PINNACLE WEST CAPITAL CORP

FORM 10-K405
(Annual Report (Regulation S-K, item 405))

Filed 03/31/98 for the Period Ending 12/31/97

Address	400 NORTH FIFTH STREET MS8695 PHOENIX, AZ 85004
Telephone	602 250 1000
CIK	0000764622
Symbol	PNW
SIC Code	4911 - Electric Services
Industry	Electric Utilities
Sector	Utilities
Fiscal Year	12/31

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Filed 3/31/1998 For Period Ending 12/31/1997

Address	400 NORTH FIFTH STREET .
	PHOENIX, Arizona 85004
Telephone	602-379-2500
CIK	0000764622
Industry	Electric Utilities
Sector	Utilities
Fiscal Year	12/31

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549 FORM 10-K

(Mark One)

|X|ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended December 31, 1997

OR

|_|TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from ______ to ______

Commission File Number 1-8962

Pinnacle West Capital Corporation

(Exact name of registrant as specified in its charter)

ARIZONA (State or other jurisdiction of incorporation or organization)	86-0512431 (I.R.S. Employer Identification No.)
400 East Van Buren Street, Suite 700 Phoenix, Arizona 85004 (Address of principal executive offices, including zip code)	(602) 379-2500 (Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, No Par Value	New York Stock Exchange Pacific Stock Exchange

Title of Each Class of Voting Stock	Shares Outstanding as of March 23, 1998	Aggregate Market Value of Shares Held by Non-affiliates as of March 23, 1998
Common Stock, No Par Value	84,796,549	$3,723,041,377(a)

(a) Computed by reference to the closing price on the composite tape on March 23, 1998, as reported by The Wall Street Journal.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the pasts 90 days.

Yes X ---- No ----

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. X

Documents Incorporated By Reference

Portions of the registrant's definitive Proxy Statement relating to its Annual Meeting of Shareholders to be held on May 20, 1998 are incorporated by reference into Part III hereof.

TABLE OF CONTENTS

GLOSSARY

ACC --- Arizona Corporation Commission

ACC Staff --- Staff of the Arizona Corporation Commission

AFUDC --- Allowance for Funds Used During Construction

Amendments --- Clean Air Act Amendments of 1990

ANPP --- Arizona Nuclear Power Project, also known as Palo Verde

APS --- Arizona Public Service Company

CC&N --- Certificate of convenience and necessity

Cholla --- Cholla Power Plant

Cholla 4 --- Unit 4 of the Cholla Power Plant

Company --- Pinnacle West Capital Corporation

CUC --- Citizens Utilities Company

DOE --- United States Department of Energy

EITF --- Emerging Issues Task Force

EITF 97-4 --- Emerging Issues Task Force Issue No. 97-4, "Deregulation of the Pricing of Electricity --- Issues Related to the Applications of FASB Statements No. 71, Accounting for the Effects of Certain Types of Regulation, and No. 101, Regulated Enterprises --- Accounting for the Discontinuation of Application of FASB Statement No. 71"

El Dorado --- El Dorado Investment Company

Energy Act --- National Energy Policy Act of 1992

EPA --- United States Environmental Protection Agency

FASB --- Financial Accounting Standards Board

FERC --- Federal Energy Regulatory Commission

Four Corners --- Four Corners Power Plant

GAAP --- Generally accepted accounting principles

ITC --- Investment tax credit

kW --- Kilowatt, one thousand watts

kWh --- Kilowatt-hour, one thousand watts per hour

Mortgage --- Mortgage and Deed of Trust, dated as of July 1, 1946, as supplemented and amended

MWh --- Megawatt hours, one million watts per hour

1935 Act --- Public Utility Holding Company Act of 1935

NGS --- Navajo Generating Station

NRC --- Nuclear Regulatory Commission

PacifiCorp --- An Oregon-based utility company

Palo Verde --- Palo Verde Nuclear Generating Station

SEC --- Securities and Exchange Commission

SFAS No. 34 --- Statement of Financial Accounting Standards No. 34, "Capitalization of Interest Cost"

SFAS No. 71 --- Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation"

SFAS No. 123 --- Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation"

SFAS No. 130 --- Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income"

SFAS No. 131 --- Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information"

SFAS No. 132 --- Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits"

SRP --- Salt River Project Agricultural Improvement and Power District

SunCor --- SunCor Development Company

USEC --- United States Enrichment Corporation

Waste Act --- Nuclear Waste Policy Act of 1982, as amended

PART I

ITEM 1. BUSINESS

The Company

General

Pinnacle West Capital Corporation was incorporated in 1985 under the laws of the State of Arizona and is engaged, through its subsidiaries, in the generation and distribution of electricity; in real estate development; and in venture capital investment. The principal executive offices of the Company are located at 400 East Van Buren Street, Suite 700, Phoenix, Arizona 85004 (telephone 602-379-2500).

At December 31, 1997, the Company and its subsidiaries employed approximately 7,189 persons. Of these employees, approximately 5,981 were employees of the Company's major subsidiary, APS, and employees assigned to joint projects of APS where APS serves as a project manager, and approximately 1,208 were employees of the Company and its other subsidiaries.

Other subsidiaries of the Company, in addition to APS, include SunCor and El Dorado. See "Business of SunCor Development Company" and "Business of El Dorado Investment Company" in this Item for further information regarding SunCor and El Dorado.

This document contains forward-looking statements that involve risks and uncertainties. Words such as "estimates," "expects," "anticipates," "plans," "believes," "projects," and similar expressions identify forward-looking statements. These risks and uncertainties include, but are not limited to, the ongoing restructuring of the electric industry; the outcome of the regulatory proceedings relating to the restructuring; regulatory, tax and environmental legislation; the ability of APS to successfully compete outside its traditional regulated markets; regional economic conditions, which could affect customer growth; the cost of debt and equity capital; weather variations affecting customer usage; technological developments in the electric industry; and the strength of the real estate market. See "Business of Arizona Public Service Company -- Competition" for a discussion of some of these factors.

Arizona Corporation Commission Affiliated Interest Rules. On March 14, 1990, the ACC issued an order adopting certain rules purportedly applicable only to a certain class of public utilities regulated by the ACC, including APS. The rules define the terms "public utility holding company" and "affiliate" with respect to public service corporations regulated by the ACC in such a manner as to include the Company and all of the Company's non-public service corporation subsidiaries. By their terms, the rules, among other things, require public utilities, such as APS, to receive ACC approval prior to (1) obtaining an interest in, or guaranteeing or assuming the liabilities of, any affiliate not regulated by the ACC; (2) lending to any such affiliate (except for short-term loans in an amount less than $100,000); or (3) using utility funds to form a subsidiary or divest itself of any established subsidiary. The rules also prevent a utility from transacting business with an affiliate unless the affiliate agrees to provide the ACC "access to the books and records of the affiliate to the degree required to fully audit, examine or otherwise investigate transactions between the public utility and the affiliate." In addition, the rules provide that an "affiliate or holding company may not divest itself of, or otherwise relinquish control of, a public utility without thirty (30) days prior written notification to the [ACC]" and requires all public utilities subject to them and all public utility holding companies to annually "provide the [ACC] with a description of diversification plans for the current calendar year that have been approved by the Boards of Directors." The rules have not had, nor does the Company expect the rules to have, a material adverse impact on the business or operations of the Company.

BUSINESS OF ARIZONA PUBLIC SERVICE COMPANY

Following is a discussion of the business of APS, the Company's major subsidiary.

General

APS was incorporated in 1920 under the laws of Arizona and is engaged principally in serving electricity in the State of Arizona. The principal executive offices of APS are located at 400 North Fifth Street, Phoenix, Arizona 85004 (telephone 602-250-1000). The Company owns all of the outstanding shares of APS' common stock.

APS is Arizona's largest electric utility, with 767,000 customers, and provides wholesale or retail electric service to the entire state of Arizona with the exception of Tucson and about one-half of the Phoenix area. During 1997, no single purchaser or user of energy accounted for more than 2% of total electric revenues. At December 31, 1997, APS employed 5,981 people, which includes employees assigned to joint projects where APS is project manager.

Competition

Retail

General. Under current law, APS is not in direct competition with any other regulated electric utility for electric service in APS' retail service territory. Nevertheless, APS is subject to varying degrees of competition in certain territories adjacent to or within areas that it serves that are also currently served by other utilities in its region (such as Tucson Electric Power Company, Southwest Gas Corporation, and Citizens Utility Company) as well as cooperatives, municipalities, electrical districts and similar types of governmental organizations (principally SRP).

APS faces competitive challenges from low-cost hydroelectric power and natural gas fuel, as well as the access of some utilities to preferential low-priced federal power and other subsidies. In addition, some customers, particularly industrial and large commercial, may own and operate facilities to generate their own electric energy requirements. Such facilities may be operated by the customers themselves or by other entities engaged for such purpose. The legislatures and/or the regulatory commissions in most states have considered or are considering "retail wheeling." This requirement to transmit directly to retail customers could have the result of allowing retail customers to choose to purchase electric capacity and energy from the electric utility in whose service area they are located or from other electric utilities or independent power producers or power marketers.

ACC Rules Regarding Arizona Electric Industry Restructuring. The ACC Staff has been conducting an ongoing investigation into the restructuring of the Arizona electric industry. In December 1996, the ACC adopted rules that provide a framework for the introduction of retail electric competition in Arizona in phases from 1999 to 2003. The ACC ordered in the rules that numerous issues require additional consideration prior to the implementation of retail electric competition in Arizona. During 1997, the ACC held workshops to gather input from various constituencies with respect to those issues.

The rules indicate that the ACC will allow recovery of unmitigated stranded costs, but do not set forth the mechanisms for determining and recovering such costs. In February 1998, the ACC completed a formal, generic hearing on stranded cost determination and recovery. Based on various assumptions, estimates and methodologies, APS currently estimates that its stranded costs to be recovered (excluding regulatory assets which have already been addressed by the ACC) will be less than $500 million. The Company is seeking full recovery of stranded costs during a transition period proposed to go through 2006. Decisions by the ACC have not yet been made with respect to this issue.

An Arizona joint legislative committee studied electric utility industry restructuring issues in 1996 and 1997. In conjunction with that study, Arizona legislative counsel prepared memoranda in late 1997 related to the legal authority of the ACC to deregulate the Arizona electric utility industry. The memoranda raise a question as to the degree to which the ACC may, under the Arizona Constitution, deregulate any portion of the electric utility industry and allow rates to be determined by market forces. In February 1998, a bill was introduced in the Arizona legislature to facilitate implementation of retail electric competition in the state. The bill has progressed through several stages to date. The bill includes, among other things, a proposal that the ACC adopt provisions for public service corporations substantially consistent with some of the bill's provisions for certain government-operated electric utilities. APS continues to believe that legislation and perhaps amendments to the Arizona Constitution will ultimately be required before significant implementation of retail electric competition can lawfully occur in Arizona.

See Note 3 of Notes to Financial Statements for additional information regarding the rules and other regulatory and legal issues relating to the electric industry restructuring.

Wholesale

General. APS competes with other utilities, power marketers, and independent power producers in the sale of electric capacity and energy in the wholesale market. APS expects that competition to sell capacity will remain vigorous, and that wholesale prices will remain depressed for at least the next several years due to increased competition and surplus capacity in the western United States. APS' rates for wholesale power sales and transmission services are subject to regulation by the FERC. During 1997, approximately 13% of APS' electric operating revenues resulted from such sales and charges.

The National Energy Policy Act of 1992 (the "Energy Act") has promoted increased competition in the wholesale electric power markets. The Energy Act reformed provisions of the Public Utility Holding Company Act of 1935 (the "1935 Act") and the Federal Power Act to remove certain barriers to competition for the supply of electricity. For example, the Energy Act permits the FERC to order transmission access for third parties to transmission facilities owned by another entity so that independent suppliers and other third parties can sell at wholesale to customers wherever located. The Energy Act does not, however, permit the FERC to issue an order requiring transmission access to retail customers.

Effective July 9, 1996, a FERC decision requires all electric utilities subject to the FERC's jurisdiction to file transmission tariffs which provide competitors with access to transmission facilities comparable to the transmission owners' access for wholesale transactions, establishes information requirements, and provides for recovery of certain wholesale stranded costs. Retail stranded costs resulting from a state-authorized retail direct-access program are the responsibility of the states, unless a state lacks authority to impose rates to recover such costs, in which case FERC will consider doing so. APS has filed its revised open access tariff in accordance with this decision. APS does not believe that this decision will have a material adverse impact on its results of operations or financial position.

Federal Regulation

Several electric utility reform bills have been introduced during recent Congressional sessions, which as currently written, would allow consumers to choose their electric supplier by 2000 or 2003. These bills, other bills that are expected to be introduced, and ongoing discussions at the federal level suggest a wide range of opinion that will need to be narrowed before any substantial restructuring of the electric utility industry can occur.

Regulatory Assets

APS' major regulatory assets are deferred income taxes and rate synchronization cost deferrals. These items, combined with miscellaneous regulatory assets and liabilities, amounted to approximately $1.0 billion at December 31, 1997. In accordance with a 1996 regulatory agreement, the ACC accelerated the amortization of substantially all of

APS' regulatory assets to an eight-year period beginning July 1, 1996. APS' existing regulatory orders and current regulatory environment support its accounting practices related to regulatory assets. If rate recovery of these assets is no longer probable, whether due to competition or regulatory action, APS would no longer be able to apply the provisions of SFAS No. 71 to all or some part of its operations which could have a material impact on APS' financial statements. See Notes 1, 3 and 4 of Notes to Financial Statements in Item 8 for additional information.

Competitive Strategies

APS is pursuing strategies to maintain and enhance its competitive position. These strategies include (i) cost management, with an emphasis on the reduction of variable costs (fuel, operations, and maintenance expenses) and on increased productivity through technological efficiencies; (ii) a focus on APS' core business through customer service, distribution system reliability, business segmentation and the anticipation of market opportunities; (iii) an emphasis on good regulatory relationships; (iv) asset maximization (e.g., higher capacity factors and lower forced outage rates); (v) strengthening APS' capital structure and financial condition; (vi) leveraging core competencies into related areas, such as energy management products and services; and (vii) establishing a trading floor and implementing a risk management program to provide for more stability of prices and the ability to retain or grow incremental margin through more competitive pricing and risk management. Underpinning APS' competitive strategies are the strong growth characteristics of APS' service territory. As competition in the electric utility industry continues to evolve, APS will continue to evaluate strategies and alternatives that will position APS to compete effectively in a more competitive, restructured industry.

Generating Fuel and Purchased Power

1997 Energy Mix

APS' sources of energy during 1997 were: coal - 36.5%; nuclear - 28.2%; other - 3.1%; and purchased power - 32.2%.

Coal Supply

APS believes that Cholla has sufficient reserves of low sulfur coal committed to the plant for the next two years, the term of the existing coal contract. In 1997, the current supplier experienced production and delivery problems that required Cholla to purchase coal from the spot market. The current supplier is expected to continue to provide substantially all of Cholla's low sulfur coal requirements. Contract renegotiation with the current supplier is in progress. The current supplier has sufficient reserves of low sulfur coal available to allow the continued operation of Cholla for its useful life. APS also believes that Four Corners and NGS have sufficient reserves of low sulfur coal available for use by those plants to continue operating them for their useful lives.

The current sulfur content of coal being used at Four Corners, NGS and Cholla is approximately 0.78%, 0.55% and 0.44%, respectively. In 1997, average prices paid for coal supplied from the reserves dedicated under the existing contracts were comparable to 1996. Escalation components of existing long-term coal contracts impact future coal prices. In addition, major price adjustments can occur from time to time as a result of contract renegotiation.

NGS and Four Corners are located on the Navajo Reservation and held under easements granted by the federal government as well as leases from the Navajo Nation. See "Properties- Plant Sites Leased from the Navajo Nation" in Item 2. APS purchases all of the coal which fuels Four Corners from a coal supplier with a long-term lease of coal reserves owned by the Navajo Nation and for NGS from a coal supplier with a long-term lease with the Navajo Nation and the Hopi Tribe. Coal is supplied to Cholla from a coal supplier who mines all of the coal under a long-term lease of coal reserves owned by the Navajo Nation, the federal government, and private landholders. See Note 12 of Notes to Financial Statements in Item 8 for information regarding APS' obligation for coal mine reclamation.

Natural Gas Supply

APS is a party to contracts with a number of natural gas operators and marketers which allow APS to purchase natural gas in the method it determines to be most economic. APS is currently purchasing the majority of its natural gas requirements from twelve companies pursuant to contracts. APS' natural gas supply is transported pursuant to a firm transportation service contract between APS and El Paso Natural Gas Company. APS continues to analyze the market to determine the source and method of meeting its natural gas requirements.

Nuclear Fuel Supply

The fuel cycle for Palo Verde is comprised of the following stages: (1) the mining and milling of uranium ore to produce uranium concentrates, (2) the conversion of uranium concentrates to uranium hexafluoride, (3) the enrichment of uranium hexafluoride, (4) the fabrication of fuel assemblies, (5) the utilization of fuel assemblies in reactors and (6) the storage of spent fuel and the disposal thereof. The Palo Verde participants have made arrangements through contract flexibilities to obtain quantities of uranium concentrates anticipated to be sufficient to meet operational requirements through 2000. Existing contracts and options could be utilized to meet approximately 80% of requirements in 2001 and 2002 and 50% of requirements from 2003 through 2007. Spot purchases in the uranium market will be made, as appropriate, in lieu of any uranium that might be obtained through contract flexibilities and options. The Palo Verde participants have contracted for all conversion services required through 1998 and for up to 60% through 2002. The Palo Verde participants, including APS, have an enrichment services contract with USEC which obligates USEC to furnish enrichment services required for the operation of the three Palo Verde units over a term expiring in September 2002, with options to continue through September 2007. In addition, existing contracts will provide fuel assembly fabrication services until at least 2003 for each Palo Verde unit, and through contract options, approximately fifteen additional years are available.

Spent Nuclear Fuel and Waste Disposal. Pursuant to the Nuclear Waste Policy Act of 1982, as amended in 1987 (the "Waste Act"), DOE is obligated to accept and dispose of all spent nuclear fuel and other high-level radioactive wastes generated by all domestic power reactors. The NRC, pursuant to the Waste Act, requires operators of nuclear power reactors to enter into spent fuel disposal contracts with DOE, and APS, on its own behalf and on behalf of the other Palo Verde participants, has done so. Under the Waste Act, DOE was to develop the facilities necessary for the storage and disposal of spent nuclear fuel and to have the first such facility in operation by 1998. That facility was to be a permanent repository, but DOE has announced that such a repository now cannot be completed before 2010. In July 1996, the United States Court of Appeals for the District of Columbia Circuit (D.C. Circuit) ruled that the DOE has an obligation to start disposing of spent nuclear fuel no later than January 31, 1998. By way of letter dated December 17, 1996, DOE informed contract holders, including APS, that DOE anticipates that it will be unable to begin acceptance of spent nuclear fuel for disposal in a repository or interim storage facility by January 31, 1998. In November 1997, the D.C. Circuit issued a Writ of Mandamus precluding DOE from excusing its own delay on the grounds that DOE has not yet prepared a permanent repository or interim storage facility. Several bills have been introduced in Congress contemplating the construction of a central interim storage facility which could be available in the latter part of the current decade; however, there is resistance to certain features of these bills both in Congress and the Administration.

Facility funding is a further complication. While all nuclear utilities pay into a so-called nuclear waste fund an amount calculated on the basis of the output of their respective plants, the annual Congressional appropriations for the permanent repository have been for amounts less than the amounts paid into the waste fund (the balance of which is being used for other purposes) and, according to DOE spokespersons, may now be at a level less than needed to achieve a 2010 operational date for a permanent repository. No funding will be available for a central interim facility until one is authorized by Congress.

APS has storage capacity in existing fuel storage pools at Palo Verde which, with certain modifications, could accommodate all fuel expected to be discharged from normal operation of Palo Verde through about 2002, and believes it could augment that wet storage with new facilities for on-site dry storage of spent fuel for an indeterminate period of operation beyond 2002, subject to obtaining any required governmental approvals. One way or another, APS currently believes that spent fuel storage or disposal methods will be available for use by Palo Verde to allow its continued operation beyond 2002.

A new low-level waste facility was built in 1995 on-site which could store an amount of waste equivalent to ten years of normal operation at Palo Verde. Although some low-level waste has been stored on-site, APS is currently shipping low-level waste to off-site facilities. APS currently believes that interim low-level waste storage methods are or will be available for use by Palo Verde to allow its continued operation and to safely store low-level waste until a permanent disposal facility is available.

While believing that scientific and financial aspects of the issues of spent fuel and low-level waste storage and disposal can be resolved satisfactorily, APS acknowledges that their ultimate resolution in a timely fashion will require political resolve and action on national and regional scales which it is less able to predict.

Purchased Power Agreements

In addition to that available from its own generating capacity (see "Properties" in Item 2), APS purchases electricity from other utilities under various arrangements. One of the most important of these is a long-term contract with SRP which may be canceled by SRP on three years' notice and which requires SRP to make available, and APS to pay for, certain amounts of electricity that are based in large part on customer demand within certain areas now served by APS pursuant to a related territorial agreement. The generating capacity available to APS pursuant to the contract was 297 MW through May 1997, at which time the capacity decreased to 292 MW. In 1997, APS received approximately 610,400 MWh of energy under the contract and paid approximately $37 million for capacity availability and energy received.

In September 1990, APS and PacifiCorp entered into certain agreements relating principally to sales and purchases of electric power and electric utility assets, and in July 1991 APS sold Cholla 4 to PacifiCorp. As part of the transaction, PacifiCorp agreed to make a firm system sale to APS for thirty years during APS' summer peak season in the amount of 175 megawatts for the first five years, increasing thereafter, at APS' option, up to a maximum amount equal to the rated capacity of Cholla 4 (380 megawatts). APS also had the option to convert these firm system sales to one-for-one seasonal capacity exchanges with PacifiCorp. APS' agreements with PacifiCorp currently provide for the following Company purchases and one-for-one seasonal capacity exchanges during the indicated years: 1998 (175 megawatt firm capacity purchase, converting to capacity exchange in the summer of 1998; and 100 megawatt capacity exchange); 1999 and beyond (275 megawatt capacity exchange; and 205 megawatt capacity exchange beginning in the summer of 1999). In 1997, the generating capacity available to APS from PacifiCorp was 175 MW. APS received approximately 486,000 MWh of energy and paid approximately $17.4 million for capacity availability and the energy received.

