PINNACLE WEST CAPITAL CORP

FORM 10-Q
(Quarterly Report)

Filed 11/14/96 for the Period Ending 09/30/96

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 11/14/1996 For Period Ending 9/30/1996

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 September 30, 1996

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 November 12, 1996: 87,418,327

Glossary

ACC --	Arizona Corporation Commission
ACC Order --	ACC Order commencing a formal rulemaking process for the adoption of proposed rules regarding the introduction of retail electric competition in Arizona
ACC Staff --	Staff of the Arizona Corporation Commission
AFUDC --	Allowance for funds used during construction
Affected Utilities --	Utilities affected by the ACC's Proposed Rules on retail electric competition in Arizona
APS --	Arizona Public Service Company
CC&N --	Certificate of convenience and necessity
Company --	Pinnacle West Capital Corporation
El Dorado --	El Dorado Investment Company
EPA --	Environmental Protection Agency
ITCs --	Investment tax credits
June 10-Q --	Pinnacle West Capital Corporation Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 1996
1995 10-K --	Pinnacle West Capital Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 1995
Palo Verde --	Palo Verde Nuclear Generating Station
Proposed Rules --	Proposed rules issued by the ACC regarding the introduction of retail electric competition in Arizona
Pinnacle West --	Pinnacle West Capital Corporation
SEC --	Securities and Exchange Commission
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 September 30, 1996	1995
Operating Revenues		
Electric	$ 566,899	$ 549,082
Real estate	31,892	9,709
Total	598,791	558,791
Fuel Expenses		
Fuel for electric generation	68,243	68,715
Purchased power	39,793	23,539
Total	108,036	92,254
Operating Expenses		
Utility operations and maintenance	100,386	97,565
Real estate operations	28,396	10,801
Depreciation and amortization	91,144	61,625
Taxes other than income taxes	25,029	35,498
Total	244,955	205,489
Operating Income	245,800	261,048
Other Income (Deductions)		
Allowance for equity funds used during construction	1,942	1,111
Interest on long-term debt	(41,366)	(51,355)
Other interest	(6,824)	(5,400)
Allowance for borrowed funds used during construction	2,021	2,130
Preferred stock dividend requirements of APS	(4,153)	(4,775)
Other-net	(272)	(13,128)
Total	(48,652)	(71,417)
Income Before Income Taxes and Extraordinary Charge	197,148	189,631
Income Tax Expense	75,742	75,136
Income Before Extraordinary Charge	121,406	114,495
Extraordinary Charge for Early Retirement of Debt, Net of Income Tax of $9,667	(14,272)	--
Net Income	$ 107,134	$ 114,495
Average Common Shares Outstanding	87,439,830	87,414,951
Earnings Per Average Common Share Outstanding:		
Income Before Extraordinary Charge	$ 1.39	$ 1.31
Extraordinary Charge	(0.16)	--
Total	$ 1.23	$ 1.31
Dividends Declared Per Share	$ 0.275	$ 0.225

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, 1996	Nine Months Ended September 30, 1995
Operating Revenues		
Electric	$ 1,338,818	$ 1,266,228
Real estate	74,036	31,873
Total	1,412,854	1,298,101
Fuel Expenses		
Fuel for electric generation	167,866	160,248
Purchased power	76,197	49,563
Total	244,063	209,811
Operating Expenses		
Utility operations and maintenance	288,425	283,248
Real estate operations	71,749	31,152
Depreciation and amortization	209,421	183,315
Taxes other than income taxes	94,740	106,654
Total	664,335	604,369
Operating Income	504,456	483,921
Other Income (Deductions)		
Allowance for equity funds used during construction	5,620	3,645
Interest on long-term debt	(131,950)	(158,952)
Other interest	(17,871)	(13,153)
Allowance for borrowed funds used during construction	7,422	6,481
Preferred stock dividend requirements of APS	(12,956)	(14,358)
Other-net	415	(7,215)
Total	(149,320)	(183,552)
Income Before Income Taxes and Extraordinary Charge	355,136	300,369
Income Tax Expense	137,417	119,002
Income Before Extraordinary Charge	217,719	181,367
Extraordinary Charge for Early Retirement of Debt, Net of Income Tax of $13,777	(20,340)	--
Net Income	$ 197,379	$ 181,367
Average Common Shares Outstanding	87,436,827	87,404,258
Earnings Per Average Common Share Outstanding:		
Income Before Extraordinary Charge	$ 2.49	$ 2.08
Extraordinary Charge	(0.23)	--
Total	$ 2.26	$ 2.08
Dividends Declared Per Share	$ 1.025	$ 0.675

