

PINNACLE WEST CAPITAL CORP

FORM 10-Q (Quarterly Report)

Filed 11/14/94 for the Period Ending 09/30/94

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

PINNACLE WEST CAPITAL CORP

FORM 10-Q (Quarterly Report)

Filed 11/14/1994 For Period Ending 9/30/1994

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

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

For the quarterly period ended September 30, 1994 OR

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

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

PINNACLE WEST CAPITAL CORPORATION

(Exact name of registrant as specified in its charter)

Arizona
(State or other jurisdiction
of incorporation or organization)

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

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

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

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

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

Yes / X / No //

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

Number of shares of common stock, no par value, outstanding as November 1, 1994 87,400,952

Glossary

ACC - Arizona Corporation Commission

ACC Order - Final order of the ACC dated June 1, 1994 approving the 1994 Settlement Agreement between APS and the ACC staff dated May 27, 1994

ACC Staff - Staff of the Arizona Corporation Commission

AFUDC - Allowance for funds used during construction

APS - Arizona Public Service Company

Company - Pinnacle West Capital Corporation

CSW - Central and South West Corporation

El Dorado - El Dorado Investment Company

EPA - United States Environmental Protection Agency

EPEC - El Paso Electric Company

Four Corners - Four Corners Power Plant

ITCs - Investment tax credits

June 10-Q - Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 1994

1991 Settlement - December 1991 retail rate case settlement

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

Palo Verde - Palo Verde Nuclear Generating Station

SunCor - SunCor Development Company

PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(Dollars in thousands, except per share amounts)

	Three Months Ended September 30,	
	1994	1993
Operating Revenues		
Electric	\$ 570,427	\$ 524,483
Real estate	13,473	10,093
Total	583,900	534,576
Fuel Expenses		
Fuel for electric generation	70,035	67,171
Purchased power	25,532	28,343
Total	95,567	95,514
Operating Expenses		
Utility operations and maintenance	102,944	101,157
Real estate operations	15,272	11,885
Depreciation and amortization	59,132	56,064
Taxes other than income taxes	65,549	62,002
Total	242,897	231,108
Operating Income	245,436	207,954
Other Income (Deductions)		
Allowance for equity funds used during construction	1,014	684
Palo Verde accretion income	--	18,959
Interest on long-term debt	(63,021)	(60,060)
Other interest	(3,918)	(5,017)
Allowance for borrowed funds used during construction	1,401	806
Preferred stock dividend requirements of APS	(5,908)	(7,294)
Other-net	(2,801)	(2,038)
Total	(73,233)	(53,960)
Income From Continuing Operations Before Income Taxes	172,203	153,994
Income Tax Expense	78,212	67,260
Net Income	\$ 93,991	\$ 86,734
Average Common Shares Outstanding	87,409,343	87,271,521
Earnings Per Average Common Share Outstanding:	\$ 1.08	\$ 0.99
Dividends Declared Per Share	\$ 0.20	--

See Notes to Condensed Consolidated Financial Statements

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(Dollars in thousands, except per share amounts)

	Nine Months Ended September 30,	
	1994	1993
Operating Revenues		
Electric	\$ 1,353,191	\$ 1,303,161
Real estate	38,333	20,169
	1,391,524	1,323,330
Fuel Expenses		
Fuel for electric generation	188,093	177,208
Purchased power	51,899	55,416
	239,992	232,624
Operating Expenses		
Utility operations and maintenance	309,009	286,459
Real estate operations	39,535	23,964
Depreciation and amortization	175,280	167,612
Taxes other than income taxes	176,473	168,227
	700,297	646,262
Operating Income	451,235	444,444
Other Income (Deductions)		
Allowance for equity funds used during construction	2,837	2,094
Palo Verde accretion income	33,596	55,418
Interest on long-term debt	(176,587)	(185,411)
Other interest	(11,882)	(12,960)
Allowance for borrowed funds used during construction	3,918	2,772
Preferred stock dividend requirements of APS	(20,390)	(22,831)
Other-net	17,524	(1,586)
	(150,984)	(162,504)
Income From Continuing Operations		
Before Income Taxes	300,251	281,940
Income Tax Expense	135,939	128,833
	164,312	153,107
Income From Continuing Operations Cumulative Effect of Change in Accounting for Income Taxes	--	19,252
	--	19,252
Net Income	\$ 164,312	\$ 172,359
	=====	=====
Average Common Shares Outstanding	87,415,344	87,208,428
Earnings Per Average Common Share Outstanding:		
Continuing Operations	\$ 1.88	\$ 1.76
Accounting Change	--	0.22
	1.88	1.98
	=====	=====
Dividends Declared Per Share	\$ 0.60	--
	=====	=====

