

PINNACLE WEST CAPITAL CORP

FORM 8-K

(Current report filing)

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

FORM 8-K

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

Date of Report (Date of earliest event reported): March 31, 2010

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

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

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

This combined Form 8-K is separately filed by Pinnacle West Capital Corporation and Arizona Public Service Company ("APS"). 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.

Item 2.02. Results of Operations and Financial Condition

On May 6, 2010, Pinnacle West Capital Corporation (the “Company” or “Pinnacle West”) issued a press release regarding its financial results for the fiscal quarter ended March 31, 2010 and its earnings outlook for 2010 and 2011. A copy of the press release is attached hereto as Exhibit 99.1.

The information referenced in Item 7.01 below contains Company operating results for the fiscal quarter ended March 31, 2010. This information is attached hereto as Exhibits 99.2 and 99.3.

Item 7.01. Regulation FD Disclosure

The Company is providing a quarterly consolidated statistical summary and a copy of the slide presentation made in connection with the quarterly earnings conference call on May 6, 2010 (see Exhibits 99.2 and 99.3). This information is concurrently being posted to the Company’s website at www.pinnaclewest.com, which also contains a glossary of relevant terms.

Item 9.01. Financial Statements and Exhibits

(d) Exhibits.

Exhibit No.	Registrant(s)	Description
99.1	Pinnacle West APS	Earnings News Release issued on May 6, 2010.
99.2	Pinnacle West APS	Pinnacle West Capital Corporation quarterly consolidated statistical summary for the three-month periods ended March 31, 2010 and 2009.
99.3	Pinnacle West APS	Pinnacle West Capital Corporation First Quarter 2010 slide presentation accompanying May 6, 2010 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: May 6, 2010

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

ARIZONA PUBLIC SERVICE COMPANY

(Registrant)

Dated: May 6, 2010

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

Exhibit Index

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**FOR IMMEDIATE RELEASE**

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Analyst Contact: Rebecca Hickman, (602) 250-5668
Web site: www.pinnaclewest.com

May 6, 2010
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PINNACLE WEST REPORTS FIRST-QUARTER RESULTS

- *Quarterly earnings aided by retail regulatory settlement*
- *Company remains focused on renewable resources, cost management and efficient performance*

PHOENIX — Pinnacle West Capital Corp. (NYSE: PNW) today reported a consolidated net loss attributable to common shareholders of \$6.0 million, or \$0.06 per diluted share of common stock, for the quarter ended March 31, 2010. This result compares with a net loss attributable to common shareholders of \$156.5 million, or \$1.55 per diluted share, for the same quarter in 2009.

Excluding results of the Company's real estate segment, the restructuring of which was announced last year, Pinnacle West's on-going consolidated earnings in the 2010 first quarter were \$7.2 million, or \$0.07 per share, compared with an on-going loss of \$24.8 million or \$0.25 per share, in the same period a year ago. A reconciliation of reported earnings to on-going earnings is provided at the end of this release.

"Our first quarter results support our full-year earnings guidance," said Pinnacle West Chairman, President and Chief Executive Officer Don Brandt. "We are focused on executing our renewables program, actively managing our costs and identifying additional efficiencies and savings throughout our organization."

The 2010 first-quarter on-going results were positively impacted by the following factors:

- *Higher revenues resulting from retail rate increases* improved earnings by \$0.20 per share. Of this amount, \$0.14 is related to retail base rates and \$0.03 is related to line extension revenue, both implemented in January as a result of the Company's regulatory settlement. The balance is attributable to a retail transmission rate increase implemented in the 2009 third quarter.
 - *A reduction of the Company's 2010 effective income tax rate* improved earnings by \$0.08 per share.
 - *Improved mark-to-market valuations of fuel contracts* as a result of changes in commodity prices contributed \$0.02 per share to the quarterly earnings comparison.
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These positive factors were offset by increased operations and maintenance expenses, which decreased earnings by \$0.04 per share. This increase was primarily related to higher labor expenses, offset in part by lower generation costs, including the timing of fossil-plant planned maintenance. The variance excludes costs associated with renewable energy and demand-side management programs, which are offset by comparable amounts of operating revenues.

A net decrease in weather-normalized kilowatt-hour sales reduced earnings by \$0.02 per share. However, this decrease was offset by the effects of more favorable weather versus last year's quarter. The sales decrease was primarily related to the impacts of APS's energy efficiency programs and lower electricity consumption by commercial and industrial customers due to the current economic slowdown. Total retail electricity sales, excluding the effects of weather, decreased 1.7 percent in the 2010 first quarter compared to the corresponding 2009 period.

Arizona Public Service Co. (APS), the Company's principal subsidiary, reported 2010 first quarter net income attributable to common shareholder of \$11.0 million, compared with a net loss of \$15.5 million for the comparable 2009 quarter.

2010 and 2011 On-going Earnings Outlook

The Company continues to estimate its 2010 on-going consolidated earnings will be in the range of \$2.95 to \$3.10 per diluted share. Key factors and assumptions underlying the outlook remain unchanged, except for the following:

- Weather-normalized retail electricity sales volumes are expected to be slightly below the prior year, in part due to the Company's energy efficiency initiatives and reflecting first-quarter results; and
- The on-going effective income tax rate is expected to be about 35 percent.

