

PINNACLE WEST CAPITAL CORP

FORM 8-K (Current report filing)

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Address	400 NORTH FIFTH STREET MS8695 PHOENIX, AZ 85004
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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): **August 2, 2012**

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 or furnished by Pinnacle West Capital Corporation and Arizona Public Service Company. Each registrant is filing or furnishing 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 or furnishing any information that does not relate to such registrant, and therefore makes no representation as to any such information.

Item 2.02. Results of Operations and Financial Condition.

Item 7.01. Regulation FD Disclosure.

The following information is furnished pursuant to both Item 2.02 and 7.01.

On August 2, 2012, Pinnacle West Capital Corporation (the “Company” or “Pinnacle West”) issued a press release regarding its financial results for the fiscal quarter ended June 30, 2012, its earnings guidance for 2012 and its financial goal through 2015. A copy of the press release is attached hereto as Exhibit 99.1.

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 August 2, 2012. This information contains Company operating results for the fiscal quarter ended June 30, 2012 and is attached hereto as Exhibits 99.2 and 99.3. The summary and slide presentation are concurrently being posted to the Company’s website at www.pinnaclewest.com, which also contains a glossary of relevant terms.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

Exhibit No.	Registrant(s)	Description
99.1	Pinnacle West APS	Earnings News Release issued on August 2, 2012.
99.2	Pinnacle West APS	Pinnacle West Capital Corporation quarterly consolidated statistical summary for the three-month and six-month periods ended June 30, 2012 and 2011.
99.3	Pinnacle West APS	Pinnacle West Capital Corporation 2nd Quarter 2012 Results slide presentation accompanying August 2, 2012 conference call.

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: August 2, 2012

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

ARIZONA PUBLIC SERVICE COMPANY
(Registrant)

Dated: August 2, 2012

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

Exhibit Index

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**FOR IMMEDIATE RELEASE**

August 2, 2012

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

PINNACLE WEST REPORTS SECOND-QUARTER RESULTS

- *Hotter weather drives quarter-over-quarter improvement*
- *Company remains focused on core utility business, operational excellence and disciplined cost-management*
- *Company issues 2012 earnings guidance, multi-year financial goal*

PHOENIX — Pinnacle West Capital Corp. (NYSE: PNW) today reported consolidated on-going earnings of \$123.1 million, or \$1.12 per diluted share of common stock, for the quarter ended June 30, 2012. This result compares with on-going earnings of \$86.0 million or \$0.78 per share, in the same 2011 period. The Company's consolidated net income attributable to common shareholders for the 2012 second quarter was \$122.3 million, or \$1.11 per diluted share, compared with net income of \$86.7 million, or \$0.79 per share, for the same quarter a year ago.

On-going earnings exclude results of discontinued operations related to the Company's former real estate activities and energy services business. A reconciliation of reported earnings to on-going earnings is provided at the end of this release.

"Temperatures well above normal during the quarter — combined with temperatures significantly below historical averages a year ago — positively impacted our second-quarter results," said Pinnacle West Chairman, President and Chief Executive Officer Don Brandt. "The quarter-over-quarter swing in weather produced an 8.1 percent increase in retail electricity sales over the same period a year ago as people used their air-conditioners more to combat the early summer heat.

"Looking forward, we continue to create value by achieving operational excellence, investing in Arizona's sustainable energy future, and remaining focused on disciplined cost-management. Sticking with this approach provides us the opportunity to maintain high levels of reliability and customer satisfaction, while achieving our financial goals for investors through the duration of the four-year base-rate stay-out period agreed to in our 2012 retail regulatory settlement."

The second-quarter on-going results comparison was positively impacted by the following factors:

- *Hotter-than-normal weather* improved the Company's earnings by \$0.23 per share compared to the 2011 second quarter, during which abnormally mild weather adversely affected earnings by \$0.15 per share compared with historically normal conditions. In the 2012 second quarter, there were 568 residential cooling degree-days (a proxy for the effects of weather) — 14 percent more than normal and 51 percent more than the year-ago second quarter.
- *Lower infrastructure-related costs* increased earnings by \$0.06 per share, related to lower depreciation and amortization, primarily attributable to the operating license extensions at the Palo Verde Nuclear Generating Station in 2011; and decreased interest expense due to lower debt balances and interest rates. These lower costs were partially offset by higher property taxes .
- *Higher transmission revenues* augmented results by \$0.05 per share, primarily because of a retail transmission rate increase implemented in July 2011.
- *Lower fuel costs and improved mark-to-market valuations of fuel contracts, net of regulatory deferrals* , raised results by \$0.04 per share.
- The net effect of other miscellaneous items increased earnings \$0.02 per share.

These positive factors were offset in part by the following items:

- *Increased operations and maintenance expenses* , due largely to stock compensation costs resulting from an improved company stock price and estimated performance, decreased earnings by \$0.05 per share. The variance excludes costs associated with renewable energy, demand side management and similar regulatory programs, which are offset by comparable amounts of operating revenues.
- *Lower retail electricity sales* — excluding the effects of weather variations — reduced results \$0.01 per share. The sales decrease, which was substantially offset by modest customer growth of about 1 percent, was primarily related to the impacts of customer conservation and energy efficiency and distributed renewable generation initiatives.

Arizona Public Service Co. (APS), the Company's principal subsidiary, reported 2012 second-quarter net income attributable to common shareholder of \$124.9 million versus earnings of \$87.7 million in the similar 2011 period.

Financial Outlook

Pinnacle West expects its 2012 consolidated on-going earnings will be in the range of \$3.35 to \$3.50 per diluted share. Key factors and assumptions underlying the outlook are:

- Actual weather for the first six months of the year and normal weather patterns for remainder of the year;
- Weather-normalized retail electricity sales volume slightly below the prior year, in part due to the effects of customer conservation and energy efficiency and distributed renewable generation initiatives;
- Retail customer growth of about 1 percent;
- Total electricity gross margin (operating revenues, net of fuel and purchased power expenses, excluding Renewable Energy Surcharge and similar rate adjustors) of about \$2.13 billion to \$2.18 billion;
- Operating expenses (operations and maintenance, excluding costs for Renewable Energy Standard and similar regulatory programs; depreciation and amortization; and taxes other than income taxes) of about \$1.33 billion to \$1.36 billion; and
- Interest expense, net of allowances for borrowed and equity funds used for construction, of about \$180 million to \$190 million; and
- An effective tax rate of about 35 percent.

The Company's goal is to achieve a consolidated earned return on average common equity of 9.5 percent on average annually in 2012 through 2015. Key factors and assumptions underlying the outlook can be found in the second quarter 2012 earnings presentation slides on the Company's website at pinnaclewest.com/investors.

Conference Call and Web Cast

Pinnacle West invites interested parties to listen to the live webcast of management's conference call to discuss the Company's 2012 second-quarter results, as well as recent developments, at 12 noon (ET) today, August 2. The webcast can be accessed at pinnaclewest.com/presentations and will be available for replay on the website for 30 days. To access the live conference call by telephone, dial (877) 407-8035 or (201) 689-8035 for international callers. A replay of the call also will be available until 11:59 p.m. (ET), Thursday, August 9, 2012, by calling (877) 660-6853 in the U.S. and Canada or (201) 612-7415 internationally and entering account number 286, followed by conference ID number 396789.

General Information

Pinnacle West Capital, an energy holding company based in Phoenix, has consolidated assets of about \$13.2 billion, more than 6,300 megawatts of generating capacity and about 6,700 employees in Arizona and New Mexico. Through its principal subsidiary, Arizona Public Service, the Company provides retail electricity service to more than 1.1 million Arizona homes and businesses. For more information about Pinnacle West, visit the Company's website at pinnaclewest.com.

