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PINNACLE WEST CAPITAL CORP

FORM 10-Q
(Quarterly Report)

Filed 11/14/97 for the Period Ending 09/30/97

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

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PINNACLE WEST CAPITAL CORP

FORM 10-Q
(Quarterly Report)

Filed 11/14/1997 For Period Ending 9/30/1997

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

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FORM 10-Q
Securities and Exchange Commission
Washington, D.C. 20549

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 1997

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)

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          Arizona                                            86-0512431
--------------------------------                        ---------------------
(State or other jurisdiction of                           (I.R.S. Employer
 Incorporation or organization)                          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 such 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 of November 13, 1997: 84,717,595

Glossary

ACC	Arizona Corporation Commission
ACC Staff	Staff of the Arizona Corporation Commission
Affected Utilities	Utilities affected by the ACC's Proposed Rules on retail electric competition in Arizona
APS	Arizona Public Service Company
Cholla	Cholla Power Plant
Company	Pinnacle West Capital Corporation
El Dorado	El Dorado Investment Company
EPA	United States Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
Four Corners	Four Corners Power Plant
ITCs	Investment tax credits
1996 10-K	Pinnacle West Capital Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 1996
NGS	Navajo Generating Station
Palo Verde	Palo Verde Nuclear Generating Station
Rules	Rules adopted by the ACC for the introduction of retail electric competition in Arizona
SFAS No. 71	Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation"
SFAS No. 128	Statement of Financial Accounting Standards No. 128, "Earnings per Share"
SFAS No. 130	Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income"

SFAS No. 131	Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information"
Pinnacle West	Pinnacle West Capital Corporation
SunCor	SunCor Development Company

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

PINNACLE WEST CAPITAL CORPORATION CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands, except per share amounts)

	Three Months Ended September 30, 1997	Three Months Ended September 30, 1996
Operating Revenues		
Electric	$ 632,821	$ 566,899
Real estate	30,929	31,892
Total	663,750	598,791
Fuel Expenses		
Fuel for electric generation	48,379	68,243
Purchased power	110,151	39,793
Total	158,530	108,036
Operating Expenses		
Utility operations and maintenance	110,102	100,386
Real estate operations	29,487	28,396
Depreciation and amortization	91,594	91,144
Taxes other than income taxes	30,583	25,029
Total	261,766	244,955
Operating Income	243,454	245,800
Other Income (Deductions)		
Allowance for equity funds used during construction	--	1,942
Interest on long-term debt	(40,775)	(41,366)
Other interest	(4,403)	(6,824)
Capitalized interest	3,997	2,021
Preferred stock dividend requirements of APS	(2,984)	(4,153)
Other-net	1,937	(272)
Total	(42,228)	(48,652)
Income Before Income Tax and Extraordinary Charge	201,226	197,148
Income Tax Expense	76,886	75,742
Income Before Extraordinary Charge	124,340	121,406
Extraordinary Charge for Early Retirement of Debt, Net of Income Tax of $9,667	--	(14,272)
Net Income	$ 124,340	$ 107,134
Average Common Shares Outstanding	84,747,949	87,439,830
Earnings Per Average Common Share Outstanding:		
Income before extraordinary charge	$ 1.47	$ 1.39
Extraordinary charge	--	(0.16)
Total	$ 1.47	$ 1.23
Dividends Declared Per Share	$ --	$ 0.275

See Notes to Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION <u>CONDENSED CONSOLIDATED STATEMENTS OF INCOME</u>

(Unaudited)

(Dollars in thousands, except per share amounts)

	Nine Months Ended September 30, 1997	Nine Months Ended September 30, 1996
Operating Revenues		
Electric	$ 1,470,593	$ 1,338,818
Real estate	80,638	74,036
Total	1,551,231	1,412,854
Fuel Expenses		
Fuel for electric generation	155,127	167,866
Purchased power	188,182	76,197
Total	343,309	244,063
Operating Expenses		
Utility operations and maintenance	287,280	288,425
Real estate operations	77,550	71,749
Depreciation and amortization	276,005	209,421
Taxes other than income taxes	91,138	94,740
Total	731,973	664,335
Operating Income	475,949	504,456
Other Income (Deductions)		
Allowance for equity funds used during construction	--	5,620
Interest on long-term debt	(120,679)	(131,950)
Other interest	(14,877)	(17,871)
Capitalized interest	12,391	7,422
Preferred stock dividend requirements of APS	(9,805)	(12,956)
Other-net	10,983	415
Total	(121,987)	(149,320)
Income Before Income Tax and Extraordinary Charge	353,962	355,136
Income Tax Expense	137,058	137,417
Income Before Extraordinary Charge	216,904	217,719
Extraordinary Charge for Early Retirement of Debt, Net of Income Tax of $13,777	--	(20,340)
Net Income	$ 216,904	$ 197,379
Average Common Shares Outstanding	85,764,317	87,436,827
Earnings Per Average Common Share Outstanding:		
Income before extraordinary charge	$ 2.53	$ 2.49
Extraordinary charge	--	(0.23)
Total	$ 2.53	$ 2.26
Dividends Declared Per Share	$ 0.825	$ 1.025

