PINNACLE WEST CAPITAL CORP

FORM 10-Q
(Quarterly Report)

Filed 05/15/97 for the Period Ending 03/31/97

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

PINNACLE WEST CAPITAL CORP

FORM 10-Q
(Quarterly Report)

Filed 5/15/1997 For Period Ending 3/31/1997

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

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

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

For the quarterly period ended March 31, 1997

OR

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

For the transition period from to ________________

Commission file number 1-8962

PINNACLE WEST CAPITAL CORPORATION

(Exact name of registrant as specified in its charter)

Arizona	86-0512431
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)
400 E. Van Buren St., P.O. Box 52132, Phoenix, Arizona	85072-2132
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code:	(602) 379-2500

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

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

Yes X No

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

Number of shares of common stock, no par value, outstanding as of May 13, 1997: 85,094,326

Glossary

ACC	Arizona Corporation Commission
ACC Staff	Staff of the Arizona Corporation Commission
Affected Utilities	Utilities affected by the ACC's Proposed Rules on retail electric competition in Arizona
APS	Arizona Public Service Company
Company	Pinnacle West Capital Corporation
El Dorado	El Dorado Investment Company
FERC	Federal Energy Regulatory Commission
ITCs	Investment tax credits
1996 10-K	Pinnacle West Capital Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 1996
Palo Verde	Palo Verde Nuclear Generating Station
Rules	Rules adopted by the ACC for the introduction of retail electric competition in Arizona
SFAS No. 71	Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation"
Pinnacle West	Pinnacle West Capital Corporation
SunCor	SunCor Development Company

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

PINNACLE WEST CAPITAL CORPORATION CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands, except per share amounts)

	Three Months Ended March 31, 1997	Three Months Ended March 31, 1996
Operating Revenues		
Electric	$ 379,021	$ 345,261
Real estate	19,543	15,994
Total	398,564	361,255
Fuel Expenses		
Fuel for electric generation	51,122	42,334
Purchased power	34,347	13,938
Total	85,469	56,272
Operating Expenses		
Utility operations and maintenance	88,016	87,743
Real estate operations	19,762	17,542
Depreciation and amortization	92,602	58,935
Taxes other than income taxes	30,244	34,201
Total	230,624	198,421
Operating Income	82,471	106,562
Other Income (Deductions)		
Allowance for equity funds used during construction	--	1,675
Interest on long-term debt	(39,451)	(45,909)
Other interest	(4,501)	(4,846)
Capitalized interest	3,834	3,237
Preferred stock dividend requirements of APS	(3,626)	(4,477)
Other-net	4,223	1,667
Total	(39,521)	(48,653)
Income Before Income Tax and Extraordinary Charge	42,950	57,909
Income Tax Expense	17,568	23,050
Income Before Extraordinary Charge	25,382	34,859
Extraordinary Charge for Early Retirement of Debt, Net of Income Tax of $2,437	--	(3,597)
Net Income	$ 25,382	$ 31,262
Average Common Shares Outstanding	87,418,663	87,450,355
Earnings Per Average Common Share Outstanding:		
Income before extraordinary charge	$ 0.29	$ 0.40
Extraordinary charge	--	(0.04)
Total	$ 0.29	$ 0.36
Dividends Declared Per Share	$ 0.275	$ 0.250

See Notes to Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands, except per share amounts)

