

# 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): September 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 October 25, 2007, Pinnacle West Capital Corporation (the “Company” or “Pinnacle West”) issued a press release regarding its financial results for its fiscal quarter ended September 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 September 30, 2007. This Information is attached hereto as Exhibits 99.2, 99.3, 99.7 and 99.9.

**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 and 99.8). 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. The differences between our current guidance and our previous guidance are described below. 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 \$2.90 per share. We estimate that Arizona Public Service Company’s (“APS”) earnings contribution included in such 2007 consolidated earnings will be within a reasonable range of \$2.70 per share (equivalent to a return on APS’ average common equity of 8.25%). These estimates include the \$8 million (\$0.08 per share) after-tax regulatory disallowance recorded in the second quarter of 2007 as a result of the general retail rate case decision; and \$13 million (\$0.13 per share) of income tax benefits related to prior years resolved in 2007. We currently estimate that net income for 2007 for our real estate subsidiary, SunCor Development Company (“SunCor”), will be approximately \$20 million. See “APS General Rate Case and Power Supply Adjustor” in Note 5 of Notes to Condensed Consolidated Financial Statements in the Pinnacle West/APS Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2007 for additional information about the rate case decision.

We previously estimated that our consolidated earnings for 2007 would be within a reasonable range of \$2.55 per share. See the Pinnacle West/APS Report on Form 8-K filed with the Securities and Exchange Commission on July 26, 2007 for further information on our prior 2007 guidance. Our current guidance differs from our prior guidance principally due to the following factors:

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- Hotter than normal weather during the three months ended September 30, 2007 increased our estimate by \$0.14 per share.
- Income tax benefits related to prior years, but resolved during 2007, increased our estimate by \$0.13 per share.
- Lower earnings expectations for SunCor attributable to deteriorating credit markets in the second half of 2007 decreased our estimate by \$0.10 per share.
- The net effect of numerous other factors increased our estimate by \$0.18 per share. These factors are minor individually and include, among other items, lower effective income tax rates, higher retail sales and lower interest expense.

## 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, particularly those affecting our rates and recovery of fuel and purchased power costs; 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 and environmental matters (including those relating to climate change); 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 nine-month periods ended September 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 nine months ended September 30, 2007 and 2006 and unaudited condensed consolidated statements of income for the three and nine months ended September 30, 2007 and 2006.
99.8	Pinnacle West APS	Glossary of Terms.
99.9	Pinnacle West APS	Earnings News Release issued on October 25, 2007.

SIGNATURES

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

PINNACLE WEST CAPITAL CORPORATION  
(Registrant)

Dated: October 25, 2007

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

ARIZONA PUBLIC SERVICE COMPANY  
(Registrant)

Dated: October 25, 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 September 30, 2007 and 2006**

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**2007 Third 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/2007Q3QuarStatsGloss.pdf>

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



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

Line		3 Mo. Ended September			9 Mo. Ended September		
		2007	2006	Incr (Decr)	2007	2006	Incr (Decr)
<b>EARNINGS CONTRIBUTION BY SUBSIDIARY (\$ Millions)</b>							
1	Arizona Public Service	\$ 204	\$ 169	\$ 35	\$ 284	\$ 257	\$ 27
2	Pinnacle West Energy	—	—	—	—	—	—
3	APS Energy Services	2	(2)	4	1	(1)	2
4	SunCor	(2)	17	(19)	6	47	(41)
5	El Dorado	(3)	—	(3)	(5)	(2)	(3)
6	Parent Company	—	—	—	9	6	3
7	Income From Continuing Operations	201	184	17	295	307	(12)
Income (Loss) From Discontinued Operations — Net of Tax							
8	Silverhawk	—	—	—	—	—	—
9	SunCor	8	—	8	9	2	7
10	NAC	—	—	—	—	—	—
11	Total	8	—	8	9	2	7
12	Net Income	<u>\$ 209</u>	<u>\$ 184</u>	<u>\$ 25</u>	<u>\$ 304</u>	<u>\$ 309</u>	<u>\$ (5)</u>
<b>EARNINGS PER SHARE BY SUBSIDIARY — DILUTED</b>							
13	Arizona Public Service	\$ 2.03	\$ 1.69	\$ 0.34	\$ 2.82	\$ 2.57	\$ 0.25
14	Pinnacle West Energy	—	—	—	—	—	—
15	APS Energy Services	0.01	(0.02)	0.03	0.01	(0.01)	0.02
16	SunCor	(0.02)	0.17	(0.19)	0.07	0.47	(0.40)
17	El Dorado	(0.03)	—	(0.03)	(0.05)	(0.02)	(0.03)
18	Parent Company	—	—	—	0.08	0.06	0.02
19	Income From Continuing Operations	1.99	1.84	0.15	2.93	3.07	(0.14)
Income (Loss) From Discontinued Operations — Net of Tax							
20	Silverhawk	—	—	—	—	—	—
21	SunCor	0.08	—	0.08	0.09	0.03	0.06
22	NAC	—	—	—	—	—	—
23	Total	0.08	—	0.08	0.09	0.03	0.06
24	Net Income	<u>\$ 2.07</u>	<u>\$ 1.84</u>	<u>\$ 0.23</u>	<u>\$ 3.02</u>	<u>\$ 3.10</u>	<u>\$ (0.08)</u>
25	<b>BOOK VALUE PER SHARE</b>	\$ 35.55*	\$ 34.07	\$ 1.48	\$ 35.55*	\$ 34.07	\$ 1.48
<b>COMMON SHARES OUTSTANDING (Thousands)</b>							
26	Average — Diluted	100,829	99,973	856	100,767	99,723	1,044
27	End of Period	100,367	99,648	719	100,367	99,648	719

\* Estimate



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

Line	3 Mo. Ended September			9 Mo. Ended September			
	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	\$ 574	\$ 490	\$ 84	\$ 1,155	\$ 1,029	\$ 126
29	Business	425	371	54	1,031	937	94
30	Total retail	999	861	138	2,186	1,966	220
<b>Wholesale revenue on delivered electricity</b>							
31	Traditional contracts	12	12	—	26	25	1
32	Off-system sales	16	—	16	33	34	(1)
33	Transmission for others	8	7	1	22	19	3
34	Other miscellaneous services	9	7	2	24	22	2
35	Total regulated operating electricity revenues	1,044	887	157	2,291	2,066	225
<b>MARKETING AND TRADING</b>							
36	Electricity and other commodity sales	99	85	14	264	259	5
37	Total operating electric revenues	\$ 1,143	\$ 972	\$ 171	\$ 2,555	\$ 2,325	\$ 230
<b>ELECTRIC SALES (GWH)</b>							
<b>REGULATED ELECTRICITY SEGMENT</b>							
<b>Retail sales</b>							
38	Residential	5,084	4,720	364	11,105	10,423	682
39	Business	4,426	4,222	204	11,715	11,392	323
40	Total retail	9,510	8,942	568	22,820	21,815	1,005
<b>Wholesale electricity delivered</b>							
41	Traditional contracts	296	321	(25)	733	717	16
42	Off-system sales	478	219	259	1,031	1,109	(78)
43	Retail load hedge management	529	450	79	900	1,250	(350)
44	Total regulated electricity	10,813	9,932	881	25,484	24,891	593
<b>MARKETING AND TRADING</b>							
45	Wholesale sales of electricity	3,623	4,841	(1,218)	8,286	12,665	(4,379)
46	Total electric sales	14,436	14,773	(337)	33,770	37,556	(3,786)

See Glossary of Terms.

