PINNACLE WEST CAPITAL CORP

FORM 8-K
(Current report filing)

Filed 10/19/01 for the Period Ending 10/18/01

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 8-K
(Unscheduled Material Events)

Filed 10/19/2001 For Period Ending 10/18/2001

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

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): October 18, 2001 (September 30, 2001)

PINNACLE WEST CAPITAL CORPORATION

(Exact name of registrant as specified in its charter)

Arizona	1-8962	86-0512431
(State or other jurisdiction of incorporation)	**(Commission File Number)**	**(IRS Employer Identification Number)**

400 North Fifth St., P.O. Box 53999, Phoenix, Arizona 85072-3999
(Address of principal executive offices)

(602) 250-1000
(Registrant's telephone number, including area code)

NONE
(Former name or former address, if changed since last report)

Item 5. Other Events

Financial Information for the Periods Ended September 30, 2001 and 2000

Attached hereto as Exhibits 99.3 and 99.4 and incorporated by reference herein are financial information and earnings variance explanations for Pinnacle West Capital Corporation (the "Company") for the periods ended September 30, 2001 and 2000. The Company will file its quarterly report on Form 10-Q for the fiscal quarter ended September 30, 2001 on or before November 14, 2001.

Arizona Supreme Court Review of Settlement Agreement

As previously disclosed, Arizona Public Service Company ("APS"), a wholly-owned subsidiary of the Company, entered into a comprehensive settlement agreement on May 14, 1999 (the "Settlement Agreement") with various parties relating to the implementation of retail electric competition. On September 23, 1999, the Arizona Corporation Commission (the "ACC") approved the Settlement Agreement with some modifications. On December 13, 1999, two parties filed lawsuits challenging the ACC's approval of the Settlement Agreement. The Arizona Court of Appeals affirmed the ACC's approval of the Settlement Agreement in both of these lawsuits. One of these decisions was not appealed and has become final. The other decision, however, was appealed to the Arizona Supreme Court. See Note 6 of Notes to Condensed Financial Statements in Part I, Item 1 of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2001. On October 5, 2001, the Arizona Supreme Court agreed to hear the appeal on the singular issue of whether the ACC could itself become a party to the Settlement Agreement by virtue of its approval of the Settlement Agreement. The Court has not yet set a date for oral argument on this matter.

ACC Filing Regarding Rule Waiver and Purchase Power Agreement

As authorized by the Settlement Agreement, APS intends to move substantially all of its generation assets to Pinnacle West Energy Corporation ("PWEC"), which is also a wholly-owned subsidiary of the Company, prior to the end of 2002. Following the receipt of these generation assets, PWEC expects to sell its power at wholesale to the Company's power marketing division, which, in turn, is expected to sell power to APS and to non-affiliated power purchasers. See "Business of Arizona Public Service Company -- Regulation and Competition -- Retail" in Part I, Item 1 of the Company's Report on Form 10-K for the fiscal year ended December 31, 2000.

In a filing with the ACC on October 18, 2001, APS requested the ACC to (a) grant APS a partial variance from an ACC rule that would obligate APS to acquire all of its customers' "standard offer" generation requirements from the competitive market (with at least 50% of that coming from a "competitive bidding" process) starting in 2003 and (b) approve as just and reasonable a long-term purchase power agreement ("PPA") between APS and the Company. APS has requested these ACC actions to ensure continued reliable service to APS standard offer customers in a volatile generation market and to recognize PWEC's significant investment to serve APS load. The following are the major provisions of the PPA:

- The PPA would run through 2015, with three optional five-year renewal terms, which renewals would occur automatically unless notice is given by either APS or the Company.

- The PPA would provide for all of APS's anticipated standard offer generation needs, including any necessary reserves, except for (a) those provided by APS itself through renewable resources or other generation assets retained by APS; (b) amounts that APS is obligated by law to purchase from "qualified facilities" and other forms of distributed generation; and (c) any purchased power agreements that APS cannot transfer to PWE at the present time.

- The Company would supply APS standard offer requirements through a combination of (a) APS generation assets transferred to PWEC; (b) certain of PWEC's new Arizona generation projects to be constructed during the 2001-2004 period to reliably serve APS load requirements; (c) power procured by the Company under certain "dedicated contracts"; and (d) power procured on the open market, including a competitively-bid component described below.

- Beginning in 2003, the Company would acquire 270 MW of APS standard offer requirements on the open market through a competitive bidding process. This competitive bid obligation would be increased by an additional 270 MW each year through 2008 (representing approximately 23% of estimated 2008 peak load).

- The Company would charge APS based on (a) a combination of fixed and variable price components for the PWEC assets, subject to periodic adjustment and performance incentives and (b) a pass-through of the Company's costs to procure power from the remaining sources.

- The PPA would take effect on the latest of the following events: (a) transfer of non-nuclear generating assets from APS to PWEC, which is presently planned to take place by the end of 2001; (b) ACC approval of the rule variance and the PPA; and (c) Federal Energy Regulatory Commission acceptance of the PPA and the companion agreement between the Company and PWEC.

A copy of APS's ACC filing, including the form of PPA, is attached to this Form 8-K as Exhibit 99.6.

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits

(c) Exhibits.

Exhibit No.	Description
99.1	Pinnacle West Capital Corporation consolidated quarterly operating statistics and market, weather and economic indicators for 1999, 2000, and the quarters ended March 31, 2001, June 30, 2001 and September 20, 2001.

99.2	Pinnacle West Capital Corporation graphical data presentation for the period from January 1, 1999 through September 30, 2001.
99.3	Earnings variance explanations for the periods ended September 30, 2001 and 2000.
99.4	Pinnacle West Capital Corporation condensed consolidated statements of income for the periods ended September 30, 2001 and 2000.
99.5	Glossary of Terms.
99.6	Arizona Public Service Company October 18, 2001 filing with the Arizona Corporation Commission, including a form of proposed Purchase Power Agreement between Arizona Public Service Company and Pinnacle West Capital Corporation.

Item 9. Regulation FD Disclosure

Periodic Operating Statistics

The Company is providing quarterly consolidated operating statistics and market, weather and economic indicators ("Information"), as well as a graphical data presentation to help interested parties better understand its business. See Exhibits 99.1 and 99.2. A glossary of terms is provided to explain terms used in the Information that is being provided. See Exhibit 99.5. This Information is concurrently being posted to the Company's website at www.pinnaclewest.com. The Information may not represent all of the factors that could affect the Company's operating or financial results for various periods. Some of the Information is preliminary in nature and could be subject to significant adjustment. Some of the Information is based on information received from third parties and may contain inaccuracies. The Company is not responsible for any such inaccuracies. Although the Company may update or correct the Information if it is aware that the Information has been revised or is inaccurate, the Company assumes no obligation to update or correct the Information and reserves the right to discontinue the provision of all or any portion of the Information at any time or to change the type of Information provided.

Conference Call to Discuss Third Quarter Earnings and Regulatory Plan

The Company will be hosting a telephone conference call at 1:00 p.m. Eastern Time (ET) on Friday, October 19, 2001, to discuss the Company's third quarter earnings and regulatory plan. To participate in the conference call, please dial 212-346-0132 at least 5-10 minutes prior to the scheduled start and follow the operator's instructions. For those unable to participate in the live call, telephone replays will be available from 3:00 p.m. ET on October 19 through 9:00 p.m. ET on October 31. To access the replay, call 1-800-633-8284 or (858) 812-6440 and enter access code 19889932.

Analyst Meeting Webcast Notice

The Company is holding an analyst conference in Boston, Massachusetts on October 23, 2001. The presentation will be webcast on the Company's website beginning at 1:00 p.m. ET. Any person who wishes to listen to the analyst conference may do so by logging on to the Company's website at www.pinnaclewest.com. It is recommended that you connect to the website prior to the analyst presentation to ensure adequate time for any software download that may be needed to hear the live webcast. The webcast is expected to remain available for replay on the website for 30 days. Copies of the slides to be presented at this conference will be filed as exhibits to a Form 8-K that will be filed at a later date.

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 hereunto duly authorized.

PINNACLE WEST CAPITAL CORPORATION

(Registrant)

Dated: October 18, 2001

By: /s/ Michael V. Palmeri
Michael V. Palmeri
Vice President, Finance

PINNACLE WEST CAPITAL CORPORATION
Exhibit Index to Current Report on Form 8-K

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Exhibit 99.1

Pinnacle West Capital Corporation

Consolidated Operating Statistics
2001 Quarterly Statistics

	1ST QTR	2ND QTR	3RD QTR	4TH
ELECTRIC OPERATING REVENUES (DOLLARS IN MILLIONS)				
Retail				
Residential	$ 173	$ 234	$ 328	
Business	199	258	276	
Total retail	372	492	604	
Wholesale marketing and trading				
Generation other than native load	121	82	11	
Trading and other	356	650	805	
Total sales for resale	477	732	816	
Transmission for others	5	5	9	
Miscellaneous services	53	32	102	
Net electric operating revenues	$ 907	$ 1,261	$ 1,531	
ELECTRIC SALES (GWH)				
Retail sales				
Residential	2,122	2,468	3,597	
Business	2,823	3,446	3,724	

Total retail	4,945	5,914	7,321	
Wholesale marketing and trading				
Generation other than native load	850	628	118	
Trading and other	3,271	4,213	5,574	
Total sales for resale	4,121	4,841	5,692	
Total electric sales	9,066	10,755	13,013	
RETAIL ELECTRIC SALES (GWH) - WEATHER NORMALIZED				
Residential	2,039	2,224	3,293	
Business	2,826	3,315	3,619	
Total	4,865	5,539	6,912	
ELECTRIC CUSTOMERS (END OF PERIOD)				
Retail customers				
Residential	776,346	769,730	776,000	
Business	97,354	98,389	99,339	
Total	873,700	868,119	875,339	
Wholesale customers	69	66	66	
Total customers	873,769	868,185	875,405	
Customer Growth (% over prior year)	3.9%	4.0%	3.5%	
RETAIL ELECTRICITY USAGE (KWh/Average Customer)				
Residential	2,737	3,204	4,652	
Business	29,036	35,134	37,668	
RETAIL ELECTRICITY USAGE - WEATHER NORMALIZED (KWh/Average Customer)				
Residential	2,630	2,888	4,260	
Business	29,066	33,795	36,607	
ELECTRICITY DEMAND (MW)				
System peak demand	3,661	5,358	5,687	

Pinnacle West Capital Corporation

Consolidated Operating Statistics
2001 Quarterly Statistics

	1ST QTR	2ND QTR	3RD QTR	4TH QTR	YTD TOTAL	INCREAS (DECREAS VS PRIOR
ENERGY SOURCES (GWH)						
Generation production						
Nuclear	2,262	1,984	2,320		6,566	(197

Coal	2,900	3,246	3,224		9,370	36
Gas, oil and other	1,007	1,256	1,157		3,420	1,525
Total	6,169	6,486	6,701		19,356	1,364
Purchased power						
Firm load	381	635	1,579		2,595	(36
Marketing and trading	3,232	4,018	5,504		12,754	(2,496
Total	3,613	4,653	7,083		15,349	(2,532
Total energy sources	9,782	11,139	13,784		34,705	(1,168
POWER PLANT PERFORMANCE						
Capacity Factors						
Nuclear	96%	84%	97%		92%	(2
Coal	78%	87%	85%		84%	1
Gas, oil and other	39%	46%	38%		46%	22
System average	71%	73%	73%		74%	7
Generation Capacity Out of Service (average MW/day)						
Nuclear	57	180	26		88	29
Coal	284	166	129		193	49
Gas	36	52	24		37	15
Total	377	398	179		318	93
Generation Fuel Cost ($/MWh)	$19.64	$19.28	$13.25		$17.30	$ 4.37
BOOK VALUE PER SHARE	$28.83	$28.17	$29.37		$29.37	$ 1.36

Pinnacle West Capital Corporation

Energy Market, Weather and Economic Indicators
2001 Quarterly Statistics

	1ST QTR	2ND QTR	3RD QTR	4TH QTR
ENERGY MARKET INDICATORS (a)				
Electricity Average Daily Spot Prices ($/MWh)				
On-Peak				
Palo Verde	$214.21	$182.71	$ 49.80	
SP15	$219.66	$186.30	$ 45.61	
Off-Peak				
Palo Verde	$130.40	$70.32	$ 27.22	
SP15	$159.80	$84.78	$ 28.92	
WEATHER INDICATORS				
Actual				
Cooling degree-days	106	1,733	2,663	
Heating degree-days	657	43	--	
Average humidity	50%	25%	31%	
10-Year Averages				

Cooling degree-days	73	1,405	2,425
Heating degree-days	549	33	--
Average humidity	44%	24%	34%

ECONOMIC INDICATORS

Building Permits -- Metro Phoenix (b)(c)			
Single-family	8,681	9,270	N/A
Multi-family	3,918	1,820	N/A
Total	12,599	11,090	N/A
Arizona Job Growth (d)			
Payroll job growth (% over prior year)	2.3%	0.9%	N/A
Unemployment rate (%, seasonally adjusted)	4.4%	4.3%	N/A

Sources:

(a) This price is an average of daily prices obtained and used with permission from Dow Jones & Company, Inc.
(b) Arizona Real Estate Center, Arizona State University College of Business
(c) N/A = not yet available
(d) Arizona Department of Economic Security

Pinnacle West Capital Corporation

Consolidated Operating Statistics
2000 Quarterly Statistics

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
ELECTRIC OPERATING REVENUES (Dollars in Millions)				
Retail				
Residential	$ 157	$ 227	$ 324	$ 172
Business	196	253	275	212
Total retail	353	480	599	384
Wholesale marketing and trading				
Generation other than native load	12	7	13	102
Trading and other	63	172	921	305
Total sales for resale	75	179	934	407
Transmission for others	3	4	4	4
Miscellaneous services	15	57	31	3
Net electric operating revenues	$ 446	$ 720	$ 1,568	$ 798
ELECTRIC SALES (GWH)				
Retail sales				
Residential	1,876	2,371	3,506	2,028
Business	2,737	3,379	3,674	2,964

Total retail	4,613	5,750	7,180	4,992
Wholesale marketing and trading				
Generation other than native load	480	278	186	921
Trading and other	2,473	3,629	9,958	3,587
Total sales for resale	2,953	3,907	10,144	4,508
Total electric sales	7,566	9,657	17,324	9,500
RETAIL ELECTRIC SALES (GWH) - WEATHER NORMALIZED				
Residential	1,986	2,253	3,358	1,920
Business	2,741	3,320	3,620	3,004
Total	4,727	5,573	6,978	4,924
ELECTRIC CUSTOMERS (End of Period)				
Retail customers				
Residential	748,120	741,452	750,918	768,574
Business	92,838	93,649	95,165	96,416
Total	840,958	835,101	846,083	864,990
Wholesale customers	67	67	67	67
Total customers	841,025	835,168	846,150	865,057
Customer Growth (% over prior year)	4.1%	4.2%	4.3%	4.0%
RETAIL ELECTRICITY USAGE (KWh/Average Customer)				
Residential	2,508	3,198	4,669	2,639
Business	29,481	36,082	38,607	30,742
RETAIL ELECTRICITY USAGE - WEATHER NORMALIZED (KWh/Average Customer)				
Residential	2,655	3,039	4,472	2,498
Business	29,525	35,452	38,039	31,157
ELECTRICITY DEMAND (MW)				
System peak demand	3,315	5,095	5,478	4,331

Pinnacle West Capital Corporation

Consolidated Operating Statistics
2000 Quarterly Statistics

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total Year
ENERGY SOURCES (GWH)					

Generation production					
Nuclear	2,324	2,090	2,349	2,078	8,841
Coal	2,828	3,162	3,344	3,175	12,509
Gas, oil and other	323	526	1,045	889	2,783
Total	5,475	5,778	6,738	6,142	24,133
Purchased power					
Firm load	263	819	1,549	455	3,086
Marketing and trading	2,206	3,184	9,860	3,642	18,892
Total	2,469	4,003	11,409	4,097	21,978
Total energy sources	7,944	9,781	18,147	10,239	46,111
POWER PLANT PERFORMANCE					
Capacity Factors					
Nuclear	98%	88%	98%	87%	93%
Coal	76%	85%	88%	84%	83%
Gas, oil and other	13%	21%	40%	34%	27%
System average	63%	67%	77%	70%	69%
Generation Capacity Out of Service (average MW/day)					
Nuclear	27	129	21	143	80
Coal	223	124	85	187	155
Gas	8	43	16	20	22
Total	258	296	122	350	257
Generation Fuel Cost ($/MWh)	$10.74	$12.77	$14.84	$16.38	$13.81
BOOK VALUE PER SHARE	$26.29	$27.00	$28.01	$28.09	$28.09

Pinnacle West Capital Corporation

Energy Market, Weather and Economic Indicators
2000 Quarterly Statistics

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total Year
ENERGY MARKET INDICATORS (a)					
Electricity Average Daily Spot Prices ($/MWh)					
On-Peak					
Palo Verde	$30.52	$90.49	$170.40	$154.33	$111.43
SP15	$31.40	$82.67	$152.74	$162.59	$107.35
Off-Peak					
Palo Verde	$22.97	$31.91	$61.48	$95.72	$53.02
SP15	$24.52	$32.45	$66.28	$119.72	$60.74

WEATHER INDICATORS					
Actual					
Cooling degree-days	71	1,712	2,547	253	4,583

Heating degree-days	459	9	--	500	968
Average humidity	37%	23%	29%	46%	34%
10-Year Averages					
Cooling degree-days	73	1,405	2,425	387	4,290
Heating degree-days	549	33	--	449	1,031
Average humidity	44%	24%	34%	39%	36%

ECONOMIC INDICATORS

Building Permits -- Metro Phoenix (b)					
Single-family	8,163	9,605	8,331	6,410	32,509
Multi-family	3,208	2,651	2,417	1,952	10,228
Total	11,371	12,256	10,748	8,362	42,737
Arizona Job Growth (c)					
Payroll job growth (% over prior year)	4.5%	3.8%	3.9%	3.3%	3.9%
Unemployment rate (%, seasonally adjusted)	4.0%	4.0%	3.7%	3.7%	3.9%

Sources:

(a) This price is an average of daily prices obtained and used with permission from Dow Jones & Company, Inc.
(b) Arizona Real Estate Center, Arizona State University College of Business
(c) Arizona Department of Economic Security

Pinnacle West Capital Corporation

Consolidated Operating Statistics
1999 Quarterly Statistics

	1ST QTR	2ND QTR	3RD QTR	4TH QTR
ELECTRIC OPERATING REVENUES (DOLLARS IN MILLIONS)				
Retail				
Residential	$ 157	$ 189	$ 295	$ 164
Business	190	237	269	216
Total retail	347	426	564	380
Wholesale marketing and trading				
Generation other than native load	11	9	8	15
Trading and other	50	49	276	89
Total sales for resale	61	58	284	104
Transmission for others	3	3	3	2
Miscellaneous services	3	24	17	14
Net electric operating revenues	$ 414	$ 511	$ 868	$ 500
ELECTRIC SALES (GWH)				
Retail sales				
Residential	1,796	1,939	3,160	1,880
Business	2,664	3,239	3,465	2,932
Total retail	4,460	5,178	6,625	4,812

