

PINNACLE WEST CAPITAL CORP

FORM 10-Q (Quarterly Report)

Filed 08/14/97 for the Period Ending 06/30/97

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

PINNACLE WEST CAPITAL CORP

FORM 10-Q (Quarterly Report)

Filed 8/14/1997 For Period Ending 6/30/1997

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

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

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

For the quarterly period ended June 30, 1997

OR

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

For the transition period from _____ to _____

Commission file number 1-8962

PINNACLE WEST CAPITAL CORPORATION

(Exact name of registrant as specified in its charter)

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 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 August 12, 1997: 84,741,597

Glossary

ACC.....Arizona Corporation Commission

ACC Staff.....Staff of the Arizona Corporation Commission

Affected Utilities.....Utilities affected by the ACC's Proposed Rules on
retail electric competition in Arizona

APS.....Arizona Public Service Company

Cholla.....Cholla Power Plant

Company.....Pinnacle West Capital Corporation

El Dorado.....El Dorado Investment Company

EPA.....United States Environmental Protection Agency

FERC.....Federal Energy Regulatory Commission

Four Corners.....Four Corners Power Plant

ITCs.....Investment tax credits

1996 10-K.....Pinnacle West Capital Corporation Annual Report on
Form 10-K for the fiscal year ended December 31, 1996

NGS.....Navajo Generating Station

Palo Verde.....Palo Verde Nuclear Generating Station

Rules.....Rules adopted by the ACC for the introduction of
retail electric competition in Arizona

SFAS No. 71.....Statement of Financial Accounting Standards No. 71,
"Accounting for the Effects of Certain Types of
Regulation"

SFAS No. 128.....Statement of Financial Accounting Standards No. 128,
"Earnings per Share"

SFAS No. 130.....Statement of Financial Accounting Standards No. 130,
"Reporting Comprehensive Income"

SFAS No. 131.....Statement of Financial Accounting Standards No. 131,
"Disclosures about Segments of an Enterprise and
Related Information"

Pinnacle West.....Pinnacle West Capital Corporation

SunCor.....SunCor Development Company

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

PINNACLE WEST CAPITAL CORPORATION CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands, except per share amounts)

	Three Months Ended June 30,	
	1997	1996
Operating Revenues		
Electric	\$ 458,751	\$ 426,658
Real estate	30,166	26,150
Total	488,917	452,808
Fuel Expenses		
Fuel for electric generation	55,627	57,289
Purchased power	43,683	22,466
Total	99,310	79,755
Operating Expenses		
Utility operations and maintenance	89,162	100,296
Real estate operations	28,301	25,811
Depreciation and amortization	91,809	59,342
Taxes other than income taxes	30,311	35,510
Total	239,583	220,959
Operating Income	150,024	152,094
Other Income (Deductions)		
Allowance for equity funds used during construction	--	2,003
Interest on long-term debt	(40,453)	(44,675)
Other interest	(5,973)	(6,201)
Capitalized interest	4,560	2,164
Preferred stock dividend requirements of APS	(3,195)	(4,326)
Other-net	4,823	(980)
Total	(40,238)	(52,015)
Income Before Income Tax and Extraordinary Charge	109,786	100,079
Income Tax Expense	42,604	38,625
Income Before Extraordinary Charge	67,182	61,454
Extraordinary Charge for Early Retirement of Debt, Net of Income Tax of \$1,674	--	(2,471)
Net Income	\$ 67,182	\$ 58,983
Average Common Shares Outstanding	85,155,688	87,420,263
Earnings Per Average Common Share Outstanding:		
Income before extraordinary charge	\$ 0.79	\$ 0.70
Extraordinary charge	--	(0.03)
Total	\$ 0.79	\$ 0.67
Dividends Declared Per Share	\$ 0.550	\$ 0.500

See Notes to Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands, except per share amounts)

