

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): December 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 January 30, 2008, Pinnacle West Capital Corporation (the “Company” or “Pinnacle West”) issued a press release regarding its financial results for its fiscal quarter ended December 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 December 31, 2007. This Information is attached hereto as Exhibits 99.2, 99.3, 99.7 and 99.9.

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 and 99.8). 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.

2008 Earnings Outlook

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

We estimate that our base level of consolidated earnings for 2008 will be within a reasonable range of \$2.50 per share. We currently expect Arizona Public Service Company (“APS”) 2008 earnings to be basically flat compared with 2007, excluding the effects of abnormal weather and prior years’ tax adjustments. These estimates assume a March 1, 2008 effective date for APS’ request pending before the Arizona Corporation Commission (the “ACC”) for a \$30 million increase in pretax annual retail revenues under an ACC-approved transmission cost adjustment mechanism and do not include any potential earnings effect from proposed amendments to APS’ line extension schedule (see below). We currently estimate that 2008 net income for our real estate subsidiary, SunCor Development Company (“SunCor”), will be approximately \$20 million, reflecting continued weakness in the western United States real estate markets.

For additional information regarding the retail transmission cost adjustment request pending before the ACC and the related Federal Energy Regulatory Commission (“FERC”) rate case, see “FERC Rate Case” in Note 5 of Notes to Condensed Consolidated Financial Statements in the Pinnacle West/APS Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2007 (the “September 2007 Form 10-Q”) and “FERC Rate Case” in the Pinnacle West/APS Current Report on Form 8-K filed December 31, 2007. For information on the proposed line extension amendments, see “APS General Rate Case and Power Supply Adjustor” in Note 5 of Notes to Condensed Consolidated

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Financial Statements in the September 2007 Form 10-Q and “Line Extension Schedule” in the Pinnacle West/APS Current Report on Form 8-K filed December 21, 2007.

Forward-Looking Statements

Our earnings forecasts are subject to numerous risks, including those described below. This Form 8-K contains forward-looking statements regarding our 2008 earnings outlook. Neither the Company nor APS assumes any obligation to update these statements or make any further statements on any of these issues, except as required by applicable law. Because actual results may differ materially from expectations, we caution readers not to place undue reliance on these statements. A number of factors could cause future results to differ materially from historical results, or from results or outcomes currently expected or sought by Pinnacle West or APS. In addition to the Risk Factors described in Item 1A of the Pinnacle West/APS Annual Report on Form 10-K for the fiscal year ended December 31, 2006, these factors include, but are not limited to, state and federal regulatory and legislative decisions and actions, particularly those affecting our rates and our recovery of fuel and purchased power costs; the ongoing restructuring of the electric industry, including the introduction of retail electric competition in Arizona and decisions impacting wholesale competition; the outcome of regulatory, legislative and judicial proceedings, both current and future, relating to the restructuring and environmental matters (including those related to climate change); market prices for electricity and natural gas; power plant performance and outages; transmission outages and constraints; weather variations affecting local and regional customer energy usage; customer growth and energy usage; regional economic and market conditions, including the results of litigation and other proceedings resulting from the California energy situation, volatile fuel and purchased power costs and the completion of generation and transmission construction in the region, which could affect customer growth and the cost of power supplies; the cost of debt and equity capital and access to capital markets; current credit ratings remaining in effect for any given period of time; our ability to compete successfully outside traditional regulated markets (including the wholesale market); the performance of our marketing and trading activities due to volatile market liquidity and any deteriorating counterparty credit and the use of derivative contracts in our business (including the interpretation of the subjective and complex accounting rules related to these contracts); changes in accounting principles generally accepted in the United States of America and the interpretation of those principles; the performance of the stock market and the changing interest rate environment, which affect the value of our nuclear decommissioning trust, pension, and other postretirement benefit plan assets, the amount of required contributions to Pinnacle West’s pension plan and contributions to APS’ nuclear decommissioning trust funds, as well as the reported costs of providing pension and other postretirement benefits; technological developments in the electric industry; the strength of the real estate market in SunCor’s market areas, which include Arizona, Idaho, New Mexico and Utah; and other uncertainties, all of which are difficult to predict and many of which are beyond the control of Pinnacle West and APS.

Item 9.01. Financial Statements and Exhibits

(d) Exhibits.

<u>Exhibit No.</u>	<u>Registrant(s)</u>	<u>Description</u>
99.1	Pinnacle West APS	Pinnacle West Capital Corporation quarterly consolidated statistical summary (cover page and list of contents).
99.2	Pinnacle West APS	Pinnacle West Capital Corporation quarterly consolidated statistical summary for the three and twelve-month periods ended December 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 and twelve months ended December 31, 2007 and 2006 and unaudited condensed consolidated statements of income for the three and twelve months ended December 31, 2007 and 2006.
99.8	Pinnacle West APS	Glossary of Terms.
99.9	Pinnacle West APS	Earnings News Release issued on January 30, 2008.

SIGNATURES

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

PINNACLE WEST CAPITAL CORPORATION
(Registrant)

Dated: January 30, 2008

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

ARIZONA PUBLIC SERVICE COMPANY
(Registrant)

Dated: January 30, 2008

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

Exhibit Index

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

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2007 Fourth Quarter Summary

2007 by Quarter

2006 by Quarter

2005 by Quarter

2004 by Quarter

Quarters may not sum to totals due to rounding.

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/2007Q4QuarStatsGloss.pdf>

This statistical data may be graphed in various quarterly or annual comparisons using the "Interactive Charts" tool on the Pinnacle West website at:
<http://www.pinnaclewest.com/main/pnw/investors/financials/quarterly/landing.html>

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

Line		3 Mo. Ended December			12 Mo. Ended December		
		2007	2006	Incr (Decr)	2007	2006	Incr (Decr)
EARNINGS CONTRIBUTION BY SUBSIDIARY (\$ Millions)							
1	Arizona Public Service	\$ —	\$ 13	\$ (13)	\$ 284	\$ 270	\$ 14
2	Pinnacle West Energy	—	—	—	—	—	—
3	APS Energy Services	(2)	(2)	—	—	(3)	3
4	SunCor	5	3	2	12	50	(38)
5	El Dorado	(1)	(1)	—	(6)	(3)	(3)
6	Parent Company	1	(3)	4	9	3	6
7	Income From Continuing Operations	3	10	(7)	299	317	(18)
Income (Loss) From Discontinued Operations — Net of Tax							
8	Silverhawk	—	—	—	—	1	(1)
9	SunCor	3	8	(5)	11	10	1
10	Other	(3)	—	(3)	(3)	(1)	(2)
11	Total	—	8	(8)	8	10	(2)
12	Net Income	<u>\$ 3</u>	<u>\$ 18</u>	<u>\$ (15)</u>	<u>\$ 307</u>	<u>\$ 327</u>	<u>\$ (20)</u>
EARNINGS PER SHARE BY SUBSIDIARY — DILUTED							
13	Arizona Public Service	\$ —	\$ 0.13	\$ (0.13)	\$ 2.82	\$ 2.70	\$ 0.12
14	Pinnacle West Energy	—	—	—	—	—	—
15	APS Energy Services	(0.02)	(0.02)	—	(0.01)	(0.03)	0.02
16	SunCor	0.05	0.03	0.02	0.12	0.50	(0.38)
17	El Dorado	(0.01)	(0.01)	—	(0.06)	(0.03)	(0.03)
18	Parent Company	0.01	(0.03)	0.04	0.09	0.03	0.06
19	Income From Continuing Operations	0.03	0.10	(0.07)	2.96	3.17	(0.21)
Income (Loss) From Discontinued Operations — Net of Tax							
20	Silverhawk	—	—	—	—	—	—
21	SunCor	0.03	0.08	(0.05)	0.11	0.10	0.01
22	Other	(0.03)	—	(0.03)	(0.02)	—	(0.02)
23	Total	—	0.08	(0.08)	0.09	0.10	(0.01)
24	Net Income	<u>\$ 0.03</u>	<u>\$ 0.18</u>	<u>\$ (0.15)</u>	<u>\$ 3.05</u>	<u>\$ 3.27</u>	<u>\$ (0.22)</u>
25	BOOK VALUE PER SHARE	\$ 35.09*	\$ 34.48	\$ 0.61	\$ 35.09*	\$ 34.48	\$ 0.61
COMMON SHARES OUTSTANDING (Thousands)							
26	Average — Diluted	100,963	100,474	489	100,835	100,010	825
27	End of Period	100,486	99,959	527	100,486	99,959	838

