change in Accounting for Income Taxes	21,619	27,474
	--	19,252
Net Income	\$ 21,619	\$ 46,726
Average Common Shares Outstanding	87,418,161	87,159,530
Earnings Per Average Common Share Outstanding:		
Continuing Operations	\$ 0.25	\$ 0.32
Accounting Change	--	0.22
Total	\$ 0.25	\$ 0.54
Dividends Declared Per Share	\$ 0.20	--

See Notes to Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(Dollars in thousands, except per share amounts)

	Twelve Months Ended March 31,	
	1994	1993
Operating Revenues		
Electric	\$1,680,163	\$1,696,035
Real estate	37,873	21,435
	-----	-----
Total	1,718,036	1,717,470
	-----	-----
Fuel Expenses		
Fuel for electric generation	234,394	239,240
Purchased power	68,679	57,604
	-----	-----
Total	303,073	296,844
	-----	-----
Operating Expenses		
Utility operations and maintenance	407,726	385,219
Real estate operations	43,011	28,402
Depreciation and amortization	226,027	221,219
Taxes other than income taxes	224,411	218,382
	-----	-----
Total	901,175	853,222
	-----	-----
Operating Income	513,788	567,404
	-----	-----
Other Income (Deductions)		
Allowance for equity funds used during construction	2,520	3,049
Palo Verde accretion income	76,870	69,213
Interest on long-term debt	(240,907)	(259,971)
Other interest	(16,604)	(14,071)
Allowance for borrowed funds used during construction	4,434	4,151
Preferred stock dividend requirements of APS	(30,461)	(32,017)
Other--net	(2,340)	(12,369)
	-----	-----
Total	(206,488)	(242,015)
	-----	-----
Income From Continuing Operations		
Before Income Taxes	307,300	325,389
Income Tax Expense	143,177	155,238
	-----	-----
Income From Continuing Operations	164,123	170,151
Income From Discontinued Operations - Net of Income Tax	--	6,000
Cumulative Effect of Change in Accounting for Income Taxes	--	19,252
	-----	-----
Net Income	\$ 164,123	\$ 195,403
	=====	=====
Average Common Shares Outstanding	87,305,670	87,078,775
Earnings Per Average Common Share Outstanding:		
Continuing Operations	\$ 1.88	\$ 1.95
Discontinued Operations	--	0.07
Accounting Change	--	0.22
	-----	-----
Total	\$ 1.88	\$ 2.24
	=====	=====
Dividends Declared Per Share	\$.40	--
	=====	=====

See Notes to Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATED BALANCE SHEETS
(Unaudited)

ASSETS
(Thousands of Dollars)

	March 31, 1994	December 31, 1993
	-----	-----
Current Assets		
Cash and cash equivalents	\$ 75,489	\$ 52,127
Customer and other receivables--net	104,127	126,343
Accrued utility revenues	48,241	60,356
Material and supplies	96,150	96,174
Fossil fuel	29,832	34,220
Deferred income taxes	98,136	100,234
Other current assets	15,996	13,782
	-----	-----
Total current assets	467,971	483,236
	-----	-----
Investments and Other Assets		
Real estate investments--net	400,169	402,873
Other assets	137,141	136,074
	-----	-----
Total investments and other assets	537,310	538,947
	-----	-----
Utility Plant		
Electric plant in service, including nuclear fuel	6,530,130	6,462,589
Construction work in progress	166,431	197,556
	-----	-----
Total utility plant	6,696,561	6,660,145
Less accumulated depreciation and amortization	2,079,603	2,058,895
	-----	-----
Net utility plant	4,616,958	4,601,250
	-----	-----
Deferred Debits		
Regulatory asset for income taxes	580,761	585,294
Palo Verde Unit 3 cost deferral	299,457	301,748
Palo Verde Unit 2 cost deferral	176,483	177,998
Other deferred debits	268,300	268,326
	-----	-----
Total deferred debits	1,325,001	1,333,366
	-----	-----
Total Assets	\$ 6,947,240	\$ 6,956,799
	=====	=====

