

# PINNACLE WEST CAPITAL CORP

## FORM 8-K

(Current report filing)

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Sector	Utilities
Fiscal Year	12/31

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

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**FORM 8-K**

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

**Date of Report (Date of earliest event reported): June 30, 2007**

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

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

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

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

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**Item 2.02. Results of Operations and Financial Condition**

On July 26, 2007, Pinnacle West Capital Corporation (the “Company” or “Pinnacle West”) issued a press release regarding its financial results for its fiscal quarter ended June 30, 2007. A copy of the press release is attached hereto as Exhibit 99.9.

Certain of the Information referenced in Item 7.01 below relates to the Company’s results of operations for its fiscal quarter ended June 30, 2007. This Information is attached hereto as Exhibits 99.2, 99.3, 99.7, 99.9, and 99.10.

**Item 7.01. Regulation FD Disclosure**

**Financial and Business Information**

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

**2007 Earnings Outlook**

We are updating Pinnacle West’s 2007 earnings outlook in light of the recent Arizona Corporation Commission (“ACC”) decision in APS’ general retail rate case. See “APS General Rate Case and Power Supply Adjustor” in Item 8.01 of the Pinnacle West/APS Report on Form 8-K filed with the Securities and Exchange Commission (the “SEC”) on June 20, 2007 for additional information about the ACC decision. In this discussion, earnings per share amounts are after income taxes and are based on diluted common shares outstanding. The earnings guidance in this Form 8-K supersedes all previous earnings guidance provided by Pinnacle West. Our earnings forecasts are subject to numerous risks, including those described under “Forward-Looking Statements” below.

We currently estimate that our consolidated earnings for 2007 will be within a reasonable range of \$2.55 per share. We estimate that APS’ earnings contribution included in such 2007 consolidated earnings will be within a reasonable range of \$2.25 per share (equivalent to a return on APS’ average common equity of 7.5%). These estimates include the \$8 million after-tax (\$0.08 per share) regulatory disallowance recorded in the second quarter of 2007 as a result of the general rate case decision. We currently estimate that net income for 2007 for our real estate subsidiary, SunCor Development Company (“SunCor”) will be approximately \$30 million.

We previously estimated that our base level of consolidated earnings for 2007, before considering any potential earnings benefit derived from a base rate increase effective at any time during 2007, would be within a reasonable range of \$2.45 per share. See the Pinnacle West/APS Report on Form 8-K filed with the SEC on January 30, 2007 for further information on our prior 2007 guidance. Our current guidance differs from our prior guidance principally due to the following factors, all of which relate to implementation of the retail rate decision effective July 1, 2007:

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- The annualized pretax non-fuel rate increase of \$7 million approved by the ACC increased our estimate \$0.02 per share;
- The increase in the base fuel rate approved by the ACC increased our estimate \$0.11 per share because of the PSA sharing arrangement (under which APS absorbs 10% of variances between actual retail fuel and purchase power costs and the base fuel rate); and
- The regulatory disallowance decreased our estimate \$0.08 per share.

## Forward-Looking Statements

This Form 8-K contains forward-looking statements regarding our 2007 earnings outlook. Neither the Company nor APS assumes any obligation to update these statements or make any further statements on any of these issues, except as required by applicable law. Because actual results may differ materially from expectations, we caution readers not to place undue reliance on these statements. A number of factors could cause future results to differ materially from historical results, or from results or outcomes currently expected or sought by Pinnacle West or APS. In addition to the Risk Factors described in Item 1A of the Pinnacle West/APS Annual Report on Form 10-K for the fiscal year ended December 31, 2006, these factors include, but are not limited to, state and federal regulatory and legislative decisions and actions; the ongoing restructuring of the electric industry, including the introduction of retail electric competition in Arizona and decisions impacting wholesale competition; the outcome of regulatory, legislative and judicial proceedings, both current and future, relating to the restructuring; market prices for electricity and natural gas; power plant performance and outages; transmission outages and constraints; weather variations affecting local and regional customer energy usage; customer growth and energy usage; regional economic and market conditions, including the results of litigation and other proceedings resulting from the California energy situation, volatile fuel and purchased power costs and the completion of generation and transmission construction in the region, which could affect customer growth and the cost of power supplies; the cost of debt and equity capital and access to capital markets; current credit ratings remaining in effect for any given period of time; our ability to compete successfully outside traditional regulated markets (including the wholesale market); the performance of our marketing and trading activities due to volatile market liquidity and any deteriorating counterparty credit and the use of derivative contracts in our business (including the interpretation of the subjective and complex accounting rules related to these contracts); changes in accounting principles generally accepted in the United States of America and the interpretation of those principles; the performance of the stock market and the changing interest rate environment, which affect the value of our nuclear decommissioning trust, pension, and other postretirement benefit plans assets, the amount of required contributions to Pinnacle West's pension plan and contributions to APS' nuclear decommissioning trust funds, as well as the reported costs of providing pension and other postretirement benefits; technological developments in the electric industry; the strength of the real estate market in SunCor's market areas, which include Arizona, Idaho, New Mexico and Utah; and other uncertainties, all of which are difficult to predict and many of which are beyond the control of Pinnacle West and APS.

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### Item 9.01. Financial Statements and Exhibits

#### (d) Exhibits.

<b>Exhibit No.</b>	<b>Registrant(s)</b>	<b>Description</b>
99.1	Pinnacle West APS	Pinnacle West Capital Corporation quarterly consolidated statistical summary (cover page and list of contents).
99.2	Pinnacle West APS	Pinnacle West Capital Corporation quarterly consolidated statistical summary for the three-month and six-month periods ended June 30, 2007 and 2006.
99.3	Pinnacle West APS	Pinnacle West Capital Corporation consolidated statistics by quarter for 2007.
99.4	Pinnacle West APS	Pinnacle West Capital Corporation consolidated statistics by quarter for 2006.
99.5	Pinnacle West APS	Pinnacle West Capital Corporation consolidated statistics by quarter for 2005.
99.6	Pinnacle West APS	Pinnacle West Capital Corporation consolidated statistics by quarter for 2004.
99.7	Pinnacle West APS	Pinnacle West Capital Corporation earnings variance explanations for the three and six months ended June 30, 2007 and 2006 and unaudited condensed consolidated statements of income for the three and six months ended June 30, 2007 and 2006.
99.8	Pinnacle West APS	Glossary of Terms.
99.9	Pinnacle West APS	Earnings News Release issued on July 26, 2007.
99.10	Pinnacle West APS	Non-GAAP Financial Measure Reconciliation - Operating Income (GAAP measure) to Gross Margin (non-GAAP financial measure).

SIGNATURES

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

PINNACLE WEST CAPITAL CORPORATION  
(Registrant)

Dated: July 26, 2007

By: /s/ Donald E. Brandt  
Donald E. Brandt  
Executive Vice President and  
Chief Financial Officer

ARIZONA PUBLIC SERVICE COMPANY  
(Registrant)

Dated: July 26, 2007

By: /s/ Donald E. Brandt  
Donald E. Brandt  
President and Chief Financial Officer



**Exhibit Index**

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**Pinnacle West Capital Corporation**  
**Quarterly Consolidated Statistical Summary**  
**Periods Ended June 30, 2007 and 2006**

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**2007 Second Quarter Summary**

**2007 by Quarter**

**2006 by Quarter**

**2005 by Quarter**

**2004 by Quarter**

Quarters may not sum to totals due to rounding.

The definitions of terms used in this statistical summary are contained in the "Glossary of Terms" on the Pinnacle West website at:  
<http://www.pinnaclewest.com/files/investors/2007Q2QuarStatsGloss.pdf>

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



**Pinnacle West Capital Corporation**  
**Quarterly Consolidated Statistical Summary**  
**Periods Ended June 30, 2007 and 2006**

Line	3 Mo. Ended June			6 Mo. Ended June			
	2007	2006	Incr (Decr)	2007	2006	Incr (Decr)	
<b>EARNINGS CONTRIBUTION BY SUBSIDIARY (\$ Millions)</b>							
1	Arizona Public Service	\$ 75	\$ 94	\$ (19)	\$ 79	\$ 88	\$ (9)
2	Pinnacle West Energy	—	—	—	—	—	—
3	APS Energy Services	(1)	—	(1)	—	1	(1)
4	SunCor	—	8	(8)	8	30	(22)
5	El Dorado	—	—	—	(2)	(2)	—
6	Parent Company	5	9	(4)	9	5	4
7	Income From Continuing Operations	79	111	(32)	94	122	(28)
Income (Loss) From Discontinued Operations — Net of Tax							
8	Silverhawk	—	—	—	—	1	(1)
9	SunCor	—	1	(1)	2	2	—
10	NAC	—	—	—	—	—	—
11	Total	—	1	(1)	2	3	(1)
12	Net Income	<u>\$ 79</u>	<u>\$ 112</u>	<u>\$ (33)</u>	<u>\$ 96</u>	<u>\$ 125</u>	<u>\$ (29)</u>
<b>EARNINGS PER SHARE BY SUBSIDIARY — DILUTED</b>							
13	Arizona Public Service	\$ 0.75	\$ 0.95	\$ (0.20)	\$ 0.79	\$ 0.89	\$ (0.10)
14	Pinnacle West Energy	—	—	—	—	—	—
15	APS Energy Services	(0.01)	—	(0.01)	—	0.01	(0.01)
16	SunCor	—	0.07	(0.07)	0.08	0.30	(0.22)
17	El Dorado	—	—	—	(0.02)	(0.02)	—
18	Parent Company	0.04	0.09	(0.05)	0.09	0.05	0.04
19	Income From Continuing Operations	0.78	1.11	(0.33)	0.94	1.23	(0.29)
Income (Loss) From Discontinued Operations — Net of Tax							
20	Silverhawk	—	—	—	—	—	—
21	SunCor	—	0.02	(0.02)	0.01	0.02	(0.01)
22	NAC	—	—	—	—	—	—
23	Total	—	0.02	(0.02)	0.01	0.02	(0.01)
24	Net Income	<u>\$ 0.78</u>	<u>\$ 1.13</u>	<u>\$ (0.35)</u>	<u>\$ 0.95</u>	<u>\$ 1.25</u>	<u>\$ (0.30)</u>
25	<b>BOOK VALUE PER SHARE</b>	\$ 34.13*	\$ 33.08	\$ 1.05	\$ 34.13*	\$ 33.08	\$ 1.05
<b>COMMON SHARES OUTSTANDING (Thousands)</b>							
26	Average — Diluted	100,779	99,640	1,139	100,718	99,562	1,156
27	End of Period	100,290	99,284	1,006	100,290	99,284	1,006

\* Estimate



**Pinnacle West Capital Corporation**  
**Quarterly Consolidated Statistical Summary**  
**Periods Ended June 30, 2007 and 2006**

Line	3 Mo. Ended June			6 Mo. Ended June			
	2007	2006	Incr (Decr)	2007	2006	Incr (Decr)	
<b>ELECTRIC OPERATING REVENUES (Dollars in Millions)</b>							
<b>REGULATED ELECTRICITY SEGMENT</b>							
<b>Retail</b>							
28	Residential	\$ 335	\$ 337	\$ (2)	\$ 581	\$ 539	\$ 42
29	Business	342	333	9	606	566	40
30	Total retail	677	670	7	1,187	1,105	82
<b>Wholesale revenue on delivered electricity</b>							
31	Traditional contracts	9	7	2	14	13	1
32	Off-system sales	10	22	(12)	17	34	(17)
33	Transmission for others	7	6	1	14	12	2
34	Other miscellaneous services	8	8	—	15	15	—
35	Total regulated operating electricity revenues	711	713	(2)	1,247	1,179	68
<b>MARKETING AND TRADING</b>							
36	Electricity and other commodity sales	93	90	3	165	175	(10)
37	Total operating electric revenues	\$ 804	\$ 803	\$ 1	\$ 1,412	\$ 1,354	\$ 58
<b>ELECTRIC SALES (GWH)</b>							
<b>REGULATED ELECTRICITY SEGMENT</b>							
<b>Retail sales</b>							
38	Residential	3,287	3,284	3	6,021	5,703	318
39	Business	4,004	3,971	33	7,289	7,170	119
40	Total retail	7,291	7,255	36	13,310	12,873	437
<b>Wholesale electricity delivered</b>							
41	Traditional contracts	262	181	81	437	396	41
42	Off-system sales	310	218	92	553	890	(337)
43	Retail load hedge management	254	622	(368)	371	800	(429)
44	Total regulated electricity	8,117	8,276	(159)	14,671	14,959	(288)
<b>MARKETING AND TRADING</b>							
45	Wholesale sales of electricity	2,606	3,862	(1,256)	4,663	7,824	(3,161)
46	Total electric sales	10,723	12,138	(1,415)	19,334	22,783	(3,449)

See Glossary of Terms.

