

PINNACLE WEST CAPITAL CORP

FORM 8-K (Current report filing)

Filed 05/05/09 for the Period Ending 03/31/09

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

Table of Contents

**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): March 31, 2009

<u>Commission File Number</u>	<u>Exact Name of Registrant as Specified in Charter; State of Incorporation; Address and Telephone Number</u>	<u>IRS Employer Identification Number</u>
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.

TABLE OF CONTENTS

Item 2.02. Results of Operations and Financial Condition

Item 7.01. Regulation FD Disclosure

Item 9.01. Financial Statements and Exhibits

SIGNATURES

Exhibit Index

EX-99.1

EX-99.2

EX-99.3

EX-99.4

EX-99.5

Item 2.02. Results of Operations and Financial Condition

On May 5, 2009, Pinnacle West Capital Corporation (the “Company” or “Pinnacle West”) issued a press release regarding its financial results for its fiscal quarter ended March 31, 2009. A copy of the press release is attached hereto as Exhibit 99.2.

Certain of the information referenced in Item 7.01 below relates to the Company’s results of operations for its fiscal quarter ended March 31, 2009. This information is attached hereto as Exhibits 99.1, 99.2 and 99.3.

Item 7.01. Regulation FD Disclosure

Financial and Business Information

The Company is providing a quarterly consolidated statistical summary and a copy of the slide presentation made in connection with the quarterly earnings conference call on May 5, 2009 to help interested parties better understand its business (see Exhibits 99.1 and 99.3). This information is concurrently being posted to the Company’s website at www.pinnaclewest.com, which also contains a glossary of relevant terms.

2009 Earnings Outlook

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

Our earnings forecasts are subject to numerous risks, including those described under “Forward-Looking Statements” below and under “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

We estimate that our consolidated earnings for 2009 will be within a reasonable range around \$2.30 per share, excluding the impact of SunCor Development Company (“SunCor”). This guidance takes into account the effects of milder weather in the first quarter, as well as the 2009 portion of the annualized pretax cost savings identified in our March 2009 report to the Arizona Corporation Commission (the “ACC”), as required by the ACC’s interim rate decision in December 2008.

We estimate that Arizona Public Service Company’s (“APS”) earnings contribution included in such consolidated earnings will be within a reasonable range around \$2.35 per share (equivalent to a return on APS’ average common equity of about 7%). This estimate assumes that the interim base rate surcharge will remain in effect throughout 2009. We currently estimate that holding company expenses and other items, net, will be a net loss within a reasonable range around \$0.05 per share. For additional details regarding the major factors affecting our consolidated earnings outlook for 2009, see Exhibit 99.4 attached hereto.

2010 Earnings Outlook

Assuming APS’ proposed general retail rate settlement is approved as proposed and is effective for the entire year, we estimate that our consolidated earnings for 2010, with negligible impact from SunCor, if any, will be within a reasonable range around \$3.00 per share. We estimate that APS’ earnings contribution included in such 2010 consolidated earnings will be within a reasonable range around \$3.00 per share (equivalent to a return on APS’ average common equity of about 9%). We currently estimate that holding company expenses and other items, net, will not have any meaningful impact on our 2010 consolidated financial results. For additional details regarding major factors affecting our consolidated earnings outlook for 2010, see Exhibit 99.5 attached hereto.

Forward-Looking Statements

This Form 8-K contains forward-looking statements regarding our 2009 and 2010 earnings outlook. Neither Pinnacle West nor APS assumes any obligation to update these statements or make any further statements on any of these issues, except as required by applicable law. These forward-looking statements are often identified by words such as “estimate,” “predict,” “hope,” “may,” “believe,” “anticipate,” “plan,” “expect,” “require,” “intend,” “assume” and similar words. Because actual results may differ materially from expectations, we caution readers not to place undue reliance on these statements. A number of factors could cause future results to differ materially from historical results, or from results or outcomes currently expected or sought by Pinnacle West or APS. In addition to the Risk Factors described in Item 1A of the Pinnacle West/APS Annual Report on Form 10-K for the fiscal year ended December 31, 2008, these factors include, but are not limited to, state and federal regulatory and legislative decisions and actions, including the outcome or timing of the pending rate case of APS; increases in our capital expenditures and operating costs and our ability to achieve timely and adequate rate recovery of these increased costs; our ability to reduce capital expenditures and other costs while

Table of Contents

maintaining reliability and customer service levels, and unexpected developments that would limit us from achieving all or some of our planned capital expenditure reductions; volatile fuel and purchased power costs, including fluctuations in market prices for natural gas, coal, uranium and other fuels used in our generating facilities, availability of supplies of such commodities, and our ability to recover the costs of such commodities; the outcome and resulting costs of regulatory, legislative and judicial proceedings, both current and future, including those related to environmental matters and climate change; the availability of sufficient water supplies to operate our generation facilities, including as the result of drought conditions; the potential for additional restructuring of the electric industry, including decisions impacting wholesale competition and the introduction of retail electric competition in Arizona; regional, national and international economic and market conditions, including the strength of the real estate, credit and financial markets; the potential adverse impact of current economic conditions on our results of operations; the cost of debt and equity capital and access to capital markets; changes in the market price of our common stock; restrictions on dividends or other burdensome provisions in new or existing credit agreements; our ability, or the ability of our subsidiaries, to meet debt service obligations; current credit ratings remaining in effect for any given period of time; the performance of the stock market and the changing interest rate environment, which affect the value of our nuclear decommissioning trust, pension, and other postretirement benefit plan assets, the amount of required contributions to Pinnacle West's pension plan and contributions to APS' nuclear decommissioning trust funds, as well as the reported costs of providing pension and other postretirement benefits and our ability to recover such costs; volatile market liquidity, any deteriorating counterparty credit and the use of derivative contracts in our business (including the interpretation of the subjective and complex accounting rules related to these contracts); changes in accounting principles generally accepted in the United States of America, the interpretation of those principles and the impact of the adoption of new accounting standards; customer growth and energy usage; weather variations affecting local and regional customer energy usage; power plant performance and outages; transmission outages and constraints; the completion of generation and transmission construction in the region, which could affect customer growth and the cost of power supplies; risks inherent in the operation of nuclear facilities, such as environmental, regulatory, health and financial risks, risk of terrorist attack, planned and unplanned outages, and unfunded decommissioning costs; the ability of our power plant participants to meet contractual or other obligations; technological developments in the electric industry; the results of litigation and other proceedings resulting from the California and Pacific Northwest energy situations; the performance of Pinnacle West's subsidiaries and any resulting effects on its cash flow; the strength of the real estate and credit markets and economic and other conditions affecting the real estate and credit markets 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.

Table of Contents

Item 9.01. Financial Statements and Exhibits

(d) Exhibits.