See Notes to Condensed Consolidated Financial Statements

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(Dollars in thousands, except per share amounts)

	Twelve Months Ended September 30,	
	1994	1993
Operating Revenues		
Electric	\$ 1,736,320	\$ 1,701,921
Real estate	50,412	24,539
	1,786,732	1,726,460
Fuel Expenses		
Fuel for electric generation	242,319	237,103
Purchased power	65,595	66,944
	307,914	304,047
Operating Expenses		
Utility operations and maintenance	423,766	394,227
Real estate operations	53,791	30,940
Depreciation and amortization	231,226	222,900
Taxes other than income taxes	230,591	222,535
	939,374	870,602
Operating Income	539,444	551,811
Other Income (Deductions)		
Allowance for equity funds used during construction	3,069	2,776
Palo Verde accretion income	53,058	72,943
Interest on long-term debt	(237,137)	(248,984)
Other interest	(15,427)	(16,663)
Allowance for borrowed funds used during construction	5,299	3,675
Preferred stock dividend requirements of APS	(28,399)	(30,756)
Other-net	16,828	(11,380)
	(202,709)	(228,389)
Income From Continuing Operations		
Before Income Taxes	336,735	323,422
Income Tax Expense	155,552	151,670
	181,183	171,752
Income From Discontinued Operations -- Net of Income Tax	--	6,000
Cumulative Effect of Change in Accounting for Income Taxes	--	19,252
	--	19,252
Net Income	\$ 181,183	\$ 197,004
	=====	=====
Average Common Shares Outstanding	87,396,659	87,171,924
Earnings Per Average Common Share Outstanding:		
Continuing Operations	\$ 2.07	\$ 1.97
Discontinued Operations	--	0.07
Accounting Change	--	0.22
	2.07	2.26
	=====	=====
Dividends Declared Per Share	\$ 0.80	--
	=====	=====

See Notes to Condensed Consolidated Financial Statements

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

ASSETS
(Thousands of Dollars)

	September 30, 1994	December 31, 1993
	-----	-----
Current Assets		
Cash and cash equivalents	\$ 78,686	\$ 52,127
Customer and other receivables--net	154,861	126,343
Accrued utility revenues	83,997	60,356
Material and supplies	95,827	96,174
Fossil fuel	24,956	34,220
Deferred income taxes	109,568	100,234
Other current assets	15,811	13,782
	-----	-----
Total current assets	563,706	483,236
	-----	-----
Investments and Other Assets		
Real estate investments--net	401,086	402,873
Other assets	136,909	136,074
	-----	-----
Total investments and other assets	537,995	538,947
	-----	-----
Utility Plant		
Electric plant in service, including nuclear fuel	6,586,253	6,462,589
Construction work in progress	176,249	197,556
	-----	-----
Total utility plant	6,762,502	6,660,145
Less accumulated depreciation and amortization	2,148,916	2,058,895
	-----	-----
Net utility plant	4,613,586	4,601,250
	-----	-----
Deferred Debits		
Regulatory asset for income taxes	554,868	585,294
Palo Verde Unit 3 cost deferral	294,877	301,748
Palo Verde Unit 2 cost deferral	173,451	177,998
Other deferred debits	272,651	268,326
	-----	-----
Total deferred debits	1,295,847	1,333,366
	-----	-----
Total Assets	\$ 7,011,134	\$ 6,956,799
	=====	=====