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, 1996	Twelve Months Ended September 30, 1995
Operating Revenues		
Electric	$ 1,687,542	$ 1,608,308
Real estate	97,009	52,793
Total	1,784,551	1,661,101
Fuel Expenses		
Fuel for electric generation	216,546	209,258
Purchased power	87,504	61,250
Total	304,050	270,508
Operating Expenses		
Utility operations and maintenance	405,991	386,160
Real estate operations	90,941	51,406
Depreciation and amortization	270,095	245,361
Taxes other than income taxes	130,515	141,210
Total	897,542	824,137
Operating Income	582,959	566,456
Other Income (Deductions)		
Allowance for equity funds used during construction	6,957	4,749
Interest on long-term debt	(182,291)	(212,175)
Other interest	(21,693)	(16,456)
Allowance for borrowed funds used during construction	10,006	8,005
Preferred stock dividend requirements of APS	(17,732)	(19,242)
Other-net	4,134	(7,630)
Total	(200,619)	(242,749)
Income Before Income Taxes and Extraordinary Charge	382,340	323,707
Income Taxes		
Income tax expense	146,380	132,803
Non-recurring income tax benefit	--	(26,770)
Total	146,380	106,033
Income Before Extraordinary Charge	235,960	217,674
Extraordinary Charge for Early Retirement of Debt, Net of Income Tax of $21,611	(31,911)	--
Net Income	$ 204,049	$ 217,674
Average Common Shares Outstanding	87,443,641	87,402,674
Earnings Per Average Common Share Outstanding:		
Income Before Extraordinary Charge	$ 2.69	$ 2.49
Extraordinary Charge	(0.36)	--
Total	$ 2.33	$ 2.49
Dividends Declared Per Share	$ 1.275	$ 0.900

See Notes to Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

ASSETS
(Thousands of Dollars)

	September 30, 1996	December 31, 1995
Current Assets		
Cash and cash equivalents	$ 64,408	$ 79,539
Customer and other receivables--net	171,411	131,393
Accrued utility revenues	74,008	53,519
Material and supplies	75,871	78,271
Fossil fuel	15,188	21,722
Deferred income taxes	46,316	46,355
Other current assets	31,006	19,671
Total current assets	478,208	430,470
Investments and Other Assets		
Real estate investments--net	400,038	411,693
Other assets	173,636	151,127
Total investments and other assets	573,674	562,820
Utility Plant		
Electric plant in service and held for future use	6,683,761	6,544,860
Less accumulated depreciation and amortization	2,389,447	2,231,614
Total	4,294,314	4,313,246
Construction work in progress	307,251	281,757
Nuclear fuel, net of amortization	49,829	52,084
Net utility plant	4,651,394	4,647,087
Deferred Debits		
Regulatory asset for income taxes	520,910	548,464
Palo Verde Unit 3 cost deferral	270,131	283,426
Palo Verde Unit 2 cost deferral	157,754	165,873
Other deferred debits	360,614	358,912
Total deferred debits	1,309,409	1,356,675
Total Assets	$7,012,685	$6,997,052

See Notes to Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

LIABILITIES AND EQUITY
(Thousands of Dollars)

	September 30, 1996	December 31, 1995
Current Liabilities		
Accounts payable	$ 124,847	$ 114,963
Accrued taxes	191,823	95,962
Accrued interest	29,509	48,958
Dividends payable	24,067	--
Short-term borrowings	310,689	177,800
Current maturities of long-term debt	169,409	8,780
Customer deposits	34,209	32,746
Other current liabilities	40,363	25,284
Total current liabilities	924,916	504,493
Long-Term Debt Less Current Maturities	2,078,869	2,510,709
Deferred Credits and Other		
Deferred income taxes	1,316,707	1,327,881
Deferred investment tax credit	75,653	97,897
Unamortized gain - sale of utility plant	88,083	91,514
Other	315,218	314,910
Total deferred credits and other	1,795,661	1,832,202
Commitments and Contingencies (Notes 5, 6 and 7)		
Minority Interests		
Non-redeemable preferred stock of APS	170,391	193,561
Redeemable preferred stock of APS	53,000	75,000
Common Stock Equity		
Common stock, no par value	1,639,709	1,638,684
Retained earnings	350,139	242,403
Total common stock equity	1,989,848	1,881,087
Total Liabilities and Equity	$7,012,685	$6,997,052

