

PINNACLE WEST CAPITAL CORP

FORM 8-K

(Current report filing)

Filed 10/27/05 for the Period Ending 09/30/05

Address	400 NORTH FIFTH STREET MS8695 PHOENIX, AZ 85004
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 8-K

**CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): September 30, 2005

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

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

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

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

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Item 2.02. Results of Operations and Financial Condition

Certain of the Information referenced in Item 7.01 below relates to Pinnacle West Capital Corporation's ("Pinnacle West" or the "Company") results of operations for its fiscal quarter ended September 30, 2005. This Information is attached hereto as Exhibits 99.2, 99.3, 99.7, 99.9, and 99.10.

On October 27, 2005, the Company issued a press release regarding its financial results for its fiscal quarter ended September 30, 2005. A copy of the press release is attached hereto as Exhibit 99.9.

The information being furnished pursuant to this Item 2.02 and in Exhibits 99.2, 99.3, 99.7, 99.9 and 99.10 of this report relating to the Company's financial results for its fiscal quarter ended September 30, 2005 shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities of that Section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

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

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Item 7.01. Regulation FD Disclosure

Financial and Business Information

The Company is providing quarterly consolidated statistical summaries, earnings variance explanations, and a glossary of relevant terms (collectively, “Information”) to help interested parties better understand its business (see Exhibits 99.1, 99.2, 99.3, 99.4, 99.5, 99.6, 99.7, 99.8 and 99.10). This Information is concurrently being posted to the Company’s website at www.pinnaclewest.com. The Information may not represent all of the factors that could affect the Company’s operating or financial results for various periods. Some of the Information is preliminary in nature and could be subject to significant adjustment. Some of the Information is based on information received from third parties and may contain inaccuracies. The Company is not responsible for any such inaccuracies. Although the Company may update or correct the Information if it is aware that such Information has been revised or is inaccurate, the Company assumes no obligation to update or correct the Information and reserves the right to discontinue the provision of all or any portion of the Information at any time or to change the type of Information provided.

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Item 9.01. Financial Statements and Exhibits

(c) Exhibits.

Exhibit No.	Registrant(s)	Description
99.1	Pinnacle West Arizona Public Service Company ("APS")	Pinnacle West Capital Corporation quarterly consolidated statistical summary (cover page and list of contents).
99.2	Pinnacle West APS	Pinnacle West Capital Corporation quarterly consolidated statistical summary for the periods ended September 30, 2005 and 2004.
99.3	Pinnacle West APS	Pinnacle West Capital Corporation consolidated statistics by quarter for 2005.
99.4	Pinnacle West	Pinnacle West Capital Corporation consolidated statistics by quarter for 2004.
99.5	Pinnacle West	Pinnacle West Capital Corporation consolidated statistics by quarter for 2003.
99.6	Pinnacle West	Pinnacle West Capital Corporation consolidated statistics by quarter for 2002.
99.7	Pinnacle West APS	Pinnacle West Capital Corporation earnings variance explanations for periods ended September 30, 2005 and 2004 and condensed consolidated statements of income for the three and nine months ended September 30, 2005 and 2004.
99.8	Pinnacle West APS	Glossary of Terms.
99.9	Pinnacle West APS	Earnings News Release issued on October 27, 2005.
99.10	Pinnacle West APS	Reconciliation of Operating Income to Gross Margin (Non-GAAP Financial Measure).

SIGNATURES

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

PINNACLE WEST CAPITAL CORPORATION
(Registrant)

Dated: October 27, 2005

By: /s/ Barbara M. Gomez
Barbara M. Gomez
Vice President and Treasurer

ARIZONA PUBLIC SERVICE COMPANY
(Registrant)

Dated: October 27, 2005

By: /s/ Barbara M. Gomez
Barbara M. Gomez
Vice President and Treasurer

INDEX TO EXHIBITS

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Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Periods Ended September 30, 2005 and 2004

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2005 Third Quarter Summary

2005 Year-to-Date

2004 by Quarter

2003 by Quarter

2002 by Quarter

Quarters may not sum to totals due to rounding.

Certain current and prior year amounts have been reclassified to conform to current period presentation.

The definitions of terms used in this statistical summary are contained
in the "Glossary of Terms" on the Pinnacle West website at:
<http://www.pinnaclewest.com/files/investors/2005Q3QuarStatsGloss.pdf>

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

Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Periods Ended September 30, 2005 and 2004

Line	3 Mo. Ended September			9 Mo. Ended September			
	2005	2004	Incr (Decr)	2005	2004	Incr (Decr)	
EARNINGS CONTRIBUTION BY SUBSIDIARY (\$ Millions)							
1	Arizona Public Service	\$ 61	\$ 95	\$ (34)	\$ 152	\$ 185	\$ (33)
2	Pinnacle West Energy	(71)	1	(72)	(80)	(35)	(45)
3	APS Energy Services	—	1	(1)	(3)	4	(7)
4	SunCor	6	4	2	26	10	16
5	El Dorado	—	—	—	(1)	33	(34)
6	Parent Company	89	3	86	105	12	93
7	Income From Continuing Operations	85	104	(19)	199	209	(10)
8	Loss From Discontinued Operations — Net of Tax	19	1	18	(44)	—	(44)
9	Cumulative Effect of Change in Accounting — Net of Tax	—	—	—	—	—	—
10	Net Income	<u>\$ 104</u>	<u>\$ 105</u>	<u>\$ (1)</u>	<u>\$ 155</u>	<u>\$ 209</u>	<u>\$ (54)</u>
EARNINGS PER SHARE BY SUBSIDIARY — DILUTED							
11	Arizona Public Service	\$ 0.62	\$ 1.04	\$ (0.42)	\$ 1.59	\$ 2.02	\$ (0.43)
12	Pinnacle West Energy	(0.72)	0.01	(0.73)	(0.83)	(0.39)	(0.44)
13	APS Energy Services	—	0.01	(0.01)	(0.03)	0.05	(0.08)
14	SunCor	0.07	0.05	0.02	0.27	0.11	0.16
15	El Dorado	(0.01)	—	(0.01)	(0.01)	0.36	(0.37)
16	Parent Company	0.90	0.03	0.87	1.09	0.13	0.96
17	Income From Continuing Operations	0.86	1.14	(0.28)	2.08	2.28	(0.20)
18	Loss From Discontinued Operations — Net of Tax	0.19	0.01	0.18	(0.46)	0.01	(0.47)
19	Cumulative Effect of Change in Accounting — Net of Tax	—	—	—	—	—	—
20	Net Income	<u>\$ 1.05</u>	<u>\$ 1.15</u>	<u>\$ (0.10)</u>	<u>\$ 1.62</u>	<u>\$ 2.29</u>	<u>\$ (0.67)</u>
21	BOOK VALUE PER SHARE	\$ 35.82	\$ 32.55	\$ 3.27	\$ 35.82	\$ 32.55	\$ 3.27
COMMON SHARES OUTSTANDING — DILUTED (Thousands)							
22	Average	98,816	91,491	7,325	95,755	91,430	4,325
23	End of Period	98,881	91,443	7,438	98,881	91,443	7,438

See Glossary of Terms.

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Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Periods Ended September 30, 2005 and 2004

Line	3 Mo. Ended September			9 Mo. Ended September		
	2005	2004	Incr (Decr)	2005	2004	Incr (Decr)
ELECTRIC OPERATING REVENUES (Dollars in Millions)						
REGULATED ELECTRICITY SEGMENT						
Retail						
24	\$ 414	\$ 360	\$ 54	\$ 872	\$ 794	\$ 78
25	308	289	19	798	757	41
26	<u>722</u>	<u>649</u>	<u>73</u>	<u>1,670</u>	<u>1,551</u>	<u>119</u>
Wholesale revenue on delivered electricity						
27	9	6	3	17	13	4
28	8	—	8	20	—	20
29	7	8	(1)	21	24	(3)
30	7	8	(1)	21	18	3
31	<u>753</u>	<u>671</u>	<u>82</u>	<u>1,749</u>	<u>1,606</u>	<u>143</u>
MARKETING AND TRADING SEGMENT						
32	107	91	16	267	290	(23)
33	<u>\$ 860</u>	<u>\$ 762</u>	<u>\$ 98</u>	<u>\$ 2,016</u>	<u>\$ 1,896</u>	<u>\$ 120</u>
ELECTRIC SALES (GWH)						
REGULATED ELECTRICITY SEGMENT						
Retail sales						
34	4,449	4,028	421	9,705	9,160	545
35	4,100	3,937	163	10,826	10,590	236
36	<u>8,549</u>	<u>7,965</u>	<u>584</u>	<u>20,531</u>	<u>19,750</u>	<u>781</u>
Wholesale electricity delivered						
37	269	210	59	624	543	81
38	212	—	212	810	—	810
39	1,026	943	83	2,478	1,843	635
40	<u>10,056</u>	<u>9,118</u>	<u>938</u>	<u>24,443</u>	<u>22,136</u>	<u>2,307</u>
MARKETING AND TRADING SEGMENT						
41	7,228	8,995	(1,767)	17,906	21,834	(3,928)
42	<u>17,284</u>	<u>18,113</u>	<u>(829)</u>	<u>42,349</u>	<u>43,970</u>	<u>(1,621)</u>

See Glossary of Terms.

Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Periods Ended September 30, 2005 and 2004

Line	3 Mo. Ended September			9 Mo. Ended September		
	2005	2004	Incr (Decr)	2005	2004	Incr (Decr)
POWER SUPPLY ADJUSTOR ("PSA") — REGULATED ELECTRICITY SEGMENT (Dollars in Millions)						
43						
Deferred fuel and purchased power regulatory asset — beginning balance	\$ 38	\$ —	\$ 38	\$ —	\$ —	\$ —
44	105	—	105	143	—	143
45	—	—	\$ —	—	—	—
46						
Deferred fuel and purchased power regulatory asset — end of period	<u>\$ 143</u>	<u>\$ —</u>	<u>\$ 143</u>	<u>\$ 143</u>	<u>\$ —</u>	<u>\$ 143</u>
MARKETING AND TRADING SEGMENT PRETAX GROSS MARGIN ANALYSIS (Dollars in Millions)						
Realized and Mark-To-Market Components						
47	\$ 3	\$ 13	\$ (10)	\$ 33	\$ 47	\$ (14)
48	3	(3)	6	(5)	(4)	(1)
49	14	5	9	24	15	9
50	<u>\$ 20</u>	<u>\$ 15</u>	<u>\$ 5</u>	<u>\$ 52</u>	<u>\$ 58</u>	<u>\$ (6)</u>
By Pinnacle West Entity						
51	\$ 26	\$ 9	\$ 17	\$ 53	\$ 32	\$ 21
52	(8)	2	(10)	(9)	(3)	(6)
53	—	—	—	5	17	(12)
54	2	4	(2)	3	12	(9)
55	<u>\$ 20</u>	<u>\$ 15</u>	<u>\$ 5</u>	<u>\$ 52</u>	<u>\$ 58</u>	<u>\$ (6)</u>

Future Marketing and Trading Mark-to-Market Realization

As of September 30, 2005, Pinnacle West had accumulated net mark-to-market gains of \$58 million related to our power marketing and trading activities. We estimate that these gains will be reclassified to realized gains as the underlying commodities are delivered, as follows: 2005, \$17 million; 2006, \$10 million; 2007, \$21 million; and thereafter, \$10 million.

- (a) The net effect on pretax gross margin from realization of prior-period mark-to-market included in line 47 and in line 48 is zero. Realization of prior-period mark-to-market relates to cash flow recognition, not earnings recognition. The arithmetic opposites of amounts included in line 47 are included in line 48. For example, line 48 shows that a prior-period mark-to-market loss of \$3 million was transferred to "realized" for the third quarter of 2005. A \$3 million realized loss is included in the \$3 million on line 47 for the third quarter of 2005.
- (b) Quarterly amounts do not total to the annual amounts because of intra-year mark-to-market eliminations.

See Glossary of Terms.

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Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Periods Ended September 30, 2005 and 2004

Line	3 Mo. Ended September			9 Mo. Ended September		
	2005	2004	Incr (Decr)	2005	2004	Incr (Decr)
AVERAGE ELECTRIC CUSTOMERS						
Retail customers						
56 Residential	895,789	856,353	39,436	891,422	854,901	36,521
57 Business	<u>111,648</u>	<u>107,583</u>	<u>4,065</u>	<u>110,700</u>	<u>106,534</u>	<u>4,166</u>
58 Total	1,007,437	963,936	43,501	1,002,122	961,435	40,687
59 Wholesale customers	<u>78</u>	<u>85</u>	<u>(7)</u>	<u>78</u>	<u>83</u>	<u>(5)</u>
60 Total customers	<u>1,007,515</u>	<u>964,021</u>	<u>43,494</u>	<u>1,002,200</u>	<u>961,518</u>	<u>40,682</u>
61 Customer Growth (% over prior year)	4.5%	3.9%	0.6%	4.2%	3.7%	0.5%
RETAIL SALES (GWH) — WEATHER NORMALIZED						
62 Residential	4,445	4,231	214	9,778	9,364	414
63 Business	<u>4,119</u>	<u>4,005</u>	<u>114</u>	<u>10,870</u>	<u>10,619</u>	<u>251</u>
64 Total	<u>8,564</u>	<u>8,236</u>	<u>328</u>	<u>20,648</u>	<u>19,983</u>	<u>665</u>
RETAIL USAGE (KWh/Average Customer)						
65 Residential	4,967	4,704	263	10,887	10,713	174
66 Business	36,723	36,595	128	97,795	99,405	(1,610)
RETAIL USAGE — WEATHER NORMALIZED (KWh/Average Customer)						
67 Residential	4,963	4,941	22	10,969	10,953	16
68 Business	36,897	37,227	(330)	98,201	99,679	(1,478)
ELECTRICITY DEMAND (MW)						
69 System peak demand	7,000	6,402	598	7,000	6,402	598

See Glossary of Terms.

Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Periods Ended September 30, 2005 and 2004

Line		3 Mo. Ended September			9 Mo. Ended September		
		2005	2004	Incr (Decr)	2005	2004	Incr (Decr)
	ENERGY SOURCES (GWH)						
	Generation production						
70	Nuclear	2,147	2,364	(217)	6,013	6,372	(359)
71	Coal	3,574	3,417	157	9,602	9,339	263
72	Gas, oil and other	<u>3,018</u>	<u>2,547</u>	<u>471</u>	<u>6,219</u>	<u>4,253</u>	<u>1,966</u>
73	Total	<u>8,739</u>	<u>8,328</u>	<u>411</u>	<u>21,834</u>	<u>19,964</u>	<u>1,870</u>
	Purchased power						
74	Firm load	1,589	1,068	521	3,072	3,302	(230)
75	Marketing and trading	<u>7,795</u>	<u>9,301</u>	<u>(1,506)</u>	<u>19,611</u>	<u>21,978</u>	<u>(2,367)</u>
76	Total	<u>9,384</u>	<u>10,369</u>	<u>(985)</u>	<u>22,683</u>	<u>25,280</u>	<u>(2,597)</u>
77	Total energy sources	<u>18,123</u>	<u>18,697</u>	<u>(574)</u>	<u>44,517</u>	<u>45,244</u>	<u>(727)</u>
	POWER PLANT PERFORMANCE						
	Capacity Factors						
78	Nuclear	88%	96%	(8)%	83%	87%	(4)%
79	Coal	95%	90%	5%	86%	83%	3%
80	Gas, oil and other	40%	38%	2%	28%	21%	7%
81	System average	63%	64%	(1)%	54%	53%	1%
	Generation Capacity Out of Service and Replaced for Native Load (average MW/day)						
82	Nuclear	107	13	94	488	380	108
83	Coal	57	63	(6)	496	364	132
84	Gas	<u>140</u>	<u>39</u>	<u>101</u>	<u>516</u>	<u>135</u>	<u>381</u>
85	Total	<u>304</u>	<u>115</u>	<u>189</u>	<u>1,500</u>	<u>879</u>	<u>621</u>

See Glossary of Terms.

Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Periods Ended September 30, 2005 and 2004

Line	3 Mo. Ended September			9 Mo. Ended September			
	2005	2004	Incr (Decr)	2005	2004	Incr (Decr)	
ENERGY MARKET INDICATORS (a)							
Electricity Average Daily Spot Prices (\$/MWh)							
On-Peak							
86	Palo Verde	\$ 78.94	\$ 51.86	\$ 27.08	\$ 60.67	\$ 48.65	\$ 12.02
87	SP15	\$ 83.21	\$ 57.09	\$ 26.12	\$ 64.70	\$ 53.40	\$ 11.30
Off-Peak							
88	Palo Verde	\$ 52.35	\$ 33.37	\$ 18.98	\$ 40.81	\$ 33.59	\$ 7.22
89	SP15	\$ 56.08	\$ 37.18	\$ 18.90	\$ 43.92	\$ 37.13	\$ 6.79
WEATHER INDICATORS							
Actual							
90	Cooling degree-days	2,583	2,471	112	4,155	4,342	(187)
91	Heating degree-days	—	—	—	458	563	(105)
92	Average humidity	29%	26%	3%	35%	28%	7%
10-Year Averages							
93	Cooling degree-days	2,540	2,540	—	4,111	4,111	—
94	Heating degree-days	—	—	—	557	557	—
95	Average humidity	33%	33%	0%	33%	33%	0%
ECONOMIC INDICATORS							
Building Permits — Metro Phoenix (b) (d)							
96	Single-family	7,982	9,783	(1,801)	30,351	33,464	(3,113)
97	Multi-family	2,038	1,517	521	5,424	4,598	826
98	Total	<u>10,020</u>	<u>11,300</u>	<u>(1,280)</u>	<u>35,775</u>	<u>38,062</u>	<u>(2,287)</u>
Arizona Job Growth (c) (d)							
99	Payroll job growth (% over prior year)	4.2%	3.6%	0.6%	4.0%	3.1%	0.9%
100	Unemployment rate (% , seasonally adjusted)	4.8%	5.0%	(0.2)%	4.6%	5.1%	(0.5)%

Sources :

- (a) This price is an average of daily prices obtained and used with permission from Dow Jones & Company, Inc.
- (b) Arizona Real Estate Center, Arizona State University W.P. Carey College of Business
- (c) Arizona Department of Economic Security
- (d) The economic indicators reflect latest available data through periods ending August 2005.

See Glossary of Terms.

Pinnacle West Capital Corporation
Consolidated Statistics By Quarter
2005

Line		<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
	EARNINGS CONTRIBUTION BY SUBSIDIARY (\$ Millions)						
1	Arizona Public Service	\$ 27	\$ 64	\$ 61		\$ 152	\$ (33)
2	Pinnacle West Energy	(21)	12	(71)		(80)	(45)
3	APS Energy Services	(3)	1	—		(3)	(7)
4	SunCor	9	11	6		26	16
5	El Dorado	(1)	—	—		(1)	(34)
6	Parent Company	<u>19</u>	<u>(3)</u>	<u>89</u>		<u>105</u>	<u>93</u>
7	Income From Continuing Operations	30	85	85	—	199	(10)
8	Loss From Discontinued Operations — Net of Tax	(6)	(58)	19		(44)	(44)
9	Cumulative Effect of Change in Accounting — Net of Tax	—	—	—		—	—
10	Net Income	<u>\$ 24</u>	<u>\$ 27</u>	<u>\$ 104</u>	<u>\$ —</u>	<u>\$ 155</u>	<u>\$ (54)</u>
	EARNINGS PER SHARE BY SUBSIDIARY — DILUTED						
11	Arizona Public Service	\$ 0.30	\$ 0.66	\$ 0.62		\$ 1.59	\$ (0.43)
12	Pinnacle West Energy	(0.23)	0.13	(0.72)		(0.83)	(0.44)
13	APS Energy Services	(0.04)	0.01	—		(0.03)	(0.08)
14	SunCor	0.09	0.11	0.07		0.27	0.16
15	El Dorado	(0.01)	—	(0.01)		(0.01)	(0.37)
16	Parent Company	<u>0.21</u>	<u>(0.03)</u>	<u>0.90</u>		<u>1.09</u>	<u>0.96</u>
17	Income From Continuing Operations	0.32	0.88	0.86	—	2.08	(0.20)
18	Loss From Discontinued Operations — Net of Tax	(0.05)	(0.60)	0.19		(0.46)	(0.47)
19	Cumulative Effect of Change in Accounting — Net of Tax	—	—	—		—	—
20	Net Income	<u>\$ 0.27</u>	<u>\$ 0.28</u>	<u>\$ 1.05</u>	<u>\$ —</u>	<u>\$ 1.62</u>	<u>\$ (0.67)</u>
21	BOOK VALUE PER SHARE COMMON SHARES OUTSTANDING - DILUTED (Thousands)	\$ 32.50	\$ 32.89	\$ 35.82		\$ 35.82	\$ 3.27
22	Average	92,045	96,299	98,816		95,755	4,325
23	End of Period	92,103	98,442	98,881		98,881	7,438

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Line	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
ELECTRIC OPERATING REVENUES (Dollars in Millions)						
REGULATED ELECTRICITY SEGMENT						
Retail						
24 Residential	\$ 190	\$ 268	\$ 414		\$ 872	\$ 78
25 Business	209	281	308		798	41
26 Total retail	<u>399</u>	<u>549</u>	<u>722</u>	—	<u>1,670</u>	<u>119</u>
Wholesale revenue on delivered electricity						
27 Traditional contracts	3	5	9		17	4
28 Off-system sales	—	12	8		20	20
29 Transmission for others	7	7	7		21	(3)
30 Other miscellaneous services	7	7	7		21	3
31 Total regulated electricity	<u>416</u>	<u>580</u>	<u>753</u>	—	<u>1,749</u>	<u>143</u>
MARKETING AND TRADING SEGMENT						
32 Electricity and other commodity sales	89	71	107		267	(23)
33 Total operating electric revenues	<u>\$ 505</u>	<u>\$ 651</u>	<u>\$ 860</u>	<u>\$ —</u>	<u>\$ 2,016</u>	<u>\$ 120</u>
ELECTRIC SALES (GWH)						
REGULATED ELECTRICITY SEGMENT						
Retail sales						
34 Residential	2,367	2,889	4,449		9,705	545
35 Business	<u>3,042</u>	<u>3,684</u>	<u>4,100</u>		<u>10,826</u>	<u>236</u>
36 Total retail	5,409	6,573	8,549	—	20,531	781
Wholesale electricity delivered						
37 Traditional contracts	155	200	269		624	81
38 Off-system sales	—	598	212		810	810
39 Retail load hedge management	750	702	1,026		2,478	635
40 Total regulated electricity	<u>6,314</u>	<u>8,073</u>	<u>10,056</u>	—	<u>24,443</u>	<u>2,307</u>
MARKETING AND TRADING SEGMENT						
41 Wholesale sales of electricity	5,777	4,901	7,228		17,906	(3,928)
42 Total electric sales	<u>12,091</u>	<u>12,974</u>	<u>17,284</u>	—	<u>42,349</u>	<u>(1,621)</u>

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Pinnacle West Capital Corporation
Consolidated Statistics By Quarter
2005

Line	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
POWER SUPPLY ADJUSTOR ("PSA") — REGULATED ELECTRICITY SEGMENT (Dollars in Millions)						
43	\$ —	\$ —	\$ 38		\$ —	\$ —
44	—	38	105		143	143
45	—	—	—		—	—
46	<u>\$ —</u>	<u>\$ 38</u>	<u>\$ 143</u>	<u>\$ —</u>	<u>\$ 143</u>	<u>\$ 143</u>

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

Realized and Mark-To-Market Components

47	\$ 12	\$ 18	\$ 3		\$ 33	\$ (14)
48	(3)	(8)	3		(5)	(1)
49	10	3	14		24	9
50	<u>\$ 19</u>	<u>\$ 13</u>	<u>\$ 20</u>	<u>\$ —</u>	<u>\$ 52</u>	<u>\$ (6)</u>

By Pinnacle West Entity

51	\$ 21	\$ 6	\$ 26		\$ 53	\$ 21
52	(4)	3	(8)		(9)	(6)
53	5	—	—		5	(12)
54	(3)	4	2		3	(9)
55	<u>\$ 19</u>	<u>\$ 13</u>	<u>\$ 20</u>	<u>\$ —</u>	<u>\$ 52</u>	<u>\$ (6)</u>

Future Marketing and Trading Mark-to-Market Realization

As of September 30, 2005, Pinnacle West had accumulated net mark-to-market gains of \$58 million related to our power marketing and trading activities. We estimate that these gains will be reclassified to realized gains as the underlying commodities are delivered, as follows: 2005, \$17 million; 2006, \$10 million; 2007, \$21 million; and thereafter, \$10 million.

- (a) The net effect on pretax gross margin from realization of prior-period mark-to-market included in line 47 and in line 48 is zero. Realization of prior-period mark-to-market relates to cash flow recognition, not earnings recognition. The arithmetic opposites of amounts included in line 47 are included in line 48. For example, line 48 shows that a prior-period mark-to-market loss of \$3 million was transferred to "realized" for the third quarter of 2005. A \$3 million realized loss is included in the \$3 million on line 47 for the third quarter of 2005.
- (b) Quarterly amounts do not total to the annual amounts because of intra-year mark-to-market eliminations.