Exhibit No.	Registrant(s)	Description
99.1	Pinnacle West APS	Pinnacle West Capital Corporation quarterly consolidated statistical summary for the three-month periods ended March 31, 2009 and 2008.
99.2	Pinnacle West APS	Earnings News Release issued on May 5, 2009.
99.3	Pinnacle West APS	Pinnacle West Capital Corporation First Quarter 2009 slide presentation accompanying May 5, 2009 conference call.
99.4	Pinnacle West APS	2009 Earnings Outlook Reconciliation
99.5	Pinnacle West APS	2010 Earnings Outlook Reconciliation

SIGNATURES

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

PINNACLE WEST CAPITAL CORPORATION
(Registrant)

Dated: May 5, 2009

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

ARIZONA PUBLIC SERVICE COMPANY
(Registrant)

Dated: May 5, 2009

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

Exhibit Index

Exhibit No.	Registrant(s)	Description
99.1	Pinnacle West APS	Pinnacle West Capital Corporation quarterly consolidated statistical summary for the three-month periods ended March 31, 2009 and 2008.
99.2	Pinnacle West APS	Earnings News Release issued on May 5, 2009.
99.3	Pinnacle West APS	Pinnacle West Capital Corporation First Quarter 2009 slide presentation accompanying May 5, 2009 conference call.
99.4	Pinnacle West APS	2009 Earnings Outlook Reconciliation
99.5	Pinnacle West APS	2010 Earnings Outlook Reconciliation

Last Updated

5/5/2009

Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Periods Ended March 31, 2009 and 2008

Line		3 Mo. Ended March		
		2009	2008	Incr (Decr)
EARNINGS CONTRIBUTION BY SUBSIDIARY (\$ Millions)				
1	Arizona Public Service	\$ (15)	\$ (6)	\$ (9)
2	APS Energy Services	(1)	1	(2)
3	SunCor	(224)	(4)	(220)
4	El Dorado	(6)	(1)	(5)
5	Parent Company	<u>78</u>	<u>4</u>	<u>74</u>
6	Income (Loss) From Continuing Operations	(168)	(6)	(162)
	Income (Loss) From Discontinued Operations — Net of Tax			
7	SunCor	(5)	3	(8)
8	Other	<u>2</u>	<u>(1)</u>	<u>3</u>
9	Total	(3)	2	(5)
10	Net Income (Loss)	<u>(171)</u>	<u>(4)</u>	<u>(167)</u>
11	Less: Net Income (Loss) Attributable to Noncontrolling Interests	(14)	—	(14)
12	Net Income (Loss) Attributable to Common Shareholders	<u>\$ (157)</u>	<u>\$ (4)</u>	<u>\$ (153)</u>
EARNINGS PER SHARE BY SUBSIDIARY — DILUTED				
13	Arizona Public Service	\$ (0.15)	\$ (0.06)	\$ (0.09)
14	APS Energy Services	(0.01)	0.01	(0.02)
15	SunCor	(2.22)	(0.03)	(2.19)
16	El Dorado	(0.06)	(0.02)	(0.04)
17	Parent Company	<u>0.78</u>	<u>0.04</u>	<u>0.74</u>
18	Income (Loss) From Continuing Operations	(1.66)	(0.06)	(1.60)
	Income (Loss) From Discontinued Operations — Net of Tax			
19	SunCor	(0.05)	0.03	(0.08)
20	Other	<u>0.02</u>	<u>(0.01)</u>	<u>0.03</u>
21	Total	(0.03)	0.02	(0.05)
22	Net Income (Loss)	<u>(1.69)</u>	<u>(0.04)</u>	<u>(1.65)</u>
23	Less: Net Income (Loss) Attributable to Noncontrolling Interests	(0.14)	—	(0.14)
24	Net Income (Loss) Attributable to Common Shareholders	<u>\$ (1.55)</u>	<u>\$ (0.04)</u>	<u>\$ (1.51)</u>
25	BOOK VALUE PER SHARE	\$ 31.29	\$ 35.22	\$ (3.93)
COMMON SHARES OUTSTANDING (Thousands)				
26	Average — Diluted	100,986	100,521	465
27	End of Period	101,074	100,625	449

See Glossary of Terms

Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Periods Ended March 31, 2009 and 2008

Line		3 Mo. Ended March		
		2009	2008	Incr (Decr)
ELECTRIC OPERATING REVENUES (Dollars in Millions)				
REGULATED ELECTRICITY SEGMENT				
Retail				
28	Residential	\$ 256	\$ 271	\$ (15)
29	Business	298	300	(2)
30	Total retail	554	571	(17)
Wholesale revenue on delivered electricity				
31	Traditional contracts	11	12	(1)
32	Off-system sales	22	24	(2)
33	Transmission for others	7	7	—
34	Other miscellaneous services	9	9	—
35	Total regulated operating electricity revenues	603	623	(20)
MARKETING AND TRADING				
36	Electricity and other commodity sales	—	30	(30)
37	Total operating electric revenues	<u>\$ 603</u>	<u>\$ 653</u>	<u>\$ (50)</u>
ELECTRIC SALES (GWH)				
REGULATED ELECTRICITY SEGMENT				
Retail sales				
38	Residential	2,499	2,774	(275)
39	Business	3,260	3,338	(78)
40	Total retail	5,759	6,112	(353)
Wholesale electricity delivered				
41	Traditional contracts	165	222	(57)
42	Off-system sales	697	416	281
43	Retail load hedge management	152	162	(10)
44	Total regulated electricity	6,773	6,912	(139)
MARKETING AND TRADING				
45	Wholesale sales of electricity	—	911	(911)
46	Total electric sales	<u>6,773</u>	<u>7,823</u>	<u>(1,050)</u>
POWER SUPPLY ADJUSTOR (“PSA”) — REGULATED ELECTRICITY SEGMENT (Dollars in Millions)				
47	Deferred fuel and purchased power regulatory asset — beginning balance	\$ 8	\$ 111	\$ (103)
48	Deferred fuel and purchased power costs — current period	(28)	(11)	(17)
49	Interest on deferred fuel	—	1	(1)
50	Amounts recovered through revenues	(29)	(51)	22
51	Deferred fuel and purchased power regulatory asset — ending balance	<u>\$ (49)</u>	<u>\$ 50</u>	<u>\$ (99)</u>

See Glossary of Terms

Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Periods Ended March 31, 2009 and 2008

Line		3 Mo. Ended March		
		2009	2008	Incr (Decr)
AVERAGE ELECTRIC CUSTOMERS				
Retail customers				
52	Residential	988,675	982,459	6,216
53	Business	125,111	122,833	2,278
54	Total	1,113,786	1,105,292	8,494
55	Wholesale customers	50	50	—
56	Total customers	<u>1,113,836</u>	<u>1,105,342</u>	<u>8,494</u>
57	Customer growth (% over prior year)	0.8%	2.0%	(1.2)%
RETAIL SALES (GWH) — WEATHER NORMALIZED				
58	Residential	2,609	2,694	(85)
59	Business	3,286	3,300	(14)
60	Total	<u>5,895</u>	<u>5,994</u>	<u>(99)</u>
RETAIL USAGE (KWh/Average Customer)				
61	Residential	2,527	2,824	(297)
62	Business	26,057	27,175	(1,118)
RETAIL USAGE — WEATHER NORMALIZED (KWh/Average Customer)				
63	Residential	2,639	2,742	(103)
64	Business	26,266	26,865	(599)
ELECTRICITY DEMAND (MW)				
65	Native load peak demand	4,023	4,404	(381)
WEATHER INDICATORS				
Actual				
66	Cooling degree-days	104	105	(1)
67	Heating degree-days	383	583	(200)
68	Average humidity	35%	40%	(5)%
10-Year Averages				
69	Cooling degree-days	71	96	(25)
70	Heating degree-days	571	517	54
71	Average humidity	41%	42%	(1)%