* Estimate

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

Line		3 Mo. Ended December			12 Mo. Ended December		
		2007	2006	Incr (Decr)	2007	2006	Incr (Decr)
ELECTRIC OPERATING REVENUES (Dollars in Millions)							
REGULATED ELECTRICITY SEGMENT							
Retail							
28	Residential	\$ 263	\$ 242	\$ 21	\$ 1,418	\$ 1,271	\$ 147
29	Business	323	302	21	1,354	1,239	115
30	Total retail	586	544	42	2,772	2,510	262
Wholesale revenue on delivered electricity							
31	Traditional contracts	7	(3)	10	33	22	11
32	Off-system sales	17	12	5	50	46	4
33	Transmission for others	7	7	—	29	26	3
34	Other miscellaneous services	10	9	1	34	31	3
35	Total regulated operating electricity revenues	627	569	58	2,918	2,635	283
MARKETING AND TRADING							
36	Electricity and other commodity sales	78	71	7	343	331	12
37	Total operating electric revenues	\$ 705	\$ 640	\$ 65	\$ 3,261	\$ 2,966	\$ 295
ELECTRIC SALES (GWH)							
REGULATED ELECTRICITY SEGMENT							
Retail sales							
38	Residential	2,667	2,571	96	13,772	12,994	778
39	Business	3,685	3,584	101	15,400	14,976	424
40	Total retail	6,352	6,155	197	29,172	27,970	1,202
Wholesale electricity delivered							
41	Traditional contracts	190	166	24	923	883	40
42	Off-system sales	448	504	(56)	1,479	1,613	(134)
43	Retail load hedge management	125	340	(215)	1,025	1,590	(565)
44	Total regulated electricity	7,115	7,165	(50)	32,599	32,056	543
MARKETING AND TRADING							
45	Wholesale sales of electricity	2,334	3,690	(1,356)	10,620	16,355	(5,735)
46	Total electric sales	9,449	10,855	(1,406)	43,219	48,411	(5,192)

See Glossary of Terms.

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

Line	3 Mo. Ended December			12 Mo. Ended December			
	2007	2006	Incr (Decr)	2007	2006	Incr (Decr)	
POWER SUPPLY ADJUSTOR ("PSA") — REGULATED ELECTRICITY SEGMENT (Dollars in Millions)							
47	Deferred fuel and purchased power regulatory asset — beginning balance	\$ 150	\$ 209	\$ (59)	\$ 160	\$ 173	\$ (13)
48	Deferred fuel and purchased power costs — current period	(9)	19	(28)	189	244	(55)
49	Regulatory disallowance	—	—	—	(14)	—	(14)
50	Interest on deferred fuel	2	2	—	7	8	(1)
51	Amounts recovered through revenues	(32)	(70)	38	(231)	(265)	34
52	Deferred fuel and purchased power regulatory asset — ending balance	<u>\$ 111</u>	<u>\$ 160</u>	<u>\$ (49)</u>	<u>\$ 111</u>	<u>\$ 160</u>	<u>\$ (49)</u>

**MARKETING AND TRADING
PRETAX GROSS MARGIN
ANALYSIS (Dollars in
Millions)**

Realized and Mark-To-Market Components							
53	Electricity and other commodity sales, realized (a)	\$ 11	\$ 17	\$ (6)	\$ 54	\$ 54	\$ —
54	Mark-to-market reversals on realized sales (a) (b)	(3)	(6)	3	(7)	(14)	7
55	Change in mark-to-market value of forward sales	2	(3)	5	1	—	1
56	Total gross margin	<u>\$ 10</u>	<u>\$ 8</u>	<u>\$ 2</u>	<u>\$ 48</u>	<u>\$ 40</u>	<u>\$ 8</u>

By Pinnacle West Entity

57	APS	\$ —	\$ 5	\$ (5)	\$ 7	\$ 14	\$ (7)
58	Pinnacle West	9	2	7	31	17	14
59	APS Energy Services	1	1	—	10	9	1
60	Pinnacle West Energy	—	—	—	—	—	—
61	Total gross margin	<u>\$ 10</u>	<u>\$ 8</u>	<u>\$ 2</u>	<u>\$ 48</u>	<u>\$ 40</u>	<u>\$ 8</u>

Future Marketing and Trading Mark-to-Market Realization

As of December 31, 2007, Pinnacle West had accumulated net mark-to-market gains of \$9 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: 2008, \$2 million; and thereafter, \$7 million.

(a) Net effect on pretax gross margin from realization of prior-period mark-to-market included in line 53 and in line 54 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 53 are included in line 54. For example, line 54 shows that a prior-period mark-to-market gain of \$3 million was transferred to "realized" for the fourth quarter of 2007. A \$3 million realized gain is included in the \$11 million on line 53 for the fourth quarter of 2007.

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

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

Line	3 Mo. Ended December			12 Mo. Ended December			
	2007	2006	Incr (Decr)	2007	2006	Incr (Decr)	
AVERAGE ELECTRIC CUSTOMERS							
Retail customers							
62	Residential	972,654	949,132	23,522	966,013	936,464	29,549
63	Business	121,898	117,342	4,556	120,314	115,431	4,883
64	Total	1,094,552	1,066,474	28,078	1,086,327	1,051,895	34,432
65	Wholesale customers	56	80	(24)	61	77	(16)
66	Total customers	1,094,608	1,066,554	28,054	1,086,388	1,051,972	34,416
67	Customer growth (% over prior year)	2.6%	4.1%	(1.5)%	3.3%	4.4%	(1.1)%
RETAIL SALES (GWH) - WEATHER NORMALIZED							
68	Residential	2,702	2,634	68	13,369	13,004	365
69	Business	3,660	3,603	57	15,236	15,016	220
70	Total	6,362	6,237	125	28,605	28,020	585
RETAIL USAGE (KWh/Average Customer)							
71	Residential	2,742	2,709	33	14,257	13,876	381
72	Business	30,230	30,552	(322)	127,998	129,749	(1,751)
RETAIL USAGE - WEATHER NORMALIZED (KWh/Average Customer)							
73	Residential	2,778	2,775	3	13,839	13,886	(47)
74	Business	30,027	30,706	(679)	126,644	130,082	(3,438)
ELECTRICITY DEMAND (MW)							
75	System peak demand	5,376	5,316	60	7,545	7,652	(107)

See Glossary of Terms.

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

Line	3 Mo. Ended December			12 Mo. Ended December			
	2007	2006	Incr (Decr)	2007	2006	Incr (Decr)	
ENERGY SOURCES (GWH)							
Generation production							
76	Nuclear	1,430	1,868	(438)	7,793	6,988	805
77	Coal	3,350	3,337	13	13,342	13,176	166
78	Gas, oil and other	1,553	1,628	(75)	6,700	7,384	(684)
79	Total generation production	<u>6,333</u>	<u>6,833</u>	<u>(500)</u>	<u>27,835</u>	<u>27,548</u>	<u>287</u>
Purchased power							
80	Firm load	913	223	690	5,388	4,290	1,098
81	Marketing and trading	2,730	4,326	(1,596)	12,516	18,868	(6,352)
82	Total purchased power	<u>3,643</u>	<u>4,549</u>	<u>(906)</u>	<u>17,904</u>	<u>23,158</u>	<u>(5,254)</u>
83	Total energy sources	<u>9,976</u>	<u>11,382</u>	<u>(1,406)</u>	<u>45,739</u>	<u>50,706</u>	<u>(4,967)</u>
POWER PLANT PERFORMANCE							
Capacity Factors							
84	Nuclear	57%	75%	(18)%	79%	71%	8%
85	Coal	87%	87%	0%	87%	87%	0%
86	Gas, oil and other	21%	22%	(1)%	23%	25%	(2)%
87	System average	47%	50%	(3)%	52%	51%	1%
Generation Capacity Out of Service and Replaced for Native Load (average MW/day) (a)							
88	Nuclear	470	267	203	204	153	51
89	Coal	164	155	9	158	82	76
90	Gas	264	286	(22)	271	89	182
91	Total	<u>898</u>	<u>708</u>	<u>190</u>	<u>633</u>	<u>324</u>	<u>309</u>

(a) Includes planned and unplanned outages

See Glossary of Terms.

