

PINNACLE WEST CAPITAL CORP

FORM 8-K (Current report filing)

Filed 04/25/07 for the Period Ending 03/31/07

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

ARIZONA PUBLIC SERVICE CO

FORM 8-K (Current report filing)

Filed 4/25/2007 For Period Ending 3/31/2007

Address	400 N FIFTH ST P O BOX 53999 PHOENIX, Arizona 85004
Telephone	602-250-1000
CIK	0000007286
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): March 31, 2007

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

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

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

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

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Item 2.02. Results of Operations and Financial Condition

On April 25, 2007, Pinnacle West Capital Corporation (the “Company” or “Pinnacle West”) issued a press release regarding its financial results for its fiscal quarter ended March 31, 2007. A copy of the press release is attached hereto as Exhibit 99.9.

Certain of the Information referenced in Item 7.01 below relates to the Company’s results of operations for its fiscal quarter ended March 31, 2007. This Information is attached hereto as Exhibits 99.2, 99.3, 99.7, 99.9, and 99.10.

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.

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Item 9.01. Financial Statements and Exhibits

(d) Exhibits

Exhibit No.	Registrant(s)	Description
99.1	Pinnacle West Arizona Public Service Company ("APS")	Pinnacle West Capital Corporation quarterly consolidated statistical summary (cover page and list of contents).
99.2	Pinnacle West APS	Pinnacle West Capital Corporation quarterly consolidated statistical summary for the three-month periods ended March 31, 2007 and 2006.
99.3	Pinnacle West APS	Pinnacle West Capital Corporation consolidated statistics by quarter for 2007.
99.4	Pinnacle West APS	Pinnacle West Capital Corporation consolidated statistics by quarter for 2006.
99.5	Pinnacle West APS	Pinnacle West Capital Corporation consolidated statistics by quarter for 2005.
99.6	Pinnacle West APS	Pinnacle West Capital Corporation consolidated statistics by quarter for 2004.
99.7	Pinnacle West APS	Pinnacle West Capital Corporation earnings variance explanations for the three months ended March 31, 2007 and 2006 and unaudited condensed consolidated statements of income for the three months ended March 31, 2007 and 2006.
99.8	Pinnacle West APS	Glossary of Terms.
99.9	Pinnacle West APS	Earnings News Release issued on April 25, 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: April 25, 2007

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

ARIZONA PUBLIC SERVICE COMPANY
(Registrant)

Dated: April 25, 2007

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

Exhibit Index

Exhibit No.	Registrant(s)	Description
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Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Periods Ended March 31, 2007 and 2006

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2007 First Quarter Summary

2006 by Quarter

2005 by Quarter

2004 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/2007Q1QuarStatsGloss.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 March 31, 2007 and 2006

Line		3 Mo. Ended March		
		2007	2006	Incr (Decr)
EARNINGS CONTRIBUTION BY SUBSIDIARY (\$ Millions)				
1	Arizona Public Service	\$ 4	\$ (6)	\$ 10
2	Pinnacle West Energy	—	—	—
3	APS Energy Services	1	1	—
4	SunCor	8	21	(13)
5	El Dorado	(2)	(1)	(1)
6	Parent Company	<u>5</u>	<u>(3)</u>	<u>8</u>
7	Income From Continuing Operations	16	12	4
Income (Loss) From Discontinued Operations — Net of Tax				
8	Silverhawk	—	—	—
9	SunCor	1	1	—
10	NAC	—	—	—
11	Total	<u>1</u>	<u>1</u>	<u>—</u>
12	Net Income	<u>\$ 17</u>	<u>\$ 13</u>	<u>\$ 4</u>
EARNINGS PER SHARE BY SUBSIDIARY — DILUTED				
13	Arizona Public Service	\$ 0.04	\$ (0.06)	\$ 0.10
14	Pinnacle West Energy	—	—	—
15	APS Energy Services	0.01	0.01	—
16	SunCor	0.09	0.21	(0.12)
17	El Dorado	(0.02)	(0.01)	(0.01)
18	Parent Company	<u>0.04</u>	<u>(0.03)</u>	<u>0.07</u>
19	Income From Continuing Operations	0.16	0.12	0.04
Income (Loss) From Discontinued Operations — Net of Tax				
20	Silverhawk	—	—	—
21	SunCor	—	0.01	(0.01)
22	NAC	—	—	—
23	Total	<u>—</u>	<u>0.01</u>	<u>(0.01)</u>
24	Net Income	<u>\$ 0.16</u>	<u>\$ 0.13</u>	<u>\$ 0.03</u>
25	BOOK VALUE PER SHARE	\$ 34.45*	\$ 32.37	\$ 2.08
COMMON SHARES OUTSTANDING (Thousands)				
26	Average — Diluted	100,622	99,449	1,173
27	End of Period	100,115	99,187	928

* Estimate

See Glossary of Terms.

Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Periods Ended March 31, 2007 and 2006

Line		<u>3 Mo. Ended March</u>		
		<u>2007</u>	<u>2006</u>	<u>Incr (Decr)</u>
ELECTRIC OPERATING REVENUES (Dollars in Millions)				
REGULATED ELECTRICITY SEGMENT				
Retail				
28	Residential	\$ 246	\$ 202	\$ 44
29	Business	264	233	31
30	Total retail	510	435	75
Wholesale revenue on delivered electricity				
31	Traditional contracts	5	6	(1)
32	Off-system sales	7	12	(5)
33	Transmission for others	7	6	1
34	Other miscellaneous services	7	7	—
35	Total regulated operating electricity revenues	536	466	70
MARKETING AND TRADING				
36	Electricity and other commodity sales	72	85	(13)
37	Total operating electric revenues	<u>\$ 608</u>	<u>\$ 551</u>	<u>\$ 57</u>
ELECTRIC SALES (GWH)				
REGULATED ELECTRICITY SEGMENT				
Retail sales				
38	Residential	2,734	2,419	315
39	Business	3,285	3,199	86
40	Total retail	6,019	5,618	401
Wholesale electricity delivered				
41	Traditional contracts	175	215	(40)
42	Off-system sales	243	672	(429)
43	Retail load hedge management	117	178	(61)
44	Total regulated electricity	6,554	6,683	(129)
MARKETING AND TRADING				
45	Wholesale sales of electricity	2,057	3,962	(1,905)
46	Total electric sales	<u>8,611</u>	<u>10,645</u>	<u>(2,034)</u>

See Glossary of Terms.

Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Periods Ended March 31, 2007 and 2006

Line		3 Mo. Ended March		
		2007	2006	Incr (Decr)
POWER SUPPLY ADJUSTOR (“PSA”)				
- REGULATED ELECTRICITY SEGMENT (Dollars in Millions)				
47	Deferred fuel and purchased power regulatory asset – beginning balance	\$ 160	\$ 173	\$ (13)
48	Deferred fuel and purchased power costs – current period	25	13	12
49	Interest on deferred fuel	2	1	1
50	Amounts recovered through revenues	(69)	(18)	(51)
51	Deferred fuel and purchased power regulatory asset – ending balance	<u>\$ 118</u>	<u>\$ 169</u>	<u>\$ (51)</u>
MARKETING AND TRADING PRETAX GROSS MARGIN ANALYSIS (Dollars in Millions)				
Realized and Mark-To-Market Components				
52	Electricity and other commodity sales, realized (a)	\$ 12	\$ 10	\$ 2
53	Mark-to-market reversals on realized sales (a) (b)	(8)	(1)	(7)
54	Change in mark-to-market value of forward sales	10	1	9
55	Total gross margin	<u>\$ 14</u>	<u>\$ 10</u>	<u>\$ 4</u>
By Pinnacle West Entity				
56	APS	\$ (1)	\$ 8	\$ (9)
57	Pinnacle West Marketing & Trading (c)	1	—	1
58	Parent Company (c)	9	(1)	10
59	APS Energy Services	5	3	2
60	Pinnacle West Energy	—	—	—
61	Total gross margin	<u>\$ 14</u>	<u>\$ 10</u>	<u>\$ 4</u>

Future Marketing and Trading Mark-to-Market Realization

As of March 31, 2007, Pinnacle West had accumulated net mark-to-market gains of \$28 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, \$13 million; and 2008, \$15 million.

- (a) Net effect on pretax gross margin from realization of prior-period mark-to-market included in line 52 and in line 53 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 52 are included in line 53. For example, line 53 shows that a prior-period mark-to-market gain of \$8 million was transferred to “realized” for the first quarter of 2007. A \$8 million realized gain is included in the \$12 million on line 52 for the first quarter of 2007.
- (b) Quarterly amounts do not total to annual amounts because of intra-year mark-to-market eliminations.
- (c) On February 1, 2007, the Parent Company transferred its market based rate tariff and wholesale power sales agreements to a newly-created subsidiary, Pinnacle West Marketing & Trading, which resulted in Pinnacle West no longer being a public utility under the Federal Power Act. As a result, Pinnacle West is no longer subject to FERC jurisdiction in connection with its issuance of securities or its incurrence of long-term debt.