During 1996, APS entered into an agreement with Citizens Utilities Company to build, own, operate and maintain a combustion turbine in northwest Arizona. Pursuant to a twenty-year purchase power agreement, APS will recover the cost of the turbine and CUC will pay for the output requested by CUC. APS has the right to secondary use of the output for cost of fuel and variable operations and maintenance. APS expects that the combustion turbine will be in service during the first quarter of 2001.

Construction Program

During the years 1995 through 1997, APS incurred approximately $824 million in capitalized expenditures. Utility capitalized expenditures for the years 1998 through 2000 are expected to be primarily for expanding transmission and distribution capabilities to meet customer growth, upgrading existing facilities, and for environmental purposes. Capitalized expenditures, including expenditures for environmental control facilities, for the years 1998 through 2000 have been estimated as follows:

(Millions of Dollars)

By Year		By Major Facilities	
		Production	$235
1998	$323	Transmission and Distribution	565
1999	313	General	119
2000	306	Other Projects	23
	$942		$942

The amounts for 1998 through 2000 exclude capitalized interest costs and include capitalized property taxes and about $30-$35 million each year for nuclear fuel. APS conducts a continuing review of its construction program.

Mortgage Replacement Fund Requirements

So long as any of APS' first mortgage bonds are outstanding, APS is required for each calendar year to deposit with the trustee under its Mortgage cash in a formularized amount related to net additions to APS' mortgaged utility plant; however, APS may satisfy all or any part of this "replacement fund" requirement by utilizing redeemed or retired bonds, net property additions, or property retirements. For 1997, the replacement fund requirement amounted to approximately $134 million. All of the bonds issued by APS under the Mortgage which are callable prior to maturity are redeemable at their par value plus accrued interest with cash deposited by APS in the replacement fund, subject in many cases to a period of time after the original issuance of the bonds during which they may not be so redeemed and/or to other restrictions on any such redemption.

Environmental Matters

EPA Environmental Regulation

Clean Air Act. Pursuant to the 1977 amendments to the Clean Air Act, the EPA adopted regulations that address visibility impairment in certain federally-protected areas which can be reasonably attributed to specific sources. In September 1991, the EPA issued a final rule that would limit sulfur dioxide emissions at NGS. Compliance with the emission limitation became applicable to one NGS unit in 1997 and becomes applicable to another unit in 1998 and to the last unit in 1999. SRP, the NGS operating agent, has estimated a capital cost of $440 million and annual operations and maintenance costs of approximately $14 million for all three units, for NGS to meet these requirements. APS is required to fund 14% of these expenditures. Approximately 80% of these capital costs have been incurred through 1997.

The Clean Air Act Amendments of 1990 (the "Amendments") address, among other things, "acid rain," visibility in certain specified areas, toxic air pollutants and the nonattainment of national ambient air quality standards. With respect to "acid rain," the Amendments establish a system of sulfur dioxide emissions "allowances." Each existing utility unit is granted a certain number of "allowances." For Phase II plants, which includes APS-owned plants, allowances will be required beginning in the year 2000 to operate the plants. On March 5, 1993, the EPA promulgated rules listing allowance allocations applicable to APS-owned plants. Based on those allocations, APS will have sufficient allowances to permit continued operation of its plants at current levels without installing additional equipment. In addition, the Amendments require the EPA to set nitrogen oxides emissions limitations which would require certain plants to install additional pollution control equipment. In December 1996, the EPA issued rules for nitrogen oxides emissions limitations that may require APS to install additional pollution control equipment at Four Corners by January

1, 2000. Based on its initial evaluation, APS currently estimates its capital cost of complying with the rules may be approximately $4 million. On February 14, 1997, APS filed a Petition for Review in the United States Court of Appeals for the District of Columbia alleging that the EPA improperly classified Four Corners Unit 4 in these rules, thereby subjecting Unit 4 to a more stringent emission limitation. Arizona Public Service Company v. United States Environmental Protection Agency, No. 97-1091. In February 1998, the Court vacated the Unit 4 emission limitation and remanded the issue to EPA for reconsideration. APS cannot currently predict how the EPA will respond.

With respect to protection of visibility in certain specified areas, the Amendments require the EPA to conduct a study concerning visibility impairment in those areas and identification of sources contributing to such impairment. Interim findings of this study have indicated that any beneficial effect on visibility as a result of the Amendments would be offset by expected population and industry growth. The EPA has established a "Grand Canyon Visibility Transport Commission" to complete a study on visibility impairment in the "Golden Circle of National Parks" in the Colorado Plateau. NGS, Cholla, and Four Corners are located near the "Golden Circle of National Parks." The Commission completed its study and on June 10, 1996 submitted its final recommendations to the EPA. The Commission recommended that, beginning in 2000 and every 5 years thereafter, if actual sulfur dioxide emissions from all stationary sources in an eight-state region (including Arizona, New Mexico, Utah, Nevada, and California) exceed the projected emissions, which are projected to decline under the current regulatory scheme, the projected total emissions will be changed to a "regional emissions cap" and an emissions trading program would be implemented to limit total sulfur dioxide emissions in the region. The EPA will consider these recommendations before promulgating final requirements on a regional haze regulatory program which is under EPA review, which is expected by June 1998. If such a program were implemented, industry, including APS' coal plants, could be subject to further emissions limits. APS cannot currently estimate the capital expenditures, if any, which may be required as a result of the EPA studies and the Commission's recommendations.

In July 1997, the EPA proposed regulations on regional haze. The proposal would require states to submit plans to meet "presumptive reasonable progress targets" for achieving perceptible improvements in visibility conditions in Federal Class I areas (e.g., national parks) every 10-15 years. The proposal also calls for states to conduct three year "best available retrofit technology" ("BART") review on point sources which became operational between 1962 and 1977 and which may normally be anticipated to contribute to regional haze visibility impairment. EPA is currently reviewing public comments and final regulations are expected to be promulgated by June 1998. Because the actual level of emissions controls, if any, for any unit cannot be determined at this time, APS currently cannot estimate the capital expenditures, if any, which would result from the final rules.

With respect to hazardous air pollutants emitted by electric utility steam generating units, the Amendments require two studies. The results of the first study indicated an impact from mercury emissions from such units in certain unspecified areas; however, the EPA has not yet stated whether or not emissions limitations will be imposed. Next, the EPA will complete a general study by 1999 concerning the necessity of regulating such units under the Amendments. Due to the lack of historical data, and because APS cannot speculate as to the ultimate requirements by the EPA, APS cannot currently estimate the capital expenditures, if any, which may be required as a result of these studies.

Certain aspects of the Amendments may require related expenditures by APS, such as permit fees, none of which APS expects to have a material impact on its financial position or results of operations.

Also, in July 1997, EPA promulgated final National Ambient Air Quality Standards for ozone and particulate matter. Pursuant to the rules, the ozone standard is more stringent and a new ambient standard for very fine particles has been established. APS does not currently expect these rules to have a material adverse effect on its financial position or results of operations.

Superfund. The Comprehensive Environmental Response, Compensation, and Liability Act ("Superfund") establishes liability for the cleanup of hazardous substances found contaminating the soil, water or air. Those who generated, transported, or disposed of hazardous substances at a contaminated site are among those who are potentially responsible parties ("PRP's") and may be each strictly, and often jointly and severally, liable for the cost of any necessary remediation of the substances. The EPA had previously advised APS that the EPA considers APS to be a PRP in the Indian Bend Wash Superfund Site, South Area, where APS' Ocotillo Power Plant is located. APS is in the process of conducting a voluntary investigation to determine the extent and scope of contamination at the plant site. Based on the information to date, APS does not expect this matter to have a material impact on its financial position or results of operations.

MGP Sites. APS currently is investigating properties, either presently or previously owned by APS, which were at one time sites of, or sites associated with, manufactured gas plants. The purpose of this investigation is to determine if waste materials are present, if such materials constitute an environmental or health risk, and if APS has any responsibility for remedial action. Where appropriate, APS has begun remediation of certain of these sites. APS does not expect these matters to have a material adverse effect on its financial position or results of operations.

Purported Navajo Environmental Regulation

Four Corners and NGS are located on the Navajo Reservation and are held under easements granted by the federal government as well as leases from the Navajo Nation. APS is the Four Corners operating agent and owns a 100% interest in Four Corners Units 1, 2 and 3, and a 15% interest in Four Corners Units 4 and
5. APS owns a 14% interest in NGS Units 1, 2 and 3. In July 1995, the Navajo Nation enacted the Navajo Nation Air Pollution Prevention and Control Act, the Navajo Nation Safe Drinking Water Act, and the Navajo Nation Pesticide Act (collectively, the "Acts").

Pursuant to the Acts, the Navajo Nation Environmental Protection Agency is authorized to promulgate regulations covering air quality, drinking water and pesticide activities, including those that occur at Four Corners and NGS. By separate letters dated October 12 and October 13, 1995, the Four Corners participants and the NGS participants requested the United States Secretary of the Interior to resolve their dispute with the Navajo Nation regarding whether or not the Acts apply to operations of Four Corners and NGS. On October 17, 1995, the Four Corners participants and the NGS participants each filed a lawsuit in the District Court of the Navajo Nation, Window Rock District, seeking, among other things, a declaratory judgment that (i) their respective leases and federal easements preclude the application of the Acts to the operations of Four Corners and NGS, and (ii) the Navajo Nation and its agencies and courts lack adjudicatory jurisdiction to determine the enforceability of the Acts as applied to Four Corners and NGS. On October 18, 1995, the Navajo Nation and the Four Corners and NGS participants agreed to indefinitely stay the proceedings referenced in the preceding two sentences so that the parties may attempt to resolve the dispute without litigation, and the Secretary and the Court have stayed these proceedings pursuant to a request by the parties. APS cannot currently predict the outcome of this matter.

In February 1998, the EPA promulgated regulations specifying those provisions of the Clean Air Act for which it is appropriate to treat Indian tribes in the same manner as states. The EPA indicated that it believes that the Clean Air Act generally would supersede pre-existing binding agreements that may limit the scope of tribal authority over reservations. APS is reviewing the regulations to determine what effect they might have on the application of the Navajo Nation Air Pollution Prevention and Control Act on Four Corners and NGS.

Water Supply

Assured supplies of water are important both to APS (for its generating plants) and to its customers and, at the present time, APS has adequate water to meet its needs. However, conflicting claims to limited amounts of water in the southwestern United States have resulted in numerous court actions in recent years.

Both groundwater and surface water in areas important to APS' operations have been the subject of inquiries, claims and legal proceedings which will require a number of years to resolve. APS is one of a number of parties in a proceeding before a state court in New Mexico to adjudicate rights to a stream system from which water for Four Corners is derived. (State of New Mexico, in the relation of S.E. Reynolds, State Engineer v. United States of America, City of Farmington, Utah International, Inc., et al., San Juan County, New Mexico, District Court No. 75-184). An agreement reached with the Navajo Nation in 1985, however, provides that if Four Corners loses a portion of its rights in the adjudication, the Navajo Nation will provide, for a then-agreed upon cost, sufficient water from its allocation to offset the loss.

A summons served on APS in early 1986 required all water claimants in the Lower Gila River Watershed in Arizona to assert any claims to water on or before January 20, 1987, in an action pending in Maricopa County Superior Court. (In re The General Adjudication of All Rights to Use Water in the Gila River System and Source, Supreme Court Nos. WC-79-0001 through WC 79-0004 (Consolidated) [WC-1, WC-2, WC-3 and WC-4 (Consolidated)], Maricopa County Nos. W-1, W-2, W-3 and W-4 (Consolidated)). Palo Verde is located within the geographic area subject to the summons, and the rights of the Palo Verde participants, including APS, to the use of groundwater and effluent at Palo Verde is potentially at issue in this action. APS, as project manager of Palo Verde, filed claims that dispute the court's jurisdiction over the Palo Verde participants' groundwater rights and their contractual rights to effluent relating to Palo Verde and, alternatively, seek confirmation of such rights. Three of APS' less-utilized power plants are also located within the geographic area subject to the summons. APS' claims dispute the court's jurisdiction over APS' groundwater rights with respect to these plants and, alternatively, seek confirmation of such rights. On December 10, 1992, the Arizona Supreme Court heard oral argument on certain issues in this matter which are pending on interlocutory appeal. Issues important to APS' claims were remanded to the trial court for further action and the trial court certified its decision for interlocutory appeal to the Arizona Supreme Court. On September 28, 1994, the Arizona Supreme Court granted review of the trial court decision. No trial date concerning the water rights claims of APS has been set in this matter.

APS has also filed claims to water in the Little Colorado River Watershed in Arizona in an action pending in the Apache County Superior Court. (In re The General Adjudication of All Rights to Use Water in the Little Colorado River System and Source, Supreme Court No. WC-79-0006 WC-6, Apache County No. 6417). APS' groundwater resource utilized at Cholla is within the geographic area subject to the adjudication and is therefore potentially at issue in the case. APS' claims dispute the court's jurisdiction over APS' groundwater rights and, alternatively, seek confirmation of such rights. The parties are in the process of settlement negotiations with respect to this matter. No trial date concerning the water rights claims of APS has been set in this matter.

Although the foregoing matters remain subject to further evaluation, APS expects that the described litigation will not have a material adverse impact on its financial position or results of operations.

BUSINESS OF SUNCOR DEVELOPMENT COMPANY

SunCor was incorporated in 1965 under the laws of the State of Arizona and is engaged primarily in the owning, development, and sale of real property, including homebuilding. The principal executive offices of SunCor are located at 3838 North Central, Suite 1500, Phoenix, Arizona 85012 (telephone 602-285-6800). SunCor and its subsidiaries, excluding SunCor Resort & Golf Management, Inc. ("Resort Management"), employ approximately 140 persons. Resort Management, which manages the Wigwam Resort and Country Club (the "Wigwam") golf and other operations, employs between 620 and 750 persons at the Wigwam, depending on the Wigwam's operating season. Resort Management also operates golf and other operations which employ approximately 300 persons.

Effective January 1, 1996, SunCor's homebuilding subsidiary, SunCor Homes, Inc., purchased the assets of Golden Heritage Homes. Subsequent to December 31, 1996, SunCor Homes, Inc. changed its name to Golden Heritage Homes, Inc.

SunCor's projects consist primarily of land and improvements and other real estate investments. SunCor owns approximately 11,000 acres west of Phoenix in the area of Goodyear/Litchfield Park, Arizona ("Palm Valley"), including a private water and sewer company to provide those utility services to the property. A portion of the undeveloped property is currently being used for agricultural purposes. SunCor has completed the master-plan for developing Palm Valley. The commercial and residential development of approximately 768 acres is well underway and includes an 18-hole championship golf course. In addition, within the Palm Valley project, SunCor has entered into joint ventures to develop 2,200 acres as a retirement community, known as PebbleCreek, 350 acres as a planned area development, known as Litchfield Greens, and a 130-unit apartment complex known as the Palm Valley Apartments. Commercial development in Palm Valley includes the Wigwam Outlet Stores and Palm Valley MarketPlace; approximately 309,000 square feet of retail space; and the Palm Valley Crossing, an approximately 99 acre mixed-use commercial center.

SunCor's projects under development also include acquisition of a 1,400 acre master-planned community north of Phoenix called Tatum Ranch, a 1,400 acre master-planned community northeast of Phoenix called Scottsdale Mountain, a 140 acre master-planned project for business use northwest of Phoenix called Talavi and a 420 acre master-planned project for business use east of Phoenix called MarketPlace. SunRidge Canyon, a 950 acre golf and residential master-planned community northeast of Phoenix, and Sedona Golf Resort, a 300 acre golf and residential master-planned community near Sedona, Arizona are also being developed jointly with other venture partners. In 1996, SunCor acquired an option to develop a 21,000 acre master-planned community as a joint venture in Santa Fe, New Mexico called Rancho Viejo. The initial 2,500 acres are under development.

For the years ended December 31, 1997, 1996, and 1995, SunCor's operating revenues were approximately $116.5 million, $99.5 million, and $54.8 million, respectively, and its income was approximately $5.3 million, $4.2 million, and $4.1 million, respectively. SunCor's capital needs consist primarily of capital expenditures and home construction, which, on the basis of projects now under development, are expected to approximate $45 million, $58 million, and $51 million for 1998, 1999, and 2000, respectively.

At December 31, 1997, SunCor had total assets of approximately $403 million. See Note 6 of Notes to the Consolidated Financial Statements in Item 8 for information regarding SunCor's long-term debt. SunCor intends to continue its focus on real estate development in homebuilding and the development of residential, commercial, and industrial projects.

BUSINESS OF EL DORADO DEVELOPMENT COMPANY

El Dorado was incorporated in 1983 under the laws of the State of Arizona and is engaged principally in the business of making equity investments in other companies. El Dorado's short-term goal is to convert its venture capital portfolio to cash as quickly and as advantageously as possible. On a long-term basis, the Company may use El Dorado, when appropriate, as its subsidiary for new ventures that are strategically close to the Company's principal business of generating, distributing, and marketing electricity. El Dorado's offices are located at 400 East Van Buren Street, Suite 750, Phoenix, Arizona 85004 (telephone 602-379-2662).

El Dorado had investments in venture capital partnerships totaling approximately $7.4 million at December 31, 1997. In addition to the foregoing investments, at December 31, 1997, El Dorado had direct investments of approximately $13.8 million in other private and public companies and partnerships. These investments include a 49% interest in NAC International, a company that specializes in nuclear spent fuel storage and transportation technology, as well as nuclear fuel cycle and international energy policy consulting.

For the years ended December 31, 1997, 1996, and 1995, El Dorado's net income was approximately $8.2 million, $0.4 million, and $8.5 million, respectively. At December 31, 1997, El Dorado had total assets of approximately $34.5 million.

ITEM 2. PROPERTIES

Accredited Capacity

APS' present generating facilities have an accredited capacity aggregating 3,986,900 kW, comprised as follows:

	Capacity(kW)
Coal:	
Units 1, 2 and 3 at Four Corners, aggregating	560,000
15% owned Units 4 and 5 at Four Corners, representing	222,000
Units 1, 2 and 3 at Cholla Plant, aggregating	615,000
14% owned Units 1, 2 and 3 at the Navajo Plant, representing	315,000
	1,712,000
Gas or Oil:	
Two steam units at Ocotillo and two steam units at Saguaro, aggregating	435,000(1)
Eleven combustion turbine units, aggregating	493,000
Three combined cycle units, aggregating	255,000
	1,183,000
Nuclear:	
29.1% owned or leased Units 1, 2 and 3 at Palo Verde, representing	1,086,300
Other	5,600

(1) West Phoenix steam units (108,300 kW) are currently mothballed.

Reserve Margin

APS' peak one-hour demand on its electric system was recorded on August 22, 1997 at 4,608,600 kW, compared to the 1996 peak of 4,574,700 kW recorded on July
31. Taking into account additional capacity then available to it under purchase power contracts as well as its own generating capacity, APS' capability of meeting system demand on August 22, 1997, computed in accordance with accepted industry practices, amounted to 4,544,600 kW, for an installed reserve margin of (1.5%). The power actually available to APS from its resources fluctuates from time to time due in part to planned outages and technical problems. The available capacity from sources actually operable at the time of the 1997 peak amounted to 5,877,600 kW, for a margin of 9.1%. Firm purchases from neighboring utilities totaling 1,603,000 kW were in place at the time of the peak ensuring the ability to meet the load requirement.

Plant Sites Leased from Navajo Nation

NGS and Four Corners are located on land held under easements from the federal government and also under leases from the Navajo Nation. The risk with respect to enforcement of these easements and leases is not deemed by APS to be material. The lease for Four Corners contains a waiver until 2001 of the requirement that APS and its fuel supplier pay certain taxes to the Navajo Nation. In September 1997, a settlement agreement was finalized between APS, the coal supplier to Four Corners, and the Navajo Nation which settled certain issues in the Four Corners lease regarding the obligation of the fuel supplier to pay taxes prior to the expiration of tax waivers in 2001. Pursuant to the agreement, APS recognized approximately $14 million of pretax earnings related to a partial refund of possessory interest taxes paid by the fuel supplier. The parties also agreed to renegotiate their business relationship before 2001 in an effort to permit the electricity generated at Four Corners to be priced competitively. APS cannot currently predict the outcome of this matter. Certain of APS' transmission lines and almost all of its contracted coal sources are also located on Indian reservations. See "Generating Fuel and Purchased Power --- Coal Supply" in Item 1.

Palo Verde Nuclear Generating Station

Palo Verde Leases

On August 18, 1986 and December 19, 1986, APS entered into a total of three sale and leaseback transactions under which it sold and leased back approximately 42% of its 29.1% ownership interest in Palo Verde Unit 2. The leases under each of the sale and leaseback transactions have initial lease terms expiring on December 31, 2015. Each of the leases also allows APS to extend the term of the lease and/or to repurchase the leased Unit 2 interest under certain circumstances at fair market value. The leases in the aggregate require annual payments of approximately $40 million through 1999, approximately $46 million in 2000 and approximately $49 million through 2015 (see Note 10 of Notes to Financial Statements in Item 8).

Regulatory

Operation of each of the three Palo Verde units requires an operating license from the NRC. Full power operating licenses for Units 1, 2 and 3 were issued by the NRC in June 1985, April 1986 and November 1987, respectively. The full power operating licenses, each valid for a period of approximately 40 years, authorize APS, as operating agent for Palo Verde, to operate the three Palo Verde units at full power.

Nuclear Decommissioning Costs

See Note 13 of Notes to Financial Statements in Item 8 for a discussion of APS' nuclear decommissioning costs.

Steam Generators

See "Palo Verde Nuclear Generating Station" in Note 12 of Notes to Financial Statements in Item 8 for a discussion of issues relating to the Palo Verde steam generators.

Palo Verde Liability and Insurance Matters

See "Palo Verde Nuclear Generating Station" in Note 12 of Notes to Financial Statements in Item 8 for a discussion of the insurance maintained by the Palo Verde participants, including APS, for Palo Verde.