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

Line	3 Mo. Ended December			12 Mo. Ended December			
	2007	2006	Incr (Decr)	2007	2006	Incr (Decr)	
ENERGY MARKET INDICATORS (a)							
Electricity Average Daily Spot Prices (\$/MWh)							
On-Peak							
92	Palo Verde	\$57.18	\$52.72	\$ 4.46	\$ 61.43	\$ 56.76	\$ 4.67
93	SP15	\$68.13	\$62.16	\$ 5.97	\$ 66.44	\$ 61.95	\$ 4.49
Off-Peak							
94	Palo Verde	\$44.39	\$39.62	\$ 4.77	\$ 41.24	\$ 37.09	\$ 4.15
95	SP15	\$50.71	\$46.27	\$ 4.44	\$ 45.99	\$ 40.61	\$ 5.38
WEATHER INDICATORS							
Actual							
96	Cooling degree-days	595	457	138	5,161	4,695	466
97	Heating degree-days	398	383	15	995	851	144
98	Average humidity	30%	33%	(3)%	30%	28%	2%
10-Year Averages							
99	Cooling degree-days	441	441	—	4,640	4,640	—
100	Heating degree-days	296	296	—	840	840	—
101	Average humidity	38%	38%	0%	33%	33%	0%
ECONOMIC INDICATORS							
Building Permits — Metro Phoenix (b) (d)							
102	Single-family	1,877	2,939	(1,062)	21,168	26,507	(5,339)
103	Multi-family	<u>2,436</u>	<u>817</u>	<u>1,619</u>	<u>12,833</u>	<u>9,895</u>	<u>2,938</u>
104	Total	<u>4,313</u>	<u>3,756</u>	<u>557</u>	<u>34,001</u>	<u>36,402</u>	<u>(2,401)</u>
Arizona Job Growth (c) (d)							
105	Payroll job growth (% over prior year)	1.6%	5.1%	(3.5)%	3.0%	5.4%	(2.4)%
106	Unemployment rate (% , seasonally adjusted)	3.8%	4.1%	(0.3)%	3.8%	4.1%	(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
(d) Economic indicators reflect periods ended November 30, 2007 (latest available data) and November 30, 2006.

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
EARNINGS CONTRIBUTION BY SUBSIDIARY (\$ Millions)						
1 Arizona Public Service	\$ 4	\$ 75	\$ 204	\$ —	\$ 284	\$ 14
2 Pinnacle West Energy	—	—	—	—	—	—
3 APS Energy Services	1	(1)	2	(2)	—	3
4 SunCor	8	—	(2)	5	12	(38)
5 El Dorado	(2)	—	(3)	(1)	(6)	(3)
6 Parent Company	5	5	—	1	9	6
7 Income From Continuing Operations	16	79	201	3	299	(18)
Income (Loss) From Discontinued Operations — Net of Tax						
8 Silverhawk	—	—	—	—	—	(1)
9 SunCor	1	—	8	3	11	1
10 Other	—	—	—	(3)	(3)	(2)
11 Total	1	—	8	—	8	(2)
12 Net Income	<u>\$ 17</u>	<u>\$ 79</u>	<u>\$ 209</u>	<u>\$ 3</u>	<u>\$ 307</u>	<u>\$ (20)</u>
EARNINGS PER SHARE BY SUBSIDIARY — DILUTED						
13 Arizona Public Service	\$ 0.04	\$ 0.75	\$ 2.03	\$ —	\$ 2.82	\$ 0.12
14 Pinnacle West Energy	—	—	—	—	—	—
15 APS Energy Services	0.01	(0.01)	0.01	(0.02)	(0.01)	0.02
16 SunCor	0.09	—	(0.02)	0.05	0.12	(0.38)
17 El Dorado	(0.02)	—	(0.03)	(0.01)	(0.06)	(0.03)
18 Parent Company	0.04	0.04	—	0.01	0.09	0.06
19 Income From Continuing Operations	0.16	0.78	1.99	0.03	2.96	(0.21)
Income (Loss) From Discontinued Operations — Net of Tax						
20 Silverhawk	—	—	—	—	—	—
21 SunCor	—	—	0.08	0.03	0.11	0.01
22 Other	—	—	—	(0.03)	(0.02)	(0.02)
23 Total	—	—	0.08	—	0.09	(0.01)
24 Net Income	<u>\$ 0.16</u>	<u>\$ 0.78</u>	<u>\$ 2.07</u>	<u>\$ 0.03</u>	<u>\$ 3.05</u>	<u>\$ (0.22)</u>
25 BOOK VALUE PER SHARE	\$ 34.45	\$ 34.13	\$ 35.55	\$ 35.09*	\$ 35.09*	0.61
COMMON SHARES OUTSTANDING (Thousands)						
26 Average — Diluted	100,622	100,779	100,829	100,963	100,835	825
27 End of Period	100,115	100,290	100,367	100,486	100,486	838

* 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	\$ 335	\$ 574	\$ 263	\$ 1,418	\$ 147
29 Business	264	342	425	323	1,354	115
30 Total retail	510	677	999	586	2,772	262
Wholesale revenue on delivered electricity						
31 Traditional contracts	5	9	12	7	33	11
32 Off-system sales	7	10	16	17	50	4
33 Transmission for others	7	7	8	7	29	3
34 Other miscellaneous services	7	8	9	10	34	3
35 Total regulated operating electricity revenues	536	711	1,044	627	2,918	283
MARKETING AND TRADING						
36 Electricity and other commodity sales	72	93	99	78	343	12
37 Total operating electric revenues	<u>\$ 608</u>	<u>\$ 804</u>	<u>\$ 1,143</u>	<u>\$ 705</u>	<u>\$ 3,261</u>	<u>\$ 295</u>
ELECTRIC SALES (GWH)						
REGULATED ELECTRICITY SEGMENT						
Retail sales						
38 Residential	2,734	3,287	5,084	2,667	13,772	778
39 Business	3,285	4,004	4,426	3,685	15,400	424
40 Total retail	6,019	7,291	9,510	6,352	29,172	1,202
Wholesale electricity delivered						
41 Traditional contracts	175	262	296	190	923	40
42 Off-system sales	243	310	478	448	1,479	(134)
43 Retail load hedge management	117	254	529	125	1,025	(565)
44 Total regulated electricity	6,554	8,117	10,813	7,115	32,599	543
MARKETING AND TRADING						
45 Wholesale sales of electricity	2,057	2,606	3,623	2,334	10,620	(5,735)
46 Total electric sales	<u>8,611</u>	<u>10,723</u>	<u>14,436</u>	<u>9,449</u>	<u>43,219</u>	<u>(5,192)</u>

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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>	
POWER SUPPLY ADJUSTOR ("PSA") — REGULATED ELECTRICITY SEGMENT (Dollars in Millions)							
47	Deferred fuel and purchased power regulatory asset — beginning balance	\$ 160	\$ 118	\$ 137	\$ 150	\$ 160	(13)
48	Deferred fuel and purchased power costs — current period	25	104	69	(9)	189	(55)
49	Regulatory disallowance	—	(14)	—	—	(14)	(14)
50	Interest on deferred fuel	2	1	2	2	7	(1)
51	Amounts recovered through revenues	(69)	(72)	(58)	(32)	(231)	34
52	Deferred fuel and purchased power regulatory asset — ending balance	<u>\$ 118</u>	<u>\$ 137</u>	<u>\$ 150</u>	<u>\$ 111</u>	<u>\$ 111</u>	<u>\$ (49)</u>

**MARKETING AND TRADING
PRETAX GROSS MARGIN
ANALYSIS
(Dollars in Millions)**

Realized and Mark-To-Market Components							
53	Electricity and other commodity sales, realized (a)	\$ 12	\$ 22	\$ 6	\$ 11	\$ 54	\$ —
54	Mark-to-market reversals on realized sales (a) (b)	(8)	1	(3)	(3)	(7)	7
55	Change in mark-to-market value of forward sales	10	(6)	2	2	1	1
56	Total gross margin	<u>\$ 14</u>	<u>\$ 17</u>	<u>\$ 5</u>	<u>\$ 10</u>	<u>\$ 48</u>	<u>\$ 8</u>

By Pinnacle West Entity

57	APS	\$ (1)	\$ 7	\$ —	\$ —	\$ 7	\$ (7)
58	Pinnacle West	10	9	1	9	31	14
59	APS Energy Services	5	1	4	1	10	1
60	Pinnacle West Energy	—	—	—	—	—	—
61	Total gross margin	<u>\$ 14</u>	<u>\$ 17</u>	<u>\$ 5</u>	<u>\$ 10</u>	<u>\$ 48</u>	<u>\$ 8</u>

Future Marketing and Trading Mark-to-Market Realization

As of December 31, 2007, Pinnacle West had accumulated net mark-to-market gains of \$9 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: 2008, \$2 million; and thereafter, \$7million.