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Line	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
AVERAGE ELECTRIC CUSTOMERS						
Retail customers						
56 Residential	889,967	888,509	895,789		891,422	36,521
57 Business	<u>109,772</u>	<u>110,658</u>	<u>111,648</u>	—	<u>110,700</u>	<u>4,166</u>
58 Total	999,739	999,167	1,007,437	—	1,002,122	40,687
59 Wholesale customers	<u>81</u>	<u>76</u>	<u>78</u>	—	<u>78</u>	<u>(5)</u>
60 Total customers	<u><u>999,820</u></u>	<u><u>999,243</u></u>	<u><u>1,007,515</u></u>	<u>—</u>	<u><u>1,002,200</u></u>	<u><u>40,682</u></u>
61 Customer Growth (% over prior year)	4.0%	4.2%	4.5%		4.2%	0.5%
RETAIL SALES (GWH) — WEATHER NORMALIZED						
62 Residential	2,430	2,903	4,445		9,778	414
63 Business	<u>3,058</u>	<u>3,693</u>	<u>4,119</u>	—	<u>10,870</u>	<u>251</u>
64 Total	<u><u>5,488</u></u>	<u><u>6,596</u></u>	<u><u>8,564</u></u>	<u>—</u>	<u><u>20,648</u></u>	<u><u>665</u></u>
RETAIL USAGE (KWh/Average Customer)						
65 Residential	2,660	3,252	4,967		10,887	174
66 Business	27,712	33,292	36,723		97,795	(1,610)
RETAIL USAGE — WEATHER NORMALIZED (KWh/Average Customer)						
67 Residential	2,730	3,268	4,963		10,969	16
68 Business	27,860	33,374	36,897		98,201	(1,478)
ELECTRICITY DEMAND (MW)						
69 System peak demand	3,997	6,458	7,000		7,000	598

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Pinnacle West Capital Corporation
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2005

Line	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
ENERGY SOURCES (GWH)						
Generation production						
70 Nuclear	2,247	1,619	2,147		6,013	(359)
71 Coal	2,940	3,088	3,574		9,602	263
72 Gas, oil and other	1,127	2,074	3,018		6,219	1,966
73 Total	<u>6,314</u>	<u>6,781</u>	<u>8,739</u>	—	<u>21,834</u>	<u>1,870</u>
Purchased power						
74 Firm load	586	880	1,589		3,072	(230)
75 Marketing and trading	5,832	5,984	7,795		19,611	(2,367)
76 Total	<u>6,418</u>	<u>6,864</u>	<u>9,384</u>	—	<u>22,683</u>	<u>(2,597)</u>
77 Total energy sources	<u>12,732</u>	<u>13,645</u>	<u>18,123</u>	—	<u>44,517</u>	<u>(727)</u>
POWER PLANT PERFORMANCE						
Capacity Factors						
78 Nuclear	94%	67%	88%		83%	(4)%
79 Coal	80%	83%	95%		86%	3%
80 Gas, oil and other	17%	27%	40%		28%	7%
81 System average	49%	49%	63%		54%	1%
Generation Capacity Out of Service and Replaced for Native Load (average MW/day)						
82 Nuclear	52	329	107		488	108
83 Coal	195	244	57		496	132
84 Gas	<u>212</u>	<u>164</u>	<u>140</u>		<u>516</u>	<u>381</u>
85 Total	459	737	304	—	1,500	621

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Consolidated Statistics By Quarter
2005

Line	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
ENERGY MARKET INDICATORS (a)						
Electricity Average Daily Spot Prices (\$/MWh)						
On-Peak						
86	Palo Verde	\$ 49.74	\$ 53.33	\$ 78.94	\$ 60.67	\$ 12.02
87	SP15	\$ 55.70	\$ 55.19	\$ 83.21	\$ 64.70	\$ 11.30
Off-Peak						
88	Palo Verde	\$ 37.04	\$ 33.03	\$ 52.35	\$ 40.81	\$ 7.22
89	SP15	\$ 40.96	\$ 34.73	\$ 56.08	\$ 43.92	\$ 6.79
WEATHER INDICATORS						
Actual						
90	Cooling degree-days	34	1,538	2,583	4,155	(187)
91	Heating degree-days	457	1	—	458	(105)
92	Average humidity	56%	20%	29%	35%	7%
10-Year Averages						
93	Cooling degree-days	80	1,491	2,540	4,111	—
94	Heating degree-days	521	36	—	557	—
95	Average humidity	43%	24%	33%	33%	0%
ECONOMIC INDICATORS						
Building Permits — Metro Phoenix (b)						
(d)						
96	Single-family	10,356	12,013	7,982	30,351	(3,113)
97	Multi-family	1,741	1,645	2,038	5,424	826
98	Total	<u>12,097</u>	<u>13,658</u>	<u>10,020</u>	<u>35,775</u>	<u>(2,287)</u>
Arizona Job Growth (c) (d)						
99	Payroll job growth (% over prior year)	4.1%	3.9%	4.2%	4.0%	0.9%
100	Unemployment rate (% , seasonally adjusted)	4.4%	4.7%	4.8%	4.6%	(0.5)%

Sources :

- (a) This price is an average of daily prices obtained and used with permission from Dow Jones & Company, Inc.
- (b) Arizona Real Estate Center, Arizona State University W.P. Carey College of Business.
- (c) Arizona Department of Economic Security.
- (d) The economic indicators reflect latest available data through periods ending August 2005.

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Line	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
EARNINGS CONTRIBUTION BY SUBSIDIARY (\$ Millions)						
1	\$ 34	\$ 55	\$ 95	\$ 15	\$ 200	\$ 19
2	(22)	(14)	1	(23)	(58)	(50)
3	2	1	1	(1)	3	(13)
4	2	4	4	31	41	(5)
5	—	34	—	—	33	34
6	<u>15</u>	<u>(6)</u>	<u>3</u>	<u>16</u>	<u>28</u>	<u>37</u>
7	31	74	104	38	247	22
8	—	(1)	1	(4)	(4)	(20)
9	—	—	—	—	—	—
10	<u>\$ 31</u>	<u>\$ 73</u>	<u>\$ 105</u>	<u>\$ 34</u>	<u>\$ 243</u>	<u>\$ 2</u>
EARNINGS PER SHARE BY SUBSIDIARY — DILUTED						
11	\$ 0.38	\$ 0.60	\$ 1.04	\$ 0.16	\$ 2.18	\$ 0.20
12	(0.24)	(0.15)	0.01	(0.25)	(0.63)	(0.55)
13	0.02	0.01	0.01	(0.01)	0.03	(0.15)
14	0.02	0.04	0.05	0.34	0.45	(0.05)
15	—	0.37	—	—	0.36	0.37
16	<u>0.15</u>	<u>(0.06)</u>	<u>0.03</u>	<u>0.17</u>	<u>0.30</u>	<u>0.40</u>
17	0.33	0.81	1.14	0.41	2.69	0.22
18	0.01	(0.02)	0.01	(0.04)	(0.03)	(0.19)
19	—	—	—	—	—	—
20	<u>\$ 0.34</u>	<u>\$ 0.79</u>	<u>\$ 1.15</u>	<u>\$ 0.37</u>	<u>\$ 2.66</u>	<u>\$ 0.03</u>
21	\$ 31.19	\$ 31.68	\$ 32.55	\$ 32.14	\$ 32.14	\$ 1.17
COMMON SHARES OUTSTANDING - DILUTED (Thousands)						
22	91,376	91,400	91,491	91,779	91,532	127
23	91,310	91,309	91,443	91,793	91,793	505

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Line	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
ELECTRIC OPERATING REVENUES						
(Dollars in Millions)						
REGULATED ELECTRICITY						
SEGMENT						
Retail						
24 Residential	\$ 189	\$ 245	\$ 360	\$ 190	\$ 984	\$ 27
25 Business	211	257	289	222	979	26
26 Total retail	<u>400</u>	<u>502</u>	<u>649</u>	<u>412</u>	<u>1,963</u>	<u>53</u>
Wholesale revenue on delivered						
electricity						
27 Traditional contracts	3	4	6	3	16	1
28 Off-system sales	—	—	—	—	—	—
29 Transmission for others	8	8	8	8	32	5
30 Other miscellaneous services	4	6	8	6	24	(2)
31 Total regulated electricity	<u>415</u>	<u>520</u>	<u>671</u>	<u>429</u>	<u>2,035</u>	<u>57</u>
MARKETING AND TRADING						
SEGMENT						
32 Electricity and other commodity sales	89	110	91	111	401	9
33 Total operating electric revenues	<u>\$ 504</u>	<u>\$ 630</u>	<u>\$ 762</u>	<u>\$ 540</u>	<u>\$ 2,436</u>	<u>\$ 66</u>
ELECTRIC SALES (GWH)						
REGULATED ELECTRICITY						
SEGMENT						
Retail sales						
34 Residential	2,410	2,722	4,028	2,368	11,528	381
35 Business	3,051	3,602	3,937	3,236	13,826	410
36 Total retail	<u>5,461</u>	<u>6,324</u>	<u>7,965</u>	<u>5,604</u>	<u>25,354</u>	<u>791</u>
Wholesale electricity delivered						
37 Traditional contracts	138	195	210	167	710	210
38 Off-system sales	—	—	—	—	—	—
39 Retail load hedge management	169	731	943	889	2,732	1,639
40 Total regulated electricity	<u>5,768</u>	<u>7,250</u>	<u>9,118</u>	<u>6,660</u>	<u>28,796</u>	<u>2,640</u>
MARKETING AND TRADING						
SEGMENT						
41 Wholesale sales of electricity	<u>5,696</u>	<u>7,143</u>	<u>8,995</u>	<u>8,348</u>	<u>30,182</u>	<u>1,380</u>
42 Total electric sales	<u>11,464</u>	<u>14,393</u>	<u>18,113</u>	<u>15,008</u>	<u>58,978</u>	<u>4,020</u>

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POWER SUPPLY ADJUSTOR ("PSA") — REGULATED ELECTRICITY SEGMENT (Dollars in Millions)						
43	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
44	—	—	—	—	—	—
45	—	—	—	—	—	—
46	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
MARKETING AND TRADING SEGMENT PRETAX GROSS MARGIN ANALYSIS (Dollars in Millions)						
Realized and Mark-To-Market Components						
47	\$ 12	\$ 22	\$ 13	\$ 16	\$ 63	\$ (2)
48	1	(4)	(3)	—	(6)	—
49	8	4	5	6	23	35
50	<u>\$ 21</u>	<u>\$ 22</u>	<u>\$ 15</u>	<u>\$ 22</u>	<u>\$ 80</u>	<u>\$ 33</u>
By Pinnacle West Entity						
51	\$ 12	\$ 11	\$ 9	\$ 12	\$ 44	\$ 49
52	(5)	—	2	(2)	(5)	(13)
53	10	7	—	10	27	19
54	4	4	4	2	14	(22)
55	<u>\$ 21</u>	<u>\$ 22</u>	<u>\$ 15</u>	<u>\$ 22</u>	<u>\$ 80</u>	<u>\$ 33</u>

(a) The net effect on pretax gross margin from realization of prior-period mark-to-market included in line 47 and in line 48 is zero. Realization of prior-period mark-to-market relates to cash flow recognition, not earnings recognition. The opposites of amounts included in line 47 are included in line 48. For example, line 48 shows that a prior-period mark-to-market gain of \$6 million was transferred to "realized" for the total year 2004. A \$6 million realized gain is included in the \$63 million on line 47 for the total year 2004.

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

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Line	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
AVERAGE ELECTRIC CUSTOMERS						
Retail customers						
56 Residential	855,754	852,594	856,353	871,575	859,069	30,703
57 Business	<u>105,502</u>	<u>106,517</u>	<u>107,583</u>	<u>108,860</u>	<u>107,115</u>	<u>4,019</u>
58 Total	961,256	959,111	963,936	980,435	966,184	34,722
59 Wholesale customers	81	82	85	77	81	15
60 Total customers	<u>961,337</u>	<u>959,193</u>	<u>964,021</u>	<u>980,512</u>	<u>966,265</u>	<u>34,737</u>
61 Customer Growth (% over prior year)	3.4%	3.8%	3.9%	3.9%	3.7%	0.4%
RETAIL SALES (GWH) — WEATHER NORMALIZED						
62 Residential	2,371	2,762	4,231	2,340	11,704	825
63 Business	<u>2,998</u>	<u>3,616</u>	<u>4,005</u>	<u>3,252</u>	<u>13,870</u>	<u>467</u>
64 Total	<u>5,369</u>	<u>6,378</u>	<u>8,236</u>	<u>5,592</u>	<u>25,574</u>	<u>1,292</u>
RETAIL USAGE (KWh/Average Customer)						
65 Residential	2,816	3,193	4,704	2,717	13,418	(39)
66 Business	28,919	33,816	36,595	29,726	129,392	(1,137)
RETAIL USAGE - WEATHER NORMALIZED (KWh/Average Customer)						
67 Residential	2,770	3,240	4,941	2,686	13,624	491
68 Business	28,422	33,944	37,227	29,871	129,495	(511)
ELECTRICITY DEMAND (MW)						
69 System peak demand	3,979	5,632	6,402	4,432	6,402	70

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Line	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
ENERGY SOURCES (GWH)						
Generation production						
70 Nuclear	2,148	1,860	2,364	1,812	8,184	(131)
71 Coal	2,887	3,035	3,417	3,327	12,666	1,300
72 Gas, oil and other	367	1,339	2,547	1,074	5,327	(764)
73 Total	<u>5,402</u>	<u>6,234</u>	<u>8,328</u>	<u>6,213</u>	<u>26,177</u>	<u>405</u>
Purchased power						
74 Firm load	701	1,532	1,068	1,024	4,325	1,214
75 Marketing and trading	5,506	7,167	9,301	8,218	30,192	2,443
76 Total	<u>6,207</u>	<u>8,699</u>	<u>10,369</u>	<u>9,242</u>	<u>34,517</u>	<u>3,657</u>
77 Total energy sources	<u>11,609</u>	<u>14,933</u>	<u>18,697</u>	<u>15,455</u>	<u>60,694</u>	<u>4,062</u>
POWER PLANT PERFORMANCE						
Capacity Factors						
78 Nuclear	88%	77%	96%	74%	84%	(3)%
79 Coal	77%	81%	90%	88%	84%	8%
80 Gas, oil and other	5%	20%	38%	12%	18%	(10)%
81 System average	44%	50%	64%	48%	51%	(4)%
Generation Capacity Out of Service and Replaced for Native Load (average MW/day)						
82 Nuclear	135	233	13	261	161	29
83 Coal	149	153	63	61	107	(163)
84 Gas	<u>49</u>	<u>47</u>	<u>39</u>	<u>34</u>	<u>42</u>	<u>(163)</u>
85 Total	<u>333</u>	<u>433</u>	<u>115</u>	<u>356</u>	<u>310</u>	<u>(296)</u>