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

Line	3 Mo. Ended September			9 Mo. Ended September			
	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	\$ 137	\$ 175	\$ (38)	\$ 160	\$ 173	\$ (13)
48	Deferred fuel and purchased power costs — current period	69	134	(65)	198	225	(27)
49	Regulatory disallowance	—	—	—	(14)	—	(14)
50	Interest on deferred fuel	2	2	—	5	6	(1)
51	Amounts recovered through revenues	(58)	(102)	44	(199)	(195)	(4)
52	Deferred fuel and purchased power regulatory asset — ending balance	<u>\$ 150</u>	<u>\$ 209</u>	<u>\$ (59)</u>	<u>\$ 150</u>	<u>\$ 209</u>	<u>\$ (59)</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)	\$ 6	\$ 7	\$ (1)	\$ 46	\$ 36	\$ 10
54	Mark-to-market reversals on realized sales (a) (b)	(3)	(1)	(2)	(13)	(3)	(10)
55	Change in mark-to-market value of forward sales	2	(3)	5	5	(1)	6
56	Total gross margin	<u>\$ 5</u>	<u>\$ 3</u>	<u>\$ 2</u>	<u>\$ 38</u>	<u>\$ 32</u>	<u>\$ 6</u>

**By Pinnacle West Entity**

57	APS	\$ —	\$ (3)	\$ 3	\$ 7	\$ 8	\$ (1)
58	Pinnacle West	1	4	(3)	21	16	5
59	APS Energy Services	4	2	2	10	8	2
60	Pinnacle West Energy	—	—	—	—	—	—
61	Total gross margin	<u>\$ 5</u>	<u>\$ 3</u>	<u>\$ 2</u>	<u>\$ 38</u>	<u>\$ 32</u>	<u>\$ 6</u>

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

As of September 30, 2007, Pinnacle West had accumulated net mark-to-market gains of \$10 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, \$3 million; 2008, \$2 million; and thereafter, \$5 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 \$3 million was transferred to "realized" for the third quarter of 2007. A \$3 million realized gain is included in the \$6 million on line 53 for the third quarter of 2007.
- (b) Quarterly amounts do not total to annual amounts because of intra-year mark-to-market eliminations.





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

Line	3 Mo. Ended September			9 Mo. Ended September			
	2007	2006	Incr (Decr)	2007	2006	Incr (Decr)	
<b>AVERAGE ELECTRIC CUSTOMERS</b>							
<b>Retail customers</b>							
62	Residential	963,874	935,523	28,351	963,799	932,241	31,558
63	Business	120,918	116,009	4,909	119,786	114,795	4,991
64	Total	1,084,792	1,051,532	33,260	1,083,585	1,047,036	36,549
65	Wholesale customers	61	76	(15)	62	76	(14)
66	Total customers	1,084,853	1,051,608	33,245	1,083,647	1,047,112	36,535
67	Customer growth (% over prior year)	3.2%	4.4%	(1.2)%	3.5%	4.5%	(1.0)%
<b>RETAIL SALES (GWH) — WEATHER NORMALIZED</b>							
68	Residential	4,805	4,772	33	10,667	10,370	297
69	Business	4,371	4,231	140	11,576	11,412	164
70	Total	9,176	9,003	173	22,243	21,782	461
<b>RETAIL USAGE (KWh/Average Customer)</b>							
71	Residential	5,275	5,045	230	11,522	11,181	341
72	Business	36,601	36,394	207	97,797	99,238	(1,441)
<b>RETAIL USAGE — WEATHER NORMALIZED (KWh/Average Customer)</b>							
73	Residential	4,985	5,101	(116)	11,067	11,124	(57)
74	Business	36,152	36,470	(318)	96,644	99,412	(2,768)
<b>ELECTRICITY DEMAND (MW)</b>							
75	System peak demand	7,545	7,652	(107)	7,545	7,652	(107)

See Glossary of Terms.

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

Line	3 Mo. Ended September			9 Mo. Ended September			
	2007	2006	Incr (Decr)	2007	2006	Incr (Decr)	
<b>ENERGY SOURCES (GWH)</b>							
<b>Generation production</b>							
76	Nuclear	2,218	2,202	16	6,363	5,120	1,243
77	Coal	3,563	3,574	(11)	9,992	9,839	153
78	Gas, oil and other	2,479	2,433	46	5,147	5,756	(609)
79	Total generation production	8,260	8,209	51	21,502	20,715	787
<b>Purchased power</b>							
80	Firm load	2,521	1,962	559	4,475	4,067	408
81	Marketing and trading	4,469	5,353	(884)	9,786	14,542	(4,756)
82	Total purchased power	6,990	7,315	(325)	14,261	18,609	(4,348)
83	Total energy sources	15,250	15,524	(274)	35,763	39,324	(3,561)
<b>POWER PLANT PERFORMANCE</b>							
<b>Capacity Factors</b>							
84	Nuclear	89%	88%	1%	86%	69%	17%
85	Coal	93%	94%	(1)%	88%	87%	1%
86	Gas, oil and other	34%	34%	0%	24%	26%	(2)%
87	System average	61%	61%	0%	52%	51%	1%
<b>Generation Capacity Out of Service and Replaced for Native Load (average MW/day) (a)</b>							
88	Nuclear	22	97	(75)	115	319	(204)
89	Coal	79	62	17	156	167	(11)
90	Gas	147	109	38	273	142	131
91	Total	248	268	(20)	544	628	(84)

(a) Includes planned and unplanned outages

See Glossary of Terms.