See Glossary of Terms

Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Periods Ended March 31, 2009 and 2008

Line		3 Mo. Ended March		
		2009	2008	Incr (Decr)
	ENERGY SOURCES (GWH)			
	Generation production			
72	Nuclear	2,493	2,315	178
73	Coal	2,951	2,906	45
74	Gas, oil and other	1,025	1,148	(123)
75	Total generation production	<u>6,469</u>	<u>6,369</u>	<u>100</u>
	Purchased power			
76	Firm load	508	740	(232)
77	Marketing and trading	260	1,196	(936)
78	Total purchased power	<u>768</u>	<u>1,936</u>	<u>(1,168)</u>
79	Total energy sources	<u><u>7,237</u></u>	<u><u>8,305</u></u>	<u><u>(1,068)</u></u>
	POWER PLANT PERFORMANCE			
	Capacity Factors			
80	Nuclear	101%	92%	9%
81	Coal	78%	76%	2%
82	Gas, oil and other	14%	16%	(2)%
83	System average	48%	47%	1%
	ECONOMIC INDICATORS			
	Building Permits — Metro Phoenix (a) (c)			
84	Single-family	505	1,967	(1,462)
85	Multi-family	308	1,425	(1,117)
86	Total	<u>813</u>	<u>3,392</u>	<u>(2,579)</u>
	Arizona Job Growth (b) (c)			
87	Payroll job growth (% over prior year)	(6.2)%	0.1%	(6.3)%
88	Unemployment rate (% , seasonally adjusted)	7.2%	4.5%	2.7%

Sources:

- (a) Arizona Real Estate Center, Arizona State University W.P. Carey College of Business
(b) Arizona Department of Economic Security
(c) Economic indicators reflect periods ended February 28, 2009 (latest available data) and February 28, 2008.

See Glossary of Terms

**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

May 5, 2009
Page 1 of 2

PINNACLE WEST REPORTS 2009 FIRST-QUARTER LOSS

*Real Estate Charges Drive Consolidated Results;
Milder Weather and Increased Costs Contribute to Lower APS Results*

PHOENIX — Pinnacle West Capital Corp. (NYSE: PNW) today reported a consolidated net loss attributable to common shareholders for the quarter ended March 31, 2009, of \$156.5 million, or \$1.55 per diluted share of common stock compared with a net loss attributable to common shareholders of \$4.5 million, or \$0.04 per diluted share, for the same quarter in 2008. The lower results were driven largely by previously announced real estate charges, as well as rising costs incurred by Arizona Public Service (APS) related to its electric system expansion, and the effects of milder weather.

Excluding the real estate charges, Pinnacle West recorded a consolidated on-going loss of \$29.1 million or \$0.29 per share in the 2009 first quarter compared with a consolidated on-going loss of \$4.5 million, or \$0.04 per share, in the comparable 2008 quarter.

APS, the company's principal subsidiary, reported a quarterly net loss of \$15.5 million, compared with a net loss of \$6.4 million for the 2008 first quarter. In addition to the impact of milder weather, the utility's results were negatively impacted by lower mark-to-market valuations of fuel and power contracts, and higher costs related to continuing infrastructure additions and improvements. These items more than offset an interim retail electricity price increase implemented at the beginning of this year and transmission rate increases implemented in 2008.

"Even with the current economy, Arizona is still growing. With today's growth and an eventual economic rebound, APS expects to add another 600,000 customers by 2025 — a 55 percent increase over current levels," said Chairman Don Brandt. "We must continue preparing to meet this demand by investing in new infrastructure and technologies to ensure our customers' energy future continues to be highly reliable, as well as cleaner, more efficient and more responsive than ever before. To accomplish these goals, we will maintain a keen focus on energy efficiency, renewable energy expansion, productivity, customer technologies and financial strength."

As announced in early April, the Company's real estate subsidiary, SunCor, initiated a plan to dispose of a majority of its real estate assets through a series of strategic transactions. As a result of that decision, Pinnacle West's reported consolidated results for the 2009 first quarter include real estate charges totaling \$127.4 million after-tax. Execution of the restructuring plan is currently underway and will allow SunCor to maximize the value of its assets, concentrate on the Phoenix market, and substantially eliminate SunCor's outstanding debt. The company currently plans to complete the transactions in 2009.

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

Conference Call

Pinnacle West invites interested parties to listen to the live web cast of management's conference call to discuss the Company's 2009 first-quarter results and recent developments at 12 noon (ET) today, May 5. 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 Conference ID Number 94112207. A replay of the call also will be available until 11:55 p.m. (ET), Tuesday, May 12, 2009, by calling (800) 642-1687 in the U.S. and Canada or (706) 645-9291 internationally and entering the same Conference ID number as above.

Pinnacle West is a Phoenix-based company with consolidated assets of about \$11.4 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.

-30-

PINNACLE WEST CAPITAL CORPORATION
NON-GAAP FINANCIAL MEASURE RECONCILIATION
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS
(GAAP MEASURE) TO ON-GOING LOSS (NON-GAAP FINANCIAL MEASURE)

	Three Months Ended March 31, 2009		Three Months Ended March 31, 2008	
	\$ in Millions	Diluted EPS	\$ in Millions	Diluted EPS
Net Loss Attributable to Common Shareholders	\$ (156.5)	\$ (1.55)	\$ (4.5)	\$ (0.04)
Adjustment:				
Real estate impairment and related charges	127.4	1.26	—	—
On-going Loss	<u>\$ (29.1)</u>	<u>\$ (0.29)</u>	<u>\$ (4.5)</u>	<u>\$ (0.04)</u>