See Notes to Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

LIABILITIES AND EQUITY
(Thousands of Dollars)

	September 30, 1994	December 31, 1993
	-----	-----
Current Liabilities		
Accounts payable	\$ 98,930	\$ 97,489
Accrued taxes	180,644	96,303
Accrued interest	50,884	57,674
Short-term borrowings	35,500	148,000
Current maturities of long-term debt	144,154	78,841
Other current liabilities	70,097	60,845
	-----	-----
Total current liabilities	580,209	539,152
	-----	-----
Non-Current Liabilities		
Long-term debt less current maturities	2,603,600	2,633,620
Other liabilities	8,308	8,246
	-----	-----
Total non-current liabilities	2,611,908	2,641,866
	-----	-----
Deferred Credits and Other		
Deferred income taxes	1,328,089	1,278,673
Deferred investment tax credit	121,396	127,331
Unamortized gain - sale of utility plant	100,749	107,344
Other deferred credits	218,431	221,762
	-----	-----
Total deferred credits and other	1,768,665	1,735,110
	-----	-----
Commitments and Contingencies (Notes 6, 7 and 8)		
Minority Interests		
Non-redeemable preferred stock of APS	193,561	193,561
	-----	-----
Redeemable preferred stock of APS	95,000	197,610
	-----	-----
Common Stock Equity		
Common stock, no par value	1,643,212	1,642,783
Retained earnings	118,579	6,717
	-----	-----
Total common stock equity	1,761,791	1,649,500
	-----	-----
Total Liabilities and Equity	\$7,011,134	\$6,956,799
	=====	=====

See Notes to Condensed Consolidated Financial Statements.

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

(THOUSANDS OF DOLLARS)

	Nine Months Ended September 30,	
	1994	1993
Cash Flows From Operating Activities		
Income from continuing operations before cumulative effect of accounting change	\$ 164,312	\$ 153,107
Items not requiring cash		
Depreciation and amortization	199,585	195,299
Deferred income taxes--net	70,508	105,593
Provision for rate refund	(9,308)	(16,031)
Palo Verde accretion income	(33,596)	(55,418)
Other--net	(5,180)	(1,257)
Changes in current assets and liabilities		
Accounts receivable--net	(28,518)	14,812
Accrued utility revenues	(23,641)	(20,472)
Materials, supplies and fossil fuel	9,611	3,191
Other current assets	(2,029)	(58,689)
Accounts payable	18,019	(13,739)
Accrued taxes	84,341	45,310
Accrued interest	(6,790)	(7,690)
Other current liabilities	(29,880)	(9,612)
Additions to real estate	(25,418)	(18,978)
Sales of real estate	24,765	13,259
Other--net	(10,968)	47,514
Net Cash Flow Provided By Operating Activities	395,813	376,199
Cash Flows From Investing Activities		
Capital expenditures	(179,836)	(166,671)
Allowance for equity funds used during construction	2,837	2,094
Other--net	(3,982)	(444)
Net Cash Flow Used For Investing Activities	(180,981)	(165,021)
Cash Flows From Financing Activities		
Issuance of long-term debt	528,668	520,215
Short-term debt--net	(112,500)	(150,000)
Dividends paid on common stock	(52,450)	--
Repayment of long-term debt	(449,810)	(484,909)
Redemption of preferred stock	(104,096)	(28,040)
Other--net	1,915	359
Net Cash Flow Used For Financing Activities	(188,273)	(142,375)
Net Cash Flow	26,559	68,803
Cash and Cash Equivalents at Beginning of Period	52,127	87,926
Cash and Cash Equivalents at End of Period	\$ 78,686	\$ 156,729
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest, net of amounts capitalized	\$ 176,066	\$ 190,784
Income taxes	\$ 26,100	\$ 27,324