See Notes to Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATED BALANCE SHEETS
(Unaudited)

LIABILITIES AND EQUITY
(Thousands of Dollars)

	March 31, 1994	December 31, 1993
	-----	-----
Current Liabilities		
Accounts payable	\$ 66,626	\$ 97,489
Accrued taxes	134,189	96,303
Accrued interest	47,918	57,674
Short-term borrowings	79,000	148,000
Current maturities of long-term debt	75,278	78,841
Other current liabilities	67,944	60,845
	-----	-----
Total current liabilities	470,955	539,152
	-----	-----
Non-Current Liabilities		
Long-term debt less current maturities	2,693,066	2,633,620
Other liabilities	7,798	8,246
	-----	-----
Total non-current liabilities	2,700,864	2,641,866
	-----	-----
Deferred Credits and Other		
Deferred income taxes	1,288,622	1,278,673
Deferred investment tax credit	126,242	127,331
Unamortized gain - sale of utility plant	105,146	107,344
Other deferred credits	224,634	221,762
	-----	-----
Total deferred credits and other	1,744,644	1,735,110
	-----	-----
Commitments and Contingencies (Notes 6 and 7)		
Minority Interests		
Non-redeemable preferred stock of APS	193,561	193,561
	-----	-----
Redeemable preferred stock of APS	183,400	197,610
	-----	-----
Common Stock Equity		
Common stock, no par value	1,642,965	1,642,783
Retained earnings	10,851	6,717
	-----	-----
Total common stock equity	1,653,816	1,649,500
	-----	-----
Total Liabilities and Equity	\$ 6,947,240	\$ 6,956,799
	=====	=====

See Notes to Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(THOUSANDS OF DOLLARS)

	Three Months Ended	
	March 31,	
	1994	1993
	-----	-----
Cash Flows From Operating Activities		
Income from continuing operations		
before cumulative effect of		
accounting change	\$ 21,619	\$ 27,474
Items not requiring cash		
Depreciation and amortization	65,030	67,054
Deferred income taxes--net	16,580	45,130
Provision for rate refund	(5,344)	(5,344)
Palo Verde accretion income	(19,980)	(17,990)
Other--net	(1,665)	(930)
Changes in current assets and		
liabilities		
Accounts receivable--net	22,216	38,461
Accrued utility revenues	12,115	7,084
Materials, supplies and fossil fuel	4,412	5,831
Other current assets	(2,214)	(51,009)
Accounts payable	(18,785)	(33,156)
Accrued taxes	37,886	12,554
Accrued interest	(9,756)	618
Other current liabilities	12,443	(4,947)
Additions to real estate	(3,666)	(4,359)
Sales of real estate	5,988	2,393
Other--net	860	4,918
	-----	-----
Net Cash Flow Provided By Operating	137,739	93,782
Activities	-----	-----
Cash Flows From Investing Activities		
Capital expenditures	(68,684)	(43,533)
Allowance for equity funds used during		
construction	846	652
Other--net	(1,101)	(4,684)
	-----	-----
Net Cash Flow Used For Investing Activities	(68,939)	(47,565)
	-----	-----
Cash Flows From Financing Activities		
Issuance of long-term debt	123,899	147,264
Short-term debt--net	(69,000)	(171,000)
Dividends paid on common stock	(17,486)	--
Repayment of long-term debt	(68,823)	(37,000)
Redemption of preferred stock	(14,225)	(4,510)
Other--net	197	(522)
	-----	-----
Net Cash Flow Used For Financing Activities	(45,438)	(65,768)
	-----	-----
Net Cash Flow	23,362	(19,551)
Cash and Cash Equivalents at Beginning of		
Period	52,127	87,926
	-----	-----
Cash and Cash Equivalents at End of Period	\$ 75,489	\$ 68,375
	=====	=====
Supplemental Disclosure of Cash Flow		
Information:		
Cash paid during the period for:		
Interest, net of amounts capitalized	\$ 65,889	\$ 60,744
Income taxes	--	\$ 575