See Notes to Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands, except per share amounts)

	Twelve Months Ended September 30, 1997	Twelve Months Ended September 30, 1996
Operating Revenues		
Electric	$ 1,850,047	$ 1,687,542
Real estate	106,090	97,009
Total	1,956,137	1,784,551
Fuel Expenses		
Fuel for electric generation	217,654	216,546
Purchased power	207,115	87,504
Total	424,769	304,050
Operating Expenses		
Utility operations and maintenance	429,569	405,991
Real estate operations	101,881	90,941
Depreciation and amortization	366,091	270,095
Taxes other than income taxes	118,475	130,515
Total	1,016,016	897,542
Operating Income	515,352	582,959
Other Income (Deductions)		
Allowance for equity funds used during construction	(411)	6,957
Interest on long-term debt	(160,187)	(182,291)
Other interest	(20,770)	(21,693)
Capitalized interest	14,478	10,006
Preferred stock dividend requirements of APS	(13,941)	(17,732)
Other-net	3,820	4,134
Total	(177,011)	(200,619)
Income From Continuing Operations Before Income Tax	338,341	382,340
Income Tax Expense	128,097	146,380
Income From Continuing Operations	210,244	235,960
Loss on Discontinued Operations, Net of Income Tax of $6,461	(9,539)	--
Extraordinary Charge for Early Retirement of Debt, Net of Income Tax of $21,611	--	(31,911)
Net Income	$ 200,705	$ 204,049
Average Common Shares Outstanding	86,190,582	87,443,641
Earnings Per Average Common Share Outstanding:		
Continuing operations	$ 2.44	$ 2.69
Discontinued operations	(0.11)	--
Extraordinary charge	--	(0.36)
Total	$ 2.33	$ 2.33
Dividends Declared Per Share	$ 0.825	$ 1.275

See Notes to Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

ASSETS

(Thousands of Dollars)

	September 30, 1997	December 31, 1996
Current Assets		
Cash and cash equivalents	$ 47,346	$ 26,686
Customer and other receivables--net	254,064	169,237
Accrued utility revenues	82,067	55,470
Material and supplies	74,583	74,120
Fossil fuel	11,388	13,928
Deferred income taxes	69,723	69,688
Other current assets	43,182	41,140
Total current assets	582,353	450,269
Investments and Other Assets		
Real estate investments--net	378,563	398,527
Other assets	214,048	173,109
Total investments and other assets	592,611	571,636
Utility Plant		
Electric plant in service and held for future use	6,930,706	6,803,211
Less accumulated depreciation and amortization	2,616,756	2,426,143
Total	4,313,950	4,377,068
Construction work in progress	299,166	226,935
Nuclear fuel, net of amortization	59,268	51,137
Net utility plant	4,672,384	4,655,140
Deferred Debits		
Regulatory asset for income taxes	471,653	516,722
Rate synchronization cost deferrals	372,674	414,082
Other deferred debits	344,247	381,440
Total deferred debits	1,188,574	1,312,244
Total Assets	$7,035,922	$6,989,289

See Notes to Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

LIABILITIES AND EQUITY
(Thousands of Dollars)