Other Information Regarding APS' Properties

See "Environmental Matters" and "Water Supply" in Item 1 with respect to matters having possible impact on the operation of certain of APS' power plants.

See "Construction Program" in Item 1 and "Financial Review --- Capital Needs and Resources" in Item 7 for a discussion of APS' construction plans.

See Notes 6, 10 and 11 of Notes to Financial Statements in Item 8 with respect to property of APS not held in fee or held subject to any major encumbrance.

Information Regarding SunCor's and El Dorado's Properties

See "Business of SunCor Development Company" and "Business of El Dorado Investment Company" for information regarding SunCor's and El Dorado's properties.

[MAP PAGE]

In accordance with Item 304 of Regulation S-T of the Securities Exchange Act of 1934, APS' Service Territory map contained in this Form 10-K is a map of the State of Arizona showing APS' service area, the location of its major power plants and principal transmission lines, and the location of transmission lines operated by APS for others. The major power plants shown on such map are the Navajo Generating Station located in Coconino County, Arizona; the Four Corners Power Plant located near Farmington, New Mexico; the Cholla Power Plant, located in Navajo County, Arizona; the Yucca Power Plant, located near Yuma, Arizona; and the Palo Verde Nuclear Generating Station, located about 55 miles west of Phoenix, Arizona (each of which plants is reflected on such map as being jointly owned with other utilities), as well as the Ocotillo Power Plant and West Phoenix Power Plant, each located near Phoenix, Arizona, and the Saguaro Power Plant, located near Tucson, Arizona. APS' major transmission lines shown on such map are reflected as running between the power plants named above and certain major cities in the State of Arizona. The transmission lines operated for others shown on such map are reflected as running from the Four Corners Plant through a portion of northern Arizona to the California border.

ITEM 3. LEGAL PROCEEDINGS

APS

Property Taxes

See "Environmental Matters" and "Water Supply" in Item 1 in regard to pending or threatened litigation and other disputes. See "Regulatory Matters" in Note 3 of Notes to Financial Statements in Item 8 for a discussion of competition and the Rules regarding the introduction of retail electric competition in Arizona. On February 28, 1997, a lawsuit was filed by APS to protect its legal rights regarding the Rules and in its complaint APS asked the Court for (i) a judgment vacating the retail electric competition rules, (ii) a declaratory judgment that the rules are unlawful because, among other things, they were entered into without proper legal authorization, and (iii) a permanent injunction barring the ACC from enforcing or implementing the rules and from promulgating any other regulations without lawful authority (Arizona Public Service Company v. The Arizona Corporation Commission, in the Superior Court of the State of Arizona in and for the County of Maricopa, No. CV97-03753, and Arizona Public Service Company v. The Arizona Corporation Commission, in the Court of Appeals, State of Arizona, Division One, No. 1 CA-CC-97-0002, ACC Docket No. R-0000- 94-165). That lawsuit is pending but two related cases filed by other utilities have been decided adversely to the utilities' positions.

Pinnacle West

On April 22, 1991 a lawsuit was filed in the United States District Court of Arizona by the Resolution Trust Corporation (the "RTC") against certain former officers and directors of MeraBank. The suit sought, among other things, damages in excess of $270 million, and alleged claims for negligence, gross negligence, breach of fiduciary duty, breach of duty of loyalty and breach of contract with respect to the management and operation of MeraBank by the defendants beginning in the early 1980s. On December 30, 1993, and as the result of a negotiated settlement, the United States District Court for the District of Arizona (the "Arizona District Court") entered orders and final judgments that, among other matters, partially dismissed the litigation described above. Two non-settling individuals who pursued independent claims against the RTC were not dismissed from the RTC litigation.

The non-settling individuals have filed a third-party complaint against the Company in the Arizona District Court alleging claims for contractual and statutory indemnification in the event that these individuals are found liable on the RTC's claims against them. The third-party complaint, which was served on the Company on or about November 13, 1995, further alleges that the Company acted in bad faith and wrongfully denied indemnification to these individuals and seeks compensatory and punitive damages in an unspecified amount as well as costs and attorneys' fees. In addition, one of these individuals seeks a judicial determination that the Company is obligated to pay him pension benefits in an unspecified amount in the event that the RTC does not fully pay these benefits. The December 30, 1993 settlement order barred the non-settling individuals from asserting claims for contribution and certain claims for noncontractual indemnification against the Company. On February 3, 1997, the Arizona District Court granted summary judgment in favor of the Company and ordered the dismissal of this third-party complaint with prejudice. On February 18, 1997, the Company filed a motion with the court requesting entry of a judgment and order of dismissal with prejudice and requesting certification of the judgment as final. On March 27, 1997, the court granted the Company's motion and entered a final judgment and order of dismissal with prejudice in favor of the Company. On April 24, 1997, the plaintiffs filed a notice of appeal with respect to the court's ruling. On February 4, 1998, the Company entered into a settlement with the plaintiffs, and on February 24, 1998, the court entered an order dismissing the appeal with prejudice.

On January 18, 1991, a lawsuit was filed in the United States District Court, Southern District of Ohio, Western Division, against, among other parties, the Company and certain of its officers and directors, the Office of Thrift Supervision ("OTS"), the RTC and the Federal Deposit Insurance Corporation ("FDlC"). The amended complaint in this lawsuit alleges that the plaintiff purchased MeraBank subordinated debentures with a face amount of $ 1 million in 1987 in reliance upon a capital maintenance stipulation executed by the Company as a condition to the Company's acquisition of MeraBank. The plaintiff further alleges that the value of such debentures was impaired because of the Company's release from its purported obligations under the stipulation and the actions of the OTS in placing MeraBank in receivership. The amended complaint alleges claims under the federal securities laws, the federal racketeering statutes, and state consumer fraud statutes and seeks damages in the approximate amount of $4.8 million, plus interest. On June 8,1993, the Ohio court ordered this case to be transferred to the District of Arizona. The individual director defendants were subsequently dismissed without prejudice pursuant to the stipulation of the parties. On November 10, 1994, the Company filed a motion for summary judgment on all counts, which on September 20, 1995 was granted in part and denied in part. The order rejected the plaintiff's claims as to one of the two purchases of MeraBank debentures at issue, and accordingly, reduced the amount in controversy to one-half of the original claimed amount. On October 4, 1996, the plaintiff filed a motion to amend its complaint to broaden the factual basis for its claims under theories of securities fraud, racketeering and consumer fraud. On December 12, 1997, the parties entered into a settlement agreement. Pursuant to the terms of the settlement agreement, funds in an amount not material to the Company have been paid to plaintiff in full and final settlement of this litigation. On December 16, 1997, the court issued a formal order dismissing the lawsuit.

On August 17, 1993, the Company was served with a separate complaint filed by the same plaintiff in the United States District Court for the District of Arizona alleging claims under the Arizona Racketeering Act and the Arizona Consumer Fraud Act seeking compensatory damages in the amount of $ 1.2 million plus interest, punitive damages, treble damages, interest, attorneys' fees and costs. On September 24, 1993, the plaintiff voluntarily dismissed the Arizona Consumer Fraud Act claims. On March 6, 1995, the court dismissed the Arizona Racketeering Act claims. The plaintiff filed a motion for reconsideration which was denied. On April 5, 1995, the plaintiff appealed the dismissal to the Ninth Circuit Court of Appeals. The appeal was denied, and the plaintiff filed a motion for reconsideration. As part of the December 12, 1997 settlement agreement described above, the parties filed a joint stipulation for withdrawal of the motion for reconsideration. A formal mandate withdrawing the motion has not yet been issued by the court.

On May 1, 1991, a lawsuit was filed in the United States District Court for the District of Arizona against the Company by another purchaser of the same issue of MeraBank subordinated debentures referred to above. This plaintiff also claims to have purchased the debentures, with a face amount of approximately $12.4 million, in reliance upon the stipulation. The suit further alleges that the Company induced the plaintiff to retain its investment in the debentures by representing to the plaintiff that the Company would keep MeraBank capitalized in accordance with federal regulatory requirements. The suit alleges violations of federal and state securities laws, fraud, negligent representation, promissory estoppel, racketeering and intentional interference with contractual relations. On October 7, 1994, the court dismissed the plaintiff's federal securities law claims. On May 4, 1995, the court granted the Company's motion for reconsideration and also dismissed plaintiff's state securities law claims. The plaintiff sought unspecified compensatory and punitive damages and requested that the compensatory damages be trebled under the Arizona Racketeering Act. On December 10, 1996, the parties executed a settlement agreement and mutual release in full and final settlement of this litigation. Settlement funds in an amount not material to the Company have been paid to plaintiff. The parties have filed a joint stipulation for dismissal with prejudice of the lawsuit. A formal order dismissing the lawsuit has not yet been issued by the court.

On December 22, 1993, the Company was served with a complaint filed by other purchasers of MeraBank subordinated debentures with a face amount of approximately $ 1.5 million alleging claims substantially similar to the claims described in the preceding paragraph. The complaint, which was filed in the Arizona District Court, seeks compensatory and punitive damages in an unspecified amount plus attorneys' fees and costs. On October 6, 1995, the Company filed a motion for summary judgment seeking dismissal of the suit based on, among other things, a claim that the applicable statute of limitations had expired. On November 13, 1995, the plaintiffs filed a cross-motion for partial summary judgment with respect to certain of the Company's alleged misrepresentations and omissions and asserted a fraudulent concealment defense to the expiration of the applicable statutes of limitations. On April 12, 1996, the court granted the Company's motion for summary judgment and dismissed plaintiffs' claims with prejudice. On May 13, 1996, plaintiffs filed a notice of appeal to the Ninth Circuit Court of Appeals. On July 8, 1997, the Ninth Circuit affirmed the grant of summary judgment in favor of the Company. No further appellate proceedings have been undertaken by the plaintiffs, and the Ninth Circuit's affirmance of the Arizona District Court's grant of summary judgment in favor of the Company is final.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report, through the solicitation of proxies or otherwise.

SUPPLEMENTAL ITEM. EXECUTIVE OFFICERS OF THE REGISTRANT

The Company's executive officers are as follows:

Name	Age at March 1, 1998	Position(s) at March 1, 1998
Michael S. Ash	44	Corporate Counsel
James L. Kunkel	60	Vice President
Arlyn J. Larson	63	Vice President of Corporate Planning and Development
Michael V. Palmeri	39	Treasurer
William J. Post	47	President
George A. Schreiber, Jr.	49	Executive Vice President and Chief Financial Officer
Richard Snell	67	Chairman of the Board of Directors and Chief Executive Officer
Faye Widenmann	49	Vice President of Corporate Relations and Administration and Secretary

The executive officers of the Company are elected no less often than annually and may be removed by the Board of Directors at any time. The terms served by the named officers in their current positions and the principal occupations (in addition to those stated in the table) of such officers for the past five years have been as follows:

Mr. Ash was elected Corporate Counsel of the Company in February 1991. He previously held the position of Legal Counsel to the Company from December 1986 to February 1991.

Mr. Kunkel was elected Vice President of the Company effective December 15, 1997. Prior to December 1997, he was a partner in the Phoenix office of the accounting firm of Coopers & Lybrand.

Mr. Larson was elected Vice President, Corporate Planning and Development in July 1986.

Mr. Palmeri was elected to the position of Treasurer of both the Company and APS effective July 23, 1997. From February 1994 to July 1997, he was Assistant Treasurer of the Company. From June 1990 to February 1994, he was Manager of Finance of the Company.

Mr. Post was elected President of the Company effective February 5, 1997 after having served as its Executive Vice President since June 1995. He has also been the President and Chief Executive Officer of APS since February 1997.

He has been APS' Chief Operating Officer since September 1994, as well as a Senior Vice President since June 1993. Prior to that time, he had served as a Vice President of APS since 1982. Mr. Post is also a director of APS.

Mr. Schreiber was elected to the positions of Executive Vice President and Chief Financial Officer of both the Company and APS effective February 3, 1997. From 1990 to January 1997, he was Managing Director at PaineWebber, Inc. He is also a director of APS.

Mr. Snell has been Chairman of the Board and Chief Executive Officer of the Company and Chairman of the Board of APS since February 1990. Until February 1997, he was also President of the Company. Mr. Snell is also a director of Aztar Corporation, Banc One Arizona Corporation and Central Newspapers, Inc.

Ms. Widenmann was elected Secretary of the Company in 1985 and Vice President of Corporate Relations and Administration in November 1986.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

The Company's common stock is publicly held and is traded on the New York and Pacific Stock Exchanges. At the close of business on March 23, 1998, the Company's common stock was held of record by approximately 48,000 shareholders.

The chart below sets forth the common stock price ranges on the composite tape, as reported in the Wall Street Journal for 1997 and 1996. The chart also sets forth the dividends declared and paid per share during each of the four quarters for 1997 and 1996.

Common Stock Price Ranges and Dividends

1997	High	Low	Dividend Per Share(a)
1st Quarter	32 7/8	30 1/8	$ 0.275
2nd Quarter	30 3/4	27 5/8	$ 0.550
3rd Quarter	34 7/8	29 13/16	$ ----
4th Quarter	42 3/4	33 3/16	$ 0.300
1996			
1st Quarter	30 1/4	26 1/4	$ 0.250
2nd Quarter	30 3/8	26 1/4	$ 0.500
3rd Quarter	30	28	$ 0.275
4th Quarter	32 1/4	29 1/2	$ ----

(a) Dividends for the third quarter of 1997 were declared in June. Dividends for the 3rd and 4th quarters of 1996 were declared in June and September, respectively.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

SELECTED CONSOLIDATED DATA

(Dollars in Thousands, Except Per Share Amounts)	1997	1996	1995	1994	1993
OPERATING RESULTS					
Operating revenues					
Electric	$ 1,878,553	$ 1,718,272	$ 1,614,952	$ 1,626,168	$ 1,602,413
Real estate	116,473	99,488	54,846	59,253	32,248
Income from continuing operations	$ 235,856	$ 211,059(a)	$ 199,608	$ 200,619(b)	$ 169,978(c)
Loss from discontinued operations - net of income tax (d)	-	(9,539)	-	-	-
Extraordinary charge for early retirement of debt - net of income tax (e)	-	(20,340)	(11,571)	-	-
Cumulative effect of change in accounting for income taxes (f)	-	-	-	-	19,252
Net income	$ 235,856	$ 181,180	$ 188,037	$ 200,619	$ 189,230
COMMON STOCK DATA					
Book value per share - year-end	$ 23.90	$ 22.51	$ 21.49	$ 20.32	$ 18.87
Earnings (loss) per average common share outstanding					
Continuing operations - basic	$ 2.76	$ 2.41(a)	$ 2.28	$ 2.30(b)	$ 1.95
Discontinued operations	-	(0.11)	-	-	-
Extraordinary charge	-	(0.23)	(0.13)	-	-
Accounting change	-	-	-	-	0.22
Net income - basic	$ 2.76	$ 2.07	$ 2.15	$ 2.30	$ 2.17
Continuing operations - diluted	$ 2.74	$ 2.40(a)	$ 2.27	$ 2.29(b)	$ 1.94
Net income - diluted	$ 2.74	$ 2.06	$ 2.14	$ 2.29	$ 2.16
Dividends declared per share	$ 1.125	$ 1.025	$ 0.925	$ 0.825	$ 0.20
Indicated annual dividend rate - year-end	$ 1.20	$ 1.10	$ 1.00	$ 0.90	$ 0.80
Average common shares outstanding	85,502,909	87,441,515	87,419,300	87,410,967	87,241,899
TOTAL ASSETS	$ 6,850,417	$ 6,989,289	$ 6,997,052	$ 6,909,752	$ 6,956,799
LIABILITIES AND EQUITY					
Long-term debt less current maturities	$ 2,244,248	$ 2,372,113	$ 2,510,709	$ 2,588,525	$ 2,633,620
Other liabilities	2,407,572	2,428,180	2,336,695	2,276,249	2,282,508
	4,651,820	4,800,293	4,847,404	4,864,774	4,916,128
Minority interests					
Non-redeemable preferred stock of APS	142,051	165,673	193,561	193,561	193,561
Redeemable preferred stock of APS	29,110	53,000	75,000	75,000	197,610
Common stock equity	2,027,436	1,970,323	1,881,087	1,776,417	1,649,500
TOTAL LIABILITIES AND EQUITY	$ 6,850,417	$ 6,989,289	$ 6,997,052	$ 6,909,752	$ 6,956,799

(a) Includes an after-tax charge of $18.9 million ($0.22 per share) for a voluntary severance program and approximately $12 million ($0.13 per share) of income tax benefits related to capital loss carryforwards.
(b) Includes after-tax Palo Verde Unit 3 accretion income of approximately $20.3 million and a non-recurring income tax benefit of $26.8 million ($0.31 per share) related to a change in tax law.
(c) Includes after-tax Palo Verde Unit 3 accretion income of approximately $45.3 million.
(d) Charges associated with the settlement of a legal matter related to MeraBank, A Federal Savings Bank.
(e) Charges associated with the repayment or refinancing of the parent company's high-coupon debt.
(f) Results of the adoption of the liability method of accounting for income taxes in accordance with SFAS No. 109.

(Dollars in Thousands, Except Per Share Amounts)	1997	1996	1995	1994	1993
ELECTRIC OPERATING REVENUES					
Residential	$ 744,952	$ 721,219	$ 672,794	$ 675,418	$ 627,732
Commercial	687,165	677,731	652,171	632,454	610,730
Industrial	164,456	161,636	156,666	166,606	169,154
Irrigation	8,733	9,495	9,571	10,548	9,246
Other	11,860	12,825	12,626	12,730	11,794
Total retail	1,617,166	1,582,906	1,503,828	1,497,756	1,428,656
Sales for resale	226,828	98,560	86,510	95,158	119,385
Transmission for others	10,295	10,240	9,390	9,506	7,979
Miscellaneous services	24,264	26,566	15,224	14,440	25,019
Electric operating revenues	1,878,553	1,718,272	1,614,952	1,616,860	1,581,039
Retail rate refund reversal	-	-	-	9,308	21,374
Net electric operating revenues	$ 1,878,553	$ 1,718,272	$ 1,614,952	$ 1,626,168	$ 1,602,413
ELECTRIC SALES (MWh)					
Residential	7,970,309	7,541,440	6,848,905	6,873,300	6,247,002
Commercial	8,524,882	8,233,762	7,768,289	7,456,049	7,040,026
Industrial	3,123,283	3,039,357	2,933,459	2,926,318	2,890,859
Irrigation	112,363	121,775	119,580	132,340	111,902
Other	86,090	84,362	78,478	76,827	75,175
Total retail	19,816,927	19,020,696	17,748,711	17,464,834	16,364,964
Sales for resale	9,233,573	3,367,234	2,720,704	2,764,223	3,685,736
Total electric sales	29,050,500	22,387,930	20,469,415	20,229,057	20,050,700
ELECTRIC CUSTOMERS - END OF YEAR					
Residential	680,478	654,602	625,352	603,989	578,718
Commercial	81,246	78,178	75,105	72,740	70,516
Industrial	3,192	3,055	2,913	2,976	3,061
Irrigation	764	841	837	897	880
Other	851	828	786	762	764
Total retail	766,531	737,504	704,993	681,364	653,939
Sales for resale	50	48	39	44	40
Total electric customers	766,581	737,552	705,032	681,408	653,979

See Financial Review on pages 24-27 for a discussion of certain information in the foregoing table.

QUARTERLY STOCK PRICES AND DIVIDENDS

Stock Symbol: PNW

1997	HIGH	LOW	CLOSE	Dividends Per SHARE(a)	1996	HIGH	LOW	CLOSE	Dividends Per SHARE(b)
1st Quarter	32 7/8	30 1/8	30 1/8	$ 0.275	1st Quarter	30 1/4	26 1/4	28 7/8	$ 0.250
2nd Quarter	30 3/4	27 5/8	30 1/16	$ 0.550	2nd Quarter	30 3/8	26 1/4	30 3/8	$ 0.500
3rd Quarter	34 7/8	29 13/16	33 5/8	$ -	3rd Quarter	30	28	29 5/8	$ 0.275
4th Quarter	42 3/4	33 3/16	42 3/8	$ 0.300	4th Quarter	32 1/4	29 1/2	31 3/4	$ -

(a) Dividends for the 3rd quarter of 1997 were declared in June.
(b) Dividends for the 3rd and 4th quarters of 1996 were declared in June and September, respectively.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operation

The following discussion relates to Pinnacle West and its subsidiaries: APS, SunCor and El Dorado. The discussion also relates to the discontinued operations of MeraBank, A Federal Savings Bank. References to "Notes" refer to Notes to Consolidated Financial Statements.

RESULTS OF OPERATIONS
1997 Compared with 1996

Pinnacle West reported net income of $235.9 million in 1997 compared with $181.2 million in 1996. The following is a summary:

(Thousands of Dollars)	1997	1996
Income from continuing operations	$ 235,856	$ 211,059
Loss from discontinued operations - net of income tax	-	(9,539)
Extraordinary charge for early retirement of debt - net of income tax	-	(20,340)
Net income	$ 235,856	$ 181,180

Earnings from continuing operations increased by $24.8 million (11.7%) primarily because of increased earnings at the subsidiaries and lower financing costs at the parent company resulting from debt reduction and lower interest rates. The 1996 loss from discontinued operations related to remnants of MeraBank legal matters.

APS' 1997 earnings increased $12.3 million (5.4%) over 1996 earnings primarily because of customer growth; a $32 million pretax charge in 1996 for a voluntary severance program; two fuel-related settlements; and lower financing costs. These positive factors more than offset the effects of APS' 1996 regulatory agreement with the Arizona Corporation Commission (ACC), which during 1997 resulted in approximately $60 million of additional regulatory asset amortization and a $35 million revenue decrease caused by two retail price reductions. See Note 3 and "Results of Operations - Regulatory Agreements" below for additional information about the 1996 regulatory agreement. In 1996, APS also recognized $12 million of income tax benefits, which were not repeated in 1997.

Electric operating revenues increased $160 million primarily because of increases in sales for resale ($128 million); customer growth ($58 million); and weather effects ($7 million). As mentioned in the preceding paragraph, these positive factors were partially offset by a $35 million revenue decrease caused by retail price reductions. Sales for resale are wholesale electricity sales to third parties who resell the electricity to their customers. The increase in sales for resale was a result of increased activity in competitive bulk power markets. The increase in sales for resale did not significantly affect earnings because it was substantially offset by higher power purchases.