Dollar amounts in this news release are after income taxes. Earnings per share amounts are based on average diluted common shares outstanding. For more information on Pinnacle West's operating statistics and earnings, please visit pinnaclewest.com/investors.

PINNACLE WEST CAPITAL CORPORATION
NON-GAAP FINANCIAL MEASURE RECONCILIATION

NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS
(GAAP MEASURE) TO ON-GOING EARNINGS
(NON-GAAP FINANCIAL MEASURE)

	Three Months Ended June 30, 2012		Three Months Ended June 30, 2011	
	Dollars in Millions	Diluted EPS	Dollars in Millions	Diluted EPS
Net Income Attributable to Common Shareholders	\$ 122.3	\$ 1.11	\$ 86.7	\$ 0.79
Less: Income (loss) from discontinued operations	(0.8)	(0.01)	0.7	0.01
On-going Earnings	<u>\$ 123.1</u>	<u>\$ 1.12</u>	<u>\$ 86.0</u>	<u>\$ 0.78</u>

NON-GAAP FINANCIAL INFORMATION

In this press release, we refer to “on-going earnings.” On-going earnings is a “non-GAAP financial measure,” as defined in accordance with SEC rules. We believe on-going earnings provide investors with a useful indicator of our results that is comparable among periods because it excludes the effects of unusual items that may occur on an irregular basis. Investors should note that these non-GAAP financial measures involve judgments by management, including whether an item is classified as an unusual item. We use on-going earnings, or similar concepts, to measure our performance internally in reports for management.

FORWARD-LOOKING STATEMENTS

This press release contains forward-looking statements based on our current expectations, including statements regarding our earnings guidance and financial outlook and goals. These forward-looking statements are often identified by words such as “estimate,” “predict,” “may,” “believe,” “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 outcomes currently expected or sought by Pinnacle West or APS. These factors include, but are not limited to:

- our ability to manage capital expenditures and operations and maintenance costs while maintaining reliability and customer service levels;
- variations in demand for electricity, including those due to weather, the general economy, customer and sales growth (or decline), and the effects of energy conservation measures and distributed generation;
- power plant and transmission system performance and outages;
- volatile fuel and purchased power costs;
- fuel and water supply availability;
- our ability to achieve timely and adequate rate recovery of our costs, including returns on debt and equity capital;
- regulatory and judicial decisions, developments and proceedings;
- new legislation or regulation including those relating to environmental requirements and nuclear plant operations;
- our ability to meet renewable energy and energy efficiency mandates and recover related costs;

- risks inherent in the operation of nuclear facilities, including spent fuel disposal uncertainty;
- competition in retail and wholesale power markets;
- the duration and severity of the economic decline in Arizona and current real estate market conditions;
- the cost of debt and equity capital and the ability to access capital markets when required;
- changes to our credit ratings;
- the investment performance of the assets of our nuclear decommissioning trust, pension, and other postretirement benefit plans and the resulting impact on future funding requirements;
- the liquidity of wholesale power markets and the use of derivative contracts in our business;
- potential shortfalls in insurance coverage;
- new accounting requirements or new interpretations of existing requirements;
- generation, transmission and distribution facility and system conditions and operating costs;
- the ability to meet the anticipated future need for additional baseload generation and associated transmission facilities in our region;
- the willingness or ability of our counterparties, power plant participants and power plant land owners to meet contractual or other obligations or extend the rights for continued power plant operations;
- technological developments affecting the electric industry; and
- restrictions on dividends or other provisions in our credit agreements and Arizona Corporation Commission orders.

These and other factors are discussed in Risk Factors described in Part 1, Item 1A of the Pinnacle West/APS Annual Report on Form 10-K for the fiscal year ended December 31, 2011, which readers should review carefully before placing any reliance on our financial statements or disclosures. Neither Pinnacle West nor APS assumes any obligation to update these statements, even if our internal estimates change, except as required by law.

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PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

(dollars and shares in thousands, except per share amounts)

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30,		JUNE 30,	
	2012	2011	2012	2011
Operating Revenues	\$ 878,576	\$ 799,799	\$ 1,499,207	\$ 1,448,646
Operating Expenses				
Fuel and purchased power	264,723	244,049	481,032	456,056
Operations and maintenance	216,236	210,590	426,899	465,619
Depreciation and amortization	100,606	106,617	200,715	213,200
Taxes other than income taxes	41,289	40,155	83,764	77,779
Other expenses	1,233	1,396	4,301	3,216
Total	<u>624,087</u>	<u>602,807</u>	<u>1,196,711</u>	<u>1,215,870</u>
Operating Income	<u>254,489</u>	<u>196,992</u>	<u>302,496</u>	<u>232,776</u>
Other Income (Deductions)				
Allowance for equity funds used during construction	5,175	5,924	9,931	11,319
Other income	177	557	937	2,247
Other expense	(2,669)	(3,186)	(6,737)	(4,927)
Total	<u>2,683</u>	<u>3,295</u>	<u>4,131</u>	<u>8,639</u>
Interest Expense				
Interest charges	53,000	60,140	109,967	121,217
Allowance for borrowed funds used during construction	(3,447)	(3,856)	(6,598)	(7,432)
Total	<u>49,553</u>	<u>56,284</u>	<u>103,369</u>	<u>113,785</u>
Income From Continuing Operations Before Income Taxes	207,619	144,003	203,258	127,630
Income Taxes	<u>76,689</u>	<u>50,818</u>	<u>72,044</u>	<u>44,813</u>
Income From Continuing Operations	130,930	93,185	131,214	82,817
Income (Loss) From Discontinued Operations				
Net of Income Taxes	<u>(819)</u>	<u>654</u>	<u>(1,584)</u>	<u>1,348</u>
Net Income	130,111	93,839	129,630	84,165
Less: Net income attributable to noncontrolling interests	<u>7,766</u>	<u>7,154</u>	<u>15,542</u>	<u>12,615</u>
Net Income Attributable To Common Shareholders	<u>\$ 122,345</u>	<u>\$ 86,685</u>	<u>\$ 114,088</u>	<u>\$ 71,550</u>
Weighted-Average Common Shares Outstanding - Basic	109,491	109,044	109,395	108,939
Weighted-Average Common Shares Outstanding - Diluted	110,359	109,718	110,183	109,540
Earnings Per Weighted-Average Common Share Outstanding				
Income from continuing operations attributable to common shareholders - basic	\$ 1.12	\$ 0.79	\$ 1.06	\$ 0.64
Net income attributable to common shareholders - basic	\$ 1.12	\$ 0.80	\$ 1.04	\$ 0.66
Income from continuing operations attributable to common shareholders - diluted	\$ 1.12	\$ 0.78	\$ 1.05	\$ 0.64
Net income attributable to common shareholders - diluted	\$ 1.11	\$ 0.79	\$ 1.04	\$ 0.65
Amounts Attributable To Common Shareholders				
Income from continuing operations, net of tax	\$ 123,164	\$ 86,001	\$ 115,681	\$ 70,163
Discontinued operations, net of tax	<u>(819)</u>	<u>684</u>	<u>(1,593)</u>	<u>1,387</u>
Net income attributable to common shareholders	<u>\$ 122,345</u>	<u>\$ 86,685</u>	<u>\$ 114,088</u>	<u>\$ 71,550</u>

Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Periods Ended June 30, 2012 and 2011