	September 30, 1997	December 31, 1996
Current Liabilities		
Accounts payable	$ 194,939	$ 184,095
Accrued taxes	183,727	82,413
Accrued interest	27,885	39,652
Short-term borrowings	117,794	16,900
Current maturities of long-term debt	107,774	156,277
Customer deposits	32,594	34,222
Other current liabilities	33,842	37,056
Total current liabilities	698,555	550,615
Long-Term Debt Less Current Maturities	2,276,234	2,372,113
Deferred Credits and Other		
Deferred income taxes	1,334,158	1,359,312
Deferred investment tax credit	53,372	74,379
Unamortized gain - sale of utility plant	83,507	86,939
Other	382,024	356,935
Total deferred credits and other	1,853,061	1,877,565
Commitments and Contingencies (Notes 5, 6 and 7)		
Minority Interests		
Non-redeemable preferred stock of APS	142,927	165,673
Redeemable preferred stock of APS	29,110	53,000
Common Stock Equity		
Common stock, no par value	1,555,907	1,636,354
Retained earnings	480,128	333,969
Total common stock equity	2,036,035	1,970,323
Total Liabilities and Equity	$7,035,922	$6,989,289

See Notes to Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(THOUSANDS OF DOLLARS)

	Nine Months Ended September 30, 1997	Nine Months Ended September 30, 1996
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before extraordinary charge	$ 216,904	$ 217,719
Items not requiring cash		
Depreciation and amortization	300,698	235,600
Deferred income taxes--net	(17,740)	3,195
Allowance for equity funds used during construction	--	(5,620)
Deferred investment tax credit	(21,007)	(22,244)
Other--net	(5,017)	(459)
Changes in current assets and liabilities		
Customer and other receivables--net	(86,483)	(39,756)
Accrued utility revenues	(26,597)	(20,489)
Materials, supplies and fossil fuel	2,077	8,934
Other current assets	(1,898)	(591)
Accounts payable	20,287	9,004
Accrued taxes	101,314	95,861
Accrued interest	(11,767)	(19,449)
Other current liabilities	(4,883)	20,421
Decrease in land held	16,677	16,043
Other--net	56,234	7,401
Net Cash Flow Provided By Operating Activities	538,799	505,570
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(229,608)	(196,641)
Capitalized interest	(12,391)	(7,422)
Other--net	(31,083)	(21,649)
Net Cash Flow Used For Investing Activities	(273,082)	(225,712)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of long-term debt	112,413	112,765
Short-term borrowings--net	100,894	132,889
Dividends paid on common stock	(70,745)	(65,576)
Repayment of long-term debt	(260,536)	(410,582)
Redemption of preferred stock	(46,511)	(46,083)
Repurchase and retirement of common stock	(81,251)	--
Extraordinary charge for early retirement of debt	--	(20,340)
Other--net	679	1,938
Net Cash Flow Used For Financing Activities	(245,057)	(294,989)
Net Cash Flow	20,660	(15,131)
Cash and Cash Equivalents at Beginning of Period	26,686	79,539
Cash and Cash Equivalents at End of Period	$ 47,346	$ 64,408
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest, net of amounts capitalized	$ 128,414	$ 155,943
Income taxes	$ 106,440	$ 72,224

See Notes to Condensed Consolidated Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. The condensed consolidated financial statements include the accounts of Pinnacle West and its subsidiaries: APS, SunCor and El Dorado. All significant intercompany balances have been eliminated. Certain prior year balances have been restated to conform to the current year presentation.

2. In the opinion of the Company, the accompanying unaudited condensed 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 September 30, 1997, the results of operations for the three months, nine months and twelve months ended September 30, 1997 and 1996, and the cash flows for the nine months ended September 30, 1997 and 1996. It is suggested that these condensed consolidated financial statements and notes to condensed consolidated financial statements be read in conjunction with the consolidated financial statements and notes to consolidated financial statements included in the 1996 10-K.

3. The operations of APS are subject to seasonal fluctuations, with variations in energy usage by customers occurring 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, the 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 for the nine months ended September 30, 1997.

5. Regulatory Matters

Electric Industry Restructuring

STATE The ACC has been conducting an ongoing investigation into the restructuring of the Arizona electric industry. In December 1996, the ACC adopted rules that provide a framework for the introduction of retail electric competition. The ACC has ordered that numerous issues, including reliability, stranded cost measurement and recovery, the phase-in process, bundled, unbundled and metering services, and Independent System Operators and spot market development, as well as legal issues, will require additional consideration and will be addressed through workshops and working groups which will issue recommendations to the ACC. Some of the working group reports have recently been issued and the balance are scheduled to be issued by year end. These issued reports recommend that further ACC consideration of the Rules is necessary prior to implementation of retail electric competition. Some parties that participated in the working groups also indicated that state legislation and possibly amendments to the Arizona Constitution may be necessary. The Rules include the following major provisions:

* The Rules are intended to apply to virtually all of the Arizona electric utilities regulated by the ACC, including APS.