The two fuel-related settlements increased 1997 pretax earnings by approximately $21 million. These settlements are reflected in the Consolidated Statement of Income as reductions in fuel expense and as other income. Approximately $16 million of the settlements related to years prior to 1997 and $5 million related to 1997. For at least the next several years, the total annual savings from the settlements are expected to be about $10 million before income taxes. APS does not have a fuel adjustment clause as part of its retail rate structure. As a result, changes in fuel and purchased power expenses are reflected in current earnings.

Operations and maintenance expenses were lower in 1997 because of the charge for the voluntary severance program recorded in 1996 and related savings in 1997. These savings were partially offset by increased expenses for marketing, information technology and power plant maintenance.

APS' financing costs decreased $12 million during 1997 because of lower amounts of outstanding debt and preferred stock.

SunCor reported net income of $5.3 million in 1997 compared with $4.2 million in 1996.

El Dorado reported net income of $8.2 million in 1997 compared with $0.4 million in 1996 as a result of investment sales in 1997.

1996 Compared with 1995

The Company reported net income of $181.2 million in 1996 compared with $188.0 million in 1995. The following is a summary:

(Thousands of Dollars)	1996	1995
Income from continuing		

operations	$ 211,059	$ 199,608
Loss from discontinued operations - net of income tax	(9,539)	-
Extraordinary charge for early retirement of debt - net of income tax	(20,340)	(11,571)
Net income	$ 181,180	$ 188,037

Excluding the effects of the discontinued operations and extraordinary items, the Company's 1996 earnings increased $11.5 million (5.7%) over 1995 earnings. This increase reflects increased earnings at APS and lower financing costs at the parent company due to continued debt reduction and lower interest rates.

APS' 1996 earnings increased $5.9 million (2.7%) over 1995 earnings primarily because of customer growth and higher residential usage; weather effects; tax and interest savings; and a $21 million pretax write-down of certain assets in 1995. These positive factors more than offset the effects of APS' 1996 regulatory agreement with the ACC, which during 1996 resulted in $60 million of additional regulatory asset amortization and a

$30 million revenue decrease caused by a retail price reduction. See Note 3 and "Results of Operations - Regulatory Agreements" below for additional information about the 1996 regulatory agreement.

Other important factors that made the comparison of APS' 1996 earnings with 1995 earnings less favorable were a $32 million pretax charge for a voluntary severance program; the recognition in 1995 of a $5 million after-tax gain on the sale of a small subsidiary; and increased fuel expenses of $56 million primarily because of increased retail and wholesale sales, higher natural gas costs and higher coal prices.

Electric operating revenues increased $103 million primarily because of retail customer growth and higher residential usage ($75 million); weather effects ($40 million); increases in sales for resale ($9 million); and other ($9 million). As mentioned above, these positive factors were partially offset by a $30 million revenue decrease caused by a retail price reduction.

Taxes other than income taxes decreased $21 million primarily because of a change in property tax law. Income tax expense was lower because of APS' recognition of $12 million of income tax benefits associated with capital loss carryforwards.

APS' financing costs decreased $12 million during 1996 because of lower average interest rates and lower amounts of outstanding debt and preferred stock.

SunCor reported net income of $4.2 million in 1996 compared with $4.1 million in 1995. Increased real estate revenues and operating expenses were the result of the acquisition of Golden Heritage Homes in 1996.

El Dorado reported net income of $0.4 million in 1996 compared with $8.5 million in 1995. The decrease reflects investment sales in 1995.

Regulatory Agreements

APS' results of operations are affected, and will be affected, by the impacts of existing regulatory agreements between APS and the ACC.

As part of the 1996 regulatory agreement with the ACC, APS is recovering substantially all of its present regulatory assets through accelerated amortization over an eight-year period that began July 1, 1996. See Note 3. This accelerated amortization increases annual amortization expense by approximately $120 million ($72 million after taxes).

Also as part of the 1996 regulatory agreement, APS agreed to decrease retail prices effective July 1, 1996 by approximately $48.5 million annually ($29 million after income taxes), or 3.4%. In addition, APS agreed to share future cost savings with its customers through potential additional retail price reductions. Pursuant to the agreed-upon price reduction formula, on July 1, 1997, APS reduced its retail prices by approximately $17.6 million annually ($10.5 million after income taxes), or 1.2%. Additionally, in March 1998, APS filed with the ACC its calculation of an additional retail price decrease of approximately $17 million annually ($10 million after income taxes), or 1%, to become effective July 1, 1998. The amount and timing of the price decrease are subject to ACC approval.

The factors that offset the earnings impact of the accelerated regulatory asset amortization and the 1997 and 1996 price decreases are discussed above in "Results of Operations."

As part of a 1994 settlement with the ACC, APS accelerated amortization of substantially all deferred investment tax credits (ITCs) over a five-year period that ends on December 31, 1999. The amortization of ITCs decreases annual consolidated income tax expense by approximately $24 million. See Note 4.

CAPITAL NEEDS AND RESOURCES

Parent Company

The parent company reduced its debt as follows: 1997, $45 million; 1996, $60 million; and 1995, $119 million. The parent company has a $250 million line of credit, under which borrowings of $155 million were outstanding at December 31, 1997. The parent company does not have any debt repayment obligations until 2001.

During the past three years, the parent company's primary cash needs were for common stock dividends, interest payments and optional and mandatory repayment of principal on its long-term debt. See Note 6. As provided in the 1996 regulatory agreement (see Note 3), the parent company invested $50 million in APS in 1997 and 1996 and will invest similar amounts annually in 1998 and 1999. During 1997, the Company repurchased $80 million of common stock, resulting in a reduction of 2.7 million shares outstanding at year-end.

Dividends from APS have been Pinnacle West's primary source of cash. SunCor provided cash to the parent in 1997, 1996 and 1995. El Dorado provided cash to the parent in 1997 and 1995. Both are expected to contribute to Pinnacle West's cash flow in 1998. Tax allocation payments to the parent company from subsidiaries, in excess of payments made by the parent company to taxing authorities, were an additional source of cash in 1997, 1996 and 1995, and are expected to provide additional cash in 1998.

APS

APS' capital requirements consist primarily of capital expenditures and optional and mandatory redemptions of long-term debt and preferred stock. APS funds its capital requirements from cash provided by operations, annual equity infusions from its parent company of $50 million from 1996 through 1999 (see Note 3), and, to the extent necessary, external financing. During the period 1995 through 1997, APS funded all of its capital expenditures from cash provided by operations and expects to do so in 1998 through 2000 as well.

During 1997, APS redeemed approximately $240 million of long-term debt and $47 million of preferred stock, including premiums, with cash from operations and long- and short-term debt.

APS' projected capital expenditures for the next three years are: 1998, $323 million; 1999, $313 million; and 2000, $306 million. These amounts include about $30 - $35 million each year for nuclear fuel. In general, most of the projected capital expenditures are for expanding transmission and distribution capabilities to meet customer growth, for upgrading existing facilities and for environmental purposes. In addition, APS is considering expanding certain of its businesses over the next several years, which may result in increased expenditures. APS' construction plans through the year 2007 do not include any major baseload generating plants.

APS' long-term debt and preferred stock redemption requirements and payment obligations on a capitalized lease for the next three years are: 1998, $114 million; 1999, $174 million; and 2000, $114 million. Based on cash provided by operations and APS' capital requirements, APS may make optional redemptions of long-term debt and preferred stock from time to time.

As of December 31, 1997, APS had credit commitments from various banks totaling approximately $400 million, which were available either to support the issuance of commercial paper or to be used as bank borrowings. At the end of 1997, there were $130.8 million of commercial paper and $150 million of bank borrowings outstanding.

During 1997, APS incurred $60 million of long-term debt under credit agreements and issued $50 million of its senior notes. Until APS has repaid all of its first mortgage bonds (other than those that secure senior notes), the senior notes are secured by first mortgage bonds that have the same interest rate, interest payment dates, maturity and redemption provisions as the senior notes. See Note 6 for additional information regarding the senior notes. In January 1998, APS issued $100 million of unsecured debt.

Although provisions in APS' first mortgage bond indenture, articles of incorporation and ACC financing orders establish maximum amounts of additional first mortgage bonds and preferred stock that APS may issue, management does not expect any of these provisions to limit APS' ability to meet its capital requirements.

Non-Utility Subsidiaries
During the past three years, SunCor and El Dorado each funded all of their cash requirements through cash flow from operations and their own financings.

SunCor's capital needs consist primarily of capital expenditures for land development and home construction, which, on the basis of projects now under development, are expected to be: 1998, $45 million; 1999, $58 million; and 2000, $51 million. Capital resources available to meet these requirements include funds provided by operations and SunCor's own external financings.

As of December 31, 1997, SunCor had a $55 million line of credit, under which $40.6 million of borrowing was outstanding. SunCor's debt repayment requirements as of December 31, 1997 were as follows: 1998, $4.6 million; 1999, $28.6 million; and 2000, $54.1 million.

COMPETITION AND INDUSTRY RESTRUCTURING
The electric industry is undergoing significant change to a competitive, market-based structure from a highly-regulated, cost-based environment in which companies have been entitled to recover their costs and earn fair returns on their invested capital in exchange for commitments to serve all customers within designated service territories. In December 1996, the ACC adopted rules that provide a framework for the introduction of retail electric competition in Arizona in phases from 1999 to 2003. See Note 3 for additional information about these rules and other competitive developments.

The ACC ordered in the rules that numerous issues require additional consideration prior to the implementation of retail electric competition in Arizona. During 1997, the ACC held workshops to gather input from various constituencies with respect to those issues.

The rules indicate that the ACC will allow recovery of unmitigated stranded costs, but do not set forth the mechanisms for determining and recovering such costs. In February 1998, the ACC completed a formal, generic hearing on stranded cost determination and recovery. Based on various assumptions, estimates and methodologies, APS currently estimates that its stranded costs to be recovered (excluding regulatory assets which have already been addressed by the ACC) will be less than $500 million. APS is seeking full recovery of stranded costs during a transition period proposed to go through 2006. Decisions by the ACC have not yet been made with respect to this issue.

An Arizona joint legislative committee studied electric utility restructuring issues in 1996 and 1997. In February 1998, a bill was introduced in the Arizona legislature to facilitate implementation of retail electric competition in the state. The bill has progressed through several stages to date. Additionally, legislation related to electric competition has been proposed in the United States Congress. See Note 3 for a discussion of legislative developments.

The Company believes that further ACC decisions, legislation at the Arizona and federal levels and perhaps amendments to the Arizona Constitution will ultimately be required before significant implementation of retail electric competition can lawfully occur in Arizona. Until it has been determined how competition will be implemented in Arizona, including the manner in which stranded costs will be addressed, the Company cannot accurately predict the impact of full retail competition on its financial position, cash flows or results of operations. As competition in the electric industry continues to evolve, the Company will continue to evaluate strategies and alternatives that will position the Company to compete effectively in a restructured industry.

APS prepares its financial statements in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." SFAS No. 71 requires a cost-based, rate-regulated enterprise to reflect the impact of regulatory decisions in its financial statements.

APS' existing regulatory orders and current regulatory environment support its accounting practices related to regulatory assets, which amounted to approximately $1.0 billion at December 31, 1997. In accordance with the 1996 regulatory agreement, the ACC accelerated the amortization of substantially all of APS' regulatory assets to an eight-year period that began July 1, 1996. If APS ceases to be cost-based regulated, it would no longer be able to apply the provisions of SFAS No. 71 to all or some part of its operations, which could have a material impact on the Company's financial statements. See Note 1 for additional information on regulatory accounting.

YEAR 2000 TECHNOLOGY ISSUES

The Company has made, and will continue to make, certain modifications to its computer hardware and software systems and applications to ensure they are capable of handling dates in the year 2000 and thereafter. The Company's major computer systems have been updated and other systems are being analyzed for potential modifications. The financial impact on the Company is not anticipated to be material to its financial position, cash flows or results of operations. The Company is in the process of formal communications with its significant suppliers, business partners and large customers to determine the extent to which it may be affected by these third parties' plans to remediate their own year 2000 issues in a timely manner.

ACCOUNTING MATTERS

Note 2 describes three new accounting standards related to comprehensive income,
segment disclosures and disclosures about pensions and other postretirement benefits, which are effective in 1998. These standards are not expected to have a material effect on the Company's financial position, cash flows or results of operations. Also, see Note 13 for a description of a proposed standard on accounting for certain liabilities related to closure or removal of long-lived assets.

RISK MANAGEMENT

The Company's operations include managing market risks related to changes in interest rates, commodity prices and investments held by the nuclear decommissioning trust fund.

Interest Rate and Equity Risk

The Company's major financial market risk exposure is changing interest rates. Changing interest rates will affect interest paid on variable rate debt and interest earned by the nuclear decommissioning trust fund. The Company's policy is to manage interest rates through the use of a combination of fixed and floating rate debt. The nuclear decommissioning fund also has risks associated with changing market values of equity investments. Nuclear decommissioning costs are recovered in rates.

The table below presents contractual balances of the Company's long-term and short-term debt at the expected maturity dates as well as the fair value of those instruments on December 31, 1997. The weighted average interest rates for the various debt presented are actual as of December 31, 1997.

Expected Maturity/Principal Repayment

December 31, (Thousands of Dollars)	Short-Term	Variable Long-Term	Fixed Long-Term
Weighted Average Rates	6.27%	5.06%	7.66%
1998	$ 130,750	$ 3,064	$ 105,631
1999	-	28,598	164,378
2000	-	54,133	104,711
2001	-	155,079	27,488
2002	-	150,088	125,000
Years thereafter	-	443,178	998,628
Total	$ 130,750	$ 834,140	$ 1,525,836
Fair Value	$ 130,750	$ 834,140	$ 1,556,697

Commodity Price Risk

The Company enters into forwards, futures and other similar contracts to hedge the price risks associated with a portion of anticipated future electricity production and gas purchases. Most of these agreements are settled in physical delivery, with the balance settled in cash at or prior to expiration. Under certain of these agreements, payments are sometimes made or received based on the differential between a fixed and a variable product price. The Company does not obtain collateral to support the agreements, but monitors the financial viability of counterparties and believes it has minimized its credit risk on these transactions. In the event of nonperformance by counterparties, the Company would be exposed to price risk. The Company may recognize an accounting gain or loss where actual delivery occurs and the price in the contract may differ from the prevailing price at the delivery point in completing the transaction. The Company defers the impact of changes in the market value of contracts that serve as hedges until the related transaction is completed.

FORWARD-LOOKING STATEMENTS

The above discussion contains forward-looking statements that involve risks and uncertainties. Words such as "estimates," "expects," "anticipates," "plans," "believes," "projects," and similar expressions identify forward-looking statements. These risks and uncertainties include, but are not limited to, the ongoing restructuring of the electric industry; the outcome of the regulatory proceedings relating to the restructuring; regulatory, tax and environmental legislation; the ability of APS to successfully compete outside its traditional regulated markets; regional economic conditions, which could affect customer growth; the cost of debt and equity capital; weather variations affecting customer usage; technological developments in the electric industry; and the strength of the real estate market.

These factors and the other matters discussed above may cause future results to differ materially from historical results, or from results or outcomes currently expected or sought by the Company.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

See Note 14 of Notes to Financial Statements for the selected quarterly financial data required to be presented in this Item.

REPORT OF MANAGEMENT

The primary responsibility for the integrity of the Company's financial information rests with management, which has prepared the accompanying financial statements and related information. Such information was prepared in accordance with generally accepted accounting principles appropriate in the circumstances, based on management's best estimates and judgments and giving due consideration to materiality. These financial statements have been audited by independent auditors and their report is included.

Management maintains and relies upon systems of internal accounting controls. A limiting factor in all systems of internal accounting control is that the cost of the system should not exceed the benefits to be derived. Management believes that the Company's system provides the appropriate balance between such costs and benefits.

Periodically the internal accounting control system is reviewed by both the Company's internal auditors and its independent auditors to test for compliance. Reports issued by the internal auditors are released to management, and such reports or summaries thereof are transmitted to the Audit Review Committee of the Board of Directors and the independent auditors on a timely basis.

The Audit Review Committee, composed solely of outside directors, meets periodically with the internal auditors and independent auditors (as well as management) to review the work of each. The internal auditors and independent auditors have free access to the Audit Review Committee, without management present, to discuss the results of their audit work.

Management believes that the Company's systems, policies and procedures provide reasonable assurance that operations are conducted in conformity with the law and with management's commitment to a high standard of business conduct.

Richard Snell Chairman & Chief Executive Officer	George A. Schreiber, Jr. Executive Vice President & Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying balance sheets of Pinnacle West Capital Corporation and its subsidiaries as of December 31, 1997 and 1996 and the related consolidated statements of income, retained earnings and cash flows for each of the three years in the period ended December 31, 1997. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Pinnacle West Capital Corporation and its subsidiaries at December 31, 1997 and 1996 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

Deloitte & Touche LLP
Phoenix, Arizona
March 4, 1998

PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31,
(Dollars in Thousands except Per Share Amount)

	1997	1996	1995
OPERATING REVENUES			
Electric	$ 1,878,553	$ 1,718,272	$ 1,614,952
Real estate	116,473	99,488	54,846
Total	1,995,026	1,817,760	1,669,798
FUEL EXPENSES			
Fuel for electric generation	201,341	230,393	208,928
Purchased power	235,286	95,130	60,870
Total	436,627	325,523	269,798
OPERATING EXPENSES			
Utility operations and maintenance	399,434	430,714	400,814
Real estate operations	111,628	96,080	50,344
Depreciation and amortization (Note 1)	368,285	299,507	243,989
Taxes other than income taxes	121,546	122,077	142,429
Total	1,000,893	948,378	837,576
OPERATING INCOME	557,506	543,859	562,424
OTHER INCOME (DEDUCTIONS)			
Allowance for equity funds used during construction	-	5,209	4,982
Interest on long-term debt	(160,670)	(171,458)	(209,293)
Other interest	(18,673)	(23,764)	(16,975)
Capitalized interest	16,208	9,509	9,065
Preferred stock dividend requirements of APS	(12,803)	(17,092)	(19,134)
Other - net	4,569	(6,748)	(3,496)
Total	(171,369)	(204,344)	(234,851)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	386,137	339,515	327,573
INCOME TAX EXPENSE (NOTE 4)	150,281	128,456	127,965
INCOME FROM CONTINUING OPERATIONS	235,856	211,059	199,608
Loss from discontinued operations - net of income tax of $6,461	-	(9,539)	-
Extraordinary charge for early retirement of debt - net of income tax of $13,777 and $7,834	-	(20,340)	(11,571)
NET INCOME	$ 235,856	$ 181,180	$ 188,037
AVERAGE COMMON SHARES OUTSTANDING	85,502,909	87,441,515	87,419,300
EARNINGS PER AVERAGE COMMON SHARE OUTSTANDING			
Continuing operations - basic	$ 2.76	$ 2.41	$ 2.28
Net income - basic	2.76	2.07	2.15
Continuing operations - diluted	2.74	2.40	2.27
Net income - diluted	2.74	2.06	2.14
DIVIDENDS DECLARED PER SHARE	$ 1.125	$ 1.025	$ 0.925

See Notes to Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATED BALANCE SHEETS

December 31, (Thousands of Dollars)	1997	1996
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 27,484	$ 26,686
Customer and other receivables - net	183,507	169,237
Accrued utility revenues (Note 1)	58,559	55,470
Materials and supplies (at average cost)	70,634	74,120
Fossil fuel (at average cost)	9,621	13,928
Deferred income taxes (Note 4)	57,887	69,688
Other current assets	41,408	41,140
Total current assets	449,100	450,269
INVESTMENTS AND OTHER ASSETS		
Real estate investments - net (Note 6)	365,921	398,527
Other assets (Note 13)	215,027	173,109
Total investments and other assets	580,948	571,636
UTILITY PLANT (NOTES 6, 10 AND 11)		
Electric plant in service and held for future use	7,009,059	6,803,211
Less accumulated depreciation and amortization	2,620,607	2,426,143
Total	4,388,452	4,377,068
Construction work in progress	237,492	226,935
Nuclear fuel, net of amortization of $66,081 and $63,892	51,624	51,137
Net utility plant	4,677,568	4,655,140
DEFERRED DEBITS		
Regulatory asset for income taxes (Note 4)	458,369	516,722
Rate synchronization cost deferral (Note 1)	358,871	414,082
Other deferred debits	325,561	381,440
Total deferred debits	1,142,801	1,312,244
TOTAL ASSETS	$6,850,417	$6,989,289

See Notes to Consolidated Financial Statements.