**Pinnacle West Capital Corporation**  
**Quarterly Consolidated Statistical Summary**  
**Periods Ended June 30, 2007 and 2006**

Line	3 Mo. Ended June			6 Mo. Ended June			
	2007	2006	Incr (Decr)	2007	2006	Incr (Decr)	
<b>POWER SUPPLY ADJUSTOR ("PSA") — REGULATED ELECTRICITY SEGMENT (Dollars in Millions)</b>							
47	Deferred fuel and purchased power regulatory asset — beginning balance	\$ 118	\$ 169	\$ (51)	\$ 160	\$ 173	\$ (13)
48	Deferred fuel and purchased power costs — current period	104	78	26	129	91	38
49	Regulatory disallowance	(14)	—	(14)	(14)	—	(14)
50	Interest on deferred fuel	1	3	(2)	3	4	(1)
51	Amounts recovered through revenues	(72)	(75)	3	(141)	(93)	(48)
52	Deferred fuel and purchased power regulatory asset — ending balance	<u>\$ 137</u>	<u>\$ 175</u>	<u>\$ (38)</u>	<u>\$ 137</u>	<u>\$ 175</u>	<u>\$ (38)</u>

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

<b>Realized and Mark-To-Market Components</b>							
53	Electricity and other commodity sales, realized (a)	\$ 22	\$ 17	\$ 5	\$ 39	\$ 29	\$ 10
54	Mark-to-market reversals on realized sales (a) (b)	1	(1)	2	(4)	(3)	(1)
55	Change in mark-to-market value of forward sales	(6)	—	(6)	(2)	2	(4)
56	Total gross margin	<u>\$ 17</u>	<u>\$ 16</u>	<u>\$ 1</u>	<u>\$ 33</u>	<u>\$ 28</u>	<u>\$ 5</u>

**By Pinnacle West Entity**

57	APS	\$ 7	\$ 2	\$ 5	\$ 6	\$ 10	\$ (4)
58	Pinnacle West Marketing & Trading (c)	—	—	—	2	—	2
59	Parent Company (c)	9	11	(2)	19	12	7
60	APS Energy Services	1	3	(2)	6	6	—
61	Pinnacle West Energy	—	—	—	—	—	—
62	Total gross margin	<u>\$ 17</u>	<u>\$ 16</u>	<u>\$ 1</u>	<u>\$ 33</u>	<u>\$ 28</u>	<u>\$ 5</u>

**Future Marketing and Trading Mark-to-Market Realization**

As of June 30, 2007, Pinnacle West had accumulated net mark-to-market gains of \$24 million related to our power marketing and trading activities. We estimate that these gains will be reclassified to realized gains as the underlying commodities are delivered, as follows: 2007, \$7 million; and 2008, \$17 million.

- (a) Net effect on pretax gross margin from realization of prior-period mark-to-market included in line 53 and in line 54 is zero. Realization of prior-period mark-to-market relates to cash flow recognition, not earnings recognition. The arithmetic opposites of amounts included in line 53 are included in line 54. For example, line 54 shows that a prior-period mark-to-market loss of \$1 million was transferred to "realized" for the second quarter of 2007. A \$1 million realized loss is included in the \$22 million on line 53 for the second quarter of 2007.



- (b) Quarterly amounts do not total to annual amounts because of intra-year mark-to-market eliminations.
- (c) On February 1, 2007, the Parent Company transferred its market based rate tariff and wholesale power sales agreements to a newly-created subsidiary, Pinnacle West Marketing & Trading, which resulted in Pinnacle West no longer being a public utility under the Federal Power Act. As a result, Pinnacle West is no longer subject to FERC jurisdiction in connection with its issuance of securities or its incurrence of long-term debt.

See Glossary of Terms.

**Pinnacle West Capital Corporation**  
**Quarterly Consolidated Statistical Summary**  
**Periods Ended June 30, 2007 and 2006**

Line	3 Mo. Ended June			6 Mo. Ended June			
	2007	2006	Incr (Decr)	2007	2006	Incr (Decr)	
<b>AVERAGE ELECTRIC CUSTOMERS</b>							
<b>Retail customers</b>							
63	Residential	962,095	930,402	31,693	963,762	930,601	33,161
64	Business	119,792	114,803	4,989	119,220	114,187	5,033
65	Total	1,081,887	1,045,205	36,682	1,082,982	1,044,788	38,194
66	Wholesale customers	62	76	(14)	63	76	(13)
67	Total customers	1,081,949	1,045,281	36,668	1,083,045	1,044,864	38,181
68	Customer growth (% over prior year)	3.5%	4.6%	(1.1)%	3.7%	4.5%	(0.8)%
<b>RETAIL SALES (GWH) — WEATHER NORMALIZED</b>							
69	Residential	3,214	3,123	91	5,862	5,598	264
70	Business	3,977	3,933	44	7,205	7,181	24
71	Total	7,191	7,056	135	13,067	12,779	288
<b>RETAIL USAGE (KWh/Average Customer)</b>							
72	Residential	3,417	3,530	(113)	6,247	6,128	119
73	Business	33,425	34,590	(1,165)	61,139	62,792	(1,653)
<b>RETAIL USAGE — WEATHER NORMALIZED (KWh/Average Customer)</b>							
74	Residential	3,340	3,357	(17)	6,082	6,015	67
75	Business	33,202	34,263	(1,061)	60,435	62,889	(2,454)
<b>ELECTRICITY DEMAND (MW)</b>							
76	System peak demand	6,982	6,624	358	6,982	6,624	358

See Glossary of Terms.

**Pinnacle West Capital Corporation**  
**Quarterly Consolidated Statistical Summary**  
**Periods Ended June 30, 2007 and 2006**

Line	3 Mo. Ended June			6 Mo. Ended June			
	2007	2006	Incr (Decr)	2007	2006	Incr (Decr)	
<b>ENERGY SOURCES (GWH)</b>							
<b>Generation production</b>							
77	Nuclear	1,846	1,198	648	4,145	2,918	1,227
78	Coal	3,265	3,182	83	6,429	6,265	164
79	Gas, oil and other	1,517	2,000	(483)	2,668	3,323	(655)
80	Total generation production	6,628	6,380	248	13,242	12,506	736
<b>Purchased power</b>							
81	Firm load	1,676	1,740	(64)	1,954	2,105	(151)
82	Marketing and trading	3,055	4,597	(1,542)	5,317	9,189	(3,872)
83	Total purchased power	4,731	6,337	(1,606)	7,271	11,294	(4,023)
84	Total energy sources	11,359	12,717	(1,358)	20,513	23,800	(3,287)
<b>POWER PLANT PERFORMANCE</b>							
<b>Capacity Factors</b>							
85	Nuclear	75%	49%	26%	85%	60%	25%
86	Coal	86%	84%	2%	85%	83%	2%
87	Gas, oil and other	21%	28%	(7)%	19%	23%	(4)%
88	System average	49%	48%	1%	50%	47%	3%
<b>Generation Capacity Out of Service and Replaced for Native Load (average MW/day) (a)</b>							
89	Nuclear	266	553	(287)	164	430	(266)
90	Coal	189	184	5	196	220	(24)
91	Gas	405	117	288	336	159	177
92	Total	860	854	6	696	809	(113)

(a) Includes planned and unplanned outages

See Glossary of Terms.

**Pinnacle West Capital Corporation**  
**Quarterly Consolidated Statistical Summary**  
**Periods Ended June 30, 2007 and 2006**

Line	3 Mo. Ended June			6 Mo. Ended June			
	2007	2006	Incr (Decr)	2007	2006	Incr (Decr)	
<b>ENERGY MARKET INDICATORS (a)</b>							
<b>Electricity Average Daily Spot Prices (\$/MWh)</b>							
<b>On-Peak</b>							
93	Palo Verde	\$ 64.64	\$ 54.63	\$ 10.01	\$ 59.63	\$ 54.21	\$ 5.42
94	SP15	\$ 68.75	\$ 55.39	\$ 13.36	\$ 64.39	\$ 56.87	\$ 7.52
<b>Off-Peak</b>							
95	Palo Verde	\$ 41.46	\$ 28.38	\$ 13.08	\$ 41.76	\$ 35.15	\$ 6.61
96	SP15	\$ 46.14	\$ 27.43	\$ 18.71	\$ 46.00	\$ 36.11	\$ 9.89
<b>WEATHER INDICATORS</b>							
<b>Actual</b>							
97	Cooling degree-days	1,708	1,740	(32)	1,880	1,783	97
98	Heating degree-days	8	4	4	597	468	129
99	Average humidity	18%	18%	0%	27%	23%	4%
<b>10-Year Averages</b>							
100	Cooling degree-days	1,557	1,557	—	1,654	1,654	—
101	Heating degree-days	31	31	—	544	544	—
102	Average humidity	22%	22%	0%	32%	32%	0%
<b>ECONOMIC INDICATORS</b>							
<b>Building Permits — Metro Phoenix (b)(d)</b>							
103	Single-family	5,044	5,756	(712)	12,061	14,472	(2,411)
104	Multi-family	1,276	2,305	(1,029)	5,407	5,192	215
105	Total	<u>6,320</u>	<u>8,061</u>	<u>(1,741)</u>	<u>17,468</u>	<u>19,664</u>	<u>(2,196)</u>
<b>Arizona Job Growth (c) (d)</b>							
106	Payroll job growth (% over prior year)	3.5%	5.2%	(1.7)%	3.9%	5.8%	(1.9)%
107	Unemployment rate (% , seasonally adjusted)	3.8%	4.1%	(0.3)%	3.9%	4.2%	(0.3)%

**Sources:**

- (a) Average of daily prices obtained and used with permission from Dow Jones & Company, Inc.  
(b) Arizona Real Estate Center, Arizona State University W.P. Carey College of Business  
(c) Arizona Department of Economic Security  
(d) Economic indicators reflect periods ended May 31, 2007 (latest available data) and May 31, 2006.

See Glossary of Terms.



**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2007**

Line		<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
<b>EARNINGS CONTRIBUTION BY SUBSIDIARY (\$ Millions)</b>							
1	Arizona Public Service	\$ 4	\$ 75			\$ 79	\$ (9)
2	Pinnacle West Energy	—	—			—	—
3	APS Energy Services	1	(1)			—	(1)
4	SunCor	8	—			8	(22)
5	El Dorado	(2)	—			(2)	—
6	Parent Company	5	5			9	4
7	Income From Continuing Operations	16	79	—	—	94	(28)
Income (Loss) From Discontinued Operations — Net of Tax							
8	Silverhawk	—	—			—	(1)
9	SunCor	1	—			2	—
10	NAC	—	—			—	—
11	Total	1	—	—	—	2	(1)
12	Net Income	\$ 17	\$ 79	\$ —	\$ —	\$ 96	\$ (29)
<b>EARNINGS PER SHARE BY SUBSIDIARY — DILUTED</b>							
13	Arizona Public Service	\$ 0.04	\$ 0.75			\$ 0.79	\$ (0.10)
14	Pinnacle West Energy	—	—			—	—
15	APS Energy Services	0.01	(0.01)			—	(0.01)
16	SunCor	0.09	—			0.08	(0.22)
17	El Dorado	(0.02)	—			(0.02)	—
18	Parent Company	0.04	0.04			0.09	0.04
19	Income From Continuing Operations	0.16	0.78	—	—	0.94	(0.29)
Income (Loss) From Discontinued Operations — Net of Tax							
20	Silverhawk	—	—			—	—
21	SunCor	—	—			0.01	(0.01)
22	NAC	—	—			—	—
23	Total	—	—	—	—	0.01	(0.01)
24	Net Income	\$ 0.16	\$ 0.78	\$ —	\$ —	\$ 0.95	\$ (0.30)
25	<b>BOOK VALUE PER SHARE</b>	\$ 34.45	\$ 34.13*			\$ 34.13*	1.05
<b>COMMON SHARES OUTSTANDING (Thousands)</b>							
26	Average — Diluted	100,622	100,779			100,718	1,156
27	End of Period	100,115	100,290			100,290	1,006

\* Estimate



**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2007**

Line	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
<b>ELECTRIC OPERATING REVENUES (Dollars in Millions)</b>						
<b>REGULATED ELECTRICITY SEGMENT</b>						
<b>Retail</b>						
28 Residential	\$ 246	\$ 335			\$ 581	\$ 42
29 Business	264	342			606	40
30 Total retail	<u>510</u>	<u>677</u>	—	—	1,187	82
<b>Wholesale revenue on delivered electricity</b>						
31 Traditional contracts	5	9			14	1
32 Off-system sales	7	10			17	(17)
33 Transmission for others	7	7			14	2
34 Other miscellaneous services	7	8			15	—
35 Total regulated operating electricity revenues	536	711	—	—	1,247	68
<b>MARKETING AND TRADING</b>						
36 Electricity and other commodity sales	72	93			165	(10)
37 Total operating electric revenues	<u>\$ 608</u>	<u>\$ 804</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,412</u>	<u>\$ 58</u>
<b>ELECTRIC SALES (GWH)</b>						
<b>REGULATED ELECTRICITY SEGMENT</b>						
<b>Retail sales</b>						
38 Residential	2,734	3,287			6,021	318
39 Business	3,285	4,004			7,289	119
40 Total retail	<u>6,019</u>	<u>7,291</u>	—	—	13,310	437
<b>Wholesale electricity delivered</b>						
41 Traditional contracts	175	262			437	41
42 Off-system sales	243	310			553	(337)
43 Retail load hedge management	117	254			371	(429)
44 Total regulated electricity	6,554	8,117	—	—	14,671	(288)
<b>MARKETING AND TRADING</b>						
45 Wholesale sales of electricity	2,057	2,606			4,663	(3,161)
46 Total electric sales	<u>8,611</u>	<u>10,723</u>	<u>—</u>	<u>—</u>	<u>19,334</u>	<u>(3,449)</u>