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2004

Line	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
ENERGY MARKET INDICATORS (a)						
Electricity Average Daily Spot Prices (\$/MWh)						
On-Peak						
86	\$ 43.73	\$ 50.36	\$ 51.86	\$ 51.23	\$ 49.30	\$ 0.70
87	\$ 48.37	\$ 54.73	\$ 57.09	\$ 60.62	\$ 55.20	\$ 3.82
Off-Peak						
88	\$ 33.66	\$ 33.74	\$ 33.37	\$ 38.21	\$ 34.75	\$ 2.72
89	\$ 36.90	\$ 37.32	\$ 37.18	\$ 43.07	\$ 38.62	\$ 3.96
WEATHER INDICATORS						
Actual						
90	273	1,598	2,471	352	4,694	(205)
91	552	11	—	422	985	249
92	39%	19%	26%	45%	32%	1%
10-Year Averages						
93	80	1,491	2,540	420	4,531	420
94	521	36	—	415	972	415
95	43%	24%	33%	40%	35%	0%
ECONOMIC INDICATORS						
Building Permits — Metro Phoenix (b)						
96	10,045	13,636	14,111	10,325	48,117	8,466
97	1,757	1,324	2,149	2,356	7,586	859
98	<u>11,802</u>	<u>14,960</u>	<u>16,260</u>	<u>12,681</u>	<u>55,703</u>	<u>9,325</u>
Arizona Job Growth (c)						
99	2.7%	3.3%	3.6%	3.9%	3.4%	2.0%
100	5.2%	5.1%	4.9%	4.6%	5.0%	(0.7)%

Sources :

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

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2003

Line	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
EARNINGS CONTRIBUTION BY SUBSIDIARY (\$ Millions)						
1 Arizona Public Service	\$ 16	\$ 43	\$ 100	\$ 21	\$ 181	\$ (18)
2 Pinnacle West Energy	4	1	2	(15)	(8)	11
3 APS Energy Services	8	5	1	3	16	(12)
4 SunCor	1	2	6	36	46	36
5 El Dorado	—	—	—	—	(1)	4
6 Parent Company	(11)	3	—	—	(9)	(32)
7 Income From Continuing Operations	18	54	109	45	225	(11)
8 Income From Discontinued Operations — Net of Tax	7	2	1	4	16	37
9 Cumulative Effect of Change in Accounting — Net of Tax	—	—	—	—	—	66
10 Net Income	<u>\$ 25</u>	<u>\$ 56</u>	<u>\$ 110</u>	<u>\$ 49</u>	<u>\$ 241</u>	<u>\$ 92</u>
EARNINGS PER SHARE BY SUBSIDIARY — DILUTED						
11 Arizona Public Service	\$ 0.17	\$ 0.47	\$ 1.10	\$ 0.24	\$ 1.98	\$ (0.37)
12 Pinnacle West Energy	0.05	0.01	0.02	(0.16)	(0.08)	0.15
13 APS Energy Services	0.08	0.06	0.01	0.03	0.18	(0.15)
14 SunCor	0.01	0.03	0.07	0.39	0.50	0.37
15 El Dorado	—	—	—	—	(0.01)	0.05
16 Parent Company	(0.11)	0.02	(0.01)	(0.01)	(0.10)	(0.36)
17 Income From Continuing Operations	0.20	0.59	1.19	0.49	2.47	(0.31)
18 Income From Discontinued Operations — Net of Tax	0.08	0.02	0.01	0.05	0.16	0.41
19 Cumulative Effect of Change in Accounting — Net of Tax	—	—	—	—	—	0.77
20 Net Income	<u>\$ 0.28</u>	<u>\$ 0.61</u>	<u>\$ 1.20</u>	<u>\$ 0.54</u>	<u>\$ 2.63</u>	<u>\$ 0.87</u>
21 BOOK VALUE PER SHARE	\$ 29.39	\$ 29.95	\$ 30.68	\$ 30.97	\$ 30.97	\$ 1.57
COMMON SHARES OUTSTANDING - DILUTED (Thousands)						
22 Average	91,359	91,450	91,467	91,403	91,405	6,441
23 End of Period	91,257	91,262	91,271	91,288	91,288	33

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Line	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
ELECTRIC OPERATING REVENUES (Dollars in Millions)						
REGULATED ELECTRICITY SEGMENT						
Retail						
24 Residential	\$ 168	\$ 233	\$ 363	\$ 193	\$ 957	\$ 51
25 Business	196	251	284	222	953	25
26 Total retail	<u>364</u>	<u>484</u>	<u>647</u>	<u>415</u>	<u>1,910</u>	<u>76</u>
Wholesale revenue on delivered electricity						
27 Traditional contracts	3	4	5	3	15	6
28 Off-system sales	—	—	—	—	—	—
29 Transmission for others	6	5	9	7	27	(3)
30 Other miscellaneous services	7	6	6	7	26	9
31 Total regulated electricity	<u>380</u>	<u>499</u>	<u>667</u>	<u>432</u>	<u>1,978</u>	<u>88</u>
MARKETING AND TRADING SEGMENT						
32 Electricity and other commodity sales	117	101	83	91	392	105
33 Total operating electric revenues	<u>\$ 497</u>	<u>\$ 600</u>	<u>\$ 750</u>	<u>\$ 523</u>	<u>\$ 2,370</u>	<u>\$ 193</u>
ELECTRIC SALES (GWH)						
REGULATED ELECTRICITY SEGMENT						
Retail sales						
34 Residential	2,104	2,543	4,126	2,374	11,147	703
35 Business	2,849	3,450	3,891	3,226	13,416	499
36 Total retail	<u>4,953</u>	<u>5,993</u>	<u>8,017</u>	<u>5,600</u>	<u>24,563</u>	<u>1,202</u>
Wholesale electricity delivered						
37 Traditional contracts	130	131	127	112	500	26
38 Off-system sales	—	—	—	—	—	—
39 Retail load hedge management	109	205	446	333	1,093	(1,549)
40 Total regulated electricity	<u>5,192</u>	<u>6,329</u>	<u>8,590</u>	<u>6,045</u>	<u>26,156</u>	<u>(321)</u>
MARKETING AND TRADING SEGMENT						
41 Wholesale sales of electricity	<u>7,372</u>	<u>6,798</u>	<u>7,255</u>	<u>7,377</u>	<u>28,802</u>	<u>5,947</u>
42 Total electric sales	<u><u>12,564</u></u>	<u><u>13,127</u></u>	<u><u>15,845</u></u>	<u><u>13,422</u></u>	<u><u>54,958</u></u>	<u><u>5,626</u></u>

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Line	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
AVERAGE ELECTRIC CUSTOMERS						
Retail customers						
56 Residential	827,937	821,331	824,655	839,539	828,366	26,565
57 Business	<u>101,999</u>	<u>102,601</u>	<u>103,262</u>	<u>104,521</u>	<u>103,096</u>	<u>2,868</u>
58 Total	929,936	923,932	927,917	944,060	931,462	29,432
59 Wholesale customers	65	66	66	66	66	(1)
60 Total customers	<u>930,001</u>	<u>923,998</u>	<u>927,983</u>	<u>944,126</u>	<u>931,528</u>	<u>29,431</u>
61 Customer Growth (% over prior year)	3.3%	3.1%	3.2%	3.4%	3.3%	0.2%
RETAIL SALES (GWH) — WEATHER NORMALIZED						
62 Residential	2,223	2,520	3,872	2,264	10,879	389
63 Business	<u>2,886</u>	<u>3,485</u>	<u>3,858</u>	<u>3,174</u>	<u>13,403</u>	<u>498</u>
64 Total	<u>5,109</u>	<u>6,005</u>	<u>7,730</u>	<u>5,438</u>	<u>24,282</u>	<u>887</u>
RETAIL USAGE (KWh/Average Customer)						
65 Residential	2,541	3,096	5,004	2,828	13,457	432
66 Business	27,927	33,625	37,677	30,865	130,529	1,288
RETAIL USAGE — WEATHER NORMALIZED (KWh/Average Customer)						
67 Residential	2,685	3,067	4,695	2,697	13,133	50
68 Business	28,290	33,969	37,360	30,371	130,006	1,251
ELECTRICITY DEMAND (MW)						
69 System peak demand	3,569	5,571	6,332	5,124	6,332	529

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ENERGY SOURCES (GWH)						
Generation production						
70	2,306	2,047	2,230	1,732	8,315	(666)
71	2,770	2,824	2,972	2,800	11,366	(690)
72	1,288	1,572	2,696	535	6,091	1,722
73	<u>6,364</u>	<u>6,443</u>	<u>7,898</u>	<u>5,067</u>	<u>25,772</u>	<u>366</u>
Purchased power						
74	(12)	606	1,099	1,418	3,111	1,492
75	6,489	6,527	7,498	7,235	27,749	4,045
76	<u>6,477</u>	<u>7,133</u>	<u>8,597</u>	<u>8,653</u>	<u>30,860</u>	<u>5,537</u>
77	<u>12,841</u>	<u>13,576</u>	<u>16,495</u>	<u>13,720</u>	<u>56,632</u>	<u>5,903</u>
POWER PLANT PERFORMANCE						
Capacity Factors						
78	98%	86%	93%	72%	87%	(7)%
79	75%	75%	79%	74%	76%	(4)%
80	26%	31%	44%	9%	28%	1%
81	58%	59%	64%	41%	55%	(8)%
Generation Capacity Out of Service and Replaced for Native Load (average MW/day)						
82	31	136	61	297	131	64
83	292	254	277	253	269	102
84	189	148	154	338	205	157
85	<u>512</u>	<u>538</u>	<u>492</u>	<u>888</u>	<u>605</u>	<u>323</u>

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Line		<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
	ENERGY MARKET INDICATORS (a)						
	Electricity Average Daily Spot Prices (\$/MWh)						
	On-Peak						
86	Palo Verde	\$ 49.66	\$ 48.88	\$ 52.88	\$ 42.98	\$ 48.60	\$ 16.32
87	SP15	\$ 54.35	\$ 50.73	\$ 53.54	\$ 46.88	\$ 51.38	\$ 17.16
	Off-Peak						
88	Palo Verde	\$ 36.09	\$ 25.48	\$ 36.08	\$ 30.48	\$ 32.03	\$ 12.14
89	SP15	\$ 39.70	\$ 28.27	\$ 37.81	\$ 32.85	\$ 34.66	\$ 12.97
	WEATHER INDICATORS						
	Actual						
90	Cooling degree-days	76	1,550	2,701	572	4,899	24
91	Heating degree-days	349	17	—	370	736	(64)
92	Average humidity	44%	18%	30%	34%	31%	4%
	10-Year Averages						
93	Cooling degree-days	80	1,491	2,540	420	4,531	—
94	Heating degree-days	521	36	—	415	972	—
95	Average humidity	43%	24%	33%	40%	35%	0%
	ECONOMIC INDICATORS						
	Building Permits — Metro Phoenix (b)						
96	Single-family	8,030	10,613	11,191	9,817	39,651	5,339
97	Multi-family	863	2,053	1,231	2,580	6,727	(347)
98	Total	<u>8,893</u>	<u>12,666</u>	<u>12,422</u>	<u>12,397</u>	<u>46,378</u>	<u>4,992</u>
	Arizona Job Growth (c)						
99	Payroll job growth (% over prior year)	1.1%	0.9%	1.5%	2.0%	1.4%	1.4%
100	Unemployment rate (% seasonally adjusted)	5.8%	5.9%	5.7%	5.3%	5.7%	(0.5)%

Sources:

