

# PINNACLE WEST CAPITAL CORP

## FORM 8-K (Current report filing)

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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): December 31, 2008**

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 February 20, 2009, Pinnacle West Capital Corporation (the “Company” or “Pinnacle West”) issued a press release regarding its financial results for its fiscal quarter ended December 31, 2008. A copy of the press release is attached hereto as Exhibit 99.8.

Certain of the Information referenced in Item 7.01 below relates to the Company’s results of operations for its fiscal quarter ended December 31, 2008. This Information is attached hereto as Exhibits 99.2, 99.3, 99.6 and 99.8.

## **Item 7.01. Regulation FD Disclosure**

### **Financial and Business Information**

The Company is providing quarterly consolidated statistical summaries 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 and 99.7). 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.

### **2009 Earnings Outlook**

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 and under “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 (the “2008 Form 10-K”). Our estimates as to how several of these risks and other factors may affect future earnings follow:

- Arizona Public Service Company (“APS”) has a general retail rate case pending before the Arizona Corporation Commission (the “ACC”). The rate request includes, among other things, a net overall increase of \$278.2 million in annual pretax retail electricity revenues to be effective no later than October 1, 2009. The requested net increase consists of an increase of \$264.3 million in non-fuel base rates and a net increase of \$13.9 million for fuel and purchased power costs reflected in base rates. On January 30, 2009, APS began settlement discussions with the parties to the general retail rate case. We are not able to predict the ultimate outcome of the rate case, when the ACC will make a decision in this case, or the specific date when a rate increase will become effective. (For detailed information regarding the rate case, see “2008 General Rate Case” in Note 3 of Notes to Consolidated Financial Statements in Part II, Item 8 of the 2008 Form 10-K.)
- On December 18, 2008, the ACC voted to approve an emergency interim base rate surcharge for APS (the “Interim Rate Decision”). This surcharge became effective for retail customer bills issued after December 31, 2008 and will continue in effect until a decision under the pending general retail rate case becomes effective. This surcharge is expected to increase annual pretax retail revenues approximately \$65.2 million, and is subject to refund with interest pending the final outcome of APS’ general retail rate case.
- The Interim Rate Decision requires, among other things, that APS examine its operations and expenses, targeting additional cuts of at least \$20 million, and reinvest the savings and surcharge revenues in infrastructure and technology necessary to serve APS customers and reduce the need for external debt financing. Since the study is still underway, no adjustments have been made to our estimates for potential additional cost reductions.
- Our current outlook for our real estate subsidiary, SunCor Development Company (“SunCor”), reflects the weak status of the real estate market in the United States and the limited availability of financing. SunCor’s net loss in 2008 included a \$53 million pretax impairment charge. If conditions in the broader economy or the real estate market worsen, or as a result of a change in SunCor’s strategy, we may be required to record additional impairment charges.

We estimate that our consolidated earnings for 2009 will be within a reasonable range around \$2.30 per share, excluding the impact of SunCor (including any potential future real estate impairment charges) and before considering any potential earnings benefit during the year derived from a net base rate increase at the conclusion of the pending general retail rate case. We estimate that APS’ earnings contribution included in such consolidated earnings will be within a reasonable range around \$2.35 per share (equivalent to a return on APS’ average common equity of about 7%). This estimate assumes that the interim base rate surcharge will remain in effect throughout 2009. Our earnings estimates will increase to the extent the ultimate outcome of the general retail rate case includes a net base rate increase in 2009 that exceeds the amount of the interim base rate surcharge. We currently estimate that holding company expenses and other items, net, will be a net loss within a reasonable range around \$0.05 per share. For additional details regarding the major factors affecting our consolidated earnings outlook for 2009, see Exhibit 99.9 attached hereto.

### **2010 Earnings Outlook**

Assuming APS’ general retail rate request is granted in full and is effective for the entire year, we estimate that our consolidated earnings for 2010, excluding the impact of SunCor (including any potential real estate impairment charges) will be within a reasonable range around \$3.00 per share. We estimate that APS’ earnings contribution included in such 2010 consolidated earnings will be within a reasonable range around \$3.00 per share (equivalent to a return on APS’ average common equity of about 9%). We currently estimate that holding company expenses and other items, net, will not have any meaningful impact on our 2010 consolidated financial results. For additional details regarding

major factors affecting our consolidated earnings outlook for 2010, see Exhibit 99.10 attached hereto.

**Forward-Looking Statements**

This Form 8-K contains forward-looking statements regarding our 2009 and 2010 earnings outlook. Neither Pinnacle West 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. These forward-looking statements are often identified by words such as “estimate,” “predict,” “hope,” “may,” “believe,” “anticipate,” “plan,” “expect,” “require,” “intend,” “assume” and similar words. 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, 2008, these factors include, but are not limited to, state and federal regulatory and legislative decisions and actions, including the outcome or timing of the pending rate case of APS; increases in our capital expenditures and operating costs and our ability to achieve timely and adequate rate recovery of these increased costs; our ability to reduce capital expenditures and other costs while maintaining reliability and customer service levels, and unexpected developments that would limit us from achieving all or some of our planned capital expenditure reductions; volatile fuel and purchased power costs, including fluctuations in market prices for natural gas, coal, uranium and other fuels used in our generating facilities, availability of supplies of such commodities, and our ability to recover the costs of such commodities; the outcome and resulting costs of regulatory, legislative and judicial proceedings, both current and future, including those related to environmental matters and climate change; the availability of sufficient water supplies to operate our generation facilities, including as the result of drought conditions; the potential for additional restructuring of the electric industry, including decisions impacting wholesale competition and the introduction of retail electric competition in Arizona; regional, national and international economic and market conditions, including the strength of the housing, credit and financial markets; the potential adverse impact of current economic conditions on our results of operations; the cost of debt and equity capital and access to capital markets; changes in the market price of our common stock; restrictions on dividends or other burdensome provisions in new or existing credit agreements; our ability, or the ability of our subsidiaries, to meet debt service obligations; current credit ratings remaining in effect for any given period of time; 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 plan 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 and our ability to recover such costs; volatile market liquidity, 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, the interpretation of those principles and the impact of the adoption of new accounting standards; customer growth and energy usage; weather variations affecting local and regional customer energy usage; power plant performance and outages; transmission outages and constraints; the completion of generation and transmission construction in the region, which could affect customer growth and the cost of power supplies; risks inherent in the operation of nuclear facilities, such as environmental, regulatory, health and financial risks, risk of terrorist attack, planned and unplanned outages, and unfunded decommissioning costs; the ability of our power plant participants to meet contractual or other obligations; technological developments in the electric industry; the results of litigation and other proceedings resulting from the California and Pacific Northwest energy situations; the performance of Pinnacle West's subsidiaries and any resulting effects on its cash flow; the strength of the real estate market and economic and other conditions affecting 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.

**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 twelve-month periods ended December 31, 2008 and 2007.
99.3	Pinnacle West APS	Pinnacle West Capital Corporation consolidated statistics by quarter for 2008.
99.4	Pinnacle West APS	Pinnacle West Capital Corporation consolidated statistics by quarter for 2007.
99.5	Pinnacle West APS	Pinnacle West Capital Corporation consolidated statistics by quarter for 2006.
99.6	Pinnacle West APS	Pinnacle West Capital Corporation earnings variance explanations for the three and twelve months ended December 31, 2008 and 2007 and unaudited condensed consolidated statements of income for the three and twelve months ended December 31, 2008 and 2007.
99.7	Pinnacle West APS	Glossary of Terms.
99.8	Pinnacle West APS	Earnings News Release issued on February 20, 2009.
99.9	Pinnacle West APS	2009 Earnings Outlook Reconciliation
99.10	Pinnacle West APS	2010 Earnings Outlook Reconciliation

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: February 20, 2009

By: /s/ James R. Hatfield  
James R. Hatfield  
Senior Vice President and  
Chief Financial Officer

ARIZONA PUBLIC SERVICE COMPANY  
(Registrant)

Dated: February 20, 2009

By: /s/ James R. Hatfield  
James R. Hatfield  
Senior Vice President and  
Chief Financial Officer

## Exhibit Index

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**Pinnacle West Capital Corporation**  
**Quarterly Consolidated Statistical Summary**  
**Periods Ended December 31, 2008 and 2007**

**List of Contents**

**2008 Fourth Quarter Summary**

**2008 by Quarter**

**2007 by Quarter**

**2006 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/2008Q4QuarStatsGloss.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 December 31, 2008 and 2007**

Line		3 Mo. Ended December			12 Mo. Ended December		
		2008	2007	Incr (Decr)	2008	2007	Incr (Decr)
<b>EARNINGS CONTRIBUTION BY SUBSIDIARY (\$ Millions)</b>							
1	Arizona Public Service	\$ (16)	\$ —	\$ (16)	\$ 262	\$ 284	\$ (22)
2	Pinnacle West Energy	—	—	—	—	—	—
3	APS Energy Services	1	(1)	2	2	(2)	4
4	SunCor	(36)	6	(42)	(49)	14	(63)
5	El Dorado	(2)	(1)	(1)	(10)	(6)	(4)
6	Parent Company	4	—	4	9	9	—
7	Income From Continuing Operations	(49)	4	(53)	214	299	(85)
Income (Loss) From Discontinued Operations — Net of Tax							
8	SunCor	2	2	—	23	9	14
9	Other	8	(3)	11	5	(1)	6
10	Total	10	(1)	11	28	8	20
11	Net Income (loss)	<u>\$ (39)</u>	<u>\$ 3</u>	<u>\$ (42)</u>	<u>\$ 242</u>	<u>\$ 307</u>	<u>\$ (65)</u>
<b>EARNINGS PER SHARE BY SUBSIDIARY — DILUTED</b>							
12	Arizona Public Service	\$ (0.16)	\$ —	\$ (0.16)	\$ 2.60	\$ 2.82	\$ (0.22)
13	Pinnacle West Energy	—	—	—	—	—	—
14	APS Energy Services	0.01	(0.02)	0.03	0.02	(0.02)	0.04
15	SunCor	(0.35)	0.06	(0.41)	(0.48)	0.13	(0.61)
16	El Dorado	(0.02)	(0.01)	(0.01)	(0.10)	(0.06)	(0.04)
17	Parent Company	0.04	0.01	0.03	0.08	0.09	(0.01)
18	Income From Continuing Operations	(0.48)	0.04	(0.52)	2.12	2.96	(0.84)
Income (Loss) From Discontinued Operations — Net of Tax							
19	SunCor	0.02	0.02	—	0.22	0.09	0.13
20	Other	0.07	(0.03)	0.10	0.06	—	0.06
21	Total	0.09	(0.01)	0.10	0.28	0.09	0.19
22	Net Income (loss)	<u>\$ (0.39)</u>	<u>\$ 0.03</u>	<u>\$ (0.42)</u>	<u>\$ 2.40</u>	<u>\$ 3.05</u>	<u>\$ (0.65)</u>
23	<b>BOOK VALUE PER SHARE</b>	\$ 34.16	\$ 35.15	\$ (0.99)	\$ 34.16	\$ 35.15	\$ (0.99)
<b>COMMON SHARES OUTSTANDING (Thousands)</b>							
24	Average — Diluted	100,836	100,963	(127)	100,965	100,835	130
25	End of Period	100,889	100,486	403	100,889	100,486	403

See Glossary of Terms.