	Six Months Ended June 30,	
	1997	1996
Operating Revenues		
Electric	\$ 837,772	\$ 771,919
Real estate	49,709	42,144
Total	887,481	814,063
Fuel Expenses		
Fuel for electric generation	106,749	99,623
Purchased power	78,030	36,404
Total	184,779	136,027
Operating Expenses		
Utility operations and maintenance	177,178	188,039
Real estate operations	48,063	43,353
Depreciation and amortization	184,411	118,277
Taxes other than income taxes	60,555	69,711
Total	470,207	419,380
Operating Income	232,495	258,656
Other Income (Deductions)		
Allowance for equity funds used during construction	--	3,678
Interest on long-term debt	(79,904)	(90,584)
Other interest	(10,474)	(11,047)
Capitalized interest	8,394	5,401
Preferred stock dividend requirements of APS	(6,821)	(8,803)
Other-net	9,046	687
Total	(79,759)	(100,668)
Income Before Income Tax and Extraordinary Charge	152,736	157,988
Income Tax Expense	60,172	61,675
Income Before Extraordinary Charge	92,564	96,313
Extraordinary Charge for Early Retirement of Debt, Net of Income Tax of \$4,110	--	(6,068)
Net Income	\$ 92,564	\$ 90,245
Average Common Shares Outstanding	86,280,924	87,435,309
Earnings Per Average Common Share Outstanding:		
Income before extraordinary charge	\$ 1.07	\$ 1.10
Extraordinary charge	--	(0.07)
Total	\$ 1.07	\$ 1.03
Dividends Declared Per Share	\$ 0.825	\$ 0.750

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 June 30,	
	1997	1996
	-----	-----
Operating Revenues		
Electric	\$ 1,784,125	\$ 1,669,725
Real estate	107,053	74,826
	-----	-----
Total	1,891,178	1,744,551
	-----	-----
Fuel Expenses		
Fuel for electric generation	237,519	217,018
Purchased power	136,756	71,250
	-----	-----
Total	374,275	288,268
	-----	-----
Operating Expenses		
Utility operations and maintenance	419,853	403,170
Real estate operations	100,790	73,346
Depreciation and amortization	365,641	240,576
Taxes other than income taxes	112,921	140,984
	-----	-----
Total	999,205	858,076
	-----	-----
Operating Income	517,698	598,207
	-----	-----
Other Income (Deductions)		
Allowance for equity funds used during construction	1,531	6,126
Interest on long-term debt	(160,778)	(192,280)
Other interest	(23,191)	(20,269)
Capitalized interest	12,502	10,115
Preferred stock dividend requirements of APS	(15,110)	(18,354)
Other-net	1,611	(8,722)
	-----	-----
Total	(183,435)	(223,384)
	-----	-----
Income From Continuing Operation Before Income Tax	334,263	374,823
Income Tax Expense	126,953	145,774
	-----	-----
Income From Continuing Operations	207,310	229,049
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 \$9,667 and \$11,944	(14,272)	(17,639)
	-----	-----
Net Income	\$ 183,499	\$ 211,410
	=====	=====
Average Common Shares Outstanding	86,869,084	87,437,388
Earnings Per Average Common Share Outstanding:		
Continuing operations	\$ 2.38	\$ 2.62
Discontinued operations	(0.11)	--
Extraordinary charge	(0.16)	(0.20)
	-----	-----
Total	\$ 2.11	\$ 2.42
	=====	=====
Dividends Declared Per Share	\$ 1.100	\$ 1.225
	=====	=====

See Notes to Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

ASSETS
(Thousands of Dollars)