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	EARNINGS CONTRIBUTION BY SUBSIDIARY (\$ Millions)						
1	Arizona Public Service	\$ 32	\$ 64	\$ 87	\$ 16	\$ 199	\$ (82)
2	Pinnacle West Energy	1	1	10	(31)	(19)	(37)
3	APS Energy Services	2	11	7	8	28	38
4	SunCor	1	2	(1)	8	10	7
5	El Dorado	—	(3)	(2)	—	(5)	(5)
6	Parent Company	<u>17</u>	<u>(6)</u>	<u>8</u>	<u>4</u>	<u>23</u>	<u>(12)</u>
7	Income From Continuing Operations	53	69	109	5	236	(91)
8	Income (Loss) From Discontinued Operations — Net of Tax	1	6	(8)	(20)	(21)	(21)
9	Cumulative Effect of Change in Accounting — Net of Tax	—	—	—	(66)	(66)	(51)
10	Net Income	<u>\$ 54</u>	<u>\$ 75</u>	<u>\$ 101</u>	<u>\$ (81)</u>	<u>\$ 149</u>	<u>\$ (163)</u>
	EARNINGS PER SHARE BY SUBSIDIARY — DILUTED						
11	Arizona Public Service	\$ 0.37	\$ 0.76	\$ 1.02	\$ 0.19	\$ 2.35	\$ (0.95)
12	Pinnacle West Energy	0.01	0.01	0.12	(0.37)	(0.23)	(0.44)
13	APS Energy Services	0.03	0.13	0.08	0.09	0.33	0.45
14	SunCor	0.02	0.02	(0.01)	0.09	0.13	0.09
15	El Dorado	—	(0.04)	(0.02)	—	(0.06)	(0.06)
16	Parent Company	<u>0.20</u>	<u>(0.07)</u>	<u>0.10</u>	<u>0.07</u>	<u>0.26</u>	<u>(0.16)</u>
17	Income From Continuing Operations	0.63	0.81	1.29	0.07	2.78	(1.07)
18	Income (Loss) From Discontinued Operations — Net of Tax	—	0.08	(0.10)	(0.24)	(0.25)	(0.25)
19	Cumulative Effect of Change in Accounting — Net of Tax	—	—	—	(0.77)	(0.77)	(0.60)
20	Net Income	<u>\$ 0.63</u>	<u>\$ 0.89</u>	<u>\$ 1.19</u>	<u>\$ (0.94)</u>	<u>\$ 1.76</u>	<u>\$ (1.92)</u>
21	BOOK VALUE PER SHARE	\$ 30.06	\$ 30.54	\$ 31.39	\$ 29.40	\$ 29.40	\$ (0.06)
	COMMON SHARES OUTSTANDING — DILUTED (Thousands)						
22	Average	84,884	84,926	84,797	85,302	84,964	34
23	End of Period	84,789	84,768	84,756	91,255	91,255	6,531



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	ELECTRIC OPERATING REVENUES (Dollars in Millions)						
	REGULATED ELECTRICITY SEGMENT						
	Retail						
24	Residential	\$ 171	\$ 226	\$ 337	\$ 172	\$ 906	\$ (9)
25	Business	195	251	270	212	928	(24)
26	Total retail	<u>366</u>	<u>477</u>	<u>607</u>	<u>384</u>	<u>1,834</u>	<u>(33)</u>
	Wholesale revenue on delivered electricity						
27	Traditional contracts	2	1	3	3	9	(64)
28	Off-system sales	—	—	—	—	—	—
29	Transmission for others	6	6	6	12	30	4
30	Other miscellaneous services	4	2	4	7	17	(1)
31	Total regulated electricity	<u>378</u>	<u>486</u>	<u>620</u>	<u>406</u>	<u>1,890</u>	<u>(94)</u>
	MARKETING AND TRADING SEGMENT						
32	Electricity and other commodity sales	<u>62</u>	<u>41</u>	<u>83</u>	<u>101</u>	<u>287</u>	<u>(183)</u>
33	Total operating electric revenues	<u>\$ 440</u>	<u>\$ 527</u>	<u>\$ 703</u>	<u>\$ 507</u>	<u>\$ 2,177</u>	<u>\$ (277)</u>
	ELECTRIC SALES (GWH)						
	REGULATED ELECTRICITY SEGMENT						
	Retail sales						
34	Residential	2,141	2,441	3,806	2,056	10,444	109
35	Business	2,771	3,429	3,681	3,036	12,917	(147)
36	Total retail	<u>4,912</u>	<u>5,870</u>	<u>7,487</u>	<u>5,092</u>	<u>23,361</u>	<u>(38)</u>
	Wholesale electricity delivered						
37	Traditional contracts	71	121	142	140	474	(739)
38	Off-system sales	—	—	—	—	—	—
39	Retail load hedge management	<u>158</u>	<u>230</u>	<u>1,958</u>	<u>296</u>	<u>2,642</u>	<u>(398)</u>
40	Total regulated electricity	<u>5,141</u>	<u>6,221</u>	<u>9,587</u>	<u>5,528</u>	<u>26,477</u>	<u>(1,175)</u>
	MARKETING AND TRADING SEGMENT						
41	Wholesale sales of electricity	<u>4,212</u>	<u>4,443</u>	<u>7,104</u>	<u>7,096</u>	<u>22,855</u>	<u>6,854</u>
42	Total electric sales	<u>9,353</u>	<u>10,664</u>	<u>16,691</u>	<u>12,624</u>	<u>49,332</u>	<u>5,679</u>

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	POWER SUPPLY ADJUSTOR ("PSA") — REGULATED ELECTRICITY SEGMENT (Dollars in Millions)						
43	Deferred fuel and purchased power regulatory asset — beginning balance	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
44	Deferred fuel and purchased power costs — current period	—	—	—	—	—	—
45	Amounts recovered through revenues	—	—	—	—	—	—
46	Deferred fuel and purchased power regulatory asset — end of period	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
	MARKETING AND TRADING SEGMENT PRETAX GROSS MARGIN ANALYSIS (Dollars in Millions)						
	Realized and Mark-To- Market Components						
47	Electricity and other commodity sales, realized (a)	\$ 39	\$ 25	\$ 19	\$ 38	\$ 121	\$ (62)
48	Mark-to-market reversals on realized sales (b)	(22)	(9)	2	(8)	(41)	(47)
49	Change in mark-to-market value of forward sales	23	3	23	(1)	52	(76)
50	Total gross margin	<u>\$ 40</u>	<u>\$ 19</u>	<u>\$ 44</u>	<u>\$ 29</u>	<u>\$ 132</u>	<u>\$ (185)</u>
	By Pinnacle West Entity						
51	Parent company marketing and trading division	\$ 35	\$ 9	\$ 32	\$ 14	\$ 90	\$ 12
52	APS	1	—	1	—	2	(233)
53	Pinnacle West Energy	—	—	—	4	4	4
54	APS Energy Services	4	10	11	11	36	32
55	Total gross margin	<u>\$ 40</u>	<u>\$ 19</u>	<u>\$ 44</u>	<u>\$ 29</u>	<u>\$ 132</u>	<u>\$ (185)</u>

(a) The net effect on pretax gross margin from realization of prior-period mark-to-market included in line 47 and in line 48 is zero. Realization of prior-period mark-to-market relates to cash flow recognition, not earnings recognition. The opposites of amounts included in line 47 are included in line 48. For example, line 48 shows that a prior-period mark-to-market gain of \$41 million was transferred to "realized" for the total year 2002. A \$41 million realized gain is included in the \$121 million on line 47 for total year 2002.

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



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	AVERAGE ELECTRIC CUSTOMERS						
	Retail customers						
56	Residential	801,000	795,681	798,590	811,930	801,801	25,462
57	Business	<u>99,335</u>	<u>100,096</u>	<u>100,318</u>	<u>101,177</u>	<u>100,228</u>	<u>2,030</u>
58	Total	900,335	895,777	898,908	913,107	902,029	27,492
59	Wholesale customers	67	67	67	67	67	1
60	Total customers	<u>900,402</u>	<u>895,844</u>	<u>898,975</u>	<u>913,174</u>	<u>902,096</u>	<u>27,493</u>
61	Customer Growth (% over prior year)	3.2%	3.2%	3.1%	3.2%	3.1%	(0.5)%
	RETAIL SALES (GWH) — WEATHER NORMALIZED						
62	Residential	2,148	2,461	3,746	2,135	10,490	641
63	Business	<u>2,776</u>	<u>3,410</u>	<u>3,696</u>	<u>3,024</u>	<u>12,905</u>	<u>86</u>
64	Total	<u>4,924</u>	<u>5,871</u>	<u>7,441</u>	<u>5,159</u>	<u>23,395</u>	<u>727</u>
	RETAIL USAGE (KWh/Average Customer)						
65	Residential	2,673	3,068	4,766	2,532	13,025	(287)
66	Business	27,896	34,258	36,691	30,011	129,241	(4,384)
	RETAIL USAGE — WEATHER NORMALIZED (KWh/Average Customer)						
67	Residential	2,681	3,093	4,690	2,630	13,083	396
68	Business	27,943	34,065	36,839	29,885	128,754	(1,788)
	ELECTRICITY DEMAND (MW)						
69	System peak demand	3,921	5,425	5,803	3,828	5,803	116

See Glossary of Terms.

Pinnacle West Capital Corporation
Consolidated Statistics By Quarter
2002

Line		<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
	ENERGY SOURCES (GWH)						
	Generation production						
70	Nuclear	2,257	2,242	2,387	2,095	8,981	596
71	Coal	2,890	2,703	3,280	3,183	12,056	(516)
72	Gas, oil and other	337	659	1,918	1,455	4,369	375
73	Total	<u>5,484</u>	<u>5,604</u>	<u>7,585</u>	<u>6,733</u>	<u>25,406</u>	<u>455</u>
	Purchased power						
74	Firm load	70	846	859	(157)	1,619	(1,342)
75	Marketing and trading	3,993	4,599	8,771	6,340	23,704	6,051
76	Total	<u>4,063</u>	<u>5,445</u>	<u>9,630</u>	<u>6,183</u>	<u>25,323</u>	<u>4,709</u>
77	Total energy sources	<u>9,547</u>	<u>11,049</u>	<u>17,215</u>	<u>12,916</u>	<u>50,729</u>	<u>5,164</u>
	POWER PLANT PERFORMANCE						
	Capacity Factors						
78	Nuclear	96%	95%	100%	87%	94%	6%
79	Coal	78%	72%	87%	84%	80%	(4)%
80	Gas, oil and other	12%	20%	38%	29%	27%	(10)%
81	System average	62%	62%	69%	60%	63%	(7)%
	Generation Capacity Out of Service and Replaced for Native Load (average MW/day)						
82	Nuclear	62	66	12	129	67	(60)
83	Coal	184	279	88	116	167	—
84	Gas	12	18	106	54	48	16
85	Total	258	363	206	299	282	(44)

See Glossary of Terms.

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Pinnacle West Capital Corporation
Consolidated Statistics By Quarter
2002

Line		<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
	ENERGY MARKET INDICATORS (a)						
	Electricity Average Daily Spot Prices (\$/MWh)						
	On-Peak						
86	Palo Verde	\$26.86	\$ 30.65	\$ 35.45	\$36.18	\$ 32.28	\$ (86.13)
87	SP15	\$28.46	\$ 31.51	\$ 35.55	\$41.35	\$ 34.22	\$ (85.77)
	Off-Peak						
88	Palo Verde	\$22.17	\$ 14.10	\$ 18.21	\$25.09	\$ 19.89	\$ (41.68)
89	SP15	\$22.76	\$ 15.95	\$ 19.54	\$28.52	\$ 21.69	\$ (51.79)
	WEATHER INDICATORS						
	Actual						
90	Cooling degree-days	89	1,741	2,647	398	4,875	(247)
91	Heating degree-days	472	—	—	328	800	(360)
92	Average humidity	28%	16%	27%	38%	27%	(9)%
	10-Year Averages						
93	Cooling degree-days	80	1,491	2,540	420	4,531	—
94	Heating degree-days	521	36	—	415	972	—
95	Average humidity	43%	24%	33%	40%	35%	0%
	ECONOMIC INDICATORS						
	Building Permits — Metro Phoenix (b)						
96	Single-family	7,682	9,666	8,689	8,275	34,312	1,447
97	Multi-family	1,249	2,005	2,662	1,158	7,074	(1,930)
98	Total	<u>8,931</u>	<u>11,671</u>	<u>11,351</u>	<u>9,433</u>	<u>41,386</u>	<u>(483)</u>
	Arizona Job Growth (c)						
99	Payroll job growth (% over prior year)	(0.8)%	(0.2)%	(0.1)%	1.1%	0.0%	(1.0)%
100	Unemployment rate (% seasonally adjusted)	6.3%	6.2%	6.1%	6.0%	6.2%	1.5%

Sources :

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

See Glossary of Terms.

**Pinnacle West Capital Corporation
Earnings Variance Explanations
for the Periods Ended September 30, 2005 and 2004**

This discussion explains the changes in our consolidated earnings for the three-month and nine-month periods ended September 30, 2005 and 2004. Condensed Consolidated Statements of Income for the three months and nine months ended September 30, 2005 and 2004 follow this discussion. We will file our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2005 on or before November 9, 2005. We suggest that this discussion be read in connection with the Pinnacle West Capital Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 2004 and the Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2005 and June 30, 2005. Additional operating and financial statistics and a glossary of terms are available on our website (www.pinnaclewest.com).

EARNINGS CONTRIBUTION BY BUSINESS SEGMENT

We have three principal business segments (determined by products, services and the regulatory environment):

- our regulated electricity segment, which consists of traditional regulated retail and wholesale electricity businesses (primarily electric service to Native Load customers) and related activities and includes electricity generation, transmission and distribution;
 - our marketing and trading segment, which consists of our competitive energy business activities, including wholesale marketing and trading and APS Energy Services' commodity-related energy services; and
 - our real estate segment, which consists of SunCor's real estate development and investment activities.
-

The following table summarizes net income for the three months and nine months ended September 30, 2005 and 2004 (dollars in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Regulated electricity	\$ 70	\$ 94	\$ 152	\$ 152
Marketing and trading	7	4	18	22
Real estate	7	4	26	10
Other (a)	1	2	3	25
Income from continuing operations	85	104	199	209
Discontinued operations — net of tax:				
Marketing and trading (b)	1	—	(64)	(3)
Real estate (c)	14	1	16	2
Other (d)	4	—	4	1
Net income	\$ 104	\$ 105	\$ 155	\$ 209

- (a) The nine months ended September 30, 2004 includes a \$21 million (after-tax) gain related to the sale of a limited partnership interest in the Phoenix Suns.
- (b) See “Pending Sale of Silverhawk” below.
- (c) Primarily relates to the sale of commercial properties.
- (d) Primarily relates to additional gain from the sale of NAC.