See Notes to Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. The condensed consolidated financial statements include the accounts of Pinnacle West and its subsidiaries: APS, SunCor and El Dorado. All significant intercompany balances have been eliminated. Certain prior-year balances have been reclassified to conform to the 1994 presentation.
2. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position of Pinnacle West and its subsidiaries as of September 30, 1994, the results of their operations for the three months, nine months, and twelve months ended September 30, 1994 and 1993, and their cash flows for the nine months ended September 30, 1994 and 1993. 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 1993 10-K.
3. The operations of APS are subject to seasonal fluctuations, with variations occurring in energy usage by customers from season to season and from month to month within a season, primarily as a result of changing weather conditions. For this and other reasons, Pinnacle West's consolidated results of operations for interim periods are not necessarily indicative of the results to be expected for the full year.
4. See "Liquidity and Capital Resources" in Part I, Item 2 of this report for changes in capitalization since December 31, 1993.
5. By order dated June 1, 1994 (the "ACC Order") the ACC approved the terms of a settlement agreement dated May 27, 1994 between APS and the ACC Staff. The ACC Order (a) reduced APS' annual retail rates by approximately \$38.3 million, or 2.7%, effective June 1, 1994; (b) establishes mandatory spending levels on renewable resources and demand side management projects that APS will be allowed to recover through a surcharge which, when netted against the rate reduction referenced in clause (a), would result in a rate reduction of approximately 2.2%; (c) provides that neither APS nor the ACC Staff will file for a permanent change to APS' general rates and charges before December 31, 1996, except under certain circumstances; (d) establishes a cost of service target based on fuel and operation and maintenance expenses that, if met or exceeded by APS, would entitle APS to a percentage of the resulting savings if the next general rate proceeding results in no increase in residential rates; (e) confirms that all three Palo Verde units are, and in future rate cases will be, included in APS' rate base, unless there are significant changes in the operating characteristics, reliability, or efficiency of the units; (f) approves higher decommissioning funding levels for each of the Palo Verde units; (g) allows APS to accelerate the amortization of certain ITCs; and (h) allowed APS to record a one-time depreciation reversal related to Palo Verde (associated with the 1991 Settlement) in the amount of approximately \$15.0 million after tax. Because of the non-cash earnings resulting from the items discussed in clauses (g) and (h) of this Note 5, APS does not expect its earnings to be significantly affected by the retail rate reduction resulting from the ACC Order. The description of the ACC Order in this paragraph is a summary and is qualified in its entirety by the copy of the ACC Order that is attached as an exhibit to the APS Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 1994.
6. The Palo Verde participants have insurance for public liability payments resulting from nuclear energy hazards to the full limit of liability under federal law. This potential liability is covered by primary liability insurance provided by commercial insurance carriers in the amount of \$200 million and the balance by an industrywide retrospective assessment program. The maximum assessment per reactor under the retrospective rating program for each nuclear incident is approximately \$79 million, subject to an annual limit of \$10 million per incident. Based upon APS' 29.1% interest in the three Palo Verde units, APS' maximum potential assessment per incident is approximately \$69 million, with an annual payment limitation of \$8.73 million. The insureds under this liability insurance include the Palo Verde participants and "any other person or organization with respect to his legal responsibility for damage caused by the nuclear energy hazard."

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

7. APS owns or leases a 29.1% interest in Palo Verde and owns a 15% interest in Four Corners Units 4 and 5. The other joint owners of Palo Verde and Four Corners Units 4 and 5 include El Paso Electric Company ("EPEC"), which is currently operating under Chapter 11 of the Bankruptcy Code. A plan whereby EPEC would become a wholly-owned subsidiary of Central and South West Corporation ("CSW") (the "EPEC Plan") would resolve certain issues to which APS could be exposed by the bankruptcy, including potential claims by EPEC arising out of APS' role as Palo Verde operating agent in connection with the 1989-90 Palo Verde outages. In the disclosure statement relating to the EPEC Plan, EPEC stated that these claims may be of "significant value." EPEC has granted APS a release for these potential claims, but the release will become effective only if, among other things, the EPEC Plan becomes effective.