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## Pinnacle West Capital Corporation

## Consolidated Statistics By Quarter

2007

Line		<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
<b>POWER SUPPLY ADJUSTOR ("PSA") - REGULATED ELECTRICITY SEGMENT (Dollars in Millions)</b>							
47	Deferred fuel and purchased power regulatory asset — beginning balance	\$ 160	\$ 118			\$ 160	\$ (13)
48	Deferred fuel and purchased power costs — current period	25	104			129	38
49	Regulatory disallowance	—	(14)			(14)	(14)
50	Interest on deferred fuel	2	1			3	(1)
51	Amounts recovered through revenues	(69)	(72)			(141)	(48)
52	Deferred fuel and purchased power regulatory asset — ending balance	<u>\$ 118</u>	<u>\$ 137</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 137</u>	<u>\$ (38)</u>

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

<b>Realized and Mark-To-Market Components</b>							
53	Electricity and other commodity sales, realized (a)	\$ 12	\$ 22			\$ 39	\$ 10
54	Mark-to-market reversals on realized sales (a) (b)	(8)	1			(4)	(1)
55	Change in mark-to-market value of forward sales	10	(6)			(2)	(4)
56	Total gross margin	<u>\$ 14</u>	<u>\$ 17</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 33</u>	<u>\$ 5</u>

**By Pinnacle West Entity**

57	APS	\$ (1)	\$ 7			\$ 6	\$ (4)
58	Pinnacle West Marketing & Trading (c)	1	—			2	2
59	Parent Company (c)	9	9			19	7
60	APS Energy Services	5	1			6	—
61	Pinnacle West Energy	—	—			—	—
62	Total gross margin	<u>\$ 14</u>	<u>\$ 17</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 33</u>	<u>\$ 5</u>

**Future Marketing and Trading Mark-to-Market Realization**

As of June 30, 2007, Pinnacle West had accumulated net mark-to-market gains of \$24 million related to our power marketing and trading activities. We estimate that these gains will be reclassified to realized gains as the underlying commodities are delivered, as follows: 2007, \$7 million; and 2008, \$17 million.

- (a) Net effect on pretax gross margin from realization of prior-period mark-to-market included in line 53 and in line 54 is zero. Realization of prior-period mark-to-market relates to cash flow recognition, not earnings recognition. The arithmetic opposites of amounts included in line 53 are included in line 54. For example, line 54 shows that a prior-period mark-to-market loss of \$1 million was transferred to "realized" for the second quarter of 2007. A \$1 million realized loss is included in the \$22 million on line 53 for the second quarter of 2007.

- (b) Quarterly amounts do not total to annual amounts because of intra-year mark-to-market eliminations.
- (c) On February 1, 2007, the Parent Company transferred its market based rate tariff and wholesale power sales agreements to a newly-created subsidiary, Pinnacle West Marketing & Trading, which resulted in Pinnacle West no longer being a public utility under the Federal Power Act. As a result, Pinnacle West is no longer subject to FERC jurisdiction in connection with its issuance of securities or its incurrence of long-term debt.

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## Pinnacle West Capital Corporation

## Consolidated Statistics By Quarter

2007

Line	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
<b>AVERAGE ELECTRIC CUSTOMERS</b>						
<b>Retail customers</b>						
63 Residential	965,428	962,095			963,762	33,161
64 Business	118,649	119,792			119,220	5,033
65 Total	1,084,077	1,081,887	—	—	1,082,982	38,194
66 Wholesale customers	63	62			63	(13)
67 Total customers	<u>1,084,140</u>	<u>1,081,949</u>	<u>—</u>	<u>—</u>	<u>1,083,045</u>	<u>38,181</u>
68 Customer growth (% over prior year)	3.8%	3.5%			3.7%	(0.8)%
<b>RETAIL SALES (GWH) - WEATHER NORMALIZED</b>						
69 Residential	2,648	3,214			5,862	264
70 Business	3,228	3,977			7,205	24
71 Total	<u>5,876</u>	<u>7,191</u>	<u>—</u>	<u>—</u>	<u>13,067</u>	<u>288</u>
<b>RETAIL USAGE (KWh/Average Customer)</b>						
72 Residential	2,832	3,417			6,247	119
73 Business	27,687	33,425			61,139	(1,653)
<b>RETAIL USAGE - WEATHER NORMALIZED (KWh/Average Customer)</b>						
74 Residential	2,743	3,340			6,082	67
75 Business	27,204	33,202			60,435	(2,454)
<b>ELECTRICITY DEMAND (MW)</b>						
76 System peak demand	4,781	6,982			6,982	358

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**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2007**

Line	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
<b>ENERGY SOURCES (GWH)</b>						
<b>Generation production</b>						
77 Nuclear	2,299	1,846			4,145	1,227
78 Coal	3,164	3,265			6,429	164
79 Gas, oil and other	1,151	1,517			2,668	(655)
80 Total generation production	<u>6,614</u>	<u>6,628</u>	—	—	<u>13,242</u>	<u>736</u>
<b>Purchased power</b>						
81 Firm load	278	1,676			1,954	(151)
82 Marketing and trading	2,262	3,055			5,317	(3,872)
83 Total purchased power	<u>2,540</u>	<u>4,731</u>	—	—	<u>7,271</u>	<u>(4,023)</u>
84 Total energy sources	<u><u>9,154</u></u>	<u><u>11,359</u></u>	<u>—</u>	<u>—</u>	<u><u>20,513</u></u>	<u><u>(3,287)</u></u>
<b>POWER PLANT PERFORMANCE</b>						
<b>Capacity Factors</b>						
85 Nuclear	94%	75%			85%	25%
86 Coal	84%	86%			85%	2%
87 Gas, oil and other	16%	21%			19%	(4)%
88 System average	50%	49%			50%	3%
<b>Generation Capacity Out of Service and Replaced for Native Load (average MW/day) (a)</b>						
89 Nuclear	57	266			164	(266)
90 Coal	203	189			196	(24)
91 Gas	267	405			336	177
92 Total	<u><u>527</u></u>	<u><u>860</u></u>	<u>—</u>	<u>—</u>	<u><u>696</u></u>	<u><u>(113)</u></u>

(a) Includes planned and unplanned outages

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**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2007**

Line	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
<b>ENERGY MARKET INDICATORS (a)</b>						
<b>Electricity Average Daily Spot Prices (\$/MWh)</b>						
<b>On-Peak</b>						
93	Palo Verde	\$ 54.62	\$ 64.64		\$ 59.63	\$ 5.42
94	SP15	\$ 60.02	\$ 68.75		\$ 64.39	\$ 7.52
<b>Off-Peak</b>						
95	Palo Verde	\$ 42.06	\$ 41.46		\$ 41.76	\$ 6.61
96	SP15	\$ 45.86	\$ 46.14		\$ 46.00	\$ 9.89
<b>WEATHER INDICATORS</b>						
<b>Actual</b>						
97	Cooling degree-days	172	1,708		1,880	97
98	Heating degree-days	589	8		597	129
99	Average humidity	36%	18%		27%	4%
<b>10-Year Averages</b>						
100	Cooling degree-days	97	1,557		1,654	—
101	Heating degree-days	513	31		544	—
102	Average humidity	42%	22%		32%	0%
<b>ECONOMIC INDICATORS</b>						
<b>Building Permits — Metro Phoenix (b) (d)</b>						
103	Single-family	7,017	5,044		12,061	(2,411)
104	Multi-family	4,131	1,276		5,407	215
105	Total	<u>11,148</u>	<u>6,320</u>	<u>—</u>	<u>17,468</u>	<u>(2,196)</u>
<b>Arizona Job Growth (c) (d)</b>						
106	Payroll job growth (% over prior year)	4.1%	3.5%		3.9%	(1.9)%
107	Unemployment rate (% , seasonally adjusted)	4.0%	3.8%		3.9%	(0.3)%

**Sources:**

- (a) Average of daily prices obtained and used with permission from Dow Jones & Company, Inc.  
(b) Arizona Real Estate Center, Arizona State University W.P. Carey College of Business  
(c) Arizona Department of Economic Security  
(d) Economic indicators reflect periods ended May 31, 2007 (latest available data).

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**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2006**

Line		<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
<b>EARNINGS CONTRIBUTION BY SUBSIDIARY (\$ Millions)</b>							
1	Arizona Public Service	\$ (6)	\$ 94	\$ 169	\$ 13	\$ 270	\$ 100
2	Pinnacle West Energy	—	—	—	—	—	85
3	APS Energy Services	1	—	(2)	(2)	(3)	3
4	SunCor	21	8	17	3	50	11
5	El Dorado	(1)	—	—	(1)	(3)	(1)
6	Parent Company	(3)	9	—	(3)	3	(104)
7	Income From Continuing Operations	12	111	184	10	317	94
Income (Loss) From Discontinued Operations — Net of Tax							
8	Silverhawk	—	—	—	—	1	68
9	SunCor	1	1	—	8	10	(7)
10	NAC	—	—	—	—	(1)	(4)
11	Total	1	1	—	8	10	57
12	Net Income	<u>\$ 13</u>	<u>\$ 112</u>	<u>\$ 184</u>	<u>\$ 18</u>	<u>\$ 327</u>	<u>\$ 151</u>
<b>EARNINGS PER SHARE BY SUBSIDIARY — DILUTED</b>							
13	Arizona Public Service	\$ (0.06)	\$ 0.95	\$ 1.69	\$ 0.13	\$ 2.70	\$ 0.93
14	Pinnacle West Energy	—	—	—	—	—	0.89
15	APS Energy Services	0.01	—	(0.02)	(0.02)	(0.03)	0.03
16	SunCor	0.21	0.07	0.17	0.03	0.50	0.10
17	El Dorado	(0.01)	—	—	(0.01)	(0.03)	(0.01)
18	Parent Company	(0.03)	0.09	—	(0.03)	0.03	(1.08)
19	Income From Continuing Operations	0.12	1.11	1.84	0.10	3.17	0.86
Income (Loss) From Discontinued Operations — Net of Tax							
20	Silverhawk	—	—	—	—	—	0.69
21	SunCor	0.01	0.02	—	0.08	0.10	(0.07)
22	NAC	—	—	—	—	—	(0.03)
23	Total	0.01	0.02	—	0.08	0.10	0.59
24	Net Income	<u>\$ 0.13</u>	<u>\$ 1.13</u>	<u>\$ 1.84</u>	<u>\$ 0.18</u>	<u>\$ 3.27</u>	<u>\$ 1.45</u>
25	<b>BOOK VALUE PER SHARE</b>	\$ 32.37	\$ 33.08	\$ 34.07	\$ 34.48	\$ 34.48	\$ (0.10)
<b>COMMON SHARES OUTSTANDING (Thousands)</b>							
26	Average — Diluted	99,449	99,640	99,973	100,474	100,010	3,420
27	End of Period	99,187	99,284	99,648	99,959	99,959	902





**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2006**

Line	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
<b>ELECTRIC OPERATING REVENUES (Dollars in Millions)</b>						
<b>REGULATED ELECTRICITY SEGMENT</b>						
<b>Retail</b>						
28 Residential	\$ 202	\$ 337	\$ 490	\$ 242	\$ 1,271	\$ 192
29 Business	233	333	371	302	1,239	198
30 Total retail	435	670	861	544	2,510	390
<b>Wholesale revenue on delivered electricity</b>						
31 Traditional contracts	6	7	12	(3)	22	(1)
32 Off-system sales	12	22	—	12	46	6
33 Transmission for others	6	6	7	7	26	—
34 Other miscellaneous services	7	8	7	9	31	3
35 Total regulated operating electricity revenues	466	713	887	569	2,635	398
<b>MARKETING AND TRADING</b>						
36 Electricity and other commodity sales	85	90	85	71	331	(21)
37 Total operating electric revenues	<u>\$ 551</u>	<u>\$ 803</u>	<u>\$ 972</u>	<u>\$ 640</u>	<u>\$ 2,966</u>	<u>\$ 377</u>
<b>ELECTRIC SALES (GWH)</b>						
<b>REGULATED ELECTRICITY SEGMENT</b>						
<b>Retail sales</b>						
38 Residential	2,419	3,284	4,720	2,571	12,994	771
39 Business	3,199	3,971	4,222	3,584	14,976	722
40 Total retail	5,618	7,255	8,942	6,155	27,970	1,493
<b>Wholesale electricity delivered</b>						
41 Traditional contracts	215	181	321	166	883	33
42 Off-system sales	672	218	219	504	1,613	277
43 Retail load hedge management	178	622	450	340	1,590	(1,420)
44 Total regulated electricity	6,683	8,276	9,932	7,165	32,056	383
<b>MARKETING AND TRADING</b>						
45 Wholesale sales of electricity	3,962	3,862	4,841	3,690	16,355	(7,217)
46 Total electric sales	<u>10,645</u>	<u>12,138</u>	<u>14,773</u>	<u>10,855</u>	<u>48,411</u>	<u>(6,834)</u>