	Twelve Months Ended March 31, 1997	Twelve Months Ended March 31, 1996
Operating Revenues		
Electric	$ 1,752,032	$ 1,623,245
Real estate	103,037	61,694
Total	1,855,069	1,684,939
Fuel Expenses		
Fuel for electric generation	239,181	204,552
Purchased power	115,539	66,598
Total	354,720	271,150
Operating Expenses		
Utility operations and maintenance	430,987	397,125
Real estate operations	98,300	60,391
Depreciation and amortization	333,174	242,077
Taxes other than income taxes	118,120	140,909
Total	980,581	840,502
Operating Income	519,768	573,287
Other Income (Deductions)		
Allowance for equity funds used during construction	3,534	5,471
Interest on long-term debt	(165,000)	(200,282)
Other interest	(23,419)	(18,585)
Capitalized interest	10,106	10,306
Preferred stock dividend requirements of APS	(16,241)	(18,804)
Other-net	(4,192)	(6,421)
Total	(195,212)	(228,315)
Income From Continuing Operations Before Income Tax	324,556	344,972
Income Tax Expense	122,974	135,128
Income From Continuing Operations	201,582	209,844
Loss on Discontinued Operations, Net of Income Tax of $6,461	(9,539)	--
Extraordinary Charge for Early Retirement of Debt, Net of Income Tax of $11,341 and $10,271	(16,743)	(15,168)
Net Income	$ 175,300	$ 194,676
Average Common Shares Outstanding	87,433,676	87,433,201
Earnings Per Average Common Share Outstanding:		
Continuing operations	$ 2.30	$ 2.40
Discontinued operations	(0.11)	--
Extraordinary charge	(0.19)	(0.17)
Total	$ 2.00	$ 2.23
Dividends Declared Per Share	$ 1.050	$ 0.950

See Notes to Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

ASSETS
(Thousands of Dollars)

	March 31, 1997	December 31, 1996
Current Assets		
Cash and cash equivalents	$ 52,592	$ 26,686
Customer and other receivables--net	144,519	169,237
Accrued utility revenues	49,226	55,470
Material and supplies	73,213	74,120
Fossil fuel	12,639	13,928
Deferred income taxes	69,688	69,688
Other current assets	42,273	41,140
Total current assets	444,150	450,269
Investments and Other Assets		
Real estate investments--net	394,837	398,527
Other assets	178,881	173,109
Total investments and other assets	573,718	571,636
Utility Plant		
Electric plant in service and held for future use	6,830,092	6,803,211
Less accumulated depreciation and amortization	2,486,345	2,426,143
Total	4,343,747	4,377,068
Construction work in progress	251,753	226,935
Nuclear fuel, net of amortization	60,326	51,137
Net utility plant	4,655,826	4,655,140
Deferred Debits		
Regulatory asset for income taxes	502,356	516,722
Rate synchronization cost deferrals	400,279	414,082
Other deferred debits	369,241	381,440
Total deferred debits	1,271,876	1,312,244
Total Assets	$6,945,570	$6,989,289

See Notes to Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

LIABILITIES AND EQUITY
(Thousands of Dollars)

	March 31, 1997	December 31, 1996
Current Liabilities		
Accounts payable	$ 119,530	$ 184,095
Accrued taxes	133,851	82,413
Accrued interest	28,752	39,652
Short-term borrowings	216,300	16,900
Current maturities of long-term debt	106,166	156,277
Customer deposits	34,350	34,222
Other current liabilities	25,375	37,056
Total current liabilities	664,324	550,615
Long-Term Debt Less Current Maturities	2,233,299	2,372,113
Deferred Credits and Other		
Deferred income taxes	1,349,354	1,359,312
Deferred investment tax credit	72,027	74,379
Unamortized gain - sale of utility plant	85,795	86,939
Other	377,227	356,935
Total deferred credits and other	1,884,403	1,877,565
Commitments and Contingencies (Notes 5, 6 and 7)		
Minority Interests		
Non-redeemable preferred stock of APS	149,387	165,673
Redeemable preferred stock of APS	43,000	53,000
Common Stock Equity		
Common stock, no par value	1,635,847	1,636,354
Retained earnings	335,310	333,969
Total common stock equity	1,971,157	1,970,323
Total Liabilities and Equity	$6,945,570	$6,989,289

See Notes to Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(THOUSANDS OF DOLLARS)