Wholesale marketing and trading				
Generation other than native load	468	389	245	585
Trading and other	2,378	2,605	6,099	2,924
Total sales for resale	2,846	2,994	6,344	3,509
Total electric sales	7,306	8,172	12,969	8,321
RETAIL ELECTRIC SALES (GWH) - WEATHER NORMALIZED				
Residential	1,913	1,939	3,089	1,912
Business	2,672	3,269	3,435	2,792
Total	4,585	5,208	6,524	4,704
ELECTRIC CUSTOMERS (END OF PERIOD)				
Retail customers				
Residential	719,328	712,155	719,887	739,136
Business	89,655	90,318	91,695	92,453
Total	808,983	802,473	811,582	831,589
Wholesale customers	67	68	73	73
Total customers	809,050	802,541	811,655	831,662
Customer Growth (% over prior year)	4.2%	4.2%	4.2%	4.3%
RETAIL ELECTRICITY USAGE (KWH/AVERAGE CUSTOMER)				
Residential	2,497	2,723	4,390	2,544
Business	29,714	35,862	37,788	31,713
RETAIL ELECTRICITY USAGE - WEATHER NORMALIZED (KWH/AVERAGE CUSTOMER)				
Residential	2,659	2,723	4,291	2,587
Business	29,803	36,194	37,461	30,199
ELECTRICITY DEMAND (MW)				
System peak demand	3,343	4,885	4,935	3,881

Pinnacle West Capital Corporation

Consolidated Operating Statistics
1999 Quarterly Statistics

	1ST QTR	2ND QTR	3RD QTR	4TH QTR	TOTAL Y
ENERGY SOURCES (GWH)					
Generation production					
Nuclear	2,295	2,080	2,397	2,077	8,84
Coal	2,677	2,764	3,230	3,204	11,87
Gas, oil and other	241	477	557	484	1,75
Total	5,213	5,321	6,184	5,765	22,48
Purchased power					

Firm load	290	753	1,470	447	2,96
Marketing and trading	2,068	2,255	5,659	2,603	12,58
	------	------	------	------	-----
Total	2,358	3,008	7,129	3,050	15,54
	------	------	------	------	-----
Total energy sources	7,571	8,329	13,313	8,815	38,02
	------	------	------	------	-----
POWER PLANT PERFORMANCE					
Capacity Factors					
Nuclear	98%	88%	100%	87%	9
Coal	72%	74%	85%	85%	7
Gas, oil and other	9%	18%	21%	18%	1
System average	61%	61%	71%	66%	6
Generation Capacity Out of Service (average MW/day)					
Nuclear	36	135	3	152	8
Coal	337	368	177	172	26
Gas*	--	--	--	--	-
Total	373	503	180	324	34
Generation Fuel Cost ($/MWh)	$10.00	$10.96	$11.02	$11.33	$10.8
BOOK VALUE PER SHARE	$25.49	$25.58	$25.84	$26.00	$26.0

* Gas unit replacement energy not calculated in 1999

Pinnacle West Capital Corporation

Energy Market, Weather and Economic Indicators
1999 Quarterly Statistics

	1ST QTR	2ND QTR	3RD QTR	4TH QTR
ENERGY MARKET INDICATORS (A)				
Electricity Average Daily Spot Prices ($/MWh)				
On-Peak				
Palo Verde	$21.57	$29.02	$38.46	$33.31
SP15	$21.26	$27.17	$35.01	$33.84
Off-Peak				
Palo Verde	$13.94	$15.33	$20.73	$22.26
SP15	$13.68	$14.47	$20.60	$25.06
WEATHER INDICATORS				
Actual				
Cooling degree-days	71	1,312	2,353	589
Heating degree-days	459	112	--	359
Average humidity	34%	27%	40%	28%
10-Year Averages				
Cooling degree-days	73	1,405	2,425	387
Heating degree-days	549	33	--	449
Average humidity	44%	24%	34%	40%
ECONOMIC INDICATORS				
Building Permits -- Metro Phoenix (b)				
Single-family	8,873	9,299	8,223	6,855
Multi-family	2,337	2,396	1,861	3,011
	------	------	------	------

Total	11,210	11,695	10,084	9,866
	------	------	------	------
Arizona Job Growth (c)				
Payroll job growth (% over prior year)	3.9%	4.4%	4.6%	4.2%
Unemployment rate (%, seasonally adjusted)	4.4%	4.4%	4.3%	4.3%

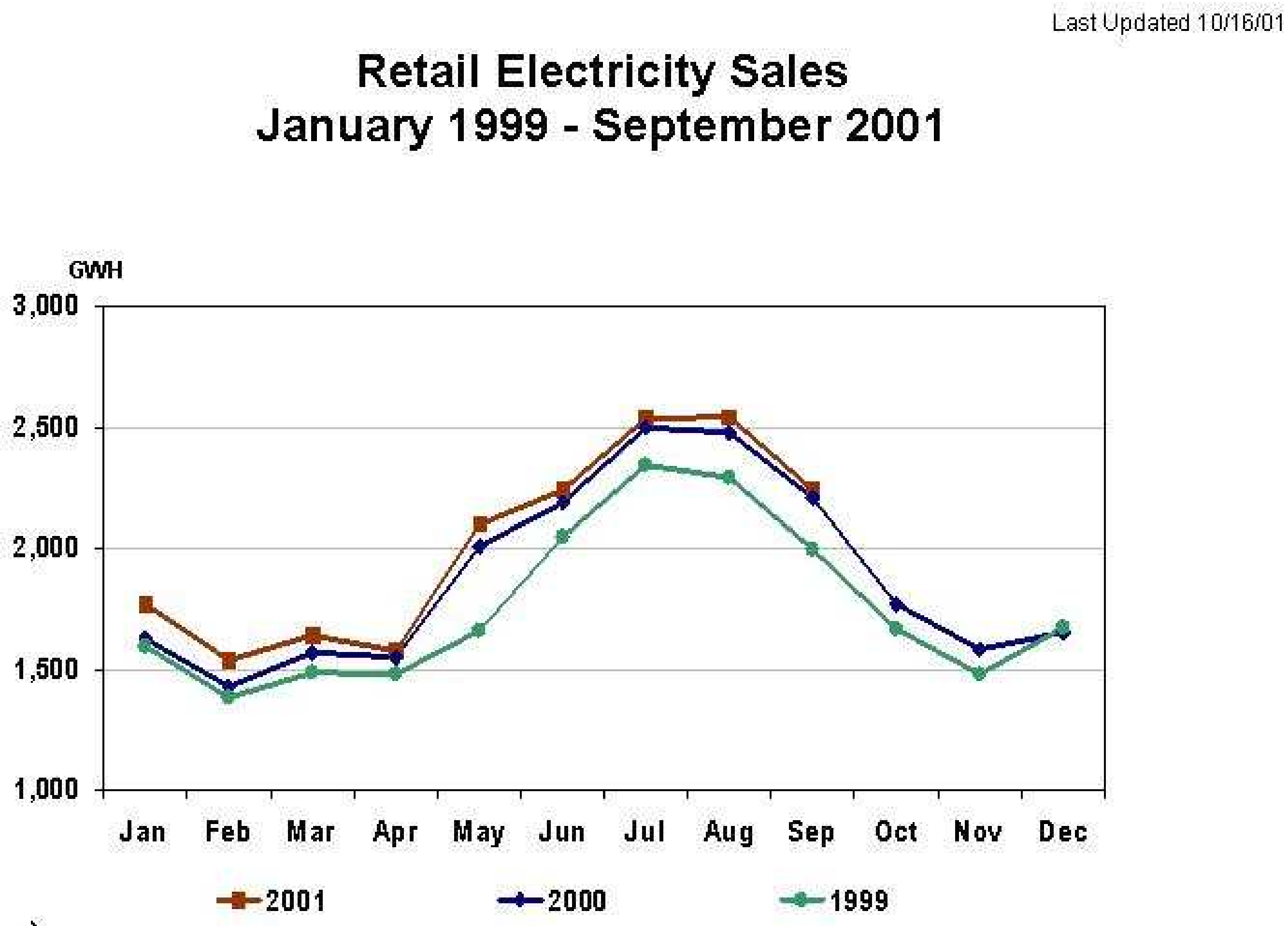
Sources:

(a) This price is an average of daily prices obtained and used with permission from Dow Jones & Company, Inc.

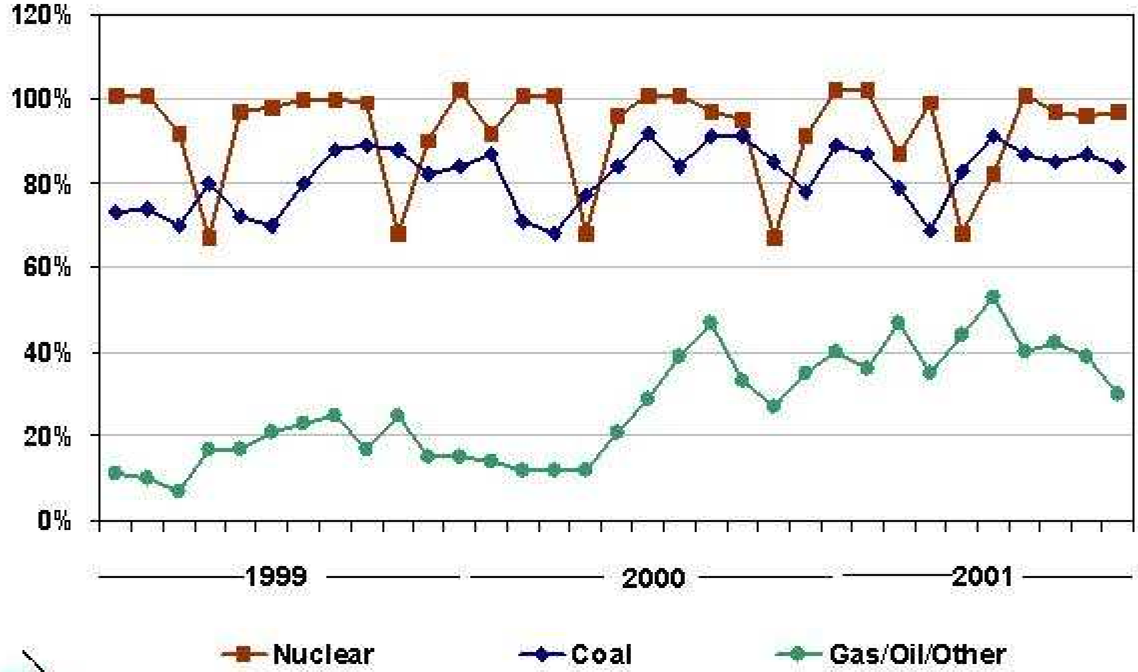
(b) Arizona Real Estate Center, Arizona State University College of Business

(c) Arizona Department of Economic Security

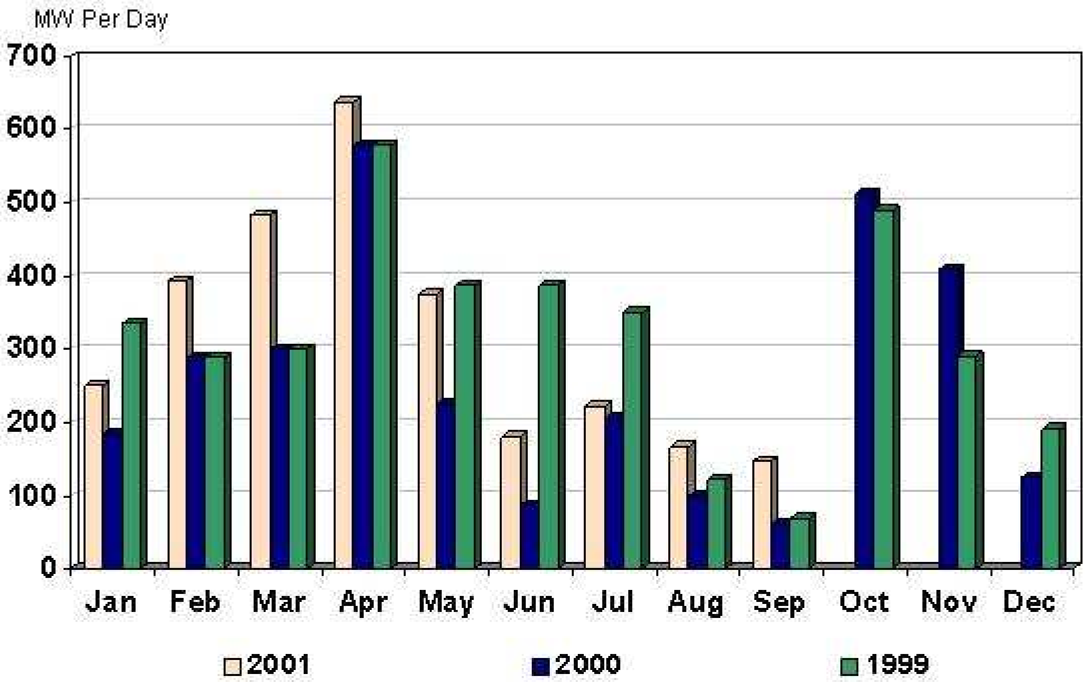
Exhibit 99.2



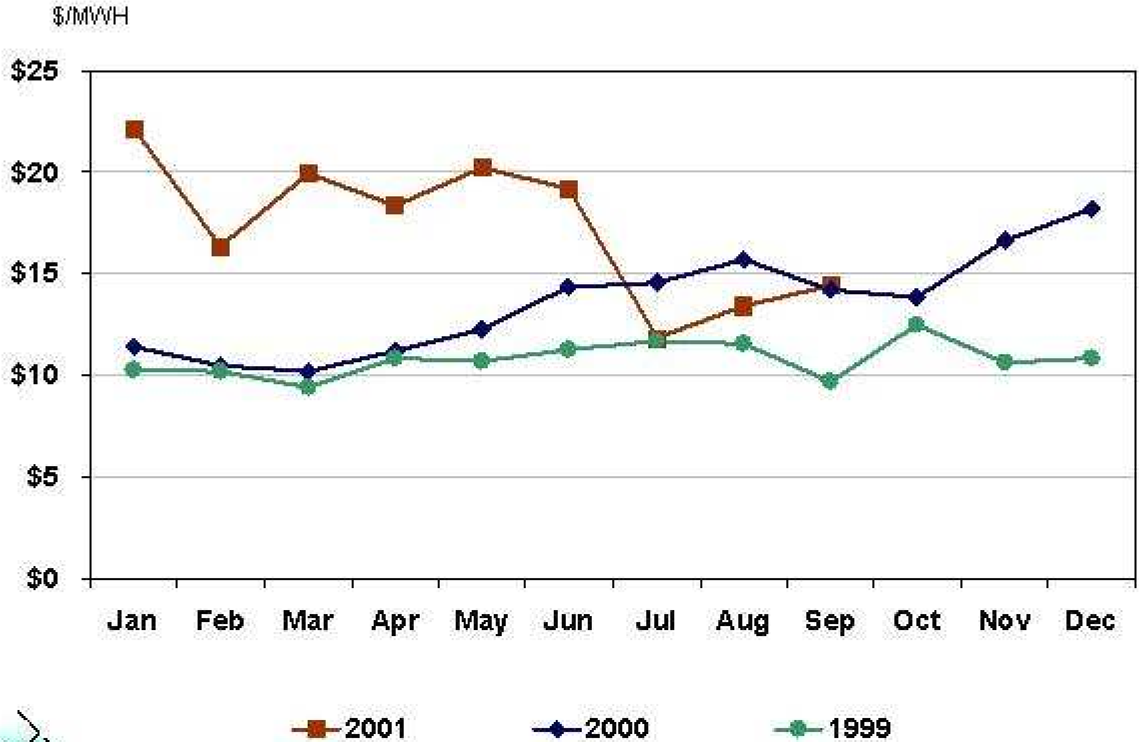
Generating Plant Capacity Factors
January 1999 - September 2001



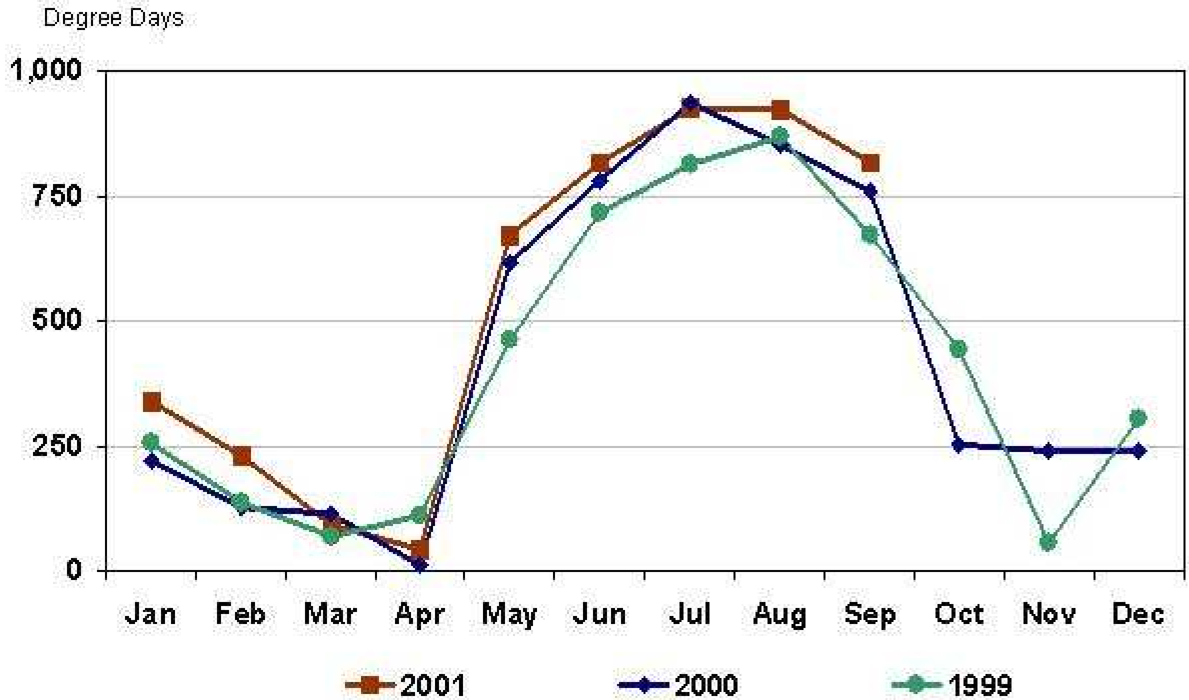
Average Generating Capacity Out of Service
January 1999 - September 2001