December 31, (Thousands of Dollars)	1997	1996
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 117,429	$ 184,095
Accrued taxes	84,610	82,413
Accrued interest	32,974	39,652
Short-term borrowings (Note 5)	130,750	16,900
Current maturities of long-term debt (Note 6)	108,695	156,277
Customer deposits	30,672	34,222
Other current liabilities	18,534	37,056
Total current liabilities	523,664	550,615
LONG-TERM DEBT LESS CURRENT MATURITIES (NOTE 6)	2,244,248	2,372,113
DEFERRED CREDITS AND OTHER		
Deferred income taxes (Note 4)	1,363,461	1,359,312
Deferred investment tax credit (Note 4)	50,861	74,379
Unamortized gain - sale of utility plant	82,363	86,939
Other	387,223	356,935
Total deferred credits and other	1,883,908	1,877,565
COMMITMENTS AND CONTINGENCIES (NOTE 12)		
MINORITY INTERESTS (NOTE 7)		
Non-redeemable preferred stock of APS	142,051	165,673
Redeemable preferred stock of APS	29,110	53,000
COMMON STOCK EQUITY (NOTE 8)		
Common stock, no par value; authorized 150,000,000 shares; issued and outstanding 84,824,947 at end of 1997 and 87,515,847 at end of 1996	1,553,771	1,636,354
Retained earnings	473,665	333,969
Total common stock equity	2,027,436	1,970,323
TOTAL LIABILITIES AND EQUITY	$6,850,417	$6,989,289

PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31, (Thousands of Dollars)	1997	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES (NOTE 1)			
Income from continuing operations	$ 235,856	$ 211,059	$ 199,608
Items not requiring cash			
Depreciation and amortization	401,813	334,808	276,288
Deferred income taxes - net	24,809	13,392	61,076
Allowance for equity funds used during construction	--	(5,209)	(4,982)
Deferred investment tax credit	(23,518)	(23,518)	(23,529)
Other - net	(4,680)	(365)	16,099
Changes in current assets and liabilities			
Customer and other receivables - net	(14,270)	(38,106)	4,653
Accrued utility revenues	(3,089)	(1,951)	1,913
Materials, supplies and fossil fuel	7,793	11,945	25,606
Other current assets	(109)	(8,949)	(4,249)
Accounts payable	(54,882)	65,586	(2,093)
Accrued taxes	2,197	(7,088)	6,818
Accrued interest	(6,678)	(9,306)	(7,100)
Other current liabilities	(23,087)	1,515	3,714
Decrease (increase) in land held	29,515	16,547	(4,660)
Other - net	65,909	12,176	6,700
Net Cash Flow Provided By Operating Activities	637,579	572,536	555,862
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(307,876)	(258,598)	(295,772)
Capitalized interest	(16,208)	(9,509)	(9,065)
Other - net	(20,779)	(15,945)	422
Net Cash Flow Used For Investing Activities	(344,863)	(284,052)	(304,415)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of long-term debt	146,013	557,067	225,128
Short-term borrowings - net	113,850	(160,900)	46,300
Dividends paid on common stock	(96,160)	(89,614)	(80,855)
Repurchase and retirement of common stock	(79,997)	--	--
Repayment of long-term debt	(325,526)	(575,332)	(383,117)
Redemption of preferred stock	(47,201)	(50,360)	--
Extraordinary charge for early retirement of debt	--	(20,340)	(11,571)
Other - net	(2,897)	(1,858)	(2,512)
Net Cash Flow Used For Financing Activities	(291,918)	(341,337)	(206,627)
Net Cash Flow	798	(52,853)	44,820
Cash and Cash Equivalents at Beginning of Year	26,686	79,539	34,719
Cash and Cash Equivalents at End of Year	$ 27,484	$ 26,686	$ 79,539

See Notes to Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Year Ended December 31, (Thousands of Dollars)	1997	1996	1995
Retained Earnings at Beginning of Year	$ 333,969	$ 242,403	$ 135,221
Net Income	235,856	181,180	188,037
Common Stock Dividends	(96,160)	(89,614)	(80,855)
Retained Earnings at End of Year	$ 473,665	$ 333,969	$ 242,403

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies Consolidation and Nature of Operations The consolidated financial statements include the accounts of Pinnacle West and its subsidiaries: APS, SunCor and El Dorado.

APS, the Company's major subsidiary and Arizona's largest electric utility, with 767,000 customers, provides wholesale or retail electric service to the entire state with the exception of Tucson and about one-half of the Phoenix area. SunCor is a developer of residential, commercial and industrial projects on some 13,400 acres, predominantly in the metropolitan Phoenix area. El Dorado is a venture capital firm with a diversified portfolio.

Accounting Records
Accounting records are maintained in accordance with generally accepted accounting principles (GAAP). The preparation of financial statements in accordance with GAAP requires the use of estimates by management. Actual results could differ from those estimates.

Regulatory Accounting
APS prepares its financial statements in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." SFAS No. 71 requires a cost-based, rate-regulated enterprise to reflect the impact of regulatory decisions in its financial statements.

APS' major regulatory assets are deferred income taxes (see Note 4) and rate synchronization cost deferrals (see "Rate Synchronization Cost Deferrals" in this note). These items, combined with miscellaneous regulatory assets and liabilities, amounted to approximately $1.0 billion and $1.1 billion at December 31, 1997 and 1996, respectively, most of which are included in "Deferred Debits" on the Consolidated Balance Sheets. In accordance with the 1996 regulatory agreement (see Note 3), the Arizona Corporation Commission (ACC) accelerated the amortization of substantially all of APS' regulatory assets to an eight-year period that began July 1, 1996. The accelerated portion of the regulatory asset amortization, approximately $120 million pretax in 1997 and $60 million pretax in 1996, is included in depreciation and amortization expense on the Consolidated Statements of Income.

During 1997, the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board (FASB) issued EITF 97-4, which requires that SFAS No. 71 be discontinued no later than when legislation is passed or a rate order is issued that contains sufficient detail to determine its effect on the portion of the business being deregulated, which could result in write-downs or write-offs of physical and/or regulatory assets. Additionally, the EITF determined that regulatory assets should not be written off if they are to be recovered from a portion of the entity which continues to apply SFAS No. 71.

Although the ACC has issued rules for transitioning generation services to competition, there are many unresolved issues. APS continues to apply SFAS No. 71 to all of its operations. If rate recovery of regulatory assets is no longer probable, whether due to competition or regulatory action, APS would be required to write off the remaining balance as an extraordinary charge to expense.

Utility Plant and Depreciation
Utility plant represents the buildings, equipment and other facilities used to provide electric service. The cost of utility plant includes labor, materials, contract services, other related items and capitalized interest or an allowance for funds used during construction. The cost of retired depreciable utility plant, plus removal costs less salvage realized, is charged to accumulated depreciation. See Note 13 for information on a proposed accounting standard which impacts accounting for removal costs.

Depreciation on utility property is recorded on a straight-line basis. The applicable rates as prescribed by regulators for 1995 through 1997 ranged from 1.51% to 20%, which resulted in an annual composite rate of 3.35% for 1997. Depreciation and amortization of non-utility property and equipment are provided over the estimated useful lives of the related assets, ranging from 3 to 50 years.

Capitalized Interest
In 1997, APS began capitalizing interest in accordance with SFAS No. 34, "Capitalization of Interest Cost." Capitalized interest represents the

cost of debt funds used to finance construction of utility plant. Plant construction costs, including capitalized interest, are recovered in authorized rates through depreciation when completed projects are placed into commercial operation. Capitalized interest does not represent current cash earnings. The rate used to calculate capitalized interest for 1997 was 7.25%.

Prior to 1997, APS accrued an allowance for funds used during construction (AFUDC). AFUDC represented the cost of debt and equity funds used to finance construction of utility plant, and did not represent current cash earnings. AFUDC was calculated using composite rates of 7.75% for 1996 and 8.52% for 1995.

Revenues
Electric operating revenues are recognized on the accrual basis and include estimated amounts for service rendered but unbilled at the end of each accounting period.

Rate Synchronization Cost Deferrals
As authorized by the ACC, operating costs (excluding fuel) and financing costs of Palo Verde Units 2 and 3 were deferred from the commercial operation dates (September 1986 and January 1988, respectively) until the dates the units were included in a rate order (April 1988 and December 1991, respectively). Beginning July 1, 1996, the deferrals are being amortized over an eight-year period in accordance with the 1996 regulatory agreement (see Note 3). Prior to July 1, 1996, the deferrals were amortized over thirty-five year periods. Amortization of the deferrals is included in depreciation and amortization expense on the Consolidated Statements of Income.

Nuclear Fuel
Nuclear fuel is charged to fuel expense using the unit-of-production method under which the number of units of thermal energy produced in the current period is related to the total thermal units expected to be produced over the remaining life of the fuel.

Under federal law, the United States Department of Energy (DOE) is responsible for the permanent disposal of spent nuclear fuel, and assesses $0.001 per kWh of nuclear generation. This amount is charged to nuclear fuel expense. See Note 12 for information on spent fuel disposal and Note 13 for information on nuclear decommissioning costs.

Income Taxes
The Company files a consolidated U.S. income tax return. In accordance with an intercompany tax allocation agreement, provisions for income taxes are made by each subsidiary as if separate income tax returns were filed. The difference, if any, between these provisions and consolidated income tax expense is allocated to the parent company.

Reacquired Debt Costs
APS amortizes gains and losses on reacquired debt over the remaining life of the original debt, consistent with ratemaking. In accordance with the 1996 regulatory agreement (see Note 3), the ACC accelerated APS' amortization of the regulatory asset for reacquired debt costs to an eight-year period that began July 1, 1996. The accelerated portion of the regulatory asset amortization is included in depreciation and amortization expense on the Consolidated Statements of Income.

Statements of Cash Flows
Temporary cash investments and marketable securities are considered to be cash equivalents for purposes of the Consolidated Statements of Cash Flows. During 1997, 1996 and 1995, the Company paid interest, net of amounts capitalized, of $163.0 million, $185.9 million and $216.8 million, respectively. Income taxes paid were $146.2 million, $121.0 million and $77.4 million, respectively; and dividends paid on preferred stock of APS were $13.3 million, $17.4 million and $19.1 million, respectively.

Reclassifications
Certain prior year amounts have been restated to conform to the 1997 presentation.

2. ACCOUNTING MATTERS The Financial Accounting Standards Board has issued SFAS No. 130 "Reporting Comprehensive Income," SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information" and SFAS No. 132 "Employers' Disclosures about Pensions and Other Postretirement Benefits," all of which are effective in 1998.

SFAS No. 130 changes the reporting of certain items currently reported in the common stock equity section of the balance sheet and is not expected to have a material effect on the Company's financial statements.

SFAS No. 131 requires that public companies report certain information about operating segments in their financial statements. It also establishes related disclosures about products and services, geographic areas, and major customers. The Company is currently evaluating what impact this standard will have on its disclosures.

SFAS No. 132 standardizes the disclosure requirements for pensions and other postretirement benefits to provide information that is more comparable, understandable and concise. It is not expected to have a material effect on the Company's financial statement disclosures.

3. REGULATORY MATTERS
Electric Industry Restructuring State The ACC has been conducting an ongoing investigation into the restructuring of the Arizona electric industry. In December 1996, the ACC adopted rules that provide a framework for the introduction of retail electric competition. The ACC framework rules include the following major provisions:

o The rules are intended to apply to virtually all of the Arizona electric utilities regulated by the ACC, including APS.

o Each affected utility would be required to make available at least 20% of its 1995 system retail peak demand for competitive generation supply to all customer classes not later than January 1, 1999; at least 50% not later than January 1, 2001; and all of its retail demand not later than January 1, 2003.

o Electric service providers that obtain Certificates of Convenience and Necessity (CC&Ns) from the ACC would be allowed to supply, market and/or broker specified electric services at retail. These services would include electric generation, but exclude electric transmission and distribution.

o On or before December 31, 1997, each affected utility was required to file with the ACC proposed tariffs for bundled service, if different than current tariffs, and unbundled service. Bundled service means electric service elements (i.e., generation, transmission, distribution and ancillary services) provided as a package to customers within an affected utility's current service area. Unbundled service means electric service elements provided and priced separately.

o The rules indicate that the ACC will allow recovery of unmitigated stranded costs. Stranded costs are the costs of generating plants, other assets and contract commitments that were prudently incurred to serve power customers that could go unrecovered if these customers are allowed to use open access to move to another supplier. Each affected utility would be required to file with the ACC its estimates of unmitigated stranded costs. The ACC would then, after hearing and consideration of various factors, determine the magnitude of stranded costs and appropriate stranded costs recovery mechanisms and charges.

The ACC ordered in the rules that numerous issues (including reliability; stranded cost measurement and recovery; the phase-in process; bundled, unbundled and metering services; legal issues; and independent system operator and spot market development) require additional consideration prior to implementation of retail electric competition. During 1997, the ACC conducted workshops to gather input from various constituencies with respect to those issues.

In February 1998, the ACC completed a formal, generic hearing on stranded cost determination and recovery. Based on various assumptions, estimates and methodologies, APS currently estimates that its stranded costs to be recovered (excluding regulatory assets which have already been addressed by the ACC) will be less than $500 million. APS is seeking full recovery of stranded costs during a transition period proposed to go through 2006. Decisions by the ACC have not yet been made with respect to this issue.

An Arizona joint legislative committee studied electric utility industry restructuring issues in 1996 and 1997. In conjunction with that study, Arizona legislative counsel prepared memoranda in late 1997 related to the legal authority of the ACC to deregulate the Arizona electric utility industry. The memoranda raise a question as to the degree to which the ACC may, under the Arizona Constitution, deregulate any portion of the electric utility industry and allow rates to be determined by market forces.

In February 1998, a bill to facilitate implementation of retail electric competition in the state was introduced in the Arizona legislature. The bill has progressed through several stages to date. The bill includes the following major provisions: (a) requirements that large government-operated electric utilities
(i) enter into intergovernmental agreements with the ACC to promote consistent statewide practices; (ii) implement retail electric generation competition for 20% of each utility's 1995 retail peak demand by December 31, 1998 and for all customers by December 31, 1999; (iii) decrease rates by at least 10% over a ten-year period beginning as early as January 1, 1991; and (iv) recover unmitigated stranded costs through a surcharge on distribution prices; and (b) a proposal that the ACC adopt provisions for public service corporations (including investor-owned utilities such as APS) consistent with some of the bill's provisions for certain government-operated electric utilities as described above.

The Company believes that certain provisions of the ACC framework rules are deficient. In February 1997, a lawsuit was filed by APS to protect its legal rights regarding those rules. That lawsuit is pending, but two related cases filed by other utilities have been decided adversely to the utilities' positions.

The Company believes that further ACC decisions, legislation at the Arizona and federal levels and perhaps amendments to the Arizona Constitution (which amendments would require a vote of the people) will ultimately be required before significant implementation of retail electric competition can lawfully occur in Arizona. Until the manner of implementation of competition, including addressing stranded costs, is determined, the Company cannot accurately predict the impact of full retail competition on its financial position, cash flows or results of operation. As competition in the electric industry continues to evolve, the Company will continue to evaluate strategies and alternatives that will position the Company to compete in the new regulatory environment.

Federal

The Energy Policy Act of 1992 and recent rulemakings by Federal Energy Regulatory Commission (FERC) have promoted increased competition in the wholesale electric power markets. The Company does not expect these rules to have a material impact on its financial statements.

Several electric utility reform bills have been introduced during the recent congressional sessions, which as currently written, would allow consumers to choose their electric supplier by 2000 or 2003. These bills, other bills that are expected to be introduced, and ongoing discussions at the federal level suggest a wide range of opinion that will need to be narrowed before any substantial restructuring of the electric utility industry can occur.

1996 Regulatory Agreement

In April 1996, the ACC approved a regulatory agreement between APS and the ACC Staff. The major provisions of this agreement are:

o An annual rate reduction of approximately $48.5 million ($29 million after income taxes), or 3.4% on average for all customers except certain contract customers, effective July 1, 1996.

o Recovery of substantially all of APS' present regulatory assets through accelerated amortization over an eight-year period that began July 1, 1996, increasing annual amortization by approximately $120 million ($72 million after income taxes). See Note 1.

o A formula for sharing future cost savings between customers and shareholders (price reduction formula) referencing a return on equity (as defined) of 11.25%.

o A moratorium on filing for permanent rate changes prior to July 2, 1999, except under the price reduction formula and under certain other limited circumstances.

o Infusion of $200 million of common equity into APS by the parent company, in annual payments of $50 million starting in 1996.

Pursuant to the price reduction formula, in May 1997, the ACC approved a retail price decrease of approximately $17.6 million ($10.5 million after income taxes), or 1.2%, effective July 1, 1997. In March 1998, APS filed with the ACC its calculation of an annual retail price reduction of approximately $17 million ($10 million after income taxes), or 1%, to become effective July 1, 1998. The amount and timing of the price decrease are subject to ACC approval.

4. INCOME TAXES
Investment Tax Credit Beginning in 1995, substantially all investment tax credits are being amortized over a five-year period in accordance with a 1994 rate settlement agreement.

Income Taxes

The Company follows the liability method of accounting for income taxes which requires that deferred income taxes be recorded for all temporary differences between the tax bases of assets and liabilities and the amounts recognized for financial reporting. Deferred taxes are recorded using currently enacted tax rates.

In accordance with SFAS No. 71, APS established a regulatory asset for certain temporary differences, primarily AFUDC equity, to reflect the ratemaking treatment. This regulatory asset is being amortized as the related differences reverse. In accordance with the 1996 regulatory agreement (see Note 3), the ACC accelerated APS' amortization of the regulatory asset for income taxes to an eight-year period that began July 1, 1996. The accelerated portion of the regulatory asset amortization is included in depreciation and amortization expense on the Consolidated Statements of Income.

The components of income tax expense from continuing operations are as follows:

Year Ended December 31, (Thousands of Dollars)	1997	1996	1995
Current			
Federal	$ 105,818	$ 105,312	$ 77,869
State	43,172	35,052	1,081
Total current	148,990	140,364	78,950
Deferred	28,729	23,752	21,339
NOL and ITC carryforward utilized	-	-	58,019
Change in valuation allowance	(3,920)	(12,142)	(6,814)
ITC amortization	(23,518)	(23,518)	(23,529)
Total expense	$ 150,281	$ 128,456	$ 127,965

Income tax expense differed from the amount computed by multiplying income from continuing operations before income taxes by the statutory federal income tax rate due to the following:

Year Ended December 31, (Thousands of Dollars)	1997	1996	1995
Federal income tax expense at statutory rate, 35%	$135,148	$118,830	$114,651
Increases (reductions) in tax expense resulting from:			
Tax under book depreciation	14,694	19,229	18,186
Preferred stock dividends of APS	4,481	5,982	6,697
ITC amortization	(23,518)	(23,518)	(23,529)
State income tax net of federal income tax benefit	24,497	19,565	19,245
Change in valuation allowance	(3,400)	(10,525)	(5,908)
Other	(1,621)	(1,107)	(1,377)
Income tax expense	$150,281	$128,456	$127,965

The components of the net deferred income tax liability were as follows:

December 31, (Thousands of Dollars)	1997	1996
Deferred tax assets		
Alternative minimum tax (can be carried forward indefinitely)	$ 53,601	$ 125,735
Deferred gain on Palo Verde Unit 2 sale/leaseback	33,257	35,105
Other	91,701	97,060
Valuation allowance	-	(7,964)
Total deferred tax assets	178,559	249,936

Deferred tax liabilities		
Plant-related	1,096,222	1,104,902
Regulatory asset for income taxes	185,084	208,647
Rate synchronization deferrals	144,908	167,202
Other	57,919	58,809
Total deferred tax liabilities	1,484,133	1,539,560
Accumulated deferred income taxes - net	$1,305,574	$1,289,624

5. LINES OF CREDIT APS had committed lines of credit with various banks of $400 million at December 31, 1997 and 1996, which were available either to support the issuance of commercial paper or to be used for bank borrowings. The commitment fees at December 31, 1997 and 1996 for these lines of credit ranged from 0.07% to 0.15% per annum. APS had long-term bank borrowings of $150 million and $100 million outstanding at December 31, 1997 and 1996, respectively, under these lines of credit.

APS had commercial paper borrowings outstanding of $130.8 million and $16.9 million at December 31, 1997 and 1996, respectively. The weighted average interest rate on commercial paper borrowings was 6.27% and 6.40% on December 31, 1997 and 1996, respectively. By Arizona statute, APS' short-term borrowings cannot exceed 7% of its total capitalization without the consent of the ACC.

The parent company had a revolving line of credit of $250 million and $225 million at December 31, 1997 and 1996, respectively. The commitment fees on this line ranged from 0.10% to 0.125% in 1997 and 1996. Outstanding amounts under this line at December 31, 1997 and 1996, were $155 million and $200 million, respectively.

SunCor had revolving lines of credit totalling $55 million at December 31, 1997 and 1996. The commitment fees on these lines were 0.125% in 1997 and 1996. SunCor had $40.6 million and $42.4 million outstanding under these lines at December 31, 1997 and 1996, respectively.

6. LONG-TERM DEBT Borrowings under the APS mortgage bond indenture are secured by substantially all utility plant; SunCor's debt is collaterized by interests in certain real property; Pinnacle West's debt is unsecured. The following table presents the components of consolidated long-term debt:

December 31, (Thousands of Dollars)	Maturity Dates (a)	Interest Rates	1997	1996
APS				
First mortgage bonds	1997	7.125%	$ -	$ 150,000
	1998	7.625%	100,000	100,000
	1999	7.625%	100,000	100,000
	2000	5.75%	100,000	100,000
	2002	8.125%	125,000	125,000
	2004	6.625%	85,000	100,000
	2020	10.25%	109,550	114,550
	2021	9.5%	45,140	50,810
	2021	9%	72,370	72,500
	2023	7.25%	97,150	100,000
	2024	8.75%	121,918	148,500
	2025	8%	88,500	116,900
	2028	5.5%	25,000	25,000
	2028	5.875%	154,000	154,000
Unamortized discount and premium			(7,033)	(8,412)
Pollution control indebtedness	2024-2031	Adjustable rate(b)	439,990	439,990
Collateralized loan	1999	6.125%	10,000	-
Senior notes (c)	2006	6.75%	100,000	100,000
Senior notes (c)	1999	6.72%	50,000	-
Debentures	2025	10%	75,000	75,000
Bank loans	2002	Adjustable rate(d)	150,000	100,000
Capitalized lease obligation (e)	1997-2001	7.48%	15,645	19,424
			2,057,230	2,183,262
SunCor				
Revolving credit	2000	(f)	40,600	42,432
Bank loan	2000	(g)	45,000	45,000
Notes payable	1997-2006	(h)	5,113	7,696
			90,713	95,128
Pinnacle West				
Revolving credit	2001	(i)	155,000	200,000
Senior notes	2001-2003	(j)	50,000	50,000
			205,000	250,000
Total long-term debt			2,352,943	2,528,390
Less current maturities			108,695	156,277
Total long-term debt less current maturities			$2,244,248	$2,372,113

(a) This schedule does not reflect the timing of redemptions which may occur prior to maturity.
(b) The weighted-average rate for the years ended December 31, 1997 and 1996 was 3.62% and 3.40%, respectively. Changes in short-term interest rates would affect the costs associated with this debt.
(c) APS has issued $150 million of first mortgage bonds ("senior note mortgage bonds") to the senior note trustee as collateral for the senior notes. The senior note mortgage bonds have the same interest rate, interest payment dates, maturity, and redemption provisions as the senior notes. APS' payments of principal, premium, and/or interest on the senior notes satisfy the Company's corresponding payment obligations on the senior note mortgage bonds. As long as the senior note mortgage bonds secure the senior notes, the senior notes will effectively rank pari passu with the first mortgage bonds. On the date that APS has repaid all of its first mortgage bonds, other than those that secure senior notes, the senior note mortgage bonds will no longer secure the senior notes and will cease to be outstanding.
(d) The weighted-average rate at December 31, 1997 and 1996 was 6.25% and 5.76%, respectively. Changes in short-term interest rates would affect the costs associated with this debt.
(e) Represents the present value of future lease payments (discounted at an interest rate of 7.48%) on a combined cycle plant sold and leased back from the independent owner-trustee formed to own the facility (see Note 10).
(f) The weighted-average rate at December 31, 1997 and 1996 was 8.60% and 8.52%, respectively. Interest for 1997 and 1996 was based on LIBOR plus 2% or prime plus 0.5%.
(g) The weighted-average rate at December 31, 1997 and 1996 was 8.44% and 7.62%, respectively. Interest for 1997 and 1996 was based on LIBOR plus 2% or prime plus 0.5%.
(h) Multiple notes primarily with variable interest rates based mostly on the lenders' prime.
(i) The weighted-average rate at December 31, 1997 and 1996 was 6.25% and 6.03%, respectively. Interest for 1997 was based on LIBOR plus 0.33%-0.4% and for 1996 was LIBOR plus 0.4%.
(j) Includes two series of notes: $25 million at 6.62% due 2001, and $25 million at 6.87% due 2003.