	Three Months Ended March 31, 1997	Three Months Ended March 31, 1996
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before extraordinary charge	$ 25,382	$ 34,859
Items not requiring cash		
Depreciation and amortization	100,322	67,538
Deferred income taxes--net	(8,816)	1,319
Allowance for equity funds used during construction	--	(1,675)
Deferred investment tax credit	(2,352)	(4,427)
Other--net	(5,661)	(1,432)
Changes in current assets and liabilities		
Customer and other receivables--net	24,718	22,528
Accrued utility revenues	6,244	9,429
Materials, supplies and fossil fuel	2,196	1,049
Other current assets	(1,133)	(441)
Accounts payable	(51,383)	(34,440)
Accrued taxes	51,438	57,389
Accrued interest	(10,900)	(18,047)
Other current liabilities	(11,916)	13,013
Decrease (increase) in land held	1,673	2,975
Other--net	28,286	9,539
Net Cash Flow Provided By Operating Activities	148,098	159,176
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(77,129)	(60,138)
Capitalized interest	(3,834)	(3,237)
Other--net	1,797	(8,028)
Net Cash Flow Used For Investing Activities	(79,166)	(71,403)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of long-term debt	2,507	33,511
Short-term borrowings--net	199,400	(18,200)
Dividends paid on common stock	(24,042)	(21,857)
Repayment of long-term debt	(194,098)	(97,398)
Redemption of preferred stock	(25,980)	(23,410)
Extraordinary charge for early retirement of debt	--	(3,597)
Other--net	(813)	750
Net Cash Flow Used For Financing Activities	(43,026)	(130,201)
Net Cash Flow	25,906	(42,428)
Cash and Cash Equivalents at Beginning of Period	26,686	79,539
Cash and Cash Equivalents at End of Period	$ 52,592	$ 37,111
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest, net of amounts capitalized	$ 50,096	$ 63,039
Income taxes	$ 4,001	$ --

See Notes to Condensed Consolidated Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. The condensed consolidated financial statements include the accounts of Pinnacle West and its subsidiaries: APS, SunCor and El Dorado. All significant intercompany balances have been eliminated.

2. In the opinion of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position of Pinnacle West and its subsidiaries as of March 31, 1997, the results of operations for the three months and twelve months ended March 31, 1997 and 1996, and the cash flows for the three months ended March 31, 1997 and 1996. It is suggested that these condensed consolidated financial statements and notes to condensed consolidated financial statements be read in conjunction with the consolidated financial statements and notes to consolidated financial statements included in the 1996 10-K.

3. The operations of APS are subject to seasonal fluctuations, with variations occurring in energy usage by customers from season to season and from month to month within a season, primarily as a result of changing weather conditions. For this and other reasons, the results of operations for interim periods are not necessarily indicative of the results to be expected for the full year.

4. See "Liquidity and Capital Resources" in Part I, Item 2 of this report for changes in capitalization for the three months ended March 31, 1997.

5. Regulatory Matters

Electric Industry Restructuring

STATE The ACC has been conducting an ongoing investigation into the restructuring of the Arizona electric industry. In December 1996, the ACC adopted rules that provide a framework for the introduction of retail electric competition. The ACC has ordered that reliability, stranded cost recovery, the phase-in process, and bundled, unbundled and metering services, as well as legal issues, will require additional consideration and will be addressed through workshops and working groups which will issue recommendations to the ACC during 1997. The Rules include the following major provisions:

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

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

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

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

o The Rules indicate that the ACC will allow recovery of unmitigated stranded costs. Each affected utility would be required to file with the ACC estimates of unmitigated stranded costs. The ACC would then, after hearing and consideration of various factors, determine the magnitude of stranded cost and appropriate stranded cost recovery mechanisms and charges.

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

A joint legislative committee has been appointed to study electric utility industry restructuring issues and report back to the Arizona legislature by the end of 1997. The Company believes that legislation will ultimately be required before significant implementation of the Rules can lawfully occur.