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

	THREE MONTHS ENDED MARCH 31,	
	2009	2008
Operating Revenues		
Regulated electricity segment	\$ 602,578	\$622,801
Real estate segment	18,366	26,266
Marketing and trading	—	30,452
Other revenues	8,449	8,737
Total	<u>629,393</u>	<u>688,256</u>
Operating Expenses		
Regulated electricity segment fuel and purchased power	247,388	269,378
Real estate segment operations	30,281	30,957
Real estate impairment charge	211,306	—
Marketing and trading fuel and purchased power	—	23,986
Operations and maintenance	207,531	193,023
Depreciation and amortization	99,921	95,594
Taxes other than income taxes	34,128	33,152
Other expenses	6,467	5,938
Total	<u>837,022</u>	<u>652,028</u>
Operating Income (Loss)	<u>(207,629)</u>	<u>36,228</u>
Other		
Allowance for equity funds used during construction	4,992	6,124
Other income	380	3,839
Other expense	(9,741)	(4,896)
Total	<u>(4,369)</u>	<u>5,067</u>
Interest Expense		
Interest charges	55,806	54,702
Capitalized interest	(3,834)	(5,679)
Total	<u>51,972</u>	<u>49,023</u>
Loss From Continuing Operations Before Income Taxes	(263,970)	(7,728)
Income Taxes	<u>(96,174)</u>	<u>(1,541)</u>
Loss From Continuing Operations	(167,796)	(6,187)
Income (Loss) From Discontinued Operations Net of Income Taxes	<u>(2,924)</u>	<u>1,714</u>
Net Loss	(170,720)	(4,473)
Less: Net loss attributable to noncontrolling interests	<u>(14,210)</u>	<u>—</u>
Net Loss Attributable To Common Shareholders	<u>\$ (156,510)</u>	<u>\$ (4,473)</u>
Weighted-Average Common Shares Outstanding — Basic	100,986	100,521
Weighted-Average Common Shares Outstanding — Diluted	100,986	100,521
Earnings Per Weighted-Average Common Share Outstanding		
Loss from continuing operations attributable to common shareholders — basic	\$ (1.52)	\$ (0.06)
Net loss attributable to common shareholders — basic	\$ (1.55)	\$ (0.04)
Loss from continuing operations attributable to common shareholders — diluted	\$ (1.52)	\$ (0.06)
Net loss attributable to common shareholders — diluted	\$ (1.55)	\$ (0.04)

Amounts Attributable To Common Shareholders

Loss from continuing operations, net of tax	\$(153,586)	\$ (6,187)
Discontinued operations, net of tax	<u>(2,924)</u>	<u>1,714</u>
Net loss attributable to common shareholders	<u><u>\$(156,510)</u></u>	<u><u>\$ (4,473)</u></u>



PINNACLE WEST
CAPITAL CORPORATION

1st Quarter 2009 Results
May 5, 2009

Forward-Looking Statements



PINNACLE WEST
CAPITAL CORPORATION

This presentation contains forward-looking statements based on current expectations, and neither Pinnacle West nor APS assumes any obligation to update these statements or make any further statements on any of these issues, except as required by applicable law. These forward-looking statements are often identified by words such as "estimate," "predict," "hope," "may," "believe," "anticipate," "plan," "expect," "require," "intend," "assume" and similar words. Because actual results may differ materially from expectations, we caution readers not to place undue reliance on these statements. A number of factors could cause future results to differ materially from historical results, or from results or outcomes currently expected or sought by Pinnacle West or APS. In addition to the Risk Factors described in Item 1A of the 2008 Form 10-K, these factors include, but are not limited to: state and federal regulatory and legislative decisions and actions, including the outcome or timing of the pending rate case of APS; increases in our capital expenditures and operating costs and our ability to achieve timely and adequate rate recovery of these increased costs; our ability to reduce capital expenditures and other costs while maintaining reliability and customer service levels, and unexpected developments that would limit us from achieving all or some of our planned capital expenditure reductions; volatile fuel and purchased power costs, including fluctuations in market prices for natural gas, coal, uranium and other fuels used in our generating facilities, availability of supplies of such commodities, and our ability to recover the costs of such commodities; the outcome and resulting costs of regulatory, legislative and judicial proceedings, both current and future, including those related to environmental matters and climate change; the availability of sufficient water supplies to operate our generation facilities, including as the result of drought conditions; the potential for additional restructuring of the electric industry, including decisions impacting wholesale competition and the introduction of retail electric competition in Arizona; regional, national and international economic and market conditions, including the strength of the real estate, credit and financial markets; the potential adverse impact of current economic conditions on our results of operations; the cost of debt and equity capital and access to capital markets; changes in the market price of our common stock; restrictions on dividends or other burdensome provisions in new or existing credit agreements; our ability, or the ability of our subsidiaries, to meet debt service obligations; current credit ratings remaining in effect for any given period of time; the performance of the stock market and the changing interest rate environment, which affect the value of our nuclear decommissioning trust, pension, and other postretirement benefit plan assets, the amount of required contributions to Pinnacle West's pension plan and contributions to APS' nuclear decommissioning trust funds, as well as the reported costs of providing pension and other postretirement benefits and our ability to recover such costs; volatile market liquidity, any deteriorating counterparty credit and the use of derivative contracts in our business (including the interpretation of the subjective and complex accounting rules related to these contracts); changes in accounting principles generally accepted in the United States of America, the interpretation of those principles and the impact of the adoption of new accounting standards; customer growth and energy usage; weather variations affecting local and regional customer energy usage; power plant performance and outages; transmission outages and constraints; the completion of generation and transmission construction in the region, which could affect customer growth and the cost of power supplies; risks inherent in the operation of nuclear facilities, such as environmental, regulatory, health and financial risks, risk of terrorist attack, planned and unplanned outages, and unfunded decommissioning costs; the ability of our power plant participants to meet contractual or other obligations; technological developments in the electric industry; the results of litigation and other proceedings resulting from the California and Pacific Northwest energy situations; the performance of Pinnacle West's subsidiaries and any resulting effects on its cash flow; the strength of the real estate and credit markets and economic and other conditions affecting the real estate and credit markets 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.

First Quarter 2009

CEO Agenda



- **APS Retail Rate Settlement**
- **SunCor Restructuring Plan**
- **Palo Verde Return to NRC Column 1**
- **Summary Comments**

Proposed APS Retail Rate Settlement Rate and Financial Stability Plan



Primary Benefits

- **Strengthens APS' financial condition and supports common dividend**
- **Provides greater level of cost recovery and return on investment**
- **Provides rate stability for APS customers**
- **Allows opportunity to help shape Arizona's energy future outside continual rate cases**
- **Continues strong APS commitment to cost control and efficiency**
- **Provides for significant increase in energy efficiency programs**
- **Expands renewable energy requirements and programs**

Proposed APS Retail Rate Settlement Rate and Financial Stability Plan



Key Financial Provisions – Base Rates

	<u>Proposed Settlement</u>	<u>APS Request</u>
Annualized base rate revenue increase (\$ millions):		
Non-fuel rate increase	\$ 196	\$ 264
Net fuel-related rate increase	11	14
Net base rate increase	<u>\$ 207</u>	<u>\$ 278</u>
Allowed ROE (%)	11	11.5
Base fuel rate (¢ per kWh)	3.76	3.88
Effective date	1/1/2010	10/1/2009

Proposed APS Retail Rate Settlement Rate and Financial Stability Plan



Key Financial Provisions – Other Than Base Rates

- **Line Extension Fees – 2010-2012 payments received to be recorded as revenues instead of contributions in aid of construction (pretax estimates):**
 - 2010 \$23 million
 - 2011 \$25 million
 - 2012 \$49 million

- **Pension and OPEB Deferrals – 2011-2012 defer for future rate recovery differences between actual pension and OPEB costs and 2007 test year (\$24 million) as follows (pretax):**
 - 2011 deferral not to exceed lower of \$13.5 million or 50% of cost above 2007 level
 - 2012 deferral not to exceed \$29 million

(continued)

