

PINNACLE WEST CAPITAL CORP

FORM 8-K (Current report filing)

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

FORM 8-K

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

Date of Report (Date of earliest event reported): September 30, 2006

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

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

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

This combined Form 8-K is separately filed by Pinnacle West Capital Corporation and Arizona Public Service Company. Each registrant is filing on its own behalf all of the information contained in this Form 8-K that relates to such registrant 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

Certain of the Information referenced in Item 7.01 below relates to Pinnacle West Capital Corporation's ("Pinnacle West" or the "Company") results of operations for the three and nine months ended September 30, 2006. This Information is attached hereto as Exhibits 99.2, 99.3 99.7, 99.9, 99.10 and 99.11.

On October 27, 2006, the Company issued a press release regarding its financial results for the three and nine months ended September 30, 2006. A copy of the press release is attached hereto as Exhibit 99.9.

The information being furnished pursuant to this Item 2.02 and in Exhibits 99.2, 99.3 99.7, 99.9, 99.10 and 99.11 of this report relating to the Company's financial results for the three and nine months ended September 30, 2006 shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities of that Section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

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

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Item 7.01. Regulation FD Disclosure

Financial and Business Information

The Company is providing quarterly consolidated statistical summaries and a glossary of relevant terms (collectively, “Information”) to help interested parties better understand its business (see Exhibits 99.1, 99.2, 99.3, 99.4, 99.5, 99.6, 99.7, 99.8, 99.10 and 99.11). This Information is concurrently being posted to the Company’s website at www.pinnaclewest.com. The Information may not represent all of the factors that could affect the Company’s operating or financial results for various periods. Some of the Information is preliminary in nature and could be subject to significant adjustment. Some of the Information is based on information received from third parties and may contain inaccuracies. The Company is not responsible for any such inaccuracies. Although the Company may update or correct the Information if it is aware that such Information has been revised or is inaccurate, the Company assumes no obligation to update or correct the Information and reserves the right to discontinue the provision of all or any portion of the Information at any time or to change the type of Information provided.

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Item 9.01. Financial Statements and Exhibits

(c) Exhibits.

<u>Exhibit No.</u>	<u>Registrant(s)</u>	<u>Description</u>
99.1	Pinnacle West Arizona Public Service Company ("APS")	Pinnacle West Capital Corporation quarterly consolidated statistical summary (cover page and list of contents).
99.2	Pinnacle West APS	Pinnacle West Capital Corporation quarterly consolidated statistical summary for the nine-month periods ended September 30, 2006 and 2005.
99.3	Pinnacle West APS	Pinnacle West Capital Corporation consolidated statistics by quarter for 2006.
99.4	Pinnacle West	Pinnacle West Capital Corporation consolidated statistics by quarter for 2005.
99.5	Pinnacle West	Pinnacle West Capital Corporation consolidated statistics by quarter for 2004.
99.6	Pinnacle West	Pinnacle West Capital Corporation consolidated statistics by quarter for 2003.
99.7	Pinnacle West APS	Pinnacle West Capital Corporation earnings variance explanations for the three and nine months ended September 30, 2006 and 2005 and condensed consolidated statements of income for the three and nine months ended September 30, 2006 and 2005.
99.8	Pinnacle West APS	Glossary of Terms.
99.9	Pinnacle West APS	Earnings News Release issued on October 27, 2006.
99.10	Pinnacle West APS	Non-GAAP Financial Measure Reconciliation-Operating Income (GAAP Measure) to Gross Margin (Non-GAAP Financial Measure).
99.11	Pinnacle West APS	Non-GAAP Financial Measure Reconciliation-Net Income (GAAP Measure) to On-Going Earnings (Non-GAAP Financial Measure).

SIGNATURES

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

PINNACLE WEST CAPITAL CORPORATION
(Registrant)

Dated: October 27, 2006

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

ARIZONA PUBLIC SERVICE COMPANY
(Registrant)

Dated: October 27, 2006

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

Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Periods Ended September 30, 2006 and 2005
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2006 Third Quarter Summary

2006 Year-to-Date

2005 by Quarter

2004 by Quarter

2003 by Quarter

Quarters may not sum to totals due to rounding.

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

The definitions of terms used in this statistical summary are contained
in the "Glossary of Terms" on the Pinnacle West website at:
<http://www.pinnaclewest.com/files/investors/2006Q3QuarStatsGloss.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, 2006 and 2005

Line	3 Mo. Ended September			9 Mo. Ended September			
	2006	2005	Incr (Decr)	2006	2005	Incr (Decr)	
EARNINGS CONTRIBUTION BY SUBSIDIARY (\$ Millions)							
1	Arizona Public Service	\$ 169	\$ 61	\$ 108	\$ 257	\$ 152	\$ 105
2	Pinnacle West Energy	—	(71)	71	—	(80)	80
3	APS Energy Services	(2)	—	(2)	(1)	(3)	2
4	SunCor	17	7	10	47	26	21
5	El Dorado	—	—	—	(2)	(1)	(1)
6	Parent Company	—	88	(88)	6	105	(99)
7	Income From Continuing Operations	184	85	99	307	199	108
8	Income (Loss) From Discontinued Operations — Net of Tax	—	19	(19)	2	(44)	46
9	Cumulative Effect of Change in Accounting — Net of Tax	—	—	—	—	—	—
10	Net Income	<u>\$ 184</u>	<u>\$ 104</u>	<u>\$ 80</u>	<u>\$ 309</u>	<u>\$ 155</u>	<u>\$ 154</u>
EARNINGS PER SHARE BY SUBSIDIARY — DILUTED							
11	Arizona Public Service	\$ 1.69	\$ 0.62	\$ 1.07	\$ 2.57	\$ 1.59	\$ 0.98
12	Pinnacle West Energy	—	(0.72)	0.72	—	(0.83)	0.83
13	APS Energy Services	(0.02)	—	(0.02)	(0.01)	(0.03)	0.02
14	SunCor	0.17	0.07	0.10	0.47	0.27	0.20
15	El Dorado	—	(0.01)	0.01	(0.02)	(0.01)	(0.01)
16	Parent Company	—	0.90	(0.90)	0.06	1.09	(1.03)
17	Income From Continuing Operations	1.84	0.86	0.98	3.07	2.08	0.99
18	Income (Loss) From Discontinued Operations — Net of Tax	—	0.19	(0.19)	0.03	(0.46)	0.49
19	Cumulative Effect of Change in Accounting — Net of Tax	—	—	—	—	—	—
20	Net Income	<u>\$ 1.84</u>	<u>\$ 1.05</u>	<u>\$ 0.79</u>	<u>\$ 3.10</u>	<u>\$ 1.62</u>	<u>\$ 1.48</u>
21	BOOK VALUE PER SHARE	\$ 34.07*	\$ 35.81	\$ (1.74)	\$ 34.07*	\$ 35.81	(1.74)
COMMON SHARES OUTSTANDING (Thousands)							
22	Average — Diluted	99,973	98,816	1,157	99,723	95,755	3,968
23	End of Period	99,648	98,881	767	99,648	98,881	767

* Estimate

See Glossary of Terms

Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Periods Ended September 30, 2006 and 2005

Line	3 Mo. Ended September			9 Mo. Ended September			
	2006	2005	Incr (Decr)	2006	2005	Incr (Decr)	
ELECTRIC OPERATING REVENUES (Dollars in Millions)							
REGULATED ELECTRICITY SEGMENT							
Retail							
24	Residential	\$ 490	\$ 414	\$ 76	\$ 1,029	\$ 872	\$ 157
25	Business	371	308	63	937	798	139
26	Total retail	861	722	139	1,966	1,670	296
Wholesale revenue on delivered electricity							
27	Traditional contracts	12	9	3	25	17	8
28	Off-system sales	—	8	(8)	34	20	14
29	Transmission for others	7	7	—	19	21	(2)
30	Other miscellaneous services	7	7	—	22	21	1
31	Total regulated operating electricity revenues	887	753	134	2,066	1,749	317
MARKETING AND TRADING SEGMENT							
32	Electricity and other commodity sales	85	107	(22)	259	267	(8)
33	Total operating electric revenues	\$ 972	\$ 860	\$ 112	\$ 2,325	\$ 2,016	\$ 309
ELECTRIC SALES (GWH)							
REGULATED ELECTRICITY SEGMENT							
Retail sales							
34	Residential	4,720	4,449	271	10,423	9,705	718
35	Business	4,222	4,100	122	11,392	10,826	566
36	Total retail	8,942	8,549	393	21,815	20,531	1,284
Wholesale electricity delivered							
37	Traditional contracts	321	269	52	717	624	93
38	Off-system sales	300	212	88	1,497	810	687
39	Retail load hedge management	622	1,026	(404)	1,227	2,478	(1,251)
40	Total regulated electricity	10,185	10,056	129	25,256	24,443	813
MARKETING AND TRADING SEGMENT							
41	Wholesale sales of electricity	4,841	7,263	(2,422)	12,594	18,332	(5,738)
42	Total electric sales	15,026	17,319	(2,293)	37,850	42,775	(4,925)

See Glossary of Terms

Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Periods Ended September 30, 2006 and 2005

Line	3 Mo. Ended September			9 Mo. Ended September			
	2006	2005	Incr (Decr)	2006	2005	Incr (Decr)	
POWER SUPPLY ADJUSTOR ("PSA") — REGULATED ELECTRICITY SEGMENT (Dollars in Millions)							
43	Deferred fuel and purchased power regulatory asset - beginning balance	\$ 175	\$ 38	\$ 137	\$ 173	\$ —	\$ 173
44	Deferred fuel and purchased power costs — current period	134	104	30	225	142	83
45	Interest on deferred fuel	2	1	1	6	1	5
46	Amounts recovered through revenues	(102)	—	(102)	(195)	—	(195)
47	Deferred fuel and purchased power regulatory asset - ending balance	<u>\$ 209</u>	<u>\$ 143</u>	<u>\$ 66</u>	<u>\$ 209</u>	<u>\$ 143</u>	<u>\$ 66</u>
MARKETING AND TRADING SEGMENT PRETAX GROSS MARGIN ANALYSIS (Dollars in Millions)							
Realized and Mark-To-Market Components							
48	Electricity and other commodity sales, realized (a)	\$ 8	\$ 3	\$ 5	\$ 36	\$ 33	\$ 3
49	Mark-to-market reversals on realized sales (a) (b)	(1)	3	(4)	(3)	(5)	2
50	Change in mark-to-market value of forward sales	(3)	14	(17)	(2)	24	(26)
51	Total gross margin	<u>\$ 4</u>	<u>\$ 20</u>	<u>\$ (16)</u>	<u>\$ 31</u>	<u>\$ 52</u>	<u>\$ (21)</u>
By Pinnacle West Entity							
52	Parent company marketing and trading division	\$ 5	\$ 26	\$ (21)	\$ 15	\$ 53	\$ (38)
53	APS	(3)	(8)	5	8	(9)	17
54	Pinnacle West Energy	—	—	—	—	5	(5)
55	APS Energy Services	2	2	—	8	3	5
56	Total gross margin	<u>\$ 4</u>	<u>\$ 20</u>	<u>\$ (16)</u>	<u>\$ 31</u>	<u>\$ 52</u>	<u>\$ (21)</u>

Future Marketing and Trading Mark-to-Market Realization

As of September 30, 2006, Pinnacle West had accumulated net mark-to-market gains of \$40 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: 2006, \$8 million; 2007, \$17 million; and 2008, \$15 million.