General

Throughout the following explanations of our results of operations, we refer to “gross margin.” With respect to our regulated electricity segment and our marketing and trading segment, gross margin refers to electric operating revenues less purchased power and fuel costs. “Gross margin” is a “non-GAAP financial measure,” as defined in accordance with SEC rules. Exhibit 99.10 reconciles this non-GAAP financial measure to operating income, which is the most directly comparable financial measure calculated and presented in accordance with GAAP. We view gross margin as an important performance measure of the core profitability of our operations. This measure is a key component of our internal financial reporting and is used by our management in analyzing our business segments. We believe that investors benefit from having access to the same financial measures that our management uses. In addition, we have reclassified certain prior-period amounts to conform to our current-period presentation.

Pending Sale of Silverhawk

In June 2005, we entered into an agreement to sell our 75% interest in Silverhawk to Nevada Power Company. The Nevada Public Utilities Commission approved the sale in September 2005. Closing of the sale is subject to additional regulatory approvals, including approval by the FERC and clearance by the Federal Trade Commission, which are expected to be received in the fourth quarter of 2005. As a result of this pending sale, we recorded an

after-tax loss from discontinued operations of approximately \$55 million in the second quarter of 2005. The marketing and trading segment discontinued operations amounts in the chart above also include the revenues and expenses related to the operations of Silverhawk.

Deferred Fuel and Purchased Power Costs

APS' retail rate settlement became effective April 1, 2005. As part of the settlement, the ACC approved a 4.2% annual retail rate increase and a power supply adjustor ("PSA") that provides mechanisms for adjusting rates to reflect variations in fuel and purchased power costs. In accordance with the PSA, APS defers for future rate recovery 90% of the difference between actual fuel and purchased power costs and the amount for such costs currently included in base rates. Actual fuel and purchased power costs are higher than prior periods primarily due to higher fuel prices. The current base rate for fuel and purchased power costs is based on 2003 price levels and spot prices for natural gas and wholesale power have increased over 25% since then. Fuel costs were also higher because all of our latest generation plant additions needed to serve customer growth are higher-cost natural gas fired plants. Finally, fuel and purchased power costs were higher because plant outage days were higher in the three-months and nine-months ended September 30, 2005 compared to the prior year periods. The amount of APS' pretax PSA deferrals at September 30, 2005 was \$143 million, including \$80 million of PSA deferrals that are the subject of a pending surcharge application before the ACC. Although APS defers actual fuel and purchased power costs on a current basis, APS' recovery of the deferrals from its ratepayers is subject to annual PSA adjustments and ACC approval of periodic surcharge applications.

Operating Results — Three-month period ended September 30, 2005 compared with three-month period ended September 30, 2004

Our consolidated net income for the three months ended September 30, 2005 was \$104 million compared with \$105 million for the prior-year period. The current quarter net income included \$19 million (after-tax) from discontinued operations, which is primarily related to sales of commercial properties at SunCor. Income from continuing operations decreased \$19 million in the period-to-period comparison, reflecting the following changes in earnings by segment:

- Regulated Electricity Segment — Income from continuing operations decreased approximately \$24 million primarily due to the regulatory disallowance of plant costs in accordance with the retail rate settlement. This negative factor was partially offset by a retail price increase effective April 1, 2005; PSA deferrals, net of higher fuel and purchased power costs; higher retail sales volumes due to customer growth; effects of weather on retail sales; and lower depreciation due to lower depreciation rates.
- Marketing and Trading Segment — Income from continuing operations increased approximately \$3 million primarily due to higher mark-to-market gains on contracts for future delivery resulting from higher forward prices for wholesale electricity.

- Real Estate Segment — Income from continuing operations increased approximately \$3 million primarily due to increased parcel and commercial property sales.

Additional details on the major factors that increased (decreased) net income are contained in the following table (dollars in millions).

	Increase (Decrease)	
	Pretax	After Tax
Regulated electricity segment gross margin:		
Retail price increase effective April 1, 2005	\$ 27	\$ 16
PSA deferrals, net of higher fuel and purchased power costs	22	13
Higher retail sales volumes due to customer growth, excluding weather effects	21	13
Effects of weather on retail sales	16	10
Miscellaneous items, net	(5)	(3)
Net increase in regulated electricity segment gross margin	<u>81</u>	<u>49</u>
Marketing and trading segment gross margin:		
Higher mark-to-market gains on contracts for future delivery due to higher forward prices for wholesale electricity	9	5
Miscellaneous items, net	(4)	(2)
Net increase in marketing and trading segment gross margin	<u>5</u>	<u>3</u>
Net increase in gross margin for regulated electricity and marketing and trading segments	86	52
Regulatory disallowance of plant costs, in accordance with the APS retail rate settlement	(143)	(87)
Higher real estate segment contribution primarily related to increased parcel and commercial property sales	5	3
Higher other income primarily due to increased interest income	6	4
Lower depreciation and amortization due to lower depreciation rates partially offset by higher depreciable assets	6	4
Miscellaneous items, net	1	5
Net decrease in income from continuing operations	\$ (39)	(19)
Discontinued operations primarily related to real estate asset sales		18
Net decrease in net income		<u>\$ (1)</u>

Regulated Electricity Segment Revenues

Regulated electricity segment revenues were \$82 million higher for the three months ended September 30, 2005 compared with the prior-year period primarily as a result of:

- a \$29 million increase in retail revenues related to customer growth, excluding weather effects;
- a \$27 million increase in retail revenues due to a price increase effective April 1, 2005;
- a \$21 million increase due to the effects of weather on retail sales;

- an \$8 million increase in Off-System Sales primarily due to sales previously reported in the marketing and trading segment classified as of April 2005 as sales in the regulated electricity segment in accordance with the APS retail rate settlement; and
- a \$3 million decrease due to miscellaneous factors.

Marketing and Trading Segment Revenues

Marketing and trading segment revenues were \$16 million higher for the three months ended September 30, 2005 compared with the prior-year period primarily as a result of:

- a \$9 million increase in mark-to-market gains on forward contracts resulting from higher prices for wholesale electricity;
- a \$7 million increase from higher prices for competitive retail sales in California;
- a \$6 million increase in energy trading revenues on realized sales of electricity primarily due to higher delivered electricity prices; and
- a \$6 million decrease from generation sales other than Native Load due to lower sales volumes and the elimination of sales previously reported in the marketing and trading segment classified as of April 2005 as sales in the regulated electricity segment in accordance with the APS retail rate settlement.

Real Estate Revenues

Real estate revenues were \$6 million higher for the three months ended September 30, 2005 compared with the prior-year period primarily due to increased parcel sales at SunCor.

Operating Results — Nine-month period ended September 30, 2005 compared with nine-month period ended September 30, 2004

Our consolidated net income for the nine months ended September 30, 2005 was \$155 million compared with \$209 million for the prior-year period. The current year period net income included a loss from discontinued operations of \$44 million (after-tax), which is primarily related to the pending sale and revenue and expenses related to Silverhawk (see discussion above), partially offset by sales of commercial properties at SunCor. Income from continuing operations decreased \$10 million in the period-to-period comparison, reflecting the following changes in earnings by segment:

- Regulated Electricity Segment — Income from continuing operations remained the same as the prior year period. The current period includes the regulatory disallowance of plant costs in accordance with the APS retail rate settlement; higher operations and maintenance costs primarily related to

customer service, generation and benefit costs; and higher property taxes due to increased plant in service. These negative factors were offset by a retail price increase effective April 1, 2005; higher retail sales volumes due to customer growth; PSA deferrals, net of higher fuel and purchased power costs; the absence of regulatory asset amortization; effects of weather on retail sales and lower depreciation due to lower depreciation rates.

- Marketing and Trading Segment — Income from continuing operations decreased approximately \$4 million primarily due to lower realized margins on wholesale sales and competitive retail sales in California, partially offset by higher mark-to-market gains on contracts for future delivery due to higher forward prices for wholesale electricity.
- Real Estate Segment — Income from continuing operations increased approximately \$16 million primarily due to increased parcel sales.
- Other Segment — Income from continuing operations decreased approximately \$22 million primarily due to an after-tax gain related to the sale of a limited partnership interest in the Phoenix Suns recorded in the prior-year period.

Additional details on the major factors that increased (decreased) net income are contained in the following table (dollars in millions).

	Increase (Decrease)	
	Pretax	After Tax
Regulated electricity segment gross margin:		
Retail price increase effective April 1, 2005	\$ 54	\$ 32
Higher retail sales volumes due to customer growth, excluding weather effects	41	25
PSA deferrals, net of higher fuel and purchased power costs	39	23
Effects of weather on retail sales	14	8
Miscellaneous items, net	(4)	(2)
Net increase in regulated electricity segment gross margin	<u>144</u>	<u>86</u>
Marketing and trading segment gross margin:		
Higher mark-to-market gains on contracts for future delivery due to higher forward prices for wholesale electricity	9	5
Lower unit margins on competitive retail sales in California	(7)	(4)
Lower realized margins on wholesale sales primarily due to lower sales volumes and higher prices	(7)	(4)
Miscellaneous items, net	(1)	—
Net decrease in marketing and trading segment gross margin	<u>(6)</u>	<u>(3)</u>
Net increase in gross margin for regulated electricity and marketing and trading segments	138	83
Regulatory disallowance of plant costs, in accordance with the APS retail rate settlement	(143)	(87)
Higher real estate segment contribution primarily related to increased parcel sales	27	16
Lower other income primarily due to sale of limited partnership interest in Phoenix Suns recorded in the prior-year period partially offset by higher interest income	(32)	(19)
Operations and maintenance increases primarily due to:		
Customer service costs, including planned maintenance and demand side management costs	(17)	(10)
Generation costs, including planned maintenance	(14)	(8)
Benefit costs	(2)	(1)
Depreciation and amortization decreases primarily due to:		
Absence of regulatory asset amortization	20	12
Lower depreciation rates partially offset by higher depreciable assets	13	8
Higher property taxes primarily due to increased plant in service	(10)	(6)
Miscellaneous items, net	5	2
Net decrease in income from continuing operations	<u>\$ (15)</u>	<u>(10)</u>
Discontinued operations primarily related to the pending sale of Silverhawk (see discussion above) and real estate assets sales		<u>(44)</u>
Net decrease in net income		<u>\$ (54)</u>

Regulated Electricity Segment Revenues

Regulated electricity segment revenues were \$143 million higher for the nine months ended September 30, 2005 compared with the prior-year period primarily as a result of:

- a \$56 million increase in retail revenues related to customer growth, excluding weather effects;
- a \$54 million increase in retail revenues due to a price increase effective April 1, 2005;
- a \$20 million increase in Off-System Sales primarily due to sales previously reported in the marketing and trading segment classified as of April 2005 as sales in the regulated electricity segment in accordance with the APS retail rate settlement;
- a \$12 million increase in retail revenues related to weather; and
- a \$1 million increase due to miscellaneous factors.

Marketing and Trading Segment Revenues

Marketing and trading segment revenues were \$23 million lower for the nine months ended September 30, 2005 compared with the prior-year period primarily as a result of:

- a \$25 million decrease from generation sales other than Native Load due to lower sales volumes and the elimination of sales previously reported in the marketing and trading segment classified as of April 2005 as sales in the regulated electricity segment in accordance with the APS retail rate settlement;
- a \$10 million increase in mark-to-market gains on forward contracts resulting from higher prices for wholesale electricity;
- a \$6 million decrease from lower volumes on competitive retail sales in California; and
- a \$2 million decrease in energy trading revenues on realized sales of electricity primarily due to lower volumes.

Real Estate Revenues

Real estate revenues were \$46 million higher for the nine months ended September 30, 2005 compared with the prior-year period primarily due to increased parcel sales at SunCor.