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, 1996	Nine Months Ended September 30, 1995
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before extraordinary charge	$ 217,719	$ 181,367
Items not requiring cash		
Depreciation and amortization	235,600	208,171
Deferred income taxes--net	3,195	27,608
Allowance for equity funds used during construction	(5,620)	(3,645)
Deferred investment tax credit	(22,244)	(21,385)
Other--net	(459)	4,123
Changes in current assets and liabilities		
Customer and other receivable--net	(39,756)	(32,175)
Accrued utility revenues	(20,489)	(23,419)
Materials, supplies and fossil fuel	8,934	9,154
Other current assets	(591)	(2,173)
Accounts payable	9,004	(8,171)
Accrued taxes	95,861	118,048
Accrued interest	(19,449)	(20,659)
Other current liabilities	20,421	17,934
Decrease (increase) in land held	16,043	(12,322)
Other--net	7,401	2,876
Net Cash Flow Provided By Operating Activities	505,570	445,332
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(196,641)	(209,471)
Allowance for borrowed funds used during construction	(7,422)	(6,481)
Other--net	(21,649)	(5,664)
Net Cash Flow Used For Investing Activities	(225,712)	(221,616)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of long-term debt	112,765	102,740
Short-term borrowings--net	132,889	(69,300)
Dividends paid on common stock	(65,576)	(58,998)
Repayment of long-term debt	(410,582)	(179,865)
Redemption of preferred stock	(46,083)	(4)
Extraordinary charge for early retirement of debt	(20,340)	--
Other--net	1,938	(117)
Net Cash Flow Used For Financing Activities	(294,989)	(205,544)
Net Cash Flow	(15,131)	18,172
Cash and Cash Equivalents at Beginning of Period	79,539	34,719
Cash and Cash Equivalents at End of Period	$ 64,408	$ 52,891
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest, net of amounts capitalized	$ 155,943	$ 180,366
Income taxes	$ 72,224	$ 35,757

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. 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 September 30, 1996, the results of operations for the three months, nine months and twelve months ended September 30, 1996 and 1995, and the cash flows for the nine months ended September 30, 1996 and 1995. 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 1995 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 nine months ended September 30, 1996.

5. Regulatory Matters

Regulatory Agreement

In April 1996 the ACC approved a regulatory agreement between APS and the ACC Staff. This agreement is substantially the same as the agreement proposed by APS and the ACC Staff in December 1995. The major provisions of the 1996 regulatory agreement are:

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

- - - 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).

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

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

- - - Infusion of $200 million of common equity into APS by the parent company, in annual increments of $50 million starting in 1996.

Competition and Electric Industry Restructuring

In recognition of evolving competition in the electric utility industry, there has been an ongoing investigation by the ACC Staff into industry restructuring in an open competition docket involving many parties. See Note 3 of Notes to Consolidated Financial Statements in Part II, Item 8 of the 1995 10-K for further discussion of industry restructuring. On October 9, 1996 the ACC issued an order (the "ACC Order"), attached hereto and incorporated herein by reference, initiating a formal rulemaking process for the adoption of rules ("Proposed Rules") regarding the introduction of retail electric competition in Arizona. The ACC will hold public comment meetings on the Proposed Rules on December 2, 3 and 4, 1996. The ACC has indicated that, even if it then adopts the Proposed Rules, issues such as 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. Commissioner Carl Kunasek, the sole Republican on the three-member ACC, provided a concurring statement to the ACC Order in which he expressed concerns about the Proposed Rules and his intent to make substantive changes in them. As a result of the recent election, Mr. Kunasek will be joined on the ACC in January 1997 by Republican Jim Irvin, which will impact the leadership of the ACC and the composition of the ACC Staff. The positions on the rulemaking that will actually be taken by the members of the ACC, as evidenced by recently reported comments, are by no means clear at this time.

The Proposed Rules include the following major provisions:

- - - The Proposed Rules are intended to apply to virtually all of the Arizona electric utilities regulated by the ACC (the "Affected Utilities"), including APS.

- - - 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.

- - - "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 not include most electric distribution services. Affected Utilities would not be required to apply for CC&N's for any services provided in their existing service territories.