- (a) Net effect on pretax gross margin from realization of prior-period mark-to-market included in line 48 and in line 49 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 48 are included in line 49. For example, line 49 shows that a prior-period mark-to-market gain of \$1 million was transferred to "realized" for the third quarter of 2006. A \$1 million realized gain is included in the \$8 million on line 48 for the third quarter of 2006.
- (b) Quarterly amounts do not total to annual amounts because of intra-year mark-to-market eliminations.

See Glossary of Terms

Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Periods Ended September 30, 2006 and 2005

Line	3 Mo. Ended September			9 Mo. Ended September		
	2006	2005	Incr (Decr)	2006	2005	Incr (Decr)
AVERAGE ELECTRIC CUSTOMERS						
Retail customers						
57 Residential	935,523	895,789	39,734	932,241	891,422	40,819
58 Business	116,009	111,648	4,361	114,794	110,700	4,094
59 Total	1,051,532	1,007,437	44,095	1,047,035	1,002,122	44,913
60 Wholesale customers	76	78	(2)	76	78	(2)
61 Total customers	1,051,608	1,007,515	44,093	1,047,111	1,002,200	44,911
62 Customer growth (% over prior year)	4.4%	4.5%	(0.1)%	4.5%	4.2%	0.3%
RETAIL SALES (GWH) — WEATHER NORMALIZED						
63 Residential	4,776	4,421	355	10,395	9,765	630
64 Business	4,232	4,120	112	11,410	10,871	539
65 Total	9,008	8,541	467	21,805	20,636	1,169
RETAIL USAGE (KWh/Average Customer)						
66 Residential	5,045	4,967	78	11,181	10,887	294
67 Business	36,394	36,723	(329)	99,238	97,795	1,443
RETAIL USAGE — WEATHER NORMALIZED (KWh/Average Customer)						
68 Residential	5,105	4,935	170	11,151	10,954	197
69 Business	36,477	36,899	(422)	99,395	98,202	1,193
ELECTRICITY DEMAND (MW)						
70 System peak demand	7,652	7,000	652	7,652	7,000	652

See Glossary of Terms

Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Periods Ended September 30, 2006 and 2005

Line	3 Mo. Ended September			9 Mo. Ended September			
	2006	2005	Incr (Decr)	2006	2005	Incr (Decr)	
ENERGY SOURCES (GWH)							
Generation production							
71	Nuclear	2,202	2,147	55	5,120	6,013	(893)
72	Coal	3,574	3,574	—	9,839	9,602	237
73	Gas, oil and other	2,433	3,064	(631)	5,756	6,321	(565)
74	Total generation production	<u>8,209</u>	<u>8,785</u>	<u>(576)</u>	<u>20,715</u>	<u>21,936</u>	<u>(1,221)</u>
Purchased power							
75	Firm load	1,962	1,589	373	4,067	3,055	1,012
76	Marketing and trading	5,607	7,795	(2,188)	14,912	19,611	(4,699)
77	Total purchased power	<u>7,569</u>	<u>9,384</u>	<u>(1,815)</u>	<u>18,979</u>	<u>22,666</u>	<u>(3,687)</u>
78	Total energy sources	<u>15,778</u>	<u>18,169</u>	<u>(2,391)</u>	<u>39,694</u>	<u>44,602</u>	<u>(4,908)</u>
POWER PLANT PERFORMANCE							
Capacity Factors							
79	Nuclear	88%	88%	0%	69%	83%	(14)%
80	Coal	94%	95%	(1)%	87%	86%	1%
81	Gas, oil and other	34%	39%	(5)%	26%	29%	(3)%
82	System average	61%	62%	(1)%	51%	54%	(3)%
Generation Capacity Out of Service and Replaced for Native Load (average MW/day)(a)							
83	Nuclear	97	107	(10)	119	163	(44)
84	Coal	62	47	15	62	162	(100)
85	Gas	109	140	(31)	53	172	(119)
86	Total	<u>268</u>	<u>294</u>	<u>(26)</u>	<u>234</u>	<u>497</u>	<u>(263)</u>

(a) Includes planned and unplanned outages

See Glossary of Terms

Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Periods Ended September 30, 2006 and 2005

Line	3 Mo. Ended September			9 Mo. Ended September			
	2006	2005	Incr (Decr)	2006	2005	Incr (Decr)	
ENERGY MARKET INDICATORS (a)							
Electricity Average Daily Spot Prices (\$/MWh)							
On-Peak							
87	Palo Verde	\$65.89	\$ 78.94	\$ (13.05)	\$ 58.10	\$ 60.67	\$ (2.57)
88	SP15	\$71.89	\$ 83.21	\$ (11.32)	\$ 61.87	\$ 64.70	\$ (2.83)
Off-Peak							
89	Palo Verde	\$38.45	\$ 52.35	\$ (13.90)	\$ 36.25	\$ 40.81	\$ (4.56)
90	SP15	\$43.94	\$ 56.08	\$ (12.14)	\$ 38.82	\$ 43.92	\$ (5.10)
WEATHER INDICATORS							
Actual							
91	Cooling degree-days	2,455	2,583	(128)	4,238	4,155	83
92	Heating degree-days	—	—	—	468	458	10
93	Average humidity	33%	29%	4%	26%	35%	(9)%
10-Year Averages							
94	Cooling degree-days	2,541	2,541	—	4,187	4,187	—
95	Heating degree-days	—	—	—	545	545	—
96	Average humidity	33%	33%	0%	32%	32%	0%
ECONOMIC INDICATORS							
Building Permits — Metro Phoenix (b) (d)							
97	Single-family	4,397	8,000	(3,603)	21,996	30,369	(8,373)
98	Multi-family	2,031	2,038	(7)	7,894	5,424	2,470
99	Total	<u>6,428</u>	<u>10,038</u>	<u>(3,610)</u>	<u>29,890</u>	<u>35,793</u>	<u>(5,903)</u>
Arizona Job Growth (c) (d)							
100	Payroll job growth (% over prior year)	4.7%	6.1%	(1.4)%	5.1%	5.4%	(0.3)%
101	Unemployment rate (% , seasonally adjusted)	4.2%	4.8%	(0.6)%	4.3%	4.7%	(0.4)%

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 latest available data through periods ended August 31, 2006.

See Glossary of Terms

Pinnacle West Capital Corporation
Consolidated Statistics By Quarter
2006

Line	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year-To-Date	Increase (Decrease) vs Prior YTD
EARNINGS CONTRIBUTION BY SUBSIDIARY (\$ Millions)						
1	\$ (6)	\$ 94	\$ 169		\$ 257	\$ 105
2	—	—	—		—	80
3	1	—	(2)		(1)	2
4	21	8	17		47	21
5	(1)	—	—		(2)	(1)
6	(3)	9	—		6	(99)
7	12	111	184	—	307	108
8	—	1	—		2	46
9	—	—	—	—	—	—
10	<u>\$ 12</u>	<u>\$ 112</u>	<u>\$ 184</u>	<u>\$ —</u>	<u>\$ 309</u>	<u>\$ 154</u>
EARNINGS PER SHARE BY SUBSIDIARY — DILUTED						
11	\$ (0.06)	\$ 0.95	\$ 1.69		\$ 2.57	\$ 0.98
12	—	—	—		—	0.83
13	0.01	—	(0.02)		(0.01)	0.02
14	0.21	0.08	0.17		0.47	0.20
15	(0.01)	—	—		(0.02)	(0.01)
16	(0.03)	0.08	—		0.06	(1.03)
17	0.12	1.11	1.84	—	3.07	0.99
18	0.01	0.02	—		0.03	0.49
19	—	—	—	—	—	—
20	<u>\$ 0.13</u>	<u>\$ 1.13</u>	<u>\$ 1.84</u>	<u>\$ —</u>	<u>\$ 3.10</u>	<u>\$ 1.48</u>
21	\$ 32.37	\$ 33.08	\$ 34.07*		\$ 34.07*	(1.74)
COMMON SHARES OUTSTANDING (Thousands)						
22	99,449	99,640	99,973		99,723	3,968
23	99,187	99,284	99,648		99,648	767

* Estimate

See Glossary of Terms

Pinnacle West Capital Corporation
Consolidated Statistics By Quarter
2006

Line	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year-To-Date	Increase (Decrease) vs Prior YTD
ELECTRIC OPERATING REVENUES						
(Dollars in Millions)						
REGULATED ELECTRICITY SEGMENT						
Retail						
24	Residential	\$ 202	\$ 337	\$ 490	\$ 1,029	\$ 157
25	Business	233	333	371	937	139
26	Total retail	435	670	861	1,966	296
Wholesale revenue on delivered electricity						
27	Traditional contracts	6	7	12	25	8
28	Off-system sales	12	22	—	34	14
29	Transmission for others	6	6	7	19	(2)
30	Other miscellaneous services	7	8	7	22	1
31	Total regulated operating electricity revenues	466	713	887	2,066	317
MARKETING AND TRADING SEGMENT						
32	Electricity and other commodity sales	85	90	85	259	(8)
33	Total operating electric revenues	<u>\$ 551</u>	<u>\$ 803</u>	<u>\$ 972</u>	<u>\$ 2,325</u>	<u>\$ 309</u>
ELECTRIC SALES (GWH)						
REGULATED ELECTRICITY SEGMENT						
Retail sales						
34	Residential	2,419	3,284	4,720	10,423	718
35	Business	3,199	3,971	4,222	11,392	566
36	Total retail	5,618	7,255	8,942	21,815	1,284
Wholesale electricity delivered						
37	Traditional contracts	215	181	321	717	93
38	Off-system sales	927	270	300	1,497	687
39	Retail load hedge management	90	515	622	1,227	(1,251)
40	Total regulated electricity	6,850	8,221	10,185	25,256	813
MARKETING AND TRADING SEGMENT						
41	Wholesale sales of electricity	3,891	3,862	4,841	12,594	(5,738)
42	Total electric sales	<u>10,741</u>	<u>12,083</u>	<u>15,026</u>	<u>37,850</u>	<u>(4,925)</u>

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Pinnacle West Capital Corporation
Consolidated Statistics By Quarter
2006

