

# PINNACLE WEST CAPITAL CORP

## FORM 8-K (Current report filing)

Filed 07/30/08 for the Period Ending 06/30/08

|             |   |
|-------------|---|
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| CIK         | 0000764622  |
| Symbol      | PNW   |
| SIC Code    | 4911 - Electric Services                              |
| Industry    | Electric Utilities                                    |
| Sector      | Utilities   |
| Fiscal Year | 12/31   |

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

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**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): June 30, 2008**

| Commission File Number | Exact Name of Registrant as Specified in<br>Charter; State of Incorporation;<br>Address and Telephone Number  | IRS Employer<br>Identification Number |
|------------------------|---|---------------------------------------|
| 1-8962                 | Pinnacle West Capital Corporation<br>(an Arizona corporation)<br>400 North Fifth Street, P.O. Box 53999<br>Phoenix, AZ 85072-3999<br>(602) 250-1000 | 86-0512431                            |
| 1-4473                 | Arizona Public Service Company<br>(an Arizona corporation)<br>400 North Fifth Street, P.O. Box 53999<br>Phoenix, AZ 85072-3999<br>(602) 250-1000    | 86-0011170                            |

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

This combined Form 8-K is separately filed by Pinnacle West Capital Corporation and Arizona Public Service Company. Each registrant is filing on its own behalf all of the information contained in this Form 8-K that relates to such registrant and, where required, its subsidiaries. Except as stated in the preceding sentence, neither registrant is filing any information that does not relate to such registrant, and therefore makes no representation as to any such information.

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## **Item 2.02. Results of Operations and Financial Condition**

On July 30, 2008, Pinnacle West Capital Corporation (the “Company” or “Pinnacle West”) issued a press release regarding its financial results for its fiscal quarter ended June 30, 2008. A copy of the press release is attached hereto as Exhibit 99.9.

Certain of the Information referenced in Item 7.01 below relates to the Company’s results of operations for its fiscal quarter ended June 30, 2008. This Information is attached hereto as Exhibits 99.2, 99.3, 99.7 and 99.9.

Exhibit 99.9 to this report contains certain “non-GAAP financial measures,” as defined in Item 10(e) of Regulation S-K of the Exchange Act. We describe these non-GAAP financial measures as “on-going earnings” and “on-going earnings per share.” Exhibit 99.9 contains a table that reconciles each of these non-GAAP financial measures to net income, which is the most directly comparable financial measure calculated and presented in accordance with accounting principles generally accepted in the United States of America (“GAAP”). We believe on-going earnings provide investors with a useful indicator of our results that is comparable among periods because it excludes the effects of unusual items that may occur on an irregular basis. Investors should note that these non-GAAP financial measures involve judgments by management, including whether an item is classified as an unusual item. We use on-going earnings, or similar concepts, to measure our performance internally in reports for management.

## **Item 7.01. Regulation FD Disclosure**

### **Financial and Business Information**

The Company is providing quarterly consolidated statistical summaries, earnings variance explanations, and a glossary of relevant terms (collectively, “Information”) to help interested parties better understand its business (see Exhibits 99.1, 99.2, 99.3, 99.4, 99.5, 99.6, 99.7 and 99.8). This Information is concurrently being posted to the Company’s website at [www.pinnaclewest.com](http://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 such 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.

### **2008 Earnings Outlook**

We currently estimate that our on-going consolidated earnings for 2008 will be within a reasonable range of \$2.50 per share. We estimate that Arizona Public Service Company (“APS”) will contribute substantially all of the 2008 on-going earnings and that SunCor Development Company’s 2008 earnings contribution will be minimal. Our 2008 on-going earnings estimate excludes \$0.30 per share of tax credits related to prior years recorded in the fiscal quarter ended June 30, 2008. In this discussion, earnings per share amounts are after income taxes and are based on diluted average common shares outstanding. The earnings guidance in this Form 8-K supersedes all previous earnings guidance provided by Pinnacle West. Our earnings forecasts are subject to numerous risks, including those described under “Forward-Looking Statements” below.

### **Capital Expenditures and Financings**

We are continuing efforts to improve APS’ financial strength and to reduce our need for external financing. These efforts consist of the following four components:

- Completion of a previously-announced cost reduction effort implemented earlier this year (including the elimination of \$200 million of capital expenditures for the years 2008-2012 and operations and maintenance expense reductions related to staffing and other costs);
- Attainment of interim rate relief under APS’ general retail rate case currently pending before the Arizona Corporation Commission (“ACC”);
- Reduction of at least an additional \$500 million in capital expenditures over the next three years, with implementation beginning in late 2008, due to our reduced customer growth outlook, deferral of several large transmission projects, and reductions in general plant capital expenditures; and
- Receipt of a constructive process and decision in the pending general retail rate case with the ACC.

We believe that successful implementation of this program will eliminate the need for a Pinnacle West equity issuance in 2008.

See “Capital Expenditures” in Part I, Item 2 of the Pinnacle West/APS Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2008 (“March 10-Q”) for current capital expenditure estimates, which include the \$200 million reduction described above. See the Pinnacle West/APS Report on Form 8-K, filed with the Securities and Exchange Commission (“SEC”) on June 9, 2008, for information regarding the interim base rate surcharge request. See “2008 General Rate Case” in Note 5 of Notes to Condensed Consolidated Financial Statements in the March 10-Q and the Pinnacle West/APS Report on Form 8-K, filed with the SEC on June 2, 2008, for information regarding the pending general retail rate case.

## **Forward-Looking Statements**

This Form 8-K contains forward-looking statements regarding our 2008 earnings outlook, expected decreases in capital expenditures and other expenses resulting from previous and current cost reduction efforts, achievement of interim rate relief and receipt of a constructive process and decision in our pending general retail rate case with the ACC, and the successful implementation of our program to improve our financial strength, eliminating the need for a Pinnacle West equity issuance in 2008. Neither the Company nor APS assumes any obligation to update these statements or make any further statements on any of these issues, except as required by applicable law. Because actual results may differ materially from expectations, we caution readers not to place undue reliance on these statements. A number of factors could cause future results to differ materially from historical results, or from results or outcomes currently expected or sought by Pinnacle West or APS. In addition to the Risk Factors described in Item 1A of the Pinnacle West/APS Annual Report on Form 10-K for the fiscal year ended December 31, 2007, these factors include, but are not limited to, our ability to reduce capital expenditures and other costs while maintaining reliability and customer service levels and unexpected developments that would limit us from reducing all or some of these capital expenditures; our ability to successfully implement our program to improve our financial strength in whole or in part and unexpected financial or other developments that would require a Pinnacle West equity issuance before the end of 2008; state and federal regulatory and legislative decisions and actions, including the outcome or timing of our pending rate cases; the outcome of regulatory, legislative and judicial proceedings, both current and future, including those related to environmental matters and climate change; the potential for additional restructuring of the electric industry, including decisions impacting wholesale competition and the introduction of retail electric competition in Arizona; fluctuations in market prices for electricity, natural gas, coal, uranium and other fuels used in our generating facilities, and supplies of such commodities; volatile market liquidity, any deteriorating counterparty credit and the use of derivative contracts in our business (including the interpretation of the subjective and complex accounting rules related to these contracts); power plant performance and outages; transmission outages and constraints; weather variations affecting local and regional customer energy usage; customer growth and energy usage; national and regional economic and market conditions, including the strength of the housing and credit markets, volatile fuel and purchased power costs, the completion of generation and transmission construction in the region, which could affect customer growth and the cost of power supplies, and the results of litigation and other proceedings resulting from the California and Pacific Northwest energy situations; ability of power plant participants to meet contractual or other obligations; the cost of debt and equity capital and access to capital markets; current credit ratings remaining in effect for any given period of time; changes in accounting principles generally accepted in the United States of America and the interpretation of those principles; the performance of the stock market and the changing interest rate environment, which affect the value of our nuclear decommissioning trusts, pension and other postretirement benefit plan assets, the amount of required contributions to Pinnacle West's pension plan and contributions to APS' nuclear decommissioning trust funds, as well as the reported costs of providing pension and other postretirement benefits; technological developments in the electric industry; the strength of the real estate market in SunCor's market areas, which include Arizona, Idaho, New Mexico and Utah; and other uncertainties, all of which are difficult to predict and many of which are beyond the control of Pinnacle West and APS.

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### Item 9.01. Financial Statements and Exhibits

#### (d) Exhibits.

| <b>Exhibit No.</b> | <b>Registrant(s)</b> | <b>Description</b>  |
|--------------------|----------------------|---|
| 99.1               | Pinnacle West<br>APS | Pinnacle West Capital Corporation quarterly consolidated statistical summary (cover page and list of contents).   |
| 99.2               | Pinnacle West<br>APS | Pinnacle West Capital Corporation quarterly consolidated statistical summary for the three-month and six-month periods ended June 30, 2008 and 2007.  |
| 99.3               | Pinnacle West<br>APS | Pinnacle West Capital Corporation consolidated statistics by quarter for 2008.  |
| 99.4               | Pinnacle West<br>APS | Pinnacle West Capital Corporation consolidated statistics by quarter for 2007.  |
| 99.5               | Pinnacle West<br>APS | Pinnacle West Capital Corporation consolidated statistics by quarter for 2006.  |
| 99.6               | Pinnacle West<br>APS | Pinnacle West Capital Corporation consolidated statistics by quarter for 2005.  |
| 99.7               | Pinnacle West<br>APS | Pinnacle West Capital Corporation earnings variance explanations for the three and six months ended June 30, 2008 and 2007 and unaudited condensed consolidated statements of income for the three and six months ended June 30, 2008 and 2007. |
| 99.8               | Pinnacle West<br>APS | Glossary of Terms.  |
| 99.9               | Pinnacle West<br>APS | Earnings News Release issued on July 30, 2008.  |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

PINNACLE WEST CAPITAL CORPORATION  
(Registrant)

Dated: July 30, 2008

By: /s/ Donald E. Brandt  
Donald E. Brandt  
President and Chief Operating Officer

ARIZONA PUBLIC SERVICE COMPANY  
(Registrant)

Dated: July 30, 2008

By: /s/ Donald E. Brandt  
Donald E. Brandt  
President and Chief Executive Officer



**Exhibit Index**

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**Pinnacle West Capital Corporation**  
**Quarterly Consolidated Statistical Summary**  
**Periods Ended June 30, 2008 and 2007**

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**2008 Second Quarter Summary**

**2008 by Quarter**

**2007 by Quarter**

**2006 by Quarter**

**2005 by Quarter**

Quarters may not sum to totals due to rounding.

The definitions of terms used in this statistical summary are contained in the "Glossary of Terms" on the Pinnacle West website at:  
<http://www.pinnaclewest.com/files/investors/2008Q2QuarStatsGloss.pdf>

This statistical data may be graphed in various quarterly or annual comparisons using the "Interactive Charts" tool on the Pinnacle West website at:  
<http://www.pinnaclewest.com/main/pnw/investors/financials/quarterly/landing.html>

**Pinnacle West Capital Corporation**  
**Quarterly Consolidated Statistical Summary**  
**Periods Ended June 30, 2008 and 2007**

| Line   | 3 Months Ended June               |                |                | 6 Months Ended June |                |                |                |
|--|-----------------------------------|----------------|----------------|---------------------|----------------|----------------|----------------|
|  | 2008                              | 2007           | Incr (Decr)    | 2008                | 2007           | Incr (Decr)    |                |
| <b>EARNINGS CONTRIBUTION BY SUBSIDIARY (\$ Millions)</b> |                                   |                |                |                     |                |                |                |
| 1  | Arizona Public Service            | \$ 125         | \$ 75          | \$ 50               | \$ 119         | \$ 79          | \$ 40          |
| 2  | Pinnacle West Energy              | —              | —              | —                   | —              | —              | —              |
| 3  | APS Energy Services               | —              | (1)            | 1                   | —              | —              | —              |
| 4  | SunCor                            | (5)            | 1              | (6)                 | (6)            | 10             | (16)           |
| 5  | El Dorado                         | (5)            | —              | (5)                 | (6)            | (2)            | (4)            |
| 6  | Parent Company                    | (1)            | 4              | (5)                 | 2              | 9              | (7)            |
| 7  | Income From Continuing Operations | 114            | 79             | 35                  | 109            | 96             | 13             |
| Income (Loss) From Discontinued Operations — Net of Tax  |                                   |                |                |                     |                |                |                |
| 8  | Silverhawk                        | —              | —              | —                   | —              | —              | —              |
| 9  | SunCor                            | 20             | —              | 20                  | 20             | —              | 20             |
| 10   | Other                             | —              | —              | —                   | —              | —              | —              |
| 11   | Total                             | 20             | —              | 20                  | 20             | —              | 20             |
| 12   | Net Income                        | <u>\$ 134</u>  | <u>\$ 79</u>   | <u>\$ 55</u>        | <u>\$ 129</u>  | <u>\$ 96</u>   | <u>\$ 33</u>   |
| <b>EARNINGS PER SHARE BY SUBSIDIARY — DILUTED</b>        |                                   |                |                |                     |                |                |                |
| 13   | Arizona Public Service            | \$ 1.24        | \$ 0.75        | \$ 0.49             | \$ 1.18        | \$ 0.79        | \$ 0.39        |
| 14   | Pinnacle West Energy              | —              | —              | —                   | —              | —              | —              |
| 15   | APS Energy Services               | —              | (0.01)         | 0.01                | —              | —              | —              |
| 16   | SunCor                            | (0.05)         | 0.01           | (0.06)              | (0.06)         | 0.10           | (0.16)         |
| 17   | El Dorado                         | (0.05)         | —              | (0.05)              | (0.06)         | (0.02)         | (0.04)         |
| 18   | Parent Company                    | (0.01)         | 0.04           | (0.05)              | 0.03           | 0.08           | (0.05)         |
| 19   | Income From Continuing Operations | 1.13           | 0.79           | 0.34                | 1.09           | 0.95           | 0.14           |
| Income (Loss) From Discontinued Operations — Net of Tax  |                                   |                |                |                     |                |                |                |
| 20   | Silverhawk                        | —              | —              | —                   | —              | —              | —              |
| 21   | SunCor                            | 0.20           | (0.01)         | 0.21                | 0.19           | —              | 0.19           |
| 22   | Other                             | —              | —              | —                   | —              | —              | —              |
| 23   | Total                             | 0.20           | (0.01)         | 0.21                | 0.19           | —              | 0.19           |
| 24   | Net Income                        | <u>\$ 1.33</u> | <u>\$ 0.78</u> | <u>\$ 0.55</u>      | <u>\$ 1.28</u> | <u>\$ 0.95</u> | <u>\$ 0.33</u> |
| 25   | <b>BOOK VALUE PER SHARE</b>       | \$ 37.22*      | \$ 34.13       | \$ 3.09             | \$ 37.22*      | \$ 34.13       | \$ 3.09        |
| <b>COMMON SHARES OUTSTANDING (Thousands)</b>             |                                   |                |                |                     |                |                |                |
| 26   | Average — Diluted                 | 100,917        | 100,779        | 138                 | 100,856        | 100,718        | 138            |
| 27   | End of Period                     | 100,706        | 100,290        | 416                 | 100,706        | 100,290        | 416            |

\* Estimate

See Glossary of Terms.



**Pinnacle West Capital Corporation**  
**Quarterly Consolidated Statistical Summary**  
**Periods Ended June 30, 2008 and 2007**

| Line  | 3 Months Ended June                            |               |               | 6 Months Ended June |                 |                 |                |
|---|--|---------------|---------------|---------------------|-----------------|-----------------|----------------|
|   | 2008   | 2007          | Incr (Decr)   | 2008                | 2007            | Incr (Decr)     |                |
| <b>ELECTRIC OPERATING REVENUES</b>                |  |               |               |                     |                 |                 |                |
| <b>(Dollars in Millions)</b>                      |  |               |               |                     |                 |                 |                |
| <b>REGULATED ELECTRICITY SEGMENT</b>              |  |               |               |                     |                 |                 |                |
| <b>Retail</b>                                     |  |               |               |                     |                 |                 |                |
| 28  | Residential                                    | \$ 365        | \$ 335        | \$ 30               | \$ 636          | \$ 581          | \$ 55          |
| 29  | Business                                       | 396           | 342           | 54                  | 696             | 606             | 90             |
| 30  | Total retail                                   | 761           | 677           | 84                  | 1,332           | 1,187           | 145            |
| <b>Wholesale revenue on delivered electricity</b> |  |               |               |                     |                 |                 |                |
| 31  | Traditional contracts                          | 22            | 9             | 13                  | 34              | 14              | 20             |
| 32  | Off-system sales                               | 30            | 10            | 20                  | 54              | 17              | 37             |
| 33  | Transmission for others                        | 8             | 7             | 1                   | 15              | 14              | 1              |
| 34  | Other miscellaneous services                   | 8             | 8             | —                   | 17              | 15              | 2              |
| 35  | Total regulated operating electricity revenues | 829           | 711           | 118                 | 1,452           | 1,247           | 205            |
| <b>MARKETING AND TRADING</b>                      |  |               |               |                     |                 |                 |                |
| 36  | Electricity and other commodity sales          | 51            | 93            | (42)                | 108             | 165             | (57)           |
| 37  | Total operating electric revenues              | <u>\$ 880</u> | <u>\$ 804</u> | <u>\$ 76</u>        | <u>\$ 1,560</u> | <u>\$ 1,412</u> | <u>\$ 148</u>  |
| <b>ELECTRIC SALES (GWH)</b>                       |  |               |               |                     |                 |                 |                |
| <b>REGULATED ELECTRICITY SEGMENT</b>              |  |               |               |                     |                 |                 |                |
| <b>Retail sales</b>                               |  |               |               |                     |                 |                 |                |
| 38  | Residential                                    | 3,112         | 3,287         | (175)               | 5,886           | 6,021           | (135)          |
| 39  | Business                                       | 3,990         | 4,004         | (14)                | 7,328           | 7,289           | 39             |
| 40  | Total retail                                   | 7,102         | 7,291         | (189)               | 13,214          | 13,310          | (96)           |
| <b>Wholesale electricity delivered</b>            |  |               |               |                     |                 |                 |                |
| 41  | Traditional contracts                          | 319           | 262           | 57                  | 541             | 437             | 104            |
| 42  | Off-system sales                               | 610           | 310           | 300                 | 1,026           | 553             | 473            |
| 43  | Retail load hedge management                   | 159           | 254           | (95)                | 321             | 371             | (50)           |
| 44  | Total regulated electricity                    | 8,190         | 8,117         | 73                  | 15,102          | 14,671          | 431            |
| <b>MARKETING AND TRADING</b>                      |  |               |               |                     |                 |                 |                |
| 45  | Wholesale sales of electricity                 | 894           | 2,648         | (1,754)             | 1,814           | 4,571           | (2,757)        |
| 46  | Total electric sales                           | <u>9,084</u>  | <u>10,765</u> | <u>(1,681)</u>      | <u>16,916</u>   | <u>19,242</u>   | <u>(2,326)</u> |

See Glossary of Terms.