Aggregate annual principal payments due on total long-term debt and for sinking fund requirements through 2002 are as follows: 1998, $108.7 million; 1999, $193.0 million; 2000, $158.8 million; 2001, $182.6 million; and 2002, $275.1 million. See Note 7 for redemption and sinking fund requirements of redeemable preferred stock of APS.

7. PREFERRED STOCK OF APS Non-redeemable preferred stock is not redeemable except at the option of APS. Redeemable preferred stock is redeemable through sinking fund obligations. Preferred stock balances of APS are shown below:

(Dollars in Thousands, Except Per Share Amount)	Authorized	Number of Shares Outstanding December 31, 1997	Number of Shares Outstanding December 31, 1996	Par Value Per Share	Par Value Outstanding December 31, 1997	Par Value Outstanding December 31, 1996	Call Price Per Share (a)
Non-Redeemable:							
$1.10 preferred	160,000	145,559	152,740	$ 25.00	$ 3,639	$ 3,818	$ 27.50
$2.50 preferred	105,000	97,252	102,532	50.00	4,863	5,127	51.00
$2.36 preferred	120,000	38,506	40,000	50.00	1,925	2,000	51.00
$4.35 preferred	150,000	68,386	75,000	100.00	6,839	7,500	102.00
Serial preferred:	1,000,000						
$2.40 Series A		234,839	239,900	50.00	11,742	11,995	50.50
$2.625 Series C		231,572	240,000	50.00	11,579	12,000	51.00
$2.275 Series D		164,101	199,655	50.00	8,205	9,983	50.50
$3.25 Series E		312,991	320,000	50.00	15,649	16,000	51.00
Serial preferred:	4,000,000(b)						
Adjustable rate Series Q		352,851	372,851	100.00	35,285	37,285	(c)
Serial preferred:	10,000,000						
$1.8125 Series W		1,693,016	2,398,615	25.00	42,325	59,965	(d)
Total		3,339,073	4,141,293		$142,051	$165,673	
Redeemable:							
Serial preferred:							
$10.00 Series U		291,098	410,000	$100.00	$ 29,110	$ 41,000	
$7.875 Series V		-	120,000	100.00	-	12,000	
Total		291,098	530,000		$ 29,110	$ 53,000	

(a) The actual call price per share is the indicated amount plus any accrued dividends.
(b) This authorization also covers all outstanding redeemable preferred stock.
(c) Dividend rate adjusted quarterly to 2% below that of certain United States Treasury securities, but in no event less than 6% or greater than 12% per annum. Redeemable at par.
(d) Redeemable at par after December 1, 1998.

If there were to be any arrearage in dividends on any of its preferred stock or in the sinking fund requirements applicable to any of its redeemable preferred stock, APS could not pay dividends on its common stock or acquire any shares thereof for consideration. The redemption requirements for the above issues for the next three years are: 1998, $10.0 million; 1999, $10.0 million; and 2000, $9.1 million. There are no redemption requirements in 2001 and 2002.

Redeemable preferred stock transactions of APS during each of the three years in the period ended December 31, 1997 are as follows:

(Dollars in Thousands)	Number of Shares	Par Value Amount
Balance, December 31, 1994	750,000	$ 75,000
Retirements	-	-
Balance, December 31, 1995	750,000	75,000
Retirements		
$10.00 Series U	(90,000)	(9,000)
$7.875 Series V	(130,000)	(13,000)
Balance, December 31, 1996	530,000	53,000
Retirements		
$10.00 Series U	(118,902)	(11,890)
$7.875 Series V	(120,000)	(12,000)
Balance, December 31, 1997	291,098	$ 29,110

8. COMMON STOCK The Company's common stock issued during each of the three years in the period ended December 31, 1997 is as follows:

(Dollars in Thousands)	Number of Shares	Amount (a)
Balance, December 31, 1994	87,429,642	$1,641,196
Common stock issued	86,205	(2,512)
Balance, December 31, 1995	87,515,847	1,638,684
Common stock issued	-	(2,330)
Balance, December 31, 1996	87,515,847	1,636,354
Common stock issued	-	(2,586)
Common stock retired	(2,690,900)	(79,997)
Balance, December 31, 1997	84,824,947	$1,553,771

(a) Including premiums and expenses of preferred stock issues of APS.

9. RETIREMENT PLANS AND OTHER BENEFITS
Voluntary Severance Plan APS sponsored a voluntary severance plan in 1996, which resulted in a pretax charge of $31.7 million (including pension and postretirement benefit expense) recorded primarily as operations and maintenance expense. Employees participating in the plan were credited with an additional year of age and service for purposes of calculating pension and postretirement benefits. The total additional pension and postretirement benefit expense recorded in 1996 for this program was $2.3 million and $5.4 million, respectively.

Pension Plans
The Company sponsors defined benefit pension plans covering substantially all employees. Benefits are based on years of service and compensation utilizing a final average pay benefit formula. Company policy is to fund not less than the minimum required contribution nor greater than the maximum tax-deductible contribution. Plan assets consist primarily of domestic and international common stocks and bonds and real estate. Pension expense, including administrative and severance costs, for 1997, 1996 and 1995 was approximately $9.3 million, $15.5 million and $10.0 million, respectively.

The components of net periodic pension costs before consideration of amounts capitalized or billed to others and excluding severance costs of $2.9 million in 1996 are as follows:

(Thousands of Dollars)	1997	1996	1995
Service cost - benefits earned during the period	$ 20,435	$ 23,397	$ 16,390

Interest cost on projected benefit obligation	48,402	45,124	39,762
Return on plan assets	(88,618)	(63,136)	(83,031)
Net amortization and deferral	39,511	19,969	46,469
Net consolidated periodic pension benefit cost	$ 19,730	$ 25,354	$ 19,590

A reconciliation of the funded status of the plan to the amounts recognized in the balance sheets is presented below:

(Thousands of Dollars)	1997	1996
Plan assets at fair value	$ 619,412	$ 539,179
Less:		
Accumulated benefit obligation, including vested benefits of $499,559 and $418,052 in 1997 and 1996, respectively	558,967	472,864
Effect of projected future compensation increases	149,177	135,811
Total projected benefit obligation	708,144	608,675
Plan assets less than projected benefit obligation	(88,732)	(69,496)
Plus:		
Unrecognized net loss from past experience different from that assumed	16,943	3,314
Unrecognized prior service cost	24,792	20,563
Unrecognized net transition asset	(26,462)	(29,690)
Accrued pension liability	$ (73,459)	$ (75,309)

Principal actuarial assumptions used were:

	1997	1996
Discount rate	7.25%	7.75%
Rate of increase in compensation levels	4.50%	4.50%
Expected long-term rate of return on assets	9.00%	9.00%

In addition to the defined benefit pension plans, the Company also sponsors qualified defined contribution plans. Collectively, these plans cover substantially all employees. The plans provide for employee contributions and partial employer matching contributions after certain eligibility requirements are met. Expenses related to these plans for 1997, 1996 and 1995 were $3.9 million, $3.6 million and $3.2 million, respectively.

Postretirement Plans

The Company provides medical and life insurance benefits to its retired employees. Employees must retire to become eligible for these retirement benefits, which are based on years of service and age. The retiree medical insurance plans are contributory; the retiree life insurance plans are non-contributory. In accordance with the governing plan documents, the Company retains the right to change or eliminate these benefits.

Funding is based upon actuarially determined contributions that take tax consequences into account. Plan assets consist primarily of domestic stocks and bonds. The postretirement benefit expense for 1997, 1996 and 1995 was approximately $9.8 million, $16.2 million and $13.7 million, respectively.

The components of net periodic postretirement benefit costs before consideration of amounts capitalized or billed to others and excluding severance costs of $9.6 million in 1996 are as follows:

(Thousands of Dollars)	1997	1996	1995
Service cost - benefits earned during the period	$ 7,046	$ 8,168	$ 6,925
Interest cost on accumulated benefit obligation	14,441	13,525	13,879
Return on plan assets	(30,846)	(12,550)	(15,133)
Net amortization and deferral	27,153	12,778	17,179
Net consolidated periodic postretirement benefit cost	$ 17,794	$ 21,921	$ 22,850

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A reconciliation of the funded status of the plan to the amounts recognized in the balance sheets is presented below:

(Thousands of Dollars)	1997	1996
Plan assets at fair value	$ 151,146	$ 109,763
Less accumulated postretirement benefit obligation:		
Retirees	95,309	87,146
Fully eligible plan participants	6,120	3,720
Other active plan participants	97,919	90,539
Total accumulated postretirement benefit obligation	199,348	181,405
Plan assets less than accumulated benefit obligation	(48,202)	(71,642)
Plus:		
Unrecognized transition obligation	115,541	123,239
Unrecognized net gain from past experience different from that assumed	(79,013)	(62,759)
Accrued postretirement liability	$ (11,674)	$ (11,162)

Principal actuarial assumptions used were:

	1997	1996
Discount rate	7.25%	7.75%
Annual salary increases for life insurance obligation	4.50%	4.50%
Expected long-term rate of return on assets - after tax	7.75%	7.75%
Initial health care cost trend rate - under age 65	8.00%	9.00%
Initial health care cost trend rate - age 65 and over	7.00%	8.00%
Ultimate health care cost trend rate (reached in the year 2002)	5.00%	5.50%

Assuming a 1% increase in the health care cost trend rate, the 1997 cost of postretirement benefits other than pensions would increase by approximately $6 million and the accumulated benefit obligation as of December 31, 1997 would increase by approximately $34 million.

10. LEASES In 1986, APS entered into sale and leaseback transactions under which it sold approximately 42% of its share of Palo Verde Unit 2 and certain common facilities. The gain of approximately $140.2 million has been deferred and is being amortized to operations expense over the original lease term of 29.5 years. The leases are being accounted for as operating leases. The amounts to be paid each year approximate $40.1 million through 1999, $46.3 million in 2000, and $49.0 million through 2015. Options to renew for two additional years and to purchase the property at fair market value at the end of the lease terms are also included. Consistent with the ratemaking treatment, an amount equal to the annual lease payments is included in rent expense. A regulatory asset is recognized for the difference between lease payments and rent expense calculated on a straight-line basis.

In accordance with the 1996 regulatory agreement (see Note 3), the ACC accelerated APS' amortization of the regulatory asset for leases to an eight-year period that began July 1, 1996. The accelerated amortization is included in depreciation and amortization expense on the Consolidated Statements of Income. The balance of this regulatory asset at December 31, 1997 was $53.2 million. Lease expense was approximately $42 million in each of the years 1995 through 1997.

APS has a capital lease on a combined cycle plant which it sold and leased back. The lease requires semiannual payments of $2.6 million through June 2001, and includes renewal and purchase options based on fair market value. This plant is included in plant in service at its original cost of $54.4 million; accumulated amortization at December 31, 1997 was $46.5 million.

In addition, the Company leases certain land, buildings, equipment and miscellaneous other items through operating rental agreements with varying terms, provisions and expiration dates. Rent expense for 1997, 1996 and 1995 was approximately $11.2 million, $12.8 million and $15.4 million, respectively. Annual future minimum rental commitments, excluding the Palo Verde and combined cycle leases, through 2002 are as follows: 1998, $16.2 million; 1999, $16.4 million; 2000, $16.7 million; 2001, $17.8 million; and 2002, $18.2 million. Total rental commitments after the year 2002 are estimated at $160.4 million

11. JOINTLY-OWNED FACILITIES At December 31, 1997, APS owned interests in the following jointly-owned electric generating and transmission facilities. APS' share of related operating and maintenance expenses is included in utility operations and maintenance.

(Dollars in Thousands)	Percent Owned by APS	Plant In Service	Accumulated Depreciation	Construction Work in Progress
Generating Facilities				
Palo Verde Nuclear Generating Station Units 1 and 3	29.1%	$1,830,794	$ 628,960	$14,498
Palo Verde Nuclear Generating Station Unit 2 (see Note 10)	17.0%	572,054	213,717	9,338
Four Corners Steam Generating Station Units 4 and 5	15.0%	148,342	66,470	1,369
Navajo Steam Generating Station Units 1, 2 and 3	14.0%	182,637	82,326	33,081(a)
Cholla Steam Generating Station Common Facilities (b)	62.8%(c)	66,106	34,551	580
Transmission Facilities				
ANPP 500 KV System	35.8%(c)	62,593	19,107	4,903
Navajo Southern System	31.4%(c)	27,159	16,710	-
Palo Verde - Yuma 500 KV System	23.9%(c)	11,376	3,971	-
Four Corners Switchyards	27.5%(c)	3,071	1,707	1
Phoenix - Mead System	17.1%(c)	36,418	(2,169)	337

(a) The construction costs at Navajo are primarily related to the installation of scrubbers required by recent environmental legislation.

(b) APS is the operating agent for Cholla Unit 4, which is owned by PacifiCorp. The common facilities at the Cholla Plant are jointly-owned.

(c) Weighted average of interests.

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12. COMMITMENTS AND CONTINGENCIES

Litigation The Company is party to various claims, legal actions and complaints arising in the ordinary course of business. In the opinion of management, the ultimate resolution of these matters will not have a material adverse effect on the Company's financial statements.

Palo Verde Nuclear Generating Station

APS has encountered tube cracking in steam generators and has taken, and will continue to take, remedial actions that it believes have slowed the rate of tube degradation. The projected service life of the steam generators is reassessed periodically and these analyses indicate that it will be economically desirable for APS to replace the Unit 2 steam generators between 2003 and 2008. APS estimates that its share of the replacement costs (in 1997 dollars and including installation and replacement power costs) will be approximately $50 million, most of which will be incurred after the year 2000.

During the fourth quarter of 1997, the Palo Verde participants, including APS, entered into a contract for the fabrication of two replacement steam generators. The cost to APS is estimated at approximately $26 million. These generators will be used as replacements if performance of existing generators deteriorates to less than acceptable levels. The generators are expected on site in 2002. APS' share of installation costs is approximately $24 million.

Based on the latest available data, APS estimates that the Unit 1 and Unit 3 steam generators should operate for the license periods (until 2025 and 2027, respectively), although APS will continue its normal periodic assessment of these steam generators.

Under the Nuclear Waste Policy Act, DOE was to develop the facilities necessary for the storage and disposal of spent fuel and to have the first such facility in operation by 1998. That facility was to be a permanent repository, but DOE has announced that such a repository now cannot be completed before 2010. In November 1997, the Court of Appeals for the D.C. Circuit affirmed its previous decision that DOE must begin accepting spent fuel by 1998 and issued an order precluding DOE from excusing its own delay on the grounds that DOE has not yet prepared a permanent repository or interim storage facility.

The Company has capacity in existing fuel storage pools at Palo Verde which, with certain modifications, could accommodate all fuel expected to be discharged from normal operation of Palo Verde through about 2002, and believes it could augment that wet storage with new facilities for on-site dry storage of spent fuel for an indeterminate period of operation beyond 2002, subject to obtaining any required governmental approvals. The Company currently believes that spent fuel storage or disposal methods will be available for use by Palo Verde to allow its continued operation beyond 2002.

The Palo Verde participants have insurance for public liability resulting from nuclear energy hazards to the full limit of liability under federal law. This potential liability is covered by primary liability insurance provided by commercial insurance carriers in the amount of $200 million and the balance by an industry-wide retrospective assessment program. If losses at any nuclear power plant covered by the programs exceed the accumulated funds, APS could be assessed retrospective premium adjustments. The maximum assessment per reactor under the program for each nuclear incident is approximately $79 million, subject to an annual limit of $10 million per incident. Based upon APS' 29.1% interest in the three Palo Verde units, APS' maximum potential assessment per incident for all three units is approximately $69 million, with an annual payment limitation of approximately $9 million.

The Palo Verde participants maintain "all risk" (including nuclear hazards) insurance for property damage to, and decontamination of, property at Palo Verde in the aggregate amount of $2.75 billion, a substantial portion of which must first be applied to stabilization and decontamination. APS has also secured insurance against portions of any increased cost of generation or purchased power and business interruption resulting from a sudden and unforeseen outage of any of the three units. The insurance coverage discussed in this and the previous paragraph is subject to certain policy conditions and exclusions.

Fuel and Purchased Power Commitments
APS is a party to various fuel and purchased power contracts with terms expiring from 1998 through 2020 that include required purchase provisions. APS estimates its 1998 contract requirements to be approximately $136 million. However, this amount may vary significantly pursuant to certain provisions in such contracts which permit APS to decrease its required purchases under certain circumstances.

APS is contractually obligated to reimburse certain coal providers for amounts incurred for coal mine reclamation. APS' share of the total obligation is estimated at $110 million. The portion of the coal mine reclamation obligation related to coal already burned is approximately $66 million at December 31, 1997 and is included in "Deferred Credits-Other" in the Consolidated Balance Sheets. A regulatory asset has been established for amounts not yet recovered from ratepayers. In accordance with the 1996 regulatory agreement (see Note 3), the ACC began accelerated amortization of APS' regulatory asset for coal mine reclamation costs over an eight-year period beginning July 1, 1996. Amortization is included in depreciation and amortization expense on the Consolidated Statements of Income. The balance of the regulatory asset at December 31, 1997 was approximately $60 million.

Construction Program
Consolidated capital expenditures in 1998 are estimated at $368 million.

13. NUCLEAR DECOMMISSIONING COSTS APS recorded $11.4 million for decommissioning expense in each of the years 1997 and 1996. APS estimates it will cost approximately $2.0 billion ($460 million in 1997 dollars), over a 14-year period beginning in 2024, to decommission its 29.1% interest in the three Palo Verde units. Decommissioning costs are charged to expense over the respective unit's operating license term and are included in the accumulated depreciation balance until each unit is retired. Nuclear decommissioning costs are recovered in rates.

APS is utilizing a 1995 site-specific study for Palo Verde, prepared for APS by an independent consultant, that assumes the prompt removal/dismantlement method of decommissioning. APS is required to update the study every three years.

As required by regulation, APS has established external trust accounts into which quarterly deposits are made for decommissioning. As of December 31, 1997 and 1996, APS had deposited a total of $79.5 million and $68.1 million, respectively. The trust accounts are included in "Investments and Other Assets" on the Consolidated Balance Sheets at a market value of $124.6 million and $95.5 million on December 31, 1997 and 1996, respectively. The trust funds are invested primarily in fixed-income securities and domestic stock and are classified as available for sale. Realized and unrealized gains and losses are reflected in accumulated depreciation.

In February 1996, the FASB issued an exposure draft "Accounting for Certain Liabilities Related to Closure or Removal of Long-Lived Assets" which would require the estimated present value of the cost of decommissioning and certain other removal costs to be recorded as a liability, along with an offsetting plant asset when a decommissioning or other removal obligation is incurred. The FASB has not determined when a revised exposure draft or a final statement will be issued.

14. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED) Consolidated quarterly financial information for 1997 and 1996 is as follows:

(Dollars in Thousands, Except per Share Amounts)	1997			
Quarter Ended	March 31	June 30	September 30	December 31
Operating revenues				
Electric	$ 379,021	$ 458,751	$ 632,821	$ 407,960
Real estate	19,543	30,166	30,929	35,835
Operating income (a)	$ 82,471	$ 150,024	$ 243,454	$ 81,557
Net income	$ 25,382	$ 67,182	$ 124,340	$ 18,952
Earnings per average common share outstanding				
Continuing operations and net income - basic	$ 0.29	$ 0.79	$ 1.47	$ 0.21
Continuing operations and net income - diluted	$ 0.29	$ 0.78	$ 1.46	$ 0.21
Dividends declared per share (b)	$ 0.275	$ 0.55	$ -	$ 0.30

(Dollars in Thousands, Except per Share Amounts)	1996			
Quarter Ended	March 31	June 30	September 30	December 31
Operating revenues				
Electric	$ 345,261	$ 426,658	$ 566,899	$ 379,454
Real estate	15,994	26,150	31,892	25,452
Operating income (a)	$ 106,562	$ 152,094	$ 245,800	$ 39,403
Income (loss) from continuing operations (c)	$ 34,859	$ 61,454	$ 121,406	$ (6,660)
Loss from discontinued operations - net of income tax	-	-	-	(9,539)
Extraordinary charge for early retirement of debt - net of income tax	(3,597)	(2,471)	(14,272)	-
Net income (loss)	$ 31,262	$ 58,983	$ 107,134	$ (16,199)
Earnings (loss) per average common share outstanding				
Continuing operations - basic	$ 0.40	$ 0.70	$ 1.39	$ (0.08)
Discontinued operations - basic	-	-	-	(0.11)
Extraordinary charge - basic	(0.04)	(0.03)	(0.16)	-
Net income - basic	$ 0.36	$ 0.67	$ 1.23	$ (0.19)
Continuing operations - diluted	$ 0.40	$ 0.70	$ 1.38	$ (0.08)
Discontinued operations - diluted	-	-	-	(0.11)
Extraordinary charge - diluted	(0.04)	(0.03)	(0.16)	-
Net income - diluted	$ 0.36	$ 0.67	$ 1.22	$ (0.19)
Dividends declared per share (d)	$ 0.25	$ 0.50	$ 0.275	$ -

(a) APS operations are subject to seasonal fluctuations primarily as a result of weather conditions. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year.
(b) Dividends for the quarter ended September 30, 1997 were declared in June.
(c) Net loss for the quarter ended December 31, 1996 includes a charge of $18.9 million for a voluntary severance program.
(d) Dividends for the quarters ended September 30 and December 31, 1996 were declared in June and September, respectively.