See Notes to Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The consolidated financial statements include the accounts of Pinnacle West and its subsidiaries: APS, SunCor and El Dorado. All significant intercompany balances and transactions have been eliminated. Certain prior- year balances have been reclassified to conform to the 1994 presentation.
2. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position of Pinnacle West and its subsidiaries as of March 31, 1994, the results of their operations for the three months and twelve months ended March 31, 1994 and 1993, and their cash flows for the three months ended March 31, 1994 and 1993. It is suggested that these consolidated financial statements and notes to consolidated financial statements be read in conjunction with the consolidated financial statements and notes to consolidated financial statements included in the 1993 10-K.
3. The operations of APS are subject to seasonal fluctuations, with variations occurring in energy usage by customers from season to season and from month to month within a season, primarily as a result of changing weather conditions. For this and other reasons, Pinnacle West's consolidated results of operations for interim periods are not necessarily indicative of the results to be expected for the full year.
4. See "Liquidity and Capital Resources" in Part I, Item 2 of this report for changes in capitalization since December 31, 1993.
5. On April 20, 1994, APS and the ACC Staff entered into a Rate Settlement Agreement. Pursuant to the terms of the Settlement Agreement, APS' annual retail rates would be reduced by approximately \$32.3 million, or approximately 2.2%. The rate decrease would be effective on the date the ACC issues a final order approving the Settlement Agreement (the "ACC Order"); if the ACC Order is appealed or judicial review of the ACC Order is sought, the parties would no longer be bound by the terms of the Settlement Agreement, in which case the rate reduction would cease and APS would be entitled to recover any revenue reduction experienced by it to that point. If the ACC does not issue the ACC Order on or before June 1, 1994, the Settlement Agreement will be deemed to be automatically withdrawn. The following description of the Settlement Agreement is a summary, and is qualified in its entirety by the Settlement Agreement, which is incorporated herein by reference to Exhibit 10.1 to APS' Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 1994.

Future Retail Rate Changes

Neither APS nor the ACC Staff would file for a permanent change to the Company's general rates and charges prior to December 31, 1996 (the "Rate Moratorium Period"), except (i) in the event of an emergency, such as APS' inability to finance on reasonable terms or material increases in APS' cost of service as a result of federal, tribal, state or local laws, regulatory requirements or orders; (ii) for changes relating to specific rate schedules or terms and conditions of service that do not significantly affect the overall earnings of APS; and (iii) in the case of certain individual large customers, the ACC Staff will expeditiously review any APS tariff or contract filing for such customers and recommend that such filings be decided promptly by the ACC.

If APS files its next general rate application before January 1, 1998, the ACC would render its decision no later than twelve (12) months after the filing, subject to certain exceptions, and APS and the ACC Staff would use their best efforts to settle the rate request within six (6) months of the filing.

If the next general rate proceeding results in no increase in residential rates, the ACC would compare APS' costs of service during the test period under review for fuel expense and operation and maintenance for all sales (including sales for resale, but excluding interchange and non-traditional sales) to a target cost of service index of 3.63 cents/kWh. Forty-five percent (45%) of any cost savings below the target cost of 3.63 cents/kWh would be added to APS' otherwise appropriate revenue requirement in such rate proceeding. APS' cost of service index for these items during 1993 was 3.71 cents/kWh.

All three Palo Verde units are, and in future rate cases would be, included in APS' rate base as "used and useful," less the net prudence disallowance required by the December 1991 rate case settlement (the "1991 Settlement"). The ACC could re-examine this position in future general rate cases in the event of significant changes in the operating characteristics, reliability, or efficiency of any or all of the Palo Verde units, or if any unit is derated. In addition, the "in-lieu" refund obligation resulting from the 1991 Settlement would be deemed fully discharged as of the date of the ACC Order. See Note 3 of Notes to Consolidated Financial Statements in Part II, Item 8 of the 1993 10-K for additional information regarding the 1991 Settlement.