**Pinnacle West Capital Corporation**  
**Quarterly Consolidated Statistical Summary**  
**Periods Ended December 31, 2008 and 2007**

Line	3 Mo. Ended December			12 Mo. Ended December			
	2008	2007	Incr (Decr)	2008	2007	Incr (Decr)	
<b>ELECTRIC OPERATING REVENUES (Dollars in Millions)</b>							
<b>REGULATED ELECTRICITY SEGMENT</b>							
<b>Retail</b>							
26	Residential	\$ 263	\$ 263	\$ —	\$ 1,454	\$ 1,418	\$ 36
27	Business	321	323	(2)	1,444	1,355	89
28	Total retail	584	586	(2)	2,898	2,773	125
<b>Wholesale revenue on delivered electricity</b>							
29	Traditional contracts	13	7	6	70	34	36
30	Off-system sales	20	17	3	88	49	39
31	Transmission for others	9	7	2	34	29	5
32	Other miscellaneous services	9	10	(1)	37	33	4
33	Total regulated operating electricity revenues	635	627	8	3,127	2,918	209
<b>MARKETING AND TRADING</b>							
34	Electricity and other commodity sales	9	29	(20)	67	138	(71)
35	Total operating electric revenues	\$ 644	\$ 656	\$ (12)	\$ 3,194	\$ 3,056	\$ 138
<b>ELECTRIC SALES (GWH)</b>							
<b>REGULATED ELECTRICITY SEGMENT</b>							
<b>Retail sales</b>							
36	Residential	2,606	2,667	(61)	13,368	13,771	(403)
37	Business	3,650	3,685	(35)	15,425	15,400	25
38	Total retail	6,256	6,352	(96)	28,793	29,171	(378)
<b>Wholesale electricity delivered</b>							
39	Traditional contracts	198	190	8	1,074	923	151
40	Off-system sales	457	448	9	2,008	1,481	527
41	Retail load hedge management	267	125	142	1,074	1,026	48
42	Total regulated electricity	7,178	7,115	63	32,949	32,601	348
<b>MARKETING AND TRADING</b>							
43	Wholesale sales of electricity	245	1,681	(1,436)	2,434	9,397	(6,963)
44	Total electric sales	7,423	8,796	(1,373)	35,383	41,998	(6,615)

See Glossary of Terms.

**Pinnacle West Capital Corporation**  
**Quarterly Consolidated Statistical Summary**  
**Periods Ended December 31, 2008 and 2007**

Line	3 Mo. Ended December			12 Mo. Ended December			
	2008	2007	Incr (Decr)	2008	2007	Incr (Decr)	
<b>POWER SUPPLY ADJUSTOR (“PSA”)</b>							
<b>- REGULATED ELECTRICITY</b>							
<b>SEGMENT (Dollars in Millions)</b>							
45	Deferred fuel and purchased power regulatory asset — beginning balance	\$ 58	\$ 150	\$ (92)	\$ 111	\$ 160	\$ (49)
46	Deferred fuel and purchased power costs — current period	(25)	(9)	(16)	78	189	(111)
47	Regulatory disallowance	—	—	—	—	(14)	14
48	Interest on deferred fuel	—	2	(2)	2	7	(5)
49	Amounts recovered through revenues	(25)	(32)	7	(183)	(231)	48
50	Deferred fuel and purchased power regulatory asset — ending balance	<u>\$ 8</u>	<u>\$ 111</u>	<u>\$ (103)</u>	<u>\$ 8</u>	<u>\$ 111</u>	<u>\$ (103)</u>

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

<b>Realized and Mark-To-Market Components</b>							
51	Electricity and other commodity sales, realized (a)	\$ 8	\$ 6	\$ —	\$ 17	\$ 43	\$ (26)
52	Mark-to-market reversals on realized sales (a) (b)	—	1	(1)	4	(7)	11
53	Change in mark-to-market value of forward sales	—	2	(2)	—	2	(2)
54	Total gross margin	<u>\$ 8</u>	<u>\$ 9</u>	<u>\$ (1)</u>	<u>\$ 21</u>	<u>\$ 38</u>	<u>\$ (17)</u>

**By Pinnacle West Entity**

55	APS	\$ —	\$ —	\$ —	\$ —	\$ 7	\$ (7)
56	Pinnacle West	8	9	(1)	21	31	(10)
57	APS Energy Services	—	—	—	—	—	—
58	Pinnacle West Energy	—	—	—	—	—	—
59	Total gross margin	<u>\$ 8</u>	<u>\$ 9</u>	<u>\$ (1)</u>	<u>\$ 21</u>	<u>\$ 38</u>	<u>\$ (17)</u>

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

As of December 31, 2008, Pinnacle West had accumulated net mark-to-market gains of \$4 million related to our power marketing and trading activities.

- (a) Net effect on pretax gross margin from realization of prior-period mark-to-market included in line 51 and in line 52 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 51 are included in line 52. For example, line 52 shows that a prior-period mark-to-market loss of \$4 million was transferred to “realized” for the total year of 2008. A \$4 million realized loss is included in the \$17 million on line 51 for the total year of 2008.
- (b) Quarterly amounts do not total to annual amounts because of intra-year mark-to-market eliminations.

See Glossary of Terms.

**Pinnacle West Capital Corporation**  
**Quarterly Consolidated Statistical Summary**  
**Periods Ended December 31, 2008 and 2007**

Line	3 Mo. Ended December			12 Mo. Ended December			
	2008	2007	Incr (Decr)	2008	2007	Incr (Decr)	
<b>AVERAGE ELECTRIC CUSTOMERS</b>							
<b>Retail customers</b>							
60	Residential	980,268	972,654	7,614	977,944	966,013	11,931
61	Business	124,878	121,898	2,980	123,961	120,314	3,647
62	Total	1,105,146	1,094,552	10,594	1,101,905	1,086,327	15,578
63	Wholesale customers	49	56	(7)	51	61	(10)
64	Total customers	1,105,195	1,094,608	10,587	1,101,956	1,086,388	15,568
65	Customer growth (% over prior year)	1.0%	2.6%	(1.6)%	1.4%	3.3%	(1.9)%
<b>RETAIL SALES (GWH) - WEATHER NORMALIZED</b>							
66	Residential	2,666	2,704	(38)	13,500	13,390	110
67	Business	3,652	3,663	(11)	15,434	15,236	198
68	Total	6,318	6,367	(49)	28,934	28,626	308
<b>RETAIL USAGE (KWh/Average Customer)</b>							
69	Residential	2,658	2,742	(84)	13,669	14,256	(587)
70	Business	29,229	30,230	(1,001)	124,435	127,998	(3,563)
<b>RETAIL USAGE - WEATHER NORMALIZED (KWh/Average Customer)</b>							
71	Residential	2,720	2,780	(60)	13,804	13,861	(57)
72	Business	29,246	30,047	(801)	124,506	126,633	(2,127)
<b>ELECTRICITY DEMAND (MW)</b>							
73	Native load peak demand	5,443	5,089	354	7,026	7,128	(102)

See Glossary of Terms.

**Pinnacle West Capital Corporation**  
**Quarterly Consolidated Statistical Summary**  
**Periods Ended December 31, 2008 and 2007**

Line	3 Mo. Ended December			12 Mo. Ended December			
	2008	2007	Incr (Decr)	2008	2007	Incr (Decr)	
<b>ENERGY SOURCES (GWH)</b>							
<b>Generation production</b>							
74	Nuclear	1,886	1,430	456	8,512	7,794	718
75	Coal	3,422	3,350	72	13,166	13,342	(176)
76	Gas, oil and other	1,334	1,554	(220)	6,356	6,703	(347)
77	Total generation production	<u>6,642</u>	<u>6,334</u>	<u>308</u>	<u>28,034</u>	<u>27,839</u>	<u>195</u>
<b>Purchased power</b>							
78	Firm load	638	913	(275)	5,028	5,388	(360)
79	Marketing and trading	639	2,078	(1,439)	4,558	11,296	(6,738)
80	Total purchased power	<u>1,277</u>	<u>2,991</u>	<u>(1,714)</u>	<u>9,586</u>	<u>16,684</u>	<u>(7,098)</u>
81	Total energy sources	<u>7,919</u>	<u>9,325</u>	<u>(1,406)</u>	<u>37,620</u>	<u>44,523</u>	<u>(6,903)</u>

**POWER PLANT PERFORMANCE**

<b>Capacity Factors</b>							
82	Nuclear	74%	57%	17%	84%	79%	5%
83	Coal	89%	87%	2%	86%	87%	(1)%
84	Gas, oil and other	18%	21%	(3)%	22%	23%	(1)%
85	System average	48%	47%	1%	51%	52%	(1)%

**Generation Capacity Out of Service and  
Replaced for Native Load (average  
MW/day) (a)**

86	Nuclear	287	470	(183)	155	216	(61)
87	Coal	89	164	(75)	155	158	(3)
88	Gas	<u>188</u>	<u>264</u>	<u>(76)</u>	<u>197</u>	<u>271</u>	<u>(74)</u>
89	Total	<u>564</u>	<u>898</u>	<u>(334)</u>	<u>507</u>	<u>645</u>	<u>(138)</u>

(a) Includes planned and unplanned outages

See Glossary of Terms.