**Pinnacle West Capital Corporation**  
**Quarterly Consolidated Statistical Summary**  
**Periods Ended June 30, 2008 and 2007**

| Line   | 3 Months Ended June  |              |               | 6 Months Ended June |              |               |                 |
|--|--|--------------|---------------|---------------------|--------------|---------------|-----------------|
|  | 2008   | 2007         | Incr (Decr)   | 2008                | 2007         | Incr (Decr)   |                 |
| <b>POWER SUPPLY ADJUSTOR (“PSA”)<br/>- REGULATED ELECTRICITY<br/>SEGMENT (Dollars in Millions)</b> |  |              |               |                     |              |               |                 |
| 47   | Deferred fuel and purchased power regulatory asset — beginning balance | \$ 50        | \$ 118        | \$ (68)             | \$ 111       | \$ 160        | \$ (49)         |
| 48   | Deferred fuel and purchased power costs — current period               | 37           | 104           | (67)                | 26           | 129           | (103)           |
| 49   | Regulatory disallowance  | —            | (14)          | 14                  | —            | (14)          | 14              |
| 50   | Interest on deferred fuel  | —            | 1             | (1)                 | 1            | 3             | (2)             |
| 51   | Amounts recovered through revenues                                     | (64)         | (72)          | 8                   | (115)        | (141)         | 26              |
| 52   | Deferred fuel and purchased power regulatory asset — ending balance    | <u>\$ 23</u> | <u>\$ 137</u> | <u>\$ (114)</u>     | <u>\$ 23</u> | <u>\$ 137</u> | <u>\$ (114)</u> |
| <b>MARKETING AND TRADING<br/>PRETAX GROSS MARGIN<br/>ANALYSIS (Dollars in Millions)</b>            |  |              |               |                     |              |               |                 |
| <b>Realized and Mark-To-Market Components</b>  |  |              |               |                     |              |               |                 |
| 53   | Electricity and other commodity sales, realized (a)                    | \$ 4         | \$ 23         | \$ (19)             | \$ 9         | \$ 39         | \$ (30)         |
| 54   | Mark-to-market reversals on realized sales (a) (b)                     | 1            | 1             | —                   | 2            | (5)           | 7               |
| 55   | Change in mark-to-market value of forward sales                        | —            | (6)           | 6                   | —            | (2)           | 2               |
| 56   | Total gross margin   | <u>\$ 5</u>  | <u>\$ 18</u>  | <u>\$ (13)</u>      | <u>\$ 11</u> | <u>\$ 32</u>  | <u>\$ (21)</u>  |
| <b>By Pinnacle West Entity</b>   |  |              |               |                     |              |               |                 |
| 57   | APS  | \$ —         | \$ 7          | \$ (7)              | \$ —         | \$ 6          | \$ (6)          |
| 58   | Pinnacle West  | 4            | 10            | (6)                 | 10           | 20            | (10)            |
| 59   | APS Energy Services  | 1            | 1             | —                   | 1            | 6             | (5)             |
| 60   | Pinnacle West Energy   | —            | —             | —                   | —            | —             | —               |
| 61   | Total gross margin   | <u>\$ 5</u>  | <u>\$ 18</u>  | <u>\$ (13)</u>      | <u>\$ 11</u> | <u>\$ 32</u>  | <u>\$ (21)</u>  |

**Future Marketing and Trading Mark-to-Market Realization**

As of June 30, 2008, Pinnacle West had accumulated net mark-to-market gains of \$0.8 million related to our power marketing and trading activities. We estimate that these gains will be reclassified to realized gains as the underlying commodities are delivered, as follows: 2008, \$0.2 million; and thereafter, \$0.6 million.

- (a) Net effect on pretax gross margin from realization of prior-period mark-to-market included in line 53 and in line 54 is zero. Realization of prior-period mark-to-market relates to cash flow recognition, not earnings recognition. The arithmetic opposites of amounts included in line 53 are included in line 54. For example, line 54 shows that a prior-period mark-to-market loss of \$1 million was transferred to “realized” for the second quarter of 2008. A \$1 million realized loss is included in the \$4 million on line 53 for the second quarter of 2008.
- (b) Quarterly amounts do not total to annual amounts because of intra-year mark-to-market eliminations.

See Glossary of Terms.

**Pinnacle West Capital Corporation**  
**Quarterly Consolidated Statistical Summary**  
**Periods Ended June 30, 2008 and 2007**

| Line  | 3 Months Ended June                 |           |             | 6 Months Ended June |           |             |         |
|---|-------------------------------------|-----------|-------------|---------------------|-----------|-------------|---------|
|   | 2008                                | 2007      | Incr (Decr) | 2008                | 2007      | Incr (Decr) |         |
| <b>AVERAGE ELECTRIC CUSTOMERS</b>                               |                                     |           |             |                     |           |             |         |
| <b>Retail customers</b>   |                                     |           |             |                     |           |             |         |
| 62  | Residential                         | 975,594   | 962,095     | 13,499              | 979,026   | 963,762     | 15,264  |
| 63  | Business                            | 123,802   | 119,792     | 4,010               | 123,318   | 119,221     | 4,097   |
| 64  | Total                               | 1,099,396 | 1,081,887   | 17,509              | 1,102,344 | 1,082,983   | 19,361  |
| 65  | Wholesale customers                 | 54        | 62          | (8)                 | 52        | 63          | (11)    |
| 66  | Total customers                     | 1,099,450 | 1,081,949   | 17,501              | 1,102,396 | 1,083,046   | 19,350  |
| 67  | Customer growth (% over prior year) | 1.6%      | 3.5%        | (1.9)%              | 1.8%      | 3.7%        | (1.9)%  |
| <b>RETAIL SALES (GWH) - WEATHER NORMALIZED</b>                  |                                     |           |             |                     |           |             |         |
| 68  | Residential                         | 3,247     | 3,220       | 27                  | 5,941     | 5,877       | 64      |
| 69  | Business                            | 4,034     | 3,977       | 57                  | 7,334     | 7,205       | 129     |
| 70  | Total                               | 7,281     | 7,197       | 84                  | 13,275    | 13,082      | 193     |
| <b>RETAIL USAGE (KWh/Average Customer)</b>                      |                                     |           |             |                     |           |             |         |
| 71  | Residential                         | 3,190     | 3,417       | (227)               | 6,012     | 6,247       | (235)   |
| 72  | Business                            | 32,229    | 33,425      | (1,196)             | 59,424    | 61,139      | (1,715) |
| <b>RETAIL USAGE - WEATHER NORMALIZED (KWh/Average Customer)</b> |                                     |           |             |                     |           |             |         |
| 73  | Residential                         | 3,328     | 3,346       | (18)                | 6,068     | 6,098       | (30)    |
| 74  | Business                            | 32,581    | 33,199      | (618)               | 59,468    | 60,434      | (966)   |
| <b>ELECTRICITY DEMAND (MW)</b>                                  |                                     |           |             |                     |           |             |         |
| 75  | Native load peak demand             | 6,778     | 6,705       | 73                  | 6,778     | 6,705       | 73      |

See Glossary of Terms.

**Pinnacle West Capital Corporation**  
**Quarterly Consolidated Statistical Summary**  
**Periods Ended June 30, 2008 and 2007**

| Line                         |                             | 3 Months Ended June |        |             | 6 Months Ended June |        |             |
|------------------------------|-----------------------------|---------------------|--------|-------------|---------------------|--------|-------------|
|                              |                             | 2008                | 2007   | Incr (Decr) | 2008                | 2007   | Incr (Decr) |
| <b>ENERGY SOURCES (GWH)</b>  |                             |                     |        |             |                     |        |             |
| <b>Generation production</b> |                             |                     |        |             |                     |        |             |
| 76                           | Nuclear                     | 1,856               | 1,846  | 10          | 4,171               | 4,145  | 26          |
| 77                           | Coal                        | 3,227               | 3,265  | (38)        | 6,133               | 6,429  | (296)       |
| 78                           | Gas, oil and other          | 1,516               | 1,518  | (2)         | 2,664               | 2,669  | (5)         |
| 79                           | Total generation production | 6,599               | 6,629  | (30)        | 12,968              | 13,243 | (275)       |
| <b>Purchased power</b>       |                             |                     |        |             |                     |        |             |
| 80                           | Firm load                   | 1,603               | 1,676  | (73)        | 2,343               | 1,954  | 389         |
| 81                           | Marketing and trading       | 1,421               | 3,097  | (1,676)     | 2,626               | 5,225  | (2,599)     |
| 82                           | Total purchased power       | 3,024               | 4,773  | (1,749)     | 4,969               | 7,179  | (2,210)     |
| 83                           | Total energy sources        | 9,623               | 11,402 | (1,779)     | 17,937              | 20,422 | (2,485)     |

**POWER PLANT PERFORMANCE**

| <b>Capacity Factors</b> |                    |     |     |      |     |     |      |
|-------------------------|--------------------|-----|-----|------|-----|-----|------|
| 84                      | Nuclear            | 74% | 75% | (1)% | 83% | 85% | (2)% |
| 85                      | Coal               | 85% | 86% | (1)% | 81% | 85% | (4)% |
| 86                      | Gas, oil and other | 21% | 21% | 0%   | 18% | 19% | (1)% |
| 87                      | System average     | 49% | 49% | 0%   | 48% | 50% | (2)% |

**Generation Capacity Out of Service and Replaced for Native Load (average MW/day) (a)**

|    |         |     |     |       |     |     |      |
|----|---------|-----|-----|-------|-----|-----|------|
| 88 | Nuclear | 298 | 266 | 32    | 153 | 164 | (11) |
| 89 | Coal    | 152 | 189 | (37)  | 234 | 196 | 38   |
| 90 | Gas     | 180 | 405 | (225) | 296 | 336 | (40) |
| 91 | Total   | 630 | 860 | (230) | 683 | 696 | (13) |

(a) Includes planned and unplanned outages

See Glossary of Terms.



**Pinnacle West Capital Corporation**  
**Quarterly Consolidated Statistical Summary**  
**Periods Ended June 30, 2008 and 2007**

| Line  | 3 Months Ended June                         |              |              | 6 Months Ended June |              |               |                |
|---|---|--------------|--------------|---------------------|--------------|---------------|----------------|
|   | 2008  | 2007         | Incr (Decr)  | 2008                | 2007         | Incr (Decr)   |                |
| <b>ENERGY MARKET INDICATORS (a)</b>                   |   |              |              |                     |              |               |                |
| <b>Electricity Average Daily Spot Prices (\$/MWh)</b> |   |              |              |                     |              |               |                |
| <b>On-Peak</b>  |   |              |              |                     |              |               |                |
| 92  | Palo Verde                                  | \$ 90.47     | \$ 64.64     | \$ 25.83            | \$ 79.94     | \$ 59.63      | \$ 20.31       |
| 93  | SP15  | \$ 97.41     | \$ 68.75     | \$ 28.66            | \$ 88.25     | \$ 64.39      | \$ 23.87       |
| <b>Off-Peak</b>                                       |   |              |              |                     |              |               |                |
| 94  | Palo Verde                                  | \$ 59.20     | \$ 41.46     | \$ 17.74            | \$ 57.80     | \$ 41.76      | \$ 16.04       |
| 95  | SP15  | \$ 66.73     | \$ 46.14     | \$ 20.59            | \$ 64.54     | \$ 46.00      | \$ 18.54       |
| <b>WEATHER INDICATORS</b>                             |   |              |              |                     |              |               |                |
| <b>Actual</b>   |   |              |              |                     |              |               |                |
| 96  | Cooling degree-days                         | 1,540        | 1,708        | (168)               | 1,645        | 1,880         | (235)          |
| 97  | Heating degree-days                         | —            | 8            | (8)                 | 583          | 597           | (14)           |
| 98  | Average humidity                            | 17%          | 18%          | (1)%                | 29%          | 27%           | 2%             |
| <b>10-Year Averages</b>                               |   |              |              |                     |              |               |                |
| 99  | Cooling degree-days                         | 1,554        | 1,554        | —                   | 1,650        | 1,650         | —              |
| 100   | Heating degree-days                         | 28           | 28           | —                   | 545          | 545           | —              |
| 101   | Average humidity                            | 22%          | 22%          | 0%                  | 32%          | 32%           | 0%             |
| <b>ECONOMIC INDICATORS</b>                            |   |              |              |                     |              |               |                |
| <b>Building Permits — Metro Phoenix (b) (d)</b>       |   |              |              |                     |              |               |                |
| 102   | Single-family                               | 2,427        | 5,051        | (2,624)             | 5,418        | 12,068        | (6,650)        |
| 103   | Multi-family                                | 1,462        | 1,279        | 183                 | 3,350        | 5,410         | (2,060)        |
| 104   | Total                                       | <u>3,889</u> | <u>6,330</u> | <u>(2,441)</u>      | <u>8,768</u> | <u>17,478</u> | <u>(8,710)</u> |
| <b>Arizona Job Growth (c) (d)</b>                     |   |              |              |                     |              |               |                |
| 105   | Payroll job growth (% over prior year)      | (0.4)%       | 1.5%         | (1.9)%              | (0.1)%       | 2.0%          | (2.1)%         |
| 106   | Unemployment rate (% , seasonally adjusted) | 4.2%         | 3.7%         | 0.5%                | 4.1%         | 3.7%          | 0.4%           |

**Sources:**

- (a) Average of daily prices obtained and used with permission from Dow Jones & Company, Inc.  
(b) Arizona Real Estate Center, Arizona State University W.P. Carey College of Business  
(c) Arizona Department of Economic Security  
(d) Economic indicators reflect periods ended May 31, 2008 (latest available data) and May 31, 2007.

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**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2008**

| Line   | 1st Qtr          | 2nd Qtr          | 3rd Qtr     | 4th Qtr     | Year-To-Date     | Increase<br>(Decrease)<br>vs Prior YTD |
|--|------------------|------------------|-------------|-------------|------------------|--|
| <b>EARNINGS CONTRIBUTION BY<br/>SUBSIDIARY (\$ Millions)</b> |                  |                  |             |             |                  |  |
| 1  | \$ (6)           | \$ 125           |             |             | \$ 119           | \$ 40                                  |
| 2  | —                | —                |             |             | —                | —                                      |
| 3  | —                | —                |             |             | —                | —                                      |
| 4  | (1)              | (5)              |             |             | (6)              | (16)                                   |
| 5  | (1)              | (5)              |             |             | (6)              | (4)                                    |
| 6  | 4                | (1)              |             |             | 2                | (7)                                    |
| 7  | (4)              | 114              | —           | —           | 109              | 13                                     |
| Income (Loss) From Discontinued<br>Operations — Net of Tax   |                  |                  |             |             |                  |  |
| 8  | —                | —                |             |             | —                | —                                      |
| 9  | —                | 20               |             |             | 20               | 20                                     |
| 10   | —                | —                |             |             | —                | —                                      |
| 11   | —                | 20               | —           | —           | 20               | 20                                     |
| 12   | <u>\$ (4)</u>    | <u>\$ 134</u>    | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 129</u>    | <u>\$ 33</u>                           |
| <b>EARNINGS PER SHARE BY<br/>SUBSIDIARY — DILUTED</b>        |                  |                  |             |             |                  |  |
| 13   | \$ (0.06)        | \$ 1.24          |             |             | \$ 1.18          | \$ 0.39                                |
| 14   | —                | —                |             |             | —                | —                                      |
| 15   | —                | —                |             |             | —                | —                                      |
| 16   | (0.01)           | (0.05)           |             |             | (0.06)           | (0.16)                                 |
| 17   | (0.02)           | (0.05)           |             |             | (0.06)           | (0.04)                                 |
| 18   | 0.04             | (0.01)           |             |             | 0.03             | (0.05)                                 |
| 19   | (0.05)           | 1.13             | —           | —           | 1.09             | 0.14                                   |
| Income (Loss) From Discontinued<br>Operations — Net of Tax   |                  |                  |             |             |                  |  |
| 20   | —                | —                |             |             | —                | —                                      |
| 21   | —                | 0.20             |             |             | 0.19             | 0.19                                   |
| 22   | 0.01             | —                |             |             | —                | —                                      |
| 23   | 0.01             | 0.20             | —           | —           | 0.19             | 0.19                                   |
| 24   | <u>\$ (0.04)</u> | <u>\$ 1.33</u>   | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 1.28</u>   | <u>\$ 0.33</u>                         |
| 25   | <u>\$ 35.22</u>  | <u>\$ 37.22*</u> |             |             | <u>\$ 37.22*</u> | <u>\$ 3.09</u>                         |
| <b>COMMON SHARES OUTSTANDING<br/>(Thousands)</b>             |                  |                  |             |             |                  |  |
| 26   | 100,521          | 100,917          |             |             | 100,917          | 138                                    |
| 27   | 100,486          | 100,706          |             |             | 100,706          | 416                                    |

\* Estimate

See Glossary of Terms.



**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2008**

| Line  | <u>1st Qtr</u> | <u>2nd Qtr</u> | <u>3rd Qtr</u> | <u>4th Qtr</u> | <u>Year-To-Date</u> | <u>Increase<br/>(Decrease)<br/>vs Prior YTD</u> |
|---|----------------|----------------|----------------|----------------|---------------------|---|
| <b>ELECTRIC OPERATING REVENUES</b>                |                |                |                |                |                     |   |
| <b>(Dollars in Millions)</b>                      |                |                |                |                |                     |   |
| <b>REGULATED ELECTRICITY SEGMENT</b>              |                |                |                |                |                     |   |
| <b>Retail</b>                                     |                |                |                |                |                     |   |
| 28  | \$ 271         | \$ 365         |                |                | \$ 636              | \$ 55   |
| 29  | 300            | 396            |                |                | 696                 | 90  |
| 30  | 571            | 761            | —              | —              | 1,332               | 145   |
| <b>Wholesale revenue on delivered electricity</b> |                |                |                |                |                     |   |
| 31  | 12             | 22             |                |                | 34                  | 20  |
| 32  | 24             | 30             |                |                | 54                  | 37  |
| 33  | 7              | 8              |                |                | 15                  | 1   |
| 34  | 9              | 8              |                |                | 17                  | 2   |
| 35  | 623            | 829            | —              | —              | 1,452               | 205   |
| <b>MARKETING AND TRADING</b>                      |                |                |                |                |                     |   |
| 36  | 57             | 51             |                |                | 108                 | (57)  |
| 37  | <u>\$ 680</u>  | <u>\$ 880</u>  | <u>\$ —</u>    | <u>\$ —</u>    | <u>\$ 1,560</u>     | <u>\$ 148</u>                                   |
| <b>ELECTRIC SALES (GWH)</b>                       |                |                |                |                |                     |   |
| <b>REGULATED ELECTRICITY SEGMENT</b>              |                |                |                |                |                     |   |
| <b>Retail sales</b>                               |                |                |                |                |                     |   |
| 38  | 2,774          | 3,112          |                |                | 5,886               | (135)   |
| 39  | 3,338          | 3,990          |                |                | 7,328               | 39  |
| 40  | 6,112          | 7,102          | —              | —              | 13,214              | (96)  |
| <b>Wholesale electricity delivered</b>            |                |                |                |                |                     |   |
| 41  | 222            | 319            |                |                | 541                 | 104   |
| 42  | 416            | 610            |                |                | 1,026               | 473   |
| 43  | 162            | 159            |                |                | 321                 | (50)  |
| 44  | 6,912          | 8,190          | —              | —              | 15,102              | 431   |
| <b>MARKETING AND TRADING</b>                      |                |                |                |                |                     |   |
| 45  | 920            | 894            |                |                | 1,814               | (2,757)   |
| 46  | <u>7,832</u>   | <u>9,084</u>   | <u>—</u>       | <u>—</u>       | <u>16,916</u>       | <u>(2,326)</u>                                  |

See Glossary of Terms.