Line		3 Months Ended June 30,			6 Months Ended June 30,		
		2012	2011	Incr (Decr)	2012	2011	Incr (Decr)
EARNINGS CONTRIBUTION BY SUBSIDIARY (Dollars in Millions)							
1	Arizona Public Service	\$ 133	\$ 95	\$ 38	\$ 136	\$ 88	\$ 48
2	El Dorado	—	—	—	—	—	—
3	Parent Company	(2)	(2)	—	(5)	(5)	—
4	Income From Continuing Operations	131	93	38	131	83	48
Income (Loss) From Discontinued Operations - Net of Tax							
5	SunCor	—	—	—	(1)	—	(1)
6	Other	(1)	1	(2)	—	1	(1)
7	Total	(1)	1	(2)	(1)	1	(2)
8	Net Income	130	94	36	130	84	46
9	Less: Net Income Attributable to Noncontrolling Interests	8	7	1	16	12	4
10	Net Income Attributable to Common Shareholders	\$ 122	\$ 87	\$ 35	\$ 114	\$ 72	\$ 42
EARNINGS PER SHARE BY SUBSIDIARY - DILUTED							
11	Arizona Public Service	\$ 1.20	\$ 0.86	\$ 0.34	\$ 1.24	\$ 0.81	\$ 0.43
12	El Dorado	—	—	—	—	—	—
13	Parent Company	(0.01)	(0.01)	—	(0.05)	(0.05)	—
14	Income From Continuing Operations	1.19	0.85	0.34	1.19	0.76	0.43
Income (Loss) From Discontinued Operations - Net of Tax							
15	SunCor	—	—	—	(0.01)	—	(0.01)
16	Other	(0.01)	0.01	(0.02)	—	0.01	(0.01)
17	Total	(0.01)	0.01	(0.02)	(0.01)	0.01	(0.02)
18	Net Income	1.18	0.86	0.32	1.18	0.77	0.41
19	Less: Net Income Attributable to Noncontrolling Interests	0.07	0.07	—	0.14	0.12	0.02
20	Net Income Attributable to Common Shareholders	\$ 1.11	\$ 0.79	\$ 0.32	\$ 1.04	\$ 0.65	\$ 0.39
21	BOOK VALUE PER SHARE	\$ 34.49	\$ 33.13	\$ 1.36	\$ 34.49	\$ 33.13	\$ 1.36
COMMON SHARES OUTSTANDING (Thousands)							
22	Average - Diluted	110,359	109,718	641	110,183	109,540	643
23	End of Period	109,540	109,090	450	109,540	109,090	450

See Glossary of Terms.



Pinnacle West Capital Corporation

Quarterly Consolidated Statistical Summary
Periods Ended June 30, 2012 and 2011

Line	3 Months Ended June 30,			6 Months Ended June 30,			
	2012	2011	Incr (Decr)	2012	2011	Incr (Decr)	
ELECTRIC OPERATING REVENUES (Dollars in Millions)							
REGULATED ELECTRICITY SEGMENT							
Retail							
24	Residential	\$ 418	\$ 360	\$ 58	\$ 690	\$ 633	\$ 57
25	Business	401	380	21	693	679	14
26	Total retail	819	740	79	1,383	1,312	71
Wholesale revenue on delivered electricity							
27	Traditional contracts	22	20	2	34	31	3
28	Off-system sales	16	16	—	37	33	4
29	Transmission for others	7	8	(1)	13	16	(3)
30	Other miscellaneous services	14	15	(1)	31	55	(24)
31	Total regulated operating electricity revenues	878	799	79	1,498	1,447	51
MARKETING AND TRADING							
32	Electricity and other commodity sales	—	—	—	—	—	—
33	Total operating electric revenues	\$ 878	\$ 799	\$ 79	\$ 1,498	\$ 1,447	\$ 51
ELECTRIC SALES (GWH)							
REGULATED ELECTRICITY SEGMENT							
Retail sales							
34	Residential	3,333	2,968	365	5,886	5,620	266
35	Business	3,922	3,746	176	7,112	7,020	92
36	Total retail	7,255	6,714	541	12,998	12,640	358
Wholesale electricity delivered							
37	Traditional contracts	334	270	64	497	412	85
38	Off-system sales	652	690	(38)	1,518	1,336	182
39	Retail load hedge management	50	37	13	80	69	11
40	Total regulated electricity	8,291	7,711	580	15,093	14,457	636
MARKETING AND TRADING							
41	Wholesale sales of electricity	—	—	—	—	—	—
42	Total electric sales	8,291	7,711	580	15,093	14,457	636

See Glossary of Terms.

Pinnacle West Capital Corporation

Quarterly Consolidated Statistical Summary
Periods Ended June 30, 2012 and 2011

Line	3 Months Ended June 30,			6 Months Ended June 30,			
	2012	2011	Incr (Decr)	2012	2011	Incr (Decr)	
AVERAGE ELECTRIC CUSTOMERS							
Retail customers							
43	Residential	1,001,323	992,605	8,718	1,004,452	996,148	8,304
44	Business	127,209	125,759	1,450	126,921	125,676	1,245
45	Total	1,128,532	1,118,364	10,168	1,131,373	1,121,824	9,549
46	Wholesale customers	48	47	1	47	47	—
47	Total customers	1,128,580	1,118,411	10,169	1,131,420	1,121,871	9,549
48	Customer growth (% over prior year)	0.9%	0.3%	0.6%	0.9%	0.4%	0.5%
RETAIL SALES (GWH) - WEATHER NORMALIZED							
49	Residential	3,178	3,219	(41)	5,816	5,859	(43)
50	Business	3,876	3,840	36	7,081	7,098	(17)
51	Total	7,054	7,059	(5)	12,897	12,957	(60)
RETAIL USAGE (KWh/Average Customer)							
52	Residential	3,328	2,990	338	5,860	5,642	218
53	Business	30,836	29,783	1,053	56,033	55,857	176
RETAIL USAGE - WEATHER NORMALIZED (KWh/Average Customer)							
54	Residential	3,174	3,243	(69)	5,791	5,882	(91)
55	Business	30,473	30,539	(66)	55,791	56,482	(691)
ELECTRICITY DEMAND (MW)							
56	Native load peak demand	6,755	6,776	(21)	6,755	6,776	(21)
WEATHER INDICATORS - RESIDENTIAL							
Actual							
57	Cooling degree-days	568	375	193	568	375	193
58	Heating degree-days	9	27	(18)	426	614	(188)
59	Average humidity	15%	14%	1%	15%	14%	1%
10-Year Averages							
60	Cooling degree-days	499	499	—	499	499	—
61	Heating degree-days	13	13	—	513	513	—
62	Average humidity	16%	16%	0%	16%	16%	0%

See Glossary of Terms.