- (a) Net effect on pretax gross margin from realization of prior-period mark-to-market included in line 53 and in line 54 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 53 are included in line 54. For example, line 54 shows that a prior-period mark-to-market gain of \$7 million was transferred to "realized" for the total year of 2007. A \$7 million realized gain is included in the \$54 million on line 53 for the total year of 2007.
- (b) Quarterly amounts do not total to annual amounts because of intra-year mark-to-market eliminations.

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>
AVERAGE ELECTRIC CUSTOMERS							
Retail customers							
62	Residential	965,428	962,095	963,874	972,654	966,013	29,549
63	Business	118,649	119,792	120,918	121,898	120,314	4,883
64	Total	<u>1,084,077</u>	<u>1,081,887</u>	<u>1,084,792</u>	<u>1,094,552</u>	<u>1,086,327</u>	<u>34,432</u>
65	Wholesale customers	63	62	61	56	61	(16)
66	Total customers	<u><u>1,084,140</u></u>	<u><u>1,081,949</u></u>	<u><u>1,084,853</u></u>	<u><u>1,094,608</u></u>	<u><u>1,086,388</u></u>	<u><u>34,416</u></u>
67	Customer growth (% over prior year)	3.8%	3.5%	3.2%	2.6%	3.3%	(1.1)%
RETAIL SALES (GWH) - WEATHER NORMALIZED							
68	Residential	2,648	3,214	4,805	2,702	13,369	365
69	Business	3,228	3,977	4,371	3,660	15,236	220
70	Total	<u><u>5,876</u></u>	<u><u>7,191</u></u>	<u><u>9,176</u></u>	<u><u>6,362</u></u>	<u><u>28,605</u></u>	<u><u>585</u></u>
RETAIL USAGE (KWh/Average Customer)							
71	Residential	2,832	3,417	5,275	2,742	14,257	381
72	Business	27,687	33,425	36,601	30,230	127,998	(1,751)
RETAIL USAGE - WEATHER NORMALIZED (KWh/Average Customer)							
73	Residential	2,743	3,340	4,985	2,778	13,839	(47)
74	Business	27,204	33,202	36,152	30,027	126,644	(3,438)
ELECTRICITY DEMAND (MW)							
75	System peak demand	4,781	6,982	7,545	5,376	7,545	(107)

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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>
ENERGY SOURCES (GWH)							
Generation production							
76	Nuclear	2,299	1,846	2,218	1,430	7,793	805
77	Coal	3,164	3,265	3,563	3,350	13,342	166
78	Gas, oil and other	1,151	1,517	2,479	1,553	6,700	(684)
79	Total generation production	<u>6,614</u>	<u>6,628</u>	<u>8,260</u>	<u>6,333</u>	<u>27,835</u>	<u>287</u>
Purchased power							
80	Firm load	278	1,676	2,521	913	5,388	1,098
81	Marketing and trading	2,262	3,055	4,469	2,730	12,516	(6,352)
82	Total purchased power	<u>2,540</u>	<u>4,731</u>	<u>6,990</u>	<u>3,643</u>	<u>17,904</u>	<u>(5,254)</u>
83	Total energy sources	<u>9,154</u>	<u>11,359</u>	<u>15,250</u>	<u>9,976</u>	<u>45,739</u>	<u>(4,967)</u>
POWER PLANT PERFORMANCE							
Capacity Factors							
84	Nuclear	94%	75%	89%	57%	79%	8%
85	Coal	84%	86%	93%	87%	87%	0%
86	Gas, oil and other	16%	21%	34%	21%	23%	(2)%
87	System average	50%	49%	61%	47%	52%	1%
Generation Capacity Out of Service and Replaced for Native Load (average MW/day)(a)							
88	Nuclear	57	266	22	470	204	51
89	Coal	203	189	79	164	158	76
90	Gas	267	405	147	264	271	182
91	Total	<u>527</u>	<u>860</u>	<u>248</u>	<u>898</u>	<u>633</u>	<u>309</u>

(a) Includes planned and unplanned outages

See Glossary of Terms.

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ENERGY MARKET INDICATORS (a)							
Electricity Average Daily Spot Prices (\$/MWh)							
On-Peak							
92	Palo Verde	\$ 54.62	\$ 64.64	\$69.26	\$57.18	\$ 61.43	\$ 4.67
93	SP15	\$ 60.02	\$ 68.75	\$68.84	\$68.13	\$ 66.44	\$ 4.49
Off-Peak							
94	Palo Verde	\$ 42.06	\$ 41.46	\$37.03	\$44.39	\$ 41.24	\$ 4.15
95	SP15	\$ 45.86	\$ 46.14	\$41.23	\$50.71	\$ 45.99	\$ 5.38
WEATHER INDICATORS							
Actual							
96	Cooling degree-days	172	1,708	2,686	595	5,161	466
97	Heating degree-days	589	8	—	398	995	144
98	Average humidity	36%	18%	30%	30%	30%	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) (d)							
102	Single-family	7,017	7,447	4,827	1,877	21,168	(5,339)
103	Multi-family	4,131	3,573	2,687	2,436	12,833	2,938
104	Total	<u>11,148</u>	<u>11,020</u>	<u>7,514</u>	<u>4,313</u>	<u>34,001</u>	<u>(2,401)</u>
Arizona Job Growth (c) (d)							
105	Payroll job growth (% over prior year)	4.1%	3.3%	2.6%	1.6%	3.0%	(2.4)%
106	Unemployment rate (% , seasonally adjusted)	4.0%	3.7%	3.6%	3.8%	3.8%	(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
(d) Economic indicators reflect periods ended November 30, 2007 (latest available data).

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2006

Line		<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
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	Other	—	—	—	—	(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	0.07	0.17	0.03	0.50	0.10
17	El Dorado	(0.01)	—	—	(0.01)	(0.03)	(0.01)
18	Parent Company	(0.03)	0.09	—	(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	Other	—	—	—	—	—	(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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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	\$ 202	\$ 337	\$ 490	\$ 242	\$ 1,271	\$ 192
29	Business	233	333	371	302	1,239	198
30	Total retail	435	670	861	544	2,510	390
Wholesale revenue on delivered electricity							
31	Traditional contracts	6	7	12	(3)	22	(1)
32	Off-system sales	12	22	—	12	46	6
33	Transmission for others	6	6	7	7	26	—
34	Other miscellaneous services	7	8	7	9	31	3
35	Total regulated operating electricity revenues	466	713	887	569	2,635	398
MARKETING AND TRADING							
36	Electricity and other commodity sales	85	90	85	71	331	(21)
37	Total operating electric revenues	<u>\$ 551</u>	<u>\$ 803</u>	<u>\$ 972</u>	<u>\$ 640</u>	<u>\$ 2,966</u>	<u>\$ 377</u>
ELECTRIC SALES (GWH)							
REGULATED ELECTRICITY SEGMENT							
Retail sales							
38	Residential	2,419	3,284	4,720	2,571	12,994	771
39	Business	3,199	3,971	4,222	3,584	14,976	722
40	Total retail	5,618	7,255	8,942	6,155	27,970	1,493
Wholesale electricity delivered							
41	Traditional contracts	215	181	321	166	883	33
42	Off-system sales	672	218	219	504	1,613	277
43	Retail load hedge management	178	622	450	340	1,590	(1,420)
44	Total regulated electricity	6,683	8,276	9,932	7,165	32,056	383
MARKETING AND TRADING							
45	Wholesale sales of electricity	<u>3,962</u>	<u>3,862</u>	<u>4,841</u>	<u>3,690</u>	<u>16,355</u>	<u>(7,217)</u>
46	Total electric sales	<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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2006