* Each affected utility would be required to make available at least 20 percent of its 1995 system retail peak demand for competitive generation supply to all customer classes not later than January 1, 1999; at least 50 percent not later than January 1, 2001; and all of its retail demand not later than January 1, 2003.

* Electric service providers that obtain a Certificate of Convenience and Necessity (CC&N) from the ACC would be allowed to supply, market, and/or broker specified electric services at retail. These services would include electric generation but exclude electric transmission and distribution.

* On or before December 31, 1997, each affected utility is required to file with the ACC proposed tariffs for bundled service, if different from current tariffs, and unbundled service. Bundled service means electric service elements (i.e., generation, transmission, distribution, and ancillary services) provided as a package to consumers within an affected utility's current service area. Unbundled service means electric service elements provided and priced separately.

* The Rules indicate that the ACC will allow recovery of unmitigated stranded costs. Stranded costs are the costs of generating plants, other assets and contract commitments that were prudently incurred to serve power customers that could go unrecovered if these customers are allowed to use open access to move to another supplier. Each affected utility would be required to file with the ACC estimates of unmitigated stranded costs. The ACC would then, after hearing and consideration of various factors, determine the magnitude of stranded cost and appropriate stranded cost recovery mechanisms and charges.

The Arizona legislature has appointed a joint legislative committee to study electric utility industry restructuring issues and report back to it by the end of 1997. Arizona legislative counsel recently prepared a memorandum related to the legal authority of the ACC to deregulate the Arizona electric utility industry. This memorandum raises a question as to the degree to which the ACC may deregulate any portion of the electric utility, and allow rates to be determined by market forces under the Arizona Constitution. The Company continues to believe that State legislation ultimately will be required before significant implementation of retail electric competition can lawfully occur in Arizona. The Company cannot accurately predict the impact, if any, of the regulatory and legislative activities and of the possible amendments to the Arizona Constitution (which amendments would require a vote of the people) on the timing or manner of implementation of retail electric competition in Arizona.

The Company continues to focus on working with the ACC and the Arizona Legislature to bring competitive benefits to Arizona but believes that certain provisions of the Rules are deficient. In February 1997, APS filed lawsuits to protect its legal rights regarding the Rules.

Until it has been further determined how competition will be implemented in Arizona, the Company cannot accurately predict the impact of full retail competition on its financial position or results of operations.

FEDERAL The Energy Policy Act of 1992 and recent rulemakings by FERC have promoted increased competition in the wholesale electric power markets. The Company does not expect these rulemakings to have a material impact on its financial statements.

Several electric utility reform bills have been introduced during recent congressional sessions, which as currently written, would allow consumers to choose their electricity supplier by 2000 or 2003. These bills, other bills that are expected to be introduced, and ongoing discussions at the federal level suggest a wide range of opinion that will need to be narrowed before any substantial restructuring of the electric utility industry can occur.

REGULATORY ACCOUNTING The Company prepares its financial statements in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." SFAS No. 71 requires a cost-based, rate-regulated enterprise to reflect the impact of regulatory decisions in its financial statements. The Company's existing regulatory orders and current regulatory environment support its accounting practices related to regulatory assets, which amounted to approximately $1.0 billion at September 30, 1997. In accordance with the 1996 regulatory agreement (see below), the ACC accelerated the amortization of substantially all of the Company's regulatory assets over an eight-year period beginning July 1, 1996. If rate recovery of these assets is no longer probable, whether due to competition or regulatory action, the Company would no longer be able to apply the provisions of SFAS No. 71 to all or some part of its operations, which could have a material impact on the Company's financial statements.

1996 Regulatory Agreement

In April 1996, the ACC approved a regulatory agreement between APS and the ACC Staff. The major provisions of this agreement are:

* An annual retail price reduction of approximately $48.5 million ($29 million after income taxes), or 3.4% on average for all customers except certain contract customers, effective July 1, 1996.

* Recovery of substantially all of APS' present regulatory assets through accelerated amortization over an eight-year period beginning July 1, 1996, increasing annual amortization by approximately $120 million ($72 million after income taxes).

* A formula for sharing future cost savings between customers and shareholders (price reduction formula) referencing a return on equity (as defined) of 11.25%.

* A moratorium on filing for permanent rate changes prior to July 2, 1999, except under the price reduction formula and under certain other limited circumstances.

