

PINNACLE WEST CAPITAL CORP

FORM 8-K (Current report filing)

Filed 01/30/07 for the Period Ending 12/31/06

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

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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): December 31, 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 (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

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Item 2.02. Results of Operations and Financial Condition

On January 30, 2007, Pinnacle West Capital Corporation (the “Company” or “Pinnacle West”) issued a press release regarding its financial results for its fiscal quarter and fiscal year ended December 31, 2006. A copy of the press release is attached hereto as Exhibit 99.9.

Certain of the Information referenced in Item 7.01 below relates to the Company’s results of operations for its fiscal quarter and fiscal year ended December 31, 2006. This Information is attached hereto as Exhibits 99.2, 99.3, 99.7, 99.9, and 99.10.

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.

Item 7.01. Regulation FD Disclosure

Financial and Business Information

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

2007 Earnings Outlook

In this discussion, earnings per share amounts are after income taxes and are based on diluted common shares outstanding. The earnings guidance in this Form 8-K supersedes all previous earnings guidance provided by Pinnacle West.

Our earnings forecasts are subject to numerous risks, including those described under “Forward-Looking Statements” below and under “Business Outlook” in Part I, Item 2 of our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2006 (the “September 2006 Form 10-Q”). Our estimates as to how several of these risks and other factors may affect future earnings follow:

- Arizona Public Service Company (“APS”) has a general retail rate case pending before the Arizona Corporation Commission (the “ACC”). The rate request includes, among other things, an overall increase of \$434.6 million (20.4%) in annual retail electricity revenues, of which

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\$314.4 million (14.8%) represents an increase in the base fuel rate. We are not able to predict the outcome of the rate case, when the ACC will make a decision in this case, or the specific date when a rate increase will become effective. (For detailed information regarding the rate case, see “APS General Rate Case” in Note 5 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of the September 2006 Form 10-Q.)

- We assume that APS’ fuel and purchased power costs will be recovered through base rates or under APS’ power supply adjustor (“PSA”) or will be deferred for future recovery under the PSA, excluding such costs not recoverable pursuant to the 90/10 sharing provision under the PSA.
- We assume that revenues will continue to be collected under the interim PSA adjustor (\$0.007 per kilowatt-hour) until rates become effective as a result of APS’ pending general rate case. (See our Report on Form 8-K dated December 8, 2006 regarding ACC approval of continuation of the interim PSA adjustor.)
- We currently estimate that net income for 2007 from our real estate subsidiary, SunCor Development Company (“SunCor”), will be between \$30 million and \$35 million. This estimate reflects a slowdown in the western United States residential real estate markets.

We estimate that our base level of consolidated earnings for 2007, before considering any potential earnings benefit derived from a base rate increase effective at any time during 2007, will be within a reasonable range of \$2.45 per share.

Assuming APS’ retail rate request is granted effective May 1, 2007, we expect consolidated earnings for 2007 to be within a reasonable range of \$3.00 per share. We estimate that APS’ earnings contribution included in such 2007 consolidated earnings will be within a reasonable range of \$2.70 per share (equivalent to a return on APS’ average common equity of 8%). Under these assumptions, we estimate that 2007 earnings will include \$55 million (\$0.55 per share) related to the retail rate decision, consisting of \$15 million (\$0.15 per share) in the second quarter, \$25 million (\$0.25 per share) in the third quarter, and \$15 million (\$0.15 per share) in the fourth quarter.

Forward-Looking Statements

This Form 8-K contains forward-looking statements regarding our 2007 earnings outlook. Neither the Company nor APS assumes any obligation to update these statements or make any further statements on any of these issues, except as required by applicable law. These forward-looking statements are often identified by words such as “estimate,” “predict,” “hope,” “may,” “believe,” “anticipate,” “plan,” “expect,” “require,” “intend,” “assume” and similar words. Because actual results may differ materially from expectations, we caution readers not to place undue reliance on these statements. A number of factors could cause future results to differ materially from historical results, or from results or outcomes currently expected or sought by Pinnacle West or APS. In addition to the Risk Factors described in Item 1A of the Pinnacle West/APS Annual Report on Form 10-K for the fiscal year ended December 31, 2005, these factors include, but are not limited to, state and federal regulatory and legislative decisions and actions, including the outcome and timing of APS’ retail rate proceedings pending before the ACC; the timely recovery of PSA deferrals, including such deferrals in 2005 and 2006 associated with unplanned Palo Verde outages and reduced power operations that are the subject of ACC prudence reviews; the

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ongoing restructuring of the electric industry, including the introduction of retail electric competition in Arizona and decisions impacting wholesale competition; the outcome of regulatory, legislative and judicial proceedings, both current and future, relating to the restructuring; market prices for electricity and natural gas; power plant performance and outages; transmission outages and constraints; weather variations affecting local and regional customer energy usage; customer growth and energy usage; regional economic and market conditions, including the results of litigation and other proceedings resulting from the California energy situation, volatile fuel and purchased power costs and the completion of generation and transmission construction in the region, which could affect customer growth and the cost of power supplies; the cost of debt and equity capital and access to capital markets; current credit ratings remaining in effect for any given period of time; our ability to compete successfully outside traditional regulated markets (including the wholesale market); the performance of our marketing and trading activities due to volatile market liquidity and any deteriorating counterparty credit and the use of derivative contracts in our business (including the interpretation of the subjective and complex accounting rules related to these contracts); changes in accounting principles generally accepted in the United States of America and the interpretation of those principles; the performance of the stock market and the changing interest rate environment, which affect the value of the assets in the trusts holding our nuclear decommissioning, pension, and other postretirement benefit plans assets, the amount of required contributions to Pinnacle West's pension plan and contributions to APS' nuclear decommissioning trust funds, as well as the reported costs of providing pension and other postretirement benefits; technological developments in the electric industry; the strength of the real estate market in SunCor's market areas, which include Arizona, Idaho, New Mexico and Utah; and other uncertainties, all of which are difficult to predict and many of which are beyond the control of Pinnacle West and APS.

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Item 9.01. Financial Statements and Exhibits

(d) Exhibits.

<u>Exhibit No.</u>	<u>Registrant(s)</u>	<u>Description</u>
99.1	Pinnacle West APS	Pinnacle West Capital Corporation quarterly consolidated statistical summary (cover page and list of contents).
99.2	Pinnacle West APS	Pinnacle West Capital Corporation quarterly consolidated statistical summary for the periods ended December 31, 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 twelve months ended December 31, 2006 and 2005 and unaudited condensed consolidated statements of income for the three and twelve months ended December 31, 2006 and 2005.
99.8	Pinnacle West APS	Glossary of Terms.
99.9	Pinnacle West APS	Earnings News Release issued on January 30, 2007.
99.10	Pinnacle West APS	Non-GAAP Financial Measure Reconciliation - Operating Income (GAAP measure) to Gross Margin (non-GAAP financial measure).

SIGNATURES

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

PINNACLE WEST CAPITAL CORPORATION
(Registrant)

Dated: January 30, 2007

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

ARIZONA PUBLIC SERVICE COMPANY
(Registrant)

Dated: January 30, 2007

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

Exhibit Index

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Pinnacle West Capital Corporation

**Quarterly Consolidated Statistical Summary
Periods Ended December 31, 2006 and 2005**

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2006 Fourth Quarter Summary

2006 by Quarter

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/2006Q4QuarStatsGloss.pdf>

This statistical data may be graphed in various quarterly or annual comparisons using the "Interactive Charts" tool on the Pinnacle West website at:

<http://www.pinnaclewest.com/main/pnw/investors/financials/quarterly/landing.html>

Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Periods Ended December 31, 2006 and 2005