- - - On or before December 31, 1997 each Affected Utility would file with the ACC proposed tariffs for "Standard Offer Bundled Service" and "Unbundled Service."

"Standard Offer Bundled Service" means electric service elements (i.e., generation, transmission, distribution and ancillary services) provided and priced as a package to consumers within a designated area. "Unbundled Service" means electric service elements provided and priced separately.

The Proposed Rules indicate that the ACC shall allow recovery by

Affected Utilities of unmitigated Stranded Cost, defined as "the verifiable net difference between (a) the value of all prudent jurisdictional assets and obligations necessary to furnish electricity (such as generating plants, purchased power contracts, fuel contracts, and regulatory assets), acquired or entered into prior to the adoption of the [Proposed Rules], and (b) the market value of those assets and obligations directly attributable to the introduction of competition under the [Proposed Rules]." Each Affected Utility would be required to take "every feasible, cost-effective measure" to mitigate or offset Stranded Cost and to file with the ACC estimates of unmitigated Stranded Cost. 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 on a case-by-case basis.

In comments submitted to the ACC, APS has stated that certain provisions of the Proposed Rules are deficient, legally and otherwise, because, among other things, (i) the ACC has no authority to require or authorize retail competition between electric utilities or to regulate non-public service corporations; (ii) the rules fail to address the vested property rights of Affected Utilities, including APS, to receive adequate compensation for the amendment or rescission of CC&N's or for stranded costs; (iii) the rules are discriminatory because they favor newly-certificated competitors over Affected Utilities; (iv) the rules do not provide for the fundamental statutory and due process rights of APS and other Affected Utilities; (v) specific measures of the Proposed Rules, including the proposed phase-in, could affect APS' ability to maintain system reliability in a cost-effective manner; and (vi) the status of certain of APS' potential competitors, including public power entities and out-of-state utilities, is unclear.

In April 1996 an Arizona law established legislative and advisory committees to study electric utility industry restructuring issues and report back to the legislature by the end of 1997. The committees include representatives of the ACC and APS.

The Company believes that legislation will ultimately be required before significant implementation of the Proposed Rules (or whatever they may evolve into) can lawfully occur.

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 in conjunction with inspections made during scheduled outages of the Palo Verde units. APS' ongoing analyses indicate that it will be economically desirable for APS to replace the Unit 2 steam generators, which have been most affected by tube cracking, in five to ten years. APS expects that the steam generator replacement can be accomplished within financial parameters established before replacement was a consideration, and APS estimates that its share of the replacement costs (in 1996 dollars and including installation and replacement power costs) will be approximately $50 million, most of which will be incurred after the year 2000. APS expects that the replacement would be performed in conjunction with a normal refueling outage in order to limit incremental outage time to approximately 50 days. 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.

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 1995 10-K.

During August, Pinnacle West prepaid the remaining $150 million of 11.61% bond debentures due March 2000, incurring an extraordinary charge of $14.3 million after income taxes. Proceeds for the debt prepayment and penalty came from a short-term borrowing that will be refinanced with long-term debt at a later date.

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.

The Board declared a quarterly dividend of 27.5 cents per share of common stock, payable December 2, 1996 to shareholders of record on November 1, 1996, totaling approximately $24.1 million.

APS

For the nine months ended September 30, 1996, APS incurred approximately $197 million in capital expenditures, accounting for approximately 76% of the most recently estimated 1996 capital expenditures. APS has estimated total capital expenditures for the years 1996, 1997 and 1998 to be approximately $260 million, $284 million and $284 million, respectively. These amounts include about $30 million each year for nuclear fuel expenditures.

Required and optional redemptions of preferred stock and long-term debt, including premiums thereon, and a capitalized lease obligation are expected to total approximately $217 million, $164 million and $114 million for the years 1996, 1997 and 1998, respectively. During the nine months ended September 30, 1996, APS redeemed approximately $171 million of its long-term debt and approximately $46 million of its preferred stock, and incurred $100 million of long-term debt under a revolving credit agreement. It is APS' intention over the next several years to use excess cash flow primarily to retire debt and preferred stock.

