

PINNACLE WEST CAPITAL CORP

FORM 10-K (Annual Report)

Filed 03/30/00 for the Period Ending 12/31/99

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

PINNACLE WEST CAPITAL CORP

FORM 10-K (Annual Report)

Filed 3/30/2000 For Period Ending 12/31/1999

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

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549 FORM 10-K
(Mark One)**

**[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 1999**

OR

**[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _____**

COMMISSION FILE NUMBER 1-8962.

PINNACLE WEST CAPITAL CORPORATION
(Exact name of registrant as specified in its charter)

ARIZONA (State or other jurisdiction of incorporation or organization)	86-0512431 (I.R.S. Employer Identification No.)
400 East Van Buren Street, Suite 700 Phoenix, Arizona 85004 (Address of principal executive offices, including zip code)	(602) 379-2500 (Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, No Par Value	New York Stock Exchange Pacific Stock Exchange
TITLE OF EACH CLASS OF VOTING STOCK	SHARES OUTSTANDING AS OF MARCH 27, 2000
Common Stock, No Par Value	84,722,640

TITLE OF EACH CLASS OF VOTING STOCK	SHARES OUTSTANDING AS OF MARCH 27, 2000	AGGREGATE MARKET VALUE OF SHARES HELD BY NON-AFFILIATES AS OF MARCH 27, 2000
Common Stock, No Par Value	84,722,640	\$2,271,625,785(a)

(a) Computed by reference to the closing price on the composite tape on March 27, 2000, as reported by the Wall Street Journal.

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

Yes [X] No []

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement relating to its Annual Meeting of Shareholders to be held on May 17, 2000 are incorporated by reference into Part III hereof.



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GLOSSARY

ACC -- Arizona Corporation Commission

ACC STAFF -- Staff of the Arizona Corporation Commission

AFUDC -- Allowance for Funds Used During Construction

ANPP -- Arizona Nuclear Power Project, also known as Palo Verde

APS -- Arizona Public Service Company

APSES-- APS Energy Services Company, Inc.

CC&N -- Certificate of convenience and necessity

CHOLLA -- Cholla Power Plant

CHOLLA 4 -- Unit 4 of the Cholla Power Plant

COMPANY -- Pinnacle West Capital Corporation

EL DORADO -- El Dorado Investment Company

EPA -- United States Environmental Protection Agency

FASB -- Financial Accounting Standards Board

FERC -- Federal Energy Regulatory Commission

FOUR CORNERS -- Four Corners Power Plant

GAAP -- Generally accepted accounting principles

ITC -- Investment tax credit

KW -- Kilowatt, one thousand watts

KWH -- Kilowatt-hour, one thousand watts per hour

MW -- Megawatt hours, one million watts

MWH -- Megawatt hours, one million watts per hour

NGS -- Navajo Generating Station

NRC -- Nuclear Regulatory Commission

PALO VERDE -- Palo Verde Nuclear Generating Station

PINNACLE WEST ENERGY -- Pinnacle West Energy Corporation

SEC -- Securities and Exchange Commission

SALT RIVER PROJECT -- Salt River Project Agricultural Improvement and Power District

SUNCOR -- SunCor Development Company

PART I

ITEM 1. BUSINESS

THE COMPANY

GENERAL

We were incorporated in 1985 under the laws of the State of Arizona and are engaged, through our subsidiaries, in the generation, transmission, and distribution of electricity and selling energy, products and services; in real estate development; and in venture capital investment. Our principal executive offices are located at 400 East Van Buren Street, Suite 700, Phoenix, Arizona 85004 (telephone 602-379-2500).

At December 31, 1999, we employed about 7,534 people, including the employees of our subsidiaries. Of these employees, 6,234 were employees of our major subsidiary, APS, and employees assigned to joint projects of APS where APS serves as a project manager, and about 1,300 were our employees and employees of our other subsidiaries.

Our other subsidiaries, in addition to APS, include SunCor, El Dorado, APS Energy Services and Pinnacle West Energy. See "Business of SunCor Development Company," "Business of El Dorado Investment Company," "Business of APS Energy Services Company, Inc.," and "Business of Pinnacle West Energy Corporation" in this Item for further information regarding these businesses.

This document contains "forward-looking statements" that involve risks and uncertainties. Words such as "estimates," "expects," "anticipates," "plans," "believes," "projects," and similar expressions identify forward-looking statements. These risks and uncertainties include, but are not limited to, the ongoing restructuring of the electric industry; the outcome of the regulatory proceedings relating to the restructuring; regulatory, tax, and environmental legislation; the ability of APS to successfully compete outside its traditional regulated markets; regional economic conditions, which could affect customer growth; the cost of debt and equity capital; weather variations affecting customer usage; technological developments in the electric industry; Year 2000 issues; the strength of the stock market (particularly the technology sector) and the strength of the real estate market. See "Business of Arizona Public Service Company -- Competition" for a discussion of some of these factors.

BUSINESS OF ARIZONA PUBLIC SERVICE COMPANY

Following is a discussion of the business of APS, our major subsidiary.

GENERAL

APS was incorporated in 1920 under the laws of Arizona and is engaged principally in serving electricity in the State of Arizona. Our principal executive offices are located at 400 North Fifth Street, Phoenix, Arizona 85004 (telephone 602-250-1000). We own all of the outstanding shares of APS' common stock.

APS is Arizona's largest electric utility, with 827,000 customers. APS provides wholesale or retail electric service to the entire state of Arizona, with the exception of Tucson and about one-half of the Phoenix area. During 1999, no single purchaser or user of energy accounted for more than 2% of total electric revenues. See Note 18 of Notes to Financial Statements for a discussion of business segments. At December 31, 1999, APS employed 6,234 people, which includes employees assigned to joint projects where APS is project manager.

COMPETITION

RETAIL

The ACC has regulatory authority over APS in matters relating to retail electric rates, the issuance of securities, and the transaction of business with affiliated parties. See Note 3 of Notes to Financial Statements in Item 8 for a discussion of the electric industry restructuring in Arizona, including APS' 1999 Settlement Agreement, ACC rules for the introduction of retail electric competition, and Arizona legislative initiatives. See also "Financial Review - Competition and Industry Restructuring" in Item 7. In addition to the introduction of competition pursuant to the Settlement Agreement and the ACC rules, APS is subject to varying degrees of competition in certain territories adjacent to or within areas that APS serves that are also currently served by other utilities in its region (such as Tucson Electric Power Company, Southwest Gas Corporation, and Citizens Utility Company) as well as cooperatives, municipalities, electrical districts, and similar types of governmental organizations (principally Salt River Project).

APS faces competitive challenges from low-cost hydroelectric power and natural gas fuel, as well as the access of some utilities to preferential low-priced federal power and other subsidies. In addition, some customers, particularly industrial and large commercial, may own and operate facilities to generate their own electric energy requirements. Such facilities may be operated by the customers themselves or by other entities engaged for such purpose.

WHOLESALE

APS competes with other utilities, power marketers, and independent power producers in the sale of electric capacity and energy in the wholesale market. APS expects that competition to sell capacity will remain vigorous. APS' rates for wholesale power sales and transmission services are subject to regulation by the FERC. During 1999, approximately 23% of its electric operating revenues resulted from such sales and charges.

The National Energy Policy Act of 1992 has promoted increased competition in the wholesale electric power markets. The Energy Act reformed provisions of the Public Utility Holding Company Act of 1935 and the Federal Power Act to remove certain barriers to competition for the supply of electricity. For example, the Energy Act permits the FERC to order transmission access for third parties to transmission facilities owned by another entity so that independent suppliers and other third parties can sell at wholesale to customers wherever located. The Energy Act does not, however, permit the FERC to issue an order requiring transmission access to retail customers.

Effective July 9, 1996, a FERC decision requires all electric utilities subject to the FERC's jurisdiction to file transmission tariffs which provide competitors with access to transmission facilities comparable to the transmission owners' access for wholesale transactions, establishes information requirements, and provides for recovery of certain wholesale stranded costs. Retail stranded costs resulting from a state-authorized retail direct-access program are the responsibility of the states, unless a state lacks authority to impose rates to recover such costs, in which case FERC will consider doing so. APS has filed a revised open access tariff in accordance with this decision. APS does not believe that this decision will have a material adverse impact on its results of operations or financial position.

REGULATORY ASSETS

APS' major regulatory assets are deferred income taxes and rate synchronization cost deferrals. As a result of APS' September 1999 Settlement Agreement, APS has discontinued the application of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," for its generation operations. This means that regulatory assets, unless reestablished as recoverable through ongoing regulated cash flows, were eliminated and the generation assets were tested for impairment. APS determined that the generation assets were not impaired. Prior to the Settlement Agreement, under a 1996 regulatory agreement, the ACC accelerated the amortization of substantially all of APS' regulatory assets to an eight-year period that would have ended June 30, 2004. See Notes 1, 3, and 4 of Notes to Financial Statements in Item 8 for additional information.

COMPETITIVE STRATEGIES

APS is pursuing strategies to maintain and enhance its competitive position. These strategies include (i) cost management, with an emphasis on the reduction of variable costs (fuel, operations, and maintenance expenses) and on increased productivity through technological efficiencies; (ii) a focus on APS' core business through customer service, distribution system reliability, business segmentation, and the anticipation of market opportunities; (iii) an emphasis on good regulatory relationships; (iv) asset maximization (e.g., higher capacity factors and lower forced outage rates); (v) strengthening its capital structure and financial condition; (vi) leveraging core competencies into related areas, such as energy management products and services; and (vii) operating a trading floor and implementing a risk management program to provide for more stability of prices and the ability to retain or grow incremental margins through more competitive pricing and risk management. Underpinning APS' competitive strategies are the strong growth characteristics of its service territory. As competition in the electric utility industry continues to evolve, APS will continue to evaluate strategies and alternatives that will position it to compete effectively in a more competitive, restructured industry.

GENERATING FUEL AND PURCHASED POWER

1999 ENERGY MIX

APS' sources of energy during 1999 were: coal - 29.9%; nuclear - 22.4%; purchased power - 43.2%; gas - 4.4%; and other - 0.1%.

COAL SUPPLY

LEASES NGS and Four Corners are located on the Navajo Reservation and held under easements granted by the federal government as well as leases from the Navajo Nation. See "Properties- Plant Sites Leased from the Navajo Nation" in Item 2. Most of the coal for Cholla is supplied by a coal supplier who mines all of the coal under a long-term lease of coal reserves owned by the Navajo Nation, the federal government, and private landholders. Remaining coal requirements are purchased on the spot market. All of the coal for Four Corners is purchased from a coal supplier with a long-term lease of coal reserves owned by the Navajo Nation. The coal for NGS comes from a supplier with a long-term lease with the Navajo Nation and the Hopi Tribe. See Note 12 of Notes to Financial Statements in Item 8 for information regarding our obligation for coal mine reclamation.

CONTRACTS Cholla presently has sufficient coal under current contracts to ensure a reliable fuel supply through 2005. Portions of the fuel supply are bid on the spot market to take advantage of competitive pricing options. Following expiration of current contracts, there are numerous competitive fuel supply options available to ensure continuous plant operation. Cholla also has certain requirements for low sulfur coal and the current supplier is expected to continue to provide most of Cholla's low sulfur coal requirements through the current contract. There are sufficient reserves of low sulfur coal available from other suppliers to ensure the continued operation of Cholla for its useful life. The sulfur content of coal at Cholla for 1999 was 0.47%. Average prices paid for all coal supplied from reserves dedicated under existing contracts were slightly lower than, but comparable to, 1998. For the years remaining on the contracts after 2000, prices will be reduced.

Four Corners is a mine-mouth operation which is under contract for coal through 2004. There are options to extend the contract through the plant site lease expiration in 2017. The sulfur content of Four Corners coal for 1999 was 0.77%, and the units are equipped with scrubbers. The average price paid for all coal supplied under the existing contract was slightly lower than, but comparable to, 1998. The Four Corners lease waives, until July 2001, the requirement that APS, as well as its fuel supplier, pay certain taxes to the Navajo Nation. In September 1997, a settlement agreement was finalized between the coal supplier, the Navajo Nation, and Four Corners participants, which settled certain issues in the lease regarding the obligation of the fuel supplier to pay taxes prior to the expiration of tax waivers in 2001. Pursuant to this agreement, the coal supplier currently pays a possessory interest tax to the Navajo Nation, which is contractually reimbursed by participants. The parties also agreed to

investigate alternative contractual arrangements and business relationships before 2001 in an effort to permit the electricity generated at Four Corners to be priced competitively. APS anticipates that additional taxes will be levied by the Navajo Nation upon the expiration of the tax waivers; however, APS cannot currently predict the outcome of this matter or the amount of the additional taxes.

NGS is under contract with its coal supplier through 2011, with options to extend through the plant site lease. The sulfur content of coal at NGS for 1999 was 0.53%, and the units are equipped with scrubbers. Average price paid for coal supplied in 1999 under the existing contract was lower than, but comparable to, 1998. The NGS lease waives certain taxes through the lease expiration in 2019. The lease provides for the potential to renegotiate the coal royalty in 2007 and 2017, which may impact the fuel price.

NATURAL GAS SUPPLY

APS is a party to contracts with a number of natural gas suppliers that allow it to purchase natural gas in the method it determines to be most economic. Currently, APS is purchasing the majority of its natural gas requirements from numerous companies under these contracts. APS' natural gas supply is transported pursuant to a firm transportation service contract with El Paso Natural Gas Company. APS continues to analyze the market to determine the most favorable source and method of meeting its natural gas requirements.

NUCLEAR FUEL SUPPLY

The fuel cycle for Palo Verde is comprised of the following stages:

- * the mining and milling of uranium ore to produce uranium concentrates,
- * the conversion of uranium concentrates to uranium hexafluoride,
- * the enrichment of uranium hexafluoride,
- * the fabrication of fuel assemblies,
- * the utilization of fuel assemblies in reactors and
- * the storage of spent fuel and the disposal thereof.

The Palo Verde participants have made contractual arrangements to obtain quantities of uranium concentrates anticipated to be sufficient to meet operational requirements through 2002. Existing contracts and options could be utilized to meet approximately 88% of requirements in 2003, 88% of requirements in 2004, 49% of requirements in 2005, and 16% of requirements in 2006 and beyond. Spot purchases on the uranium market will be made, as appropriate, in lieu of any uranium that might be obtained through contractual options.

The Palo Verde participants have contracted for uranium conversion services. Existing contracts and options could be utilized to meet approximately 70% of requirements in 2000, 75% of requirements in 2001 and 80% of requirements in 2002. The Palo Verde participants have an enrichment services contract and an enriched uranium product contract that furnish enrichment services required for the operation of the three Palo Verde units through 2003. In addition, existing contracts will provide fuel assembly fabrication services until at least 2015 for each Palo Verde unit.

SPENT NUCLEAR FUEL AND WASTE DISPOSAL. Pursuant to the Nuclear Waste Policy Act of 1982, as amended in 1987, the United States Department of Energy ("DOE") is obligated to accept and dispose of all spent nuclear fuel and other high-level radioactive wastes generated by domestic power reactors. The NRC, pursuant to the Waste Act, requires operators of nuclear power reactors to enter into spent fuel disposal contracts with DOE. Under the Waste Act, DOE was to develop the facilities necessary for the storage and disposal of spent nuclear fuel and to have the first such facility in operation by 1998. That facility was to be a permanent repository. DOE has announced that such a repository now cannot be completed before 2010. In July 1996, the United States Court of Appeals for the District of Columbia Circuit (D.C. Circuit) ruled that the DOE has an obligation to start disposing of spent nuclear fuel no later than January 31, 1998. By way of letter dated December 17, 1996, DOE informed APS and other contract holders that DOE anticipates that it would be unable to begin acceptance of spent nuclear

fuel for disposal in a repository or interim storage facility by January 31, 1998. In November 1997, the D.C. Circuit issued a Writ of Mandamus precluding DOE from excusing its own delay on the grounds that DOE has not yet prepared a permanent repository or interim storage facility. On May 5, 1998, the D.C. Circuit issued a ruling refusing to order DOE to begin moving spent nuclear fuel. See "Palo Verde Nuclear Generating Station" in Note 12 of Notes to Financial Statements in Item 8 for a discussion of interim spent fuel storage costs.

Several bills have been introduced in Congress contemplating the construction of a central interim storage facility; however, there is resistance to certain features of these bills both in Congress and the Administration.

Facility funding is a further complication. While all nuclear utilities pay into a so-called nuclear waste fund an amount calculated on the basis of the output of their respective plants, the annual Congressional appropriations for the permanent repository have been for amounts less than the amounts paid into the waste fund (the balance of which is being used for other purposes). According to DOE spokespersons, the fund may now be at a level less than needed to achieve a 2010 operational date for a permanent repository. No funding will be available for a central interim facility until one is authorized by Congress.

APS has storage capacity in existing fuel storage pools at Palo Verde which, with certain modifications, could accommodate all fuel expected to be discharged from normal operation of Palo Verde through about 2002. Construction of a new facility for on-site dry storage of spent fuel is underway. Once this facility is completed and approvals are granted, APS believes that spent fuel storage or disposal methods will be available for use by Palo Verde to allow its continued operation beyond 2002.

A new low-level waste facility was built in 1995 on-site which could store an amount of waste equivalent to ten years of normal operation at Palo Verde. Although some low-level waste has been stored on-site, APS is currently shipping low-level waste to off-site facilities. APS currently believes that interim low-level waste storage methods are or will be available for use by Palo Verde to allow its continued operation and to safely store low-level waste until a permanent disposal facility is available.

APS believes that scientific and financial aspects of the issues of spent fuel and low-level waste storage and disposal can be resolved satisfactorily. However, APS also acknowledges that their ultimate resolution in a timely fashion will require political resolve and action on national and regional scales which APS is less able to predict.

PURCHASED POWER AGREEMENTS

In addition to that available from its own generating capacity (see "Properties" in Item 2), APS purchases electricity from other utilities under various arrangements. One of the most important of these is a long-term contract with Salt River Project. This contract may be canceled by Salt River Project on three years' notice and requires Salt River Project to make available, and APS to pay for, certain amounts of electricity. The amount of electricity is based in large part on customer demand within certain areas now served by APS pursuant to a related territorial agreement. The generating capacity available to APS pursuant to the contract was 316 MW January through May 1999, and starting June 1999 changed to 302 MW. In 1999, APS received approximately 1,056,200 MWh of energy under the contract and paid about \$43.9 million for capacity availability and energy received. See Note 3 of Notes to Financial Statements for a discussion of amendments to this contract and other agreements with Salt River Project.

In September 1990, APS entered into a thirty year agreement under which APS and PacifiCorp engage in one-for-one seasonal capacity exchanges. APS receives electricity from PacifiCorp during APS' summer peak season. APS will have 480 MW of generating capacity available to it under the agreements until 2020. In 1999, APS had 480 MW of generating capacity available from PacifiCorp and APS received approximately 572,382 MWh of energy under the capacity exchange.

CONSTRUCTION PROGRAM

During the years 1997 through 1999, APS incurred approximately \$962 million in capital expenditures. Utility capital expenditures for the years 2000 through 2002 are expected to be primarily for expanding transmission and distribution capabilities to meet customer growth, upgrading existing facilities, and for environmental purposes. Capitalized expenditures, including expenditures for environmental control facilities, for the years 2000 through 2002 have been estimated as follows:

	(MILLIONS OF DOLLARS)			
	BY YEAR		BY MAJOR FACILITIES	
	-----		-----	
2000		\$ 384	Production	\$ 255
2001		342	Transmission and Distribution	691
2002		334	General	114
		-----		-----
Total		\$1,060	Total	\$1,060
		=====		=====

The amounts for 2000 through 2002 exclude capitalized interest costs and include capitalized property taxes and about \$30-\$35 million each year for nuclear fuel. APS conducts a continuing review of its construction program.

MORTGAGE REPLACEMENT FUND REQUIREMENTS

So long as any of APS' first mortgage bonds are outstanding, APS is required for each calendar year to deposit with the trustee under its mortgage cash in a formularized amount related to net additions to its mortgaged utility plant. APS may satisfy all or any part of this "replacement fund" requirement by utilizing redeemed or retired bonds, net property additions, or property retirements. For 1999, the replacement fund requirement amounted to approximately \$143 million. Certain of the bonds APS has issued under the mortgage that are callable prior to maturity are redeemable at their par value plus accrued interest with cash APS deposits in the replacement fund. This is subject in many cases to a period of time after the original issuance of the bonds during which they may not be so redeemed.

ENVIRONMENTAL MATTERS

EPA ENVIRONMENTAL REGULATION

CLEAN AIR ACT. APS is subject to a number of requirements under the Clean Air Act. Pursuant to the Clean Air Act, the EPA adopted regulations that address visibility impairment in certain federally-protected areas which can be reasonably attributed to specific sources. In September 1991, the EPA issued a final rule that limited sulfur dioxide emissions at NGS. One NGS unit had to comply with this rule in 1997, one in 1998, and the last unit in 1999. Salt River Project is the NGS operating agent. Salt River Project estimates a capital cost of \$430 million and annual operations and maintenance costs of approximately \$14 million for all three units, for NGS to meet these requirements. APS is required to fund 14% of these expenditures. About all of these capital costs have been incurred.

The Clean Air Act also addresses, among other things:

- * "acid rain,"
- * visibility in certain specified areas,
- * hazardous air pollutants and
- * areas that have not attained national ambient air quality standards.

With respect to "acid rain," the Clean Air Act establishes a system of sulfur dioxide emissions "allowances." Each existing utility unit is granted a certain number of "allowances." For Phase II plants, which include APS' plants, allowances will be required beginning in the year 2000 to operate the plants. Based on EPA allowance allocations,

APS has sufficient allowances to permit continued operation of its plants at current levels without installing additional equipment.

The Clean Air Act also requires the EPA to set nitrogen oxides emissions limitations. These limitations require certain plants to install additional pollution control equipment. In December 1996, the EPA issued rules for nitrogen oxides emissions limitations that would have required APS to install additional pollution control equipment at Four Corners by January 1, 2000. On February 14, 1997, APS filed a Petition for Review in the United States Court of Appeals for the District of Columbia. APS alleged that the EPA improperly classified Four Corners Unit 4 in these rules, thereby subjecting Unit 4 to a more stringent emission limitation. *ARIZONA PUBLIC SERVICE COMPANY V. UNITED STATES ENVIRONMENTAL PROTECTION AGENCY*, No. 97-1091. In February 1998, the Court vacated the Unit 4 emission limitation and remanded the issue to EPA for reconsideration. In December 1999, EPA's direct final rule, which classified Four Corners Unit 4 as APS had proposed, became final. APS does not currently expect this rule to have a material impact on its financial position or results of operations.

With respect to protection of visibility in certain specified areas, the Clean Air Act requires the EPA to conduct a study concerning visibility impairment in those areas and to identify sources contributing to such impairment. Interim findings of this study indicate that any beneficial effect on visibility as a result of the Clean Air Act would be offset by expected population and industry growth. The Clean Air Act also requires EPA to establish a "Grand Canyon Visibility Transport Commission" to complete a study on visibility impairment in the "Golden Circle of National Parks" in the Colorado Plateau. NGS, Cholla, and Four Corners are located near the Golden Circle of National Parks. The Commission completed its study and on June 10, 1996 submitted its final recommendations to the EPA.

On April 22, 1999, the EPA announced final regional haze rules. These new regulations require states to submit, by 2008, implementation plans containing requirements to eliminate all man-made emissions causing visibility impairment in certain specified areas, including the Golden Circle of National Parks in the Colorado Plateau. The 2008 implementation plans must also include consideration and potential application of best available retrofit technology ("BART") for major stationary sources which came into operation between August 1962 and August 1977, such as the Navajo Generating Station, Cholla Power Plant and Four Corners Power Plant. The nine western states and tribes that participated in the Grand Canyon Visibility Transport Commission process will have the option to follow an alternate implementation plan and schedule for areas considered by the Commission. Under this option, those states and tribes would submit implementation plans by 2003, which would incorporate the emission reduction scheme adopted in the Commission's recommendations and application of BART by 2018, possibly using an emission trading program. Any states and tribes that implement this option will also have to submit revised implementation plans in 2008 to address visibility in certain specified areas that were not considered by the Commission. Because Arizona and the Navajo Nation have the discretion to choose between the national or Commission options and a variety of pollution controls to meet the requirements of the regional haze rules, the actual impact on APS cannot be determined at this time.

Also, in July 1997, EPA promulgated final National Ambient Air Quality Standards for ozone and particulate matter. Pursuant to the rules, the ozone standard is more stringent and a new ambient standard for very fine particles has been established. Congress has enacted legislation that could delay the implementation of regional haze requirements and the particulate matter ambient standard. These standards were challenged and the court determined that EPA's promulgation of the standards violated the constitutional prohibition on delegation of legislative power. The court remanded the ozone standard, vacated the coarse particulate matter standard, and invited the parties to brief the court on vacating or remanding the fine particulate matter standard. APS cannot currently predict EPA's response to this decision. Because the actual level of emissions controls, if any, for any unit cannot be determined at this time, APS currently cannot estimate the capital expenditures, if any, which would result from the final rules. However, APS does not currently expect these rules to have a material adverse effect on its financial position or results of operations.

With respect to hazardous air pollutants emitted by electric utility steam generating units, the Clean Air Act requires two studies. The results of the first study indicated an impact from mercury emissions from such units in certain unspecified areas. The EPA has not yet stated whether or not mercury emissions limitations will be

imposed. Secondly, the EPA will complete a general study by December 2000 concerning the necessity of regulating hazardous air pollutant emissions from such units under the Clean Air Act. Because APS cannot speculate as to the ultimate requirements by the EPA, APS cannot currently estimate the capital expenditures, if any, which may be required as a result of these studies.

Certain aspects of the Clean Air Act may require APS to make related expenditures, such as permit fees. APS does not expect any of these to have a material impact on its financial position or results of operations.

FEDERAL IMPLEMENTATION PLAN. In September 1999, the EPA proposed a Federal Implementation Plan ("FIP") to set air quality standards at certain power plants, including the Navajo Generating Station and the Four Corners Power Plant. The comment period on this proposal ended in November 1999. The FIP is similar to current Arizona regulation of NGS and New Mexico regulation of Four Corners, with minor modifications. APS does not currently expect FIP to have a material impact on its financial position or results of operations.

SUPERFUND. The Comprehensive Environmental Response, Compensation, and Liability Act ("Superfund") establishes liability for the cleanup of hazardous substances found contaminating the soil, water, or air. Those who generated, transported, or disposed of hazardous substances at a contaminated site are among those who are potentially responsible parties ("PRPs"). PRPs may be strictly, and often jointly and severally, liable for the cost of any necessary remediation of the substances. The EPA had previously advised APS that the EPA considers APS to be a PRP in the Indian Bend Wash Superfund Site, South Area. Our Ocotillo Power Plant is located in this area. APS is in the process of conducting an investigation to determine the extent and scope of contamination at the plant site. Based on the information to date, including available insurance coverage and an EPA estimate of cleanup costs, APS does not expect this matter to have a material impact on its financial position or results of operations.

MANUFACTURED GAS PLANT SITES. APS is currently investigating properties which APS now owns or which were at one time owned by APS or its corporate predecessors, that were at one time sites of, or sites associated with, manufactured gas plants. The purpose of this investigation is to determine if:

- * waste materials are present
- * such materials constitute an environmental or health risk and
- * APS has any responsibility for remedial action.

Where appropriate, APS has begun remediation of certain of these sites. APS does not expect these matters to have a material adverse effect on its financial position or results of operations.

PURPORTED NAVAJO ENVIRONMENTAL REGULATION

Four Corners and NGS are located on the Navajo Reservation and are held under easements granted by the federal government as well as leases from the Navajo Nation. APS is the Four Corners operating agent. APS owns a 100% interest in Four Corners Units 1, 2, and 3, and a 15% interest in Four Corners Units 4 and 5. APS owns a 14% interest in NGS Units 1, 2, and 3.

In July 1995, the Navajo Nation enacted the Navajo Nation Air Pollution Prevention and Control Act, the Navajo Nation Safe Drinking Water Act, and the Navajo Nation Pesticide Act (collectively, the "Acts"). Pursuant to the Acts, the Navajo Nation Environmental Protection Agency is authorized to promulgate regulations covering air quality, drinking water, and pesticide activities, including those that occur at Four Corners and NGS. By separate letters dated October 12 and October 13, 1995, the Four Corners participants and the NGS participants requested the United States Secretary of the Interior to resolve their dispute with the Navajo Nation regarding whether or not the Acts apply to operations of Four Corners and NGS. On October 17, 1995, the Four Corners participants and the NGS participants each filed a lawsuit in the District Court of the Navajo Nation, Window Rock District, seeking, among other things, a declaratory judgment that

- * their respective leases and federal easements preclude the application of the Acts to the operations of Four Corners and NGS and
- * the Navajo Nation and its agencies and courts lack adjudicatory jurisdiction to determine the enforceability of the Acts as applied to Four Corners and NGS.

On October 18, 1995, the Navajo Nation and the Four Corners and NGS participants agreed to indefinitely stay these proceedings so that the parties may attempt to resolve the dispute without litigation. The Secretary and the Court have stayed these proceedings pursuant to a request by the parties. APS cannot currently predict the outcome of this matter.

In February 1998, the EPA promulgated regulations specifying those provisions of the Clean Air Act for which it is appropriate to treat Indian tribes in the same manner as states. The EPA indicated that it believes that the Clean Air Act generally would supersede pre-existing binding agreements that may limit the scope of tribal authority over reservations. On April 10, 1998, APS filed a Petition for Review in the United States Court of Appeals for the District of Columbia. ARIZONA PUBLIC SERVICE COMPANY V. UNITED STATES ENVIRONMENTAL PROTECTION AGENCY, No. 98-1196. On February 19, 1999, the EPA promulgated regulations setting forth the EPA's approach to issuing Federal operating permits to covered stationary sources on Indian reservations. On April 15, 1999, APS filed a Petition for Review in the United States Court of Appeals for the District of Columbia. ARIZONA PUBLIC SERVICE COMPANY V. UNITED STATES ENVIRONMENTAL PROTECTION AGENCY, No. 99-1146.

WATER SUPPLY

Assured supplies of water are important for APS' generating plants. At the present time, APS has adequate water to meet its needs. However, conflicting claims to limited amounts of water in the southwestern United States have resulted in numerous court actions in recent years.

Both groundwater and surface water in areas important to APS' operations have been the subject of inquiries, claims, and legal proceedings which will require a number of years to resolve. APS is one of a number of parties in a proceeding before a state court in New Mexico to adjudicate rights to a stream system from which water for Four Corners is derived. (STATE OF NEW MEXICO, IN THE RELATION OF S.E. REYNOLDS, STATE ENGINEER VS. UNITED STATES OF AMERICA, CITY OF FARMINGTON, UTAH INTERNATIONAL, INC., ET AL., San Juan County, New Mexico, District Court No. 75-184). An agreement reached with the Navajo Nation in 1985, however, provides that if Four Corners loses a portion of its rights in the adjudication, the Navajo Nation will provide, for a then-agreed upon cost, sufficient water from its allocation to offset the loss.

A summons served on APS in early 1986 required all water claimants in the Lower Gila River Watershed in Arizona to assert any claims to water on or before January 20, 1987, in an action pending in Maricopa County Superior Court. (IN RE THE GENERAL ADJUDICATION OF ALL RIGHTS TO USE WATER IN THE GILA RIVER SYSTEM AND SOURCE, Supreme Court Nos. WC-79-0001 through WC-79-0004 (Consolidated) [WC-1, WC-2, WC-3 and WC-4 (Consolidated)], Maricopa County Nos. W-1, W-2, W-3 and W-4 (Consolidated)). Palo Verde is located within the geographic area subject to the summons. APS' rights and the rights of the Palo Verde participants to the use of groundwater and effluent at Palo Verde is potentially at issue in this action. As project manager of Palo Verde, APS filed claims that dispute the court's jurisdiction over the Palo Verde participants' groundwater rights and their contractual rights to effluent relating to Palo Verde. Alternatively, APS seeks confirmation of such rights. Three of APS' less-utilized power plants are also located within the geographic area subject to the summons. APS' claims dispute the court's jurisdiction over its groundwater rights with respect to these plants. Alternatively, APS seeks confirmation of such rights. The Arizona Supreme Court recently issued a decision confirming that certain groundwater rights may be available to the federal government and Indian tribes. APS and other parties have petitioned the U.S. Supreme Court for review of this decision. Another issue important to the claims is pending on appeal to the Arizona Supreme Court. No trial date concerning APS' water rights claims has been set in this matter.

APS has also filed claims to water in the Little Colorado River Watershed in Arizona in an action pending in the Apache County Superior Court. (IN RE THE GENERAL ADJUDICATION OF ALL RIGHTS TO USE WATER IN THE LITTLE COLORADO RIVER SYSTEM AND SOURCE, Supreme Court No. WC-79-0006 WC-6, Apache County No. 6417). APS' groundwater resource utilized at Cholla is within the geographic area subject to the adjudication and is therefore potentially at issue in the case. APS' claims dispute the court's jurisdiction over its groundwater rights. Alternatively, APS seeks confirmation of such rights. The parties are in the process of settlement negotiations with respect to this matter. No trial date concerning APS' water rights claims has been set in this matter.

Although the foregoing matters remain subject to further evaluation, APS expects that the described litigation will not have a material adverse impact on its financial position or results of operations.

BUSINESS OF SUNCOR DEVELOPMENT COMPANY

SunCor was incorporated in 1965 under the laws of the State of Arizona and is engaged primarily in the acquisition, ownership, development, operation, and sale of land and other real property, including homes and commercial buildings. The principal executive offices of SunCor are located at 3838 North Central, Suite 1500, Phoenix, Arizona 85012 (telephone 602-285-6800). SunCor and its subsidiaries, excluding SunCor Resort & Golf Management, Inc. ("Resort Management"), employ approximately 140 persons. Resort Management, which manages the Wigwam Resort and Country Club (the "Wigwam"), employs between 620 and 750 persons at the Wigwam, depending on the Wigwam's operating season. In addition, Resort Management operates four golf courses and three family entertainment operations, which together employ about 350 people.