Line	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year-To-Date	Increase (Decrease) vs Prior YTD
POWER SUPPLY ADJUSTOR ("PSA") — REGULATED ELECTRICITY SEGMENT (Dollars in Millions)						
43	Deferred fuel and purchased power regulatory asset — beginning balance	\$ 173	\$ 169	\$ 175	\$ 173	\$ 173
44	Deferred fuel and purchased power costs — current period	13	78	134	225	83
45	Interest on deferred fuel	1	3	2	6	5
46	Amounts recovered through revenues	(18)	(75)	(102)	(195)	(195)
47	Deferred fuel and purchased power regulatory asset — ending balance	<u>\$ 169</u>	<u>\$ 175</u>	<u>\$ 209</u>	<u>\$ 209</u>	<u>\$ 66</u>
MARKETING AND TRADING SEGMENT PRETAX GROSS MARGIN ANALYSIS (Dollars in Millions)						
Realized and Mark-To-Market Components						
48	Electricity and other commodity sales, realized (a)	\$ 11	\$ 17	\$ 8	\$ 36	\$ 3
49	Mark-to-market reversals on realized sales (a) (b)	(1)	(1)	(1)	(3)	2
50	Change in mark-to-market value of forward sales	1	—	(3)	(2)	(26)
51	Total gross margin	<u>\$ 11</u>	<u>\$ 16</u>	<u>\$ 4</u>	<u>\$ 31</u>	<u>\$ (21)</u>
By Pinnacle West Entity						
52	Parent company marketing and trading division	\$ (2)	\$ 11	\$ 5	\$ 15	\$ (38)
53	APS	10	2	(3)	8	17
54	Pinnacle West Energy	—	—	—	—	(5)
55	APS Energy Services	3	3	2	8	5
56	Total gross margin	<u>\$ 11</u>	<u>\$ 16</u>	<u>\$ 4</u>	<u>\$ 31</u>	<u>\$ (21)</u>

Future Marketing and Trading Mark-to-Market Realization

As of September 30, 2006, Pinnacle West had accumulated net mark-to-market gains of \$40 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: 2006, \$8 million; 2007, \$17 million; and 2008, \$15 million.

- (a) Net effect on pretax gross margin from realization of prior-period mark-to-market included in line 48 and in line 49 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 48 are included in line 49. For example, line 49 shows that a prior-period mark-to-market gain of \$1 million was transferred to "realized" for the third quarter of 2006. A \$1 million realized gain is included in the \$8 million on line 48 for the third quarter of 2006.
- (b) Quarterly amounts do not total to annual amounts because of intra-year mark-to-market eliminations.

Pinnacle West Capital Corporation
Consolidated Statistics By Quarter
2006

Line		1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year-To-Date	Increase (Decrease) vs Prior YTD
AVERAGE ELECTRIC CUSTOMERS							
Retail customers							
57	Residential	930,799	930,402	935,523		932,241	40,819
58	Business	113,570	114,803	116,009		114,794	4,094
59	Total	1,044,369	1,045,205	1,051,532	—	1,047,035	44,913
60	Wholesale customers	75	76	76		76	(2)
61	Total customers	<u>1,044,444</u>	<u>1,045,281</u>	<u>1,051,608</u>	<u>—</u>	<u>1,047,111</u>	<u>44,911</u>
62	Customer growth (% over prior year)	4.5%	4.6%	4.4%		4.5%	0.3%
RETAIL SALES (GWH) - WEATHER NORMALIZED							
63	Residential	2,514	3,105	4,776		10,395	630
64	Business	<u>3,252</u>	<u>3,926</u>	<u>4,232</u>		<u>11,410</u>	<u>539</u>
65	Total	<u>5,766</u>	<u>7,031</u>	<u>9,008</u>	<u>—</u>	<u>21,805</u>	<u>1,169</u>
RETAIL USAGE (KWh/Average Customer)							
66	Residential	2,763	3,530	5,045		11,181	294
67	Business	30,444	34,590	36,394		99,238	1,443
RETAIL USAGE - WEATHER NORMALIZED (KWh/Average Customer)							
68	Residential	2,700	3,337	5,105		11,151	197
69	Business	28,636	34,194	36,477		99,395	1,193
ELECTRICITY DEMAND (MW)							
70	System peak demand	4,205	6,624	7,652		7,652	652

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Pinnacle West Capital Corporation
Consolidated Statistics By Quarter
2006

Line		1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year-To-Date	Increase (Decrease) vs Prior YTD
ENERGY SOURCES (GWH)							
Generation production							
71	Nuclear	1,720	1,198	2,202		5,120	(893)
72	Coal	3,083	3,182	3,574		9,839	237
73	Gas, oil and other	1,323	2,000	2,433		5,756	(565)
74	Total generation production	<u>6,126</u>	<u>6,380</u>	<u>8,209</u>	—	<u>20,715</u>	<u>(1,221)</u>
Purchased power							
75	Firm load	365	1,740	1,962		4,067	1,012
76	Marketing and trading	4,759	4,546	5,607		14,912	(4,699)
77	Total purchased power	<u>5,124</u>	<u>6,286</u>	<u>7,569</u>	—	<u>18,979</u>	<u>(3,687)</u>
78	Total energy sources	<u>11,250</u>	<u>12,666</u>	<u>15,778</u>	—	<u>39,694</u>	<u>(4,908)</u>
POWER PLANT PERFORMANCE							
Capacity Factors							
79	Nuclear	71%	49%	88%		69%	(14)%
80	Coal	83%	84%	94%		87%	1%
81	Gas, oil and other	18%	28%	34%		26%	(3)%
82	System average	46%	48%	61%		51%	(3)%
Generation Capacity Out of Service and Replaced for Native Load (average MW/day)							
(a)							
83	Nuclear	306	553	97		119	(44)
84	Coal	257	184	62		62	(100)
85	Gas	201	117	109		53	(119)
86	Total	<u>764</u>	<u>854</u>	<u>268</u>	—	<u>234</u>	<u>(203)</u>

(a) Includes planned and unplanned outages

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Pinnacle West Capital Corporation
Consolidated Statistics By Quarter
2006

Line		1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year-To-Date	Increase (Decrease) vs Prior YTD
ENERGY MARKET INDICATORS (a)							
Electricity Average Daily Spot Prices (\$/MWh)							
On-Peak							
87	Palo Verde	\$ 53.78	\$ 54.63	\$65.89		\$ 58.10	\$ (2.57)
88	SP15	\$ 58.34	\$ 55.39	\$71.89		\$ 61.87	\$ (2.83)
Off-Peak							
89	Palo Verde	\$ 41.92	\$ 28.38	\$38.45		\$ 36.25	\$ (4.56)
90	SP15	\$ 44.79	\$ 27.73	\$43.94		\$ 38.82	\$ (5.10)
WEATHER INDICATORS							
Actual							
91	Cooling degree-days	43	1,740	2,455		4,238	83
92	Heating degree-days	464	4	—		468	10
93	Average humidity	28%	18%	33%		26%	(9)%
10-Year Averages							
94	Cooling degree-days	99	1,547	2,541		4,187	—
95	Heating degree-days	514	31	—		545	—
96	Average humidity	41%	23%	33%		32%	0%
ECONOMIC INDICATORS							
Building Permits — Metro Phoenix (b) (d)							
97	Single-family	8,716	8,883	4,397		21,996	(8,373)
98	Multi-family	2,887	2,976	2,031		7,894	2,470
99	Total	<u>11,603</u>	<u>11,859</u>	<u>6,428</u>	<u>—</u>	<u>29,890</u>	<u>(5,903)</u>
Arizona Job Growth (c) (d)							
100	Payroll job growth (% over prior year)	5.6%	4.8%	4.7%		5.1%	(0.3)%
101	Unemployment rate (% , seasonally adjusted)	4.4%	4.3%	4.2%		4.3%	(0.4)%

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 latest available data through periods ended August 31, 2006.

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Pinnacle West Capital Corporation
Consolidated Statistics By Quarter
2005

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

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Pinnacle West Capital Corporation
Consolidated Statistics By Quarter
2005

Line		1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year-To-Date	Increase (Decrease) vs Prior YTD
ELECTRIC OPERATING REVENUES (Dollars in Millions)							
REGULATED ELECTRICITY SEGMENT							
Retail							
24	Residential	\$ 190	\$ 268	\$ 414	\$ 207	\$ 1,079	\$ 95
25	Business	209	281	308	243	1,041	63
26	Total retail	399	549	722	450	2,120	158
Wholesale revenue on delivered electricity							
27	Traditional contracts	3	5	9	6	23	7
28	Off-system sales	—	12	8	20	40	40
29	Transmission for others	7	7	7	5	26	(6)
30	Other miscellaneous services	7	7	7	7	28	3
31	Total regulated operating electricity revenues	416	580	753	488	2,237	202
MARKETING AND TRADING SEGMENT							
32	Electricity and other commodity sales	89	71	107	83	351	(50)
33	Total operating electric revenues	<u>\$ 505</u>	<u>\$ 651</u>	<u>\$ 860</u>	<u>\$ 571</u>	<u>\$ 2,588</u>	<u>\$ 152</u>
ELECTRIC SALES (GWH)							
REGULATED ELECTRICITY SEGMENT							
Retail sales							
34	Residential	2,367	2,889	4,449	2,518	12,223	696
35	Business	3,042	3,684	4,100	3,427	14,254	428
36	Total retail	5,409	6,573	8,549	5,945	26,477	1,124
Wholesale electricity delivered							
37	Traditional contracts	155	200	269	227	850	141
38	Off-system sales	—	598	212	526	1,336	1,336
39	Retail load hedge management	750	702	1,026	532	3,010	278
40	Total regulated electricity	6,314	8,073	10,056	7,230	31,673	2,879
MARKETING AND TRADING SEGMENT							
41	Wholesale sales of electricity	6,060	5,009	7,263	5,240	23,572	(6,606)
42	Total electric sales	<u>12,374</u>	<u>13,082</u>	<u>17,319</u>	<u>12,470</u>	<u>55,245</u>	<u>(3,727)</u>

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Pinnacle West Capital Corporation
Consolidated Statistics By Quarter
2005

Line		1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year-To-Date	Increase (Decrease) vs Prior YTD
POWER SUPPLY ADJUSTOR ("PSA") - REGULATED ELECTRICITY SEGMENT (Dollars in Millions)							
43	Deferred fuel and purchased power regulatory asset — beginning balance	\$ —	\$ —	\$ 38	143	\$ —	\$ —
44	Deferred fuel and purchased power costs — current period	—	38	104	29	171	171
45	Interest on deferred fuel	—	—	1	1	2	2
46	Amounts recovered through revenues	—	—	—	—	—	—
47	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 SEGMENT PRETAX GROSS MARGIN ANALYSIS (Dollars in Millions)							
Realized and Mark-To-Market Components							
48	Electricity and other commodity sales, realized (a)	\$ 12	\$ 18	\$ 3	\$ 22	\$ 55	\$ (9)
49	Mark-to-market reversals on realized sales (a) (b)	(3)	(8)	3	(17)	(16)	(11)
50	Change in mark-to-market value of forward sales	10	3	14	1	20	(1)
51	Total gross margin	<u>\$ 19</u>	<u>\$ 13</u>	<u>\$ 20</u>	<u>\$ 6</u>	<u>\$ 59</u>	<u>\$ (21)</u>
By Pinnacle West Entity							
52	Parent company marketing and trading division	\$ 21	\$ 6	\$ 26	\$ 5	\$ 59	\$ 34
53	APS	(4)	3	(8)	3	(6)	(1)
54	Pinnacle West Energy	5	—	—	—	5	(41)
55	APS Energy Services	(3)	4	2	(2)	1	(13)
56	Total gross margin	<u>\$ 19</u>	<u>\$ 13</u>	<u>\$ 20</u>	<u>\$ 6</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 48 and in line 49 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 48 are included in line 49. For example, line 49 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 48 for the total year 2005.