	June 30, 1997	December 31, 1996
	-----	-----
Current Assets		
Cash and cash equivalents	\$ 25,041	\$ 26,686
Customer and other receivables--net	171,533	169,237
Accrued utility revenues	69,517	55,470
Material and supplies	74,499	74,120
Fossil fuel	12,396	13,928
Deferred income taxes	69,724	69,688
Other current assets	45,362	41,140
	-----	-----
Total current assets	468,072	450,269
	-----	-----
Investments and Other Assets		
Real estate investments--net	390,487	398,527
Other assets	201,278	173,109
	-----	-----
Total investments and other assets	591,765	571,636
	-----	-----
Utility Plant		
Electric plant in service and held for future use	6,855,873	6,803,211
Less accumulated depreciation and amortization	2,547,552	2,426,143
	-----	-----
Total	4,308,321	4,377,068
Construction work in progress	309,659	226,935
Nuclear fuel, net of amortization	51,953	51,137
	-----	-----
Net utility plant	4,669,933	4,655,140
	-----	-----
Deferred Debits		
Regulatory asset for income taxes	488,058	516,722
Rate synchronization cost deferrals	386,476	414,082
Other deferred debits	349,055	381,440
	-----	-----
Total deferred debits	1,223,589	1,312,244
	-----	-----
Total Assets	\$6,953,359	\$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)

	June 30, 1997	December 31, 1996
	-----	-----
Current Liabilities		
Accounts payable	\$ 140,863	\$ 184,095
Accrued taxes	115,800	82,413
Accrued interest	34,471	39,652
Dividends payable	23,327	--
Short-term borrowings	228,000	16,900
Current maturities of long-term debt	107,002	156,277
Customer deposits	33,028	34,222
Other current liabilities	27,343	37,056
	-----	-----
Total current liabilities	709,834	550,615
	-----	-----
Long-Term Debt Less Current Maturities	2,296,883	2,372,113
	-----	-----
Deferred Credits and Other		
Deferred income taxes	1,331,154	1,359,312
Deferred investment tax credit	66,509	74,379
Unamortized gain - sale of utility plant	84,651	86,939
Other	379,619	356,935
	-----	-----
Total deferred credits and other	1,861,933	1,877,565
	-----	-----
Commitments and Contingencies (Notes 5, 6 and 7)		
Minority Interests		
Non-redeemable preferred stock of APS	143,493	165,673
	-----	-----
Redeemable preferred stock of APS	29,110	53,000
	-----	-----
Common Stock Equity		
Common stock, no par value	1,556,341	1,636,354
Retained earnings	355,765	333,969
	-----	-----
Total common stock equity	1,912,106	1,970,323
	-----	-----
Total Liabilities and Equity	\$6,953,359	\$6,989,289
	=====	=====

See Notes to Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(THOUSANDS OF DOLLARS)

	Six Months Ended June 30,	
	1997	1996
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before extraordinary charge	\$ 92,564	\$ 96,313
Items not requiring cash		
Depreciation and amortization	200,991	134,567
Deferred income taxes--net	(24,844)	3,684
Allowance for equity funds used during construction	--	(3,678)
Deferred investment tax credit	(7,870)	(11,206)
Other--net	(10,123)	(1,711)
Changes in current assets and liabilities		
Customer and other receivables--net	(2,296)	(5,896)
Accrued utility revenues	(14,047)	(10,413)
Materials, supplies and fossil fuel	1,153	5,329
Other current assets	(4,222)	12,617
Accounts payable	(39,477)	(11,094)
Accrued taxes	33,387	22,725
Accrued interest	(5,181)	(4,307)
Other current liabilities	(10,838)	14,225
Decrease (increase) in land held	6,189	7,156
Other--net	45,872	557
	-----	-----
Net Cash Flow Provided By Operating Activities	261,258	248,868
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(145,203)	(120,810)
Capitalized interest	(8,394)	(5,401)
Other--net	(18,441)	(12,392)
	-----	-----
Net Cash Flow Used For Investing Activities	(172,038)	(138,603)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of long-term debt	102,382	108,993
Short-term borrowings--net	211,100	16,465
Dividends paid on common stock	(47,441)	(43,715)
Repayment of long-term debt	(230,823)	(218,387)
Redemption of preferred stock	(46,044)	(30,603)
Repurchase and Retirement of Common Stock	(79,863)	--
Extraordinary charge for early retirement of debt	--	(6,068)
Other--net	(176)	2,376
	-----	-----
Net Cash Flow Used For Financing Activities	(90,865)	(170,939)
	-----	-----
Net Cash Flow	(1,645)	(60,674)
Cash and Cash Equivalents at Beginning of Period	26,686	79,539
	-----	-----
Cash and Cash Equivalents at End of Period	\$ 25,041	\$ 18,865
	=====	=====
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest, net of amounts capitalized	\$ 83,351	\$ 95,810
Income taxes	\$ 56,090	\$ 40,000