SunCor's assets consist primarily of land and improvements and other real estate investments. SunCor's major asset is the Palm Valley project, which consists of over 7,000 acres and is located west of Phoenix in the area of Goodyear/Litchfield Park, Arizona ("Palm Valley"). SunCor has completed the master plan for development of Palm Valley. There has been significant residential and commercial development at Palm Valley by SunCor and by other developers that have acquired land from SunCor or entered into joint ventures with SunCor. Development at Palm Valley currently includes residential communities, including a retirement community, with golf courses, hotels, restaurants, commercial and retail outlets, a hospital, and assisted-care facilities.

Other SunCor projects under development include seven master-planned communities and four commercial projects. The four commercial projects and four of the master-planned communities are located in the Phoenix area. Other master-planned communities are located near Sedona, Arizona, St. George, Utah, and Santa Fe, New Mexico. Several of the master-plan and commercial projects are joint ventures with other developers, financial partners, or landowners.

For the past three years, SunCor's operating revenues were about: 1999, \$130.2 million; 1998, \$125.4 million; and 1997, \$123.6 million. For those same periods, SunCor's net income was about: 1999, \$6.1 million; 1998, \$44.7 million; and 1997, \$5.3 million. About \$37.2 million of SunCor's 1998 net income represents income related to the recognition of a deferred tax asset. The deferred tax asset relates to net operating losses and book/tax basis differences. SunCor is expected to realize these benefits in subsequent periods pursuant to an intercompany tax allocation agreement. On a consolidated basis, there was no impact to consolidated net income. SunCor's capital needs consist primarily of capital expenditures for land development and home construction for SunCor's homebuilding subsidiary, Golden Heritage Homes, Inc. On the basis of projects now under development, SunCor expects capital needs over the next three years to be 2000, \$53 million; 2001, \$43 million; and 2002, \$51 million.

At December 31, 1999, SunCor had total assets of about \$437 million. See Note 6 of Notes to the Consolidated Financial Statements in Item 8 for information regarding SunCor's long-term debt. SunCor intends to continue its focus on real estate development in homebuilding and the development of residential, commercial, and industrial projects.

BUSINESS OF EL DORADO DEVELOPMENT COMPANY

El Dorado was incorporated in 1983 under the laws of the State of Arizona and is engaged principally in the business of making equity investments in other companies. El Dorado's short-term goal is to convert its venture capital portfolio to cash as quickly and as advantageously as possible. On a long-term basis, we may use El Dorado, when appropriate, as our subsidiary for new ventures that are strategic to our principal business of generating, distributing, and marketing electricity. El Dorado's offices are located at 400 East Van Buren Street, Suite 800, Phoenix, Arizona 85004 (telephone 602-379-2589).

At December 31, 1999, El Dorado had an investment in a venture capital partnership at a carrying amount of \$21.3 million. In addition, El Dorado had a 54% interest in a privately held company and limited partnership interests in two professional sports teams.

For the past three years, El Dorado's net income was: \$11.5 million in 1999, \$4.5 million in 1998, and \$8.2 million in 1997. At December 31, 1999, El Dorado had total assets of \$36.6 million.

BUSINESS OF APS ENERGY SERVICES COMPANY, INC.

APS Energy Services was incorporated in 1998 under the laws of the State of Arizona and is engaged principally in the business of selling unregulated power and related services. APS Energy Services' principal offices are located at 400 East Van Buren Street, Station 8103, Phoenix, Arizona 85004 (telephone (602) 250-5000).

BUSINESS OF PINNACLE WEST ENERGY CORPORATION

Pinnacle West Energy Corporation was incorporated in 1999 under the laws of the State of Arizona and is engaged principally in the business of the development and production of wholesale energy. Pinnacle West Energy is the subsidiary through which we intend to conduct our future unregulated generation operations. Pinnacle West Energy's principal offices are located at 400 North Fifth Street, Station 8987, Phoenix, Arizona 85004 (telephone (602) 250-4145).

Pinnacle West Energy's capital expenditures in 1999 were \$21 million. Projected capital expenditures are \$152 million in 2000; \$240 million in 2001; and \$245 million in 2002.

ITEM 2. PROPERTIES

ACCREDITED CAPACITY

APS' present generating facilities have an accredited capacity as follows:

	Capacity(kW)

Coal:	
Units 1, 2, and 3 at Four Corners	560,000
15% owned Units 4 and 5 at Four Corners	222,000
Units 1, 2, and 3 at Cholla Plant	615,000
14% owned Units 1, 2, and 3 at the Navajo Plant	315,000

	1,712,000

Gas or Oil:	
Two steam units at Ocotillo and two steam units at Saguaro....	435,000(1)
Eleven combustion turbine units	493,000
Three combined cycle units	255,000

	1,183,000

Nuclear:	
29.1% owned or leased Units 1, 2, and 3 at Palo Verde	1,086,300

Other	5,600

Total	3,986,900
	=====

(1) West Phoenix steam units (108,300 kW) are currently mothballed.

RESERVE MARGIN

APS' 1999 peak one-hour demand on its electric system was recorded on August 24, 1999 at 4,934,700 kW, compared to the 1998 peak of 5,027,000 kW recorded on July 16. Taking into account additional capacity then available to APS under traditional long-term purchase power contracts as well as APS' own generating capacity, APS' capability of meeting system demand on August 24, 1999 amounted to 4,754,600 kW, for an installed reserve margin of (4.4%). The power actually available to APS from its resources fluctuates from time to time due in part to planned outages and technical problems. The available capacity from sources actually operable at the time of the 1999 peak amounted to 3,587,100 kW, for a margin of (27.5%). Firm purchases, including short-term seasonal purchases, totaling 1,643,000 kW were in place at the time of the peak ensuring the ability to meet the load requirement, with an actual reserve margin of 9.1%.

PLANT SITES LEASED FROM NAVAJO NATION

LEASES NGS and Four Corners are located on land held under easements from the federal government and also under leases from the Navajo Nation. These are long term agreements with options to extend, and we do not believe that the risk with respect to enforcement of these easements and leases is material. The majority of coal contracted for use in these plants and certain associated transmission lines are also located on Indian reservations. See "Generating Fuel and Purchased Power -- Coal Supply" in Item 1.

TAX AND ROYALTY See "Generating Fuel and Purchased Power -- Coal Supply" in Item 1 for a discussion of changes in the amount of royalty payments and expiration of tax waivers under the NGS and Four Corners leases.

PALO VERDE NUCLEAR GENERATING STATION

PALO VERDE LEASES

See Note 10 of Notes to Consolidated Financial Statements in Item 8 for a discussion of three sale and leaseback transactions related to Palo Verde Unit 2.

REGULATORY

Operation of each of the three Palo Verde units requires an operating license from the NRC. The NRC issued full power operating licenses for Unit 1 in June 1985, Unit 2 in April 1986, and Unit 3 in November 1987. The full power operating licenses, each valid for a period of approximately 40 years, authorize APS, as operating agent for Palo Verde, to operate the three Palo Verde units at full power.

NUCLEAR DECOMMISSIONING COSTS

The NRC recently amended its rules on financial assurance requirements for the decommissioning of nuclear power plants. The amended rules became effective on November 23, 1998. The amended rules provide that a licensee may use an external sinking fund as the exclusive financial assurance mechanism if the licensee recovers estimated total decommissioning costs through cost of service rates or through a "non-bypassable charge." Other mechanisms are prescribed, including prepayment, if the requirements for exclusive reliance on the external sinking fund mechanism are not met. APS currently relies on the external sinking fund mechanism to meet the NRC financial assurance requirements for its interests in Palo Verde Units 1, 2, and 3. The decommissioning costs of Palo Verde Units 1, 2, and 3 are currently included in ACC jurisdictional rates. ACC rules regarding the introduction of retail electric competition in Arizona (see Note 3 of Notes to Consolidated Financial Statements) currently provide that decommissioning costs would be recovered through a non-bypassable "system benefits" charge, which would allow APS to maintain its external sinking fund mechanism. See Note 2 of Notes to Consolidated Financial Statements in Item 8 for additional information about nuclear decommissioning costs.

PALO VERDE LIABILITY AND INSURANCE MATTERS

See "Palo Verde Nuclear Generating Station" in Note 12 of Notes to Consolidated Financial Statements in Item 8 for a discussion of the insurance maintained by the Palo Verde participants, including APS, for Palo Verde.

OTHER INFORMATION REGARDING PROPERTIES

See "Environmental Matters" and "Water Supply" in Item 1 with respect to matters having possible impact on the operation of certain of APS' power plants.

See "Construction Program" in Item 1 and "Financial Review -- Capital Needs and Resources" in Item 7 for a discussion of APS' construction plans.

See Notes 6, 10, and 11 of Notes to Consolidated Financial Statements in

Item 8 with respect to property of the Company not held in fee or held subject to any major encumbrance.

INFORMATION REGARDING PROPERTIES OF SUNCOR

See "Business of SunCor Development Company" for information regarding SunCor's properties.

[MAP PAGE]

In accordance with Item 304 of Regulation S-T of the Securities Exchange Act of 1934, APS' Service Territory map contained in this Form 10-K is a map of the State of Arizona showing APS' service area, the location of its major power plants and principal transmission lines, and the location of transmission lines operated by APS for others. The major power plants shown on such map are the Navajo Generating Station located in Coconino County, Arizona; the Four Corners Power Plant located near Farmington, New Mexico; the Cholla Power Plant, located in Navajo County, Arizona; the Yucca Power Plant, located near Yuma, Arizona; and the Palo Verde Nuclear Generating Station, located about 55 miles west of Phoenix, Arizona (each of which plants is reflected on such map as being jointly owned with other utilities), as well as the Ocotillo Power Plant and West Phoenix Power Plant, each located near Phoenix, Arizona, and the Saguaro Power Plant, located near Tucson, Arizona. APS' major transmission lines shown on such map are reflected as running between the power plants named above and certain major cities in the State of Arizona. The transmission lines operated for others shown on such map are reflected as running from the Four Corners Plant through a portion of northern Arizona to the California border.

ITEM 3. LEGAL PROCEEDINGS

APS In June 1999, the Navajo Nation served Salt River Project with a lawsuit naming Salt River Project, several Peabody Coal Company entities ("Peabody"), Southern California Edison Company and other defendants, and citing various claims in connection with the renegotiations of the coal royalty and lease agreements under which Peabody mines coal for the Navajo and Mohave Generating Stations. THE NAVAJO NATION V. PEABODY HOLDING COMPANY, INC., ET AL., United States District Court for the District of Columbia, CA-99-0469-EGS. APS is a 14% owner of Navajo Generating Station, which Salt River Project operates. The suit alleges, among other things, that the defendants obtained a favorable coal royalty rate by improperly influencing the outcome of a federal administrative process under which the royalty rate was to be adjusted. The suit seeks \$600 million in damages, treble damages, punitive damages of not less than \$1 billion, and the ejection of defendants "from all possessory interests and Navajo Tribal lands" arising out of the [primary coal lease]. Salt River Project has advised APS that it denies all charges and will vigorously defend itself. Because the litigation is in preliminary stages, APS cannot currently predict the outcome of this matter.

See "Environmental Matters" and "Water Supply" in Item 1 in regard to pending or threatened litigation and other disputes. See "Regulatory Matters" in Note 3 of Notes to Consolidated Financial Statements in Item 8 for a discussion of competition and the rules regarding the introduction of retail electric competition in Arizona and related litigation. In December 1999, APS filed a lawsuit to protect its legal rights regarding the rules, and in the complaint APS asked the Court for (i) a judgment vacating the retail electric competition rules, (ii) a declaratory judgment that the rules are unlawful because, among other things, they were entered into without proper legal authorization, and (iii) a permanent injunction barring the ACC from enforcing or implementing the rules and from promulgating any other regulations without lawful authority.

ARIZONA PUBLIC SERVICE COMPANY V. ARIZONA CORPORATION COMMISSION, CV99-21907. On August 28, 1998, APS filed two lawsuits to protect its legal rights under the stranded cost order and in its complaints the Company asked the Court to vacate and set aside the order. ARIZONA PUBLIC SERVICE COMPANY V. ARIZONA CORPORATION COMMISSION, CV 98-15728. ARIZONA PUBLIC SERVICE COMPANY V. ARIZONA CORPORATION COMMISSION, 1-CA-CC-98-0008.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

SUPPLEMENTAL ITEM.

EXECUTIVE OFFICERS OF THE REGISTRANT

Our executive officers are as follows:

Name	Age at March 1, 2000	Position(s) at March 1, 2000
Robert S. Aiken	43	Vice President, Federal Affairs
John G. Bohon	54	Vice President, Corporate Services & Human Resources
Jack E. Davis	53	President, APS Energy Delivery & Sales
Armando B. Flores	56	Executive Vice President, Corporate Business Services
Edward Z. Fox	46	Vice President, Communications, Environment & Safety
Chris N. Froggatt	42	Vice President & Controller
Barbara M. Gomez	45	Treasurer
James L. Kunkel	62	Vice President
James M. Levine	50	Executive Vice President, APS Generation
Nancy C. Loftin	46	Vice President & General Counsel
Michael V. Palmeri	41	Vice President, Finance
William J. Post	49	President and Chief Executive Officer(1)
Martin L. Shultz	55	Vice President, Government Affairs
Richard Snell	69	Chairman of the Board of Directors (1)
William L. Stewart	56	President, APS Generation
Faye Widenmann	51	Vice President and Secretary

(1) member of the Board of Directors

The executive officers of the Company are elected no less often than annually and may be removed by the Board of Directors at any time. The terms served by the named officers in their current positions and the principal occupations (in addition to those stated in the table) of such officers for the past five years have been as follows:

Mr. Aiken was elected to his present position in July 1999. Prior to that time he was the Company's Manager, Federal Affairs (November 1986-July 1999).

Mr. Bohon was elected to his present position in July 1999. Prior to that time he was Vice President, Corporate Services and Human Resources of APS (October 1998-July 1999), Vice President, Procurement of APS (April 1997-October 1998) and Director, Corporate Services of APS (December 1989-April 1997).

Mr. Davis was elected to his present position in October 1998. Prior to that time he was Executive Vice President, Commercial Operations of APS (September 1996-October 1998) and Vice President, Generation and Transmission of APS (June 1993-September 1996). Mr. Davis is a director of APS.

Mr. Flores was elected to his present position in July 1999. Prior to that time, he was Executive Vice President, Corporate Business Services of APS (October 1998-July 1999), Senior Vice President, Corporate Business Services of APS (September 1996-October 1998) and Vice President, Human Resources of APS (December 1991-September 1996).

Mr. Fox was elected to his present position in July 1999. Prior to that time he was Vice President, Environmental/Health/Safety and New Technology Ventures of APS (October 1995-July 1999), Director, Arizona Department of Environmental Quality and Chairman, Wastewater Management Authority of Arizona (July 1991-September 1995).

Mr. Froggatt was elected to his present position in July 1999. Prior to that time he was Controller of APS (July 1997-July 1999) and Director, Accounting Services of APS (December 1992-July 1997).

Ms. Gomez was elected to her present position in August 1999. Prior to that time, she was Manager, Treasury Operations of APS (1997-1999) and Manager, Financial Planning of APS (1994-1997). She was also elected Treasurer of APS in October 1999.

Mr. Kunkel was elected Vice President effective December 15, 1997. Prior to December 1997, he was a partner with the accounting firm PricewaterhouseCoopers, successor to Coopers & Lybrand, in both their Los Angeles and Phoenix offices. Mr. Kunkel is also a director of Aztar Corporation.

Mr. Levine was elected to his present position in July 1999. Prior to that time he was Senior Vice President, Nuclear Generation of APS (September 1996-July 1999) and Vice President, Nuclear Production of APS (September 1989-September 1996).

Ms. Loftin was elected to her present position in July 1999. She was elected to the positions of Vice President and Chief Legal Counsel of APS in September 1996. Prior to that time, she was Secretary of APS (since April 1987) and Corporate Counsel of APS (since February 1989). She was also elected Vice President and General Counsel of APS in July 1999.

Mr. Palmeri was elected to his present position in August 1999. Prior to that time he was Treasurer of APS and Pinnacle West (July 1997-September 1999), Assistant Treasurer of Pinnacle West (February 1994-July 1997) and Manager of Finance of Pinnacle West (June 1990-February 1994). He also was elected Vice President, Finance of APS in October 1999.

Mr. Post was elected President effective August, 1999, and Chief Executive Officer effective February 1999. He has served as an officer of the Company since 1995 in the following capacities: from August 1999 to present as President and Chief Executive Officer; from February 1999 to August 1999 as Chief Executive Officer; from February 1997 to February 1999 as President; and from June 1995 to February 1997 as Executive Vice President. He was also elected President and Chief Executive Officer of APS in February 1997. In October 1998, he resigned as President and maintained the position of Chief Executive Officer of APS. He was APS' Chief Operating Officer (September 1994-February 1997), as well as a Senior Vice President of APS since June 1993. Mr. Post is also a director of APS and Blue Cross-Blue Shield of Arizona.

Mr. Shultz was elected to his current position in July 1999. Prior to that time he held the position of Director of Government Relations for APS (1988-July 1999).

Mr. Snell has been Chairman of the Board of the Company and Chairman of the Board of APS since February 1990. Until February 1999, he was also Chief Executive Officer of the Company, and until February 1997, he was President of the Company. Mr. Snell is also a director of Aztar Corporation and Central Newspapers, Inc.

Mr. Stewart was elected to his present position in October 1998. Prior to that time he was Executive Vice President, Generation of APS (September 1996-October 1998), and Executive Vice President, Nuclear of APS (May 1994-September 1996). Mr. Stewart is a director of APS.

Ms. Widenmann was elected to her current position in July 1999. Prior to that time, she held the position of Secretary (since 1985) and Vice President of Corporate Relations and Administration (since November 1986). She was also elected Vice President and Secretary of APS in July 1999.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

Our common stock is publicly held and is traded on the New York and Pacific Stock Exchanges. At the close of business on March 27, 2000, our common stock was held of record by approximately 42,645 shareholders.

The chart below sets forth the common stock price ranges on the composite tape, as reported in the Wall Street Journal for 1999 and 1998. The chart also sets forth the dividends declared during each of the four quarters for 1999 and 1998.

COMMON STOCK PRICE RANGES AND DIVIDENDS

	HIGH ----	LOW ---	DIVIDEND PER SHARE(a) -----
1999			
1st Quarter	43 3/8	35 15/16	\$.325
2nd Quarter	42 15/16	36 1/4	.650
3rd Quarter	41 5/16	34 11/16	--
4th Quarter	38 1/8	30 3/16	.350
1998			
1st Quarter	45	39 3/8	\$.300
2nd Quarter	46 3/16	42	.600
3rd Quarter	45 9/16	40 1/16	--
4th Quarter	49 1/4	41 5/8	.325

(a) Dividends for the third quarter of 1999 and 1998 were declared in June.

ITEM 6. SELECTED CONSOLIDATED DATA

(dollars in thousands, except per share amounts)

	1999	1998	1997	1996	1995
OPERATING RESULTS					
Operating revenues					
Electric	\$ 2,293,184	\$ 2,006,398	\$ 1,878,553	\$ 1,718,272	\$ 1,614,952
Real estate	130,169	124,188	116,473	99,488	54,846
Income from continuing operations	\$ 269,772	\$ 242,892	\$ 235,856	\$ 211,059 (a)	\$ 199,608
Discontinued operations	38,000 (d)	--	--	(9,539) (b)	--
Extraordinary charge - net of income tax	(139,885) (e)	--	--	(20,340) (c)	(11,571) (c)
Net income	\$ 167,887	\$ 242,892	\$ 235,856	\$ 181,180	\$ 188,037
Common Stock Data					
Book value per share - year-end	\$ 26.00	\$ 25.50	\$ 23.90	\$ 22.51	\$ 21.49
Earnings (loss) per average common share outstanding					
Continuing operations - basic	\$ 3.18	\$ 2.87	\$ 2.76	\$ 2.41 (a)	\$ 2.28
Discontinued operations	0.45	--	--	(0.11)	--
Extraordinary charge	(1.65)	--	--	(0.23)	(0.13)
Net income - basic	\$ 1.98	\$ 2.87	\$ 2.76	\$ 2.07	\$ 2.15
Continuing operations - diluted	\$ 3.17	\$ 2.85	\$ 2.74	\$ 2.40 (a)	\$ 2.27
Net income - diluted	\$ 1.97	\$ 2.85	\$ 2.74	\$ 2.06	\$ 2.14
Dividends declared per share	\$ 1.325	\$ 1.225	\$ 1.125	\$ 1.025	\$ 0.925
Indicated annual dividend rate - year-end	\$ 1.40	\$ 1.30	\$ 1.20	\$ 1.10	\$ 1.00
Average common shares outstanding - basic	84,717,135	84,774,218	85,502,909	87,441,515	87,419,300
Average common shares outstanding - diluted	85,008,527	85,345,946	86,022,709	88,021,920	87,884,226
TOTAL ASSETS	\$ 6,608,506	\$ 6,824,546	\$ 6,850,417	\$ 6,989,289	\$ 6,997,052
LIABILITIES AND EQUITY					
Long-term debt less current maturities	\$ 2,206,052	\$ 2,048,961	\$ 2,244,248	\$ 2,372,113	\$ 2,510,709
Other liabilities	2,196,721	2,516,993	2,407,572	2,428,180	2,336,695
	4,402,773	4,565,954	4,651,820	4,800,293	4,847,404
Minority interests					
Non-redeemable preferred stock of APS	--	85,840	142,051	165,673	193,561
Redeemable preferred stock of APS	--	9,401	29,110	53,000	75,000
Common stock equity	2,205,733	2,163,351	2,027,436	1,970,323	1,881,087
Total liabilities and equity	\$ 6,608,506	\$ 6,824,546	\$ 6,850,417	\$ 6,989,289	\$ 6,997,052

(a) Includes an after-tax charge of \$18.9 million (\$0.22 per share) for a voluntary severance program and about \$12 million (\$0.13 per share) of income tax benefits related to capital loss carryforwards.

(b) Charges, net of tax, associated with the settlement of a legal matter related to MeraBank, A Federal Savings Bank.

(c) Charges associated with the repayment or refinancing of the parent company's high-coupon debt.

(d) Tax benefit stemming from the resolution of income tax matters related to MeraBank, A Federal Savings Bank.

(e) Charges associated with a regulatory disallowance.

(dollars in thousands, except per share amounts)

	1999	1998	1997	1996	1995
ELECTRIC OPERATING REVENUES					
Residential	\$ 805,173	\$ 766,378	\$ 746,937	\$ 721,877	\$ 669,762
Commercial	733,038	699,016	687,988	678,130	653,425
Industrial	159,329	172,296	164,696	162,324	156,501
Irrigation	7,374	7,288	8,706	9,448	9,596
Other	11,708	10,644	11,842	13,078	12,631
Total retail	1,716,622	1,655,622	1,620,169	1,584,857	1,501,915
Sales for resale	506,877	300,698	226,828	98,560	86,510
Transmission for others	11,348	11,058	10,295	10,240	9,390
Miscellaneous services	58,337	39,020	21,261	24,615	17,137
Net electric operating revenues	\$ 2,293,184	\$ 2,006,398	\$ 1,878,553	\$ 1,718,272	\$ 1,614,952
ELECTRIC SALES (MWh)					
Residential	8,774,822	8,310,689	7,970,309	7,541,440	6,848,905
Commercial	9,543,853	8,697,397	8,524,882	8,233,762	7,768,289
Industrial	2,561,349	3,279,430	3,123,283	3,039,357	2,933,459
Irrigation	99,669	84,640	112,363	121,775	119,580
Other	94,877	90,927	86,090	84,362	78,478
Total retail	21,074,570	20,463,083	19,816,927	19,020,696	17,748,711
Sales for resale	15,693,834	10,317,391	9,233,573	3,367,234	2,720,704
Total electric sales	36,768,404	30,780,474	29,050,500	22,387,930	20,469,415
ELECTRIC CUSTOMERS - END OF YEAR					
Residential	735,359	708,215	680,478	654,602	625,352
Commercial	86,707	83,506	81,246	78,178	75,105
Industrial	3,183	3,084	3,192	3,055	2,913
Irrigation	754	710	764	841	837
Other	932	895	851	828	786
Total retail	826,935	796,410	766,531	737,504	704,993
Sales for resale	73	67	50	48	39
Total electric customers	827,008	796,477	766,581	737,552	705,032

See "Financial Review" on pages 22-29 for a discussion of certain information in the table above.

QUARTERLY STOCK PRICES AND DIVIDENDS STOCK SYMBOL: PNW

1999	High	Low	Close	Dividends Per Share(a)
1st Quarter	43 3/8	35 15/16	36 3/8	\$0.325
2nd Quarter	42 15/16	36 1/4	40 1/4	\$0.650
3rd Quarter	41 5/16	34 11/16	36 3/8	\$ --
4th Quarter	38 1/8	30 3/16	30 9/16	\$0.350
1998	High	Low	Close	Dividends Per Share(a)
1st Quarter	45	39 3/8	44 7/16	\$0.300
2nd Quarter	46 3/16	42	45	\$0.600
3rd Quarter	45 9/16	40 1/16	44 13/16	\$ --
4th Quarter	49 1/4	41 5/8	42 3/8	\$0.325

(a) Dividends for the 3rd quarter of 1999 and 1998 were declared in June.

ITEM 7. FINANCIAL REVIEW

In this section, we explain the results of operations, general financial condition, and outlook for Pinnacle West and our subsidiaries: APS, SunCor, El Dorado, APS Energy Services, and Pinnacle West Energy, including:

- * the changes in our earnings from 1998 to 1999 and from 1997 to 1998
- * the factors impacting our business, including competition and electric industry restructuring
- * the effects of regulatory agreements on our results and outlook
- * our capital needs and resources - for APS and our other operations, and
- * our management of market risks.

APS, our major subsidiary and Arizona's largest electric utility, with approximately 827,000 customers, provides wholesale and retail electric service to the entire state with the exception of Tucson and about one-half of the Phoenix area. APS also generates, sells, and delivers electricity and energy-related products and services to wholesale and retail customers in the western United States. SunCor is a developer of residential, commercial, and industrial projects on some 15,000 acres in Arizona, New Mexico, and Utah. El Dorado is a venture capital firm with a diversified portfolio. APS Energy Services was formed in 1998 and sells energy and energy-related products and services in competitive retail markets in the western United States. Pinnacle West Energy, which was formed in 1999, is the subsidiary through which we intend to conduct our future unregulated generation operations.

Throughout this Financial Review, we refer to specific "Notes" in the Notes to Consolidated Financial Statements that begin on page 37. These Notes add further details to the discussion.

RESULTS OF OPERATIONS

1999 COMPARED WITH 1998

Our 1999 consolidated net income was \$168 million compared with \$243 million in 1998. The following is a summary:

	1999	1998
	----	----
	(millions of dollars)	
APS	\$ 267	\$ 246
APS Energy Services	(9)	--
SunCor	6	45
El Dorado	11	5
Parent Company	(5)	(53)
	-----	-----
Income from Continuing Operations	270	243
Income Tax Benefit from Discontinued Operations	38	--
Extraordinary Charge -- Net of Income Taxes of \$94	(140)	--
	-----	-----
Net Income	\$ 168	\$ 243
	=====	=====

The income tax benefit from discontinued operations resulted from resolution of tax issues related to a former subsidiary, MeraBank, A Federal Savings Bank.

The extraordinary charge related to a regulatory disallowance which resulted from APS' comprehensive Settlement Agreement that was approved by the Arizona Corporation Commission (ACC) in September 1999. See "Regulatory Agreements" below and Notes 1 and 3 for additional information about the regulatory disallowance and the Settlement Agreement.

APS' earnings before extraordinary charge increased \$21 million - a 9% increase - over 1998 earnings primarily because of increases in the number of customers and in the average amount of electricity used by customers and lower financing costs. These positive impacts more than offset the effects of retail electricity price reductions and higher utility operations and maintenance expense. See Note 3 for additional information about the price reductions.

In 1999, electric operating revenues increased \$287 million primarily because of:

- * increased power marketing and trading revenues (\$219 million)

* increases in the number of customers and the average amount of electricity used by customers (\$81 million) and

* miscellaneous factors (\$9 million).

As mentioned above, these positive factors were partially offset by the effects of reductions in retail prices (\$22 million).

The increase in power marketing revenues resulted from higher prices and increased activity in western U.S. bulk power markets. The revenues were accompanied by an increase in purchased power expenses. Although these activities contributed positively to earnings in both periods, the contribution in 1999 was lower than in 1998.

APS' utility operations and maintenance expenses increased \$18 million primarily because of \$19 million of non-recurring items recorded in 1999, including a provision for certain environmental costs. Other increases primarily related to customer growth were more than offset by lower employee benefit costs and movement of certain marketing functions to APS Energy Services in early 1999.

APS Energy Services recorded a loss of \$9 million in 1999, its first year of operations. Income tax benefits related to the loss are recorded at the parent company. In 1999, the loss consisted primarily of operating expenses, which were partially offset by revenues as new markets began to open for retail electricity competition.

Our real estate subsidiary, SunCor Development, reported earnings of \$6 million in 1999 compared with \$45 million in 1998. SunCor's 1998 earnings included \$37 million related to the recording of a deferred tax asset by SunCor in connection with its intercompany tax sharing agreement with Pinnacle West. Income taxes related to SunCor's pretax income are now being recorded by SunCor. Prior to 1998, the income tax effects related to SunCor's income and losses were not recorded at SunCor due to net operating losses. On an after-tax basis and excluding the effects of the deferred tax asset, SunCor's contributions to consolidated earnings were \$6 million in 1999 and \$5 million in 1998 - a significant percentage increase in net income from operations for the real estate subsidiary.

El Dorado Investment Company, our investment subsidiary, reported earnings of \$11 million in 1999 compared with \$5 million in 1998. The improvement related primarily to the increased value of El Dorado's investment in a technology-related venture capital partnership; this investment is revalued on a quarterly basis.

1998 COMPARED WITH 1997

Our 1998 consolidated net income was \$243 million compared with \$236 million in 1997 - a 3.0% increase. The following is a summary:

	1998	1997
	----	----
	(millions of dollars)	
APS	\$246	\$ 239
SunCor	45	5
El Dorado	5	8
Parent Company	(53)	(16)
	----	----
Net Income	\$243	\$ 236
	====	=====

APS' 1998 earnings increased \$7 million - a 3% increase over 1997 earnings primarily because of an increase in customers, expanded power marketing and trading activities, and lower financing costs. In the comparison, these positive factors more than offset the effects of milder weather, the prior year's benefits of the two fuel-related settlements recorded in 1997, and retail price reductions. See Note 3 for additional information about the price reductions.

In 1998, electric operating revenues increased \$128 million primarily because of:

- * increased power marketing and trading revenues (\$94 million)
- * increases in the number of customers and the average amount of electricity used by customers (\$77 million) and
- * miscellaneous factors (\$8 million).

As mentioned above, these positive factors were partially offset by the effects of milder weather (\$33 million) and reductions in retail prices (\$18 million).

The increase in power marketing revenues resulted from higher prices and increased activity in western U.S. bulk power markets. The revenue increases were accompanied by an increase in purchased power expenses. These activities contributed positively to earnings in both periods; the contribution in 1998 was higher than in 1997.

The two fuel-related settlements increased 1997 pretax earnings by about \$21 million. The income statement reflects these settlements as reductions in fuel expense and as other income.

Operations and maintenance expense increased \$14 million primarily because of customer growth, initiatives related to competition, and expansion of our power marketing and trading function.

Depreciation and amortization expense increased \$11 million because APS had more plant in service.

Financing costs decreased by \$16 million primarily because of lower amounts of outstanding debt and APS preferred stock.

Before the effects of recording deferred taxes under its tax sharing agreement, the earnings contribution from our real estate subsidiary, SunCor Development, increased \$3 million as a result of an increase in land sales. SunCor's stand-alone net income in 1998 was \$45 million, of which \$37 million represents income related to the recognition of a deferred tax asset. The deferred tax asset relates to net operating losses and book/tax basis differences. SunCor is expected to realize these benefits in subsequent periods pursuant to an inter-company tax allocation agreement. On a consolidated basis, Pinnacle West had already recognized the income tax benefits; therefore, there was no impact on consolidated net income in 1998.

The contribution from El Dorado, our investment subsidiary, decreased \$3 million as a result of a decrease in investment sales.

REGULATORY AGREEMENTS

Regulatory agreements approved by the ACC affect the results of APS' operations. The following discussion focuses on three agreements approved by the ACC: the 1999 Settlement Agreement to implement retail electric competition; a 1996 agreement that accelerated the amortization of APS' regulatory assets; and a 1994 settlement that included accelerated amortization of APS' deferred investment tax credits (ITCs).

As part of the 1999 Settlement Agreement, APS reduced rates for standard offer service for customers with loads less than 3 megawatts in a series of annual retail electric price reductions of 1.5% beginning July 1, 1999 through July 1, 2003, for a total of 7.5%. The first reduction of approximately \$24 million (\$14 million after income taxes) included the July 1, 1999 retail price decrease related to the 1996 regulatory agreement (see below). For customers having loads 3 megawatts or greater, standard offer rates will be reduced in annual increments that total 5% through 2002.

Also, under the Settlement Agreement a regulatory disallowance removed \$234 million before income taxes (\$183 million net present value) from ongoing regulatory cash flows and was recorded as a net reduction of regulatory assets. This reduction (\$140 million after income taxes) was reported as an extraordinary charge on the income statement. Before the ACC approved the 1999 Settlement Agreement, APS was recovering substantially all of its regulatory assets through accelerated amortization over an eight-year period that would have ended June 30, 2004 under the 1996 agreement. For more details, see Note 1.