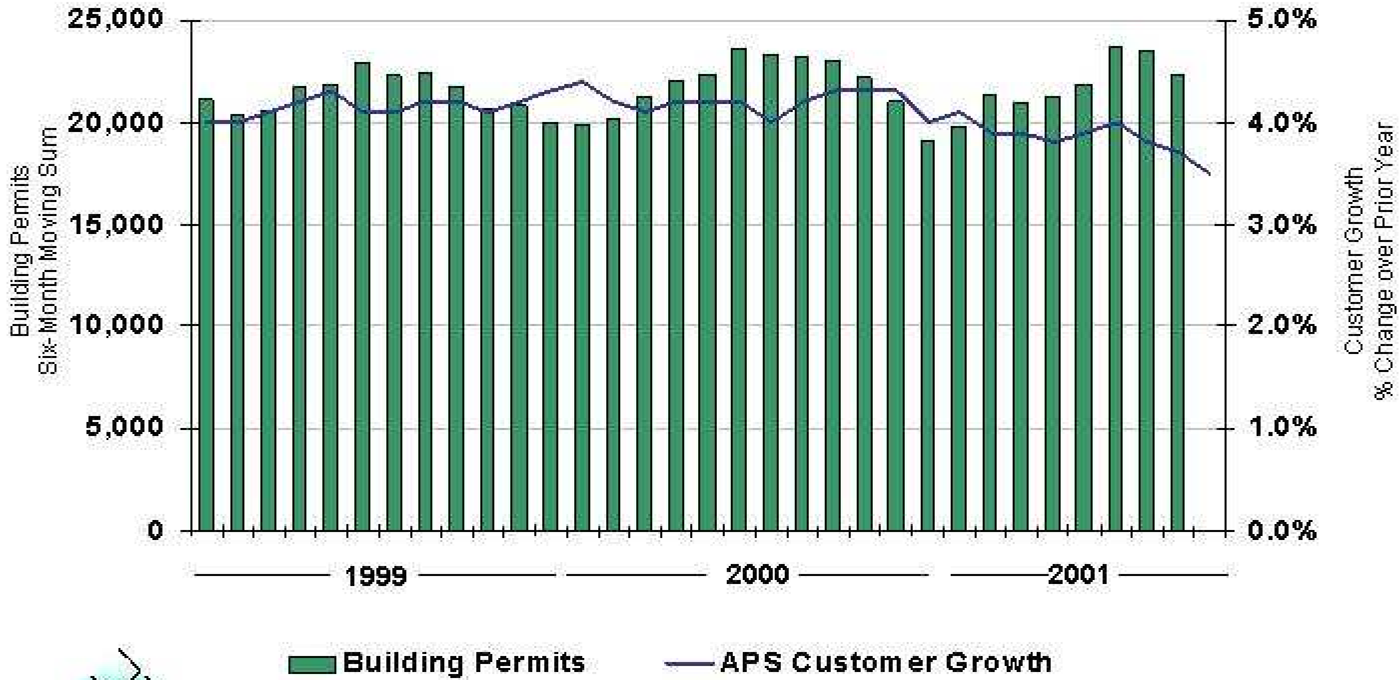
Generation Fuel Costs
January 1999 - September 2001



Metropolitan Phoenix Area
Cooling and Heating Degree Days
January 1999 - September 2001

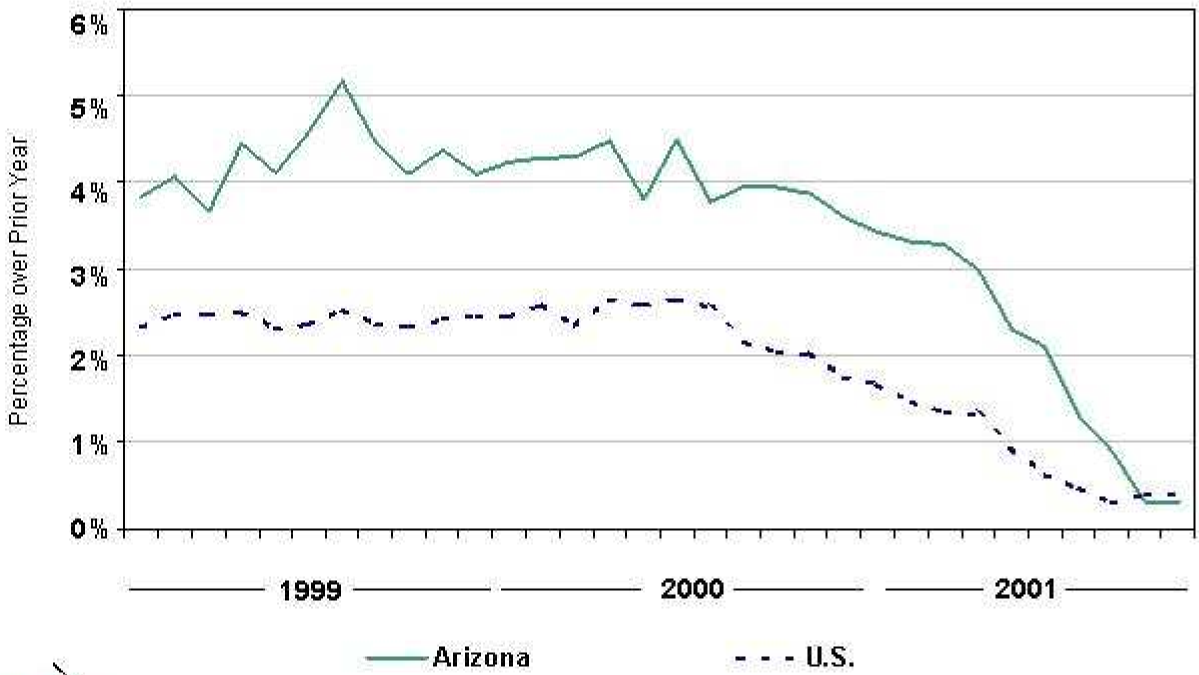


Metro Phoenix Building Permits vs. APS Retail Electricity Customer Growth January 1999 - September 2001



Last Updated 10/16/01

Arizona vs U.S.
Payroll Job Growth
January 1999 - September 2001



7

Exhibit 99.3

Pinnacle West Capital Corporation

Earnings Variance Explanations

For Periods Ended September 30, 2001 and 2000

This discussion explains the changes in our earnings for the three, nine and twelve months ended September 30, 2001 and 2000. We suggest this section be read along with the Pinnacle West Quarterly Reports on Form 10-Q for the fiscal quarters ended June 30, 2001 and March 31, 2001, and the Pinnacle West Annual Report on Form 10-K for the fiscal year ended December 31, 2000. Consolidated income statements for the three, nine and twelve months ended September 30, 2001 and 2000 follow this discussion.

OPERATING RESULTS

The following table summarizes net income for the three, nine and twelve months ended September 30, 2001 and the comparable prior year periods for Pinnacle West and each of its subsidiaries (dollars in millions):

	3 Months Ended September 30,		9 Months Ended September 30,		12 Months Ended September 30,	
	2001	2000	2001	2000	2001	2000
Arizona Public Service (APS)	$ 108	$ 124	$ 242	$ 253	$ 296	$ 288
Pinnacle West Energy	13	(1)	14	(2)	14	(1)

APS Energy Services	(3)	--	(10)	(4)	(19)	(8)
SunCor	2	2	3	8	6	11
El Dorado	--	(9)	--	7	(5)	18
Parent Company (a)	42	--	42	(2)	42	(3)
Income before accounting change	162	116	291	260	334	305
Cumulative effect of a change in accounting - net of income taxes	(12)	--	(15)	--	(15)	--
Net income	$ 150	$ 116	$ 276	$ 260	$ 319	$ 305

(a) The 2001 amount primarily includes power trading activities.

OPERATING RESULTS - THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2001 COMPARED WITH THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2000

Our consolidated net income for the three months ended September 30, 2001 was $150 million compared with $116 million for the same period in the prior year. In July 2001, we recognized a $12 million after-tax loss in net income as a cumulative effect of a change in accounting for derivatives, as required by SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133).

Income before accounting change for the three months ended September 30, 2001 was $162 million compared with $116 million for the same period in the prior year. The major factors that increased (decreased) income before accounting change were as follows (dollars in millions):

	Increase/ (Decrease)
Increased margin on structured power trading activities	$ 52
Increased margin on power marketing, other trading and wholesale activities	33
Higher margin from retail sales	5
Retail price reductions	(9)
Higher replacement power costs on plant outages	(6)
SFAS No. 133 accounting adjustment	17
Increase in revenues, net of purchased power and fuel expense	92
Higher operations and maintenance expense primarily related to generation summer reliability program	(37)
Higher other income primarily related to El Dorado	13
Miscellaneous items, net	8
Net increase in income before income taxes	76
Higher income taxes primarily due to higher income	(30)
Net increase in income before accounting change	$ 46

Electric operating revenues decreased approximately $37 million primarily because of:

* change in power marketing, trading and wholesale revenues ($42 million, net decrease):
    * increased trading revenues related to structured power trading activities ($128 million);
    * decreased wholesale revenues primarily related to generation sales other than for native load ($2 million);

  * decreased power marketing revenues related to other trading and other wholesale activities ($168 million);
* increased retail revenues primarily related to higher sales volumes due to weather impacts and customer growth, partially offset by lower average usage per customer ($14 million); and
* decreased retail revenues related to the reduction in retail electricity prices ($9 million).

Purchased power and fuel expenses decreased approximately $129 million primarily because of:

* changes related to power marketing, trading and wholesale sales ($127 million, net decrease):
  * increased trading costs related to structured power trading activities ($76 million);
  * decreased costs related to generation other than native load ($5 million);
  * decreased power marketing costs related to other trading and other wholesale activities ($198 million);
* decreased costs for a SFAS No. 133 adjustment related to changes in electricity and gas market prices ($17 million);
* increased costs related to higher retail sales volumes and associated higher purchased power and fuel prices ($9 million); and
* higher replacement power costs primarily for increased plant outages ($6 million).

The increase in operations and maintenance expenses of $37 million primarily related to the generation summer reliability program (the addition of approximately 500 MW of generating capability to enhance reliability for the summer of 2001, particularly the leasing of gas-fired portable generators) ($29 million) and other costs ($8 million).

Depreciation and amortization decreased $6 million primarily because of lower regulatory asset amortization.

Net other income increased $13 million primarily because of a change in the market value of El Dorado's investment in a technology-related venture capital partnership in the prior-year period.

Interest expense decreased by $6 million primarily because of increased capitalized interest resulting from our generation expansion plan.

OPERATING RESULTS - NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2001 COMPARED WITH NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2000

Our consolidated net income for the nine months ended September 30, 2001 was $276 million compared with $260 million for the same period in the prior year. In 2001, we recognized a $15 million after-tax loss in net income as a cumulative effect of a change in accounting for derivatives, as required by SFAS No. 133.

Income before accounting change for the nine months ended September 30, 2001 was $291 million compared with $260 million for the same period in the prior year. The major factors that increased (decreased) income before accounting change were as follows (dollars in millions):

	Increase/ (Decrease)
Increased margin on generation sales other than native load	$ 118
Increased margin on power marketing, other trading and wholesale activities	80
Increased margin on structured power trading activities	52
Lower margin from retail sales	(10)

Retail price reductions	(22)
SFAS No. 133 accounting adjustments	9
Higher replacement power costs for plant outages	(94)
Increase in revenues, net of purchased power and fuel expense	133
Higher operations and maintenance expenses primarily related to generation and other costs	(77)
Lower other income primarily related to El Dorado	(13)
Miscellaneous items, net	9
Net increase in income before income taxes	52
Higher income taxes primarily due to higher income	(21)
Net increase in income before accounting change	$ 31

Electric operating revenues increased approximately $964 million primarily because of:

* change in power marketing, trading and wholesale revenues ($928 million, net increase):
    * increased trading revenues related to structured power trading activities ($128 million);
    * increased wholesale revenues primarily related to generation sales other than for native load ($182 million);
    * increased power marketing revenues related to other trading and other wholesale activities ($618 million);
* increased retail revenues primarily related to higher sales volumes due to weather impacts and customer growth, partially offset by lower average usage per customer ($58 million); and
* decreased retail revenues related to reductions in retail electricity prices ($22 million).

Purchased power and fuel expenses increased approximately $831 million primarily because of:

* changes related to power marketing, trading and wholesale sales ($678 million, net increase):
    * increased trading costs related to structured power trading activities ($76 million);
    * increased costs related to generation other than native load ($64 million);
    * increased power marketing costs related to other trading and other wholesale activities ($538 million);
* higher replacement power costs primarily for increased plant outages ($94 million), including costs of $12 million related to the Palo Verde outage extension to replace fuel control element assemblies;
* increased costs related to higher retail sales volumes and associated higher purchased power and fuel prices ($68 million); and
* decreased costs related to SFAS No. 133 adjustments related to changes in electricity and gas market prices ($9 million).

The increase in operations and maintenance expenses of $77 million primarily related to the generation summer reliability program (the addition of approximately 500 MW of generating capability to enhance reliability for the summer of 2001) and increased power plant maintenance ($56 million), increased pension and other costs ($16 million) and a provision for credit exposure related to the California energy situation ($5 million).

Depreciation and amortization decreased $7 million primarily because of lower regulatory asset amortization.

Net other income decreased by $13 million primarily because of a change in the market value of El Dorado's investment in a technology-related venture capital partnership in the prior year period and other non-operating costs, partially offset by an insurance recovery of environmental remediation costs.

Interest expense decreased by $16 million primarily because of increased capitalized interest resulting from our generation expansion plan.

OPERATING RESULTS - TWELVE-MONTH PERIOD ENDED SEPTEMBER 30, 2001 COMPARED WITH TWELVE-MONTH PERIOD ENDED SEPTEMBER 30, 2000

Our consolidated net income for the twelve months ended September 30, 2001 was $319 million compared with $305 million for the same period in the prior year. In 2001, we recognized a $15 million after-tax loss in net income as a cumulative effect of a change in accounting for derivatives, as required by SFAS No.133.

Income before accounting change for the twelve months ended September 30, 2001 was $334 million compared with $305 million for the same period in the prior year. The major factors that increased (decreased) income before accounting change were as follows (dollars in millions):

	Increase/ (Decrease)
Increased margin on generation sales other than native load	$ 163
Increased margin on power marketing, other trading and wholesale activities	83
Increased margin on structured power trading activities	52
Retail price reductions	(27)
Lower margin from retail sales	(13)
SFAS 133 accounting adjustments	9
Higher replacement power costs for plant outages	(116)
Increase in revenues, net of purchased power and fuel expense	151
Higher operations and maintenance expense primarily related to generation and other costs	(68)
Lower other income primarily related to El Dorado	(39)
Miscellaneous items, net	11
Net increase in income before income taxes	55
Higher income taxes primarily due to higher income	(26)
Net increase in income before accounting change	$ 29

Electric operating revenues increased approximately $1.26 billion because of:

* change in power marketing, trading and wholesale revenues ($1.22 billion, net increase):
    * increased trading revenues related to structured power trading activities ($128 million);
    * increased wholesale revenues primarily related to generation sales other than for native load ($269 million);
    * increased power marketing revenues related to other trading and other wholesale activities ($825 million);
* increased retail revenues primarily related to higher sales volumes due to weather impacts and customer growth, partially offset by lower average usage per customer ($67 million); and
* decreased retail revenues related to the reduction in retail electricity prices ($27 million).

Purchased power and fuel expenses increased approximately $1.11 billion primarily because of:

* changes related to power marketing, trading and wholesale sales ($924 million, net increase):
    * increased trading costs related to structured power trading activities ($76 million);
    * increased costs related to generation other than native load ($106 million);
    * increased power marketing costs related to other trading and other wholesale activities ($742 million);
* higher replacement power costs primarily for increased plant outages ($116 million), including costs of $12 million related to the Palo Verde outage extension to replace fuel control element assemblies;
* higher costs related to retail sales volumes and associated purchased power and fuel prices ($80 million); and
* decreased costs for SFAS No. 133 adjustments related to changes in electricity and gas market prices ($9 million).

The increase in operations and maintenance expenses of $68 million primarily related to generation summer reliability programs (the addition of 500MW of generating capability to enhance reliability for the summer of 2001) and increased power plant maintenance ($61 million), increased pension and other costs ($10 million), and provisions for credit exposure related to the California energy situation ($10 million), partially offset by approximately $13 million of non-recurring items recorded in the fourth quarter of 1999.

Net other income decreased $39 million primarily because of a change in the market value of El Dorado's investment in a technology-related venture capital partnership in the prior year period and other non-operating costs offset by an insurance recovery of environmental remediation costs.

Interest expense decreased by $19 million primarily because of increased capitalized interest resulting from our generation expansion plan.

Exhibit 99.4

PINNACLE WEST CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited)
(dollars in thousands, except per share amounts)

	Three Months Ended September 30,	
	2001	2000
Operating Revenues		
Electric	$ 1,531,005	$ 1,567,
Real estate	43,024	39,
Total	1,574,029	1,607,
Operating Expenses		
Purchased power and fuel	949,436	1,078,
Operations and maintenance	150,916	113,
Real estate operations	37,803	33,
Depreciation and amortization	107,932	114,
Taxes other than income taxes	29,336	25,
Total	1,275,423	1,366,
Operating Income	298,606	241,
Other Income (Expense)	(1,930)	(14,
Income Before Interest and Income Taxes	296,676	226,

Interest Expense		
Interest charges	42,531	41,
Capitalized interest	(12,450)	(5,
Total	30,081	36,
Income Before Income Taxes	266,595	189,
Income Taxes	104,096	73,
Income Before Accounting Change	162,499	116,
Cumulative Effect of a Change in Accounting for Derivatives - Net of Income Tax Benefit of $8,099	(12,446)	
Net Income	$ 150,053	$ 116,
Average Common Shares Outstanding - Basic	84,721	84,
Average Common Shares Outstanding - Diluted	84,909	85,
Earnings Per Average Common Share Outstanding		
Income Before Accounting Change - Basic	$ 1.92	$ 1
Net Income - Basic	1.77	1
Income Before Accounting Change - Diluted	1.91	1
Net Income - Diluted	1.77	1

PINNACLE WEST CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

(dollars in thousands, except per share amounts)

	Nine Months Ended September 30,	
	2001	2000
Operating Revenues		
Electric	$ 3,698,857	$ 2,734
Real estate	107,813	117
Total	3,806,670	2,852
Operating Expenses		
Purchased power and fuel	2,324,617	1,493
Operations and maintenance	408,305	331
Real estate operations	101,248	101
Depreciation and amortization	318,842	325
Taxes other than income taxes	80,101	76
Total	3,233,113	2,328
Operating Income	573,557	523
Other Income (Expense)	569	13
Income Before Interest and Income Taxes	574,126	537
Interest Expense		
Interest charges	129,103	123

Capitalized interest	(35,404)	(13
Total	93,699	109
Income Before Income Taxes	480,427	427
Income Taxes	188,866	167
Income Before Accounting Change	291,561	260
Cumulative Effect of a Change in Accounting for Derivatives - Net of Income Tax Benefit of $9,892	(15,201)	
Net Income	$ 276,360	$ 260
Average Common Shares Outstanding - Basic	84,731	84
Average Common Shares Outstanding - Diluted	84,972	84
Earnings Per Average Common Share Outstanding		
Income Before Accounting Change - Basic	$ 3.44	$
Net Income - Basic	3.26	
Income Before Accounting Change - Diluted	3.43	
Net Income - Diluted	3.25	

PINNACLE WEST CAPITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

(dollars in thousands, except per share amounts)

	Twelve Months Ende September 30,	
	2001	200
Operating Revenues		
Electric	$ 4,496,305	$ 3,23
Real estate	148,519	16
Total	4,644,824	3,39
Operating Expenses		
Purchased power and fuel	2,763,873	1,65
Operations and maintenance	527,206	45
Real estate operations	134,296	14
Depreciation and amortization	424,678	42
Taxes other than income taxes	103,238	10
Total	3,953,291	2,78
Operating Income	691,533	61
Other Income (Expense)	(13,463)	2
Income Before Interest and Income Taxes	678,070	64
Interest Expense		
Interest charges	172,265	16
Capitalized interest	(43,167)	(1
Total	129,098	14

Income Before Income Taxes	548,972	49
Income Taxes	215,099	18
Income Before Accounting Change	333,873	30
Cumulative Effect of a Change in Accounting for Derivatives - Net of Income Tax Benefit of $9,892	(15,201)	
Net Income	$ 318,672	$ 30
Average Common Shares Outstanding - Basic	84,730	8
Average Common Shares Outstanding - Diluted	84,984	8
Earnings Per Average Common Share Outstanding		
Income Before Accounting Change - Basic	$ 3.94	$
Net Income - Basic	3.76	
Income Before Accounting Change - Diluted	3.93	
Net Income - Diluted	3.75	

Exhibit 99.5

Pinnacle West Capital Corporation
Glossary of Terms

Arizona Job Growth	Percentage growth over the prior year in total non-farm payroll employment for the state of Arizona, non-seasonally adjusted.
Average Generation Capacity Out of Service	Total capacity required and economic yet unavailable due to scheduled or unscheduled outages. Measured in megawatts per day.
Capacity Factor	The ratio of the average operating load of an electric power generating unit for a period of time to the capacity rating of the unit during that period.
Capacity On-Line	Net accredited capacity of the company-owned share of active generating units. Measured in megawatts.
Coal Energy Production	Amount of net energy produced by coal-fueled generators. Measured in gigawatt-hours.
Degree-Days - Cooling	A measure of temperatures designed to indicate the amount of cooling demand each month. Cooling degree-days are calculated by summing the difference between each day's actual average temperature and a base temperature of 65°F for the month. Average temperatures less than the base temperature are ignored.
Degree-Days - Heating	A measure of temperatures designed to indicate the amount of heating demand each month. Heating degree-days are calculated by summing the difference between each day's actual average temperature and a base temperature of 65°F for the month. Average temperatures greater than the base temperature are ignored.
Gas/Oil/Other Energy Production	Amount of net energy predominately produced by natural gas and oil-fueled generators. A small amount of energy from hydroelectric and solar power plants is also included. Measured in gigawatt-hours.