**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2008**

| Line   | <u>1st Qtr</u> | <u>2nd Qtr</u> | <u>3rd Qtr</u> | <u>4th Qtr</u> | <u>Year-To-Date</u> | <u>Increase<br/>(Decrease)<br/>vs Prior YTD</u> |
|--|----------------|----------------|----------------|----------------|---------------------|---|
| <b>POWER SUPPLY ADJUSTOR (“PSA”)<br/>- REGULATED ELECTRICITY<br/>SEGMENT (Dollars in Millions)</b> |                |                |                |                |                     |   |
| 47   |                |                |                |                |                     |   |
| Deferred fuel and purchased power<br>regulatory asset — beginning balance                          | \$ 111         | \$ 50          |                |                | \$ 111              | \$ (49)   |
| 48   |                |                |                |                |                     |   |
| Deferred fuel and purchased power costs —<br>current period  | (11)           | 37             |                |                | 26                  | (103)   |
| 49   |                |                |                |                |                     |   |
| Regulatory disallowance  | —              | —              |                |                | —                   | 14  |
| 50   |                |                |                |                |                     |   |
| Interest on deferred fuel  | 1              | —              |                |                | 1                   | (2)   |
| 51   |                |                |                |                |                     |   |
| Amounts recovered through revenues   | (51)           | (64)           |                |                | (115)               | 26  |
| 52   |                |                |                |                |                     |   |
| Deferred fuel and purchased power<br>regulatory asset — ending balance                             | <u>\$ 50</u>   | <u>\$ 23</u>   | <u>\$ —</u>    | <u>\$ —</u>    | <u>\$ 23</u>        | <u>\$ (114)</u>                                 |

**MARKETING AND TRADING  
PRETAX GROSS MARGIN  
ANALYSIS (Dollars in Millions)**

| <b>Realized and Mark-To-Market<br/>Components</b>      |             |             |             |             |              |                |
|--|-------------|-------------|-------------|-------------|--------------|----------------|
| 53   |             |             |             |             |              |                |
| Electricity and other commodity sales,<br>realized (a) | \$ 5        | \$ 4        |             |             | \$ 9         | \$ (30)        |
| 54   |             |             |             |             |              |                |
| Mark-to-market reversals on realized sales<br>(a) (b)  | —           | 1           |             |             | 2            | 7              |
| 55   |             |             |             |             |              |                |
| Change in mark-to-market value of forward<br>sales     | 1           | —           |             |             | —            | 2              |
| 56   |             |             |             |             |              |                |
| Total gross margin                                     | <u>\$ 6</u> | <u>\$ 5</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 11</u> | <u>\$ (21)</u> |

**By Pinnacle West Entity**

|                      |             |             |             |             |              |                |
|----------------------|-------------|-------------|-------------|-------------|--------------|----------------|
| 57                   |             |             |             |             |              |                |
| APS                  | \$ —        | \$ —        |             |             | \$ —         | \$ (6)         |
| 58                   |             |             |             |             |              |                |
| Pinnacle West        | 7           | 4           |             |             | 10           | (10)           |
| 59                   |             |             |             |             |              |                |
| APS Energy Services  | (1)         | 1           |             |             | 1            | (5)            |
| 60                   |             |             |             |             |              |                |
| Pinnacle West Energy | —           | —           |             |             | —            | —              |
| 61                   |             |             |             |             |              |                |
| Total gross margin   | <u>\$ 6</u> | <u>\$ 5</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 11</u> | <u>\$ (21)</u> |

**Future Marketing and Trading Mark-to-Market Realization**

As of June 30, 2008, Pinnacle West had accumulated net mark-to-market gains of \$0.8 million related to our power marketing and trading activities. We estimate that these gains will be reclassified to realized gains as the underlying commodities are delivered, as follows: 2008, \$0.2 million; and thereafter, \$0.6 million.

(a) Net effect on pretax gross margin from realization of prior-period mark-to-market included in line 53 and in line 54 is zero. Realization of prior-period mark-to-market relates to cash flow recognition, not earnings recognition. The arithmetic opposites of amounts included in line 53 are included in line 54. For example, line 54 shows that a prior-period mark-to-market loss of \$1 million was transferred to “realized” for the first quarter of 2008. A \$1 million realized loss is included in the \$4 million on line 53 for the first quarter of 2008.

(b) Quarterly amounts do not total to annual amounts because of intra-year mark-to-market eliminations.

See Glossary of Terms.



**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2008**

| Line  | 1st Qtr          | 2nd Qtr          | 3rd Qtr | 4th Qtr | Year-To-Date     | Increase<br>(Decrease)<br>vs Prior YTD |
|---|------------------|------------------|---------|---------|------------------|--|
| <b>AVERAGE ELECTRIC CUSTOMERS</b>                                       |                  |                  |         |         |                  |  |
| <b>Retail customers</b>   |                  |                  |         |         |                  |  |
| 62 Residential  | 982,459          | 975,594          |         |         | 979,026          | 15,264                                 |
| 63 Business   | 122,833          | 123,802          |         |         | 123,318          | 4,097                                  |
| 64 Total  | <u>1,105,292</u> | <u>1,099,396</u> | —       | —       | <u>1,102,344</u> | <u>19,361</u>                          |
| 65 Wholesale customers  | 50               | 54               |         |         | 52               | (11)                                   |
| 66 Total customers  | <u>1,105,342</u> | <u>1,099,450</u> | —       | —       | <u>1,102,396</u> | <u>19,350</u>                          |
| 67 Customer growth (% over prior year)                                  | 2.0%             | 1.6%             |         |         | 1.8%             | (1.9)%                                 |
| <b>RETAIL SALES (GWH) - WEATHER<br/>NORMALIZED</b>                      |                  |                  |         |         |                  |  |
| 68 Residential  | 2,694            | 3,247            |         |         | 5,941            | 64                                     |
| 69 Business   | 3,300            | 4,034            |         |         | 7,334            | 129                                    |
| 70 Total  | <u>5,994</u>     | <u>7,281</u>     | —       | —       | <u>13,275</u>    | <u>193</u>                             |
| <b>RETAIL USAGE (KWh/Average<br/>Customer)</b>                          |                  |                  |         |         |                  |  |
| 71 Residential  | 2,824            | 3,190            |         |         | 6,012            | (235)                                  |
| 72 Business   | 27,175           | 32,229           |         |         | 59,424           | (1,715)                                |
| <b>RETAIL USAGE - WEATHER<br/>NORMALIZED (KWh/Average<br/>Customer)</b> |                  |                  |         |         |                  |  |
| 73 Residential  | 2,742            | 3,328            |         |         | 6,068            | (30)                                   |
| 74 Business   | 26,865           | 32,581           |         |         | 59,468           | (966)                                  |
| <b>ELECTRICITY DEMAND (MW)</b>  |                  |                  |         |         |                  |  |
| 75 Native load peak demand  | 4,404            | 6,778            |         |         | 6,778            | 73                                     |

See Glossary of Terms.

**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2008**

| Line  |                             | 1st Qtr      | 2nd Qtr      | 3rd Qtr  | 4th Qtr  | Year-To-Date  | Increase<br>(Decrease)<br>vs Prior YTD |
|---|-----------------------------|--------------|--------------|----------|----------|---------------|--|
| <b>ENERGY SOURCES (GWH)</b>   |                             |              |              |          |          |               |  |
| <b>Generation production</b>  |                             |              |              |          |          |               |  |
| 76  | Nuclear                     | 2,315        | 1,856        |          |          | 4,171         | 26                                     |
| 77  | Coal                        | 2,906        | 3,227        |          |          | 6,133         | (296)                                  |
| 78  | Gas, oil and other          | 1,148        | 1,516        |          |          | 2,664         | (5)                                    |
| 79  | Total generation production | <u>6,369</u> | <u>6,599</u> | <u>—</u> | <u>—</u> | <u>12,968</u> | <u>(275)</u>                           |
| <b>Purchased power</b>  |                             |              |              |          |          |               |  |
| 80  | Firm load                   | 740          | 1,603        |          |          | 2,343         | 389                                    |
| 81  | Marketing and trading       | 1,205        | 1,421        |          |          | 2,626         | (2,599)                                |
| 82  | Total purchased power       | <u>1,945</u> | <u>3,024</u> | <u>—</u> | <u>—</u> | <u>4,969</u>  | <u>(2,210)</u>                         |
| 83  | Total energy sources        | <u>8,314</u> | <u>9,623</u> | <u>—</u> | <u>—</u> | <u>17,937</u> | <u>(2,485)</u>                         |
| <b>POWER PLANT PERFORMANCE</b>  |                             |              |              |          |          |               |  |
| <b>Capacity Factors</b>   |                             |              |              |          |          |               |  |
| 84  | Nuclear                     | 92%          | 74%          |          |          | 83%           | (2)%                                   |
| 85  | Coal                        | 76%          | 85%          |          |          | 81%           | (4)%                                   |
| 86  | Gas, oil and other          | 16%          | 21%          |          |          | 18%           | (1)%                                   |
| 87  | System average              | 47%          | 49%          |          |          | 48%           | (2)%                                   |
| <b>Generation Capacity Out of Service and Replaced for Native Load (average MW/day) (a)</b> |                             |              |              |          |          |               |  |
| 88  | Nuclear                     | 8            | 298          |          |          | 153           | (11)                                   |
| 89  | Coal                        | 327          | 152          |          |          | 234           | 38                                     |
| 90  | Gas                         | <u>356</u>   | <u>180</u>   |          |          | <u>296</u>    | <u>(40)</u>                            |
| 91  | Total                       | <u>691</u>   | <u>630</u>   | <u>—</u> | <u>—</u> | <u>683</u>    | <u>(13)</u>                            |

(a) Includes planned and unplanned outages

See Glossary of Terms.



**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2008**

| Line  |   | <u>1st Qtr</u> | <u>2nd Qtr</u> | <u>3rd Qtr</u> | <u>4th Qtr</u> | <u>Year-To-Date</u> | <u>Increase<br/>(Decrease)<br/>vs Prior YTD</u> |
|---|---|----------------|----------------|----------------|----------------|---------------------|---|
| <b>ENERGY MARKET INDICATORS (a)</b>                       |   |                |                |                |                |                     |   |
| <b>Electricity Average Daily Spot Prices<br/>(\$/MWh)</b> |   |                |                |                |                |                     |   |
| <b>On-Peak</b>  |   |                |                |                |                |                     |   |
| 92  | Palo Verde                                  | \$ 69.40       | \$ 90.47       |                |                | \$ 79.94            | \$ 20.31  |
| 93  | SP15  | \$ 79.09       | \$ 97.41       |                |                | \$ 88.25            | \$ 23.87  |
| <b>Off-Peak</b>   |   |                |                |                |                |                     |   |
| 94  | Palo Verde                                  | \$ 56.39       | \$ 59.20       |                |                | \$ 57.80            | \$ 16.04  |
| 95  | SP15  | \$ 62.35       | \$ 66.73       |                |                | \$ 64.54            | \$ 18.54  |
| <b>WEATHER INDICATORS</b>                                 |   |                |                |                |                |                     |   |
| <b>Actual</b>   |   |                |                |                |                |                     |   |
| 96  | Cooling degree-days                         | 105            | 1,540          |                |                | 1,645               | (235)   |
| 97  | Heating degree-days                         | 583            | —              |                |                | 583                 | (14)  |
| 98  | Average humidity                            | 40%            | 17%            |                |                | 29%                 | 2%  |
| <b>10-Year Averages</b>                                   |   |                |                |                |                |                     |   |
| 99  | Cooling degree-days                         | 96             | 1,554          |                |                | 1,650               | —   |
| 100   | Heating degree-days                         | 517            | 28             |                |                | 545                 | —   |
| 101   | Average humidity                            | 42%            | 22%            |                |                | 32%                 | 0%  |
| <b>ECONOMIC INDICATORS</b>                                |   |                |                |                |                |                     |   |
| <b>Building Permits — Metro Phoenix (b) (d)</b>           |   |                |                |                |                |                     |   |
| 102   | Single-family                               | 2,991          | 2,427          |                |                | 5,418               | (6,650)   |
| 103   | Multi-family                                | 1,888          | 1,462          |                |                | 3,350               | (2,060)   |
| 104   | Total                                       | <u>4,879</u>   | <u>3,889</u>   | <u>—</u>       | <u>—</u>       | <u>8,768</u>        | <u>(8,710)</u>                                  |
| <b>Arizona Job Growth (c) (d)</b>                         |   |                |                |                |                |                     |   |
| 105   | Payroll job growth (% over prior year)      | 0.1%           | (0.4)%         |                |                | (0.1)%              | (2.1)%  |
| 106   | Unemployment rate (% , seasonally adjusted) | 4.1%           | 4.2%           |                |                | 4.1%                | 0.4%  |

**Sources:**

- (a) Average of daily prices obtained and used with permission from Dow Jones & Company, Inc.  
(b) Arizona Real Estate Center, Arizona State University W.P. Carey College of Business  
(c) Arizona Department of Economic Security  
(d) Economic indicators reflect periods ended May 31, 2008 (latest available data).

See Glossary of Terms.

**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2007**

| Line   | 1st Qtr         | 2nd Qtr         | 3rd Qtr         | 4th Qtr         | Year-To-Date    | Increase<br>(Decrease)<br>vs Prior YTD |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|--|
| <b>EARNINGS CONTRIBUTION BY<br/>SUBSIDIARY (\$ Millions)</b> |                 |                 |                 |                 |                 |  |
| 1  | \$ 4            | \$ 75           | \$ 204          | \$ —            | \$ 284          | \$ 14                                  |
| 2  | —               | —               | —               | —               | —               | —                                      |
| 3  | 1               | (1)             | 2               | (2)             | —               | 3                                      |
| 4  | 9               | 1               | (1)             | 6               | 14              | (36)                                   |
| 5  | (2)             | —               | (3)             | (1)             | (6)             | (3)                                    |
| 6  | 5               | 4               | —               | 1               | 9               | 6                                      |
| 7  | 17              | 79              | 202             | 4               | 301             | (16)                                   |
| Income (Loss) From Discontinued<br>Operations — Net of Tax   |                 |                 |                 |                 |                 |  |
| 8  | —               | —               | —               | —               | —               | (1)                                    |
| 9  | —               | —               | 7               | 2               | 9               | (1)                                    |
| 10   | —               | —               | —               | (3)             | (3)             | (2)                                    |
| 11   | —               | —               | 7               | (1)             | 6               | (4)                                    |
| 12   | <u>\$ 17</u>    | <u>\$ 79</u>    | <u>\$ 209</u>   | <u>\$ 3</u>     | <u>\$ 307</u>   | <u>\$ (20)</u>                         |
| <b>EARNINGS PER SHARE BY<br/>SUBSIDIARY — DILUTED</b>        |                 |                 |                 |                 |                 |  |
| 13   | \$ 0.04         | \$ 0.75         | \$ 2.03         | \$ —            | \$ 2.82         | \$ 0.12                                |
| 14   | —               | —               | —               | —               | —               | —                                      |
| 15   | 0.01            | (0.01)          | 0.01            | (0.02)          | (0.01)          | 0.02                                   |
| 16   | 0.09            | 0.01            | (0.01)          | 0.06            | 0.15            | (0.35)                                 |
| 17   | (0.02)          | —               | (0.03)          | (0.01)          | (0.06)          | (0.03)                                 |
| 18   | 0.04            | 0.04            | —               | 0.01            | 0.09            | 0.06                                   |
| 19   | 0.16            | 0.79            | 2.00            | 0.04            | 2.99            | (0.18)                                 |
| Income (Loss) From Discontinued<br>Operations — Net of Tax   |                 |                 |                 |                 |                 |  |
| 20   | —               | —               | —               | —               | —               | —                                      |
| 21   | —               | (0.01)          | 0.07            | 0.02            | 0.08            | (0.02)                                 |
| 22   | —               | —               | —               | (0.03)          | (0.02)          | (0.02)                                 |
| 23   | —               | (0.01)          | 0.07            | (0.01)          | 0.06            | (0.04)                                 |
| 24   | <u>\$ 0.16</u>  | <u>\$ 0.78</u>  | <u>\$ 2.07</u>  | <u>\$ 0.03</u>  | <u>\$ 3.05</u>  | <u>\$ (0.22)</u>                       |
| 25   | <u>\$ 34.45</u> | <u>\$ 34.13</u> | <u>\$ 35.55</u> | <u>\$ 35.15</u> | <u>\$ 35.15</u> | <u>\$ 0.67</u>                         |
| <b>COMMON SHARES OUTSTANDING<br/>(Thousands)</b>             |                 |                 |                 |                 |                 |  |
| 26   | 100,622         | 100,779         | 100,829         | 100,963         | 100,835         | 825                                    |
| 27   | 100,115         | 100,290         | 100,367         | 100,486         | 100,486         | 838                                    |

**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2007**

| Line  | <u>1st Qtr</u> | <u>2nd Qtr</u> | <u>3rd Qtr</u>  | <u>4th Qtr</u> | <u>Year-To-Date</u> | <u>(Decrease)<br/>vs Prior YTD</u> |
|---|----------------|----------------|-----------------|----------------|---------------------|------------------------------------|
| <b>ELECTRIC OPERATING REVENUES</b>                |                |                |                 |                |                     |                                    |
| <b>(Dollars in Millions)</b>                      |                |                |                 |                |                     |                                    |
| <b>REGULATED ELECTRICITY SEGMENT</b>              |                |                |                 |                |                     |                                    |
| <b>Retail</b>                                     |                |                |                 |                |                     |                                    |
| 28 Residential                                    | \$ 246         | \$ 335         | \$ 574          | \$ 263         | \$ 1,418            | \$ 147                             |
| 29 Business                                       | 264            | 342            | 425             | 323            | 1,355               | 116                                |
| 30 Total retail                                   | 510            | 677            | 999             | 586            | 2,773               | 263                                |
| <b>Wholesale revenue on delivered electricity</b> |                |                |                 |                |                     |                                    |
| 31 Traditional contracts                          | 5              | 9              | 12              | 7              | 34                  | 12                                 |
| 32 Off-system sales                               | 7              | 10             | 16              | 17             | 49                  | 3                                  |
| 33 Transmission for others                        | 7              | 7              | 8               | 7              | 29                  | 3                                  |
| 34 Other miscellaneous services                   | 7              | 8              | 9               | 10             | 33                  | 2                                  |
| 35 Total regulated operating electricity revenues | 536            | 711            | 1,044           | 627            | 2,918               | 283                                |
| <b>MARKETING AND TRADING</b>                      |                |                |                 |                |                     |                                    |
| 36 Electricity and other commodity sales          | 72             | 93             | 99              | 78             | 342                 | 11                                 |
| 37 Total operating electric revenues              | <u>\$ 608</u>  | <u>\$ 804</u>  | <u>\$ 1,143</u> | <u>\$ 705</u>  | <u>\$ 3,260</u>     | <u>\$ 294</u>                      |
| <b>ELECTRIC SALES (GWH)</b>                       |                |                |                 |                |                     |                                    |
| <b>REGULATED ELECTRICITY SEGMENT</b>              |                |                |                 |                |                     |                                    |
| <b>Retail sales</b>                               |                |                |                 |                |                     |                                    |
| 38 Residential                                    | 2,734          | 3,287          | 5,084           | 2,667          | 13,771              | 777                                |
| 39 Business                                       | 3,285          | 4,004          | 4,426           | 3,685          | 15,400              | 424                                |
| 40 Total retail                                   | 6,019          | 7,291          | 9,510           | 6,352          | 29,171              | 1,201                              |
| <b>Wholesale electricity delivered</b>            |                |                |                 |                |                     |                                    |
| 41 Traditional contracts                          | 175            | 262            | 296             | 190            | 923                 | 40                                 |
| 42 Off-system sales                               | 243            | 310            | 478             | 448            | 1,481               | (132)                              |
| 43 Retail load hedge management                   | 117            | 254            | 529             | 125            | 1,026               | (564)                              |
| 44 Total regulated electricity                    | 6,554          | 8,117          | 10,813          | 7,115          | 32,601              | 545                                |
| <b>MARKETING AND TRADING</b>                      |                |                |                 |                |                     |                                    |
| 45 Wholesale sales of electricity                 | 1,923          | 2,648          | 3,146           | 1,681          | 9,397               | (6,958)                            |
| 46 Total electric sales                           | <u>8,477</u>   | <u>10,765</u>  | <u>13,959</u>   | <u>8,796</u>   | <u>41,998</u>       | <u>(6,413)</u>                     |

See Glossary of Terms.