In September 1994 EPEC received a letter from CSW stating that CSW believes certain matters constitute a failure of certain closing conditions under the merger agreement between the parties that would preclude the closing of the merger unless the matters are timely resolved. EPEC subsequently advised CSW that EPEC did not believe that a failure of any closing condition had occurred. APS cannot predict when or if the EPEC Plan will become effective, or, if the EPEC Plan does not become effective, whether EPEC would assert any claims against APS arising out of the 1989-90 Palo Verde outages or the size of any such claims. APS does not expect, however, that any such claims, if asserted, would have a materially adverse impact on its operations or financial position.

8. APS has encountered axial tube cracking in the upper regions of the two steam generators in Unit 2 and, to a lesser degree, in Unit 3. APS believes that this form of tube degradation, the location of which is uncommon in the industry, is due to the susceptibility of tube materials to a combination of deposits on the tubes and the relatively high temperatures at which all three units are designed to operate. APS has taken, and will continue to take, remedial actions that it believes will retard further tube degradation to acceptable levels. These actions have included chemically cleaning the Unit 2 and 3 steam generators, and improving the water quality and reducing the operating temperature in all three units.

All of the Palo Verde units are now operating at or near 100% capacity. In March and October 1994 APS performed mid-cycle inspection outages at Unit 2. The October outage revealed that the number of steam generator tubes with indications of degradation was well within APS' projections. Unit 2 is scheduled for a refueling and maintenance outage in early 1995. Palo Verde Unit 3 completed a refueling outage in June 1994 and is scheduled for a mid-cycle inspection outage beginning in November 1994. Unit 1 is scheduled for a refueling outage beginning in April 1995.

When tube cracks are detected during any outage, the affected tubes are taken out of service by plugging. That has occurred in a number of tubes in all three units, particularly in Unit 2, which is by far the most affected by cracking and plugging. APS expects that the remedial actions referenced above will slow the rate of plugging to an acceptable level. APS currently believes that the Palo Verde steam generators are capable of operating for their designed life of forty years, although, at some point in the future, long-term economic considerations may make steam generator replacement a desirable option.

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

of Operations for the Three Months, Nine Months and Twelve Months ended September 30, 1994 as Compared with Corresponding Periods Ended September 30, 1993.

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

LIQUIDITY AND CAPITAL RESOURCES

Pinnacle West

Pinnacle West's cash requirements and its ability to fund those requirements are discussed under "Liquidity and Capital Resources" in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of the 1993 10-K and under "Business -- The Company -- Capital Requirements" in Part I Item 1 of the 1993 10-K.

Pinnacle West continues to prepay its outstanding debt. Management expects Pinnacle West to have sufficient cash flow available for mandatory and optional debt repayments to allow parent company debt to be reduced from approximately \$539 million at the end of September, 1994 to approximately \$430 million by year-end 1994.

The Board declared a quarterly dividend of 22.5 cents per share of common stock, payable on December 1, 1994 to shareholders of record on November 1, 1994, totalling approximately \$19.7 million.

APS

For the nine months ended September 30, 1994, APS incurred approximately \$163 million in construction expenditures, accounting for approximately 60% of the most recently estimated 1994 construction expenditures. APS has estimated total construction expenditures for the years 1994, 1995, and 1996 to be approximately \$272 million, \$298 million, and \$257 million, respectively.