Decommissioning Funding

The rates authorized by the Settlement Agreement would include an annual jurisdictional allowance for decommissioning funding for all three Palo Verde units at the following levels: Unit 1 (\$3.621 million); Unit 2 (\$3.877 million); and Unit 3 (\$3.405 million). See Note 1.G of Notes to Consolidated Financial Statements in Part II, Item 8 of the 1993 10-K for additional information regarding APS' decommissioning obligations.

Renewable Resources/Demand Side Management

APS would spend specified amounts over a three-year period on renewable resources and demand side management projects and, on or before December 31, 1994, would submit to the ACC Staff a three-year renewable resource plan containing specified elements. See Paragraph K of the Settlement Agreement, incorporated by reference herein, for further details regarding renewable resources and demand side management.

Investment Tax Credits

APS would, upon the receipt of a favorable ruling from the Internal Revenue Service, amortize below the line its jurisdictional unamortized investment tax credits ("ITCs") over a five (5) year period beginning with calendar year 1995 instead of the current amortization schedule of twenty-five (25) years. After such five (5) year period all such amortized ITCs would be treated as fully restored to APS' rate base in any future ratemaking proceedings. Because of the non-cash earnings that would result from APS' (i) accelerated amortization of ITCs during the 1995-1999 period; and (ii) recognition of the removal of a regulatory liability (associated with the 1991 Settlement) as income during 1994, APS does not expect its earnings would be significantly affected if the Settlement Agreement were to become effective.

Pricing and Operating Procedures

The ACC Staff and APS would meet in a good faith attempt to develop new pricing and operating procedures that are responsive to market conditions, competitive pressures in the electric utility industry, and the ACC's relationship to regulated utilities and their customers. The parties would submit a report to the ACC within twelve (12) months of the ACC Order and seek prompt ACC approval of recommendations that would assist APS in achieving its residential price stability goals and enhancing its competitiveness related to non-residential customers.

The ACC has scheduled a public hearing on the Settlement Agreement to be held on May 13, 1994. APS cannot currently predict whether, or when, the Settlement Agreement will be approved by the ACC and become effective.

6. The Palo Verde participants have insurance for public liability payments resulting from nuclear energy hazards to the full limit of liability under federal law. This potential liability is covered by primary liability insurance provided by commercial insurance carriers in the amount of \$200 million and the balance by an industrywide retrospective assessment program. The maximum assessment per reactor under the retrospective rating program for each nuclear incident is approximately \$79 million, subject to an annual limit of \$10 million per incident. Based upon APS' 29.1% interest in the three Palo Verde units, APS' maximum potential assessment per incident is approximately \$69 million, with an annual payment limitation of \$8.73 million.

The Palo Verde participants maintain "all risk" (including nuclear hazards) insurance for property damage to, and decontamination and decommissioning of, property at Palo Verde in the aggregate amount of \$2.75 billion, a substantial portion of which must first be applied to stabilization and decontamination. APS has also secured insurance against portions of any increased cost of generation or purchased power and business interruption resulting from a sudden and unforeseen outage of any of the three units. The insurance coverage discussed in this and the previous paragraph is subject to certain policy conditions and exclusions.

7. Tube cracking in the steam generators of Palo Verde adversely affected APS' operations in 1993, and will continue to do so in 1994 and probably into 1995, because of the cost of replacement power and maintenance expense associated with unit outages and corrective actions required to deal with the issue.

Palo Verde Unit 2

The operation of Palo Verde Unit 2 has been particularly affected by this issue. APS has encountered axial tube cracking in the upper regions of the two steam generators in Unit 2. This form of tube degradation is uncommon in the industry and, in March 1993, led to a tube rupture and an outage of the unit that extended to September 1993, during which the unit was refueled. In March 1994, a mid-cycle inspection outage was completed which revealed further tube degradation in Unit 2. The outage included, among other things, inspecting and chemically cleaning each of Unit 2's steam generators, and subsequently starting the unit up using boric acid in the secondary water system. Unit 2 is scheduled for another mid-cycle inspection outage in the fall of 1994. The Unit 2 refueling and maintenance outage which was originally planned for the fall of 1994 is now scheduled to be completed in early 1995.