For 2011, the Company continues to estimate its on-going consolidated earnings will be within the guidance range provided for 2010 on-going consolidated earnings, with some opportunity for modestly exceeding that range.

Conference Call and Web Cast

Pinnacle West invites interested parties to listen to the live web cast of management's conference call to discuss the Company's 2010 first-quarter results, as well as recent developments at 12:00 noon (ET) today, May 6. The web cast can be accessed at www.pinnaclewest.com/presentations and will be available for replay on the web site for 30 days. To access the live conference call by telephone, dial (877) 356-3961 and enter Conference ID 66015030. A replay of the call also will be available until 11:55 p.m. (ET), Thursday, May 13, 2010, by calling (800) 642-1687 in the U.S. and Canada or (706) 645-9291 internationally and entering the same Conference ID number as above.

General Information

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.

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 www.pinnaclewest.com/investors.

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

	Three Months Ended March 31, 2010		Three Months Ended March 31, 2009	
	Dollars in Millions	Diluted EPS	Dollars in Millions	Diluted EPS
Net Loss Attributable to Common Shareholders	\$ (6.0)	\$ (0.06)	\$ (156.5)	\$ (1.55)
Adjustment:				
Real estate segment	13.2	0.13	131.7	1.30
On-going Earnings (Loss)	<u>\$ 7.2</u>	<u>\$ 0.07</u>	<u>\$ (24.8)</u>	<u>\$ (0.25)</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 regarding our 2010 and 2011 earnings outlook, and neither Pinnacle West nor APS assumes any obligation to update these statements, even if our internal estimates change, except as required by applicable law. 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:

- regulatory and judicial decisions, developments and proceedings;
- our ability to achieve timely and adequate rate recovery of our costs;
- our ability to reduce capital expenditures and other 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;
- power plant performance and outages;
- volatile fuel and purchased power costs;
- fuel and water supply availability;
- new legislation or regulation relating to greenhouse gas emissions, renewable energy mandates and energy efficiency standards;
- our ability to meet renewable energy requirements 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 credit, financial and real estate market conditions;
- the cost of debt and equity capital and the ability to access capital markets when required;
- restrictions on dividends or other burdensome provisions in our credit agreements and Arizona Corporation Commission orders;
- our ability, or the ability of our subsidiaries, to meet debt service obligations;
- 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;
- 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;
- transmission and distribution 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 ability of our counterparties and power plant participants to meet contractual or other obligations;
- technological developments in the electric industry; and
- economic and other conditions affecting the real estate market in SunCor Development Company's market areas.

These and other factors are discussed in Risk Factors described in Item 1A of the Pinnacle West/APS Annual Report on Form 10-K for the fiscal year ended December 31, 2009, which readers should review carefully before placing any reliance on our financial statements, disclosures or our earnings outlook.

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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 MARCH 31,	
	2010	2009
Operating Revenues		
Regulated electricity segment	\$ 611,425	\$ 602,578
Real estate segment	9,416	14,840
Other revenues	12,750	8,449
Total	<u>633,591</u>	<u>625,867</u>
Operating Expenses		
Regulated electricity segment fuel and purchased power	215,540	247,388
Real estate segment operations	13,890	26,910
Real estate impairment charge	15,112	208,480
Operations and maintenance	209,991	197,616
Depreciation and amortization	101,536	101,812
Taxes other than income taxes	31,827	34,128
Other expenses	8,061	6,467
Total	<u>595,957</u>	<u>822,801</u>
Operating Income (Loss)	<u>37,634</u>	<u>(196,934)</u>
Other		
Allowance for equity funds used during construction	5,389	4,992
Other income	2,395	537
Other expense	(2,696)	(9,741)
Total	<u>5,088</u>	<u>(4,212)</u>
Interest Expense		
Interest charges	62,054	59,035
Capitalized interest	(3,080)	(3,834)
Total	<u>58,974</u>	<u>55,201</u>
Loss From Continuing Operations Before Income Taxes	(16,252)	(256,347)
Income Taxes	<u>(15,480)</u>	<u>(95,004)</u>
Loss From Continuing Operations	(772)	(161,343)
Loss From Discontinued Operations Net of Income Taxes	<u>(125)</u>	<u>(4,727)</u>
Net Loss	(897)	(166,070)
Less: Net income (loss) attributable to noncontrolling interests	<u>5,117</u>	<u>(9,560)</u>
Net Loss Attributable To Common Shareholders	<u>\$ (6,014)</u>	<u>\$ (156,510)</u>
Weighted-Average Common Shares Outstanding — Basic	101,474	100,986
Weighted-Average Common Shares Outstanding — Diluted	101,474	100,986
Earnings Per Weighted-Average Common Share Outstanding		
Loss from continuing operations attributable to common shareholders — basic	\$ (0.06)	\$ (1.50)
Net loss attributable to common shareholders — basic	\$ (0.06)	\$ (1.55)
Loss from continuing operations attributable to common shareholders — diluted	\$ (0.06)	\$ (1.50)
Net loss attributable to common shareholders — diluted	\$ (0.06)	\$ (1.55)

Amounts Attributable To Common Shareholders

Loss from continuing operations, net of tax	\$ (5,889)	\$ (151,783)
Discontinued operations, net of tax	(125)	(4,727)
Net loss attributable to common shareholders	<u>\$ (6,014)</u>	<u>\$ (156,510)</u>

Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Periods Ended March 31, 2010 and 2009

Line	3 Months Ended March		
	2010	2009	Incr (Decr)
EARNINGS CONTRIBUTION BY SUBSIDIARY (\$ Millions)			
1 Arizona Public Service	\$ 16	\$ (10)	\$ 26
2 APS Energy Services	—	(1)	1
3 SunCor	(21)	(221)	200
4 El Dorado	—	(6)	6
5 Parent Company	4	77	(73)
6 Income From Continuing Operations	(1)	(161)	160
Income (Loss) From Discontinued Operations — Net of Tax			
7 SunCor	—	(8)	8
8 Other	—	3	(3)
9 Total	—	(5)	5
10 Net Income	(1)	(166)	165
11 Less: Net Income (Loss) Attributable to Noncontrolling Interests	5	(9)	14
12 Net Income Attributable to Common Shareholders	<u>\$ (6)</u>	<u>\$ (157)</u>	<u>\$ 151</u>
EARNINGS PER SHARE BY SUBSIDIARY — DILUTED			
13 Arizona Public Service	\$ 0.16	\$ (0.11)	\$ 0.27
14 APS Energy Services	—	(0.01)	0.01
15 SunCor	(0.20)	(2.19)	1.99
16 El Dorado	—	(0.06)	0.06
17 Parent Company	0.03	0.78	(0.75)
18 Income From Continuing Operations	(0.01)	(1.59)	1.58
Income (Loss) From Discontinued Operations — Net of Tax			
19 SunCor	—	(0.08)	0.08
20 Other	—	0.03	(0.03)
21 Total	—	(0.05)	0.05
22 Net Income	(0.01)	(1.64)	1.63
23 Less: Net Income (Loss) Attributable to Noncontrolling Interests	0.05	(0.09)	0.14
24 Net Income Attributable to Common Shareholders	<u>\$ (0.06)</u>	<u>\$ (1.55)</u>	<u>\$ 1.49</u>
25 BOOK VALUE PER SHARE	\$ 31.65	\$ 31.29	\$ 0.36
COMMON SHARES OUTSTANDING (Thousands)			
26 Average — Diluted	101,474	100,986	488
27 End of Period	101,534	101,074	460

See Glossary of Terms.



Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Periods Ended March 31, 2010 and 2009

Line	3 Months Ended March		
	2010	2009	Incr (Decr)
ELECTRIC OPERATING REVENUES (Dollars in Millions)			
REGULATED ELECTRICITY SEGMENT			
Retail			
28 Residential	\$ 267	\$ 256	\$ 11
29 Business	289	298	(9)
30 Total retail	556	554	2
Wholesale revenue on delivered electricity			
31 Traditional contracts	18	11	7
32 Off-system sales	16	22	(6)
33 Transmission for others	8	7	1
34 Other miscellaneous services	13	9	4
35 Total regulated operating electricity revenues	611	603	9
MARKETING AND TRADING			
36 Electricity and other commodity sales	—	—	—
37 Total operating electric revenues	\$ 611	\$ 603	\$ 9
ELECTRIC SALES (GWH)			
REGULATED ELECTRICITY SEGMENT			
Retail sales			
38 Residential	2,575	2,499	76
39 Business	3,167	3,260	(93)
40 Total retail	5,742	5,759	(17)
Wholesale electricity delivered			
41 Traditional contracts	156	165	(9)
42 Off-system sales	609	697	(88)
43 Retail load hedge management	201	152	49
44 Total regulated electricity	6,708	6,773	(65)
MARKETING AND TRADING			
45 Wholesale sales of electricity	—	—	—
46 Total electric sales	6,708	6,773	(65)
POWER SUPPLY ADJUSTOR (“PSA”) — REGULATED ELECTRICITY SEGMENT (Dollars in Millions)			
47 Deferred fuel and purchased power regulatory asset — beginning balance	\$ (87)	\$ 8	\$ (95)
48 Deferred fuel and purchased power costs — current period	(44)	(28)	(16)
49 Interest on deferred fuel	—	—	—
50 Amounts recovered through revenues	26	(29)	55
51 Deferred fuel and purchased power regulatory asset — ending balance	\$ (105)	\$ (49)	\$ (56)

See Glossary of Terms.



Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Periods Ended March 31, 2010 and 2009

Line	3 Months Ended March		
	2010	2009	Incr (Decr)
AVERAGE ELECTRIC CUSTOMERS			
Retail customers			
52 Residential	995,053	988,675	6,378
53 Business	125,397	125,111	286
54 Total	1,120,450	1,113,786	6,664
55 Wholesale customers	51	50	1
56 Total customers	<u>1,120,501</u>	<u>1,113,836</u>	<u>6,665</u>
57 Customer growth (% over prior year)	0.6%	0.8%	(0.2)%
RETAIL SALES (GWH) — WEATHER NORMALIZED			
58 Residential	2,554	2,586	(32)
59 Business	3,196	3,261	(65)
60 Total	<u>5,750</u>	<u>5,847</u>	<u>(97)</u>
RETAIL USAGE (KWh/Average Customer)			
61 Residential	2,588	2,528	60
62 Business	25,255	26,057	(802)
RETAIL USAGE — WEATHER NORMALIZED (KWh/Average Customer)			
63 Residential	2,567	2,616	(49)
64 Business	25,489	26,065	(576)
ELECTRICITY DEMAND (MW)			
65 Native load peak demand	3,952	4,023	(71)
WEATHER INDICATORS			
Actual			
66 Cooling degree-days	42	104	(62)
67 Heating degree-days	501	383	118
68 Average humidity	34%	35%	(1)%
10-Year Averages			
69 Cooling degree-days	94	94	—
70 Heating degree-days	502	502	—
71 Average humidity	41%	41%	0%

See Glossary of Terms.

Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
Periods Ended March 31, 2010 and 2009

Line	3 Months Ended March		
	2010	2009	Incr (Decr)
ENERGY SOURCES (GWH)			
Generation production			
72 Nuclear	2,365	2,493	(128)
73 Coal	3,007	2,951	56
74 Gas, oil and other	816	1,025	(209)
75 Total generation production	<u>6,188</u>	<u>6,469</u>	<u>(281)</u>
Purchased power			
76 Firm load	471	508	(37)
77 Marketing and trading	421	260	161
78 Total purchased power	<u>892</u>	<u>768</u>	<u>124</u>
79 Total energy sources	<u><u>7,080</u></u>	<u><u>7,237</u></u>	<u><u>(157)</u></u>
POWER PLANT PERFORMANCE			
Capacity Factors			
80 Nuclear	96%	101%	(5)%
81 Coal	80%	78%	2%
82 Gas, oil and other	11%	14%	(3)%
83 System average	46%	48%	(2)%
ECONOMIC INDICATORS			
Building Permits — Metro Phoenix (a)			
84 Single-family	1,149	837	312
85 Multi-family	253	539	(286)
86 Total	<u>1,402</u>	<u>1,376</u>	<u>26</u>
Arizona Job Growth (b)			
87 Payroll job growth (% over prior year)	(4.4)%	(6.5)%	2.1%
88 Unemployment rate (% , seasonally adjusted)	9.4%	8.3%	1.1%

Sources:

- (a) Arizona Real Estate Center, Arizona State University W.P. Carey College of Business
(b) Arizona Department of Economic Security

See Glossary of Terms.



PINNACLE WEST
CAPITAL CORPORATION

1st Quarter 2010 Results

Forward-Looking Statements



This presentation contains forward-looking statements based on our current expectations, and neither Pinnacle West nor APS assumes any obligation to update these statements, even if our internal estimates change, except as required by applicable law. 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: regulatory and judicial decisions, developments and proceedings; our ability to achieve timely and adequate rate recovery of our costs; our ability to reduce capital expenditures and other 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; power plant performance and outages; volatile fuel and purchased power costs; fuel and water supply availability; new legislation or regulation relating to greenhouse gas emissions, renewable energy mandates and energy efficiency standards; our ability to meet renewable energy requirements 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 credit, financial and real estate market conditions; the cost of debt and equity capital and the ability to access capital markets when required; restrictions on dividends or other burdensome provisions in our credit agreements and Arizona Corporation Commission orders; our ability, or the ability of our subsidiaries, to meet debt service obligations; 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; 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; transmission and distribution 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 ability of our counterparties and power plant participants to meet contractual or other obligations; technological developments in the electric industry; and economic and other conditions affecting the real estate market in SunCor Development Company's market areas. These and other factors are discussed in Risk Factors described in Item 1A of the Pinnacle West/APS Annual Report on Form 10-K for the fiscal year ended December 31, 2009, which readers should review carefully before placing any reliance on our financial statements, disclosures or our earnings outlook.

Non-GAAP Financial Measures



In this presentation, we present “regulated electricity segment gross margin” per diluted share of common stock. Regulated electricity segment gross margin refers to regulated electricity segment revenues less regulated electricity segment fuel and purchased power expenses. Regulated electricity segment gross margin is a “non-GAAP financial measure,” as defined in accordance with SEC rules. The last slide in the Appendix contains a reconciliation of this non-GAAP financial measure to the referenced revenue and expense line items on our Condensed Consolidated Statements of Income, which are the most directly comparable financial measures calculated and presented in accordance with GAAP. We view regulated electricity segment gross margin as an important performance measure of the core profitability of our operations.

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. Slide 6 provides a reconciliation of on-going earnings to our reported earnings.

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.

CFO Agenda



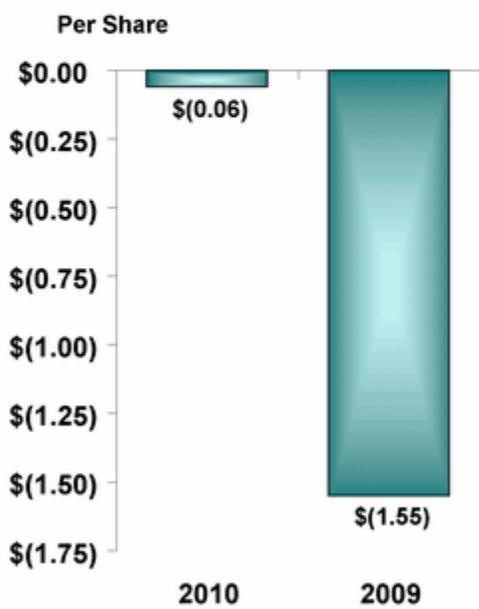
-
- **1st Quarter Results**
 - **Arizona Economic Outlook**
 - **Earnings Guidance**
 - **Financing and Liquidity Update**