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

Line	3 Mo. Ended September			9 Mo. Ended September			
	2007	2006	Incr (Decr)	2007	2006	Incr (Decr)	
<b>ENERGY MARKET INDICATORS</b>							
<b>(a)</b>							
<b>Electricity Average Daily Spot Prices (\$/MWh)</b>							
<b>On-Peak</b>							
92	Palo Verde	\$ 69.26	\$ 65.89	\$ 3.37	\$ 62.84	\$ 58.10	\$ 4.73
93	SP15	\$ 68.84	\$ 71.89	\$ (3.05)	\$ 65.87	\$ 61.87	\$ 4.00
<b>Off-Peak</b>							
94	Palo Verde	\$ 37.03	\$ 38.45	\$ (1.42)	\$ 40.18	\$ 36.25	\$ 3.93
95	SP15	\$ 41.23	\$ 43.94	\$ (2.71)	\$ 44.41	\$ 38.82	\$ 5.59
<b>WEATHER INDICATORS</b>							
<b>Actual</b>							
96	Cooling degree-days	2,686	2,455	231	4,566	4,238	328
97	Heating degree-days	—	—	—	597	468	129
98	Average humidity	30%	33%	(3)%	29%	26%	3%
<b>10-Year Averages</b>							
99	Cooling degree-days	2,544	2,544	—	4,198	4,198	—
100	Heating degree-days	—	—	—	544	544	—
101	Average humidity	32%	32%	0%	32%	32%	0%
<b>ECONOMIC INDICATORS</b>							
<b>Building Permits — Metro Phoenix</b>							
<b>(b)(d)</b>							
102	Single-family	3,816	4,446	(630)	18,280	22,045	(3,765)
103	Multi-family	1,982	2,034	(52)	9,686	7,897	1,789
104	Total	<u>5,798</u>	<u>6,480</u>	<u>(682)</u>	<u>27,966</u>	<u>29,942</u>	<u>(1,976)</u>
<b>Arizona Job Growth (c) (d)</b>							
105	Payroll job growth (% over prior year)	2.8%	5.2%	(2.4)%	3.5%	5.6%	(2.1)%
106	Unemployment rate (% , seasonally adjusted)	3.7%	4.0%	(0.3)%	3.8%	4.1%	(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 August 31, 2007 (latest available data) and August 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	\$ 204		\$ 284	\$ 27
2	Pinnacle West Energy	—	—	—		—	—
3	APS Energy Services	1	(1)	2		1	2
4	SunCor	8	—	(2)		6	(41)
5	El Dorado	(2)	—	(3)		(5)	(3)
6	Parent Company	5	5	—		9	3
7	Income From Continuing Operations	16	79	201	—	295	(12)
Income (Loss) From Discontinued Operations — Net of Tax							
8	Silverhawk	—	—	—		—	—
9	SunCor	1	—	8		9	7
10	NAC	—	—	—		—	—
11	Total	1	—	8	—	9	7
12	Net Income	<u>\$ 17</u>	<u>\$ 79</u>	<u>\$ 209</u>	<u>\$ —</u>	<u>\$ 304</u>	<u>\$ (5)</u>
<b>EARNINGS PER SHARE BY SUBSIDIARY — DILUTED</b>							
13	Arizona Public Service	\$ 0.04	\$ 0.75	\$ 2.03		\$ 2.82	\$ 0.25
14	Pinnacle West Energy	—	—	—		—	—
15	APS Energy Services	0.01	(0.01)	0.01		0.01	0.02
16	SunCor	0.09	—	(0.02)		0.07	(0.40)
17	El Dorado	(0.02)	—	(0.03)		(0.05)	(0.03)
18	Parent Company	0.04	0.04	—		0.08	0.02
19	Income From Continuing Operations	0.16	0.78	1.99	—	2.93	(0.14)
Income (Loss) From Discontinued Operations — Net of Tax							
20	Silverhawk	—	—	—		—	—
21	SunCor	—	—	0.08		0.09	0.06
22	NAC	—	—	—		—	—
23	Total	—	—	0.08	—	0.09	0.06
24	Net Income	<u>\$ 0.16</u>	<u>\$ 0.78</u>	<u>\$ 2.07</u>	<u>\$ —</u>	<u>\$ 3.02</u>	<u>\$ (0.08)</u>
25	<b>BOOK VALUE PER SHARE</b>	<u>\$ 34.45</u>	<u>\$ 34.13</u>	<u>\$ 35.55*</u>		<u>\$ 35.55*</u>	<u>1.48</u>
<b>COMMON SHARES OUTSTANDING (Thousands)</b>							
26	Average — Diluted	100,622	100,779	100,829		100,767	1,044
27	End of Period	100,115	100,290	100,367		100,367	719

\* 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	\$ 574		\$ 1,155	\$ 126
29 Business	264	342	425		1,031	94
30 Total retail	510	677	999	—	2,186	220
<b>Wholesale revenue on delivered electricity</b>						
31 Traditional contracts	5	9	12		26	1
32 Off-system sales	7	10	16		33	(1)
33 Transmission for others	7	7	8		22	3
34 Other miscellaneous services	7	8	9		24	2
35 Total regulated operating electricity revenues	536	711	1,044	—	2,291	225
<b>MARKETING AND TRADING</b>						
36 Electricity and other commodity sales	72	93	99		264	5
37 Total operating electric revenues	<u>\$ 608</u>	<u>\$ 804</u>	<u>\$ 1,143</u>	<u>\$ —</u>	<u>\$ 2,555</u>	<u>\$ 230</u>
<b>ELECTRIC SALES (GWH)</b>						
<b>REGULATED ELECTRICITY SEGMENT</b>						
<b>Retail sales</b>						
38 Residential	2,734	3,287	5,084		11,105	682
39 Business	3,285	4,004	4,426		11,715	323
40 Total retail	6,019	7,291	9,510	—	22,820	1,005
<b>Wholesale electricity delivered</b>						
41 Traditional contracts	175	262	296		733	16
42 Off-system sales	243	310	478		1,031	(78)
43 Retail load hedge management	117	254	529		900	(350)
44 Total regulated electricity	6,554	8,117	10,813	—	25,484	593
<b>MARKETING AND TRADING</b>						
45 Wholesale sales of electricity	2,057	2,606	3,623		8,286	(4,379)
46 Total electric sales	<u>8,611</u>	<u>10,723</u>	<u>14,436</u>	<u>—</u>	<u>33,770</u>	<u>(3,786)</u>

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>POWER SUPPLY ADJUSTOR ("PSA") — REGULATED ELECTRICITY SEGMENT (Dollars in Millions)</b>						
47	Deferred fuel and purchased power regulatory asset — beginning balance	\$ 160	\$ 118	\$ 137	\$ 160	\$ (13)
48	Deferred fuel and purchased power costs — current period	25	104	69	198	(27)
49	Regulatory disallowance	—	(14)	—	(14)	(14)
50	Interest on deferred fuel	2	1	2	5	(1)
51	Amounts recovered through revenues	(69)	(72)	(58)	(199)	(4)
52	Deferred fuel and purchased power regulatory asset — ending balance	<u>\$ 118</u>	<u>\$ 137</u>	<u>\$ 150</u>	<u>\$ —</u>	<u>\$ (59)</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	\$ 6	\$ 46	\$ 10
54	Mark-to-market reversals on realized sales (a) (b)	(8)	1	(3)	(13)	(10)
55	Change in mark-to-market value of forward sales	10	(6)	2	5	6
56	Total gross margin	<u>\$ 14</u>	<u>\$ 17</u>	<u>\$ 5</u>	<u>\$ —</u>	<u>\$ 6</u>

**By Pinnacle West Entity**

57	APS	\$ (1)	\$ 7	\$ —	\$ 7	\$ (1)
58	Pinnacle West	10	9	1	21	5
59	APS Energy Services	5	1	4	10	2
60	Pinnacle West Energy	—	—	—	—	—
61	Total gross margin	<u>\$ 14</u>	<u>\$ 17</u>	<u>\$ 5</u>	<u>\$ —</u>	<u>\$ 6</u>