Pinnacle West Capital Corporation

Quarterly Consolidated Statistical Summary
Periods Ended June 30, 2012 and 2011

Line	3 Months Ended June 30,			6 Months Ended June 30,			
	2012	2011	Incr (Decr)	2012	2011	Incr (Decr)	
ENERGY SOURCES (GWH)							
Generation production							
63	Nuclear	2,336	2,178	158	4,696	4,626	70
64	Coal	2,376	2,988	(612)	4,948	5,938	(990)
65	Gas, oil and other	2,180	1,197	983	3,424	2,038	1,386
66	Total generation production	6,892	6,363	529	13,068	12,602	466
Purchased power							
67	Firm load	1,688	1,359	329	2,857	1,976	881
68	Marketing and trading	100	358	(258)	170	585	(415)
69	Total purchased power	1,788	1,717	71	3,027	2,561	466
70	Total energy sources	8,680	8,080	600	16,095	15,163	932
POWER PLANT PERFORMANCE							
Capacity Factors							
71	Nuclear	93%	87%	6%	94%	93%	1%
72	Coal	62%	78%	(16)%	65%	78%	(13)%
73	Gas, oil and other	29%	17%	12%	23%	15%	8%
74	System average	50%	48%	2%	47%	48%	(1)%
ECONOMIC INDICATORS							
Building Permits (a)							
75	Metro Phoenix	3,189	1,841	1,348	5,418	3,504	1,914
Arizona Job Growth (b)							
76	Payroll job growth (% over prior year)	2.1%	0.7%	1.4%	1.9%	0.7%	1.2%
77	Unemployment rate (% , seasonally adjusted)	8.2%	9.6%	(1.4)%	8.4%	9.7%	(1.3)%

Sources:

- (a) RL Brown Housing Reports — Builder's Research Institute, LLC Home Builder's Marketing, Inc.
(b) Arizona Department of Economic Security

See Glossary of Terms.



PINNACLE WEST
CAPITAL CORPORATION

2nd Quarter 2012 Results

Second Quarter 2012

Forward-Looking Statements



This presentation contains forward-looking statements based on current expectations, including statements regarding our earnings guidance and financial outlook and goals. These forward-looking statements are often identified by words such as “estimate,” “predict,” “may,” “believe,” “plan,” “expect,” “require,” “intend,” “assume” and similar words. Because actual results may differ materially from expectations, we caution you not to place undue reliance on these statements. A number of factors could cause future results to differ materially from historical results, or from outcomes currently expected or sought by Pinnacle West or APS. These factors include, but are not limited to: our ability to manage capital expenditures and operations and maintenance costs while maintaining reliability and customer service levels; variations in demand for electricity, including those due to weather, the general economy, customer and sales growth (or decline), and the effects of energy conservation measures and distributed generation; power plant and transmission system performance and outages; volatile fuel and purchased power costs; fuel and water supply availability; our ability to achieve timely and adequate rate recovery of our costs, including returns on debt and equity capital; regulatory and judicial decisions, developments and proceedings; new legislation or regulation, including those relating to environmental requirements and nuclear plant operations; our ability to meet renewable energy and energy efficiency mandates and recover related costs; risks inherent in the operation of nuclear facilities, including spent fuel disposal uncertainty; competition in retail and wholesale power markets; the duration and severity of the economic decline in Arizona and current real estate market conditions; the cost of debt and equity capital and the ability to access capital markets when required; changes to our credit ratings; the investment performance of the assets of our nuclear decommissioning trust, pension, and other postretirement benefit plans and the resulting impact on future funding requirements; the liquidity of wholesale power markets and the use of derivative contracts in our business; potential shortfalls in insurance coverage; new accounting requirements or new interpretations of existing requirements; generation, transmission and distribution facility and system conditions and operating costs; the ability to meet the anticipated future need for additional baseload generation and associated transmission facilities in our region; the willingness or ability of our counterparties, power plant participants and power plant land owners to meet contractual or other obligations or extend the rights for continued power plant operations; technological developments affecting the electric industry; and restrictions on dividends or other provisions in our credit agreements and Arizona Corporation Commission orders. These and other factors are discussed in Risk Factors described in Part I, Item 1A of the Pinnacle West/APS Annual Report on Form 10-K for the fiscal year ended December 31, 2011, which you should review carefully before placing any reliance on our financial statements, disclosures or earnings outlook. Neither Pinnacle West nor APS assumes any obligation to update these statements, even if our internal estimates change, except as required by law.

Amounts Attributable to Common Shareholders and Non-GAAP Financial Measures



In this presentation, references to net income and earnings per share (EPS) refer to amounts attributable to common shareholders.

We present "gross margin" per diluted share of common stock. Gross margin refers to operating revenues less fuel and purchased power expenses. Gross margin is a "non-GAAP financial measure," as defined in accordance with SEC rules. The appendix contains a reconciliation of this non-GAAP financial measure to the referenced revenue and expense line items on our Consolidated Statements of Income, which are the most directly comparable financial measures calculated and presented in accordance with generally accepted accounting principles in the United States of America (GAAP). We view gross margin as an important performance measure of the core profitability of our operations.

We refer to "on-going earnings" in this presentation, which is also a non-GAAP financial measure. We believe on-going earnings provide investors with a useful indicator of our results that is comparable among periods because it excludes the effects of unusual items that may occur on an irregular basis. Reconciliations of on-going earnings to our net income attributable to common shareholders are included in this presentation.

Investors should note that these non-GAAP financial measures may involve judgments by management, including whether an item is classified as an unusual item. These measures are key components of our internal financial reporting and are 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.

CEO Discussion Agenda



- **Improving regulatory environment**
- **Selective capital investments**
- **Maintaining operational excellence**
- **Looking ahead**

CFO Agenda



- **2nd quarter results**
- **Credit ratings upgrades and financing**
- **Arizona economic outlook**
- **Earnings guidance and financial outlook**

Consolidated EPS Comparisons

2nd Quarter 2012 vs. 2nd Quarter 2011



Net Income



On-Going Earnings



Non-GAAP EPS Reconciliation

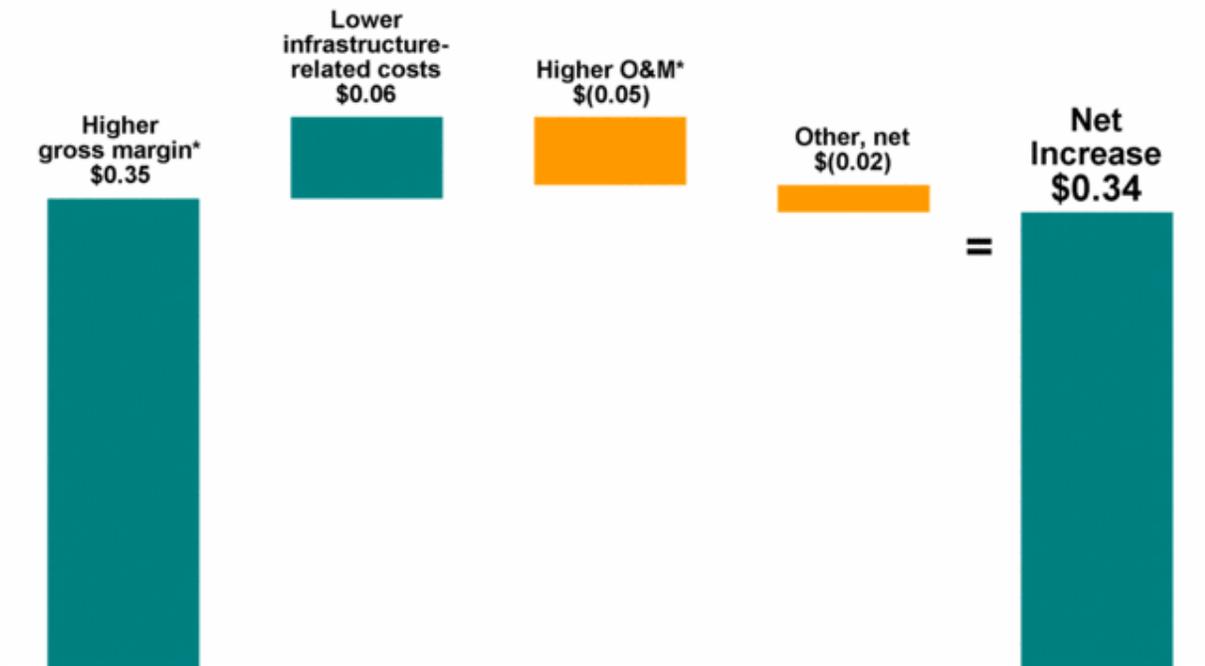
2nd Quarter 2012 vs. 2nd Quarter 2011



	<u>2nd Qtr 2012</u>	<u>2nd Qtr 2011</u>	<u>Change</u>
EPS as reported	\$ 1.11	\$ 0.79	\$ 0.32
Less income (loss) from discontinued operations	(0.01)	0.01	(0.02)
On-going EPS	<u>\$ 1.12</u>	<u>\$ 0.78</u>	<u>\$ 0.34</u>