Consolidated EPS Summary

1st Quarter 2010 vs. 1st Quarter 2009



Reported



On-Going



Non-GAAP EPS Reconciliation

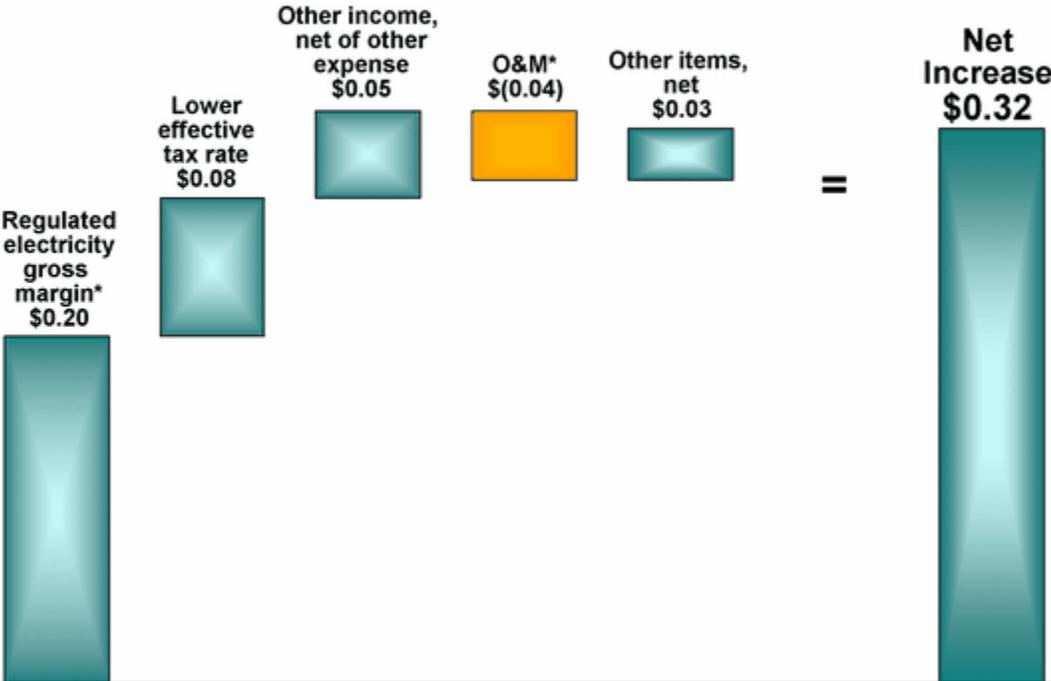
1st Quarter 2010 vs. 1st Quarter 2009



	<u>1st Qtr 2010</u>	<u>1st Qtr 2009</u>	<u>Change</u>
EPS per diluted share as reported	\$ (0.06)	\$ (1.55)	\$ 1.49
Adjustments:			
Real estate segment	<u>0.13</u>	<u>1.30</u>	<u>(1.17)</u>
On-going earnings per share	<u>\$ 0.07</u>	<u>\$ (0.25)</u>	<u>\$ 0.32</u>

Summary of On-Going EPS Variances

1st Quarter 2010 vs. 1st Quarter 2009



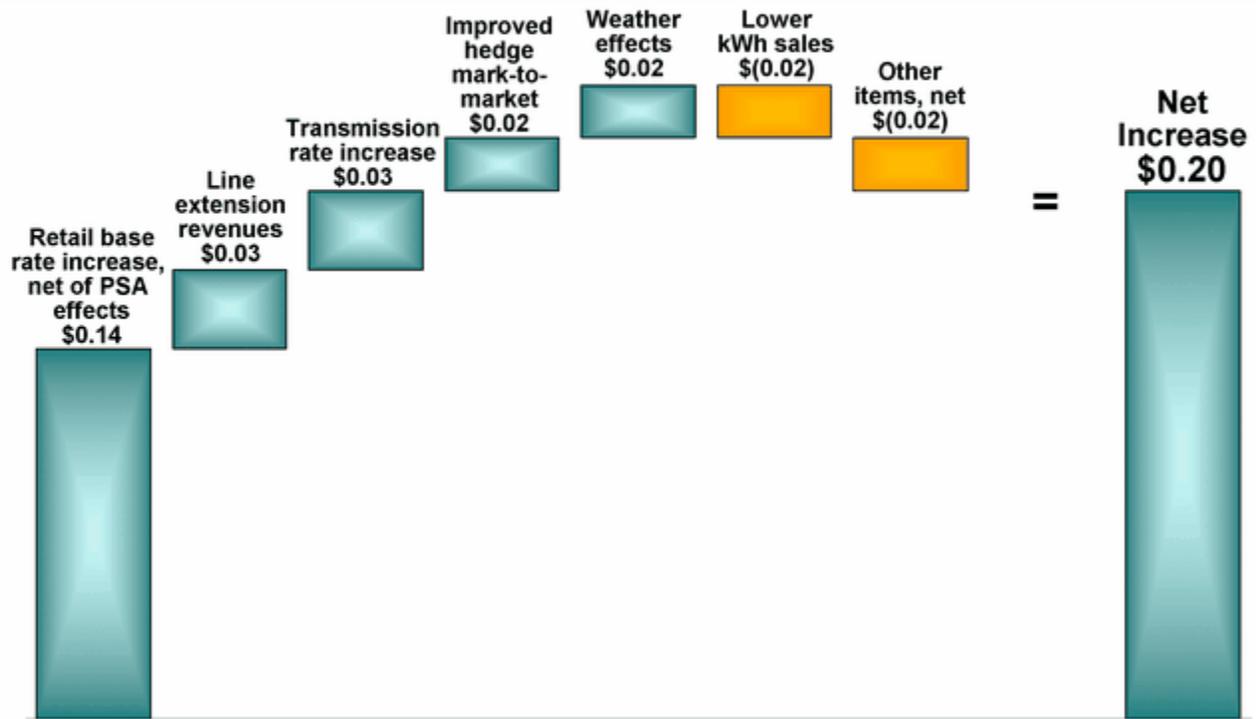
* Excluding renewable energy and demand-side management revenue increases and offsetting O&M increases, respectively. See non-GAAP reconciliation for regulated electricity gross margin in Appendix.