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**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2006**

Line	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>	
<b>POWER SUPPLY ADJUSTOR ("PSA") - REGULATED ELECTRICITY SEGMENT (Dollars in Millions)</b>							
47	Deferred fuel and purchased power regulatory asset — beginning balance	\$ 173	\$ 169	\$ 175	209	\$ 173	\$ 173
48	Deferred fuel and purchased power costs — current period	13	78	134	19	244	73
49	Regulatory disallowance	—	—	—	—	—	—
50	Interest on deferred fuel	1	3	2	2	8	6
51	Amounts recovered through revenues	(18)	(75)	(102)	(70)	(265)	(265)
52	Deferred fuel and purchased power regulatory asset — ending balance	<u>\$ 169</u>	<u>\$ 175</u>	<u>\$ 209</u>	<u>\$ 160</u>	<u>\$ 160</u>	<u>\$ (13)</u>

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

<b>Realized and Mark-To-Market Components</b>							
53	Electricity and other commodity sales, realized (a)	\$ 10	\$ 17	\$ 8	\$ 18	\$ 54	\$ (1)
54	Mark-to-market reversals on realized sales (a) (b)	(1)	(1)	(1)	(6)	(14)	2
55	Change in mark-to-market value of forward sales	1	—	(3)	(3)	—	(20)
56	Total gross margin	<u>\$ 10</u>	<u>\$ 16</u>	<u>\$ 4</u>	<u>\$ 9</u>	<u>\$ 40</u>	<u>\$ (19)</u>

**By Pinnacle West Entity**

57	APS	\$ 8	\$ 2	\$ (3)	\$ 5	\$ 13	\$ 19
58	Pinnacle West Marketing & Trading (c)	—	—	—	—	—	—
59	Parent Company (c)	(1)	11	5	3	18	(41)
60	APS Energy Services	3	3	2	1	9	8
61	Pinnacle West Energy	—	—	—	—	—	(5)
62	Total gross margin	<u>\$ 10</u>	<u>\$ 16</u>	<u>\$ 4</u>	<u>\$ 9</u>	<u>\$ 40</u>	<u>\$ (19)</u>

**Future Marketing and Trading Mark-to-Market Realization**

As of December 31, 2006, Pinnacle West had accumulated net mark-to-market gains of \$30 million related to our power marketing and trading activities. We estimate that these gains will be reclassified to realized gains as the underlying commodities are delivered, as follows: 2007, \$16 million; and 2008, \$14 million.

- (a) Net effect on pretax gross margin from realization of prior-period mark-to-market included in line 53 and in line 54 is zero. Realization of prior-period mark-to-market relates to cash flow recognition, not earnings recognition. The arithmetic opposites of amounts included in line 53 are included in line 54. For example, line 54 shows that a prior-period mark-to-market gain of \$14 million was transferred to "realized" for the total year 2006. A \$14 million realized gain is included in the \$54 million on line 53 for the total year 2006.

- (b) Quarterly amounts do not total to annual amounts because of intra-year mark-to-market eliminations.
- (c) On February 1, 2007, the Parent Company transferred its market based rate tariff and wholesale power sales agreements to a newly-created subsidiary, Pinnacle West Marketing & Trading, which resulted in Pinnacle West no longer being a public utility under the Federal Power Act. As a result, Pinnacle West is no longer subject to FERC jurisdiction in connection with its issuance of securities or its incurrence of long-term debt.

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**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2006**

Line	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
<b>AVERAGE ELECTRIC CUSTOMERS</b>						
<b>Retail customers</b>						
63 Residential	930,799	930,402	935,523	949,132	936,464	39,992
64 Business	113,570	114,803	116,009	117,342	115,431	4,263
65 Total	1,044,369	1,045,205	1,051,532	1,066,474	1,051,895	44,255
66 Wholesale customers	75	76	76	80	77	(1)
67 Total customers	<u>1,044,444</u>	<u>1,045,281</u>	<u>1,051,608</u>	<u>1,066,554</u>	<u>1,051,972</u>	<u>44,254</u>
68 Customer growth (% over prior year)	4.5%	4.6%	4.4%	4.1%	4.4%	0.1%
<b>RETAIL SALES (GWH) - WEATHER NORMALIZED</b>						
69 Residential	2,475	3,123	4,772	2,634	13,004	695
70 Business	3,248	3,933	4,231	3,603	15,016	731
71 Total	<u>5,723</u>	<u>7,056</u>	<u>9,003</u>	<u>6,237</u>	<u>28,020</u>	<u>1,426</u>
<b>RETAIL USAGE (KWh/Average Customer)</b>						
72 Residential	2,763	3,530	5,045	2,709	13,876	241
73 Business	30,444	34,590	36,394	30,552	129,749	1,235
<b>RETAIL USAGE - WEATHER NORMALIZED (KWh/Average Customer)</b>						
74 Residential	2,659	3,357	5,101	2,775	13,886	156
75 Business	28,600	34,263	36,470	30,706	130,082	1,579
<b>ELECTRICITY DEMAND (MW)</b>						
76 System peak demand	4,205	6,624	7,652	5,316	7,652	652

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**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2006**

Line	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
<b>ENERGY SOURCES (GWH)</b>						
<b>Generation production</b>						
77 Nuclear	1,720	1,198	2,202	1,868	6,988	(521)
78 Coal	3,083	3,182	3,574	3,337	13,176	116
79 Gas, oil and other	<u>1,323</u>	<u>2,000</u>	<u>2,433</u>	<u>1,628</u>	<u>7,384</u>	<u>(1,051)</u>
80 Total generation production	<u>6,126</u>	<u>6,380</u>	<u>8,209</u>	<u>6,833</u>	<u>27,548</u>	<u>(1,456)</u>
<b>Purchased power</b>						
81 Firm load	365	1,740	1,962	223	4,290	816
82 Marketing and trading	<u>4,592</u>	<u>4,597</u>	<u>5,353</u>	<u>4,326</u>	<u>18,868</u>	<u>(6,845)</u>
83 Total purchased power	<u>4,957</u>	<u>6,337</u>	<u>7,315</u>	<u>4,549</u>	<u>23,158</u>	<u>(6,029)</u>
84 Total energy sources	<u>11,083</u>	<u>12,717</u>	<u>15,524</u>	<u>11,382</u>	<u>50,706</u>	<u>(7,485)</u>
<b>POWER PLANT PERFORMANCE</b>						
<b>Capacity Factors</b>						
85 Nuclear	71%	49%	88%	75%	71%	(6)%
86 Coal	83%	84%	94%	87%	87%	0%
87 Gas, oil and other	18%	28%	34%	22%	25%	(3)%
88 System average	46%	48%	61%	50%	51%	(2)%
<b>Generation Capacity Out of Service and Replaced for Native Load (average MW/day) (a)</b>						
89 Nuclear	306	553	97	267	153	39
90 Coal	257	184	62	155	82	9
91 Gas	<u>201</u>	<u>117</u>	<u>109</u>	<u>286</u>	<u>89</u>	<u>(4)</u>
92 Total	<u>764</u>	<u>854</u>	<u>268</u>	<u>708</u>	<u>324</u>	<u>44</u>

(a) Includes planned and unplanned outages

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**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2006**

Line	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>	
<b>ENERGY MARKET INDICATORS</b>							
<b>(a)</b>							
<b>Electricity Average Daily Spot Prices (\$/MWh)</b>							
<b>On-Peak</b>							
93	Palo Verde	\$ 53.78	\$ 54.63	\$ 65.89	\$ 52.72	\$ 56.76	\$ (9.64)
94	SP15	\$ 58.34	\$ 55.39	\$ 71.89	\$ 62.16	\$ 61.95	\$ (10.99)
<b>Off-Peak</b>							
95	Palo Verde	\$ 41.92	\$ 28.38	\$ 38.45	\$ 39.62	\$ 37.09	\$ (10.46)
96	SP15	\$ 44.79	\$ 27.43	\$ 43.94	\$ 46.27	\$ 40.61	\$ (11.45)
<b>WEATHER INDICATORS</b>							
<b>Actual</b>							
97	Cooling degree-days	43	1,740	2,455	457	4,695	32
98	Heating degree-days	464	4	—	383	851	85
99	Average humidity	28%	18%	33%	33%	28%	(6)%
<b>10-Year Averages</b>							
100	Cooling degree-days	97	1,557	2,544	441	4,640	—
101	Heating degree-days	513	31	—	296	840	—
102	Average humidity	42%	22%	32%	38%	33%	0%
<b>ECONOMIC INDICATORS</b>							
<b>Building Permits — Metro Phoenix</b>							
<b>(b)</b>							
103	Single-family	8,716	8,883	5,969	4,408	27,976	(15,282)
104	Multi-family	2,887	2,976	3,215	1,029	10,107	2,329
105	Total	<u>11,603</u>	<u>11,859</u>	<u>9,184</u>	<u>5,437</u>	<u>38,083</u>	<u>(12,953)</u>
<b>Arizona Job Growth (c)</b>							
106	Payroll job growth (% over prior year)	6.2%	5.3%	5.1%	4.9%	5.4%	0.0%
107	Unemployment rate (% , seasonally adjusted)	4.2%	4.1%	4.0%	4.1%	4.1%	(0.5)%

**Sources:**

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

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**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2005**

Line		1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year-To-Date	Increase (Decrease) vs Prior YTD
<b>EARNINGS CONTRIBUTION BY SUBSIDIARY (\$ Millions)</b>							
1	Arizona Public Service	\$ 27	\$ 64	\$ 61	\$ 18	\$ 170	\$ (30)
2	Pinnacle West Energy	(21)	12	(71)	(6)	(85)	(27)
3	APS Energy Services	(3)	1	—	(3)	(6)	(9)
4	SunCor	9	10	7	13	39	(2)
5	El Dorado	(1)	—	—	—	(2)	(35)
6	Parent Company	19	(2)	88	2	107	79
7	Income From Continuing Operations	30	85	85	24	223	(24)
Income (Loss) From Discontinued Operations — Net of Tax							
8	Silverhawk	(7)	(59)	1	(3)	(67)	(55)
9	SunCor	1	1	14	—	17	13
10	NAC	—	—	4	—	3	(1)
11	Total	(6)	(58)	19	(3)	(47)	(43)
12	Net Income	<u>\$ 24</u>	<u>\$ 27</u>	<u>\$ 104</u>	<u>\$ 21</u>	<u>\$ 176</u>	<u>\$ (67)</u>
<b>EARNINGS PER SHARE BY SUBSIDIARY — DILUTED</b>							
13	Arizona Public Service	\$ 0.30	\$ 0.66	\$ 0.62	\$ 0.19	\$ 1.77	\$ (0.41)
14	Pinnacle West Energy	(0.23)	0.13	(0.72)	(0.06)	(0.89)	(0.26)
15	APS Energy Services	(0.04)	0.01	—	(0.04)	(0.06)	(0.09)
16	SunCor	0.09	0.11	0.07	0.13	0.40	(0.05)
17	El Dorado	(0.01)	—	(0.01)	(0.01)	(0.02)	(0.38)
18	Parent Company	0.21	(0.03)	0.90	0.03	1.11	0.81
19	Income From Continuing Operations	0.32	0.88	0.86	0.24	2.31	(0.38)
Income (Loss) From Discontinued Operations — Net of Tax							
20	Silverhawk	(0.06)	(0.61)	—	(0.03)	(0.69)	(0.57)
21	SunCor	0.01	0.01	0.15	0.01	0.17	0.13
22	NAC	—	—	0.04	—	0.03	(0.02)
23	Total	(0.05)	(0.60)	0.19	(0.02)	(0.49)	(0.46)
24	Net Income	<u>\$ 0.27</u>	<u>\$ 0.28</u>	<u>\$ 1.05</u>	<u>\$ 0.22</u>	<u>\$ 1.82</u>	<u>\$ (0.84)</u>
25	<b>BOOK VALUE PER SHARE</b>	\$ 32.50	\$ 32.89	\$ 35.81	\$ 34.58	\$ 34.58	\$ 2.44
<b>COMMON SHARES OUTSTANDING (Thousands)</b>							
26	Average — Diluted	92,045	96,299	98,816	99,050	96,590	5,058
27	End of Period	92,103	98,442	98,881	99,057	99,057	7,264