On-Going EPS Variances

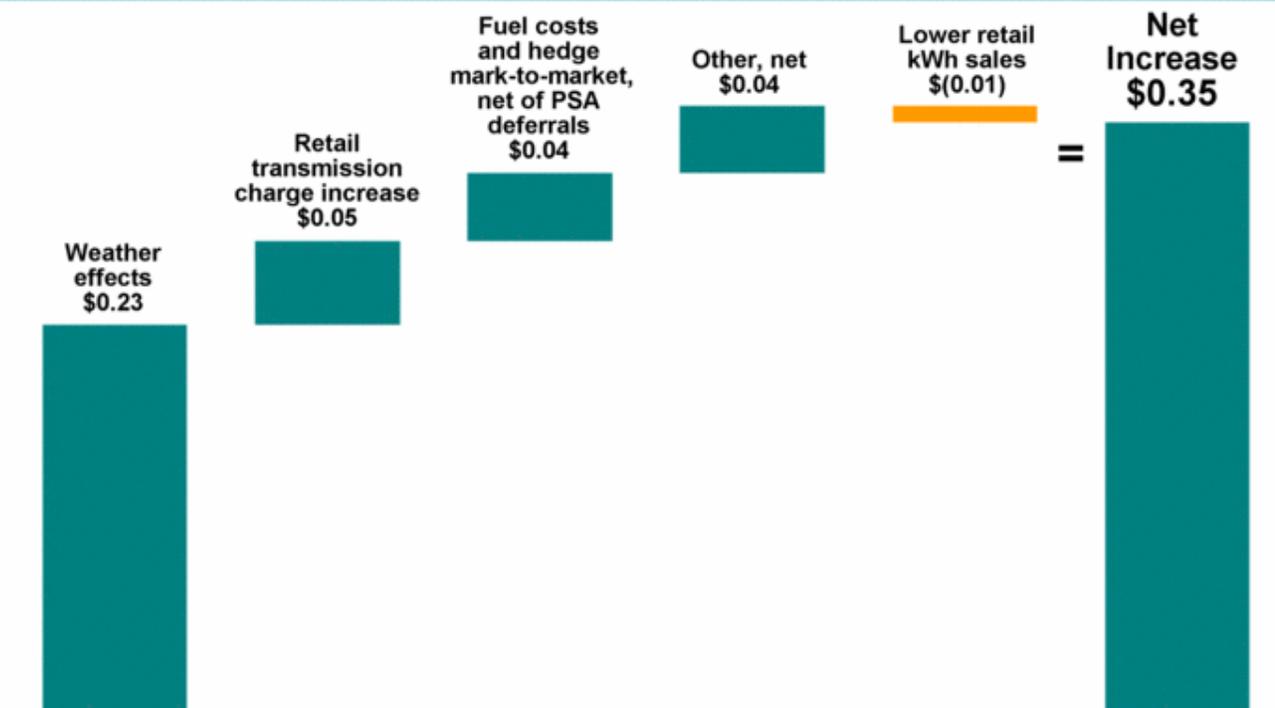
2nd Quarter 2012 vs. 2nd Quarter 2011



* Excludes costs, and offsetting operating revenues, associated with renewable energy (net of AZ Sun), energy efficiency and similar regulatory program. See non-GAAP reconciliation for gross margin in appendix.

Gross Margin EPS Drivers

2nd Quarter 2012 vs. 2nd Quarter 2011



See non-GAAP reconciliation in appendix.

Investment-Grade Credit Ratings



	APS	Parent
Corporate Credit Ratings		
Moody's	Baa1	Baa2
S&P	BBB	BBB
Fitch	BBB	BBB
Senior Unsecured		
Moody's	Baa1	-
S&P	BBB	-
Fitch	BBB+	-
Outlook		
Moody's	Stable	Stable
S&P	Positive	Positive
Fitch	Stable	Stable

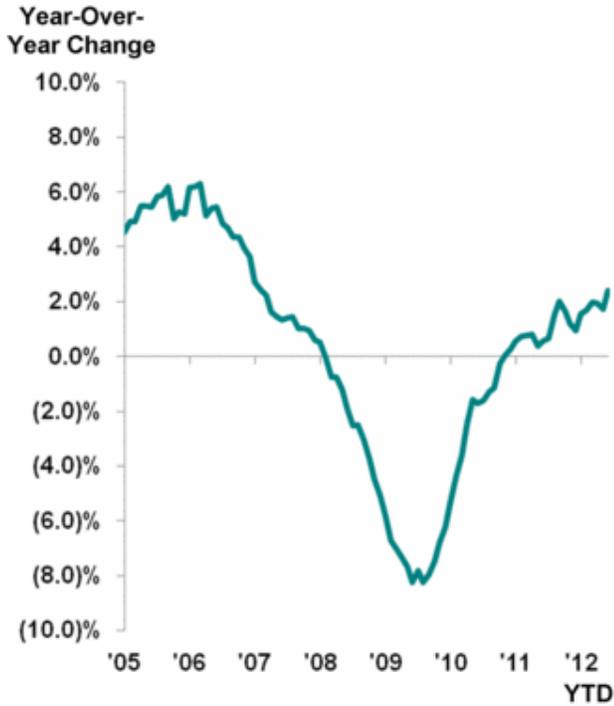
We are disclosing these ratings to enhance understanding of our sources of liquidity and the effects of our ratings on our costs of funds.