Regulated Electricity Gross Margin Drivers*

1st Quarter 2010 vs. 1st Quarter 2009



PINNACLE WEST
CAPITAL CORPORATION



* See non-GAAP reconciliation in Appendix.

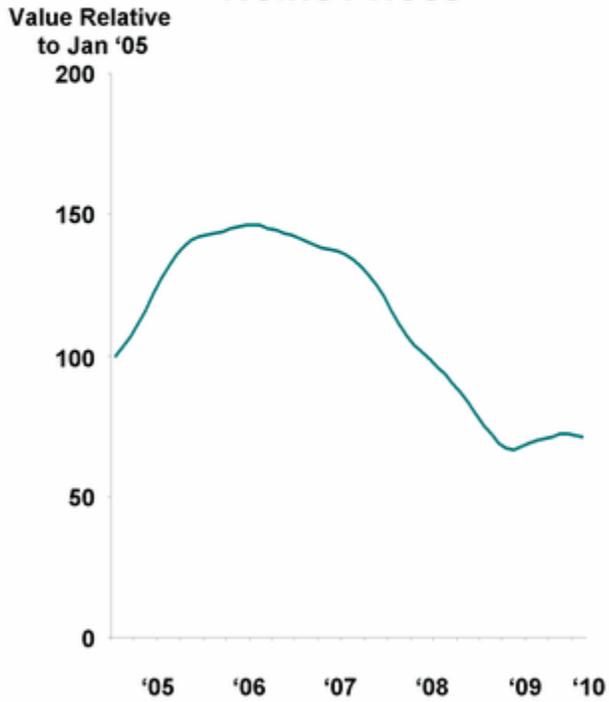
First Quarter 2010

Arizona Economic Indicators

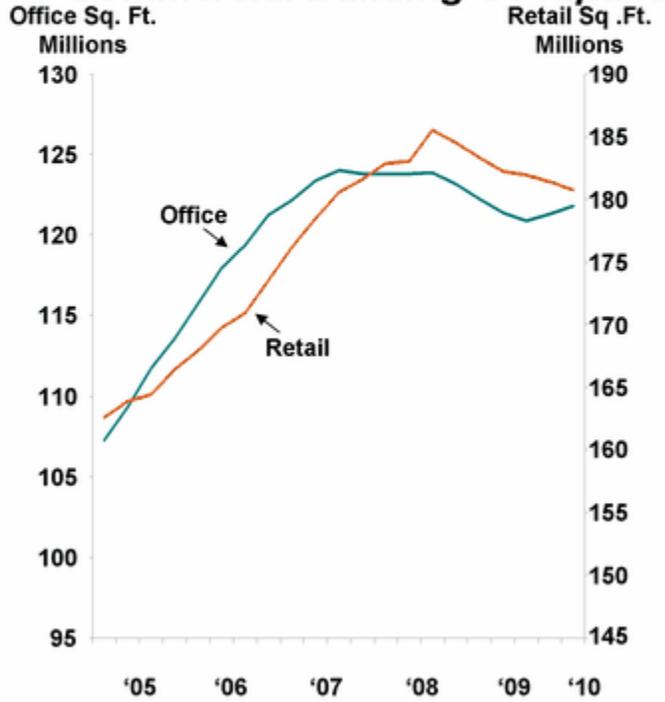
Metro Phoenix Housing & Commercial Real Estate