See Glossary of Terms.

Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Periods Ended March 31, 2007 and 2006

Line		3 Mo. Ended March		
		<u>2007</u>	<u>2006</u>	<u>Incr (Decr)</u>
AVERAGE ELECTRIC CUSTOMERS				
Retail customers				
62	Residential	965,428	930,799	34,629
63	Business	118,649	113,570	5,079
64	Total	<u>1,084,077</u>	<u>1,044,369</u>	<u>39,708</u>
65	Wholesale customers	63	75	(12)
66	Total customers	<u>1,084,140</u>	<u>1,044,444</u>	<u>39,696</u>
67	Customer growth (% over prior year)	3.8%	4.5%	(0.7)%
RETAIL SALES (GWH) - WEATHER NORMALIZED				
68	Residential	2,648	2,475	173
69	Business	3,228	3,248	(20)
70	Total	<u>5,876</u>	<u>5,723</u>	<u>153</u>
RETAIL USAGE (KWh/Average Customer)				
71	Residential	2,832	2,763	69
72	Business	27,687	30,444	(2,757)
RETAIL USAGE - WEATHER NORMALIZED (KWh/Average Customer)				
73	Residential	2,743	2,659	84
74	Business	27,204	28,600	(1,396)
ELECTRICITY DEMAND (MW)				
75	System peak demand	4,781	4,205	576

See Glossary of Terms.

Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Periods Ended March 31, 2007 and 2006

Line		3 Mo. Ended March		
		<u>2007</u>	<u>2006</u>	<u>Incr (Decr)</u>
ENERGY SOURCES (GWH)				
Generation production				
76	Nuclear	2,299	1,720	579
77	Coal	3,164	3,083	81
78	Gas, oil and other	1,151	1,323	(172)
79	Total generation production	<u>6,614</u>	<u>6,126</u>	<u>488</u>
Purchased power				
80	Firm load	278	365	(87)
81	Marketing and trading	2,262	4,592	(2,330)
82	Total purchased power	<u>2,540</u>	<u>4,957</u>	<u>(2,417)</u>
83	Total energy sources	<u>9,154</u>	<u>11,083</u>	<u>(1,929)</u>
POWER PLANT PERFORMANCE				
Capacity Factors				
84	Nuclear	94%	71%	23%
85	Coal	84%	83%	1%
86	Gas, oil and other	16%	18%	(2)%
87	System average	50%	46%	4%
Generation Capacity Out of Service and Replaced for Native Load (average MW/day) (a)				
88	Nuclear	57	306	(249)
89	Coal	203	257	(54)
90	Gas	267	201	66
91	Total	<u>527</u>	<u>764</u>	<u>(237)</u>

(a) Includes planned and unplanned outages

See Glossary of Terms.

Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Periods Ended March 31, 2007 and 2006

Line		3 Mo. Ended March		
		<u>2007</u>	<u>2006</u>	<u>Incr (Decr)</u>
ENERGY MARKET INDICATORS (a)				
Electricity Average Daily Spot Prices (\$/MWh)				
On-Peak				
92	Palo Verde	\$ 54.62	\$ 53.78	\$ 0.84
93	SP15	\$ 60.02	\$ 58.34	\$ 1.68
Off-Peak				
94	Palo Verde	\$ 42.06	\$ 41.92	\$ 0.14
95	SP15	\$ 45.86	\$ 44.79	\$ 1.07
WEATHER INDICATORS				
Actual				
96	Cooling degree-days	172	43	129
97	Heating degree-days	589	464	125
98	Average humidity	36%	28%	8%
10-Year Averages				
99	Cooling degree-days	97	97	—
100	Heating degree-days	513	513	—
101	Average humidity	42%	42%	0%
ECONOMIC INDICATORS				
Building Permits — Metro Phoenix (b) (d)				
102	Single-family	4,089	5,386	(1,297)
103	Multi-family	2,457	2,448	9
104	Total	<u>6,546</u>	<u>7,834</u>	<u>(1,288)</u>
Arizona Job Growth (c) (d)				
105	Payroll job growth (% over prior year)	4.4%	6.2%	(1.8)%
106	Unemployment rate (% , seasonally adjusted)	4.1%	4.2%	(0.1)%

Sources:

- (a) Average of daily prices obtained and used with permission from Dow Jones & Company, Inc.
(b) Arizona Real Estate Center, Arizona State University W.P. Carey College of Business
(c) Arizona Department of Economic Security
(d) Economic indicators reflect periods ended February 28, 2007 (latest available data) and February 28, 2006.

See Glossary of Terms.

Pinnacle West Capital Corporation
Consolidated Statistics By Quarter
2007

Line		<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
EARNINGS CONTRIBUTION BY SUBSIDIARY (\$ Millions)							
1	Arizona Public Service	\$ 4				\$ 4	\$ 10
2	Pinnacle West Energy	—				—	—
3	APS Energy Services	1				1	—
4	SunCor	8				8	(13)
5	El Dorado	(2)				(2)	(1)
6	Parent Company	5				5	8
7	Income From Continuing Operations	16	—	—	—	16	4
	Income (Loss) From Discontinued Operations — Net of Tax						
8	Silverhawk	—				—	—
9	SunCor	1				1	—
10	NAC	—				—	—
11	Total	1	—	—	—	1	—
12	Net Income	<u>\$ 17</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 17</u>	<u>\$ 4</u>
EARNINGS PER SHARE BY SUBSIDIARY — DILUTED							
13	Arizona Public Service	\$ 0.04				\$ 0.04	\$ 0.10
14	Pinnacle West Energy	—				—	—
15	APS Energy Services	0.01				0.01	—
16	SunCor	0.09				0.09	(0.12)
17	El Dorado	(0.02)				(0.02)	(0.01)
18	Parent Company	0.04				0.04	0.07
19	Income From Continuing Operations	0.16	—	—	—	0.16	0.04
	Income (Loss) From Discontinued Operations — Net of Tax						
20	Silverhawk	—				—	—
21	SunCor	—				—	(0.01)
22	NAC	—				—	—
23	Total	—	—	—	—	—	(0.01)
24	Net Income	<u>\$ 0.16</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 0.16</u>	<u>\$ 0.03</u>
25	BOOK VALUE PER SHARE	\$ 34.45*				\$ 34.45*	2.08
COMMON SHARES OUTSTANDING (Thousands)							
26	Average — Diluted	100,622					1,173
27	End of Period	100,115					928

* Estimate



Pinnacle West Capital Corporation
Consolidated Statistics By Quarter
2007

Line		<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
ELECTRIC OPERATING REVENUES (Dollars in Millions)							
REGULATED ELECTRICITY SEGMENT							
Retail							
28	Residential	\$ 246				\$ 246	\$ 44
29	Business	264				264	31
30	Total retail	510	—	—	—	510	75
Wholesale revenue on delivered electricity							
31	Traditional contracts	5				5	(1)
32	Off-system sales	7				7	(5)
33	Transmission for others	7				7	1
34	Other miscellaneous services	7				7	—
35	Total regulated operating electricity revenues	536	—	—	—	536	70
MARKETING AND TRADING							
36	Electricity and other commodity sales	72				72	(13)
37	Total operating electric revenues	<u>\$ 608</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 608</u>	<u>\$ 57</u>
ELECTRIC SALES (GWH)							
REGULATED ELECTRICITY SEGMENT							
Retail sales							
38	Residential	2,734				2,734	315
39	Business	3,285				3,285	86
40	Total retail	6,019	—	—	—	6,019	401
Wholesale electricity delivered							
41	Traditional contracts	175				175	(40)
42	Off-system sales	243				243	(429)
43	Retail load hedge management	117				117	(61)
44	Total regulated electricity	6,554	—	—	—	6,554	(129)
MARKETING AND TRADING							
45	Wholesale sales of electricity	2,057				2,057	(1,905)
46	Total electric sales	<u>8,611</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>8,611</u>	<u>(2,034)</u>

See Glossary of Terms.