15. FAIR VALUE OF FINANCIAL INSTRUMENTS The Company estimates that the carrying amounts of its cash equivalents and commercial paper are reasonable estimates of their fair values at December 31, 1997 and 1996 due to their short maturities.

Investments in debt and equity securities are held for purposes other than trading. The December 31, 1997 and 1996 fair values of such investments, determined by using quoted market values or by discounting cash flows at rates equal to the Company's cost of capital, approximate their carrying amounts.

The carrying value of long-term debt (excluding a capitalized lease obligation) on December 31, 1997 and 1996 was $2.34 billion and $2.51 billion, respectively, and the estimated fair value was $2.38 billion and $2.47 billion, respectively. The fair value estimates are based on quoted market prices of the same or similar issues.

16. EARNINGS PER SHARE In 1997 the Company adopted SFAS No. 128 "Earnings Per Share." This statement requires the presentation of both basic and diluted earnings per share on the financial statements. The following table presents earnings per average common share outstanding (EPS):

	1997	1996	1995
Basic EPS:			
Continuing operations	$ 2.76	$ 2.41	$ 2.28
Discontinued operations	-	(0.11)	-
Extraordinary charge	-	(0.23)	(0.13)
Net income	$ 2.76	$ 2.07	$ 2.15
Diluted EPS:			
Continuing operations	$ 2.74	$ 2.40	$ 2.27
Discontinued operations	-	(0.11)	-
Extraordinary charge	-	(0.23)	(0.13)
Net income	$ 2.74	$ 2.06	$ 2.14

Dilutive stock options increased average common shares outstanding by 519,800 shares, 580,405 shares, and 464,926 shares in 1997, 1996 and 1995, respectively, but had no effect on net income. Total average common shares outstanding for the purposes of calculating diluted earnings per share were 86,022,709 shares, 88,021,920 shares and 87,884,226 shares in 1997, 1996 and 1995, respectively.

Options to purchase 254,450 shares of common stock at $39.75 per share were outstanding since the last quarter of 1997 but were not included in the computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares. The options were still outstanding at the end of 1997.

17. STOCK OPTIONS The Company has incentive plans under which it may grant non-qualified stock options (NQSOs), incentive stock options (ISOs) and restricted stock awards to officers and key employees.

The plans provide for the granting of new options or awards of up to 3.5 million shares at a price per option not less than fair market value on the date the option is granted. The plans also provide for the granting of any combination of stock appreciation rights or dividend equivalents. The awards outstanding under the various incentive plans at December 31, 1997 approximate 1,486,417 NQSOs, 183,190 restricted shares, and no dividend equivalent shares, ISOs or stock appreciation rights.

The FASB issued SFAS No. 123 "Accounting for Stock-Based Compensation" which was effective for 1996. The statement encourages, but does not require, companies to recognize compensation expense based on the fair value method. The Company continues to recognize expense based on Accounting Principles Board Opinion No.
25. Had the Company determined compensation expense based on the fair value of its stock options, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

(Dollars in Thousands, Except per Share Amounts)	1997	1996	1995
Net income			
As reported	$235,856	$181,180	$188,037
Pro forma	$235,446	$180,969	$188,010
Net income per share			
As reported	$2.76	$ 2.07	$ 2.15
Pro forma	$2.75	$ 2.07	$ 2.15

The fair value of each fixed stock option is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	1997	1996	1995
Risk-free interest rate	5.66%	5.77%	5.43%
Dividend growth	4.50%	4.50%	4.50%
Volatility	15.63%	17.10%	12.60%
Expected life (months)	60	58	56

The effects of applying SFAS No. 123 for disclosing compensation cost may not be representative of the effects on reported net income for future years because pro forma net income does not consider compensation costs for stock options granted prior to January 1, 1995.

PINNACLE WEST CAPITAL CORPORATION
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

Column A	Column B	Column C Additions		Column D	Column E
Description	Balance at beginning of period	Charged to cost and expenses	Charged to other accounts	Deductions	Balance at end of preiod
		(Thousands of Dollars)			
		YEAR ENDED DECEMBER 31, 1997			
Real Estate Valuation Reserves	$ 41,000	$ -	$ -	$ 18,000	$ 23,000
		YEAR ENDED DECEMBER 31, 1996			
Real Estate Valuation Reserves	$ 47,000	$ -	$ -	$ 6,000	$ 41,000
		YEAR ENDED DECEMBER 31, 1995			
Real Estate Valuation Reserves	$ 84,000	$ -	$ -	$ 37,000(a)	$ 47,000

(a) Represents pro-rata allocations for sale of land.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Reference is hereby made to "Election of Directors" in the Company's Proxy Statement relating to the Annual Meeting of Shareholders to be held on May 20, 1998 (the "1998 Proxy Statement") and to the Supplemental Item --- "Executive Officers of the Registrant" in Part I of this report.

ITEM 11. EXECUTIVE COMPENSATION

Reference is hereby made to the fourth and fifth paragraphs under the heading "The Board and its Committees," to "Executive Compensation," to "Human Resources Committee Report," to "Stock Performance Comparisons" and to "Executive Benefit Plans" in the 1998 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Reference is hereby made to "Certain Securities Ownership" in the 1998 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Reference is hereby made to "Executive Benefit Plans --- Employment and Severance Agreements" in the 1998 Proxy Statement.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENTS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

Financial Statements

See the Index to Consolidated Financial Statements and Financial Statement Schedule in Part II, Item 8.

Exhibits Filed

Exhibit No.		Description
10.1a	---	Summary of the Pinnancle West Capital Corporation 1998 Bonus Plan
21	---	Subsidiaries of the Company
23.1	---	Consent of Deloitte & Touche LLP
27.1	---	Financial Data Schedule

In addition to those Exhibits shown above, the Company hereby incorporates the following Exhibits pursuant to Exchange Act Rule 12b-32 and Regulation ss.229.10(d) by reference to the filings set forth below:

Exhibit No.	Description	Originally Filed as Exhibit:	File No.(b)	Date Effective
3.2	Articles of Incorporation, restated as of July 29, 1988	19.1 to the Company's September 1988 Form 10-Q Report	1-8962	11-14-88
3.3	Bylaws, amended as of February 21, 1996	3.1 to the Company's 1995 Form 10-K Report	1-8962	4-1-96
4.1	Mortgage and Deed of Trust Relating to APS' First Mortgage Bonds, together with forty-eight indentures supplemental thereto	4.1 to APS' September 1992 Form 10-Q Report	1-4473	11-9-92
4.2	Forty-ninth Supplemental Indenture	4.1 to APS' 1992 Form 10-K Report	1-4473	3-30-93
4.3	Fiftieth Supplemental Indenture	4.2 to APS' 1993 Form 10-K Report	1-4473	3-30-94
4.4	Fifty-first Supplemental Indenture	4.1 to APS' August 1, 1993 Form 8-K Report	1-4473	9-27-93

Exhibit No.	Description	Originally Filed as Exhibit:	File No.(b)	Date Effective
4.5	Fifty-second Supplemental Indenture	4.1 to APS' September 30, 1993 Form 10-Q Report	1-4473	11-15-93
4.6	Fifty-third Supplemental Indenture	4.5 to APS' Registration Statement No. 33-61228 by means of February 23, 1994 Form 8-K Report	1-4473	3-1-94
4.7	Fifty-fourth Supplemental Indenture	4.1 to APS' Registration Statements Nos. 33-61228, 33-55473, 33-64455 and 333-15379 by means of November 19, 1996 Form 8-K Report	1-4473	11-22-96
4.8	Fifty-fifth Supplemental Indenture	4.8 to APS' Registration Statement Nos. 33-55473, 33-64455 and 333-15379 by means of April 7, 1997 Form 8-K Report	1-4473	4-9-97
4.9	Agreement, dated March 21, 1994, relating to the filing of instruments defining the rights of holders of APS long-term debt not in excess of 10% of APS' total assets	4.1 to APS' 1993 Form 10-K Report	1-4473	3-30-94
4.10	Indenture dated as of January 1, 1995 among APS and The Bank of New York, as Trustee	4.6 to APS' Registration Statement Nos. 33-61228 and 33-55473 by means of January 1, 1995 Form 8-K Report	1-4473	1-11-95
4.11	First Supplemental Indenture dated as of January 1, 1995	4.4 to APS' Registration Statement Nos. 33-61228 and 33-55473 by means of January 1, 1995 Form 8-K Report	1-4473	1-11-95
4.12	Indenture dated as of November 15, 1996 among APS and The Bank of New York, as Trustee	4.5 to APS' Registration Statements Nos. 33-61228, 33-55473, 33-64455 and 333-15379 by means of November 19, 1996 Form 8-K Report	1-4473	11-22-96

Exhibit No.	Description	Originally Filed as Exhibit:	File No.(b)	Date Effective
4.13	First Supplemental Indenture	4.6 to APS' Registration Statements Nos. 33-61228, 33-55473, 33-64455 and 333-15379 by means of November 19, 1996 Form 8-K Report	1-4473	11-22-96
4.14	Second Supplemental Indenture	4.10 to APS' Registration Statement Nos. 33-55473, 33-64455 and 333-15379 by means of April 7, 1997 Form 8-K Report	1-4473	4-9-97
4.15	Agreement of Resignation, Appointment, Acceptance and Assignment dated as of August 18, 1995 by and among APS, Bank of America National Trust and Savings Association and The Bank of New York	4.1 to APS' September 25, 1995 Form 8-K Report	1-4473	10-24-95
4.16	Rights Agreement, amended as of November 14, 1990, between the Company and The Valley National Bank of Arizona, as Rights Agent, which includes the Certificate of Designation of Series A Participating Preferred Stock as Exhibit A, the form of Rights Certificate as Exhibit B and the Summary of Rights as Exhibit	4.1 to the Company's 1990 Form 10-K Report	1-8962	3-28-91
4.17	Specimen Certificate of Pinnacle West Capital Corporation Common Stock, no par value	4.2 to the Company's 1988 Form 10-K Report	1-8962	3-31-89
4.18	Agreement, dated March 29, 1988, relating to the filing of instruments defining the rights of holders of long-term debt not in excess of 10% of the Company's total assets	4.1 to the Company's 1987 Form 10-K Report	1-8962	3-30-88

Exhibit No.	Description	Originally Filed as Exhibit:	File No.(b)	Date Effective
4.19	Indenture dated as of January 15, 1998 among APS and The Chase Manhattan Bank, as Trustee	4.10 to APS' Registration Statement Nos. 333-15379 and 333-27551 by means of January 13, 1998 Form 8-K Report	1-4473	1-16-98
4.20	First Supplemental Indenture dated as of January 15, 1998	4.3 to APS' Registration Statement Nos. 333-15379 and 333-27551 by means of January 13, 1998 Form 8-K Report	1-4473	1-16-98
10.3	Agreement, dated December 6, 1989, between the Company and the Office of Thrift Supervision, United States Department of Treasury, and related documents	4.1 to the Company's December 6, 1989 Form 8-K Report	1-8962	12-7-89
10.4	Release from the Office of Thrift Supervision, United States Department of the Treasury, to the Company, dated March 22, 1990, releasing the Company from its purported obligations under the Stipulation and under any other source of alleged obligation of the Company to infuse equity capital into MeraBank	10.1 to the Company's 1989 Form 10-K Report	1-8962	3-31-89
10.5	Release from the Federal Deposit Insurance Corporation to the Company, dated Marc 22, 1990, releasing the Company from its purported obligations under the Stipulation and under any other source of alleged obligation of the Company to infuse equity capital into MeraBank	10.2 to the Company's 1989 Form 10-K Report	1-8962	3-31-89

Exhibit No.	Description	Originally Filed as Exhibit:	File No.(b)	Date Effective
10.6	Release from the Resolution Trust Corporation (in its corporate capacity) to the Company, dated March 21, 1990, releasing the Company, from its purported obligation under the Stipulation and under any other source of alleged obligation of the Company to infuse equity capital into MeraBank	10.3 to the Company's 1989 Form 10-K Report	1-8962	3-31-89
10.7	Release from the Resolution Trust Corporation (in its capacity as Receiver of MeraBank) to the Company, dated March 21, 1990, releasing the Company from its purported obligations under the Stipulation and under any other source of alleged obligation to the Company to infuse equity capital into MeraBank	10.4 to the Company's 1989 Form 10-K Report	1-8962	3-31-89
10.8ad	Form of Key Executive Employment and Severance Agreement between the Company and each of its executive officers	10.5 to the Company's 1989 Form 10-K Report	1-8962	3-31-89
10.9a	Employment Agreement, effective as of February 5, 1990, between Richard Snell and the Company	10.1 to the Company's 1990 Form 10-K Report	2-96386	3-28-91
10.10	Two separate Decommissioning Trust Agreements (relating to PVNGS Units 1 and 3, respectively), each dated July 1, 1991, between APS and Mellon Bank, N.A., as Decommissioning Trustee	10.2 to APS' September 1991 Form 10-Q Report	1-4473	11-14-91

Exhibit No.	Description	Originally Filed as Exhibit:	File No.(b)	Date Effective
10.11	Amendment No. 1 to Decommissioning Trust Agreement (PVNGS Unit 1), dated as of December 1, 1994	10.1 to APS' 1994 Form 10- K Report	1-4473	3-30-95
10.12	Amendment No. 1 to Decommissioning Trust Agreement (PVNGS Unit 3), dated as of December 1, 1994	10.2 to APS' 1994 Form 10-K Report	1-4473	3-30-95
10.13	Amendment No. 2 to APS Decommissioning Trust Agreement (PVNGS Unit 1) dated as of July 1, 1991	10.4 to APS' 1996 Form 10-K Report	1-4473	3-28-97
10.14	Amendment No. 2 to APS Decommissioning Trust Agreement (PVNGS Unit 3) dated as of July 1, 1991	10.6 to APS' 1996 Form 10-K Report	1-4473	3-28-97
10.15	Amended and Restated Decommissioning Trust Agreement (PVNGS Unit 2) dated as of January 31, 1992, among APS, Mellon Bank, N.A., as Decommissioning Trustee, and State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee under two separate Trust Agreements, each with a separate Equity Participant, and as Lessor under two separate Facility Leases, each relating to an undivided interest in PVNGS Unit 2	10.1 to the Company's 1991 Form 10-K Report	1-8962	3-26-92
10.16	First Amendment to Amended and Restated Decommissioning Trust Agreement (PVNGS Unit 2), dated as of November 1, 1992	10.2 to APS' 1992 Form 10-K Report	1-4473	3-30-93

Exhibit No.	Description	Originally Filed as Exhibit:	File No.(b)	Date Effective
10.17	Amendment No. 2 to Amended and Restated Decommissioning Trust Agreement (PVNGS Unit 2), dated as of November 1, 1994	10.2 to APS' 1994 Form 10-K Report	1-4473	3-30-95
10.18	Amendment No. 3 to Amended and Restated Decommissioning Trust Agreement (PVNGS Unit 2), dated as of November 1, 1994	10.1 to APS' June 1996 Form 10-Q Report	1-4473	8-9-96
10.19	Amendment No. 4 to APS Amended and Restated Decommissioning Trust Agreement (PVNGS Unit 2) dated as of January 31, 1992	10.5 to APS' 1996 Form 10-K Report	1-4473	3-28-97
10.20	Asset Purchase and Power Exchange Agreement dated September 21, 1990 between APS and PacifiCorp, as amended as of October 11, 1990 and as of July 18, 1991	10.1 to APS' June 1991 Form 10-Q Report	1-4473	8-8-91
10.21	Long-Term Power Transaction Agreement dated September 21, 1990 between APS and PacifiCorp, as amended as of October 11, 1990, and as of July 8, 1991	10.2 to APS' June 1991 Form 10-Q Report	1-4473	8-8-91
10.22	Amendment No. 1 dated April 5, 1995 to the Long-Term Power Transaction Agreement and Asset Purchase and Power Exchange Agreement between PacifiCorp and APS	10.3 to APS' 1995 Form 10-K Report	1-4473	3-29-96
10.23	Restated Transmission Agreement between PacifiCorp and APS dated April 5, 1995	10.4 to APS' 1995 Form 10-K Report	1-4473	3-29-96

Exhibit No.	Description	Originally Filed as Exhibit:	File No.(b)	Date Effective
10.24	Contract among PacifiCorp, APS and United States Department of Energy Western Area Power Administration, Salt Lake Area Integrated Projects for Firm Transmission Service dated May 5, 1995	10.5 to APS' 1995 Form 10-K Report	1-4473	3-29-96
10.25	Reciprocal Transmission Service Agreement between APS and PacifiCorp dated as of March 2, 1994	10.6 to APS' 1995 Form 10-K Report	1-4473	3-29-86
10.26	Contract, dated July 21, 1984, with DOE providing for the disposal of nuclear fuel and/or high-level radioactive waste, ANPP	10.31 to the Company's Form S-14 Registration Statement	2-96386	3-13-85
10.27	Indenture of Lease with Navajo Tribe of Indians, Four Corners Plant	5.01 to APS' Form S-7 Registration Statement	2-59644	9-1-77
10.28	Supplemental and Additional Indenture of Lease, including amendments and supplements to original lease with Navajo Tribe of Indians, Four Corners Plant	5.02 to APS' Form S-7 Registration Statement	2-59644	9-1-77
10.29	Amendment and Supplement No. 1 to Supplemental and Additional Indenture of Lease Four Corners, dated April 25, 1985	10.36 to the Company's Registration Statement on Form 8-B Report	1-8962	7-25-85
10.30	Application and Grant of 10.31 multi-party rights-of-way and easements, Four Corners Plant Site	5.04 to APS' Form S-7 Registration Statement	2-59644	9-1-77

Exhibit No.	Description	Originally Filed as Exhibit:	File No.(b)	Date Effective
10.31	Application and Amendment No. 1 to Grant of multi-party rights-of-way and easements, Four Corners Power Plant Site dated April 25, 1985	10.37 to the Company's Registration Statement on Form 8-B	1-8962	7-25-85
10.32	Application and Grant of Arizona Public Service Company rights-of-way and easements, Four Corners Plant Site	5.05 to APS' Form S-7 Registration Statement	2-59644	9-1-77
10.33	Application and Amendment No. 1 to Grant of Arizona Public Service Company rights-of-way and easements, Four Corners Power Plant Site dated April 25, 1985	10.38 to the Company's Registration Statement on Form 8-B	1-8962	7-25-85
10.34	Indenture of Lease, Navajo Units 1, 2, and 3	5(g) to APS' Form S-7 Registration Statement	2-36505	3-23-70
10.35	Application and Grant of rights-of-way and easements, Navajo Plant	5(h) to APS' Form S-7 Registration Statement	2-36505	3-23-70
10.36	Water Service Contract Assignment with the United States Department of Interior, Bureau of Reclamation, Navajo Plant	5(1) to APS' Form S-7 Registration Statement	2-394442	3-16-71

Exhibit No.	Description	Originally Filed as Exhibit:	File No.(b)	Date Effective
10.37	Arizona Nuclear Power Project Participation Agreement, dated August 23, 1973, among APS Salt River Project Agricultural Improvement and Power District, Southern California Edison Company' Public Service Company of New Mexico, El Paso Electric Company, Southern California Public Power Authority, and Department of Water and Power of the City of Los Angeles, and amendments 1-12 thereto	10. 1 to APS' 1988 Form 10-K	1-4473	3-8-89
10.38	Amendment No. 13, dated as of April 22, 1991, to Arizona Nuclear Power Project Participation Agreement, dated August 23, 1973, among APS, Salt River Project Agricultural Improvement and Power District, Southern California Edison Company, Public Service Company of New Mexico, El Paso Electric Company, Southern California Public Power Authority, and Department of Water and Power of the City of Los Angeles	10.1 to APS' March 1991 Form 10-Q	1-4473	5-15-91
10.39c	Facility Lease, dated as of August 1, 1986, between State Street Bank and Trust Company, as successor to The First National Bank of Boston, in its capacity as Owner Trustee, as Lessor, and APS, as Lessee	4.3 to APS' Form S-3 Registration Statement	33-9480	10-24-86

Exhibit No.	Description	Originally Filed as Exhibit:	File No.(b)	Date Effective
10.40c	Amendment No. 1, dated as of November 1, 1986, to Facility Lease, dated as of August 1, 1986, between State Street Bank and Trust Company, as successor to The First National Bank of Boston, in its capacity as Owner Trustee, as Lessor, and APS, as Lessee	10.5 to APS' September 1986 Form 10-Q Report by means of Amendment No. on December 3, 1986 Form 8	1-4473	12-4-86
10.41c	Amendment No. 2 dated as of June 1, 1987 to Facility Lease dated as of August 1, 1986 between State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Lessor, and APS, as Lessee	10.3 to APS' 1988 Form 10-K Report	1-4473	3-8-89
10.42c	Amendment No. 3, dated as of March 17, 1993, to Facility Lease, dated as of August 1, 1986, between State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Lessor, and APS, as Lessee	10.3 to APS' 1992 Form 10-K Report	1-4473	3-30-93
10.43	Facility Lease, dated as of December 15, 1986, between State Street Bank and Trust Company, as successor to The First National Bank of Boston, in its capacity as Owner Trustee, as Lessor, and APS, as Lessee	10.1 to APS' November 18 1986 Form 8-K Report	1-4473	1-20-87