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

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

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

Regulatory Accounting APS prepares its financial statements in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." SFAS No. 71 requires a cost-based, rate-regulated enterprise to reflect the impact of regulatory decisions in its financial statements. APS' existing regulatory orders and current regulatory environment support its accounting practices related to regulatory assets, which amounted to approximately $1.1 billion at March 31, 1997. In accordance with the 1996 regulatory agreement (see below), the ACC accelerated the amortization of substantially all of APS' regulatory assets over an eight-year period. If rate recovery of these assets is no longer probable, whether due to competition or regulatory action, APS would no longer be able to apply the provisions of SFAS No. 71 to all or some part of its operations, which could have a material impact on the Company's financial statements.

1996 Regulatory Agreement

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

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

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

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

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

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

Pursuant to the price reduction formula, in May 1997, the ACC approved an annual retail rate reduction of approximately $17.6 million ($11 million after income taxes), or 1.2%, to become effective July 1, 1997. An amendment to the proposed order, approved by two of the three commissioners, created some confusion as to the status of the 1996 regulatory agreement. As interpreted by the Chairman of the ACC in a concurring opinion, his vote in favor of the amendment was to authorize the ACC Staff to determine how property taxes are recognized and accounted for under the 1996 regulatory agreement. The Company cannot currently predict the outcome of this matter.

6. The Palo Verde participants have insurance for public liability payments resulting from nuclear energy hazards to the full limit of liability under federal law. This

potential liability is covered by primary liability insurance provided by commercial insurance carriers in the amount of $200 million and the balance by an industry-wide retrospective assessment program. If losses at any nuclear power plant covered by this program exceed the accumulated funds for this program, APS could be assessed retrospective premium adjustments. The maximum assessment per reactor under the program for each nuclear incident is approximately $79 million, subject to an annual limit of $10 million per incident. Based upon APS' 29.1% interest in the three Palo Verde units, APS' maximum potential assessment per incident is approximately $69 million, with an annual payment limitation of approximately $9 million.

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

7. APS has encountered tube cracking in the Palo Verde steam generators and has taken, and will continue to take, remedial actions that it believes have slowed the rate of tube degradation. The projected service life of the steam generators is reassessed periodically and these analyses indicate that it will be economically desirable for APS to replace the Unit 2 steam generators between 2003 and 2008. APS estimates that its share of the replacement costs (in 1997 dollars and including installation and replacement power costs) will be approximately $50 million, most of which will be incurred after the year 2000. Based on the latest available data, APS estimates that the Unit 1 and Unit 3 steam generators should operate for the license periods (until 2025 and 2027, respectively), although APS will continue its normal periodic assessment of these steam generators.

8. Financial Accounting Standards Board recently issued a new standard, SFAS 128, "Earnings per Share". The standard is effective for fiscal years ending after December 15, 1997. The standard will not have a material effect on the Company's earnings per share.

PINNACLE WEST CAPITAL CORPORATION

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

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

LIQUIDITY AND CAPITAL RESOURCES

Parent Company

The parent company's cash requirements and its ability to fund those requirements are discussed under "Capital Needs and Resources" in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of the 1996 10-K.

As a result of the 1996 regulatory agreement (see Note 5 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report), the parent company will infuse $200 million into APS, in annual increments of $50 million which started in 1996.

In March, the Board approved a program for the repurchase of up to $80 million of the Company's common stock.

The Board declared a quarterly dividend of 27.5 cents per share of common stock, payable June 1, 1997 to shareholders of record on May 2, 1997, totaling approximately $23.4 million.

APS

For the three months ended March 31, 1997, APS incurred approximately $66 million in capital expenditures, which is approximately 22% of the most recently estimated 1997 capital expenditures. APS estimates total capital expenditures for the years 1997, 1998, and 1999 to be approximately $296 million, $283 million, and $263 million, respectively. These amounts include about $30 million each year for nuclear fuel expenditures.