Pinnacle West Capital Corporation
Consolidated Statistics By Quarter
2007

Line	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year-To-Date	Increase (Decrease) vs Prior YTD
POWER SUPPLY ADJUSTOR						
(“PSA”) - REGULATED						
ELECTRICITY SEGMENT						
(Dollars in Millions)						
47	Deferred fuel and purchased power regulatory asset — beginning balance	\$ 160			\$ 160	\$ (13)
48	Deferred fuel and purchased power costs — current period	25			25	12
49	Interest on deferred fuel	2			2	1
50	Amounts recovered through revenues	(69)			(69)	(51)
51	Deferred fuel and purchased power regulatory asset — ending balance	<u>\$ 118</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 118</u>	<u>\$ (51)</u>
MARKETING AND TRADING						
PRETAX GROSS MARGIN						
ANALYSIS (Dollars in Millions)						
Realized and Mark-To-Market Components						
52	Electricity and other commodity sales, realized (a)	\$ 12			\$ 12	\$ 2
53	Mark-to-market reversals on realized sales (a) (b)	(8)			(8)	(7)
54	Change in mark-to-market value of forward sales	10			10	9
55	Total gross margin	<u>\$ 14</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 14</u>	<u>\$ 4</u>
By Pinnacle West Entity						
56	APS	\$ (1)			\$ (1)	\$ (9)
57	Pinnacle West Marketing & Trading (c)	1			1	1
58	Parent Company (c)	9			9	10
59	APS Energy Services	5			5	2
60	Pinnacle West Energy	—			—	—
61	Total gross margin	<u>\$ 14</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 14</u>	<u>\$ 4</u>

Future Marketing and Trading Mark-to-Market Realization

As of March 31, 2007, Pinnacle West had accumulated net mark-to-market gains of \$28 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, \$13 million; and 2008, \$15 million.

- (a) Net effect on pretax gross margin from realization of prior-period mark-to-market included in line 52 and in line 53 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 52 are included in line 53. For example, line 53 shows that a prior-period mark-to-market gain of \$8 million was transferred to “realized” for the first quarter of 2007. A \$8 million realized gain is included in the \$12 million on line 52 for the first quarter of 2007.
- (b) Quarterly amounts do not total to annual amounts because of intra-year mark-to-market eliminations.
- (c) On February 1, 2007, the Parent Company transferred its market based rate tariff and wholesale power sales agreements to a newly-created subsidiary, Pinnacle West Marketing & Trading, which resulted in Pinnacle West no longer being a public utility under the Federal Power Act. As a result, Pinnacle West is no longer subject to FERC jurisdiction in connection with its issuance of securities or its incurrence of long-term debt.

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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						
62	Residential	965,428			965,428	34,629
63	Business	118,649			118,649	5,079
64	Total	1,084,077	—	—	1,084,077	39,708
65	Wholesale customers	63			63	(12)
66	Total customers	1,084,140	—	—	1,084,140	39,696
67	Customer growth (% over prior year)	3.8%			3.8%	(0.7)%
RETAIL SALES (GWH) - WEATHER NORMALIZED						
68	Residential	2,648			2,648	173
69	Business	3,228			3,228	(20)
70	Total	5,876	—	—	5,876	153
RETAIL USAGE (KWh/Average Customer)						
71	Residential	2,832			2,832	69
72	Business	27,687			27,687	(2,757)
RETAIL USAGE - WEATHER NORMALIZED (KWh/Average Customer)						
73	Residential	2,743			2,743	84
74	Business	27,204			27,204	(1,396)
ELECTRICITY DEMAND (MW)						
75	System peak demand	4,781			4,781	576

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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						
76	Nuclear	2,299			2,299	579
77	Coal	3,164			3,164	81
78	Gas, oil and other	1,151			1,151	(172)
79	Total generation production	<u>6,614</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>488</u>
Purchased power						
80	Firm load	278			278	(87)
81	Marketing and trading	2,262			2,262	(2,330)
82	Total purchased power	<u>2,540</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(2,417)</u>
83	Total energy sources	<u>9,154</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,929)</u>
POWER PLANT PERFORMANCE						
Capacity Factors						
84	Nuclear	94%			94%	23%
85	Coal	84%			84%	1%
86	Gas, oil and other	16%			16%	(2)%
87	System average	50%			50%	4%
Generation Capacity Out of Service and Replaced for Native Load (average MW/day) (a)						
88	Nuclear	57			57	(249)
89	Coal	203			203	(54)
90	Gas	267			267	66
91	Total	<u>527</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(237)</u>

(a) Includes planned and unplanned outages

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ENERGY MARKET INDICATORS						
(a)						
Electricity Average Daily Spot Prices						
(\$/MWh)						
On-Peak						
92	Palo Verde	\$ 54.62			\$ 54.62	\$ 0.84
93	SP15	\$ 60.02			\$ 60.02	\$ 1.68
Off-Peak						
94	Palo Verde	\$ 42.06			\$ 42.06	\$ 0.14
95	SP15	\$ 45.86			\$ 45.86	\$ 1.07
WEATHER INDICATORS						
Actual						
96	Cooling degree-days	172			172	129
97	Heating degree-days	589			589	125
98	Average humidity	36%			36%	8%
10-Year Averages						
99	Cooling degree-days	97			97	—
100	Heating degree-days	513			513	—
101	Average humidity	42%			42%	0%
ECONOMIC INDICATORS						
Building Permits — Metro Phoenix (b) (d)						
102	Single-family	4,089			4,089	(1,297)
103	Multi-family	2,457			2,457	9
104	Total	<u>6,546</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,288)</u>
Arizona Job Growth (c) (d)						
105	Payroll job growth (% over prior year)	4.4%			4.4%	(1.8)%
106	Unemployment rate (%, seasonally adjusted)	4.1%			4.1%	0.0%

Sources:

- (a) Average of daily prices obtained and used with permission from Dow Jones & Company, Inc.
(b) Arizona Real Estate Center, Arizona State University W.P. Carey College of Business
(c) Arizona Department of Economic Security
(d) Economic indicators reflect periods ended February 28, 2007 (latest available data).

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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
Income (Loss) From Discontinued Operations — Net of Tax							
8	Silverhawk	—	—	—	—	1	68
9	SunCor	1	1	—	8	10	(7)
10	NAC	—	—	—	—	(1)	(4)
11	Total	1	1	—	8	10	57
12	Net Income	<u>\$ 13</u>	<u>\$ 112</u>	<u>\$ 184</u>	<u>\$ 18</u>	<u>\$ 327</u>	<u>\$ 151</u>
EARNINGS PER SHARE BY SUBSIDIARY — DILUTED							
13	Arizona Public Service	\$ (0.06)	\$ 0.95	\$ 1.69	\$ 0.13	\$ 2.70	\$ 0.93
14	Pinnacle West Energy	—	—	—	—	—	0.89
15	APS Energy Services	0.01	—	(0.02)	(0.02)	(0.03)	0.03
16	SunCor	0.21	0.08	0.17	0.03	0.50	0.10
17	El Dorado	(0.01)	—	—	(0.01)	(0.03)	(0.01)
18	Parent Company	(0.03)	0.08	—	(0.03)	0.03	(1.08)
19	Income From Continuing Operations	0.12	1.11	1.84	0.10	3.17	0.86
Income (Loss) From Discontinued Operations — Net of Tax							
20	Silverhawk	—	—	—	—	—	0.69
21	SunCor	0.01	0.02	—	0.08	0.10	(0.07)
22	NAC	—	—	—	—	—	(0.03)
23	Total	0.01	0.02	—	0.08	0.10	0.59
24	Net Income	<u>\$ 0.13</u>	<u>\$ 1.13</u>	<u>\$ 1.84</u>	<u>\$ 0.18</u>	<u>\$ 3.27</u>	<u>\$ 1.45</u>
25	BOOK VALUE PER SHARE	\$ 32.37	\$ 33.08	\$ 34.07	\$ 34.48	\$ 34.48	\$ (0.10)
COMMON SHARES OUTSTANDING (Thousands)							
26	Average — Diluted	99,449	99,640	99,973	100,474	100,010	3,420
27	End of Period	99,187	99,284	99,648	99,959	99,959	902

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ELECTRIC OPERATING REVENUES (Dollars in Millions)						
REGULATED ELECTRICITY SEGMENT						
Retail						
28	\$ 202	\$ 337	\$ 490	\$ 242	\$ 1,271	\$ 192
29	233	333	371	302	1,239	198
30	435	670	861	544	2,510	390
Wholesale revenue on delivered electricity						
31	6	7	12	(3)	22	(1)
32	12	22	—	12	46	6
33	6	6	7	7	26	—
34	7	8	7	9	31	3
35	466	713	887	569	2,635	398
MARKETING AND TRADING						
36	85	90	85	71	331	(21)
37	<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						
38	2,419	3,284	4,720	2,571	12,994	771
39	3,199	3,971	4,222	3,584	14,976	722
40	5,618	7,255	8,942	6,155	27,970	1,493
Wholesale electricity delivered						
41	215	181	321	166	883	33
42	672	218	219	504	1,613	277
43	178	622	450	340	1,590	(1,420)
44	6,683	8,276	9,932	7,165	32,056	383
MARKETING AND TRADING						
45	3,962	3,862	4,841	3,690	16,355	(7,217)
46	<u>10,645</u>	<u>12,138</u>	<u>14,773</u>	<u>10,855</u>	<u>48,411</u>	<u>(6,834)</u>