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 restated to conform to the current year presentation.
2. In the opinion of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position of Pinnacle West and its subsidiaries as of June 30, 1997, the results of operations for the three months, six months and twelve months ended June 30, 1997 and 1996, and the cash flows for the six months ended June 30, 1997 and 1996. It is suggested that these condensed consolidated financial statements and notes to condensed consolidated financial statements be read in conjunction with the consolidated financial statements and notes to consolidated financial statements included in the 1996 10-K.
3. The operations of APS are subject to seasonal fluctuations, with variations 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 six months ended June 30, 1997.
5. Regulatory Matters

Electric Industry Restructuring

State The ACC has been conducting an ongoing investigation into the restructuring of the Arizona electric industry. In December 1996, the ACC adopted rules that provide a framework for the introduction of retail electric competition. The ACC has ordered that 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. Stranded costs are the costs of generating plants, other assets and contract commitments that were prudently incurred to serve power customers that could go unrecovered if these customers are allowed to use open access to move to another supplier. Each affected utility would be required to file with the ACC estimates of unmitigated stranded costs. The ACC would then, after hearing and consideration of various factors, determine the magnitude of stranded cost and appropriate stranded cost recovery mechanisms and charges.

The 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.

The Arizona legislature has appointed a joint legislative committee to study electric utility industry restructuring issues and report back to them by the end of 1997. The Company believes that legislation will ultimately be required before significant implementation of retail electric competition 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 The Company prepares its financial statements in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." SFAS No. 71 requires a cost-based, rate-regulated enterprise to reflect the impact of regulatory decisions in its financial statements. The Company's existing regulatory orders and current regulatory environment support its accounting practices related to regulatory assets, which amounted to approximately \$1.0 billion at June 30, 1997. In accordance with the 1996 regulatory agreement (see below), the ACC accelerated the amortization of substantially all of the Company's regulatory assets over an eight-year period. If rate recovery of these assets is no longer probable, whether due to competition or regulatory action, the Company would no longer be able to apply the provisions of SFAS No. 71 to all or some part of its operations, which could have a material impact on the Company's financial statements.

1996 Regulatory Agreement

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

- 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 a retail price reduction of approximately \$17.6 million annually (\$11 million after income taxes), or 1.2%, effective July 1, 1997.

6. The Palo Verde participants have insurance for public liability payments resulting from nuclear energy hazards to the full limit of liability under federal law. This potential liability is covered by primary liability insurance provided by commercial insurance carriers in the amount of \$200 million and the balance by an industry-wide retrospective assessment program. If losses at any nuclear power plant covered by this program exceed the accumulated funds 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. Accounting Matters

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

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

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

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

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

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

During the quarter ended June 30, 1997, the parent company borrowed on its existing line of credit an additional \$50 million of which \$20 million has been repaid. The parent company's total outstanding debt as of June 30, 1997, was \$280 million.

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

The Board declared a quarterly dividend of 27.5 cents per share of common stock, payable September 1, 1997, to shareholders of record on August 1, 1997, totaling approximately \$23.3 million.

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 starting in 1996.

APS

For the six months ended June 30, 1997, APS incurred approximately \$146 million in capital expenditures, which is approximately 53% of the most recently estimated 1997 capital expenditures. APS estimates total capital expenditures for the years 1997, 1998, and 1999 to be approximately \$296 million, \$290 million, and \$265 million, respectively. These amounts include about \$30 million each year for nuclear fuel expenditures.