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

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Pinnacle West Capital Corporation
Consolidated Statistics By Quarter
2005

Line		1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year-To-Date	Increase (Decrease) vs Prior YTD
AVERAGE ELECTRIC CUSTOMERS							
Retail customers							
57	Residential	889,967	888,509	895,789	911,623	896,472	37,403
58	Business	109,795	110,658	111,648	112,569	111,168	4,053
59	Total	999,762	999,167	1,007,437	1,024,192	1,007,640	41,456
60	Wholesale customers	81	76	78	77	78	(3)
61	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>
62	Customer growth (% over prior year)	4.0%	4.2%	4.5%	4.5%	4.3%	0.6%
RETAIL SALES (GWH) - WEATHER NORMALIZED							
63	Residential	2,439	2,905	4,421	2,515	12,280	572
64	Business	<u>3,058</u>	<u>3,693</u>	<u>4,120</u>	<u>3,414</u>	<u>14,286</u>	<u>415</u>
65	Total	<u>5,497</u>	<u>6,598</u>	<u>8,541</u>	<u>5,929</u>	<u>26,566</u>	<u>987</u>
RETAIL USAGE (KWh/Average Customer)							
66	Residential	2,660	3,252	4,967	2,763	13,635	217
67	Business	27,706	33,292	36,723	30,444	128,514	(878)
RETAIL USAGE - WEATHER NORMALIZED (KWh/Average Customer)							
68	Residential	2,741	3,269	4,935	2,758	13,698	70
69	Business	27,860	33,377	36,899	30,332	128,507	(987)
ELECTRICITY DEMAND (MW)							
70	System peak demand	3,997	6,458	7,000	5,169	7,000	598

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Pinnacle West Capital Corporation
Consolidated Statistics By Quarter
2005

Line		1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year-To-Date	Increase (Decrease) vs Prior YTD
ENERGY SOURCES (GWH)							
Generation production							
71	Nuclear	2,247	1,619	2,147	1,496	7,509	(674)
72	Coal	2,940	3,088	3,574	3,458	13,060	394
73	Gas, oil and other	1,128	2,129	3,064	2,114	8,435	3,107
74	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>
Purchased power							
75	Firm load	586	880	1,589	402	3,474	(851)
76	Marketing and trading	5,832	5,984	7,795	6,102	25,713	(4,479)
77	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>
78	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>
POWER PLANT PERFORMANCE							
Capacity Factors							
79	Nuclear	94%	67%	88%	61%	77%	(7)%
80	Coal	80%	83%	95%	91%	87%	3%
81	Gas, oil and other	17%	29%	39%	27%	28%	8%
82	System average	49%	51%	62%	50%	53%	2%
Generation Capacity Out of Service and Replaced for Native Load (average MW/day)							
(a)							
83	Nuclear	52	329	107	419	114	(45)
84	Coal	195	244	47	103	73	(55)
85	Gas	<u>212</u>	<u>164</u>	<u>140</u>	<u>226</u>	<u>93</u>	<u>45</u>
86	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
Consolidated Statistics By Quarter
2005

Line		1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year-To-Date	Increase (Decrease) vs Prior YTD
ENERGY MARKET INDICATORS (a)							
Electricity Average Daily Spot Prices (\$/MWh)							
On-Peak							
87	Palo Verde	\$ 49.74	\$ 53.33	\$ 78.94	\$ 83.58	\$ 66.40	\$ 17.10
88	SP15	\$ 55.70	\$ 55.19	\$ 83.21	\$ 97.65	\$ 72.94	\$ 17.74
Off-Peak							
89	Palo Verde	\$ 37.04	\$ 33.03	\$ 52.35	\$ 67.79	\$ 47.55	\$ 12.81
90	SP15	\$ 40.96	\$ 34.73	\$ 56.08	\$ 76.45	\$ 52.06	\$ 13.44
WEATHER INDICATORS							
Actual							
91	Cooling degree-days	34	1,538	2,583	508	4,663	(31)
92	Heating degree-days	457	1	—	308	766	(219)
93	Average humidity	56%	20%	29%	30%	34%	2%
10-Year Averages							
94	Cooling degree-days	99	1,547	2,541	437	4,623	—
95	Heating degree-days	514	31	—	386	930	—
96	Average humidity	41%	23%	33%	39%	34%	0%
ECONOMIC INDICATORS							
Building Permits — Metro Phoenix (b)							
97	Single-family	10,356	12,013	11,577	9,312	43,258	(4,859)
98	Multi-family	1,741	1,645	2,360	2,032	7,778	192
99	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>
Arizona Job Growth (c)							
100	Payroll job growth (% over prior year)	4.8%	5.5%	6.1%	6.0%	5.6%	2.2%
101	Unemployment rate (% , seasonally adjusted)	4.5%	4.7%	4.8%	4.7%	4.7%	(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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Pinnacle West Capital Corporation
Consolidated Statistics By Quarter
2004

Line		1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year-To-Date	Increase (Decrease) vs Prior YTD
EARNINGS CONTRIBUTION BY SUBSIDIARY							
(\$ Millions)							
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
8	Income (Loss) From Discontinued Operations — Net of Tax	—	(1)	1	(4)	(4)	(20)
9	Cumulative Effect of Change in Accounting — Net of Tax	—	—	—	—	—	—
10	Net Income	<u>\$ 31</u>	<u>\$ 73</u>	<u>\$ 105</u>	<u>\$ 34</u>	<u>\$ 243</u>	<u>\$ 2</u>
EARNINGS PER SHARE BY SUBSIDIARY — DILUTED							
11	Arizona Public Service	\$ 0.38	\$ 0.60	\$ 1.04	\$ 0.16	\$ 2.18	\$ 0.20
12	Pinnacle West Energy	(0.24)	(0.15)	0.01	(0.25)	(0.63)	(0.55)
13	APS Energy Services	0.02	0.01	0.01	(0.01)	0.03	(0.15)
14	SunCor	0.02	0.04	0.05	0.34	0.45	(0.05)
15	El Dorado	—	0.37	—	—	0.36	0.37
16	Parent Company	0.15	(0.06)	0.03	0.17	0.30	0.40
17	Income From Continuing Operations	0.33	0.81	1.14	0.41	2.69	0.22
18	Income (Loss) From Discontinued Operations — Net of Tax	0.01	(0.02)	0.01	(0.04)	(0.03)	(0.19)
19	Cumulative Effect of Change in Accounting — Net of Tax	—	—	—	—	—	—
20	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>
21	BOOK VALUE PER SHARE	<u>\$ 31.19</u>	<u>\$ 31.68</u>	<u>\$ 32.55</u>	<u>\$ 32.14</u>	<u>\$ 32.14</u>	<u>\$ 1.17</u>
COMMON SHARES OUTSTANDING							
(Thousands)							
22	Average — Diluted	91,376	91,400	91,491	91,779	91,532	127
23	End of Period	91,310	91,309	91,443	91,793	91,793	505

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Pinnacle West Capital Corporation
Consolidated Statistics By Quarter
2004

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

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Pinnacle West Capital Corporation
Consolidated Statistics By Quarter
2004

Line	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year-To-Date	Increase (Decrease) vs Prior YTD
POWER SUPPLY ADJUSTOR ("PSA") - REGULATED ELECTRICITY SEGMENT (Dollars in Millions)						
43	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
44	—	—	—	—	—	—
45	—	—	—	—	—	—
46	—	—	—	—	—	—
47	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
MARKETING AND TRADING SEGMENT PRETAX GROSS MARGIN ANALYSIS (Dollars in Millions)						
Realized and Mark-To-Market Components						
48	\$ 12	\$ 21	\$ 16	\$ 15	\$ 64	\$ (1)
49	1	(4)	(3)	(1)	(5)	6
50	8	4	8	3	21	28
51	<u>\$ 21</u>	<u>\$ 21</u>	<u>\$ 21</u>	<u>\$ 17</u>	<u>\$ 80</u>	<u>\$ 33</u>
By Pinnacle West Entity						
52	\$ 12	\$ 6	\$ 5	\$ 1	\$ 25	\$ 30
53	(5)	—	2	(2)	(5)	(13)
54	10	11	10	16	46	38
55	4	4	4	2	14	(22)
56	<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 48 and in line 49 is zero. Realization of prior-period mark-to-market relates to cash flow recognition, not earnings recognition. The opposites of amounts included in line 48 are included in line 49. For example, line 49 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 48 for the total year 2004.

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

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Pinnacle West Capital Corporation
Consolidated Statistics By Quarter
2004

Line	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year-To-Date	Increase (Decrease) vs Prior YTD
AVERAGE ELECTRIC CUSTOMERS						
Retail customers						
57 Residential	855,754	852,594	856,353	871,575	859,069	30,703
58 Business	105,502	106,517	107,583	108,860	107,115	4,019
59 Total	<u>961,256</u>	<u>959,111</u>	<u>963,936</u>	<u>980,435</u>	<u>966,184</u>	<u>34,722</u>
60 Wholesale customers	81	82	85	77	81	15
61 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>
62 Customer growth (% over prior year)	3.4%	3.8%	3.9%	3.9%	3.7%	0.4%
RETAIL SALES (GWH) - WEATHER NORMALIZED						
63 Residential	2,366	2,798	4,209	2,334	11,708	804
64 Business	<u>2,998</u>	<u>3,616</u>	<u>4,005</u>	<u>3,252</u>	<u>13,871</u>	<u>469</u>
65 Total	<u>5,364</u>	<u>6,414</u>	<u>8,214</u>	<u>5,586</u>	<u>25,579</u>	<u>1,273</u>
RETAIL USAGE (KWh/Average Customer)						
66 Residential	2,816	3,193	4,704	2,717	13,418	(39)
67 Business	28,919	33,816	36,595	29,726	129,392	(1,137)
RETAIL USAGE - WEATHER NORMALIZED (KWh/Average Customer)						
68 Residential	2,765	3,282	4,915	2,678	13,628	465
69 Business	28,421	33,944	37,224	29,874	129,494	(503)
ELECTRICITY DEMAND (MW)						
70 System peak demand	3,979	5,632	6,402	4,432	6,402	70

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Pinnacle West Capital Corporation
Consolidated Statistics By Quarter
2004