Home Prices



Commercial Building Occupancy



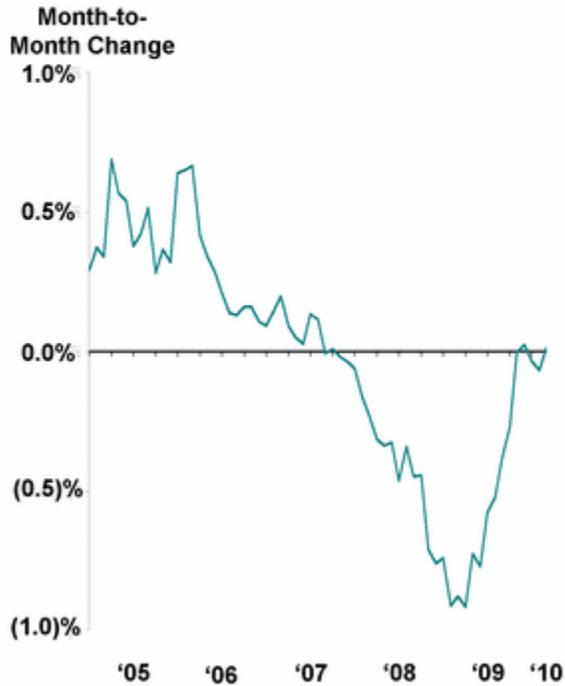
First Quarter 2010

Arizona Economic Indicators

Employment & Payroll Taxes



Non-Farm Job Growth



Personal Income Tax Withholdings

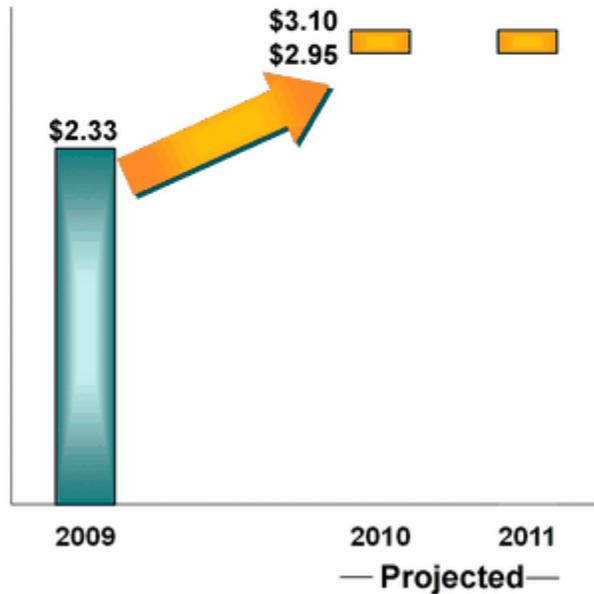


First Quarter 2010

Consolidated On-Going EPS



EPS



2009 Actual: \$2.33 per share

Guidance as of May 6, 2010

- 2010 \$2.95 - \$3.10 per share
- 2011 Estimated to be within guidance range provided for 2010, with some opportunity for modestly exceeding the range

Adequate Liquidity and Financing Access*

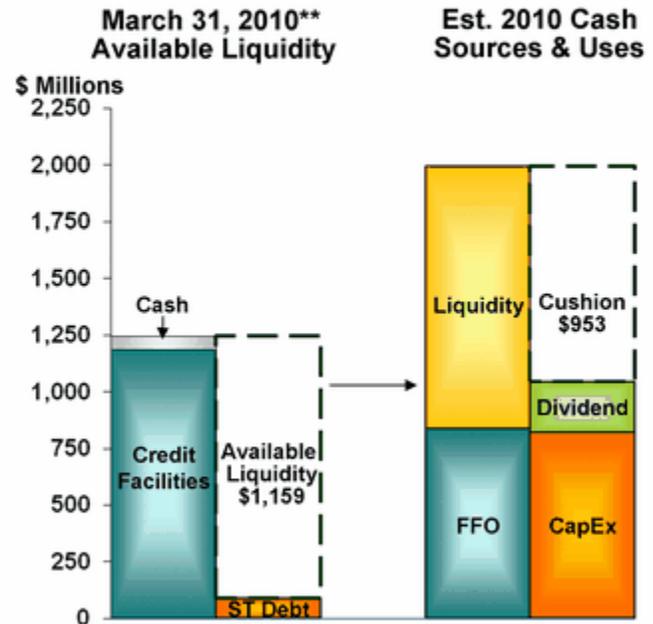


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Credit Facilities

Borrower	Capacity (\$ Millions)	Matures
APS	\$ 489	Sep. '11
APS	500	Feb. '13
PNW	200	Feb. '13
	<u>\$1,189</u>	

- Solid bank group
- No MAC clauses or "clean down" provisions



* Excluding SunCor

** Pro forma for April 2010 PNW \$253 million common equity issuance

First Quarter 2010

CEO Discussion



- **Arizona Regulatory Update**
- **Renewable Resources**
- **Operations Update**
- **Looking Ahead**

APS AZ Sun Program



-
- **100 MW photovoltaic solar plants owned by APS**
 - **Up to \$500 million capital investment**
 - **In service 2011 through 2014**
 - **Approved rate recovery**
 - **First 50 MW: Renewable Energy Surcharge adjustor**
 - **Second 50 MW: Adjustor determined in 2012 rate case decision**