**Pinnacle West Capital Corporation**  
**Quarterly Consolidated Statistical Summary**  
**Periods Ended December 31, 2008 and 2007**

Line	3 Mo. Ended December			12 Mo. Ended December			
	2008	2007	Incr (Decr)	2008	2007	Incr (Decr)	
<b>ENERGY MARKET INDICATORS (a)</b>							
<b>Electricity Average Daily Spot Prices (\$/MWh)</b>							
<b>On-Peak</b>							
90	Palo Verde	\$44.32	\$57.18	\$ (12.86)	\$ 71.16	\$ 61.43	\$ 9.73
91	SP15	\$54.48	\$68.13	\$ (13.65)	\$ 79.33	\$ 66.44	\$ 12.89
<b>Off-Peak</b>							
92	Palo Verde	\$33.39	\$44.39	\$ (11.00)	\$ 50.61	\$ 41.24	\$ 9.37
93	SP15	\$40.10	\$50.71	\$ (10.61)	\$ 57.13	\$ 45.99	\$ 11.14
<b>WEATHER INDICATORS</b>							
<b>Actual</b>							
94	Cooling degree-days	504	595	(91)	4,682	5,161	(479)
95	Heating degree-days	321	398	(77)	904	995	(91)
96	Average humidity	36%	30%	6%	32%	30%	2%
<b>10-Year Averages</b>							
97	Cooling degree-days	441	441	—	4,635	4,635	—
98	Heating degree-days	394	394	—	939	939	—
99	Average humidity	38%	38%	0%	33%	33%	0%
<b>ECONOMIC INDICATORS</b>							
<b>Building Permits — Metro Phoenix (b)</b>							
100	Single-family	1,124	2,587	(1,463)	10,350	21,878	(11,528)
101	Multi-family	1,173	3,483	(2,310)	7,453	13,874	(6,421)
102	Total	<u>2,297</u>	<u>6,070</u>	<u>(3,773)</u>	<u>17,803</u>	<u>35,752</u>	<u>(17,949)</u>
<b>Arizona Job Growth (c)</b>							
103	Payroll job growth (% over prior year)	(3.6)%	0.1%	(3.7)%	(1.6)%	1.2%	(2.8)%
104	Unemployment rate (% , seasonally adjusted)	6.4%	4.1%	2.3%	5.1%	3.8%	1.3%

**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**  
**2008**

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	\$ (6)	\$ 125	\$ 160	\$ (16)	\$ 262	\$ (22)
2	Pinnacle West Energy	—	—	—	—	—	—
3	APS Energy Services	1	—	—	1	2	4
4	SunCor	(1)	(5)	(7)	(36)	(49)	(63)
5	El Dorado	(1)	(5)	(1)	(2)	(10)	(4)
6	Parent Company	4	(1)	—	4	9	—
7	Income From Continuing Operations	(3)	114	152	(49)	214	(85)
Income (Loss) From Discontinued Operations — Net of Tax							
8	SunCor	—	20	1	2	23	14
9	Other	(1)	—	(1)	8	5	6
10	Total	(1)	20	—	10	28	20
11	Net Income (loss)	<u>\$ (4)</u>	<u>\$ 134</u>	<u>\$ 152</u>	<u>\$ (39)</u>	<u>\$ 242</u>	<u>\$ (65)</u>
<b>EARNINGS PER SHARE BY SUBSIDIARY — DILUTED</b>							
12	Arizona Public Service	\$ (0.06)	\$ 1.24	\$ 1.58	\$ (0.16)	\$ 2.60	\$ (0.22)
13	Pinnacle West Energy	—	—	—	—	—	—
14	APS Energy Services	0.01	—	—	0.01	0.02	0.04
15	SunCor	(0.01)	(0.05)	(0.07)	(0.35)	(0.48)	(0.61)
16	El Dorado	(0.02)	(0.05)	(0.01)	(0.02)	(0.10)	(0.04)
17	Parent Company	0.04	(0.01)	—	0.04	0.08	(0.01)
18	Income From Continuing Operations	(0.04)	1.13	1.50	(0.48)	2.12	(0.84)
Income (Loss) From Discontinued Operations — Net of Tax							
19	SunCor	—	0.19	0.01	0.02	0.22	0.13
20	Other	—	0.01	(0.01)	0.07	0.06	0.06
21	Total	—	0.20	—	0.09	0.28	0.19
22	Net Income (loss)	<u>\$ (0.04)</u>	<u>\$ 1.33</u>	<u>\$ 1.50</u>	<u>\$ (0.39)</u>	<u>\$ 2.40</u>	<u>\$ (0.65)</u>
23	<b>BOOK VALUE PER SHARE</b>	\$ 35.22	\$ 37.22	\$ 35.84	\$ 34.16	\$ 34.16	\$ (0.99)
<b>COMMON SHARES OUTSTANDING (Thousands)</b>							
24	Average — Diluted	100,521	100,917	101,018	100,836	100,965	130
25	End of Period	100,486	100,706	100,799	100,889	100,889	403

See Glossary of Terms.



**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2008**

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</b>							
<b>(Dollars in Millions)</b>							
<b>REGULATED ELECTRICITY SEGMENT</b>							
<b>Retail</b>							
26	Residential	\$ 271	\$ 365	\$ 555	\$ 263	\$ 1,454	\$ 36
27	Business	300	396	427	321	1,444	89
28	Total retail	571	761	982	584	2,898	125
<b>Wholesale revenue on delivered electricity</b>							
29	Traditional contracts	12	22	23	13	70	36
30	Off-system sales	24	30	14	20	88	39
31	Transmission for others	7	8	11	9	34	5
32	Other miscellaneous services	9	8	10	9	37	4
33	Total regulated operating electricity revenues	623	829	1,040	635	3,127	209
<b>MARKETING AND TRADING</b>							
34	Electricity and other commodity sales	30	23	5	9	67	(71)
35	Total operating electric revenues	<u>\$ 653</u>	<u>\$ 852</u>	<u>\$ 1,045</u>	<u>\$ 644</u>	<u>\$ 3,194</u>	<u>\$ 138</u>
<b>ELECTRIC SALES (GWH)</b>							
<b>REGULATED ELECTRICITY SEGMENT</b>							
<b>Retail sales</b>							
36	Residential	2,774	3,112	4,876	2,606	13,368	(403)
37	Business	3,338	3,990	4,447	3,650	15,425	25
38	Total retail	6,112	7,102	9,323	6,256	28,793	(378)
<b>Wholesale electricity delivered</b>							
39	Traditional contracts	222	319	335	198	1,074	151
40	Off-system sales	416	610	525	457	2,008	527
41	Retail load hedge management	162	159	486	267	1,074	48
42	Total regulated electricity	6,912	8,190	10,669	7,178	32,949	348
<b>MARKETING AND TRADING</b>							
43	Wholesale sales of electricity	911	979	298	245	2,434	(6,963)
44	Total electric sales	<u>7,823</u>	<u>9,169</u>	<u>10,967</u>	<u>7,423</u>	<u>35,383</u>	<u>(6,615)</u>

See Glossary of Terms.

**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2008**

Line	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year-To-Date	Increase (Decrease) vs Prior YTD	
<b>POWER SUPPLY ADJUSTOR (“PSA”) - REGULATED ELECTRICITY SEGMENT (Dollars in Millions)</b>							
45	Deferred fuel and purchased power regulatory asset — beginning balance	\$ 111	\$ 50	\$ 23	\$ 58	\$ 111	\$ (49)
46	Deferred fuel and purchased power costs — current period	(11)	37	79	(25)	78	(111)
47	Regulatory disallowance	—	—	—	—	—	14
48	Interest on deferred fuel	1	—	—	—	2	(5)
49	Amounts recovered through revenues	(51)	(64)	(44)	(25)	(183)	48
50	Deferred fuel and purchased power regulatory asset — ending balance	<u>\$ 50</u>	<u>\$ 23</u>	<u>\$ 58</u>	<u>\$ 8</u>	<u>\$ 8</u>	<u>\$ (103)</u>

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

<b>Realized and Mark-To-Market Components</b>							
51	Electricity and other commodity sales, realized (a)	\$ 4	\$ 3	\$ 5	\$ 8	\$ 17	\$ (26)
52	Mark-to-market reversals on realized sales (a) (b)	1	1	(2)	—	4	11
53	Change in mark-to-market value of forward sales	2	—	—	—	—	(2)
54	Total gross margin	<u>\$ 7</u>	<u>\$ 4</u>	<u>\$ 3</u>	<u>\$ 8</u>	<u>\$ 21</u>	<u>\$ (17)</u>

**By Pinnacle West Entity**

55	APS	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (7)
56	Pinnacle West	7	4	3	8	21	(10)
57	APS Energy Services	—	—	—	—	—	—
58	Pinnacle West Energy	—	—	—	—	—	—
59	Total gross margin	<u>\$ 7</u>	<u>\$ 4</u>	<u>\$ 3</u>	<u>\$ 8</u>	<u>\$ 21</u>	<u>\$ (17)</u>

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

As of December 31, 2008, Pinnacle West had accumulated net mark-to-market gains of \$4 million related to our power marketing and trading activities.

- (a) Net effect on pretax gross margin from realization of prior-period mark-to-market included in line 51 and in line 52 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 51 are included in line 52. For example, line 52 shows that a prior-period mark-to-market loss of \$4 million was transferred to “realized” for the total year of 2008. A \$4 million realized loss is included in the \$17 million on line 51 for the total year of 2008.
- (b) Quarterly amounts do not total to annual amounts because of intra-year mark-to-market eliminations.

See Glossary of Terms.

**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2008**

Line	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year-To-Date	Increase (Decrease) vs Prior YTD
<b>AVERAGE ELECTRIC CUSTOMERS</b>						
<b>Retail customers</b>						
60 Residential	982,459	975,594	973,455	980,268	977,944	11,931
61 Business	122,833	123,802	124,329	124,878	123,961	3,647
62 Total	1,105,292	1,099,396	1,097,784	1,105,146	1,101,905	15,578
63 Wholesale customers	50	54	51	49	51	(10)
64 Total customers	<u>1,105,342</u>	<u>1,099,450</u>	<u>1,097,835</u>	<u>1,105,195</u>	<u>1,101,956</u>	<u>15,568</u>
65 Customer growth (% over prior year)	2.0%	1.6%	1.2%	1.0%	1.4%	(1.9)%
<b>RETAIL SALES (GWH) - WEATHER NORMALIZED</b>						
66 Residential	2,694	3,247	4,893	2,666	13,500	110
67 Business	3,300	4,034	4,448	3,652	15,434	198
68 Total	<u>5,994</u>	<u>7,281</u>	<u>9,341</u>	<u>6,318</u>	<u>28,934</u>	<u>308</u>
<b>RETAIL USAGE (KWh/Average Customer)</b>						
69 Residential	2,824	3,190	5,009	2,658	13,669	(587)
70 Business	27,175	32,229	35,768	29,229	124,435	(3,563)
<b>RETAIL USAGE - WEATHER NORMALIZED (KWh/Average Customer)</b>						
71 Residential	2,742	3,328	5,027	2,720	13,804	(57)
72 Business	26,865	32,581	35,777	29,246	124,506	(2,127)
<b>ELECTRICITY DEMAND (MW)</b>						
73 Native load peak demand	4,404	6,778	7,026	5,443	7,026	(102)

See Glossary of Terms.