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POWER SUPPLY ADJUSTOR ("PSA") - REGULATED ELECTRICITY SEGMENT (Dollars in Millions)							
47	Deferred fuel and purchased power regulatory asset — beginning balance	\$ 173	\$ 169	\$ 175	209	\$ 173	\$ 173
48	Deferred fuel and purchased power costs — current period	13	78	134	19	244	73
49	Interest on deferred fuel	1	3	2	2	8	6
50	Amounts recovered through revenues	(18)	(75)	(102)	(70)	(265)	(265)
51	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							
52	Electricity and other commodity sales, realized (a)	\$ 10	\$ 17	\$ 8	\$ 18	\$ 54	\$ (1)
53	Mark-to-market reversals on realized sales (a) (b)	(1)	(1)	(1)	(6)	(14)	2
54	Change in mark-to-market value of forward sales	1	—	(3)	(3)	—	(20)
55	Total gross margin	<u>\$ 10</u>	<u>\$ 16</u>	<u>\$ 4</u>	<u>\$ 9</u>	<u>\$ 40</u>	<u>\$ (19)</u>
By Pinnacle West Entity							
56	APS	\$ 8	\$ 2	\$ (3)	\$ 5	\$ 13	\$ 19
57	Pinnacle West Marketing & Trading (c)	—	—	—	—	—	—
58	Parent Company (c)	(1)	11	5	3	18	(41)
59	APS Energy Services	3	3	2	1	9	8
60	Pinnacle West Energy	—	—	—	—	—	(5)
61	Total gross margin	<u>\$ 10</u>	<u>\$ 16</u>	<u>\$ 4</u>	<u>\$ 9</u>	<u>\$ 40</u>	<u>\$ (19)</u>

Future Marketing and Trading Mark-to-Market Realization

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

- (a) Net effect on pretax gross margin from realization of prior-period mark-to-market included in line 52 and in line 53 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 52 are included in line 53. For example, line 53 shows that a prior-period mark-to-market gain of \$14 million was transferred to "realized" for the total year 2006. A \$14 million realized gain is included in the \$54 million on line 52 for the total year 2006.
- (b) Quarterly amounts do not total to annual amounts because of intra-year mark-to-market eliminations.
- (c) On February 1, 2007, the Parent Company transferred its market based rate tariff and wholesale power sales agreements to a newly-created subsidiary, Pinnacle West Marketing & Trading, which resulted in Pinnacle West no longer being a public utility under the Federal Power Act. As a result, Pinnacle West is no longer subject to FERC jurisdiction in connection with its issuance of securities or its incurrence of long-term debt.

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AVERAGE ELECTRIC CUSTOMERS							
Retail customers							
62	Residential	930,799	930,402	935,523	949,132	936,464	39,992
63	Business	113,570	114,803	116,009	117,342	115,431	4,263
64	Total	1,044,369	1,045,205	1,051,532	1,066,474	1,051,895	44,255
65	Wholesale customers	75	76	76	80	77	(1)
66	Total customers	<u>1,044,444</u>	<u>1,045,281</u>	<u>1,051,608</u>	<u>1,066,554</u>	<u>1,051,972</u>	<u>44,254</u>
67	Customer growth (% over prior year)	4.5%	4.6%	4.4%	4.1%	4.4%	0.1%
RETAIL SALES (GWH) - WEATHER NORMALIZED							
68	Residential	2,475	3,123	4,772	2,634	13,004	695
69	Business	3,248	3,933	4,231	3,603	15,016	731
70	Total	<u>5,723</u>	<u>7,056</u>	<u>9,003</u>	<u>6,237</u>	<u>28,020</u>	<u>1,426</u>
RETAIL USAGE (KWh/Average Customer)							
71	Residential	2,763	3,530	5,045	2,709	13,876	241
72	Business	30,444	34,590	36,394	30,552	129,749	1,235
RETAIL USAGE - WEATHER NORMALIZED (KWh/Average Customer)							
73	Residential	2,659	3,357	5,101	2,775	13,886	156
74	Business	28,600	34,263	36,470	30,706	130,082	1,579
ELECTRICITY DEMAND (MW)							
75	System peak demand	4,205	6,624	7,652	5,316	7,652	652

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ENERGY SOURCES (GWH)							
Generation production							
76	Nuclear	1,720	1,198	2,202	1,868	6,988	(521)
77	Coal	3,083	3,182	3,574	3,337	13,176	116
78	Gas, oil and other	1,323	2,000	2,433	1,628	7,384	(1,051)
79	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							
80	Firm load	365	1,740	1,962	223	4,290	816
81	Marketing and trading	4,592	4,597	5,353	4,326	18,868	(6,845)
82	Total purchased power	<u>4,957</u>	<u>6,337</u>	<u>7,315</u>	<u>4,549</u>	<u>23,158</u>	<u>(6,029)</u>
83	Total energy sources	<u>11,083</u>	<u>12,717</u>	<u>15,524</u>	<u>11,382</u>	<u>50,706</u>	<u>(7,485)</u>
POWER PLANT PERFORMANCE							
Capacity Factors							
84	Nuclear	71%	49%	88%	75%	71%	(6)%
85	Coal	83%	84%	94%	87%	87%	0%
86	Gas, oil and other	18%	28%	34%	22%	25%	(3)%
87	System average	46%	48%	61%	50%	51%	(2)%
Generation Capacity Out of Service and Replaced for Native Load (average MW/day) (a)							
88	Nuclear	306	553	97	267	153	39
89	Coal	257	184	62	155	82	9
90	Gas	201	117	109	286	89	(4)
91	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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ENERGY MARKET INDICATORS							
(a)							
Electricity Average Daily Spot Prices							
(\$/MWh) On-Peak							
92	Palo Verde	\$ 53.78	\$ 54.63	\$65.89	\$52.72	\$ 56.76	\$ (9.64)
93	SP15	\$ 58.34	\$ 55.39	\$71.89	\$62.16	\$ 61.95	\$ (10.99)
Off-Peak							
94	Palo Verde	\$ 41.92	\$ 28.38	\$38.45	\$39.62	\$ 37.09	\$ (10.46)
95	SP15	\$ 44.79	\$ 27.43	\$43.94	\$46.27	\$ 40.61	\$ (11.45)
WEATHER INDICATORS							
Actual							
96	Cooling degree-days	43	1,740	2,455	457	4,695	32
97	Heating degree-days	464	4	—	383	851	85
98	Average humidity	28%	18%	33%	33%	28%	(6)%
10-Year Averages							
99	Cooling degree-days	97	1,557	2,544	441	4,640	—
100	Heating degree-days	513	31	—	296	840	—
101	Average humidity	42%	22%	32%	38%	33%	0%
ECONOMIC INDICATORS							
Building Permits — Metro Phoenix							
(b) (d)							
102	Single-family	8,716	8,883	5,969	4,408	27,976	(15,282)
103	Multi-family	2,887	2,976	3,215	1,029	10,107	2,329
104	Total	<u>11,603</u>	<u>11,859</u>	<u>9,184</u>	<u>5,437</u>	<u>38,083</u>	<u>(12,953)</u>
Arizona Job Growth (c)							
105	Payroll job growth (% over prior year)	6.2%	5.3%	5.1%	4.9%	5.4%	0.0%
106	Unemployment rate (% , seasonally adjusted)	4.2%	4.1%	4.0%	4.1%	4.1%	(0.5)%

Sources :

- (a) Average of daily prices obtained and used with permission from Dow Jones & Company, Inc.
(b) Arizona Real Estate Center, Arizona State University W.P. Carey College of Business
(c) Arizona Department of Economic Security