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

As of September 30, 2007, Pinnacle West had accumulated net mark-to-market gains of \$10 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, \$3 million; 2008, \$2 million; and thereafter, \$5 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 \$3 million was transferred to "realized" for the third quarter of 2007. A \$3 million realized gain is included in the \$6 million on line 53 for the third quarter 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	<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>						
62 Residential	965,428	962,095	963,874		963,799	31,558
63 Business	118,649	119,792	120,918		119,786	4,991
64 Total	<u>1,084,077</u>	<u>1,081,887</u>	<u>1,084,792</u>	—	<u>1,083,585</u>	<u>36,549</u>
65 Wholesale customers	63	62	61		62	(14)
66 Total customers	<u>1,084,140</u>	<u>1,081,949</u>	<u>1,084,853</u>	—	<u>1,083,647</u>	<u>36,535</u>
67 Customer growth (% over prior year)	3.8%	3.5%	3.2%		3.5%	(1.0)%
<b>RETAIL SALES (GWH) - WEATHER NORMALIZED</b>						
68 Residential	2,648	3,214	4,805		10,667	297
69 Business	3,228	3,977	4,371		11,576	164
70 Total	<u>5,876</u>	<u>7,191</u>	<u>9,176</u>	—	<u>22,243</u>	<u>461</u>
<b>RETAIL USAGE (KWh/Average Customer)</b>						
71 Residential	2,832	3,417	5,275		11,522	341
72 Business	27,687	33,425	36,601		97,797	(1,441)
<b>RETAIL USAGE - WEATHER NORMALIZED (KWh/Average Customer)</b>						
73 Residential	2,743	3,340	4,985		11,067	(57)
74 Business	27,204	33,202	36,152		96,644	(2,768)
<b>ELECTRICITY DEMAND (MW)</b>						
75 System peak demand	4,781	6,982	7,545		7,545	(107)

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>							
76	Nuclear	2,299	1,846	2,218		6,363	1,243
77	Coal	3,164	3,265	3,563		9,992	153
78	Gas, oil and other	1,151	1,517	2,479		5,147	(609)
79	Total generation production	<u>6,614</u>	<u>6,628</u>	<u>8,260</u>	<u>—</u>	<u>21,502</u>	<u>787</u>
<b>Purchased power</b>							
80	Firm load	278	1,676	2,521		4,475	408
81	Marketing and trading	2,262	3,055	4,469		9,786	(4,756)
82	Total purchased power	<u>2,540</u>	<u>4,731</u>	<u>6,990</u>	<u>—</u>	<u>14,261</u>	<u>(4,348)</u>
83	Total energy sources	<u>9,154</u>	<u>11,359</u>	<u>15,250</u>	<u>—</u>	<u>35,763</u>	<u>(3,561)</u>
<b>POWER PLANT PERFORMANCE</b>							
<b>Capacity Factors</b>							
84	Nuclear	94%	75%	89%		86%	17%
85	Coal	84%	86%	93%		88%	1%
86	Gas, oil and other	16%	21%	34%		24%	(2)%
87	System average	50%	49%	61%		52%	1%
<b>Generation Capacity Out of Service and Replaced for Native Load (average MW/day) (a)</b>							
88	Nuclear	57	266	22		115	(204)
89	Coal	203	189	79		156	(11)
90	Gas	<u>267</u>	<u>405</u>	<u>147</u>		<u>273</u>	<u>131</u>
91	Total	<u>527</u>	<u>860</u>	<u>248</u>	<u>—</u>	<u>544</u>	<u>(84)</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>						
92	Palo Verde	\$ 54.62	\$ 64.64	\$ 69.26	\$ 62.84	\$ 4.73
93	SP15	\$ 60.02	\$ 68.75	\$ 68.84	\$ 65.87	\$ 4.00
<b>Off-Peak</b>						
94	Palo Verde	\$ 42.06	\$ 41.46	\$ 37.03	\$ 40.18	\$ 3.93
95	SP15	\$ 45.86	\$ 46.14	\$ 41.23	\$ 44.41	\$ 5.59
<b>WEATHER INDICATORS</b>						
<b>Actual</b>						
96	Cooling degree-days	172	1,708	2,686	4,566	328
97	Heating degree-days	589	8	—	597	129
98	Average humidity	36%	18%	30%	29%	3%
<b>10-Year Averages</b>						
99	Cooling degree-days	97	1,557	2,544	4,198	—
100	Heating degree-days	513	31	—	544	—
101	Average humidity	42%	22%	32%	32%	0%
<b>ECONOMIC INDICATORS</b>						
<b>Building Permits — Metro Phoenix (b) (d)</b>						
102	Single-family	7,017	7,447	3,816	18,280	(3,765)
103	Multi-family	4,131	3,573	1,982	9,686	1,789
104	Total	<u>11,148</u>	<u>11,020</u>	<u>5,798</u>	<u>27,966</u>	<u>(1,976)</u>
<b>Arizona Job Growth (c) (d)</b>						
105	Payroll job growth (% over prior year)	4.1%	3.3%	2.8%	3.5%	(2.1)%
106	Unemployment rate (% , seasonally adjusted)	4.0%	3.7%	3.7%	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  
(d) Economic indicators reflect periods ended August 31, 2007 (latest available data).

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>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</b>						
<b>(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>

See Glossary of Terms.

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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	\$ 7	\$ 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>\$ 3</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	(1)	11	4	3	18	(41)
59	APS Energy Services	3	3	2	1	9	8
60	Pinnacle West Energy	—	—	—	—	—	(5)
61	Total gross margin	<u>\$ 10</u>	<u>\$ 16</u>	<u>\$ 3</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.