**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2005**

Line	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year-To-Date	Increase (Decrease) vs Prior YTD
<b>ELECTRIC OPERATING REVENUES (Dollars in Millions)</b>						
<b>REGULATED ELECTRICITY SEGMENT</b>						
<b>Retail</b>						
28 Residential	\$ 190	\$ 268	\$ 414	\$ 207	\$ 1,079	\$ 95
29 Business	209	281	308	243	1,041	63
30 Total retail	399	549	722	450	2,120	158
<b>Wholesale revenue on delivered electricity</b>						
31 Traditional contracts	3	5	9	6	23	7
32 Off-system sales	—	12	8	20	40	40
33 Transmission for others	7	7	7	5	26	(6)
34 Other miscellaneous services	7	7	7	7	28	3
35 Total regulated operating electricity revenues	416	580	753	488	2,237	202
<b>MARKETING AND TRADING</b>						
36 Electricity and other commodity sales	89	71	107	84	352	(49)
37 Total operating electric revenues	<u>\$ 505</u>	<u>\$ 651</u>	<u>\$ 860</u>	<u>\$ 572</u>	<u>\$ 2,589</u>	<u>\$ 153</u>
<b>ELECTRIC SALES (GWH)</b>						
<b>REGULATED ELECTRICITY SEGMENT</b>						
<b>Retail sales</b>						
38 Residential	2,367	2,889	4,449	2,518	12,223	696
39 Business	3,042	3,684	4,100	3,427	14,254	428
40 Total retail	5,409	6,573	8,549	5,945	26,477	1,124
<b>Wholesale electricity delivered</b>						
41 Traditional contracts	155	200	269	227	850	141
42 Off-system sales	—	598	212	526	1,336	1,336
43 Retail load hedge management	750	702	1,026	532	3,010	278
44 Total regulated electricity	6,314	8,073	10,056	7,230	31,673	2,879
<b>MARKETING AND TRADING</b>						
45 Wholesale sales of electricity	6,060	5,009	7,263	5,240	23,572	(6,606)
46 Total electric sales	<u>12,374</u>	<u>13,082</u>	<u>17,319</u>	<u>12,470</u>	<u>55,245</u>	<u>(3,727)</u>

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**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2005**

Line	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>	
<b>POWER SUPPLY ADJUSTOR ("PSA") - REGULATED ELECTRICITY SEGMENT (Dollars in Millions)</b>							
47	Deferred fuel and purchased power regulatory asset — beginning balance	\$ —	\$ —	\$ 38	\$ 143	\$ —	\$ —
48	Deferred fuel and purchased power costs — current period	—	38	104	29	171	171
49	Regulatory disallowance	—	—	—	—	—	—
50	Interest on deferred fuel	—	—	1	1	2	2
51	Amounts recovered through revenues	—	—	—	—	—	—
52	Deferred fuel and purchased power regulatory asset — ending balance	<u>\$ —</u>	<u>\$ 38</u>	<u>\$ 143</u>	<u>\$ 173</u>	<u>\$ 173</u>	<u>\$ 173</u>

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

<b>Realized and Mark-To-Market Components</b>							
53	Electricity and other commodity sales, realized (a)	\$ 12	\$ 18	\$ 3	\$ 23	\$ 55	\$ (9)
54	Mark-to-market reversals on realized sales (a) (b)	(3)	(8)	3	(17)	(16)	(11)
55	Change in mark-to-market value of forward sales	10	3	14	1	20	(1)
56	Total gross margin	<u>\$ 19</u>	<u>\$ 13</u>	<u>\$ 20</u>	<u>\$ 7</u>	<u>\$ 59</u>	<u>\$ (21)</u>

**By Pinnacle West Entity**

57	APS	\$ (4)	\$ 3	\$ (8)	\$ 3	\$ (6)	\$ (1)
58	Pinnacle West Marketing & Trading (c)	—	—	—	—	—	—
59	Parent Company (c)	21	6	26	6	59	34
60	APS Energy Services	(3)	4	2	(2)	1	(13)
61	Pinnacle West Energy	5	—	—	—	5	(41)
62	Total gross margin	<u>\$ 19</u>	<u>\$ 13</u>	<u>\$ 20</u>	<u>\$ 7</u>	<u>\$ 59</u>	<u>\$ (21)</u>

- (a) Net effect on pretax gross margin from realization of prior-period mark-to-market included in line 53 and in line 54 is zero. Realization of prior-period mark-to-market relates to cash flow recognition, not earnings recognition. The arithmetic opposites of amounts included in line 53 are included in line 54. For example, line 54 shows that a prior-period mark-to-market gain of \$16 million was transferred to "realized" for the total year 2005. A \$16 million realized gain is included in the \$55 million on line 53 for the total year 2005.
- (b) Quarterly amounts do not total to annual amounts because of intra-year mark-to-market eliminations.
- (c) On February 1, 2007, the Parent Company transferred its market based rate tariff and wholesale power sales agreements to a newly-created subsidiary, Pinnacle West Marketing & Trading, which resulted in Pinnacle West no longer being a public utility under the Federal Power Act. As a result, Pinnacle West is no longer subject to FERC jurisdiction in connection with its issuance of securities or its incurrence of long-term debt.



**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2005**

Line	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
<b>AVERAGE ELECTRIC CUSTOMERS</b>						
<b>Retail customers</b>						
63 Residential	889,967	888,509	895,789	911,623	896,472	37,403
64 Business	109,795	110,658	111,648	112,569	111,168	4,053
65 Total	999,762	999,167	1,007,437	1,024,192	1,007,640	41,456
66 Wholesale customers	81	76	78	77	78	(3)
67 Total customers	999,843	999,243	1,007,515	1,024,269	1,007,718	41,453
68 Customer growth (% over prior year)	4.0%	4.2%	4.5%	4.5%	4.3%	0.6%
<b>RETAIL SALES (GWH) - WEATHER NORMALIZED</b>						
69 Residential	2,438	2,924	4,427	2,520	12,309	573
70 Business	3,062	3,705	4,106	3,412	14,285	412
71 Total	5,500	6,629	8,533	5,932	26,594	985
<b>RETAIL USAGE (KWh/Average Customer)</b>						
72 Residential	2,660	3,252	4,967	2,763	13,635	217
73 Business	27,706	33,292	36,723	30,444	128,514	(878)
<b>RETAIL USAGE - WEATHER NORMALIZED (KWh/Average Customer)</b>						
74 Residential	2,739	3,291	4,942	2,764	13,730	69
75 Business	27,887	33,483	36,777	30,313	128,503	(1,014)
<b>ELECTRICITY DEMAND (MW)</b>						
76 System peak demand	3,997	6,458	7,000	5,169	7,000	598

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**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2005**

Line	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year-To-Date	Increase (Decrease) vs Prior YTD
<b>ENERGY SOURCES (GWH)</b>						
<b>Generation production</b>						
77 Nuclear	2,247	1,619	2,147	1,496	7,509	(674)
78 Coal	2,940	3,088	3,574	3,458	13,060	394
79 Gas, oil and other	1,128	2,129	3,064	2,114	8,435	3,107
80 Total generation production	<u>6,315</u>	<u>6,836</u>	<u>8,785</u>	<u>7,068</u>	<u>29,004</u>	<u>2,827</u>
<b>Purchased power</b>						
81 Firm load	586	880	1,589	402	3,474	(851)
82 Marketing and trading	5,832	5,984	7,795	6,102	25,713	(4,479)
83 Total purchased power	<u>6,418</u>	<u>6,864</u>	<u>9,384</u>	<u>6,504</u>	<u>29,187</u>	<u>(5,330)</u>
84 Total energy sources	<u>12,733</u>	<u>13,700</u>	<u>18,169</u>	<u>13,572</u>	<u>58,191</u>	<u>(2,503)</u>
<b>POWER PLANT PERFORMANCE</b>						
<b>Capacity Factors</b>						
85 Nuclear	94%	67%	88%	61%	77%	(7)%
86 Coal	80%	83%	95%	92%	87%	3%
87 Gas, oil and other	17%	29%	39%	27%	28%	9%
88 System average	49%	51%	62%	50%	53%	2%
<b>Generation Capacity Out of Service and Replaced for Native Load (average MW/day) (a)</b>						
89 Nuclear	52	329	107	419	114	(45)
90 Coal	195	244	47	103	73	(55)
91 Gas	212	164	140	226	93	45
92 Total	<u>459</u>	<u>737</u>	<u>294</u>	<u>748</u>	<u>280</u>	<u>(54)</u>

(a) Includes planned and unplanned outages

See Glossary of Terms.

**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2005**

Line	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year-To-Date	Increase (Decrease) vs Prior YTD
<b>ENERGY MARKET INDICATORS</b>						
<b>(a)</b>						
<b>Electricity Average Daily Spot Prices (\$/MWh)</b>						
<b>On-Peak</b>						
93	Palo Verde	\$ 49.74	\$ 53.33	\$ 78.94	\$ 83.58	\$ 66.40 \$ 17.10
94	SP15	\$ 55.70	\$ 55.19	\$ 83.21	\$ 97.65	\$ 72.94 \$ 17.74
<b>Off-Peak</b>						
95	Palo Verde	\$ 37.04	\$ 33.03	\$ 52.35	\$ 67.79	\$ 47.55 \$ 12.81
96	SP15	\$ 40.96	\$ 34.73	\$ 56.08	\$ 76.45	\$ 52.06 \$ 13.44
<b>WEATHER INDICATORS</b>						
<b>Actual</b>						
97	Cooling degree-days	34	1,538	2,583	508	4,663 (31)
98	Heating degree-days	457	1	—	308	766 (219)
99	Average humidity	56%	20%	29%	30%	34% 2%
<b>10-Year Averages</b>						
100	Cooling degree-days	97	1,557	2,544	441	4,640 —
101	Heating degree-days	513	31	—	296	840 —
102	Average humidity	42%	22%	32%	38%	33% 0%
<b>ECONOMIC INDICATORS</b>						
<b>Building Permits — Metro Phoenix</b>						
<b>(b)</b>						
103	Single-family	10,356	12,013	11,577	9,312	43,258 (4,859)
104	Multi-family	1,741	1,645	2,360	2,032	7,778 192
105	Total	<u>12,097</u>	<u>13,658</u>	<u>13,937</u>	<u>11,344</u>	<u>51,036</u> <u>(4,667)</u>
<b>Arizona Job Growth (c)</b>						
106	Payroll job growth (% over prior year)	4.8%	5.5%	6.0%	5.2%	5.4% 1.7%
107	Unemployment rate (% , seasonally adjusted)	4.6%	4.7%	4.7%	4.6%	4.6% (0.3)%

**Sources:**

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

See Glossary of Terms.





**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2004**

Line		<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
<b>EARNINGS CONTRIBUTION BY SUBSIDIARY (\$ Millions)</b>							
1	Arizona Public Service	\$ 34	\$ 55	\$ 95	\$ 15	\$ 200	\$ 19
2	Pinnacle West Energy	(22)	(14)	1	(23)	(58)	(50)
3	APS Energy Services	2	1	1	(1)	3	(13)
4	SunCor	2	4	4	31	41	(5)
5	El Dorado	—	34	—	—	33	34
6	Parent Company	15	(6)	3	16	28	37
7	Income From Continuing Operations	31	74	104	38	247	22
Income (Loss) From Discontinued Operations — Net of Tax							
8	Silverhawk	—	(3)	—	(8)	(12)	(13)
9	SunCor	—	1	1	1	4	(6)
10	NAC	—	1	—	3	4	(1)
11	Total	—	(1)	1	(4)	(4)	(20)
12	Net Income	<u>\$ 31</u>	<u>\$ 73</u>	<u>\$ 105</u>	<u>\$ 34</u>	<u>\$ 243</u>	<u>\$ 2</u>
<b>EARNINGS PER SHARE BY SUBSIDIARY — DILUTED</b>							
13	Arizona Public Service	\$ 0.38	\$ 0.60	\$ 1.04	\$ 0.16	\$ 2.18	\$ 0.20
14	Pinnacle West Energy	(0.24)	(0.15)	0.01	(0.25)	(0.63)	(0.55)
15	APS Energy Services	0.02	0.01	0.01	(0.01)	0.03	(0.15)
16	SunCor	0.02	0.04	0.05	0.34	0.45	(0.05)
17	El Dorado	—	0.37	—	—	0.36	0.37
18	Parent Company	0.15	(0.06)	0.03	0.17	0.30	0.40
19	Income From Continuing Operations	0.33	0.81	1.14	0.41	2.69	0.22
Income (Loss) From Discontinued Operations — Net of Tax							
20	Silverhawk	—	(0.03)	—	(0.09)	(0.12)	(0.12)
21	SunCor	0.01	—	0.01	0.02	0.04	(0.07)
22	NAC	—	0.01	—	0.03	0.05	—
23	Total	0.01	(0.02)	0.01	(0.04)	(0.03)	(0.19)
24	Net Income	<u>\$ 0.34</u>	<u>\$ 0.79</u>	<u>\$ 1.15</u>	<u>\$ 0.37</u>	<u>\$ 2.66</u>	<u>\$ 0.03</u>
25	<b>BOOK VALUE PER SHARE</b>	\$ 31.19	\$ 31.68	\$ 32.55	\$ 32.14	\$ 32.14	\$ 1.17
<b>COMMON SHARES OUTSTANDING (Thousands)</b>							
26	Average — Diluted	91,376	91,400	91,491	91,779	91,532	127
27	End of Period	91,310	91,309	91,443	91,793	91,793	505