Required and optional redemptions of preferred stock and repayment of long-term debt, including premiums thereon, and payments for a capitalized lease obligation are expected to total approximately \$268 million, \$114 million, and \$114 million for the years 1997, 1998, and 1999, respectively. During the six months ended June 30, 1997, APS redeemed approximately \$219 million of its long-term debt and approximately \$46 million of its preferred stock, which redemptions were funded with internal cash from operations and short-term debt. APS' cash flow from operations is cyclical, with the highest cash flows generated in the summer. As a result, APS expects to pay down a significant portion of its short-term debt balance in the third quarter of the year using cash flow from operations. As a result of the 1996 regulatory agreement (see Note 5 of Notes to Condensed Consolidated Financial Statements), Pinnacle West invested \$50 million in APS in 1996 and will invest similar amounts annually in 1997 through 1999.

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, six-month and twelve-month periods ended June 30, 1997 and 1996:

Income (Loss)
(Unaudited)

(Thousands of Dollars)

	Three Months Ended		Six Months Ended		Twelve Months Ended	
	June 30,		June 30,		June 30,	
	1997	1996	1997	1996	1997	1996
APS	\$ 66,298	\$ 66,114	\$ 91,317	\$ 107,243	\$ 210,453	\$ 245,978
SunCor	1,167	118	2,255	(1,092)	7,501	1,632
El Dorado	3,686	97	6,956	(39)	7,366	8,065
Pinnacle West (1)	(3,969)	(7,346)	(7,964)	(15,867)	(41,821)	(44,265)
NET INCOME	\$ 67,182	\$ 58,983	\$ 92,564	\$ 90,245	\$ 183,499	\$ 211,410

(1) Includes Pinnacle West's interest expense, extraordinary charge for early retirement of debt, discontinued operations and operating expenses net of income tax benefits. Income tax benefits are as follows (in thousands): \$822 and \$3,177 for the three months ended June 30, 1997 and 1996, respectively; and \$1,208 and \$8,274 for the six months ended June 30, 1997 and 1996, respectively; and \$17,678 and \$21,253 for the twelve months ended June 30, 1997 and 1996, respectively.

APS

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

Earnings were flat in the three-month comparison as strong customer growth, cost savings, and increased sales due to weather offset the effects of the 1996 regulatory agreement (see Note 5 of Notes to Condensed Consolidated Financial Statements).

In the three-month comparison, the regulatory agreement, which became effective July 1, 1996, resulted in \$29 million (before income taxes) of accelerated regulatory asset amortization and a retail price reduction which reduced pretax revenues by \$13 million.

Results were favorably impacted by increased operating revenues (net of related fuel expenses), lower operations and maintenance expenses and a decrease in other taxes. Operating revenues increased \$32 million primarily due to a \$24 million increase in sales for resale, \$15 million from retail customer growth, and \$6 million attributable to weather effects, partially offset by the 1996 retail price reduction impact of \$13 million. Sales for resale are sales of electricity at wholesale to other electric utilities, power marketers, or public authorities for resale to their customers. The increase in sales for resale was a result of increased activity in competitive bulk power markets and was accompanied by significant increases in related purchased power. These bulk power activities did not result in a significant variance in earnings due to market pressures on prices. Operation and maintenance expenses were lower by \$11 million primarily due to the timing of nuclear refueling, charges for employee incentive plans in 1996, and savings from a 1996 voluntary severance program. Other taxes decreased \$5 million primarily due to a 1996 change in property tax law. The impact of this tax law change for the first half of 1996 was recorded in the third quarter of 1996.

Operating Results - Six-month period ended June 30, 1997 compared to six-month period ended June 30, 1996

Earnings decreased in the six-month comparison due to the effects of the 1996 regulatory agreement (see Note 5 of Notes to Condensed Consolidated Financial Statements). These effects were partially offset by customer growth, cost savings, and increased sales due to weather.