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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	10	7	13	39	(2)
5	El Dorado	(1)	—	—	—	(2)	(35)
6	Parent Company	19	(2)	88	2	107	79
7	Income From Continuing Operations	30	85	85	24	223	(24)
Income (Loss) From Discontinued Operations — Net of Tax							
8	Silverhawk	(7)	(59)	1	(3)	(67)	(55)
9	SunCor	1	1	14	—	17	13
10	NAC	—	—	4	—	3	(1)
11	Total	(6)	(58)	19	(3)	(47)	(43)
12	Net Income	<u>\$ 24</u>	<u>\$ 27</u>	<u>\$ 104</u>	<u>\$ 21</u>	<u>\$ 176</u>	<u>\$ (67)</u>
EARNINGS PER SHARE BY SUBSIDIARY — DILUTED							
13	Arizona Public Service	\$ 0.30	\$ 0.66	\$ 0.62	\$ 0.19	\$ 1.77	\$ (0.41)
14	Pinnacle West Energy	(0.23)	0.13	(0.72)	(0.06)	(0.89)	(0.26)
15	APS Energy Services	(0.04)	0.01	—	(0.04)	(0.06)	(0.09)
16	SunCor	0.09	0.11	0.07	0.13	0.40	(0.05)
17	El Dorado	(0.01)	—	(0.01)	(0.01)	(0.02)	(0.38)
18	Parent Company	0.21	(0.03)	0.90	0.03	1.11	0.81
19	Income From Continuing Operations	0.32	0.88	0.86	0.24	2.31	(0.38)
Income (Loss) From Discontinued Operations — Net of Tax							
20	Silverhawk	(0.06)	(0.61)	—	(0.03)	(0.69)	(0.57)
21	SunCor	0.01	0.01	0.15	0.01	0.17	0.13
22	NAC	—	—	0.04	—	0.03	(0.02)
23	Total	(0.05)	(0.60)	0.19	(0.02)	(0.49)	(0.46)
24	Net Income	<u>\$ 0.27</u>	<u>\$ 0.28</u>	<u>\$ 1.05</u>	<u>\$ 0.22</u>	<u>\$ 1.82</u>	<u>\$ (0.84)</u>
25	BOOK VALUE PER SHARE	\$ 32.50	\$ 32.89	\$ 35.81	\$ 34.58	\$ 34.58	\$ 2.44
COMMON SHARES OUTSTANDING (Thousands)							
26	Average — Diluted	92,045	96,299	98,816	99,050	96,590	5,058
27	End of Period	92,103	98,442	98,881	99,057	99,057	7,264

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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>
ELECTRIC OPERATING REVENUES (Dollars in Millions)							
REGULATED ELECTRICITY SEGMENT							
Retail							
28	Residential	\$ 190	\$ 268	\$ 414	\$ 207	\$ 1,079	\$ 95
29	Business	209	281	308	243	1,041	63
30	Total retail	399	549	722	450	2,120	158
Wholesale revenue on delivered electricity							
31	Traditional contracts	3	5	9	6	23	7
32	Off-system sales	—	12	8	20	40	40
33	Transmission for others	7	7	7	5	26	(6)
34	Other miscellaneous services	7	7	7	7	28	3
35	Total regulated operating electricity revenues	416	580	753	488	2,237	202
MARKETING AND TRADING							
36	Electricity and other commodity sales	89	71	107	84	352	(49)
37	Total operating electric revenues	<u>\$ 505</u>	<u>\$ 651</u>	<u>\$ 860</u>	<u>\$ 572</u>	<u>\$ 2,589</u>	<u>\$ 153</u>
ELECTRIC SALES (GWH)							
REGULATED ELECTRICITY SEGMENT							
Retail sales							
38	Residential	2,367	2,889	4,449	2,518	12,223	696
39	Business	3,042	3,684	4,100	3,427	14,254	428
40	Total retail	5,409	6,573	8,549	5,945	26,477	1,124
Wholesale electricity delivered							
41	Traditional contracts	155	200	269	227	850	141
42	Off-system sales	—	598	212	526	1,336	1,336
43	Retail load hedge management	750	702	1,026	532	3,010	278
44	Total regulated electricity	6,314	8,073	10,056	7,230	31,673	2,879
MARKETING AND TRADING							
45	Wholesale sales of electricity	6,060	5,009	7,263	5,240	23,572	(6,606)
46	Total electric sales	<u>12,374</u>	<u>13,082</u>	<u>17,319</u>	<u>12,470</u>	<u>55,245</u>	<u>(3,727)</u>

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2005

Line		<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
POWER SUPPLY ADJUSTOR ("PSA") — REGULATED ELECTRICITY SEGMENT (Dollars in Millions)							
47	Deferred fuel and purchased power regulatory asset — beginning balance	\$ —	\$ —	\$ 38	\$ 143	\$ —	\$ —
48	Deferred fuel and purchased power costs — current period	—	38	104	29	171	171
49	Interest on deferred fuel	—	—	1	1	2	2
50	Amounts recovered through revenues	—	—	—	—	—	—
51	Deferred fuel and purchased power regulatory asset — ending balance	<u>\$ —</u>	<u>\$ 38</u>	<u>\$ 143</u>	<u>\$ 173</u>	<u>\$ 173</u>	<u>\$ 173</u>
MARKETING AND TRADING PRETAX GROSS MARGIN ANALYSIS (Dollars in Millions)							
Realized and Mark-To-Market Components							
52	Electricity and other commodity sales, realized (a)	\$ 12	\$ 18	\$ 3	\$ 23	\$ 55	\$ (9)
53	Mark-to-market reversals on realized sales (a) (b)	(3)	(8)	3	(17)	(16)	(11)
54	Change in mark-to-market value of forward sales	10	3	14	1	20	(1)
55	Total gross margin	<u>\$ 19</u>	<u>\$ 13</u>	<u>\$ 20</u>	<u>\$ 7</u>	<u>\$ 59</u>	<u>\$ (21)</u>
By Pinnacle West Entity							
56	APS	\$ (4)	\$ 3	\$ (8)	\$ 3	\$ (6)	\$ (1)
57	Pinnacle West Marketing & Trading (c)	—	—	—	—	—	—
58	Parent Company (c)	21	6	26	6	59	34
59	APS Energy Services	(3)	4	2	(2)	1	(13)
60	Pinnacle West Energy	5	—	—	—	5	(41)
61	Total gross margin	<u>\$ 19</u>	<u>\$ 13</u>	<u>\$ 20</u>	<u>\$ 7</u>	<u>\$ 59</u>	<u>\$ (21)</u>

(a) Net effect on pretax gross margin from realization of prior-period mark-to-market included in line 52 and in line 53 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 52 are included in line 53. For example, line 53 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 52 for the total year 2005.

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

(c) On February 1, 2007, the Parent Company transferred its market based rate tariff and wholesale power sales agreements to a newly-created subsidiary, Pinnacle West Marketing & Trading, which resulted in Pinnacle West no longer being a public utility under the Federal Power Act. As a result, Pinnacle West is no longer subject to FERC jurisdiction in connection with its issuance of securities or its incurrence of long-term debt.

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

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ENERGY SOURCES (GWH)							
Generation production							
76	Nuclear	2,247	1,619	2,147	1,496	7,509	(674)
77	Coal	2,940	3,088	3,574	3,458	13,060	394
78	Gas, oil and other	<u>1,128</u>	<u>2,129</u>	<u>3,064</u>	<u>2,114</u>	<u>8,435</u>	<u>3,107</u>
79	Total generation production	<u>6,315</u>	<u>6,836</u>	<u>8,785</u>	<u>7,068</u>	<u>29,004</u>	<u>2,827</u>
Purchased power							
80	Firm load	586	880	1,589	402	3,474	(851)
81	Marketing and trading	<u>5,832</u>	<u>5,984</u>	<u>7,795</u>	<u>6,102</u>	<u>25,713</u>	<u>(4,479)</u>
82	Total purchased power	<u>6,418</u>	<u>6,864</u>	<u>9,384</u>	<u>6,504</u>	<u>29,187</u>	<u>(5,330)</u>
83	Total energy sources	<u>12,733</u>	<u>13,700</u>	<u>18,169</u>	<u>13,572</u>	<u>58,191</u>	<u>(2,503)</u>
POWER PLANT PERFORMANCE							
Capacity Factors							
84	Nuclear	94%	67%	88%	61%	77%	(7)%
85	Coal	80%	83%	95%	92%	87%	3%
86	Gas, oil and other	17%	29%	39%	27%	28%	9%
87	System average	49%	51%	62%	50%	53%	2%
Generation Capacity Out of Service and Replaced for Native Load (average MW/day) (a)							
88	Nuclear	52	329	107	419	114	(45)
89	Coal	195	244	47	103	73	(55)
90	Gas	<u>212</u>	<u>164</u>	<u>140</u>	<u>226</u>	<u>93</u>	<u>45</u>
91	Total	<u>459</u>	<u>737</u>	<u>294</u>	<u>748</u>	<u>280</u>	<u>(54)</u>