Arizona Economic Indicators

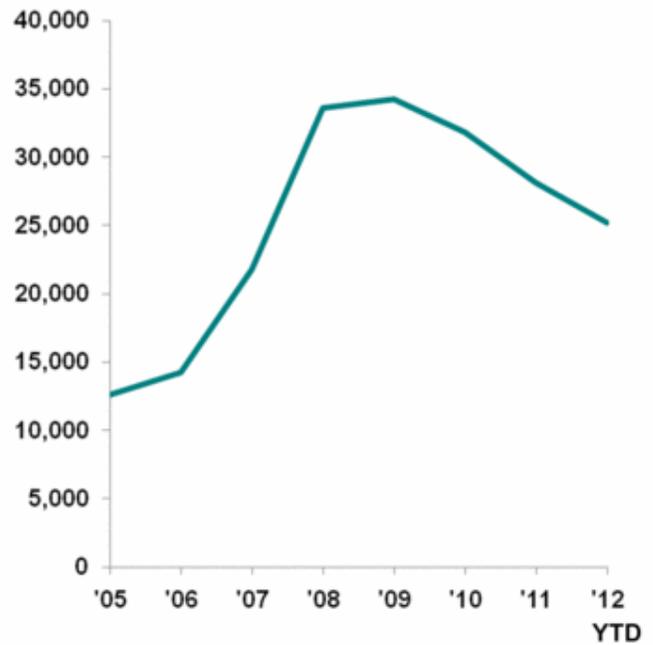
Employment & Excess Housing



Non-Farm Job Growth



Metro Phoenix Excess Housing APS Service Territory



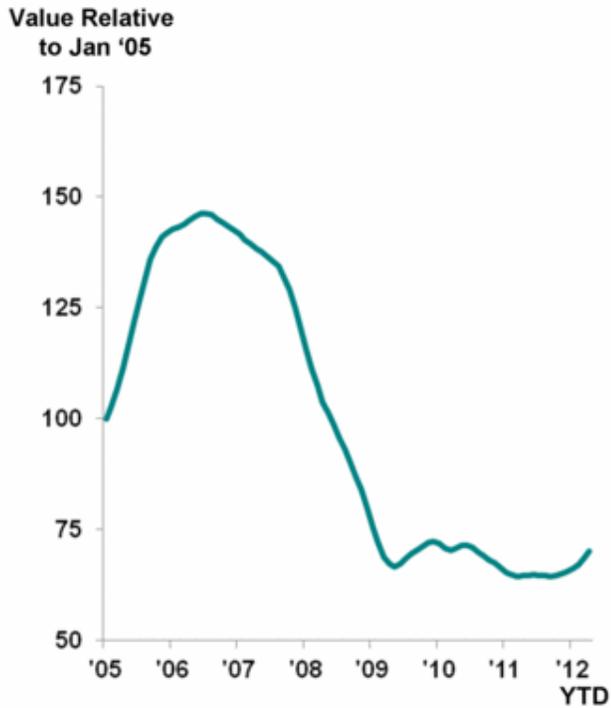
Arizona Economic Indicators

Metro Phoenix Housing Prices & Nonresidential Vacancy

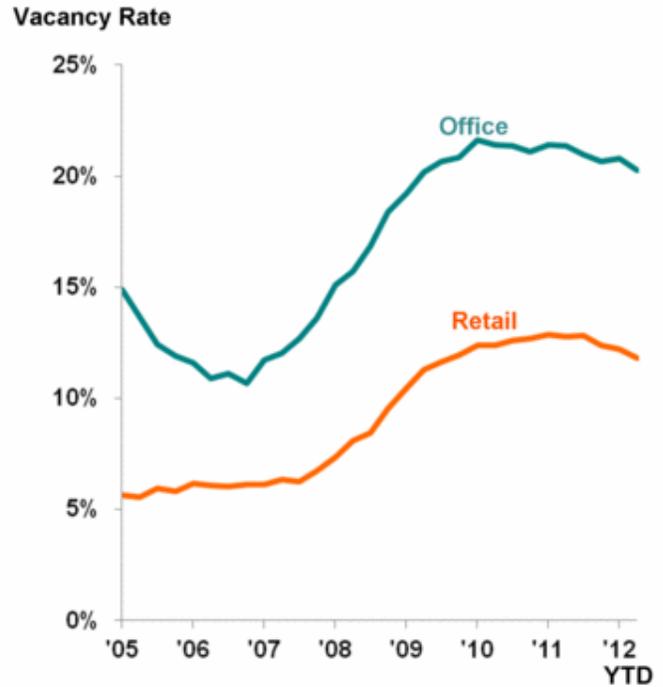


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Home Prices

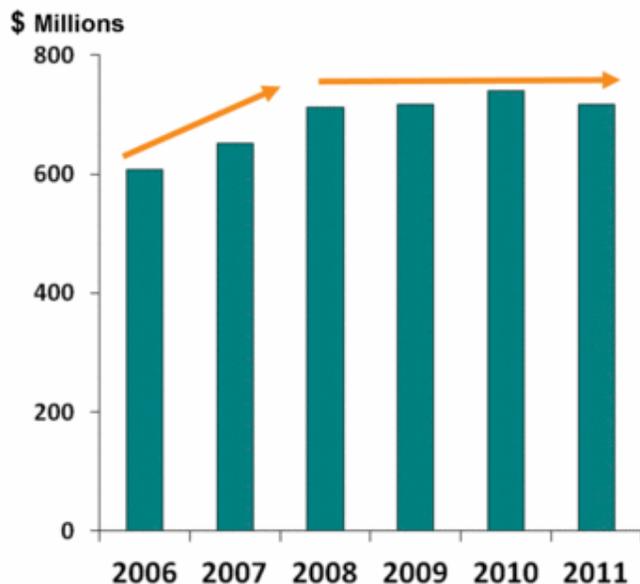


Nonresidential Building Vacancy



Cost Management Initiatives

APS O&M Expense Trends



Excludes RES and demand side management costs.
2011 also excludes \$28 million related to prior-period
transmission right-of-way settlement.

- Solid achievements to date
- Goal: O&M growth in line with retail sales growth
- Initiatives
 - Company-wide benchmarking and evaluations
 - Workforce attrition opportunities
 - Knowledge transfer
 - Process documentation

Consolidated Financial Outlook

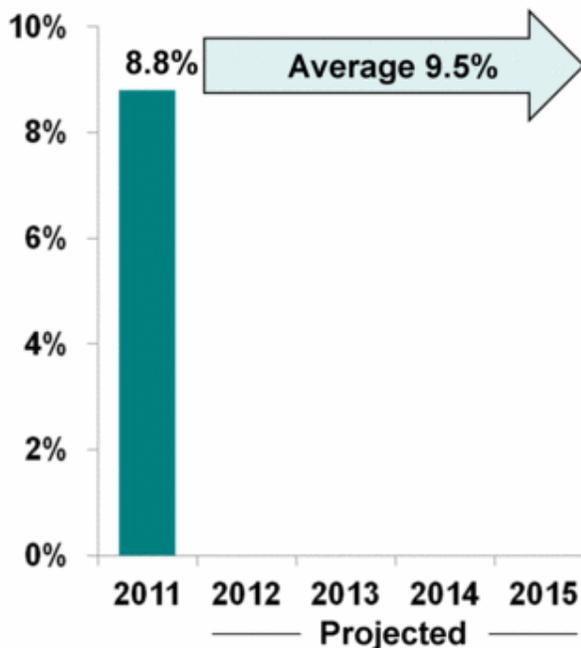
As of August 2, 2012



On-Going EPS



Consolidated Earned ROE Goal



See key factors and assumptions in appendix.

Appendix

Second Quarter 2012

2012 On-Going EPS Guidance

Key Factors & Assumptions as of August 2, 2012



- **Electricity gross margin*** (operating revenues, net of fuel and purchased power expenses) about \$2.13 billion to \$2.18 billion
 - Retail customer growth about 1%
 - Weather-normalized retail electricity sales volume slightly below prior year taking into account effects of customer conservation and energy efficiency and distributed renewable generation initiatives
 - Actual weather for first 6 months of year and normal weather patterns for remainder of year
- **Operating expenses*** (operations and maintenance, depreciation and amortization, and taxes other than income taxes) about \$1.33 billion to \$1.36 billion
- **Interest expense, net of allowances for borrowed and equity funds used during construction, about \$180 million to \$190 million**
- **Net income attributable to noncontrolling interests about \$30 million to \$35 million**
- **Effective tax rate about 35%**

* Excludes O&M of \$109 million, and offsetting operating revenues, associated with renewable energy and energy efficiency programs

2012-2015 Financial Outlook

Key Drivers & Assumptions as of August 2, 2012



- **2012 retail rate settlement effective July 1, 2012**
 - **Revenue provisions**
 - **Retail base rate changes effective July 1, 2012**
 - **Adjustment mechanisms**
 - **Four Corners acquisition**
 - **AZ Sun additions to flow through RES until next base rate case**
 - **Lost Fixed Cost Recovery (LFCR) mechanism assumed to offset 30-40% of revenues lost due to ACC-mandated energy efficiency and distributed renewable generation initiatives**
 - **Environmental Improvement Surcharge (EIS) assumed to recover up to \$5 million annually of carrying costs for government-mandated environmental capital expenditures**
 - **Cost mitigation provisions**
 - **Power Supply Adjustor (PSA) – 100% pass-through**
 - **Potential property tax deferrals – assume 60% of property tax increases relate to tax rates, therefore, will be eligible for deferrals**
 - **25% in 2012**
 - **50% in 2013**
 - **75% in 2014 and thereafter**

(continued)

2012-2015 Financial Outlook

Key Drivers & Assumptions as of August 2, 2012 (cont.)