Generation Other Than Native Load	Sales of electricity from generation owned by the company that is over and above the amount required to serve retail customers and long-term wholesale contracts.
Gigawatt-hour (gwh)	A unit of energy equivalent to 1,000 megawatt-hours or 1,000,000 kilowatt-hours.
Long-term Contracts	Wholesale sales resulting from unique long-term contracts held by the company with various entities for the supply of electricity at agreed-upon prices.
Megawatt (MW)	One million watts.
Megawatt-hour (MWh)	A unit of energy equivalent to 1,000 kilowatt-hours.
MMBTU	One million British thermal units. A British thermal unit (Btu) is a measure of heat.
Nuclear Energy Production	Amount of net energy produced by nuclear-fueled generators. Measured in gigawatt-hours.
Palo Verde - Off-Peak	Electricity average daily spot prices at Palo Verde substation during off-peak hours. It measures electric prices at the producer level and is the result of real time prices used for benchmarking, price comparisons, and establishing price contracts. Measured in dollars per megawatt-hour.
Palo Verde - On-Peak	Electricity average daily spot prices at Palo Verde substation during on-peak hours. It measures electric prices at the producer level and is the result of real time prices used for benchmarking, price comparisons, and establishing price contracts. Measured in dollars per megawatt-hour.
Purchased Power - Firm Load	Power purchased from wholesale market sources used to serve regulated retail demand and long-term wholesale contracts. Measured in gigawatt-hours.
Purchased Power - Marketing and Trading	Power purchased from wholesale market sources used to serve marketing and trading sales not served by company-owned generation. Measured in gigawatt-hours.
Residential Building Permits	The number of residential dwellings permitted to be built by authorized agencies in Maricopa County, Arizona. Single-family refers to detached buildings intended to be occupied by one family. Multi-family permits represent the number of units authorized to be built in condominium, townhouse and apartment complexes.
Retail Customer	Residential, commercial industrial, irrigation, and streetlight electricity customers. Customers are generally defined as the number of active accounts.
Retail Customer Growth	Percentage growth over the prior year in retail.
Retail Electricity Usage	Total retail sales for a period divided by the average retail customers for the same period. Measured in kilowatt-hours per average customer.
Retail Sales	Sales of electricity made directly to retail customers or ultimate customers. Residential retail sales are sales to households. Business retail sales include commercial, industrial, irrigation, and streetlighting sales. Measured in gigawatt-hours.
SP15 - Off-Peak	Electricity average daily spot prices at SP15, a region of California

	substations, during off-peak hours. It measures electric prices at the producer level and is the result of real time prices used for benchmarking, price comparisons, and establishing price contracts. Measured in dollars per megawatt-hour.
SP15 - On-Peak	Electricity average daily spot prices at SP15, a region of California substations, during on-peak hours. It measures electric prices at the producer level and is the result of real time prices used for benchmarking, price comparisons, and establishing price contracts. Measured in dollars per megawatt-hour.
System Peak Demand	The demand for electricity during the one hour of highest use each month. Measured in megawatts.
Trading and Other Sales	All wholesale sales not accounted for in sales under long-term contracts or sales of generation other than native load. These sales would be served by power purchased from the wholesale market.
Weather Normalized	Adjusted to exclude the effects of abnormal weather patterns.
Wholesale Marketing and Trading Sales	Sales of electricity to other electric companies power marketers, or public entities for the purpose of resale. Measured in gigawatt-hours.

Exhibit 99.6

BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
Chairman

JIM IRVIN
Commissioner

MARC SPITZER
Commissioner

IN THE MATTER OF ARIZONA PUBLIC SERVICE COMPANY'S REQUEST FOR A VARIANCE OF CERTAIN REQUIREMENTS OF A.A.C. R14-2-1606

DOCKET NO. E-01345A-01-___

REQUEST OF ARIZONA PUBLIC SERVICE COMPANY
FOR A PARTIAL VARIANCE TO A.A.C. R14-2-1606(B) AND FOR
APPROVAL OF A PURCHASE POWER AGREEMENT

An examination of the current and likely future state of the volatile wholesale power market has led Arizona Public Service Company ("APS" or "Company") to the inescapable conclusion that adherence to the competitive bidding requirements of the Electric Competition Rules will not produce the intended result of reliable retail electric service for Standard Offer customers at reasonable rates. Moreover, it would not constitute a prudent power acquisition strategy under such circumstances. Accordingly, APS hereby requests that the Arizona Corporation Commission ("Commission") grant the Company a partial variance to A.A.C. R14-2-1606(B) ("Rule 1606")(1), which Rule would otherwise obligate APS to acquire all of its customers' Standard Offer generation requirements from the competitive market (with at least 50% of that coming through an untested and unspecified "competitive bidding" process) beginning in 2003.

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(1) A.A.C. R14-2-1816(C) specifically allows the Commission to grant "variances or exemptions" to the Electric Competition Rules (A.A.C. R14-2-1601, ET SEQ.).

In conjunction with the requested partial variance, APS further asks the Commission to approve as just and reasonable the attached long-term purchase power agreement ("PPA") between the Company and Pinnacle West Capital Corporation ("PWCC"). The PPA represents a firm contract backed by the physical assets of a diverse portfolio of Arizona-based generation supplies dedicated to APS Standard Offer customers.

For the reasons set forth below, APS believes this partial variance and the PPA are in the public interest and represent the sort of prudent power acquisition strategy that is at the heart of Rule 1606. The Company therefore requests that the Commission act on these matters by year's end.

I. INTRODUCTION

APS has never construed the Commission's Electric Competition Rules as abrogating the Company's responsibility to provide reliable and reasonably-priced service to its customers. To that end, APS (through its electric generation affiliate) has invested more than a billion dollars since 1999 to reliably meet the needs of APS consumers. Indeed, the genesis of this partial variance request is the Company's deep concern over the need for continued reliable service to APS Standard Offer customers in an increasingly competitive yet unstable wholesale generation market. That instability is evidenced by the almost 54,000% swing in wholesale energy prices over the past eighteen months. Such wild price variability is indisputable evidence of the illiquid nature of the competitive markets in the West - a factor clearly not contemplated when Rule 1606 was first drafted - and the over-reliance by many western energy suppliers on volatile natural gas supplies.

Perhaps more important than the price risk inherent in relying totally on the competitive wholesale power market is the reliability risk. None of the merchant plant owners upon whom APS customers would be dependent under Rule 1606 has any responsibility for APS system reliability.

Because APS does assume that responsibility, it has continued to task its affiliates [Pinnacle West Energy Corporation ("PWEC") and PWCC] with the job of building and otherwise acquiring the generating resources demanded by its Arizona customers. Granting the requested variance will benefit APS Standard Offer customers by providing them with continued access to a highly reliable and fuel diverse source of electric power through the end of 2015. This will enable APS customers to avoid the severe electric price spikes and capacity shortages that have plagued other western states in the last few years.

Aside from considerations of electric supply reliability and electric price stability, there is the very real issue of Rule 1606's impracticality. Under Rule 1606, APS would have to bid out almost 3000 MW (including reserves) of system load. APS believes there are few if any non-affiliated generators that will be able to provide such a large block of power in 2003 or for several years after that. The thinner the supply market, the higher the anticipated cost to APS consumers from competitive bidding. If the market is so thin that it cannot supply at any price the full 3000 plus MW, APS would be able neither to comply with Rule 1606 nor meet the expected demands of Arizona consumers.

Faced with a Rule that either could not be complied with or complied with only at the expense of its customers, and mindful of PWEC's significant and tangible financial commitment to APS reliability, the Company believed a long-term supply agreement with its power marketing and trading affiliate, PWCC - an agreement that combines long-term stability with market opportunities - would be a more prudent course of action. The result of these discussions was a PPA between PWCC and APS that would address all the additional Standard Offer capacity, energy, and reserve requirements of the Company through the year 2015. In addition to providing a reasonably-priced, diverse and reliable source of power through at least 2015, the PPA will obligate PWCC to be the wholesale "provider of last resort" to APS. As "provider of last resort," PWCC will step in to supply Standard Offer generation to APS under any foreseeable eventuality. This assures reliability of generation service to APS even during unstable market conditions or in the event of unplanned losses of generating units in Arizona. APS is firmly convinced that absent this PPA, the Company's acquisition costs of Standard Offer power would be higher and more volatile and the reliability of that supply degraded.

Finally, APS wishes to make it clear from the outset that it seeks absolutely no change in the current ability of APS customers to choose competitive retail suppliers of Commission-designated "Competitive Electric Services," including electric generation. This right of choice is recognized by both the Commission's Electric Competition Rules and the 1999 APS Settlement Agreement. The Company supports customer choice and believes the continued availability from APS of reliable and reasonably-priced Standard Offer service is an important component of that customer choice, especially for residential and small commercial consumers.

In addition to its continued support for direct retail competition by independent power producers, APS has required that the PPA allow an opportunity for participation

by these non-affiliated power providers in supplying APS Standard Offer generation needs. Under terms of the PPA, PWCC must obtain an increasing amount of the Company's Standard Offer requirements, up to 1670 MWs (or 23% of APS peak load) by 2008, through competitive bidding.

II.
THE REQUESTED VARIANCE IS IN THE PUBLIC INTEREST

In relevant part, Rule 1606 states:

> After January 1, 2001, power purchased by an investor owned Utility Distribution Company [e.g., APS] for Standard Offer Service shall be acquired from the competitive market through prudent arm's length transactions, and with at least 50% through a competitive bid process.

This provision was modified in Decision No. 61973 (October 6, 1999), which Decision adopted, with certain modifications not relevant to this request, the APS Settlement Agreement of May 14, 1999. Decision No. 61973 provided: "[A] similar two-year extension shall be authorized for compliance with A.A.C. R14-2-1606(B)." ID. at 9. This "similar" extension corresponded to the two-year extension granted by Decision No. 61973 for APS compliance with A.A.C. R14-2-1615 ("Rule 1615").

APS has viewed with concern the Western power market for the past year and a half. Spot prices for energy have been both extremely volatile and often extremely high, even during periods of relatively moderate demand. As the State of California has learned, long-term electric market prices, although much less than the spot market, were still above the levels of generation costs then reflected in retail electric rates. The results have been skyrocketing customer bills in both California and neighboring states such as Nevada, Oregon and Washington, as well as actual supply shortages in California itself. Much of this situation was due to unprecedented natural gas prices in the West, which is the exclusive fuel source for many generators, and to the poorly designed market and utility rate structure in California. However, it is also safe to say that the competitive wholesale market in California and other Western states has yet to fully mature into the academic's model of a transparently-priced market with no exercises of market power and with perfect knowledge on the part of all consumers.

In recent months, wholesale power costs have softened and some have even talked about a future "glut" of power. APS is mindful that this recent downturn in prices was no more foreseen by these "experts" than was the explosion in prices a year earlier. Wishful thinking does not take the place of prudent planning, and even the recent unexpected drop in wholesale power and natural gas prices is proof that electric markets continue to be very volatile and susceptible to wild and irrational price swings.

APS, of course, has done more than passively "view" the wholesale market with concern. It has proactively engaged in precisely the sort of prudent planning alluded to above. More than 200 MW of new generation has been added to the APS system since 1999 (not including almost another 200 MW of temporary generation capacity procured by PWECC for APS during 2001), and another 1500 MW will be added by 2003. This represents well over $1 billion of "steel and concrete" invested to preserve APS system reliability.

In contrast, the open market carries with it significant reliability risk. On the transmission side, APS has joined with other transmission-owning entities in forming WestConnect in an effort to better address reliability concerns based on transmission availability and adequacy. However, on the supply side, merchant plant owners would not want to assume responsibility for APS system reliability. If their plants fail to

operate (either due to mechanical failure or gas supply problems), or transmission paths from their plants to the APS system become constrained, APS will be on its own in the scramble to obtain replacement resources. Even if the merchant plant owner is willing to accept some financial responsibility for its reliability shortcomings, this does nothing to keep the lights on for hundreds of thousands of APS Standard Offer customers.

For these reasons, the PPA is a full-requirements contract. PWCC assumes full contractual responsibility for reliability. Moreover, PWCC will even provide APS a "safety net" to assure the reliable supply of power from those non-affiliated providers called for under the PPA. PWCC is further committed to using its power marketing skills to supplement any potential shortfall even after full utilization of PWEC's dedicated generating resources.

The PPA will provide APS with its retail electric generation needs at a cost that is reasonable in relation to the high level of reliability provided and the length of that reliability commitment under the PPA. Because it will be essentially a full-requirements agreement rather than unit-contingent, and uses a diverse portfolio of fuel sources, it will also provide more reliability and flexibility than is typically available in the wholesale market, especially for purchases of this size and this duration. Indeed, APS believes it would be imprudent to turn down the type of firm commitment represented by the PPA. However, the PPA will not be in conformance with the requirements of Rule 1606 precisely because it was not obtained through competitive bidding - hence the need for the instant request for a variance to Rule 1606 in favor of entering into the PPA.

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III.
THE PPA IS A PRUDENT AND REASONABLE

ALTERNATIVE TO RULE 1606(B)

APS will soon have to complete its planning for the acquisition of resources to serve its Standard Offer customers in 2003. If, as Rule 1606 requires, some 50% of these resources must be competitively bid, with the remainder also obtained through "arms-length" [competitive] bilateral negotiation, the process of properly developing a request for proposals ("RFP"), soliciting and evaluating bids, identifying potential parties for negotiations, engaging in and concluding such negotiations, etc., will take the better part of a year. APS did not and does not believe this long drawn-out process is practical or can result in anything other than reduced reliability and very significantly more volatile and potentially much higher costs to serve its Standard Offer customers. It also fails to acknowledge PWEC's ongoing investment in APS reliability. Thus, the Company initiated discussions with its electric power marketing affiliate, PWCC, to secure a long-term agreement for 100% firm electric supplies at stable rates.(2) In turn, PWCC has negotiated with PWEC for a long-term commitment of PWEC resources, present and (in some instances) future, to the ongoing needs of APS Standard Offer customers.

APS and PWCC have negotiated a long-term full-requirements PPA. The contract, which would run through at least 2015 with several renewal options, provides for all of the Company's anticipated Standard Offer generation needs, excepting only the following:

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(2) PWCC has assumed from APS the competitive business of bulk power marketing and trading in order to satisfy the requirements of Rule 1615 and Decision No. 61973. PWCC is responsible for marketing all of the generation output of PWEC, its wholly-owned subsidiary. It is to PWEC that APS will transfer the bulk of its generation assets, as also called for in Decision No. 61973 and Rule 1615.

1) those provided by APS itself through renewable resources required by the Commission;(3)

2) amounts that APS is obligated by law to purchase from "Qualified Facilities" ("QFs") and other forms of distributed generation;(4) and,

3) any purchased power agreements that cannot be transferred to PWCC at the present time.(5)

The term of the PPA includes three optional five-year renewal terms, which renewals would occur automatically unless notice is given by either APS or PWCC. If all three of these options were to be exercised by the parties, these renewals would extend the PPA term out to the end of the estimated depreciable life of longest-lived of the Dedicated Units (2030).

PWCC would directly supply APS Standard Offer requirements through a combination of: (1) generation transferred to PWEC from APS pursuant to Commission Decision No. 61973 and Rule 1615; (2) the over $1 billion in new Arizona generation constructed or to be constructed during the 2001-2004 period by PWEC to reliably service APS load; (3) power procured by PWCC from "Dedicated [Purchase Power] Contracts"; and (4) power procured on the open market.(6) Beginning in 2003, PWCC will acquire 270 MW of APS Standard Offer requirements through a competitive

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(3) Pursuant to Decision No. 63354 (February 8, 2001), APS was permitted to retain its existing renewable generating resources and to acquire new ones despite the provisions of Rule 1615.

(4) APS presently has obligations to buy QF power under PURPA, and certain of the federal energy legislation under consideration in Washington would require similar purchases from specified forms of distributed generation.

(5) At present, these would include the Pacificorp and SRP purchase power agreements ("Dedicated Contracts").

(6) The generation assets to be acquired from APS (pursuant to Decision No. 61973 and Rule 1615) and those built or under construction by PWEC solely for APS's benefits (West Phoenix CC-4 and CC-5, Redhawk-1 and Redhawk-2, and Saguaro SC-3) are collectively referred to in the PPA as the "Dedicated Units". "Dedicated Units" together with the "Dedicated Contracts" comprise the "Dedicated Assets" from which APS receives "Dedicated Units" and "Dedicated Contracts" Energy Products.

bidding process. This will permit non-affiliated electric suppliers an opportunity to participate in the APS market. That opportunity would, of course, be in addition to any Direct Access customers these same suppliers serve, directly or indirectly, as Electric Service Providers. This competitive bid obligation will be increased by another 270 MW each year through the balance of 2008. The steady and assured expansion of market-based supplies from non-affiliated generators to 1620 MW (23% of estimated 2008 peak load) is consistent with the anticipated addition of uncommitted non-affiliated generation supplies in the Arizona wholesale market.

The combination of long-term Dedicated Assets and Competitively-Bid Energy Products represents a prudent power acquisition plan, especially for risk-adverse Standard Offer customers. This is especially true when the Dedicated Assets themselves reflect a diverse portfolio of technologies and fuels. Balancing long-term resources with the opportunity to increasingly access competitive wholesale markets will better serve the goals of Rule 1606 than an arbitrary and inflexible 50% bidding mandate.

As the Company's "provider of last resort, PWCC will stand ready to step in if PWCC receives insufficient bids to provide all of the non-affiliated portion of APS' Standard Offer requirements under the PPA. As in the case of a default by one of the non-affiliated providers, PWCC will secure any shortfall at then prevailing market rates and pass it along to APS at cost.