**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2004**

Line	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
<b>ELECTRIC OPERATING REVENUES (Dollars in Millions)</b>						
<b>REGULATED ELECTRICITY SEGMENT</b>						
<b>Retail</b>						
28 Residential	\$ 189	\$ 245	\$ 360	\$ 190	\$ 984	\$ 27
29 Business	211	257	289	221	978	25
30 Total retail	400	502	649	411	1,962	52
<b>Wholesale revenue on delivered electricity</b>						
31 Traditional contracts	3	4	6	3	16	1
32 Off-system sales	—	—	—	—	—	—
33 Transmission for others	8	8	8	8	32	4
34 Other miscellaneous services	4	6	8	7	25	—
35 Total regulated operating electricity revenues	415	520	671	429	2,035	57
<b>MARKETING AND TRADING</b>						
36 Electricity and other commodity sales	89	110	91	111	401	9
37 Total operating electric revenues	<u>\$ 504</u>	<u>\$ 630</u>	<u>\$ 762</u>	<u>\$ 540</u>	<u>\$ 2,436</u>	<u>\$ 66</u>
<b>ELECTRIC SALES (GWH)</b>						
<b>REGULATED ELECTRICITY SEGMENT</b>						
<b>Retail sales</b>						
38 Residential	2,410	2,722	4,028	2,367	11,527	380
39 Business	3,051	3,602	3,937	3,236	13,826	411
40 Total retail	5,461	6,324	7,965	5,603	25,353	791
<b>Wholesale electricity delivered</b>						
41 Traditional contracts	138	195	210	166	709	209
42 Off-system sales	—	—	—	—	—	—
43 Retail load hedge management	169	731	943	889	2,732	1,638
44 Total regulated electricity	5,768	7,250	9,118	6,658	28,794	2,638
<b>MARKETING AND TRADING</b>						
45 Wholesale sales of electricity	5,696	7,141	8,994	8,347	30,178	1,375
46 Total electric sales	<u>11,464</u>	<u>14,391</u>	<u>18,112</u>	<u>15,005</u>	<u>58,972</u>	<u>4,013</u>

See Glossary of Terms.

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**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2004**

Line	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
<b>POWER SUPPLY ADJUSTOR ("PSA") — REGULATED ELECTRICITY SEGMENT (Dollars in Millions)</b>						
47	Deferred fuel and purchased power regulatory asset — beginning balance	\$ —	\$ —	\$ —	\$ —	\$ —
48	Deferred fuel and purchased power costs — current period	—	—	—	—	—
49	Regulatory disallowance	—	—	—	—	—
50	Interest on deferred fuel	—	—	—	—	—
51	Amounts recovered through revenues	—	—	—	—	—
52	Deferred fuel and purchased power regulatory asset — ending balance	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

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

<b>Realized and Mark-To-Market Components</b>							
53	Electricity and other commodity sales, realized (a)	\$ 12	\$ 21	\$ 16	\$ 15	\$ 64	\$ (1)
54	Mark-to-market reversals on realized sales (a) (b)	1	(4)	(3)	(1)	(5)	6
55	Change in mark-to-market value of forward sales	8	4	8	3	21	28
56	Total gross margin	<u>\$ 21</u>	<u>\$ 21</u>	<u>\$ 21</u>	<u>\$ 17</u>	<u>\$ 80</u>	<u>\$ 33</u>

**By Pinnacle West Entity**

57	APS	\$ (5)	\$ —	\$ 2	\$ (2)	\$ (5)	\$ (13)
58	Pinnacle West Marketing & Trading (c)	—	—	—	—	—	—
59	Parent Company (c)	12	6	5	1	25	30
60	APS Energy Services	4	4	4	2	14	(22)
61	Pinnacle West Energy	10	11	10	16	46	38
62	Total gross margin	<u>\$ 21</u>	<u>\$ 21</u>	<u>\$ 21</u>	<u>\$ 17</u>	<u>\$ 80</u>	<u>\$ 33</u>

- (a) Net effect on pretax gross margin from realization of prior-period mark-to-market included in line 53 and in line 54 is zero. Realization of prior-period mark-to-market relates to cash flow recognition, not earnings recognition. The opposites of amounts included in line 53 are included in line 54. For example, line 54 shows that a prior-period mark-to-market gain of \$5 million was transferred to "realized" for the total year 2004. A \$5 million realized gain is included in the \$64 million on line 53 for the total year 2004.
- (b) Quarterly amounts do not total to annual amounts because of intra-year mark-to-market eliminations.
- (c) On February 1, 2007, the Parent Company transferred its market based rate tariff and wholesale power sales agreements to a newly-created subsidiary, Pinnacle West Marketing & Trading, which resulted in Pinnacle West no longer being a public utility under the Federal Power Act. As a result, Pinnacle West is no longer subject to FERC jurisdiction in connection with its issuance of securities or its incurrence of long-term debt.



**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2004**

Line	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
<b>AVERAGE ELECTRIC CUSTOMERS</b>						
<b>Retail customers</b>						
63 Residential	855,754	852,594	856,353	871,575	859,069	30,703
64 Business	105,502	106,517	107,583	108,860	107,115	4,019
65 Total	961,256	959,111	963,936	980,435	966,184	34,722
66 Wholesale customers	81	82	85	77	81	15
67 Total customers	<u>961,337</u>	<u>959,193</u>	<u>964,021</u>	<u>980,512</u>	<u>966,265</u>	<u>34,737</u>
68 Customer growth (% over prior year)	3.4%	3.8%	3.9%	3.9%	3.7%	0.4%
<b>RETAIL SALES (GWH) - WEATHER NORMALIZED</b>						
69 Residential	2,365	2,818	4,215	2,338	11,736	804
70 Business	2,990	3,623	4,033	3,226	13,873	470
71 Total	<u>5,355</u>	<u>6,441</u>	<u>8,248</u>	<u>5,564</u>	<u>25,609</u>	<u>1,274</u>
<b>RETAIL USAGE (KWh/Average Customer)</b>						
72 Residential	2,816	3,193	4,704	2,717	13,418	(39)
73 Business	28,919	33,816	36,595	29,726	129,392	(1,137)
<b>RETAIL USAGE - WEATHER NORMALIZED (KWh/Average Customer)</b>						
74 Residential	2,764	3,305	4,922	2,682	13,661	464
75 Business	28,345	34,018	37,489	29,636	129,517	(485)
<b>ELECTRICITY DEMAND (MW)</b>						
76 System peak demand	3,979	5,632	6,402	4,432	6,402	70

See Glossary of Terms.

**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2004**

Line	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
<b>ENERGY SOURCES (GWH)</b>						
<b>Generation production</b>						
77 Nuclear	2,148	1,860	2,364	1,811	8,183	(132)
78 Coal	2,887	3,035	3,417	3,327	12,666	1,299
79 Gas, oil and other	367	1,339	2,547	1,075	5,328	(763)
80 Total generation production	<u>5,402</u>	<u>6,234</u>	<u>8,328</u>	<u>6,213</u>	<u>26,177</u>	<u>404</u>
<b>Purchased power</b>						
81 Firm load	701	1,532	1,068	1,024	4,325	1,214
82 Marketing and trading	5,506	7,167	9,301	8,218	30,192	2,442
83 Total purchased power	<u>6,207</u>	<u>8,699</u>	<u>10,369</u>	<u>9,242</u>	<u>34,517</u>	<u>3,656</u>
84 Total energy sources	<u>11,609</u>	<u>14,933</u>	<u>18,697</u>	<u>15,455</u>	<u>60,694</u>	<u>4,060</u>
<b>POWER PLANT PERFORMANCE</b>						
<b>Capacity Factors</b>						
85 Nuclear	88%	76%	96%	74%	84%	(3)%
86 Coal	77%	81%	90%	88%	84%	8%
87 Gas, oil and other	5%	20%	38%	17%	19%	(8)%
88 System average	44%	49%	64%	48%	51%	(3)%
<b>Generation Capacity Out of Service and Replaced for Native Load (average MW/day) (a)</b>						
89 Nuclear	132	231	13	261	159	28
90 Coal	237	153	63	61	128	(140)
91 Gas	71	46	39	34	48	(160)
92 Total	<u>440</u>	<u>430</u>	<u>115</u>	<u>356</u>	<u>334</u>	<u>(272)</u>

(a) Includes planned and unplanned outages

See Glossary of Terms.

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**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2004**

Line	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>	
<b>ENERGY MARKET INDICATORS</b>							
<b>(a)</b>							
<b>Electricity Average Daily Spot Prices (\$/MWh)</b>							
<b>On-Peak</b>							
93	Palo Verde	\$ 43.73	\$ 50.36	\$ 51.86	\$ 51.23	\$ 49.30	\$ 0.70
94	SP15	\$ 48.37	\$ 54.73	\$ 57.09	\$ 60.62	\$ 55.20	\$ 3.82
<b>Off-Peak</b>							
95	Palo Verde	\$ 33.66	\$ 33.74	\$ 33.37	\$ 38.21	\$ 34.75	\$ 2.72
96	SP15	\$ 36.90	\$ 37.32	\$ 37.18	\$ 43.07	\$ 38.62	\$ 3.96
<b>WEATHER INDICATORS</b>							
<b>Actual</b>							
97	Cooling degree-days	273	1,598	2,471	352	4,694	(205)
98	Heating degree-days	552	11	—	422	985	249
99	Average humidity	39%	19%	26%	45%	32%	1%
<b>10-Year Averages</b>							
100	Cooling degree-days	97	1,557	2,544	441	4,640	—
101	Heating degree-days	513	31	—	296	840	—
102	Average humidity	42%	22%	32%	38%	33%	0%
<b>ECONOMIC INDICATORS</b>							
<b>Building Permits — Metro Phoenix</b>							
<b>(b)</b>							
103	Single-family	10,045	13,636	14,111	10,325	48,117	8,466
104	Multi-family	1,757	1,324	2,149	2,356	7,586	859
105	Total	<u>11,802</u>	<u>14,960</u>	<u>16,260</u>	<u>12,681</u>	<u>55,703</u>	<u>9,325</u>
<b>Arizona Job Growth (c)</b>							
106	Payroll job growth (% over prior year)	2.6%	3.4%	4.0%	4.6%	3.7%	2.3%
107	Unemployment rate (% , seasonally adjusted)	5.2%	5.0%	4.9%	4.6%	4.9%	(0.8)%

**Sources:**

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

See Glossary of Terms.





**Pinnacle West Capital Corporation**  
**Earnings Variance Explanations**  
**For the Three-Month and Six-Month Periods Ended June 30, 2007 and 2006**

This discussion explains the changes in our consolidated net income for the three-month and six-month periods ended June 30, 2007 and 2006. Unaudited Condensed Consolidated Statements of Income for the three months and six months ended June 30, 2007 and 2006 follow this discussion. We will file our Quarterly Report on Form 10-Q for the fiscal period ended June 30, 2007 on or before August 9, 2007. We suggest that this discussion be read in connection with the Pinnacle West Capital Corporation ("Pinnacle West") Annual Report on Form 10-K for the fiscal year ended December 31, 2006. Additional operating and financial statistics and a glossary of terms are available on our website ( [www.pinnaclewest.com](http://www.pinnaclewest.com) ).

**EARNINGS CONTRIBUTION BY BUSINESS SEGMENT**

Pinnacle West's two principal business segments are:

- our regulated electricity segment, which consists of traditional regulated retail and wholesale electricity businesses (primarily electric service to Native Load customers) and related activities and includes electricity generation, transmission and distribution; and
- our real estate segment, which consists of SunCor's real estate development and investment activities.

The following table summarizes income from continuing operations by segment for the three months and six months ended June 30, 2007 and 2006 and reconciles net income in total (dollars in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Regulated electricity	\$ 71	\$ 95	\$ 74	\$ 82
Real estate	—	8	8	30
Other (a)	8	8	12	10
Income from continuing operations	79	111	94	122
Discontinued operations — net of tax (b)	—	1	2	3
Net income	<u>\$ 79</u>	<u>\$ 112</u>	<u>\$ 96</u>	<u>\$ 125</u>

(a) Primarily marketing and trading activity.

(b) Primarily relates to sales of commercial properties.

## PINNACLE WEST CONSOLIDATED — RESULTS OF OPERATIONS

### General

Throughout the following explanations of our results of operations, we refer to “gross margin.” With respect to our regulated electricity segment, gross margin refers to operating revenues less fuel and purchased power costs. “Gross margin” is a “non-GAAP financial measure,” as defined in accordance with SEC rules. Exhibit 99.10 reconciles this non-GAAP financial measure to operating income, which is the most directly comparable financial measure calculated and presented in accordance with accounting principles generally accepted in the United States (GAAP). We view gross margin as an important performance measure of the core profitability of our operations. This measure is a key component of our internal financial reporting and is used by our management in analyzing our business. We believe that investors benefit from having access to the same financial measures that our management uses.