In the six-month comparison, the regulatory agreement, which became effective July 1, 1996, resulted in \$59 million (before income taxes) of accelerated regulatory asset amortization and a retail price reduction which reduced pretax revenues by \$24 million.

Partially offsetting these negative factors were increased operating revenues (net of related fuel expenses), lower operations and maintenance expenses, a decrease in other taxes, and lower interest expense. Operating revenues increased \$66 million primarily due to a \$46 million increase in sales for resale, \$32 million of retail customer growth and higher usage, and \$9 million attributable to weather effects, partially offset by the \$24 million impact of the retail price reduction. Sales for resale are sales of electricity at wholesale to other electric utilities, power marketers, or public authorities for resale to their customers. The increase in sales for resale was a result of increased activity in competitive bulk power markets and was accompanied by significant increases in related purchased power. These bulk power activities did not result in a significant variance in earnings due to market pressures on prices. Operations and maintenance expenses were \$11 million lower primarily due to improved nuclear operations, charges for employee incentive plans in 1996, and savings from a 1996 voluntary severance program. Other taxes decreased \$10 million primarily due to a 1996 change in property tax law. The impact of this tax law change for the first half of 1996 was recorded in the third quarter of 1996. Interest expense decreased \$6 million due to lower average interest rates and lower amounts of debt outstanding.

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

Earnings decreased in the twelve-month comparison ended June 30, 1997 due to the effects of the 1996 regulatory agreement (see Note 5 of Notes to Condensed Consolidated Financial Statements), a \$32 million pretax charge in the fourth quarter of 1996 for a voluntary severance program, and an increase in fuel expenses. These effects were partially offset by strong customer growth, cost savings, increased sales due to weather, and the recognition of \$8 million of income tax benefits associated with capital loss carryforwards. The twelve-month comparison was also positively impacted by \$21 million of pretax asset write-downs in the twelve months ended June 30, 1996.

In the twelve-month comparison, the regulatory agreement, which became effective July 1, 1996, resulted in \$119 million of accelerated regulatory asset amortization and a retail price reduction which reduced revenues by \$54 million. Fuel expenses increased \$86 million primarily due to increased retail and wholesale sales volumes and a less favorable mix of generation and purchased power, particularly during a regional power outage in August 1996.

Operating revenues increased \$114 million primarily due to \$72 million of customer growth and higher usage, a \$61 million increase in sales for resale, and \$26 million attributable to weather effects, partially offset by the \$54 million impact of the retail price reduction. Sales for resale are sales of electricity at wholesale to other electric utilities, power marketers, or public authorities for resale to their customers. The increase in sales for resale was accompanied by significant increases in related purchased power and was a result of increased activity in competitive bulk power markets. These bulk power activities did not result in a significant variance in earnings due to market pressures on prices. Other taxes decreased \$29 million primarily due to a 1996 change in property tax law. The impact of this tax law change for the first half of 1996 was recorded in the third quarter of 1996. Interest expense decreased \$12 million due to lower average interest rates and lower amounts of debt outstanding.

Non-utility Operations

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

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

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

Other Income

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

CURRENT ISSUES

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

Competition

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

Rate Matters

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

PART II. OTHER INFORMATION

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

Item 4. Submission of Matters to a Vote of Security-Holders

At the Company's Annual Meeting of Shareholders held on May 21, 1997, the following persons were elected Class III Directors with a term to expire at the 2000 annual meeting:

	Votes For ---	Votes Against -----	Abstentions and Broker Non Votes -----
Pamela Grant	82,096,542	988,360	N/A
Martha O. Hesse	82,148,229	936,673	N/A
William S. Jaimeson	82,099,641	985,262	N/A
Richard S. Snell	82,105,963	978,938	N/A