**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2007**

| Line   | 1st Qtr  | 2nd Qtr       | 3rd Qtr       | 4th Qtr       | Year-To-Date  | Increase<br>(Decrease)<br>vs Prior YTD |                |
|--|--|---------------|---------------|---------------|---------------|--|----------------|
| <b>POWER SUPPLY ADJUSTOR<br/>("PSA") — REGULATED<br/>ELECTRICITY SEGMENT<br/>(Dollars in Millions)</b> |  |               |               |               |               |  |                |
| 47   | Deferred fuel and purchased power<br>regulatory asset — beginning<br>balance | \$ 160        | \$ 118        | \$ 137        | \$ 150        | \$ 160                                 | \$ (13)        |
| 48   | Deferred fuel and purchased power<br>costs — current period                  | 25            | 104           | 69            | (9)           | 189                                    | (55)           |
| 49   | Regulatory disallowance  | —             | (14)          | —             | —             | (14)                                   | (14)           |
| 50   | Interest on deferred fuel  | 2             | 1             | 2             | 2             | 7                                      | (1)            |
| 51   | Amounts recovered through revenues   | (69)          | (72)          | (58)          | (32)          | (231)                                  | 34             |
| 52   | Deferred fuel and purchased power<br>regulatory asset — ending balance       | <u>\$ 118</u> | <u>\$ 137</u> | <u>\$ 150</u> | <u>\$ 111</u> | <u>\$ 111</u>                          | <u>\$ (49)</u> |

**MARKETING AND TRADING  
PRETAX GROSS MARGIN  
ANALYSIS (Dollars in Millions)**

| <b>Realized and Mark-To-Market<br/>Components</b> |  |              |              |             |              |              |             |
|---|--|--------------|--------------|-------------|--------------|--------------|-------------|
| 53  | Electricity and other commodity sales,<br>realized (a) | \$ 13        | \$ 23        | \$ 6        | \$ 11        | \$ 54        | \$ —        |
| 54  | Mark-to-market reversals on realized<br>sales (a) (b)  | (8)          | 1            | (3)         | (3)          | (7)          | 7           |
| 55  | Change in mark-to-market value of<br>forward sales     | 10           | (6)          | 2           | 2            | 1            | 1           |
| 56  | Total gross margin                                     | <u>\$ 15</u> | <u>\$ 18</u> | <u>\$ 5</u> | <u>\$ 10</u> | <u>\$ 48</u> | <u>\$ 8</u> |

**By Pinnacle West Entity**

|    |                      |              |              |             |              |              |             |
|----|----------------------|--------------|--------------|-------------|--------------|--------------|-------------|
| 57 | APS                  | \$ (1)       | \$ 7         | \$ —        | \$ —         | \$ 7         | \$ (7)      |
| 58 | Pinnacle West        | 11           | 10           | 1           | 9            | 31           | 14          |
| 59 | APS Energy Services  | 5            | 1            | 4           | 1            | 10           | 1           |
| 60 | Pinnacle West Energy | —            | —            | —           | —            | —            | —           |
| 61 | Total gross margin   | <u>\$ 15</u> | <u>\$ 18</u> | <u>\$ 5</u> | <u>\$ 10</u> | <u>\$ 48</u> | <u>\$ 8</u> |

**Future Marketing and Trading Mark-to-Market Realization**

As of December 31, 2007, Pinnacle West had accumulated net mark-to-market gains of \$9 million related to our power marketing and trading activities. We estimate that these gains will be reclassified to realized gains as the underlying commodities are delivered, as follows: 2008, \$2 million; and thereafter, \$7 million.

- (a) Net effect on pretax gross margin from realization of prior-period mark-to-market included in line 53 and in line 54 is zero. Realization of prior-period mark-to-market relates to cash flow recognition, not earnings recognition. The arithmetic opposites of amounts included in line 53 are included in line 54. For example, line 54 shows that a prior-period mark-to-market gain of \$7 million was transferred to "realized" for the total year of 2007. A \$7 million realized gain is included in the \$54 million on line 53 for the total year of 2007.
- (b) Quarterly amounts do not total to annual amounts because of intra-year mark-to-market eliminations.



**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2007**

| Line  | <u>1st Qtr</u>                      | <u>2nd Qtr</u>          | <u>3rd Qtr</u>          | <u>4th Qtr</u>          | <u>Year-To-Date</u>     | <u>Increase<br/>(Decrease)<br/>vs Prior YTD</u> |                      |
|---|-------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|---|----------------------|
| <b>AVERAGE ELECTRIC CUSTOMERS</b>                               |                                     |                         |                         |                         |                         |   |                      |
| <b>Retail customers</b>   |                                     |                         |                         |                         |                         |   |                      |
| 62  | Residential                         | 965,428                 | 962,095                 | 963,874                 | 972,654                 | 966,013   | 29,549               |
| 63  | Business                            | 118,649                 | 119,792                 | 120,918                 | 121,898                 | 120,314   | 4,883                |
| 64  | Total                               | <u>1,084,077</u>        | <u>1,081,887</u>        | <u>1,084,792</u>        | <u>1,094,552</u>        | <u>1,086,327</u>                                | <u>34,432</u>        |
| 65  | Wholesale customers                 | 63                      | 62                      | 61                      | 56                      | 61  | (16)                 |
| 66  | Total customers                     | <u><u>1,084,140</u></u> | <u><u>1,081,949</u></u> | <u><u>1,084,853</u></u> | <u><u>1,094,608</u></u> | <u><u>1,086,388</u></u>                         | <u><u>34,416</u></u> |
| 67  | Customer growth (% over prior year) | 3.8%                    | 3.5%                    | 3.2%                    | 2.6%                    | 3.3%  | (1.1)%               |
| <b>RETAIL SALES (GWH) — WEATHER NORMALIZED</b>                  |                                     |                         |                         |                         |                         |   |                      |
| 68  | Residential                         | 2,657                   | 3,220                   | 4,810                   | 2,704                   | 13,390  | 378                  |
| 69  | Business                            | 3,228                   | 3,977                   | 4,368                   | 3,663                   | 15,236  | 223                  |
| 70  | Total                               | <u><u>5,885</u></u>     | <u><u>7,197</u></u>     | <u><u>9,178</u></u>     | <u><u>6,367</u></u>     | <u><u>28,626</u></u>                            | <u><u>601</u></u>    |
| <b>RETAIL USAGE (KWh/Average Customer)</b>                      |                                     |                         |                         |                         |                         |   |                      |
| 71  | Residential                         | 2,832                   | 3,417                   | 5,275                   | 2,742                   | 14,256  | 380                  |
| 72  | Business                            | 27,687                  | 33,425                  | 36,601                  | 30,230                  | 127,998   | (1,751)              |
| <b>RETAIL USAGE — WEATHER NORMALIZED (KWh/Average Customer)</b> |                                     |                         |                         |                         |                         |   |                      |
| 73  | Residential                         | 2,752                   | 3,346                   | 4,990                   | 2,780                   | 13,861  | (33)                 |
| 74  | Business                            | 27,205                  | 33,199                  | 36,126                  | 30,047                  | 126,633   | (3,431)              |
| <b>ELECTRICITY DEMAND (MW)</b>                                  |                                     |                         |                         |                         |                         |   |                      |
| 75  | Native load peak demand             | 4,496                   | 6,705                   | 7,128                   | 5,089                   | 7,128   | (92)                 |

See Glossary of Terms.

**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2007**

| Line  |                             | 1st Qtr      | 2nd Qtr       | 3rd Qtr       | 4th Qtr      | Year-To-Date  | Increase<br>(Decrease)<br>vs Prior YTD |
|---|-----------------------------|--------------|---------------|---------------|--------------|---------------|--|
| <b>ENERGY SOURCES (GWH)</b>   |                             |              |               |               |              |               |  |
| <b>Generation production</b>  |                             |              |               |               |              |               |  |
| 76  | Nuclear                     | 2,299        | 1,846         | 2,218         | 1,430        | 7,794         | 806                                    |
| 77  | Coal                        | 3,164        | 3,265         | 3,563         | 3,350        | 13,342        | 166                                    |
| 78  | Gas, oil and other          | 1,151        | 1,518         | 2,480         | 1,554        | 6,703         | (681)                                  |
| 79  | Total generation production | <u>6,614</u> | <u>6,629</u>  | <u>8,261</u>  | <u>6,334</u> | <u>27,839</u> | <u>291</u>                             |
| <b>Purchased power</b>  |                             |              |               |               |              |               |  |
| 80  | Firm load                   | 278          | 1,676         | 2,521         | 913          | 5,388         | 1,098                                  |
| 81  | Marketing and trading       | 2,128        | 3,097         | 3,993         | 2,078        | 11,296        | (7,572)                                |
| 82  | Total purchased power       | <u>2,406</u> | <u>4,773</u>  | <u>6,514</u>  | <u>2,991</u> | <u>16,684</u> | <u>(6,474)</u>                         |
| 83  | Total energy sources        | <u>9,020</u> | <u>11,402</u> | <u>14,775</u> | <u>9,325</u> | <u>44,523</u> | <u>(6,183)</u>                         |
| <b>POWER PLANT PERFORMANCE</b>  |                             |              |               |               |              |               |  |
| <b>Capacity Factors</b>   |                             |              |               |               |              |               |  |
| 84  | Nuclear                     | 94%          | 75%           | 89%           | 57%          | 79%           | 8%                                     |
| 85  | Coal                        | 84%          | 86%           | 93%           | 87%          | 87%           | 0%                                     |
| 86  | Gas, oil and other          | 16%          | 21%           | 34%           | 21%          | 23%           | (2)%                                   |
| 87  | System average              | 50%          | 49%           | 61%           | 47%          | 52%           | 1%                                     |
| <b>Generation Capacity Out of Service<br/>and Replaced for Native Load<br/>(average MW/day) (a)</b> |                             |              |               |               |              |               |  |
| 88  | Nuclear                     | 57           | 266           | 22            | 470          | 204           | 51                                     |
| 89  | Coal                        | 203          | 189           | 79            | 164          | 158           | 76                                     |
| 90  | Gas                         | 267          | 405           | 147           | 264          | 271           | 182                                    |
| 91  | Total                       | <u>527</u>   | <u>860</u>    | <u>248</u>    | <u>898</u>   | <u>633</u>    | <u>309</u>                             |

(a) Includes planned and unplanned outages

See Glossary of Terms.

**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2007**

| Line  | 1st Qtr       | 2nd Qtr       | 3rd Qtr      | 4th Qtr      | Year-To-Date  | Increase<br>(Decrease)<br>vs Prior YTD |
|---|---------------|---------------|--------------|--------------|---------------|--|
| <b>ENERGY MARKET INDICATORS (a)</b>                       |               |               |              |              |               |  |
| <b>Electricity Average Daily Spot Prices<br/>(\$/MWh)</b> |               |               |              |              |               |  |
| <b>On-Peak</b>  |               |               |              |              |               |  |
| 92 Palo Verde   | \$ 54.62      | \$ 64.64      | \$ 69.26     | \$ 57.18     | \$ 61.43      | \$ 4.67                                |
| 93 SP15   | \$ 60.02      | \$ 68.75      | \$ 68.84     | \$ 68.13     | \$ 66.44      | \$ 4.49                                |
| <b>Off-Peak</b>   |               |               |              |              |               |  |
| 94 Palo Verde   | \$ 42.06      | \$ 41.46      | \$ 37.03     | \$ 44.39     | \$ 41.24      | \$ 4.15                                |
| 95 SP15   | \$ 45.86      | \$ 46.14      | \$ 41.23     | \$ 50.71     | \$ 45.99      | \$ 5.38                                |
| <b>WEATHER INDICATORS</b>                                 |               |               |              |              |               |  |
| <b>Actual</b>   |               |               |              |              |               |  |
| 96 Cooling degree-days                                    | 172           | 1,708         | 2,686        | 595          | 5,161         | 466                                    |
| 97 Heating degree-days                                    | 589           | 8             | —            | 398          | 995           | 144                                    |
| 98 Average humidity                                       | 36%           | 18%           | 30%          | 30%          | 30%           | 2%                                     |
| <b>10-Year Averages</b>                                   |               |               |              |              |               |  |
| 99 Cooling degree-days                                    | 96            | 1,554         | 2,544        | 441          | 4,635         | —                                      |
| 100 Heating degree-days                                   | 517           | 28            | —            | 394          | 939           | —                                      |
| 101 Average humidity                                      | 42%           | 22%           | 32%          | 38%          | 33%           | 0%                                     |
| <b>ECONOMIC INDICATORS</b>                                |               |               |              |              |               |  |
| <b>Building Permits — Metro Phoenix (b)</b>               |               |               |              |              |               |  |
| 102 Single-family   | 7,017         | 7,447         | 4,827        | 1,530        | 20,821        | (7,155)                                |
| 103 Multi-family  | 4,131         | 3,573         | 2,687        | 2,193        | 12,833        | 2,726                                  |
| 104 Total   | <u>11,148</u> | <u>11,020</u> | <u>7,514</u> | <u>3,723</u> | <u>33,654</u> | <u>(4,429)</u>                         |
| <b>Arizona Job Growth (c)</b>                             |               |               |              |              |               |  |
| 105 Payroll job growth (% over prior year)                | 4.1%          | 3.3%          | 2.6%         | 0.1%         | 2.5%          | (2.9)%                                 |
| 106 Unemployment rate<br>(%, seasonally adjusted)         | 4.0%          | 3.7%          | 3.6%         | 4.1%         | 3.9%          | (0.2)%                                 |

**Sources:**

- (a) Average of daily prices obtained and used with permission from Dow Jones & Company, Inc.  
(b) Arizona Real Estate Center, Arizona State University W.P. Carey College of Business  
(c) Arizona Department of Economic Security

See Glossary of Terms.



**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2006**

| Line   |                                   | <u>1st Qtr</u> | <u>2nd Qtr</u> | <u>3rd Qtr</u> | <u>4th Qtr</u> | <u>Year-To-Date</u> | <u>Increase<br/>(Decrease)<br/>vs Prior YTD</u> |
|--|-----------------------------------|----------------|----------------|----------------|----------------|---------------------|---|
| <b>EARNINGS CONTRIBUTION BY<br/>SUBSIDIARY (\$ Millions)</b> |                                   |                |                |                |                |                     |   |
| 1  | Arizona Public Service            | \$ (6)         | \$ 94          | \$ 169         | \$ 13          | \$ 270              | \$ 100  |
| 2  | Pinnacle West Energy              | —              | —              | —              | —              | —                   | 85  |
| 3  | APS Energy Services               | 1              | —              | (2)            | (2)            | (3)                 | 3   |
| 4  | SunCor                            | 21             | 8              | 17             | 3              | 50                  | 11  |
| 5  | El Dorado                         | (1)            | —              | —              | (1)            | (3)                 | (1)   |
| 6  | Parent Company                    | (3)            | 9              | —              | (3)            | 3                   | (104)   |
| 7  | Income From Continuing Operations | 12             | 111            | 184            | 10             | 317                 | 94  |
| Income (Loss) From Discontinued<br>Operations — Net of Tax   |                                   |                |                |                |                |                     |   |
| 8  | Silverhawk                        | —              | —              | —              | —              | 1                   | 68  |
| 9  | SunCor                            | 1              | 1              | —              | 8              | 10                  | (7)   |
| 10   | Other                             | —              | —              | —              | —              | (1)                 | (4)   |
| 11   | Total                             | 1              | 1              | —              | 8              | 10                  | 57  |
| 12   | Net Income                        | <u>\$ 13</u>   | <u>\$ 112</u>  | <u>\$ 184</u>  | <u>\$ 18</u>   | <u>\$ 327</u>       | <u>\$ 151</u>                                   |
| <b>EARNINGS PER SHARE BY<br/>SUBSIDIARY — DILUTED</b>        |                                   |                |                |                |                |                     |   |
| 13   | Arizona Public Service            | \$ (0.06)      | \$ 0.95        | \$ 1.69        | \$ 0.13        | \$ 2.70             | \$ 0.93   |
| 14   | Pinnacle West Energy              | —              | —              | —              | —              | —                   | 0.89  |
| 15   | APS Energy Services               | 0.01           | —              | (0.02)         | (0.02)         | (0.03)              | 0.03  |
| 16   | SunCor                            | 0.21           | 0.07           | 0.17           | 0.03           | 0.50                | 0.10  |
| 17   | El Dorado                         | (0.01)         | —              | —              | (0.01)         | (0.03)              | (0.01)  |
| 18   | Parent Company                    | (0.03)         | 0.09           | —              | (0.03)         | 0.03                | (1.08)  |
| 19   | Income From Continuing Operations | 0.12           | 1.11           | 1.84           | 0.10           | 3.17                | 0.86  |
| Income (Loss) From Discontinued<br>Operations — Net of Tax   |                                   |                |                |                |                |                     |   |
| 20   | Silverhawk                        | —              | —              | —              | —              | —                   | 0.69  |
| 21   | SunCor                            | 0.01           | 0.02           | —              | 0.08           | 0.10                | (0.07)  |
| 22   | Other                             | —              | —              | —              | —              | —                   | (0.03)  |
| 23   | Total                             | 0.01           | 0.02           | —              | 0.08           | 0.10                | 0.59  |
| 24   | Net Income                        | <u>\$ 0.13</u> | <u>\$ 1.13</u> | <u>\$ 1.84</u> | <u>\$ 0.18</u> | <u>\$ 3.27</u>      | <u>\$ 1.45</u>                                  |
| 25   | <b>BOOK VALUE PER SHARE</b>       | \$ 32.37       | \$ 33.08       | \$ 34.07       | \$ 34.48       | \$ 34.48            | \$ (0.10)                                       |
| <b>COMMON SHARES OUTSTANDING<br/>(Thousands)</b>             |                                   |                |                |                |                |                     |   |
| 26   | Average — Diluted                 | 99,449         | 99,640         | 99,973         | 100,474        | 100,010             | 3,420   |
| 27   | End of Period                     | 99,187         | 99,284         | 99,648         | 99,959         | 99,959              | 902   |