The regulatory assets to be recovered under this Settlement Agreement are now being amortized as follows:

(millions of dollars)

1999	2000	2001	2002	2003	1/1-6/30 2004	Total
-----	-----	-----	-----	-----	-----	-----
\$164	\$158	\$145	\$115	\$86	\$18	\$686

Also, as part of the 1996 regulatory agreement, APS reduced its retail electricity prices by 3.4% effective July 1, 1996. This reduction decreased annual revenue by about \$49 million annually (\$29 million after income taxes). APS also agreed to share future cost savings with its customers during the term of the agreement, which resulted in the following additional retail price reductions:

- * \$18 million annually (\$11 million after income taxes), or 1.2%, effective July 1, 1997,

- * \$17 million annually (\$10 million after income taxes), or 1.1%, effective July 1, 1998, and

- * \$11 million annually (\$7 million after income taxes), or 0.7%, effective July 1, 1999, which was included in the July 1, 1999 1.5% price reduction under the 1999 Settlement Agreement.

As part of the 1994 rate settlement, APS accelerated amortization of substantially all deferred investment tax credits (ITCs) over a five-year period that ended on December 31, 1999. The amortization of ITCs decreased annual consolidated income tax expense by approximately \$24 million. Beginning in 2000, no further benefits will be reflected in income tax expense related to the accelerated amortization of ITCs (see Note 4).

CAPITAL NEEDS AND RESOURCES

PINNACLE WEST (PARENT COMPANY)

During the past three years, our primary cash needs were for:

- * dividends to our shareholders

- * interest payments and

- * optional and mandatory repayment of principal on our long-term debt.

In addition, as part of the 1996 agreement with the ACC, we invested \$50 million annually in APS for the years 1996 through 1999. The 1999 payment was the last payment under the 1996 regulatory agreement (see Note 3). During 1997, we repurchased \$80 million of common stock, reducing our shares outstanding at year-end 1997 by 2.7 million shares.

Our primary sources of cash are dividends from our subsidiaries. During 1999, APS paid \$170 million in dividends to the parent. In 1999, SunCor and El Dorado declared dividends to the parent of \$20 million and \$10 million, respectively. Combined dividends from SunCor and El Dorado are expected to be at least \$25 million annually during the next several years; however, the aggregate amount of those dividends depends somewhat on the status of the real estate and stock markets (particularly the technology sector).

Our long-term debt at December 31, 1999 was \$106 million compared to \$92 million at December 31, 1998. We have a \$250 million line of credit, under which we had \$56 million of borrowings outstanding at December 31, 1999. We do not have any principal debt repayment obligations until 2001.

APS

APS' capital requirements consist primarily of capital expenditures and optional and mandatory redemptions of long-term debt. APS pays for its capital requirements with cash from its operations and, to the extent necessary, external financing.

As part of the 1996 regulatory agreement, APS received annual cash infusions from Pinnacle West of \$50 million from 1996 through 1999. During the period from 1997 through 1999, APS paid for all of its capital expenditures with cash from its operations. APS expects to do so in 2000 through 2002 as well.

APS' capital expenditures in 1999 were \$332 million. APS' projected capital expenditures for the next three years are: \$384 million in 2000; \$342 million in 2001; and \$334 million in 2002. These amounts include about \$30-\$35 million each year for nuclear fuel. In general, most of the projected capital expenditures are for:

- * expanding transmission and distribution capabilities to meet customer growth

- * upgrading existing utility property and

- * environmental purposes.

During 1999, APS redeemed about \$323 million of long-term debt and \$96 million of preferred stock, including premiums, with cash from operations and long- and short-term debt. APS no longer has any outstanding preferred stock. Its long-term debt redemption requirements and payment obligations on a capitalized lease for the next three years are approximately: \$115 million in 2000; \$253 million in 2001; and \$125 million in 2002. In addition, APS made optional redemptions of about \$89 million of long-term debt in January 2000. Based on market conditions and optional call provisions, APS may make optional redemptions of long-term debt from time to time.

As of December 31, 1999, APS had credit commitments from various banks totaling about \$350 million, which were available either to support the issuance of commercial paper or to be used as bank borrowings. At the end of 1999, APS had about \$38 million of commercial paper and \$50 million of long-term bank borrowings outstanding.

In February 1999, APS issued \$125 million of unsecured long-term debt and in November 1999, APS issued \$250 million of unsecured long-term debt.

Although provisions in APS' first mortgage bond indenture and ACC financing orders establish maximum amounts of additional first mortgage bonds that APS may issue, APS does not expect any of these provisions to limit its ability to meet its capital requirements.

PINNACLE WEST ENERGY

We are currently planning, through Pinnacle West Energy, a 650-megawatt expansion of our West Phoenix Power Plant, and the construction of a natural gas-fired electric generating station of up to 2,120 megawatts near Palo Verde, called Redhawk. Pinnacle West Energy's capital expenditures in 1999 were \$21 million. Projected capital expenditures for these projects are \$152 million in 2000; \$240 million in 2001; and \$245 million in 2002. We are also considering additional expansion over the next several years, which may result in additional expenditures. Pinnacle West Energy's capital expenditures will be funded with debt proceeds, and with internally generated cash and debt proceeds from the parent company. Assuming all approvals are granted, we expect to begin construction at West Phoenix in the second quarter of 2000.

Pinnacle West Energy has signed a joint development agreement with Reliant Energy Power Generation, Inc. (Reliant) covering construction and operation of three new merchant plants. Pinnacle West Energy plans to contribute the first two units (1,060 megawatts) of the Redhawk project to the joint agreement. Construction is expected to start in the third quarter of 2000, with commercial operation scheduled in the summer of 2002. Reliant plans to contribute two new natural gas-fired projects (1,500 megawatts) in Nevada to the venture.

OTHER SUBSIDIARIES

During the past three years, SunCor and El Dorado each funded all of their cash requirements with cash from operations and their own external financings.

SunCor's capital needs consist primarily of capital expenditures for land development, retail and office building construction, and home construction. On the basis of projects now under development, SunCor expects capital needs over the next three years to be: \$53 million in 2000; \$43 million in 2001; and \$51 million in 2002. Capital resources to meet these requirements include funds from operations and SunCor's own external financings.

As of December 31, 1999, SunCor had a \$100 million line of credit, under which \$94 million of borrowings were outstanding. SunCor has no principal debt repayment requirements for 2000, \$30 million for 2001, and \$64 million for 2002.

COMPETITION AND INDUSTRY RESTRUCTURING

The electric industry is undergoing significant change. It is moving to a competitive, market-based structure from a highly-regulated, cost-based environment in which companies have been entitled to recover their costs and to earn fair returns on their invested capital in exchange for commitments to serve all customers within designated service territories. See "Results of Operations - Regulatory Agreements" and Note 3 for additional information about APS' Settlement Agreement with the ACC related to the implementation of retail electric competition, the ACC rules that provide a framework for the introduction of retail electric competition in Arizona, and other competitive developments, including an agreement with Salt River Project.

In May 1998, a law was enacted by the Arizona legislature to facilitate implementation of retail electric competition in the state. Additionally, legislation related to electric competition has been proposed in the United States Congress. See Note 3 for a discussion of legislative developments.

We cannot accurately predict the impact of full retail competition on our financial position, cash flows, or results of operations. As competition in the electric industry continues to evolve, we will continue to evaluate strategies and alternatives that will position us to compete effectively in a restructured industry.

APS prepares its financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." SFAS No. 71 requires a cost-based, rate-regulated enterprise to reflect the impact of regulatory decisions in its financial statements. As a result of the Settlement Agreement (see Note 3), APS discontinued the application of SFAS No. 71 for its generation operations. This meant that the generation assets were tested for impairment and the portion of the regulatory assets deemed to be unrecoverable through ongoing regulated cash flows was eliminated. APS determined that the generation assets were not impaired. A regulatory disallowance (\$140 million after income taxes) was reported as an extraordinary charge on the income statement. See Note 1 for additional information on regulatory accounting and Note 3 for additional information on the Settlement Agreement.

YEAR 2000 READINESS DISCLOSURE

Some companies expected to face problems on January 1, 2000 in the case that computer systems and equipment would not properly recognize calendar dates. During 1997, APS had initiated a comprehensive company-wide Year 2000 program to review and resolve all Year 2000 issues in mission critical systems in a timely manner to ensure the reliability of electric service to its customers. We have spent about \$5 million to be Year 2000 ready. To date, we have not experienced any material Year 2000 related problems, and we do not anticipate any in the future.

ACCOUNTING MATTERS

We describe a new standard on accounting for derivatives in Note 2. The new standard on derivatives is effective for us in 2001. We are currently evaluating what impact it will have on our financial statements. Also, see Note 2 for a description of a proposed standard on accounting for certain liabilities related to closure or removal of long-lived assets.

RISK MANAGEMENT

Our operations include managing market risks related to changes in interest rates, commodity prices, and investments held by the nuclear decommissioning trust fund.

INTEREST RATE AND EQUITY RISK

Our major financial market risk exposure is changing interest rates. Changing interest rates will affect interest paid on variable-rate debt and interest earned by the nuclear decommissioning trust fund (see Note 13). Our policy is to manage interest rates through the use of a combination of fixed-rate and floating-rate debt. The nuclear decommissioning fund also has risks associated with changing market values of equity investments. Nuclear decommissioning costs are recovered in regulated electricity prices.

The tables below present contractual balances of our long-term and short-term debt at the expected maturity dates as well as the fair value of those instruments on December 31, 1999 and December 31, 1998. The interest rates presented in the table below represent the weighted average interest rates for the years ended December 31, 1999 and December 31, 1998.

EXPECTED MATURITY/PRINCIPAL REPAYMENT - DECEMBER 31, 1999 (thousands of dollars)

	Short-Term		Variable Long-Term		Fixed Long-Term	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2000	5.33%	\$38,300	10.25%	\$ 87	5.79%	\$ 114,711
2001	--	--	7.00%	336,117	6.70%	27,488
2002	--	--	8.47%	64,085	8.13%	125,000
2003	--	--	5.51%	50,118	6.87%	25,000
2004	--	--	10.25%	130	6.17%	205,000
Years thereafter	--	--	3.19%	479,727	7.87%	900,483
Total		\$38,300		\$930,264		\$1,397,682
Fair Value		\$38,300		\$930,264		\$1,366,968

EXPECTED MATURITY/PRINCIPAL REPAYMENT - DECEMBER 31, 1998 (thousands of dollars)

	Short-Term		Variable Long-Term		Fixed Long-Term	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
1999	5.88%	\$178,830	7.30%	\$ 3,268	7.24%	\$ 164,777
2000	--	--	7.32%	25,756	5.79%	114,711
2001	--	--	6.57%	93,472	6.70%	27,488
2002	--	--	10.25%	119	8.13%	125,000
2003	--	--	5.94%	125,131	6.87%	25,000
Years thereafter	--	--	3.43%	459,803	7.75%	1,058,963
Total		\$178,830		\$707,549		\$1,515,939
Fair Value		\$178,830		\$707,549		\$1,577,365

COMMODITY PRICE RISK

APS is exposed to the impact of market fluctuations in the price and distribution costs of electricity, natural gas, coal, and emissions allowances. APS employs established procedures to manage risks associated with these market fluctuations by utilizing various commodity derivatives, including exchange-traded futures and options, and over-the-counter forwards, options, and swaps. As part of its overall risk management program, APS enters into these derivative transactions for trading and to hedge certain natural gas in storage as well as purchases and sales of electricity, fuels, and emissions allowances/credits.

As of December 31, 1999, a hypothetical adverse price movement of 10% in the market price of APS' commodity derivative portfolio would decrease the fair market value of these contracts by approximately \$6 million. This analysis does not include the favorable impact this same hypothetical price move would have on the underlying position being hedged with the commodity derivative portfolio.

APS is exposed to credit losses in the event of non-performance or non-payment by counterparties. APS uses a credit management process to assess and monitor its financial exposure to counterparties. APS does not expect counterparty defaults to materially impact its financial condition, results of operations, or net cash flow.

FORWARD-LOOKING STATEMENTS

The above discussion contains forward-looking statements that involve risks and uncertainties. Words such as "estimates," "expects," "anticipates," "plans," "believes," "projects," and similar expressions identify forward-looking statements. These risks and uncertainties include, but are not limited to, the ongoing restructuring of the electric industry; the outcome of the regulatory proceedings relating to the restructuring; regulatory, tax, and environmental legislation; the ability of APS to successfully compete outside its traditional regulated markets; regional economic conditions, which could affect customer growth; the cost of debt and equity capital; weather variations affecting customer usage; technological developments in the electric industry; Year 2000 issues; the strength of the stock market (particularly the technology sector) and the strength of the real estate market.

These factors and the other matters discussed above may cause future results to differ materially from historical results, or from results or outcomes we currently expect or seek.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "Financial Review" in Item 7 for a discussion of quantitative and qualitative disclosures about market risk.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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FINANCIAL STATEMENT SCHEDULE**

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See Note 14 of Notes to Financial Statements for the selected quarterly financial data required to be presented in this Item.

REPORT OF MANAGEMENT AND INDEPENDENT AUDITORS' REPORT

REPORT OF MANAGEMENT

The primary responsibility for the integrity of our financial information rests with management, which has prepared the accompanying financial statements and related information. Such information was prepared in accordance with generally accepted accounting principles appropriate in the circumstances, and based on management's best estimates and judgments. These financial statements have been audited by independent auditors and their report is included.

Management maintains and relies upon systems of internal accounting controls. A limiting factor in all systems of internal accounting control is that the cost of the system should not exceed the benefits to be derived. Management believes that our system provides the appropriate balance between such costs and benefits.

Periodically the internal accounting control system is reviewed by both our internal auditors and our independent auditors to test for compliance. Reports issued by the internal auditors are released to management, and such reports or summaries thereof are transmitted to the Audit Committee of the Board of Directors and the independent auditors on a timely basis.

The Audit Committee, composed solely of outside directors, meets periodically with the internal auditors and independent auditors (as well as management) to review the work of each. The internal auditors and independent auditors have free access to the Audit Committee, without management present, to discuss the results of their audit work.

Management believes that our systems, policies and procedures provide reasonable assurance that operations are conducted in conformity with the law and with management's commitment to a high standard of business conduct.

William J. Post
President and
Chief Executive Officer

Chris N. Froggatt
Vice President and Controller

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying consolidated balance sheets of Pinnacle West Capital Corporation and its subsidiaries as of December 31, 1999 and 1998 and the related consolidated statements of income, retained earnings and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Pinnacle West Capital Corporation and its subsidiaries at December 31, 1999 and 1998 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with generally accepted accounting principles.

Deloitte & Touche LLP

Deloitte & Touche LLP
Phoenix, Arizona

February 18, 2000

CONSOLIDATED STATEMENTS OF INCOME

(dollars in thousands, except per share amounts)

	Year Ended December 31,		
	1999	1998	1997
OPERATING REVENUES			
Electric	\$ 2,293,184	\$ 2,006,398	\$ 1,878,553
Real estate	130,169	124,188	116,473
Total	2,423,353	2,130,586	1,995,026
OPERATING EXPENSES			
Fuel and purchased power	796,109	545,297	443,571
Utility operations and maintenance	446,777	419,433	405,605
Real estate operations	119,516	115,331	111,628
Depreciation and amortization (Note 1)	385,568	379,679	368,285
Taxes other than income taxes	96,606	103,718	108,431
Total	1,844,576	1,563,458	1,437,520
OPERATING INCOME	578,777	567,128	557,506
OTHER INCOME (EXPENSE)			
Preferred stock dividend requirements of APS	(1,016)	(9,703)	(12,803)
Net other income and expense	10,793	609	4,569
Total	9,777	(9,094)	(8,234)
INCOME BEFORE INTEREST AND INCOME TAXES	588,554	558,034	549,272
INTEREST expense			
Interest charges	162,381	169,145	182,838
Capitalized interest	(11,664)	(18,596)	(19,703)
Total	150,717	150,549	163,135
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	437,837	407,485	386,137
INCOME TAXES (NOTE 4)	168,065	164,593	150,281
INCOME FROM CONTINUING OPERATIONS	269,772	242,892	235,856
Income tax benefit from discontinued operations	38,000	--	--
Extraordinary charge - net of income taxes of \$94,115	(139,885)	--	--
NET INCOME	\$ 167,887	\$ 242,892	\$ 235,856
AVERAGE COMMON SHARES OUTSTANDING - BASIC	84,717,135	84,774,218	85,502,909
AVERAGE COMMON SHARES OUTSTANDING - DILUTED	85,008,527	85,345,946	86,022,709
EARNINGS PER AVERAGE COMMON SHARE OUTSTANDING			
Continuing operations - basic	\$ 3.18	\$ 2.87	\$ 2.76
Net income - basic	1.98	2.87	2.76
Continuing operations - diluted	3.17	2.85	2.74
Net income - diluted	1.97	2.85	2.74
DIVIDENDS DECLARED PER SHARE	\$ 1.325	\$ 1.225	\$ 1.125

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

(thousands of dollars)

	December 31,	
	1999	1998
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 20,705	\$ 20,538
Customer and other receivables - net	244,599	233,876
Accrued utility revenues	72,919	67,740
Materials and supplies (at average cost)	69,977	69,074
Fossil fuel (at average cost)	21,869	13,978
Deferred income taxes (Note 4)	8,163	3,999
Other current assets	60,562	47,594
Total current assets	498,794	456,799
INVESTMENTS AND OTHER ASSETS		
Real estate investments - net (Note 6)	344,293	331,021
Other assets (Note 13)	267,458	236,562
Total investments and other assets	611,751	567,583
UTILITY PLANT (NOTES 6, 10 AND 11)		
Electric plant in service and held for future use	7,546,314	7,265,604
Less accumulated depreciation and amortization	3,026,194	2,814,762
Total	4,520,120	4,450,842
Construction work in progress	209,281	228,643
Nuclear fuel, net of amortization of \$66,357 and \$68,569	49,114	51,078
Net utility plant	4,778,515	4,730,563
DEFERRED DEBITS		
Regulatory assets (Notes 3 and 4)	613,729	980,084
Other deferred debits	105,717	89,517
Total deferred debits	719,446	1,069,601
TOTAL ASSETS	\$6,608,506	\$6,824,546

See Notes to Consolidated Financial Statements.

(thousands of dollars)

	December 31,	
	1999	1998
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 186,524	\$ 155,800
Accrued taxes	70,510	62,520
Accrued interest	33,253	31,866
Short-term borrowings (Note 5)	38,300	178,830
Current maturities of long-term debt (Note 6)	114,798	168,045
Customer deposits	26,098	28,510
Other current liabilities	26,007	14,632
Total current liabilities	495,490	640,203
LONG-TERM DEBT LESS CURRENT MATURITIES (NOTE 6)	2,206,052	2,048,961
DEFERRED CREDITS AND OTHER		
Deferred income taxes (Note 4)	1,183,855	1,343,536
Deferred investment tax credit (Note 4)	3,830	27,345
Unamortized gain - sale of utility plant	73,212	77,787
Other	440,334	428,122
Total deferred credits and other	1,701,231	1,876,790
COMMITMENTS AND CONTINGENCIES (NOTES 3, 12 AND 13)		
MINORITY INTERESTS (NOTE 7)		
Non-redeemable preferred stock of APS	--	85,840
Redeemable preferred stock of APS	--	9,401
COMMON STOCK EQUITY (NOTE 8)		
Common stock, no par value; authorized 150,000,000 shares; issued and outstanding 84,824,947 at end of 1999 and 1998	1,537,449	1,550,643
Retained earnings	668,284	612,708
Total common stock equity	2,205,733	2,163,351
TOTAL LIABILITIES AND EQUITY	\$6,608,506	\$6,824,546

CONSOLIDATED STATEMENTS OF CASH FLOWS
(thousands of dollars)

	Year Ended December 31,		
	1999	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES			
Income from continuing operations	\$ 269,772	\$ 242,892	\$ 235,856
Items not requiring cash			
Depreciation and amortization	385,568	379,679	368,285
Nuclear fuel amortization	31,371	32,856	32,702
Deferred income taxes - net	(17,413)	41,262	24,809
Deferred investment tax credit	(23,514)	(23,516)	(23,518)
Other - net	(12,476)	1,190	(3,854)
Changes in current assets and liabilities			
Customer and other receivables - net	(10,723)	(50,369)	(14,270)
Accrued utility revenues	(5,179)	(9,181)	(3,089)
Materials, supplies and fossil fuel	(8,794)	(2,797)	7,793
Other current assets	(12,968)	(6,186)	(109)
Accounts payable	28,193	34,386	(54,882)
Accrued taxes	12,591	(22,090)	2,197
Accrued interest	1,387	(1,108)	(6,678)
Other current liabilities	15,047	(5,235)	(23,087)
(Increase) decrease in land held	(12,542)	33,405	33,010
Other - net	(4,720)	(39,350)	48,254
Net Cash Flow Provided By Operating Activities	635,600	605,838	623,419
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(343,448)	(319,142)	(307,876)
Capitalized interest	(11,664)	(18,596)	(19,703)
Other - net	(16,143)	(2,144)	(3,124)
Net Cash Flow Used For Investing Activities	(371,255)	(339,882)	(330,703)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of long-term debt	607,791	148,229	146,013
Short-term borrowings - net	(140,530)	48,080	113,850
Dividends paid on common stock	(112,311)	(103,849)	(96,160)
Repurchase and retirement of common stock	--	--	(79,997)
Repayment of long-term debt	(510,693)	(286,314)	(325,526)
Redemption of preferred stock	(96,499)	(75,517)	(47,201)
Other - net	(11,936)	(3,531)	(2,897)
Net Cash Flow Used For Financing Activities	(264,178)	(272,902)	(291,918)
NET CASH FLOW	167	(6,946)	798
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	20,538	27,484	26,686
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 20,705	\$ 20,538	\$ 27,484

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(thousands of dollars)

	Year Ended December 31,		
	1999	1998	1997
Retained Earnings At Beginning of Year	\$ 612,708	\$ 473,665	\$ 333,969
Net Income	167,887	242,892	235,856
Common Stock Dividends	(112,311)	(103,849)	(96,160)
Retained Earnings at End of Year	\$ 668,284	\$ 612,708	\$ 473,665

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION AND NATURE OF OPERATIONS

The consolidated financial statements include the accounts of Pinnacle West and our subsidiaries: APS, SunCor, El Dorado, APS Energy Services, and Pinnacle West Energy.

APS, our major subsidiary and Arizona's largest electric utility, with approximately 827,000 customers, provides wholesale or retail electric service to the entire state with the exception of Tucson and about one-half of the Phoenix area. APS also generates, sells, and delivers electricity and energy-related products and services to wholesale and retail customers in the western United States. SunCor is a developer of residential, commercial, and industrial projects on some 15,000 acres in Arizona, New Mexico, and Utah. El Dorado is a venture capital firm with a diversified portfolio. APS Energy Services was formed in 1998 and sells energy and energy-related products and services in competitive retail markets in the western United States. Pinnacle West Energy, which was formed in 1999, is the subsidiary through which we intend to conduct our future unregulated generation operations.

ACCOUNTING RECORDS

Our accounting records are maintained in accordance with generally accepted accounting principles (GAAP). The preparation of financial statements in accordance with GAAP requires the use of estimates by management. Actual results could differ from those estimates.

REGULATORY ACCOUNTING

APS is regulated by the ACC and the Federal Energy Regulatory Commission (FERC). The accompanying financial statements reflect the ratemaking policies of these commissions. For regulated operations, APS prepares its financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." SFAS No. 71 requires a cost-based, rate-regulated enterprise to reflect the impact of regulatory decisions in its financial statements.

During 1997, the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board (FASB) issued EITF 97-4. EITF 97-4 requires that SFAS No. 71 be discontinued no later than when legislation is passed or a rate order is issued that contains sufficient detail to determine its effect on the portion of the business being deregulated, which could result in write-downs or write-offs of physical and/or regulatory assets. Additionally, the EITF determined that regulatory assets should not be written off if they are to be recovered from a portion of the entity which continues to apply SFAS No. 71.

In September 1999, the APS Settlement Agreement was approved by the ACC (see Note 3 for a discussion of the agreement). APS has discontinued the application of SFAS No. 71 for its generation operations. This means that the generation assets were tested for impairment and the portion of regulatory assets deemed to be unrecoverable through ongoing regulated cash flows was eliminated. APS determined that the generation assets were not impaired. A regulatory disallowance removed \$234 million pretax (\$183 million net present value) from ongoing regulatory cash flows and this was recorded as a net reduction of regulatory assets. This reduction (\$140 million after income taxes) was reported as an extraordinary charge on the consolidated income statement. Prior to the Settlement Agreement, under the 1996 regulatory agreement (see Note 3), the ACC accelerated the amortization of substantially all of APS' regulatory assets to an eight-year period that would have ended June 30, 2004.

The regulatory assets to be recovered under this Settlement Agreement are now being amortized as follows:

(millions of dollars)

1999	2000	2001	2002	2003	1/1-6/30 2004	Total
----	----	----	----	----	----	-----
\$164	\$158	\$145	\$115	\$86	\$18	\$686

The majority of the regulatory assets relate to deferred income taxes (see Note 4) and rate synchronization cost deferrals (see "Rate Synchronization Cost Deferrals" in this Note).

The balance sheets include the amounts listed below for generation assets not subject to SFAS No. 71:

(thousands of dollars)

	December 31,	
	1999	1998
	-----	-----
Electric plant in service and held for future use	\$ 3,770,234	\$ 3,680,482
Accumulated depreciation and amortization	(1,817,589)	(1,681,099)
Construction work in progress	87,819	107,324
Nuclear fuel, net of amortization	49,114	51,078

UTILITY PLANT AND DEPRECIATION

Utility plant is the term we use to describe the business property and equipment that supports electric service. We report utility plant at its original cost, which includes:

- * material and labor
- * contractor costs
- * construction overhead costs (where applicable) and
- * capitalized interest or an allowance for funds used during construction.

We charge retired utility plant, plus removal costs less salvage realized, to accumulated depreciation. See Note 2 for information on a proposed accounting standard that impacts accounting for removal costs.

We record depreciation on utility property on a straight-line basis. For the years 1997 through 1999 the rates, as prescribed by our regulators, ranged from a low of 1.51% to a high of 20%. The weighted-average rate for 1999 was 3.34%. APS depreciates non-utility property and equipment over the estimated useful lives of the related assets, ranging from 3 to 50 years.

VENTURE CAPITAL INVESTMENTS

El Dorado has investments in venture capital partnerships that account for their investments at fair value. Since El Dorado uses the equity method of accounting for its partnership interests, it must record its share of realized and unrealized gains and losses in net income.

CAPITALIZED INTEREST

Capitalized interest represents the cost of debt funds used to finance construction of utility plant. Plant construction costs, including capitalized interest, are expensed through depreciation when completed projects are placed into commercial operation. Capitalized interest does not represent current cash earnings. The rate used to calculate capitalized interest was a composite rate of 6.65% for 1999, 6.88% for 1998, and 7.25% for 1997.

REVENUES

We record electric operating revenues on the accrual basis, which includes estimated amounts for service rendered but unbilled at the end of each accounting period.

RATE SYNCHRONIZATION COST DEFERRALS

As authorized by the ACC, operating costs (excluding fuel) and financing costs of Palo Verde Units 2 and 3 were deferred from the commercial operation dates (September 1986 for Unit 2 and January 1988 for Unit 3) until the date the units were included in a rate order (April 1988 for Unit 2 and December 1991 for Unit 3). In accordance with the 1999 Settlement Agreement, APS is continuing to accelerate the amortization of the deferrals over an eight-year period that will end June 30, 2004. Amortization of the deferrals is included in "Depreciation and Amortization" expense on the Statements of Income.

NUCLEAR FUEL

APS charges nuclear fuel to fuel expense by using the unit-of-production method. The unit-of-production method is an amortization method that is based on actual physical usage. APS divides the cost of the fuel by the estimated number of thermal units that APS expects to produce with that fuel. APS then multiplies that rate by the number of thermal units that it produces within the current period. This calculation determines the current period nuclear fuel expense.

APS also charges nuclear fuel expense for the permanent disposal of spent nuclear fuel. The United States Department of Energy (DOE) is responsible for the permanent disposal of spent nuclear fuel, and it charges APS \$0.001 per kwh of nuclear generation. See Note 12 for information about spent nuclear fuel disposal. In addition, Note 13 has information on nuclear decommissioning costs.

INCOME TAXES

We file our federal income tax return on a consolidated basis and we file our state income tax returns on a consolidated or unitary basis. In accordance with our intercompany tax sharing agreement, federal and state income taxes are allocated to each subsidiary as though each subsidiary filed a separate income tax return. Any difference between the aforementioned allocations and the consolidated (and unitary) income tax liability is attributed to the parent company.

REACQUIRED DEBT COSTS

For debt related to the regulated portion of APS' business, APS amortizes those gains and losses incurred upon early retirement over the remaining life of the debt. In accordance with the 1999 Settlement Agreement, APS is continuing to accelerate reacquired debt costs over an eight-year period that will end June 30, 2004. The accelerated portion of the regulatory asset amortization is included in "Depreciation and Amortization" expense in the Statements of Income.

STATEMENTS OF CASH FLOWS

We consider temporary cash investments and marketable securities to be cash equivalents for purposes of reporting cash flows. During 1999, 1998, and 1997 we paid interest, net of amounts capitalized, income taxes, and dividends on preferred stock of APS as follows:

(millions of dollars)

	Years Ended December 31,		
	1999	1998	1997
Interest paid	\$141	\$144	\$163
Income taxes paid	200	165	146
Dividends paid on preferred stock of APS	1	10	13

RECLASSIFICATIONS

We have reclassified certain prior year amounts for comparison purposes with 1999.

2. ACCOUNTING MATTERS

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which is effective for us in 2001. SFAS No. 133 requires that entities recognize all derivatives as either assets or liabilities on the balance sheet and measure those instruments at fair value. The standard also provides specific guidance for accounting for derivatives designated as hedging instruments. We are currently evaluating what impact this standard will have on our financial statements.

In 1999 we adopted EITF 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities." EITF 98-10 requires energy trading contracts to be measured at fair value as of the balance sheet date with the gains and losses included in earnings and separately disclosed in the financial statements or footnotes. The effects of adopting EITF 98-10 were not material to our financial statements.

In February 1996, the FASB issued an exposure draft, "Accounting for Certain Liabilities Related to Closure or Removal of Long-Lived Assets." This proposed standard would require the estimated present value of the cost of decommissioning and certain other removal costs to be recorded as a liability, along with an offsetting plant asset when a decommissioning or other removal obligation is incurred. The FASB issued a revised exposure draft in February 2000 and we are evaluating the impacts.

3. REGULATORY MATTERS

ELECTRIC INDUSTRY RESTRUCTURING

STATE

SETTLEMENT AGREEMENT. On May 14, 1999, APS entered into a comprehensive Settlement Agreement with various parties, including representatives of major consumer groups, related to the implementation of retail electric competition. On September 23, 1999, the ACC voted to approve the Settlement Agreement, with some modifications. On December 13, 1999, two parties filed lawsuits challenging the ACC's approval of the Settlement Agreement. One of the parties questioned the authority of the ACC to approve the Settlement Agreement and both parties challenged several specific provisions of the Settlement Agreement.

The following are the major provisions of the Settlement Agreement, as approved:

* APS will reduce rates for standard offer service for customers with loads less than 3 megawatts in a series of annual retail electric price reductions of 1.5% beginning July 1, 1999 through July 1, 2003, for a total of 7.5%. The first reduction of approximately \$24 million (\$14 million after income taxes) includes the July 1, 1999 retail price decrease of approximately \$11 million annually (\$7 million after income taxes) related to the 1996 regulatory agreement. See "1996 Regulatory Agreement" below. For having loads 3 megawatts or greater, standard offer rates will be reduced in annual increments that total 5% through 2002.

* Unbundled rates being charged by APS for competitive direct access service (for example, distribution services) became effective upon approval of the Settlement Agreement, retroactive to July 1, 1999, and also will be subject to annual reductions beginning January 1, 2000, that vary by rate class, through January 1, 2004.

* There will be a moratorium on retail price changes for standard offer and unbundled competitive direct access services until July 1, 2004, except for the price reductions described above and certain other limited circumstances. Neither the ACC nor APS will be prevented from seeking or authorizing rate changes prior to July 1, 2004 in the event of conditions or circumstances that constitute an emergency, such as an inability to finance on reasonable terms, or material changes in APS' cost of service for ACC-regulated services resulting from federal, tribal, state or local laws, regulatory requirements, judicial decisions, actions or orders.

* APS will be permitted to defer for later recovery prudent and reasonable costs of complying with the ACC electric competition rules, system benefits costs in excess of the levels included in current rates, and costs associated with the "provider of last resort" and standard offer obligations for service after July 1, 2004. These costs are to be recovered through an adjustment clause or clauses commencing on July 1, 2004.

* APS' distribution system opened for retail access effective September 24, 1999. Customers will be eligible for retail access in accordance with the phase-in adopted by the ACC under the electric competition rules (see "Retail Electric Competition Rules" below), with an additional 140 megawatts being made available to eligible non-residential customers. Unless subject to judicial or regulatory restraint, APS will open its distribution system to retail access for all customers on January 1, 2001.

* Prior to the Settlement Agreement, APS was recovering substantially all of its regulatory assets through July 1, 2004, pursuant to the 1996 regulatory agreement. In addition, the Settlement Agreement states that APS has demonstrated that its allowable stranded costs, after mitigation and exclusive of regulatory assets, are at least \$533 million net present value. APS will not be allowed to recover \$183 million net present value of the above amounts. The Settlement Agreement provides that APS will have the opportunity to recover \$350 million net present value through a competitive transition charge (CTC) that will remain in effect through December 31, 2004, at which time it will terminate. Any over/under-recovery will be credited/debited against the costs subject to recovery under the adjustment clause described above.