* Infusion of $200 million of common equity into APS by Pinnacle West, in annual payments of $50 million, starting in 1996.

Pursuant to the price reduction formula, in May 1997, the ACC approved a retail price reduction of approximately $17.6 million annually ($11 million after income taxes), or 1.2%, effective July 1, 1997.

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 industry-wide retrospective assessment program. If losses at any nuclear power plant covered by this program exceed the accumulated funds, APS could be assessed retrospective premium adjustments. The maximum assessment per reactor under the 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 approximately $9 million.

The Palo Verde participants maintain "all risk" (including nuclear hazards) insurance for property damage to, and decontamination 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. APS has encountered tube cracking in the Palo Verde steam generators and has taken, and will continue to take, remedial actions that it believes have slowed the rate of tube degradation. The projected service life of the steam generators is reassessed periodically and these analyses indicate that it will be economically desirable for APS to replace the Unit 2 steam generators between 2003 and 2008. APS estimates that its share of the replacement costs (in 1997 dollars and including installation and replacement power costs) will be approximately $50 million, most of which will be incurred after the year 2000.

Based on the latest available data, APS estimates that the Unit 1 and Unit 3 steam generators should operate for the license periods (until 2025 and 2027, respectively), although APS will continue its normal periodic assessment of these steam generators.

8. The Financial Accounting Standards Board recently issued three new standards; SFAS 128 on "Earnings per Share"; SFAS 130 on "Reporting Comprehensive Income"; and SFAS 131 on "Disclosures about Segments of an Enterprise and Related Information".

The "Earnings per Share" standard is effective for both interim and annual periods ending after December 15, 1997. The standard will not have a material effect on the Company's earnings per share.

The "Reporting Comprehensive Income" standard is effective for fiscal years beginning after December 15, 1997. The standard changes the reporting of certain items currently reported in the common stock equity section of the balance sheet. The Company is currently evaluating what impact this standard will have on its financial statements.

The "Disclosures about Segments of an Enterprise and Related Information" standard is effective for fiscal years beginning after December 15, 1997. The standard requires that public companies report certain information about operating segments in their financial statements. It also establishes related disclosures about products and services, geographic areas, and major customers. The Company is currently evaluating what impact this standard will have on its disclosures.

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

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

LIQUIDITY AND CAPITAL RESOURCES

Parent Company

For the nine months ended September 30, 1997, the primary source of cash has been dividends from APS. SunCor and El Dorado both have provided cash to the parent during 1997.

During the quarter ended September 30, 1997, the parent company repaid $40 million on its existing line of credit. The parent company's total outstanding debt as of September 30, 1997, was $240 million.

In March, the Board approved a program for the repurchase of up to $80 million of the Company's common stock. As of July 2, 1997 the Company completed the program, spending approximately $80 million for the repurchase of 2.7 million shares of stock.

The Board declared a quarterly dividend of 30.0 cents per share of common stock, payable December 1, 1997, to shareholders of record on November 3, 1997, totaling approximately $25.4 million.

APS

For the nine months ended September 30, 1997, APS incurred approximately $221 million in capital expenditures, which is approximately 75% of the most recently estimated 1997 capital expenditures. APS estimates total capital expenditures for the years 1997, 1998, and 1999 to be approximately $296 million, $290 million, and $265 million, respectively. These amounts include about $30 million each year for nuclear fuel expenditures.

Required and optional redemptions of preferred stock and repayment of long-term debt, including premiums thereon, and payments for a capitalized lease obligation are expected to total approximately $272 million, $114 million, and $114 million for the years 1997, 1998, and 1999, respectively. During the nine months ended September 30, 1997, APS repaid approximately $223 million of its long-term debt and redeemed approximately $47 million of its preferred stock with funds from internal cash from operations and long-term and short-term debt. As a result of the 1996 regulatory agreement (see Note 5 of Notes to Condensed Consolidated Financial Statements), Pinnacle West invested $50 million in APS in 1996 and will invest similar amounts annually in 1997 through 1999.