**Pinnacle West Capital Corporation**  
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**2006**

| Line  | <u>1st Qtr</u> | <u>2nd Qtr</u> | <u>3rd Qtr</u> | <u>4th Qtr</u> | <u>Year-To-Date</u> | <u>Increase<br/>(Decrease)<br/>vs Prior YTD</u> |
|---|----------------|----------------|----------------|----------------|---------------------|---|
| <b>ELECTRIC OPERATING REVENUES</b>                |                |                |                |                |                     |   |
| <b>(Dollars in Millions)</b>                      |                |                |                |                |                     |   |
| <b>REGULATED ELECTRICITY SEGMENT</b>              |                |                |                |                |                     |   |
| <b>Retail</b>                                     |                |                |                |                |                     |   |
| 28  | \$ 202         | \$ 337         | \$ 490         | \$ 242         | \$ 1,271            | \$ 192  |
| 29  | 233            | 333            | 371            | 302            | 1,239               | 198   |
| 30  | 435            | 670            | 861            | 544            | 2,510               | 390   |
| <b>Wholesale revenue on delivered electricity</b> |                |                |                |                |                     |   |
| 31  | 6              | 7              | 12             | (3)            | 22                  | (1)   |
| 32  | 12             | 22             | —              | 12             | 46                  | 6   |
| 33  | 6              | 6              | 7              | 7              | 26                  | —   |
| 34  | 7              | 8              | 7              | 9              | 31                  | 3   |
| 35  | 466            | 713            | 887            | 569            | 2,635               | 398   |
| <b>MARKETING AND TRADING</b>                      |                |                |                |                |                     |   |
| 36  | 85             | 90             | 85             | 71             | 331                 | (21)  |
| 37  | \$ 551         | \$ 803         | \$ 972         | \$ 640         | \$ 2,966            | \$ 377  |
| <b>ELECTRIC SALES (GWH)</b>                       |                |                |                |                |                     |   |
| <b>REGULATED ELECTRICITY SEGMENT</b>              |                |                |                |                |                     |   |
| <b>Retail sales</b>                               |                |                |                |                |                     |   |
| 38  | 2,419          | 3,284          | 4,720          | 2,571          | 12,994              | 771   |
| 39  | 3,199          | 3,971          | 4,222          | 3,584          | 14,976              | 722   |
| 40  | 5,618          | 7,255          | 8,942          | 6,155          | 27,970              | 1,493   |
| <b>Wholesale electricity delivered</b>            |                |                |                |                |                     |   |
| 41  | 215            | 181            | 321            | 166            | 883                 | 33  |
| 42  | 672            | 218            | 219            | 504            | 1,613               | 277   |
| 43  | 178            | 622            | 450            | 340            | 1,590               | (1,420)   |
| 44  | 6,683          | 8,276          | 9,932          | 7,165          | 32,056              | 383   |
| <b>MARKETING AND TRADING</b>                      |                |                |                |                |                     |   |
| 45  | 3,962          | 3,862          | 4,841          | 3,690          | 16,355              | (7,217)   |
| 46  | 10,645         | 12,138         | 14,773         | 10,855         | 48,411              | (6,834)   |

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**Pinnacle West Capital Corporation**  
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| Line   | 1st Qtr       | 2nd Qtr       | 3rd Qtr       | 4th Qtr       | Year-To-Date  | Increase<br>(Decrease)<br>vs Prior YTD |
|--|---------------|---------------|---------------|---------------|---------------|--|
| <b>POWER SUPPLY ADJUSTOR (“PSA”)<br/>— REGULATED ELECTRICITY<br/>SEGMENT (Dollars in Millions)</b> |               |               |               |               |               |  |
| 47   |               |               |               |               |               |  |
| Deferred fuel and purchased power<br>regulatory asset — beginning balance                          | \$ 173        | \$ 169        | \$ 175        | \$ 209        | \$ 173        | \$ 173                                 |
| 48   |               |               |               |               |               |  |
| Deferred fuel and purchased power costs<br>— current period  | 13            | 78            | 134           | 19            | 244           | 73                                     |
| 49   |               |               |               |               |               |  |
| Regulatory disallowance  | —             | —             | —             | —             | —             | —                                      |
| 50   |               |               |               |               |               |  |
| Interest on deferred fuel  | 1             | 3             | 2             | 2             | 8             | 6                                      |
| 51   |               |               |               |               |               |  |
| Amounts recovered through revenues   | (18)          | (75)          | (102)         | (70)          | (265)         | (265)                                  |
| 52   |               |               |               |               |               |  |
| Deferred fuel and purchased power<br>regulatory asset — ending balance                             | <u>\$ 169</u> | <u>\$ 175</u> | <u>\$ 209</u> | <u>\$ 160</u> | <u>\$ 160</u> | <u>\$ (13)</u>                         |

**MARKETING AND TRADING  
PRETAX GROSS MARGIN  
ANALYSIS (Dollars in Millions)**

| <b>Realized and Mark-To-Market<br/>Components</b>      |              |              |             |             |              |                |
|--|--------------|--------------|-------------|-------------|--------------|----------------|
| 53   |              |              |             |             |              |                |
| Electricity and other commodity sales,<br>realized (a) | \$ 10        | \$ 17        | \$ 7        | \$ 17       | \$ 54        | \$ (1)         |
| 54   |              |              |             |             |              |                |
| Mark-to-market reversals on realized sales<br>(a) (b)  | (1)          | (1)          | (1)         | (6)         | (14)         | 2              |
| 55   |              |              |             |             |              |                |
| Change in mark-to-market value of forward<br>sales     | 1            | —            | (3)         | (3)         | —            | (20)           |
| 56   |              |              |             |             |              |                |
| Total gross margin                                     | <u>\$ 10</u> | <u>\$ 16</u> | <u>\$ 3</u> | <u>\$ 8</u> | <u>\$ 40</u> | <u>\$ (19)</u> |

**By Pinnacle West Entity**

|    |                      |              |              |             |             |              |                |
|----|----------------------|--------------|--------------|-------------|-------------|--------------|----------------|
| 57 | APS                  | \$ 8         | \$ 2         | \$ (3)      | \$ 5        | \$ 14        | \$ 20          |
| 58 | Pinnacle West        | (1)          | 11           | 4           | 2           | 17           | (42)           |
| 59 | APS Energy Services  | 3            | 3            | 2           | 1           | 9            | 8              |
| 60 | Pinnacle West Energy | —            | —            | —           | —           | —            | (5)            |
| 61 | Total gross margin   | <u>\$ 10</u> | <u>\$ 16</u> | <u>\$ 3</u> | <u>\$ 8</u> | <u>\$ 40</u> | <u>\$ (19)</u> |

**Future Marketing and Trading Mark-to-Market Realization**

As of December 31, 2006, Pinnacle West had accumulated net mark-to-market gains of \$30 million related to our power marketing and trading activities. We estimate that these gains will be reclassified to realized gains as the underlying commodities are delivered, as follows: 2007, \$16 million; and 2008, \$14 million.

(a) Net effect on pretax gross margin from realization of prior-period mark-to-market included in line 53 and in line 54 is zero. Realization of prior-period mark-to-market relates to cash flow recognition, not earnings recognition. The arithmetic opposites of amounts included in line 53 are included in line 54. For example, line 54 shows that a prior-period mark-to-market gain of \$14 million was transferred to “realized” for the total year 2006. A \$14 million realized gain is included in the \$54 million on line 53 for the total year 2006.

(b) Quarterly amounts do not total to annual amounts because of intra-year mark-to-market eliminations.

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**Pinnacle West Capital Corporation**  
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| Line  | <u>1st Qtr</u>   | <u>2nd Qtr</u>   | <u>3rd Qtr</u>   | <u>4th Qtr</u>   | <u>Year-To-Date</u> | <u>Increase<br/>(Decrease)<br/>vs Prior YTD</u> |
|---|------------------|------------------|------------------|------------------|---------------------|---|
| <b>AVERAGE ELECTRIC CUSTOMERS</b>                               |                  |                  |                  |                  |                     |   |
| <b>Retail customers</b>   |                  |                  |                  |                  |                     |   |
| 62 Residential  | 930,799          | 930,402          | 935,523          | 949,132          | 936,464             | 39,992  |
| 63 Business   | 113,570          | 114,803          | 116,009          | 117,342          | 115,431             | 4,263   |
| 64 Total  | <u>1,044,369</u> | <u>1,045,205</u> | <u>1,051,532</u> | <u>1,066,474</u> | <u>1,051,895</u>    | <u>44,255</u>                                   |
| 65 Wholesale customers  | 75               | 76               | 76               | 80               | 77                  | (1)   |
| 66 Total customers  | <u>1,044,444</u> | <u>1,045,281</u> | <u>1,051,608</u> | <u>1,066,554</u> | <u>1,051,972</u>    | <u>44,254</u>                                   |
| 67 Customer growth (% over prior year)                          | 4.5%             | 4.6%             | 4.4%             | 4.1%             | 4.4%                | 0.1%  |
| <b>RETAIL SALES (GWH) - WEATHER NORMALIZED</b>                  |                  |                  |                  |                  |                     |   |
| 68 Residential  | 2,471            | 3,129            | 4,779            | 2,633            | 13,012              | 690   |
| 69 Business   | 3,247            | 3,932            | 4,230            | 3,604            | 15,013              | 730   |
| 70 Total  | <u>5,718</u>     | <u>7,061</u>     | <u>9,009</u>     | <u>6,237</u>     | <u>28,025</u>       | <u>1,420</u>                                    |
| <b>RETAIL USAGE (KWh/Average Customer)</b>                      |                  |                  |                  |                  |                     |   |
| 71 Residential  | 2,763            | 3,530            | 5,045            | 2,709            | 13,876              | 241   |
| 72 Business   | 30,444           | 34,590           | 36,394           | 30,552           | 129,749             | 1,235   |
| <b>RETAIL USAGE - WEATHER NORMALIZED (KWh/Average Customer)</b> |                  |                  |                  |                  |                     |   |
| 73 Residential  | 2,655            | 3,363            | 5,108            | 2,774            | 13,894              | 149   |
| 74 Business   | 28,589           | 34,252           | 36,463           | 30,716           | 130,064             | 1,579   |
| <b>ELECTRICITY DEMAND (MW)</b>                                  |                  |                  |                  |                  |                     |   |
| 75 Native load peak demand                                      | 3,954            | 6,306            | 7,220            | 5,022            | 7,220               | 647   |

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**Pinnacle West Capital Corporation**  
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**2006**

| Line  |                             | <u>1st Qtr</u> | <u>2nd Qtr</u> | <u>3rd Qtr</u> | <u>4th Qtr</u> | <u>Year-To-Date</u> | <u>Increase<br/>(Decrease)<br/>vs Prior YTD</u> |
|---|-----------------------------|----------------|----------------|----------------|----------------|---------------------|---|
| <b>ENERGY SOURCES (GWH)</b>   |                             |                |                |                |                |                     |   |
| <b>Generation production</b>  |                             |                |                |                |                |                     |   |
| 76  | Nuclear                     | 1,720          | 1,198          | 2,202          | 1,868          | 6,988               | (521)   |
| 77  | Coal                        | 3,083          | 3,182          | 3,574          | 3,337          | 13,176              | 116   |
| 78  | Gas, oil and other          | 1,323          | 2,000          | 2,433          | 1,628          | 7,384               | (1,051)   |
| 79  | Total generation production | <u>6,126</u>   | <u>6,380</u>   | <u>8,209</u>   | <u>6,833</u>   | <u>27,548</u>       | <u>(1,456)</u>                                  |
| <b>Purchased power</b>  |                             |                |                |                |                |                     |   |
| 80  | Firm load                   | 365            | 1,740          | 1,962          | 223            | 4,290               | 816   |
| 81  | Marketing and trading       | 4,592          | 4,597          | 5,353          | 4,326          | 18,868              | (6,845)   |
| 82  | Total purchased power       | <u>4,957</u>   | <u>6,337</u>   | <u>7,315</u>   | <u>4,549</u>   | <u>23,158</u>       | <u>(6,029)</u>                                  |
| 83  | Total energy sources        | <u>11,083</u>  | <u>12,717</u>  | <u>15,524</u>  | <u>11,382</u>  | <u>50,706</u>       | <u>(7,485)</u>                                  |
| <b>POWER PLANT PERFORMANCE</b>  |                             |                |                |                |                |                     |   |
| <b>Capacity Factors</b>   |                             |                |                |                |                |                     |   |
| 84  | Nuclear                     | 71%            | 49%            | 88%            | 75%            | 71%                 | (6)%  |
| 85  | Coal                        | 83%            | 84%            | 94%            | 87%            | 87%                 | 0%  |
| 86  | Gas, oil and other          | 18%            | 28%            | 34%            | 22%            | 25%                 | (3)%  |
| 87  | System average              | 46%            | 48%            | 61%            | 50%            | 51%                 | (2)%  |
| <b>Generation Capacity Out of Service and Replaced for Native Load (average MW/day) (a)</b> |                             |                |                |                |                |                     |   |
| 88  | Nuclear                     | 306            | 553            | 97             | 267            | 153                 | 39  |
| 89  | Coal                        | 257            | 184            | 62             | 155            | 82                  | 9   |
| 90  | Gas                         | 201            | 117            | 109            | 286            | 89                  | (4)   |
| 91  | Total                       | <u>764</u>     | <u>854</u>     | <u>268</u>     | <u>708</u>     | <u>324</u>          | <u>44</u>                                       |

(a) Includes planned and unplanned outages

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| Line  |   | <u>1st Qtr</u> | <u>2nd Qtr</u> | <u>3rd Qtr</u> | <u>4th Qtr</u> | <u>Year-To-Date</u> | <u>Increase<br/>(Decrease)<br/>vs Prior YTD</u> |
|---|---|----------------|----------------|----------------|----------------|---------------------|---|
| <b>ENERGY MARKET INDICATORS (a)</b>                       |   |                |                |                |                |                     |   |
| <b>Electricity Average Daily Spot Prices<br/>(\$/MWh)</b> |   |                |                |                |                |                     |   |
| <b>On-Peak</b>  |   |                |                |                |                |                     |   |
| 92  | Palo Verde                                  | \$ 53.78       | \$ 54.63       | \$ 65.89       | \$ 52.72       | \$ 56.76            | \$ (9.64)                                       |
| 93  | SP15  | \$ 58.34       | \$ 55.39       | \$ 71.89       | \$ 62.16       | \$ 61.95            | \$ (10.99)                                      |
| <b>Off-Peak</b>   |   |                |                |                |                |                     |   |
| 94  | Palo Verde                                  | \$ 41.92       | \$ 28.38       | \$ 38.45       | \$ 39.62       | \$ 37.09            | \$ (10.46)                                      |
| 95  | SP15  | \$ 44.79       | \$ 27.43       | \$ 43.94       | \$ 46.27       | \$ 40.61            | \$ (11.45)                                      |
| <b>WEATHER INDICATORS</b>                                 |   |                |                |                |                |                     |   |
| <b>Actual</b>   |   |                |                |                |                |                     |   |
| 96  | Cooling degree-days                         | 43             | 1,740          | 2,455          | 457            | 4,695               | 32  |
| 97  | Heating degree-days                         | 464            | 4              | —              | 383            | 851                 | 85  |
| 98  | Average humidity                            | 28%            | 18%            | 33%            | 33%            | 28%                 | (6)%  |
| <b>10-Year Averages</b>                                   |   |                |                |                |                |                     |   |
| 99  | Cooling degree-days                         | 96             | 1,554          | 2,544          | 441            | 4,635               | —   |
| 100   | Heating degree-days                         | 517            | 28             | —              | 394            | 939                 | —   |
| 101   | Average humidity                            | 42%            | 22%            | 32%            | 38%            | 33%                 | 0%  |
| <b>ECONOMIC INDICATORS</b>                                |   |                |                |                |                |                     |   |
| <b>Building Permits — Metro Phoenix (b)</b>               |   |                |                |                |                |                     |   |
| 102   | Single-family                               | 8,716          | 8,883          | 5,969          | 4,408          | 27,976              | (15,282)  |
| 103   | Multi-family                                | 2,887          | 2,976          | 3,215          | 1,029          | 10,107              | 2,329   |
| 104   | Total                                       | <u>11,603</u>  | <u>11,859</u>  | <u>9,184</u>   | <u>5,437</u>   | <u>38,083</u>       | <u>(12,953)</u>                                 |
| <b>Arizona Job Growth (c)</b>                             |   |                |                |                |                |                     |   |
| 105   | Payroll job growth (% over prior year)      | 6.2%           | 5.3%           | 5.1%           | 4.9%           | 5.4%                | 0.0%  |
| 106   | Unemployment rate (% , seasonally adjusted) | 4.2%           | 4.1%           | 4.0%           | 4.1%           | 4.1%                | (0.5)%  |

**Sources:**

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(c) Arizona Department of Economic Security