* APS will form a separate corporate affiliate or affiliates and transfer to that affiliate(s) its generating assets and competitive services at book value as of the date of transfer, which transfer shall take place no later than December 31, 2002. APS will be allowed to defer and later collect, beginning July 1, 2004, sixty-seven percent of its costs to accomplish the required transfer of generation assets to an affiliate.

* When the Settlement Agreement approved by the ACC is no longer subject to judicial review, APS will move to dismiss all of its litigation pending against the ACC as of the date APS entered into the Settlement Agreement. To protect its rights, APS has several lawsuits pending on ACC orders relating to stranded cost recovery and the adoption and amendment of the ACC's electric competition rules, which would be voluntarily dismissed at the appropriate time under this provision.

As discussed in Note 1 above, APS has discontinued the application of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," for its generation operations.

RETAIL ELECTRIC COMPETITION RULES. On September 21, 1999, the ACC voted to approve the rules that provide a framework for the introduction of retail electric competition in Arizona (Rules). If any of the Rules conflict with the Settlement Agreement, the terms of the Settlement Agreement govern. On December 8, 1999, APS filed a lawsuit to protect its legal rights regarding the Rules. This lawsuit is pending, along with several other lawsuits on ACC orders relating to stranded cost recovery and the adoption or amendment of the Rules, but two related cases filed by other utilities have been partially decided in a manner adverse to those utilities' positions. On January 14, 2000, a special action was filed requesting the Arizona Supreme Court to enjoin implementation of the Rules and decide whether the ACC can allow the competitive marketplace, rather than the ACC, to set just and reasonable rates under the Arizona Constitution. The issue of competitively set rates has been decided by lower Arizona courts in favor of the ACC in four separate lawsuits, two of which relate to telecommunications companies. The Supreme Court denied to hear the case as a special action on March 17, 2000. The lower court litigation will continue.

The Rules approved by the ACC include the following major provisions:

- * They apply to virtually all Arizona electric utilities regulated by the ACC, including APS.
- * The Rules require each affected utility, including APS, to make available at least 20% of its 1995 system retail peak demand for competitive generation supply beginning when the ACC makes a final decision on each utility's stranded costs and unbundled rates (Final Decision Date) or January 1, 2001, whichever is earlier, and 100% beginning January 1, 2001. Under the Settlement Agreement, APS will provide retail access to customers representing the minimum 20% required by the ACC and an additional 140 megawatts of non-residential load in 1999, and to all customers as of January 1, 2001, or such other dates as approved by the ACC.
- * Subject to the 20% requirement, all utility customers with single premise loads of one megawatt or greater will be eligible for competitive electric services on the Final Decision Date, which for APS' customers was the approval of the Settlement Agreement. Customers may also aggregate smaller loads to meet this one megawatt requirement.
- * When effective, residential customers will be phased in at 1.25% per quarter calculated beginning on January 1, 1999, subject to the 20% requirement above.
- * Electric service providers that get Certificates of Convenience and Necessity (CC&Ns) from the ACC can supply only competitive services, including electric generation, but not electric transmission and distribution.
- * Affected utilities must file ACC tariffs that unbundle rates for non-competitive services.
- * The ACC shall allow a reasonable opportunity for recovery of unmitigated stranded costs.
- * Absent an ACC waiver, prior to January 1, 2001, each affected utility (except certain electric cooperatives) must transfer all competitive generation assets and services either to an unaffiliated party or to a separate corporate affiliate. Under the Settlement Agreement, APS received a waiver to allow transfer of its competitive generation assets and services to affiliates no later than December 31, 2002.

1996 REGULATORY AGREEMENT. In April 1996, the ACC approved a regulatory agreement between the ACC Staff and APS. Based on the price reduction formula authorized in the agreement, the ACC approved retail price decreases of approximately \$49 million (\$29 million after income taxes), or 3.4%, effective July 1, 1996; approximately \$18 million (\$11 million after income taxes), or 1.2%, effective July 1, 1997; approximately \$17 million (\$10 million after income taxes), or 1.1%, effective July 1, 1998; and approximately \$11 million (\$7 million after income taxes), or 0.7%, effective as of July 1, 1999. The July 1, 1999 rate decrease was included in the first rate reduction under the Settlement Agreement discussed above. The regulatory agreement also required the parent company to infuse \$200 million of common equity into APS in annual payments of \$50 million from 1996 through 1999. All of these equity infusions were made by December 31, 1999.

LEGISLATION. In May 1998, a law was enacted to facilitate implementation of retail electric competition in Arizona. The law includes the following major provisions:

- * Arizona's largest government-operated electric utility (Salt River Project) and, at their option, smaller municipal electric systems must (i) make at least 20% of their 1995 retail peak demand available to electric service providers by December 31, 1998 and for all retail customers by December 31, 2000; (ii) decrease rates by at least 10% over a ten-year period beginning as early as January 1, 1991; (iii) implement procedures and public processes comparable to those already applicable to public service corporations for establishing the terms, conditions, and pricing of electric services as well as certain other decisions affecting retail electric competition;
- * describes the factors which form the basis of consideration by Salt River Project in determining stranded costs; and
- * metering and meter reading services must be provided on a competitive basis during the first two years of competition only for customers having demands in excess of one megawatt (and that are eligible for competitive generation services), and thereafter for all customers receiving competitive electric generation.

In addition, the Arizona legislature will review and make recommendations for the 1999-2000 legislative session on certain competitive issues.

GENERAL

APS cannot accurately predict the impact of full retail competition on its financial position, cash flows, or results of operation. As competition in the electric industry continues to evolve, APS will continue to evaluate strategies and alternatives that will position it to compete in the new regulatory environment.

FEDERAL

The Energy Policy Act of 1992 and recent rulemakings by FERC have promoted increased competition in the wholesale electric

power markets. APS does not expect these rules to have a material impact on its financial statements.

Several electric utility industry restructuring bills have been introduced during the 106th Congress. Several of these bills are written to allow consumers to choose their electricity suppliers beginning in 2000 and beyond. These bills, other bills that are expected to be introduced, and ongoing discussions at the federal level suggest a wide range of opinion that will need to be narrowed before any comprehensive restructuring of the electric utility industry can occur.

AGREEMENT WITH SALT RIVER PROJECT

On April 25, 1998, APS entered into a Memorandum of Agreement with Salt River Project in anticipation of, and to facilitate, the opening of the Arizona electric industry. The ACC approved the Agreement on February 18, 1999. The Agreement contains the following major components:

- * Both parties amended the Territorial Agreement to remove any barriers to the provision of competitive electricity supply and non-distribution services.
- * Both parties amended the Power Coordination Agreement to lower the price that APS pays Salt River Project for purchased power. During 1999, the price APS paid Salt River Project for purchased power was reduced by approximately \$3 million (pretax) and we estimate the decrease to be approximately \$16 million (pretax) in 2000 and lesser annual amounts through 2006.
- * Both parties agreed on certain legislative positions regarding electric utility restructuring at the state and federal levels.

Certain provisions of the Agreement (including those relating to the amendments of the Territorial Agreement and the Power Coordination Agreement) became effective upon the introduction of competition. See "Settlement Agreement" and "ACC Rules" above.

4. INCOME TAXES

INVESTMENT TAX CREDIT

Because of a 1994 rate settlement agreement, we accelerated amortization of substantially all of our investment tax credits (ITCs) over a five-year period (1995-1999).

INCOME TAX BENEFIT FROM DISCONTINUED OPERATIONS

The income tax benefit from discontinued operations for \$38 million resulted from resolution of tax issues related to a former subsidiary, Merabank, A Federal Savings Bank.

INCOME TAXES

Certain assets and liabilities are reported differently for income tax purposes than they are for financial statements. The tax effect of these differences is recorded as deferred taxes. We calculate deferred taxes using the current income tax rates.

APS has recorded a regulatory asset related to income taxes on its Balance Sheet in accordance with SFAS No. 71. This regulatory asset is for certain temporary differences, primarily the allowance for equity funds used during construction. APS amortizes this amount as the differences reverse. In accordance with the 1999 Settlement Agreement, APS is continuing to accelerate its amortization of the regulatory asset for income taxes over an eight-year period that will end June 30, 2004 (see Note 1). We are including this accelerated amortization in depreciation and amortization expense on the Statements of Income. The components of income tax expense for continuing operations are:

(thousands of dollars)

	Year Ended December 31,		
	1999	1998	1997
Current			
Federal	\$ 171,491	\$ 105,922	\$ 105,818
State	37,501	40,621	43,172
Total current	208,992	146,543	148,990
Deferred	(17,413)	41,566	28,729
Change in valuation allowance	--	--	(3,920)
ITC amortization	(23,514)	(23,516)	(23,518)
Total expense	\$ 168,065	\$ 164,593	\$ 150,281

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The following chart compares pretax income at the 35% federal income tax rate to income tax expense:

(thousands of dollars)

	Year Ended December 31,		
	1999	1998	1997
Federal income tax expense at 35% statutory rate	\$ 153,243	\$ 142,620	\$ 135,148
Increases (reductions) in tax expense resulting from:			
Tax under book depreciation	14,575	17,848	14,694
Preferred stock dividends of APS	356	3,396	4,481
ITC amortization	(23,514)	(23,516)	(23,518)
State income tax net of federal income tax benefit	23,030	22,764	24,497
Change in valuation allowance	--	--	(3,400)
Other	375	1,481	(1,621)
Income tax expense	\$ 168,065	\$ 164,593	\$ 150,281

The components of the net deferred income tax liability were as follows:

(thousands of dollars)

	Year Ended December 31,	
	1999	1998
DEFERRED TAX ASSETS		
Deferred gain on Palo Verde Unit 2 sale/leaseback	\$ 29,446	\$ 31,285
Other	133,748	127,903
Total deferred tax assets	163,194	159,188
DEFERRED TAX LIABILITIES		
Plant-related	1,104,769	1,117,253
Regulatory asset for income taxes	234,117	381,472
Total deferred tax liabilities	1,338,886	1,498,725
Accumulated deferred income taxes - net	\$1,175,692	\$1,339,537

5. LINES OF CREDIT

APS had committed lines of credit with various banks of \$350 million at December 31, 1999 and \$400 million at December 31, 1998, which were available either to support the issuance of commercial paper or to be used for bank borrowings. The commitment fees at December 31, 1999 and 1998 for these lines of credit ranged from 0.07% to 0.125% per annum. APS had long-term bank borrowings of \$50 million outstanding at December 31, 1999 and \$125 million outstanding at December 31, 1998.

APS' commercial paper borrowings outstanding were \$38 million at December 31, 1999 and \$179 million at December 31, 1998. The weighted average interest rate on commercial paper borrowings was 5.33% for the year ended December 31, 1999 and 5.88% for December 31, 1998. By Arizona statute, APS' short-term borrowings cannot exceed 7% of its total capitalization unless approved by the ACC.

Pinnacle West had a revolving line of credit of \$250 million at December 31, 1999 and 1998. The commitment fees were 0.10% in 1999 and 1998. Outstanding amounts at December 31, 1999 were \$56 million and at December 31, 1998 were \$42 million.

SunCor had revolving lines of credit totalling \$100 million at December 31, 1999 and \$55 million at December 31, 1998. The commitment fees were 0.125% in 1999 and 1998. SunCor had \$94 million outstanding at December 31, 1999 and \$38 million outstanding at December 31, 1998.

6. LONG-TERM DEBT

Borrowings under the APS mortgage bond indenture are secured by substantially all utility plant; SunCor's debt is collateralized by interests in certain real property; Pinnacle West's debt is unsecured. The following table presents the components of consolidated long-term debt outstanding at December 31, 1999 and December 31, 1998:

(thousands of dollars)

	Maturity Dates (a)	Interest Rates	December 31,	
			1999	1998
APS				
First mortgage bonds	1999	7.625%	\$ --	\$ 100,000
	2000	5.75%	100,000	100,000
	2002	8.125%	125,000	125,000
	2004	6.625%	80,000	85,000
	2020	10.25%	100,550	100,550
	2021	9.5%	45,140	45,140
	2021	9%	72,370	72,370
	2023	7.25%	70,650	91,900
	2024	8.75%	121,668	121,668
	2025	8%	47,075	88,300
	2028	5.5%	25,000	25,000
	2028	5.875%	154,000	154,000
Unamortized discount and premium			(5,860)	(6,482)
Pollution control bonds	2024-2034	Adjustable rate(b)	476,860	456,860
Funds held in trust account for certain pollution control bonds			(1,236)	--
Collateralized loan	1999-2000	5.375%-6.125%	10,000	20,000
Unsecured notes	2004	5.875%	125,000	--
Unsecured notes	2005	6.25%	100,000	100,000
Floating rate notes	2001	Adjustable rate(c)	250,000	--
Senior notes (d)	1999	6.72%	--	50,000
Senior notes (d)	2006	6.75%	83,695	100,000
Debentures	2025	10%	75,000	75,000
Bank loans	2003	Adjustable rate(e)	50,000	125,000
Capitalized lease obligation	1999-2001	7.48%(f)	7,199	11,612
			2,112,111	2,040,918
SUNCOR				
Revolving credit	2001-2002	(g)	94,000	38,139
Bank loan	2001	(h)	--	42,061
Notes payable	1998-2006	(i)	3,404	3,888
Bonds payable	2039	5.85%	5,335	--
			102,739	84,088
PINNACLE WEST				
Revolving credit	2001	(j)	56,000	42,000
Senior notes	2001-2003	(k)	50,000	50,000
			106,000	92,000
Total long-term debt			2,320,850	2,217,006
Less current maturities			114,798	168,045
Total long-term debt less current maturities			\$2,206,052	\$2,048,961

- (a) This schedule does not reflect the timing of redemptions that may occur prior to maturity.
- (b) The weighted-average rate for the year ended December 31, 1999 was 3.15% and for December 31, 1998 was 3.39%. Changes in short-term interest rates would affect the costs associated with this debt.
- (c) The weighted-average rate for the year ended December 31, 1999 was 6.8525%.
- (d) APS currently has outstanding \$84 million of first mortgage bonds ("senior note mortgage bonds") issued to the senior note trustee as collateral for the senior notes. The senior note mortgage bonds have the same interest rate, interest payment dates, maturity, and redemption provisions as the senior notes. APS' payments of principal, premium, and/or interest on the senior notes satisfy its corresponding payment obligations on the senior note mortgage bonds. As long as the senior note mortgage bonds secure the senior notes, the senior notes will effectively rank equally with the first mortgage bonds. When APS repays all of its first mortgage bonds, other than those that secure senior notes, the senior note mortgage bonds will no longer secure the senior notes and will cease to be outstanding.
- (e) The weighted-average rate for the year ended December 31, 1999 was 5.5% and for December 31, 1998 was 5.94%. Changes in short-term interest rates would affect the costs associated with this debt.
- (f) Represents the present value of future lease payments (discounted at an interest rate of 7.48%) on a combined cycle plant that was sold and leased back (see Note 10).
- (g) The weighted-average rate at December 31, 1999 was 8.51% and at December 31, 1998 was 7.41%. Interest for 1999 and 1998 was based on LIBOR plus 2% or prime plus 0.5%.
- (h) The weighted-average rate at December 31, 1998 was 7.76%. Interest for 1998 was based on LIBOR plus 2% or prime plus 0.5%.
- (i) Multiple notes primarily with variable interest rates based mostly on the lenders' prime plus 1.75%.
- (j) The weighted-average rate at December 31, 1999 was 6.825% and at December 31, 1998 was 5.66%. Interest for 1999 and 1998 was based on LIBOR plus 0.33%.
- (k) Includes two series of notes: \$25 million at 6.62% due 2001, and \$25 million at 6.87% due 2003.

The following is a list of principal payments due on total long-term debt and sinking fund requirements through 2004:

- * \$115 million in 2000
- * \$364 million in 2001
- * \$189 million in 2002
- * \$75 million in 2003 and
- * \$205 million in 2004.

First mortgage bondholders share a lien on substantially all utility plant assets (other than nuclear fuel, transportation equipment, and the combined cycle plant). The mortgage bond indenture restricts the payment of common stock dividends under certain conditions. These conditions did not exist at December 31, 1999.

7. PREFERRED STOCK OF APS

On March 1, 1999, APS redeemed all of its preferred stock. Preferred stock balances of APS at December 31, 1999 and 1998 are shown below:

(dollars in thousands, except per share amounts)	Number of Shares Outstanding December 31,			Par Value Outstanding December 31,		
	Authorized	1999	1998	Par Value Per Share	1999	1998
NON-REDEEMABLE:						
\$1.10 preferred	160,000	--	139,030	\$ 25.00	\$ --	\$ 3,476
\$2.50 preferred	105,000	--	86,440	50.00	--	4,322
\$2.36 preferred	120,000	--	32,520	50.00	--	1,626
\$4.35 preferred	150,000	--	62,986	100.00	--	6,299
Serial preferred:	1,000,000					
\$2.40 Series A		--	200,587	50.00	--	10,029
\$2.625 Series C		--	214,895	50.00	--	10,745
\$2.275 Series D		--	90,691	50.00	--	4,534
\$3.25 Series E		--	304,475	50.00	--	15,224
Serial preferred:	4,000,000					
Adjustable rate						
Series Q		--	295,851	100.00	--	29,585
Total		--	1,427,475		\$ --	\$85,840
REDEEMABLE:						
Serial preferred:						
\$10.00 Series U		--	94,011	\$100.00	\$ --	\$ 9,401

Redeemable preferred stock transactions of APS during each of the three years in the period ended December 31, 1999 are as follows:

(dollars in thousands)

	Number of Shares -----	Par Value Amount -----
Balance, December 31, 1996	530,000	\$ 53,000
Retirements		
\$10.00 Series U	(118,902)	(11,890)
\$7.875 Series V	(120,000)	(12,000)
	-----	-----
Balance, December 31, 1997	291,098	29,110
Retirements		
\$10.00 Series U	(197,087)	(19,709)
	-----	-----
Balance, December 31, 1998	94,011	9,401
Retirements		
\$10.00 Series U	(94,011)	(9,401)
	-----	-----
Balance, December 31, 1999	--	\$ --
	=====	=====

8. COMMON STOCK

Our common stock issued during each of the three years in the period ended December 31, 1999 is as follows:

(dollars in thousands)

	Number of Shares -----	Amount (a) -----
Balance, December 31, 1996	87,515,847	\$ 1,636,354
Common stock expense - net	--	(2,586)
Common stock retired	(2,690,900)	(79,997)
	-----	-----
Balance, December 31, 1997	84,824,947	1,553,771
Common stock expense - net	--	(3,128)
	-----	-----
Balance, December 31, 1998	84,824,947	1,550,643
Common stock expense - net	--	(13,194)
	-----	-----
Balance, December 31, 1999	84,824,947	\$ 1,537,449
	=====	=====

(a) Including premiums and expenses of preferred stock issues of APS.

9. RETIREMENT PLANS AND OTHER BENEFITS

PENSION PLANS

Through 1999, Pinnacle West and its subsidiaries each sponsored defined benefit pension plans for their own employees. As of January 1, 2000, these plans were consolidated and now a single pension plan is sponsored by Pinnacle West for the employees of Pinnacle West and its subsidiaries. A defined benefit plan specifies the amount of benefits a plan participant is to receive using information about the participant. The plan covers nearly all of our employees. Our employees do not contribute to this plan. Generally, we calculate the benefits under these plans based on age, years of service, and pay. We fund the plan by contributing at least the minimum amount required under Internal Revenue Service regulations but no more than the maximum tax-deductible amount. The assets in the plan at December 31, 1999 were mostly domestic and international common stocks and bonds and real estate.

Pension expense, including administrative costs, was:

- * \$4 million in 1999
- * \$11 million in 1998 and
- * \$9 million in 1997.

The following table shows the components of net pension cost before consideration of amounts capitalized or billed to others:

(thousands of dollars)	1999	1998	1997
	-----	-----	-----
Service cost - benefits earned during the period	\$ 24,982	\$ 24,817	\$ 20,435
Interest cost on projected benefit obligation	52,905	51,524	48,402
Expected return on plan assets	(68,335)	(54,513)	(47,959)
Amortization of:			
Transition asset	(3,226)	(3,226)	(3,226)
Prior service cost	2,078	2,078	2,078
Net periodic pension cost	\$ 8,404	\$ 20,680	\$ 19,730
	=====	=====	=====

The following table shows a reconciliation of the funded status of the plans to the amounts recognized in the balance sheets:

(thousands of dollars)	1999	1998
	-----	-----
Funded status - pension plan assets more than (less than) projected benefit obligation	\$ 37,275	\$ (41,034)
Unrecognized net transition asset	(20,008)	(23,235)
Unrecognized prior service cost	20,636	22,715
Unrecognized net actuarial gains	(101,153)	(38,668)
Net pension amount recognized in the balance sheets	\$ (63,250)	\$ (80,222)
	=====	=====

The following table sets forth the defined benefit pension plans' change in projected benefit obligation for the plan years 1999 and 1998:

(thousands of dollars)	1999	1998
	-----	-----
Projected pension benefit obligation at beginning of year	\$ 731,305	\$ 708,144
Service cost	24,982	24,817
Interest cost	52,905	51,524
Benefit payments	(29,694)	(29,636)
Actuarial gains	(36,860)	(23,544)
	-----	-----
Projected pension benefit obligation at end of year	\$ 742,638	\$ 731,305
	=====	=====

The following table sets forth the defined benefit pension plans' change in the fair value of plan assets for the plan years 1999 and 1998:

(thousands of dollars)	1999	1998
	-----	-----
Fair value of pension plan assets at beginning of year	\$ 690,271	\$ 619,412
Actual return on plan assets	93,977	86,527
Employer contributions	25,359	13,968
Benefit payments	(29,694)	(29,636)
	-----	-----
Fair value of pension plan assets at end of year	\$ 779,913	\$ 690,271
	=====	=====

We made the assumptions below to calculate the pension liability:

	1999	1998
	-----	-----
Discount rate	7.75%	7.00%
Rate of increase in compensation levels	4.25%	3.50%
Expected long-term rate of return on assets	10.00%	10.00%

EMPLOYEE SAVINGS PLAN BENEFITS

Through 1999, Pinnacle West and its subsidiaries each sponsored defined contribution savings plans for their own employees. As of January 1, 2000, these plans were consolidated and now a single defined contribution savings plan is sponsored by Pinnacle West for the employees of Pinnacle West and its subsidiaries. In a defined contribution plan, the benefits a participant will receive result from regular contributions they make to a participant account. Under this plan, we make matching contributions to participant accounts. We recorded expenses for this plan of approximately \$4 million for each of the last three years (1997-1999).

POSTRETIREMENT PLANS

We provide medical and life insurance benefits to retired employees. Employees must retire to become eligible for these retirement benefits, which are based on years of service and age. For the medical insurance plans, retirees make contributions to cover a portion of the plan costs. For the life insurance plan, retirees do not make contributions to cover a portion of the plan costs. We retain the right to change or eliminate these benefits.

Funding is based upon actuarially determined contributions that take tax consequences into account. Plan assets consist primarily of domestic stocks and bonds. The postretirement benefit expense was:

- * \$ 7 million for 1999
- * \$ 9 million for 1998 and
- * \$10 million for 1997.

The following table shows the components of net periodic postretirement benefit costs before consideration of amounts capitalized or billed to others:

(thousands of dollars)

	1999	1998	1997
	-----	-----	-----
Service cost - benefits earned during the period	\$ 8,939	\$ 7,890	\$ 7,046
Interest cost on accumulated benefit obligation	17,366	15,763	14,441
Expected return on plan assets	(18,454)	(12,001)	(8,706)
Amortization of:			
Transition asset	7,698	7,698	7,698
Net actuarial gains	(5,117)	(2,952)	(2,685)
	-----	-----	-----
Net periodic postretirement benefit cost	\$ 10,432	\$ 16,398	\$ 17,794
	=====	=====	=====

The following table shows a reconciliation of the funded status of the plan to the amounts recognized in the balance sheets:

(thousands of dollars)

	1999	1998
	-----	-----
Funded status - postretirement plan assets more than (less than) projected benefit obligation	\$ 25,549	\$ (24,269)
Unrecognized net obligation at transition	100,145	107,842
Unrecognized net actuarial gains	(128,309)	(86,692)
	-----	-----
Net postretirement amount recognized in the balance sheets	\$ (2,615)	\$ (3,119)
	=====	=====

The following table sets forth the postretirement benefit plans' change in accumulated benefit obligation for the plan years 1999 and 1998:

(thousands of dollars)

	1999	1998
	-----	-----
Accumulated postretirement benefit obligation at beginning of year	\$ 237,679	\$ 199,348
Service cost	8,939	7,890
Interest cost	17,366	15,763
Benefit payments	(8,761)	(10,378)
Actuarial (gains) losses	(23,234)	25,056
	-----	-----
Accumulated postretirement benefit obligation at end of year	\$ 231,989	\$ 237,679
	=====	=====

The following table sets forth the postretirement benefit plans' change in the fair value of plan assets for the plan years 1999 and 1998:

(thousands of dollars)

	1999	1998
	-----	-----
Fair value of postretirement plan assets at beginning of year	\$ 213,410	\$ 151,146
Actual return on plan assets	42,975	47,284
Employer contributions	9,914	25,327
Benefit payments	(8,761)	(10,347)
	-----	-----
Fair value of postretirement plan assets at the end of year	\$ 257,538	\$ 213,410
	=====	=====

We made the assumptions below to calculate the postretirement liability:

	1999 ----	1998 ----
Discount rate	7.75%	7.00%
Expected long-term rate of return on assets - after tax	8.77%	8.73%
Initial health care cost trend rate - under age 65	7.00%	7.50%
Initial health care cost trend rate - age 65 and over	6.00%	6.50%
Ultimate health care cost trend rate (reached in the year 2002)	5.00%	5.00%

Assuming a 1% increase in the health care cost trend rate, the 1999 cost of postretirement benefits other than pensions would increase by approximately \$5 million and the accumulated benefit obligation as of December 31, 1999 would increase by approximately \$38 million.

Assuming a 1% decrease in the health care cost trend rate, the 1999 cost of postretirement benefits other than pensions would decrease by approximately \$4 million and the accumulated benefit obligation as of December 31, 1999 would decrease by approximately \$30 million.

10. LEASES

In 1986, APS sold about 42% of its share of Palo Verde Unit 2 and certain common facilities in three separate sale leaseback transactions. APS accounts for these leases as operating leases. The gain of approximately \$140 million was deferred and is being amortized to operations expense over 29.5 years, the original term of the leases. There are options to renew the leases for two additional years and to purchase the property for fair market value at the end of the lease terms. Consistent with the ratemaking treatment, an amount equal to the annual lease payments is included in rent expense. A regulatory asset is recognized for the difference between lease payments and rent expense calculated on a straight-line basis.

The average amounts to be paid for the Palo Verde Unit 2 leases are approximately \$46 million in 2000 and approximately \$49 million per year in 2001-2015.

In accordance with the 1999 Settlement Agreement, APS is continuing to accelerate amortization of the regulatory asset for leases over an eight-year period that will end June 30, 2004 (see Note 1). The accelerated amortization is included in depreciation and amortization expense on the Statements of Income. The balance of this regulatory asset at December 31, 1999 was \$43 million. Lease expense was approximately \$42 million in each of the years 1997 through 1999.

APS has a capital lease on a combined cycle plant, which it sold and leased back. The lease requires semiannual payments of \$3 million through June 2001, and includes renewal and purchase options based on fair market value. The plant is included in plant in service at its original cost of \$54 million; accumulated amortization at December 31, 1999 was \$51 million.

In addition, we lease certain land, buildings, equipment, and miscellaneous other items through operating rental agreements with varying terms, provisions, and expiration dates. Miscellaneous lease expense was approximately \$10 million in 1999, \$13 million in 1998, and \$11 million in 1997.

Estimated future minimum lease commitments, excluding the Palo Verde and combined cycle leases, are as follows:

(dollars in millions)

Year ----	
2000	\$ 17
2001	19
2002	20
2003	20
2004	20
Thereafter	138

Total future commitments	\$234
	====

11. JOINTLY-OWNED FACILITIES

APS shares ownership of some of its generating and transmission facilities with other companies. The following table shows APS' interest in those jointly-owned facilities at December 31, 1999. APS' share of operating and maintaining these facilities is included in the income statement in operations and maintenance expense.

(dollars in thousands)

	Percent Owned by APS ---	Plant in Service -----	Accumulated Depreciation -----	Construction Work In Progress -----
Generating Facilities:				
Palo Verde Nuclear Generating Station Units 1 and 3	29.1%	\$1,829,633	\$ 751,567	\$ 7,220
Palo Verde Nuclear Generating Station Unit 2 (see Note 10)	17.0%	572,574	240,696	17,145
Four Corners Steam Generating Station Units 4 and 5	15.0%	139,209	71,333	364
Navajo Steam Generating Station Units 1, 2, and 3	14.0%	230,536	94,332	4,555
Cholla Steam Generating Station Common Facilities (a)	62.8%(b)	68,643	38,068	1,679
Transmission Facilities:				
ANPP 500 KV System	35.8%(b)	68,133	21,446	7
Navajo Southern System	31.4%(b)	27,364	17,550	42
Palo Verde - Yuma 500 KV System	23.9%(b)	11,728	4,388	36
Four Corners Switchyards	27.5%(b)	3,071	1,855	--
Phoenix - Mead System	17.1%(b)	36,434	1,768	--

(a) PacifiCorp owns Cholla Unit 4 and APS operates the unit for them. The common facilities at the Cholla Plant are jointly-owned.

(b) Weighted average of interests.

12. COMMITMENTS AND CONTINGENCIES

LITIGATION

We are party to various claims, legal actions, and complaints arising in the ordinary course of business. In our opinion, the ultimate resolution of these matters will not have a material adverse effect on our financial statements.

PALO VERDE NUCLEAR GENERATING STATION

Under the Nuclear Waste Policy Act, DOE was to develop the facilities necessary for the storage and disposal of spent fuel and to have the first such facility in operation by 1998. That facility was to be a permanent repository, but DOE has announced that such a repository now cannot be completed before 2010. In response to lawsuits filed over DOE's obligation to accept used nuclear fuel, the United States Court of Appeals for the D.C. Circuit has ruled that DOE had an obligation to begin accepting used nuclear fuel in 1998. However, the Court refused to issue an order compelling DOE to begin moving used fuel. Instead, the Court ruled that any damages to utilities should be sought under the standard contract signed between DOE and utilities, including APS. The United States Supreme Court has refused to grant review of the D.C. Circuit's decision.

APS has capacity in existing fuel storage pools at Palo Verde which, with certain modifications, could accommodate all fuel expected to be discharged from normal operation of Palo Verde through about 2002, and believes it could augment that wet storage with new facilities for on-site dry storage of spent fuel for an indeterminate period of operation beyond 2002, subject to obtaining any required governmental approvals. APS currently estimates that it will incur \$113 million (in 1999 dollars) over the life of Palo Verde for its share of the costs related to the on-site interim storage of spent nuclear fuel. As of December 31, 1999, APS had recorded a liability and a regulatory asset of \$37 million for on-site interim nuclear fuel storage costs related to nuclear fuel burned to date. APS currently believes that spent fuel storage or disposal methods will be available for use by Palo Verde to allow its continued operation beyond 2002.

The Palo Verde participants have insurance for public liability resulting from nuclear energy hazards to the full limit of liability under federal law. This potential liability is covered by primary

liability insurance provided by commercial insurance carriers in the amount of \$200 million and the balance by an industry-wide retrospective assessment program. If losses at any nuclear power plant covered by the programs exceed the accumulated funds, APS could be assessed retrospective premium adjustments. The maximum assessment per reactor under the program for each nuclear incident is approximately \$88 million, subject to an annual limit of \$10 million per incident. Based upon the 29.1% interest in the three Palo Verde units, APS' maximum potential assessment per incident for all three units is approximately \$77 million, with an annual payment limitation of approximately \$9 million.

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

FUEL AND PURCHASED POWER COMMITMENTS

APS is a party to various fuel and purchased power contracts with terms expiring from 2000 through 2020 that include required purchase provisions. APS estimates its 2000 contract requirements to be about \$177 million. However, this amount may vary significantly pursuant to certain provisions in such contracts that permit APS to decrease its required purchases under certain circumstances.

APS must reimburse certain coal providers for amounts incurred for coal mine reclamation. APS estimates its share of the total obligation to be about \$103 million. The portion of the coal mine reclamation obligation related to coal already burned is about \$57 million at December 31, 1999 and is included in "Deferred Credits-Other" in the Balance Sheet.

A regulatory asset has been established for amounts not yet recovered from ratepayers. In accordance with the 1999 Settlement Agreement with the ACC, APS is continuing to accelerate the amortization of the regulatory asset for coal mine reclamation over an eight-year period that will end June 30, 2004. Amortization is included in depreciation and amortization expense on the Statements of Income. The balance of the regulatory asset at December 31, 1999 was about \$41 million.

CONSTRUCTION PROGRAM

Consolidated capital expenditures in 2000 are estimated at \$591 million.

GENERATION EXPANSION

We are currently planning, through Pinnacle West Energy, a 650-megawatt expansion of our West Phoenix Power Plant, and the construction of a natural gas-fired electric generating station of up to 2,120 megawatts near Palo Verde, called Redhawk. Pinnacle West Energy's capital expenditures in 1999 were \$21 million. Projected capital expenditures for these projects are \$152 million in 2000; \$240 million in 2001; and \$245 million in 2002. We are also considering additional expansion over the next several years, which may result in additional expenditures. Pinnacle West Energy's capital expenditures will be funded with debt proceeds, and internally generated cash and debt proceeds from the parent company. Assuming all approvals are granted, we expect to begin construction at West Phoenix in the second quarter of 2000.