Line		3 Mo. Ended December			12 Mo. Ended December		
		2006	2005	Incr (Decr)	2006	2005	Incr (Decr)
EARNINGS CONTRIBUTION BY SUBSIDIARY (\$ Millions)							
1	Arizona Public Service	\$ 13	\$ 18	\$ (5)	\$ 270	\$ 170	\$ 100
2	Pinnacle West Energy	—	(6)	6	—	(85)	85
3	APS Energy Services	(2)	(3)	1	(3)	(6)	3
4	SunCor	3	13	(10)	50	39	11
5	El Dorado	(1)	—	(1)	(3)	(2)	(1)
6	Parent Company	(3)	2	(5)	3	107	(104)
7	Income From Continuing Operations	10	24	(14)	317	223	94
8	Income (Loss) From Discontinued Operations — Net of Tax	8	(3)	11	10	(47)	57
9	Cumulative Effect of Change in Accounting — Net of Tax	—	—	—	—	—	—
10	Net Income	<u>\$ 18</u>	<u>\$ 21</u>	<u>\$ (3)</u>	<u>\$ 327</u>	<u>\$ 176</u>	<u>\$ 151</u>
EARNINGS PER SHARE BY SUBSIDIARY — DILUTED							
11	Arizona Public Service	\$ 0.13	\$ 0.19	\$ (0.06)	\$ 2.70	\$ 1.77	\$ 0.93
12	Pinnacle West Energy	—	(0.06)	0.06	—	(0.89)	0.89
13	APS Energy Services	(0.02)	(0.04)	0.02	(0.03)	(0.06)	0.03
14	SunCor	0.03	0.13	(0.10)	0.50	0.40	0.10
15	El Dorado	(0.01)	(0.01)	—	(0.03)	(0.02)	(0.01)
16	Parent Company	(0.03)	0.03	(0.06)	0.03	1.11	(1.08)
17	Income From Continuing Operations	0.10	0.24	(0.14)	3.17	2.31	0.86
18	Income (Loss) From Discontinued Operations — Net of Tax	0.08	(0.02)	0.10	0.10	(0.49)	0.59
19	Cumulative Effect of Change in Accounting — Net of Tax	—	—	—	—	—	—
20	Net Income	<u>\$ 0.18</u>	<u>\$ 0.22</u>	<u>\$ (0.04)</u>	<u>\$ 3.27</u>	<u>\$ 1.82</u>	<u>\$ 1.45</u>
21	BOOK VALUE PER SHARE	\$ 33.66*	\$ 34.58	\$ (0.92)	\$ 33.66*	34.58	(0.92)
COMMON SHARES OUTSTANDING (Thousands)							
22	Average — Diluted	100,474	99,050	1,424	100,010	96,590	3,420
23	End of Period	99,959	99,057	902	99,959	99,057	902

* Estimate

See Glossary of Terms.

Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Periods Ended December 31, 2006 and 2005

Line	3 Mo. Ended December			12 Mo. Ended December			
	2006	2005	Incr (Decr)	2006	2005	Incr (Decr)	
ELECTRIC OPERATING REVENUES (Dollars in Millions)							
REGULATED ELECTRICITY SEGMENT							
Retail							
24	Residential	\$ 242	\$ 207	\$ 35	\$ 1,271	\$ 1,079	\$ 192
25	Business	302	243	59	1,239	1,041	198
26	Total retail	544	450	94	2,510	2,120	390
Wholesale revenue on delivered electricity							
27	Traditional contracts	(3)	6	(9)	22	23	(1)
28	Off-system sales	12	20	(8)	46	40	6
29	Transmission for others	7	5	2	26	26	—
30	Other miscellaneous services	9	7	2	31	28	3
31	Total regulated operating electricity revenues	569	488	81	2,635	2,237	398
MARKETING AND TRADING							
32	Electricity and other commodity sales	71	84	(13)	331	352	(21)
33	Total operating electric revenues	\$ 640	\$ 572	\$ 68	\$ 2,966	\$ 2,589	\$ 377
ELECTRIC SALES (GWH)							
REGULATED ELECTRICITY SEGMENT							
Retail sales							
34	Residential	2,571	2,518	53	12,994	12,223	771
35	Business	3,585	3,427	158	14,977	14,254	723
36	Total retail	6,156	5,945	211	27,971	26,477	1,494
Wholesale electricity delivered							
37	Traditional contracts	167	227	(60)	884	850	34
38	Off-system sales	497	526	(29)	1,994	1,336	658
39	Retail load hedge management	347	532	(185)	1,574	3,010	(1,436)
40	Total regulated electricity	7,167	7,230	(63)	32,423	31,673	750
MARKETING AND TRADING							
41	Wholesale sales of electricity	3,688	5,240	(1,552)	16,282	23,572	(7,290)
42	Total electric sales	10,855	12,470	(1,615)	48,705	55,245	(6,540)

See Glossary of Terms.

Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Periods Ended December 31, 2006 and 2005

Line	3 Mo. Ended December			12 Mo. Ended December			
	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	\$ 209	\$ 143	\$ 66	\$ 173	\$ —	\$ 173
44	Deferred fuel and purchased power costs — current period	19	29	(10)	244	171	73
45	Interest on deferred fuel	2	1	1	8	2	6
46	Amounts recovered through revenues	(70)	—	(70)	(265)	—	(265)
47	Deferred fuel and purchased power regulatory asset — ending balance	<u>\$ 160</u>	<u>\$ 173</u>	<u>\$ (13)</u>	<u>\$ 160</u>	<u>\$ 173</u>	<u>\$ (13)</u>
MARKETING AND TRADING PRETAX GROSS MARGIN ANALYSIS (Dollars in Millions)							
Realized and Mark-To-Market Components							
48	Electricity and other commodity sales, realized (a)	\$ 18	\$ 23	\$ (5)	\$ 55	\$ 55	\$ —
49	Mark-to-market reversals on realized sales (a) (b)	(6)	(17)	11	(14)	(16)	2
50	Change in mark-to-market value of forward sales	(3)	1	(4)	—	20	(20)
51	Total gross margin	<u>\$ 9</u>	<u>\$ 7</u>	<u>\$ 2</u>	<u>\$ 41</u>	<u>\$ 59</u>	<u>\$ (18)</u>
By Pinnacle West Entity							
52	Parent company marketing and trading division	\$ 3	\$ 6	\$ (3)	\$ 18	\$ 59	\$ (41)
53	APS	5	3	2	14	(6)	20
54	Pinnacle West Energy	—	—	—	—	5	(5)
55	APS Energy Services	1	(2)	3	9	1	8
56	Total gross margin	<u>\$ 9</u>	<u>\$ 7</u>	<u>\$ 2</u>	<u>\$ 41</u>	<u>\$ 59</u>	<u>\$ (18)</u>

Future Marketing and Trading Mark-to-Market Realization

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

- (a) Net effect on pretax gross margin from realization of prior-period mark-to-market included in line 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 \$6 million was transferred to "realized" for the fourth quarter of 2006. A \$6 million realized gain is included in the \$18 million on line 48 for the fourth 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 December 31, 2006 and 2005

Line		3 Mo. Ended December			12 Mo. Ended December		
		2006	2005	Incr (Decr)	2006	2005	Incr (Decr)
AVERAGE ELECTRIC CUSTOMERS							
Retail customers							
57	Residential	949,132	911,623	37,509	936,464	896,472	39,992
58	Business	117,342	112,569	4,773	115,431	111,168	4,263
59	Total	1,066,474	1,024,192	42,282	1,051,895	1,007,640	44,255
60	Wholesale customers	80	77	3	77	78	(1)
61	Total customers	<u>1,066,554</u>	<u>1,024,269</u>	<u>42,285</u>	<u>1,051,972</u>	<u>1,007,718</u>	<u>44,254</u>
62	Customer growth (% over prior year)	4.1%	4.5%	(0.4)%	4.4%	4.3%	0.1%
RETAIL SALES (GWH) - WEATHER NORMALIZED							
63	Residential	2,619	2,515	104	13,014	12,280	734
64	Business	3,598	3,414	184	15,008	14,286	722
65	Total	<u>6,217</u>	<u>5,929</u>	<u>288</u>	<u>28,022</u>	<u>26,566</u>	<u>1,456</u>
RETAIL USAGE (KWh/Average Customer)							
66	Residential	2,709	2,763	(54)	13,876	13,635	241
67	Business	30,552	30,444	108	129,749	128,514	1,235
RETAIL USAGE - WEATHER NORMALIZED (KWh/Average Customer)							
68	Residential	2,759	2,758	1	13,897	13,698	199
69	Business	30,667	30,332	335	130,017	128,507	1,510
ELECTRICITY DEMAND (MW)							
70	System peak demand	5,316	5,169	147	7,652	7,000	652

See Glossary of Terms.

Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Periods Ended December 31, 2006 and 2005

Line	3 Mo. Ended December			12 Mo. Ended December			
	2006	2005	Incr (Decr)	2006	2005	Incr (Decr)	
ENERGY SOURCES (GWH)							
Generation production							
71	Nuclear	1,868	1,496	372	6,988	7,509	(521)
72	Coal	3,337	3,458	(121)	13,176	13,060	116
73	Gas, oil and other	1,628	2,114	(486)	7,384	8,435	(1,051)
74	Total generation production	6,833	7,068	(235)	27,548	29,004	(1,456)
Purchased power							
75	Firm load	223	402	(179)	4,290	3,474	816
76	Marketing and trading	4,328	6,102	(1,774)	19,240	25,713	(6,473)
77	Total purchased power	4,551	6,504	(1,953)	23,530	29,187	(5,657)
78	Total energy sources	11,384	13,572	(2,188)	51,078	58,191	(7,113)

POWER PLANT PERFORMANCE

Capacity Factors							
79	Nuclear	75%	61%	14%	71%	77%	(6)%
80	Coal	87%	92%	(5)%	87%	87%	0%
81	Gas, oil and other	22%	27%	(5)%	25%	28%	(3)%
82	System average	50%	50%	0%	51%	53%	(2)%

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

83	Nuclear	267	419	(152)	153	114	39
84	Coal	155	103	52	82	73	9
85	Gas	286	226	60	89	93	(4)
86	Total	708	748	(40)	324	280	44

(a) Includes planned and unplanned outages

See Glossary of Terms.

Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Periods Ended December 31, 2006 and 2005

Line	3 Mo. Ended December			12 Mo. Ended December			
	2006	2005	Incr (Decr)	2006	2005	Incr (Decr)	
ENERGY MARKET INDICATORS (a)							
Electricity Average Daily Spot Prices (\$/MWh)							
On-Peak							
87	Palo Verde	\$52.72	\$83.58	\$ (30.86)	\$ 56.76	\$ 66.40	\$ (9.64)
88	SP15	\$62.16	\$97.65	\$ (35.49)	\$ 61.95	\$ 72.94	\$ (10.99)
Off-Peak							
89	Palo Verde	\$39.62	\$67.79	\$ (28.17)	\$ 37.09	\$ 47.55	\$ (10.46)
90	SP15	\$46.27	\$76.45	\$ (30.18)	\$ 40.61	\$ 52.06	\$ (11.45)
WEATHER INDICATORS							
Actual							
91	Cooling degree-days	457	508	(51)	4,695	4,663	32
92	Heating degree-days	383	308	75	851	766	85
93	Average humidity	33%	30%	3%	28%	34%	(6)%
10-Year Averages							
94	Cooling degree-days	437	437	—	4,624	4,624	—
95	Heating degree-days	386	386	—	931	931	—
96	Average humidity	39%	39%	0%	34%	34%	0%
ECONOMIC INDICATORS							
Building Permits — Metro Phoenix (b) (d)							
97	Single-family	2,910	6,152	(3,242)	26,478	40,098	(13,620)
98	Multi-family	783	1,383	(600)	9,861	7,129	2,732
99	Total	<u>3,693</u>	<u>7,535</u>	<u>(3,842)</u>	<u>36,339</u>	<u>47,227</u>	<u>(10,888)</u>
Arizona Job Growth (c) (d)							
100	Payroll job growth (% over prior year)	4.6%	5.3%	(0.7)%	5.0%	5.3%	(0.3)%
101	Unemployment rate (% , seasonally adjusted)	4.0%	4.8%	(0.8)%	4.2%	4.7%	(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
(d) Economic indicators reflect latest available data through periods ended November 30, 2006.

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Pinnacle West Capital Corporation
Consolidated Statistics By Quarter
2006

Line		<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
EARNINGS CONTRIBUTION BY SUBSIDIARY (\$ Millions)							
1	Arizona Public Service	\$ (6)	\$ 94	\$ 169	\$ 13	\$ 270	\$ 100
2	Pinnacle West Energy	—	—	—	—	—	85
3	APS Energy Services	1	—	(2)	(2)	(3)	3
4	SunCor	21	8	17	3	50	11
5	El Dorado	(1)	—	—	(1)	(3)	(1)
6	Parent Company	(3)	9	—	(3)	3	(104)
7	Income From Continuing Operations	12	111	184	10	317	94
8	Income (Loss) From Discontinued Operations — Net of Tax	—	1	—	8	10	57
9	Cumulative Effect of Change in Accounting — Net of Tax	—	—	—	—	—	—
10	Net Income	<u>\$ 12</u>	<u>\$ 112</u>	<u>\$ 184</u>	<u>\$ 18</u>	<u>\$ 327</u>	<u>\$ 151</u>
EARNINGS PER SHARE BY SUBSIDIARY — DILUTED							
11	Arizona Public Service	\$ (0.06)	\$ 0.95	\$ 1.69	\$ 0.13	\$ 2.70	\$ 0.93
12	Pinnacle West Energy	—	—	—	—	—	0.89
13	APS Energy Services	0.01	—	(0.02)	(0.02)	(0.03)	0.03
14	SunCor	0.21	0.08	0.17	0.03	0.50	0.10
15	El Dorado	(0.01)	—	—	(0.01)	(0.03)	(0.01)
16	Parent Company	(0.03)	0.08	—	(0.03)	0.03	(1.08)
17	Income From Continuing Operations	0.12	1.11	1.84	0.10	3.17	0.86
18	Income (Loss) From Discontinued Operations — Net of Tax	0.01	0.02	—	0.08	0.10	0.59
19	Cumulative Effect of Change in Accounting — Net of Tax	—	—	—	—	—	—
20	Net Income	<u>\$ 0.13</u>	<u>\$ 1.13</u>	<u>\$ 1.84</u>	<u>\$ 0.18</u>	<u>\$ 3.27</u>	<u>\$ 1.45</u>
21	BOOK VALUE PER SHARE	\$ 32.37	\$ 33.08	\$ 34.07	\$ 33.66*	\$ 33.66*	(0.92)
COMMON SHARES OUTSTANDING (Thousands)							
22	Average — Diluted	99,449	99,640	99,973	100,474	100,010	3,420
23	End of Period	99,187	99,284	99,648	99,959	99,959	902

* Estimate

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Pinnacle West Capital Corporation
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2006

Line		<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
ELECTRIC OPERATING REVENUES (Dollars in Millions)							
REGULATED ELECTRICITY SEGMENT							
Retail							
24	Residential	\$ 202	\$ 337	\$ 490	\$ 242	\$ 1,271	\$ 192
25	Business	233	333	371	302	1,239	198
26	Total retail	435	670	861	544	2,510	390
Wholesale revenue on delivered electricity							
27	Traditional contracts	6	7	12	(3)	22	(1)
28	Off-system sales	12	22	—	12	46	6
29	Transmission for others	6	6	7	7	26	—
30	Other miscellaneous services	7	8	7	9	31	3
31	Total regulated operating electricity revenues	466	713	887	569	2,635	398
MARKETING AND TRADING							
32	Electricity and other commodity sales	85	90	85	71	331	(21)
33	Total operating electric revenues	<u>\$ 551</u>	<u>\$ 803</u>	<u>\$ 972</u>	<u>\$ 640</u>	<u>\$ 2,966</u>	<u>\$ 377</u>
ELECTRIC SALES (GWH)							
REGULATED ELECTRICITY SEGMENT							
Retail sales							
34	Residential	2,419	3,284	4,720	2,571	12,994	771
35	Business	3,199	3,971	4,222	3,585	14,977	723
36	Total retail	5,618	7,255	8,942	6,156	27,971	1,494
Wholesale electricity delivered							
37	Traditional contracts	215	181	321	167	884	34
38	Off-system sales	927	270	300	497	1,994	658
39	Retail load hedge management	90	515	622	347	1,574	(1,436)
40	Total regulated electricity	6,850	8,221	10,185	7,167	32,423	750
MARKETING AND TRADING							
41	Wholesale sales of electricity	3,891	3,862	4,841	3,688	16,282	(7,290)
42	Total electric sales	<u>10,741</u>	<u>12,083</u>	<u>15,026</u>	<u>10,855</u>	<u>48,705</u>	<u>(6,540)</u>

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Pinnacle West Capital Corporation
Consolidated Statistics By Quarter
2006