**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2008**

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>							
74	Nuclear	2,315	1,856	2,455	1,886	8,512	718
75	Coal	2,906	3,227	3,611	3,422	13,166	(176)
76	Gas, oil and other	1,148	1,516	2,358	1,334	6,356	(347)
77	Total generation production	<u>6,369</u>	<u>6,599</u>	<u>8,424</u>	<u>6,642</u>	<u>28,034</u>	<u>195</u>
<b>Purchased power</b>							
78	Firm load	740	1,603	2,047	638	5,028	(360)
79	Marketing and trading	1,196	1,506	1,217	639	4,558	(6,738)
80	Total purchased power	<u>1,936</u>	<u>3,109</u>	<u>3,264</u>	<u>1,277</u>	<u>9,586</u>	<u>(7,098)</u>
81	Total energy sources	<u>8,305</u>	<u>9,708</u>	<u>11,688</u>	<u>7,919</u>	<u>37,620</u>	<u>(6,903)</u>

**POWER PLANT PERFORMANCE**

<b>Capacity Factors</b>							
82	Nuclear	92%	74%	97%	74%	84%	5%
83	Coal	76%	85%	94%	89%	86%	(1)%
84	Gas, oil and other	16%	21%	32%	18%	22%	(1)%
85	System average	47%	49%	61%	48%	51%	(1)%
<b>Generation Capacity Out of Service and Replaced for Native Load (average MW/day) (a)</b>							
86	Nuclear	8	298	27	287	155	(61)
87	Coal	327	152	64	89	155	(3)
88	Gas	356	180	76	188	197	(74)
89	Total	<u>691</u>	<u>630</u>	<u>167</u>	<u>564</u>	<u>507</u>	<u>(138)</u>

(a) Includes planned and unplanned outages

See Glossary of Terms.

**Pinnacle West Capital Corporation**  
**Consolidated Statistics By Quarter**  
**2008**

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>							
90	Palo Verde	\$69.40	\$90.47	\$80.43	\$44.32	\$ 71.16	\$ 9.73
91	SP15	\$79.09	\$97.41	\$86.34	\$54.48	\$ 79.33	\$ 12.89
<b>Off-Peak</b>							
92	Palo Verde	\$56.39	\$59.20	\$53.47	\$33.39	\$ 50.61	\$ 9.37
93	SP15	\$62.35	\$66.73	\$59.33	\$40.10	\$ 57.13	\$ 11.14
<b>WEATHER INDICATORS</b>							
<b>Actual</b>							
94	Cooling degree-days	105	1,540	2,533	504	4,682	(479)
95	Heating degree-days	583	—	—	321	904	(91)
96	Average humidity	40%	17%	33%	36%	32%	2%
<b>10-Year Averages</b>							
97	Cooling degree-days	96	1,554	2,544	441	4,635	—
98	Heating degree-days	517	28	—	394	939	—
99	Average humidity	42%	22%	32%	38%	33%	0%
<b>ECONOMIC INDICATORS</b>							
<b>Building Permits — Metro Phoenix (b)</b>							
100	Single-family	2,991	3,732	2,503	1,124	10,350	(11,528)
101	Multi-family	1,888	2,263	2,129	1,173	7,453	(6,421)
102	Total	<u>4,879</u>	<u>5,995</u>	<u>4,632</u>	<u>2,297</u>	<u>17,803</u>	<u>(17,949)</u>
<b>Arizona Job Growth (c)</b>							
103	Payroll job growth (% over prior year)	0.1%	(0.8)%	(1.9)%	(3.6)%	(1.6)%	(2.8)%
104	Unemployment rate (% , seasonally adjusted)	4.1%	4.4%	5.5%	6.4%	5.1%	1.3%

**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**  
**2007**

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	\$ 4	\$ 75	\$ 204	\$ —	\$ 284	\$ 14
2	Pinnacle West Energy	—	—	—	—	—	—
3	APS Energy Services	(1)	(1)	—	(1)	(2)	2
4	SunCor	9	1	(1)	6	14	(36)
5	El Dorado	(2)	—	(3)	(1)	(6)	(3)
6	Parent Company	5	4	—	—	9	6
7	Income From Continuing Operations	15	79	200	4	299	(17)
Income (Loss) From Discontinued Operations — Net of Tax							
8	SunCor	—	—	7	2	9	(1)
9	Other	2	—	2	(3)	(1)	(2)
10	Total	2	—	9	(1)	8	(3)
11	Net Income	<u>\$ 17</u>	<u>\$ 79</u>	<u>\$ 209</u>	<u>\$ 3</u>	<u>\$ 307</u>	<u>\$ (20)</u>
<b>EARNINGS PER SHARE BY SUBSIDIARY — DILUTED</b>							
12	Arizona Public Service	\$ 0.04	\$ 0.75	\$ 2.03	\$ —	\$ 2.82	\$ 0.12
13	Pinnacle West Energy	—	—	—	—	—	—
14	APS Energy Services	(0.01)	(0.01)	—	(0.02)	(0.02)	0.02
15	SunCor	0.09	0.01	(0.01)	0.06	0.13	(0.37)
16	El Dorado	(0.02)	—	(0.03)	(0.01)	(0.06)	(0.03)
17	Parent Company	0.04	0.04	—	0.01	0.09	0.06
18	Income From Continuing Operations	0.14	0.79	1.99	0.04	2.96	(0.20)
Income (Loss) From Discontinued Operations — Net of Tax							
19	SunCor	—	(0.01)	0.07	0.02	0.09	(0.01)
20	Other	0.02	—	0.01	(0.03)	—	(0.01)
21	Total	0.02	(0.01)	0.08	(0.01)	0.09	(0.02)
22	Net Income	<u>\$ 0.16</u>	<u>\$ 0.78</u>	<u>\$ 2.07</u>	<u>\$ 0.03</u>	<u>\$ 3.05</u>	<u>\$ (0.22)</u>
23	<b>BOOK VALUE PER SHARE</b>	\$ 34.45	\$ 34.13	\$ 35.55	\$ 35.15	\$ 35.15	\$ 0.67
<b>COMMON SHARES OUTSTANDING (Thousands)</b>							
24	Average — Diluted	100,622	100,779	100,829	100,963	100,835	825
25	End of Period	100,115	100,290	100,367	100,486	100,486	527

See Glossary of Terms.

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

Line	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year-To-Date	Increase (Decrease) vs Prior YTD	
<b>ELECTRIC OPERATING REVENUES</b>							
<b>(Dollars in Millions)</b>							
<b>REGULATED ELECTRICITY SEGMENT</b>							
<b>Retail</b>							
26	Residential	\$ 246	\$ 335	\$ 574	\$ 263	\$ 1,418	\$ 147
27	Business	264	342	425	323	1,355	116
28	Total retail	510	677	999	586	2,773	263
<b>Wholesale revenue on delivered electricity</b>							
29	Traditional contracts	5	9	12	7	34	12
30	Off-system sales	7	10	16	17	49	3
31	Transmission for others	7	7	8	7	29	3
32	Other miscellaneous services	7	8	9	10	33	2
33	Total regulated operating electricity revenues	536	711	1,044	627	2,918	283
<b>MARKETING AND TRADING</b>							
34	Electricity and other commodity sales	28	40	41	29	138	1
35	Total operating electric revenues	\$ 564	\$ 751	\$ 1,085	\$ 656	\$ 3,056	\$ 284
<b>ELECTRIC SALES (GWH)</b>							
<b>REGULATED ELECTRICITY SEGMENT</b>							
<b>Retail sales</b>							
36	Residential	2,734	3,287	5,084	2,667	13,771	777
37	Business	3,285	4,004	4,426	3,685	15,400	424
38	Total retail	6,019	7,291	9,510	6,352	29,171	1,201
<b>Wholesale electricity delivered</b>							
39	Traditional contracts	175	262	296	190	923	40
40	Off-system sales	243	310	478	448	1,481	(132)
41	Retail load hedge management	117	254	529	125	1,026	(564)
42	Total regulated electricity	6,554	8,117	10,813	7,115	32,601	545
<b>MARKETING AND TRADING</b>							
43	Wholesale sales of electricity	1,923	2,648	3,146	1,681	9,397	(6,958)
44	Total electric sales	8,477	10,765	13,959	8,796	41,998	(6,413)

See Glossary of Terms.

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

Line	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year-To-Date	Increase (Decrease) vs Prior YTD	
<b>POWER SUPPLY ADJUSTOR</b>							
<b>(“PSA”) — REGULATED</b>							
<b>ELECTRICITY SEGMENT</b>							
<b>(Dollars in Millions)</b>							
45	Deferred fuel and purchased power regulatory asset — beginning balance	\$ 160	\$ 118	\$ 137	\$ 150	\$ 160	\$ (13)
46	Deferred fuel and purchased power costs — current period	25	104	69	(9)	189	(55)
47	Regulatory disallowance	—	(14)	—	—	(14)	(14)
48	Interest on deferred fuel	2	1	2	2	7	(1)
49	Amounts recovered through revenues	(69)	(72)	(58)	(32)	(231)	34
50	Deferred fuel and purchased power regulatory asset — ending balance	<u>\$ 118</u>	<u>\$ 137</u>	<u>\$ 150</u>	<u>\$ 111</u>	<u>\$ 111</u>	<u>\$ (49)</u>

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

<b>Realized and Mark-To-Market Components</b>							
51	Electricity and other commodity sales, realized (a)	\$ 8	\$ 22	\$ 6	\$ 6	\$ 43	\$ (2)
52	Mark-to-market reversals on realized sales (a) (b)	(8)	1	(3)	1	(7)	7
53	Change in mark-to-market value of forward sales	10	(6)	(2)	2	2	2
54	Total gross margin	<u>\$ 10</u>	<u>\$ 17</u>	<u>\$ 1</u>	<u>\$ 9</u>	<u>\$ 38</u>	<u>\$ 7</u>

**By Pinnacle West Entity**

55	APS	\$ (1)	\$ 7	\$ —	\$ —	\$ 7	\$ (7)
56	Pinnacle West	11	10	1	9	31	14
57	APS Energy Services	—	—	—	—	—	—
58	Pinnacle West Energy	—	—	—	—	—	—
59	Total gross margin	<u>\$ 10</u>	<u>\$ 17</u>	<u>\$ 1</u>	<u>\$ 9</u>	<u>\$ 38</u>	<u>\$ 7</u>

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

As of December 31, 2007, Pinnacle West had accumulated net mark-to-market gains of \$9 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: 2008, \$2 million; and thereafter, \$7 million.