Line		<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
POWER SUPPLY ADJUSTOR ("PSA") - REGULATED ELECTRICITY SEGMENT (Dollars in Millions)							
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	Regulatory disallowance	—	—	—	—	—	—
50	Interest on deferred fuel	1	3	2	2	8	6
51	Amounts recovered through revenues	(18)	(75)	(102)	(70)	(265)	(265)
52	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							
53	Electricity and other commodity sales, realized (a)	\$ 10	\$ 17	\$ 7	\$ 17	\$ 54	\$ (1)
54	Mark-to-market reversals on realized sales (b)	(1)	(1)	(1)	(6)	(14)	2
55	Change in mark-to-market value of forward sales	1	—	(3)	(3)	—	(20)
56	Total gross margin	<u>\$ 10</u>	<u>\$ 16</u>	<u>\$ 3</u>	<u>\$ 8</u>	<u>\$ 40</u>	<u>\$ (19)</u>
By Pinnacle West Entity							
57	APS	\$ 8	\$ 2	\$ (3)	\$ 5	\$ 14	\$ 20
58	Pinnacle West	(1)	11	4	2	17	(42)
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>\$ 3</u>	<u>\$ 8</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 53 and in line 54 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 53 are included in line 54. For example, line 54 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 53 for the total year 2006.

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



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2006

Line		<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
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	<u>1,044,369</u>	<u>1,045,205</u>	<u>1,051,532</u>	<u>1,066,474</u>	<u>1,051,895</u>	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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2006

Line		<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
ENERGY SOURCES (GWH)							
Generation production							
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	<u>1,323</u>	<u>2,000</u>	<u>2,433</u>	<u>1,628</u>	<u>7,384</u>	<u>(1,051)</u>
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	<u>4,592</u>	<u>4,597</u>	<u>5,353</u>	<u>4,326</u>	<u>18,868</u>	<u>(6,845)</u>
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	<u>201</u>	<u>117</u>	<u>109</u>	<u>286</u>	<u>89</u>	<u>(4)</u>
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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2006

Line		<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
ENERGY MARKET INDICATORS (a)							
Electricity Average Daily Spot Prices (\$/MWh)							
On-Peak							
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)							
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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Line		<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
EARNINGS CONTRIBUTION BY SUBSIDIARY (\$ Millions)							
1	Arizona Public Service	\$ 27	\$ 64	\$ 61	\$ 18	\$ 170	\$ (30)
2	Pinnacle West Energy	(21)	12	(71)	(6)	(85)	(27)
3	APS Energy Services	(3)	1	—	(3)	(6)	(9)
4	SunCor	9	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	Other	—	—	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	Other	—	—	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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ELECTRIC OPERATING REVENUES (Dollars in Millions)						
REGULATED ELECTRICITY SEGMENT						
Retail						
28	\$ 190	\$ 268	\$ 414	\$ 207	\$ 1,079	\$ 95
29	209	281	308	243	1,041	63
30	399	549	722	450	2,120	158
Wholesale revenue on delivered electricity						
31	3	5	9	6	23	7
32	—	12	8	20	40	40
33	7	7	7	5	26	(6)
34	7	7	7	7	28	3
35	416	580	753	488	2,237	202
MARKETING AND TRADING						
36	89	71	107	84	352	(49)
37	\$ 505	\$ 651	\$ 860	\$ 572	\$ 2,589	\$ 153
ELECTRIC SALES (GWH)						
REGULATED ELECTRICITY SEGMENT						
Retail sales						
38	2,367	2,889	4,449	2,518	12,223	696
39	3,042	3,684	4,100	3,427	14,254	428
40	5,409	6,573	8,549	5,945	26,477	1,124
Wholesale electricity delivered						
41	155	200	269	227	850	141
42	—	598	212	526	1,336	1,336
43	750	702	1,026	532	3,010	278
44	6,314	8,073	10,056	7,230	31,673	2,879
MARKETING AND TRADING						
45	6,060	5,009	7,263	5,240	23,572	(6,606)
46	12,374	13,082	17,319	12,470	55,245	(3,727)

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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>	
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	Regulatory disallowance	—	—	—	—	—	—
50	Interest on deferred fuel	—	—	1	1	2	2
51	Amounts recovered through revenues	—	—	—	—	—	—
52	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							
53	Electricity and other commodity sales, realized (a)	\$ 12	\$ 18	\$ 3	\$ 23	\$ 55	\$ (9)
54	Mark-to-market reversals on realized sales (a) (b)	(3)	(8)	3	(17)	(16)	(11)
55	Change in mark-to-market value of forward sales	10	3	14	1	20	(1)
56	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							
57	APS	\$ (4)	\$ 3	\$ (8)	\$ 3	\$ (6)	\$ (1)
58	Pinnacle West	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 53 and in line 54 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 53 are included in line 54. For example, line 54 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 53 for the total year 2005.

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



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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	109,795	110,658	111,648	112,569	111,168	4,053
64	Total	999,762	999,167	1,007,437	1,024,192	1,007,640	41,456
65	Wholesale customers	81	76	78	77	78	(3)
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	3,062	3,705	4,106	3,412	14,285	412
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	27,706	33,292	36,723	30,444	128,514	(878)
RETAIL USAGE — WEATHER NORMALIZED (KWh/Average Customer)							
73	Residential	2,739	3,291	4,942	2,764	13,730	69
74	Business	27,887	33,483	36,777	30,313	128,503	(1,014)
ELECTRICITY DEMAND (MW)							
75	System peak demand	3,997	6,458	7,000	5,169	7,000	598

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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	2,247	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	1,128	2,129	3,064	2,114	8,435	3,107
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	5,832	5,984	7,795	6,102	25,713	(4,479)
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	212	164	140	226	93	45
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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Line		<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Year-To-Date</u>	<u>Increase (Decrease) vs Prior YTD</u>
EARNINGS CONTRIBUTION BY SUBSIDIARY (\$ Millions)							
1	Arizona Public Service	\$ 34	\$ 55	\$ 95	\$ 15	\$ 200	\$ 19
2	Pinnacle West Energy	(22)	(14)	1	(23)	(58)	(50)
3	APS Energy Services	2	1	1	(1)	3	(13)
4	SunCor	2	4	4	31	41	(5)
5	El Dorado	—	34	—	—	33	34
6	Parent Company	15	(6)	3	16	28	37
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	Other	—	1	—	3	4	(1)
11	Total	—	(1)	1	(4)	(4)	(20)
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	0.15	(0.06)	0.03	0.17	0.30	0.40
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	Other	—	0.01	—	0.03	0.05	—
23	Total	0.01	(0.02)	0.01	(0.04)	(0.03)	(0.19)
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	\$ 504	\$ 630	\$ 762	\$ 540	\$ 2,436	\$ 66
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	11,464	14,391	18,112	15,005	58,972	4,013

See Glossary of Terms.

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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>
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	Regulatory disallowance	—	—	—	—	—
50	Interest on deferred fuel	—	—	—	—	—
51	Amounts recovered through revenues	—	—	—	—	—
52	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						
53	Electricity and other commodity sales, realized (a)	\$ 12	\$ 21	\$ 16	\$ 15	\$ 64
54	Mark-to-market reversals on realized sales (a) (b)	1	(4)	(3)	(1)	(5)
55	Change in mark-to-market value of forward sales	8	4	8	3	21
56	Total gross margin	<u>\$ 21</u>	<u>\$ 21</u>	<u>\$ 21</u>	<u>\$ 17</u>	<u>\$ 80</u>
By Pinnacle West Entity						
57	APS	\$ (5)	\$ —	\$ 2	\$ (2)	\$ (5)
58	Pinnacle West	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 53 and in line 54 is zero. Realization of prior-period mark-to-market relates to cash flow recognition, not earnings recognition. The opposites of amounts included in line 53 are included in line 54. For example, line 54 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 53 for the total year 2004.