PWCC plans to meet APS Standard Offer demand using the PWEC Dedicated Assets it has under contract plus the amounts obtained through mandatory competitive bidding. However, APS will eventually need PWCC to acquire additional resources. The same would be true should a presently available Dedicated Asset be removed from

service or otherwise become unavailable.(7) These additional resources will supply APS what the PPA terms as either "Supplemental Energy Products" or "Replacement Energy Products."

Upon completion of the generating plant transfer to PWEC in 2002, PWCC will charge APS facilities (fixed) and per/MWH (variable) prices of $63,600,000/mo. and $17.40/MWH for all Dedicated Units Energy Products. Dedicated Units Energy Products are those derived by PWCC from PWEC's Dedicated Units. The variable price component is set to recover fuel costs in accordance with a baseline forecast of such costs, but is subject to an annual surcharge adjustment for actual and forecast variations (from the projected baseline or "base" energy price) in the cost of fuel used to provide or procure the Dedicated Units Energy Products.

The facilities and base energy prices are set forth explicitly in the Service Schedule to the PPA through 2004, but the base energy price will remain constant from 2003 through the remaining term of the PPA. Moreover, the monthly facilities charge will be calculated using the same formula throughout the entire original term of the PPA. At APS' present system load factor for Standard Offer customers, these two price components would be approximately equivalent to a total per MWH price of $48.00 in 2004. This figure reflects the increases in facilities charges for 2003 and 2004 (when additional PWEC generating facilities are added to the portfolio of Dedicated Units) and assumes no material deviation during the years 2002-2004 from the base projection of fuel costs for the Dedicated Units Energy Products.

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(7) Some of the "Dedicated Assets" may be retired prior to the end of the PPA. Others, such as the SRP Agreement, can be terminated by the other party to the agreement. Yet others may undergo prolonged forced outages that would serve to reduce the available Dedicated Unit Energy Products to PWCC and APS.

The 2004 facilities charge will be recalculated in 2005 using the formula set forth in the PPA to reflect the then three-year projection of fixed costs (depreciation, property taxes, return, etc.) for the portfolio of PWEC's Dedicated Units available to PWCC for APS demand. After any 2005 adjustment, the facilities charge would be set for another three years, although as in prior years, net fuel cost increases/decreases incurred directly by PWCC for Dedicated Units or passed through to PWCC by PWEC for Dedicated Units Energy Products would be passed through to APS annually.

In addition to the Dedicated Units Energy Products, APS Standard Offer requirements will also include Dedicated Contracts Energy Products and the portion of generation acquired by PWCC under the mandatory competitive bidding provisions of the PPA ("Competitively Bid Energy Products"), described above, plus any shortfall between such requirements and the sum of these three (the previously identified Supplemental Energy Products). Supplemental Energy Products will be billed monthly to APS as a direct pass-through.

Under the PPA, PWCC will also provide any necessary reserves using the criterion of "good utility practice." This is consistent with its "provider of last resort" responsibilities to APS under the PPA and is an important reliability feature of the PPA to the Company and its Standard Offer customers.

If any of the suppliers, affiliated or non-affiliated, default on an agreement with PWCC to provide APS with Standard Offer power, PWCC will, on the Company's behalf and at the Company's cost, pursue whatever contractual and regulatory remedies are available and feasible, whether they be at FERC, through contract arbitration, or through the courts. As the "provider of last resort" to APS, PWCC will also obtain, at its

full cost, any power that is necessary to replace the defaulted-upon obligations of such non-affiliated suppliers. Like Competitively Bid Energy Products, Supplemental Energy Products, and Dedicated Contracts Energy Products, any such Replacement Energy Products will be a monthly pass-through to APS.

The PPA offers APS a flexible package of term, price, price stability, fuel diversity, performance incentives, and reliability features that are simply unobtainable from today's wholesale market. The Company's proposed power acquisition plan will also allow an opportunity for a gradual phase-in of competitively-acquired generation resources from non-affiliated suppliers, but only as such resources are needed and consistent with the increasing availability of such resources in Arizona from such non-affiliated parties and the corresponding development in this state of a fully competitive wholesale power market.

The PPA takes effect on the latest of following three events:

1) transfer of non-nuclear generating assets from APS to PWEC, which is presently planned to take place by year's end;(8)

2) Commission approval as just and reasonable of the requested partial variance and of the PPA; and,

3) FERC acceptance of the PPA and the companion agreement between PWCC and PWEC.

Thus, January 1, 2002 is the earliest possible date APS could receive power under the PPA. However, as a practical matter, at least the partial variance and Commission-approval phases of the above sequence of events must take place by year's end if the Company is to properly conclude preparations for its 2003 Standard Offer power requirements. Otherwise, there is the real likelihood that APS will waste resources preparing to meet a 50% competitive bidding requirement under Rule 1606 that is thereafter waived by the

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(8) Palo Verde would thereafter be transferred in the fall of 2002.

Commission to one extent or another. Finally, APS has secured various tax rulings in conjunction with the anticipated transfer of non-nuclear generation assets. These rulings from the Internal Revenue Service ("IRS"), by their own terms, will expire at the end of 2001.

IV.
CONCLUSION

Going 100% to the open market for Standard Offer power supplies beginning in 2003 is a gamble APS is unwilling to take on behalf of its Standard Offer customers. Compliance with Rule 1606, even with the two-year delay authorized by Decision No. 61973, is likely impossible and at the very least could jeopardize for years to come the price stability APS Standard Offer customers have come to expect over the past decade. More importantly, it would also leave no party responsible for reliable supplies of electric generation to APS Standard Offer customers and leave APS Standard Offer customers over-exposed to volatile gas prices. The PPA negotiated with PWCC offers a flexible, practical and economic alternative - providing both price stability and complete reliability, while at the same time allowing for a gradual phasing in of competitive market supplies when needed. Commission approval of the PPA provides a clear confirmation of PWCC's ultimate responsibility to APS for assuring reliable electric supplies for many years to come and recognizes the huge investment already committed by PWEC to fulfilling the needs of the Company's nearly 1 million customers.

As noted above, APS will very soon need to know whether it can proceed with the PPA or if it needs to prepare for full compliance with Rule 1606. PWCC needs to know if its existing and future commitment of resources from PWEC to APS will be called upon under the provisions of the PPA. PWEC must receive APS's non-nuclear generating assets while certain favorable IRS rulings are still in effect. APS asks the

Commission to act by year's end on its request for a variance to Rule 1606 as described herein and for Commission approval as just and reasonable of the Company's decision to enter into the attached PPA with PWCC.

RESPECTFULLY SUBMITTED this 18th day of October, 2001.

SNELL & WILMER L.L.P.

Thomas L. Mumaw

Jeffrey B. Guldner

Attorneys for Arizona Public
Service Company

OCTOBER 18, 2001

PURCHASE POWER AGREEMENT
BETWEEN
ARIZONA PUBLIC SERVICE COMPANY AND
PINNACLE WEST CAPITAL CORPORATION

CONTRACT NO. _____

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PURCHASE POWER AGREEMENT
BETWEEN
PINNACLE WEST CAPITAL CORPORATION AND
ARIZONA PUBLIC SERVICE COMPANY

INTRODUCTION

A. PARTIES. The Parties to this Agreement are Pinnacle West Capital Corporation ("PWCC") and Arizona Public Service Company ("APS").

B. AGREEMENT. This Agreement is made under PWCC's Tariff and includes all attached exhibits and schedules, all of which are incorporated by reference. Defined terms used in this Agreement are set forth in Exhibit A.

C. PURPOSE. The Parties intend to enter into a purchase and sale agreement of Energy Products so that APS can adequately, economically, and reliably serve its retail customers under a pricing mechanism that combines general rate stability, long-term access to dedicated generation assets, recovery of the costs of those dedicated assets, and market-based opportunities for competitive wholesale providers.

ARTICLE 1
SERVICES PROVIDED

1.1 PURCHASE AND SALE OF POWER.

(A) PWCC shall supply to APS, on a firm basis, APS' Full Load Requirements. PWCC shall be the exclusive provider of APS' Full Load Requirements during the term of this Agreement, except as otherwise provided in this Agreement.

(B) APS shall pay PWCC for the sales in Section 1.1(A) as provided in the attached Service Schedule and in accordance with PWCC's Tariff.

1.2 FIRM DELIVERIES.

(A) PWCC shall provide Dedicated Energy Products on a firm basis, and shall include adequate reserves to satisfy Good Utility Practice.

(B) Subject to Section 2.1 of this Agreement and Section 3.2 of the Service Schedule, PWCC has the sole discretion to select or acquire the resources, including the determination of the adequacy of reserves, to provide Energy Products. Such discretion includes the right of PWCC, under economic dispatch and subject to the fuel and purchase power adjustment in Section 3.2 of the Service Schedule, to purchase power rather than schedule the Dedicated Units.

(C) PWCC shall also procure purchased power as necessary to satisfy the requirements of Section 1.1, as provided in the attached Service Schedule.

1.3 RELATIONSHIP TO TARIFF.

(A) If the Agreement is or becomes inconsistent with PWCC's Tariff, the Tariff shall control with respect to such inconsistency.

(B) The Tariff and this Agreement together form a single agreement. The Parties would not have entered into this Agreement without such a relationship.

(C) This Agreement does not amend the Tariff.

1.4 TRANSFER OF TITLE AND RISK OF LOSS.

(A) As between the Parties, and except as expressly limited in the attached Service Schedule or Exhibit A, or unless the Parties have agreed in writing otherwise:

(1) Before Energy Products subject to this Agreement are delivered to APS, PWCC will be deemed to have exclusive control and possession of the Energy Products and will be responsible for all damages, injuries, and other losses occurring before such delivery.

(2) After Energy Products subject to this Agreement are delivered to APS, APS will be deemed to have exclusive control and possession of the Energy Products and APS will be responsible for all damages, injuries, and other losses occurring after such delivery.

(3) Ownership of the Energy Products and risk of loss shall pass from PWCC to APS at the Delivery Points.

(B) Except as provided in Section 1.4(C), the Parties each assume full responsibility for and shall indemnify and hold harmless the other Party for, from and against all liability, costs and expenses, including but not limited to those relating to the injury or death of persons, arising or caused after title to the Energy Product has passed to the indemnifying Party. Expenses include but are not limited to court costs, reasonable attorneys' fees, and litigation expenses.

(C) The indemnifying Party shall not be liable to the indemnified Party to the extent the liability, costs or expenses resulted from gross negligence or

willful misconduct of the indemnified Party or from the indemnified Party's breach of this Agreement.

1.5 TRANSMISSION AND ANCILLARY SERVICES ARRANGEMENTS. Except as expressly limited in the attached Service Schedule or Exhibit A, or unless the Parties have agreed otherwise in writing:

(A) PWCC shall make all arrangements necessary for transmission of the Dedicated Energy Products to the Delivery Points.

(B) PWCC is responsible for all costs, including but not limited to losses and Ancillary Services, associated with the transmission of the Dedicated Units Energy Products to the Delivery Points. Transmission and Ancillary Services costs associated with the Dedicated Contracts Energy Products, Competitively-Bid Energy Products, Supplemental Energy Products, and Replacement Energy Products shall be charged as provided in the Service Schedule.

(C) APS shall make all arrangements necessary for transmission of Energy Products from the Delivery Points.

(D) APS is responsible for all costs, including but not limited to losses and Ancillary Services, associated with the transmission of the Energy Products from the Delivery Points.

ARTICLE 2
RELIABILITY GUIDELINES

2.1 RELIABILITY GUIDELINES.

(A) Each Party shall adhere to:

(1) Good Utility Practice;

(2) all applicable operating policies, criteria, and guidelines of the NERC, the WSCC, the control area operator, and their respective successors; and

(3) all applicable regional and national reliability requirements;

(4) all applicable requirements of an RTO, to the extent not inconsistent with this Agreement.

(B) PWCC shall secure sufficient generating capacity to fulfill its Dedicated Units Energy Products obligations under this Agreement.

(C) As part of the obligation in Section 2.1(B) and concurrently with this Agreement, PWCC shall enter into an agreement with Pinnacle West Energy Corporation for rights to generating capacity to ensure the reliable delivery of APS' Full Load Requirements.

ARTICLE 3
METERING

3.1 METERING PROCEDURES.

(A) INSPECTION AND TESTING.

(1) As long as APS is the control area operator, it shall conduct or provide for periodic inspection and testing of meters used to perform this Agreement. Inspection and testing shall be at APS' own expense and shall conform to APS' generator interconnection agreements and APS' transmission interconnection agreements.

(2) Inspection and testing under Section 3.1(A) shall be conducted as necessary to maintain a commercial standard of accuracy for the meters. APS shall repair or replace meters not meeting such standard.

(3) Upon request to APS, PWCC shall be provided the results of meter tests, be given notice of meter tests and inspections, and be given the opportunity to attend meter tests and inspections, to the extent allowed under APS' generator interconnection agreements and APS' transmission interconnection agreements.

(4) APS shall conduct or provide for additional meter testing at PWCC's request and in the presence of PWCC's representatives to the extent allowed under APS' generator interconnection agreements and APS' transmission interconnection agreements.

(B) CORRECTIONS FOR INACCURATE METERS. If testing or inspection in Section 3.1(A) shows that a meter is inaccurate by more than the amount specified in APS' generator interconnection agreements and APS' transmission interconnection agreements, then:

(1) PWCC shall correct the billings from the date the error can be definitely identified, or for the previous six billing months or from the date of the last test, whichever is most recent; and

(2) APS and PWCC shall correct the meter records for the elapsed period of the month in which the test was conducted.

(C) COSTS FOR ADDITIONAL TESTING. The cost of inspection and testing requested by PWCC shall be borne by PWCC if the test does not require a correction under Section 3.1(B). Otherwise, APS shall bear the cost of inspection and testing.

(D) ESTIMATED METER DATA. If at any time a meter fails to register or its registration is too erratic to be meaningful, then:

(1) the registration for billing purposes shall be based on the records of check meters, if available;

(2) the Parties shall mutually agree on the best available data to estimate the registration if check meters are not available; and

(3) APS shall in good faith remedy the meter inaccuracy using commercially reasonable means and in a reasonable period of time.

3.2 AVAILABILITY OF METER DATA.

(A) APS shall provide meter data or estimates to PWCC no later than three Business Days following the last day of each calendar month.

(B) APS may aggregate data when necessary to comply with confidentiality obligations.

ARTICLE 4
BILLING, PAYMENT AND NETTING

4.1 INVOICES.

(A) PWCC shall endeavor to provide APS with a written invoice showing the Purchase Price and all other charges due by the 20th calendar day of the month following such delivery of Energy Products.

(B) Invoices issued pursuant to Section 4.1(A) shall contain sufficient detail for APS to confirm all calculations on the invoice.

(C) APS shall promptly provide to PWCC all information reasonably needed by PWCC to calculate the invoice.

(D) If data needed to calculate an invoice is unavailable, PWCC shall estimate the necessary data. PWCC shall revise such estimates when the necessary

data becomes available and include a true-up adjustment in the next invoice, but all revisions must be made within 12 months of the estimated invoice.

(E) Invoices may be provided to APS by facsimile or another method agreed upon by the Parties.

4.2 PAYMENT.

(A) PAYMENT DUE DATES. Invoices shall be paid no later than 10 calendar days after receipt of the invoice.

(B) NEXT BUSINESS DAY. If the payment date specified in Section 4.2(A) is not a Business Day, the payment shall be due no later than the next

Business Day.

(C) METHOD OF PAYMENT. APS shall pay by electronic funds transfer or another method that results in the payment being available for the account of PWCC on or before the payment date specified in Section 4.2(A) or Section 4.2(B).

(D) LATE PAYMENTS. If either Party fails to remit an amount payable when due, Interest shall accrue on the net unpaid amount.

(E) NETTING OF PAYMENTS. If both Parties owe amounts accruing under this Agreement, such amounts shall be netted with the Party owing the greater amount paying the other Party the difference in the amounts owed.

4.3 DISPUTED INVOICES OR PAYMENTS.

(A) If either Party disputes an invoice, it shall nonetheless pay the full amount due on or before the due date and submit a written statement detailing the dispute to the other Party.

(B) Within 15 calendar days after receipt of the written statement described in Section 4.3(A), a written response shall be submitted to the Party disputing the invoice.

(C) In order to facilitate the negotiations provided in Section 4.3 (D), the statement and response described in Section 4.3(A) and Section 4.3(B) shall each include a statement of the Party's position, a summary of the arguments supporting that position, the name and title of the person who will represent that Party, and any other person who may accompany the Party's representative .

(D) The Parties shall attempt in good faith to resolve the dispute promptly through negotiation as follows:

(1) Within 30 calendar days after delivery of the statement described in Section 4.3(A), the Parties shall meet at a mutually agreed upon place and time.

(2) The Parties shall continue to meet as often as necessary to attempt to resolve the dispute in good faith.

(3) All negotiations pursuant to this Section 4.3 shall be confidential and subject to Rule 408 of state and federal rules of evidence.

(4) Each Party is responsible for its own costs, fees and expenses incurred in the negotiations.

(E) If the dispute has not been resolved within 60 calendar days after delivery of the statement described in Section 4.3(A), or if the Parties fail to meet in accordance with Section 4.3(D), then either Party may initiate the alternative dispute resolution provisions in Article 12.

4.4 REFUNDS. If either Party is owed a refund or additional payment, such refund or additional payment shall include Interest, unless otherwise directed by FERC.

ARTICLE 5
REPRESENTATIONS AND WARRANTIES

5.1 MUTUAL REPRESENTATIONS AND WARRANTIES. Each Party represents and warrants to the other Party that, as of the date it signs this Agreement and as of the date of each delivery of Energy Products to or from the Delivery Points, as applicable, that:

(A) It is duly organized, validly existing, and in good standing, under the laws of the jurisdiction of its organization or incorporation.

(B) It has the corporate, governmental and legal capacity, authority and power to execute, deliver, and perform this Agreement.

(C) The execution, delivery, and performance of this Agreement does not violate or conflict with any:

(1) laws or regulations applicable to the Party;

(2) organizational or corporate documents applicable to the Party;

(3) orders or judgments of any court or regulatory body applicable to the Party or its assets; or

(4) contractual restrictions applicable to the Party or its assets.

(D) No Event of Default under Article 7, including an event which with notice or lapse of time would constitute an Event of Default:

(1) has occurred and is continuing for the Party; or

(2) would occur as a result of the execution, delivery, or performance of this Agreement for the Party.

(E) It has executed this Agreement in connection with the conduct of its business and it has the ability to make or take delivery of Energy Products as provided in this Agreement.

(F) It is not relying on any representation of the other Party except for those expressly set forth in this Agreement, or on any Credit Support of the obligations of the other Party.

(G) It has executed this Agreement with a full understanding of the material terms and risks and is capable of assuming those risks.

(H) It has made its trading and investment decisions, including the suitability of such decisions, based solely on its own judgment and advice from its advisors, and not in reliance on information or opinion from the other Party or the other Party's advisors.

(I) It has not received from the other Party any assurances or promises regarding financial results or benefits from this Agreement.

5.2 REPRESENTATIONS AND WARRANTIES OF PWCC. Unless otherwise agreed upon and as expressly limited in the attached Service Schedule, PWCC further represents and warrants, as of the date of delivery of Energy Products as provided in this Agreement, that:

(A) PWCC is the owner of and has good title to the Energy Products;

(B) the Energy Products are transferred to APS free and clear of all liens, taxes, claims, security interests and other encumbrances; and

(C) the Energy Products are transferred to APS free of any right or interest in or to the Energy Products by any other person or entity.