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

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2004

Line	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year-To-Date	Increase (Decrease) vs Prior YTD	
ENERGY MARKET INDICATORS (a)							
Electricity Average Daily Spot Prices (\$/MWh)							
On-Peak							
87	Palo Verde	\$ 43.73	\$ 50.36	\$ 51.86	\$ 51.23	\$ 49.30	\$ 0.70
88	SP15	\$ 48.37	\$ 54.73	\$ 57.09	\$ 60.62	\$ 55.20	\$ 3.82
Off-Peak							
89	Palo Verde	\$ 33.66	\$ 33.74	\$ 33.37	\$ 38.21	\$ 34.75	\$ 2.72
90	SP15	\$ 36.90	\$ 37.32	\$ 37.18	\$ 43.07	\$ 38.62	\$ 3.96
WEATHER INDICATORS							
Actual							
91	Cooling degree-days	273	1,598	2,471	352	4,694	(205)
92	Heating degree-days	552	11	—	422	985	249
93	Average humidity	39%	19%	26%	45%	32%	1%
10-Year Averages							
94	Cooling degree-days	99	1,547	2,541	437	4,623	—
95	Heating degree-days	514	31	—	386	930	—
96	Average humidity	41%	23%	33%	39%	34%	0%
ECONOMIC INDICATORS							
Building Permits — Metro Phoenix (b)							
97	Single-family	10,045	13,636	14,111	10,325	48,117	8,466
98	Multi-family	1,757	1,324	2,149	2,356	7,586	859
99	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>
Arizona Job Growth (c)							
100	Payroll job growth (% over prior year)	2.7%	3.3%	3.6%	3.9%	3.4%	2.0%
101	Unemployment rate (% , seasonally adjusted)	5.2%	5.1%	4.9%	4.6%	5.0%	(0.7)%

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
2003

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

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Consolidated Statistics By Quarter
2003

Line	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year-To-Date	Increase (Decrease) vs Prior YTD
ELECTRIC OPERATING REVENUES (Dollars in Millions)						
REGULATED ELECTRICITY SEGMENT						
Retail						
24 Residential	\$ 168	\$ 233	\$ 363	\$ 193	\$ 957	\$ 51
25 Business	196	251	284	222	953	25
26 Total retail	364	484	647	415	1,910	76
Wholesale revenue on delivered electricity						
27 Traditional contracts	3	4	5	3	15	7
28 Off-system sales	—	—	—	—	—	—
29 Transmission for others	6	5	9	8	28	(2)
30 Other miscellaneous services	7	6	6	6	25	7
31 Total regulated operating electricity revenues	380	499	667	432	1,978	88
MARKETING AND TRADING SEGMENT						
32 Electricity and other commodity sales	117	101	83	91	392	105
33 Total operating electric revenues	<u>\$ 497</u>	<u>\$ 600</u>	<u>\$ 750</u>	<u>\$ 523</u>	<u>\$ 2,370</u>	<u>\$ 193</u>
ELECTRIC SALES (GWH)						
REGULATED ELECTRICITY SEGMENT						
Retail sales						
34 Residential	2,104	2,543	4,126	2,374	11,147	703
35 Business	2,849	3,450	3,891	3,225	13,415	497
36 Total retail	4,953	5,993	8,017	5,599	24,562	1,200
Wholesale electricity delivered						
37 Traditional contracts	130	131	127	112	500	27
38 Off-system sales	—	—	—	—	—	—
39 Retail load hedge management	109	205	446	334	1,094	(1,548)
40 Total regulated electricity	5,192	6,329	8,590	6,045	26,156	(321)
MARKETING AND TRADING SEGMENT						
41 Wholesale sales of electricity	7,372	6,798	7,255	7,378	28,803	5,949
42 Total electric sales	<u>12,564</u>	<u>13,127</u>	<u>15,845</u>	<u>13,423</u>	<u>54,959</u>	<u>5,628</u>

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2003

Line	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year-To-Date	Increase (Decrease) vs Prior YTD
POWER SUPPLY ADJUSTOR ("PSA") - REGULATED ELECTRICITY SEGMENT (Dollars in Millions)						
43 Deferred fuel and purchased power regulatory asset — beginning balance	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
44 Deferred fuel and purchased power costs — current period	—	—	—	—	—	—
45 Interest on deferred fuel	—	—	—	—	—	—
46 Amounts recovered through revenues	—	—	—	—	—	—
47 Deferred fuel and purchased power regulatory asset — ending balance	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
MARKETING AND TRADING SEGMENT PRETAX GROSS MARGIN ANALYSIS (Dollars in Millions)						
Realized and Mark-To-Market Components						
48 Electricity and other commodity sales, realized (a)	\$ 25	\$ 20	\$ 4	\$ 16	\$ 65	\$ (56)
49 Mark-to-market reversals on realized sales (a) (b)	(3)	1	(3)	(1)	(11)	35
50 Change in mark-to-market value of forward sales	(3)	(1)	(3)	(5)	(7)	(64)
51 Total gross margin	<u>\$ 19</u>	<u>\$ 20</u>	<u>\$ (2)</u>	<u>\$ 10</u>	<u>\$ 47</u>	<u>\$ (85)</u>
By Pinnacle West Entity						
52 Parent company marketing and trading division	\$ 2	\$ 4	\$ (2)	\$ (9)	\$ (5)	\$ (95)
53 APS	6	4	(6)	4	8	6
54 Pinnacle West Energy	(1)	—	—	9	8	4
55 APS Energy Services	12	12	6	6	36	—
56 Total gross margin	<u>\$ 19</u>	<u>\$ 20</u>	<u>\$ (2)</u>	<u>\$ 10</u>	<u>\$ 47</u>	<u>\$ (85)</u>

(a) Net effect on pretax gross margin from realization of prior-period mark-to-market included in line 48 and in line 49 is zero. Realization of prior-period mark-to-market relates to cash flow recognition, not earnings recognition. The opposites of amounts included in line 48 are included in line 49. For example, line 49 shows that a prior-period mark-to-market gain of \$11 million was transferred to "realized" for the total year 2003. A \$11 million realized gain is included in the \$65 million on line 48 for the total year 2003.

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

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Consolidated Statistics By Quarter
2003

Line	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year-To-Date	Increase (Decrease) vs Prior YTD
AVERAGE ELECTRIC CUSTOMERS						
Retail customers						
57 Residential	827,937	821,331	824,655	839,539	828,366	26,565
58 Business	101,999	102,601	103,262	104,521	103,096	2,868
59 Total	<u>929,936</u>	<u>923,932</u>	<u>927,917</u>	<u>944,060</u>	<u>931,462</u>	<u>29,432</u>
60 Wholesale customers	65	66	66	66	66	(1)
61 Total customers	<u>930,001</u>	<u>923,998</u>	<u>927,983</u>	<u>944,126</u>	<u>931,528</u>	<u>29,431</u>
62 Customer growth (% over prior year)	3.3%	3.1%	3.2%	3.4%	3.3%	0.2%
RETAIL SALES (GWH) - WEATHER NORMALIZED						
63 Residential	2,218	2,477	3,939	2,269	10,904	443
64 Business	<u>2,885</u>	<u>3,485</u>	<u>3,857</u>	<u>3,174</u>	<u>13,402</u>	<u>496</u>
65 Total	<u>5,103</u>	<u>5,962</u>	<u>7,796</u>	<u>5,443</u>	<u>24,306</u>	<u>939</u>
RETAIL USAGE (KWh/Average Customer)						
66 Residential	2,541	3,096	5,004	2,828	13,457	432
67 Business	27,927	33,625	37,677	30,865	130,529	1,288
RETAIL USAGE - WEATHER NORMALIZED (KWh/Average Customer)						
68 Residential	2,679	3,016	4,777	2,703	13,163	116
69 Business	28,286	33,969	37,356	30,371	129,997	1,234
ELECTRICITY DEMAND (MW)						
70 System peak demand	3,569	5,571	6,332	5,124	6,332	529

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Consolidated Statistics By Quarter
2003

Line	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year-To-Date	Increase (Decrease) vs Prior YTD
ENERGY SOURCES (GWH)						
Generation production						
71 Nuclear	2,306	2,047	2,230	1,732	8,315	(666)
72 Coal	2,770	2,824	2,972	2,801	11,367	(690)
73 Gas, oil and other	1,288	1,572	2,696	535	6,091	1,722
74 Total generation production	<u>6,364</u>	<u>6,443</u>	<u>7,898</u>	<u>5,068</u>	<u>25,773</u>	<u>366</u>
Purchased power						
75 Firm load	(12)	606	1,099	1,418	3,111	1,492
76 Marketing and trading	6,489	6,527	7,498	7,236	27,750	4,045
77 Total purchased power	<u>6,477</u>	<u>7,133</u>	<u>8,597</u>	<u>8,654</u>	<u>30,861</u>	<u>5,537</u>
78 Total energy sources	<u><u>12,841</u></u>	<u><u>13,576</u></u>	<u><u>16,495</u></u>	<u><u>13,722</u></u>	<u><u>56,634</u></u>	<u><u>5,903</u></u>

POWER PLANT PERFORMANCE

Capacity Factors						
79 Nuclear	98%	86%	93%	72%	87%	(7)%
80 Coal	75%	75%	79%	74%	76%	(4)%
81 Gas, oil and other	26%	30%	45%	9%	27%	0%
82 System average	58%	57%	65%	41%	54%	(9)%

Generation Capacity Out of Service and Replaced for Native Load (average MW/day)						
(a)						
83 Nuclear	32	134	61	296	131	64
84 Coal	293	253	276	252	268	101
85 Gas	191	149	155	337	208	160
86 Total	<u>516</u>	<u>536</u>	<u>492</u>	<u>885</u>	<u>606</u>	<u>325</u>

(a) Includes planned and unplanned outages

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2003

Line	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year-To-Date	Increase (Decrease) vs Prior YTD
ENERGY MARKET INDICATORS (a)						
Electricity Average Daily Spot Prices (\$/MWh) On-Peak						
87	Palo Verde	\$49.66	\$ 48.88	\$ 52.88	\$ 42.98	\$ 48.60 \$ 16.32
88	SP15	\$54.35	\$ 50.73	\$ 53.54	\$ 46.88	\$ 51.38 \$ 17.16
Off-Peak						
89	Palo Verde	\$36.09	\$ 25.48	\$ 36.08	\$ 30.48	\$ 32.03 \$ 12.14
90	SP15	\$39.70	\$ 28.27	\$ 37.81	\$ 32.85	\$ 34.66 \$ 12.97
WEATHER INDICATORS						
Actual						
91	Cooling degree-days	76	1,550	2,701	572	4,899 24
92	Heating degree-days	349	17	—	370	736 (64)
93	Average humidity	44%	18%	30%	34%	31% 4%
10-Year Averages						
94	Cooling degree-days	99	1,547	2,541	437	4,623 —
95	Heating degree-days	514	31	—	386	930 —
96	Average humidity	41%	23%	33%	39%	34% 0%
ECONOMIC INDICATORS						
Building Permits — Metro Phoenix (b)						
97	Single-family	8,030	10,613	11,191	9,817	39,651 5,339
98	Multi-family	863	2,053	1,231	2,580	6,727 (347)
99	Total	<u>8,893</u>	<u>12,666</u>	<u>12,422</u>	<u>12,397</u>	<u>46,378 4,992</u>
Arizona Job Growth (c)						
100	Payroll job growth (% over prior year)	1.1%	0.9%	1.5%	2.0%	1.4% 1.4%
101	Unemployment rate (% , seasonally adjusted)	5.8%	5.9%	5.7%	5.3%	5.7% (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

See Glossary of Terms

Pinnacle West Capital Corporation
Earnings Variance Explanations
for the Periods Ended September 30, 2006 and 2005

This discussion explains the changes in our consolidated earnings for the three-month and nine-month periods ended September 30, 2006 and 2005. Unaudited Condensed Consolidated Statements of Income for the three months and nine months ended September 30, 2006 and 2005 follow this discussion. We will file our Quarterly Report on Form 10-Q for the fiscal period ended September 30, 2006 on or before November 9, 2006. We suggest that this discussion be read in connection with the Pinnacle West Capital Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 2005 and the Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2006 and June 30, 2006. Additional operating and financial statistics and a glossary of terms are available on our website (www.pinnaclewest.com).