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



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>
AVERAGE ELECTRIC CUSTOMERS							
Retail customers							
62	Residential	855,754	852,594	856,353	871,575	859,069	30,703
63	Business	<u>105,502</u>	<u>106,517</u>	<u>107,583</u>	<u>108,860</u>	<u>107,115</u>	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	<u>2,990</u>	<u>3,623</u>	<u>4,033</u>	<u>3,226</u>	<u>13,873</u>	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

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 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 Periods Ended December 31, 2007 and 2006

This discussion explains the changes in our consolidated earnings for the three-month and twelve-month periods ended December 31, 2007 and 2006. Unaudited Condensed Consolidated Statements of Income for the three months and twelve months ended December 31, 2007 and 2006 follow this discussion. We will file our Annual Report on Form 10-K for the year ended December 31, 2007 on or before February 29, 2008. We suggest that this discussion be read in connection with the Pinnacle West Capital Corporation (“Pinnacle West”) Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and the Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2007, June 30, 2007 and September 30, 2007. 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 reportable 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 (loss) from continuing operations for the three months and twelve months ended December 31, 2007 and 2006 and reconciles net income in total (dollars in millions):

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2007	2006	2007	2006
Regulated electricity segment	\$ (3)	\$ 6	\$ 274	\$ 259
Real estate segment	5	4	12	50
All other (a)	1	—	13	8
Income from continuing operations	3	10	299	317
Income (loss) from discontinued operations — net of tax				
Real estate segment (b)	3	8	11	10
Other (a)	(3)	—	(3)	—
Net income	<u>\$ 3</u>	<u>\$ 18</u>	<u>\$ 307</u>	<u>\$ 327</u>

(a) Includes activities related to marketing and trading, APSES and El Dorado. None of these segments is a reportable segment.

(b) Primarily relates to sales of commercial properties.

PINNACLE WEST CONSOLIDATED — RESULTS OF OPERATIONS

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

Our consolidated net income for the three months ended December 31, 2007 was \$3 million compared with \$18 million for the comparable prior-year period. The current period includes income from discontinued operations of \$3 million related to sales of commercial properties by SunCor and a loss from discontinued operations of \$3 million related to an APSES project. The prior period includes income from discontinued operations of \$8 million related to sales of commercial properties by SunCor. Income from continuing operations decreased \$7 million in the period-to-period comparison and is reflected in the segments as follows:

- Regulated Electricity Segment — Income from continuing operations decreased approximately \$9 million primarily due to higher operations and maintenance expense related to increased costs for generation (including increased maintenance and overhauls and the Palo Verde performance improvement plan) and customer service and other costs; higher depreciation and amortization primarily due to higher plant balances and rates; and income tax credits resolved in 2006 related to prior years. These negative factors were partially offset by higher retail sales primarily due to customer growth; higher capitalized financing costs primarily due to increased construction work in progress; and lower other taxes primarily due to lower property tax rates. In addition, higher fuel and purchased power costs related to commodity price increases were substantially offset by the deferral of such costs in accordance with the PSA. See “APS General Rate Case and Power Supply Adjustor” in Note 5 of Notes to Condensed Consolidated Financial Statements in the Pinnacle West/APS Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2007 (“Note 5”).
- Real Estate Segment — Income from continuing operations increased approximately \$1 million primarily due to sales of certain joint venture assets partially offset by lower sales of residential property resulting from the continued slowdown in the western United States real estate markets. Income from discontinued operations decreased \$5 million due to decreased commercial property sales.

Additional details on the major factors that increased (decreased) net income for the three-month period ended December 31, 2007 compared with the prior-year period are contained in the following table (dollars in millions):

	Increase (Decrease)	
	Pretax	After Tax
Regulated electricity segment:		
Higher retail sales primarily due to customer growth, excluding weather effects	\$ 9	\$ 5
Impacts of retail rate increase effective July 1, 2007:		
Revenue increase related to higher Base Fuel Rate	71	43
Decreased deferred fuel and purchased power costs related to higher Base Fuel Rate	(68)	(41)
Net changes in fuel and purchased power costs related to prices:		
Higher fuel and purchased power costs related to increased commodity prices	(41)	(25)
Increased deferred fuel and purchased power costs related to increased prices	40	24
Mark-to-market fuel and purchased power costs, net of related deferred fuel and purchased power costs	5	3
Operations and maintenance increases primarily due to:		
Increased generation costs, including increased maintenance and overhauls and Palo Verde performance improvement plan	(16)	(10)
Customer service and other costs	(14)	(9)
Higher depreciation and amortization primarily due to higher plant balances and rates	(4)	(2)
Higher capitalized financing costs primarily due to increased construction work in progress	5	3
Lower other taxes primarily due to lower property tax rates	5	3
Income tax credits resolved in 2006 related to prior years	—	(4)
Miscellaneous items, net	5	1
Decrease in regulated electricity segment net income	(3)	(9)
Higher real estate segment income from continuing operations primarily due to:		
Higher sales of certain joint venture assets	8	5
Lower sales of residential property resulting from the continued slowdown in the western United States real estate markets	(12)	(7)
Lower other costs	6	3
Other miscellaneous items, net	3	1
Increase (decrease) in income from continuing operations	<u>\$ 2</u>	(7)
Discontinued operations:		
Lower commercial property real estate sales		(5)
Other discontinued operations		(3)
Decrease in net income		<u>\$ (15)</u>

Regulated Electricity Segment Revenues

Regulated electricity segment revenues were \$58 million higher for the three months ended December 31, 2007 compared with the prior-year period primarily because of:

- a \$71 million increase in retail revenues due to a rate increase effective July 1, 2007;
- a \$5 million increase in retail revenues due to the effects of weather;
- a \$12 million increase in retail revenues primarily related to customer growth, excluding weather effects;
- a \$38 million decrease 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 Note 5); and
- an \$8 million net increase due to miscellaneous factors.

Real Estate Segment Revenues

Real estate segment revenues were \$39 million lower for the three months ended December 31, 2007 compared with the prior-year period primarily because of:

- a \$43 million decrease in residential property sales due to the continued slowdown in the western United States real estate markets; and
- a \$4 million net increase due to miscellaneous factors.

All Other Revenues

Marketing and trading revenues were \$7 million higher for the three months ended December 31, 2007 compared with the prior-year period primarily due to higher mark-to-market gains because of changes in forward prices.

Other revenues were \$4 million higher for the three months ended December 31, 2007 compared to the prior-year period primarily as a result of increased sales by APSES of energy-related products and services.

Operating Results — 2007 compared with 2006

Our consolidated net income for 2007 was \$307 million compared with \$327 million for 2006. The current period includes income from discontinued operations of \$11 million related to sales of commercial properties by SunCor and a loss from discontinued operations of \$3 million related to an APSES project. The prior year includes income from discontinued operations of \$10 million related to sales of commercial properties by SunCor. Income from continuing operations decreased \$18 million in the year-to-year comparison and is reflected in the segments as follows:

- Regulated Electricity Segment — Income from continuing operations increased approximately \$15 million primarily due to higher retail sales related to customer growth; the effects of weather on retail sales; and impacts of the retail rate increase. These positive factors were partially offset by higher operations and maintenance expense primarily due to increased

generation costs (including increased maintenance and overhauls and the Palo Verde performance improvement plan), customer service and other costs; higher depreciation and amortization primarily due to increased plant balances; lower other income, net of expense, primarily due to miscellaneous asset sales in the prior year and lower interest income as a result of lower investment balances; and a regulatory disallowance. In addition, higher fuel and purchased power costs related to commodity price increases were substantially offset by deferral of such costs in accordance with the PSA. See Note 5 for further discussion of the regulatory disallowance and the PSA.

- Real Estate Segment — Income from continuing operations decreased approximately \$38 million primarily due to lower sales of residential property and land parcels resulting from the continued slowdown in the western United States real estate markets.