(a) Includes planned and unplanned outages

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ENERGY MARKET INDICATORS (a)							
Electricity Average Daily Spot Prices (\$/MWh)							
On-Peak							
92	Palo Verde	\$ 49.74	\$ 53.33	\$ 78.94	\$ 83.58	\$ 66.40	\$ 17.10
93	SP15	\$ 55.70	\$ 55.19	\$ 83.21	\$ 97.65	\$ 72.94	\$ 17.74
Off-Peak							
94	Palo Verde	\$ 37.04	\$ 33.03	\$ 52.35	\$ 67.79	\$ 47.55	\$ 12.81
95	SP15	\$ 40.96	\$ 34.73	\$ 56.08	\$ 76.45	\$ 52.06	\$ 13.44
WEATHER INDICATORS							
Actual							
96	Cooling degree-days	34	1,538	2,583	508	4,663	(31)
97	Heating degree-days	457	1	—	308	766	(219)
98	Average humidity	56%	20%	29%	30%	34%	2%
10-Year Averages							
99	Cooling degree-days	97	1,557	2,544	441	4,640	—
100	Heating degree-days	513	31	—	296	840	—
101	Average humidity	42%	22%	32%	38%	33%	0%
ECONOMIC INDICATORS							
Building Permits — Metro Phoenix (b)							
102	Single-family	10,356	12,013	11,577	9,312	43,258	(4,859)
103	Multi-family	1,741	1,645	2,360	2,032	7,778	192
104	Total	<u>12,097</u>	<u>13,658</u>	<u>13,937</u>	<u>11,344</u>	<u>51,036</u>	<u>(4,667)</u>
Arizona Job Growth (c)							
105	Payroll job growth (% over prior year)	4.8%	5.5%	6.0%	5.2%	5.4%	1.7%
106	Unemployment rate (% , seasonally adjusted)	4.6%	4.7%	4.7%	4.6%	4.6%	(0.3)%

Sources:

- (a) Average of daily prices obtained and used with permission from Dow Jones & Company, Inc.
(b) Arizona Real Estate Center, Arizona State University W.P. Carey College of Business
(c) Arizona Department of Economic Security

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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
Income (Loss) From Discontinued Operations — Net of Tax							
8	Silverhawk	—	(3)	—	(8)	(12)	(13)
9	SunCor	—	1	1	1	4	(6)
10	NAC	—	1	—	3	4	(1)
11	Total	<u>—</u>	<u>(1)</u>	<u>1</u>	<u>(4)</u>	<u>(4)</u>	<u>(20)</u>
12	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							
13	Arizona Public Service	\$ 0.38	\$ 0.60	\$ 1.04	\$ 0.16	\$ 2.18	\$ 0.20
14	Pinnacle West Energy	(0.24)	(0.15)	0.01	(0.25)	(0.63)	(0.55)
15	APS Energy Services	0.02	0.01	0.01	(0.01)	0.03	(0.15)
16	SunCor	0.02	0.04	0.05	0.34	0.45	(0.05)
17	El Dorado	—	0.37	—	—	0.36	0.37
18	Parent Company	<u>0.15</u>	<u>(0.06)</u>	<u>0.03</u>	<u>0.17</u>	<u>0.30</u>	<u>0.40</u>
19	Income From Continuing Operations	0.33	0.81	1.14	0.41	2.69	0.22
Income (Loss) From Discontinued Operations — Net of Tax							
20	Silverhawk	—	(0.03)	—	(0.09)	(0.12)	(0.12)
21	SunCor	0.01	—	0.01	0.02	0.04	(0.07)
22	NAC	—	0.01	—	0.03	0.05	—
23	Total	<u>0.01</u>	<u>(0.02)</u>	<u>0.01</u>	<u>(0.04)</u>	<u>(0.03)</u>	<u>(0.19)</u>
24	Net Income	<u>\$ 0.34</u>	<u>\$ 0.79</u>	<u>\$ 1.15</u>	<u>\$ 0.37</u>	<u>\$ 2.66</u>	<u>\$ 0.03</u>
25	BOOK VALUE PER SHARE	\$ 31.19	\$ 31.68	\$ 32.55	\$ 32.14	\$ 32.14	\$ 1.17
COMMON SHARES OUTSTANDING (Thousands)							
26	Average — Diluted	91,376	91,400	91,491	91,779	91,532	127
27	End of Period	91,310	91,309	91,443	91,793	91,793	505

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ELECTRIC OPERATING REVENUES (Dollars in Millions)						
REGULATED ELECTRICITY SEGMENT						
Retail						
28	\$ 189	\$ 245	\$ 360	\$ 190	\$ 984	\$ 27
29	211	257	289	221	978	25
30	400	502	649	411	1,962	52
Wholesale revenue on delivered electricity						
31	3	4	6	3	16	1
32	—	—	—	—	—	—
33	8	8	8	8	32	4
34	4	6	8	7	25	—
35	415	520	671	429	2,035	57
MARKETING AND TRADING						
36	89	110	91	111	401	9
37	<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						
38	2,410	2,722	4,028	2,367	11,527	380
39	3,051	3,602	3,937	3,236	13,826	411
40	5,461	6,324	7,965	5,603	25,353	791
Wholesale electricity delivered						
41	138	195	210	166	709	209
42	—	—	—	—	—	—
43	169	731	943	889	2,732	1,638
44	5,768	7,250	9,118	6,658	28,794	2,638
MARKETING AND TRADING						
45	5,696	7,141	8,994	8,347	30,178	1,375
46	<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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POWER SUPPLY ADJUSTOR ("PSA") - REGULATED ELECTRICITY SEGMENT (Dollars in Millions)						
47	Deferred fuel and purchased power regulatory asset — beginning balance	\$ —	\$ —	\$ —	\$ —	\$ —
48	Deferred fuel and purchased power costs — current period	—	—	—	—	—
49	Interest on deferred fuel	—	—	—	—	—
50	Amounts recovered through revenues	—	—	—	—	—
51	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						
52	Electricity and other commodity sales, realized (a)	\$ 12	\$ 21	\$ 16	\$ 15	\$ 64
53	Mark-to-market reversals on realized sales (a) (b)	1	(4)	(3)	(1)	(5)
54	Change in mark-to-market value of forward sales	8	4	8	3	21
55	Total gross margin	<u>\$ 21</u>	<u>\$ 21</u>	<u>\$ 21</u>	<u>\$ 17</u>	<u>\$ 80</u>
By Pinnacle West Entity						
56	APS	\$ (5)	\$ —	\$ 2	\$ (2)	\$ (5)
57	Pinnacle West Marketing & Trading (c)	—	—	—	—	—
58	Parent Company (c)	12	6	5	1	25
59	APS Energy Services	4	4	4	2	14
60	Pinnacle West Energy	10	11	10	16	46
61	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 52 and in line 53 is zero. Realization of prior-period mark-to-market relates to cash flow recognition, not earnings recognition. The opposites of amounts included in line 52 are included in line 53. For example, line 53 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 52 for the total year 2004.
- (b) Quarterly amounts do not total to annual amounts because of intra-year mark-to-market eliminations.
- (c) On February 1, 2007, the Parent Company transferred its market based rate tariff and wholesale power sales agreements to a newly-created subsidiary, Pinnacle West Marketing & Trading, which resulted in Pinnacle West no longer being a public utility under the Federal Power Act. As a result, Pinnacle West is no longer subject to FERC jurisdiction in connection with its issuance of securities or its incurrence of long-term debt.

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AVERAGE ELECTRIC CUSTOMERS							
Retail customers							
62	Residential	855,754	852,594	856,353	871,575	859,069	30,703
63	Business	105,502	106,517	107,583	108,860	107,115	4,019
64	Total	961,256	959,111	963,936	980,435	966,184	34,722
65	Wholesale customers	81	82	85	77	81	15
66	Total customers	<u>961,337</u>	<u>959,193</u>	<u>964,021</u>	<u>980,512</u>	<u>966,265</u>	<u>34,737</u>
67	Customer growth (% over prior year)	3.4%	3.8%	3.9%	3.9%	3.7%	0.4%
RETAIL SALES (GWH) - WEATHER NORMALIZED							
68	Residential	2,365	2,818	4,215	2,338	11,736	804
69	Business	2,990	3,623	4,033	3,226	13,873	470
70	Total	<u>5,355</u>	<u>6,441</u>	<u>8,248</u>	<u>5,564</u>	<u>25,609</u>	<u>1,274</u>
RETAIL USAGE (KWh/Average Customer)							
71	Residential	2,816	3,193	4,704	2,717	13,418	(39)
72	Business	28,919	33,816	36,595	29,726	129,392	(1,137)
RETAIL USAGE - WEATHER NORMALIZED (KWh/Average Customer)							
73	Residential	2,764	3,305	4,922	2,682	13,661	464
74	Business	28,345	34,018	37,489	29,636	129,517	(485)
ELECTRICITY DEMAND (MW)							
75	System peak demand	3,979	5,632	6,402	4,432	6,402	70