Pinnacle West Energy has signed a joint development agreement with Reliant Energy Power Generation, Inc. (Reliant) covering construction and operation of three new merchant plants. Pinnacle West Energy plans to contribute the first two units (1,060 megawatts) of the Redhawk project to the joint agreement. Construction is expected to start in the third quarter of 2000, with commercial operation scheduled in the summer of 2002. Reliant plans to contribute two new natural gas-fired projects (1,500 megawatts) in Nevada to the venture.

13. NUCLEAR DECOMMISSIONING COSTS

APS recorded \$11 million for nuclear decommissioning expense in each of the years 1999, 1998, and 1997. APS estimates it will cost about \$1.8 billion (\$472 million in 1999 dollars) to decommission its 29.1% share of the three Palo Verde units. The decommissioning costs are expected to be incurred over a 14-year period beginning in 2024. APS charges decommissioning costs to expense over each unit's operating license term and includes them in the accumulated depreciation balance until each unit is retired. Nuclear decommissioning costs are recovered in rates.

APS' current estimates are based on a 1998 site-specific study for Palo Verde that assumes the prompt removal/dismantlement method of decommissioning. An independent consultant prepared this study. APS is required to update the study every three years.

To fund the costs APS expects to incur to decommission the plant, APS established external decommissioning trusts in accordance with Nuclear Regulatory Commission (NRC) regulations. The trust accounts are reported in "Investments and Other Assets" on the Consolidated Balance Sheets at their market value of \$176 million at December 31, 1999 and \$146 million at December 31, 1998.

APS invests the trust funds primarily in fixed income securities and domestic stock and classifies them as available for sale. Realized and unrealized gains and losses are reflected in accumulated depreciation.

See Note 2 for a proposed accounting standard on accounting for certain liabilities related to closure or removal of long-lived assets.

14. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Consolidated quarterly financial information for 1999 and 1998 is as follows:

(dollars in thousands, except per share amounts)		1999			
QUARTER ENDED	March 31	June 30	September 30	December 31	
Operating revenues					
Electric	\$413,983	\$511,434	\$ 867,630	\$500,137	
Real estate	24,533	32,697	26,640	46,299	
Operating income (a)	\$ 91,599	\$148,968	\$ 240,294	\$ 97,916	
Income from continuing operations	\$ 30,690	\$ 68,702	\$ 125,579	\$ 44,801	
Income tax benefit from discontinued operations	--	--	38,000	--	
Extraordinary charge - net of income tax	--	--	(139,885)	--	
Net income	\$ 30,690	\$ 68,702	\$ 23,694	\$ 44,801	
Earnings (loss) per average common share outstanding					
Continuing operations - basic	\$ 0.36	\$ 0.81	\$ 1.48	\$ 0.53	
Discontinued operations - basic	--	--	0.45	--	
Extraordinary charge - basic	--	--	(1.65)	--	
Net Income - basic	\$ 0.36	\$ 0.81	\$ 0.28	\$ 0.53	
Continuing operations - diluted	\$ 0.36	\$ 0.81	\$ 1.48	\$ 0.53	
Discontinued operations - diluted	--	--	0.45	--	
Extraordinary charge - diluted	--	--	(1.65)	--	
Net Income - diluted	\$ 0.36	\$ 0.81	\$ 0.28	\$ 0.53	
Dividends declared per share (b)	\$ 0.325	\$ 0.65	\$ --	\$ 0.35	

(dollars in thousands, except per share amounts)		1998			
QUARTER ENDED	March 31	June 30	September 30	December 31	
Operating revenues					
Electric	\$380,423	\$441,715	\$740,734	\$443,526	
Real estate	34,161	28,916	18,276	42,835	
Operating income (a)	\$ 90,837	\$122,605	\$251,838	\$101,848	
Net income	\$ 31,086	\$ 48,997	\$127,281	\$ 35,528	
Earnings per average common share outstanding					
Net income - basic	\$ 0.37	\$ 0.58	\$ 1.50	\$ 0.42	
Net income - diluted	\$ 0.36	\$ 0.57	\$ 1.49	\$ 0.42	
Dividends declared per share (b)	\$ 0.30	\$ 0.60	\$ --	\$ 0.325	

(a) APS' utility business is seasonal in nature, with the peak sales periods generally occurring during the summer months. Comparisons among quarters of a year may not represent overall trends and changes in operations.

(b) Dividends for the quarters ending September 30, 1999 and September 30, 1998 were declared in June.

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

We believe that the carrying amounts of our cash equivalents and commercial paper are reasonable estimates of their fair values at December 31, 1999 and 1998 due to their short maturities.

We hold investments in debt and equity securities for purposes other than trading. The December 31, 1999 and 1998 fair values of such investments, which we determine by using quoted market values or by discounting cash flows at rates equal to our cost of capital, approximate their carrying amount.

The carrying value of our long-term debt (excluding a capitalized lease obligation) was \$2.31 billion on December 31, 1999, with an estimated fair value of \$2.29 billion. On December 31, 1998, the carrying value of our long-term debt (excluding a capitalized lease obligation) was \$2.21 billion, with an estimated fair value of \$2.27 billion. The fair value estimates are based on quoted market prices of the same or similar issues.

16. EARNINGS PER SHARE

In 1997 we adopted SFAS No. 128, "Earnings Per Share." This statement requires the presentation of both basic and diluted earnings per share on the financial statements. The following table presents earnings per average common share outstanding (EPS):

	1999	1998	1997
	----	----	----
Basic EPS:			
Continuing operations	\$ 3.18	\$2.87	\$2.76
Discontinued operations	0.45	--	--
Extraordinary charge	(1.65)	--	--
	-----	-----	-----
Net income	\$ 1.98	\$2.87	\$2.76
	=====	=====	=====
Diluted EPS:			
Continuing operations	\$ 3.17	\$2.85	\$2.74
Discontinued operations	0.45	--	--
Extraordinary charge	(1.65)	--	--
	-----	-----	-----
Net income	\$ 1.97	\$2.85	\$2.74
	=====	=====	=====

Dilutive stock options increased average common shares outstanding by 291,392 shares in 1999, 571,728 shares in 1998, and 519,800 shares in 1997. Total average common shares outstanding for the purposes of calculating diluted earnings per share were 85,008,527 shares in 1999, 85,345,946 shares in 1998, and 86,022,709 shares in 1997.

Options to purchase 506,734 shares of common stock were outstanding during the last quarter of 1999 but were not included in the computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares.

17. STOCK-BASED COMPENSATION

Pinnacle West offers two stock incentive plans for our and our subsidiaries' officers and key employees.

The most recent plan provides for the granting of new options (which may be non-qualified stock options or incentive stock options) of up to 3.5 million shares at a price per option not less than the fair market value on the date the option is granted. The plan also provides for the granting of any combination of shares of restricted stock, stock appreciation rights or dividend equivalents.

The awards outstanding under the incentive plans at December 31, 1999 approximate 1,441,124 non-qualified stock options, 159,837 restricted stock, and no incentive stock options, stock appreciation rights or dividend equivalents.

The FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation" which was effective beginning in 1996. The statement encourages, but does not require, that a company record compensation expense based on the fair value method. We continue to recognize expense based on Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees."

If we had recorded compensation expense based on the fair value method, our net income would have been reduced to the following pro forma amounts:

(thousands of dollars)	1999	1998	1997
	-----	-----	-----
Net income			
As reported	\$167,887	\$242,892	\$235,856
Pro forma (fair value method)	\$166,913	\$242,177	\$235,446
Net income per share - basic			
As reported	\$ 1.98	\$ 2.87	\$ 2.76
Pro forma (fair value method)	\$ 1.97	\$ 2.86	\$ 2.75

We did not consider compensation costs for stock options granted before January 1, 1995. Therefore, future reported net income may not be representative of this compensation cost calculation. In order to present the pro forma information above, we calculated the fair value of each fixed stock option in the incentive plans using the Black-Scholes option-pricing model. The fair value was calculated based on the date the option was granted. The following weighted-average assumptions were also used in order to calculate the fair value of the stock options:

	1999	1998	1997
	----	----	----
Risk-free interest rate	5.68%	4.54%	5.66%
Dividend yield	3.33%	3.03%	4.50%
Volatility	20.50%	18.80%	15.63%
Expected life (months)	60	60	60

The following table is a summary of the status of our stock option plans as of December 31, 1999, 1998, and 1997 and changes during the years ending on those dates:

	1999	1999 Weighted	1998	1998 Weighted	1997	1997 Weighted
	Shares	Average	Shares	Average	Shares	Average
	-----	-----	-----	-----	-----	-----
		Exercise Price		Exercise Price		Exercise Price
Outstanding at beginning of year	1,563,512	\$27.95	1,554,631	\$24.38	1,739,576	\$21.51
Granted	458,450	35.95	244,200	46.78	260,450	39.56
Exercised	(516,838)	18.19	(217,317)	23.09	(409,975)	21.60
Forfeited	(64,000)	40.36	(18,002)	33.42	(35,420)	27.10
	-----	-----	-----	-----	-----	-----
Outstanding at end of year	1,441,124	33.45	1,563,512	27.95	1,554,631	24.38
	-----	-----	-----	-----	-----	-----
Options exercisable at year-end	835,381	29.69	1,106,165	22.04	1,075,014	19.52
	-----	-----	-----	-----	-----	-----
Weighted average fair value of options granted during the year		7.05		8.15		5.83

The following table summarizes information about our stock option plans at December 31, 1999:

Exercise Prices Per Share	Outstanding	Weighted Average Remaining Contract Life	Options Exercisable
-----	-----	-----	-----
\$10.06	7,000	1.50	7,000
11.25	15,500	0.90	15,500
15.75	17,500	1.90	17,500
16.25	3,500	0.50	3,500
17.68	10,775	2.10	10,775
18.13	28,000	2.50	28,000
19.00	82,370	4.90	82,370
19.56	32,000	2.90	32,000
22.13	71,584	4.00	71,584
23.25	28,000	3.50	28,000
27.44	126,837	5.90	126,837
31.44	157,874	6.90	157,874
34.66	348,450	9.90	9,679
36.56	5,000	9.80	417
39.75	213,534	8.00	142,356
41.00	70,000	9.10	21,389
46.78	223,200	8.90	80,600
-----	-----	-----	-----
\$10.06-\$46.78	1,441,124	-----	835,381
-----	=====	-----	=====

18. BUSINESS SEGMENTS

Historically, we reported our operations as a single, integrated business segment. The basis of our reporting in previous years was due to APS' regulated operating environment. The ACC authorized a combined rate for supplying and delivering electricity to customers which was cost-based and was designed to recover APS' operating expenses and investment in electric utility assets and to provide a return on the investment.

As a result of the 1999 Settlement Agreement, our generation operations are now deregulated for accounting purposes. For the purposes of complying with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS No. 131), we are required to disclose information about its business segments separately. Accordingly, APS has separated identifiable expenses between the two segments and has allocated revenues and other expenses using a study that identifies the portion of its base rates related to generation and delivery. APS then used that information to develop the financial information of the business segments for each of the three years ended December 31, 1999 (or as of December 31, 1999 and 1998, with respect to assets). None of our revenues from external customers are attributed to, and none of our long-lived assets are located in, any foreign country.

Beginning in 1999, we have two principal business segments (determined by products, services, and regulatory environment) which consist of the generation of electricity (generation business segment), and the transmission and distribution of electricity (delivery business segment). The "Other" amounts include activity relating to other subsidiaries including SunCor, El Dorado, and APS Energy Services. Intercompany eliminations primarily relate to intercompany sales of electricity. Financial data for business segments is provided as follows:

BUSINESS SEGMENTS FOR YEAR ENDED DECEMBER 31, 1999 (in thousands)

	Generation	Delivery	Other	Eliminations	Total
Operating revenues	\$ 853,755	\$2,292,798	\$130,555	\$(853,755)	\$2,423,353
Operating expense	522,925	1,672,169	106,876	(853,755)	1,448,215
Operating margin	330,830	620,629	23,679	--	975,138
Depreciation and amortization	121,683	260,374	3,511	--	385,568
Interest and preferred stock dividend requirements	40,753	101,855	9,125	--	151,733
Pretax margin	168,394	258,400	11,043	--	437,837
Income taxes	47,976	111,512	8,577	--	168,065
Income tax benefit from discontinued operations - PNW	--	--	38,000	--	38,000
Extraordinary charge - net of income tax of \$94,115	--	(139,885)	--	--	(139,885)
Earnings for common stock	\$ 120,418	\$ 7,003	\$ 40,466	\$ --	\$ 167,887
Total assets	\$2,342,291	\$3,795,846	\$470,369	\$ --	\$6,608,506
Capital expenditures	\$ 110,798	\$ 241,469	\$126,581	\$ --	\$ 478,848

BUSINESS SEGMENTS FOR YEAR ENDED DECEMBER 31, 1998 (in thousands)

	Generation	Delivery	Other	Eliminations	Total
Operating revenues	\$ 858,340	\$2,006,398	\$124,188	\$(858,340)	\$2,130,586
Operating expense	522,696	1,414,753	104,061	(858,340)	1,183,170
Operating margin	335,644	591,645	20,127	--	947,416
Depreciation and amortization	135,406	241,168	3,105	--	379,679
Interest and preferred stock dividend requirements	37,045	108,670	14,537	--	160,252
Pretax margin	163,193	241,807	2,485	--	407,485
Income taxes	49,969	109,487	5,137	--	164,593
Earnings for common stock	\$ 113,224	\$ 132,320	\$ (2,652)	\$ --	\$ 242,892
Total assets	\$2,399,560	\$3,993,740	\$431,246	\$ --	\$6,824,546
Capital expenditures	\$ 85,767	\$ 241,638	\$ 73,133	\$ --	\$ 400,538

BUSINESS SEGMENTS FOR YEAR ENDED DECEMBER 31, 1997 (in thousands)

	Generation	Delivery	Other	Eliminations	Total
Operating revenues	\$ 803,647	\$1,878,553	\$116,473	\$(803,647)	\$1,995,026
Operating expense	471,992	1,297,802	98,519	(803,647)	1,064,666
Operating margin	331,655	580,751	17,954	--	930,360
Depreciation and amortization	131,684	233,987	2,614	--	368,285
Interest and preferred stock dividend requirements	50,311	104,410	21,217	--	175,938
Pretax margin	149,660	242,354	(5,877)	--	386,137
Income taxes	44,898	108,426	(3,043)	--	150,281
Earnings for common stock	\$ 104,762	\$ 133,928	\$ (2,834)	\$ --	\$ 235,856
Capital expenditures	\$ 84,960	\$ 217,047	\$ 67,248	\$ --	\$ 369,255

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENTS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

Financial Statements

See the Index to Consolidated Financial Statements and Financial Statement Schedule in Part II, Item 8.

EXHIBITS FILED	
EXHIBIT NO.	DESCRIPTION
-----	-----
10.1(a)	-- 2000 Management Variable Incentive Plan (Pinnacle West)
10.2(a)	-- 2000 Senior Management Variable Incentive Plan (Pinnacle West)
10.3(a)	-- 2000 Officer Variable Incentive Plan (Pinnacle West)
10.4(a)	-- 2000 Management Variable Incentive Plan (APS)
10.5(a)	-- 2000 Senior Management Variable Incentive Plan (APS)
10.6(a)	-- 2000 Officers Variable Incentive Plan (APS)
10.7(a)	-- First Amendment effective as of January 1, 1999, to the Pinnacle West Capital Corporation, Arizona Public Service Company, SunCor Development Company and El Dorado Investment Company Deferred Compensation Plan
10.8(a)	-- Fourth Amendment dated December 28, 1999 to the Arizona Public Service Company Directors Deferred Compensation Plan
10.9(a)	-- Letter Agreement dated December 13, 1999 between APS and William L. Stewart
10.10(a)	-- Second Amendment effective January 1, 2000 to the Pinnacle West Capital Corporation, Arizona Public Service Company, SunCor Development Company and El Dorado Investment Company Deferred Compensation Plan
10.11(a)	-- First Amendment dated December 7, 1999 to the Pinnacle West Capital Corporation Stock Option and Incentive Plan
10.12(a)	-- First Amendment dated December 7, 1999 to the Pinnacle West Capital Corporation 1994 Long-Term Incentive Plan
10.13(a)	-- Pinnacle West Capital Corporation Supplemental Excess Benefit Retirement Plan, as amended and restated, dated December 7, 1999
10.14(a)	-- Trust for the Pinnacle West Capital Corporation, Arizona Public Service Company and SunCor Development Company Deferred Compensation Plans dated August 1, 1996
10.15(a)	-- First Amendment dated December 7, 1999 to the Trust for the Pinnacle West Capital Corporation, Arizona Public Service Company and SunCor Development Company Deferred Compensation Plans

10.16(a) -- Letter Agreement dated July 28, 1995 between Arizona Public Service Company and Armando B. Flores

10.17(a) -- Letter Agreement dated October 3, 1997 between Arizona Public

Service Company and James M. Levine

21 -- Subsidiaries of the Company

23.1 -- Consent of Deloitte & Touche LLP

27.1 -- Financial Data Schedule

In addition to those Exhibits shown above, the Company hereby incorporates

the following Exhibits pursuant to Exchange Act Rule 12b-32 and Regulation ss.229.10(d) by reference to the filings set forth below:

Exhibit No.	Description	Originally Filed as Exhibit:	File No.b	Date Effective
3.1	Articles of Incorporation, restated as of July 29, 1988	19.1 to the Company's September 1988 Form 10-Q Report	1-8962	11-14-88
3.2	Bylaws, amended as of December 15, 1999	4.1 to the Company's Registration Statement on Form S-8 No. 333-95035	1-8962	1-20-00
4.1	Mortgage and Deed of Trust Relating to APS' First Mortgage Bonds, together with forty-eight indentures supplemental thereto	4.1 to APS' September 1992 Form 10-Q Report	1-4473	11-9-92
4.2	Forty-ninth Supplemental Indenture	4.1 to APS' 1992 Form 10-K Report	1-4473	3-30-93
4.3	Fiftieth Supplemental Indenture	4.2 to APS' 1993 Form 10-K Report	1-4473	3-30-94
4.4	Fifty-first Supplemental Indenture	4.1 to APS' August 1, 1993 Form 8-K Report	1-4473	9-27-93
4.5	Fifty-second Supplemental Indenture	4.1 to APS' September 30, 1993 Form 10-Q Report	1-4473	11-15-93
4.6	Fifty-third Supplemental Indenture	4.5 to APS' Registration Statement No. 33-61228 by means of February 23, 1994 Form 8-K Report	1-4473	3-1-94
4.7	Fifty-fourth Supplemental Indenture	4.1 to APS' Registration Statements Nos. 33-61228, 33-55473, 33-64455 and 333-15379 by means of November 19, 1996 Form 8-K Report	1-4473	11-22-96

Exhibit No. -----	Description -----	Originally Filed as Exhibit: -----	File No.b -----	Date Effective -----
4.8	Fifty-fifth Supplemental Indenture	4.8 to APS' Registration Statement Nos. 33-55473, 33-64455 and 333-15379 by means of April 7, 1997 Form 8-K Report	1-4473	4-9-97
4.9	Agreement, dated March 21, 1994, relating to the filing of instruments defining the rights of holders of APS long-term debt not in excess of 10% of APS' total assets	4.1 to APS' 1993 Form 10-K Report	1-4473	3-30-94
4.10	Indenture dated as of January 1, 1995 among APS and The Bank of New York, as Trustee	4.6 to APS' Registration Statement Nos. 33-61228 and 33-55473 by means of January 1, 1995 Form 8-K Report	1-4473	1-11-95
4.11	First Supplemental Indenture dated as of January 1, 1995	4.4 to APS' Registration Statement Nos. 33-61228 and 33-55473 by means of January 1, 1995 Form 8-K Report	1-4473	1-11-95
4.12	Indenture dated as of November 15, 1996 among APS and The Bank of New York, as Trustee	4.5 to APS' Registration Statements Nos. 33-61228, 33-55473, 33-64455 and 333-15379 by means of November 19, 1996 Form 8-K Report	1-4473	11-22-96
4.13	First Supplemental Indenture	4.6 to APS' Registration Statements Nos. 33-61228, 33-55473, 33-64455 and 333-15379 by means of November 19, 1996 Form 8-K Report	1-4473	11-22-96
4.14	Second Supplemental Indenture	4.10 to APS' Registration Statement Nos. 33-55473, 33-64455 and 333-15379 by means of April 7, 1997 Form 8-K Report	1-4473	4-9-97

Exhibit No. -----	Description -----	Originally Filed as Exhibit: -----	File No.b -----	Date Effective -----
4.15	Specimen Certificate of Pinnacle West Capital Corporation Common Stock, no par value	4.2 to the Company's 1988 Form 10-K Report	1-8962	3-31-89
4.16	Agreement, dated March 29, 1988, relating to the filing of instruments defining the rights of holders of long-term debt not in excess of 10% of the Company's total assets	4.1 to the Company's 1987 Form 10-K Report	1-8962	3-30-88
4.17	Indenture dated as of January 15, 1998 among APS and Chase Manhattan Bank, as Trustee	4.10 to APS' Registration The Statement Nos. 333-15379 333-27551 by means of January 13, 1998 Form 8-K Report	1-4473	1-16-98
4.18	First Supplemental Indenture dated as of January 15, 1998	4.3 to APS' Registration Statement Nos. 333-15379 and 333-27551 by means of January 13, 1998 Form 8-K Report	1-4473	1-16-98
4.19	Second Supplemental Indenture dated as of February 15, 1999	4.3 to APS' Registration Statement Nos. 333-27551 and 333-58445 by means of February 18, 1999 Form 8-K Report	1-4473	2-22-99
4.20	Third Supplemental Indenture dated as of November 1, 1999	4.5 to APS' Registration Statement No. 333-58445 by means of November 2, 1999 Form 8-K Report	1-4473	11-5-99
4.21	Amended and Restated Rights Agreement, dated as of March 26, 1999, between Pinnacle West Capital Corporation and BankBoston, N.A., as Rights Agent, including (i) as Exhibit A thereto the form of Amended Certificate of Designation of Series A Participating Preferred Stock of Pinnacle West Capital Corporation, (ii) as Exhibit B thereto the form of Rights Certificate and (iii) as Exhibit C thereto the Summary of Right to Purchase Preferred Shares	4.1 to the Company's March 22, 1999 Form 8-K Report	1-8962	4-19-99

Exhibit No. -----	Description -----	Originally Filed as Exhibit: -----	File No.b -----	Date Effective -----
10.18(a)	Employment Agreement, effective as of February 5, 1990, between Richard Snell and the Company	10.1 to the Company's 1990 Form 10-K Report	2-96386	3-28-91
10.19	Two separate Decommissioning Trust Agreements (relating to PVNGS Units 1 and 3, respectively), each dated July 1, 1991, between APS and Mellon Bank, N.A., as Decommissioning Trustee	10.2 to APS' September 1991 Form 10-Q Report	1-4473	11-14-91
10.20	Amendment No. 1 to Decommissioning Trust Agreement (PVNGS Unit 1), dated as of December 1, 1994	10.1 to APS' 1994 Form 10-K Report	1-4473	3-30-95
10.21	Amendment No. 1 to Decommissioning Trust Agreement (PVNGS Unit 3), dated as of December 1, 1994	10.2 to APS' 1994 Form 10-K Report	1-4473	3-30-95
10.22	Amendment No. 2 to APS Decommissioning Trust Agreement (PVNGS Unit 1) dated as of July 1, 1991	10.4 to APS' 1996 Form 10-K Report	1-4473	3-28-97
10.23	Amendment No. 2 to APS Decommissioning Trust Agreement (PVNGS Unit 3) dated as of July 1, 1991	10.6 to APS' 1996 Form 10-K Report	1-4473	3-28-97

Exhibit No. -----	Description -----	Originally Filed as Exhibit: -----	File No.b -----	Date Effective -----
10.24	Amended and Restated Decommissioning Trust Agreement (PVNGS Unit 2) dated as of January 31, 1992, among APS, Mellon Bank, N.A., as Decommissioning Trustee, and State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee under two separate Trust Agreements, each with a separate Equity Participant, and as Lessor under two separate Facility Leases, each relating to an undivided interest in PVNGS Unit 2	10.1 to the Company's 1991 Form 10-K Report	1-8962	3-26-92
10.25	First Amendment to Amended and Restated Decommissioning Trust Agreement (PVNGS Unit 2), dated as of November 1, 1992	10.2 to APS' 1992 Form 10-K Report	1-4473	3-30-93
10.26	Amendment No. 2 to Amended and Restated Decommissioning Trust Agreement (PVNGS Unit 2), dated as of November 1, 1994	10.2 to APS' 1994 Form 10-K Report	1-4473	3-30-95
10.27	Amendment No. 3 to Amended and Restated Decommissioning Trust Agreement (PVNGS Unit 2), dated as of November 1, 1994	10.1 to APS' June 1996 Form 10-Q Report	1-4473	8-9-96
10.28	Amendment No. 4 to Amended and Restated Decommissioning Trust Agreement (PVNGS Unit 2) dated as of January 31, 1992	APS 10.5 to APS' 1996 Form 10-K Report	1-4473	3-28-97
10.29	Asset Purchase and Power Exchange Agreement dated September 21, 1990 between APS and PacifiCorp, as amended as of October 11, 1990 and as of July 18, 1991	10.1 to APS' June 1991 Form 10-Q Report	1-4473	8-8-91

Exhibit No. -----	Description -----	Originally Filed as Exhibit: -----	File No.b -----	Date Effective -----
10.30	Long-Term Power Transaction Agreement dated September 21, 1990 between APS and PacifiCorp, as amended as of October 11, 1990, and as of July 8, 1991	10.2 to APS' June 1991 Form 10-Q Report	1-4473	8-8-91
10.31	Amendment No. 1 dated April 5, 1995 to the Long-Term Power Transaction Agreement and Asset Purchase and Power Exchange Agreement between PacifiCorp and APS	10.3 to APS' 1995 Form 10-K Report	1-4473	3-29-96
10.32	Restated Transmission Agreement between PacifiCorp and APS dated April 5, 1995	10.4 to APS' 1995 Form 10-K Report	1-4473	3-29-96
10.33	Contract among PacifiCorp, APS and United States Department of Energy Western Area Power Administration, Salt Lake Area Integrated Projects for Firm Transmission Service dated May 5, 1995	10.5 to APS' 1995 Form 10-K Report	1-4473	3-29-96
10.34	Reciprocal Transmission Service Agreement between APS and PacifiCorp dated as of March 2, 1994	10.6 to APS' 1995 Form 10-K Report	1-4473	3-29-96
10.35	Contract, dated July 21, 1984, with DOE providing for the disposal of nuclear fuel and/or high-level radioactive waste, ANPP	10.31 to the Company's Form S-14 Registration Statement	2-96386	3-13-85
10.36	Indenture of Lease with Navajo Tribe of Indians, Four Corners Plant	5.01 to APS' Form S-7 Registration Statement	2-59644	9-1-77
10.37	Supplemental and Additional Indenture of Lease, including amendments and supplements to original lease with Navajo Tribe of Indians, Four Corners Plant	5.02 to APS' Form S-7 Registration Statement	2-59644	9-1-77
10.38	Amendment and Supplement No. 1 to Supplemental and Additional Indenture of Lease Four Corners, dated April 25, 1985	10.36 to the Company's Registration Statement on Form 8-B Report	1-8962	7-25-85

Exhibit No. -----	Description -----	Originally Filed as Exhibit: -----	File No.b -----	Date Effective -----
10.39	Application and Grant of multi-party rights-of-way and easements, Four Corners Plant Site	5.04 to APS' Form S-7 Registration Statement	2-59644	9-1-77
10.40	Application and Amendment No. 1 to Grant of multi-party rights-of-way and easements, Four Corners Power Plant Site dated April 25, 1985	10.37 to the Company's Registration Statement on Form 8-B	1-8962	7-25-85
10.41	Application and Grant of Arizona Public Service Company rights-of-way and easements, Four Corners Plant Site	5.05 to APS' Form S-7 Registration Statement	2-59644	9-1-77
10.42	Application and Amendment No. 1 to Grant of Arizona Public Service Company rights-of-way and easements, Four Corners Power Plant Site dated April 25, 1985	10.38 to the Company's Registration Statement on Form 8-B	1-8962	7-25-85
10.43	Indenture of Lease, Navajo Units 1, 2, and 3	5(g) to APS' Form S-7 Registration Statement	2-36505	3-23-70
10.44	Application and Grant of rights-of-way and easements, Navajo Plant	5(h) to APS' Form S-7 Registration Statement	2-36505	3-23-70
10.45	Water Service Contract Assignment with the United States Department of Interior, Bureau of Reclamation, Navajo Plant	5(1) to APS' Form S-7 Registration Statement	2-394442	3-16-71
10.46	Arizona Nuclear Power Project Participation Agreement, dated August 23, 1973, among APS Salt River Project Agricultural Improvement and Power District, Southern California Edison Company, Public Service Company of New Mexico, El Paso Electric Company, Southern California Public Power Authority, and Department of Water and Power of the City of Los Angeles, and amendments 1-12 thereto	10.1 to APS' 1988 Form 10-K	1-4473	3-8-89

Exhibit No. -----	Description -----	Originally Filed as Exhibit: -----	File No.b -----	Date Effective -----
10.47	Amendment No. 13, dated as of April 22, 1991, to Arizona Nuclear Power Project Participation Agreement, dated August 23, 1973, among APS, Salt River Project Agricultural Improvement and Power District, Southern California Edison Company, Public Service Company of New Mexico, El Paso Electric Company, Southern California Public Power Authority, and Department of Water and Power of the City of Los Angeles	10.1 to APS' March 1991 Form 10-Q	1-4473	5-15-91
10.48(c)	Facility Lease, dated as of August 1, 1986, between State Street Bank and Trust Company, as successor to The First National Bank of Boston, in its capacity as Owner Trustee, as Lessor, and APS, as Lessee	4.3 to APS' Form S-3 Registration Statement	33-9480	10-24-86
10.49(c)	Amendment No. 1, dated as of November 1, 1986, to Facility Lease, dated as of August 1, 1986, between State Street Bank and Trust Company, as successor to The First National Bank of Boston, in its capacity as Owner Trustee, as Lessor, and APS, as Lessee	10.5 to APS' September 1986 Form 10-Q Report by means of Amendment No. on December 3, 1986 Form 8	1-4473	12-4-86
10.50(c)	Amendment No. 2 dated as of June 1, 1987 to Facility Lease dated as of August 1, 1986 between State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Lessor, and APS, as Lessee	10.3 to APS' 1988 Form 10-K Report	1-4473	3-8-89
10.51(c)	Amendment No. 3, dated as of March 17, 1993, to Facility Report Lease, dated as of August 1, 1986, between State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Lessor, and APS, as Lessee	10.3 to APS' 1992 Form 10-K	1-4473	3-30-93

Exhibit No. -----	Description -----	Originally Filed as Exhibit: -----	File No.b -----	Date Effective -----
10.52	Facility Lease, dated as of December 15, 1986, between State Street Bank and Trust Company, as successor to The First National Bank of Boston, in its capacity as Owner Trustee, as Lessor, and APS, as Lessee	10.1 to APS' November 18 1986 Form 8-K Report	1-4473	1-20-87
10.53	Amendment No. 1, dated as of August 1, 1987, to Facility Lease, dated as of December 15, 1986, between State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Lessor, and APS, as Lessee	4.13 to APS' Form S-3 Registration Statement No. 33-9480 by means of August 1, 1987 Form 8-K Report	1-4473	8-24-87
10.54	Amendment No. 2, dated as of March 17, 1993, to Facility Lease, dated as of December 15, 1986, between State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Lessor, and APS, as Lessee	10.4 to APS' 1992 Form 10-K Report	1-4473	3-30-93
10.55(a)	Directors' Deferred Compensation Plan, as restated, effective January 1, 1986	10.1 to APS' June 1986 Form 10-Q Report	1-4473	8-13-86
10.56(a)	Second Amendment to the Arizona Public Service Company Deferred Compensation Plan, effective as of January 1, 1993	10.2 to APS' 1993 Form 10-K Report	1-4473	3-30-94
10.57(a)	Third Amendment to the Arizona Public Service Company Directors' Deferred Compensation Plan, effective as of May 1, 1993	10.1 to APS' September 1994 Form 10-Q	1-4473	11-10-94
10.58(a)	Arizona Public Service Company Deferred Compensation Plan, as restated, effective January 1, 1984, and the second and third amendments thereto, dated December 22, 1986, and December 23, 1987 respectively	10.4 to APS' 1988 Form 10-K Report	1-4473	3-8-89

Exhibit No. -----	Description -----	Originally Filed as Exhibit: -----	File No.b -----	Date Effective -----
10.59	Third Amendment to the Arizona Public Service Company Deferred Compensation Plan, effective as of January 1, 1993	10.3 to APS' 1993 Form 10-K Report	1-4473	3-30-94
10.60(a)	Fourth Amendment to the Arizona Public Service Company Deferred Compensation Plan effective as of May 1, 1993	10.2 to APS' September 1994 Form 10-Q Report	1-4473	11-10-94
10.61(a)	Fifth Amendment to the Arizona Public Service Company Deferred Compensation Plan	10.3 to APS' 1996 Form 10-K Report	1-4473	3-28-97
10.62(a)	Pinnacle West Capital Corporation, Arizona Public Service Company, SunCor Development Company and El Dorado Investment Company Deferred Compensation Plan as amended and restated effective January 1, 1996	10.10 to APS' 1995 Form 10-K Report	1-4473	3-29-96
10.63(a)	Arizona Public Service Company Supplemental Excess Benefit Retirement Plan as amended and restated on December 20, 1995	10.11 to APS' 1995 Form 10-K Report	1-4473	3-29-96
10.64(a)	Pinnacle West Capital Corporation and Arizona Public Service Company Directors' Retirement Plan, effective as of January 1, 1995	10.7 to APS' 1994 Form 10-K Report	1-4473	3-30-95
10.65(a)	Letter Agreement dated December 21, 1993, between APS and William L. Stewart	10.7 to APS' 1994 Form 10-K Report	1-4473	3-30-96
10.66(a)	Letter Agreement dated as of January 1, 1996 between APS and Robert G. Matlock & Associates, Inc. for consulting services	10.8 to APS' 1995 Form 10-K Report	1-4473	3-29-96
10.67(a)	Letter Agreement dated August 16, 1996 between APS and William L. Stewart	10.8 to APS' 1996 Form 10-K Report	1-4473	3-28-97
10.68(a)	Letter Agreement between APS and William L. Stewart	10.2 to APS' September 1997 Form 10-Q Report	1-4473	11-12-97