Additional details on the major factors that increased (decreased) net income for the year ended December 31, 2007 compared with the prior year are contained in the following table (dollars in millions):

	Increase (Decrease)	
	Pretax	After Tax
Regulated electricity segment:		
Higher retail sales primarily due to customer growth, excluding weather effects	\$ 46	\$ 28
Effects of weather on retail sales	37	23
Impacts of retail rate increase effective July 1, 2007:		
Revenue increase related to higher Base Fuel Rate	185	113
Decreased deferred fuel and purchased power costs related to higher Base Fuel Rate	(171)	(104)
Non-fuel rate increase	6	4
Net changes in fuel and purchased power costs related to price:		
Higher fuel and purchased power costs related to increased commodity prices	(121)	(74)
Increased deferred fuel and purchased power costs related to increased prices	115	70
Mark-to-market fuel and purchased power costs, net of related deferred fuel and purchased power costs	18	11
Regulatory disallowance (see Note 5)	(14)	(8)
Operations and maintenance increases primarily due to:		
Increased generation costs, including increased maintenance and overhauls and Palo Verde performance improvement plan	(25)	(15)
Customer service and other costs	(21)	(13)
Higher depreciation and amortization primarily due to increased plant balances	(12)	(7)
Lower other income, net of expense, primarily due to lower interest income as a result of lower investment balances and miscellaneous asset sales in the prior year	(15)	(9)
Income tax benefits resolved in 2007 related to prior years	—	13
Income tax credits resolved in 2006 related to prior years	—	(14)
Miscellaneous items, net	6	(3)
Increase in regulated electricity segment net income	34	15
Lower real estate segment income from continuing operations primarily due to:		
Lower sales of residential property resulting from the continued slowdown in the western United States real estate markets	(47)	(29)
Lower sales of land parcels	(12)	(7)
Higher other costs	(5)	(2)
Higher marketing and trading contribution primarily due to higher mark-to-market gains resulting from changes in forward prices and higher unit margins		
	8	5
Other miscellaneous items, net	(2)	—
Decrease in income from continuing operations	<u>\$ (24)</u>	<u>(18)</u>
Discontinued operations:		
Increased commercial property real estate sales		1
Other discontinued operations		(3)
Decrease in net income		<u>\$ (20)</u>

Regulated Electricity Segment Revenues

Regulated electricity segment revenues were \$283 million higher for the year ended December 31, 2007 compared with the prior year primarily because of:

- a \$191 million increase in retail revenues due to a rate increase effective July 1, 2007;
- a \$60 million increase in retail revenues primarily related to customer growth, excluding weather effects;
- a \$50 million increase in retail revenues due to the effects of weather;
- a \$3 million increase in revenues from Off-System Sales due to higher prices and volumes;
- a \$35 million decrease 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 Note 5); and
- a \$14 million net increase due to miscellaneous factors.

Real Estate Segment Revenues

Real estate segment revenues were \$185 million lower for the year ended December 31, 2007 compared with the prior year primarily because of:

- a \$167 million decrease in residential property sales due to the continued slowdown in western United States real estate markets; and
- an \$18 million decrease primarily due to lower sales of land parcels.

All Other Revenues

Marketing and trading revenues were \$12 million higher for the year ended December 31, 2007 compared with the prior year primarily because of higher mark-to-market gains resulting from changes in forward prices and higher competitive retail sales volumes in California.

Other revenues were \$12 million higher for the year ended December 31, 2007 compared to the prior year primarily as a result of increased sales by APSES of energy-related products and services.

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

	THREE MONTHS ENDED DECEMBER 31,		Increase (Decrease)	
	2007	2006	Amount	Percent
Operating Revenues				
Regulated electricity segment	\$627,096	\$569,213	\$ 57,883	10.2% B
Real estate segment	42,055	81,470	(39,415)	48.4% W
Marketing and trading	78,060	71,390	6,670	9.3% B
Other revenues	11,905	7,999	3,906	48.8% B
Total	<u>759,116</u>	<u>730,072</u>	<u>29,044</u>	4.0% B
Operating Expenses				
Regulated electricity segment fuel and purchased power	259,991	225,160	34,831	15.5% W
Real estate segment operations	39,918	76,266	(36,348)	47.7% W
Marketing and trading fuel and purchased power	67,899	62,840	5,059	8.1% W
Operations and maintenance	207,398	180,122	27,276	15.1% W
Depreciation and amortization	95,921	91,336	4,585	5.0% W
Taxes other than income taxes	23,802	28,425	(4,623)	16.3% B
Other expenses	10,388	5,853	4,535	77.5% W
Total	<u>705,317</u>	<u>670,002</u>	<u>35,315</u>	5.3% W
Operating Income	<u>53,799</u>	<u>60,070</u>	<u>(6,271)</u>	10.4% W
Other				
Allowance for equity funds used during construction	6,321	3,700	2,621	70.8% B
Other income	12,718	9,568	3,150	32.9% B
Other expense	(12,198)	(14,847)	2,649	17.8% B
Total	<u>6,841</u>	<u>(1,579)</u>	<u>8,420</u>	533.2% B
Interest Expense				
Interest charges	54,268	52,841	1,427	2.7% W
Capitalized interest	(7,608)	(6,394)	(1,214)	19.0% B
Total	<u>46,660</u>	<u>46,447</u>	<u>213</u>	0.5% W
Income From Continuing Operations Before Income Taxes	13,980	12,044	1,936	16.1% B
Income Taxes	<u>10,492</u>	<u>1,518</u>	<u>8,974</u>	591.2% W
Income From Continuing Operations	3,488	10,526	(7,038)	66.9% W
Income (Loss) From Discontinued Operations				
Net of Income Taxes	<u>(577)</u>	<u>7,953</u>	<u>(8,530)</u>	107.3% W
Net Income	<u>\$ 2,911</u>	<u>\$ 18,479</u>	<u>\$(15,568)</u>	84.2% W
Weighted-Average Common Shares Outstanding — Basic	100,420	99,832	588	0.6%
Weighted-Average Common Shares Outstanding — Diluted	100,963	100,474	489	0.5%
Earnings Per Weighted-Average Common Share Outstanding				
Income from continuing operations — basic	\$ 0.03	\$ 0.11	\$ (0.08)	72.7% W
Net income — basic	\$ 0.03	\$ 0.19	\$ (0.16)	84.2% W
Income from continuing operations — diluted	\$ 0.03	\$ 0.10	\$ (0.07)	70.0% W
Net income — diluted	\$ 0.03	\$ 0.18	\$ (0.15)	83.3% W

B — Better

W — Worse



PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

(in thousands, except per share amounts)

	TWELVE MONTHS ENDED		Increase (Decrease)	
	DECEMBER 31,		Amount	Percent
	2007	2006		
Operating Revenues				
Regulated electricity segment	\$2,918,163	\$2,635,036	\$ 283,127	10.7% B
Real estate segment	215,068	399,798	(184,730)	46.2% W
Marketing and trading	342,371	330,742	11,629	3.5% B
Other revenues	48,018	36,172	11,846	32.7% B
Total	<u>3,523,620</u>	<u>3,401,748</u>	<u>121,872</u>	3.6% B
Operating Expenses				
Regulated electricity segment fuel and purchased power	1,140,923	960,649	180,274	18.8% W
Real estate segment operations	193,926	324,861	(130,935)	40.3% B
Marketing and trading fuel and purchased power	294,236	290,637	3,599	1.2% W
Operations and maintenance	734,705	691,277	43,428	6.3% W
Depreciation and amortization	373,436	358,644	14,792	4.1% W
Taxes other than income taxes	128,218	128,395	(177)	0.1% B
Other expenses	38,925	28,415	10,510	37.0% W
Total	<u>2,904,369</u>	<u>2,782,878</u>	<u>121,491</u>	4.4% W
Operating Income	<u>619,251</u>	<u>618,870</u>	<u>381</u>	0.1% B
Other				
Allowance for equity funds used during construction	21,195	14,312	6,883	48.1% B
Other income	24,694	44,016	(19,322)	43.9% W
Other expense	(25,883)	(27,800)	1,917	6.9% B
Total	<u>20,006</u>	<u>30,528</u>	<u>(10,522)</u>	34.5% W
Interest Expense				
Interest charges	212,620	196,826	15,794	8.0% W
Capitalized interest	(23,063)	(20,989)	(2,074)	9.9% B
Total	<u>189,557</u>	<u>175,837</u>	<u>13,720</u>	7.8% W
Income From Continuing Operations Before Income Taxes	449,700	473,561	(23,861)	5.0% W
Income Taxes	<u>150,920</u>	<u>156,418</u>	<u>(5,498)</u>	3.5% B
Income From Continuing Operations	298,780	317,143	(18,363)	5.8% W
Income From Discontinued Operations				
Net of Income Taxes	<u>8,363</u>	<u>10,112</u>	<u>(1,749)</u>	17.3% W
Net Income	<u>\$ 307,143</u>	<u>\$ 327,255</u>	<u>\$ (20,112)</u>	6.1% W
Weighted-Average Common Shares Outstanding — Basic	100,256	99,417	839	0.8%
Weighted-Average Common Shares Outstanding — Diluted	100,835	100,010	825	0.8%
Earnings Per Weighted-Average Common Share Outstanding				
Income from continuing operations — basic	\$ 2.98	\$ 3.19	\$ (0.21)	6.6% W
Net income — basic	\$ 3.06	\$ 3.29	\$ (0.23)	7.0% W
Income from continuing operations — diluted	\$ 2.96	\$ 3.17	\$ (0.21)	6.6% W
Net income — diluted	\$ 3.05	\$ 3.27	\$ (0.22)	6.7% W