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

(in thousands, except per share amounts)

	THREE MONTHS ENDED SEPTEMBER 30,		Increase (Decrease)		
	2005	2004	Amount	Percent	
Operating Revenues					
Regulated electricity segment	\$753,428	\$670,559	\$ 82,869	12.4%	B
Marketing and trading segment	107,031	91,267	15,764	17.3%	B
Real estate segment	78,755	72,754	6,001	8.2%	B
Other revenues	16,369	12,585	3,784	30.1%	B
Total	<u>955,583</u>	<u>847,165</u>	<u>108,418</u>	12.8%	B
Operating Expenses					
Regulated electricity segment purchased power and fuel	203,519	202,156	1,363	0.7%	W
Marketing and trading segment purchased power and fuel	86,945	76,684	10,261	13.4%	W
Operations and maintenance	158,940	158,607	333	0.2%	W
Real estate segment operations	65,880	66,414	(534)	0.8%	B
Depreciation and amortization	87,123	93,360	(6,237)	6.7%	B
Taxes other than income taxes	34,325	31,020	3,305	10.7%	W
Other expenses	13,521	9,568	3,953	41.3%	W
Regulatory disallowance	143,217	—	143,217	100.0%	W
Total	<u>793,470</u>	<u>637,809</u>	<u>155,661</u>	24.4%	W
Operating Income	<u>162,113</u>	<u>209,356</u>	<u>(47,243)</u>	22.6%	W
Other					
Allowance for equity funds used during construction	2,852	(1,327)	4,179	314.9%	B
Other income	8,694	2,786	5,908	212.1%	B
Other expense	(4,915)	(5,094)	179	3.5%	B
Total	<u>6,631</u>	<u>(3,635)</u>	<u>10,266</u>	282.4%	B
Interest Expense					
Interest charges	47,046	46,715	331	0.7%	W
Capitalized interest	(3,301)	(4,506)	1,205	26.7%	W
Total	<u>43,745</u>	<u>42,209</u>	<u>1,536</u>	3.6%	W
Income From Continuing Operations Before Income Taxes	124,999	163,512	(38,513)	23.6%	W
Income Taxes	40,305	59,183	(18,878)	31.9%	B
Income From Continuing Operations	84,694	104,329	(19,635)	18.8%	W
Income From Discontinued Operations					
Net of Income Taxes	<u>19,043</u>	<u>1,071</u>	<u>17,972</u>	1678.1%	B
Net Income	<u>\$103,737</u>	<u>\$105,400</u>	<u>\$ (1,663)</u>	1.6%	W
Weighted-Average Common Shares Outstanding — Basic	98,697	91,357	7,340	8.0%	
Weighted-Average Common Shares Outstanding — Diluted	98,816	91,491	7,325	8.0%	
Earnings Per Weighted-Average Common Share Outstanding					
Income From Continuing Operations — Basic	\$ 0.86	\$ 1.14	\$ (0.28)	24.6%	W
Net Income — Basic	\$ 1.05	\$ 1.15	\$ (0.10)	8.7%	W
Income From Continuing Operations — Diluted	\$ 0.86	\$ 1.14	\$ (0.28)	24.6%	W
Net Income — Diluted	\$ 1.05	\$ 1.15	\$ (0.10)	8.7%	W

Certain prior-year amounts have been reclassified to conform to the 2005 presentation.

B — Better

W — Worse



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

	NINE MONTHS ENDED SEPTEMBER 30,		Increase (Decrease)	
	2005	2004	Amount	Percent
Operating Revenues				
Regulated electricity segment	\$1,749,110	\$1,605,952	\$143,158	8.9% B
Marketing and trading segment	267,460	290,107	(22,647)	7.8% W
Real estate segment	232,950	186,762	46,188	24.7% B
Other revenues	46,763	32,904	13,859	42.1% B
Total	<u>2,296,283</u>	<u>2,115,725</u>	<u>180,558</u>	8.5% B
Operating Expenses				
Regulated electricity segment purchased power and fuel	442,532	442,409	123	0.0% W
Marketing and trading segment purchased power and fuel	215,347	232,516	(17,169)	7.4% B
Operations and maintenance	467,121	434,588	32,533	7.5% W
Real estate segment operations	190,555	175,560	14,995	8.5% W
Depreciation and amortization	262,030	294,942	(32,912)	11.2% B
Taxes other than income taxes	103,528	93,658	9,870	10.5% W
Other expenses	39,451	25,893	13,558	52.4% W
Regulatory disallowance	143,217	—	143,217	100.0% W
Total	<u>1,863,781</u>	<u>1,699,566</u>	<u>164,215</u>	9.7% W
Operating Income	<u>432,502</u>	<u>416,159</u>	<u>16,343</u>	3.9% B
Other				
Allowance for equity funds used during construction	8,407	2,859	5,548	194.1% B
Other income	18,019	49,980	(31,961)	63.9% W
Other expense	(12,985)	(14,274)	1,289	9.0% B
Total	<u>13,441</u>	<u>38,565</u>	<u>(25,124)</u>	65.1% W
Interest Expense				
Interest charges	142,820	135,064	7,756	5.7% W
Capitalized interest	(10,134)	(8,686)	(1,448)	16.7% B
Total	<u>132,686</u>	<u>126,378</u>	<u>6,308</u>	5.0% W
Income From Continuing Operations Before Income Taxes	313,257	328,346	(15,089)	4.6% W
Income Taxes	<u>113,863</u>	<u>119,476</u>	<u>(5,613)</u>	4.7% B
Income From Continuing Operations	199,394	208,870	(9,476)	4.5% W
Income (Loss) From Discontinued Operations Net of Income Taxes	<u>(44,474)</u>	<u>596</u>	<u>(45,070)</u>	7562.1% W
Net Income	<u>\$ 154,920</u>	<u>\$ 209,466</u>	<u>\$ (54,546)</u>	26.0% W
Weighted-Average Common Shares Outstanding — Basic	95,642	91,322	4,320	4.7%
Weighted-Average Common Shares Outstanding — Diluted	95,755	91,430	4,325	4.7%
Earnings Per Weighted-Average Common Share Outstanding				
Income From Continuing Operations — Basic	\$ 2.08	\$ 2.29	\$ (0.21)	9.2% W
Net Income — Basic	\$ 1.62	\$ 2.29	\$ (0.67)	29.3% W
Income From Continuing Operations — Diluted	\$ 2.08	\$ 2.28	\$ (0.20)	8.8% W
Net Income — Diluted	\$ 1.62	\$ 2.29	\$ (0.67)	29.3% W

Certain prior-year amounts have been reclassified to conform to the 2005 presentation.

B — Better
W — Worse

Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Glossary of Terms

Amounts Recovered Through Revenues	Amounts recovered from retail customers through the power supply adjustor in the current period.
Arizona Job Growth	Percentage growth over the prior year in total non-farm payroll employment for the state of Arizona, non-seasonally adjusted.
Building Permits — Metro Phoenix	The number of residential dwellings permitted to be built by authorized agencies in Maricopa County, Arizona. Single-family refers to detached buildings intended to be occupied by one family each. Multi-family permits represent the number of units authorized to be built in condominium, townhouse and apartment complexes.
Capacity Factor	The ratio of the average operating load of an electric power generating unit for a period of time to the capacity rating of the unit during that period.
Change in Mark-To-Market Value of Forward Sales	The gross margin related to the change in mark-to-market value in the current period of transactions which have been entered into during the current period or prior periods for which the commodities are scheduled for delivery in a future period.
Deferred Fuel and Purchased Power Costs — Current Period	Deferrals recorded in the period for recovery or refund to the extent actual retail fuel and purchased power costs vary from the amount included in base retail rates (currently \$0.020743 per kWh).
Deferred Fuel and Purchased Power Regulatory Asset	Balance of accumulated deferrals, net of amounts recovered through revenues, recorded for recovery or refund to the extent actual retail fuel and purchased power costs vary from the amount included in base retail rates (currently \$0.020743 per kWh).
Degree-Days — Cooling	A measure of temperatures designed to indicate the amount of electricity demand for cooling purposes. Cooling degree-days are calculated by summing the difference between each day's actual average temperature and a base temperature of 65°F for the month. Average temperatures less than the base temperature are ignored.

Degree-Days — Heating	A measure of temperatures designed to indicate the amount of electricity demand for heating purposes. Heating degree-days are calculated by summing the difference between each day's actual average temperature and a base temperature of 65°F for the month. Average temperatures greater than the base temperature are ignored.
Electricity and Other Commodity Sales, Realized	Marketing and trading gross margin related to electricity and other commodities that were delivered in the then-current period.
Electricity Spot Prices — Palo Verde — Off-Peak	Electricity average daily spot prices at Palo Verde substation during off-peak hours. It measures electric prices at the producer level and is the result of real time prices used for benchmarking, price comparisons, and establishing price contracts. Measured in dollars per megawatt-hour.
Electricity Spot Prices — Palo Verde — On-Peak	Electricity average daily spot prices at Palo Verde substation during on-peak hours. It measures electric prices at the producer level and is the result of real time prices used for benchmarking, price comparisons, and establishing price contracts. Measured in dollars per megawatt-hour.
Electricity Spot Prices — SP15 — Off-Peak	Electricity average daily spot prices at SP15, a region of California substations, during off-peak hours. It measures electric prices at the producer level and is the result of real time prices used for benchmarking, price comparisons, and establishing price contracts. Measured in dollars per megawatt-hour.
Electricity Spot Prices — SP15 — On-Peak	Electricity average daily spot prices at SP15, a region of California substations, during on-peak hours. It measures electric prices at the producer level and is the result of real time prices used for benchmarking, price comparisons, and establishing price contracts. Measured in dollars per megawatt-hour.
Generation Capacity Out of Service and Replaced for Native Load	Total capacity required and economic, yet unavailable for retail customers and traditional wholesale contracts due to scheduled or unscheduled outages. Measured in megawatts per day.
Generation Production — Coal	Amount of net energy produced by coal-fueled generators. Measured in gigawatt-hours.

Generation Production — Gas/Oil/Other	Amount of net energy predominately produced by natural gas and oil-fueled generators. A small amount of energy from hydroelectric and solar power plants is also included. Measured in gigawatt-hours.
Generation Production — Nuclear	Amount of net energy produced by nuclear-fueled generators. Measured in gigawatt-hours.
Gigawatt-hour (GWH)	A unit of energy equivalent to 1,000 megawatt-hours or 1,000,000 kilowatt-hours.
Marketing and Trading Gross Margin — Pretax	Revenues from marketing and trading activities (other than retail sales, traditional wholesale sales and retail load hedge management) less the costs of the related commodities, with mark-to-market gains or losses, before income taxes.
Mark-To-Market	Adjustments to revenues or costs to recognize value of sales and purchase contracts, for which the commodities are scheduled for delivery in a future period, at current forward wholesale prices.
Mark-To-Market Reversals on Realized Sales	The reversal of the gross margin related to mark-to-market transactions entered into in prior periods for which the commodities were delivered in the current period. Realization of prior-period mark-to-market relates to cash flow recognition, not revenue recognition or earnings recognition, because in accordance with mark-to-market accounting, the margin was already recorded in the prior period. A negative amount shown in this category represents the arithmetic opposite of a gain recognized in the period in which the commodities were delivered; an equal positive amount is reflected in the realized revenue or margin for delivered commodities. A positive amount shown in this category represents the arithmetic opposite of a loss recognized in the period in which the commodities were delivered; an equal negative amount is reflected in the realized revenue or margin for delivered commodities.
Megawatt (MW)	One million watts.
Megawatt-hour (MWh)	A unit of energy equivalent to 1,000 kilowatt-hours.
Native Load	Retail and wholesale sales supplied under traditional cost-based rate regulation.
Off-System Sales	Sales of electricity from generation owned or contracted by the company that is over and above the amount required to serve retail customers and traditional wholesale contracts.

Power Supply Adjustor (“PSA”)	Power supply adjustor provides for recovery or refund of variations in actual fuel and purchased power costs compared with the amount included in base retail rates (currently \$0.020743 per kWh) subject to certain specified parameters.
Purchased Power — Firm Load	Power purchased from wholesale market sources used to serve regulated retail demand and traditional wholesale contracts. Measured in gigawatt-hours.
Purchased Power — Marketing and Trading	Power purchased from wholesale market sources used to serve marketing and trading sales not served by company-owned generation. Measured in gigawatt-hours.
Realized and Mark-to-Market Components	Marketing and trading gross margin, before income taxes, for off-system sales and for sales and purchases of electricity and other commodities by the company in the wholesale market, summarized by the period of delivery and whether the margin is realized or mark-to-market. Realized margins relate to commodities that have been delivered. Mark-to-market margins relate to commodities that have delivery dates in future periods.
Retail Customer Growth	Percentage growth over the prior year in the number of retail customers.
Retail Electricity Usage	Total retail sales for a period divided by the average retail customers for the same period. Measured in kilowatt-hours per average customer.
Retail Load Hedge Management	Wholesale sales to liquidate electricity purchases originally intended to meet firm load during peak times, which purchases were not needed ultimately for firm load. These sales are made to other electric companies, power marketers, or public entities for the purpose of resale. Measured in gigawatt-hours.
Retail Sales	Sales of electricity made directly to retail customers or ultimate customers. Residential retail sales are sales to households. Business retail sales include commercial, industrial, irrigation, and streetlighting sales. Measured in gigawatt-hours.
System Peak Demand	The demand for electricity during the one hour of highest use each month. Measured in megawatts.
Traditional Contracts	Wholesale sales resulting from unique cost-based, long-term contracts held by the company with various entities for the supply of electricity at agreed-upon prices.

Weather Normalized

Adjusted to exclude the effects of abnormal weather patterns.

Wholesale Sales of Electricity

All wholesale sales of electricity not accounted for in sales under traditional contracts or retail load hedge management. These sales are made to other electric companies, power marketers, or public entities for the purpose of resale. Measured in gigawatt-hours.

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**FOR IMMEDIATE RELEASE**

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October 27, 2005
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PINNACLE WEST REPORTS 2005 THIRD QUARTER EARNINGS

Net Income Lower due to Regulatory Disallowance

PHOENIX — Pinnacle West Capital Corp. (NYSE: PNW) today reported consolidated net income for the quarter ended September 30, 2005, of \$103.7 million, or \$1.05 per diluted share of common stock. This result compares with consolidated net income of \$105.4 million, or \$1.15 per diluted share, for the same period in 2004.