- (a) Net effect on pretax gross margin from realization of prior-period mark-to-market included in line 51 and in line 52 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 51 are included in line 52. For example, line 52 shows that a prior-period mark-to-market gain of \$7 million was transferred to “realized” for the total year of 2007. A \$7 million realized gain is included in the \$43 million on line 51 for the total year of 2007.
- (b) Quarterly amounts do not total to annual amounts because of intra-year mark-to-market eliminations.



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

Line	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year-To-Date	Increase (Decrease) vs Prior YTD
<b>AVERAGE ELECTRIC CUSTOMERS</b>						
<b>Retail customers</b>						
60 Residential	965,428	962,095	963,874	972,654	966,013	29,549
61 Business	118,649	119,792	120,918	121,898	120,314	4,883
62 Total	<u>1,084,077</u>	<u>1,081,887</u>	<u>1,084,792</u>	<u>1,094,552</u>	<u>1,086,327</u>	34,432
63 Wholesale customers	63	62	61	56	61	(16)
64 Total customers	<u>1,084,140</u>	<u>1,081,949</u>	<u>1,084,853</u>	<u>1,094,608</u>	<u>1,086,388</u>	<u>34,416</u>
65 Customer growth (% over prior year)	3.8%	3.5%	3.2%	2.6%	3.3%	(1.1)%
<b>RETAIL SALES (GWH) — WEATHER NORMALIZED</b>						
66 Residential	2,657	3,220	4,810	2,704	13,390	378
67 Business	3,228	3,977	4,368	3,663	15,236	223
68 Total	<u>5,885</u>	<u>7,197</u>	<u>9,178</u>	<u>6,367</u>	<u>28,626</u>	<u>601</u>
<b>RETAIL USAGE (KWh/Average Customer)</b>						
69 Residential	2,832	3,417	5,275	2,742	14,256	380
70 Business	27,687	33,425	36,601	30,230	127,998	(1,751)
<b>RETAIL USAGE - WEATHER NORMALIZED (KWh/Average Customer)</b>						
71 Residential	2,752	3,346	4,990	2,780	13,861	(33)
72 Business	27,205	33,199	36,126	30,047	126,633	(3,431)
<b>ELECTRICITY DEMAND (MW)</b>						
73 Native load peak demand	4,496	6,705	7,128	5,089	7,128	(92)

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>ENERGY SOURCES (GWH)</b>							
<b>Generation production</b>							
74	Nuclear	2,299	1,846	2,218	1,430	7,794	806
75	Coal	3,164	3,265	3,563	3,350	13,342	166
76	Gas, oil and other	1,151	1,518	2,480	1,554	6,703	(681)
77	Total generation production	<u>6,614</u>	<u>6,629</u>	<u>8,261</u>	<u>6,334</u>	<u>27,839</u>	<u>291</u>
<b>Purchased power</b>							
78	Firm load	278	1,676	2,521	913	5,388	1,098
79	Marketing and trading	2,128	3,097	3,993	2,078	11,296	(7,572)
80	Total purchased power	<u>2,406</u>	<u>4,773</u>	<u>6,514</u>	<u>2,991</u>	<u>16,684</u>	<u>(6,474)</u>
81	Total energy sources	<u>9,020</u>	<u>11,402</u>	<u>14,775</u>	<u>9,325</u>	<u>44,523</u>	<u>(6,183)</u>

**POWER PLANT PERFORMANCE**

<b>Capacity Factors</b>							
82	Nuclear	94%	75%	89%	57%	79%	8%
83	Coal	84%	86%	93%	87%	87%	0%
84	Gas, oil and other	16%	21%	34%	21%	23%	(2)%
85	System average	50%	49%	61%	47%	52%	1%

**Generation Capacity Out of Service  
and Replaced for Native Load  
(average MW/day) (a)**

86	Nuclear	57	260	76	470	216	63
87	Coal	203	189	79	164	158	76
88	Gas	<u>267</u>	<u>405</u>	<u>147</u>	<u>264</u>	<u>271</u>	<u>182</u>
89	Total	<u>527</u>	<u>854</u>	<u>302</u>	<u>898</u>	<u>645</u>	<u>321</u>

(a) Includes planned and unplanned outages

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>ENERGY MARKET INDICATORS (a)</b>							
<b>Electricity Average Daily Spot Prices (\$/MWh)</b>							
<b>On-Peak</b>							
90	Palo Verde	\$ 54.62	\$ 64.64	\$ 69.26	\$ 57.18	\$ 61.43	\$ 4.67
91	SP15	\$ 60.02	\$ 68.75	\$ 68.84	\$ 68.13	\$ 66.44	\$ 4.49
<b>Off-Peak</b>							
92	Palo Verde	\$ 42.06	\$ 41.46	\$ 37.03	\$ 44.39	\$ 41.24	\$ 4.15
93	SP15	\$ 45.86	\$ 46.14	\$ 41.23	\$ 50.71	\$ 45.99	\$ 5.38
<b>WEATHER INDICATORS</b>							
<b>Actual</b>							
94	Cooling degree-days	172	1,708	2,686	595	5,161	466
95	Heating degree-days	589	8	—	398	995	144
96	Average humidity	36%	18%	30%	30%	30%	2%
<b>10-Year Averages</b>							
97	Cooling degree-days	96	1,554	2,544	441	4,635	—
98	Heating degree-days	517	28	—	394	939	—
99	Average humidity	42%	22%	32%	38%	33%	0%
<b>ECONOMIC INDICATORS</b>							
<b>Building Permits — Metro Phoenix (b)</b>							
100	Single-family	7,017	7,447	4,827	2,587	21,878	(6,098)
101	Multi-family	4,131	3,573	2,687	3,483	13,874	3,767
102	Total	<u>11,148</u>	<u>11,020</u>	<u>7,514</u>	<u>6,070</u>	<u>35,752</u>	<u>(2,331)</u>
<b>Arizona Job Growth (c)</b>							
103	Payroll job growth (% over prior year)	2.4%	1.4%	0.9%	0.1%	1.2%	(3.8)%
104	Unemployment rate (%, seasonally adjusted)	3.8%	3.6%	3.7%	4.1%	3.8%	(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**  
**2006**

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	\$ (6)	\$ 94	\$ 169	\$ 13	\$ 270	\$ 100
2	Pinnacle West Energy	—	—	—	—	—	85
3	APS Energy Services	—	—	(2)	(2)	(4)	(2)
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	11	111	184	10	316	89
Income (Loss) From Discontinued Operations — Net of Tax							
8	SunCor	1	1	—	8	10	(7)
9	Other	1	—	—	—	1	69
10	Total	2	1	—	8	11	62
11	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>							
12	Arizona Public Service	\$ (0.06)	\$ 0.95	\$ 1.69	\$ 0.13	\$ 2.70	\$ 0.93
13	Pinnacle West Energy	—	—	—	—	—	0.89
14	APS Energy Services	—	—	(0.02)	(0.02)	(0.04)	(0.02)
15	SunCor	0.21	0.07	0.17	0.03	0.50	0.10
16	El Dorado	(0.01)	—	—	(0.01)	(0.03)	(0.01)
17	Parent Company	(0.03)	0.09	—	(0.03)	0.03	(1.08)
18	Income From Continuing Operations	0.11	1.11	1.84	0.10	3.16	0.81
Income (Loss) From Discontinued Operations — Net of Tax							
19	SunCor	0.01	0.02	—	0.08	0.10	(0.07)
20	Other	0.01	—	—	—	0.01	0.71
21	Total	0.02	0.02	—	0.08	0.11	0.64
22	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>
23	<b>BOOK VALUE PER SHARE</b>	\$ 32.37	\$ 33.08	\$ 34.07	\$ 34.48	\$ 34.48	\$ (0.10)
<b>COMMON SHARES OUTSTANDING (Thousands)</b>							
24	Average — Diluted	99,449	99,640	99,973	100,474	100,010	3,420
25	End of Period	99,187	99,284	99,648	99,959	99,959	902

See Glossary of Terms.

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

Line	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year-To-Date	Increase (Decrease) vs Prior YTD	
<b>ELECTRIC OPERATING REVENUES</b>							
<b>(Dollars in Millions)</b>							
<b>REGULATED ELECTRICITY SEGMENT</b>							
<b>Retail</b>							
26	Residential	\$ 202	\$ 337	\$ 490	\$ 242	\$ 1,271	\$ 192
27	Business	233	333	371	302	1,239	198
28	Total retail	435	670	861	544	2,510	390
<b>Wholesale revenue on delivered electricity</b>							
29	Traditional contracts	6	7	12	(3)	22	(1)
30	Off-system sales	12	22	—	12	46	6
31	Transmission for others	6	6	7	7	26	—
32	Other miscellaneous services	7	8	7	9	31	3
33	Total regulated operating electricity revenues	466	713	887	569	2,635	398
<b>MARKETING AND TRADING</b>							
34	Electricity and other commodity sales	28	40	41	28	137	(43)
35	Total operating electric revenues	\$ 494	\$ 753	\$ 928	\$ 597	\$ 2,772	\$ 355
<b>ELECTRIC SALES (GWH)</b>							
<b>REGULATED ELECTRICITY SEGMENT</b>							
<b>Retail sales</b>							
36	Residential	2,419	3,284	4,720	2,571	12,994	771
37	Business	3,199	3,971	4,222	3,584	14,976	722
38	Total retail	5,618	7,255	8,942	6,155	27,970	1,493
<b>Wholesale electricity delivered</b>							
39	Traditional contracts	215	181	321	166	883	33
40	Off-system sales	672	218	219	504	1,613	277
41	Retail load hedge management	178	622	450	340	1,590	(1,420)
42	Total regulated electricity	6,683	8,276	9,932	7,165	32,056	383
<b>MARKETING AND TRADING</b>							
43	Wholesale sales of electricity	3,962	3,862	4,841	3,690	16,355	(7,217)
44	Total electric sales	10,645	12,138	14,773	10,855	48,411	(6,834)

See Glossary of Terms.