- Modestly improving Arizona and U.S. economic conditions
- Retail customer growth to average 2% annually
- Weather-normalized retail electricity sales volume growth:
 - Relatively flat after customer conservation and energy efficiency and distributed renewable generation initiatives
 - Average 2.5% annually before customer conservation and energy efficiency and distributed renewable generation initiatives
- Rate base growth to average 6% annually
- AZ Sun Program – additional 150 MW placed into service in 2012-2015
- Transmission rate increases (FERC formula rates and retail adjustor)
- Four Corners cost deferrals between dates acquired and included in retail rates
- Company-wide operating and capital cost management
- Financing to maintain balanced capital structure for credit ratings and year-end 2014 retail rate case test year
- Interest rates
- Normal weather (except actual for first 6 months of 2012)

Non-GAAP EPS Reconciliation

Consolidated On-Going EPS Guidance



	<u>Year 2011 Actual</u>	<u>Year 2012 Guidance*</u>
Net income attributable to common shareholders	\$ 3.09	
Less income (loss) from discontinued operations:		
Real estate	(0.01)	
Energy services business	<u>0.11</u>	
On-going EPS	<u>\$ 2.99</u>	<u>\$ 3.35 - \$ 3.50</u>

* As of August 2, 2012

2012 Retail Rate Case Settlement

Key Benefits from Investor Perspective



The settlement contains a number of benefits for customers and shareholders.

- Provides financial support APS needs to achieve Arizona's energy goals
- Encourages progress toward sustainable energy future
- Supports renewable energy and energy efficiency
- Continues constructive regulatory framework established in 2009 regulatory settlement
 - Demonstrates collaboration and cooperation among APS and numerous stakeholders
 - Decision less than one year after filing
- Provides no base rate change for customers and promotes rate gradualism

2012 Retail Rate Case Settlement

Key Financial Provisions – Base Rate Changes



The provisions of the settlement became effective July 1, 2012, as originally requested by APS.

Annualized Base Rate Revenue Changes (\$ millions)

Non-fuel base rate increase	\$ 116.3
Fuel-related base rate decrease	(153.1)
Revenues related to AZ Sun and other solar projects to be transferred from Renewable Energy Surcharge to base rates	<u>36.8</u>
Net base rate change	<u><u>\$ -0-</u></u>

2012 Retail Rate Case Settlement

Key Proposals – Other than Base Rates



Other key provisions provide customers rate stability while continuing constructive regulatory treatment and limiting regulatory lag.

- **Post test-year plant additions – 15 months’ additions included in rate base**
- **Constructive new or modified adjustment mechanisms**
 - **Lost Fixed Cost Recovery (LFCR) rate mechanism to address ratemaking effects of energy efficiency and distributed renewable energy**
 - **Power Supply Adjustor (PSA) – 100% pass-through**
 - **Transmission Cost Adjustor (TCA) – streamlined for future rate changes**
 - **Environmental Improvement Surcharge (EIS) – recovery of certain carrying costs for government-mandated environmental capital expenditures**
- **Four Corners transaction – procedure to allow APS to request related rate adjustments, if transaction consummated**
- **Property tax expense deferrals for future tax rate changes**
- **Current PSA credit on customer bills to continue until February 1, 2013, rather than reset when base rate changes became effective July 1, 2012**
- **Next general rate case may be filed on or after May 31, 2015 for rates to become effective on or after July 1, 2016 (4-year stay-out)**

2012 Retail Rate Case Settlement

Key Financial Assumptions



Updated rate base, cost of capital and fuel prices underpin settlement amounts.

Rate base	\$5.7 billion
Allowed return on equity	10%
Capital structure	
Long-term debt	46.1%
Common equity	53.9%
Base fuel rate (¢/kWh)	3.21¢
Projected fuel-price year for base fuel rate	2012
Test year ended December 31, 2010 adjusted for post-test year plant additions	

APS AZ Sun Program



- Up to 200 MW utility-scale photovoltaic solar plants to be owned by APS
- In service 2011 through 2015
- Constructive rate recovery through RES until included in base rates
- Commitments to date:
 - 104 MW with \$446 million estimated capital investment
 - Project summary

Name	Net Capacity	Actual or Target Operation Date
Paloma	17 MW	Sept. 2011
Cotton Center	17 MW	Oct. 2011
Hyder Phase 1	11 MW	Oct. 2011
Hyder Phase 2	5 MW	Feb. 2012
Chino Valley	19 MW	4Q 2012
Yuma Foothills Phase 1	17 MW	1Q 2013
Yuma Foothills Phase 2	18 MW	4Q 2013

- 50 MW in commercial operation to date
- Planning and procurement under way for additional projects