Exhibit No. -----	Description -----	Originally Filed as Exhibit: -----	File No.b -----	Date Effective -----
10.69(ad)	Key Executive Employment and Severance Agreement between Pinnacle West and certain executive officers of Pinnacle West and its subsidiaries	10.1 to June 1999 Form 10-Q Report	1-8962	8-16-99
10.70(a)	Pinnacle West Capital Corporation Stock Option and Incentive Plan	10.1 to APS' 1992 Form 10-K Report	1-4473	3-30-93
10.71(a)	Pinnacle West Capital Corporation 1994 Long-Term Incentive Plan, effective as of March 23, 1994	A to the Proxy Statement for the Plan Report for the Company's 1994 Annual Meeting of Shareholders	1-8962	4-16-94
10.72(a)	Pinnacle West Capital Corporation Director Equity Participation Plan	B to the Proxy Statement for the Plan Report for the Company's 1994 Annual Meeting of Shareholders	1-8962	4-16-94
10.73	Agreement No. 13904 (Option and Purchase of Effluent) with Cities of Phoenix, Glendale, Mesa, Scottsdale, Tempe, Town of Youngtown, and Salt River Project Agricultural Improvement and Power District, dated April 23, 1973	10.3 to APS' 1991 Form 10-K Report	1-4473	3-19-92
10.74	Agreement for the Sale and purchase of Wastewater Effluent with City of Tolleson and Salt River Agricultural Improvement and Power District, dated June 12, 1981, including Amendment No. 1 dated as of November 12, 1981 and Amendment No. 2 dated as of June 4, 1986	10.4 to A PS' 1991 Form 10-K Report	1-4473	3-19-92
10.75(a)	First Amendment to Employment Agreement, effective March 31, 1995, between Richard Snell and the Company	10.2 to the Company's 1995 Form 10-K Report	1-8962	4-1-96
10.76(a)	Second Amendment to Employment Agreement, effective February 5, 1997, between Richard Snell and the Company	10.2 to the Company's 1996 Form 10-K Report	1-8962	3-31-97
10.77(a)	APS Director Equity Plan	10.1 to September 1997 Form 10-Q Report	1-4473	11-12-97

Exhibit No. -----	Description -----	Originally Filed as Exhibit: -----	File No.b -----	Date Effective -----
10.78	Territorial Agreement between the Company and Salt River Project	10.1 to APS' March 1998 Form 10-Q Report	1-4473	5-15-98
10.79	Power Coordination Agreement between the Company and Salt River Project	10.2 to APS' March 1998 Form 10-Q Report	1-4473	5-15-98
10.80	Memorandum of Agreement between the Company and Salt River Project	10.3 to APS' March 1998 Form 10-Q Report	1-4473	5-15-98
10.81	Addendum to Memorandum of Agreement between APS and Salt River Project dated as of May 19, 1998	10.2 to APS' May 19, 1998 Form 8-K Report	1-4473	6-26-98
99.1	Collateral Trust Indenture among PVNGS II Funding Corp., Inc., APS and Chemical Bank, as Trustee	4.2 to APS' 1992 Form 10 K Report	1-4473	3-30-93
99.2	Supplemental Indenture to Collateral Trust Indenture among PVNGS II Funding Corp., Inc., APS and Chemical Bank, as Trustee	4.3 to APS' 1992 Form 10 K Report	1-4473	3-30-93
99.3(c)	Participation Agreement, dated as of August 1, 1986, among PVNGS Funding Corp., Inc., Bank of America National Trust and Savings Association, State Street Bank and Trust Company, as successor to The First National Bank of Boston, in its individual capacity and as Owner Trustee, Chemical Bank, in its individual capacity and as Indenture Trustee, APS, and the Equity Participant named therein	28.1 to APS' September 1992 Form 10-Q Report	1-4473	11-9-92

Exhibit No. -----	Description -----	Originally Filed as Exhibit: -----	File No.b -----	Date Effective -----
99.4(c)	Amendment No. 1 dated as of November 1, 1986, to Participation Agreement, dated as of August 1, 1986, among PVNGS Funding Corp., Inc., Bank of America National Trust and Savings Association, State Street Bank and Trust Company, as successor to The First National Bank of Boston, in its individual capacity and as Owner Trustee, Chemical Bank, in its individual capacity and as Indenture Trustee, APS, and the Equity Participant named therein	10.8 to APS' September 1986 Form 10-Q Report by means of Amendment No. 1, on December 3, 1986 Form 8	1-4473	12-4-86
99.5(c)	Amendment No. 2, dated as of March 17, 1993, to Participation Agreement, dated as of August 1, 1986, among PVNGS Funding Corp., Inc., PVNGS II Funding Corp., Inc., State Street Bank and Trust Company, as successor to The First National Bank of Boston, in its individual capacity and as Owner Trustee, Chemical Bank, in its individual capacity and as Indenture Trustee, APS, and the Equity Participant named therein	28.4 to APS' 1992 Form 10-K Report	1-4473	3-30-93
99.6(c)	Trust Indenture, Mortgage, Security Agreement and Assignment of Facility Lease, dated as of August 1, 1986, between State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee, and Chemical Bank, as Indenture Trustee	4.5 to APS' Form S-3 Registration Statement	33-9480	10-24-86

Exhibit No. -----	Description -----	Originally Filed as Exhibit: -----	File No.b -----	Date Effective -----
99.7(c)	Supplemental Indenture No. 1, dated as of November 1, 1986 to Trust Indenture, Mortgage, Security Agreement and Assignment of Facility Lease, dated as of August 1, 1986, between State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee, and Chemical Bank, as Indenture Trustee	10.6 to APS' September 1986 Form 10-Q Report by means of Amendment No. 1 on December 3, 1986 Form 8	1-4473	12-4-86
99.8(c)	Supplemental Indenture No. 2 to Trust Indenture, Mortgage, Security Agreement and Assignment of Facility Lease, dated as of August 1, 1986, between State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee, and Chemical Bank, as Lease Indenture Trustee	28.14 to APS' 1992 Form 10-K Report	1-4473	3-30-93
99.9(c)	Assignment, Assumption and Further Agreement, dated as of August 1, 1986, between APS and State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee	28.3 to APS' Form S-3 Registration Statement	33-9480	10-24-86
99.10(c)	Amendment No. 1, dated as of November 1, 1986, to Assignment, Assumption and Further Agreement, dated as of August 1, 1986, between APS and State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee	10.10 to APS' September 1986 Form 10-Q Report by means of Amendment No. 1 on December 3, 1986 Form 8	1-4473	12-4-86
99.11(c)	Amendment No. 2, dated as of March 17, 1993, to Assignment, Assumption and Further Agreement, dated as of August 1, 1986, between APS and State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee	28.6 to APS' 1992 Form 10-K Report	1-4473	3-30-93

Exhibit No. -----	Description -----	Originally Filed as Exhibit: -----	File No.b -----	Date Effective -----
99.12	Participation Agreement, dated as of December 15, 1986, among PVNGS Funding Report Corp., Inc., State Street Bank and Trust Company, as successor to The First National Bank of Boston, in its individual capacity and as Owner Trustee, Chemical Bank, in its individual capacity and as Indenture Trustee under a Trust Indenture, APS, and the Owner Participant named therein	28.2 to APS' September 1992 Form 10-Q Report	1-4473	11-9-92
99.13	Amendment No. 1, dated as of August 1, 1987, to Participation Agreement, dated as of December 15, 1986, among PVNGS Funding Corp., Inc. as Funding Corporation, State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee, Chemical Bank, as Indenture Trustee, APS, and the Owner Participant named therein	28.20 to APS' Form S-3 Registration Statement No. 33-9480 by means of a November 6, 1986 Form 8-K Report	1-4473	8-10-87
99.14	Amendment No. 2, dated as of March 17, 1993, to Participation Agreement, dated as of December 15, 1986, among PVNGS Funding Corp., Inc., PVNGS II Funding Corp., Inc., State Street Bank and Trust Company, as successor to The First National Bank of Boston, in its individual capacity and as Owner Trustee, Chemical Bank, in its individual capacity and as Indenture Trustee, APS, and the Owner Participant named therein	28.5 to APS' 1992 Form 10-K Report	1-4473	3-30-93

Exhibit No. -----	Description -----	Originally Filed as Exhibit: -----	File No.b -----	Date Effective -----
99.15	Trust Indenture, Mortgage Security Agreement and Assignment of Facility Lease, dated as of December 15, 1986, between State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee, and Chemical Bank, as Indenture Trustee	10.2 to APS' November 18, 1986 Form 10-K Report	1-4473	1-20-87
99.16	Supplemental Indenture No. 1, dated as of August 1, 1987, to Trust Indenture, Mortgage, Security Agreement and Assignment of Facility Lease, dated as of December 15, 1986, between State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee, and Chemical Bank, as Indenture Trustee	4.13 to APS' Form S-3 Registration Statement No. 33-9480 by means of August 1, 1987 Form 8-K Report	1-4473	8-24-87
99.17	Supplemental Indenture No. 2 to Trust Indenture Mortgage, Security Agreement and Assignment of Facility Lease, dated as of December 15, 1986, between State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee, and Chemical Bank, as Lease Indenture Trustee	4.5 to APS' 1992 Form 10-K Report	1-4473	3-30-93
99.18	Assignment, Assumption and Further Agreement, dated as of December 15, 1986, between APS and State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee	10.5 to APS' November 18, 1986 Form 8-K Report	1-4473	1-20-87
99.19	Amendment No. 1, dated as of March 17, 1993, to Assignment, Assumption and Further Agreement, dated as of December 15, 1986, between APS and State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee	28.7 to APS' 1992 Form 10-K Report	1-4473	3-30-93

Exhibit No. -----	Description -----	Originally Filed as Exhibit: -----	File No.b -----	Date Effective -----
99.20(c)	Indemnity Agreement dated as of March 17, 1993 by APS	28.3 to APS' 1992 Form 10-K Report	1-4473	3-30-93
99.21	Extension Letter, dated as of August 13, 1987, from the signatories of the Participation Agreement to Chemical Bank	28.20 to APS' Form S-3 Registration Statement No. 33-9480 by means of a November 6, 1986 Form 8-K Report	1-4473	8-10-87
99.22	Arizona Corporation Commission Order dated December 6, 1991	28.1 to APS' 1991 Form 10-K Report	1-4473	3-19-92
99.23	Arizona Corporation Commission Order dated June 1, 1994	10.1 to APS' June 1994 form 10-Q Report	1-4473	8-12-94
99.24	Rate Reduction Agreement dated December 4, 1995 between APS and the ACC Staff	10.1 to APS' December 4, 1995 8-K Report	1-4473	12-14-95
99.25	ACC Order dated April 24, 1996	10.1 to APS' March 1996 Form 10-Q Report	1-4473	5-14-96
99.26	Arizona Corporation Commission Order, Decision No. 59943, dated December 26, 1996, including the Rules regarding the introduction of retail competition in Arizona	99.1 to APS' 1996 Form 10-K Report	1-4473	3-28-97
99.27	Retail Electric Competition Rules	10.1 to APS' June 1998 Form 10-Q Report	1-4473	8-14-98
99.28	Arizona Corporation Commission Order, Decision No. 61973, dated October 6, 1999, approving APS' Settlement Agreement	10.1 to APS' September 1999 10-Q Report	1-4473	11-15-99
99.29	Arizona Corporation Commission Order, Decision No. 61969, dated September 29, 1999, including the Retail Electric Competition Rules	10.2 to APS' September 1999 10-Q Report	1-4473	11-15-99

(a) Management contract or compensatory plan or arrangement to be filed as an exhibit pursuant to Item 14(c) of Form 10-K.

(b) Reports filed under File No. 1-4473 and 1-8962 were filed in the office of the Securities and Exchange Commission located in Washington, D.C.

(c) An additional document, substantially identical in all material respects to this Exhibit, has been entered into, relating to an additional Equity Participant. Although such additional document may differ in other respects (such as dollar amounts, percentages, tax indemnity matters, and dates of execution), there are no material details in which such document differs from this Exhibit.

(d) Additional agreements, substantially identical in all material respects to this Exhibit have been entered into with additional persons. Although such additional documents may differ in other respects (such as dollar amounts and dates of execution), there are no material details in which such agreements differ from this Exhibit.

REPORTS ON FORM 8-K

During the quarter ended December 31, 1999, and the period ended March 29, 2000, the Company filed the following Report on Form 8-K:

Report dated September 29, 1999 regarding our plan to construct an electric generating plant of up to 2,120 megawatts near Palo Verde.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PINNACLE WEST CAPITAL CORPORATION (Registrant)

Date: March 29, 2000

William J. Post

(William J. Post, President
and Chief Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature -----	Title -----	Date ----
William J. Post ----- (William J. Post, President and Chief Executive Officer)	Principal Executive Officer and Director	March 29, 2000
Michael V. Palmeri ----- (Michael V. Palmeri, Vice President, Finance)	Principal Financial Officer	March 29, 2000
Chris N. Froggatt ----- (Chris N. Froggatt, Vice President and Controller)	Principal Accounting Officer	March 29, 2000
Richard Snell ----- (Richard Snell, Chairman of the Board of Directors)	Director	March 29, 2000
Edward N. Basha, Jr. ----- (Edward N. Basha, Jr.)	Director	March 29, 2000
Michael L. Gallagher ----- (Michael L. Gallagher)	Director	March 29, 2000
Pamela Grant ----- (Pamela Grant)	Director	March 29, 2000
Roy A. Herberger, Jr. ----- (Roy A. Herberger, Jr.)	Director	March 29, 2000

Martha O. Hesse ----- (Martha O. Hesse)	Director	March 29, 2000
William S. Jamieson, Jr. ----- (William S. Jamieson, Jr.)	Director	March 29, 2000
Humberto S. Lopez ----- (Humberto S. Lopez)	Director	March 29, 2000

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

EXHIBITS TO

FORM 10-K

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

For the fiscal year ended December 31, 1999

Pinnacle West Capital Corporation

(Exact name of registrant as specified in charter)

INDEX TO EXHIBITS

Exhibit No. -----	Description -----
10.1(a)	2000 Management Variable Incentive Plan (Pinnacle West)
10.2(a)	2000 Senior Management Variable Incentive Plan (Pinnacle West)
10.3(a)	2000 Officer Variable Incentive Plan (Pinnacle West)
10.4(a)	2000 Management Variable Incentive Plan (APS)
10.5(a)	2000 Senior Management Variable Incentive Plan (APS)
10.6(a)	2000 Officers Variable Incentive Plan (APS)
10.7(a)	First Amendment effective as of January 1, 1999, to the Pinnacle West Capital Corporation, Arizona Public Service Company, SunCor Development Company and El Dorado Investment Company Deferred Compensation Plan
10.8(a)	Fourth Amendment dated December 28, 1999 to the Arizona Public Service Company Directors Deferred Compensation Plan
10.9(a)	Letter Agreement dated December 13, 1999 between APS and William L. Stewart
10.10(a)	Second Amendment effective January 1, 2000 to the Pinnacle West Capital Corporation, Arizona Public Service Company, SunCor Development Company and El Dorado Investment Company Deferred Compensation Plan
10.11(a)	First Amendment dated December 7, 1999 to the Pinnacle West Capital Corporation Stock Option and Incentive Plan
10.12(a)	First Amendment dated December 7, 1999 to the Pinnacle West Capital Corporation 1994 Long-Term Incentive Plan
10.13(a)	Pinnacle West Capital Corporation Supplemental Excess Benefit Retirement Plan, as amended and restated, dated December 7, 1999
10.14(a)	Trust for the Pinnacle West Capital Corporation, Arizona Public Service Company and SunCor Development Company Deferred Compensation Plans dated August 1, 1996
10.15(a)	First Amendment dated December 7, 1999 to the Trust for the Pinnacle West Capital Corporation, Arizona Public Service Company and SunCor Development Company Deferred Compensation Plans
10.16(a)	Letter Agreement dated July 28, 1995 between Arizona Public Service Company and Armando B. Flores
10.17(a)	Letter Agreement dated October 3, 1997 between Arizona Public Service Company and James M. Levine
21	Subsidiaries of the Company
23.1	Consent of Deloitte & Touche LLP
27.1	Financial Data Schedule

(a) Management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 14(c) of Form 10-K.

For a description of the Exhibits incorporated in this filing by reference, see

Part IV, Item 14.

Exhibit 10.1a

Under the Company's 2000 Management Variable Incentive Plan, the Chief Executive Officer of the Company, with the approval of the Human Resources Committee of the Board of Directors, annually designates employees to participate in the program, establishes their participation level, and establishes certain financial and operational goals for the Company which must be satisfied in order for variable pay awards to be made. The impact, if any, of each employee's performance on his or her variable pay award is determined by his or her officer. Subject to final approval by the Human Resources Committee of the Board of Directors, the Chief Executive Officer of the Company also determines at year-end the degree to which those goals have been satisfied and the amount of

variable pay to be awarded to participating employees, if any.

Exhibit 10.2a

Under the Company's 2000 Senior Management Variable Incentive Plan, the Chief Executive Officer of the Company, with the approval of the Human Resources Committee of the Board of Directors, annually designates employees to participate in the program, establishes their participation level, and establishes certain financial and operational goals for the Company which must be satisfied in order for variable pay awards to be made. The impact, if any, of each employee's performance on his or her variable pay award is determined by his or her officer. Subject to final approval by the Human Resources Committee of the Board of Directors, the Chief Executive Officer of the Company also determines at year-end the degree to which those goals have been satisfied and

the amount of variable pay to be awarded to participating employees, if any.

Exhibit 10.3a

Under the Company's 2000 Officers Variable Incentive Plan, the Chief Executive Officer of the Company, with the approval of the Human Resources Committee of the Board of Directors, annually designates the officers who will participate in the program, establishes their participation level, and establishes certain financial and operational goals for the Company which must be satisfied in order for variable pay awards to be made. The impact, if any, of each officer's performance on his or her variable pay award is determined by the Chief Executive Officer of the Company, with the approval of the Human Resources Committee. Subject to final approval by the Human Resources Committee of the Board of Directors, the Chief Executive Officer also determines at year-end the degree to which those goals have been satisfied and the amount of variable pay

to be awarded to participating officers, if any.

Exhibit 10.4a

Under APS' 2000 Management Variable Incentive Plan, the Chief Executive Officer of APS, with the approval of the Human Resources Committee of the Board of Directors, annually designates employees to participate in the program, establishes their participation level, and establishes certain financial and operational goals for APS which must be satisfied in order for variable pay awards to be made. The impact, if any, of each employee's performance on his or her variable pay award is determined by his or her officer. Subject to final approval by the Human Resources Committee of the Board of Directors, the Chief Executive Officer of APS also determines at year-end the degree to which those goals have been satisfied and the amount of variable pay to be awarded to

participating employees, if any.

Exhibit 10.5a

Under APS' 2000 Senior Management Variable Incentive Plan, the Chief Executive Officer of APS, with the approval of the Human Resources Committee of the Board of Directors, annually designates employees to participate in the program, establishes their participation level, and establishes certain financial and operational goals for APS which must be satisfied in order for variable pay awards to be made. The impact, if any, of each employee's performance on his or her variable pay award is determined by his or her officer. Subject to final approval by the Human Resources Committee of the Board of Directors, the Chief Executive Officer of APS also determines at year-end the degree to which those goals have been satisfied and the amount of variable pay to be awarded to

participating employees, if any.

Exhibit 10.6a

Under APS' 2000 Officers Variable Incentive Plan, the Chief Executive Officer of APS, with the approval of the Human Resources Committee of the Board of Directors, annually designates the officers who will participate in the program, establishes their participation level, and establishes certain financial and operational goals for APS which must be satisfied in order for variable pay awards to be made. The impact, if any, of each officer's performance on his or her variable pay award is determined by the Chief Executive Officer of APS, with the approval of the Human Resources Committee. Subject to final approval by the Human Resources Committee of the Board of Directors, the Chief Executive Officer also determines at year-end the degree to which those goals have been satisfied

and the amount of variable pay to be awarded to participating officers, if any.

Exhibit 10.7a

**FIRST AMENDMENT TO THE
PINNACLE WEST CAPITAL CORPORATION
ARIZONA PUBLIC SERVICE COMPANY
SUNCOR DEVELOPMENT COMPANY
AND
EL DORADO INVESTMENT COMPANY
DEFERRED COMPENSATION PLAN**

Effective January 1, 1992, Pinnacle West Capital Corporation (the "Company"), Arizona Public Service Company, SunCor Development Company and El Dorado Investment Company adopted the Pinnacle West Capital Corporation, Arizona Public Service Company, SunCor Development Company and El Dorado Investment Company Deferred Compensation Plan (the "Plan"). The Plan was amended several times thereafter and was amended and restated in its entirety on December 1, 1995. By this instrument, and pursuant to the authority granted in Section 11.2 of the Plan, the Company intends to amend the Plan to provide for an automatic cashout of the Account Balance of a terminated or retired Participant under certain circumstances.

1. This Amendment shall amend only those Sections set forth herein and those Sections not amended hereby shall remain in full force and effect.

2. A new Section 5.4 is hereby added to the Plan, which shall read as follows:

5.4 Automatic Distribution of Retirement Benefits. Notwithstanding any provision in this Article 5 to the contrary, if the Account Balance of a Retired Participant does not exceed Five Thousand Dollars (\$5,000.00), the Participant's Retirement Benefit shall be distributed in a single lump sum within sixty (60) days following his Retirement.

3. Section 7.2 is hereby amended to add the following subsection:

(c) Automatic Distribution of Termination Benefits. Notwithstanding any provision in this Section 7.2 to the contrary, if, upon a

Participant's Termination of Employment, his Account Balance, as determined pursuant to Section 7.1, does not exceed Five Thousand Dollars (\$5,000.00), the Participant's Termination Benefit shall be distributed in a single lump sum within sixty (60) days following his Termination of Employment.

4. The provisions of this First Amendment shall be effective January 1, 1999.

Except as amended hereby, the Company ratifies and confirms the Plan as amended and restated on December 1, 1995.

Dated: September 15, 1999.

PINNACLE WEST CAPITAL CORPORATION

By Faye Widenmann
Its Vice President and Secretary

Exhibit 10.8a

**FOURTH AMENDMENT TO THE
ARIZONA PUBLIC SERVICE COMPANY
DIRECTORS DEFERRED COMPENSATION PLAN**

Effective January 1, 1978, Arizona Public Service Company (the "Company") adopted the Arizona Public Service Company Directors Deferred Compensation Plan (the "Plan"). The Plan was subsequently amended and restated several times, the most recent amendment and restatement becoming effective January 1, 1986. The Plan was thereafter amended several times. By this instrument, the Company intends to amend the Plan to allow benefit payments to begin after a director attains age 70.

1. This Amendment shall amend only the provisions of the Plan as set forth herein, and those provisions not expressly amended hereby shall be considered in full force and effect.

2. Section VI.B is hereby amended in its entirety to read as follows:

B. Time of Distribution of Benefits Under Deferral Option II

No payment of benefits shall be made under Deferral Option II until the Participant is no longer a Director of the Company or any of its Affiliates. No Participant or Beneficiary of a Participant shall have any right to payment of any amounts under Deferral Option II prior to the date on which the Participant ceases to be a Director of the Company or any of its Affiliates. Amounts shall be payable under Deferral Option II only in accordance with the terms and provisions of Deferral Option II. Amounts payable under Deferral Option II shall be paid to the Participant or his Beneficiary in equal annual installments for ten (10) years. Each Participant shall have the right to elect, prior to the commencement of payments, the year he desires to commence receipt of his annual installments. The Participant may elect to commence receipt of the installments in any year during the period beginning with the year in which the Participant attains the age of sixty (60) years and ending with the year in which the Participant retires from the Board. The initial installment will be paid on the Participant's birthday provided that if the Participant's retirement from the Board occurs after his birthday for that year, the initial installment shall be paid on the first day of the month following the month in which the Participant retired from the Board. Subsequent installments will be paid on the Participant's subsequent birthdays. Each Participant shall have the right to select the Beneficiary of payments in the event of his death, as provided in Sections VI.D and E.

3. Section VI.E is hereby amended in its entirety to read as follows:

E. Death of a Participant Not Yet Receiving Benefits Under Deferral Option II.

In the event that a Participant not yet receiving Annual Benefit payments under Deferral Option II shall die, the Company shall pay to the Participant's Beneficiary or Beneficiaries, in equal annual installments for ten (10) years, the Annual Survivor Benefit for the year in which death occurred as stated on the Director's Death Benefit Summary Document for the Participant, which shall be provided to the Participant from time to time. The initial installment of the Annual Survivor Benefit for the year in which death occurs will be paid within sixty (60) days of the Participant's death. Subsequent installments of the Annual Survivor Benefit will be paid on the anniversary of the Participant's death. Each Participant shall have the right to designate a Beneficiary or Beneficiaries of benefits in the event of his death; provided that, in the event that the Participant is married and designates a Beneficiary other than his spouse, his spouse must consent in writing to such designation. If the Participant fails to designate a Beneficiary, the Annual Survivor Benefit shall be paid to the Participant's estate.

4. The provisions of this Amendment shall be effective as of January 1, 1999.

Except as amended and supplemented by this instrument, the Company hereby ratifies the Plan as amended and restated effective January 1, 1986 and as thereafter amended.

Dated: December 28 , 1999

Arizona Public Service Company

By Jack Davis

Its President

Exhibit 10.9a

[LETTERHEAD OF APS]

AGREEMENT

THIS AGREEMENT is entered into this 13th day of December, 1999, in the State of Arizona by and between William L. Stewart ("Employee") and Arizona Public Service Company ("Company").

RECITALS

1. Employee is employed by the Company in the position of President, Generation.
2. Employee is currently eligible to retire from the Company.
3. Employee's skills, ability and knowledge are highly valued by the Company.
4. The Company is engaged in the business of generation, construction, and the acquisition of electrical power; and the transmission and distribution of such electrical power ("the Business").
5. The Company has developed certain know-how, techniques, and other information relating to the Business that it believes to be trade secret, confidential, or otherwise proprietary, and valuable to the Company. Employee will have access to certain of such trade secrets, know-how, techniques, and other valuable company information, including customer lists, product pricing policies, marketing and distribution information, and other information. At times, Employee may invent, improve, develop or discover trade secrets, know-how, or otherwise proprietary confidential information, methods or techniques.

AGREEMENT

NOW THEREFORE, in consideration of the continued employment of Employee by the Company through December 31, 2002, and for other good and valuable consideration set forth below, the parties agree as follows:

I. DEFINITIONS

A. DEFINITIONS. For the purpose of this Agreement, the terms listed below shall have the following meanings:

1. CONFIDENTIAL INFORMATION AND MATERIAL shall mean all forms and types of business, technical, scientific, engineering, financial, economic and employment information belonging to, used by or in the possession of the Company relating to its business, customers (including customer lists and accounts), vendor information, systems, procedures, methods and techniques, inventions, ideas,

discoveries, improvements, know-how, production and marketing costs, development plans, computer programs, forms, economic and financial analyses, financial information, marketing plans, employee files, trade secrets of every kind and character and/or any other information which (a) the Company has taken reasonable measures to keep secret and (b) which has independent actual or potential economic value from not being generally known or readily ascertainable to the public or to the Company's competitors. Confidential information shall also include any information described above which the Company obtains from another party and which the Company treats as proprietary or designates as confidential information, whether or not owned or developed by the Company.

2. Customers shall mean persons, firms, associations, partnerships, corporations, or entities to which either the Company or Employee has sold, from which the Company or Employee has purchased, or that either the Company or Employee has solicited with the respect to the sale or purchase of the following commodities: electrical power, natural gas, coal and emission allowances (the Business of the Company) before or during the term of Employee's employment with the Company.

II. COVENANTS

A. SIGNING BONUS. January 3, 2000, Employee will receive a one-time signing bonus of \$300,000.00.

B. LINE OF CREDIT. In addition to the signing bonus, the Company will make available to Employee a line of credit in the amount of \$1,200,000.00, which Employee may draw on annually beginning January 3, 2000, in \$400,000.00 annual increments. Interest will accrue on amounts outstanding at the rate of 7.5% annually. All outstanding amounts will be due in full no later than January 3, 2003, except as provided in Section II, paragraph G, below.

C. DEFERRED PAYMENTS. The sum of \$400,000.00 per calendar year will be deferred for Employee for a three-year period beginning in the year 2000. Interest will be credited on the deferred amount at the rate of 9% annually. Payment of the deferred amount, plus interest, will be made on January 3, 2003, in a lump sum, except as provided in Section II., paragraph G, below.

D. ADDITIONAL PAYMENTS. In addition, if Employee continues full-time employment through December 31, 2002, Employee will receive an additional \$400,000.00 on January 3, 2003 and January 3, 2004.

E. PENSION. Employee's pension benefit will be 80% of Employee's average monthly wage on the date of Employee's retirement if Employee remains working with the Company continuously in a full-time capacity through December 31, 2002. None of the sums described in paragraphs A through D shall be included in the calculation of Employee's pension benefits.

F. CONTINUED EMPLOYMENT. Employee agrees to remain working with the Company continuously in a full-time capacity through December 31, 2002.

G. SEPARATION FROM EMPLOYMENT. Employee's entitlement to the payments described in this Section II., paragraphs B, C, and D, are expressly conditioned on Employee's continuous, full-time employment with the Company through December 31, 2002. If Employee separates from employment prior to December 31, 2002, for any reason, including death and disability:

1. Employee shall forfeit the benefits described in Section II., paragraphs B, C, and D.
2. Employee shall not be entitled to borrow any additional funds under the line of credit and any amounts then outstanding under such line of credit, including any accrued but unpaid interest, shall be immediately due and payable in full, with payment due no later than ten (10) days following the date on which Employee's employment terminated unless other arrangements satisfactory to the Company have been made.
3. All deferred payments, including interest, under this Agreement will be forfeited by Employee.
4. Employee will not receive additional payments due on January 3, 2003 and January 3, 2004.
5. Employee's pension following his termination of employment shall be calculated in accordance with the terms of the letter agreement between the Company and Employee dated August 25, 1997, which is incorporated herein by this reference.

H. TAXES. All tax liability arising out of this Agreement will be Employee's responsibility.

I. OWNERSHIP. Employee hereby agrees that all Confidential Information and Material is the property of the Company, and that all inventions, improvements, ideas, methods and techniques, know-how, discoveries, customer lists, customer accounts, systems, procedures, costs, development plans, marketing plans, computer programs, forms, economic and financial analyses, credit risk assessments, credit analyses, financial information, employee files, trade secrets, or other work product, in whole or in part conceived or made by Employee during or after the term of Employee's employment with the Company which are conceived or made through the use of any of the Confidential Information and Material or any of the Company equipment, facilities, supplies, trade secrets or time, or which results from any work performed by Employee for the Company, shall belong exclusively to the Company and shall be deemed part of the Confidential Information and Material for purposes of this Agreement, whether or not fixed in a tangible medium of expression. Without limiting the foregoing, Employee hereby agrees that all copyrightable work product, as listed above in this paragraph, shall be deemed to be "works made for hire" and that the Company shall be deemed the author thereof under the US Copyright Act (Title 12 of the US Code), and if for any reason any of such copyrightable work product is deemed not a work for hire, and, as to all other

work product, Employee agrees to execute such documents as are requested by the Company to vest all rights in the Company, including all patentable rights; and to otherwise cooperate with the Company in securing all such rights. The Company and Employee further agree that the Company shall own no rights to original works of authorship or other work product reduced to tangible form by Employee prior to Employee's employment with Company; provided, that Employee will identify such works (if any) in writing prior to signing this Agreement and the listing will be attached to this Agreement.

J. NON-COMPETITION. Employee acknowledges employment with the Company requires protection of the Company's interests upon termination because of the substantial investment in Employee, the time required to find or train a replacement and the entrustment of extremely sensitive Confidential Information and Materials and Customers to Employee in the performance of Employee's duties. During Employee's employment with Company, and for a period of two years thereafter, Employee shall not, without Company's express written consent, directly or indirectly, be employed by, own, manage, operate, join, control, participate in or finance the ownership, management, operation or control of, or be connected in any manner, including consultation, with any firm, association, partnership, corporation or other entity that competes with Company, its affiliates, successors and assigns in the business of generating, acquiring, constructing and/or distributing electrical power in the United States. Notwithstanding the above, Employee may, with the prior approval of the Company, perform services for nuclear generating plants. For purposes of this paragraph, "own" and "ownership" shall not include ownership of two percent (2%) or less of the capital stock of a company whose securities are publicly traded.

Employee acknowledges and agrees that the geographical, time and restricted activity limitations in this Agreement are reasonable and properly required for the adequate protection of Company's business, and are the product of negotiations between the parties. Employee further acknowledges and agrees that any breach of this covenant not to compete will result in irreparable damage to Company for which the remedy at law would be inadequate. Employee therefore agrees that, in addition to any other remedies to which Company may be entitled as a matter of law, Company shall be entitled to specific performance and other equitable relief, including temporary and permanent injunctive relief, to enforce this covenant not to compete. Employee further agrees that, if an injunction issues to enforce this covenant not to compete, the covenant shall be deemed to run anew with the issuance of the injunction so as that Company will have the full time provided herein.