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

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**Pinnacle West Capital Corporation**  
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**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>						
76	1,720	1,198	2,202	1,868	6,988	(521)
77	3,083	3,182	3,574	3,337	13,176	116
78	1,323	2,000	2,433	1,628	7,384	(1,051)
79	<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>						
80	365	1,740	1,962	223	4,290	816
81	4,592	4,597	5,353	4,326	18,868	(6,845)
82	4,957	6,337	7,315	4,549	23,158	(6,029)
83	<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>						
84	71%	49%	88%	75%	71%	(6)%
85	83%	84%	94%	87%	87%	0%
86	18%	28%	34%	22%	25%	(3)%
87	46%	48%	61%	50%	51%	(2)%
<b>Generation Capacity Out of Service and Replaced for Native Load (average MW/day) (a)</b>						
88	306	553	97	267	153	39
89	257	184	62	155	82	9
90	201	117	109	286	89	(4)
91	<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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**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>						
92	\$ 53.78	\$ 54.63	\$ 65.89	\$ 52.72	\$ 56.76	\$ (9.64)
93	\$ 58.34	\$ 55.39	\$ 71.89	\$ 62.16	\$ 61.95	\$ (10.99)
<b>Off-Peak</b>						
94	\$ 41.92	\$ 28.38	\$ 38.45	\$ 39.62	\$ 37.09	\$ (10.46)
95	\$ 44.79	\$ 27.43	\$ 43.94	\$ 46.27	\$ 40.61	\$ (11.45)
<b>WEATHER INDICATORS</b>						
<b>Actual</b>						
96	43	1,740	2,455	457	4,695	32
97	464	4	—	383	851	85
98	28%	18%	33%	33%	28%	(6)%
<b>10-Year Averages</b>						
99	97	1,557	2,544	441	4,640	—
100	513	31	—	296	840	—
101	42%	22%	32%	38%	33%	0%
<b>ECONOMIC INDICATORS</b>						
<b>Building Permits — Metro Phoenix</b>						
<b>(b)</b>						
102	8,716	8,883	5,969	4,408	27,976	(15,282)
103	2,887	2,976	3,215	1,029	10,107	2,329
104	<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>						
105	6.2%	5.3%	5.1%	4.9%	5.4%	0.0%
106	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	<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	\$ 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**  
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Line	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
<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	<u>399</u>	<u>549</u>	<u>722</u>	<u>450</u>	<u>2,120</u>	<u>158</u>
<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	<u>416</u>	<u>580</u>	<u>753</u>	<u>488</u>	<u>2,237</u>	<u>202</u>
<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	<u>5,409</u>	<u>6,573</u>	<u>8,549</u>	<u>5,945</u>	<u>26,477</u>	<u>1,124</u>
<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	<u>6,314</u>	<u>8,073</u>	<u>10,056</u>	<u>7,230</u>	<u>31,673</u>	<u>2,879</u>
<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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**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	21	6	26	6	59	34
59	APS Energy Services	(3)	4	2	(2)	1	(13)
60	Pinnacle West Energy	5	—	—	—	5	(41)
61	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.

**Pinnacle West Capital Corporation**  
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**2005**

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

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**2005**

Line	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
<b>ENERGY SOURCES (GWH)</b>						
<b>Generation production</b>						
76 Nuclear	2,247	1,619	2,147	1,496	7,509	(674)
77 Coal	2,940	3,088	3,574	3,458	13,060	394
78 Gas, oil and other	1,128	2,129	3,064	2,114	8,435	3,107
79 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>						
80 Firm load	586	880	1,589	402	3,474	(851)
81 Marketing and trading	5,832	5,984	7,795	6,102	25,713	(4,479)
82 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>
83 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>						
84 Nuclear	94%	67%	88%	61%	77%	(7)%
85 Coal	80%	83%	95%	92%	87%	3%
86 Gas, oil and other	17%	29%	39%	27%	28%	9%
87 System average	49%	51%	62%	50%	53%	2%
<b>Generation Capacity Out of Service and Replaced for Native Load (average MW/day) (a)</b>						
88 Nuclear	52	329	107	419	114	(45)
89 Coal	195	244	47	103	73	(55)
90 Gas	<u>212</u>	<u>164</u>	<u>140</u>	<u>226</u>	<u>93</u>	<u>45</u>
91 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

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**Pinnacle West Capital Corporation**  
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**2005**

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

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**2004**

Line	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>	
<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</b> (Dollars in Millions)						
<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	12	6	5	1	25	30
59	APS Energy Services	4	4	4	2	14	(22)
60	Pinnacle West Energy	10	11	10	16	46	38
61	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.

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

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 SOURCES (GWH)</b>						
<b>Generation production</b>						
76 Nuclear	2,148	1,860	2,364	1,811	8,183	(132)
77 Coal	2,887	3,035	3,417	3,327	12,666	1,299
78 Gas, oil and other	367	1,339	2,547	1,075	5,328	(763)
79 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>						
80 Firm load	701	1,532	1,068	1,024	4,325	1,214
81 Marketing and trading	5,506	7,167	9,301	8,218	30,192	2,442
82 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>
83 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>						
84 Nuclear	88%	76%	96%	74%	84%	(3)%
85 Coal	77%	81%	90%	88%	84%	8%
86 Gas, oil and other	5%	20%	38%	17%	19%	(8)%
87 System average	44%	49%	64%	48%	51%	(3)%
<b>Generation Capacity Out of Service and Replaced for Native Load (average MW/day) (a)</b>						
88 Nuclear	132	231	13	261	159	28
89 Coal	237	153	63	61	128	(140)
90 Gas	71	46	39	34	48	(160)
91 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.

**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 (a)</b>							
<b>Electricity Average Daily Spot Prices (\$/MWh)</b>							
<b>On-Peak</b>							
92	Palo Verde	\$ 43.73	\$ 50.36	\$ 51.86	\$ 51.23	\$ 49.30	\$ 0.70
93	SP15	\$ 48.37	\$ 54.73	\$ 57.09	\$ 60.62	\$ 55.20	\$ 3.82
<b>Off-Peak</b>							
94	Palo Verde	\$ 33.66	\$ 33.74	\$ 33.37	\$ 38.21	\$ 34.75	\$ 2.72
95	SP15	\$ 36.90	\$ 37.32	\$ 37.18	\$ 43.07	\$ 38.62	\$ 3.96
<b>WEATHER INDICATORS</b>							
<b>Actual</b>							
96	Cooling degree-days	273	1,598	2,471	352	4,694	(205)
97	Heating degree-days	552	11	—	422	985	249
98	Average humidity	39%	19%	26%	45%	32%	1%
<b>10-Year Averages</b>							
99	Cooling degree-days	97	1,557	2,544	441	4,640	—
100	Heating degree-days	513	31	—	296	840	—
101	Average humidity	42%	22%	32%	38%	33%	0%
<b>ECONOMIC INDICATORS</b>							
<b>Building Permits — Metro Phoenix (b)</b>							
102	Single-family	10,045	13,636	14,111	10,325	48,117	8,466
103	Multi-family	1,757	1,324	2,149	2,356	7,586	859
104	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>							
105	Payroll job growth (% over prior year)	2.6%	3.4%	4.0%	4.6%	3.7%	2.3%
106	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 Nine-Month Periods Ended September 30, 2007 and 2006**

This discussion explains the changes in our consolidated net income for the three-month and nine-month periods ended September 30, 2007 and 2006. Unaudited Condensed Consolidated Statements of Income for the three months and nine months ended September 30, 2007 and 2006 follow this discussion. We will file our Quarterly Report on Form 10-Q for the fiscal period ended September 30, 2007 on or before November 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 and the Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2007 and June 30, 2007. 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 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 summarizes income (loss) from continuing operations for the three months and nine months ended September 30, 2007 and 2006 and reconciles net income in total (dollars in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Regulated electricity segment	\$ 205	\$ 170	\$ 278	\$ 252
Real estate segment	(2)	17	7	47
All other (a)	(2)	(3)	10	8
Income from continuing operations	201	184	295	307
Discontinued operations — net of tax (b)	8	—	9	2
Net income	<u>\$ 209</u>	<u>\$ 184</u>	<u>\$ 304</u>	<u>\$ 309</u>

(a) All other includes activities related to marketing and trading, APSES products and services and El Dorado. None of these segments is a reportable segment.