Exhibit No.	Description	Originally Filed as Exhibit:	File No.(b)	Date Effective
10.44	Amendment No. 1, dated as of August 1, 1987, to Facility Lease, dated as of December 15, 1986, between State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Lessor, and APS, as Lessee	4.13 to APS' Form S-3 Registration Statement No. 33-9480 by means of August 1, 1987 Form 8-K Report	1-4473	8-24-87
10.45	Amendment No. 2, dated as of March 17, 1993, to Facility Lease, dated as of December 15, 1986, between State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Lessor, and APS, as Lessee	10.4 to APS' 1992 Form 10-K Report	1-4473	3-30-93
10.46a	Directors' Deferred Compensation Plan, as restated, effective January 1, 1986	10.1 to APS' June 1986 Form 10-Q Report	1-4473	8-13-86
10.47a	Second Amendment to the Arizona Public Service Company Deferred Compensation Plan, effective as of January 1, 1993	10.2 to APS' 1993 Form 10-K Report	1-4473	3-30-94
10.48a	Third Amendment to the Arizona Public Service Company Directors' Deferred Compensation Plan, effective as of May 1, 1993	10.1 to APS' September 1994 Form 10-Q	1-4473	11-10-94
10.49a	Arizona Public Service Company Deferred Compensation Plan, as restated, effective January 1, 1984, and the second and third amendments thereto, dated December 22, 1986, and December 23, 1987 respectively	10.4 to APS' 1988 Form 10-K Report	1-4473	3-8-89

Exhibit No.	Description	Originally Filed as Exhibit:	File No.(b)	Date Effective
10.50	Third Amendment to the Arizona Public Service Company Deferred Compensation Plan, effective as of January 1, 1993	10.3 to APS' 1993 Form 10-K Report	1-4473	3-30-94
10.51a	Fourth Amendment to the Arizona Public Service Company Deferred Compensation Plan effective as of May 1, 1993	10.2 to APS' September 1994 Form 10-Q Report	1-4473	11-10-94
10.52a	Fifth Amendment to the Arizona Public Service Company Deferred Compensation Plan	10.3 to APS' 1996 Form 10-K Report	1-4473	3-28-97
10.53a	1998 APS Management Variable Pay Plan	10.1 to APS' 1997 Form 10-K Report	1-4473	3-30-98
10.54a	1998 APS Senior Management Variable Pay Plan	10.2 to APS' 1997 Form 10-K Report	1-4473	3-30-98
10.55a	1997 APS Officers Variable Pay Plan	10.3 to APS' 1997 Form 10-K Report	1-4473	3-30-98
10.56a	Pinnacle West Capital Corporation, Arizona Public Service Company, SunCor Development Company and El Dorado Investment Company Deferred Compensation Plan as amended and restated effective January 1, 1996	10.10 to APS' 1995 Form 10-K Report	1-4473	3-29-86
10.57a	Arizona Public Service Company Supplemental Excess Benefit Retirement Plan as amended and restated on December 20, 1995	10.11 to APS' 1995 Form 10-K Report	1-4473	3-29-86

Exhibit No.	Description	Originally Filed as Exhibit:	File No.(b)	Date Effective
10.58a	Pinnacle West Capital Corporation and Arizona Public Service Company Directors' Retirement Plan, effective as of January 1, 1995	10.7 to APS' 1994 Form 10-K Report	1-4473	3-30-95
10.59a	Letter Agreement dated December 21, 1993, between APS and William L. Stewart	10.7 to APS' 1994 Form 10-K Report	1-4473	3-30-96
10.60a	Agreement for Utility Consulting Services, dated March 1, 1985, between APS and Thomas G. Woods, Jr., and Amendment No. 1 thereto, dated January 6, 1986	10.6 to APS' 1988 Form 10-K Report	1-4473	3-8-89
10.61a	Letter Agreement, dated April 3, 1978, between APS and O. Mark DeMichele, regarding certain retirement benefits granted to Mr. DeMichele	10.7 to APS' 1988 Form 10-K Report	1-4473	3-8-89
10.62a	Letter Agreement dated July 28, 1995, between APS and Jaron B. Norberg regarding certain of Mr. Norberg's retirement benefits.	10.1 to APS' September 1995 10-Q Report	1-4473	11-14-95
10.63a	Letter Agreement dated as of January 1, 1996 between APS and Robert G. Matlock & Associates, Inc. for consulting services	10.8 to APS' 1995 Form 10-K Report	1-4473	3-29-96
10.64	Letter Agreement dated October 9, 1996 between APS and Jaron B. Norberg	10.7 to APS' 1996 Form 10-K Report	1-4473	3-28-97
10.65	Letter Agreement dated August 16, 1996 between APS and William L. Stewart	10.8 to APS' 1996 Form 10-K Report	1-4473	3-28-97
10.66	Letter Agreement between APS and William L. Stewart	10.2 to APS' September 1997 Form 10-Q Report	1-4473	11-12-97

Exhibit No.	Description	Originally Filed as Exhibit:	File No.(b)	Date Effective
10.67	Letter Agreement dated November 27, 1996 between APS and George A. Schreiber, Jr.	10.9 to APS' 1996 Form 10-K Report	1-4473	3-28-97
10.68ad	Key Executive Employment and Severance Agreement between APS and certain executive of officers of APS	10.3 to APS' 1989 Form 10-K Report	1-4473	3-8-90
10.69ad	Revised form of Key Executive' Employment and Severance Agreement between APS and certain executive officers of APS	10.5 to APS' 1993 Form 10-K Report	1-4473	3-30-94
10.70ad	Second revised form of Key Executive Employment and Severance Agreement between APS and certain executive officers of APS	10.9 to APS' 1994 Form 10-K Report	1-4473	3-30-95
10.71ad	Key Executive Employment and Severance Agreement between APS and certain managers of APS	10.4 to APS' 1989 Form 10-K Report	1-4473	3-8-90
10.72ad	Revised form of Key Executive Employment and Severance Agreement between APS and certain key employees of APS	10.4 to APS' 1993 Form 10-K Report	1-4473	3-30-94
10.73ad	Second revised Form of Key Executive Employment and Severance Agreement between APS and certain key employees of APS	10.8 to APS' 1994 Form 10-K Report	1-4473	3-30-95
10.74a	Pinnacle West Capital Corporation Stock Option and Incentive Plan	10.1 to APS' 1992 Form 10-K Report	1-4473	3-30-93

Exhibit No.	Description	Originally Filed as Exhibit:	File No.(b)	Date Effective
10.75a	Pinnacle West Capital Corporation 1994 Long-Term Incentive Plan, effective as of March 23, 1994	A to the Proxy Statement for the Plan Report for the Company's 1994 Annual Meeting of Shareholders	1-8962	4-16-94
10.76a	Pinnacle West Capital Corporation Director Equity Participation Plan	B to the Proxy Statement for the Plan Report for the Company's 1994 Annual Meeting of Shareholders	1-8962	4-16-94
10.77	Agreement No. 13904 (Option and Purchase of Effluent) with Cities of Phoenix, Glendale, Mesa, Scottsdale, Tempe, Town of Youngtown, and Salt River Project Agricultural Improvement and Power District, dated April 23, 1973	10.3 to APS' 1991 Form 10-K Report	1-4473	3-19-92
10.78	Agreement for the Sale and purchase of Wastewater Effluent with City of Tolleson and Salt River Agricultural Improvement and Power District, dated June 12, 1981, including Amendment No. 1 dated as of November 12, 1981 and Amendment No. 2 dated as of June 4, 1986	10.4 to A PS' 1991 Form 10-K Report	1-4473	3-19-92
10.79a	First Amendment to Employment Agreement, effective March 31, 1995, between Richard Snell and the Company	10.2 to the Company's 1995 Form 10-K Report	1-8962	4-1-96
10.80a	Second Amendment to Employment Agreement, effective February 5, 1997, between Richard Snell and the Company	10.2 to the Company's 1996 Form 10-K Report	1-8962	3-31-97
10.81a	APS Director Equity Plan	10.1 to September 1997 Form 10-Q Report	1-4473	11-12-97

Exhibit No.	Description	Originally Filed as Exhibit:	File No.(b)	Date Effective
99.1	Collateral Trust Indenture among PVNGS II Funding Corp., Inc., APS and Chemical Bank, as Trustee	4.2 to APS' 1992 Form 10 K Report	1-4473	3-30-93
99.2	Supplemental Indenture to Collateral Trust Indenture among PVNGS II Funding Corp., Inc., APS and Chemical Bank, as Trustee	4.3 to APS' 1992 Form 10 K Report	1-4473	3-30-93
99.3c	Participation Agreement, dated as of August 1, 1986, among PVNGS Funding Corp., Inc., Bank of America National Trust and Savings Association, State Street Bank and Trust Company, as successor to The First National Bank of Boston, in its individual capacity and as Owner Trustee, Chemical Bank, in its individual capacity and as Indenture Trustee, APS, and the Equity Participant named therein	28.1 to APS' September 1992 Form 10-Q Report	1-4473	11-9-92
99.4c	Amendment No. 1 dated as of November 1, 1986, to Participation Agreement, dated as of August 1, 1986, among PVNGS Funding Corp., Inc., Bank of America National Trust and Savings Association, State Street Bank and Trust Company, as successor to The First National Bank of Boston, in its individual capacity and as Owner Trustee, Chemical Bank, in its individual capacity and as Indenture Trustee, APS, and the Equity Participant named therein	10.8 to APS' September 1986 Form 10-Q Report by means of Amendment No. 1, on December 3, 1986 Form 8	1-4473	12-4-86

Exhibit No.	Description	Originally Filed as Exhibit:	File No.(b)	Date Effective
99.5c	Amendment No. 2, dated as of March 17, 1993, to Participation Agreement, dated as of August 1, 1986, among PVNGS Funding Corp., Inc., PVNGS II Funding Corp., Inc., State Street Bank and Trust Company, as successor to The First National Bank of Boston, in its individual capacity and as Owner Trustee, Chemical Bank, in its individual capacity and as Indenture Trustee, APS, and the Equity Participant named therein	28.4 to APS' 1992 Form 10-K Report	1-4473	3-30-93
99.6c	Trust Indenture, Mortgage, Security Agreement and Assignment of Facility Lease, dated as of August 1, 1986, between State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee, and Chemical Bank, as Indenture Trustee	4.5 to APS' Form S-3 Registration Statement	33-9480	10-24-86
99.7c	Supplemental Indenture No. 1, dated as of November 1, 1986 to Trust Indenture, Mortgage, Security Agreement and Assignment of Facility Lease, dated as of August 1, 1986, between State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee, and Chemical Bank, as Indenture Trustee	10.6 to APS' September 1986 Form 10-Q Report by means of Amendment No. 1 on December 3, 1986 Form 8	1-4473	12-4-86

Exhibit No.	Description	Originally Filed as Exhibit:	File No.(b)	Date Effective
99.8c	Supplemental Indenture No. 2 to Trust Indenture, Mortgage, Security Agreement and Assignment of Facility Lease, dated as of August 1, 1986, between State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee, and Chemical Bank, as Lease Indenture Trustee	28.14 to APS' 1992 Form 10-K Report	1-4473	3-30-93
99.9c	Assignment, Assumption and Further Agreement, dated as of August 1, 1986, between APS and State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee	28.3 to APS' Form S-3 Registration Statement	33-9480	10-24-86
99.10c	Amendment No. 1, dated as of November 1, 1986, to Assignment, Assumption and Further Agreement, dated as of August 1, 1986, between APS and State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee	10.10 to APS' September 1986 Form 10-Q Report by means of Amendment No. l on December 3, 1986 Form 8	1-4473	12-4-86
99.11c	Amendment No. 2, dated as of March 17, 1993, to Assignment, Assumption and Further Agreement, dated as of August 1, 1986, between APS and State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee	28.6 to APS' 1992 Form 10-K Report	1-4473	3-30-93

Exhibit No.	Description	Originally Filed as Exhibit:	File No.(b)	Date Effective
99.12	Participation Agreement, dated as of December 15, 1986, among PVNGS Funding Report Corp., Inc., State Street Bank and Trust Company, as successor to The First National Bank of Boston, in its individual capacity and as Owner Trustee, Chemical Bank, in its individual capacity and as Indenture Trustee under a Trust Indenture, APS, and the Owner Participant named therein	28.2 to APS' September 1992 Form 10-Q Report	1-4473	11-9-92
99.13	Amendment No. 1, dated as of August 1, 1987, to Participation Agreement, dated as of December 15, 1986, among PVNGS Funding Corp., Inc. as Funding Corporation, State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee, Chemical Bank, as Indenture Trustee, APS, and the Owner Participant named therein	28.20 to APS' Form S-3 Registration Statement No. 33-9480 by means of a November 6, 1986 Form 8-K Report	1-4473	8-10-87

Exhibit No.	Description	Originally Filed as Exhibit:	File No.(b)	Date Effective
99.14	Amendment No. 2, dated as of March 17, 1993, to Participation Agreement, dated as of December 15, 1986, among PVNGS Funding Corp., Inc., PVNGS II Funding Corp., Inc., State Street Bank and Trust Company, as successor to The First National Bank of Boston, in its individual capacity and as Owner Trustee, Chemical Bank, in its individual capacity and as Indenture Trustee, APS, and the Owner Participant named therein	28.5 to APS' 1992 Form 10-K Report	1-4473	3-30-93
99.15	Trust Indenture, Mortgage, Security Agreement and Assignment of Facility Lease, dated as of December 15, 1986, between State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee, and Chemical Bank, as Indenture Trustee	10.2 to APS' November 18, 1986 Form 10-K Report	1-4473	1-20-87
99.16	Supplemental Indenture No. 1, dated as of August 1, 1987, to Trust Indenture, Mortgage, Security Agreement and Assignment of Facility Lease, dated as of December 15, 1986, between State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee, and Chemical Bank, as Indenture Trustee	4.13 to APS' Form S-3 Registration Statement No. 33-9480 by means of August 1, 1987 Form 8-K Report	1-4473	8-24-87

Exhibit No.	Description	Originally Filed as Exhibit:	File No.(b)	Date Effective
99.17	Supplemental Indenture No. 2 to Trust Indenture Mortgage, Security Agreement and Assignment of Facility Lease, dated as of December 15, 1986, between State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee, and Chemical Bank, as Lease Indenture Trustee	4.5 to APS' 1992 Form 10-K Report	1-4473	3-30-93
99.18	Assignment, Assumption and Further Agreement, dated as of December 15, 1986, between APS and State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee	10 5 to APS' November 18, 1986 Form 8-K Report	1-4473	1-20-87
99.19	Amendment No. 1, dated as of March 17, 1993, to Assignment, Assumption and Further Agreement, dated as of December 15, 1986, between APS and State Street Bank and Trust Company, as successor to The First National Bank of Boston, as Owner Trustee	28.7 to APS' 1992 Form 10-K Report	1-4473	3-30-93
99.20c	Indemnity Agreement dated as of March 17, 1993 by APS	28.3 to APS' 1992 Form 10-K Report	1-4473	3-30-93
99.21	Extension Letter, dated as of August 13, 1987, from the signatories of the Participation Agreement to Chemical Bank	28.20 to APS' Form S-3 Registration Statement No. 33-9480 by means of a November 6, 1986 Form 8-K Report	1-4473	8-10-87
99.22	Arizona Corporation Commission Order dated December 6, 1991	28.1 to APS' 1991 Form 10-K Report	1-4473	3-19-92

Exhibit No.	Description	Originally Filed as Exhibit:	File No.(b)	Date Effective
99.23	Arizona Corporation Commission Order dated June 1, 1994	10.1 to APS' June 1994 form 10-Q Report	1-4473	8-12-94
99.24	Rate Reduction Agreement dated December 4, 1995 between APS and the ACC Staff	10.1 to APS' December 4, 1995 8-K Report	1-4473	12-14-95
99.25	ACC Order dated April 24, 1996	10.1 to APS' March 1996 Form 10-Q Report	1-4473	5-14-96
99.26	Arizona Corporation Commission Order, Decision No. 59943, dated December 26, 1996, including the Rules regarding the introduction of retail competition in Arizona	99.1 to APS' 1996 Form 10-K Report	1-4473	3-28-97

(a)Management contract or compensatory plan or arrangement to be filed as an exhibit pursuant to Item 14(c) of Form 10-K.

(b)Reports filed under File No. 1-4473 and 1-8962 were filed in the office of the Securities and Exchange Commission located in Washington, D.C.

(c)An additional document, substantially identical in all material respects to this Exhibit, has been entered into, relating to an additional Equity Participant. Although such additional document may differ in other respects (such as dollar amounts, percentages, tax indemnity matters, and dates of execution), there are no material details in which such document differs from this Exhibit.

(d)Additional agreements, substantially identical in all material respects to this Exhibit have been entered into with additional persons. Although such additional documents may differ in other respects (such as dollar amounts and dates of execution), there are no material details in which such agreements differ from this Exhibit.

Reports on Form 8-K

During the quarter ended December 31, 1997, and the period ended March 23, 1998, the Company did not file any Reports on Form 8-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PINNACLE WEST CAPITAL CORPORATION
(Registrant)

Date: March 31, 1998 *\/s/ Richard Snell*
(Richard Snell, Chairman of the Board of Directors and Chief Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Richard Snell (Richard Snell, Chairman of the Board of Directors and Chief Executive Officer)	Principal Executive Officer and Director	March 31, 1998
/s/ William J. Post (William J. Post)	President and Director	March 31, 1998
/s/ George A. Schreiber, Jr. (George A. Schreiber, Jr.)	Principal Financial Officer, Principal Accounting Officer, Executive Vice President and Director	March 31, 1998
/s/ Pamela Grant (Pamela Grant)	Director	March 31, 1998
/s/ Roy A. Herberger, Jr. (Roy A. Herberger, Jr.)	Director	March 31, 1998
/s/ Martha O. Hesse (Martha O. Hesse)	Director	March 31, 1998
/s/ William S. Jamieson, Jr. (William S. Jamieson, Jr.)	Director	March 31, 1998

Signature	Title	Date
/s/ John R. Norton, III (John R. Norton, III)	Director	March 31, 1998
/s/ Humberto S. Lopez (Humberto S. Lopez)	Director	March 31, 1998
/s/ Douglas J. Wall (Douglas J. Wall)	Director	March 31, 1998

Exhibit 10.1a Summary of the Pinnacle West Capital Corporation 1998 Bonus Plan

Under the Pinnacle West Capital Corporation 1998 Bonus Plan, upon the recommendation of the Human Resources Committee, the Board establishes on an annual basis certain financial and other goals to be met, designating parameters of performance and assigning relative weights. The principal measures of performance during 1998 include per-share earnings and the development and

implementation of long-term strategies for the Company and its subsidiaries.

EXHIBIT 21
SUBSIDIARIES OF PINNACLE WEST CAPITAL CORPORATION

Arizona Public Service Company
State of Incorporation: Arizona

Axiom Power Solutions, Inc.
State of Incorporation: Arizona

Bixco, Inc.
State of Incorporation: Arizona

SunCor Development Company
State of Incorporation: Arizona

SunCor Resort & Golf Management, Inc.
State of Incorporation: Arizona

Litchfield Park Service Company
State of Incorporation: Arizona

Golden Heritage Homes, Inc.
State of Incorporation: Arizona

Golden Heritage Construction, Inc.
State of Incorporation: Arizona

Golf de Mexico, S.A. DE C.V.
Incorporation: Tijuana, Baja California, Mexico

SunCor Realty & Management Company
State of Incorporation: Arizona

Palm Valley Golf Club, Inc.
State of Incorporation: Arizona

Rancho Viejo de Santa Fe, Inc.
State of Incorporation: New Mexico

Ranchland Utility Company
State of Incorporation: New Mexico

El Dorado Investment Company
State of Incorporation: Arizona
SCM, Inc.

State of Incorporation: Arizona

EXHIBIT 23.1

INDEPENDENT AUDITOR'S CONSENT

We consent to the incorporation by reference in Post-Effective Amendment No. 2 to Registration Statement No. 33-15190 on Form S-3, Registration Statement Nos. 33-39208, 33-47534, 33-54287, 33-54307, 33-58372 and 333-30819 on Form S-8, Post-Effective Amendment No. 1 to Registration Statement No. 33-1720 on Form S-8, Post-Effective Amendment No. 2 to Registration Statement No. 33-10442 on Form S-8, and Post-Effective Amendment No. 3 on Form S-3 to Registration Statement No. 2-96386 on Form S-14, all of Pinnacle West Capital Corporation, of our report dated March 4, 1998 appearing in this Annual Report on Form 10-K of Pinnacle West Capital Corporation for the year ended December 31, 1997.

Deloitte & Touche LLP
Phoenix, Arizona

March 30, 1998

ARTICLE UT

MULTIPLIER: 1,000

CURRENCY: U.S. Dollars

PERIOD TYPE	12 MOS
FISCAL YEAR END	DEC 31 1997
PERIOD START	JAN 01 1997
PERIOD END	DEC 31 1997
EXCHANGE RATE	1
BOOK VALUE	PER BOOK
TOTAL NET UTILITY PLANT	4,677,568
OTHER PROPERTY AND INVEST	580,948
TOTAL CURRENT ASSETS	449,100
TOTAL DEFERRED CHARGES	1,142,801
OTHER ASSETS	0
TOTAL ASSETS	6,850,417
COMMON	1,553,771
CAPITAL SURPLUS PAID IN	0
RETAINED EARNINGS	473,665
TOTAL COMMON STOCKHOLDERS EQ	2,027,436
PREFERRED MANDATORY	29,110
PREFERRED	142,051
LONG TERM DEBT NET	2,244,248
SHORT TERM NOTES	0
LONG TERM NOTES PAYABLE	0
COMMERCIAL PAPER OBLIGATIONS	130,750
LONG TERM DEBT CURRENT PORT	108,695
PREFERRED STOCK CURRENT	0
CAPITAL LEASE OBLIGATIONS	0
LEASES CURRENT	0
OTHER ITEMS CAPITAL AND LIAB	2,168,127
TOT CAPITALIZATION AND LIAB	6,850,417
GROSS OPERATING REVENUE	1,995,026
INCOME TAX EXPENSE	150,281
OTHER OPERATING EXPENSES	1,000,893
TOTAL OPERATING EXPENSES	1,437,520
OPERATING INCOME LOSS	557,506
OTHER INCOME NET	(171,369)
INCOME BEFORE INTEREST EXPEN	0
TOTAL INTEREST EXPENSE	163,135
NET INCOME	235,856
PREFERRED STOCK DIVIDENDS	0
EARNINGS AVAILABLE FOR COMM	235,856
COMMON STOCK DIVIDENDS	96,160
TOTAL INTEREST ON BONDS	126,426
CASH FLOW OPERATIONS	637,579
EPS PRIMARY	2.76
EPS DILUTED	2.74

End of Filing