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

Line	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year-To-Date	Increase (Decrease) vs Prior YTD	
<b>POWER SUPPLY ADJUSTOR ("PSA") — REGULATED ELECTRICITY SEGMENT (Dollars in Millions)</b>							
45	Deferred fuel and purchased power regulatory asset — beginning balance	\$ 173	\$ 169	\$ 175	\$ 209	\$ 173	\$ 173
46	Deferred fuel and purchased power costs — current period	13	78	134	19	244	73
47	Regulatory disallowance	—	—	—	—	—	—
48	Interest on deferred fuel	1	3	2	2	8	6
49	Amounts recovered through revenues	(18)	(75)	(102)	(70)	(265)	(265)
50	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>							
51	Electricity and other commodity sales, realized (a)	\$ 7	\$ 14	\$ 5	\$ 16	\$ 45	\$ (9)
52	Mark-to-market reversals on realized sales (a) (b)	(1)	(1)	(1)	(6)	(14)	2
53	Change in mark-to-market value of forward sales	1	—	(3)	(3)	—	(20)
54	Total gross margin	<u>\$ 7</u>	<u>\$ 13</u>	<u>\$ 1</u>	<u>\$ 7</u>	<u>\$ 31</u>	<u>\$ (27)</u>

**By Pinnacle West Entity**

55	APS	\$ 8	\$ 2	\$ (3)	\$ 5	\$ 14	\$ 20
56	Pinnacle West	(1)	11	4	2	17	(42)
57	APS Energy Services	—	—	—	—	—	—
58	Pinnacle West Energy	—	—	—	—	—	(5)
59	Total gross margin	<u>\$ 7</u>	<u>\$ 13</u>	<u>\$ 1</u>	<u>\$ 7</u>	<u>\$ 31</u>	<u>\$ (27)</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 51 and in line 52 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 51 are included in line 52. For example, line 52 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 \$45 million on line 51 for the total year 2006.

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



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

Line	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year-To-Date	Increase (Decrease) vs Prior YTD
<b>AVERAGE ELECTRIC CUSTOMERS</b>						
<b>Retail customers</b>						
60 Residential	930,799	930,402	935,523	949,132	936,464	39,992
61 Business	113,570	114,803	116,009	117,342	115,431	4,263
62 Total	<u>1,044,369</u>	<u>1,045,205</u>	<u>1,051,532</u>	<u>1,066,474</u>	<u>1,051,895</u>	<u>44,255</u>
63 Wholesale customers	75	76	76	80	77	(1)
64 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>
65 Customer growth (% over prior year)	4.5%	4.6%	4.4%	4.1%	4.4%	0.1%
<b>RETAIL SALES (GWH) — WEATHER NORMALIZED</b>						
66 Residential	2,471	3,129	4,779	2,633	13,012	690
67 Business	3,247	3,932	4,230	3,604	15,013	730
68 Total	<u>5,718</u>	<u>7,061</u>	<u>9,009</u>	<u>6,237</u>	<u>28,025</u>	<u>1,420</u>
<b>RETAIL USAGE (KWh/Average Customer)</b>						
69 Residential	2,763	3,530	5,045	2,709	13,876	241
70 Business	30,444	34,590	36,394	30,552	129,749	1,235
<b>RETAIL USAGE — WEATHER NORMALIZED (KWh/Average Customer)</b>						
71 Residential	2,655	3,363	5,108	2,774	13,894	149
72 Business	28,589	34,252	36,463	30,716	130,064	1,579
<b>ELECTRICITY DEMAND (MW)</b>						
73 Native load peak demand	3,954	6,306	7,220	5,022	7,220	647

See Glossary of Terms.



**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>							
74	Nuclear	1,720	1,198	2,202	1,868	6,988	(521)
75	Coal	3,083	3,182	3,574	3,337	13,176	116
76	Gas, oil and other	1,323	2,000	2,433	1,628	7,384	(1,051)
77	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>							
78	Firm load	365	1,740	1,962	223	4,290	816
79	Marketing and trading	4,592	4,597	5,353	4,326	18,868	(6,845)
80	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>
81	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>

**POWER PLANT PERFORMANCE**

<b>Capacity Factors</b>							
82	Nuclear	71%	49%	88%	75%	71%	(6)%
83	Coal	83%	84%	94%	87%	87%	0%
84	Gas, oil and other	18%	28%	34%	22%	25%	(3)%
85	System average	46%	48%	61%	50%	51%	(2)%

**Generation Capacity Out of Service  
and Replaced for Native Load  
(average MW/day) (a)**

86	Nuclear	306	553	97	267	153	39
87	Coal	257	184	62	155	82	9
88	Gas	<u>201</u>	<u>117</u>	<u>109</u>	<u>286</u>	<u>89</u>	<u>(4)</u>
89	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

See Glossary of Terms.

**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 (a)</b>							
<b>Electricity Average Daily Spot Prices (\$/MWh)</b>							
<b>On-Peak</b>							
90	Palo Verde	\$ 53.78	\$ 54.63	\$ 65.89	\$ 52.72	\$ 56.76	\$ (9.64)
91	SP15	\$ 58.34	\$ 55.39	\$ 71.89	\$ 62.16	\$ 61.95	\$ (10.99)
<b>Off-Peak</b>							
92	Palo Verde	\$ 41.92	\$ 28.38	\$ 38.45	\$ 39.62	\$ 37.09	\$ (10.46)
93	SP15	\$ 44.79	\$ 27.43	\$ 43.94	\$ 46.27	\$ 40.61	\$ (11.45)
<b>WEATHER INDICATORS</b>							
<b>Actual</b>							
94	Cooling degree-days	43	1,740	2,455	457	4,695	32
95	Heating degree-days	464	4	—	383	851	85
96	Average humidity	28%	18%	33%	33%	28%	(6)%
<b>10-Year Averages</b>							
97	Cooling degree-days	96	1,554	2,544	441	4,635	—
98	Heating degree-days	517	28	—	394	939	—
99	Average humidity	42%	22%	32%	38%	33%	0%
<b>ECONOMIC INDICATORS</b>							
<b>Building Permits — Metro Phoenix (b)</b>							
100	Single-family	8,716	8,883	5,969	4,408	27,976	(15,282)
101	Multi-family	2,887	2,976	3,215	1,029	10,107	2,329
102	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>							
103	Payroll job growth (% over prior year)	6.2%	5.3%	4.6%	4.0%	5.0%	(0.4)%
104	Unemployment rate (%, seasonally adjusted)	4.3%	4.1%	4.0%	3.9%	4.1%	(0.6)%

**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 Three-Month and Twelve-Month Periods Ended December 31, 2008 and 2007**

The following discussion includes earnings variance explanations for Pinnacle West Capital Corporation (“Pinnacle West”) for the three months and twelve months ended December 31, 2008 and 2007. We suggest that this discussion be read in connection with the Pinnacle West/APS Annual Report on Form 10-K for the fiscal year ended December 31, 2008. Additional operating and financial statistics and a glossary of terms are available on our website (www.pinnaclewest.com).

**EARNINGS CONTRIBUTION BY BUSINESS SEGMENT**

Pinnacle West’s two reportable 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 presents income (loss) from continuing operations for our regulated electricity and real estate segments and reconciles those amounts to our consolidated net income (loss) (dollars in millions):

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2008	2007	2008	2007
Regulated electricity segment	\$ (17)	\$ (3)	\$ 256	\$ 274
Real estate segment (a)	(36)	6	(49)	14
All other (b)	4	1	7	11
Income (loss) from continuing operations	(49)	4	214	299
Income (loss) from discontinued operations — net of tax:				
Real estate segment (c)	2	2	23	9
All other (b)	8	(3)	5	(1)
Net income (loss)	<u>\$ (39)</u>	<u>\$ 3</u>	<u>\$ 242</u>	<u>\$ 307</u>

(a) SunCor’s net loss in 2008 included a \$32 million after-tax real estate impairment charge.

(b) Includes activities related to marketing and trading, APSES, Silverhawk and El Dorado. Income from discontinued operations for 2008 is primarily related to the resolution of certain tax issues associated with the sale of Silverhawk in 2005. The 2007 loss is primarily related to an APSES project. None of these segments is a reportable segment.

(c) Primarily relates to sales of commercial properties.

**PINNACLE WEST CONSOLIDATED — RESULTS OF OPERATIONS**

**Operating Results — Three-month period ended December 31, 2008 compared with three-month period ended December 31, 2007**

Our consolidated net loss for the three months ended December 31, 2008 was \$39 million, compared with net income of \$3 million for the comparable prior-year period. The major factors that increased (decreased) our net income for the three-month comparison are summarized in the following table (dollars in millions):

	Increase (Decrease)	
	Pretax	After Tax
Regulated electricity segment:		
Transmission rate increases (including related retail rates)	\$ 9	\$ 5
Lower mark-to-market valuations of fuel and purchased power contracts related to changes in market prices, net of related PSA deferrals	(12)	(7)
Higher interest expense, net of capitalized financing costs, primarily due to higher rates on certain APS pollution control bonds and higher short-term debt balances	(12)	(7)
Higher taxes other than income taxes primarily due to changes in property tax valuation assessments	(7)	(4)
Miscellaneous items, net	(6)	(1)
Decrease in regulated electricity segment net income	(28)	(14)
Real estate impairment charge	(53)	(32)
Lower real estate contribution primarily due to lower land parcel and home sales resulting from the weak real estate market	(16)	(10)
Other miscellaneous items, net	4	3
Decrease in income from continuing operations	<u>\$ (93)</u>	<u>(53)</u>
Increase in other income from discontinued operations primarily related to the resolution in 2008 of certain tax issues associated with the sale of Silverhawk in 2005		11
Decrease in net income		<u>\$ (42)</u>

**Operating Results — Twelve-month period ended December 31, 2008 compared with twelve-month period ended December 31, 2007**