Proposed APS Retail Rate Settlement Rate and Financial Stability Plan



Key Financial Provisions – Other Than Base Rates (continued)

- **Expense Reduction Commitment**
 - **Beginning in 2010, identify additional \$10 million pretax expense reductions above \$20 million identified March 2009**
 - **\$30 million average annual expense reductions to continue through 2014**

- **Equity Infusions**
 - **APS to obtain at least \$700 million of equity infusions in 2010 through 2014**

(continued)

Proposed APS Retail Rate Settlement Rate and Financial Stability Plan



Future General Base Rate Cases

- **APS may file general base rate cases on or after June 1, 2011 and June 1, 2013**
- **A base rate increase resulting from APS' next rate case may not become effective before July 1, 2012**
- **Settling parties intend to process future cases within 12 months of sufficiency findings**

Proposed APS Retail Rate Settlement Rate and Financial Stability Plan



Proposed Procedural Schedule

Definitive settlement agreement filing	June 12, 2009
Supporting parties' testimony due	July 1, 2009
Opposing parties' testimony due	July 22, 2009
Supporting parties' reply testimony due	August 6, 2009
Hearing begins	August 17, 2009
Rate increase effective	January 1, 2010

CEO Agenda



-
- **APS Retail Rate Settlement**
 - **SunCor Restructuring Plan**
 - **Palo Verde Return to NRC Column 1**

CFO Agenda



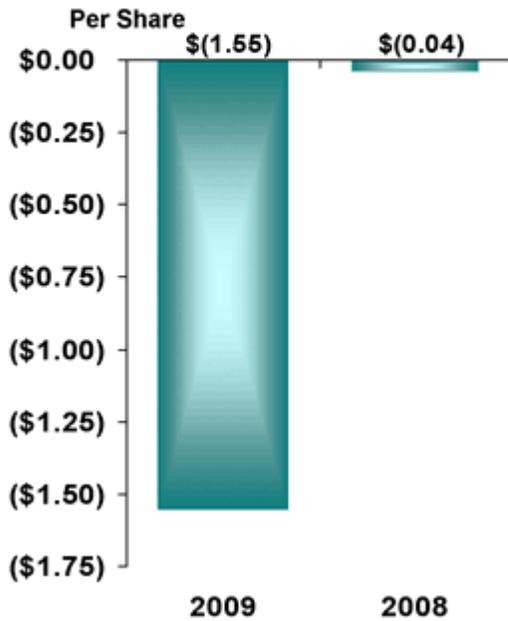
- **1st Quarter Results**
- **Impacts of SunCor Restructuring Plan**
- **Earnings Guidance**
- **Liquidity**
- **Dividends**

Consolidated EPS Summary

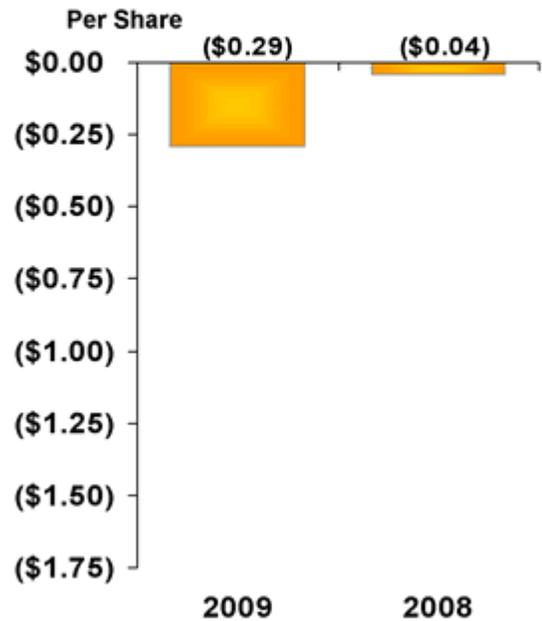
1st Quarter 2009 vs. 1st Quarter 2008



Reported



On-Going



On-going loss of \$(0.29) per share in 1st quarter 2009 compared with \$(0.04) per share in 1st quarter 2008.

Non-GAAP EPS Reconciliation

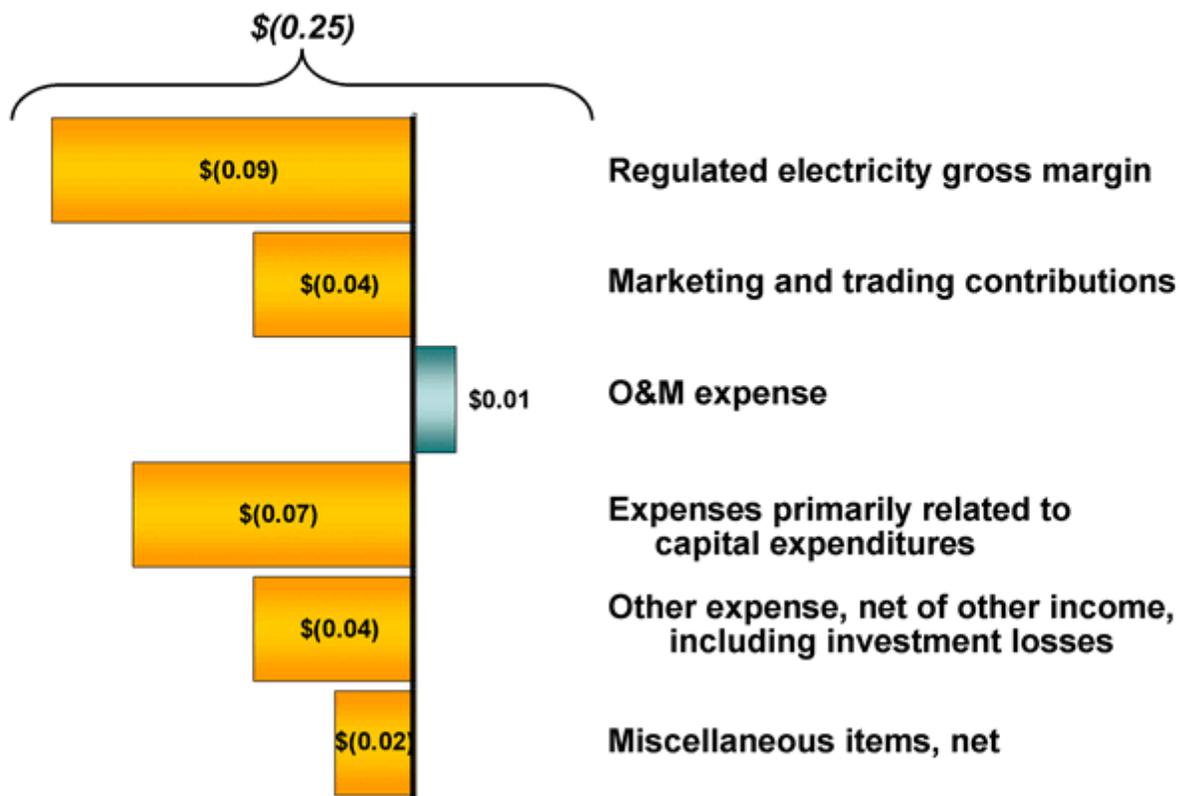
1st Quarter 2009 vs. 1st Quarter 2008



	<u>1st Qtr 2009</u>	<u>1st Qtr 2008</u>	<u>Change</u>
EPS per diluted share as reported:	\$ (1.55)	\$ (0.04)	\$ (1.51)
Adjustments:			
Real estate impairment charge	1.22	-	1.22
Real estate severance and other costs	<u>0.04</u>	<u>-</u>	<u>0.04</u>
On-going earnings per share	<u>\$ (0.29)</u>	<u>\$ (0.04)</u>	<u>\$ (0.25)</u>