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ENERGY SOURCES (GWH)							
Generation production							
76	Nuclear	2,148	1,860	2,364	1,811	8,183	(132)
77	Coal	2,887	3,035	3,417	3,327	12,666	1,299
78	Gas, oil and other	367	1,339	2,547	1,075	5,328	(763)
79	Total generation production	<u>5,402</u>	<u>6,234</u>	<u>8,328</u>	<u>6,213</u>	<u>26,177</u>	<u>404</u>
Purchased power							
80	Firm load	701	1,532	1,068	1,024	4,325	1,214
81	Marketing and trading	5,506	7,167	9,301	8,218	30,192	2,442
82	Total purchased power	<u>6,207</u>	<u>8,699</u>	<u>10,369</u>	<u>9,242</u>	<u>34,517</u>	<u>3,656</u>
83	Total energy sources	<u>11,609</u>	<u>14,933</u>	<u>18,697</u>	<u>15,455</u>	<u>60,694</u>	<u>4,060</u>
POWER PLANT PERFORMANCE							
Capacity Factors							
84	Nuclear	88%	76%	96%	74%	84%	(3)%
85	Coal	77%	81%	90%	88%	84%	8%
86	Gas, oil and other	5%	20%	38%	17%	19%	(8)%
87	System average	44%	49%	64%	48%	51%	(3)%
Generation Capacity Out of Service and Replaced for Native Load (average MW/day) (a)							
88	Nuclear	132	231	13	261	159	28
89	Coal	237	153	63	61	128	(140)
90	Gas	71	46	39	34	48	(160)
91	Total	<u>440</u>	<u>430</u>	<u>115</u>	<u>356</u>	<u>334</u>	<u>(272)</u>

(a) Includes planned and unplanned outages

See Glossary of Terms.

Pinnacle West Capital Corporation
Consolidated Statistics By Quarter
2004

Line	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>	
ENERGY MARKET INDICATORS (a)							
Electricity Average Daily Spot Prices (\$/MWh)							
On-Peak							
92	Palo Verde	\$ 43.73	\$ 50.36	\$ 51.86	\$ 51.23	\$ 49.30	\$ 0.70
93	SP15	\$ 48.37	\$ 54.73	\$ 57.09	\$ 60.62	\$ 55.20	\$ 3.82
Off-Peak							
94	Palo Verde	\$ 33.66	\$ 33.74	\$ 33.37	\$ 38.21	\$ 34.75	\$ 2.72
95	SP15	\$ 36.90	\$ 37.32	\$ 37.18	\$ 43.07	\$ 38.62	\$ 3.96
WEATHER INDICATORS							
Actual							
96	Cooling degree-days	273	1,598	2,471	352	4,694	(205)
97	Heating degree-days	552	11	—	422	985	249
98	Average humidity	39%	19%	26%	45%	32%	1%
10-Year Averages							
99	Cooling degree-days	97	1,557	2,544	441	4,640	—
100	Heating degree-days	513	31	—	296	840	—
101	Average humidity	42%	22%	32%	38%	33%	0%
ECONOMIC INDICATORS							
Building Permits — Metro Phoenix (b)							
102	Single-family	10,045	13,636	14,111	10,325	48,117	8,466
103	Multi-family	1,757	1,324	2,149	2,356	7,586	859
104	Total	<u>11,802</u>	<u>14,960</u>	<u>16,260</u>	<u>12,681</u>	<u>55,703</u>	<u>9,325</u>
Arizona Job Growth (c)							
105	Payroll job growth (% over prior year)	2.6%	3.4%	4.0%	4.6%	3.7%	2.3%
106	Unemployment rate (%, seasonally adjusted)	5.2%	5.0%	4.9%	4.6%	4.9%	(0.8)%

Sources:

- (a) Average of daily prices obtained and used with permission from Dow Jones & Company, Inc.
(b) Arizona Real Estate Center, Arizona State University W.P. Carey College of Business
(c) Arizona Department of Economic Security

See Glossary of Terms.

Pinnacle West Capital Corporation
Earnings Variance Explanations
For the Three-Month Periods Ended March 31, 2007 and 2006

This discussion explains the changes in our consolidated net income for the three-month periods ended March 31, 2007 and 2006. Unaudited Condensed Consolidated Statements of Income for the three months ended March 31, 2007 and 2006 follow this discussion. We will file our Quarterly Report on Form 10-Q for the fiscal period ended March 31, 2007 on or before May 10, 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, 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.

The following table summarizes income from continuing operations by segment for the three months ended March 31, 2007 and 2006 and reconciles net income in total (dollars in millions):

	Three Months Ended	
	March 31,	
	2007	2006
Regulated electricity	\$ 4	\$ (12)
Real estate	8	21
Other (a)	4	3
Income from continuing operations	16	12
Discontinued operations — net of tax:		
Real estate	1	1
Net income	<u>\$ 17</u>	<u>\$ 13</u>

(a) Primarily marketing and trading activity.

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, 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. 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 higher fuel prices, and has deferred those cost differences in accordance with the PSA. The balance of APS’ PSA accumulated unrecovered deferrals at March 31, 2007 was approximately \$118 million. The recovery of PSA deferrals through ACC approved adjustors and surcharges recorded as revenue is offset dollar-for-dollar by the amortization of those deferred expenses recorded as fuel and purchased power.

APS recorded PSA deferrals of (a) \$45 million related to replacement power costs in 2005 associated with unplanned Palo Verde outages and (b) \$79 million related to replacement power costs in 2006 associated with unplanned 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 completed its prudence review of 2005 unplanned outages and has recommended disallowance of \$16 million of the 2005 costs. The recommendation is being considered as part of APS’ general rate case currently pending 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. The prudence review of 2006 unplanned outages has not yet been completed.

Operating Results — Three-month period ended March 31, 2007 compared with three-month period ended March 31, 2006

Our consolidated net income for the three months ended March 31, 2007 was \$17 million compared with \$13 million for the comparable prior-year period. Net income increased \$4 million in the period-to-period comparison, reflecting the following changes in earnings by segment:

- Regulated Electricity Segment — Net income increased approximately \$16 million primarily due to the effects of cooler weather on retail sales; higher retail sales due to customer growth; and lower operations and maintenance expense related to generation. In addition, higher fuel and purchased power costs were partially offset by the deferral of such costs in accordance with the PSA. See “Deferred Fuel and Purchased Power Costs” above.
- Real Estate Segment — Net income decreased approximately \$13 million primarily due to lower sales of land parcels and residential property.
- Other miscellaneous items, net, increased approximately \$1 million.

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:		
Effects of cooler weather on retail sales	\$ 13	\$ 8
Higher retail sales due to customer growth, excluding weather effects	10	6
Higher fuel and purchased power costs due to increased prices (see “Deferred Fuel and Purchased Power Costs” above)	(14)	(9)
Increased deferred fuel and purchased power costs	12	7
Miscellaneous items, net	3	3
Net increase in regulated electricity segment gross margin	24	15
Lower real estate segment contribution primarily due to decreased sales of land parcels and residential property	(21)	(13)
Operations and maintenance decreases primarily due to:		
Generation costs, including fewer power plant maintenance outages	4	2
Miscellaneous items, net	3	2
Other miscellaneous items, net	(4)	(2)
Net increase in net income	<u>\$ 6</u>	<u>\$ 4</u>

Regulated Electricity Segment Revenues

Regulated electricity segment revenues were \$70 million higher for the three months ended March 31, 2007 compared with the prior-year period primarily as a result of:

- a \$51 million increase in retail revenues related to recovery of PSA deferrals, which had no earnings effect because of amortization of the same amount recorded as fuel and purchased power expense (see “Deferred Fuel and Purchased Power Costs” above);
- an \$18 million increase in retail revenues due to cooler weather;
- a \$13 million increase in retail revenues related to customer growth, excluding weather effects;
- a \$5 million decrease in Off-System Sales due to lower sales volumes; and
- a \$7 million decrease due to miscellaneous factors.

Real Estate Segment Revenues

Real estate segment revenues were \$31 million lower for the three months ended March 31, 2007 compared with the prior-year period primarily as a result of:

- a \$20 million decrease in residential sales due to a slowdown in the western United States residential real estate markets;

- a \$15 million decrease in revenue primarily due to a significant land parcel sale in 2006 without a comparable sale in 2007; and
- a \$4 million increase due to miscellaneous factors.