ITEM 5. Other Information

Environmental Matters

EPA Environmental Regulation

Air Quality Standards. In July 1997 the EPA proposed regulations on regional haze. See "Environmental Matters - EPA Environmental Regulation - Air Quality Standards" in Part I, Item 1 of the 1996 10-K. The proposal would require states to submit plans to meet "presumptive reasonable progress targets" for achieving perceptible improvements in visibility conditions in Federal Class I areas (e.g., national parks) every 10-15 years. The proposal also calls for states to conduct three year "best available retrofit technology" ("BART") review on point sources which became operational between 1962 and 1977 and which may normally be anticipated to contribute to regional haze visibility impairment. Because the actual level of emissions controls, if any, for any unit cannot be determined at this time, APS currently cannot estimate the capital expenditures, if any, which would result from the final rules.

Also in July 1997 EPA promulgated final National Ambient Air Quality Standards for ozone and particulate matter. See "Environmental Matters - EPA Environmental Regulation - Air Quality Standards" in Part I, Item 1 of the 1996 10-K. Pursuant to the rules, the ozone standard is more stringent and a new ambient standard for very fine particles has been established. The Company does not currently expect these rules to have a material adverse effect on its financial position or results of operations.

Palo Verde Nuclear Generating Station

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

Construction and Financing Programs

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

Competition and Electric Industry Restructuring

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

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit No. -----	Description -----
27	Financial Data Schedule

(b) Reports on Form 8-K

During the quarter ended June 30, 1997, and the period from July 1, through August 14, 1997, the Company did not file any 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: August 14, 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

Public Utility Companies and Public Utility Holding Companies (Thousands of Dollars) Fiscal year ended December 31, 1997 For Period
January 1, 1997 through June 30, 1997 Six Months Ended

MULTIPLIER: 1000

CURRENCY: U.S. Dollar

PERIOD TYPE	6 MOS
FISCAL YEAR END	DEC 31 1997
PERIOD START	JAN 01 1997
PERIOD END	JUN 30 1997
EXCHANGE RATE	1
BOOK VALUE	PER BOOK
TOTAL NET UTILITY PLANT	\$4,669,933
OTHER PROPERTY AND INVEST	591,765
TOTAL CURRENT ASSETS	468,072
TOTAL DEFERRED CHARGES	1,223,589
OTHER ASSETS	0
TOTAL ASSETS	6,953,359
COMMON	1,556,341
CAPITAL SURPLUS PAID IN	0
RETAINED EARNINGS	355,765
TOTAL COMMON STOCKHOLDERS EQ	1,912,106
PREFERRED MANDATORY	29,110
PREFERRED	143,493
LONG TERM DEBT NET	2,296,883
SHORT TERM NOTES	0
LONG TERM NOTES PAYABLE	0
COMMERCIAL PAPER OBLIGATIONS	228,000
LONG TERM DEBT CURRENT PORT	107,002
PREFERRED STOCK CURRENT	0
CAPITAL LEASE OBLIGATIONS	0
LEASES CURRENT	0
OTHER ITEMS CAPITAL AND LIAB	2,236,765
TOT CAPITALIZATION AND LIAB	6,953,359
GROSS OPERATING REVENUE	887,481
INCOME TAX EXPENSE	60,172
OTHER OPERATING EXPENSES	470,207
TOTAL OPERATING EXPENSES	654,986
OPERATING INCOME LOSS	232,495
OTHER INCOME NET	(79,759)
INCOME BEFORE INTEREST EXPEN	0
TOTAL INTEREST EXPENSE	81,984
NET INCOME	92,564
PREFERRED STOCK DIVIDENDS	0
EARNINGS AVAILABLE FOR COMM	92,564
COMMON STOCK DIVIDENDS	47,441
TOTAL INTEREST ON BONDS	63,731
CASH FLOW OPERATIONS	261,258
EPS PRIMARY	1.07
EPS DILUTED	0

End of Filing

Powered By **EDGAR**
Online

© 2005 | EDGAR Online, Inc.