(b) Primarily relates to sales of commercial properties.



## PINNACLE WEST CONSOLIDATED — RESULTS OF OPERATIONS

### Regulatory Matters

On June 28, 2007, the Arizona Corporation Commission (the “ACC”) issued an order in the general rate case of Arizona Public Service Company (“APS”). In its order, effective July 1, 2007, among other things, the ACC (a) approved an increase in APS’ retail base rates, the components of which included an increase in APS’ base fuel rate and a non-fuel rate increase; (b) modified the Power Supply Adjustor (“PSA”); and (c) disallowed certain PSA deferrals as described below.

Under the PSA, APS defers for future rate recovery or refund 90% of the difference between actual retail fuel and purchased power costs and the base fuel rate included in APS’ retail rates, subject to specified parameters. APS absorbs the other 10% of variances between actual retail fuel and purchased power costs and the base fuel rate. The increase in APS’ base fuel rate approved by the ACC reduced the amount of fuel and purchased power costs subject to the 90/10 PSA sharing arrangement. APS recovers PSA deferrals from its customers through PSA annual adjustors and surcharges. 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. The balance of APS’ PSA accumulated unrecovered deferrals at September 30, 2007 was approximately \$150 million. See “APS General Rate Case and Power Supply Adjustor” in Note 5 of Notes to Condensed Consolidated Financial Statements in the Pinnacle West/APS Report on Form 10-Q for the fiscal quarter ended June 30, 2007 for additional information about the ACC order and the PSA.

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 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 beginning July 1, 2007. The ACC directed the ACC staff to conduct a “prudence audit” of the 2006 Palo Verde outage costs. Virtually all of the 2006 Deferrals were associated with a Unit 1 vibration issue. On October 4, 2007, the ACC staff filed a report with the ACC that concludes that APS’ response to the Unit 1 vibration issue was “reasonable and prudent.” APS continues to believe that the 2006 Deferrals were prudently incurred and, therefore, are recoverable.

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

Our consolidated net income for the three months ended September 30, 2007 was \$209 million compared with \$184 million for the comparable prior-year period. The current period includes income from discontinued operations of \$8 million, which was related to income from the sale of commercial properties at SunCor. Income from continuing operations increased \$17 million in the period-to-period comparison, reflecting the following changes in earnings:

- Regulated Electricity Segment — Income from continuing operations increased approximately \$35 million primarily due to the effects of hotter weather on retail sales; higher retail sales primarily due to customer growth and usage patterns; impacts of the retail rate increase (see “Regulatory Matters” above); and income tax benefits related to prior years resolved in 2007. These positive factors were partially offset by higher operations and maintenance expense primarily for customer service and regulatory programs and increased costs for generation, including the Palo Verde performance improvement plan. In addition, higher fuel and purchased power costs related to commodity price increases were offset by the deferral of such costs in accordance with the PSA. See “Regulatory Matters” above.
- Real Estate Segment — Income from continuing operations decreased approximately \$19 million primarily due to lower sales of residential property and land parcels resulting from the continued slowdown in the western United States real estate markets and prior-year sales of certain joint venture assets. Income from discontinued operations increased \$8 million due to increased commercial property sales.

Additional details on the major factors that increased (decreased) net income for the three-month period ended September 30, 2007 compared with the prior-year period are contained in the following table (dollars in millions):

	Increase (Decrease)	
	Pretax	After Tax
<b>Regulated electricity segment:</b>		
Effects of hotter weather on retail sales	\$ 27	\$ 16
Higher retail sales primarily due to customer growth and usage patterns, excluding weather effects	17	10
Impacts of retail rate increase (see discussion above):		
Revenue increase related to higher base fuel rate	114	70
Decreased deferred fuel and purchased power costs related to higher base fuel rate	(103)	(63)
Non-fuel rate increase	5	3
Net changes in fuel and purchased power costs related to prices:		
Higher fuel and purchased power costs due to increased prices	(39)	(24)
Increased deferred fuel and purchased power costs related to increased prices	37	23
Operations and maintenance increases primarily due to:		
Customer service costs and regulatory programs	(8)	(5)
Increased generation costs, including Palo Verde performance improvement plan	(6)	(4)
Income tax benefits related to prior years resolved in 2007	—	10
Miscellaneous items, net	(4)	(1)
Increase in regulated electricity segment net income	40	35
Lower real estate segment contribution primarily due to decreased sales of residential property and land parcels and prior-year sales of certain joint venture assets	(31)	(19)
Other miscellaneous items, net	1	1
Increase in income from continuing operations	<u>\$ 10</u>	<u>17</u>
Discontinued operations primarily related to sales of commercial real estate assets		8
Increase in net income		<u>\$ 25</u>

### Regulated Electricity Segment Revenues

Regulated electricity segment revenues were \$157 million higher for the three months ended September 30, 2007 compared with the prior-year period primarily because of:

- a \$119 million increase in retail revenues due to retail rate increase effective July 1, 2007;
- a \$36 million increase in retail revenues due to the effects of hotter weather;
- a \$22 million increase in retail revenues primarily related to customer growth and usage patterns, excluding weather effects;
- a \$16 million increase in Off-System Sales due to higher prices and volumes;

- a \$44 million decrease 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 “Regulatory Matters” above); and
- an \$8 million net increase due to miscellaneous factors.

### **Real Estate Segment Revenues**

Real estate segment revenues were \$50 million lower for the three months ended September 30, 2007 compared with the prior-year period primarily because of:

- a \$48 million decrease in residential property sales due to the continued slowdown in the western United States real estate markets;
- a \$4 million decrease in revenue primarily due to lower sales of land parcels; and
- a \$2 million net increase due to miscellaneous factors.

### **All Other Revenues**

Marketing and trading revenues were \$15 million higher for the three months ended September 30, 2007 compared with the prior-year period primarily due to an increase in competitive retail sales volumes in California.

Other revenues were \$8 million higher for the three months ended September 30, 2007 compared to the prior-year period primarily as a result of increased sales by APSES of energy related products and services.

### **Operating Results — Nine-month period ended September 30, 2007 compared with nine-month period ended September 30, 2006**

Our consolidated net income for the nine months ended September 30, 2007 was \$304 million compared with \$309 million for the comparable prior-year period. Our net income includes income from discontinued operations related primarily to sales of commercial properties by SunCor of \$9 million in the current period and \$2 million in the prior-year period. Income from continuing operations decreased \$12 million in the period-to-period comparison, reflecting the following changes in earnings:

- Regulated Electricity Segment — Income from continuing operations increased approximately \$26 million primarily due to higher retail sales primarily due to customer growth and usage patterns; the effects of weather on retail sales; impacts of the retail rate increase; and income tax benefits related to prior years resolved in 2007. These positive factors were partially offset by higher operations and maintenance expense primarily due to increased generation costs, including the Palo Verde performance

improvement plan, customer service and regulatory programs; income tax credits related to prior years resolved in 2006; lower other income, net of expense, primarily due to miscellaneous asset sales in the prior-year period and lower interest income as a result of lower investment balances; and a regulatory disallowance. In addition, higher fuel and purchased power costs related to commodity price increases were partially offset by the deferral of such costs in accordance with the PSA. See “Regulatory Matters” for further discussion.