Our consolidated net income decreased approximately \$65 million, to \$242 million in 2008 from \$307 million in 2007. The major factors that increased (decreased) our net income for the year-to-year comparison are summarized in the following table (dollars in millions):

	Increase (Decrease)	
	Pretax	After Tax
<b>Regulated electricity segment:</b>		
Impacts of retail rate increase effective July 1, 2007 and transmission rate increases:		
Retail revenue increase primarily related to higher Base Fuel Rate	\$ 156	\$ 95
Decreased deferred fuel and purchased power costs related to higher Base Fuel Rate	(141)	(86)
Transmission rate increases (including related retail rates)	31	19
Lower mark-to-market valuations of fuel and purchased power contracts related to changes in market prices, net of related PSA deferrals	(14)	(9)
Regulatory disallowance in 2007	14	8
Higher retail sales primarily due to customer growth, excluding weather effects, partially offset by lower average usage	21	13
Effects of weather on retail sales	(43)	(26)
Operations and maintenance expense increases primarily due to:		
Customer service and other costs, including distribution system reliability	(30)	(18)
Generation costs, including more planned maintenance	(18)	(11)
Employee severance costs	(9)	(5)
Higher depreciation and amortization primarily due to increased utility plant in service	(18)	(11)
Income tax benefits related to prior years resolved in 2008	—	30
Income tax benefits related to prior years resolved in 2007	—	(13)
Higher interest expense, net of capitalized financing costs, primarily due to higher rates on certain APS pollution control bonds and higher short-term debt balances	(15)	(9)
Miscellaneous items, net	1	5
Decrease in regulated electricity segment net income	(65)	(18)
Lower real estate segment income from continuing operations primarily due to:		
Real estate impairment charge	(53)	(32)
Lower land parcel sales resulting from the weak real estate market	(40)	(24)
Lower sales of residential property resulting from the weak real estate market	(4)	(2)
Higher other costs	(7)	(5)
Lower marketing and trading contribution primarily due to lower sales volumes	(16)	(10)
Other miscellaneous items, net	14	6
Decrease in income from continuing operations	\$ (171)	(85)
Increase in real estate segment income from discontinued operations primarily related to a 2008 commercial property sale		14
Increase in other income from discontinued operations primarily related to the resolution in 2008 of certain tax issues associated with the sale of Silverhawk in 2005		6
Decrease in net income		\$ (65)

**PINNACLE WEST CAPITAL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(unaudited)

(in thousands, except per share amounts)

	THREE MONTHS ENDED DECEMBER 31,		Increase (Decrease)		
	2008	2007	Amount	Percent	
<b>Operating Revenues</b>					
Regulated electricity segment	\$634,756	\$627,096	\$ 7,660	1.2%	B
Real estate segment	27,480	40,924	(13,444)	32.9%	W
Marketing and trading	9,274	29,149	(19,875)	68.2%	W
Other revenues	14,905	11,905	3,000	25.2%	B
Total	<u>686,415</u>	<u>709,074</u>	<u>(22,659)</u>	3.2%	W
<b>Operating Expenses</b>					
Regulated electricity segment fuel and purchased power	267,198	259,991	7,207	2.8%	W
Real estate segment operations	30,219	39,644	(9,425)	23.8%	B
Real estate impairment charge	53,250	—	53,250	100.0%	W
Marketing and trading fuel and purchased power	1,443	19,589	(18,146)	92.6%	B
Operations and maintenance	209,797	205,579	4,218	2.1%	W
Depreciation and amortization	98,434	95,536	2,898	3.0%	W
Taxes other than income taxes	30,510	23,802	6,708	28.2%	W
Other expenses	13,090	10,388	2,702	26.0%	W
Total	<u>703,941</u>	<u>654,529</u>	<u>49,412</u>	7.5%	W
<b>Operating Income</b>	<u>(17,526)</u>	<u>54,545</u>	<u>(72,071)</u>	132.1%	W
<b>Other</b>					
Allowance for equity funds used during construction	2,425	6,321	(3,896)	61.6%	W
Other income	2,028	12,718	(10,690)	84.1%	W
Other expense	(9,523)	(12,183)	2,660	21.8%	B
Total	<u>(5,070)</u>	<u>6,856</u>	<u>(11,926)</u>	173.9%	W
<b>Interest Expense</b>					
Interest charges	58,710	53,417	5,293	9.9%	W
Capitalized interest	(4,227)	(7,608)	3,381	44.4%	W
Total	<u>54,483</u>	<u>45,809</u>	<u>8,674</u>	18.9%	W
<b>Income (Loss) From Continuing Operations Before Income Taxes</b>	<u>(77,079)</u>	<u>15,592</u>	<u>(92,671)</u>	594.3%	W
<b>Income Taxes</b>	<u>(28,373)</u>	<u>11,124</u>	<u>(39,497)</u>	355.1%	B
<b>Income (Loss) From Continuing Operations</b>	<u>(48,706)</u>	<u>4,468</u>	<u>(53,174)</u>	1190.1%	W
<b>Income (Loss) From Discontinued Operations</b>					
<b>Net of Income Taxes</b>	<u>9,856</u>	<u>(1,557)</u>	<u>11,413</u>	733.0%	B
<b>Net Income (Loss)</b>	<u>\$ (38,850)</u>	<u>\$ 2,911</u>	<u>\$ (41,761)</u>	1434.6%	W
<b>Weighted-Average Common Shares Outstanding — Basic</b>	100,836	100,420	416	0.4%	
<b>Weighted-Average Common Shares Outstanding — Diluted</b>	100,836	100,963	(127)	0.1%	
<b>Earnings Per Weighted-Average Common Share Outstanding</b>					
Income (loss) from continuing operations — basic	\$ (0.48)	\$ 0.04	\$ (0.52)	1300.0%	W
Net income (loss) — basic	\$ (0.39)	\$ 0.03	\$ (0.42)	1400.0%	W
Income (loss) from continuing operations — diluted	\$ (0.48)	\$ 0.04	\$ (0.52)	1300.0%	W
Net income (loss) — diluted	\$ (0.39)	\$ 0.03	\$ (0.42)	1400.0%	W

B — Better

W — Worse



**PINNACLE WEST CAPITAL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(unaudited)

(in thousands, except per share amounts)

	TWELVE MONTHS ENDED DECEMBER 31,		Increase (Decrease)		
	2008	2007	Amount	Percent	
<b>Operating Revenues</b>					
Regulated electricity segment	\$3,127,383	\$2,918,163	\$ 209,220	7.2%	B
Real estate segment	131,067	212,586	(81,519)	38.3%	W
Marketing and trading	66,897	138,247	(71,350)	51.6%	W
Other revenues	41,729	48,018	(6,289)	13.1%	W
Total	<u>3,367,076</u>	<u>3,317,014</u>	<u>50,062</u>	1.5%	B
<b>Operating Expenses</b>					
Regulated electricity segment fuel and purchased power	1,284,116	1,140,923	143,193	12.6%	W
Real estate segment operations	149,125	192,972	(43,847)	22.7%	B
Real estate impairment charge	53,250	—	53,250	100.0%	W
Marketing and trading fuel and purchased power	45,572	100,462	(54,890)	54.6%	B
Operations and maintenance	807,852	728,340	79,512	10.9%	W
Depreciation and amortization	390,358	372,102	18,256	4.9%	W
Taxes other than income taxes	125,336	128,210	(2,874)	2.2%	B
Other expenses	34,171	38,925	(4,754)	12.2%	B
Total	<u>2,889,780</u>	<u>2,701,934</u>	<u>187,846</u>	7.0%	W
<b>Operating Income</b>	<u>477,296</u>	<u>615,080</u>	<u>(137,784)</u>	22.4%	W
<b>Other</b>					
Allowance for equity funds used during construction	18,636	21,195	(2,559)	12.1%	W
Other income	12,078	24,694	(12,616)	51.1%	W
Other expense	(31,576)	(25,857)	(5,719)	22.1%	W
Total	<u>(862)</u>	<u>20,032</u>	<u>(20,894)</u>	104.3%	W
<b>Interest Expense</b>					
Interest charges	216,290	208,521	7,769	3.7%	W
Capitalized interest	(18,820)	(23,063)	4,243	18.4%	W
Total	<u>197,470</u>	<u>185,458</u>	<u>12,012</u>	6.5%	W
<b>Income From Continuing Operations Before Income Taxes</b>	278,964	449,654	(170,690)	38.0%	W
<b>Income Taxes</b>	<u>65,407</u>	<u>150,910</u>	<u>(85,503)</u>	56.7%	B
<b>Income From Continuing Operations</b>	213,557	298,744	(85,187)	28.5%	W
<b>Income From Discontinued Operations</b>					
<b>Net of Income Taxes</b>	<u>28,568</u>	<u>8,399</u>	<u>20,169</u>	240.1%	B
<b>Net Income</b>	<u>\$ 242,125</u>	<u>\$ 307,143</u>	<u>\$ (65,018)</u>	21.2%	W
<b>Weighted-Average Common Shares Outstanding — Basic</b>	100,691	100,256	435	0.4%	
<b>Weighted-Average Common Shares Outstanding — Diluted</b>	100,965	100,835	130	0.1%	
<b>Earnings Per Weighted-Average Common Share Outstanding</b>					
Income from continuing operations — basic	\$ 2.12	\$ 2.98	\$ (0.86)	28.9%	W
Net income — basic	\$ 2.40	\$ 3.06	\$ (0.66)	21.6%	W
Income from continuing operations — diluted	\$ 2.12	\$ 2.96	\$ (0.84)	28.4%	W
Net income — diluted	\$ 2.40	\$ 3.05	\$ (0.65)	21.3%	W

B — Better

W — Worse





**Pinnacle West Capital Corporation**  
**Quarterly Consolidated Statistical Summary**  
**and Earnings Variance Explanations**  
**Glossary of Terms**

Amounts Recovered Through Revenues	Amounts recovered from retail customers through the power supply adjustor in the current period.
APS	Arizona Public Service Company, a subsidiary of Pinnacle West.
APSES	APS Energy Services Company, Inc., a subsidiary of Pinnacle West.
Arizona Job Growth	Percentage growth over the prior year in total non-farm payroll employment for the state of Arizona, non-seasonally adjusted.
Base Fuel Rate	The portion of APS' retail base rates attributable to fuel and purchased power costs.
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.
Company	Pinnacle West Capital Corporation.
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 \$0.0325 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 \$0.0325 per kWh).