Line	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>	
POWER SUPPLY ADJUSTOR ("PSA") - REGULATED ELECTRICITY SEGMENT (Dollars in Millions)							
43	Deferred fuel and purchased power regulatory asset — beginning balance	\$ 173	\$ 169	\$ 175	209	\$ 173	\$ 173
44	Deferred fuel and purchased power costs — current period	13	78	134	19	244	73
45	Interest on deferred fuel	1	3	2	2	8	6
46	Amounts recovered through revenues	(18)	(75)	(102)	(70)	(265)	(265)
47	Deferred fuel and purchased power regulatory asset — ending balance	<u>\$ 169</u>	<u>\$ 175</u>	<u>\$ 209</u>	<u>\$ 160</u>	<u>\$ 160</u>	<u>\$ (13)</u>
MARKETING AND TRADING PRETAX GROSS MARGIN ANALYSIS (Dollars in Millions)							
Realized and Mark-To-Market Components							
48	Electricity and other commodity sales, realized (a)	\$ 11	\$ 17	\$ 8	\$ 18	\$ 55	\$ —
49	Mark-to-market reversals on realized sales (a) (b)	(1)	(1)	(1)	(6)	(14)	2
50	Change in mark-to-market value of forward sales	1	—	(3)	(3)	—	(20)
51	Total gross margin	<u>\$ 11</u>	<u>\$ 16</u>	<u>\$ 4</u>	<u>\$ 9</u>	<u>\$ 41</u>	<u>\$ (18)</u>
By Pinnacle West Entity							
52	Parent company marketing and trading division	\$ (2)	\$ 11	\$ 5	\$ 3	\$ 18	\$ (41)
53	APS	10	2	(3)	5	14	20
54	Pinnacle West Energy	—	—	—	—	—	(5)
55	APS Energy Services	3	3	2	1	9	8
56	Total gross margin	<u>\$ 11</u>	<u>\$ 16</u>	<u>\$ 4</u>	<u>\$ 9</u>	<u>\$ 41</u>	<u>\$ (18)</u>

Future Marketing and Trading Mark-to-Market Realization

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

(a) Net effect on pretax gross margin from realization of prior-period mark-to-market included in line 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 \$6 million was transferred to "realized" for the fourth quarter of 2006. A \$6 million realized gain is included in the \$18 million on line 48 for the fourth quarter of 2006.

(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
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	949,132	936,464	39,992
58 Business	113,570	114,803	116,009	117,342	115,431	4,263
59 Total	1,044,369	1,045,205	1,051,532	1,066,474	1,051,895	44,255
60 Wholesale customers	75	76	76	80	77	(1)
61 Total customers	<u>1,044,444</u>	<u>1,045,281</u>	<u>1,051,608</u>	<u>1,066,554</u>	<u>1,051,972</u>	<u>44,254</u>
62 Customer growth (% over prior year)	4.5%	4.6%	4.4%	4.1%	4.4%	0.1%
RETAIL SALES (GWH) - WEATHER NORMALIZED						
63 Residential	2,514	3,105	4,776	2,619	13,014	734
64 Business	3,252	3,926	4,232	3,598	15,008	722
65 Total	<u>5,766</u>	<u>7,031</u>	<u>9,008</u>	<u>6,217</u>	<u>28,022</u>	<u>1,456</u>
RETAIL USAGE (KWh/Average Customer)						
66 Residential	2,763	3,530	5,045	2,709	13,876	241
67 Business	30,444	34,590	36,394	30,552	129,749	1,235
RETAIL USAGE - WEATHER NORMALIZED (KWh/Average Customer)						
68 Residential	2,700	3,337	5,105	2,759	13,897	199
69 Business	28,636	34,194	36,477	30,667	130,017	1,510
ELECTRICITY DEMAND (MW)						
70 System peak demand	4,205	6,624	7,652	5,316	7,652	652

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Pinnacle West Capital Corporation
Consolidated Statistics By Quarter
2006

Line		<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
ENERGY SOURCES (GWH)							
Generation production							
71	Nuclear	1,720	1,198	2,202	1,868	6,988	(521)
72	Coal	3,083	3,182	3,574	3,337	13,176	116
73	Gas, oil and other	<u>1,323</u>	<u>2,000</u>	<u>2,433</u>	<u>1,628</u>	<u>7,384</u>	<u>(1,051)</u>
74	Total generation production	<u>6,126</u>	<u>6,380</u>	<u>8,209</u>	<u>6,833</u>	<u>27,548</u>	<u>(1,456)</u>
Purchased power							
75	Firm load	365	1,740	1,962	223	4,290	816
76	Marketing and trading	<u>4,759</u>	<u>4,546</u>	<u>5,607</u>	<u>4,328</u>	<u>19,240</u>	<u>(6,473)</u>
77	Total purchased power	<u>5,124</u>	<u>6,286</u>	<u>7,569</u>	<u>4,551</u>	<u>23,530</u>	<u>(5,657)</u>
78	Total energy sources	<u>11,250</u>	<u>12,666</u>	<u>15,778</u>	<u>11,384</u>	<u>51,078</u>	<u>(7,113)</u>
POWER PLANT PERFORMANCE							
Capacity Factors							
79	Nuclear	71%	49%	88%	75%	71%	(6)%
80	Coal	83%	84%	94%	87%	87%	0%
81	Gas, oil and other	18%	28%	34%	22%	25%	(3)%
82	System average	46%	48%	61%	50%	51%	(2)%
Generation Capacity Out of Service and Replaced for Native Load (average MW/day) (a)							
83	Nuclear	306	553	97	267	153	39
84	Coal	257	184	62	155	82	9
85	Gas	<u>201</u>	<u>117</u>	<u>109</u>	<u>286</u>	<u>89</u>	<u>(4)</u>
86	Total	<u>764</u>	<u>854</u>	<u>268</u>	<u>708</u>	<u>324</u>	<u>44</u>

(a) Includes planned and unplanned outages

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Pinnacle West Capital Corporation
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2006

Line		<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
ENERGY MARKET INDICATORS (a)							
Electricity Average Daily Spot Prices (\$/MWh)							
On-Peak							
87	Palo Verde	\$ 53.78	\$ 54.63	\$65.89	\$52.72	\$ 56.76	\$ (9.64)
88	SP15	\$ 58.34	\$ 55.39	\$71.89	\$62.16	\$ 61.95	\$ (10.99)
Off-Peak							
89	Palo Verde	\$ 41.92	\$ 28.38	\$38.45	\$39.62	\$ 37.09	\$ (10.46)
90	SP15	\$ 44.79	\$ 27.43	\$43.94	\$46.27	\$ 40.61	\$ (11.45)
WEATHER INDICATORS							
Actual							
91	Cooling degree-days	43	1,740	2,455	457	4,695	32
92	Heating degree-days	464	4	—	383	851	85
93	Average humidity	28%	18%	33%	33%	28%	(6)%
10-Year Averages							
94	Cooling degree-days	99	1,547	2,541	437	4,624	—
95	Heating degree-days	514	31	—	386	931	—
96	Average humidity	41%	23%	33%	39%	34%	0%
ECONOMIC INDICATORS							
Building Permits — Metro Phoenix (b) (d)							
97	Single-family	8,716	8,883	5,969	2,910	26,478	(13,620)
98	Multi-family	2,887	2,976	3,215	783	9,861	2,732
99	Total	<u>11,603</u>	<u>11,859</u>	<u>9,184</u>	<u>3,693</u>	<u>36,339</u>	<u>(10,888)</u>
Arizona Job Growth (c) (d)							
100	Payroll job growth (% over prior year)	5.6%	4.8%	4.8%	4.6%	5.0%	(0.3)%
101	Unemployment rate (% , seasonally adjusted)	4.4%	4.3%	4.0%	4.0%	4.2%	(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
(d) Economic indicators reflect latest available data through periods ended November 30, 2006.

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2005

Line		<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
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	<u>19</u>	<u>(3)</u>	<u>88</u>	<u>2</u>	<u>107</u>	<u>79</u>
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	<u>0.21</u>	<u>(0.03)</u>	<u>0.90</u>	<u>0.03</u>	<u>1.11</u>	<u>0.81</u>
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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2005

Line		<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
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							
32	Electricity and other commodity sales	89	71	107	84	352	(49)
33	Total operating electric revenues	<u>\$ 505</u>	<u>\$ 651</u>	<u>\$ 860</u>	<u>\$ 572</u>	<u>\$ 2,589</u>	<u>\$ 153</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							
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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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						
44						
45						
46						
47						
MARKETING AND TRADING PRETAX GROSS MARGIN ANALYSIS (Dollars in Millions)						
Realized and Mark-To-Market Components						
48						
49						
50						
51						
By Pinnacle West Entity						
52						
53						
54						
55						
56						

(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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2005

Line		<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
AVERAGE ELECTRIC CUSTOMERS							
Retail customers							
57	Residential	889,967	888,509	895,789	911,623	896,472	37,403
58	Business	<u>109,795</u>	<u>110,658</u>	<u>111,648</u>	<u>112,569</u>	<u>111,168</u>	<u>4,053</u>
59	Total	999,762	999,167	1,007,437	1,024,192	1,007,640	41,456
60	Wholesale customers	<u>81</u>	<u>76</u>	<u>78</u>	<u>77</u>	<u>78</u>	<u>(3)</u>
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	<u>27,706</u>	<u>33,292</u>	<u>36,723</u>	<u>30,444</u>	<u>128,514</u>	<u>(878)</u>
RETAIL USAGE - WEATHER NORMALIZED (KWh/Average Customer)							
68	Residential	2,741	3,269	4,935	2,758	13,698	70
69	Business	<u>27,860</u>	<u>33,377</u>	<u>36,899</u>	<u>30,332</u>	<u>128,507</u>	<u>(987)</u>
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
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2005