Summary of On-Going EPS Variances

1st Quarter 2009 vs. 1st Quarter 2008

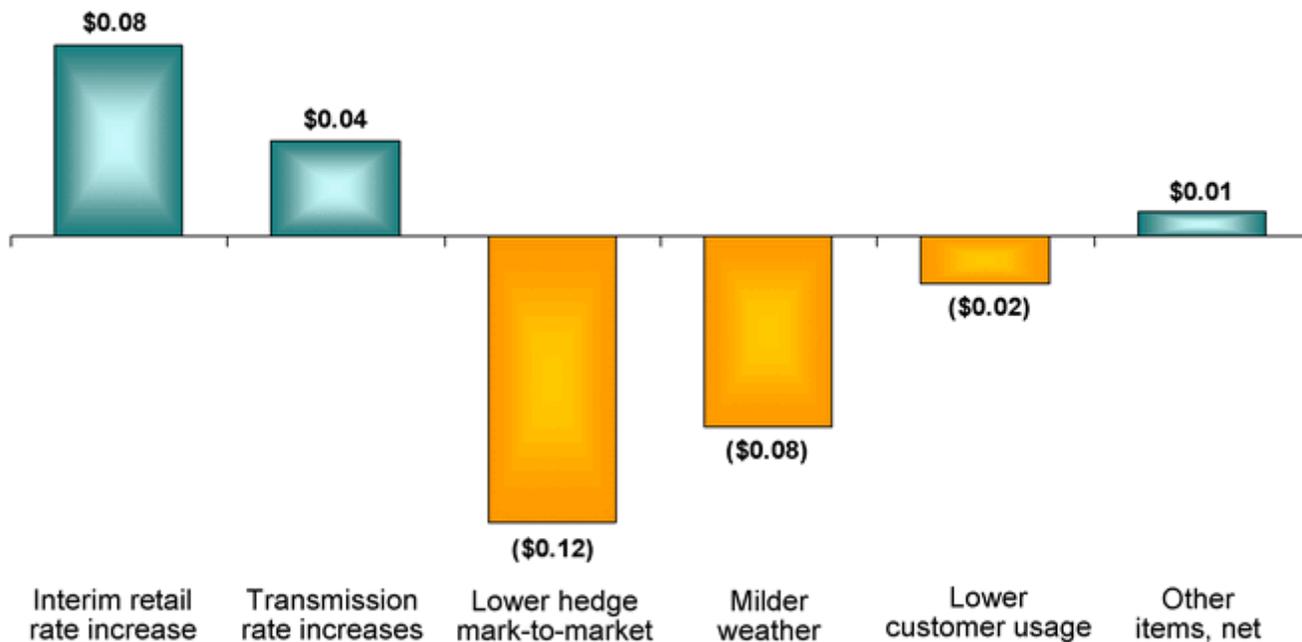


Regulated Electricity Gross Margin Drivers*

1st Quarter 2009 vs. 1st Quarter 2008



PINNACLE WEST
CAPITAL CORPORATION



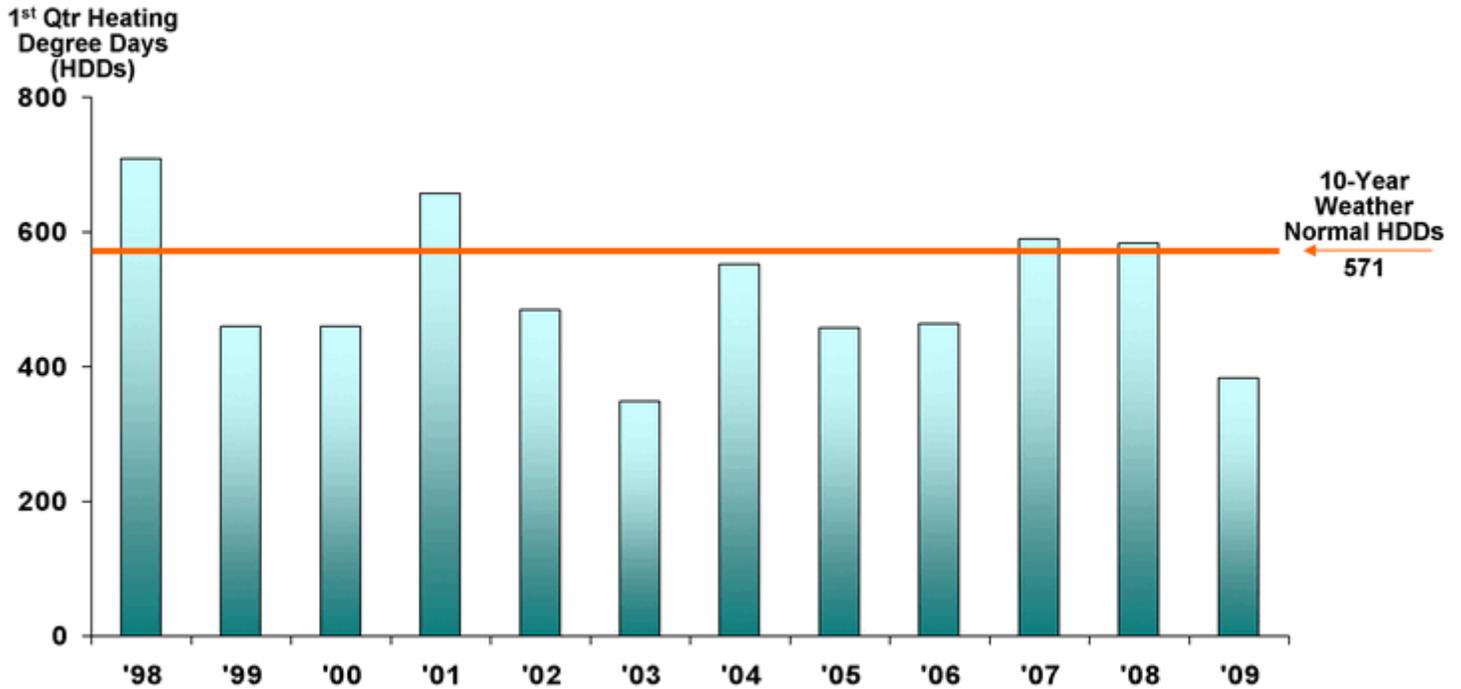
*Excluding effects of Renewable Energy Standard (RES) of \$0.10 per share, which is offset by a comparable amount in O&M.

Regulated electricity gross margin variances decreased earnings \$0.09 per share.