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| Line   |                                   | 1st Qtr        | 2nd Qtr        | 3rd Qtr        | 4th Qtr        | Year-To-Date   | Increase<br>(Decrease)<br>vs Prior YTD |
|--|-----------------------------------|----------------|----------------|----------------|----------------|----------------|--|
| <b>EARNINGS CONTRIBUTION BY<br/>SUBSIDIARY (\$ Millions)</b> |                                   |                |                |                |                |                |  |
| 1  | Arizona Public Service            | \$ 27          | \$ 64          | \$ 61          | \$ 18          | \$ 170         | \$ (30)                                |
| 2  | Pinnacle West Energy              | (21)           | 12             | (71)           | (6)            | (85)           | (27)                                   |
| 3  | APS Energy Services               | (3)            | 1              | —              | (3)            | (6)            | (9)                                    |
| 4  | SunCor                            | 9              | 10             | 7              | 13             | 39             | (2)                                    |
| 5  | El Dorado                         | (1)            | —              | —              | —              | (2)            | (35)                                   |
| 6  | Parent Company                    | 19             | (2)            | 88             | 2              | 107            | 79                                     |
| 7  | Income From Continuing Operations | 30             | 85             | 85             | 24             | 223            | (24)                                   |
| Income (Loss) From Discontinued<br>Operations — Net of Tax   |                                   |                |                |                |                |                |  |
| 8  | Silverhawk                        | (7)            | (59)           | 1              | (3)            | (67)           | (55)                                   |
| 9  | SunCor                            | 1              | 1              | 14             | —              | 17             | 13                                     |
| 10   | Other                             | —              | —              | 4              | —              | 3              | (1)                                    |
| 11   | Total                             | (6)            | (58)           | 19             | (3)            | (47)           | (43)                                   |
| 12   | Net Income                        | <u>\$ 24</u>   | <u>\$ 27</u>   | <u>\$ 104</u>  | <u>\$ 21</u>   | <u>\$ 176</u>  | <u>\$ (67)</u>                         |
| <b>EARNINGS PER SHARE<br/>BY SUBSIDIARY — DILUTED</b>        |                                   |                |                |                |                |                |  |
| 13   | Arizona Public Service            | \$ 0.30        | \$ 0.66        | \$ 0.62        | \$ 0.19        | \$ 1.77        | \$ (0.41)                              |
| 14   | Pinnacle West Energy              | (0.23)         | 0.13           | (0.72)         | (0.06)         | (0.89)         | (0.26)                                 |
| 15   | APS Energy Services               | (0.04)         | 0.01           | —              | (0.04)         | (0.06)         | (0.09)                                 |
| 16   | SunCor                            | 0.09           | 0.11           | 0.07           | 0.13           | 0.40           | (0.05)                                 |
| 17   | El Dorado                         | (0.01)         | —              | (0.01)         | (0.01)         | (0.02)         | (0.38)                                 |
| 18   | Parent Company                    | 0.21           | (0.03)         | 0.90           | 0.03           | 1.11           | 0.81                                   |
| 19   | Income From Continuing Operations | 0.32           | 0.88           | 0.86           | 0.24           | 2.31           | (0.38)                                 |
| Income (Loss) From Discontinued<br>Operations — Net of Tax   |                                   |                |                |                |                |                |  |
| 20   | Silverhawk                        | (0.06)         | (0.61)         | —              | (0.03)         | (0.69)         | (0.57)                                 |
| 21   | SunCor                            | 0.01           | 0.01           | 0.15           | 0.01           | 0.17           | 0.13                                   |
| 22   | Other                             | —              | —              | 0.04           | —              | 0.03           | (0.02)                                 |
| 23   | Total                             | (0.05)         | (0.60)         | 0.19           | (0.02)         | (0.49)         | (0.46)                                 |
| 24   | Net Income                        | <u>\$ 0.27</u> | <u>\$ 0.28</u> | <u>\$ 1.05</u> | <u>\$ 0.22</u> | <u>\$ 1.82</u> | <u>\$ (0.84)</u>                       |
| 25   | <b>BOOK VALUE PER SHARE</b>       | \$ 32.50       | \$ 32.89       | \$ 35.81       | \$ 34.58       | \$ 34.58       | \$ 2.44                                |
| <b>COMMON SHARES<br/>OUTSTANDING (Thousands)</b>             |                                   |                |                |                |                |                |  |
| 26   | Average — Diluted                 | 92,045         | 96,299         | 98,816         | 99,050         | 96,590         | 5,058                                  |
| 27   | End of Period                     | 92,103         | 98,442         | 98,881         | 99,057         | 99,057         | 7,264                                  |

**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2005**

| Line   |  | <u>1st Qtr</u> | <u>2nd Qtr</u> | <u>3rd Qtr</u> | <u>4th Qtr</u> | <u>Year-To-Date</u> | <u>Increase<br/>(Decrease)<br/>vs Prior YTD</u> |
|--|--|----------------|----------------|----------------|----------------|---------------------|---|
| <b>ELECTRIC OPERATING REVENUES (Dollars in Millions)</b> |  |                |                |                |                |                     |   |
| <b>REGULATED ELECTRICITY SEGMENT</b>                     |  |                |                |                |                |                     |   |
| <b>Retail</b>  |  |                |                |                |                |                     |   |
| 28   | Residential                                    | \$ 190         | \$ 268         | \$ 414         | \$ 207         | \$ 1,079            | \$ 95   |
| 29   | Business                                       | <u>209</u>     | <u>281</u>     | <u>308</u>     | <u>243</u>     | <u>1,041</u>        | <u>63</u>                                       |
| 30   | Total retail                                   | 399            | 549            | 722            | 450            | 2,120               | 158   |
| <b>Wholesale revenue on delivered electricity</b>        |  |                |                |                |                |                     |   |
| 31   | Traditional contracts                          | 3              | 5              | 9              | 6              | 23                  | 7   |
| 32   | Off-system sales                               | —              | 12             | 8              | 20             | 40                  | 40  |
| 33   | Transmission for others                        | 7              | 7              | 7              | 5              | 26                  | (6)   |
| 34   | Other miscellaneous services                   | <u>7</u>       | <u>7</u>       | <u>7</u>       | <u>7</u>       | <u>28</u>           | <u>3</u>  |
| 35   | Total regulated operating electricity revenues | 416            | 580            | 753            | 488            | 2,237               | 202   |
| <b>MARKETING AND TRADING</b>                             |  |                |                |                |                |                     |   |
| 36   | Electricity and other commodity sales          | <u>89</u>      | <u>71</u>      | <u>107</u>     | <u>84</u>      | <u>352</u>          | <u>(49)</u>                                     |
| 37   | Total operating electric revenues              | <u>\$ 505</u>  | <u>\$ 651</u>  | <u>\$ 860</u>  | <u>\$ 572</u>  | <u>\$ 2,589</u>     | <u>\$ 153</u>                                   |
| <b>ELECTRIC SALES (GWH)</b>                              |  |                |                |                |                |                     |   |
| <b>REGULATED ELECTRICITY SEGMENT</b>                     |  |                |                |                |                |                     |   |
| <b>Retail sales</b>                                      |  |                |                |                |                |                     |   |
| 38   | Residential                                    | 2,367          | 2,889          | 4,449          | 2,518          | 12,223              | 696   |
| 39   | Business                                       | <u>3,042</u>   | <u>3,684</u>   | <u>4,100</u>   | <u>3,427</u>   | <u>14,254</u>       | <u>428</u>                                      |
| 40   | Total retail                                   | 5,409          | 6,573          | 8,549          | 5,945          | 26,477              | 1,124   |
| <b>Wholesale electricity delivered</b>                   |  |                |                |                |                |                     |   |
| 41   | Traditional contracts                          | 155            | 200            | 269            | 227            | 850                 | 141   |
| 42   | Off-system sales                               | —              | 598            | 212            | 526            | 1,336               | 1,336   |
| 43   | Retail load hedge management                   | <u>750</u>     | <u>702</u>     | <u>1,026</u>   | <u>532</u>     | <u>3,010</u>        | <u>278</u>                                      |
| 44   | Total regulated electricity                    | 6,314          | 8,073          | 10,056         | 7,230          | 31,673              | 2,879   |
| <b>MARKETING AND TRADING</b>                             |  |                |                |                |                |                     |   |
| 45   | Wholesale sales of electricity                 | <u>6,060</u>   | <u>5,009</u>   | <u>7,263</u>   | <u>5,240</u>   | <u>23,572</u>       | <u>(6,606)</u>                                  |
| 46   | Total electric sales                           | <u>12,374</u>  | <u>13,082</u>  | <u>17,319</u>  | <u>12,470</u>  | <u>55,245</u>       | <u>(3,727)</u>                                  |

See Glossary of Terms.

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**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2005**

| Line   | <u>1st Qtr</u>   | <u>2nd Qtr</u> | <u>3rd Qtr</u> | <u>4th Qtr</u> | <u>Year-To-Date</u> | <u>Increase<br/>(Decrease)<br/>vs Prior YTD</u> |               |
|--|--|----------------|----------------|----------------|---------------------|---|---------------|
| <b>POWER SUPPLY ADJUSTOR<br/>("PSA") - REGULATED<br/>ELECTRICITY SEGMENT<br/>(Dollars in Millions)</b> |  |                |                |                |                     |   |               |
| 47   | Deferred fuel and purchased power<br>regulatory asset — beginning<br>balance | \$ —           | \$ —           | \$ 38          | \$ 143              | \$ —  | \$ —          |
| 48   | Deferred fuel and purchased power<br>costs — current period                  | —              | 38             | 104            | 29                  | 171   | 171           |
| 49   | Regulatory disallowance  | —              | —              | —              | —                   | —   | —             |
| 50   | Interest on deferred fuel  | —              | —              | 1              | 1                   | 2   | 2             |
| 51   | Amounts recovered through revenues   | —              | —              | —              | —                   | —   | —             |
| 52   | Deferred fuel and purchased power<br>regulatory asset — ending balance       | <u>\$ —</u>    | <u>\$ 38</u>   | <u>\$ 143</u>  | <u>\$ 173</u>       | <u>\$ 173</u>                                   | <u>\$ 173</u> |

**MARKETING AND TRADING  
PRETAX GROSS MARGIN  
ANALYSIS (Dollars in Millions)**

| <b>Realized and Mark-To-Market<br/>Components</b> |  |              |              |              |             |              |                |
|---|--|--------------|--------------|--------------|-------------|--------------|----------------|
| 53  | Electricity and other commodity sales,<br>realized (a) | \$ 12        | \$ 18        | \$ 3         | \$ 23       | \$ 55        | \$ (9)         |
| 54  | Mark-to-market reversals on realized<br>sales (a) (b)  | (3)          | (8)          | 3            | (17)        | (16)         | (11)           |
| 55  | Change in mark-to-market value of<br>forward sales     | 10           | 3            | 14           | 1           | 20           | (1)            |
| 56  | Total gross margin                                     | <u>\$ 19</u> | <u>\$ 13</u> | <u>\$ 20</u> | <u>\$ 7</u> | <u>\$ 59</u> | <u>\$ (21)</u> |

**By Pinnacle West Entity**

|    |                      |              |              |              |             |              |                |
|----|----------------------|--------------|--------------|--------------|-------------|--------------|----------------|
| 57 | APS                  | \$ (4)       | \$ 3         | \$ (8)       | \$ 3        | \$ (6)       | \$ (1)         |
| 58 | Pinnacle West        | 21           | 6            | 26           | 6           | 59           | 34             |
| 59 | APS Energy Services  | (3)          | 4            | 2            | (2)         | 1            | (13)           |
| 60 | Pinnacle West Energy | 5            | —            | —            | —           | 5            | (41)           |
| 61 | Total gross margin   | <u>\$ 19</u> | <u>\$ 13</u> | <u>\$ 20</u> | <u>\$ 7</u> | <u>\$ 59</u> | <u>\$ (21)</u> |

(a) Net effect on pretax gross margin from realization of prior-period mark-to-market included in line 53 and in line 54 is zero. Realization of prior-period mark-to-market relates to cash flow recognition, not earnings recognition. The arithmetic opposites of amounts included in line 53 are included in line 54. For example, line 54 shows that a prior-period mark-to-market gain of \$16 million was transferred to "realized" for the total year 2005. A \$16 million realized gain is included in the \$55 million on line 53 for the total year 2005.

(b) Quarterly amounts do not total to annual amounts because of intra-year mark-to-market eliminations.

**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2005**

| Line  | 1st Qtr        | 2nd Qtr        | 3rd Qtr          | 4th Qtr          | Year-To-Date     | Increase<br>(Decrease)<br>vs Prior YTD |
|---|----------------|----------------|------------------|------------------|------------------|--|
| <b>AVERAGE ELECTRIC CUSTOMERS</b>                               |                |                |                  |                  |                  |  |
| <b>Retail customers</b>   |                |                |                  |                  |                  |  |
| 62 Residential  | 889,967        | 888,509        | 895,789          | 911,623          | 896,472          | 37,403                                 |
| 63 Business   | 109,795        | 110,658        | 111,648          | 112,569          | 111,168          | 4,053                                  |
| 64 Total  | 999,762        | 999,167        | 1,007,437        | 1,024,192        | 1,007,640        | 41,456                                 |
| 65 Wholesale customers  | 81             | 76             | 78               | 77               | 78               | (3)                                    |
| 66 Total customers  | <u>999,843</u> | <u>999,243</u> | <u>1,007,515</u> | <u>1,024,269</u> | <u>1,007,718</u> | <u>41,453</u>                          |
| 67 Customer growth (% over prior year)                          | 4.0%           | 4.2%           | 4.5%             | 4.5%             | 4.3%             | 0.6%                                   |
| <b>RETAIL SALES (GWH) - WEATHER NORMALIZED</b>                  |                |                |                  |                  |                  |  |
| 68 Residential  | 2,431          | 2,931          | 4,434            | 2,525            | 12,322           | 572                                    |
| 69 Business   | 3,061          | 3,704          | 4,105            | 3,414            | 14,283           | 412                                    |
| 70 Total  | <u>5,492</u>   | <u>6,635</u>   | <u>8,539</u>     | <u>5,939</u>     | <u>26,605</u>    | <u>984</u>                             |
| <b>RETAIL USAGE (KWh/Average Customer)</b>                      |                |                |                  |                  |                  |  |
| 71 Residential  | 2,660          | 3,252          | 4,967            | 2,763            | 13,635           | 217                                    |
| 72 Business   | 27,706         | 33,292         | 36,723           | 30,444           | 128,514          | (878)                                  |
| <b>RETAIL USAGE - WEATHER NORMALIZED (KWh/Average Customer)</b> |                |                |                  |                  |                  |  |
| 73 Residential  | 2,732          | 3,298          | 4,950            | 2,770            | 13,745           | 68                                     |
| 74 Business   | 27,876         | 33,471         | 36,770           | 30,324           | 128,485          | (1,011)                                |
| <b>ELECTRICITY DEMAND (MW)</b>                                  |                |                |                  |                  |                  |  |
| 75 Native load peak demand                                      | 3,763          | 6,159          | 6,573            | 4,904            | 6,573            | 555                                    |

See Glossary of Terms.

**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2005**

| Line  | <u>1st Qtr</u>              | <u>2nd Qtr</u> | <u>3rd Qtr</u> | <u>4th Qtr</u> | <u>Year-To-Date</u> | <u>Increase<br/>(Decrease)<br/>vs Prior YTD</u> |                |
|---|-----------------------------|----------------|----------------|----------------|---------------------|---|----------------|
| <b>ENERGY SOURCES (GWH)</b>   |                             |                |                |                |                     |   |                |
| <b>Generation production</b>  |                             |                |                |                |                     |   |                |
| 76  | Nuclear                     | 2,247          | 1,619          | 2,147          | 1,496               | 7,509   | (674)          |
| 77  | Coal                        | 2,940          | 3,088          | 3,574          | 3,458               | 13,060  | 394            |
| 78  | Gas, oil and other          | 1,128          | 2,129          | 3,064          | 2,114               | 8,434   | 3,106          |
| 79  | Total generation production | <u>6,315</u>   | <u>6,836</u>   | <u>8,785</u>   | <u>7,068</u>        | <u>29,003</u>                                   | <u>2,826</u>   |
| <b>Purchased power</b>  |                             |                |                |                |                     |   |                |
| 80  | Firm load                   | 586            | 880            | 1,589          | 402                 | 3,474   | (851)          |
| 81  | Marketing and trading       | 5,832          | 5,984          | 7,795          | 6,102               | 25,713  | (4,479)        |
| 82  | Total purchased power       | <u>6,418</u>   | <u>6,864</u>   | <u>9,384</u>   | <u>6,504</u>        | <u>29,187</u>                                   | <u>(5,330)</u> |
| 83  | Total energy sources        | <u>12,733</u>  | <u>13,700</u>  | <u>18,169</u>  | <u>13,572</u>       | <u>58,190</u>                                   | <u>(2,504)</u> |
| <b>POWER PLANT PERFORMANCE</b>  |                             |                |                |                |                     |   |                |
| <b>Capacity Factors</b>   |                             |                |                |                |                     |   |                |
| 84  | Nuclear                     | 94%            | 67%            | 88%            | 61%                 | 77%   | (7)%           |
| 85  | Coal                        | 80%            | 83%            | 95%            | 92%                 | 87%   | 3%             |
| 86  | Gas, oil and other          | 17%            | 29%            | 39%            | 27%                 | 28%   | 9%             |
| 87  | System average              | 49%            | 51%            | 62%            | 50%                 | 53%   | 2%             |
| <b>Generation Capacity Out of Service<br/>and Replaced for Native Load<br/>(average MW/day) (a)</b> |                             |                |                |                |                     |   |                |
| 88  | Nuclear                     | 52             | 329            | 107            | 419                 | 114   | (45)           |
| 89  | Coal                        | 195            | 244            | 47             | 103                 | 73  | (55)           |
| 90  | Gas                         | <u>212</u>     | <u>164</u>     | <u>140</u>     | <u>226</u>          | <u>93</u>                                       | <u>45</u>      |
| 91  | Total                       | <u>459</u>     | <u>737</u>     | <u>294</u>     | <u>748</u>          | <u>280</u>                                      | <u>(54)</u>    |

(a) Includes planned and unplanned outages

See Glossary of Terms.

**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2005**

| Line  |   | <u>1st Qtr</u> | <u>2nd Qtr</u> | <u>3rd Qtr</u> | <u>4th Qtr</u> | <u>Year-To-Date</u> | <u>Increase<br/>(Decrease)<br/>vs Prior YTD</u> |
|---|---|----------------|----------------|----------------|----------------|---------------------|---|
| <b>ENERGY MARKET INDICATORS (a)</b>                       |   |                |                |                |                |                     |   |
| <b>Electricity Average Daily Spot Prices<br/>(\$/MWh)</b> |   |                |                |                |                |                     |   |
| <b>On-Peak</b>  |   |                |                |                |                |                     |   |
| 92  | Palo Verde                                    | \$ 49.74       | \$ 53.33       | \$ 78.94       | \$ 83.58       | \$ 66.40            | \$ 17.10  |
| 93  | SP15  | \$ 55.70       | \$ 55.19       | \$ 83.21       | \$ 97.65       | \$ 72.94            | \$ 17.74  |
| <b>Off-Peak</b>   |   |                |                |                |                |                     |   |
| 94  | Palo Verde                                    | \$ 37.04       | \$ 33.03       | \$ 52.35       | \$ 67.79       | \$ 47.55            | \$ 12.81  |
| 95  | SP15  | \$ 40.96       | \$ 34.73       | \$ 56.08       | \$ 76.45       | \$ 52.06            | \$ 13.44  |
| <b>WEATHER INDICATORS</b>                                 |   |                |                |                |                |                     |   |
| <b>Actual</b>   |   |                |                |                |                |                     |   |
| 96  | Cooling degree-days                           | 34             | 1,538          | 2,583          | 508            | 4,663               | (31)  |
| 97  | Heating degree-days                           | 457            | 1              | —              | 308            | 766                 | (219)   |
| 98  | Average humidity                              | 56%            | 20%            | 29%            | 30%            | 34%                 | 2%  |
| <b>10-Year Averages</b>                                   |   |                |                |                |                |                     |   |
| 99  | Cooling degree-days                           | 96             | 1,554          | 2,544          | 441            | 4,635               | —   |
| 100   | Heating degree-days                           | 517            | 28             | —              | 394            | 939                 | —   |
| 101   | Average humidity                              | 42%            | 22%            | 32%            | 38%            | 33%                 | 0%  |
| <b>ECONOMIC INDICATORS</b>                                |   |                |                |                |                |                     |   |
| <b>Building Permits — Metro Phoenix (b)</b>               |   |                |                |                |                |                     |   |
| 102   | Single-family                                 | 10,356         | 12,013         | 11,577         | 9,312          | 43,258              | (4,859)   |
| 103   | Multi-family                                  | 1,741          | 1,645          | 2,360          | 2,032          | 7,778               | 192   |
| 104   | Total   | <u>12,097</u>  | <u>13,658</u>  | <u>13,937</u>  | <u>11,344</u>  | <u>51,036</u>       | <u>(4,667)</u>                                  |
| <b>Arizona Job Growth (c)</b>                             |   |                |                |                |                |                     |   |
| 105   | Payroll job growth (% over prior year)        | 4.8%           | 5.5%           | 6.0%           | 5.2%           | 5.4%                | 1.7%  |
| 106   | Unemployment rate<br>(%, seasonally adjusted) | 4.6%           | 4.7%           | 4.7%           | 4.6%           | 4.6%                | (0.3)%  |

## Sources:

- (a) Average of daily prices obtained and used with permission from Dow Jones & Company, Inc.  
(b) Arizona Real Estate Center, Arizona State University W.P. Carey College of Business  
(c) Arizona Department of Economic Security

See Glossary of Terms.