During the nine months ended September 30, 1997, APS incurred $60 million of long-term debt under credit agreements and issued $50 million of its senior notes. Simultaneously with the issuance of the senior notes, APS issued $50 million of its first mortgage bonds ("senior note mortgage bonds") to the senior note trustee as collateral for the senior notes. The senior notes mortgage bonds have the same interest rate, interest payment dates, maturity, and redemption provisions as the senior notes. APS' payment of principal, premium, and/or interest on the senior notes satisfy APS' corresponding payment obligation on the senior note mortgage bonds. As long as the senior note mortgage bonds secure the senior notes, the senior notes will effectively rank pari passu with the first mortgage bonds. On the date that APS has repaid all of its first mortgage bonds, other than those that secure the senior notes, the senior note mortgage bonds will no longer secure the senior notes and will cease to be outstanding.

Although provisions in APS' bond indenture, articles of incorporation, and financing orders from the ACC establish maximum amounts of additional first mortgage bonds and preferred stock, management does not expect any of these restrictions to limit APS' ability to meet its capital requirements.

OPERATING RESULTS

The following table shows the income and/or loss of Pinnacle West and its subsidiaries for the three-month, nine-month and twelve-month periods ended September 30, 1997 and 1996:

Income (Loss)
(Unaudited)

(Thousands of Dollars)

	Three Months Ended September 30, 1997	Three Months Ended September 30, 1996	Nine Months Ended September 30, 1997	Nine Months Ended September 30, 1996	Twelve Months Ended September 30, 1997	Twelve Months Ended September 30, 1996
APS	$ 126,715	$ 124,331	$ 218,032	$ 231,574	$ 212,837	$ 246,739
SunCor	450	2,278	2,706	1,186	5,674	5,465
El Dorado	63	(231)	7,019	(270)	7,660	7,933
Pinnacle West (1)	(2,888)	(19,244)	(10,853)	(35,111)	(25,466)	(56,088)
NET INCOME	$ 124,340	$ 107,134	$ 216,904	$ 197,379	$ 200,705	$ 204,049

(1) Includes Pinnacle West's interest expense, extraordinary charge for early retirement of debt, discontinued operations and operating expenses net of income tax benefits. Income tax benefits are as follows (in thousands):
$1,264 and $9,997 for the three months ended September 30, 1997 and 1996, respectively; and $2,472 and $18,271 for the nine months ended September 30, 1997 and 1996, respectively; and $8,945 and $27,409 for the twelve months ended September 30, 1997 and 1996, respectively.

APS

Operating Results - Three-month period ended September 30, 1997 compared to three-month period ended September 30, 1996

Earnings increased slightly in the three-month comparison as the impacts of two settlements related to coal and gas used for electric generation and strong customer growth offset the effects of higher operating costs, milder weather, and a rate reduction which became effective July 1, 1997 (see Note 5 of Notes to Condensed Consolidated Financial Statements).

The fuel-related settlements contributed to earnings approximately $21 million before income taxes and were reflected on the income statement as reductions in fuel expense and as other income. Approximately $16 million of these settlements related to prior years.

Operating revenues increased $66 million primarily due to a $67 million increase in sales for resale and $18 million from retail customer growth and higher usage, partially offset by an $11 million decrease attributable to weather effects and the 1997 retail price reduction impact of $6 million. Sales for resale are sales of electricity at wholesale to other electric utilities, power marketers, or public authorities for resale to their customers. The increase in sales for resale was a result of increased activity in competitive bulk power markets and was accompanied by significant increases in related purchased power. These bulk power activities did not result in a significant variance in earnings due to market pressures on prices.

Operation and maintenance expenses increased $10 million primarily due to the timing of charges for employee incentive plans, nuclear refueling outages, and other expenses, partially offset by the cost savings from a 1996 voluntary severance program. Other taxes increased $5 million primarily due to an adjustment in the third quarter of 1996 to reflect the impacts of a tax law change on the first half of 1996.

Operating Results - Nine-month period ended September 30, 1997 compared to nine-month period ended September 30, 1996

Earnings decreased in the nine-month comparison due to the effects of the 1996 regulatory agreement (see Note 5 of Notes to Condensed Consolidated Financial Statements). These effects were partially offset by customer growth, two settlements related to coal and gas used for electric generation, and lower financing costs.

In the nine-month comparison, the regulatory agreement, which became effective July 1, 1996, resulted in $58 million (before income taxes) of accelerated regulatory asset amortization and retail price reductions which reduced pretax revenues by $30 million.