Other Revenues

Marketing and trading revenues were \$13 million lower for the three months ended March 31, 2007 compared with the prior-year period primarily as a result of:

- an \$11 million decrease from lower competitive retail sales volumes in California; and
- a \$2 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 MARCH 31,		Increase (Decrease)		
	2007	2006	Amount	Percent	
Operating Revenues					
Regulated electricity segment	\$536,051	\$466,126	\$ 69,925	15.0%	B
Real estate segment	77,250	107,854	(30,604)	28.4%	W
Marketing and trading	72,471	85,002	(12,531)	14.7%	W
Other revenues	9,363	11,224	(1,861)	16.6%	W
Total	<u>695,135</u>	<u>670,206</u>	<u>24,929</u>	3.7%	B
Operating Expenses					
Regulated electricity segment fuel and purchased power	203,353	157,395	45,958	29.2%	W
Real estate segment operations	61,443	71,330	(9,887)	13.9%	B
Marketing and trading fuel and purchased power	57,944	74,175	(16,231)	21.9%	B
Operations and maintenance	171,578	178,427	(6,849)	3.8%	B
Depreciation and amortization	89,621	87,621	2,000	2.3%	W
Taxes other than income taxes	34,719	35,573	(854)	2.4%	B
Other expenses	8,488	8,522	(34)	0.4%	B
Total	<u>627,146</u>	<u>613,043</u>	<u>14,103</u>	2.3%	W
Operating Income	<u>67,989</u>	<u>57,163</u>	<u>10,826</u>	18.9%	B
Other					
Allowance for equity funds used during construction	4,444	3,801	643	16.9%	B
Other income	4,512	5,467	(955)	17.5%	W
Other expense	(6,353)	(4,541)	(1,812)	39.9%	W
Total	<u>2,603</u>	<u>4,727</u>	<u>(2,124)</u>	44.9%	W
Interest Expense					
Interest charges	50,992	47,526	3,466	7.3%	W
Capitalized interest	(4,807)	(4,024)	(783)	19.5%	B
Total	<u>46,185</u>	<u>43,502</u>	<u>2,683</u>	6.2%	W
Income From Continuing Operations Before Income Taxes					
	24,407	18,388	6,019	32.7%	B
Income Taxes					
	8,609	6,793	1,816	26.7%	W
Income From Continuing Operations					
	15,798	11,595	4,203	36.2%	B
Income From Discontinued Operations					
Net of Income Taxes	732	860	(128)	14.9%	W
Net Income	<u>\$ 16,530</u>	<u>\$ 12,455</u>	<u>\$ 4,075</u>	32.7%	B
Weighted-Average Common Shares Outstanding – Basic					
	100,045	99,115	930	0.9%	
Weighted-Average Common Shares Outstanding – Diluted					
	100,622	99,449	1,173	1.2%	
Earnings Per Weighted-Average Common Share Outstanding					
Income from continuing operations – basic	\$ 0.16	\$ 0.12	\$ 0.04	33.3%	B
Net income – basic	\$ 0.17	\$ 0.13	\$ 0.04	30.8%	B
Income from continuing operations – diluted	\$ 0.16	\$ 0.12	\$ 0.04	33.3%	B
Net income – diluted	\$ 0.16	\$ 0.13	\$ 0.03	23.1%	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.

NEWS PINNACLE WEST CAPITAL CORPORATION

FOR IMMEDIATE RELEASE

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April 25, 2007
Page 1 of 2

PINNACLE WEST REPORTS FIRST QUARTER EARNINGS IMPROVEMENT

Cooler Weather Spurs Increase in Electricity Sales

PHOENIX — Pinnacle West Capital Corporation (NYSE: PNW) today reported consolidated net income for the quarter ended March 31, 2007, of \$16.5 million, or \$0.16 per diluted share of common stock. This result compares with net income of \$12.5 million, or \$0.13 per share, for the comparable quarter a year ago.

The improved results were driven largely by higher retail sales at Arizona Public Service (APS) due to cooler weather and by fewer power plant outages, partially offset by lower results from the Company's real estate operations. Weather effects, highlighted by the coldest Arizona January in nearly two decades, contributed \$8 million, or \$0.08 per share, to the quarterly improvement.

Compared with the first quarter a year ago, electricity consumption by APS retail customers increased 7.1 percent in 2007 with a customer base that grew 3.8 percent, according to Chairman Bill Post.

"Serving Arizona's growth continues to drive our business and our strategies," he said. "During the first quarter alone, we invested more than \$180 million in capital improvements to Arizona's electric infrastructure. And, over the balance of the year, we expect to invest an additional \$750 million to continue reliably serving our retail customers."

APS reported earnings of \$4.3 million for the first quarter of 2007, compared with a net loss of \$5.5 million in the 2006 first quarter. Operationally, the 2007 quarter reflected significantly improved performance at the Palo Verde Nuclear Generating Station, which recorded a site capacity factor of 94 percent.

SunCor Development Co., Pinnacle West's real estate subsidiary, reported net income of \$9.3 million, down from \$22.0 million for the same period a year ago, primarily due to decreased sales of land parcels and residential property.

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

Pinnacle West is a Phoenix-based company with consolidated assets of about \$12 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.

Conference Call

Pinnacle West invites interested parties to listen to the live web cast of management's conference call to discuss the Company's 2007 first quarter earnings and recent developments at 2 p.m. (ET), today, Wednesday, April 25, 2007. 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 5864791. A replay of the call also will be available until 11:55 p.m. (ET), Tuesday, May 1, 2007, by calling (800) 642-1687 in the U.S. and Canada or (706) 645-9291 internationally and entering the same reservation number as above.

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

	THREE MONTHS ENDED MARCH 31,	
	2007	2006
Operating Revenues		
Regulated electricity segment	\$536,051	\$466,126
Real estate segment	77,250	107,854
Marketing and trading	72,471	85,002
Other revenues	9,363	11,224
Total	<u>695,135</u>	<u>670,206</u>
Operating Expenses		
Regulated electricity segment fuel and purchased power	203,353	157,395
Real estate segment operations	61,443	71,330
Marketing and trading fuel and purchased power	57,944	74,175
Operations and maintenance	171,578	178,427
Depreciation and amortization	89,621	87,621
Taxes other than income taxes	34,719	35,573
Other expenses	8,488	8,522
Total	<u>627,146</u>	<u>613,043</u>
Operating Income	<u>67,989</u>	<u>57,163</u>
Other		
Allowance for equity funds used during construction	4,444	3,801
Other income	4,512	5,467
Other expense	(6,353)	(4,541)
Total	<u>2,603</u>	<u>4,727</u>
Interest Expense		
Interest charges	50,992	47,526
Capitalized interest	(4,807)	(4,024)
Total	<u>46,185</u>	<u>43,502</u>
Income From Continuing Operations Before Income Taxes	24,407	18,388
Income Taxes	<u>8,609</u>	<u>6,793</u>
Income From Continuing Operations	15,798	11,595
Income From Discontinued Operations Net of Income Taxes	<u>732</u>	<u>860</u>
Net Income	<u>\$ 16,530</u>	<u>\$ 12,455</u>
Weighted-Average Common Shares Outstanding — Basic	100,045	99,115
Weighted-Average Common Shares Outstanding — Diluted	100,622	99,449
Earnings Per Weighted-Average Common Share Outstanding		
Income from continuing operations — basic	\$ 0.16	\$ 0.12
Net income — basic	\$ 0.17	\$ 0.13
Income from continuing operations — diluted	\$ 0.16	\$ 0.12
Net income — diluted	\$ 0.16	\$ 0.13

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		Increase (Decrease)	
	MARCH 31,		Pretax	After Tax
	2007	2006		
RECONCILIATION OF REGULATED ELECTRICITY SEGMENT				
GROSS MARGIN				
Operating Income (closest GAAP measure)	\$ 67,989	\$ 57,163	\$ 10,826	\$ 6,598
Plus:				
Operations and maintenance	171,578	178,427	(6,849)	(4,174)
Real estate segment operations	61,443	71,330	(9,887)	(6,026)
Depreciation and amortization	89,621	87,621	2,000	1,219
Taxes other than income taxes	34,719	35,573	(854)	(521)
Other expenses	8,488	8,522	(34)	(21)
Marketing and trading fuel and purchased power	57,944	74,175	(16,231)	(9,893)
Less:				
Real estate segment revenues	77,250	107,854	(30,604)	(18,653)
Other revenues	9,363	11,224	(1,861)	(1,134)
Marketing and trading revenues	72,471	85,002	(12,531)	(7,638)
Regulated electricity segment gross margin	<u>\$332,698</u>	<u>\$308,731</u>	<u>\$ 23,967</u>	<u>\$ 14,607</u>