**Pinnacle West Capital Corporation**  
**Earnings Variance Explanations**  
**for the Three-Month and Six-Month Periods Ended June 30, 2008 and 2007**

This discussion explains the changes in our consolidated earnings for the three-month and six-month periods ended June 30, 2008 and 2007. Unaudited Condensed Consolidated Statements of Income for the three months and six months ended June 30, 2008 and 2007 follow this discussion. We will file our Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 on or before August 11, 2008. We suggest that this discussion be read in connection with the Pinnacle West Capital Corporation (“Pinnacle West”) Annual Report on Form 10-K for the fiscal year ended December 31, 2007 and the Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2008. Additional operating and financial statistics and a glossary of terms are available on our website ( [www.pinnaclewest.com](http://www.pinnaclewest.com) ).

**EARNINGS CONTRIBUTION BY BUSINESS SEGMENT**

Pinnacle West’s two reportable business segments are:

- our regulated electricity segment, which consists of traditional regulated retail and wholesale electricity businesses (primarily electric service to Native Load customers) and related activities and includes electricity generation, transmission and distribution; and
- our real estate segment, which consists of SunCor’s real estate development and investment activities.

The following table presents income from continuing operations for our regulated electricity and real estate segments and reconciles those amounts to net income in total for the three months and six months ended June 30, 2008 and 2007 (dollars in millions):

|   | Three Months Ended<br>June 30, |              | Six Months Ended<br>June 30, |              |
|---|--------------------------------|--------------|------------------------------|--------------|
|   | 2008                           | 2007         | 2008                         | 2007         |
| Regulated electricity segment   | \$ 121                         | \$ 71        | \$ 114                       | \$ 74        |
| Real estate segment   | (5)                            | —            | (6)                          | 10           |
| All other (a)   | (2)                            | 8            | 1                            | 12           |
| Income from continuing operations   | 114                            | 79           | 109                          | 96           |
| Income from discontinued operations, real estate segment – net of tax (b) | 20                             | —            | 20                           | —            |
| Net income  | <u>\$ 134</u>                  | <u>\$ 79</u> | <u>\$ 129</u>                | <u>\$ 96</u> |

- (a) Includes activities related to marketing and trading, APSES and El Dorado. None of these segments is a reportable segment.
- (b) Primarily relates to a commercial property sale.

## PINNACLE WEST CONSOLIDATED – RESULTS OF OPERATIONS

### Operating Results – Three-month period ended June 30, 2008 compared with three-month period ended June 30, 2007

Our consolidated net income for the three months ended June 30, 2008 was \$134 million compared with net income of \$79 million for the comparable prior-year period. Net income increased \$55 million in the period-to-period comparison and is reflected in the segments as follows:

- Regulated Electricity Segment – Net income increased approximately \$50 million due to various factors, including income tax benefits of \$30 million related to prior years resolved in 2008; the impacts of retail and transmission rate increases; increased mark-to-market valuations of fuel and purchased power contracts related to changes in market prices, net of related PSA deferrals; a regulatory disallowance in 2007; increased revenues, net of fuel and purchased power costs, related to long-term traditional wholesale contracts; and higher retail sales primarily due to customer growth. These positive factors were partially offset by the effects of milder weather on retail sales; higher operations and maintenance expense primarily related to distribution system reliability, generation costs (including planned maintenance and overhauls), and other costs; and higher depreciation and amortization primarily due to higher plant balances.
- Real Estate Segment – Net income increased approximately \$15 million primarily due to a commercial property sale in 2008, partially offset by lower land parcel sales resulting from the weak real estate market.
- Other – Net income decreased approximately \$10 million primarily due to lower marketing and trading contributions as a result of lower sales volumes.

Additional details on the major factors that increased (decreased) net income for the three-month period ended June 30, 2008 compared with the prior-year period are contained in the following table (dollars in millions):

|   | Increase (Decrease) |              |
|---|---------------------|--------------|
|   | Pretax              | After Tax    |
| <b>Regulated electricity segment:</b>   |                     |              |
| Impacts of retail rate increase effective July 1, 2007 and transmission rate increase effective March 1, 2008:  |                     |              |
| Retail revenue increase primarily related to higher Base Fuel Rate  | \$ 93               | \$ 57        |
| Decreased deferred fuel and purchased power costs related to higher Base Fuel Rate  | (76)                | (46)         |
| Transmission rate increase (including a retail rate component)  | 7                   | 4            |
| Higher mark-to-market valuations of fuel and purchased power contracts related to changes in market prices, net of related PSA deferrals  | 17                  | 10           |
| Regulatory disallowance in 2007   | 14                  | 8            |
| Increased revenues, net of fuel and purchased power costs, related to long-term traditional wholesale contracts   | 7                   | 4            |
| Higher retail sales primarily due to customer growth, excluding weather effects   | 6                   | 4            |
| Effects of milder weather on retail sales   | (18)                | (11)         |
| Higher operations and maintenance expense primarily related to distribution system reliability, increased generation costs (including planned maintenance and overhauls), and other costs | (12)                | (7)          |
| Higher depreciation and amortization primarily due to higher plant balances   | (5)                 | (3)          |
| Income tax benefits related to prior years resolved in 2008   | —                   | 30           |
| Miscellaneous items, net  | <u>2</u>            | <u>—</u>     |
| Increase in regulated electricity segment net income  | <u>35</u>           | <u>50</u>    |
| Lower real estate segment income from continuing operations primarily due to lower land parcel sales resulting from the weak real estate market   | (8)                 | (5)          |
| Lower marketing and trading contribution primarily due to lower sales volumes   | (13)                | (8)          |
| Other miscellaneous items, net  | <u>(2)</u>          | <u>(2)</u>   |
| Increase in income from continuing operations   | <u>\$ 12</u>        | <u>35</u>    |
| Increase in real estate segment income from discontinued operations primarily related to a commercial property sale   |                     | <u>20</u>    |
| Increase in net income  |                     | <u>\$ 55</u> |

### Regulated Electricity Segment Revenues

Regulated electricity segment revenues were \$118 million higher for the three months ended June 30, 2008 compared with the prior-year period primarily because of:

- a \$93 million increase in retail revenues due to a rate increase effective July 1, 2007;
- a \$20 million increase in revenues from Off-System Sales due to higher prices and volumes;

- a \$13 million increase in revenues related to long-term traditional wholesale contracts;
- an \$8 million increase in retail revenues primarily related to customer growth, excluding weather effects;
- a \$7 million increase due to a transmission rate increase (including a retail rate component) effective March 1, 2008;
- a \$24 million decrease in retail revenue due to the effects of milder weather;
- an \$8 million decrease in retail revenues related to recovery of PSA deferrals, which had no earnings effect because of amortization of the same amount recorded as fuel and purchased power expense; and
- a \$9 million net increase due to miscellaneous factors.

### **Real Estate Segment Revenues**

Real estate segment revenues were \$11 million lower for the three months ended June 30, 2008 compared with the prior-year period primarily due to lower land parcel and home sales as a result of the weak real estate market.

### **All Other Revenues**

All other revenues were \$44 million lower for the three months ended June 30, 2008 compared with the prior-year period primarily due to the planned reduction of APSES' retail commodity-related energy services and a decrease in other marketing and trading activities.

### **Operating Results – Six-month period ended June 30, 2008 compared with six-month period ended June 30, 2007**

Our consolidated net income for the six months ended June 30, 2008 was \$129 million compared with net income of \$96 million for the comparable prior-year period. Net income increased \$33 million in the period-to-period comparison and is reflected in the segments as follows:

- Regulated Electricity Segment – Net income increased approximately \$40 million due to various factors, including income tax benefits of \$30 million related to prior years resolved in 2008; the impacts of retail and transmission rate increases; increased mark-to-market valuations of fuel and purchased power contracts related to changes in market prices, net of related PSA deferrals; a regulatory disallowance in 2007; higher retail sales primarily due to customer growth; and increased revenues, net of fuel and purchased power costs, related to long-term traditional wholesale contracts. These positive factors were partially offset by higher operations and maintenance expense primarily related to increased generation costs (including planned maintenance and overhauls), increased costs related to distribution system reliability, and other costs; the



effects of milder weather on retail sales; and higher depreciation and amortization primarily due to higher plant balances.

- Real Estate Segment – Net income increased approximately \$4 million primarily due to a commercial property sale in 2008, partially offset by lower land parcel sales resulting from the weak real estate market.
- Other – Net income decreased approximately \$11 million primarily due to lower marketing and trading contributions as a result of lower sales volumes.

Additional details on the major factors that increased (decreased) net income for the six-month period ended June 30, 2008 compared with the prior-year period are contained in the following table (dollars in millions):

|   | Increase (Decrease) |              |
|---|---------------------|--------------|
|   | Pretax              | After Tax    |
| Regulated electricity segment:  |                     |              |
| Impacts of retail rate increase effective July 1, 2007 and transmission rate increase effective March 1, 2008:                                  |                     |              |
| Retail revenue increase primarily related to higher Base Fuel Rate  | \$ 156              | \$ 95        |
| Decreased deferred fuel and purchased power costs related to higher Base Fuel Rate  | (141)               | (86)         |
| Transmission rate increase (including a retail rate component)  | 10                  | 6            |
| Higher mark-to-market valuations of fuel and purchased power contracts related to changes in market prices, net of related PSA deferrals        | 26                  | 16           |
| Regulatory disallowance in 2007   | 14                  | 8            |
| Higher retail sales primarily due to customer growth, excluding weather effects   | 12                  | 7            |
| Increased revenues, net of fuel and purchased power costs, related to long-term traditional wholesale contracts                                 | 11                  | 7            |
| Effects of milder weather on retail sales   | (19)                | (12)         |
| Operations and maintenance expense increases primarily due to:  |                     |              |
| Increased customer service and other costs as a result of distribution system reliability   | (18)                | (11)         |
| Increased generation costs, including more planned maintenance and overhauls  | (15)                | (9)          |
| Higher depreciation and amortization primarily due to higher plant balances   | (11)                | (7)          |
| Income tax benefits related to prior years resolved in 2008   | —                   | 30           |
| Miscellaneous items, net  | (3)                 | (4)          |
| Increase in regulated electricity segment net income  | <u>22</u>           | <u>40</u>    |
| Lower real estate segment income from continuing operations primarily due to lower land parcel sales resulting from the weak real estate market | (26)                | (16)         |
| Lower marketing and trading contribution primarily due to lower sales volumes   | (21)                | (13)         |
| Other miscellaneous items, net  | 6                   | 2            |
| Increase (decrease) in income from continuing operations  | <u>\$ (19)</u>      | <u>13</u>    |
| Increase in real estate segment income from discontinued operations primarily related to a commercial property sale                             |                     | <u>20</u>    |
| Increase in net income  |                     | <u>\$ 33</u> |

### **Regulated Electricity Segment Revenues**

Regulated electricity segment revenues were \$205 million higher for the six months ended June 30, 2008 compared with the prior-year period primarily because of:

- a \$156 million increase in retail revenues due to a rate increase effective July 1, 2007;
- a \$37 million increase in revenues from Off-System Sales due to higher prices and volumes;
- a \$20 million increase in revenues related to long-term traditional wholesale contracts;
- a \$16 million increase in retail revenues primarily related to customer growth, excluding weather effects;
- a \$10 million increase due to a transmission rate increase (including a retail rate component) effective March 1, 2008;
- a \$26 million decrease in retail revenues related to recovery of PSA deferrals, which had no earnings effect because of amortization of the same amount recorded as fuel and purchased power expense;
- a \$25 million decrease in retail revenue due to the effects of milder weather; and
- a \$17 million net increase due to miscellaneous factors.

### **Real Estate Segment Revenues**

Real estate segment revenues were \$40 million lower for the six months ended June 30, 2008 compared with the prior-year period primarily due to lower land parcel sales as a result of the weak real estate market.

### **All Other Revenues**

All other revenues were \$60 million lower for the six months ended June 30, 2008 compared with the prior-year period primarily due to the planned reduction of APSES' retail commodity-related energy services and a decrease in other marketing and trading activities.

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

(unaudited)

(in thousands, except per share amounts)

|  | THREE MONTHS ENDED<br>JUNE 30, |                  | Increase (Decrease) |         |   |
|--|--------------------------------|------------------|---------------------|---------|---|
|  | 2008                           | 2007             | Amount              | Percent |   |
| <b>Operating Revenues</b>                                    |                                |                  |                     |         |   |
| Regulated electricity segment                                | \$ 829,478                     | \$ 711,293       | \$ 118,185          | 16.6%   | B |
| Real estate segment  | 36,880                         | 47,819           | (10,939)            | 22.9%   | W |
| Marketing and trading  | 50,673                         | 92,637           | (41,964)            | 45.3%   | W |
| Other revenues   | 9,162                          | 11,153           | (1,991)             | 17.9%   | W |
| Total  | <u>926,193</u>                 | <u>862,902</u>   | <u>63,291</u>       | 7.3%    | B |
| <b>Operating Expenses</b>                                    |                                |                  |                     |         |   |
| Regulated electricity segment fuel and purchased power       | 327,561                        | 270,337          | 57,224              | 21.2%   | W |
| Real estate segment operations                               | 41,746                         | 45,917           | (4,171)             | 9.1%    | B |
| Marketing and trading fuel and purchased power               | 45,245                         | 74,533           | (29,288)            | 39.3%   | B |
| Operations and maintenance                                   | 194,909                        | 177,310          | 17,599              | 9.9%    | W |
| Depreciation and amortization                                | 97,784                         | 92,476           | 5,308               | 5.7%    | W |
| Taxes other than income taxes                                | 33,251                         | 34,757           | (1,506)             | 4.3%    | B |
| Other expenses   | 6,822                          | 8,803            | (1,981)             | 22.5%   | B |
| Total  | <u>747,318</u>                 | <u>704,133</u>   | <u>43,185</u>       | 6.1%    | W |
| <b>Operating Income</b>                                      | <u>178,875</u>                 | <u>158,769</u>   | <u>20,106</u>       | 12.7%   | B |
| <b>Other</b>   |                                |                  |                     |         |   |
| Allowance for equity funds used during construction          | 5,414                          | 5,195            | 219                 | 4.2%    | B |
| Other income   | 3,928                          | 5,869            | (1,941)             | 33.1%   | W |
| Other expense  | (10,063)                       | (3,269)          | (6,794)             | 207.8%  | W |
| Total  | <u>(721)</u>                   | <u>7,795</u>     | <u>(8,516)</u>      | 109.2%  | W |
| <b>Interest Expense</b>                                      |                                |                  |                     |         |   |
| Interest charges   | 51,583                         | 51,827           | (244)               | 0.5%    | B |
| Capitalized interest   | (4,938)                        | (5,213)          | 275                 | 5.3%    | W |
| Total  | <u>46,645</u>                  | <u>46,614</u>    | <u>31</u>           | 0.1%    | W |
| <b>Income From Continuing Operations Before Income Taxes</b> | 131,509                        | 119,950          | 11,559              | 9.6%    | B |
| <b>Income Taxes</b>  | <u>17,076</u>                  | <u>40,713</u>    | <u>(23,637)</u>     | 58.1%   | B |
| <b>Income From Continuing Operations</b>                     | 114,433                        | 79,237           | 35,196              | 44.4%   | B |
| <b>Income (Loss) From Discontinued Operations</b>            |                                |                  |                     |         |   |
| Net of Income Taxes  | <u>19,429</u>                  | <u>(243)</u>     | <u>19,672</u>       | 8095.5% | B |
| <b>Net Income</b>  | <u>\$ 133,862</u>              | <u>\$ 78,994</u> | <u>\$ 54,868</u>    | 69.5%   | B |
| <b>Weighted-Average Common Shares Outstanding — Basic</b>    | 100,653                        | 100,229          | 424                 | 0.4%    |   |
| <b>Weighted-Average Common Shares Outstanding — Diluted</b>  | 100,917                        | 100,779          | 138                 | 0.1%    |   |
| <b>Earnings Per Weighted-Average Common Share</b>            |                                |                  |                     |         |   |
| <b>Outstanding</b>   |                                |                  |                     |         |   |
| Income from continuing operations — basic                    | \$ 1.14                        | \$ 0.79          | \$ 0.35             | 44.3%   | B |
| Net income — basic   | \$ 1.33                        | \$ 0.79          | \$ 0.54             | 68.4%   | B |
| Income from continuing operations — diluted                  | \$ 1.13                        | \$ 0.79          | \$ 0.34             | 43.0%   | B |
| Net income — diluted   | \$ 1.33                        | \$ 0.78          | \$ 0.55             | 70.5%   | B |