Four Corners Power Plant Proposed Plan

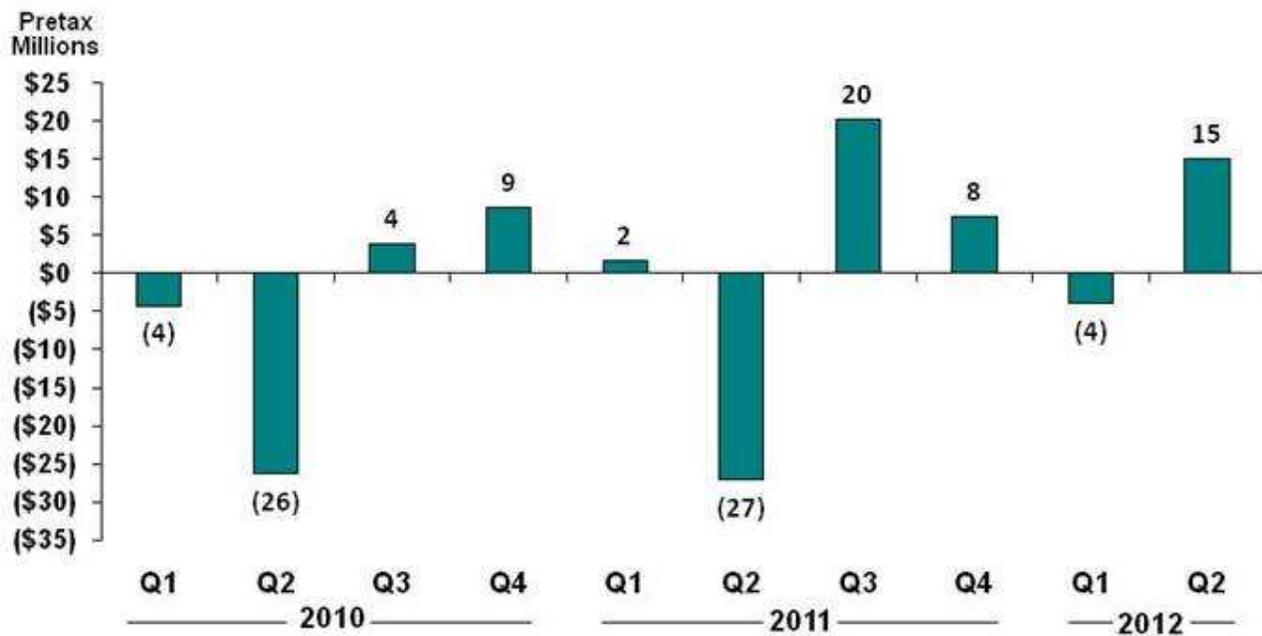


**Acquire Southern California Edison's 739 MW interest
in Units 4 & 5 and shut down 560 MW Units 1 – 3**

- **Purchase price: \$294 million (subject to adjustments)**
- **Acquisition target date: No earlier than December 1, 2012**
- **Estimated environmental compliance investment: \$300 million**
- **Arizona, California and other regulatory approvals required**
 - **Arizona and California approvals obtained**
- **New coal supply contract negotiations under way**

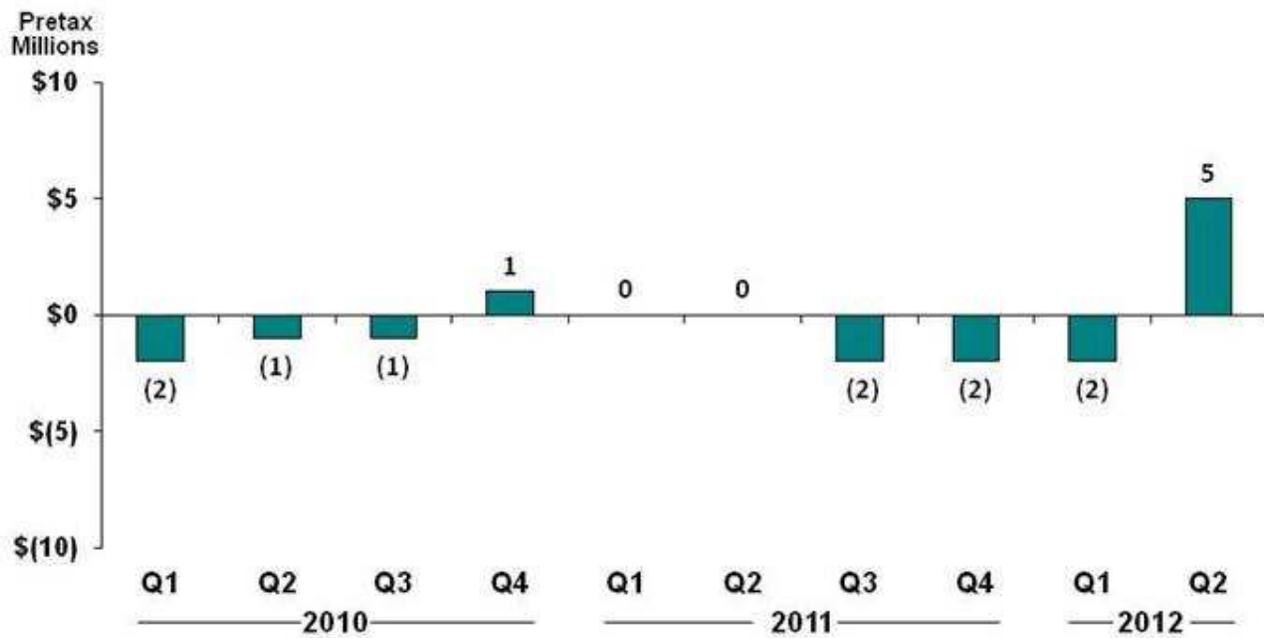
Economic, environmental and social benefits

Gross Margin Effects of Weather Variances Versus Normal*



*All periods recalculated to conform to current presentation.

Quarterly Mark-to-Market on Hedge Contracts*

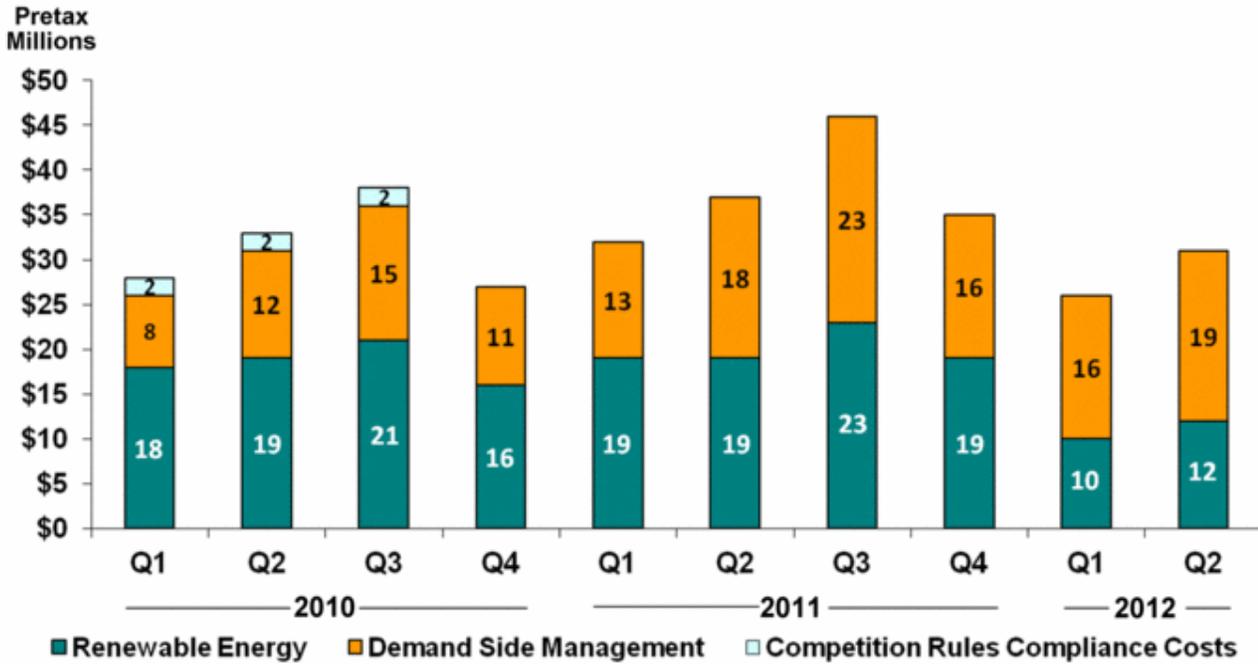


* Related to APS 10% share under Power Supply Adjustor (PSA), net of related deferrals.

Renewable Energy, Demand Side Management and Similar Regulatory Expenses*



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* O&M expenses related to Renewable Energy Standard and similar regulatory programs are offset by comparable revenue amounts.

Non-GAAP Measure Reconciliation

Gross Margin



	Three Months Ended		EPS Change
	June 30,		
\$ millions pretax, except per share amounts	2012	2011	
Operating revenues*	\$ 879	\$ 800	
Fuel and purchased power expenses*	(265)	(244)	
Gross margin	614	556	\$ 0.32
Less:			
Renewable energy (excluding AZ Sun), energy efficiency and similar regulatory programs	(29)	(35)	0.03
Gross margin - adjusted	\$ 585	\$ 521	\$ 0.35

* Line items from Consolidated Statements of Income.