Line		<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
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%	92%	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	212	164	140	226	93	45
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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2005

Line		<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
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	4,624	—
95	Heating degree-days	514	31	—	386	931	—
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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2004

Line		<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
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	<u>15</u>	<u>(6)</u>	<u>3</u>	<u>16</u>	<u>28</u>	<u>37</u>
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	<u>0.15</u>	<u>(0.06)</u>	<u>0.03</u>	<u>0.17</u>	<u>0.30</u>	<u>0.40</u>
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	\$ 31.19	\$ 31.68	\$ 32.55	\$ 32.14	\$ 32.14	\$ 1.17
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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<u>Line</u>		<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
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							
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							
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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2004

Line	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
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>
MARKETING AND TRADING PRETAX GROSS MARGIN ANALYSIS (Dollars in Millions)						
Realized and Mark-To-Market Components						
48	Electricity and other commodity sales, realized (a)	\$ 12	\$ 21	\$ 16	\$ 15	\$ 64
49	Mark-to-market reversals on realized sales (a) (b)	1	(4)	(3)	(1)	(5)
50	Change in mark-to-market value of forward sales	8	4	8	3	21
51	Total gross margin	<u>\$ 21</u>	<u>\$ 21</u>	<u>\$ 21</u>	<u>\$ 17</u>	<u>\$ 80</u>
By Pinnacle West Entity						
52	Parent company marketing and trading division	\$ 12	\$ 6	\$ 5	\$ 1	\$ 25
53	APS	(5)	—	2	(2)	(5)
54	Pinnacle West Energy	10	11	10	16	46
55	APS Energy Services	4	4	4	2	14
56	Total gross margin	<u>\$ 21</u>	<u>\$ 21</u>	<u>\$ 21</u>	<u>\$ 17</u>	<u>\$ 80</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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Line		<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
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	961,256	959,111	963,936	980,435	966,184	34,722
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	2,998	3,616	4,005	3,252	13,871	469
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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Line		<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
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>11,609</u>	<u>14,933</u>	<u>18,697</u>	<u>15,455</u>	<u>60,694</u>	<u>4,060</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		<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
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	4,624	—
95	Heating degree-days	514	31	—	386	931	—
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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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	\$ 29.39	\$ 29.95	\$ 30.68	\$ 30.97	\$ 30.97	\$ 1.57
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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ELECTRIC OPERATING REVENUES (Dollars in Millions)						
REGULATED ELECTRICITY SEGMENT						
Retail						
24	\$ 168	\$ 233	\$ 363	\$ 193	\$ 957	\$ 51
25	196	251	284	222	953	25
26	364	484	647	415	1,910	76
Wholesale revenue on delivered electricity						
27	3	4	5	3	15	7
28	—	—	—	—	—	—
29	6	5	9	8	28	(2)
30	7	6	6	6	25	7
31	380	499	667	432	1,978	88
MARKETING AND TRADING						
32	117	101	83	91	392	105
33	<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	2,104	2,543	4,126	2,374	11,147	703
35	2,849	3,450	3,891	3,225	13,415	497
36	4,953	5,993	8,017	5,599	24,562	1,200
Wholesale electricity delivered						
37	130	131	127	112	500	27
38	—	—	—	—	—	—
39	109	205	446	334	1,094	(1,548)
40	5,192	6,329	8,590	6,045	26,156	(321)
MARKETING AND TRADING						
41	7,372	6,798	7,255	7,378	28,803	5,949
42	<u>12,564</u>	<u>13,127</u>	<u>15,845</u>	<u>13,423</u>	<u>54,959</u>	<u>5,628</u>

See Glossary of Terms.

Pinnacle West Capital Corporation
Consolidated Statistics By Quarter
2003

Line	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
POWER SUPPLY ADJUSTOR ("PSA") - REGULATED ELECTRICITY SEGMENT (Dollars in Millions)						
43						
44						
45						
46						
47						
MARKETING AND TRADING PRETAX GROSS MARGIN ANALYSIS (Dollars in Millions)						
Realized and Mark-To-Market Components						
48						
49						
50						
51						
By Pinnacle West Entity						
52						
53						
54						
55						
56						

(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.

See Glossary of Terms.

Pinnacle West Capital Corporation
Consolidated Statistics By Quarter
2003

Line		<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
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	929,936	923,932	927,917	944,060	931,462	29,432
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	2,885	3,485	3,857	3,174	13,402	496
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

See Glossary of Terms.

Pinnacle West Capital Corporation
Consolidated Statistics By Quarter
2003

Line		<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
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>12,841</u>	<u>13,576</u>	<u>16,495</u>	<u>13,722</u>	<u>56,634</u>	<u>5,903</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

See Glossary of Terms.

Pinnacle West Capital Corporation
Consolidated Statistics By Quarter
2003

Line		<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
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	4,624	—
95	Heating degree-days	514	31	—	386	931	—
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</u>	<u>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 December 31, 2006 and 2005

This discussion explains the changes in our consolidated earnings for the three-month and twelve-month periods ended December 31, 2006 and 2005. Unaudited Condensed Consolidated Statements of Income for the three months and twelve months ended December 31, 2006 and 2005 follow this discussion. We will file our Annual Report on Form 10-K for the fiscal period ended December 31, 2006 on or before March 1, 2007. 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, June 30, 2006 and September 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's two principal business segments are:

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

Our reportable business segments reflect a change from the previously reported information. As of December 31, 2006, our marketing and trading activities are no longer considered a segment requiring separate reporting or disclosure. The marketing and trading activities consist of our competitive energy business, including wholesale marketing and trading and retail commodity-related energy services. These activities have decreased as a result of fewer market opportunities and the Company's intention to deemphasize that part of our business. These activities are now reported as part of the "Other" category in the table below. The corresponding information for earlier periods has been reclassified.

The following table summarizes income from continuing operations by segment for the three and twelve months ended December 31, 2006 and 2005 and reconciles to net income in total (dollars in millions):

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2006	2005	2006	2005
Regulated electricity (a)	\$ 6	\$ 15	\$ 259	\$ 167
Real estate	4	10	50	35
Other (b)	—	(1)	8	21
Income from continuing operations	10	24	317	223
Discontinued operations — net of tax:				
Real estate (c)	8	—	10	17
Sale of Silverhawk (b)	—	(3)	1	(67)
Sale of NAC International Inc.	—	—	(1)	3
Net income	<u>\$ 18</u>	<u>\$ 21</u>	<u>\$ 327</u>	<u>\$ 176</u>

- (a) The twelve months ended December 31, 2005 period includes an \$84 million after-tax regulatory disallowance of plant costs in accordance with APS' 2003 general retail rate case settlement.
- (b) Primarily marketing and trading activity.
- (c) Primarily relates to sales of commercial properties.

PINNACLE WEST CONSOLIDATED — RESULTS OF OPERATIONS

General

Throughout the following explanations of our results of operations, we refer to “gross margin.” With respect to our regulated electricity segment and our marketing and trading contributions, 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

Our subsidiary, Arizona Public Service Company (“APS”), settled its 2003 general retail rate case effective April 1, 2005. As part of the settlement, the Arizona Corporation Commission (“ACC”) approved the Power Supply Adjustor (“PSA”), which permits APS to defer for recovery or refund fluctuations in retail fuel and purchased power costs, subject to specified parameters. In 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 and has deferred those cost differences in accordance with the PSA. The

balance of APS' PSA deferrals at December 31, 2006 was approximately \$160 million. The recovery of PSA deferrals through ACC approved adjusters and surcharges recorded as revenue is offset dollar-for-dollar by the amortization of those deferred expenses recorded as fuel and purchased power.

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 and other unplanned Palo Verde outages and reduced power levels were approximately \$88 million during 2006. The related impact on the PSA deferrals was an increase of approximately \$79 million. These Palo Verde replacement power costs were partially offset by \$42 million of lower than expected replacement power costs related to APS' other generating units during 2006, which decreased PSA deferrals by \$38 million.