EARNINGS CONTRIBUTION BY BUSINESS SEGMENT

Pinnacle West has three principal business segments (determined by products, services and the regulatory environment):

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

The following table summarizes net income by segment for the three months and nine months ended September 30, 2006 and 2005 (dollars in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Regulated electricity (a)	\$ 170	\$ 70	\$ 252	\$ 152
Real estate	17	7	47	26
Marketing and trading	(4)	7	6	18
Other	1	1	2	3
Income from continuing operations	184	85	307	199
Discontinued operations — net of tax:				
Real estate (b)	—	14	2	16
Marketing and trading (c)	—	1	1	(64)
Other	—	4	(1)	4
Net income	<u>\$ 184</u>	<u>\$ 104</u>	<u>\$ 309</u>	<u>\$ 155</u>

- (a) 2005 periods include an \$87 million after-tax regulatory disallowance of plant costs in accordance with the APS retail rate case settlement.
- (b) Primarily relates to sales of commercial properties.
- (c) Relates to losses on the sale of Silverhawk announced in June 2005 and related operations until the sale closed in January 2006.

PINNACLE WEST CONSOLIDATED — RESULTS OF OPERATIONS

General

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

Deferred Fuel and Purchased Power Costs

Arizona Public Service Company’s (“APS”) retail rate case settlement relating to its 2003 general rate case became effective April 1, 2005. As part of the settlement, the Arizona Corporation Commission (“ACC”) approved the Power Supply Adjustor (“PSA”), which permits APS to defer for recovery or refund fluctuations in retail fuel and purchased power costs, subject to specified parameters. In accordance with the PSA, APS defers for future rate recovery 90% of the difference between actual retail fuel and purchased power costs and the amount of such costs currently included in base rates. APS’ recovery of PSA deferrals from its customers is subject to the ACC’s approval of annual PSA adjustments and periodic surcharge applications.

Since the inception of the PSA, APS has incurred substantially higher fuel and purchased power costs than those authorized for recovery through APS’ current base rates primarily due to the use of higher cost resources to serve incremental customer growth and has deferred those cost differences in accordance with the PSA. The balance of APS’ PSA deferrals at September 30, 2006 was \$209 million. APS estimates that its PSA deferral balance at December 31, 2006 will be approximately \$140 million to \$160 million, based on the amounts already approved for collection and on APS’ hedged positions for fuel and purchased power at September 30, 2006 and recent forward market prices for natural gas and purchased power (which are subject to change). The recovery of PSA deferrals through ACC approved adjustors and surcharges recorded as revenue is offset dollar-for-dollar by the amortization of those deferred expenses.

APS operated Palo Verde Unit 1 at reduced power levels from December 25, 2005 until March 18, 2006 due to vibration levels in one of the Unit’s shutdown cooling lines. During an outage at Unit 1 from March 18, 2006 to July 7, 2006, APS performed the necessary work and modifications to remedy the situation. APS estimates that incremental replacement power costs resulting from these Palo Verde outages and reduced power levels were approximately \$86 million during the nine months ended September 30, 2006. The impact on the PSA deferrals was an increase of approximately

\$78 million in that period. These Palo Verde replacement power costs were partially offset by \$43 million of lower than expected replacement power costs related to APS' other generating units during the nine months ended September 30, 2006, which decreased PSA deferrals by \$39 million.

The PSA deferral balance at September 30, 2006 and estimated balance as of December 31, 2006 each includes (a) \$45 million related to replacement power costs associated with unplanned 2005 Palo Verde outages and (b) \$78 million related to replacement power costs associated with unplanned 2006 outages or reduced power operations at Palo Verde. The PSA deferrals associated with these unplanned Palo Verde outages and reduced power operations are the subject of ACC prudence reviews. The ACC Staff has recommended disallowance of \$17 million of the 2005 costs. The recommendation will be considered as part of APS' general rate case currently before the ACC. The ACC Staff recommendation does not change management's belief that the expenses in question were prudently incurred and, therefore, are recoverable.

Operating Results — Three-month period ended September 30, 2006 compared with three-month period ended September 30, 2005

Our consolidated net income for the three months ended September 30, 2006 was \$184 million compared with \$104 million for the comparable prior-year period. The three months ended September 30, 2005 included income from discontinued operations of \$19 million, a substantial portion of which was related to the sale of real estate commercial properties. Income from continuing operations increased \$99 million in the period-to-period comparison, reflecting the following changes in earnings by segment:

- Regulated Electricity Segment — Income from continuing operations increased approximately \$100 million primarily due to an \$87 million after-tax regulatory disallowance of plant costs recorded in 2005. Income was also higher due to higher retail sales volumes related to customer growth. These positive factors were partially offset by the effects of milder weather on retail sales. Higher fuel and purchased power costs (as discussed above) were substantially offset by the deferral of those costs in accordance with the PSA.
- Real Estate Segment — Income from continuing operations increased approximately \$10 million primarily due to the sale of certain joint venture assets and increased margins on residential and parcel sales. Income from discontinued real estate operations decreased \$14 million due to lower commercial property sales.
- Marketing and Trading Segment — Income from continuing operations decreased approximately \$11 million primarily due to declines in forward prices.

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

	Increase (Decrease)	
	Pretax	After Tax
Regulated electricity segment gross margin:		
Higher fuel and purchased power costs	\$ (32)	\$ (19)
Increased deferred fuel and purchased power costs	30	18
Higher retail sales volumes due to customer growth, excluding weather effects	28	17
Effects of milder weather on retail sales	(6)	(4)
Miscellaneous items, net	3	2
Net increase in regulated electricity segment gross margin	23	14
Lower marketing and trading segment gross margin primarily due to declines in forward prices	(16)	(10)
Higher real estate segment contribution primarily related to the sale of certain joint venture assets and increased margins on residential and parcel sales	17	10
Regulatory disallowance of plant costs in 2005, in accordance with the APS retail rate case settlement	143	87
Operations and maintenance increases primarily due to:		
Generation costs, including maintenance and overhauls	(3)	(2)
Miscellaneous items, net	(2)	(1)
Higher depreciation and amortization primarily due to increased plant asset balances	(5)	(3)
Miscellaneous items, net	1	4
Net increase in income from continuing operations	<u>\$ 158</u>	99
Discontinued operations primarily related to sales of real estate assets		(19)
Net increase in net income		<u>\$ 80</u>

Regulated Electricity Segment Revenues

Regulated electricity segment revenues were \$134 million higher for the three months ended September 30, 2006 compared with the prior-year period primarily as a result of:

- a \$102 million increase in revenues related to recovery of PSA deferrals, which had no earnings effect because of amortization of the same amount recorded as fuel and purchased power expense (see “Deferred Fuel and Purchased Power Costs” above);
- a \$43 million increase in retail revenues related to customer growth, excluding weather effects;
- an \$8 million decrease in retail revenues related to milder weather;
- an \$8 million decrease in Off-System Sales due to lower prices; and
- a \$5 million increase due to miscellaneous factors.

Real Estate Segment Revenues

Real estate segment revenues were \$19 million higher for the three months ended September 30, 2006 compared with the prior-year period primarily as a result of:

- a \$13 million increase from residential sales due to higher prices; and
- a \$6 million increase from parcel sales.

Marketing and Trading Segment Revenues

Marketing and trading segment revenues were \$22 million lower for the three months ended September 30, 2006 compared with the prior-year period primarily as a result of:

- a \$17 million decrease in mark-to-market gains on contracts for future delivery due to changes in forward prices;
- a \$7 million decrease from lower prices on competitive retail sales in California; and
- a \$2 million increase due to higher power prices on delivered wholesale electricity sales.

Operating Results — Nine-month period ended September 30, 2006 compared with nine-month period ended September 30, 2005

Our consolidated net income for the nine months ended September 30, 2006 was \$309 million compared with \$155 million for the comparable prior-year period. The nine months ended September 30, 2005 included a net loss from discontinued operations of \$44 million, which was related to the sale and operations of Silverhawk, partially offset by income from the sales of real estate commercial properties. Income from continuing operations increased \$108 million in the period-to-period comparison, reflecting the following changes in earnings by segment:

- **Regulated Electricity Segment** — Income from continuing operations increased approximately \$100 million primarily due to an \$87 million after-tax regulatory disallowance of plant costs recorded in 2005. Income also increased due to higher retail sales volumes due to customer growth; income tax credits related to prior years resolved in 2006; effects of weather on retail sales; a retail price increase effective April 1, 2005; lower interest expense; and higher interest income. These positive factors were partially offset by higher operations and maintenance expense related to generation and customer service; and higher depreciation and amortization primarily due to increased plant asset balances, partially offset by lower depreciation rates. In addition, higher fuel and purchased power costs of \$80 million after-tax were partially offset by the deferral of \$51 million after-tax of costs in accordance with the PSA. See discussion above — “Deferred Fuel and Purchased Power Costs.”
- **Real Estate Segment** — Income from continuing operations increased approximately \$21 million primarily due to increased margins on residential and parcel sales and the sale of certain joint venture assets. Income from discontinued operations decreased \$14 million due to lower commercial property sales.

- Marketing and Trading Segment — Income from continuing operations decreased approximately \$12 million primarily due to lower mark-to-market gains on contracts for future delivery, partially offset by higher unit margins on wholesale sales.