Palo Verde Unit 3

Palo Verde Unit 3 is currently in a refueling outage, during which APS is inspecting and has chemically cleaned each of Unit 3's two steam generators, and the unit will be started up with boric acid in the secondary water system. APS' inspection of these generators has revealed axial cracking in a small number of tubes in the upper regions of each of the generators. As a result, APS has expanded the scope of its inspections of these steam generators to obtain additional information about the extent and severity of the axial cracking. The expanded inspection in one of the steam generators has been completed. APS expects that the expanded inspection in the other steam generator will be completed within the next week. APS currently expects that Unit 3 will be restarted in June. However, in light of the axial cracking that APS has found to date, APS anticipates that Unit 3 would be removed from service in late 1994 for a mid-cycle inspection of steam generators.

Palo Verde Unit 1

Palo Verde Unit 1 is scheduled for a refueling outage beginning in March 1995. In late 1993 APS concluded that Unit 1 could be safely operated until the 1995 outage and submitted its supporting analysis to the NRC. However, in light of the axial cracking found in the Unit 3

steam generators, APS is currently evaluating the potential need for a mid-cycle steam generator tube inspection outage in Unit 1 late in 1994.

General

Although its analysis is not yet completed, APS believes that the axial cracking in the Unit 2 and Unit 3 steam generator tubes is due to the susceptibility of tube materials to a combination of deposits on the tubes and the relatively high temperatures at which all three units are currently designed to operate. APS also believes that it can retard further tube degradation to acceptable levels by remedial actions, which include chemically cleaning the generators and performing analyses and adjustments that will allow the units to be operated at lower temperatures without appreciably reducing their power output. Chemical cleaning has been completed in Unit 2 and was completed in Unit 3 during its current refueling outage. The temperature analyses should be concluded within the next several months. In the meantime, the lower temperatures will be achieved by operating the units at less than full power (86%).

APS previously reported that all three units should be returned to full power by mid-1995, and one or more of the units could be returned to full power during 1994. However due to the axial cracking found in Unit 3, APS cannot currently predict when one or more of the units will be returned to full power.

As a result of the Unit 2 mid-cycle outage and operating the units at reduced power during the three months ended March 31, 1994, APS incurred additional fuel and purchased power costs totaling about \$10 million (before income taxes). During the last nine months of 1994, APS expects to incur replacement power costs related to a mid-cycle inspection outage at Unit 2 and operating the three units at 86% power averaging approximately \$1.5 million (before income taxes) a month, which costs may continue into 1995. In the event that mid-cycle inspection outages are necessary in late 1994 for Units 1 and 3 and assuming that each such outage will last forty (40) days, the replacement power costs for both outages are estimated to total approximately \$7 million (before income taxes). Fuel and purchased power costs increased \$15.5 million (before income taxes) in 1993 due to Palo Verde outages and reduced power operations related to steam generator tube cracking.

APS estimates that additional operations and maintenance expenses totaling approximately \$6 million (before income taxes) will be incurred if mid-cycle inspection outages are performed at Units 1 and 3 in late 1994.

When tube cracks are detected during any outage, the affected tubes are taken out of service by plugging. That has occurred in a number of tubes in all three units, particularly in Unit 2, which is by far the most affected by cracking and plugging. APS expects that because of the foregoing remedial actions the rate of plugging will slow considerably and that, while it may ultimately reach some limit on plugging, it can operate the present steam generators over a number of years.

PINNACLE WEST CAPITAL CORPORATION

Item 2. Management's Discussion and Analysis of Financial Condition and

Results of Operations for the Three Months and Twelve Months Ended March 31, 1994 as Compared with Corresponding Periods Ended March 31, 1993.

The following discussion relates to Pinnacle West and its subsidiaries: APS, SunCor and El Dorado.