The PSA deferral balance at December 31, 2006 includes (a) \$45 million related to replacement power costs associated with unplanned 2005 Palo Verde outages and (b) \$79 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 December 31, 2006 compared with three-month period ended December 31, 2005

Our consolidated net income for the three months ended December 31, 2006 was \$18 million compared with \$21 million for the comparable prior-year period. The three months ended December 31, 2006 includes \$8 million of income from discontinued operations that relates to the sales of real estate commercial properties at SunCor. Income from continuing operations decreased \$14 million in the period-to-period comparison, reflecting the following changes in earnings by segment:

- **Regulated Electricity Segment** — Income from continuing operations decreased approximately \$9 million primarily due to higher operations and maintenance expense related to generation, including increased maintenance and overhauls; higher depreciation and amortization primarily due to increased plant asset balances; higher interest expense due to increased debt balances and rates, partially offset by increased capitalized financing costs driven by increased capital expenditures; and the effects of milder weather on retail sales. These negative factors were partially offset by higher retail sales volumes due to customer growth and income tax credits related to prior years recognized in 2006.
- **Real Estate Segment** — Income from continuing operations decreased approximately \$6 million primarily due to the timing of parcel sales. Income from discontinued real estate operations increased \$8 million due to the sale of commercial property during 2006.

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 retail sales volumes due to customer growth, excluding weather effects	\$ 16	\$ 10
Lower fuel and purchased power costs due to lower unplanned outages partially offset by higher cost resources	8	5
Decreased deferred fuel and purchased power costs	(10)	(6)
Effects of milder weather on retail sales	(4)	(2)
Miscellaneous items, net	(1)	(1)
Net increase in regulated electricity segment gross margin	<u>9</u>	<u>6</u>
Lower real estate segment contribution primarily related to the timing of parcel sales	(10)	(6)
Operations and maintenance increases primarily due to:		
Generation costs, including increased maintenance and overhauls	(9)	(6)
Miscellaneous items, net	(2)	(1)
Higher depreciation and amortization primarily due to increased plant asset balances	(6)	(4)
Higher interest expense due to increased debt balances and rates, partially offset by increased capitalized financing costs driven by increased capital expenditures	(5)	(3)
Income tax credits related to prior years recognized in 2006	—	4
Miscellaneous items, net	(2)	(4)
Net decrease in income from continuing operations	<u>\$ (25)</u>	<u>(14)</u>
Discontinued operations:		
Higher commercial property real estate sales		8
Silverhawk loss in 2005		<u>3</u>
Net decrease in net income		<u>\$ (3)</u>

Regulated Electricity Segment Revenues

Regulated electricity segment revenues were \$81 million higher for the three months ended December 31, 2006 compared with the prior-year period primarily as a result of:

- a \$70 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 \$22 million increase in retail revenues related to customer growth, excluding weather effects;
- an \$8 million decrease in Off-System Sales due to lower prices;
- a \$6 million decrease in retail revenues related to milder weather; and

- a \$3 million increase due to miscellaneous factors.

Real Estate Segment Revenues

Real estate segment revenues were \$24 million lower for the three months ended December 31, 2006 compared with the prior-year period primarily as a result of:

- a \$16 million decrease due to the timing of parcel sales;
- a \$6 million decrease from residential sales due to lower volumes; and
- a \$2 million decrease due to miscellaneous sales.

Other Revenues

Marketing and trading revenues were \$13 million lower for the three months ended December 31, 2006 compared with the prior-year period primarily as a result of lower power prices on realized electricity sales and a decrease in mark-to-market gains on contracts for future delivery due to changes in forward prices.

Other revenues were \$6 million lower for the three months ended December 31, 2006 compared with the prior-year period primarily as a result of decreased sales-related products and services by APS Energy Services.

Operating Results — Twelve-month period ended December 31, 2006 compared with twelve-month period ended December 31, 2005

Our consolidated net income for the twelve months ended December 31, 2006 was \$327 million compared with \$176 million for the comparable prior-year period. The twelve months ended December 31, 2005 included a net loss from discontinued operations of \$47 million, which was related to the sale and operations of Silverhawk, partially offset by income from sales of real estate commercial properties at SunCor. Income from continuing operations increased \$94 million in the period-to-period comparison, reflecting the following changes in earnings by segment:

- Regulated Electricity Segment — Income from continuing operations increased approximately \$92 million primarily due to an \$84 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; and increased other income due to higher interest income on higher investment balances. 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 \$74 million after-tax were partially offset by the deferral of \$45

million after-tax of costs in accordance with the PSA. See discussion — “Deferred Fuel and Purchased Power Costs” above.

- Real Estate Segment — Income from continuing operations increased approximately \$15 million primarily due to increased margins on residential sales and the sale of certain joint venture assets, partially offset by general and administrative expenses. Income from discontinued operations decreased \$7 million due to lower commercial property sales.
- Other — Income from continuing operations decreased approximately \$13 million primarily due to lower mark-to-market gains, partially offset by higher unit margins on wholesale sales and competitive retail sales in California.

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 (see "Deferred Fuel and Purchased Power Costs" above)	\$ (121)	\$ (74)
Increased deferred fuel and purchased power costs (deferrals began April 1, 2005)	73	45
Higher retail sales volumes due to customer growth, excluding weather effects	87	53
Miscellaneous items, net	<u>(7)</u>	<u>(4)</u>
Net increase in regulated electricity segment gross margin	32	20
Lower marketing and trading gross margin primarily related to lower mark-to-market gains, partially offset by higher unit margins on wholesale sales and competitive retail sales in California	(18)	(11)
Higher real estate segment contribution primarily related to increased margins on residential sales and the sale of certain joint venture assets	25	15
Regulatory disallowance of plant costs in 2005, in accordance with APS' 2003 general retail rate case settlement	139	84
Operations and maintenance increases primarily due to:		
Generation costs, including increased maintenance and overhauls	(41)	(25)
Customer service costs, including regulatory demand-side management programs and planned maintenance	(16)	(10)
Miscellaneous items, net	2	1
Higher depreciation and amortization primarily due to increased plant asset balances partially offset by lower depreciation rates	(11)	(7)
Higher other income, net of expense, primarily due to miscellaneous asset sales and increased interest income on higher investment balances	12	7
Income tax credits related to prior years resolved in 2006	—	14
Miscellaneous items, net	—	6
Net increase in income from continuing operations	<u>\$ 124</u>	<u>94</u>
Discontinued operations:		
Silverhawk loss in 2005		68
Lower commercial property real estate sales		(7)
Sale of NAC International Inc.		(4)
Net increase in net income		<u>\$ 151</u>

Regulated Electricity Segment Revenues

Regulated electricity segment revenues were \$398 million higher for the twelve months ended December 31, 2006 compared with the prior-year period primarily as a result of:

- a \$265 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 \$124 million increase in retail revenues related to customer growth, excluding weather effects;
- a \$6 million increase in Off-System Sales primarily resulting from \$12 million of sales previously reported in marketing and trading that were classified beginning in April 2005 as sales in the regulated electricity segment in accordance with APS’ 2003 general retail rate case settlement, partially offset by \$6 million of lower Off-System Sales in 2006; and
- a \$3 million increase due to miscellaneous factors.

Real Estate Segment Revenues

Real estate segment revenues were \$62 million higher for the twelve months ended December 31, 2006 compared with the prior-year period primarily as a result of:

- a \$55 million increase in residential sales due to higher prices and volumes; and
- a \$7 million increase in commercial real estate sales.

Other Revenues

Other revenues were \$25 million lower for the twelve months ended December 31, 2006 compared with the prior-year period primarily as a result of decreased sales-related products and services by APS Energy Services.

Marketing and trading revenues were \$21 million lower for the twelve months ended December 31, 2006 compared with the prior-year period primarily as a result of:

- a \$20 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 marketing and trading that were classified beginning in April 2005 as sales in the regulated electricity segment in accordance with APS’ 2003 general retail rate case settlement;
- a \$23 million increase from higher prices on competitive retail sales in California; and
- a \$12 million decrease due to miscellaneous factors.