Although provisions in APS' bond indenture, articles of incorporation and financing orders from the ACC restrict the issuance 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, nine-month and twelve-month periods ended September 30, 1996 and 1995:

Income (Loss)
(Unaudited)

(Thousands of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30,	
	1996	1995	1996	1995	1996	1995
APS	$ 124,331	$ 123,570	$ 231,574	$ 205,271	$ 246,739	$ 223,287
SunCor	2,278	(1,555)	1,186	(201)	5,465	467
El Dorado	(231)	(99)	(270)	304	7,933	480
Pinnacle West (1)	(19,244)	(7,421)	(35,111)	(24,007)	(56,088)	(6,560)
NET INCOME	$ 107,134	$ 114,495	$ 197,379	$ 181,367	$ 204,049	$ 217,674

(1) Includes Pinnacle West's interest expense, extraordinary charge for early retirement of debt and operating expenses net of income tax benefits. Income tax benefits are as follows (in thousands): $9,997 and $3,841 for the three months ended September 30, 1996 and 1995, respectively; and $18,271 and $11,969 for the nine months ended September 30, 1996 and 1995, respectively; and $27,409 and $43,569 for the twelve months ended September 30, 1996 and 1995, respectively.

Operating Results - Three-month period ended September 30, 1996 compared to three-month period ended September 30, 1995

Earnings were flat in the three-month period ended September 30, 1996. Results were favorably impacted by increased operating revenues, the write-down of an office building in 1995, lower property taxes, and lower interest expense. Operating revenues were higher due to customer growth, warmer weather and higher residential usage. Property tax estimates for 1996 were reduced in the third quarter to reflect a change in tax law. See "Property Taxes" in Part II, Item 1 of the June 10-Q. Interest expense decreased due to lower average interest rates and lower debt balances.

Substantially offsetting these positive factors were the accelerated amortization of regulatory assets, a retail rate reduction, and an increase in fuel expenses. The accelerated regulatory asset amortization and the rate 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 higher natural gas costs, a less favorable mix of fuel and purchased power, and increased retail sales.

Operating Results - Nine-month period ended September 30, 1996 compared to nine-month period ended September 30, 1995

Earnings increased in the nine-month period ended September 30, 1996 primarily due to increased operating revenues, the write-down of an office building in 1995, a reduction in property taxes (see "Property Taxes" in Part II, Item 1 of the June 10-Q), and lower interest expense. Operating revenues were higher due to customer growth, warmer weather, and higher residential usage. Interest expense decreased due to lower average interest rates and lower debt balances.

Partially offsetting these positive factors were an increase in fuel expenses, the accelerated amortization of regulatory assets, a retail rate reduction, and a gain on the sale of a small subsidiary in the first quarter of 1995. Fuel expenses were higher primarily due to higher natural gas costs, increased retail sales, higher coal prices, and a less favorable mix of fuel and purchased power. The accelerated regulatory asset amortization and the rate reduction were part of a regulatory agreement which became effective July 1, 1996. See Note 5 of Notes to Condensed Consolidated Financial Statements.

Operating Results - Twelve-month period ended September 30, 1996 compared to twelve-month period ended September 30, 1995

Earnings increased in the twelve-month period ended September 30, 1996 primarily due to increased operating revenues, the write-down of an office building in 1995, a reduction in property taxes (see "Property Taxes" in Part II, Item 1 of the June 10-Q), and lower interest expense. Operating revenues were higher due to customer growth, warmer weather, and higher residential usage. Interest expense decreased due to lower average interest rates and lower debt balances.

Partially offsetting these positive factors were an increase in fuel expenses, the accelerated amortization of regulatory assets, increased operation and maintenance expenses, a retail rate reduction, and a gain on the sale of a small subsidiary in the first quarter of 1995. Fuel expenses were higher primarily due to increased retail sales, higher natural gas costs, a less favorable mix of fuel and purchased power, and higher coal prices. The accelerated regulatory asset amortization and the rate reduction were part of a regulatory agreement which became effective July 1, 1996. See Note 5 of Notes to Condensed Consolidated Financial Statements. Operations and maintenance expenses were higher primarily due to the write-down of certain inventory in the fourth quarter of 1995.

Non-utility Operations

The parent company incurred extraordinary charges for the prepayment of debt in the three-month, nine-month and twelve-month periods. Interest expense decreased in all periods due primarily to debt reduction. Additionally, the parent company's income tax benefit decreased in the twelve-month period due to a 1994 non-recurring income tax benefit of approximately $26.8 million related to a change in tax law.

SunCor's earnings increased in the three-month, nine-month and twelve-month periods due to an increase in net land sales.

El Dorado's decrease in earnings in the nine-month period was the result of a 1995 gain on a sale of an investment. Earnings in the twelve-month period increased due to the sale of an investment in the fourth quarter of 1995.