5.3 LIMITATION OF WARRANTIES. ALL OTHER WARRANTIES, WHETHER WRITTEN OR ORAL, EXPRESS OR IMPLIED, INCLUDING BUT NOT LIMITED TO ANY WARRANTY OF MERCHANTABILITY OR WARRANTY OF FITNESS FOR ANY PARTICULAR PURPOSE, ARE DISCLAIMED.

5.4 SURVIVAL. This Article 5 survives the termination of this Agreement.

ARTICLE 6
ASSURANCES

6.1 ADEQUATE ASSURANCES. If a material change occurs such that a Party can reasonably call the continued performance of this Agreement by the Affected Party into question, then:

(A) A Party may request in writing that the Affected Party provide Credit Support, in a commercially reasonable amount and in a form acceptable to the requesting Party.

(B) Upon receipt of the request described in Section 6.1(A), the Affected Party shall provide Credit Support within five Business Days.

(C) If the Affected Party fails to comply with Section 6.1(B), then an Event of Default shall occur.

(D) If the Affected Party complies with Section 6.1(B), then no Event of Default shall have occurred as a result of the Affected Party incurring a material change.

ARTICLE 7
DEFAULT AND REMEDIES

7.1 DEFAULT.

(A) EVENTS OF DEFAULT. Events of Default are as follows:

(1) FAILURE TO DELIVER OR RECEIVE ENERGY PRODUCTS. A Party defaults if it fails to deliver or receive all or a substantial portion of the required Energy Product for a period of 5 calendar days or more after receiving written notice of the failure from the other Party.

(2) FAILURE TO PAY. A Party defaults if it or its Credit Support Provider fails within 5 Business Days after receiving written notice from the other Party to make any payment when due, whether under this Agreement or under the Credit Support.

(3) FAILURE TO DELIVER ASSURANCES. A Party defaults if it or its Credit Support Provider fails, within 5 Business Days after receiving written notice from the other Party, to provide adequate assurances pursuant to Section 6.1.

(4) FAILURE TO PERFORM AGREEMENT. A Party defaults if it fails, within 5 Business Days after receiving written notice from the other Party, to comply with or perform any material term of this

Agreement.

(5) FAILURE TO MAINTAIN CREDIT SUPPORT. A Party defaults if:

(a) it fails to maintain Credit Support in full force and effect pursuant to the terms of and during the duration specified in this Agreement, unless the other Party agrees to the failure in writing or unless the Credit Support terminates according to its terms; or

(b) the Credit Support Provider disaffirms, repudiates, rejects, or challenges the validity of the Credit Support, whether in whole or in part.

(6) FAILURE TO REMAIN SOLVENT. A Party defaults if it or its Credit Support Provider:

(a) is dissolved other than pursuant to a merger;

(b) becomes insolvent, or is unable to pay its debts, or fails or admits in writing its inability generally to pay its debts as they become due;

(c) makes a general assignment, arrangement or composition with or for the benefit of its creditors;

(d) institutes or has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights;

(e) has a resolution passed for its winding-up, official management or liquidation, other than pursuant to a merger;

(f) seeks or becomes subject to the appointment of an administrator, provisional liquidation, conservator, receiver, trustee, custodian or other similar official for all or substantially all of its assets;

(g) has a secured party take possession of all or substantially all of its assets;

(h) has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on against all or substantially all its assets and within 30 calendar days from the initiation of such process:

(i) the secured party maintains possession of the assets; or

(ii) the legal process is not dismissed, discharged, or stayed;

(i) causes or is subject to any event with respect to it which has an analogous effect to any of the events listed in Section 7.1(A)(6)(a) - (h); or

(j) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the events listed in Section 7.1(A)(6)(a) - (i).

(7) FAILURE FOLLOWING MERGER OR TRANSFER. A Party defaults if it or its Credit Support Provider:

(a) merges with or into, or transfers all or substantially all its assets to, another entity and at that time:

(i) the resulting, surviving, or transferee entity fails to assume all the obligations of the Party or Credit Support Provider under this Agreement or any required Credit Support; or

(ii) the benefits of any Credit Support fail to extend, without consent of the other Party, to the performance of the resulting, surviving or transferee entity; or

(b) merges with or into, or transfers all or substantially all its assets to, another entity, and:

(i) the merger or transfer is not itself an Event of Default;

(ii) the creditworthiness of the successor is materially weaker than the creditworthiness of the assignor before the merger or transfer, taking into account Credit Support; and

(iii) the transferee fails to make collateral arrangements with and provide collateral to the other Party or provide adequate assurances pursuant to Section 6.1.

(B) NOTICES OF DEFAULT. Each Party shall notify the other Party promptly of any event that, with the giving of notice or the passage of time or both, would constitute an Event of Default with respect to the other Party.

(C) REMEDIES UPON EVENT OF DEFAULT. If an Event of Default is continuing and not cured for a period of 3 Business Days after the Defaulting Party receives written notice of the Event of Default, the Performing Party may, at its sole option, do one or more of the following:

(1) Withhold or suspend all or part of the payments to the Defaulting Party required under this Agreement until the default is cured.

(2) Withhold or suspend all or part of the deliveries of Energy Products to the Defaulting Party required under this Agreement until the default is cured.

(3) Designate an Early Termination Date by providing written notice to the Defaulting Party. The Early Termination Date shall be no earlier than 2 Business Days following the date written notice is received by the Defaulting Party.

(D) LIQUIDATION ON EARLY TERMINATION.

(1) On the Early Termination Date, the Parties shall liquidate all transactions, including any portion of transactions not yet fully delivered, that are then outstanding.

(2) Liquidation shall occur by canceling each transaction being liquidated and calculating a Net Settlement Amount pursuant to Section 7.1(E).

(3) To the extent that, in the reasonable opinion of the Performing Party, a transaction is commercially or legally impracticable to terminate and liquidate on the Early Termination Date, then that transaction shall be terminated and liquidated as soon thereafter as is reasonably practicable, but the determination of the liquidated amount for that transaction shall not delay the payment or calculation of the Net Settlement Amount.

(4) Except for the payment of the Net Settlement Amount, no further planned payments or deliveries under this Agreement shall be required after the Early Termination Date.

(5) The Performing Party shall notify the Defaulting Party in writing of the amount and basis for calculation of the Net Settlement Amount.

(6) The Net Settlement Amount shall be paid as follows:

(a) If the Net Settlement Amount is a positive number, the Defaulting Party shall, within 5 Business Days of receipt of such notice, pay to the Performing Party an amount equal to the Net Settlement Amount plus Interest.

(b) If the Net Settlement Amount is a negative number, the Performing Party shall pay to the Defaulting Party an amount equal to the Net Settlement Amount within 5 Business Days of determining the Net Settlement Amount.

(E) CALCULATION OF NET SETTLEMENT AMOUNT.

(1) NET SETTLEMENT AMOUNT. The Net Settlement Amount is calculated for each transaction as follows:

(a) If a Market Quotation can be determined:

(i) the Market Quotation, determined in accordance with Section 7.1(E)(2), for the transactions, whether positive or negative; plus

(ii) Unpaid Amounts, determined in accordance with Section 7.1(E)(3), owed by the Defaulting Party to the Performing Party; less

(iii) Unpaid Amounts, determined in accordance with Section 7.1(E)(3), owed by the Performing Party to the Defaulting Party.

(b) If a Market Quotation cannot be determined, or in the reasonable belief of the Performing Party would not produce a commercially reasonable result:

(i) the amount the Performing Party reasonably and in good faith determines to be its aggregate losses and costs (net of gains) associated with this Agreement, including but not limited to brokerage fees and commissions, loss of bargain damages, and cost of funds; or

(ii) at the election of the Performing Party, all losses and costs (net of gains) incurred to terminate, liquidate, obtain, or reestablish hedges and related trading positions.

(2) MARKET QUOTATION. The Market Quotation is an amount that would be paid by Reference Market Makers to enter into a transaction that would preserve for the Performing Party the economic benefits of this Agreement after the Early Termination Date. The Market Quotation shall be determined as follows:

(a) The Performing Party shall request quotations from at least 3 Reference Market Makers on a date and time selected in good faith by the Performing Party.

(b) The quotations from Reference Market Makers shall consider existing Credit Support and would be subject to such documentation to which the Performing Party and Reference Market Maker agree in good faith.

(c) The quotations from Reference Market Makers shall exclude Unpaid Amounts, but shall include any payment or delivery that would have been required after the Early Termination Date assuming the satisfaction of all conditions precedent.

(d) A quotation to be paid by the Performing Party shall be expressed as a positive number and a quotation to be paid to the Performing Party shall be expressed as a negative number.

(e) Each Reference Market Maker shall provide its quotation as of the same date and local time as the Early Termination Date to the extent reasonably practicable, or otherwise as soon as practicable after the Early Termination Date.

(f) The Market Quotation shall be the arithmetic mean of all quotations after disregarding the highest and lowest quotation. If more than one quotation has the same highest or lowest value, then only one such quotation shall be disregarded.

(g) If less than 3 quotations are provided by Reference Market Makers, then the Market Quotation cannot be determined and the Net Settlement Amount shall be determined under Section 7.1(E)(1)(b).

(3) UNPAID AMOUNTS. Unpaid Amounts are determined as follows:

(a) The amount for all terminated transactions that became or would have become payable on or prior to the Early Termination Date and which remain unpaid as of the Early Termination Date; plus

(b) The fair market value, as reasonably determined by the Performing Party as of the delivery date, of Energy Products that were required to be delivered on or prior to the Early Termination Date and which have not been settled as of the Early Termination Date; plus

(c) All non-duplicative Direct Actual Damages incurred prior to the Early Termination Date; plus

(d) Interest on all such amounts to the extent permitted by law.

(4) DISPUTES REGARDING NET SETTLEMENT AMOUNT. If the Defaulting Party disputes the calculation of the Net Settlement Amount by the Performing Party, then:

(a) the dispute shall be resolved as provided in Article 12;

(b) pending resolution of the dispute, the Defaulting Party shall pay the full amount of the Net Settlement Amount as provided in Section 7.1(D)(6); and

(c) if the dispute results in a refund of any portion of the Net Settlement Amount, the Performing Party shall make the refund within 3 Business Days of such determination plus Interest.

7.2 REMEDIES UPON BREACH OF AGREEMENT.

(A) If there is no express remedy or measure of damages for breach of the Agreement, then the breaching Party shall be liable for Direct Actual Damages for any breach of this Agreement determined as follows:

(1) If APS is the breaching Party and the amount of Energy Products it received is less than the amount provided for in this Agreement, then the damages APS will owe to PWCC are:

(a) the Contract Price minus the Sales Price, multiplied by the amount of Energy Products due under the Agreement minus the actual amount received by APS;(1) plus

(b) transmission charges for firm transmission service upstream of the Delivery Point incurred to achieve the Sales Price, less the reduction in transmission charges achieved as a result of the reduction in APS' receipt of Energy Products based on PWCC's reasonable efforts to achieve the reduction; unless

(c) the total amount calculated is negative, in which case there are no Direct Actual Damages.

(2) If PWCC is the breaching Party and the amount of Energy Products it delivered is less than the amount provided for in this Agreement, then the damages PWCC will owe to APS are:

(a) the Substitute Price minus the Contract Price, multiplied by the amount of Energy Products due under the Agreement minus the actual amount delivered to APS;(2) plus

(b) transmission charges for firm transmission service upstream of the Delivery Point that APS incurred to achieve the Substitute Price, less the reduction in transmission charges achieved as a result of the reduction in PWCC's delivery of Energy Products based on APS' reasonable efforts to achieve the reduction; unless

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(1) [Contract Price - Sales Price] x [quantity due - quantity received]

(2) [Substitute Price - Contract Price] x [quantity due - quantity received]

(c) the total amount calculated using the foregoing formula is negative, in which case there are no Direct Actual Damages.

7.3 FORWARD CONTRACTS. The Parties agree that transactions for the forward sale and purchase of Energy Products entered into under this Agreement are "forward contracts" and the Parties are "forward contract merchants" within the meaning of the United States Bankruptcy Code.

7.4 ENFORCEMENT OF REMEDIES.

(A) Except as otherwise provided in this Agreement, the rights, powers, remedies and privileges provided in this Agreement are cumulative and not exclusive of any rights, powers, remedies and privileges provided by law.

(B) A single or partial exercise of any right, power or privilege will not be presumed to preclude any subsequent or further exercise of that right, power or privilege or the exercise of any other right, power or privilege.

7.5 DUTY TO MITIGATE.

(A) Except as provided in Section 7.5(B), each Party has a duty to mitigate damages in good faith and covenants that it will use commercially reasonable efforts to minimize any damages it may incur as a result of an Event of Default.

(B) Neither Party is required to utilize or change the utilization of its owned or controlled assets, including contractual assets, or its market positions, or to curtail load, to minimize the other Party's liability for damages.

7.6 SET-OFF.

(A) At the option of the Performing Party and without prior notice to the Defaulting Party or breaching Party, any amounts payable to one Party by the other Party may be set-off against any amounts payable, whether at that time or in the future or upon the occurrence of a contingency and irrespective of the currency, place of payment or booking office of the obligation, under any other agreements or obligations between the Parties.

(B) If the Performing Party exercises a set-off under Section 7.6(A), it shall give notice to the Defaulting Party or breaching Party of the set-off.

(C) If an obligation used for a set-off under Section 7.6(A) is unascertained, the Performing Party may in good faith estimate that obligation and set-off in respect of that estimate, but the Performing Party shall account to the Defaulting Party or breaching Party when the obligation is ascertained.

7.7 LIMITATIONS OF LIABILITY.

(A) THE EXPRESS REMEDIES AND MEASURES OF DAMAGES PROVIDED IN THIS AGREEMENT SATISFY THE ESSENTIAL PURPOSES OF THIS AGREEMENT.

(B) FOR BREACH OF ANY PROVISION FOR WHICH AN EXPRESS REMEDY OR MEASURE OF DAMAGES IS PROVIDED, SUCH EXPRESS REMEDY OR MEASURE OF DAMAGES IS THE

SOLE AND EXCLUSIVE REMEDY FOR SUCH BREACH.

(C) IF NO REMEDY OR MEASURE OF DAMAGES IS EXPRESSLY PROVIDED FOR, LIABILITY IS LIMITED TO DIRECT ACTUAL DAMAGES AND SUCH DIRECT ACTUAL DAMAGES IS THE SOLE AND EXCLUSIVE REMEDY.

(D) EXCEPT WHERE SPECIFICALLY SET FORTH IN THIS AGREEMENT, NEITHER PARTY SHALL BE REQUIRED TO PAY OR BE LIABLE FOR SPECIAL, CONSEQUENTIAL, INCIDENTAL, PUNITIVE, EXEMPLARY OR INDIRECT DAMAGES, INCLUDING BUT NOT LIMITED TO LOST PROFITS OR BUSINESS INTERRUPTION DAMAGES AND WHETHER BY STATUTE, IN TORT, IN CONTRACT, OR OTHERWISE.

(E) THE PARTIES INTEND THAT THE LIMITATIONS OF LIABILITY IMPOSED IN THIS AGREEMENT ARE WITHOUT REGARD TO THE CAUSE OR CAUSES, INCLUDING BUT NOT LIMITED TO THE NEGLIGENCE OF ANY PARTY, WHETHER SUCH NEGLIGENCE IS SOLE, JOINT, CONCURRENT, ACTIVE OR PASSIVE, OR OTHERWISE.

(F) IF ANY DAMAGES UNDER THIS AGREEMENT ARE DEEMED LIQUIDATED, THE PARTIES ACKNOWLEDGE THAT SUCH DAMAGES ARE DIFFICULT OR IMPOSSIBLE TO DETERMINE, THAT OTHERWISE OBTAINING AN ADEQUATE REMEDY IS INCONVENIENT, AND THAT THE LIQUIDATED DAMAGES CONSTITUTE A REASONABLE APPROXIMATION OF THE HARM OR LOSS.

7.8 SURVIVAL. This Article 7 survives the termination of this Agreement.

ARTICLE 8
FORCE MAJEURE

8.1 SUSPENSION OF OBLIGATIONS.

(A) Except with regard to any obligation to pay money under the Agreement, if either Party cannot, in whole or in part, carry out its obligations under this Agreement as a result of Force Majeure, then

(1) The Party claiming Force Majeure shall give the other Party written notice and full particulars of the Force Majeure as soon as reasonably possible after the occurrence of the cause relied upon.

(2) Only to the extent affected by the Force Majeure, the obligations of the affected Party are suspended.

(3) During the pendency of the Force Majeure, the affected Party is not liable to the other Party for:

(a) any claims relating directly or indirectly to the failure of the affected Party to perform under this Agreement as a result of the Force Majeure; and

(b) any loss, damage, injury or expense resulting from, or arising out of, the Force Majeure.

(B) If an event of Force Majeure excuses PWCC from delivering any of the Energy Products, PWCC shall make best efforts to secure on APS' behalf Replacement Energy Products for the Energy Products that PWCC is excused from delivering if:

(1) APS requests such efforts; and

(2) APS assumes responsibility for all resulting costs.

(C) PWCC shall use reasonable efforts to minimize the costs to APS of Replacement Energy Products obtained under Section 8.1(B).

8.2 DUE DILIGENCE.

(A) A Party claiming Force Majeure shall use due diligence to fulfill its obligations under this Agreement and to remove any disability caused by such event at the earliest practicable time.

(B) Nothing in this Article 8 shall require a Party to settle any strike or labor dispute.

(C) A Party claiming Force Majeure shall continue to perform immediately after the Force Majeure has been removed.

ARTICLE 9
TAXES AND OTHER CHARGES

9.1 RESPONSIBILITY FOR TAXES AND OTHER CHARGES.

(A) Except as otherwise provided in this Section 9.1, PWCC is responsible for all Taxes on or with respect to the Energy Products incurred prior to delivery to APS up to and at the Delivery Points.

(B) APS is responsible for all Taxes on or with respect to the Energy Products incurred from the Delivery Points except for ad valorem or income taxes, which relate to the wholesale of the Energy Products and which are the responsibility of PWCC.

(C) If during the term of this Agreement, any material increased costs are associated with the Dedicated Units as a result of any Governmental Authority or any judicial order, APS shall be responsible for all such increased costs through an annualized charge.

(D) If PWCC is required by law or regulation to remit or pay Taxes that are APS' responsibility under Section 9.1(B), APS shall promptly reimburse PWCC for such Taxes.

(E) If APS is required by law or regulation to remit or pay Taxes that are PWCC's responsibility under Section 9.1(A), APS may deduct the amount of any such Taxes from the sums due to PWCC under this Agreement.

(F) Nothing in this Agreement obligates a Party to be responsible for any taxes for which it is exempt by law.

(G) Each Party shall indemnify, defend and hold the other Party harmless for, from and against all liability for Taxes for which the indemnifying Party is responsible.

ARTICLE 10
NOTICES AND OTHER COMMUNICATIONS

10.1 METHODS OF PROVIDING NOTICE. All invoices, payments, statements, notices, and communications made under this Agreement shall be in writing as follows:

(A) By registered or certified or express mail, with a return receipt requested, postage prepaid, or by comparable delivery service, or by hand with a receipt, or by facsimile with the original sent by first class mail, to the individuals listed on Exhibit B.