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Degree-Days — Cooling	A measure of temperatures designed to indicate the amount of electricity demand for cooling purposes. Cooling degree-days are calculated by summing the difference between each day's actual average temperature and a base temperature of 65°F for the month. Average temperatures less than the base temperature are ignored.
Degree-Days — Heating	A measure of temperatures designed to indicate the amount of electricity demand for heating purposes. Heating degree-days are calculated by summing the difference between each day's actual average temperature and a base temperature of 65°F for the month. Average temperatures greater than the base temperature are ignored.
El Dorado	El Dorado Investment Company, a subsidiary of Pinnacle West.
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.

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

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Native Load	Retail and wholesale sales supplied under traditional cost-based rate regulation.
Native Load Peak Demand	The demand for electricity during the one hour of highest use each month. Measured in megawatts.
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.
Palo Verde	Palo Verde Nuclear Generating Station.
Pinnacle West	Pinnacle West Capital Corporation (the Company)
Pinnacle West Energy (PWEC)	Pinnacle West Energy Corporation, a subsidiary of the Company, dissolved as of August 31, 2006.
Pinnacle West Marketing & Trading	Pinnacle West Marketing & Trading Co., LLC, a subsidiary of Pinnacle West.
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 \$0.0325 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.

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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.
SunCor	SunCor Development Company, a subsidiary of Pinnacle West.
Traditional Contracts	Wholesale sales resulting from unique cost-based, long-term contracts held by the company with various entities for the supply of electricity at agreed-upon prices.
Weather Normalized	Adjusted to exclude the effects of abnormal weather patterns.
Wholesale Sales of Electricity	All wholesale sales of electricity not accounted for in sales under traditional contracts or retail load hedge management. These sales are made to other electric companies, power marketers, or public entities for the purpose of resale. Measured in gigawatt-hours.

# NEWS PINNACLE WEST

CAPITAL CORPORATION

**FOR IMMEDIATE RELEASE**

February 20, 2009

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 Lisa Malagon, (602) 250-5671  
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Page 1 of 2

**PINNACLE WEST REPORTS 2008 FOURTH-QUARTER LOSS***Real Estate Write-Down Dominates Consolidated Results*

PHOENIX — Pinnacle West Capital Corporation (NYSE: PNW) today reported a consolidated net loss for the quarter ended December 31, 2008, of \$38.9 million, or \$0.39 per diluted share of common stock. This result compares with consolidated net income of \$2.9 million, or \$0.03 per diluted share, for the same quarter a year ago. The lower quarterly results were due largely to real estate impairment charges of \$32.5 million, net of tax, for SunCor, the Company's real estate subsidiary.

Arizona Public Service (APS), the Company's principal subsidiary, reported a 2008 fourth-quarter net loss of \$16.4 million, compared with net income of \$0.3 million for the same period a year ago. The utility's 2008 results were negatively impacted by higher expenditures for continuing infrastructure additions and improvements and lower mark-to-market valuations of fuel and purchased power contracts.

"Our fourth-quarter results reflect the need to continue to meet our customers' electric demand in the future" said Chairman Bill Post. "While our growth rate has dropped significantly, we still ended the year with more than 10,000 new customers."

Earlier this year, APS filed a comprehensive long-term resource plan with the Arizona Corporation Commission to address the future energy needs of Arizona. "Although our economy has been damaged by the real estate downturn and national recession, we must stay diligent in our focus to ensure Arizona has the energy resources to meet our future needs," said APS CEO Don Brandt. "We are working aggressively to minimize our costs while maintaining our electric reliability."

For the year 2008 as a whole, Pinnacle West reported 2008 consolidated net income of \$242.1 million, or \$2.40 per diluted share, compared with 2007 net income of \$307.1 million, or \$3.05 per diluted share.

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 fourth-quarter and year-end results, as well as recent developments at 12:00 noon (ET), today, Friday, February 20, 2009. 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 81428217. A replay of the call also will be available until 11:55 p.m. (ET), Friday, February 27, 2009, by calling (800) 642-1687 in the U.S. and Canada or (706) 645-9291 internationally and entering the same Conference ID number as above.

Pinnacle West is a Phoenix-based company with consolidated assets of about \$11.6 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 DECEMBER 31,		TWELVE MONTHS ENDED DECEMBER 31,	
	2008	2007	2008	2007
<b>Operating Revenues</b>				
Regulated electricity segment	\$634,756	\$627,096	\$3,127,383	\$2,918,163
Real estate segment	27,480	40,924	131,067	212,586
Marketing and trading	9,274	29,149	66,897	138,247
Other revenues	14,905	11,905	41,729	48,018
Total	<u>686,415</u>	<u>709,074</u>	<u>3,367,076</u>	<u>3,317,014</u>
<b>Operating Expenses</b>				
Regulated electricity segment fuel and purchased power	267,198	259,991	1,284,116	1,140,923
Real estate segment operations	30,219	39,644	149,125	192,972
Real estate impairment charge	53,250	—	53,250	—
Marketing and trading fuel and purchased power	1,443	19,589	45,572	100,462
Operations and maintenance	209,797	205,579	807,852	728,340
Depreciation and amortization	98,434	95,536	390,358	372,102
Taxes other than income taxes	30,510	23,802	125,336	128,210
Other expenses	13,090	10,388	34,171	38,925
Total	<u>703,941</u>	<u>654,529</u>	<u>2,889,780</u>	<u>2,701,934</u>
<b>Operating Income</b>	<u>(17,526)</u>	<u>54,545</u>	<u>477,296</u>	<u>615,080</u>
<b>Other</b>				
Allowance for equity funds used during construction	2,425	6,321	18,636	21,195
Other income	2,028	12,718	12,078	24,694
Other expense	(9,523)	(12,183)	(31,576)	(25,857)
Total	<u>(5,070)</u>	<u>6,856</u>	<u>(862)</u>	<u>20,032</u>
<b>Interest Expense</b>				
Interest charges	58,710	53,417	216,290	208,521
Capitalized interest	(4,227)	(7,608)	(18,820)	(23,063)
Total	<u>54,483</u>	<u>45,809</u>	<u>197,470</u>	<u>185,458</u>
<b>Income (Loss) From Continuing Operations Before Income Taxes</b>	<u>(77,079)</u>	<u>15,592</u>	<u>278,964</u>	<u>449,654</u>
<b>Income Taxes</b>	<u>(28,373)</u>	<u>11,124</u>	<u>65,407</u>	<u>150,910</u>
<b>Income (Loss) From Continuing Operations</b>	<u>(48,706)</u>	<u>4,468</u>	<u>213,557</u>	<u>298,744</u>
<b>Income (Loss) From Discontinued Operations</b>				
Net of Income Taxes	<u>9,856</u>	<u>(1,557)</u>	<u>28,568</u>	<u>8,399</u>
<b>Net Income (Loss)</b>	<u>\$ (38,850)</u>	<u>\$ 2,911</u>	<u>\$ 242,125</u>	<u>\$ 307,143</u>
<b>Weighted-Average Common Shares Outstanding — Basic</b>	100,836	100,420	100,691	100,256
<b>Weighted-Average Common Shares Outstanding — Diluted</b>	100,836	100,963	100,965	100,835
<b>Earnings Per Weighted-Average Common Share Outstanding</b>				
Income (loss) from continuing operations — basic	\$ (0.48)	\$ 0.04	\$ 2.12	\$ 2.98
Net income (loss) — basic	\$ (0.39)	\$ 0.03	\$ 2.40	\$ 3.06
Income (loss) from continuing operations — diluted	\$ (0.48)	\$ 0.04	\$ 2.12	\$ 2.96
Net income (loss) — diluted	\$ (0.39)	\$ 0.03	\$ 2.40	\$ 3.05

## Pinnacle West Capital Corporation

**Major Factors Affecting Consolidated Earnings Outlook  
for Year Ending December 31, 2009  
Compared with Year Ended December 31, 2008  
(Earnings Per Diluted Share Outstanding)**

2008 net income	\$ 2.40
Adjustments:	
SunCor real estate impairment charge	0.32
Income tax credits related to prior years	(0.30)
Severance costs related to workforce reductions	0.08
Income from discontinued operations for resolution a tax issue related to 2005 Silverhawk plant sale	<u>(0.08)</u>
2008 on-going earnings	2.42
Projected increases (decreases) in 2009:	
Regulated electricity segment gross margin (revenues net of fuel and purchased power costs, excluding Renewable Energy Surcharge), including: retail interim rate increase for full year, transmission revenue increases, higher fuel and purchased power costs (net of deferrals) and minimal weather- normalized retail sales growth	0.35 - 0.45
Lower marketing and trading gross margin (revenues net of fuel and purchased power costs)	(0.14)
Increased operations and maintenance expense (excluding Renewable Energy Standard and severance costs) related primarily to fossil plant maintenance and outages, pension and other post- retirement benefits, partially offset by cost efficiency efforts	(0.20) - (0.30)
Costs related to utility capital expenditures (such as depreciation, property taxes and interest expense, net of capitalized financing costs)	(0.30) - (0.35)
Miscellaneous other items — net	0.10 - 0.15
Estimated 2009 earnings — a reasonable range around (excluding potential real estate results)	\$ 2.30

**Pinnacle West Capital Corporation**

**Major Factors Affecting Consolidated Earnings Outlook  
for Year Ending December 31, 2010  
Compared with Year Ending December 31, 2009  
(Earnings Per Diluted Share Outstanding)**

Estimated 2009 earnings — a reasonable range around (excluding potential real estate results)	\$ 2.30
Projected increases (decreases) in 2010:	
Retail base rate revenue increase from general rate case in excess of interim revenues	1.40
Other regulated electricity segment gross margin (revenues net of fuel and purchased power costs excluding Renewable Energy Surcharge), including: transmission revenue increases, higher fuel and purchased power costs (net of deferrals) and minimal weather- normalized retail sales growth	0.00 - 0.10
Increased operations and maintenance expense (excluding Renewable Energy Standard costs) primarily due to inflation	(0.15) - (0.25)
Costs related to utility capital expenditures (such as depreciation, property taxes and interest expense, net of capitalized financing costs)	(0.30) - (0.35)
Miscellaneous other items — net	(0.10) - (0.15)
Estimated 2010 earnings — a reasonable range around (excluding potential real estate results)	\$ 3.00