- Real Estate Segment — Income from continuing operations decreased approximately \$40 million primarily due to lower sales of residential property and land parcels resulting from the continued slowdown in the western United States real estate markets and prior-year sales of certain joint venture assets. Income from discontinued operations increased \$7 million due to increased commercial property sales.

Additional details on the major factors that increased (decreased) net income for the nine-month period ended September 30, 2007 compared with the prior-year period are contained in the following table (dollars in millions):

	Increase (Decrease)	
	Pretax	After Tax
<b>Regulated electricity segment:</b>		
Higher retail sales primarily due to customer growth and usage patterns, excluding weather effects	\$ 37	\$ 23
Effects of weather on retail sales	33	20
Impacts of retail rate increase (see discussion above):		
Revenue increase related to higher base fuel rate	114	70
Decreased deferred fuel and purchased power costs related to higher base fuel rate	(103)	(63)
Non-fuel rate increase	5	3
Net changes in fuel and purchased power costs related to price:		
Higher fuel and purchased power costs due to increased prices	(80)	(49)
Increased deferred fuel and purchased power costs related to increased prices	75	46
Regulatory disallowance (see "Regulatory Matters" above)	(14)	(8)
Operations and maintenance increases primarily due to:		
Increased generation costs, including Palo Verde performance improvement plan	(8)	(5)
Customer service costs and regulatory programs	(8)	(5)
Higher depreciation and amortization primarily due to increased plant balances	(8)	(5)
Lower other income, net of expense, primarily due to lower interest income as a result of lower investment balances and miscellaneous asset sales in the prior-year period	(13)	(8)
Income tax benefits related to prior years resolved in 2007	—	13
Income tax credits related to prior years resolved in 2006	—	(10)
Miscellaneous items, net	7	4
Increase in regulated electricity segment net income	37	26
Lower real estate segment contribution primarily due to decreased sales of residential property and land parcels and prior year sales of certain joint venture assets	(66)	(40)
Higher marketing and trading contribution primarily due to higher competitive retail sales volumes in California and higher mark-to-market gains because of changes in forward prices	6	4
Other miscellaneous items, net	(3)	(2)
Decrease in income from continuing operations	\$ (26)	(12)
Discontinued operations primarily related to increased sales of commercial real estate assets		7
Decrease in net income		\$ (5)

### Regulated Electricity Segment Revenues

Regulated electricity segment revenues were \$225 million higher for the nine months ended September 30, 2007 compared with the prior-year period primarily because of:

- a \$119 million increase in retail revenues due to retail rate increase effective July 1, 2007;
- a \$49 million increase in retail revenues primarily related to customer growth and usage patterns, excluding weather effects;
- a \$45 million increase in retail revenues due to the effects of weather; and
- a \$12 million net increase due to miscellaneous factors.

### **Real Estate Segment Revenues**

Real estate segment revenues were \$145 million lower for the nine months ended September 30, 2007 compared with the prior-year period primarily because of:

- a \$124 million decrease in residential property sales due to the continued slowdown in western United States real estate markets;
- a \$23 million decrease in revenue primarily due to lower sales of land parcels; and
- a \$2 million net increase due to miscellaneous factors.

### **All Other Revenues**

Marketing and trading revenues were \$5 million higher for the nine months ended September 30, 2007 compared with the prior-year period primarily because of higher competitive retail sales volumes in California and higher mark-to-market gains because of changes in forward prices.

Other revenues were \$8 million higher for the nine months ended September 30, 2007 compared to the prior-year period primarily as a result of increased sales by APSES of energy-related products and services.

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

	THREE MONTHS ENDED SEPTEMBER 30,		Increase (Decrease)		
	2007	2006	Amount	Percent	
<b>Operating Revenues</b>					
Regulated electricity segment	\$1,043,723	\$ 886,979	\$156,744	17.7%	B
Real estate segment	47,411	97,871	(50,460)	51.6%	W
Marketing and trading	99,203	84,425	14,778	17.5%	B
Other revenues	15,597	7,167	8,430	117.6%	B
Total	<u>1,205,934</u>	<u>1,076,442</u>	<u>129,492</u>	12.0%	B
<b>Operating Expenses</b>					
Regulated electricity segment fuel and purchased power	407,242	314,150	93,092	29.6%	W
Real estate segment operations	46,391	78,853	(32,462)	41.2%	B
Marketing and trading fuel and purchased power	93,860	80,906	12,954	16.0%	W
Operations and maintenance	178,419	164,396	14,023	8.5%	W
Depreciation and amortization	95,059	90,390	4,669	5.2%	W
Taxes other than income taxes	34,940	31,697	3,243	10.2%	W
Other expenses	11,246	5,610	5,636	100.5%	W
Total	<u>867,157</u>	<u>766,002</u>	<u>101,155</u>	13.2%	W
<b>Operating Income</b>	<u>338,777</u>	<u>310,440</u>	<u>28,337</u>	9.1%	B
<b>Other</b>					
Allowance for equity funds used during construction	5,235	3,178	2,057	64.7%	B
Other income	4,276	18,055	(13,779)	76.3%	W
Other expense	(6,744)	(3,693)	(3,051)	82.6%	W
Total	<u>2,767</u>	<u>17,540</u>	<u>(14,773)</u>	84.2%	W
<b>Interest Expense</b>					
Interest charges	54,393	50,577	3,816	7.5%	W
Capitalized interest	(5,435)	(5,612)	177	3.2%	W
Total	<u>48,958</u>	<u>44,965</u>	<u>3,993</u>	8.9%	W
<b>Income From Continuing Operations Before Income Taxes</b>	292,586	283,015	9,571	3.4%	B
<b>Income Taxes</b>	91,588	98,836	(7,248)	7.3%	B
<b>Income From Continuing Operations</b>	200,998	184,179	16,819	9.1%	B
<b>Income (Loss) From Discontinued Operations</b>					
Net of Income Taxes	<u>7,710</u>	<u>(12)</u>	<u>7,722</u>	64350.0%	B
<b>Net Income</b>	<u>\$ 208,708</u>	<u>\$ 184,167</u>	<u>\$ 24,541</u>	13.3%	B
<b>Weighted-Average Common Shares Outstanding — Basic</b>	100,324	99,491	833	0.8%	
<b>Weighted-Average Common Shares Outstanding — Diluted</b>	100,829	99,973	856	0.9%	
<b>Earnings Per Weighted-Average Common Share Outstanding</b>					
Income from continuing operations — basic	\$ 2.00	\$ 1.85	\$ 0.15	8.1%	B
Net income — basic	\$ 2.08	\$ 1.85	\$ 0.23	12.4%	B
Income from continuing operations — diluted	\$ 1.99	\$ 1.84	\$ 0.15	8.2%	B
Net income — diluted	\$ 2.07	\$ 1.84	\$ 0.23	12.5%	B