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

	Increase (Decrease)	
	Pretax	After Tax
Regulated electricity segment gross margin:		
Higher fuel and purchased power costs	\$ (131)	\$ (80)
Increased deferred fuel and purchased power costs (deferrals began April 1, 2005)	83	51
Higher retail sales volumes due to customer growth, excluding weather effects	71	43
Effects of weather on retail sales	7	4
Retail price increase effective April 1, 2005	7	4
Miscellaneous items, net	(13)	(7)
Net increase in regulated electricity segment gross margin	24	15
Lower marketing and trading segment gross margin primarily related to lower mark-to-market gains, partially offset by higher unit margins on wholesale sales	(21)	(13)
Higher real estate segment contribution primarily related to increased margins on residential and parcel sales and the sale of certain joint venture assets	35	21
Regulatory disallowance of plant costs in 2005, in accordance with the APS retail rate case settlement	143	87
Operations and maintenance increases primarily due to:		
Generation costs, including maintenance and overhauls	(32)	(20)
Customer service costs, including regulatory demand-side management programs and planned maintenance	(10)	(6)
Miscellaneous items, net	(2)	(1)
Higher depreciation and amortization primarily due to increased plant asset balances partially offset by lower depreciations rates	(5)	(3)
Lower interest expense, net of capitalized financing costs, primarily due to lower debt balances, partially offset by higher rates	6	4
Higher other income, net of expense, primarily due to miscellaneous asset sales and increased interest income	9	5
Income tax credits related to prior years resolved in 2006	—	10
Miscellaneous items, net	1	9
Net increase in income from continuing operations	<u>\$ 148</u>	<u>108</u>
Discontinued operations:		
Silverhawk loss in 2005		65
Lower commercial property real estate sales		(14)
Other		(5)
Net increase in net income		<u>\$ 154</u>

Regulated Electricity Segment Revenues

Regulated electricity segment revenues were \$317 million higher for the nine months ended September 30, 2006 compared with the prior-year period primarily as a result of:

- a \$195 million increase in revenues related to recovery of PSA deferrals, which had no earnings effect because of amortization of the same amount

recorded as fuel and purchased power expense (see “Deferred Fuel and Purchased Power Costs” above);

- a \$102 million increase in retail revenues related to customer growth, excluding weather effects;
- a \$12 million increase in Off-System Sales primarily resulting from sales previously reported in the marketing and trading segment that were classified beginning in April 2005 as sales in the regulated electricity segment in accordance with the APS retail rate case settlement;
- a \$10 million increase in retail revenues related to weather;
- a \$7 million increase in retail revenues due to a price increase effective April 1, 2005; and
- a \$9 million decrease due to miscellaneous factors.

Real Estate Segment Revenues

Real estate segment revenues were \$85 million higher for the nine months ended September 30, 2006 compared with the prior-year period primarily as a result of:

- a \$62 million increase from residential sales due to higher prices and volumes;
- a \$15 million increase from parcel sales; and
- an \$8 million increase due to miscellaneous sales.

Marketing and Trading Segment Revenues

Marketing and trading segment revenues were \$8 million lower for the nine months ended September 30, 2006 compared with the prior-year period primarily as a result of:

- a \$26 million decrease in mark-to-market gains on contracts for future delivery due to changes in forward prices;
- a \$12 million decrease in Off-System Sales due to the absence of sales previously reported in the marketing and trading segment that were classified beginning in April 2005 as sales in the regulated electricity segment in accordance with the APS retail rate case settlement;
- a \$25 million increase from higher prices on competitive retail sales in California; and
- a \$5 million increase due to miscellaneous factors.

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

	THREE MONTHS ENDED SEPTEMBER 30,		Increase (Decrease)		
	2006	2005	Amount	Percent	
Operating Revenues					
Regulated electricity segment	\$ 886,979	\$753,428	\$ 133,551	17.7%	B
Marketing and trading segment	84,425	107,031	(22,606)	21.1%	W
Real estate segment	97,871	78,755	19,116	24.3%	B
Other revenues	7,167	16,369	(9,202)	56.2%	W
Total	<u>1,076,442</u>	<u>955,583</u>	<u>120,859</u>	12.6%	B
Operating Expenses					
Regulated electricity segment fuel and purchased power	314,150	203,519	110,631	54.4%	W
Marketing and trading segment fuel and purchased power	80,906	86,945	(6,039)	6.9%	B
Operations and maintenance	164,396	158,940	5,456	3.4%	W
Real estate segment operations	78,853	67,508	11,345	16.8%	W
Depreciation and amortization	90,390	85,763	4,627	5.4%	W
Taxes other than income taxes	31,697	34,325	(2,628)	7.7%	B
Other expenses	5,610	13,521	(7,911)	58.5%	B
Regulatory disallowance	—	143,217	(143,217)	100.0%	B
Total	<u>766,002</u>	<u>793,738</u>	<u>(27,736)</u>	3.5%	B
Operating Income	<u>310,440</u>	<u>161,845</u>	<u>148,595</u>	91.8%	B
Other					
Allowance for equity funds used during construction	3,178	2,852	326	11.4%	B
Other income	18,055	8,694	9,361	107.7%	B
Other expense	(3,693)	(4,915)	1,222	24.9%	B
Total	<u>17,540</u>	<u>6,631</u>	<u>10,909</u>	164.5%	B
Interest Expense					
Interest charges	50,577	46,778	3,799	8.1%	W
Capitalized interest	(5,612)	(3,301)	(2,311)	70.0%	B
Total	<u>44,965</u>	<u>43,477</u>	<u>1,488</u>	3.4%	W
Income From Continuing Operations Before Income Taxes	283,015	124,999	158,016	126.4%	B
Income Taxes	<u>98,836</u>	<u>40,305</u>	<u>58,531</u>	145.2%	W
Income From Continuing Operations	184,179	84,694	99,485	117.5%	B
Income (Loss) From Discontinued Operations					
Net of Income Taxes	<u>(12)</u>	<u>19,043</u>	<u>(19,055)</u>	100.1%	W
Net Income	<u>\$ 184,167</u>	<u>\$103,737</u>	<u>\$ 80,430</u>	77.5%	B
Weighted-Average Common Shares Outstanding — Basic	99,491	98,697	794	0.8%	
Weighted-Average Common Shares Outstanding — Diluted	99,973	98,816	1,157	1.2%	
Earnings Per Weighted-Average Common Share Outstanding					
Income from continuing operations — basic	\$ 1.85	\$ 0.86	\$ 0.99	115.1%	B
Net income — basic	\$ 1.85	\$ 1.05	\$ 0.80	76.2%	B
Income from continuing operations — diluted	\$ 1.84	\$ 0.86	\$ 0.98	114.0%	B
Net income — diluted	\$ 1.84	\$ 1.05	\$ 0.79	75.2%	B

Certain prior-year amounts have been reclassified to conform to the 2006 presentation.

B — Better

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

	NINE MONTHS ENDED SEPTEMBER 30,		Increase (Decrease)		
	2006	2005	Amount	Percent	
Operating Revenues					
Regulated electricity segment	\$2,065,823	\$1,749,110	\$ 316,713	18.1%	B
Marketing and trading segment	259,352	267,460	(8,108)	3.0%	W
Real estate segment	318,328	232,950	85,378	36.7%	B
Other revenues	28,173	46,763	(18,590)	39.8%	W
Total	<u>2,671,676</u>	<u>2,296,283</u>	<u>375,393</u>	16.3%	B
Operating Expenses					
Regulated electricity segment fuel and purchased power	735,489	442,532	292,957	66.2%	W
Marketing and trading segment fuel and purchased power	227,797	215,347	12,450	5.8%	W
Operations and maintenance	511,155	467,121	44,034	9.4%	W
Real estate segment operations	248,595	190,555	58,040	30.5%	W
Depreciation and amortization	267,308	262,030	5,278	2.0%	W
Taxes other than income taxes	99,970	103,528	(3,558)	3.4%	B
Other expenses	22,562	39,451	(16,889)	42.8%	B
Regulatory disallowance	—	143,217	(143,217)	100.0%	B
Total	<u>2,112,876</u>	<u>1,863,781</u>	<u>249,095</u>	13.4%	W
Operating Income	<u>558,800</u>	<u>432,502</u>	<u>126,298</u>	29.2%	B
Other					
Allowance for equity funds used during construction	10,612	8,407	2,205	26.2%	B
Other income	34,448	18,019	16,429	91.2%	B
Other expense	(12,953)	(12,985)	32	0.2%	B
Total	<u>32,107</u>	<u>13,441</u>	<u>18,666</u>	138.9%	B
Interest Expense					
Interest charges	143,985	142,820	1,165	0.8%	W
Capitalized interest	(14,595)	(10,134)	(4,461)	44.0%	B
Total	<u>129,390</u>	<u>132,686</u>	<u>(3,296)</u>	2.5%	B
Income From Continuing Operations Before Income Taxes					
Taxes	461,517	313,257	148,260	47.3%	B
Income Taxes	<u>154,900</u>	<u>113,863</u>	<u>41,037</u>	36.0%	W
Income From Continuing Operations	306,617	199,394	107,223	53.8%	B
Income (Loss) From Discontinued Operations Net of Income Taxes					
	<u>2,159</u>	<u>(44,474)</u>	<u>46,633</u>	104.9%	B
Net Income	<u>\$ 308,776</u>	<u>\$ 154,920</u>	<u>\$ 153,856</u>	99.3%	B
Weighted-Average Common Shares Outstanding — Basic	99,277	95,642	3,635	3.8%	
Weighted-Average Common Shares Outstanding — Diluted	99,723	95,755	3,968	4.1%	
Earnings Per Weighted-Average Common Share Outstanding					
Income from continuing operations — basic	\$ 3.09	\$ 2.08	\$ 1.01	48.6%	B
Net income — basic	\$ 3.11	\$ 1.62	\$ 1.49	92.0%	B
Income from continuing operations — diluted	\$ 3.07	\$ 2.08	\$ 0.99	47.6%	B
Net income — diluted	\$ 3.10	\$ 1.62	\$ 1.48	91.4%	B

Certain prior-year amounts have been reclassified to conform to the 2006 presentation.

B — Better
W — Worse

Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Glossary of Terms

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

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

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

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

Weather Normalized

Adjusted to exclude the effects of abnormal weather patterns.

Wholesale Sales of Electricity

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

NEWS PINNACLE WEST CAPITAL CORPORATION

FOR IMMEDIATE RELEASE

October 27, 2006

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**PINNACLE WEST REPORTS LOWER ON-GOING EARNINGS
FOR 2006 THIRD QUARTER**

PHOENIX — Pinnacle West Capital Corp. (NYSE: PNW) today reported consolidated net income for the quarter ended September 30, 2006, of \$184.2 million, or \$1.84 per diluted share of common stock. This result reflects a decline from on-going earnings of \$186.4 million, or \$1.89 per diluted share, for the same period in 2005.

Third-quarter 2005 on-going results exclude several non-recurring items, the largest of which was a regulatory disallowance of \$87 million, or \$0.88 per share, recorded in that prior-year quarter. On-going earnings for the 2005 third quarter also exclude \$4.3 million, or \$0.04 per share, of income from discontinued operations related to the sales of the Company's interests in NAC International and the Silverhawk Power Station. Reported consolidated net income was \$103.7 million, or \$1.05 per diluted share, for the third quarter of 2005.

"Customer price increases granted by the Arizona Corporation Commission earlier this year have had no impact on 2006 earnings" said Chairman Bill Post. "These fuel related price increases decreased customer fuel cost liabilities and stabilized our declining cash flow."

The quarter-to-quarter comparison was negatively impacted by higher fuel costs; lower results from the Company's wholesale power marketing and real estate operations; and milder weather. These items were substantially offset by higher fuel cost deferrals and increased retail sales at Arizona Public Service (APS) due to customer growth of 4.4 percent.