B — Better

W — Worse

Pinnacle West Capital Corporation
Quarterly Consolidated Statistical Summary
and Earnings Variance Explanations
Glossary of Terms

Amounts Recovered Through Revenues	Amounts recovered from retail customers through the power supply adjustor in the current period.
APS	Arizona Public Service Company, a subsidiary of Pinnacle West.
APSES	APS Energy Services Company, Inc., a subsidiary of Pinnacle West.
Arizona Job Growth	Percentage growth over the prior year in total non-farm payroll employment for the state of Arizona, non-seasonally adjusted.
Base Fuel Rate	The portion of APS' retail base rates attributable to fuel and purchased power costs.
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.
Company	Pinnacle West Capital Corporation.
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 \$0.0325 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 \$0.0325 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.

El Dorado

El Dorado Investment Company, a subsidiary of Pinnacle West.

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.
Palo Verde	Palo Verde Nuclear Generating Station.
Pinnacle West	Pinnacle West Capital Corporation (the Company).
Pinnacle West Energy (PWEC)	Pinnacle West Energy Corporation, a subsidiary of the Company, dissolved as of August 31, 2006.
Pinnacle West Marketing & Trading	Pinnacle West Marketing & Trading Co., LLC, a subsidiary of Pinnacle West.
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 \$0.0325 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.

SunCor

SunCor Development Company, a subsidiary of Pinnacle West.

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.

**FOR IMMEDIATE RELEASE**

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January 30, 2008
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PINNACLE WEST REPORTS LOWER FOURTH QUARTER EARNINGS

APS Quarterly Results Down 98 Percent

PHOENIX — Pinnacle West Capital Corporation (NYSE: PNW) today reported consolidated net income for the quarter ended December 31, 2007, of \$2.9 million, or \$0.03 per diluted share of common stock. This result compares with net income of \$18.5 million, or \$0.18 per diluted share, for the same quarter a year ago.

The quarterly results were impacted by lower results from the Company's utility and real estate operations. Arizona Public Service (APS), the Company's principal subsidiary, reported net income of \$0.3 million, compared with earnings of \$12.9 million for the same period a year ago. In addition, real estate subsidiary SunCor Development Co. reported lower net income of \$8.1 million, compared with \$11.4 million in the final quarter of 2006, reflecting a continued slowdown in the western U.S. real estate markets.

The 2007 fourth-quarter earnings were negatively impacted by increased operation and maintenance costs primarily related to power plant maintenance and planned overhauls, as well as higher customer service, depreciation and other growth-related costs. These factors more than offset increased retail sales at APS primarily due to customer growth of 2.6 percent.

"Arizona's growth and the increasing demand for energy require additional capital investment," said Chairman Bill Post. "Meeting this growth — and finding a way to effectively pay for and recover the associated costs — will require a transparent, collaborative and forward-looking process with all our stakeholders. We are committed to working with our customers, communities and regulators to find solutions to these challenges."

Post added that in 2007 the Company's employees continued meeting the challenges of growth in Arizona. The Company recorded all-time best results in measures such as customer outage frequency and average outage duration, all while setting 35,000 new meters and managing one of the hottest summers on record. APS' top-tier customer service also was recognized in 2007 survey results from J.D. Power and Associates. APS was rated number two among investor-owned electric utilities in the West for superior customer satisfaction by both residential and business customers.

For the year 2007 as a whole, Pinnacle West's consolidated net income decreased 6 percent to \$307.1 million, or \$3.05 per share, compared with 2006 net income of \$327.3 million, or \$3.27 per diluted share. APS reported earnings of \$283.9 million during the same period compared with \$269.7 million in 2006. And, SunCor reported net income of \$23.7 million, down from \$60.5 million for the same period a year ago.

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

Conference Call

Pinnacle West invites interested parties to listen to the live web cast of management's conference call to discuss the Company's 2007 fourth-quarter earnings and year-end results, as well as recent developments at 11 a.m. (ET) today, January 30. The web cast can be accessed at www.pinnaclewest.com/presentations and will be available for replay on the web site for 30 days. To access the live conference call by telephone, dial (877) 356-3961 and enter conference ID number 28391511. A replay of the call also will be available until 11:55 p.m. (ET), Thursday, February 7, 2008, by calling (800) 642-1687 in the U.S. and Canada or (706) 645-9291 internationally and entering the same reservation number.

Pinnacle West is a Phoenix-based company with consolidated assets of about \$11 billion. Through its subsidiaries, the Company generates, sells and delivers electricity and sells energy-related products and services to retail and wholesale customers in the western United States. It also develops residential, commercial, and industrial real estate projects.

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

(in thousands, except per share amounts)

	THREE MONTHS ENDED DECEMBER 31,		TWELVE MONTHS ENDED DECEMBER 31,	
	2007	2006	2007	2006
Operating Revenues				
Regulated electricity segment	\$627,096	\$569,213	\$2,918,163	\$2,635,036
Real estate segment	42,055	81,470	215,068	399,798
Marketing and trading	78,060	71,390	342,371	330,742
Other revenues	11,905	7,999	48,018	36,172
Total	<u>759,116</u>	<u>730,072</u>	<u>3,523,620</u>	<u>3,401,748</u>
Operating Expenses				
Regulated electricity segment fuel and purchased power	259,991	225,160	1,140,923	960,649
Real estate segment operations	39,918	76,266	193,926	324,861
Marketing and trading fuel and purchased power	67,899	62,840	294,236	290,637
Operations and maintenance	207,398	180,122	734,705	691,277
Depreciation and amortization	95,921	91,336	373,436	358,644
Taxes other than income taxes	23,802	28,425	128,218	128,395
Other expenses	10,388	5,853	38,925	28,415
Total	<u>705,317</u>	<u>670,002</u>	<u>2,904,369</u>	<u>2,782,878</u>
Operating Income	<u>53,799</u>	<u>60,070</u>	<u>619,251</u>	<u>618,870</u>
Other				
Allowance for equity funds used during construction	6,321	3,700	21,195	14,312
Other income	12,718	9,568	24,694	44,016
Other expense	(12,198)	(14,847)	(25,883)	(27,800)
Total	<u>6,841</u>	<u>(1,579)</u>	<u>20,006</u>	<u>30,528</u>
Interest Expense				
Interest charges	54,268	52,841	212,620	196,826
Capitalized interest	(7,608)	(6,394)	(23,063)	(20,989)
Total	<u>46,660</u>	<u>46,447</u>	<u>189,557</u>	<u>175,837</u>
Income From Continuing Operations Before Income Taxes	13,980	12,044	449,700	473,561
Income Taxes	<u>10,492</u>	<u>1,518</u>	<u>150,920</u>	<u>156,418</u>
Income From Continuing Operations	3,488	10,526	298,780	317,143
Income (Loss) From Discontinued Operations				
Net of Income Taxes	<u>(577)</u>	<u>7,953</u>	<u>8,363</u>	<u>10,112</u>
Net Income	<u>\$ 2,911</u>	<u>\$ 18,479</u>	<u>\$ 307,143</u>	<u>\$ 327,255</u>
Weighted—Average Common Shares Outstanding — Basic	100,420	99,832	100,256	99,417
Weighted-Average Common Shares Outstanding — Diluted	100,963	100,474	100,835	100,010
Earnings Per Weighted-Average Common Share Outstanding				
Income from continuing operations — basic	\$ 0.03	\$ 0.11	\$ 2.98	\$ 3.19
Net income — basic	\$ 0.03	\$ 0.19	\$ 3.06	\$ 3.29
Income from continuing operations — diluted	\$ 0.03	\$ 0.10	\$ 2.96	\$ 3.17
Net income — diluted	\$ 0.03	\$ 0.18	\$ 3.05	\$ 3.27