(B) Either Party may modify any information specified in Exhibit B by giving written notice to the other Party.

10.2 RECEIPT OF NOTICE. All written communications made as provided in Section 10.1 are deemed given upon receipt by the addressee. In the case of facsimiles, receipt occurs on the date that the facsimile is received by the addressee in legible form.

ARTICLE 11
EFFECTIVE DATE AND TERM

11.1 EFFECTIVE DATE. This Agreement shall become effective upon the completion of all the following:

(A) The grant of a variance to APS of Arizona Administrative Code Rule R14-2-1606(B) by the Arizona Corporation Commission consistent with Section 3.1 of the attached Service Schedule.

(B) The transfer of the non-nuclear generation assets to Pinnacle West Energy Corporation.

(C) The acceptance of both this Agreement and the Pinnacle West Energy Contract by FERC without modification or condition, except that if FERC or any court imposes any condition, limitation, or qualification, then:

(1) each Party shall determine whether the condition, limitation or qualification individually, or in the aggregate, has a material adverse effect on the Party with respect to this Agreement;

(2) a Party determining an adverse effect under Section 11.1(C)(1) shall as soon as practicable, but in no case after more than 30 calendar days of the FERC or court action, notify the other Party;

(3) after notification, the Parties shall cooperate on a commercially reasonable basis to renegotiate the terms of this Agreement to preserve the original economic relationship of the Parties with respect to this Agreement; and

(4) if the parties fail to renegotiate the terms of this Agreement, the Agreement is null and void and have no further force and effect.

(D) Approval of this Agreement by the Arizona Corporation Commission.

11.2 TERMINATION DATE.

(A) Unless earlier terminated pursuant to the terms of this Agreement or extended pursuant to Section 11.2(B), this Agreement shall terminate at midnight on December 31, 2015.

(B) This Agreement shall automatically be renewed for up to three additional 5-year terms unless either Party provides to the other Party a notice of termination at least 12 months prior to the scheduled termination of this Agreement.

11.3 PARTIAL TERMINATION.

(A) The obligations of the Parties with respect to the Dedicated Units Energy Products shall terminate upon the termination or material change of the Pinnacle West Energy Contract, if the termination or material change of the Pinnacle West Energy Contract is outside of the control of PWCC and Pinnacle West Energy Corporation and regardless of whether such termination or material change occurs during a renewal period pursuant to Section 11.2(B).

(B) If this Agreement is partially terminated under Section 11.3(A), the Parties shall engage in good faith negotiations for a subsequent agreement regarding the provision of Energy Products in lieu of the Dedicated Units Energy Products.

11.4 REGULATORY APPROVALS. Each Party shall use commercially reasonable efforts to obtain the necessary regulatory approvals so that this Agreement shall become effective on the earliest practicable date.

ARTICLE 12
DISPUTE RESOLUTION

12.1 ALTERNATIVE DISPUTE RESOLUTION. Except as provided in Section 12.4, all claims or disputes, whether sounding in tort or contract or otherwise, between the Parties, including their agents and representatives, arising under or relating to this Agreement are subject to alternative dispute resolution as provided in this Article 12.

12.2 MEDIATION. Any dispute between the Parties shall first be submitted to non-binding mediation using the following procedures:

(A) A Party shall provide a written request for mediation to the other Party.

(B) The mediation shall commence within 60 calendar days from receipt of the request in Section 12.2(A).

(C) A mediator shall be chosen by mutual agreement of the Parties within 15 calendar days of receipt of the request in Section 12.2(A).

(D) All discussions or materials presented during or for purposes of the mediation shall be considered Confidential Information and subject to Rule 408 of the federal and state rules of evidence and any similar regulatory rules.

12.3 ARBITRATION. If a dispute cannot be resolved after mediation under Section 12.2 and except as provided in Section 12.4, the dispute shall be submitted to binding arbitration as follows:

(A) The arbitration shall be conducted in Phoenix, Arizona in accordance with the Federal Arbitration Act and by the then-prevailing Commercial Arbitration Rules of the American Arbitration Association. The arbitration proceedings, decision and award under this Section 12.3 shall be governed by the Federal Arbitration Act.

(B) The validity, construction, and interpretation of this Article 12 and all procedural aspects of the arbitration shall be governed by the Federal Arbitration Act and shall be decided by the arbitrators.

(C) Submission to arbitration shall be made upon the request of either Party.

(D) There shall be 3 arbitrators. Each Party shall appoint a single arbitrator within 20 calendar days after service of the notice of arbitration. The 2 arbitrators so appointed shall select the third arbitrator, who shall be the chairperson of the tribunal, within 20 calendar days after the both arbitrators are appointed. The chairperson shall have over 8 years of experience in energy-related transactions.

(E) None of the arbitrators shall be employees or former employees of either Party or have any direct interest in either Party or the subject matter of the arbitration, unless the conflict is expressly acknowledged and waived in writing by both Parties.

(F) The chairperson shall schedule and hear the dispute within 6 months after appointment and shall render the panel's decision within 30 calendar days after the hearing concludes.

(G) The arbitrators shall have no authority to award consequential, treble, exemplary, or punitive damages of any type or kind regardless of whether such damages may be available under any law or right. The Parties waive their rights, if any, to recover or claim such damages.

(H) All discussions or materials presented during or for purposes of the arbitration shall be considered Confidential Information.

(I) All costs and expenses of the arbitrators shall be borne equally by the Parties. The arbitration shall take place in Phoenix, Arizona.

(J) The arbitration award shall be final and binding on the Parties and may be entered in any court of competent jurisdiction. If required by applicable law, the arbitration award shall be filed with FERC and subject to FERC approval.

12.4 EQUITABLE RELIEF. Either Party may petition a court of appropriate and proper jurisdiction, as described in Section 13.6, for non-monetary relief relating to any claim of breach of this Agreement to prevent undue hardship relating to the claimed breach pending the completion of mediation or arbitration under Sections 12.2 and 12.3.

ARTICLE 13
GENERAL PROVISIONS

13.1 ENTIRE AGREEMENT; AMENDMENTS AND COUNTERPARTS.

(A) Except as provided in Section 1.3, the terms of this Agreement constitute the entire agreement between the Parties with respect to its subject matter.

(B) The terms of this Agreement may be changed only by mutual written agreement executed by both Parties after the date of this Agreement.

(C) This Agreement may be executed in counterparts.

13.2 NO WAIVER.

(A) No waiver of a default constitutes a waiver of any other default or defaults whether of a like kind or different nature.

(B) Any delay in asserting or enforcing any right under this Agreement does not waive such right, unless barred by an applicable statute of limitation.

13.3 HEADINGS. Headings and titles are for convenience only and do not affect the meaning or interpretation of any provision of this Agreement.

13.4 CONFIDENTIALITY.

(A) Each Party and their agents shall maintain all Confidential Information in confidence and shall use such information solely in connection with this Agreement.

(B) Neither Party may disclose Confidential Information to third parties without the prior written consent of the other Party, except to the extent necessary to effectuate the transfer of Energy Products after providing the other Party with prompt written notice of the intent to disclose to the third party.

(C) This Section 13.4 shall survive the termination of this Agreement for a period of one year.

13.5 GOVERNING LAW.

(A) This Agreement shall be governed by, construed and enforced in accordance with the laws of Arizona, without regard to principles of conflict of laws.

(B) The Parties agree that for purposes of this Agreement the products sold herein are not "goods" within the meaning of any Uniform Commercial Code.

13.6 JURISDICTION AND COSTS.

(A) Subject to Article 12 and Section 13.6(B), any judicial action relating in any way to this Agreement shall be brought only in a state or federal court located in Phoenix, Arizona.

(B) An action to enforce an arbitration award may be brought in any jurisdiction.

(C) The Parties waive any right to trial by jury in an action relating to this Agreement.

(D) The prevailing Party in any judicial action is entitled to recover its costs, litigation and other expenses, and reasonable attorneys' fees incurred in connection with such proceedings.

13.7 NO THIRD-PARTY BENEFICIARIES.

(A) There are no third-party beneficiaries to this Agreement.

(B) This Agreement does not create, nor shall it be construed to create, any standard of care, duty or liability to any third party.

13.8 BINDING EFFECT. This Agreement is binding on and inures to the benefit of the Parties and their respective successors and permitted assigns.

13.9 RECORDING.

(A) Either Party may record telephone conversations and other discussions regarding matters arising under this Agreement.

(B) Each Party agrees to obtain the consent of its employees and agents to such recording to the extent required by applicable law.

(C) All recordings of telephone conversations and other discussions are deemed Confidential Information.

13.10 REGULATORY JURISDICTION. This Agreement and any actions under this Agreement shall be subject to applicable regulatory jurisdiction and approvals, but this Agreement shall not be construed as subjecting either Party to the jurisdiction of any regulatory agency that would not otherwise have jurisdiction over such Party.

13.11 ASSIGNMENT.

(A) Neither Party may transfer or assign any of its rights, title, interests or obligations in or under this Agreement, including assignments of the Dedicated Contracts from PWCC, without the prior written consent of the other Party, except for:

(1) an assignment, including but not limited to a transfer or pledge, made as security for any financing if:

(a) the assigning Party provides prompt notice to the other Party of the assignment, including the effective date; and

(b) the assignment does not release the assigning Party from any obligations or liabilities under this Agreement prior to the effective date of the assignment; or

(2) an assignment, including but not limited to a transfer or delegation, to an Affiliate if:

(a) the assigning Party provides prompt notice to the other Party of the assignment, including the effective date;

(b) the assignee Affiliate agrees to be fully bound by the Agreement;

(c) the assignee Affiliate meets the Credit Support requirements of the non-assigning Party; and

(d) the assignment does not release the assigning Party from any obligations or liabilities under this Agreement prior to the effective date of the assignment.

(B) Any transfer that does not comply with Section 3.11(A) is null and void.

13.12 RECORDS.

(A) Each Party shall maintain records of all transactions under this Agreement for a minimum of 3 years from the billing date of the transaction.

(B) Each Party may require the other Party to produce the other Party's records to the extent reasonably necessary to verify the accuracy of any statement, charge or computation made pursuant to this Agreement.

(C) If the records produced under Section 13.12(B) reveal any inaccuracy in any invoice or similar statement, a refund shall issue to the Party owed money plus Interest, except that if the invoice or statement resulting in the refund is over 12 months old, no refund shall issue.

13.13 NEGOTIATED AGREEMENT. The Parties agree that they have had meaningful discussions and negotiations over the provisions of this Agreement and therefore no provision is to be construed against the Party who drafted and prepared this Agreement.

13.14 SEVERABILITY. If any provision of this Agreement is determined to be unenforceable, illegal or otherwise invalid, then that provision shall be severed and the remainder of the Agreement shall remain in full force and effect if:

(A) the Parties can legally, practically, and commercially continue without the severed provision; and

(B) the severance does not defeat the purpose or relative economic position of either or both Parties in entering into this Agreement.

13.15 TIME OF THE ESSENCE. Time is of the essence of this Agreement.

SIGNED:

PINNACLE WEST CAPITAL CORPORATION	ARIZONA PUBLIC SERVICE COMPANY
By:_____________________________	By:_____________________________
Name:___________________________	Name:___________________________
Title:__________________________	Title:__________________________
Date:___________________________	Date:___________________________

EXHIBIT A

DEFINITIONS

When initially capitalized, the following terms used in the Agreement, including the Service Schedule and exhibits, have the meanings set forth below:

"AFFECTED PARTY" means a Party affected by a material change under Section 6.1.

"AFFILIATE" means: (a) an entity directly or indirectly controlling the other entity; (b) an entity directly or indirectly controlled by the other entity; or (c) an entity commonly controlled directly or indirectly with the other entity.

"ANCILLARY SERVICES" means the services specified in Schedules 1 through 6 of APS' Open Access Transmission Tariff.

"APS" means Arizona Public Service Company.

"APS' FULL LOAD REQUIREMENTS" means APS' full Energy Product requirements needed to serve APS' present and future Standard Offer retail customers. APS' Full Load Requirements excludes the amount of APS' retail load served by the following resources: (1) the SRP Power Coordination Agreement of September 15, 1955 and Territorial Agreement of August 31, 1955 to the extent such agreement is not a Dedicated Contract; (2) deliveries of capacity and energy under the September 21, 1990 Asset Purchase and Power Exchange Agreement, Sections 3 and 4, between APS and PacificCorp to the extent such agreement is not a Dedicated Contract; (3) the Arizona Corporation Commission's environmental portfolio standard in effect on the date of this Agreement; (4) APS' purchase power contracts with Qualifying Facilities and customer-owned generation in effect on the date of this Agreement or as subsequently authorized by law; (5) the output of APS' Palo Verde Nuclear Generation Station assets until they are transferred to Pinnacle West Energy Corporation; and (6) other generating assets retained by APS pursuant to an order of the Arizona Corporation Commission.

"BASE RATE" means the lesser of (a) the annual interest rate published as the "Prime Rate" in the WALL STREET JOURNAL's "Money Rates" section, unless the WALL STREET JOURNAL no longer publishes the "Prime Rate," in which case a comparable rate agreed to by the Parties, plus 2 percent; or (b) the maximum interest rate allowed by law.

"BUSINESS DAY" means a weekday during which United States banks are open for general commercial business and ending at 5:00 p.m. Phoenix time.

"CAPACITY" means electric generating capability, expressed in kilowatts (kW) or megawatts (MW).

"COMPETITIVE BIDDING PROCESS" means the bidding process through which PWCC or its assignee or agent shall contract for the portion of the Energy Products described in the Service Schedule as Competitively-Bid Energy Products.

"COMPETITIVELY-BID ENERGY PRODUCTS" means Energy Products obtained through the Competitive Bidding Process described in Section 3.1 of the Service Schedule.

"CONFIDENTIAL INFORMATION" means any information relating to or provided under this Agreement that is designated by a Party as confidential, except (a) information in a Party's possession prior to its receipt from the other Party; (b) information obtained from a third person who, as far as the obtaining Party is aware, was not prohibited by a contractual, legal or fiduciary obligation from transmitting the information; (c) information that has become publicly available through no fault of the obtaining Party; and (d) information that a Party is required by law, regulation, or administrative or judicial order to disclose, including information related to satisfying regulatory requirements, if the Party disclosing such information has provided prompt notice of the requirement and allowed a reasonable period of time for the other Party to seek to restrain such disclosure.

"CONTRACT PRICE" means the price specified in the attached Service Schedule for each Contract Year including adjustments.

"CONTRACT TERM" or "TERM" means the period beginning on the Effective Date and ending on the termination date specified in Section 11.2.

"CONTRACT YEAR" means (a) for the initial contract year, 12:01 A.M. on the date delivery of Energy Products commences pursuant to Section 1 of the attached Service Schedule, and ending 12:00 Midnight, December 31 of the same calendar year; and (b) for each subsequent calendar year, the period of time between 12:01 A.M., January 1 and ending 12:00 Midnight, December 31.

"CREDIT SUPPORT" means: (a) a Letter of Credit, (b) a Guaranty, or (c) such other form of commercially-reasonable security acceptable to the secured Party.

"CREDIT SUPPORT PROVIDER" means: (a) a Guarantor, (b) an Issuer, or (c) a provider of another form of Credit Support who is acceptable to the secured

Party.

"DEDICATED CONTRACTS ENERGY PRODUCTS" means Energy and Capacity sold to APS from the Dedicated Contracts.

"DEDICATED CONTRACTS" means energy and capacity procured pursuant to the: (a) SRP Power Coordination Agreement and Territorial Agreement, and (b) Sections 3 and 4 of the Asset Purchase and Power Exchange Agreement between APS and Pacificorp dated September 21, 1990; but (c) only to the extent that such contracts are transferred to or assumed by Pinnacle West Capital Corporation.

"DEDICATED ENERGY PRODUCTS" means Energy and Capacity sold to APS from the Dedicated Units and Dedicated Contracts.

"DEDICATED UNITS" means Palo Verde Units 1-3, West Phoenix Units 1-5 and CT1-2, Saguaro Steam Units 1&2 and CTs 1-3, Navajo Units 1-3, Four Corners Units 1-5, Yucca Unit 1 and CTs 1-4, Douglas CT, Cholla Units 1-3, Ocotillo Units 1-2 and CT1-2 and Redhawk Units 1-2, from commissioning until such units are retired, as applicable.

"DEDICATED UNITS BILLING ENERGY" means the quantity of Energy billed to APS by PWCC each calendar month under Section 3.2 of the Service Schedule. Unless revised as a result of an applicable RTO requirement, Dedicated Units Billing Energy shall equal: (a) the sum of net tie metering for all interconnections between APS' control area and other control areas as measured through telemetered data and adjusted for end-of-month system revenue metering as agreed between the Parties, plus (b) all net metered generation interconnected with APS' control area as measured through telemetered data and adjusted for end-of-month system revenue metering as agreed between the Parties, plus (c) losses on third parties' transmission systems associated with transmission used by APS to serve APS' Full Load Requirements, less (d) retail and wholesale loads served by other providers or supplied by PWCC to APS under separate contract within APS' control area, less (e) Supplemental Energy Products, less (f) Replacement Energy Products, less (g) Competitively-Bid Energy Products, less (h) Dedicated Contracts Energy Products, less (i) those resources specifically excluded in the definition of APS' Full Load Requirements.

"DEDICATED UNITS ENERGY PRODUCTS" means Energy and Capacity sold the APS from the Dedicated Units.

"DEFAULTING PARTY" means a Party who itself or through its Credit Support Provider is subject to an Event of Default.

"DELIVERY POINT" means a location or locations, as agreed-upon from time to time, at which PWCC's resources used to provide Energy Products to APS interconnect with: (a) APS' transmission or distribution system; (b) the system of a future RTO in which APS' retail load is located; or (c) points of interconnection between such systems and adjoining systems.

"DEMAND" means the rate at which Energy is delivered.

"DIRECT ACTUAL DAMAGES" means the damages calculated under Section 7.2.

"EARLY TERMINATION DATE" means a date on which the Agreement is terminated that is earlier than the date specified in Section 11.2 of the Agreement.

"ENERGY" means three-phase, sixty-hertz electric energy delivered at the nominal voltage of the Delivery Point expressed in megawatt hours (MWh) or kilowatt hours (kWh).

"ENERGY PRODUCTS" means Energy and Capacity.

"EVENT OF DEFAULT" means an event of default described in Section 7.1.

"FERC" means the Federal Energy Regulatory Commission or its successor.