### Deferred Fuel and Purchased Power Costs

Our subsidiary, Arizona Public Service Company (“APS”), settled its 2003 general retail rate case effective April 1, 2005. As part of the settlement, the Arizona Corporation Commission (“ACC”) approved the Power Supply Adjustor (“PSA”), which permits APS to defer for recovery or refund fluctuations in retail fuel and purchased power costs, subject to specified parameters. In its June 28, 2007 general rate case order, the ACC modified the PSA in various respects, effective July 1, 2007. In accordance with the modified PSA, APS continues to defer for future rate recovery 90% of the difference between actual retail fuel and purchased power costs and the amount of such costs currently included in base rates, excluding certain costs. APS recovers PSA deferrals from its customers through the PSA, which is adjusted annually. See “APS General Rate Case and Power Supply Adjustor” in Item 8.01 of the Pinnacle West/APS Report on Form 8-K filed with the Securities and Exchange Commission on June 20, 2007 for additional information about the ACC order and the PSA modifications.

The balance of APS’ PSA accumulated unrecovered deferrals at June 30, 2007 was approximately \$137 million. APS expects to recover these deferrals through a combination of the PSA adjustor that took effect on February 1, 2007 and the temporary PSA surcharge discussed in the following paragraph. The recovery of PSA deferrals recorded as revenue is offset dollar-for-dollar by the amortization of those deferred expenses recorded as fuel and purchased power.

APS recorded PSA deferrals of (a) \$45 million related to replacement power costs in 2005 associated with Palo Verde outages (the “2005 Deferrals”) and (b) \$79 million related to replacement power costs in 2006 associated with outages or reduced power operations at Palo Verde (the “2006 Deferrals”). In its June 28, 2007 order, the ACC (a) disallowed approximately \$14 million, including accrued interest (\$8 million after income taxes), of the 2005 Deferrals and (b) approved APS’ recovery of the balance of the 2005 Deferrals (approximately \$34 million, including accrued interest) through a temporary PSA surcharge over a twelve-month period effective July 1, 2007. The ACC’s prudence review of 2006 Palo Verde outage costs has not yet been completed. APS believes the 2006 Deferrals were prudently incurred and, therefore, are recoverable.

## **Operating Results — Three-month period ended June 30, 2007 compared with three-month period ended June 30, 2006**

Our consolidated net income for the three months ended June 30, 2007 was \$79 million compared with \$112 million for the comparable prior-year period. Net income decreased \$33 million in the period-to-period comparison, reflecting the following changes in earnings by segment:

- **Regulated Electricity Segment** — Net income decreased approximately \$24 million primarily due to income tax credits related to prior years resolved in 2006; a regulatory disallowance (see “Deferred Fuel and Purchased Power Costs” above); higher operations and maintenance expense related to fossil generation costs; the effects of weather on retail sales; and higher interest expense, net of capitalized financing costs, due to higher debt balances and rates. These negative factors were partially offset by higher retail sales primarily due to customer growth. In addition, higher fuel and purchased power costs were partially offset by the deferral of such costs in accordance with the PSA. See “Deferred Fuel and Purchased Power Costs” above.
- **Real Estate Segment** — Net income decreased approximately \$9 million primarily due to lower sales of residential property due to a slowdown in the western United States residential real estate markets.

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

	Increase (Decrease)	
	Pretax	After Tax
<b>Regulated electricity segment gross margin:</b>		
Higher fuel and purchased power costs due to increased prices	\$ (27)	\$ (16)
Increased deferred fuel and purchased power costs	26	16
Regulatory disallowance (see "Deferred Fuel and Purchased Power Costs" above)	(14)	(8)
Effects of weather on retail sales	(7)	(4)
Higher retail sales primarily due to customer growth and usage patterns, excluding weather effects	10	6
Miscellaneous items, net	4	1
Net decrease in regulated electricity segment gross margin	(8)	(5)
Lower real estate segment contribution primarily due to decreased sales of residential property	(15)	(9)
Operations and maintenance increases primarily due to:		
Generation costs, including greater fossil power plant maintenance outages	(8)	(5)
Miscellaneous items, net	(1)	(1)
Higher depreciation and amortization primarily due to increased plant balances	(4)	(2)
Lower other income, net of expense, primarily due to miscellaneous asset sales in the prior-year period	(4)	(2)
Higher interest expense, net of capitalized financing costs, primarily due to higher debt balances and rates	(5)	(3)
Income tax credits related to prior years resolved in 2006	—	(10)
Other miscellaneous items, net	2	4
Net decrease in net income	<u>\$ (43)</u>	<u>\$ (33)</u>

### Regulated Electricity Segment Revenues

Regulated electricity segment revenues were \$1 million lower for the three months ended June 30, 2007 compared with the prior-year period primarily as a result of:

- a \$12 million decrease in Off-System Sales due to lower prices;
- a \$9 million decrease in retail revenues due to weather;
- a \$13 million increase in retail revenues primarily related to customer growth and usage patterns, excluding weather effects; and
- a \$7 million increase due to miscellaneous factors.

### Real Estate Segment Revenues

Real estate segment revenues were \$64 million lower for the three months ended June 30, 2007 compared with the prior-year period primarily as a result of:

- a \$56 million decrease in residential property sales due to a slowdown in the western United States residential real estate markets;
- a \$4 million decrease in revenue primarily due to the timing of land parcel sales; and
- a \$4 million decrease due to miscellaneous factors.

**Operating Results — Six-month period ended June 30, 2007 compared with six-month period ended June 30, 2006**

Our consolidated net income for the six months ended June 30, 2007 was \$96 million compared with \$125 million for the comparable prior-year period. Net income decreased \$29 million in the period-to-period comparison, primarily reflecting the following changes in earnings by segment:

- Regulated Electricity Segment — Net income decreased approximately \$8 million primarily due to income tax credits related to prior years resolved in 2006; a regulatory disallowance (see “Deferred Fuel and Purchased Power Costs” above); higher interest expense, net of capitalized financing costs, due to higher debt balances; lower other income, net of expense, primarily due to miscellaneous asset sales in the prior-year period and decreased interest income; and higher depreciation and amortization expense primarily due to increased plant asset balances. The negative factors were partially offset by higher retail sales primarily due to customer growth and the effects of weather on retail sales. In addition, higher fuel and purchased power costs were partially offset by the deferral of such costs in accordance with the PSA. See “Deferred Fuel and Purchased Power Costs” above.
- Real Estate Segment — Net income decreased approximately \$22 million primarily due to lower sales of residential property due to a slowdown in the western United States residential real estate markets and the timing of land parcel sales.

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

	Increase (Decrease)	
	Pretax	After Tax
<b>Regulated electricity segment gross margin:</b>		
Higher fuel and purchased power costs due to increased prices	\$ (42)	\$ (26)
Increased deferred fuel and purchased power costs	38	23
Regulatory disallowance (see "Deferred Fuel and Purchased Power Costs" above)	(14)	(8)
Effects of weather on retail sales	6	4
Higher retail sales primarily due to customer growth and usage patterns, excluding weather effects	20	12
Miscellaneous items, net	8	5
Net increase in regulated electricity segment gross margin	16	10
Lower real estate segment contribution primarily due to decreased sales of residential property and land parcels	(36)	(22)
Higher depreciation and amortization primarily due to increased plant asset balances	(6)	(4)
Lower other income, net of expense, primarily due to miscellaneous asset sales in the prior-year period and decreased interest income	(6)	(4)
Higher interest expense, net of capitalized financing costs, primarily due to higher debt balances and rates	(7)	(4)
Income tax credits related to prior years resolved in 2006	—	(10)
Other miscellaneous items, net	2	5
Net decrease in net income	<u>\$ (37)</u>	<u>\$ (29)</u>

### Regulated Electricity Segment Revenues

Regulated electricity segment revenues were \$68 million higher for the six months ended June 30, 2007 compared with the prior-year period primarily as a result of:

- a \$48 million increase in retail revenues related to recovery of PSA deferrals, which had no earnings effect because of amortization of the same amount recorded as fuel and purchased power expense (see "Deferred Fuel and Purchased Power Costs" above);
- a \$26 million increase in retail revenues primarily related to customer growth and usage patterns, excluding weather effects;
- a \$9 million increase in retail revenues due to weather;
- a \$17 million decrease in Off-System Sales due to lower prices; and
- a \$2 million increase due to miscellaneous factors.

### **Real Estate Segment Revenues**

Real estate segment revenues were \$95 million lower for the six months ended June 30, 2007 compared with the prior-year period primarily as a result of:

- a \$76 million decrease in residential property sales due to a slowdown in the western United States residential real estate markets; and
- a \$19 million decrease in revenue primarily due to the timing of land parcel sales.

### **Other Revenues**

Marketing and trading revenues were \$10 million lower for the six months ended June 30, 2007 compared with the prior-year period primarily as a result of:

- a \$12 million decrease from lower competitive retail sales volumes in California; and
- a \$2 million increase due to miscellaneous factors.



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

	THREE MONTHS ENDED JUNE 30,		Increase (Decrease)		
	2007	2006	Amount	Percent	
<b>Operating Revenues</b>					
Regulated electricity segment	\$711,293	\$712,718	\$ (1,425)	0.2%	W
Real estate segment	48,352	112,603	(64,251)	57.1%	W
Marketing and trading	92,637	89,925	2,712	3.0%	B
Other revenues	<u>11,153</u>	<u>9,782</u>	<u>1,371</u>	14.0%	B
Total	<u>863,435</u>	<u>925,028</u>	<u>(61,593)</u>	6.7%	W
<b>Operating Expenses</b>					
Regulated electricity segment fuel and purchased power	270,337	263,944	6,393	2.4%	W
Real estate segment operations	46,174	98,412	(52,238)	53.1%	B
Marketing and trading fuel and purchased power	74,533	72,716	1,817	2.5%	W
Operations and maintenance	177,310	168,332	8,978	5.3%	W
Depreciation and amortization	92,835	89,297	3,538	4.0%	W
Taxes other than income taxes	34,757	32,700	2,057	6.3%	W
Other expenses	<u>8,803</u>	<u>8,430</u>	<u>373</u>	4.4%	W
Total	<u>704,749</u>	<u>733,831</u>	<u>(29,082)</u>	4.0%	B
<b>Operating Income</b>	<u>158,686</u>	<u>191,197</u>	<u>(32,511)</u>	17.0%	W
<b>Other</b>					
Allowance for equity funds used during construction	5,195	3,633	1,562	43.0%	B
Other income	5,869	12,022	(6,153)	51.2%	W
Other expense	<u>(3,269)</u>	<u>(5,815)</u>	<u>2,546</u>	43.8%	B
Total	<u>7,795</u>	<u>9,840</u>	<u>(2,045)</u>	20.8%	W
<b>Interest Expense</b>					
Interest charges	52,967	45,882	7,085	15.4%	W
Capitalized interest	<u>(5,213)</u>	<u>(4,959)</u>	<u>(254)</u>	5.1%	B
Total	<u>47,754</u>	<u>40,923</u>	<u>6,831</u>	16.7%	W
<b>Income From Continuing Operations Before Income Taxes</b>	118,727	160,114	(41,387)	25.8%	W
<b>Income Taxes</b>	<u>40,231</u>	<u>49,271</u>	<u>(9,040)</u>	18.3%	B
<b>Income From Continuing Operations</b>	78,496	110,843	(32,347)	29.2%	W
<b>Income From Discontinued Operations Net of Income Taxes</b>	<u>498</u>	<u>1,311</u>	<u>(813)</u>	62.0%	W
<b>Net Income</b>	<u>\$ 78,994</u>	<u>\$112,154</u>	<u>\$(33,160)</u>	29.6%	W
<b>Weighted-Average Common Shares Outstanding — Basic</b>	100,229	99,221	1,008	1.0%	
<b>Weighted-Average Common Shares Outstanding — Diluted</b>	100,779	99,640	1,139	1.1%	
<b>Earnings Per Weighted-Average Common Share Outstanding</b>					
Income from continuing operations — basic	\$ 0.78	\$ 1.12	\$ (0.34)	30.4%	W
Net income — basic	\$ 0.79	\$ 1.13	\$ (0.34)	30.1%	W
Income from continuing operations — diluted	\$ 0.78	\$ 1.11	\$ (0.33)	29.7%	W
Net income — diluted	\$ 0.78	\$ 1.13	\$ (0.35)	31.0%	W