On-going consolidated earnings in the third quarter of 2005 were \$186.4 million, or \$1.89 per share, compared with \$105.7 million, or \$1.16 per share in the comparable 2004 quarter. On-going earnings for the 2005 third quarter exclude a regulatory disallowance of \$87 million after income taxes, or \$0.88 per share, resulting from the Company's retail rate settlement approved by the Arizona Corporation Commission earlier this year and \$4.3 million, or \$0.04 per share, of income from discontinued operations related to the sales of the Company's interests in NAC International and the Silverhawk Power Station. On-going earnings for the 2004 third quarter exclude a net loss from discontinued operations of \$0.3 million, or \$0.01 per share, related to Silverhawk and NAC.

"While our results reflect the rate decision from earlier this year, dramatic increases in natural gas prices and the state's growing demand for electricity will require continuing cooperation from our Arizona regulators," said Chairman Bill Post. "The ability to recover our costs — including higher fuel and purchased power — will be essential for the company to maintain the highest levels of reliability and to continue investing in critical infrastructure for Arizona's economic growth."

The quarter-to-quarter on-going results were favorably impacted by higher retail electricity revenues resulting from the Company's first price increase in 14 years; higher retail sales volumes due to customer growth of 4.5 percent; deferred fuel and purchased power costs; improved results from the Company's real estate operations; and warmer weather.

The Company expects earnings for 2005 to be within a reasonable range of \$3.00 per share. This estimate does not reflect the effects of the regulatory disallowance or the Silverhawk sale.

For more information on Pinnacle West's operating statistics and earnings, please visit www.pinnaclewest.com/financials.

Conference Call

Pinnacle West invites interested parties to listen to the live web cast of management's conference call to discuss the Company's 2005 third quarter earnings and recent developments at 11 a.m. (ET) today, October 27, 2005. The web cast can be accessed at www.pinnaclewest.com/presentations and will be available for replay on the web site for 30 days. To access the live conference call by telephone, dial (877) 356-3961 and enter reservation number 1347027. A replay of the call also will be available until 11:55 p.m. (ET), Wednesday, November 2, 2005, by calling (800) 642-1687 in the U.S. and Canada or (706) 645-9291 internationally and the same reservation number.

Pinnacle West is a Phoenix-based company with consolidated assets of about \$12 billion. Through its subsidiaries, the Company generates, sells and delivers electricity and sells energy-related products and services to retail and wholesale customers in the western United States. It also develops residential, commercial, and industrial real estate projects.

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This press release contains a forward-looking statement about Pinnacle West's 2005 earnings outlook. Pinnacle West does not assume any obligation to update this statement or to make any further statements on this issue, except as required by applicable law. Because actual results may differ materially from expectations, we caution readers not to place undue reliance on this statement. A number of factors could cause future results to differ materially from historical results, or from results or outcomes currently expected or sought by Pinnacle West. In addition to the "Risk Factors" described in Exhibit 99.1 to Pinnacle West's Report on Form 10-Q for the fiscal quarter ended June 30, 2005, these factors include, but are not limited to: state and federal regulatory and legislative decisions and actions, including by the Arizona Corporation Commission and the Federal Energy Regulatory Commission; the ongoing restructuring of the electric industry, including the introduction of retail electric competition in Arizona and decisions impacting wholesale competition; the outcome of regulatory, legislative and judicial proceedings relating to the restructuring; the timely recovery of Power Supply Adjustor deferrals; market prices for electricity and natural gas; power plant performance and outages; transmission outages and constraints; weather variations affecting local and regional customer energy usage; customer growth and energy usage; regional economic and market conditions, including the results of litigation and other proceedings resulting from the California energy situation; volatile purchased power and fuel costs and the completion of generation and transmission construction in the region, which could affect customer growth and the cost of power supplies; the cost of debt and equity capital and access to capital markets; the uncertainty that current credit ratings will remain in effect for any given period of time; our ability to compete successfully outside traditional regulated markets (including the wholesale market); the performance of our marketing and trading activities due to volatile market liquidity and any deteriorating counterparty credit and the use of derivative contracts in our business (including the interpretation of the subjective and complex accounting rules related to these contracts); changes in accounting principles generally accepted in the United States of America and the interpretation of those principles; the performance of the stock market and the changing interest rate environment, which affect the amount of required contributions to Pinnacle West's pension plan and APS' nuclear decommissioning trust funds, as well as the reported costs of providing pension and other postretirement benefits; technological developments in the electric industry; the strength of the real estate market in SunCor's market areas, which include Arizona, Idaho, New Mexico and Utah; and other uncertainties, all of which are difficult to predict and many of which are beyond the control of Pinnacle West.

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2005	2004	2005	2004
Operating Revenues				
Regulated electricity segment	\$753,428	\$670,559	\$1,749,110	\$1,605,952
Marketing and trading segment	107,031	91,267	267,460	290,107
Real estate segment	78,755	72,754	232,950	186,762
Other revenues	16,369	12,585	46,763	32,904
Total	955,583	847,165	2,296,283	2,115,725
Operating Expenses				
Regulated electricity segment purchased power and fuel	203,519	202,156	442,532	442,409
Marketing and trading segment purchased power and fuel	86,945	76,684	215,347	232,516
Operations and maintenance	158,940	158,607	467,121	434,588
Real estate segment operations	65,880	66,414	190,555	175,560
Depreciation and amortization	87,123	93,360	262,030	294,942
Taxes other than income taxes	34,325	31,020	103,528	93,658
Other expenses	13,521	9,568	39,451	25,893
Regulatory disallowance	143,217	—	143,217	—
Total	793,470	637,809	1,863,781	1,699,566
Operating Income	162,113	209,356	432,502	416,159
Other				
Allowance for equity funds used during construction	2,852	(1,327)	8,407	2,859
Other income	8,694	2,786	18,019	49,980
Other expense	(4,915)	(5,094)	(12,985)	(14,274)
Total	6,631	(3,635)	13,441	38,565
Interest Expense				
Interest charges	47,046	46,715	142,820	135,064
Capitalized interest	(3,301)	(4,506)	(10,134)	(8,686)
Total	43,745	42,209	132,686	126,378
Income From Continuing Operations Before Income Taxes	124,999	163,512	313,257	328,346
Income Taxes	40,305	59,183	113,863	119,476
Income From Continuing Operations	84,694	104,329	199,394	208,870
Income (Loss) From Discontinued Operations				
Net of Income Taxes	19,043	1,071	(44,474)	596
Net Income	\$103,737	\$105,400	\$ 154,920	\$ 209,466
Weighted-Average Common Shares Outstanding — Basic	98,697	91,357	95,642	91,322
Weighted-Average Common Shares Outstanding — Diluted	98,816	91,491	95,755	91,430
Earnings Per Weighted-Average Common Share Outstanding				
Income From Continuing Operations — Basic	\$ 0.86	\$ 1.14	\$ 2.08	\$ 2.29
Net Income — Basic	\$ 1.05	\$ 1.15	\$ 1.62	\$ 2.29
Income From Continuing Operations — Diluted	\$ 0.86	\$ 1.14	\$ 2.08	\$ 2.28
Net Income — Diluted	\$ 1.05	\$ 1.15	\$ 1.62	\$ 2.29

Certain prior-year amounts have been reclassified to conform to the 2005 presentation.

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

	Three Months Ended September 30, 2005		Three Months Ended September 30, 2004	
	Dollars in Millions	Diluted EPS	Dollars in Millions	Diluted EPS
Net Income	\$ 103.7	\$ 1.05	\$ 105.4	\$ 1.15
Adjustments:				
Regulatory disallowance	\$ 87.0	0.88	\$ —	—
(Income) loss from discontinued operations — Silverhawk Power Station operations	\$ (0.6)	—	\$ 0.4	0.01
Income from discontinued operations — NAC International	\$ (3.7)	(0.04)	\$ (0.1)	—
On-going Earnings	\$ 186.4	\$ 1.89	\$ 105.7	\$ 1.16

PINNACLE WEST CAPITAL CORPORATION

NON-GAAP FINANCIAL MEASURE RECONCILIATION — OPERATING INCOME (GAAP MEASURE) TO GROSS MARGIN
(NON-GAAP FINANCIAL MEASURE)

(in thousands)

	THREE MONTHS ENDED SEPTEMBER 30,		Pretax Increase (Decrease)	After Tax Increase (Decrease)
	2005	2004		
RECONCILIATION OF REGULATED ELECTRICITY SEGMENT				
GROSS MARGIN				
Operating Income (closest GAAP measure)	\$162,113	\$209,356	\$ (47,243)	\$(28,710)
Plus:				
Operations and maintenance	158,940	158,607	333	202
Real estate segment operations	65,880	66,414	(534)	(325)
Depreciation and amortization	87,123	93,360	(6,237)	(3,790)
Taxes other than income taxes	34,325	31,020	3,305	2,008
Regulatory disallowance	143,217	—	143,217	87,033
Other expenses	13,521	9,568	3,953	2,402
Marketing and trading segment purchased power and fuel	86,945	76,684	10,261	6,236
Less:				
Real estate segment revenues	78,755	72,754	6,001	3,647
Other revenues	16,369	12,585	3,784	2,300
Marketing and trading segment revenues	<u>107,031</u>	<u>91,267</u>	<u>15,764</u>	<u>9,580</u>
Regulated electricity segment gross margin	<u>\$549,909</u>	<u>\$468,403</u>	<u>\$ 81,506</u>	<u>\$ 49,529</u>
RECONCILIATION OF MARKETING AND TRADING SEGMENT				
GROSS MARGIN				
Operating Income (closest GAAP measure)	\$162,113	\$209,356	\$ (47,243)	\$(28,710)
Plus:				
Operations and maintenance	158,940	158,607	333	202
Real estate segment operations	65,880	66,414	(534)	(325)
Depreciation and amortization	87,123	93,360	(6,237)	(3,790)
Taxes other than income taxes	34,325	31,020	3,305	2,008
Regulatory disallowance	143,217	—	143,217	87,033
Other expenses	13,521	9,568	3,953	2,402
Regulated electricity segment purchased power and fuel	203,519	202,156	1,363	828
Less:				
Real estate segment revenues	78,755	72,754	6,001	3,647
Other revenues	16,369	12,585	3,784	2,300
Regulated electricity segment revenues	<u>753,428</u>	<u>670,559</u>	<u>82,869</u>	<u>50,359</u>
Marketing and trading segment gross margin	<u>\$ 20,086</u>	<u>\$ 14,583</u>	<u>\$ 5,503</u>	<u>\$ 3,342</u>

PINNACLE WEST CAPITAL CORPORATION

**NON-GAAP FINANCIAL MEASURE RECONCILIATION — OPERATING INCOME (GAAP MEASURE) TO GROSS MARGIN
(NON-GAAP FINANCIAL MEASURE)**

(in thousands)

	NINE MONTHS ENDED SEPTEMBER 30,		Pretax Increase	After Tax Increase
	<u>2005</u>	<u>2004</u>	<u>(Decrease)</u>	<u>(Decrease)</u>
RECONCILIATION OF REGULATED ELECTRICITY SEGMENT				
GROSS MARGIN				
Operating Income (closest GAAP measure)	\$ 432,502	\$ 416,159	\$ 16,343	\$ 9,932
Plus:				
Operations and maintenance	467,121	434,588	32,533	19,770
Real estate segment operations	190,555	175,560	14,995	9,112
Depreciation and amortization	262,030	294,942	(32,912)	(20,001)
Taxes other than income taxes	103,528	93,658	9,870	5,998
Regulatory disallowance	143,217	—	143,217	87,033
Other expenses	39,451	25,893	13,558	8,239
Marketing and trading segment purchased power and fuel	215,347	232,516	(17,169)	(10,434)
Less:				
Real estate segment revenues	232,950	186,762	46,188	28,068
Other revenues	46,763	32,904	13,859	8,422
Marketing and trading segment revenues	<u>267,460</u>	<u>290,107</u>	<u>(22,647)</u>	<u>(13,763)</u>
Regulated electricity segment gross margin	<u>\$1,306,578</u>	<u>\$1,163,543</u>	<u>\$143,035</u>	<u>\$ 86,922</u>
RECONCILIATION OF MARKETING AND TRADING SEGMENT				
GROSS MARGIN				
Operating Income (closest GAAP measure)	\$ 432,502	\$ 416,159	\$ 16,343	\$ 9,932
Plus:				
Operations and maintenance	467,121	434,588	32,533	19,770
Real estate segment operations	190,555	175,560	14,995	9,112
Depreciation and amortization	262,030	294,942	(32,912)	(20,001)
Taxes other than income taxes	103,528	93,658	9,870	5,998
Regulatory disallowance	143,217	—	143,217	87,033
Other expenses	39,451	25,893	13,558	8,239
Regulated electricity segment purchased power and fuel	442,532	442,409	123	75
Less:				
Real estate segment revenues	232,950	186,762	46,188	28,068
Other revenues	46,763	32,904	13,859	8,422
Regulated electricity segment revenues	<u>1,749,110</u>	<u>1,605,952</u>	<u>143,158</u>	<u>86,997</u>
Marketing and trading segment gross margin	<u>\$ 52,113</u>	<u>\$ 57,591</u>	<u>\$ (5,478)</u>	<u>\$ (3,329)</u>