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

(in thousands, except per share amounts)

	THREE MONTHS ENDED		Increase (Decrease)		
	DECEMBER 31,		Amount	Percent	
	2006	2005			
Operating Revenues					
Regulated electricity segment	\$569,213	\$488,035	\$ 81,178	16.6%	B
Real estate segment	81,470	105,081	(23,611)	22.5%	W
Marketing and trading	71,390	84,098	(12,708)	15.1%	W
Other revenues	7,999	14,458	(6,459)	44.7%	W
Total	<u>730,072</u>	<u>691,672</u>	<u>38,400</u>	5.6%	B
Operating Expenses					
Regulated electricity segment fuel and purchased power	225,160	152,609	72,551	47.5%	W
Real estate segment operations	76,266	87,811	(11,545)	13.1%	B
Marketing and trading fuel and purchased power	62,840	77,744	(14,904)	19.2%	B
Operations and maintenance	180,122	168,706	11,416	6.8%	W
Depreciation and amortization	91,336	85,622	5,714	6.7%	W
Taxes other than income taxes	28,425	28,512	(87)	0.3%	B
Other expenses	5,853	12,536	(6,683)	53.3%	B
Regulatory disallowance	—	(4,655)	4,655	100.0%	W
Total	<u>670,002</u>	<u>608,885</u>	<u>61,117</u>	10.0%	W
Operating Income	<u>60,070</u>	<u>82,787</u>	<u>(22,717)</u>	27.4%	W
Other					
Allowance for equity funds used during construction	3,700	2,784	916	32.9%	B
Other income	9,568	5,505	4,063	73.8%	B
Other expense	(14,847)	(13,895)	(952)	6.9%	W
Total	<u>(1,579)</u>	<u>(5,606)</u>	<u>4,027</u>	71.8%	B
Interest Expense					
Interest charges	52,841	42,267	10,574	25.0%	W
Capitalized interest	(6,394)	(1,884)	(4,510)	239.4%	B
Total	<u>46,447</u>	<u>40,383</u>	<u>6,064</u>	15.0%	W
Income From Continuing Operations Before Income Taxes	12,044	36,798	(24,754)	67.3%	W
Income Taxes	<u>1,518</u>	<u>13,029</u>	<u>(11,511)</u>	88.3%	B
Income From Continuing Operations	10,526	23,769	(13,243)	55.7%	W
Income (Loss) From Discontinued Operations Net of Income Taxes	<u>7,953</u>	<u>(2,422)</u>	<u>10,375</u>	428.4%	B
Net Income	<u>\$ 18,479</u>	<u>\$ 21,347</u>	<u>\$ (2,868)</u>	13.4%	W
Weighted-Average Common Shares Outstanding — Basic	99,832	98,982	850	0.9%	
Weighted-Average Common Shares Outstanding — Diluted	100,474	99,050	1,424	1.4%	
Earnings Per Weighted-Average Common Share Outstanding					
Income from continuing operations — basic	\$ 0.11	\$ 0.24	\$ (0.13)	54.2%	W
Net income — basic	\$ 0.19	\$ 0.22	\$ (0.03)	13.6%	W
Income from continuing operations — diluted	\$ 0.10	\$ 0.24	\$ (0.14)	58.3%	W
Net income — diluted	\$ 0.18	\$ 0.22	\$ (0.04)	18.2%	W

B — Better
W — Worse



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

	TWELVE MONTHS ENDED DECEMBER 31,		Increase (Decrease)		
	2006	2005	Amount	Percent	
Operating Revenues					
Regulated electricity segment	\$2,635,036	\$2,237,145	\$ 397,891	17.8%	B
Real estate segment	399,798	338,031	61,767	18.3%	B
Marketing and trading	330,742	351,558	(20,816)	5.9%	W
Other revenues	36,172	61,221	(25,049)	40.9%	W
Total	<u>3,401,748</u>	<u>2,987,955</u>	<u>413,793</u>	13.8%	B
Operating Expenses					
Regulated electricity segment fuel and purchased power	960,649	595,141	365,508	61.4%	W
Real estate segment operations	324,861	278,366	46,495	16.7%	W
Marketing and trading fuel and purchased power	290,637	293,091	(2,454)	0.8%	B
Operations and maintenance	691,277	635,827	55,450	8.7%	W
Depreciation and amortization	358,644	347,652	10,992	3.2%	W
Taxes other than income taxes	128,395	132,040	(3,645)	2.8%	B
Other expenses	28,415	51,987	(23,572)	45.3%	B
Regulatory disallowance	—	138,562	(138,562)	100.0%	B
Total	<u>2,782,878</u>	<u>2,472,666</u>	<u>310,212</u>	12.5%	W
Operating Income	<u>618,870</u>	<u>515,289</u>	<u>103,581</u>	20.1%	B
Other					
Allowance for equity funds used during construction	14,312	11,191	3,121	27.9%	B
Other income	44,016	23,360	20,656	88.4%	B
Other expense	(27,800)	(26,716)	(1,084)	4.1%	W
Total	<u>30,528</u>	<u>7,835</u>	<u>22,693</u>	289.6%	B
Interest Expense					
Interest charges	196,826	185,087	11,739	6.3%	W
Capitalized interest	(20,989)	(12,018)	(8,971)	74.6%	B
Total	<u>175,837</u>	<u>173,069</u>	<u>2,768</u>	1.6%	W
Income From Continuing Operations Before Income Taxes	473,561	350,055	123,506	35.3%	B
Income Taxes	<u>156,418</u>	<u>126,892</u>	<u>29,526</u>	23.3%	W
Income From Continuing Operations	317,143	223,163	93,980	42.1%	B
Income (Loss) From Discontinued Operations Net of Income Taxes	<u>10,112</u>	<u>(46,896)</u>	<u>57,008</u>	121.6%	B
Net Income	<u>\$ 327,255</u>	<u>\$ 176,267</u>	<u>\$ 150,988</u>	85.7%	B
Weighted-Average Common Shares Outstanding — Basic	99,417	96,484	2,933	3.0%	
Weighted-Average Common Shares Outstanding — Diluted	100,010	96,590	3,420	3.5%	
Earnings Per Weighted-Average Common Share Outstanding					
Income from continuing operations — basic	\$ 3.19	\$ 2.31	\$ 0.88	38.1%	B
Net income — basic	\$ 3.29	\$ 1.83	\$ 1.46	79.8%	B
Income from continuing operations — diluted	\$ 3.17	\$ 2.31	\$ 0.86	37.2%	B
Net income — diluted	\$ 3.27	\$ 1.82	\$ 1.45	79.7%	B
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.

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**FOR IMMEDIATE RELEASE**

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

January 30, 2007
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PINNACLE WEST REPORTS LOWER 2006 FOURTH QUARTER EARNINGS
APS Quarterly Results Down 30 Percent

PHOENIX — Pinnacle West Capital Corporation (NYSE: PNW) today reported lower net income for the quarter ended December 31, 2006, of \$18.5 million, or \$0.18 per diluted share of common stock. This result compares with net income of \$21.3 million, or \$0.22 per diluted share, for the same quarter a year ago.

In addition, the Company's principal subsidiary, Arizona Public Service (APS), reported lower earnings of \$12.9 million for the 2006 fourth quarter, compared with earnings of \$18.3 million for the same period a year ago. Pinnacle West's quarterly results also were impacted by lower results from its real estate subsidiary, SunCor Development Co, which reported income of \$11.4 million, compared with \$13.5 million in the 2005 fourth quarter.

Fourth-quarter earnings declined despite increased retail sales at APS due to customer growth of 4 percent, three times the national average, and income tax credits related to prior years. These positive factors were more than offset by higher operation and maintenance costs; increased depreciation and interest expense; lower results from the Company's real estate operations, primarily due to timing of transactions during the year; and milder weather.

"Arizona is now the fastest-growing state in the nation, and our business reflects that fact," said Chairman Bill Post, citing a record 44,000 new APS customers in 2006, the equivalent of a small city. "Looking ahead, growth will continue to dominate our operating environment, thus requiring innovation and investments in infrastructure to ensure we continue providing reliable, affordable energy."

Post added that the effects of Arizona's growth were evident throughout the company's business in 2006, and employees met the challenge. Recognized by J.D. Power and Associates in its 2006 survey results for superior customer satisfaction, APS was rated the top investor-owned electric utility in the West by business customers and number two by residential customers.

In 2006, APS established a new system peak demand of 7,652 megawatts (MW) — 9.3 percent higher than the previous peak of 7,000 MW. APS met this peak, in large part, through the performance of its fossil-fueled power plants. Coal-fired plants set a company fleet record capacity factor of 87 percent, compared with the industry average of 72 percent. And, APS' gas units produced their highest output ever of 7.3 million megawatt-hours.

Additionally, in a period of volatile energy costs, the Company continued its emphasis on cost containment and price stability. APS' energy risk management efforts helped mitigate dramatic price swings of natural gas and their impact on customers. The Arizona Corporation Commission (ACC) also responded to this challenge. They approved changes to APS' annual fuel adjustment, as well as APS' request for interim rate relief, thus improving both current and future recovery of fuel-related costs.