Refunding obligations for preferred stock and long-term debt, a capitalized lease obligation, and certain actual and anticipated early redemptions, including premiums thereon, are expected to total approximately \$587 million (of which \$518 million are optional), \$106 million, and \$4 million for the years 1994, 1995, and 1996, respectively. During the first nine months of 1994, APS refunded approximately \$562 million (96%) of the estimated 1994 total. This amount includes the redemption, refunding, or repurchase of approximately \$456 million of long-term debt and the redemption of approximately \$104 million of preferred stock, including premiums thereon. In October 1994 APS repurchased approximately \$5 million of its First Mortgage Bonds and incurred approximately \$11 million of long-term debt in connection with a tax-exempt financing. On October 24, 1994, APS redeemed all \$20 million of its outstanding \$8.48 Cumulative Preferred Stock, Series S (the "Series S Stock"). Since December 31, 1993, APS has issued \$100 million of its First Mortgage Bonds and incurred approximately \$412 million of long-term debt in connection with tax-exempt financings.

Provisions in APS' mortgage bond indenture and articles of incorporation require certain coverage ratios to be met before it can issue additional first mortgage bonds or preferred stock. In addition, the mortgage bond indenture limits the amount of additional bonds which may be issued to a percentage of net property additions, to property previously pledged as security for certain bonds that have been redeemed or retired and/or cash deposited with the mortgage bond trustee. As of September 30, 1994, and adjusting for the (i) purchase of approximately \$5 million of First Mortgage Bonds, (ii) incurrence of approximately \$11 million of long-term debt in connection with a tax-exempt financing, and (iii) redemption of \$20 million of the Series S Stock, APS estimates that the mortgage bond indenture and the articles of incorporation would have allowed it to issue up to approximately \$1.29 billion and \$981 million of additional first mortgage bonds and preferred stock, respectively.

The ACC has authority over APS with respect to the issuance of long-term debt and equity securities. Existing ACC orders allow APS to have up to approximately \$2.6 billion in long-term debt and approximately \$501 million of preferred stock outstanding at any one time.

Management does not expect any of the foregoing restrictions to limit APS' ability to meet its capital requirements.

RESULTS OF OPERATIONS

The following table shows the income and/or loss of Pinnacle West and its subsidiaries for the three-month, nine-month, and twelve-month periods ended September 30, 1994 and 1993:

	INCOME (LOSS)					
	(Unaudited)					
	(Dollars in Thousands)					
	Three Months Ended		Nine Months Ended		Twelve Months Ended	
	September 30,		September 30,		September 30,	
	1994	1993	1994	1993	1994	1993
APS	\$ 110,359	\$ 95,617	\$ 200,196	\$ 188,610	\$ 231,132	\$ 225,648
SunCor	(693)	(1,031)	(129)	(2,187)	(1,932)	(4,501)
El Dorado	(3,300)	(3,143)	(4,183)	(3,470)	(4,617)	(3,356)
Pinnacle West1	(12,375)	(4,709)	(31,572)	(29,846)	(43,400)	(46,039)
INCOME FROM OPERATIONS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	93,991	86,734	164,312	153,107	181,183	171,752
INCOME FROM DISCONTINUED OPERATIONS	--	--	--	--	--	6,000
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR INCOME TAX	--	--	--	19,252	--	19,252
NET INCOME	\$ 93,991	\$ 86,734	\$ 164,312	\$ 172,359	\$ 181,183	\$ 197,004

<F1> Includes Pinnacle West's interest expense and operating expenses net of income tax benefits. Income tax benefits are as follows (in thousands): \$9,333 and \$14,005 for the three months ended September 30, 1994 and 1993, respectively; \$22,697 and \$31,331 for the nine months ended September 30, 1994 and 1993, respectively; and \$31,844 and \$41,910 for the twelve months ended September 30, 1994 and 1993, respectively.

OPERATING RESULTS - THREE-MONTH PERIOD ENDED SEPTEMBER 30, 1994 COMPARED TO THREE-MONTH PERIOD ENDED SEPTEMBER 30, 1993

Earnings increased in the three-month period ended September 30, 1994 primarily due to increased operating revenues. Operating revenues were up significantly due to higher sales resulting from warmer weather and continued customer growth. Partially offsetting the increased operating revenues were the absence of non-cash income related to the 1991 Settlement, which APS completed recording in May 1994, and a retail rate reduction which became effective June 1, 1994 (see Note 5 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report). Although generation was up to meet the increased sales, total fuel costs remained relatively flat between the two periods due primarily to improved nuclear operations.