K. NON-SOLICITATION OF EMPLOYEES. In addition to the foregoing covenants, Employee agrees that during Employee's employment with the Company and during the two-year time period immediately following Employee's last day of employment with the Company, Employee will not, individually or as an agent or an employee of or as a consultant or otherwise on behalf of or in conjunction with any person, firm, association, partnership, corporation, or other entity, directly or in-directly, hire, employ, solicit, or otherwise encourage or entice to leave their employment with the Company, any of the Company's employees who are or were employed by the Company at any time during Employee's

employment with the Company and the two-years immediately following Employee's last day of employment with the Company.

L. ADHERENCE TO COMPANY POLICIES AND PROCEDURES, STATE AND FEDERAL LAW. Employee acknowledges, understands, and agrees to abide by company policies and procedures relating to the creation, handling, non-disclosure, storage and retention of Confidential Information and Materials. Employee further acknowledges, understands and agrees to abide by State and Federal law regarding Confidential Information and Material including the Economic Espionage Act of 1996, 18 U.S.C. sec. 1831-39 and the Arizona Trade Secrets Act, A.R.S.ss.44-401.

M. NON-DISCLOSURE. Other than in the performance of Employee's duties hereunder, and for the period of Employee's employment with the Company and for all times thereafter, Employee agrees to receive and hold in confidence and not to disclose or use for the benefit of Employee or any person, firm, association, partnership, corporation, or other entity, any Confidential Information and Material of the Company without the Company's prior written authorization in each particular case. Employee agrees not to use Confidential Information and Material of the Company for any purpose except on behalf of the Company and as authorized by the Company.

N. RETURN OF COMPANY PROPERTY. Employee further agrees that upon termination of employment, or at any time upon the Company's request, and no later than the last day of employment with the Company, Employee shall surrender to the Company all of the property, customer lists, notes, manuals, reports, documents, and other things within Employee's possession, including all copies or computerized records thereof, which relate directly or indirectly, or which contain any Confidential Information and Material.

III. ENFORCEABILITY

Employee represents and warrants to and covenants with the Company as follows:

A. The covenants set forth in this Agreement are reasonably necessary for the protection of the interests of the Company; are reasonable as to duration, scope and territory; and are not unreasonably restrictive of Employee.

B. Employee acknowledges that Confidential Information and Material is of vital importance to the Company and its customers. Employee's failure to protect the Confidential Information and Material according to the terms of this Agreement may result in irreparable harm to the Company, in which instance the Company's remedies at law for breach of any of the covenants set forth in this Agreement will be inadequate. Accordingly, in addition to any other rights or remedies that the Company may have, the Company shall be entitled to injunctive relief.

It is agreed by Employee and the Company that if any portions of the restrictions contained in Section II or III are held to be unreasonable, arbitrary, or too broad to be enforceable, then the restrictions shall be deemed to have been modified to be only so broad as to be enforceable. The parties agree that if any court of competent jurisdiction determines the

specified period, the specified territory or the restricted activity to be unreasonable, arbitrary or too broad to be enforceable, then such unenforceable covenants shall be modified to give the maximum effect to the Company as allowed by law. The court shall have the authority to reform this Agreement to make the restrictions reasonable and enforceable.

IV. Entirety

This Agreement embodies the entire agreement of the parties respecting the matters within its scope and may be modified only in writing. This Agreement shall amend the provisions of the prior agreements between the Company and Employee only to the extent set forth herein and the provisions of such agreements not amended hereby shall remain in full force and effect. In addition to any benefits provided under this Agreement, Employee shall be entitled to benefits under any employee benefit plan maintained by the Company or an affiliate or under any agreement between the Company or an affiliate and Employee in accordance with the terms of such employee benefit programs or agreements, except as otherwise amended by this Agreement.

V. Severability

If, for any reason, any provision of this Agreement shall be determined by a court of competent jurisdiction to be invalid, unenforceable, illegal, or inoperable, its invalidity shall not affect the validity and effect of the other provisions hereof except to the extent that the parties may claim a lack or insufficiency of consideration if provisions involving consideration are stricken or modified.

VI. Construction and Interpretation

This Agreement shall be governed by and construed in accordance with the laws of the State of Arizona.

This Agreement is not intended to constitute a severance agreement or to provide severance benefits and it shall be construed and interpreted in a manner consistent therewith.

VII. Delays or Omissions

No delay or omission to exercise any right, power, or remedy accruing to the Company as a result of any breach or default by Employee under this Agreement shall impair any such right, power, or remedy, nor shall it be construed as a waiver of or acquiescence in any such breach or default, or of or in any similar breach or default occurring later: nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default occurring before or after that waiver.

VIII. Attorney's Fees

In the event of litigation arising out of the subject matter of this Agreement, the prevailing party shall be entitled to recover such parties reasonable attorney's fees and related costs and expenses incurred as a result of litigation.

IX. Successors and Assigns

This Agreement and Employee's rights and duties created by this Agreement shall not be assignable or delegable by Employee. The Company shall have the right to transfer, assign or delegate all or any part of this Agreement and the rights and duties hereunder to any business that is controlled by or affiliated with the Company or to any successor acquiring the Company, its assets or business, in whole or part.

IN WITNESS WHEREOF the parties have executed this Agreement on the date first written above.

ARIZONA PUBLIC SERVICE COMPANY

By: William J. Post
William J. Post
Chief Executive Officer

William L. Stewart 12/13/99

William L. Stewart

Exhibit 10.10a

**SECOND AMENDMENT TO
THE PINNACLE WEST CAPITAL CORPORATION,
ARIZONA PUBLIC SERVICE COMPANY
SUNCOR DEVELOPMENT COMPANY
AND EL DORADO INVESTMENT COMPANY
DEFERRED COMPENSATION PLAN**

Effective January 1, 1992, Pinnacle West Capital Corporation (the "Company"), Arizona Public Service Company, SunCor Development Company and El Dorado Investment Company adopted the Pinnacle West Capital Corporation, Arizona Public Service Company, SunCor Development Company and El Dorado Investment Company Deferred Compensation Plan (the "Plan"). The Plan was thereafter amended several times and was amended and restated in its entirety on December 1, 1995, and thereafter amended September 15, 1999.

By this instrument, the Company intends to amend the Plan to clarify the definition of "Change in Control."

1. This Amendment shall amend only those sections of the Plan as set forth herein and those sections not expressly amended hereby shall remain in full force and effect.

2. Sections 11.3(a) of the Plan is hereby amended to read as follows:

(a) CHANGE IN CONTROL. A "Change in Control" shall mean one (1) or more of the following events:

(1) Any Person, other than an Affiliate, through a transaction or series of transactions, is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company or APS representing twenty percent (20%) or more of the combined voting power of the then outstanding securities of the Company or APS, as the case may be;

(2) A merger or consolidation of (i) the Company with any other corporation which would result in the voting securities of the Company outstanding immediately prior to such merger or consoli-

dation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company or an Affiliate, less than sixty percent (60%) of the combined voting power of the securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation, or (ii) APS with any other corporation which would result in the voting securities of APS outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company or an Affiliate, less than sixty percent (60%) of the combined voting power of the securities of APS or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation; provided that, for purposes of this subparagraph (2), a merger or consolidation effected to implement a recapitalization of the Company or of APS (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company or of APS representing twenty percent (20%) or more of the combined voting power of the then outstanding securities of the Company or of APS (excluding any securities acquired by that Person directly from the Company or an Affiliate) shall not result in a Change of Control;

(3) The shareholders of either the Company or APS approve a sale, transfer or other disposition of all or substantially all of the assets of either the Company or APS to a Person other than the Company or an Affiliate; or

(4) Individuals who, as of July 31, 1999, constitute the board of directors of the Company (the "Company Incumbent Board") or of APS (the "APS Incumbent Board") cease for any reason to constitute at least two-thirds (2/3) of the members of the Company or APS board of directors, as the case may be; provided, however, that for purposes of this subparagraph (4), (i)(A) any person becoming a member of the Company board of directors after July 31, 1999 whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least two-thirds (2/3) of the members then comprising the Company Incumbent Board will be considered as though such person were a member of the Company Incumbent Board and (B) the Company Incumbent Board shall not include a director whose initial assumption

of office as a director was in connection with an actual or threatened election contest relating to the election of directors; and (ii)(A) any person becoming a member of the APS board of directors after July 31, 1999 whose election, or nomination for election by APS' shareholder(s), was approved by a vote of at least two-thirds (2/3) of the members then comprising the APS Incumbent Board or by the Company, as a majority shareholder of APS, will be considered as though such person were a member of the APS Incumbent Board and (B) the APS Incumbent Board shall not include a director whose initial assumption of office as a director was in connection with an actual or threatened election contest relating to the election of directors.

For purposes of this Section 11.3(a),

(A) "Act" shall mean the Securities and Exchange Act of 1934, as amended from time to time.

(B) "Affiliate" shall mean (i) a corporation other than the Company that is a member of a "controlled group of corporations" (within the meaning of Section 414(b) of the Code as modified by Section 415(h) of the Code) or (ii) a group of trades or businesses under common control (within the meaning of Section 414(c) of the Code as modified by Section 415(h) of the Code) that also includes the Company as a member. For purposes of determining whether a transaction or event constitutes a Change of Control within the meaning of this Section 13(d), "Affiliate" status shall be determined on the day immediately preceding the date of the transaction or event.

(C) "APS" shall mean Arizona Public Service Company.

(D) "Beneficial Owner" shall have the same meaning as given to that term in Rule 13d-3 of the General Rules and Regulations of the Act, provided that any pledgee of the voting securities of the Company or APS shall not be deemed to be the Beneficial Owner thereof prior to its disposition of, or acquisition of voting rights with respect to, such securities.

(E) "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

(F) "Person" shall mean any individual, partnership, joint venture, association, trust, corporation or other entity (including a "group" as defined in Section 13(d)(3) of the Act), other than an

employee benefit plan of the Company or an Affiliate or an entity organized, appointed or established pursuant to the terms of any such benefit plan.

3. A new Section 11.3(c) is hereby added to the Plan which shall read as follows:

(c) EFFECTIVE DATE OF A CHANGE IN CONTROL. Notwithstanding any provision to the contrary herein, for purposes of this Plan, a Change in Control shall be deemed to have occurred six (6) months prior to the date on which one (1) or more of the events set forth in Section 11.3(a) occurred.

4. This Amendment shall be effective as of January 1, 2000.

IN WITNESS WHEREOF, the Company has caused this Amendment to be executed by its duly authorized officer this 7 day of December, 1999.

PINNACE WEST CAPITAL CORPORATION

By Armando Flores
Its EVP Corp Bus Svcs

Exhibit 10.11a

**FIRST AMENDMENT TO THE
PINNACLE WEST CAPITAL CORPORATION
STOCK OPTION AND INCENTIVE PLAN**

Effective April 18, 1985, Pinnacle West Capital Corporation (the "Company"), then known as "AZP Group, Inc.," established the AZP Group, Inc. Stock Option and Incentive Plan (the "Plan"). The Plan was thereafter amended and restated on April 23, 1987, and in connection therewith its name was changed to the "Pinnacle West Capital Corporation Stock Option and Incentive Plan." The Plan was again amended and restated in its entirety on December 16, 1992. By this instrument, the Company intends to amend the Plan to clarify the interaction of the Plan with the Key Executive Employment and Severance Agreements ("KEESAs") entered into between the Company and certain of its affiliates and their respective employees.

1. This Amendment shall amend only those sections specified herein and those sections not amended hereby shall remain in full force and effect:

2. The following new definitions are hereby added at the end of Section 2:

w. "Change of Control" shall have the same meaning as given to that term in the Holder's KEESA.

x. "KEESA" means the Key Executive Employment and Severance Agreement between the Company or a Subsidiary and a Holder, as the same may be amended from time to time.

y. "Termination Payment" shall have the same meaning as given to that term in the Holder's KEESA.

3. A new subsection f is hereby added to Section 7 of the Plan which shall read as follows:

f. Impact of a Change of Control. Notwithstanding any provision in the Plan or a Stock Option Agreement, in the event that a Holder terminates employment following a Change of Control and thereby becomes entitled to a Termination Payment under his or her KEESA, any Options then outstanding will become fully vested and exercisable in accordance with the terms of the Plan.

4. Section 10a is hereby amended in its entirety to read as follows:

a. Restriction period to be established by the Committee. At the time a Restricted Stock Award is made, the Committee shall establish a period of time (the "Restriction Period") applicable to such Award, which shall not be less than three years. At the discretion of the Committee, each Restricted Stock Award may have a different Restriction Period. Notwithstanding any provision in this Section 10a to the contrary, upon a Holder's termination of employment following a Change of Control which entitles the Holder to a Termination Payment under the terms of his or her KEESA, the Restriction Period shall immediately terminate and any restrictions remaining on any outstanding Restricted Stock Award shall immediately lapse. Except as permitted above, under Section 10c or pursuant to Section 13, the Restriction Period applicable to a particular Restricted Stock Award shall not be changed.

5. Section 13 is hereby amended in its entirety to read as follows:

13. CHANGES IN CAPITAL STRUCTURE

In the event a stock dividend is declared upon the Stock, the shares of Stock then subject to each Award (and the number of shares subject thereto) will be increased proportionately without any change in the aggregate purchase price therefor. Subject to the provisions of Section 7f and 10a, in the event the Stock will be changed into or exchanged for a different number of class of shares of Stock or stock of another corporation, whether through reorganization, recapitalization, stock split-up, combination of shares, merger or consolidation, there will be substituted for each such share of Stock then subject to each Award (and for each share of Stock then subject thereto) the number and class of shares of Stock into which each outstanding share of Stock will be so exchanged, all without any change in the aggregate purchase price for the shares then subject to each Award.

Subject to any required action by the shareholders, if the Company will be the surviving or resulting corporation in any merger or consolidation, any Award granted hereunder will pertain to and apply to the securities or rights to which a holder of the number of shares of Stock subject to the Award would have been entitled. Upon a dissolution or liquidation of

the Company or a merger or consolidation in which the Company is not the surviving or resulting corporation, and if the provisions of Section 7f and/or Section 10a do not apply, the Committee shall, in its discretion:

(a) Cause every Award outstanding hereunder to terminate, except that the surviving or resulting corporation, in its absolute and uncontrolled discretion, may tender an option or options to purchase its shares or exercise such rights on terms and conditions, as to the number of shares and rights and otherwise, which will substantially preserve the rights and benefits of any Award then outstanding hereunder; or

(b) Subject to the requirements of Section 7c, give each Holder the right to exercise Awards prior to the occurrence of the event otherwise terminating the Awards over such period as the Committee, in its sole and absolute discretion, shall determine.

6. The provisions of this Amendment shall be effective as of July 1, 1999.

Except as amended hereby, the Company hereby ratifies and confirms the terms of the Plan as amended and restated on December 16, 1992.

IN WITNESS WHEREOF, the Company has caused this Amendment to be executed on its behalf by a duly authorized officer this 7 day of December, 1999.

PINNACE WEST CAPITAL CORPORATION

By Armando Flores
Its EVP Corp Bus Svcs

Exhibit 10.12a

**FIRST AMENDMENT TO THE
PINNACLE WEST CAPITAL CORPORATION
1994 LONG-TERM INCENTIVE PLAN**

Effective March 23, 1994, Pinnacle West Capital Corporation (the "Company") established the Pinnacle West Capital Corporation 1994 Long-Term Incentive Plan (the "Plan"). By this instrument, the Company intends to amend the Plan to clarify the interaction of the Plan with the Key Executive Employment and Severance Agreements ("KEESAs") entered into between the Company and certain of its affiliates and their respective employees.

1. This Amendment shall amend only those sections specified herein and those sections not amended hereby shall remain in full force and effect:

2. The following new definitions are hereby added at the end of Section 2:

w. "Change of Control" shall have the same meaning as given to that term in the Participant's KEESA.

x. "KEESA" means the Key Executive Employment and Severance Agreement between the Company or a Subsidiary and a Participant, as the same may be amended from time to time.

y. "Termination Payment" shall have the same meaning as given to that term in the Participant's KEESA.

3. A new subsection g is hereby added to Section 7 of the Plan which shall read as follows:

g **IMPACT OF A CHANGE OF CONTROL.** Notwithstanding any provision in the Plan or an Award Agreement, in the event that a Participant terminates employment following a Change of Control and thereby becomes entitled to a Termination Payment under his or her KEESA, any Options then outstanding will become fully vested and exercisable in accordance with the terms of the Plan.

4. The second paragraph of Section 9 is hereby amended to add the following sentence:

Notwithstanding any provision in the Plan or an Award Agreement to the contrary, upon a Participant's termination of employment following a Change of Control which entitles such Participant to a Termination Payment under the terms of his or her KEESA, any restrictions remaining on any outstanding Restricted Stock Award shall immediately lapse.

5. Section 12 is hereby amended in its entirety to read as follows:

12. CHANGES IN CAPITAL STRUCTURE

In the event a stock dividend is declared upon the Stock, the shares of Stock then subject to each Award (and the number of shares subject thereto) will be increased proportionately without any change in the aggregate purchase price therefor. Subject to the provisions of Section 7g and 9, in the event the Stock will be changed into or exchanged for a different number of class of shares of Stock or stock of another corporation, whether through reorganization, recapitalization, stock split-up, combination of shares, merger or consolidation, there will be substituted for each such share of Stock then subject to each Award (and for each share of Stock then subject thereto) the number and class of shares of Stock into which each outstanding share of Stock will be so exchanged, all without any change in the aggregate purchase price for the shares then subject to each Award.

Subject to any required action by the shareholders, if the Company will be the surviving or resulting corporation in any merger or consolidation, any Award granted hereunder will pertain to and apply to the securities or rights to which a holder of the number of shares of Stock subject to the Award would have been entitled. Upon a dissolution or liquidation of the Company or a merger or consolidation in which the Company is not the surviving or resulting corporation, and if the provisions of Section 7g and/or Section 9 do not apply, the Committee shall, in its discretion:

(a) cause every Award outstanding hereunder to terminate, except that the surviving or resulting corporation, in its absolute and uncontrolled discretion, may tender an option or options to purchase its shares or exercise such rights on terms and conditions, as to the number of shares and rights and otherwise, which will substantially preserve the rights and benefits of any Award then outstanding hereunder; or

(b) give each Participant the right to exercise Awards prior to the occurrence of the event otherwise terminating the Awards over such period as the Committee, in its sole and absolute discretion, will determine. To the extent that this provision causes a Participant to exceed the requirements of Section 7e, any excess Incentive Stock Options will be deemed to be noncapitalized-Qualified Stock Options.

6. The provisions of this Amendment shall be effective as of July 1, 1999.

Except as amended hereby, the Company hereby ratifies and confirms the terms of the Plan as adopted effective March 23, 1994.

IN WITNESS WHEREOF, the Company has caused this Amendment to be executed on its behalf by a duly authorized officer this 7 day of December, 1999.

PINNACE WEST CAPITAL CORPORATION

By Armando Flores
Its Executive VP CBS

Exhibit 10.13a

PINNACLE WEST CAPITAL CORPORATION

SUPPLEMENTAL EXCESS BENEFIT

RETIREMENT PLAN

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ARTICLE ONE

PREAMBLE

Effective January 1, 1987, PINNACLE WEST CAPITAL CORPORATION (the "Company") adopted the PINNACLE WEST CAPITAL CORPORATION SUPPLEMENTAL EXCESS BENEFIT RETIREMENT PLAN (the "Plan") for the purpose of paying retirement benefits to certain employees in excess of the benefits permitted to be paid under the Pinnacle West Capital Corporation Retirement Plan (the "Retirement Plan") by reason of Section 415 of the Internal Revenue Code (the "Code"). The Plan was thereafter amended several times to provide additional benefits, thereby changing the Plan from an "excess benefit plan" under the Employee Retirement Income Security Act of 1974, as amended (the "Act"), to a "top hat" plan under the Act.

Effective January 1, 1982, ARIZONA PUBLIC SERVICE COMPANY ("APS") adopted the ARIZONA PUBLIC SERVICE COMPANY SUPPLEMENTAL EXCESS BENEFIT RETIREMENT PLAN (the "APS Plan") for the purpose of paying retirement benefits to certain employees in excess of the benefits permitted to be paid under the Arizona Public Service Company Employees' Retirement Plan (the "APS Retirement Plan") by reason of Section 415 of the Code. The Plan was thereafter amended several times to provide additional benefits, thereby changing the Plan from an "excess benefit plan" under the Act to a "top hat" plan under the Act.

By this amendment and restatement, the Company and APS intend to merge the APS Plan into this Plan and to make other technical changes.

ARTICLE TWO

CONSTRUCTION

Terms capitalized in this Plan shall have the meaning given in Article Two of the Retirement Plan, governing definitions and construction, except where such terms are otherwise defined in this Plan. If any provision of this Plan is determined to be invalid or unenforceable for any reason, the remaining provisions shall continue in full force and effect. All of the provisions of this Plan shall be construed and enforced according to the laws of the State of Arizona, and shall be administered according to the laws of such state, except as otherwise required by the Act, the Code or other applicable federal law. It is the intention of the Company that the Plan, as adopted by the Company, shall constitute an "unfunded plan of deferred compensation for a select group of management and highly compensated employees" within the meaning of Sections 201(2) and 301(3) of the Act. Benefits under this Plan shall be paid from the Company's general assets, and not from any trust fund or other segregated fund. This Plan shall be construed in a manner consistent with the Company's intention.

ARTICLE THREE

ELIGIBILITY AND PARTICIPATION

Employees of the Company or its Affiliates who are members of a select group of management or highly compensated employees, as determined by the Human Resources Committee of the Board of Directors of the Company, in its discretion, and from time to time, shall be eligible to participate in the Plan if they satisfy the eligibility requirements of Section 3(a) or Section 3(b).

(a) Eligible Employees who are officers of the Company or an Affiliate which is a participating employer under the Retirement Plan shall be entitled to the benefits described in Section 4(a).

(b) Eligible Employees of the Company or an Affiliate which is a participating employer under the Retirement Plan who are not officers, who are designated for participation by the Human Resources Committee of the Company's Board of Directors and who are participants in the Retirement Plan shall be entitled to the benefits described in Section 4(b). The Human Resources Committee may make its designations under this Section 3(b) by individual designation or by group designation.

A participant shall commence participation in this Plan as of the first day of the Plan Year in which he becomes a participant pursuant to this ARTICLE THREE or the first day of his employment with the Company or an Affiliate which is a participating employer under the Retirement Plan, whichever is later. Such participation shall continue until the earlier of the date on which the participant no longer satisfies the requirements for participation under Section 3(a) or Section 3(b) or the date on which the Human Resources Committee informs the participant in writing that he is no longer eligible to participate in this Plan.

Notwithstanding the foregoing, if the status of a participant changes for reasons other than termination of employment with the Company or an Affiliate which is a participating employer under the Retirement Plan, so that he no longer is eligible to participate in the Plan, his participation in the Plan shall cease but his benefit under this Plan as of the date of his change of status shall not be canceled or distributed, but shall be determined upon his termination of employment with the Company or an Affiliate.

ARTICLE FOUR

BENEFITS

(a) Subject to ARTICLE SEVEN, a participant who is eligible under Section 3(a) shall be entitled to a monthly benefit equal to the lesser of (i) or (ii), reduced by (iii), where

(i) Equals three percent (3%) of the participant's Average Monthly Compensation multiplied by the participant's Years of Service, not to exceed ten (10) Years of Service, plus two percent (2%) of the participant's Average Monthly Compensation multiplied by the participant's Years of Service in excess of ten (10) Years of Service,

(ii) Equals sixty percent (60%) of the participant's Average Monthly Compensation, and

(iii) Equals the amount of such participant's monthly benefit determined under the terms of the Retirement Plan and payable in the form of the joint and survivor annuity described in Section 6.2 of the Retirement Plan.

For purposes of this Section 4(a), Compensation shall be determined without regard to the limitation set forth in Section 401(a)(17) of the Code and shall be increased by any cash payments made to the participant pursuant to bonus or incentive plans maintained by the Company or an Affiliate which is a participating employer under the Retirement Plan for employees generally and by any amounts deferred by the participant under any of the Company's or such an Affiliate's deferred compensation plans for employees, provided that bonus or incentive payments made in a form other than cash, bonus or incentive payments which are not "year-end" bonus or incentive payments, bonus or incentive payments under individual agreements between the Company or such an Affiliate and a participant, and cash payments

made under bonus or incentive plans maintained by the Company or such an Affiliate for employees generally which exceed the maximum amount that the Company's President or Chief Operating Officer determines, in his or her discretion, may be taken into account under this Plan shall not be taken into account as Compensation for purposes of this Plan unless the Company's President or Chief Operating Officer determines, in his or her discretion, that such bonus or incentive payment shall be taken into account as Compensation under this Plan. Eligible bonuses and incentive payments shall be taken into account as Compensation in the year in which such amounts are paid rather than in the year in which they are earned, provided that the Company's President or Chief Operating Officer shall have the authority to determine, in his or her discretion, that such bonus or incentive payment shall be taken into account in the year in which such amounts are earned rather than in the year in which they are paid. The Company's President or Chief Operating Officer shall have the sole and absolute discretion to determine whether a bonus or incentive payment made to a participant constitutes Compensation for purposes of this Section 4(a) and may differentiate among individuals in establishing the bonus or incentive payments that may be taken into account under the Plan.

(b) Subject to ARTICLE SIX and ARTICLE SEVEN, any participant who is designated for participation pursuant to Section 3(b) and who receives a benefit under the Retirement Plan, or such participant's surviving spouse or beneficiary in the event of the participant's death, shall be entitled to a monthly benefit payable in accordance with this ARTICLE FOUR and with ARTICLE FIVE equal to (i) reduced by (ii), where

(i) Equals the amount of such participant's or surviving spouse's or beneficiary's monthly benefit under the Retirement Plan computed under the provisions of the Retirement Plan but without regard to the cap on Compensation in Section 2.1(n)

and the limitations in Section 5.10 of the Retirement Plan and the provisions of Sections 401(a)(17) and 415 of the Code; and

(ii) Equals the amount of such participant's or surviving spouse's or beneficiary's monthly benefit actually payable under the terms of the Retirement Plan.

For purposes of this calculation, Compensation shall include any amount of the participant's regular salary that the participant elects to defer under any deferred compensation plans for employees of the Company or an Affiliate which is a participating employer under the Retirement Plan and shall exclude all bonus or incentive payments paid to the participant. The Human Resources Committee shall have the sole and absolute discretion to determine a participant's Compensation for purposes of this Section 4(b).

Benefits payable under this Section 4(b) shall be payable to a Plan participant or his spouse or other beneficiary in the same manner and subject to all the same options, conditions, privileges and restrictions as are applicable to the benefits payable to the Plan participant, spouse or other beneficiary of a Participant under the Retirement Plan, as though such benefits were payable as a part of the benefits being paid under the Retirement Plan.

ARTICLE FIVE

PAYMENT OF BENEFITS

(a) A participant entitled to benefits under Section 4(a) may elect to commence receiving unreduced benefits on or after the date on which the participant attains the age of sixty-five (65) years or attains the age of sixty (60) years and is credited with at least twenty (20) Years of Service. A participant may elect to commence receiving benefits earlier if he has attained at least the age of fifty-five (55) years and is credited with at least ten (10) Years of Service, provided that the participant's benefit shall be reduced by three percent (3%) for each

year (or part thereof) by which the participant's retirement age precedes the date on which he would have attained the age of sixty (60) years if he is credited with at least twenty (20) Years of Service or the date on which he would have attained the age of sixty-five (65) years if credited with less than twenty (20) Years of Service.

Benefits payable to a participant under Section 4(a) shall be payable in the form of a fifty percent (50%) joint and survivor annuity, which shall provide a monthly payment to the participant for his life equal to the amount determined under Section 4(a) and upon his death, shall provide monthly payments to the participant's spouse for life equal to fifty percent (50%) of the monthly payment being received by the participant at the time of his death.

If a participant entitled to benefits under Section 4(a) dies prior to commencing benefits, the participant's spouse shall be entitled to a survivor annuity equal to fifty percent (50%) of the monthly benefit that the participant would have received had he terminated employment on the day before he died, survived to the age on which he would first be eligible to commence benefits under this Section 5(a), elected to retire and commence benefits under the Plan at that time and then died.

(b) Benefits payable to a participant under Section 4(b) shall become payable when a participant (or his spouse or beneficiary) begins to receive payments under the Retirement Plan, and shall be subject to the same adjustments and shall be payable by the Company in the same manner and at the same time as the Plan participant's (or his spouse's or beneficiary's) benefits under the Retirement Plan are paid, as though such benefits were otherwise payable as a part of the benefits being paid under the Retirement Plan, subject to ARTICLE SIX. An election or mode of payment under the Retirement Plan shall constitute an election of a similar mode of payment under this Plan.

ARTICLE SIX

COORDINATION OF BENEFITS

If an employee who was participating in a retirement plan sponsored by an Affiliate, which is not a participating employer in the Retirement Plan, becomes an employee of the Company or a participating Affiliate and a participant in the Plan under Section 4(b) and such employee's accrued benefit under the retirement plan maintained by the Affiliate formerly employing him is transferred to the Retirement Plan, upon termination of employment, the employee's benefits, calculated in accordance with Section 4(b), will be payable in full from the Plan in accordance with Section 5(b). If an employee who was a participant in the retirement plan of an Affiliate, which is not a participating employer in the Retirement Plan, becomes an employee of the Company or a participating Affiliate and a participant in this Plan, and such employee's accrued benefit under the retirement plan maintained by his former employer is not transferred to the Retirement Plan, upon termination of employment, the employee's benefits, calculated in accordance with Section 4(b), will be payable from the Plan in accordance with Section 5(b) to the extent such benefits are attributable to the pension benefits payable to that employee under the Retirement Plan. The benefits calculated pursuant to Section 4(b) that are attributable to the pension benefits payable to the employee under the Retirement Plan are those benefits that bear the same ratio to the total benefits due to the employee, calculated pursuant to Section 4(b), as the benefit payable to the employee from the Retirement Plan bears to the total benefits payable to the employee under both the Retirement Plan and the retirement plan maintained by the Affiliate formerly employing that employee.

ARTICLE SEVEN

FUNDING

Benefits under this Plan shall be payable from the general assets of the Company and shall not be segregated in a trust fund or otherwise funded in any manner prior to the time of payment. No Plan participant shall have any vested rights hereunder nor any right hereunder to any specific assets of the Company.

ARTICLE EIGHT

ADMINISTRATION

The Plan will be administered by the Administrative Committee that administers the Retirement Plan. Except as otherwise expressly provided in this Plan, the Administrative Committee shall have the same powers and responsibilities as it has under Sections 10.4 and 12.2 of the Retirement Plan. Claims for benefits under the Plan shall be determined in the manner set forth in Article Eleven of the Retirement Plan.

ARTICLE NINE

AMENDMENT AND TERMINATION OF THE PLAN

The Plan may be amended in whole or in part, prospectively or retroactively, by action of the Company's Board of Directors, and may be terminated at any time by action of the Board of Directors; provided, however, that no such amendment or termination shall reduce any amount payable hereunder to the extent such amount accrued prior to the date of amendment or termination. All amendments shall be in writing, approved by the Company's Board of Directors and executed by a duly authorized officer of the Company.

ARTICLE TEN

ASSIGNMENT

No Plan participant or beneficiary of a Plan participant shall have any right to assign, pledge, hypothecate, anticipate or any way create a lien on any amounts payable hereunder. No amounts payable hereunder shall be subject to assignment or transfer or otherwise be alienable, either by voluntary or involuntary act, or by operation of law, or be subject to attachment, execution, garnishment, sequestration or other seizure under any legal, equitable or other process, or be liable in any way for the debts or defaults of Plan participants and their beneficiaries. Notwithstanding the foregoing, assignments of the benefits provided under this Plan shall be permitted for purposes of satisfying family support obligations if such assignments are pursuant to a court order which satisfies the requirements for a "qualified domestic relations order" as defined in Section 206(d)(3) of the Act.

ARTICLE ELEVEN

WITHHOLDING

Any taxes required to be withheld from payments to the Plan participants hereunder shall be deducted and withheld by the Company.

ARTICLE TWELVE

OTHER BENEFIT PLANS OF THE COMPANY

Nothing contained in this Plan shall prevent a Plan participant prior to his death, or his spouse or other beneficiary after his death, from receiving, in addition to any payments provided for under this Plan, any payments provided for under the Retirement Plan or under The Pinnacle West Capital Corporation Savings Plan, or which would otherwise be payable or distributable to him, his surviving spouse or beneficiary under any plan or policy of

the Company or otherwise. Nothing in this Plan shall be construed as preventing the Company or any of its subsidiaries from establishing any other or different plans providing for current or deferred compensation for employees.

ARTICLE THIRTEEN

MISCELLANEOUS

Nothing contained in this Plan shall be construed as a contract of employment between the Company and an employee, or as a right of any employee to be continued in the employment of the Company, or as a limitation of the right of the Company to discharge any of its employees, with or without cause.

All of the provisions of this Plan shall be binding upon all persons who shall be entitled to any benefit hereunder, their heirs and personal representatives.

ARTICLE FOURTEEN

EFFECTIVE DATE

The Plan, as amended and restated, shall be effective as of January 1, 2000. From and after such date, all benefits accrued under the APS Plan shall be payable under and in accordance with the terms of this Plan.

IN WITNESS WHEREOF, the Company and APS have caused this Pinnacle West Capital Corporation Supplemental Excess Benefit Retirement Plan, as amended and restated herein, to be executed by their duly authorized officers this 7 day of December, 1999.