LIQUIDITY AND CAPITAL RESOURCES

Pinnacle West

Pinnacle West's cash requirements and its ability to fund those requirements are discussed under "Liquidity and Capital Resources" in Management's Discussion and Analysis of Financial Condition and Results of Operations in

Part II, Item 7 of the 1993 10-K and under "Business -- The Company --

Capital Requirements" in Part I, Item 1 of the 1993 10-K.

During April 1994, Pinnacle West prepaid \$24.2 million of its debt, reducing the aggregate principal amount of its outstanding debt to approximately \$540 million.

The Board declared a quarterly dividend of 20 cents per share of common stock, payable on March 1, 1994 to shareholders of record on February 1, 1994, totalling approximately \$17.5 million.

APS

For the three months ended March 31, 1994, APS incurred approximately \$56 million in construction expenditures, accounting for approximately 20% of the most recently estimated 1994 construction expenditures. APS has estimated total construction expenditures for the years 1994, 1995 and 1996 to be approximately \$279 million, \$302 million and \$293 million, respectively.

Refunding obligations for preferred stock and long-term debt, a capitalized lease obligation and certain anticipated early redemptions are expected to total approximately \$167 million, \$145 million and \$14 million for the years 1994, 1995 and 1996, respectively. During the first three months of 1994, APS refunded approximately \$75 million (45%) of the estimated 1994 total.

On March 1, 1994, APS redeemed all of the outstanding shares of its \$8.80 Cumulative Preferred Stock, Series K (\$100 Par Value) in the amount of \$14.21 million. On April 4, 1994, APS redeemed all \$60.264 million of its outstanding First Mortgage Bonds, 10 3/4% Series due 2019; for financial reporting purposes, this debt was considered extinguished as of March 31, 1994. On March 2, 1994, APS issued \$100 million of its First Mortgage Bonds, 6 5/8% Series due 2004, and applied the net proceeds to the repayment of short term debt that had been incurred for the redemption of preferred stock and for general corporate purposes. On June 1, 1994, pursuant to sinking fund requirements, APS will redeem 100,000 shares of its \$8.48 Cumulative Preferred Stock, Series S, and 35,250 shares of its \$11.50 Cumulative Preferred Stock, Series R ("Series R Preferred Stock"), both at a redemption price of \$100 per share, plus accrued and unpaid dividends. On June 2, 1994, APS will redeem all 248,750 outstanding shares of its Series R Preferred Stock at a redemption price of \$105.45 per share, plus accrued and unpaid dividends.

Provisions in APS' mortgage bond indenture and articles of incorporation require certain coverage ratios to be met before APS can issue additional first mortgage bonds or preferred stock. In addition, the mortgage bond indenture limits the amount of additional bonds which may be issued to a percentage of net property additions, to property previously pledged as security for certain bonds that have been redeemed or retired and/or cash deposited with the mortgage bond trustee. As of March 31, 1994, APS estimates that the mortgage bond indenture and the articles of incorporation would have allowed APS to issue up to approximately \$1.21 billion and \$892 million of additional first mortgage bonds and preferred stock, respectively.

The ACC has authority over APS with respect to the issuance of long-term debt and equity securities. Existing ACC orders allow APS to have up to approximately \$2.6 billion in long-term debt and approximately \$501 million of preferred stock outstanding at any one time. APS does not expect any of the foregoing restrictions to limit its ability to meet its capital requirements.