Required and optional redemptions of preferred stock and repayment of long-term debt, including premiums thereon, and payments for a capitalized lease obligation are expected to total approximately $263 million, $114 million, and $114 million for the years 1997, 1998, and 1999, respectively. During the three months ended March 31, 1997, APS redeemed approximately $193 million of its long-term debt and approximately $26 million of its preferred stock.

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

OPERATING RESULTS

The following table shows the income and/or loss of Pinnacle West and its subsidiaries for the three-month and twelve-month periods ended March 31, 1997 and 1996:

Income (Loss)
(Unaudited)

(Thousands of Dollars)

	Three Months Ended March 31,		Twelve Months Ended March 31,	
	1997	1996	1997	1996
APS	$ 25,019	$ 41,129	$ 210,269	$228,540
SunCor	1,088	(1,210)	6,452	1,701
El Dorado	3,270	(136)	3,777	9,228
Pinnacle West (1)	(3,995)	(8,521)	(45,198)	(44,793)
NET INCOME	$ 25,382	$ 31,262	$ 175,300	$194,676

(1) Includes Pinnacle West's interest expense, operating expenses, loss on discontinued operations and extraordinary charges for early retirement of debt net of income tax benefits. Income tax benefits are as follows (in thousands): $386 and $5,098 for the three months ended March 31, 1997 and 1996, respectively; and $20,033 and $22,211 for the twelve months end March 31, 1997 and 1996, respectively.

Operating Results - Three-month period ended March 31, 1997 compared to three-month period ended March 31, 1996

Earnings decreased in the three-month period ended March 31, 1997, primarily due to the accelerated amortization of regulatory assets and a retail price reduction, both of which were part of a regulatory agreement which became effective July 1, 1996. See Note 5 of Notes to Condensed Consolidated Financial Statements. Partially offsetting these negative factors were increased operating revenues (net of related fuel expenses), lower property taxes and lower interest expense.

Operating revenues (net of related fuel expenses) were higher primarily due to retail customer growth and weather effects, partially offset by the 1996 retail price reduction. Revenues from sales for resale increased $22 million, accompanied by significant increases in related fuel expenses, as a result of increased activity in competitive bulk power markets. These bulk power activities did not result in a significant variance in earnings due to market pressures on prices. Property taxes decreased due to a 1996 change in tax law. Interest expense decreased due to lower amounts of debt outstanding and lower average interest rates.

Operating Results - Twelve-month period ended March 31, 1997 compared to twelve-month period ended March 31, 1996

Earnings decreased in the twelve-month period ended March 31, 1997, primarily due to the accelerated amortization of regulatory assets, a retail price reduction, a $31.7 million pretax charge in the fourth quarter of 1996 for a voluntary severance program and an increase in fuel expenses.

The accelerated regulatory asset amortization and the retail price reduction were part of a regulatory agreement which became effective July 1, 1996. See Note 5 of Notes to Condensed Consolidated Financial Statements. Fuel expenses were higher primarily due to increased retail and wholesale sales volumes, higher natural gas costs and a less favorable mix of generation and purchased power, particularly during a regional power outage in August 1996.

Partially offsetting these negative factors were increased operating revenues (net of related fuel expenses), lower property taxes, the recognition of $11 million of income tax benefits associated with capital loss carryforwards and lower interest expense. The twelve-month comparison was also positively impacted by $21 million of pretax asset write-downs in the twelve months ended March 31, 1996. Operating revenues (net of related fuel expenses) were higher due to retail customer growth, warmer weather and higher residential usage, partially offset by the retail price reduction. Revenues from sales for resale increased $35 million, accompanied by significant increases in related fuel expenses, as a result of increased activity in competitive bulk power markets. These bulk power activities did not result in a significant variance in earnings due to market pressures on prices. Property taxes decreased due to a 1996 change in tax law. Interest expense decreased due to lower average interest rates and lower amounts of debt outstanding.