Milder Weather Impacts Quarterly Comparison



PINNACLE WEST
CAPITAL CORPORATION



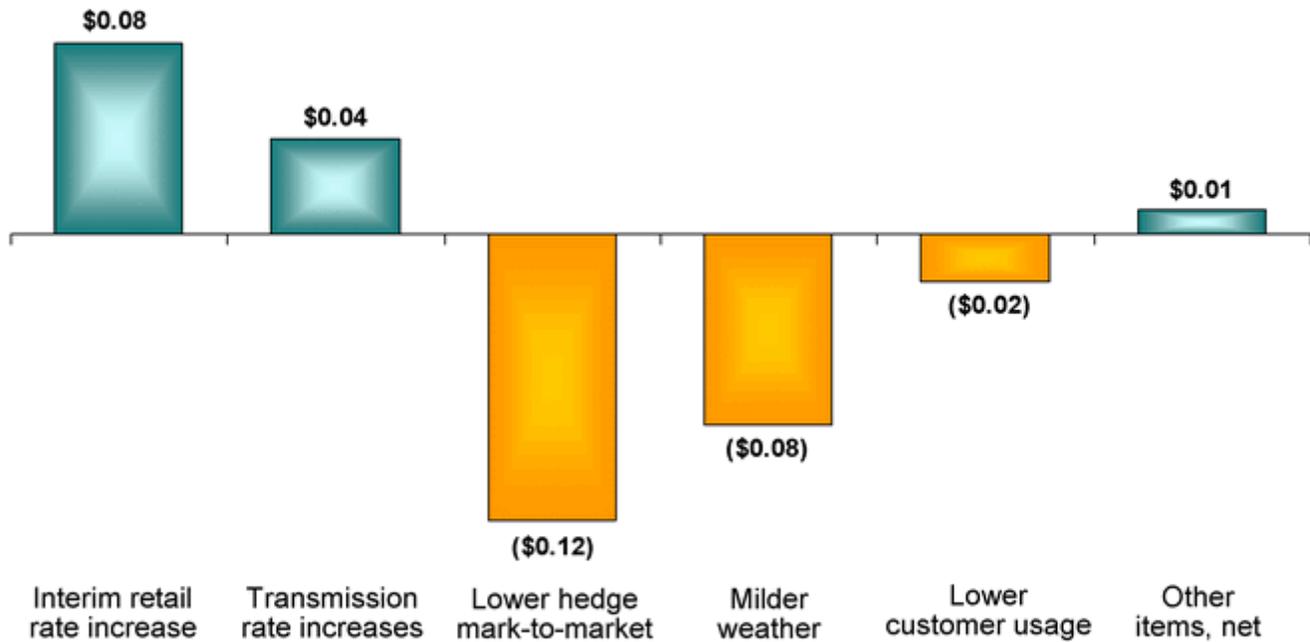
1st quarter 2009 was second mildest on record with 383 HDDs compared with a normal level of 571 HDDs.

Regulated Electricity Gross Margin Drivers*

1st Quarter 2009 vs. 1st Quarter 2008



PINNACLE WEST
CAPITAL CORPORATION



*Excluding effects of Renewable Energy Standard (RES) of \$0.10 per share, which is offset by a comparable amount in O&M.

Regulated electricity gross margin variances decreased earnings \$0.09 per share.

Financial Impacts of SunCor Restructuring



PINNACLE WEST
CAPITAL CORPORATION

- **1st quarter 2009 real estate impairment, severance and related costs \$1.26 per share**
- **Eliminate SunCor's debt**
- **Produce \$80 million of cash tax benefits (estimated to be received late 2010)**
- **Reduce pretax G&A burn from \$44 million in 2008 to negligible amount after restructuring**
- **Eliminate future real estate earnings volatility**

2009 - 2010 Earnings Guidance Affirmed

As of May 5, 2009



Guidance Estimates*		
	<u>2009</u>	<u>2010</u>
APS	\$ 2.35	\$ 3.00
Parent and all other, net	<u>(0.05)</u>	<u>-</u>
Estimated EPS	<u>\$ 2.30</u>	<u>\$ 3.00</u>
<ul style="list-style-type: none"> ➤ Excluding any SunCor impact ➤ Majority of SunCor's operations will be reclassified to discontinued operations during 2009 		
* Within a reasonable range around specified amount		

Key Assumptions
2009 <ul style="list-style-type: none"> ➤ Full-year interim base rates ➤ No additional base rate increases ➤ Includes identified cost savings and mild weather impacts
2010 <ul style="list-style-type: none"> ➤ Rate settlement effective entire year ➤ Includes identified cost savings

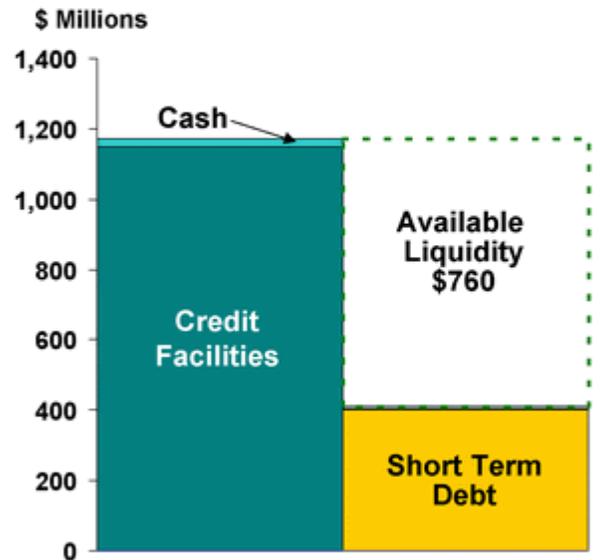
Adequate Liquidity Resources



Credit Facilities

<u>Borrower</u>	<u>Capacity (\$ Millions)</u>	<u>Matures</u>
PNW	\$ 283	Dec. '10
APS	377	Dec. '10
APS	489	Sep. '11
	<u>\$1,149</u>	