CEO Discussion

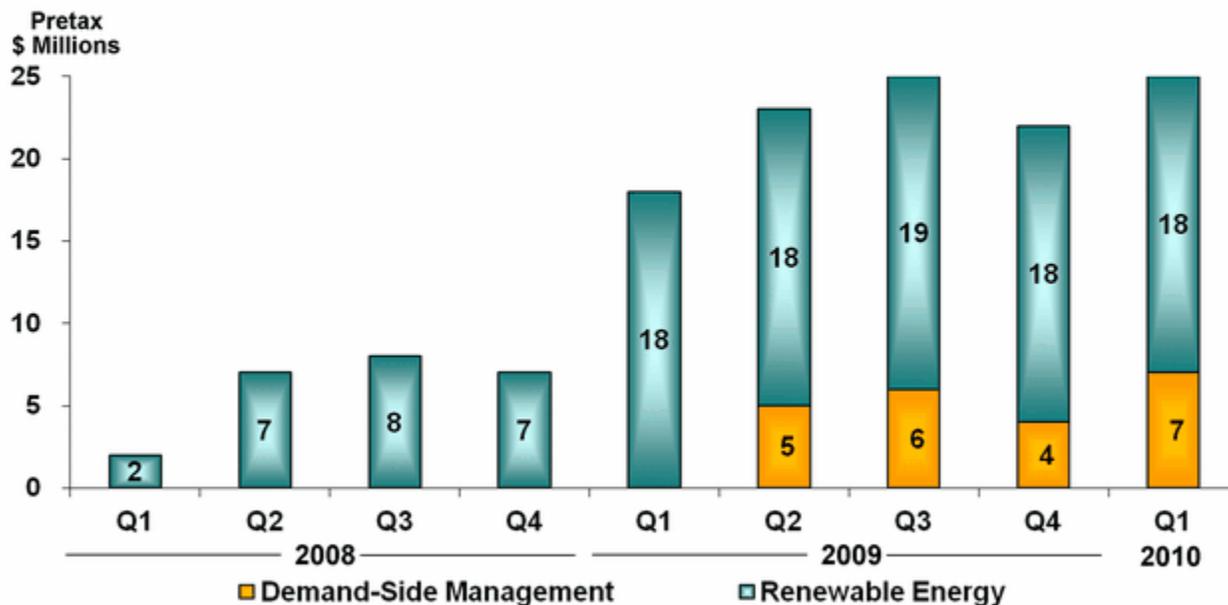


- Arizona Regulatory Update
- Renewable Resources
- **Operations Update**
- **Looking Ahead**



Appendix

Renewable Energy and Demand-Side Management Surcharges*

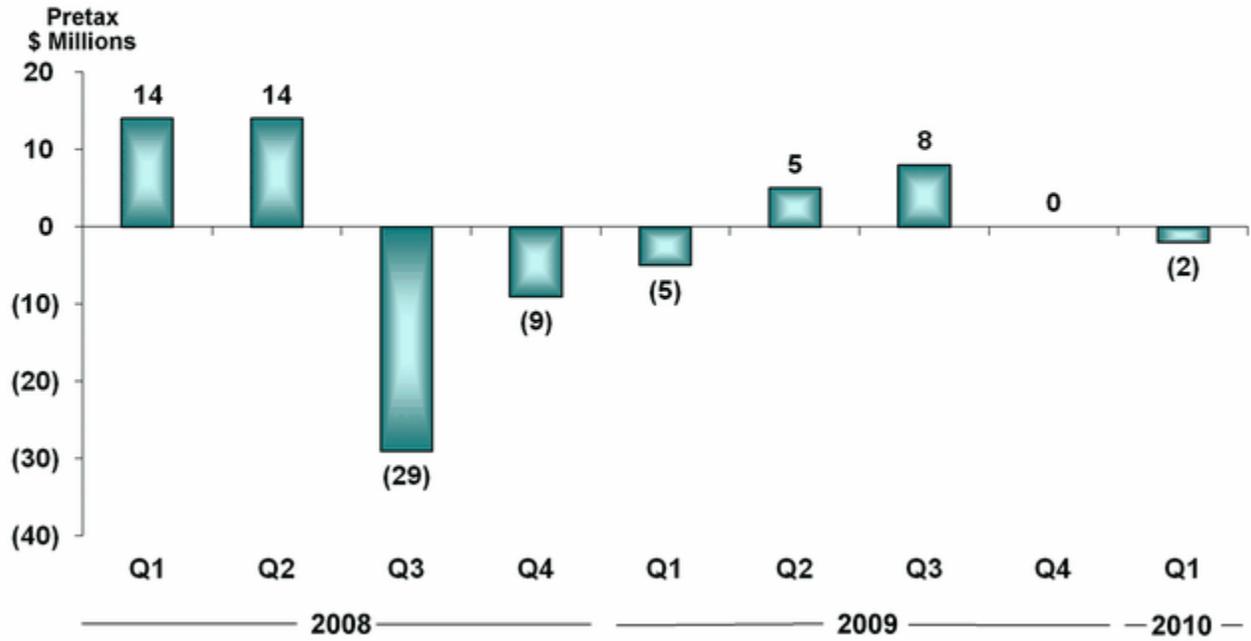


* Revenues associated with these surcharges were offset substantially by comparable amounts of O&M expense.

Quarterly Mark-to-Market on Hedge Contracts*



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

Non-GAAP Measure Reconciliation – Regulated Electricity Segment Gross Margin



	Three Months Ended March 31,		EPS Change
	2010	2009	
\$ millions, except per share amounts			
Reconciliation of Regulated Electricity Segment Gross Margin			
Regulated electricity segment revenue*	\$ 611	\$ 602	
Regulated electricity segment fuel and purchased power expenses*	(215)	(247)	
Regulated electricity segment gross margin including RES and DSM revenues**	396	355	\$ 0.24
Less:			
RES and DSM revenues	(25)	(18)	(0.04)
Regulated electricity segment gross margin excluding RES and DSM revenues	<u>\$ 371</u>	<u>\$ 337</u>	<u>\$ 0.20</u>

* Line items from Consolidated Statements of Income

** RES, Renewable Energy Standard; DSM, Demand-Side Management