OPERATING RESULTS - NINE-MONTH PERIOD ENDED SEPTEMBER 30, 1994 COMPARED TO NINE-MONTH PERIOD ENDED SEPTEMBER 30, 1993

Earnings increased in the nine-month period ended September 30, 1994 primarily due to increased operating revenues and the reversal of certain previously recorded depreciation related to Palo Verde (see Note 5 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report). Operating revenues were up significantly due to higher sales resulting from warmer weather and continued customer growth. Partially offsetting the increased operating revenues were increases in operations and maintenance expenses, lower non-cash income related to the 1991 Rate Settlement, a retail rate reduction, higher fuel costs, and lower interchange sales to other utilities. Operations and maintenance expenses increased due primarily to employee severance costs resulting from various APS cost-reduction efforts and higher power plant maintenance costs. The increase in power plant maintenance costs was primarily due to the timing of scheduled outages for certain fossil plants and certain remedial actions at Palo Verde (see Note 8 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report). Fuel costs were higher due to replacement power related to reduced nuclear generation in the first half of 1994 and to the increased generation needed to meet higher sales. These fuel increases were partially offset by fewer interchange sales and improved nuclear operations in the third quarter of 1994.

OPERATING RESULTS - TWELVE-MONTH PERIOD ENDED SEPTEMBER 30, 1994 COMPARED TO TWELVE-MONTH PERIOD ENDED SEPTEMBER 30, 1993

Earnings increased in the twelve-month period ended September 30, 1994 primarily due to increased operating revenues and the reversal of certain previously recorded depreciation related to Palo Verde (see Note 5 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report). Operating revenues were up due to continued customer growth and warmer weather. Partially offsetting the increased operating revenues were increased operations and maintenance costs, lower non-cash income related to the 1991 Settlement, higher fuel costs, lower interchange sales, and a retail rate reduction. Operations and maintenance costs increased primarily due to higher power plant maintenance costs and employee severance costs. The increase in power plant maintenance costs was primarily due to the timing of scheduled outages for certain fossil plants and certain remedial actions taken at Palo Verde (see Note 8 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report). Fuel costs were higher due to replacement power related to reduced nuclear generation plus the increased generation needed to meet higher sales. These fuel increases were partially offset by fewer interchange sales and improved nuclear operations in the third quarter of 1994. Lower interest costs also contributed to the earnings increase.

Non-utility Operations

The parent company's interest expense decreased in both the nine-month and twelve-month periods as a result of continuing debt prepayment. Interest in the three-month period increased as a result of debt prepayment penalties.

SunCor's earnings in the three-month, nine-month and twelve-month periods were positively impacted by increased land sales. Partially offsetting was higher interest expense as a result of increased borrowings.

El Dorado's earnings decreased in the three-month, nine-month and twelve-month periods due to lower earnings on venture capital investments and increased loss reserves.

Other Income

Other income reflects accounting practices required for regulated public utilities and represents a composite of cash and noncash items, including AFUDC. Included in the nine months ended September 30, 1994 other income amounts are \$20.3 million of after-tax accretion income on Palo Verde Unit 3 and \$5.6 million of after-tax income resulting from Palo Verde refund obligation reversals recorded by APS in accordance with the 1991 Settlement. APS has now recorded all of the Unit 3 accretion income and Palo Verde refund obligation reversals related to the 1991 Settlement. See Note 3 of Notes to Consolidated Financial Statements in Part II, Item 8 of the 1993 10-K. Also included in the nine months ended September 30, 1994 other income amounts is a one-time depreciation reversal related to Palo Verde in the amount of approximately \$15.0 million after tax recorded by APS in accordance with the ACC Order (see Note 5 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report).