For the year 2006 as a whole, Pinnacle West's consolidated on-going earnings decreased 3.5 percent to \$313.3 million, or \$3.13 per diluted share. This result compares with 2005 on-going earnings of \$324.5 million, or \$3.35 per share. Pinnacle West reported 2006 consolidated net income of \$327.3 million, or \$3.27 per share, compared with 2005 net income of \$176.3 million, or \$1.82 per diluted share.

The annual on-going earnings exclude several non-recurring items: a regulatory disallowance of \$84 million recorded in 2005; a net loss in 2005 from discontinued operations related to sales of the Company's interests in the Silverhawk Power Station and NAC International totaling \$64 million; and income tax credits of \$14 million recorded in 2006, but related to prior years.

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 fourth quarter earnings and year-end results, as well as recent developments at 11 a.m. (ET) today, January 30. 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 6297330. A replay of the call also will be available until 11:55 p.m. (ET), Tuesday, February 6, 2007, by calling (800) 642-1687 in the U.S. and Canada or (706) 645-9291 internationally and entering 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)

	Twelve Months Ended December 31, 2006		Twelve Months Ended December 31, 2005	
	\$ in Millions	Diluted EPS	\$ in Millions	Diluted EPS
Net Income	\$ 327.3	\$ 3.27	\$ 176.3	\$ 1.82
Adjustments:				
Income tax credits related to prior years	(14.0)	(0.14)	—	—
Regulatory disallowance	—	—	84.5	0.87
Loss from discontinued operations — Silverhawk Power Station write-down and operations	—	—	67.4	0.69
Income from discontinued operations — NAC International	—	—	(3.7)	(0.03)
On-going Earnings	<u>\$ 313.3</u>	<u>\$ 3.13</u>	<u>\$ 324.5</u>	<u>\$ 3.35</u>

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

	THREE MONTHS ENDED DECEMBER 31,		TWELVE MONTHS ENDED DECEMBER 31,	
	2006	2005	2006	2005
Operating Revenues				
Regulated electricity segment	\$569,213	\$488,035	\$2,635,036	\$2,237,145
Real estate segment	81,470	105,081	399,798	338,031
Marketing and trading	71,390	84,098	330,742	351,558
Other revenues	7,999	14,458	36,172	61,221
Total	<u>730,072</u>	<u>691,672</u>	<u>3,401,748</u>	<u>2,987,955</u>
Operating Expenses				
Regulated electricity segment fuel and purchased power	225,160	152,609	960,649	595,141
Real estate segment operations	76,266	87,811	324,861	278,366
Marketing and trading fuel and purchased power	62,840	77,744	290,637	293,091
Operations and maintenance	180,122	168,706	691,277	635,827
Depreciation and amortization	91,336	85,622	358,644	347,652
Taxes other than income taxes	28,425	28,512	128,395	132,040
Other expenses	5,853	12,536	28,415	51,987
Regulatory disallowance	—	(4,655)	—	138,562
Total	<u>670,002</u>	<u>608,885</u>	<u>2,782,878</u>	<u>2,472,666</u>
Operating Income	<u>60,070</u>	<u>82,787</u>	<u>618,870</u>	<u>515,289</u>
Other				
Allowance for equity funds used during construction	3,700	2,784	14,312	11,191
Other income	9,568	5,505	44,016	23,360
Other expense	(14,847)	(13,895)	(27,800)	(26,716)
Total	<u>(1,579)</u>	<u>(5,606)</u>	<u>30,528</u>	<u>7,835</u>
Interest Expense				
Interest charges	52,841	42,267	196,826	185,087
Capitalized interest	(6,394)	(1,884)	(20,989)	(12,018)
Total	<u>46,447</u>	<u>40,383</u>	<u>175,837</u>	<u>173,069</u>
Income From Continuing Operations Before Income Taxes	12,044	36,798	473,561	350,055
Income Taxes	<u>1,518</u>	<u>13,029</u>	<u>156,418</u>	<u>126,892</u>
Income From Continuing Operations	10,526	23,769	317,143	223,163
Income (Loss) From Discontinued Operations Net of Income Taxes	<u>7,953</u>	<u>(2,422)</u>	<u>10,112</u>	<u>(46,896)</u>
Net Income	<u>\$ 18,479</u>	<u>\$ 21,347</u>	<u>\$ 327,255</u>	<u>\$ 176,267</u>
Weighted-Average Common Shares Outstanding — Basic	99,832	98,982	99,417	96,484
Weighted-Average Common Shares Outstanding — Diluted	100,474	99,050	100,010	96,590
Earnings Per Weighted-Average Common Share Outstanding				
Income from continuing operations — basic	\$ 0.11	\$ 0.24	\$ 3.19	\$ 2.31
Net income — basic	\$ 0.19	\$ 0.22	\$ 3.29	\$ 1.83
Income from continuing operations — diluted	\$ 0.10	\$ 0.24	\$ 3.17	\$ 2.31
Net income — diluted	\$ 0.18	\$ 0.22	\$ 3.27	\$ 1.82

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 DECEMBER 31,		Increase (Decrease)	
	2006	2005	Pretax	After Tax
RECONCILIATION OF REGULATED ELECTRICITY SEGMENT				
GROSS MARGIN				
Operating Income (closest GAAP measure)	\$ 60,070	\$ 82,787	\$(22,717)	\$(13,846)
Plus:				
Operations and maintenance	180,122	168,706	11,416	6,958
Real estate segment operations	76,266	87,811	(11,545)	(7,037)
Depreciation and amortization	91,336	85,622	5,714	3,483
Taxes other than income taxes	28,425	28,512	(87)	(53)
Other expenses	5,853	12,536	(6,683)	(4,073)
Regulatory disallowance	—	(4,655)	4,655	2,837
Marketing and trading fuel and purchased power	62,840	77,744	(14,904)	(9,084)
Less:				
Real estate segment revenues	81,470	105,081	(23,611)	(14,391)
Other revenues	7,999	14,458	(6,459)	(3,937)
Marketing and trading revenues	71,390	84,098	(12,708)	(7,746)
Regulated electricity segment gross margin	<u>\$344,053</u>	<u>\$335,426</u>	<u>\$ 8,627</u>	<u>\$ 5,259</u>

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

	TWELVE MONTHS ENDED DECEMBER 31,		Increase (Decrease)	
	2006	2005	Pretax	After Tax
RECONCILIATION OF REGULATED ELECTRICITY SEGMENT GROSS MARGIN				
Operating Income (closest GAAP measure)	\$ 618,870	\$ 515,289	\$ 103,581	\$ 63,133
Plus:				
Operations and maintenance	691,277	635,827	55,450	33,797
Real estate segment operations	324,861	278,366	46,495	28,339
Depreciation and amortization	358,644	347,652	10,992	6,700
Taxes other than income taxes	128,395	132,040	(3,645)	(2,222)
Other expenses	28,415	51,987	(23,572)	(14,367)
Regulatory disallowance	—	138,562	(138,562)	(84,454)
Marketing and trading fuel and purchased power	290,637	293,091	(2,454)	(1,496)
Less:				
Real estate segment revenues	399,798	338,031	61,767	37,647
Other revenues	36,172	61,221	(25,049)	(15,267)
Marketing and trading revenues	330,742	351,558	(20,816)	(12,687)
Regulated electricity segment gross margin	<u>\$1,674,387</u>	<u>\$1,642,004</u>	<u>\$ 32,383</u>	<u>\$ 19,737</u>
RECONCILIATION OF MARKETING AND TRADING GROSS MARGIN				
Operating Income (closest GAAP measure)	\$ 618,870	\$ 515,289	\$ 103,581	\$ 63,133
Plus:				
Operations and maintenance	691,277	635,827	55,450	33,797
Real estate segment operations	324,861	278,366	46,495	28,339
Depreciation and amortization	358,644	347,652	10,992	6,700
Taxes other than income taxes	128,395	132,040	(3,645)	(2,222)
Other expenses	28,415	51,987	(23,572)	(14,367)
Regulatory disallowance	—	138,562	(138,562)	(84,454)
Regulated electricity segment fuel and purchased power	960,649	595,141	365,508	222,777
Less:				
Real estate segment revenues	399,798	338,031	61,767	37,647
Other revenues	36,172	61,221	(25,049)	(15,267)
Regulated electricity segment revenues	2,635,036	2,237,145	397,891	242,515
Marketing and trading gross margin	<u>\$ 40,105</u>	<u>\$ 58,467</u>	<u>\$ (18,362)</u>	<u>\$ (11,192)</u>