Available Liquidity March 31, 2009

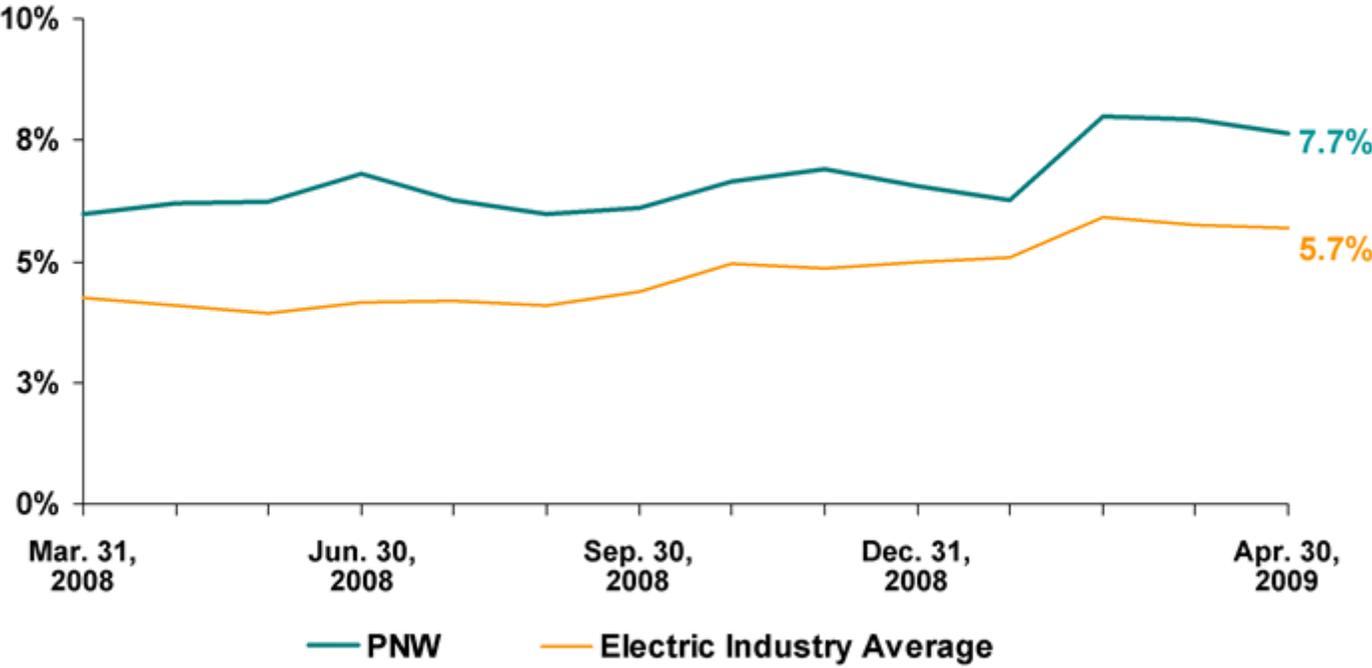


We have sufficient liquidity and access to credit.

Pinnacle West vs. Industry Dividend Yield



PINNACLE WEST
CAPITAL CORPORATION



Pinnacle West's annual dividend is \$2.10 per share.

Going Forward



- **Intense focus on operational excellence and improving earnings and financial metrics**
- **Positive movement in Arizona regulatory environment demonstrated by proposed settlement**
- **SunCor restructuring plan optimizes assets and financial results**
- **Current common dividend supported**

Appendix

Comparison of Retail Rate Case Positions



	<u>APS Request</u>	<u>ACC Staff</u>	<u>RUCO</u>	<u>AECC</u>
Annual revenue increases (\$ millions):				
Non-fuel rate increase	\$ 264	\$ 155	\$ (14)	\$ 206
Net fuel-related rate increase	<u>14</u>	<u>11</u>	<u>14</u>	<u>10</u>
Net rate increase	<u>\$ 278</u>	<u>\$ 166</u>	<u>\$ -</u>	<u>\$ 216</u>
Rate base (\$ billions)	\$ 5.4	\$ 5.3	\$ 4.9	\$ 5.4
Common equity	←————— 54% —————→			
Return on common equity	11.5%	11.0%	9.6%	11.5%

Costs Related to SunCor Restructuring

1st Quarter 2009



	<u>\$ Millions</u> <u>Pretax</u>	<u>EPS</u> <u>After Tax</u>
Real estate impairment charges:		
Homebuilding and master-planned communities	\$ 141	
Land parcels and commercial assets	53	
Golf courses	<u>17</u>	
Subtotal in continuing operations	211	
Discontinued operations	5	
Less non-controlling interests	<u>(14)</u>	
Total impairment charges	<u>202</u>	\$ 1.22
Severance and other costs	<u>8</u>	<u>0.04</u>
Total costs related to restructuring	<u>\$ 210</u>	<u>\$ 1.26</u>

Non-GAAP Measure Reconciliation – Operating Income (Loss) (GAAP Measure) To Regulated Electricity Segment Gross Margin (Non-GAAP Measure)



PINNACLE WEST
CAPITAL CORPORATION

\$ Millions, except per share amounts	Three Months Ended March 31,		
	2009	2008	
Reconciliation of Regulated Electricity Segment Gross Margin			
Operating income (loss) – closest GAAP measure	\$ (208)	\$ 36	
Plus:			
Operations and maintenance expense	208	193	
Real estate segment operations expense	30	31	
Real estate impairment charge	211	-	
Depreciation and amortization	100	96	
Taxes other than income taxes	34	33	
Other expenses	6	6	
Marketing and trading fuel and purchased power	-	24	
Less:			
Real estate segment revenues	18	26	
Other revenues	8	9	
Marketing and trading revenues	-	30	
Regulated electricity segment gross margin - pretax	\$ 355	\$ 354	
Less:			
Renewable energy surcharge (RES) - pretax	18	2	
Regulated electricity segment gross margin excluding RES - pretax	\$ 337	\$ 352	
			Increase (Decrease)
Earnings per share – diluted (after-tax)			
Regulated electricity segment gross margin	\$ 2.14	\$ 2.13	\$ 0.01
Less: RES	0.11	0.01	0.10
Regulated electricity segment gross margin excluding RES	<u>\$ 2.03</u>	<u>\$ 2.12</u>	<u>\$ (0.09)</u>

First Quarter 2009

26

Non-GAAP Measure Reconciliation – Operating Income (Loss) (GAAP Measure) To Regulated Electricity Segment Gross Margin (Non-GAAP Measure)



PINNACLE WEST
CAPITAL CORPORATION

In this presentation, we present “regulated electricity gross margin” per diluted share of common stock. Regulated electricity gross margin refers to regulated electricity segment revenues less regulated electricity segment fuel and purchased power expenses. Regulated electricity segment gross margin is a “non-GAAP financial measure,” as defined in accordance with SEC rules. Slide 26 reconciles this non-GAAP financial measure to operating income (loss), which is the most directly comparable financial measure calculated and presented in accordance with GAAP. We view regulated electricity segment 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 the operations of our business. We believe that investors benefit from having access to the same financial measures that management uses.

Pinnacle West Capital Corporation

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

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

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

Estimated 2009 earnings — a reasonable range around (excluding potential real estate results)	\$ 2.30
Projected increases (decreases) in 2010:	
Retail revenue increase from general rate case settlement in excess of interim revenues	1.10
Other regulated electricity segment gross margin (revenues net of fuel and purchased power costs excluding Renewable Energy Surcharge), including: transmission revenue increases, higher fuel and purchased power costs (net of deferrals) and minimal weather-normalized retail sales growth	0.15 - 0.25
Increased operations and maintenance expense (excluding Renewable Energy Standard costs) primarily due to inflation partially offset by cost efficiency efforts, including cost reductions reported to ACC	(0.05) - (0.15)
Costs related to utility capital expenditures (such as depreciation, property taxes and interest expense, net of capitalized financing costs)	(0.30) - (0.35)
Miscellaneous other items — net	(0.10) - (0.15)
Estimated 2010 earnings — a reasonable range around (excluding potential real estate results)	\$ 3.00