Operating revenues increased $132 million primarily due to a $113 million increase in sales for resale and $53 million of retail customer growth and higher usage, partially offset by the $30 million impact of the retail price reduction. Sales for resale are sales of electricity at wholesale to other electric utilities, power marketers, or public authorities for resale to their customers. The increase in sales for resale was a result of increased activity in competitive bulk power markets and was accompanied by significant increases in related purchased power. These bulk power activities did not result in a significant variance in earnings due to market pressures on prices. The fuel-related settlements contributed to earnings approximately $21 million before income taxes and were reflected on the income statement as reductions in fuel expense and as other income. Approximately $16 million of these settlements related to prior years. Financing costs decreased $10 million due to lower amounts of debt and preferred stock outstanding and lower average interest rates.

Operating Results - Twelve-month period ended September 30, 1997 compared to twelve-month period ended September 30, 1996

Earnings decreased in the twelve-month comparison ended September 30, 1997 due to the effects of the 1996 regulatory agreement (see Note 5 of Notes to Condensed Consolidated Financial Statements), a $32 million pretax charge in the fourth quarter of 1996 for a voluntary severance program, and an increase in fuel expenses. These effects were partially offset by strong customer growth, property tax and financing cost savings, two settlements related to coal and gas used for electric generation, and $6 million related to the recognition of income tax benefits associated with capital loss carryforwards. The twelve-month comparison was also positively impacted by $8 million of pretax asset write-downs in the twelve months ended September 30, 1996.

In the twelve-month comparison, the regulatory agreement, which became effective July 1, 1996, resulted in $88 million of accelerated regulatory asset amortization and retail price reductions which reduced revenues by $42 million. Fuel expenses increased $121 million primarily due to increased retail and wholesale sales volumes, partially offset by the effects of the fuel-related settlements. These settlements contributed to earnings approximately $21 million before income taxes and were reflected on the income statement as reductions in fuel expense and as other income. Approximately $16 million of these settlements related to prior years.

Operating revenues increased $163 million primarily due to a $125 million increase in sales for resale and $77 million of customer growth and higher usage, partially offset by the $42 million impact of the retail price reduction. Sales for resale are sales of electricity at wholesale to other electric utilities, power marketers, or public authorities for resale to their customers. The increase in sales for resale was accompanied by significant increases in related purchased power and was a result of increased activity in competitive bulk power markets. These bulk power activities did not result in a significant variance in earnings due to market pressures on prices. Other taxes decreased $13 million primarily due to a 1996 change in property tax law and adjustments to property tax estimates to reflect the actual amounts billed. Financing costs decreased $13 million due to lower amounts of debt and preferred stock outstanding and lower average interest rates.

Non-utility Operations

The parent company's losses decreased in all periods due to lower interest expense resulting from debt reduction and refinancing which yielded lower average interest rates. Additionally, all periods ended September 1996 included extraordinary charges related to the early retirement of debt. The twelve-month period ended September 1997 included an extraordinary charge related to a loss from discontinued operations on a legal matter related to MeraBank, A Federal Savings Bank (a former subsidiary).

SunCor's earnings decreased in the three-month period due to a joint venture sale in the third quarter of 1996. Earnings increased in the nine-month and twelve-month period due to an increase in net home sales and the sale of a joint venture project in the first half of 1997.

El Dorado's increase in earnings in the three-month and nine-month periods was the result of investment sales. Earnings in the twelve-month period decreased due to the sale of an investment in the fourth quarter of 1995 offset by current year gains on sales.

Other Income

As part of a 1994 rate settlement agreement with the ACC, the Company accelerated amortization of substantially all deferred ITCs over a five-year period beginning in 1995, resulting in a decrease in annual consolidated income tax expense of approximately $18 million.

CURRENT ISSUES

The Company's ability to maintain and improve its current level of earnings will depend on several factors. As the electric industry becomes more competitive, the Company's ability to reduce costs and increase productivity and resource utilization will be important factors in maintaining a price structure that is both attractive to customers and profitable to the Company. Other important factors that could affect the Company's future earnings levels and any forward-looking statements contained in this "Management's Discussion and Analysis of Financial Condition and Results of

Operations" include regulatory developments; competitive developments; regional economic conditions; the cost of debt and equity capital; regulatory, tax and environmental legislation; weather variations affecting customer usage; and technological developments in the electricity industry.

Competition

See Note 5 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report for discussions of competitive developments and regulatory accounting.

Rate Matters

See Note 5 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report for a discussion of a price reduction, which became effective on July 1, 1997.