"FORCE MAJEURE" means an event that: (a) is not anticipated on the date the Agreement is signed; (b) is not within the reasonable control of the Party claiming Force Majeure; (c) could not, in the exercise of reasonable diligence and Good Utility Practice by the Party claiming Force Majeure, have been prevented or avoided; and (d) renders the Party claiming Force Majeure unable to carry out, wholly or in part, its obligations under this Agreement. Subject to the foregoing, Force Majeure includes, but is not limited to, the following events: (1) act of God; (2) act of public enemy, war, terrorism, blockade, insurrection, civil disturbance, disobedience or riot; (3) strike, lockout, material shortage or other industrial disturbance; (4) epidemic, landslide, earthquake, fire, storm, lightning, flood or other natural catastrophe; (5) failure of the transmission or distribution grid, including third parties' transmission facilities, to transmit or distribute Energy; (6) reductions or interruptions in services which may be required by the control area operator or regional transmission organization; (7) material failure of performance by any PWCC supplier, including failures as a result of Force Majeure, which results in a shutdown or material reduction of any of the generation capacity or output owned or controlled by PWCC or a PWCC Affiliate; (8) shutdown or reduction by the Nuclear Regulatory Commission of a material portion of the generation capacity or output which is owned or controlled by PWCC or a PWCC Affiliate; (9) act, omission, failure to act, or order of a civil, judicial, regulatory or government authority, if the Party claiming Force Majeure has acted to the fullest extent reasonable to prevent or correct the act, omission, failure to act or order; and (10) any other act or omission similar to the foregoing examples which by the exercise of a Party's reasonable diligence cannot be overcome. Force Majeure specifically excludes PWCC's ability to sell Dedicated Energy Products at a more advantageous price. "GOOD UTILITY PRACTICE" means (a) any of the practices, methods, and acts engaged in or approved by a significant portion of the electric utility industry during the relevant time period; and (b) any of the practices, methods, and acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety and expedition. Good Utility Practice does not necessarily require the optimum practice, method, or act to the exclusion of all others but does include a requirement that PWCC provide installed or purchased generating reserves reasonably needed to supply firm Dedicated Energy Products to APS as required under this Agreement.

"GOVERNMENTAL AUTHORITY" means (a) a city, municipality, county, state or other governmental board or authority; (b) a regulatory or public power board or authority; (c) a public utility or public power district; (d) a joint action agency; (e) a federally recognized tribal board, authority or agency; or (e) other similar political subdivisions or public entities of the United States, or any state or a territory, acting individually or in combination.

"GUARANTOR" means an entity or entities executing a Guaranty of the obligation of one Party to the other Party. A Guarantor must be reasonably acceptable to the Party receiving the Guaranty.

"GUARANTY" means a guaranty, hypothecation agreement, security agreement, or any other document containing an obligation of a Guarantor in favor of, and supporting obligations of, one Party to the other Party. The Guaranty must be in a form and substance reasonably acceptable to the Party receiving the Guaranty.

"INTEREST" means interest accruing at the Base Rate, compounded daily based on a 360-day year, from and including the due date to and including the payment date or, if applicable, interest as ordered by FERC.

"ISSUER" means a person executing and delivering to a Party a Letter of Credit or another form of Credit Support document that is not a Guaranty. An Issuer must be reasonably acceptable to the receiving Party.

"LETTER OF CREDIT" means an instrument or agreement, revocable or irrevocable, entered into by a bank or other financial institution providing that the issuer will honor drafts or other demands for payment upon compliance with the conditions specified in the credit.

"MARKET QUOTATION" means a quotation determined under Section 7.1(E)(2).

"NERC" means the North American Electric Reliability Council and any successor.

"NET SETTLEMENT AMOUNT" means the amount calculated under Section 7.1(E)(1).

"OFF-SYSTEMS SALES MARGIN" means the revenue received from energy sales to anyone other than APS from the Dedicated Units less: (a) the costs of associated fuel, transmission and Ancillary Services if applicable, and (b) any other out-of-pocket costs associated with the sale.

"PARTIES" means both APS and PWCC.

"PARTY" means either APS or PWCC.

"PERFORMING PARTY" means the non-defaulting Party upon an Event of Default or the non-breaching Party in the case of a breach.

"PINNACLE WEST ENERGY CONTRACT" means the contract between PWCC and Pinnacle West Energy Corporation referred to in Section 2.1(C) of the Agreement.

"PURCHASE PRICE" means the price in United States dollars, unless otherwise agreed, to be paid by APS to PWCC in exchange for the Energy Products. The Purchase Price may be stated in a per unit price for a specific Energy Product or Products or as a total price for all Energy Products.

"PWCC" means Pinnacle West Capital Corporation.

"REFERENCE MARKET MAKERS" means four leading dealers in the relevant market selected by either Party determining a Market Quotation in good faith from among dealers of the highest credit standing which satisfy all the criteria that a Party applies generally at the time of deciding whether to enter into similar transactions

"REPLACEMENT ENERGY PRODUCTS" means Energy Products provided by PWCC under Section 3.1.4 or Section 3.4 of the Service Schedule.

"RTO" means a FERC-approved regional transmission organization, including but not limited to a transco, gridco or the WestConnect RTO.

"SALES PRICE" means (a) the price at which the Performing Party, acting in a commercially reasonable manner, effects a resale of undelivered Energy Products; or, (b) the market price for the quantity of Energy Products at the Delivery Points agreed upon by the Parties; less (c) costs reasonably incurred by the Performing party in reselling Energy Products, additional transmission charges incurred by the Performing Party in delivering Energy Product to third-party buyers and penalties, ratcheted demands or similar charges.

"SRP" means the Salt River Project Agricultural Improvement and Power District.

"SUBSTITUTE PRICE" means the price at which APS acting in a commercially reasonable manner purchases at the Delivery Points a replacement for Energy Products not delivered by PWCC, plus costs reasonably incurred by APS in purchasing the substitute product; plus additional transmission charges reasonably incurred by APS in purchasing the substitute product.

"SUPPLEMENTAL ENERGY PRODUCTS" means Energy Products provided by PWCC under Section 3.3 of the Service Schedule.

"TARIFF" means PWCC's Market-Based Rate Tariff on file and approved by FERC, as amended from time to time.

"TAXES" means all taxes, fees, levies, penalties, licenses or charges imposed by any Governmental Authority.

"TRANSMISSION PROVIDER" means an entity or entities transmitting or transporting the Energy Product on PWCC's or APS' behalf to or from the Delivery Points.

"UNPAID AMOUNTS" means the amounts determined under Section 7.1(E)(3).

"WSCC" means the Western Systems Coordinating Council.

EXHIBIT B

NOTIFICATION AND POINTS OF CONTACT

For PWCC: Contract Administration to:

PINNACLE WEST CAPITAL CORPORATION
400 N. 5th Street, Station 9842
Phoenix, AZ 85004
ATTN: Dennis Beals

PHONE: (602) 250-3101
FAX: (602) 250-3719

Payments to:

PINNACLE WEST CAPITAL CORPORATION
Bank Name: Bank One of Arizona
Acct No.: 2270-3938
ABA No.: 122100024

For APS: ARIZONA PUBLIC SERVICE COMPANY
400 N. 5th Street, Station 8632
Phoenix, AZ 85004
ATTN: Keith Van Ausdal

PHONE: (602) 250-2951
FAX: (602) 250-213

SERVICE SCHEDULE

This Service Schedule further defines the obligations of the Parties with respect to the Agreement.

1. EFFECTIVE DATE.

1.1 This Service Schedule is for the sale and purchase of APS' Full Load Requirements, beginning on the Effective Date of the Agreement and continuing through December 31, 2015, unless otherwise terminated or extended pursuant to this Agreement.

2. FORECAST.

2.1 APS shall provide a five-year forecast of the APS' Full Load Requirements on an hourly basis 60 days prior to each calendar year. The first five-year forecast shall be provided within 30 days of the execution of this Agreement. APS shall also update the forecast during each calendar year for known or anticipated changes in load.

2.2 Scheduling/Forecast. APS shall use its best efforts to submit accurate and timely forecasts and to facilitate PWCC's submittal of an accurate schedule for receipt of APS' Full Load Requirements. PWCC may schedule the delivery of Energy Products to APS in any combination of MW amounts and at any combination of Delivery Points as necessary to satisfy the total Energy Products supply requirements.

3. PROVIDING APS' FULL LOAD REQUIREMENTS. PWCC shall provide APS' Full Load Requirements and APS shall pay all costs associated with such service as follows:

3.1 Competitively-Bid Energy Products.

3.1.1 Commencing on January 1, 2003, PWCC shall secure and provide Energy Products to APS through a competitive bidding process in the initial amount of 270 MWs at an overall 51% load factor. Energy Products acquired through a competitive bidding process shall include transmission to the Delivery Points. PWCC may charge APS for Ancillary Services or other delivery costs if not included in the Competitively-Bid Energy Products.

3.1.2 Energy Products acquired through a competitive bidding process shall be increased by an additional 270 MWs at an overall 51% load factor each Contract Year thereafter through 2008 so that by the end of 2008, 1620

MW will be supplied--an amount which APS estimates to be approximately 23% of 2008 peak load.

3.1.3 PWCC shall, directly or through an assignee or agent, conduct the Competitive Bidding Process for the benefit of APS. The specific details of the Competitive Bidding Process shall be determined by PWCC in consultation with APS, provided that the selection of the winning bidders, as well as contract provisions, specifications and creditworthiness shall be expressly approved by APS.

3.1.4 APS shall be responsible for any and all costs and expenses incurred in the acquisition of any Energy Products supplied through the Competitive Bidding Process, including PWCC's administrative expenses associated with bid development and evaluation, and procurement. In the event of non-performance by parties that are under contractual commitments as a result of the Competitive Bidding Process, PWCC will use commercially reasonable efforts to obtain Replacement Energy Products for the benefit of APS. APS shall be responsible for all costs incurred for the Replacement Energy Products. In consultation with APS, PWCC shall pursue all commercially legal remedies for defaults under contracts entered into as a result of the Competitive Bidding Process. APS shall be responsible for all costs and fees associated with the pursuit of such remedies, and APS shall receive all monies awarded as a remedy.

3.1.5 Should PWCC wish to participate in the Competitive Bidding Process as a seller, PWCC shall engage an independent third party to perform the necessary functions of the Competitive Bidding Process on behalf of PWCC. APS shall approve such independent third party. If PWCC is selected in the Competitive Bidding Process, then a separate agreement between APS and PWCC will be executed for such Competitively Bid Energy Products.

3.2 Dedicated Energy Products. Subject to the Agreement and this Service Schedule, PWCC shall provide Dedicated Energy Products from the Dedicated Units and the Dedicated Contracts to serve APS' Full Load Requirements.

3.2.1 Dedicated Units Energy Products. Dedicated Units Energy Products shall be priced at the actual prices charged to PWCC in the Pinnacle West Energy Contract. The Parties recognize that the prices in the Pinnacle West Energy Contract include:

* a Facilities Charge that includes a return of and on the fixed capital assets of the Dedicated Units and their associated operation and maintenance costs excluding fuel, as set forth in Attachment 1 to this Service Schedule;

* a Base Fuel Charge ("BFC") for fuel and related costs associated with the Dedicated Units Energy Products, as set forth in Attachment 2 to this Service Schedule;

* a Fuel and Purchased Power Adjustment ("FPPA") for variable costs, as set forth in Attachment 2 to this Service Schedule; and

* transmission, losses, and Ancillary Services costs to the Delivery Points as a pass through charge to APS.

The Fuel and Purchased Power Adjustment can be positive or negative.

3.2.2 Pricing of Dedicated Units Energy Products.

3.2.2.1 Based on Section 3.2.1 above and Attachment 1 to this Service Schedule, the initial Facilities

Charges for Dedicated Units Energy Products in the Pinnacle West Energy Contract shall be:

Year	Facilities Charge ($000/Month)	
2002	$35,440	(excludes Palo Verde)
2003	$63,600	
2004	$67,120	

3.2.2.2 For Contract Years following 2004, the Facilities Charge in the Pinnacle West Energy Contract shall be calculated as provided in Attachment 1 to this Service Schedule.

3.2.2.3 The Base Fuel Charge in the Pinnacle West Energy Contract shall be $0.0210 per kWh for 2002 and $0.0174 per kWh for 2003 and thereafter for the remaining term of this Agreement, as provided in Attachment 2 to this Service Schedule.

3.2.2.4 Beginning March 1, 2003, a Fuel and Purchased Power Adjustment to the Base Fuel Charge will be applied each month to the billing for Dedicated Units Energy Products. The Fuel and Purchased Power Adjustment in the Pinnacle West Energy Contract shall be calculated annually prior to March of each calendar year as provided in Attachment 2 to this Service Schedule.

3.2.2.5 For billing purposes, the Base Fuel Charge and the Fuel and Purchased Power Adjustment shall be applied to the Dedicated Units Billing Energy.

3.2.3 Minimum Availability of Dedicated Units.

3.2.3.1 Capacity. At a minimum, PWCC shall make Capacity from the Dedicated Units available as follows: (a) for 2002, prior to the transfer of Palo Verde Nuclear Generating Station Assets, the lesser of 3440 MW at system peak or actual load at system peak; and (b) for 2003 and later, after the transfer of Palo Verde Nuclear Generating Station Assets, the lesser of 4720 MW at system peak or actual load at system peak, subject to adjustment as Dedicated Units are retired.

3.2.3.2 Energy. At a minimum, PWCC shall have available Energy from the Dedicated Units in the amount of: (a) for 2002, prior to the transfer of Palo Verde Nuclear Generating Station Assets, 15,370 GWh annually; and (b) for 2003 and later, after the transfer of Palo Verde Nuclear Generating Station Assets, 21,090 GWh annually, subject to adjustment as Dedicated Units are retired.

3.2.4 Dedicated Contracts Energy Products. Dedicated Contracts Energy Products shall be priced at the actual cost incurred by PWCC under the provisions of those contracts, including transmission, losses, and Ancillary Services to the Delivery Point. In the event of a default on a Dedicated Contract, PWCC shall obtain Replacement Energy Products pursuant to Section 3.4 of this Service Schedule.

3.3 Supplemental Energy Products. If APS' Full Load Requirements exceeds the Energy Products provided under Sections 3.1 and 3.2, or if there are insufficient qualified bidders to supply the required level of Competitively-Bid Energy Products under Section 3.1 of this Service Schedule, then PWCC shall use commercially-reasonable efforts to obtain the additional energy requirements in the market. APS shall be responsible for any and all costs and expenses incurred in the acquisition of any Supplemental Energy Requirements supplied including PWCC's administrative expenses incurred for procurement.

3.4 Replacement Energy Products. In the event of non-performance by parties that are under contractual commitments as a result of APS' Supplemental Energy Requirements, PWCC shall use commercially-reasonable efforts to obtain Replacement Energy Products for the benefit of APS. PWCC shall also obtain Replacement Energy Products when requested under Section 8.1(B) of the Agreement. APS shall be responsible for any and all costs incurred for the acquisition of Replacement Energy Products including PWCC's administrative expenses incurred for procurement. In consultation with APS, PWCC shall pursue all commercially legal remedies for defaults under contracts entered into to

acquire Supplemental Energy Products. APS shall be responsible for all costs and fees associated with the pursuit of such remedies, and APS shall receive all monies awarded as a remedy.

PURCHASE POWER AGREEMENT
CONTRACT NO. ________
SERVICE SCHEDULE
ATTACHMENT #1

CALCULATION OF THE FACILITIES CHARGE IN THE PINNACLE WEST ENERGY CONTRACT

1. FACILITIES CHARGE (FC).

The FC for 2002-04 as specified in Section 3.2.2.1 of the Service Schedule was derived using the method below. Effective January 1, 2005 and every three years thereafter the FC shall include the reasonable costs of owning and operating the Dedicated Units as recalculated below:

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FC $/Month  = [[(ROR %) X (Net Dedicated Units Assets $)] + (Dedicated Units Operating Annu
              ----------------------------------------------------------------------------
                                                                   12 Months
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Where:

Rate of Return (ROR) is 9.12% which is the cost of capital assuming a 50/50 debt-equity capital structure, at a 7.5% cost of debt and a 11.25% return on equity.

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Net Dedicated Units Assets(2) = Original Plant-in-Service Cost(3) - Accumulated Depreciatio
                                          + Material & Supplies + Prepayments + Working

Dedicated Units Operating Expenses(4) = Operation & Maintenance Expenses(5) + Administrativ
                                                    + Income Tax Expense(8) + Other Tax
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(1) Includes revenues paid to PWCC by APS for ancillary services pursuant to the terms of a separate contract.

(2) Projected three year average of year end balances. Each component shall be defined pursuant to the FERC system of accounts or if no applicable FERC system of accounts exists, then on General Accepted Accounting Principles (GAAP). All A&G related expenses, not directly charged, shall be allocated on wages and salaries for the Dedicated Units as a percent of total Pinnacle West Energy wages and salaries.

(3) Original Plant-in-Service Costs will include all capitalized costs of the Dedicated Units plus improvements including common and intangible.

(4) Projected three year average. Each component shall be defined pursuant to the FERC system of accounts or if no applicable FERC system of accounts exists, then on General Accepted Accounting Principles (GAAP). All A&G related expenses, not directly charged, shall be allocated on wages and salaries for the Dedicated Units as a percent of total Pinnacle West Energy wages and salaries.

(5) Costs and expenses associated with the Dedicated Units excluding fuel and purchased power.

(6) Costs and expenses associated with the Dedicated Units, including related common facilities.

(7) Costs and expenses associated with the Dedicated Units, including related common facilities.

(8) Based on the statutory tax rate, both state and federal, for PWEC on stand alone basis.

(9) Taxes and assessments based on generation or gross revenue.

PURCHASE POWER AGREEMENT
CONTRACT NO. _______
SERVICE SCHEDULE
ATTACHMENT #2

CALCULATION OF THE BFC AND FPPA IN THE PINNACLE WEST ENERGY CONTRACT

1. BASE FUEL CHARGE (BFC).

The BFC shall be set at $0.021/kWh for the calendar year 2002, and at $0.0174 /kWh effective January 1, 2003 for the remainder of the Agreement, and is the Average Fuel Costs associated with the Dedicated Units (AFCDU) for 2002-2004.

Where:

AFCDU $/kWh = (Total fuels cost of Dedicated Units(1) $)/(Total generation of the Dedicated

2. FUEL & PURCHASED POWER ADJUSTMENT (FPPA).

Beginning March 1, 2003 a FPPA to the BFC will be applicable each month to the billing for Dedicated Units Energy Products. The FPPA shall be calculated annually prior to March of each calendar year as follows:

FPPA $/kWh = [(Projected AFCDU(2) - BFC) $/kWh] + [((Actual AFCDU(3) -(BFC + FPPA(4)) $/kWh
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Proje

Where:

"Actual kWh" is the actual Dedicated Units Energy Products purchased by APS on a kWh basis for the prior contract year.

"Projected kWh" is the kWh projected by APS pursuant to Section 2 of this Service Schedule, less the Energy Products acquired under Section 3.1, Section 3.2.4, Section 3.3, and Section 3.4 of this Service Schedule, for the period March 1 of the current Contract Year through the last day of February of the next Contract Year.

Off-System Sales Margin(5) = [(Off-System MWh X (Price6 $/MWh -AFCDU(7) $/MWh)) - Other Costs(8)] X .25

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(1) Total fuels costs of Dedicated Units shall include all coal, gas including transportation, oil, nuclear fuel expenses, costs and benefits of fuel-related financial instruments, nuclear spent fuel costs, any applicable surcharges, purchased power costs associated with economic dispatch of the Dedicated Units, nuclear decommissioning expense to the extent it is not recovered from the System Benefits charge authorized by the Arizona Corporation Commission, and any other fuel related expenses, including but not limited to costs associated with emissions allowances.

(2) For current Contract Year.

(3) For prior Contract Year.

(4) For prior Contract Year.

(5) For prior Contract Year for energy products delivered and sold into the wholesale market for third-party purchases.

(6) The Price will be based upon the Dow Jones Palo Verde Daily On and Off-Peak Index as applicable to the specific sales. In the event this index ceases to exist or a more representative index is developed for Arizona or the southwest portion of the U.S.A. then the index will be replaced.

(7) For prior Contract Year.

(8) Includes transmission costs and losses, and Ancillary Services, if applicable, and other out-of-pocket costs associated with the sales.