B — Better  
W — Worse

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

	SIX MONTHS ENDED		Increase (Decrease)	
	JUNE 30,		Amount	Percent
	2007	2006		
<b>Operating Revenues</b>				
Regulated electricity segment	\$1,247,344	\$1,178,844	\$ 68,500	5.8% B
Real estate segment	125,602	220,457	(94,855)	43.0% W
Marketing and trading	165,108	174,927	(9,819)	5.6% W
Other revenues	20,516	21,006	(490)	2.3% W
Total	<u>1,558,570</u>	<u>1,595,234</u>	<u>(36,664)</u>	2.3% W
<b>Operating Expenses</b>				
Regulated electricity segment fuel and purchased power	473,690	421,339	52,351	12.4% W
Real estate segment operations	107,617	169,742	(62,125)	36.6% B
Marketing and trading fuel and purchased power	132,477	146,891	(14,414)	9.8% B
Operations and maintenance	348,888	346,759	2,129	0.6% W
Depreciation and amortization	182,456	176,918	5,538	3.1% W
Taxes other than income taxes	69,476	68,273	1,203	1.8% W
Other expenses	17,291	16,952	339	2.0% W
Total	<u>1,331,895</u>	<u>1,346,874</u>	<u>(14,979)</u>	1.1% B
<b>Operating Income</b>	<u>226,675</u>	<u>248,360</u>	<u>(21,685)</u>	8.7% W
<b>Other</b>				
Allowance for equity funds used during construction	9,639	7,434	2,205	29.7% B
Other income	8,642	17,489	(8,847)	50.6% W
Other expense	(7,883)	(10,356)	2,473	23.9% B
Total	<u>10,398</u>	<u>14,567</u>	<u>(4,169)</u>	28.6% W
<b>Interest Expense</b>				
Interest charges	103,959	93,408	10,551	11.3% W
Capitalized interest	(10,020)	(8,983)	(1,037)	11.5% B
Total	<u>93,939</u>	<u>84,425</u>	<u>9,514</u>	11.3% W
<b>Income From Continuing Operations Before Income Taxes</b>	143,134	178,502	(35,368)	19.8% W
<b>Income Taxes</b>	<u>48,840</u>	<u>56,064</u>	<u>(7,224)</u>	12.9% B
<b>Income From Continuing Operations</b>	94,294	122,438	(28,144)	23.0% W
<b>Income From Discontinued Operations Net of Income Taxes</b>	<u>1,230</u>	<u>2,171</u>	<u>(941)</u>	43.3% W
<b>Net Income</b>	<u>\$ 95,524</u>	<u>\$ 124,609</u>	<u>\$(29,085)</u>	23.3% W
<b>Weighted-Average Common Shares Outstanding — Basic</b>	100,138	99,168	970	1.0%
<b>Weighted-Average Common Shares Outstanding — Diluted</b>	100,718	99,562	1,156	1.2%
<b>Earnings Per Weighted-Average Common Share Outstanding</b>				
Income from continuing operations — basic	\$ 0.94	\$ 1.23	\$ (0.29)	23.6% W
Net income — basic	\$ 0.95	\$ 1.26	\$ (0.31)	24.6% W
Income from continuing operations — diluted	\$ 0.94	\$ 1.23	\$ (0.29)	23.6% W
Net income — diluted	\$ 0.95	\$ 1.25	\$ (0.30)	24.0% W

B — Better  
W — Worse



**Pinnacle West Capital Corporation**  
**Quarterly Consolidated Statistical Summary**  
**Glossary of Terms**

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

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Degree-Days — Heating

A measure of temperatures designed to indicate the amount of electricity demand for heating purposes. Heating degree-days are calculated by summing the difference between each day's actual average temperature and a base temperature of 65°F for the month. Average temperatures greater than the base temperature are ignored.

Electricity and Other Commodity Sales, Realized

Marketing and trading gross margin related to electricity and other commodities that were delivered in the then-current period.

Electricity Spot Prices — Palo Verde — Off-Peak

Electricity average daily spot prices at Palo Verde substation during off-peak hours. It measures electric prices at the producer level and is the result of real time prices used for benchmarking, price comparisons, and establishing price contracts. Measured in dollars per megawatt-hour.

Electricity Spot Prices — Palo Verde — On-Peak

Electricity average daily spot prices at Palo Verde substation during on-peak hours. It measures electric prices at the producer level and is the result of real time prices used for benchmarking, price comparisons, and establishing price contracts. Measured in dollars per megawatt-hour.

Electricity Spot Prices — SP15 — Off-Peak

Electricity average daily spot prices at SP15, a region of California substations, during off-peak hours. It measures electric prices at the producer level and is the result of real time prices used for benchmarking, price comparisons, and establishing price contracts. Measured in dollars per megawatt-hour.

Electricity Spot Prices — SP15 — On-Peak

Electricity average daily spot prices at SP15, a region of California substations, during on-peak hours. It measures electric prices at the producer level and is the result of real time prices used for benchmarking, price comparisons, and establishing price contracts. Measured in dollars per megawatt-hour.

Generation Capacity Out of Service and Replaced for Native Load

Total capacity required and economic, yet unavailable for retail customers and traditional wholesale contracts due to scheduled or unscheduled outages. Measured in megawatts per day.

Generation Production — Coal

Amount of net energy produced by coal-fueled generators. Measured in gigawatt-hours.

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

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

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Weather Normalized

Adjusted to exclude the effects of abnormal weather patterns.

Wholesale Sales of Electricity

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





**FOR IMMEDIATE RELEASE**

Media Contact: Alan Bunnell, (602) 250-3376  
Analyst Contacts: Rebecca Hickman, (602) 250-5668  
Lisa Malagon, (602) 250-5671  
Web site: [www.pinnaclewest.com](http://www.pinnaclewest.com)

**July 26, 2007**  
**Page 1 of 2**

**PINNACLE WEST REPORTS LOWER SECOND QUARTER RESULTS**

PHOENIX — Pinnacle West Capital Corporation (NYSE: PNW) today reported lower consolidated net income for the quarter ended June 30, 2007, of \$79.0 million, or \$0.78 per diluted share of common stock. This result compares with net income of \$112.2 million, or \$1.13 per diluted share, for the same quarter a year ago.

The lower quarterly results were principally driven by lower earnings at Arizona Public Service (APS) as a result of an \$8 million after-tax regulatory disallowance, milder weather, and the absence of \$7 million of income tax credits recorded in 2006.

“The exceptional population growth in our service territory drives an ever-increasing demand for electricity,” said Pinnacle West Chairman Bill Post. “Going forward, we need to continue making substantial investments in infrastructure and long-term resources, while working with regulators to achieve timely and constructive regulatory treatment.”

For the second quarter of 2007, APS reported lower net income of \$75.1 million, compared with net income of \$93.8 million for the same period a year ago. Operationally, the 2007 quarter reflected significantly improved performance at the Palo Verde Nuclear Generating Station, which increased its output by 54 percent compared with the same quarter a year ago.

SunCor Development Co., Pinnacle West’s real estate subsidiary, reported net income of \$0.3 million, compared with \$9.6 million in the 2006 second quarter, primarily due to decreased sales of residential property.

For more information on Pinnacle West’s operating statistics and earnings, please visit [www.pinnaclewest.com/financials](http://www.pinnaclewest.com/financials).

**Conference Call**

Pinnacle West invites interested parties to listen to the live web cast of management’s conference call to discuss the Company’s 2007 second quarter earnings and recent developments at 12 noon (ET), today, Thursday, July 26, 2007. The web cast can be accessed at [www.pinnaclewest.com/presentations](http://www.pinnaclewest.com/presentations) and will be available for replay on the web site for 30 days. To access the live conference call by telephone, dial (877) 356-3961 and enter Conference ID Number 7372981. A replay of the call also will be available

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until 11:55 p.m. (ET), Thursday, August 2, 2007, by calling (800) 642-1687 in the U.S. and Canada or (706) 645-9291 internationally and entering the same ID number as above.

Pinnacle West is a Phoenix-based company with consolidated assets of about \$11 billion. Through its subsidiaries, the Company generates, sells and delivers electricity and sells energy-related products and services to retail and wholesale customers in the western United States. It also develops residential, commercial, and industrial real estate projects.

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2007	2006	2007	2006
<b>Operating Revenues</b>				
Regulated electricity segment	\$711,293	\$712,718	\$1,247,344	\$1,178,844
Real estate segment	48,352	112,603	125,602	220,457
Marketing and trading	92,637	89,925	165,108	174,927
Other revenues	11,153	9,782	20,516	21,006
Total	<u>863,435</u>	<u>925,028</u>	<u>1,558,570</u>	<u>1,595,234</u>
<b>Operating Expenses</b>				
Regulated electricity segment fuel and purchased power	270,337	263,944	473,690	421,339
Real estate segment operations	46,174	98,412	107,617	169,742
Marketing and trading fuel and purchased power	74,533	72,716	132,477	146,891
Operations and maintenance	177,310	168,332	348,888	346,759
Depreciation and amortization	92,835	89,297	182,456	176,918
Taxes other than income taxes	34,757	32,700	69,476	68,273
Other expenses	8,803	8,430	17,291	16,952
Total	<u>704,749</u>	<u>733,831</u>	<u>1,331,895</u>	<u>1,346,874</u>
<b>Operating Income</b>	<u>158,686</u>	<u>191,197</u>	<u>226,675</u>	<u>248,360</u>
<b>Other</b>				
Allowance for equity funds used during construction	5,195	3,633	9,639	7,434
Other income	5,869	12,022	8,642	17,489
Other expense	(3,269)	(5,815)	(7,883)	(10,356)
Total	<u>7,795</u>	<u>9,840</u>	<u>10,398</u>	<u>14,567</u>
<b>Interest Expense</b>				
Interest charges	52,967	45,882	103,959	93,408
Capitalized interest	(5,213)	(4,959)	(10,020)	(8,983)
Total	<u>47,754</u>	<u>40,923</u>	<u>93,939</u>	<u>84,425</u>
<b>Income From Continuing Operations Before Income Taxes</b>	118,727	160,114	143,134	178,502
<b>Income Taxes</b>	<u>40,231</u>	<u>49,271</u>	<u>48,840</u>	<u>56,064</u>
<b>Income From Continuing Operations</b>	78,496	110,843	94,294	122,438
<b>Income From Discontinued Operations</b>				
Net of Income Taxes	<u>498</u>	<u>1,311</u>	<u>1,230</u>	<u>2,171</u>
<b>Net Income</b>	<u>\$ 78,994</u>	<u>\$112,154</u>	<u>\$ 95,524</u>	<u>\$ 124,609</u>
<b>Weighted-Average Common Shares Outstanding — Basic</b>	100,229	99,221	100,138	99,168
<b>Weighted-Average Common Shares Outstanding — Diluted</b>	100,779	99,640	100,718	99,562
<b>Earnings Per Weighted-Average Common Share Outstanding</b>				
Income from continuing operations — basic	\$ 0.78	\$ 1.12	\$ 0.94	\$ 1.23
Net income — basic	\$ 0.79	\$ 1.13	\$ 0.95	\$ 1.26
Income from continuing operations — diluted	\$ 0.78	\$ 1.11	\$ 0.94	\$ 1.23
Net income — diluted	\$ 0.78	\$ 1.13	\$ 0.95	\$ 1.25



**PINNACLE WEST CAPITAL CORPORATION**  
**NON-GAAP FINANCIAL MEASURE RECONCILIATION — OPERATING INCOME**  
**(GAAP MEASURE) TO GROSS MARGIN (NON-GAAP FINANCIAL MEASURE)**  
(in thousands)

	THREE MONTHS ENDED		Increase (Decrease)	
	JUNE 30,		Pretax	After Tax
	2007	2006		
<b>RECONCILIATION OF REGULATED ELECTRICITY SEGMENT GROSS MARGIN</b>				
Operating income (closest GAAP measure)	\$158,686	\$191,197	\$(32,511)	\$(19,815)
Plus:				
Operations and maintenance	177,310	168,332	8,978	5,472
Real estate segment operations	46,174	98,412	(52,238)	(31,839)
Depreciation and amortization	92,835	89,297	3,538	2,156
Taxes other than income taxes	34,757	32,700	2,057	1,254
Other expenses	8,803	8,430	373	227
Marketing and trading fuel and purchased power	74,533	72,716	1,817	1,107
Less:				
Real estate segment revenues	48,352	112,603	(64,251)	(39,161)
Other revenues	11,153	9,782	1,371	836
Marketing and trading revenues	92,637	89,925	2,712	1,653
<b>Regulated electricity segment gross margin</b>	<b><u>\$440,956</u></b>	<b><u>\$448,774</u></b>	<b><u>\$ (7,818)</u></b>	<b><u>\$ (4,766)</u></b>

	SIX MONTHS ENDED		Increase (Decrease)	
	JUNE 30,		Pretax	After Tax
	2007	2006		
<b>RECONCILIATION OF REGULATED ELECTRICITY SEGMENT GROSS MARGIN</b>				
Operating income (closest GAAP measure)	\$226,675	\$248,360	\$(21,685)	\$(13,217)
Plus:				
Operations and maintenance	348,888	346,759	2,129	1,298
Real estate segment operations	107,617	169,742	(62,125)	(37,865)
Depreciation and amortization	182,456	176,918	5,538	3,375
Taxes other than income taxes	69,476	68,273	1,203	733
Other expenses	17,291	16,952	339	207
Marketing and trading fuel and purchased power	132,477	146,891	(14,414)	(8,785)
Less:				
Real estate segment revenues	125,602	220,457	(94,855)	(57,814)
Other revenues	20,516	21,006	(490)	(299)
Marketing and trading revenues	165,108	174,927	(9,819)	(5,985)
<b>Regulated electricity segment gross margin</b>	<b><u>\$773,654</u></b>	<b><u>\$757,505</u></b>	<b><u>\$ 16,149</u></b>	<b><u>\$ 9,844</u></b>