B — Better

W — Worse



**PINNACLE WEST CAPITAL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
(unaudited)  
(in thousands, except per share amounts)

|  | SIX MONTHS ENDED  |                  | Increase (Decrease) |          |   |
|--|-------------------|------------------|---------------------|----------|---|
|  | JUNE 30,          |                  | Amount              | Percent  |   |
|  | 2008              | 2007             |                     |          |   |
| <b>Operating Revenues</b>                                    |                   |                  |                     |          |   |
| Regulated electricity segment                                | \$ 1,452,279      | \$ 1,247,344     | \$ 204,935          | 16.4%    | B |
| Real estate segment  | 84,622            | 124,951          | (40,329)            | 32.3%    | W |
| Marketing and trading  | 108,131           | 165,108          | (56,977)            | 34.5%    | W |
| Other revenues   | 17,899            | 20,516           | (2,617)             | 12.8%    | W |
| Total  | <u>1,662,931</u>  | <u>1,557,919</u> | <u>105,012</u>      | 6.7%     | B |
| <b>Operating Expenses</b>                                    |                   |                  |                     |          |   |
| Regulated electricity segment fuel and purchased power       | 596,939           | 473,690          | 123,249             | 26.0%    | W |
| Real estate segment operations                               | 89,965            | 107,253          | (17,288)            | 16.1%    | B |
| Marketing and trading fuel and purchased power               | 96,767            | 132,477          | (35,710)            | 27.0%    | B |
| Operations and maintenance                                   | 389,033           | 348,888          | 40,145              | 11.5%    | W |
| Depreciation and amortization                                | 193,391           | 181,854          | 11,537              | 6.3%     | W |
| Taxes other than income taxes                                | 66,403            | 69,476           | (3,073)             | 4.4%     | B |
| Other expenses   | 12,760            | 17,291           | (4,531)             | 26.2%    | B |
| Total  | <u>1,445,258</u>  | <u>1,330,929</u> | <u>114,329</u>      | 8.6%     | W |
| <b>Operating Income</b>                                      | <u>217,673</u>    | <u>226,990</u>   | <u>(9,317)</u>      | 4.1%     | W |
| <b>Other</b>   |                   |                  |                     |          |   |
| Allowance for equity funds used during construction          | 11,538            | 9,639            | 1,899               | 19.7%    | B |
| Other income   | 7,776             | 8,642            | (866)               | 10.0%    | W |
| Other expense  | (14,971)          | (7,883)          | (7,088)             | 89.9%    | W |
| Total  | <u>4,343</u>      | <u>10,398</u>    | <u>(6,055)</u>      | 58.2%    | W |
| <b>Interest Expense</b>                                      |                   |                  |                     |          |   |
| Interest charges   | 106,349           | 101,953          | 4,396               | 4.3%     | W |
| Capitalized interest   | (10,617)          | (10,020)         | (597)               | 6.0%     | B |
| Total  | <u>95,732</u>     | <u>91,933</u>    | <u>3,799</u>        | 4.1%     | W |
| <b>Income From Continuing Operations Before Income Taxes</b> | 126,284           | 145,455          | (19,171)            | 13.2%    | W |
| <b>Income Taxes</b>  | <u>16,519</u>     | <u>49,754</u>    | <u>(33,235)</u>     | 66.8%    | B |
| <b>Income From Continuing Operations</b>                     | 109,765           | 95,701           | 14,064              | 14.7%    | B |
| <b>Income (Loss) From Discontinued Operations</b>            |                   |                  |                     |          |   |
| Net of Income Taxes  | <u>19,624</u>     | <u>(177)</u>     | <u>19,801</u>       | 11187.0% | B |
| <b>Net Income</b>  | <u>\$ 129,389</u> | <u>\$ 95,524</u> | <u>\$ 33,865</u>    | 35.5%    | B |
| <b>Weighted-Average Common Shares Outstanding — Basic</b>    | 100,587           | 100,138          | 449                 | 0.4%     |   |
| <b>Weighted-Average Common Shares Outstanding — Diluted</b>  | 100,856           | 100,718          | 138                 | 0.1%     |   |
| <b>Earnings Per Weighted-Average Common Share</b>            |                   |                  |                     |          |   |
| <b>Outstanding</b>   |                   |                  |                     |          |   |
| Income from continuing operations — basic                    | \$ 1.09           | \$ 0.96          | \$ 0.13             | 13.5%    | B |
| Net income — basic   | \$ 1.29           | \$ 0.95          | \$ 0.34             | 35.8%    | B |
| Income from continuing operations — diluted                  | \$ 1.09           | \$ 0.95          | \$ 0.14             | 14.7%    | B |
| Net income — diluted   | \$ 1.28           | \$ 0.95          | \$ 0.33             | 34.7%    | B |

B — Better

W — Worse



**Pinnacle West Capital Corporation**  
**Quarterly Consolidated Statistical Summary**  
**and Earnings Variance Explanations**  
**Glossary of Terms**

|  |   |
|--|---|
| Amounts Recovered Through Revenues                       | Amounts recovered from retail customers through the power supply adjustor in the current period.  |
| APS  | Arizona Public Service Company, a subsidiary of Pinnacle West.  |
| APSES  | APS Energy Services Company, Inc., a subsidiary of Pinnacle West.   |
| Arizona Job Growth                                       | Percentage growth over the prior year in total non-farm payroll employment for the state of Arizona, non-seasonally adjusted.   |
| Base Fuel Rate   | The portion of APS' retail base rates attributable to fuel and purchased power costs.   |
| Building Permits – Metro Phoenix                         | 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 each. Multi-family permits represent the number of units authorized to be built in condominium, townhouse and apartment complexes. |
| 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.  |
| Change in Mark-To-Market Value of Forward Sales          | The gross margin related to the change in mark-to-market value in the current period of transactions which have been entered into during the current period or prior periods for which the commodities are scheduled for delivery in a future period.   |
| Company  | Pinnacle West Capital Corporation.  |
| Deferred Fuel and Purchased Power Costs – Current Period | Deferrals recorded in the period for recovery or refund to the extent actual retail fuel and purchased power costs vary from the amount included in base retail rates (currently \$0.0325 per kWh).   |
| Deferred Fuel and Purchased Power Regulatory Asset       | Balance of accumulated deferrals, net of amounts recovered through revenues, recorded for recovery or refund to the extent actual retail fuel and purchased power costs vary from the amount included in base retail rates (currently \$0.0325 per kWh).  |

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|---|--|
| Degree-Days — Cooling                           | A measure of temperatures designed to indicate the amount of electricity demand for cooling purposes. 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 electricity demand for heating purposes. 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. |
| El Dorado                                       | El Dorado Investment Company, a subsidiary of Pinnacle West.   |
| Electricity and Other Commodity Sales, Realized | Marketing and trading gross margin related to electricity and other commodities that were delivered in the then-current period.  |
| Electricity Spot Prices — 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.                                   |
| Electricity Spot Prices — 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.                                    |
| Electricity Spot Prices — 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.               |
| Electricity Spot Prices — 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.                |

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|   |  |
|---|--|
| Generation Capacity Out of Service and Replaced for Native Load | Total capacity required and economic, yet unavailable for retail customers and traditional wholesale contracts due to scheduled or unscheduled outages. Measured in megawatts per day.   |
| Generation Production — Coal                                    | Amount of net energy produced by coal-fueled generators. Measured in gigawatt-hours.   |
| Generation Production — Gas/Oil/Other                           | 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 Production — Nuclear                                 | Amount of net energy produced by nuclear-fueled generators. Measured in gigawatt-hours.  |
| Gigawatt-hour (GWH)   | A unit of energy equivalent to 1,000 megawatt-hours or 1,000,000 kilowatt-hours.   |
| Marketing and Trading Gross Margin – Pretax                     | Revenues from marketing and trading activities (other than retail sales, traditional wholesale sales and retail load hedge management) less the costs of the related commodities, with mark-to-market gains or losses, before income taxes.  |
| Mark-To-Market  | Adjustments to revenues or costs to recognize value of sales and purchase contracts, for which the commodities are scheduled for delivery in a future period, at current forward wholesale prices.   |
| Mark-To-Market Reversals on Realized Sales                      | The reversal of the gross margin related to mark-to-market transactions entered into in prior periods for which the commodities were delivered in the current period. Realization of prior-period mark-to-market relates to cash flow recognition, not revenue recognition or earnings recognition, because in accordance with mark-to-market accounting, the margin was already recorded in the prior period. A negative amount shown in this category represents the arithmetic opposite of a gain recognized in the period in which the commodities were delivered; an equal positive amount is reflected in the realized revenue or margin for delivered commodities. A positive amount shown in this category represents the arithmetic opposite of a loss recognized in the period in which the commodities were delivered; an equal negative amount is reflected in the realized revenue or margin for delivered commodities. |
| Megawatt (MW)   | One million watts.   |
| Megawatt-hour (MWh)   | A unit of energy equivalent to 1,000 kilowatt-hours.   |

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|   |   |
|---|---|
| Native Load                             | Retail and wholesale sales supplied under traditional cost-based rate regulation.   |
| Native Load Peak Demand                 | The demand for electricity during the one hour of highest use each month. Measured in megawatts.  |
| Off-System Sales                        | Sales of electricity from generation owned or contracted by the company that is over and above the amount required to serve retail customers and traditional wholesale contracts.   |
| Palo Verde                              | Palo Verde Nuclear Generating Station.  |
| Pinnacle West                           | Pinnacle West Capital Corporation (the Company)   |
| Pinnacle West Energy (PWEC)             | Pinnacle West Energy Corporation, a subsidiary of the Company, dissolved as of August 31, 2006.   |
| Pinnacle West Marketing & Trading       | Pinnacle West Marketing & Trading Co., LLC, a subsidiary of Pinnacle West.  |
| Power Supply Adjustor (“PSA”)           | Power supply adjustor provides for recovery or refund of variations in actual fuel and purchased power costs compared with the amount included in base retail rates (currently \$0.0325 per kWh) subject to certain specified parameters.   |
| Purchased Power – Firm Load             | Power purchased from wholesale market sources used to serve regulated retail demand and traditional 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.   |
| Realized and Mark-to-Market Components  | Marketing and trading gross margin, before income taxes, for off-system sales and for sales and purchases of electricity and other commodities by the company in the wholesale market, summarized by the period of delivery and whether the margin is realized or mark-to-market. Realized margins relate to commodities that have been delivered. Mark-to-market margins relate to commodities that have delivery dates in future periods. |
| Retail Customer Growth                  | Percentage growth over the prior year in the number of retail customers.  |
| 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.   |

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|                                |  |
|--------------------------------|--|
| Retail Load Hedge Management   | Wholesale sales to liquidate electricity purchases originally intended to meet firm load during peak times, which purchases were not needed ultimately for firm load. These sales are made to other electric companies, power marketers, or public entities for the purpose of resale. Measured in gigawatt-hours. |
| 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.  |
| SunCor                         | SunCor Development Company, a subsidiary of Pinnacle West.   |
| Traditional Contracts          | Wholesale sales resulting from unique cost-based, long-term contracts held by the company with various entities for the supply of electricity at agreed-upon prices.   |
| Weather Normalized             | Adjusted to exclude the effects of abnormal weather patterns.  |
| Wholesale Sales of Electricity | All wholesale sales of electricity not accounted for in sales under traditional contracts or retail load hedge management. These sales are made to other electric companies, power marketers, or public entities for the purpose of resale. Measured in gigawatt-hours.  |

**FOR IMMEDIATE RELEASE**

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**July 30, 2008**  
**Page 1 of 2**

**PINNACLE WEST ON-GOING YEAR-TO-DATE EARNINGS FLAT**  
*Prior-Year Tax Credits and Real Estate Sale Drive Second-Quarter Results*

PHOENIX – Pinnacle West Capital Corporation (NYSE: PNW) today reported consolidated net income of \$133.9 million, or \$1.33 per diluted share of common stock, for the quarter ended June 30, 2008. These results compare with net income of \$79.0 million, or \$0.78 per diluted share, for the same period a year ago. The higher results were due in large part to \$30 million of credits attributable to the resolution of tax issues applicable to prior years at the Company’s regulated utility and a \$19 million gain from the sale of a large asset in its real estate business.

Pinnacle West Chairman Bill Post pointed out that Pinnacle West’s on-going earnings for the first six months of 2008 were the same as a year ago.

“Although earnings for the second quarter are up, after adjusting for the tax impacts, on-going earnings are flat for the year with inflation offsetting our efficiency savings and revenue growth,” said Post. “Year-to-date, on-going earnings at Arizona Public Service are essentially flat, increasing only \$4 million compared to last year.”

SunCor Development Co., Pinnacle West’s real estate subsidiary, reported net income of \$14.7 million for the second quarter of 2008, compared with \$0.3 million in the 2007 second quarter. The increase was entirely related to the sale of a 12-story office building at SunCor’s Hayden Ferry Lakeside development in Tempe, Ariz.

For more information on Pinnacle West’s operating statistics and earnings, please visit [www.pinnaclewest.com/financials](http://www.pinnaclewest.com/financials).

**Conference Call**

Pinnacle West invites interested parties to listen to the live web cast of management’s conference call to discuss the Company’s 2008 second quarter earnings and recent developments at 1 p.m. (ET), today, Wednesday, July 30, 2008. The web cast can be accessed at [www.pinnaclewest.com/presentations](http://www.pinnaclewest.com/presentations) and will be available for replay on the web site for 30 days. To access the live conference call by telephone, dial (877) 356-3961 and enter Conference ID Number 52534276. A replay of the call also will be available until 11:55 p.m. (ET), Wednesday, August 6, 2008, by calling (800) 642-1687 in the U.S. and Canada or (706) 645-9291 internationally and entering the same ID number as above.

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Pinnacle West is a Phoenix-based company with consolidated assets of about \$11.5 billion. Through its subsidiaries, the Company generates, sells and delivers electricity and sells energy-related products and services to retail and wholesale customers in the western United States. It also develops residential, commercial, and industrial real estate projects.

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**PINNACLE WEST CAPITAL CORPORATION**  
**NON-GAAP FINANCIAL MEASURE RECONCILIATION – NET INCOME**  
**(GAAP MEASURE) TO ON-GOING EARNINGS (NON-GAAP FINANCIAL MEASURE)**

|   | Three Months Ended<br>June 30, 2008 |                | Three Months Ended<br>June 30, 2007 |                |
|---|-------------------------------------|----------------|-------------------------------------|----------------|
|   | \$ in<br>Millions                   | Diluted<br>EPS | \$ in<br>Millions                   | Diluted<br>EPS |
| <b>PINNACLE WEST CAPITAL CORPORATION</b>  |                                     |                |                                     |                |
| Net Income                                | \$ 133.9                            | \$ 1.33        | \$ 79.0                             | \$ 0.78        |
| Adjustments:                              |                                     |                |                                     |                |
| Income tax credits related to prior years | (30.0)                              | (0.30)         | (1.8)                               | (0.02)         |
| Regulatory disallowance                   | —                                   | —              | 8.0                                 | 0.08           |
| On-going Earnings                         | <u>\$ 103.9</u>                     | <u>\$ 1.03</u> | <u>\$ 85.2</u>                      | <u>\$ 0.84</u> |
| <br>                                      |                                     |                |                                     |                |
|   | Six Months Ended<br>June 30, 2008   |                | Six Months Ended<br>June 30, 2007   |                |
|   | \$ in<br>Millions                   | Diluted<br>EPS | \$ in<br>Millions                   | Diluted<br>EPS |
| <b>PINNACLE WEST CAPITAL CORPORATION</b>  |                                     |                |                                     |                |
| Net Income                                | \$ 129.4                            | \$ 1.28        | \$ 95.5                             | \$ 0.95        |
| Adjustments:                              |                                     |                |                                     |                |
| Income tax credits related to prior years | (30.0)                              | (0.30)         | (3.3)                               | (0.03)         |
| Regulatory disallowance                   | —                                   | —              | 8.0                                 | 0.08           |
| On-going Earnings                         | <u>\$ 99.4</u>                      | <u>\$ 0.98</u> | <u>\$ 100.2</u>                     | <u>\$ 1.00</u> |
| <br>                                      |                                     |                |                                     |                |
| <b>ARIZONA PUBLIC SERVICE</b>             |                                     |                |                                     |                |
| Net Income                                | \$ 119.0                            |                | \$ 79.4                             |                |
| Adjustments:                              |                                     |                |                                     |                |
| Income tax credits related to prior years | (29.3)                              |                | (1.5)                               |                |
| Regulatory disallowance                   | —                                   |                | 8.0                                 |                |
| On-going Earnings                         | <u>\$ 89.7</u>                      |                | <u>\$ 85.9</u>                      |                |

**PINNACLE WEST CAPITAL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
(unaudited)  
(in thousands, except per share amounts)

|   | THREE MONTHS ENDED |                  | SIX MONTHS ENDED  |                  |
|---|--------------------|------------------|-------------------|------------------|
|   | JUNE 30,           |                  | JUNE 30,          |                  |
|   | 2008               | 2007             | 2008              | 2007             |
| <b>Operating Revenues</b>                                     |                    |                  |                   |                  |
| Regulated electricity segment                                 | \$829,478          | \$711,293        | \$1,452,279       | \$1,247,344      |
| Real estate segment   | 36,880             | 47,819           | 84,622            | 124,951          |
| Marketing and trading   | 50,673             | 92,637           | 108,131           | 165,108          |
| Other revenues  | 9,162              | 11,153           | 17,899            | 20,516           |
| Total   | <u>926,193</u>     | <u>862,902</u>   | <u>1,662,931</u>  | <u>1,557,919</u> |
| <b>Operating Expenses</b>                                     |                    |                  |                   |                  |
| Regulated electricity segment fuel and purchased power        | 327,561            | 270,337          | 596,939           | 473,690          |
| Real estate segment operations                                | 41,746             | 45,917           | 89,965            | 107,253          |
| Marketing and trading fuel and purchased power                | 45,245             | 74,533           | 96,767            | 132,477          |
| Operations and maintenance                                    | 194,909            | 177,310          | 389,033           | 348,888          |
| Depreciation and amortization                                 | 97,784             | 92,476           | 193,391           | 181,854          |
| Taxes other than income taxes                                 | 33,251             | 34,757           | 66,403            | 69,476           |
| Other expenses  | 6,822              | 8,803            | 12,760            | 17,291           |
| Total   | <u>747,318</u>     | <u>704,133</u>   | <u>1,445,258</u>  | <u>1,330,929</u> |
| <b>Operating Income</b>                                       | <u>178,875</u>     | <u>158,769</u>   | <u>217,673</u>    | <u>226,990</u>   |
| <b>Other</b>  |                    |                  |                   |                  |
| Allowance for equity funds used during construction           | 5,414              | 5,195            | 11,538            | 9,639            |
| Other income  | 3,928              | 5,869            | 7,776             | 8,642            |
| Other expense   | (10,063)           | (3,269)          | (14,971)          | (7,883)          |
| Total   | <u>(721)</u>       | <u>7,795</u>     | <u>4,343</u>      | <u>10,398</u>    |
| <b>Interest Expense</b>                                       |                    |                  |                   |                  |
| Interest charges  | 51,583             | 51,827           | 106,349           | 101,953          |
| Capitalized interest  | (4,938)            | (5,213)          | (10,617)          | (10,020)         |
| Total   | <u>46,645</u>      | <u>46,614</u>    | <u>95,732</u>     | <u>91,933</u>    |
| <b>Income From Continuing Operations Before Income Taxes</b>  | 131,509            | 119,950          | 126,284           | 145,455          |
| <b>Income Taxes</b>   | <u>17,076</u>      | <u>40,713</u>    | <u>16,519</u>     | <u>49,754</u>    |
| <b>Income From Continuing Operations</b>                      | 114,433            | 79,237           | 109,765           | 95,701           |
| <b>Income (Loss) From Discontinued Operations</b>             |                    |                  |                   |                  |
| Net of Income Taxes   | <u>19,429</u>      | <u>(243)</u>     | <u>19,624</u>     | <u>(177)</u>     |
| <b>Net Income</b>   | <u>\$133,862</u>   | <u>\$ 78,994</u> | <u>\$ 129,389</u> | <u>\$ 95,524</u> |
| <b>Weighted-Average Common Shares Outstanding — Basic</b>     | 100,653            | 100,229          | 100,587           | 100,138          |
| <b>Weighted-Average Common Shares Outstanding — Diluted</b>   | 100,917            | 100,779          | 100,856           | 100,718          |
| <b>Earnings Per Weighted-Average Common Share Outstanding</b> |                    |                  |                   |                  |
| Income from continuing operations — basic                     | \$ 1.14            | \$ 0.79          | \$ 1.09           | \$ 0.96          |
| Net income — basic  | \$ 1.33            | \$ 0.79          | \$ 1.29           | \$ 0.95          |
| Income from continuing operations — diluted                   | \$ 1.13            | \$ 0.79          | \$ 1.09           | \$ 0.95          |
| Net income — diluted  | \$ 1.33            | \$ 0.78          | \$ 1.28           | \$ 0.95          |