RESULTS OF OPERATIONS

The following table shows the income and/or loss of Pinnacle West and its subsidiaries for the three-month and twelve-month periods ended March 31, 1994 and 1993:

INCOME (LOSS)
(Unaudited)

(Dollars in Thousands)

	Three Months Ended		Twelve Months Ended	
	March 31,		March 31,	
	1994	1993	1994	1993
	-----	-----	-----	-----
APS	\$30,958	\$ 39,277	\$211,227	\$231,043
SunCor	964	338	(3,364)	(5,732)
El Dorado	(426)	(185)	(4,145)	(2,862)
Pinnacle West <1>	(9,877)	(11,956)	(39,595)	(52,298)
	-----	-----	-----	-----
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	21,619	27,474	164,123	170,151
INCOME FROM DISCONTINUED OPERATIONS	--	--	--	6,000
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR INCOME TAXES	--	19,252	--	19,252
	-----	-----	-----	-----
NET INCOME (LOSS)	\$21,619	\$46,726	\$164,123	\$195,403
	=====	=====	=====	=====

APS

<1> Includes Pinnacle West's interest expense and operating expenses net of income tax benefits. Income tax benefits are as follows (in thousands): \$6,726 and \$7,757 for the three months ended March 31, 1994 and 1993, respectively; and \$39,447 and \$37,824 for the twelve months ended March 31, 1994 and 1993, respectively.

Operating Results - Three-month period ended March 31, 1994 compared to three-month period ended March 31, 1993

APS' income decreased in the three-month period ended March 31, 1994 primarily due to increased operations and maintenance expenses and lower operating revenues. Operations and maintenance expenses increased primarily due to a mid-cycle outage at Palo Verde Unit 2 (see Note 7 of Notes to Consolidated Financial Statements in Part I, Item 1 of this report). Interchange sales to other utilities decreased due to reduced generation availability at Palo Verde and increased hydroelectric power availability in the Pacific Northwest. Partially offsetting these factors was a revenue increase due to customer growth.

Operating Results - Twelve-month period ended March 31, 1994 compared to twelve-month period ended March 31, 1993

APS' income decreased in the twelve-month period ended March 31, 1994 primarily due to increased operations and maintenance expenses, lower operating revenues, and higher purchased power costs, partially offset by lower interest expense. Operations and maintenance expenses increased largely as a result of the implementation of SFAS No. 106 and SFAS No. 112 (see Note 9 of Notes to Consolidated Financial Statements in Part II, Item 8 of the 1993 10-K). Purchased power expense increased due to reduced generation availability at Palo Verde, partially offset by lower fuel costs related to lower interchange sales. Interchange sales to other utilities decreased due to reduced generation availability at Palo Verde and increased hydroelectric power availability in the Pacific Northwest. Retail sales decreased due to the effects of milder weather. Partially offsetting these decreases was a revenue increase due to customer growth. Interest expense decreased due to refinancing debt at lower rates, lower debt balances and lower rates on variable-rate debt.

Non-utility Operations

Pinnacle West's interest expense decreased in the three-month and twelve-month periods as it continued to prepay its outstanding debt.

SunCor's earnings in the three-month and twelve-month periods were positively impacted by increased land sales.

El Dorado's earnings decreased in the twelve-month period due to lower earnings on venture capital investments.

Non-cash Income

Consolidated net income reflects accounting practices unique to regulated public utilities and represents a composite of cash and noncash items, including allowance for funds used during construction, accretion income on Palo Verde Unit 3 and the reversal of a refund obligation related to the Palo Verde write-off in December, 1991. See Note 3 of Notes to Consolidated Financial Statements in Part II, Item 8 of the 1993 10-K for additional information regarding Palo Verde Unit 3 accretion income and the reversal of the refund obligation. APS recorded after-tax accretion income and refund obligation reversals in the three months ended March 31, 1994 of \$12.1 million and \$3.2 million, respectively. APS will record the remaining after-tax accretion income and refund obligation reversals of \$8.2 million and \$2.4 million, respectively, by June 5, 1994.

Tax Legislation

On April 4, 1994, a comprehensive tax package was signed into Arizona law that, among other things, reduces the assessment ratio for utility property from the current assessment ratio of 30% to 25%. This reduction will be phased in over a five-year period at one percent per year beginning in 1995. This legislation is expected to reduce or offset the historical rate of growth of APS' property tax expense.

1994 Rate Settlement Agreement

See Note 5 of Notes to Consolidated Financial Statements in Part I, Item 1 of this report for a discussion of APS' Rate Settlement Agreement with the ACC Staff.