1994 Settlement Agreement

See Note 5 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report for a discussion of the ACC Order. Because of the non-cash earnings (1) that APS expects to result from the accelerated amortization of ITCs during the 1995-1999 period; and (2) that resulted from the reversal of depreciation related to Palo Verde (associated with the 1991 Settlement), APS does not expect its earnings to be significantly affected by the retail rate reduction resulting from the ACC Order.

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

Construction and Financing Programs

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

Water Supply

As previously reported, in an action pending in Maricopa County Superior Court relating to claims to water in the Lower Gila Watershed, issues important to APS' claims were remanded to the trial court for further action and the trial court certified its decision for interlocutory appeal to the Arizona Supreme Court. See "Water Supply" in Part II, Item 5 of the June 10-Q. On September 28, 1994 the Arizona Supreme Court granted review of the July 30, 1994 trial court decision.

Environmental Matters

As previously reported, on March 22, 1994 the EPA issued rules for nitrogen oxide emissions limitations which will require APS to install additional pollution control equipment at Four Corners. See "Environmental Matters" in Part I, Item 1 of the 1993 10-K. APS has determined that it will accelerate to 1997 compliance with these requirements. APS estimates that the cost of such compliance will be approximately \$20 million, most of which will be incurred during 1995.

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits

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

Exhibit No. Description

27 Financial Data Schedule

(b) Reports on Form 8-K

During the quarter ended September 30, 1994 and for the period ended November 14, 1994, there were no Form 8-K Reports filed by the Company.

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

PINNACLE WEST CAPITAL CORPORATION

(Registrant)

By: /s/ Henry Sargent

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

this Report)

Dated: November 14, 1994

ARTICLE UT

MULTIPLIER: 1,000

CURRENCY: U.S. DOLLARS

FISCAL YEAR END: DEC 31 1994

PERIOD START: JUL 01 1994

PERIOD END: SEP 30 1994

PERIOD TYPE: 9 MOS

EXCHANGE RATE: 1

BOOK VALUE: PER BOOK

TOTAL NET UTILITY PLANT: 4,613,586

OTHER PROPERTY AND INVEST: 537,995

TOTAL CURRENT ASSETS: 563,706

TOTAL DEFERRED CHARGES: 1,295,847

OTHER ASSETS: 0

TOTAL ASSETS: 7,011,134

COMMON: 1,643,212

CAPITAL SURPLUS PAID IN: 0

RETAINED EARNINGS: 118,579

TOTAL COMMON STOCKHOLDERS EQ: 1,761,791

PREFERRED MANDATORY: 95,000

PREFERRED: 193,561

LONG TERM DEBT NET: 2,603,600

SHORT TERM NOTES: 0

LONG TERM NOTES PAYABLE: 0

COMMERCIAL PAPER OBLIGATIONS: 35,500

LONG TERM DEBT CURRENT PORT: 144,154

PREFERRED STOCK CURRENT: 0

CAPITAL LEASE OBLIGATIONS: 0

LEASES CURRENT: 0

OTHER ITEMS CAPITAL AND LIAB: 2,177,528

TOT CAPITALIZATION AND LIAB: 7,011,134

GROSS OPERATING REVENUE: 1,391,524

INCOME TAX EXPENSE: 135,939

OTHER OPERATING EXPENSES: 700,297

TOTAL OPERATING EXPENSES: 940,289

OPERATING INCOME LOSS: 451,235

OTHER INCOME NET: (150,984)

INCOME BEFORE INTEREST EXPEN: 0

TOTAL INTEREST EXPENSE: 184,551

NET INCOME: 164,312

PREFERRED STOCK DIVIDENDS: 0

EARNINGS AVAILABLE FOR COMM: 164,312

COMMON STOCK DIVIDENDS: 52,450

TOTAL INTEREST ON BONDS: 172,518

CASH FLOW OPERATIONS: 395,813

EPS PRIMARY: 1.88

EPS DILUTED: 0

End of FilingPowered By **EDGAR**
Online

© 2005 | EDGAR Online, Inc.