PINNACE WEST CAPITAL CORPORATION

By Armando Flores
Its EVP Corp Bus Svcs

Attest:

By Faye Widenmann
Its Secretary

ARIZONA PUBLIC SERVICE COMPANY

By Jack Davis
Its President

Attest:

By Faye Widenmann
Its Secretary

Exhibit 10.14a

**TRUST FOR THE PINNACLE WEST CAPITAL CORPORATION,
ARIZONA PUBLIC SERVICE COMPANY AND
SUNCOR DEVELOPMENT COMPANY
DEFERRED COMPENSATION PLANS**

(a) This Agreement made this 1st day of August, 1996, by and between Pinnacle West Capital Corporation ("Company") and WELLS FARGO BANK OF ARIZONA, N.A. ("Trustee");

(b) WHEREAS, Company has adopted the nonqualified deferred compensation plans as listed in Appendix (the "Plans").

(c) WHEREAS, Company has incurred or expects to incur liability under the terms of such Plans with respect to the individuals participating in such Plans.

(d) WHEREAS, Company wishes to establish a trust (the "Trust") and to contribute to the Trust assets that shall be held therein, subject to the claims of creditors at Company's Insolvency, as herein defined, until paid to Plan participants and their beneficiaries, including terminated or retired participants and their beneficiaries, in such manner and at such times as specified in the Plans;

(e) WHEREAS, it is the intention of the parties that this Trust shall constitute an unfunded arrangement and shall not affect the status of the Plans as unfunded plans maintained for the purpose of providing deferred compensation for a select group of management or highly compensated employees for purposes of Title I of the Employee Retirement Income Security Act of 1974;

(f) WHEREAS, it is the intention of Company to make contributions to the Trust to provide itself with a source of funds to assist in meeting its liabilities under the Plans;

NOW, THEREFORE, the parties do hereby establish the Trust and agree that the Trust shall be comprised, held and disposed of as follows:

Section 1 - Establishment of Trust

(a) Company hereby deposits with Trustee in Trust Dollars (\$) , which shall become the principal of the Trust to be held, administered and disposed of by Trustee as provided in this Trust Agreement.

(b) The Trust hereby established is revocable by Company; it shall become irrevocable upon a Change of Control, as defined herein.

(c) The Trust is intended to be a grantor trust, of which Company is the grantor, within the meaning of subpart E, part I,

subchapter J, chapter 1, subtitle A of the Internal Revenue Code of 1986, as amended, and shall be construed accordingly.

(d) The principal of the Trust, and any earnings thereon shall be held separate and apart from other funds of Company and shall be used exclusively for the uses and purposes of Plan participants and general creditors as herein set forth. Plan participants and their beneficiaries shall have no preferred claim on, or any beneficial ownership interest in, any assets of the Trust. Any rights created under the Plans and this Trust Agreement shall be mere unsecured contractual rights of Plan participants and their beneficiaries against Company. Any assets held by the Trust will be subject to the claims of Company's general creditors under federal and state law in the event of Insolvency, as defined in Section 3(a) herein.

(e) Company, in its sole discretion, may at any time, or from time to time, make additional deposits of cash or other property in trust with Trustee to augment the principal to be held, administered and disposed of by Trustee as provided in this Trust Agreement. Neither Trustee nor any Plan participant or beneficiary shall have any right to compel such additional deposits.

(f) Upon a Change of Control, Company shall, as soon as possible, but in no event more than sixty (60) days following the Change of Control, as defined herein, make an irrevocable contribution to the Trust in an amount that is sufficient to pay each Plan participant or beneficiary, the benefits to which such Plan participants or beneficiaries would be entitled pursuant to the terms of the Plans as of the date on which the Change of Control occurred.

Section 2 - Payments to Plan Participants and Their Beneficiaries.

(a) The Administrative Committee appointed by Company's Board of Directors to administer the Plans (the "Committee") shall deliver to Trustee a schedule (the "Payment Schedule") that indicates the amounts payable in respect of each Plan participant (and his or her beneficiaries), that provides a formula or other instructions acceptable to Trustee for determining the amounts so payable, the form in which such amount is to be paid (as provided for or available under the Plans), and the time of commencement for payment of such amounts. Unless the Committee advises Trustee that Company elects pursuant to Section 2(c) to make payment of benefits directly to Plan participants, Trustee shall make payments to the Plan participants and their beneficiaries in accordance with such Payment Schedule. Trustee shall make provision for the reporting and withholding of any federal, state or local taxes that may be required to be withheld with respect to the payment of benefits pursuant to the terms of the Plans and shall pay amounts withheld to the appropriate taxing authorities or determine that such amounts have been reported, withheld and paid by Company.

(b) The entitlement of a Plan participant or his or her beneficiaries to benefits under the Plans shall be determined by the Committee or such party as it shall designate under the Plans, and any claim for such benefits shall be considered and reviewed under the procedures set out in the Plans.

(c) Company may make payment of benefits directly to Plan participants or their beneficiaries, as they become due under the terms of the Plans. The Committee shall notify Trustee of Company's decision to make payment of benefits directly prior to the time amounts are payable to such participants or their beneficiaries. In addition, if the principal of the Trust, and any earnings thereon, are not sufficient to make payments of benefits in accordance with the terms of the Plans, Company shall make the balance of each such payment as it falls due. Trustee shall notify the Committee where principal and earnings are not sufficient.

(d) Notwithstanding the foregoing, but subject to Section 3, if the Board of Directors of Company determines, in its discretion, that it would be in the best interest of Company to terminate and liquidate the Trust, the Board shall so advise Trustee in writing and direct Trustee, in writing, to distribute all of the assets of the Trust to Plan participants and beneficiaries, in payment of the benefits which they have accrued under the Plans as of the termination date of the Trust. Upon receipt of such written direction, Trustee shall liquidate the Trust and distribute its assets to Plan participants and beneficiaries as directed by the Board of Directors.

(e) Notwithstanding the foregoing, if all or any part of a participant's or beneficiary's benefit under any Plan is determined by the Internal Revenue Service or a state or local taxing authority to constitute taxable income to that participant or beneficiary prior to the date on which such benefits are distributed to the participant or beneficiary, the participant or beneficiary may request a distribution from the Trust sufficient to satisfy any taxes, penalties and interest resulting from such determination, provided that the distribution requested does not exceed the participant's or beneficiary's interest in the affected Plan. The affected participant or beneficiary shall make his request in writing to the Committee prior to a Change in Control and to Trustee after a Change in Control. Upon the Committee's or Trustee's consent to such a request, which consent shall not be unreasonably withheld, Trustee shall, within 90 days of the date on which such consent is granted, distribute to the participant or beneficiary an amount sufficient to satisfy the participant's or beneficiary's federal, state and/or local tax liability, including penalties and interest, attributable to the determination. In the event of such a distribution, any future benefits payable to the participant or beneficiary under the terms of the Plan with respect to which such determination is made shall be offset by amounts

distributed to the participant or beneficiary under this Section 2(e).

Section 3 - Trustee Responsibility Regarding Payments to Trust Beneficiary When Company Is Insolvent.

(a) Trustee shall cease payment of benefits to Plan participants and their beneficiaries if Company is Insolvent. Company shall be considered "Insolvent" for purposes of this Trust Agreement if (i) Company is unable to pay its debts as they become due, or (ii) Company is subject to a pending proceeding as a debtor under the United States Bankruptcy Code.

(b) At all times during the continuance of this Trust, as provided in Section 1(d) hereof, the principal and income of the Trust shall be subject to claims of general creditors of Company under federal and state law as set forth below.

(1) The Board of Directors and the Chief Executive Officer of Company shall have the duty to inform Trustee in writing of Company's Insolvency. If a person claiming to be a creditor of Company alleges in writing to Trustee that Company has become Insolvent, Trustee shall determine whether Company is Insolvent and, pending such determination, Trustee shall discontinue payment of benefits to Plan participants or their beneficiaries.

(2) Unless Trustee has actual knowledge of Company's Insolvency, or has received notice from Company or a person claiming to be a creditor alleging that Company is Insolvent, Trustee shall have no duty to inquire whether Company is Insolvent. Trustee may in all events rely on such evidence concerning Company's solvency as may be furnished to Trustee and that provides Trustee with a reasonable basis for making a determination concerning Company's solvency.

(3) If, at any time, Trustee has determined that Company is Insolvent, Trustee shall discontinue payments to Plan participants or their beneficiaries and shall hold the assets of the Trust for the benefit of Company's general creditors. Nothing in this Trust Agreement shall in any way diminish any rights as general creditors of Company with respect to benefits due under the Plans or otherwise.

(4) Trustee shall resume the payment of benefits to Plan participants or their beneficiaries in accordance with Section 2 of this Trust Agreement only after Trustee has determined that Company is not Insolvent (or is no longer Insolvent).

(c) Provided that there are sufficient assets, if Trustee discontinues the payment of benefits from the Trust pursuant to Section 3(b) hereof and subsequently resumes such payments, the first payment following such discontinuance shall include the

aggregate amount of all payments due to Plan participants or their beneficiaries under the terms of the Plans for the period of such discontinuance, less the aggregate amount of any payments made to Plan participants or their beneficiaries by Company in lieu of the payments provided for hereunder during any such period of discontinuance.

Section 4 - Payments to Company.

Except as provided in Sections 2(d) and 3 hereof, after the Trust has become irrevocable, Company shall have no right or power to direct Trustee to return to Company or to divert to others any of the Trust assets before all payment of benefits have been made to Plan participants and their beneficiaries pursuant to the terms of the Plans.

Section 5 - Investment Authority.

Prior to a Change of Control, Trustee shall be subject to the direction of the Committee in the investment, administration and distribution of the assets of the Trust; and the Committee is authorized and empowered, in its sole discretion, to give such directions to Trustee. Neither Trustee nor any other person shall be under any duty to question any such direction of the Committee or to review any securities or other property acquired or held pursuant to the Committee's directions or to make any suggestions to the Committee in connection therewith; and Trustee shall as promptly as possible comply with any directions given by the Committee hereunder. Trustee shall not be liable, to the extent permitted by law, for compliance with any such directions. Should it be necessary to perform some act hereunder, and there is neither direction in this Trust Agreement nor direction of the Committee on file with Trustee, and no direction of the Committee can be obtained after reasonable inquiry, Trustee shall have full power and discretion to act in its own best judgment. All directions of the Committee to Trustee shall be in writing signed by the Committee or by such other person as it shall authorize in writing so to act.

Subject to the foregoing, and following a Change of Control, in the investment, administration and distribution of the assets of the Trust, Trustee, subject to its duty to apply the proceeds and avails of all assets of the Trust to the purposes specified in the Plans and to the restrictions of applicable law, may perform every act in the management of the Trust which individuals may perform in the management of like property owned by them free of any trust, and may exercise every power with respect to each item of property in the Trust, real and personal, which individual owners of like property can exercise, including by way of illustration, but not by way of limitation, the following powers:

- (a) To pledge or mortgage, assign, lease, contract to lease, grant, exercise, grant or acquire options to purchase or sell, sell for cash or on credit at a private or public sale, convert, redeem, exchange for other securities or other property in which the Trust hereunder may be invested under this Trust Agreement, or otherwise dispose of any securities or other property at any time held by it; no person dealing with Trustee shall be bound to see to the application or to inquire into the validity, expediency or propriety of liability for interest;
- (b) To settle, compromise, contest or submit to arbitration any claims, debts or damages due or owing to or from the Trust, and to commence or defend suits or legal proceedings, and to represent this trust in all suits or legal proceedings;
- (c) To exercise any conversion privilege or subscription right available in connection with any securities or property at any time held by it; to consent to the reorganization, consolidation, merger or readjustment of the finances of any corporation, company or association, or to the sale, mortgage, pledge or lease of the property of any corporation, company or association, any of the securities of which may at any time be held by it; and to do any acts with reference thereto, including the granting and/or exercise of options, making of agreements or subscriptions, and the payment of expenses, deemed to be necessary or advisable in connection therewith, and to hold and retain any securities or other property which Trustee may so acquire;
- (d) To vote any corporate stock belonging to the Trust hereunder and to give proxies or general or limited powers of attorney for the purpose of such voting to other persons with or without power of substitution;
- (e) To tender or exchange any corporate stock belonging to the Trust hereunder;
- (f) To borrow money from Trustee or others, assume indebtedness, extend mortgages and encumber by mortgage or pledge upon such terms and conditions as may be deemed advisable by Trustee;
- (g) To lease property on any terms or conditions and for any term of years although extending beyond the period of the trust hereunder; to manage, insure, administer, operate, repair, improve and mortgage or lease, regardless of any restrictions on leases; to renew or extend or to participate in the renewal or extension of any mortgage or lease, and to agree to the reduction in the interest on any mortgage or other modification or change in the terms of any mortgage, guarantee thereof or lease in any manner and upon such terms

as may be deemed advisable; to alter and partition real estate, erect or raze improvements, grant easements, subdivide, dedicate to public use;

(h) To collect the income, rents, issues, profits and increases of the Trust hereunder through such means as are deemed advisable;

(i) To invest all or a part of the Trust hereunder in interest-bearing deposits with Trustee in its separate corporate capacity, or with any other banking institution affiliated with Trustee, or with any other bank at a reasonable rate of interest, including but not limited to investment in time deposits, savings deposits, certificates of deposit or time accounts;

(j) To cause any of the investments of the Trust to be registered in its name or in the name of its nominee, any corporation or its transfer agent may presume conclusively that such nominee is the actual owner of any investments submitted for transfer; to combine certificates representing such investments with certificates of the same issue held by Trustee in other fiduciary capacities, or to deposit or to arrange for the deposit of such securities in a qualified central depository even though, when so deposited such securities may be merged and held in bulk in the name of the nominee of such depository with other securities deposited therein by any other person, or to deposit or to arrange for the deposit of any securities issued by the United States Government, or any agency or instrumentality thereof, with a federal reserve bank, but the books and records of Trustee shall at all times show that all such investments are part of the Trust; to make, execute and deliver as Trustee any and all instruments, deeds, leases, mortgages, advances, contracts, waivers, releases or other instruments in writing necessary or proper in the employment of any of the foregoing powers; to form corporations and to create trusts to hold title to any securities or other property, upon such terms and conditions as are deemed advisable;

(k) To retain any funds or property subject to dispute without liability for the payment of interest, and to decline to make payment or delivery thereof until final adjudication is made by a court of competent jurisdiction;

(l) To pay personal and real property taxes, income taxes, transfer taxes and other taxes levied or assessed against the Trust under the law of any jurisdiction, but Trustee shall have the right to contest, protest, and settle the liability of the Trust for any such taxes; and

(m) To perform any and all other acts in its judgment necessary or appropriate for the proper and advantageous management, investment and distribution of the Trust.

Except as provided below, no enumeration of specific powers herein shall be construed as a limitation on the foregoing general power of Trustee, nor shall any of the powers herein conferred upon Trustee be exhausted by the use thereof but each shall be continuing.

Notwithstanding any provision to the contrary in this Trust Agreement, in no event may Trustee invest in securities (including stock or rights to acquire stock) or obligations issued by Company, other than a de minimis amount held in common investment vehicles in which Trustee invests.

Company shall have the right, at anytime, and from time to time in its sole discretion, to substitute assets of equal fair market value for any asset held by the Trust.

Section 6 - Disposition of Income.

(a) During the term of this Trust, all of the income received by the Trust, net of expenses and taxes, shall be accumulated and reinvested.

Section 7 - Accounting by Trustee.

Trustee shall keep accurate and detailed records of all investments, receipts, disbursements, and all other transactions required to be made, including such specific records as shall be agreed upon in writing between Company and Trustee. Within sixty (60) days following the close of each calendar year and within sixty (60) days after the removal or resignation of Trustee, Trustee shall deliver to Company a written account of its administration of the Trust during such year or during the period from the close of the last preceding year to the date of such removal or resignation, setting forth all investments, receipts, disbursements and other transactions effected by it, including a description of all securities and investments purchased and sold with the cost or net proceeds of such purchases or sales (accrued interest paid or receivable being shown separately), and showing all cash, securities and other property held in the Trust at the end of such year or as of the date of such removal or resignation, as the case may be.

Section 8 - Responsibility of Trustee.

(a) Trustee shall act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with

like aims, provided, however, that Trustee shall incur no liability to any person for any action taken pursuant to a direction, request or approval given by Company which is contemplated by, and in conformity with, the terms of the Plans or this Trust and is given in writing by Company. In the event of a dispute between Company and a party. Trustee may apply to a court of competent jurisdiction to resolve the dispute.

(b) If Trustee undertakes or defends any litigation arising in connection with this Trust, Company agrees to indemnify Trustee against Trustee's costs, expenses and liabilities (including, without limitation, attorneys' fees and expenses) relating thereto and to be primarily liable for such payments. If Company does not pay such costs, expenses and liabilities in a reasonably timely manner, Trustee may obtain payment from the Trust.

(c) Trustee may consult with legal counsel (who may also be counsel for Company generally) with respect to any of its duties or obligations hereunder.

(d) Trustee may hire agents, accountants, actuaries, investment advisors, financial consultants or other professionals to assist in performing any of its duties or obligations hereunder, provided that prior to a Change in Control, Trustee must obtain the consent of Company prior to retaining the services of such persons.

(e) Trustee shall have, without exclusion, all powers conferred on trustees by applicable law, unless expressly provided otherwise herein, provided, however, that if an insurance policy is held as an asset of the Trust, Trustee shall have no power to name a beneficiary of the policy other than the Trust, to assign the policy (as distinct from conversion of the policy to a different form) other than to a successor Trustee, or to loan to any person the proceeds of any borrowing against such policy.

(f) However, notwithstanding the provisions of Section 8(e) above, Trustee may loan to Company the proceeds of any borrowing against an insurance policy held as an asset of the Trust.

(g) Notwithstanding any powers granted to Trustee pursuant to this Trust Agreement or to applicable law, Trustee shall not have any power that could give this Trust the objective of carrying on a business and dividing the gains therefrom, within the meaning of Section 301.7701-2 of the Procedure and Administrative Regulations promulgated pursuant to the Internal Revenue Code.

Section 9 - Compensation and Expenses of Trustee.

Company shall pay all administrative and Trustee's fees and expenses. If not so paid, the fees and expenses shall be paid from the Trust.

Section 10 - Resignation and Removal of Trustee.

- (a) Trustee may resign at any time by written notice to Company, which shall be effective sixty (60) days after receipt of such notice unless Company and Trustee agree otherwise.
- (b) Trustee may be removed by Company on sixty (60) days notice or upon shorter notice accepted by Trustee.
- (c) If Trustee resigns or is removed within three (3) years after a Change of Control occurs, as defined herein, Trustee shall select a successor Trustee in accordance with the provisions of Section 11(b) hereof prior to the effective date of Trustee's resignation or removal.
- (d) Upon resignation or removal of Trustee and appointment of a successor Trustee, all assets shall subsequently be transferred to the successor Trustee. The transfer shall be completed within ninety (90) days after receipt of notice of resignation, removal or transfer, unless Company extends the time limit.
- (e) If Trustee resigns or is removed, a successor shall be appointed, in accordance with Section 11 hereof, by the effective date of resignation or removal under Section 10(a) or (b). If no such appointment has been made, Trustee may apply to a court of competent jurisdiction for appointment of a successor or for instructions. All expenses of Trustee in connection with the proceeding shall be allowed as administrative expenses of the Trust.

Section 11 - Appointment of Successor.

- (a) If Trustee resigns or is removed in accordance with Section 10(a) or (b) hereof, Company may appoint any third party, such as a bank trust department or other party that may be granted corporate trustee powers under state law, as a successor to replace Trustee upon resignation or removal. The appointment shall be effective when accepted in writing by the new Trustee, who shall have all of the rights and powers of the former Trustee, including ownership rights in the Trust assets. The former Trustee shall execute any instrument necessary or reasonably requested by Company or the successor Trustee to evidence the transfer.
- (b) If Trustee resigns or is removed pursuant to the provisions of Section 10(c) hereof and selects a successor Trustee, Trustee may appoint any third party such as a bank trust department or other party that may be granted corporate trustee powers under state law. The appointment of a successor Trustee shall be effective when accepted in writing by the new Trustee. The new Trustee shall have all the rights and powers of the former Trustee, including ownership rights in Trust assets. The former Trustee shall execute any instrument necessary or reasonably requested by the successor Trustee to evidence the transfer.

(c) The successor Trustee need not examine the records and acts of any prior Trustee and may retain or dispose of existing Trust assets, subject to Sections 7 and 8 hereof. The successor Trustee shall not be responsible for and Company shall indemnify and defend the successor Trustee from any claim or liability resulting from any action or inaction of any prior Trustee or from any other past event, or any condition existing at the time it becomes successor Trustee.

Section 12 - Amendment or Termination.

(a) This Trust Agreement may be amended by a written instrument executed by Trustee and Company. Notwithstanding the foregoing, no such amendment shall conflict with the terms of the Plans or shall make the Trust revocable after it has become irrevocable in accordance with Section 1(b) hereof.

(b) The Trust shall not terminate until the date on which Plan participants and their beneficiaries are no longer entitled to benefits pursuant to the terms of the Plans unless sooner revoked in accordance with Section 1(b) hereof. Upon termination of the Trust, any assets remaining in the Trust shall be returned to Company.

(c) Upon written approval of participants or beneficiaries entitled to payment of benefits pursuant to the terms of the Plans, Company may terminate this Trust prior to the time all benefit payments under the Plans have been made. All assets in the Trust at termination shall be returned to Company.

(d) This Trust Agreement may not be amended by Company for three (3) years following a Change of Control, as defined in Section 13(d).

(e) Nothing in this Section 12 shall prevent Company from amending this Trust Agreement, or from taking such other action as it determines may be necessary, to transfer assets and liabilities to another trust in the event of a sale, transfer or other disposition of an Affiliate or a division of Company or an Affiliate, provided that only the assets and liabilities attributable to employees employed by and directors of the affected Affiliate or division and their beneficiaries, as determined by the Board of Directors in its discretion, may be transferred to such trust and provided further that no transfer shall be permitted after a Change of Control has occurred unless the trust to which the assets and liabilities would be transferred is irrevocable and contains the same terms and conditions as this Trust Agreement.

Section 13 - Miscellaneous.

- (a) Any provision of this Trust Agreement prohibited by law shall be ineffective to the extent of any such prohibition, without invalidating the remaining provisions hereof.
- (b) Benefits payable to Plan participants and their beneficiaries under this Trust Agreement may not be anticipated, assigned (either at law or in equity), alienated, pledged, encumbered or subjected to attachment, garnishment, levy, execution or other legal or equitable process.
- (c) This Trust Agreement shall be governed by and construed in accordance with the laws of Arizona.
- (d) For purposes of this Trust, Change of Control shall mean a change in ownership or managerial control of the stock, assets or business of Company resulting from one (1) or more of the following circumstances:
- (1) A change of control of Company of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Act, or any successor regulation of similar import, regardless of whether Company is subject to such reporting requirement;
- (2) A change of control in ownership of Company through a transaction or series of transactions, such that any Person (other than an Affiliate) is or becomes the Beneficial Owner, directly or indirectly, of securities of Company representing twenty percent (20%) or more of the combined voting power of Company's then outstanding securities;
- (3) Any consolidation or merger of Company in which Company will not be the continuing or surviving corporation or pursuant to which shares of the common stock of Company would be converted into cash (other than cash attributable to dissenters' rights), securities or other property provided by a Person other than Company or an Affiliate, other than a consolidation or merger of Company in which the holders of the common stock of Company immediately prior to the consolidation or merger have approximately the same proportionate ownership of common stock of the surviving corporation immediately after the consolidation or merger;
- (4) The shareholders of Company approve a plan or proposal for the liquidation or dissolution of Company;
- (5) During any period of two (2) consecutive years, individuals who, at the beginning of such period, constituted the Board of Directors of Company, for any reason, cease to constitute at least a majority thereof, unless the election

or nomination for election of each new director was approved by the vote of at least two-thirds (2/3) of the directors then still in office who were directors at the beginning of the period;

(6) Substantially all of the assets of Company and its Affiliates, in the aggregate, are sold or otherwise transferred to Persons that are not Affiliates;

(7) More than eighty percent (80%) of the stock or substantially all of the assets of an Affiliate are sold or otherwise transferred to a Person or Persons other than Company or Affiliates, provided that any such event shall constitute a Change of Control only with respect to that affected Affiliate and its employees and directors who are Plan participants or their beneficiaries; or

(8) Significant assets of Company or an Affiliate are sold, transferred or otherwise disposed of to a Person or Persons other than Company or Affiliates and the Board of Directors of Company determines, in its discretion, that such sale, transfer or disposition constitutes a Change of Control, provided that such an event shall only constitute Change of Control with respect to those employees of Company or the affected Affiliate whose employment is directly related to such assets as determined by the Board of Directors of Company, in its discretion.

For purposes of this Section 13(d),

(A) "Act" shall mean the Securities and Exchange Act of 1934, as amended from time to time.

(B) "Affiliate" shall mean a corporation, trade or business under "common control" with Company. "Common control" shall be determined under Code Section 1563(a).

(C) "Beneficial Owner" shall have the same meaning as given to that term under Section 13(d) of the Act;

(D) "Employer" shall mean an Affiliate participating in one (1)

or more of the Plans; and

(E) "Person" shall have the same meaning as given to the term under Sections 13(d) and 14(d)(2) of the Act), but shall not include an employee benefit plan of Company or an Affiliate or an entity organized, appointed or established pursuant to the terms of any such benefit plan.

Section 14 - Effective Date.

The effective date of this Trust Agreement shall be January 1, 1996.

IN WITNESS WHEREOF, Company and Trustee have caused this instrument to be executed by their duly authorized officers as of the date and year first above written.

Attest:

By Suzanne W. Debes

Its Associate Secretary

PINNACE WEST CAPITAL CORPORATION

By Faye Widenmann

Its Vice President

Attest:

By Marcia Wepfer

Its Vice President

WELLS FARGO BANK OF ARIZONA, N.A.

By Vanessa Fulton

Its Assistant Vice President

Exhibit 10.15a

**FIRST AMENDMENT TO THE
TRUST FOR THE
PINNACLE WEST CAPITAL CORPORATION,
ARIZONA PUBLIC SERVICE COMPANY AND
SUNCOR DEVELOPMENT COMPANY
DEFERRED COMPENSATION PLANS**

Effective August 1, 1996, Pinnacle West Capital Corporation (the "Company") established the Trust for the Pinnacle West Capital Corporation, Arizona Public Service Company and Suncor Development Company Deferred Compensation Plans (the "Trust"), with Wells Fargo Bank of Arizona, N.A., acting as Trustee, for the purpose of holding the assets of certain plans and arrangements established by the Company and its affiliates.

By this instrument, the Company intends to amend the Trust to clarify the definition of "Change of Control."

1. This Amendment shall amend only those sections of the Trust as set forth herein and those sections not expressly amended hereby shall remain in full force and effect.

2. Sections 13(d) of the Trust is hereby amended to read as follows:

(d) "Change of Control" shall have the same meaning as "Change in Control" in the Pinnacle West Capital Corporation, Arizona Public Service Company, SunCor Development Company and El Dorado Investment Company Deferred Compensation Plan, as the same may be amended from time to time.

3. This Amendment shall be effective as of January 1, 2000.

IN WITNESS WHEREOF, the Company and Trustee have caused this Amendment to be executed by their duly authorized officers this 7 day of December, 1999.

PINNACE WEST CAPITAL CORPORATION

By Armando Flores
Its Vice President

WELLS FARGO BANK OF ARIZONA, N.A.

By Vanessa Fulton
Its Assistant Vice President

Exhibit 10.16a

**APS
Arizona Public Service Company
P.O. Box 53999 o PHOENIX, ARIZONA 85072-3999**

July 28, 1995

Armando B. Flores
400 North 5th Street
Phoenix, AZ 85004

Dear Armando,

During your years of employment, you have developed an intimate knowledge of the Company and its operations which, together with your skills and experience, has proven to be invaluable. We recognize that there are other business opportunities available to you and that your departure would be detrimental to the Company.

Therefore, the Company agrees to provide you, in consideration for your continued employment, deferred compensation in excess of that which is provided for under the Supplemental Excess Benefit Retirement Plan (SEBRP). The additional deferred compensation is equal to the amount which you would have been entitled under the terms of the SEBRP with eight additional "years of service".

Except as otherwise provided below, the deferred compensation payable under this agreement shall be paid over the same period and in the same form and shall commence on the same date as the benefit actually payable to you under the SEBRP as a result of your status as an officer of the Company. The Company will withhold all required federal and state taxes from such payments. You should also be aware that you will incur additional FICA costs as a result of this increase in benefits. The deferred compensation payable to you as a result of this letter will be payable from the Company's general assets.

While you are an "at-will" employee this additional deferred compensation is subject to revocation in the event your employment is terminated for "cause". For "cause" to be determined in the sole and absolute discretion of the APS Board of Directors.

With the assurances provided by this letter, we trust that we can look forward to your continuing efforts on behalf of the Company.

Very truly yours,

William J. Post

William J. Post

Chief Operating Officer and Senior Vice President

Exhibit 10.17a

[LETTERHEAD OF APS]

William J. Post Mail Station 9038 President and Tel. 602/250-2588 PO Box 53999 Chief Executive Officer Fax 602/250-3002 Phoenix, Arizona 85072-3999

October 3, 1997

Mr. James M. Levine
4817 North Greentree Drive East
Litchfield Park, AZ 85340

RE: Compensation Adjustments

Dear Jim:

Your contribution to the success of the Palo Verde Nuclear Plant has been significant and greatly appreciated. The success of the plant is exemplified by the specific achievement of Level I SALP and INPO ratings. It is now critical to maintain a Level I rating through the remainder of this year and beyond. To that end, I am providing you with an additional compensation opportunity which allows for a \$50,000 cash payout for the achievement of a Level I rating for each target. As a point of clarification the \$50,000 incentive opportunity for each target is effective immediately, and totals to maximum of \$100,000.

I appreciate your continued contribution and leadership to the Company.

Sincerely,

William J. Post

**SUBSIDIARIES OF
PINNACLE WEST CAPITAL CORPORATION**

Arizona Public Service Company
State of Incorporation: Arizona

Axiom Power Solutions, Inc.
State of Incorporation: Arizona

Bixco, Inc.
State of Incorporation: Arizona

APS Energy Services Company, Inc.
State of Incorporation: Arizona

SunCor Development Company
State of Incorporation: Arizona

SunCor Resort & Golf Management, Inc.
State of Incorporation: Arizona

Litchfield Park Service Company
State of Incorporation: Arizona

Golden Heritage Homes, Inc.
State of Incorporation: Arizona

Golden Heritage Construction, Inc.
State of Incorporation: Arizona

SCM, Inc.
State of Incorporation: Arizona

Golf de Mexico, S.A. DE C.V.
Incorporation: Tijuana, Baja California, Mexico

SunCor Realty & Management Company
State of Incorporation: Arizona

Palm Valley Golf Club, Inc.
State of Incorporation: Arizona

Rancho Viejo de Santa Fe, Inc.
State of Incorporation: New Mexico

Ranchland Utility Company
State of Incorporation: New Mexico

El Dorado Investment Company
State of Incorporation: Arizona

Pinnacle West Energy Corporation
State of Incorporation: Arizona

SunCor Realty & Management Company
State of Incorporation: Arizona

Type Two, Inc.

State of Incorporation: Delaware

INDEPENDENT AUDITOR'S CONSENT

We consent to the incorporation by reference in Post-Effective Amendment No. 2 to Registration Statement No. 33-15190 on Form S-3, Registration Statement Nos. 33-47534, 33-54287, 33-54307, 333-30819 and 333-95035 on Form S-8, Post Effective Amendment No. 1 to Registration Statement No. 33-1720 on Form S-8, and Post-Effective Amendment No. 3 on Form S-3 to Registration Statement No. 2-96386 on Form S-14, all of Pinnacle West Capital Corporation, of our report dated February 18, 2000, appearing in this Annual Report on Form 10-K of Pinnacle West Capital Corporation for the year ended December 31, 1999.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP

Phoenix, Arizona

March 29, 2000

ARTICLE UT

PERIOD TYPE	12 MOS
FISCAL YEAR END	DEC 31 1999
PERIOD START	JAN 01 1999
PERIOD END	DEC 31 1999
BOOK VALUE	PER BOOK
TOTAL NET UTILITY PLANT	4,778,515
OTHER PROPERTY AND INVEST	611,751
TOTAL CURRENT ASSETS	498,794
TOTAL DEFERRED CHARGES	719,446
OTHER ASSETS	0
TOTAL ASSETS	6,608,506
COMMON	1,537,449
CAPITAL SURPLUS PAID IN	0
RETAINED EARNINGS	668,284
TOTAL COMMON STOCKHOLDERS EQ	2,205,733
PREFERRED MANDATORY	0
PREFERRED	0
LONG TERM DEBT NET	2,206,052
SHORT TERM NOTES	0
LONG TERM NOTES PAYABLE	0
COMMERCIAL PAPER OBLIGATIONS	38,300
LONG TERM DEBT CURRENT PORT	114,798
PREFERRED STOCK CURRENT	0
CAPITAL LEASE OBLIGATIONS	0
LEASES CURRENT	0
OTHER ITEMS CAPITAL AND LIAB	2,043,623
TOT CAPITALIZATION AND LIAB	6,608,506
GROSS OPERATING REVENUE	2,423,353
INCOME TAX EXPENSE	168,065
OTHER OPERATING EXPENSES	1,048,467
TOTAL OPERATING EXPENSES	1,844,576
OPERATING INCOME LOSS	578,777
OTHER INCOME NET	9,777
INCOME BEFORE INTEREST EXPEN	0
TOTAL INTEREST EXPENSE	150,717
NET INCOME	167,887
PREFERRED STOCK DIVIDENDS	0
EARNINGS AVAILABLE FOR COMM	167,887
COMMON STOCK DIVIDENDS	112,311
TOTAL INTEREST ON BONDS	107,635
CASH FLOW OPERATIONS	635,600
EPS BASIC	1.98
EPS DILUTED	1.97

End of Filing

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