PART II. OTHER INFORMATION

The following information relates primarily to Pinnacle West and its principal subsidiary, APS.

ITEM 5. Other Information

Palo Verde Nuclear Generating Station

By letter dated July 7, 1993 the NRC advised APS that, as a result of a Recommended Decision and Order by a Department of Labor Administrative Law Judge (the "ALJ") finding that APS discriminated against a former contract employee at Palo Verde because he engaged in "protected activities" (as defined under federal regulations), the NRC intended to schedule an enforcement conference with APS. Following the ALJ's finding, APS investigated various elements of both the substantive allegations and the manner in which the DOL proceedings were conducted. As a result of that investigation, APS determined that one of its employees had falsely testified during the proceedings, that there were inconsistencies in the testimony of another employee and that certain documents were requested in, but not provided during, discovery. The two employees in question are no longer with APS. APS provided the results of its investigation to the ALJ, who referred matters relating to the conduct of two former employees of APS to the U.S. Attorney's office in Phoenix, Arizona. A review by that office is continuing. On December 15, 1993 APS and the former contract employee who had raised the DOL claim entered into a settlement agreement, a part of which was subject to approval by the Secretary of Labor. On March 21, 1994 the Secretary of Labor issued a final order approving the settlement. By letter dated August 10, 1993 APS also provided the results of its investigation to the NRC, and advised the NRC that, as a result of APS' investigation, APS had changed its position opposing the finding of discrimination. The NRC is investigating this matter and APS is fully cooperating with the NRC in this regard.

By letter dated April 1, 1994 the NRC sent a Notice of Violation and Proposed Imposition of Civil Penalty notifying APS, as Palo Verde operating agent, that the NRC proposes to impose a civil penalty in the amount of \$100,000 for two violations aggregated into one "Severity Level III" problem. The notice relates to two APS-identified violations of NRC regulatory requirements and Palo Verde security procedures involving failure to ensure that a contractor of APS (1) conducted adequate background investigations before APS granted certain individuals unescorted site access to Palo Verde, and (2) required annual audits of private investigative agencies that assisted the contractor in conducting background investigations. On April 29, 1994 APS responded to the notice and paid the \$100,000 penalty.

See Note 7 of Notes to Financial Statements in Part I, Item 1 of this report for a discussion of the Unit 2 steam generator tube rupture event and related issues, including inspections of the Unit 1 and Unit 3 steam generators. See also "Palo Verde Nuclear Generating Station" in Item 5 in the Company's Current Report on Form 8-K dated April 30, 1994 for additional information regarding these issues.

Construction and Financing Programs

See "Liquidity and Capital Resources" in Part I, Item 2 of this report for a discussion of APS' construction and financing programs.

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits

The Company hereby incorporates the following Exhibits pursuant to Exchange Act Rule 12b-32 and Regulation Section 201.24 by reference to the filings set forth below:

Exhibit No.	Description	Originally Filed as Exhibit	File No.	Date Effective
10.1	Rate Settlement Agreement dated April 20, 1994 between APS and the ACC Staff	10.1 to APS' March 1994 Form 10-Q Report	1-4473	5/13/94

(b) Reports on Form 8-K

During the quarter ended March 31, 1994 and for the period ended May 13, 1994, the Company filed the following Reports on Form 8-K:

Report filed January 24, 1994 regarding the settlement of pending litigation.

Report filed February 22, 1994 regarding (i) inspections of the steam generators of the Palo Verde units and related issues, and (ii) APS' settlement agreement with a former contract employee.

Report filed May 10, 1994 regarding the inspection of the Palo Verde Unit 3 steam generators and related issues.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

PINNACLE WEST CAPITAL CORPORATION
(Registrant)

By: Henry Sargent

Henry Sargent Executive Vice President and Chief Financial Officer (Principal Financial Officer and Officer Duly Authorized to sign this Report)

Dated: May 13, 1994

End of Filing

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