In addition, APS reported net income for the third quarter of 2006 of \$168.6 million, compared with on-going earnings of \$148.1 million for the same period a year ago. Third quarter 2005 on-going results exclude the previously mentioned \$87 million regulatory disallowance. APS reported net income of \$61.1 million for the third quarter of 2005. SunCor Development Co., Pinnacle West's real estate subsidiary, reported net income of \$17.5 million, compared with \$21.4 million in the 2005 third quarter.

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

Conference Call

Pinnacle West invites interested parties to listen to the live web cast of management's conference call to discuss the Company's 2006 third quarter earnings and recent developments at 12 noon (ET) today, October 27. The web cast can be accessed at www.pinnaclewest.com/presentations and will be available for replay on the web site for 30 days. To access the live conference call by telephone, dial (877) 356-3961 and enter reservation number 9001144. A replay of the call also will be available until 11:55 p.m. (ET), Friday, November 3, 2006, 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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PINNACLE WEST CAPITAL CORPORATION
NON-GAAP FINANCIAL MEASURE RECONCILIATION — NET INCOME
(GAAP MEASURE) TO ON-GOING EARNINGS (NON-GAAP FINANCIAL MEASURE)

	Three Months Ended September 30, 2006		Three Months Ended September 30, 2005	
	\$ in Millions	Diluted EPS	\$ in Millions	Diluted EPS
Net Income	\$ 184.2	\$ 1.84	\$ 103.7	\$ 1.05
Adjustments:				
Regulatory disallowance	—	—	87.0	0.88
Income from discontinued operations — Silverhawk Power Station operations	—	—	(0.6)	—
Income from discontinued operations — NAC International	—	—	(3.7)	(0.04)
On-going Earnings	<u>\$ 184.2</u>	<u>\$ 1.84</u>	<u>\$ 186.4</u>	<u>\$ 1.89</u>

ARIZONA PUBLIC SERVICE COMPANY
NON-GAAP FINANCIAL MEASURE RECONCILIATION — NET INCOME
(GAAP MEASURE) TO ON-GOING EARNINGS (NON-GAAP FINANCIAL MEASURE)

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005
	\$ in Millions	\$ in Millions
Net Income	\$ 168.6	\$ 61.1
Adjustments:		
Regulatory disallowance	—	87.0
On-going Earnings	<u>\$ 168.6</u>	<u>\$ 148.1</u>

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2006	2005	2006	2005
Operating Revenues				
Regulated electricity segment	\$ 886,979	\$753,428	\$2,065,823	\$1,749,110
Marketing and trading segment	84,425	107,031	259,352	267,460
Real estate segment	97,871	78,755	318,328	232,950
Other revenues	7,167	16,369	28,173	46,763
Total	<u>1,076,442</u>	<u>955,583</u>	<u>2,671,676</u>	<u>2,296,283</u>
Operating Expenses				
Regulated electricity segment fuel and purchased power	314,150	203,519	735,489	442,532
Marketing and trading segment fuel and purchased power	80,906	86,945	227,797	215,347
Operations and maintenance	164,396	158,940	511,155	467,121
Real estate segment operations	78,853	67,508	248,595	190,555
Depreciation and amortization	90,390	85,763	267,308	262,030
Taxes other than income taxes	31,697	34,325	99,970	103,528
Other expenses	5,610	13,521	22,562	39,451
Regulatory disallowance	—	143,217	—	143,217
Total	<u>766,002</u>	<u>793,738</u>	<u>2,112,876</u>	<u>1,863,781</u>
Operating Income	<u>310,440</u>	<u>161,845</u>	<u>558,800</u>	<u>432,502</u>
Other				
Allowance for equity funds used during construction	3,178	2,852	10,612	8,407
Other income	18,055	8,694	34,448	18,019
Other expense	(3,693)	(4,915)	(12,953)	(12,985)
Total	<u>17,540</u>	<u>6,631</u>	<u>32,107</u>	<u>13,441</u>
Interest Expense				
Interest charges	50,577	46,778	143,985	142,820
Capitalized interest	(5,612)	(3,301)	(14,595)	(10,134)
Total	<u>44,965</u>	<u>43,477</u>	<u>129,390</u>	<u>132,686</u>
Income From Continuing Operations Before Income Taxes	283,015	124,999	461,517	313,257
Income Taxes	<u>98,836</u>	<u>40,305</u>	<u>154,900</u>	<u>113,863</u>
Income From Continuing Operations	184,179	84,694	306,617	199,394
Income (Loss) From Discontinued Operations				
Net of Income Taxes	<u>(12)</u>	<u>19,043</u>	<u>2,159</u>	<u>(44,474)</u>
Net Income	<u>\$ 184,167</u>	<u>\$103,737</u>	<u>\$ 308,776</u>	<u>\$ 154,920</u>
Weighted-Average Common Shares Outstanding — Basic	99,491	98,697	99,277	95,642
Weighted-Average Common Shares Outstanding — Diluted	99,973	98,816	99,723	95,755
Earnings Per Weighted-Average Common Share Outstanding				
Income from continuing operations — basic	\$ 1.85	\$ 0.86	\$ 3.09	\$ 2.08
Net income — basic	\$ 1.85	\$ 1.05	\$ 3.11	\$ 1.62
Income from continuing operations — diluted	\$ 1.84	\$ 0.86	\$ 3.07	\$ 2.08
Net income — diluted	\$ 1.84	\$ 1.05	\$ 3.10	\$ 1.62

Certain prior-year amounts have been reclassified to conform to the 2006 presentation.

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

	THREE MONTHS ENDED SEPTEMBER 30,		Increase (Decrease)	
	2006	2005	Pretax	After Tax
RECONCILIATION OF REGULATED ELECTRICITY SEGMENT				
GROSS MARGIN				
Operating Income (closest GAAP measure)	\$310,440	\$161,845	\$ 148,595	\$ 90,569
Plus:				
Operations and maintenance	164,396	158,940	5,456	3,325
Real estate segment operations	78,853	67,508	11,345	6,915
Depreciation and amortization	90,390	85,763	4,627	2,820
Taxes other than income taxes	31,697	34,325	(2,628)	(1,602)
Other expenses	5,610	13,521	(7,911)	(4,822)
Regulatory disallowance	—	143,217	(143,217)	(87,291)
Marketing and trading segment fuel and purchased power	80,906	86,945	(6,039)	(3,681)
Less:				
Real estate segment revenues	97,871	78,755	19,116	11,651
Other revenues	7,167	16,369	(9,202)	(5,609)
Marketing and trading segment revenues	84,425	107,031	(22,606)	(13,778)
Regulated electricity segment gross margin	<u>\$572,829</u>	<u>\$549,909</u>	<u>\$ 22,920</u>	<u>\$ 13,969</u>
RECONCILIATION OF MARKETING AND TRADING				
SEGMENT GROSS MARGIN				
Operating Income (closest GAAP measure)	\$310,440	\$161,845	\$ 148,595	\$ 90,569
Plus:				
Operations and maintenance	164,396	158,940	5,456	3,325
Real estate segment operations	78,853	67,508	11,345	6,915
Depreciation and amortization	90,390	85,763	4,627	2,820
Taxes other than income taxes	31,697	34,325	(2,628)	(1,602)
Other expenses	5,610	13,521	(7,911)	(4,822)
Regulatory disallowance	—	143,217	(143,217)	(87,291)
Regulated electricity segment fuel and purchased power	314,150	203,519	110,631	67,430
Less:				
Real estate segment revenues	97,871	78,755	19,116	11,651
Other revenues	7,167	16,369	(9,202)	(5,609)
Regulated electricity segment revenues	886,979	753,428	133,551	81,399
Marketing and trading segment gross margin	<u>\$ 3,519</u>	<u>\$ 20,086</u>	<u>\$ (16,567)</u>	<u>\$(10,097)</u>

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

	NINE MONTHS ENDED SEPTEMBER 30,		Increase (Decrease)	
	2006	2005	Pretax	After Tax
RECONCILIATION OF REGULATED ELECTRICITY SEGMENT GROSS MARGIN				
Operating Income (closest GAAP measure)	\$ 558,800	\$ 432,502	\$ 126,298	\$ 76,979
Plus:				
Operations and maintenance	511,155	467,121	44,034	26,839
Real estate segment operations	248,595	190,555	58,040	35,375
Depreciation and amortization	267,308	262,030	5,278	3,217
Taxes other than income taxes	99,970	103,528	(3,558)	(2,169)
Other expenses	22,562	39,451	(16,889)	(10,294)
Regulatory disallowance	—	143,217	(143,217)	(87,291)
Marketing and trading segment fuel and purchased power	227,797	215,347	12,450	7,588
Less:				
Real estate segment revenues	318,328	232,950	85,378	52,038
Other revenues	28,173	46,763	(18,590)	(11,331)
Marketing and trading segment revenues	259,352	267,460	(8,108)	(4,942)
Regulated electricity segment gross margin	<u>\$1,330,334</u>	<u>\$1,306,578</u>	<u>\$ 23,756</u>	<u>\$ 14,479</u>
RECONCILIATION OF MARKETING AND TRADING SEGMENT GROSS MARGIN				
Operating Income (closest GAAP measure)	\$ 558,800	\$ 432,502	\$ 126,298	\$ 76,979
Plus:				
Operations and maintenance	511,155	467,121	44,034	26,839
Real estate segment operations	248,595	190,555	58,040	35,375
Depreciation and amortization	267,308	262,030	5,278	3,217
Taxes other than income taxes	99,970	103,528	(3,558)	(2,169)
Other expenses	22,562	39,451	(16,889)	(10,294)
Regulatory disallowance	—	143,217	(143,217)	(87,291)
Regulated electricity segment fuel and purchased power	735,489	442,532	292,957	178,557
Less:				
Real estate segment revenues	318,328	232,950	85,378	52,038
Other revenues	28,173	46,763	(18,590)	(11,331)
Regulated electricity segment revenues	2,065,823	1,749,110	316,713	193,037
Marketing and trading segment gross margin	<u>\$ 31,555</u>	<u>\$ 52,113</u>	<u>\$ (20,558)</u>	<u>\$ (12,531)</u>

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

	Nine Months Ended September 30, 2006		Nine Months Ended September 30, 2005	
	\$ in Millions	Diluted EPS	\$ in Millions	Diluted EPS
Net Income	\$ 309	\$ 3.10	\$ 155	\$ 1.62
Adjustments:				
Regulatory disallowance	—	—	87	0.91
Income tax credit related to prior periods	(10)	(0.10)	—	—
Loss from discontinued operations — Silverhawk Power Station write-down	—	—	55	0.58
Loss from discontinued operations — Silverhawk Power Station operations	—	—	9	0.09
Income from discontinued operations — NAC International	—	—	(4)	(0.04)
On-going Earnings	<u>\$ 299</u>	<u>\$ 3.00</u>	<u>\$ 302</u>	<u>\$ 3.16</u>