PART II. OTHER INFORMATION

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

ITEM 5. Other Information

Environmental Matters

Plant Sites Leased from Navajo Nation

In September 1997, a settlement agreement was finalized between APS, the coal supplier to Four Corners and the Navajo Nation, which settled certain issues in the Four Corners lease regarding the obligation of the fuel supplier to pay taxes prior to the expiration of tax waivers in 2001. See "Properties - Plant Sites Leased from the Navajo Nation" in Part I, Item 2 of the 1996 10-K. Pursuant to the agreement, APS recognized approximately $14 million of pretax earnings related to a refund of possessory interest taxes paid by the fuel supplier. The parties also agreed to renegotiate their business relationship before 2001 in an effort to permit the electricity generated at Four Corners to be priced competitively. The Company cannot currently predict the outcome of this matter.

Palo Verde Nuclear Generating Station

See Note 7 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report for a discussion of issues regarding the Palo Verde steam generators.

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.

Competition and Electric Industry Restructuring

See Note 5 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report for a discussion of competition and the Rules regarding the introduction of retail electric competition in Arizona. On February 28, 1997, a lawsuit was filed by APS to protect its legal rights regarding the Rules and in its complaint APS asked the Court for (i) a judgment vacating the retail electric competition rules, (ii) a declaratory judgment that the Rules are unlawful because, among other things, they were entered into without proper legal authorization, and (iii) a permanent injunction barring the ACC from enforcing or implementing the Rules and from promulgating any other regulations without lawful authority.

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit No.	Description
27	Financial Data Schedule

In addition to the Exhibit shown above, the Company hereby incorporates the following Exhibits pursuant to Exchange Act Rule 12b-32 by reference to the filings set forth below:

Exhibit No.	Description	Previously Filed As Exhibit	File No.	Date Effective
10.1	ACC Order dated April 24, 1996	10.1 to APS' March 1996 Form 10-Q Rpt.	1-4473	11/12/97

(b) Reports on Form 8-K

During the quarter ended September 30, 1997, and the period October 1, through November 13, 1997, the Company filed no reports on Form 8-K.

SIGNATURES

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)

Dated: November 13, 1997

By: /s/ George A. Schreiber, Jr.

George A. Schreiber, Jr.
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer and
Officer Duly Authorized to sign
this Report)

ARTICLE UT

MULTIPLIER: 1,000

CURRENCY: U.S. Dollars

PERIOD TYPE	9 MOS
FISCAL YEAR END	DEC 31 1997
PERIOD START	JAN 01 1997
PERIOD END	SEP 30 1997
EXCHANGE RATE	1
BOOK VALUE	PER BOOK
TOTAL NET UTILITY PLANT	4,672,384
OTHER PROPERTY AND INVEST	592,611
TOTAL CURRENT ASSETS	582,353
TOTAL DEFERRED CHARGES	1,188,574
OTHER ASSETS	0
TOTAL ASSETS	7,035,922
COMMON	1,555,907
CAPITAL SURPLUS PAID IN	0
RETAINED EARNINGS	480,128
TOTAL COMMON STOCKHOLDERS EQ	2,036,035
PREFERRED MANDATORY	29,110
PREFERRED	142,927
LONG TERM DEBT NET	2,276,234
SHORT TERM NOTES	0
LONG TERM NOTES PAYABLE	0
COMMERCIAL PAPER OBLIGATIONS	117,794
LONG TERM DEBT CURRENT PORT	107,774
PREFERRED STOCK CURRENT	0
CAPITAL LEASE OBLIGATIONS	0
LEASES CURRENT	0
OTHER ITEMS CAPITAL AND LIAB	2,326,048
TOT CAPITALIZATION AND LIAB	7,035,922
GROSS OPERATING REVENUE	1,551,231
INCOME TAX EXPENSE	137,058
OTHER OPERATING EXPENSES	731,973
TOTAL OPERATING EXPENSES	1,075,282
OPERATING INCOME LOSS	475,949
OTHER INCOME NET	(121,987)
INCOME BEFORE INTEREST EXPEN	0
TOTAL INTEREST EXPENSE	123,165
NET INCOME	216,904
PREFERRED STOCK DIVIDENDS	0
EARNINGS AVAILABLE FOR COMM	216,904
COMMON STOCK DIVIDENDS	70,745
TOTAL INTEREST ON BONDS	95,031
CASH FLOW OPERATIONS	538,799
EPS PRIMARY	2.53
EPS DILUTED	0

End of Filing

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