Non-utility Operations

The parent company incurred extraordinary charges for the retirement of debt in the three-month and twelve-month periods and a loss from discontinued operations on legal matters related to MeraBank (a former subsidiary) in the twelve-month period. Interest expense decreased in all periods due primarily to debt reduction.

SunCor's earnings increased in the three-month and twelve-month periods due to an increase in net home sales and the sale of joint venture investments.

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

Other Income

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

CURRENT ISSUES

The Company's ability to maintain and improve its current level of earnings will depend on several factors. As the electric industry becomes more competitive, the Company's ability to reduce costs and increase productivity and resource utilization will be important factors in maintaining a price structure that is both attractive to customers and profitable to the Company. Other important factors that could affect the Company's future earnings levels and any forward-looking statements contained in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" include regulatory developments; competitive developments; regional economic conditions; the cost of debt and equity capital; regulatory, tax and environmental legislation; weather variations affecting customer usage; and technological developments in the electricity industry.

Competition

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

Rate Matters

See Note 5 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report for a discussion of a proposed rate reduction.

PART II. OTHER INFORMATION

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

ITEM 5. Other Information

Palo Verde Nuclear Generating Station

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

Construction and Financing Programs

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

Competition and Electric Industry Restructuring

See Note 5 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report for a discussion of competition and the Rules regarding the introduction of retail electric competition in Arizona.

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit No.	Description
27	Financial Data Schedule

(b) Reports on Form 8-K

During the quarter ended March 31, 1997, and the period ended May 14, 1997, the Company filed no reports on Form 8-K.

SIGNATURES

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

PINNACLE WEST CAPITAL CORPORATION
(Registrant)

Dated: May 15, 1997

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

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

ARTICLE UT

MULTIPLIER: 1,000

CURRENCY: U.S. Dollars

PERIOD TYPE	3 MOS
FISCAL YEAR END	DEC 31 1997
PERIOD START	JAN 01 1997
PERIOD END	MAR 31 1997
EXCHANGE RATE	1
BOOK VALUE	PER BOOK
TOTAL NET UTILITY PLANT	4,655,826
OTHER PROPERTY AND INVEST	573,718
TOTAL CURRENT ASSETS	444,150
TOTAL DEFERRED CHARGES	1,271,876
OTHER ASSETS	0
TOTAL ASSETS	6,945,570
COMMON	1,635,847
CAPITAL SURPLUS PAID IN	0
RETAINED EARNINGS	335,310
TOTAL COMMON STOCKHOLDERS EQ	1,971,157
PREFERRED MANDATORY	43,000
PREFERRED	149,387
LONG TERM DEBT NET	2,233,299
SHORT TERM NOTES	0
LONG TERM NOTES PAYABLE	0
COMMERCIAL PAPER OBLIGATIONS	216,300
LONG TERM DEBT CURRENT PORT	106,166
PREFERRED STOCK CURRENT	0
CAPITAL LEASE OBLIGATIONS	0
LEASES CURRENT	0
OTHER ITEMS CAPITAL AND LIAB	2,226,261
TOT CAPITALIZATION AND LIAB	4,782,026
GROSS OPERATING REVENUE	398,564
INCOME TAX EXPENSE	17,568
OTHER OPERATING EXPENSES	230,624
TOTAL OPERATING EXPENSES	316,093
OPERATING INCOME LOSS	82,471
OTHER INCOME NET	(39,521)
INCOME BEFORE INTEREST EXPEN	0
TOTAL INTEREST EXPENSE	40,118
NET INCOME	25,382
PREFERRED STOCK DIVIDENDS	0
EARNINGS AVAILABLE FOR COMM	25,382
COMMON STOCK DIVIDENDS	24,042
TOTAL INTEREST ON BONDS	31,963
CASH FLOW OPERATIONS	164,098
EPS PRIMARY	0.29
EPS DILUTED	0

End of Filing