B — Better  
W — Worse





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

	NINE MONTHS ENDED SEPTEMBER 30,		Increase (Decrease)		
	2007	2006	Amount	Percent	
<b>Operating Revenues</b>					
Regulated electricity segment	\$2,291,067	\$2,065,823	\$ 225,244	10.9%	B
Real estate segment	173,013	318,328	(145,315)	45.6%	W
Marketing and trading	264,311	259,352	4,959	1.9%	B
Other revenues	36,113	28,173	7,940	28.2%	B
Total	<u>2,764,504</u>	<u>2,671,676</u>	<u>92,828</u>	3.5%	B
<b>Operating Expenses</b>					
Regulated electricity segment fuel and purchased power	880,932	735,489	145,443	19.8%	W
Real estate segment operations	154,008	248,595	(94,587)	38.0%	B
Marketing and trading fuel and purchased power	226,337	227,797	(1,460)	0.6%	B
Operations and maintenance	527,307	511,155	16,152	3.2%	W
Depreciation and amortization	277,515	267,308	10,207	3.8%	W
Taxes other than income taxes	104,416	99,970	4,446	4.4%	W
Other expenses	28,537	22,562	5,975	26.5%	W
Total	<u>2,199,052</u>	<u>2,112,876</u>	<u>86,176</u>	4.1%	W
<b>Operating Income</b>	<u>565,452</u>	<u>558,800</u>	<u>6,652</u>	1.2%	B
<b>Other</b>					
Allowance for equity funds used during construction	14,874	10,612	4,262	40.2%	B
Other income	11,976	34,448	(22,472)	65.2%	W
Other expense	(13,685)	(12,953)	(732)	5.7%	W
Total	<u>13,165</u>	<u>32,107</u>	<u>(18,942)</u>	59.0%	W
<b>Interest Expense</b>					
Interest charges	158,352	143,985	14,367	10.0%	W
Capitalized interest	(15,455)	(14,595)	(860)	5.9%	B
Total	<u>142,897</u>	<u>129,390</u>	<u>13,507</u>	10.4%	W
<b>Income From Continuing Operations Before Income Taxes</b>	435,720	461,517	(25,797)	5.6%	W
<b>Income Taxes</b>	<u>140,428</u>	<u>154,900</u>	<u>(14,472)</u>	9.3%	B
<b>Income From Continuing Operations</b>	295,292	306,617	(11,325)	3.7%	W
<b>Income From Discontinued Operations</b>					
Net of Income Taxes	<u>8,940</u>	<u>2,159</u>	<u>6,781</u>	314.1%	B
<b>Net Income</b>	<u>\$ 304,232</u>	<u>\$ 308,776</u>	<u>\$ (4,544)</u>	1.5%	W
<b>Weighted-Average Common Shares Outstanding — Basic</b>	100,200	99,277	923	0.9%	
<b>Weighted-Average Common Shares Outstanding — Diluted</b>	100,767	99,723	1,044	1.0%	
<b>Earnings Per Weighted-Average Common Share Outstanding</b>					
Income from continuing operations — basic	\$ 2.95	\$ 3.09	\$ (0.14)	4.5%	W
Net income — basic	\$ 3.04	\$ 3.11	\$ (0.07)	2.3%	W
Income from continuing operations — diluted	\$ 2.93	\$ 3.07	\$ (0.14)	4.6%	W
Net income — diluted	\$ 3.02	\$ 3.10	\$ (0.08)	2.6%	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 \$0.0325 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).
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 \$0.0325 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.
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**

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**October 25, 2007**  
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**PINNACLE WEST THIRD QUARTER RESULTS BUOYED BY HOT WEATHER**

PHOENIX — Benefiting from one of the hottest Arizona summers on record, Pinnacle West Capital Corp. (NYSE: PNW) today reported consolidated net income for the quarter ended September 30, 2007, of \$208.7 million, or \$2.07 per diluted share of common stock. This result compares with \$184.2 million, or \$1.84 per diluted share, for the same period in 2006.

“Our improved results were driven by higher retail sales at Arizona Public Service (APS) as a result of hotter than normal temperatures,” said Pinnacle West Chairman Bill Post. The extreme weather in the quarter – punctuated by a record 32 days with highs of 110 degrees or higher in the Phoenix metropolitan area and by the hottest August on record – improved the Company’s earnings by \$16 million, or \$0.16 per share.

In addition to the weather effects, the 2007 third quarter also was positively impacted by tax benefits of \$10 million, or \$0.10 per share, related to prior years. Solid customer growth was offset by increases in operating and maintenance costs for generation and customer service; and lower results from the Company’s real estate operations.

APS reported net income of \$204.3 million for the third quarter of 2007, compared with net income of \$168.6 million for the same period a year ago. The Company benefited from strong operational performance at the Palo Verde Nuclear Generating Station (which achieved a site average capacity factor of 89 percent); increased retail sales of 6.4 percent; and retail customer growth of 3.2 percent.

“Even with a slowing housing market, our growth continues at a fairly strong level of 3.2 percent compared with our ten-year average of 3.8 percent,” Post said. “Our state’s rapidly growing population requires continuing infrastructure investments. Over the next five years, we expect to spend about \$1 billion annually on transmission, distribution and generation infrastructure to meet our customers’ needs and support Arizona’s economy.”

SunCor Development Co., Pinnacle West’s real estate subsidiary, reported net income of \$6.0 million, compared with \$17.5 million in the 2006 third quarter. The decrease was primarily due to lower sales of residential property and land parcels attributable to the effects of deteriorating credit markets.

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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 third quarter earnings and recent developments at 1:30 pm (ET) today, October 25. 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 reservation number 19150269. A replay of the call also will be available until 11:55 p.m. (ET), Thursday, November 1, 2007, by calling (800) 642-1687 in the U.S. and Canada or (706) 645-9291 internationally and the same reservation number.

Pinnacle West is a Phoenix-based company with consolidated assets of about \$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.

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Interest charges	54,393	50,577	158,352	143,985
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<b>Income Taxes</b>	<u>91,588</u>	<u>98,836</u>	<u>140,428</u>	<u>154,900</u>
<b>Income From Continuing Operations</b>	200,998	184,179	295,292	306,617
<b>Income (Loss) From Discontinued Operations</b>				
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<b>Weighted-Average Common Shares Outstanding — Basic</b>	100,324	99,491	100,200	99,277
<b>Weighted-Average Common Shares Outstanding — Diluted</b>	100,829	99,973	100,767	99,723
<b>Earnings Per Weighted-Average Common Share Outstanding</b>				
Income from continuing operations — basic	\$ 2.00	\$ 1.85	\$ 2.95	\$ 3.09
Net income — basic	\$ 2.08	\$ 1.85	\$ 3.04	\$ 3.11
Income from continuing operations — diluted	\$ 1.99	\$ 1.84	\$ 2.93	\$ 3.07
Net income — diluted	\$ 2.07	\$ 1.84	\$ 3.02	\$ 3.10