Other Income

Other income reflects accounting practices required for regulated public utilities and represents a composite of cash and non-cash items, including AFUDC. See Note 1 of Notes to Consolidated Financial Statements in

Part II, Item 8 of the 1995 10-K.

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.

Voluntary Severance Program

APS will take a charge in the fourth quarter of 1996 for a voluntary severance program. Employees may submit their request to participate in the program from October 15 through November 15, 1996. APS cannot currently estimate the financial impact of this program.

Regulatory Agreement

See Note 5 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report and Note 3 of Notes to Consolidated Financial Statements in Part II, Item 8 of the 1995 10-K for a discussion of APS' regulatory agreement and the Proposed Rules regarding the introduction of retail electric competition in Arizona.

PART II. OTHER INFORMATION

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

ITEM 5. Other Information

Environmental Matters

As previously reported, the Clean Air Act Amendments of 1990 required two studies with respect to hazardous air pollutants emitted by electric utility steam generating units. See "Environmental Matters -- EPA Environmental Regulation" in Part I, Item 1 of the 1995 10-K. The EPA has postponed, for up to three years, the general study concerning the necessity of regulating such units and has deferred promulgating regulations relating to mercury emissions.

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.

Competition and Electric Industry Restructuring

See Note 5 of the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report for a discussion of competition and the Proposed 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

In addition to the Exhibit shown above, the Company hereby incorporates the following Exhibits pursuant to Exchange Act Rule 12b-32 by reference to the filings set forth below:

Exhibit No.	Description	Previously Filed As Exhibit	File No.	Date Effective

10.1 ACC Order dated 10.1 to APS' 1-4473 11/14/96 October 9, 1996 September 1996 Form 10-Q Report

(b) Reports on Form 8-K

During the quarter ended September 30, 1996, and the period ended November 13, 1996, the Company filed the following Report on Form 8-K:

Report filed September 3, 1996 relating to a draft ACC rule for the introduction of retail electric competition in Arizona.

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: November 14, 1996

By: /s/ William J. Post

William J. Post
Executive Vice President
(Principal Financial Officer and Officer Duly Authorized to sign this Report)

ARTICLE UT

MULTIPLIER: 1,000

CURRENCY: U.S. DOLLARS

PERIOD TYPE	9 MOS
FISCAL YEAR END	DEC 31 1996
PERIOD START	JAN 01 1996
PERIOD END	SEP 30 1996
EXCHANGE RATE	1
BOOK VALUE	PER BOOK
TOTAL NET UTILITY PLANT	4,651,394
OTHER PROPERTY AND INVEST	573,674
TOTAL CURRENT ASSETS	478,208
TOTAL DEFERRED CHARGES	1,309,409
OTHER ASSETS	0
TOTAL ASSETS	7,012,685
COMMON	1,639,709
CAPITAL SURPLUS PAID IN	0
RETAINED EARNINGS	350,139
TOTAL COMMON STOCKHOLDERS EQ	1,989,848
PREFERRED MANDATORY	53,000
PREFERRED	170,391
LONG TERM DEBT NET	2,078,869
SHORT TERM NOTES	176,189
LONG TERM NOTES PAYABLE	0
COMMERCIAL PAPER OBLIGATIONS	134,500
LONG TERM DEBT CURRENT PORT	169,409
PREFERRED STOCK CURRENT	0
CAPITAL LEASE OBLIGATIONS	0
LEASES CURRENT	0
OTHER ITEMS CAPITAL AND LIAB	2,240,479
TOT CAPITALIZATION AND LIAB	7,012,685
GROSS OPERATING REVENUE	1,412,854
INCOME TAX EXPENSE	137,417
OTHER OPERATING EXPENSES	664,335
TOTAL OPERATING EXPENSES	908,398
OPERATING INCOME LOSS	504,456
OTHER INCOME NET	(149,320)
INCOME BEFORE INTEREST EXPEN	0
TOTAL INTEREST EXPENSE	142,399
NET INCOME	197,379
PREFERRED STOCK DIVIDENDS	0
EARNINGS AVAILABLE FOR COMM	197,379
COMMON STOCK DIVIDENDS	65,576
TOTAL INTEREST ON BONDS	120,057
CASH FLOW OPERATIONS	505,570
EPS PRIMARY	2.26
EPS DILUTED	0

End of Filing