

PINNACLE WEST CAPITAL CORP

FORM 10-Q (Quarterly Report)

Filed 11/14/95 for the Period Ending 09/30/95

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

PINNACLE WEST CAPITAL CORP

FORM 10-Q (Quarterly Report)

Filed 11/14/1995 For Period Ending 9/30/1995

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

FORM 10-Q
Securities and Exchange Commission
Washington, D.C. 20549

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 1995

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 E. Van Buren St., P.O. Box 52132, Phoenix, Arizona 85072-2132
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (602) 379-2500

(Former name, former address and former fiscal year, if changed since last
report)

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 past 90 days.

Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Number of shares of common stock, no par value, outstanding as of November 13, 1995: 87,429,375

Glossary

ACC -	Arizona Corporation Commission
AFUDC -	Allowance for funds used during construction
APS -	Arizona Public Service Company
Company -	Pinnacle West Capital Corporation
El Dorado -	El Dorado Investment Company
EPA -	Environmental Protection Agency
EPEC -	El Paso Electric Company

Four Corners - Four Corners Power Plant

ITCs -	Investment tax credits
June 10-Q -	Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 1995
NGS -	Navajo Generating Station
1994 10-K -	Pinnacle West Capital Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 1994
Palo Verde -	Palo Verde Nuclear Generating Station

Pinnacle West - Pinnacle West Capital Corporation

SEC -	Securities and Exchange Commission
SFAS No.71 -	Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation"
SFAS No.121 -	Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of"
Tribe -	Navajo Tribe
SunCor -	SunCor Development Company

Item 1. Financial Statements.**PINNACLE WEST CAPITAL CORPORATION CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(Unaudited)

(Dollars in thousands, except per share amounts)

	Three Months Ended September 30,	
	1995	1994
	----	----
Operating Revenues		
Electric	\$ 549,082	\$ 540,883
Real estate	9,709	13,473
	-----	-----
Total	558,791	554,356
	-----	-----
Fuel Expenses		
Fuel for electric generation	68,715	70,035
Purchased power	23,539	25,532
	-----	-----
Total	92,254	95,567
	-----	-----
Operating Expenses		
Utility operations and maintenance	97,565	102,944
Real estate operations	10,801	15,272
Depreciation and amortization	61,625	59,132
Taxes other than income taxes	35,498	36,005
	-----	-----
Total	205,489	213,353
	-----	-----
Operating Income	261,048	245,436
	-----	-----
Other Income (Deductions)		
Allowance for equity funds used during construction	1,111	1,014
Interest on long-term debt	(51,355)	(63,021)
Other interest	(5,400)	(3,918)
Allowance for borrowed funds used during construction	2,130	1,401
Preferred stock dividend requirements of APS	(4,775)	(5,908)
Other-net	(13,128)	(2,801)
	-----	-----
Total	(71,417)	(73,233)
	-----	-----
Income Before Income Taxes	189,631	172,203
Income Tax Expense	75,136	78,212
	-----	-----
Net Income	\$ 114,495	\$ 93,991
	=====	=====
Average Common Shares Outstanding	87,414,951	87,409,343
Earnings Per Average Common Share Outstanding	\$ 1.31	\$ 1.08
	=====	=====
Dividends Declared Per Share	\$ 0.225	\$ 0.200
	=====	=====

See Notes to Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands, except per share amounts)

	Nine Months Ended September 30,	
	1995	1994
	----	----
Operating Revenues		
Electric	\$ 1,266,228	\$ 1,284,088
Real estate	31,873	38,333
	-----	-----
Total	1,298,101	1,322,421
	-----	-----
Fuel Expenses		
Fuel for electric generation	160,248	188,093
Purchased power	49,563	51,899
	-----	-----
Total	209,811	239,992
	-----	-----
Operating Expenses		
Utility operations and maintenance	283,248	309,009
Real estate operations	31,152	39,535
Depreciation and amortization	183,315	175,280
Taxes other than income taxes	106,654	107,370
	-----	-----
Total	604,369	631,194
	-----	-----
Operating Income	483,921	451,235
	-----	-----
Other Income (Deductions)		
Allowance for equity funds used during construction	3,645	2,837
Palo Verde accretion income	--	33,596
Interest on long-term debt	(158,952)	(176,587)
Other interest	(13,153)	(11,882)
Allowance for borrowed funds used during construction	6,481	3,918
Preferred stock dividend requirements of APS	(14,358)	(20,390)
Other-net	(7,215)	17,524
	-----	-----
Total	(183,552)	(150,984)
	-----	-----
Income Before Income Taxes	300,369	300,251
Income Tax Expense	119,002	135,939
	-----	-----
Net Income	\$ 181,367	\$ 164,312
	=====	=====
Average Common Shares Outstanding	87,404,258	87,415,344
Earnings Per Average Common Share Outstanding	\$ 2.08	\$ 1.88
	=====	=====
Dividends Declared Per Share	\$ 0.675	\$ 0.600
	=====	=====

See Notes to Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands, except per share amounts)

	Twelve Months Ended September 30,	
	1995	1994
	----	----
Operating Revenues		
Electric	\$ 1,608,308	\$ 1,647,457
Real estate	52,793	50,412
	-----	-----
Total	1,661,101	1,697,869
	-----	-----
Fuel Expenses		
Fuel for electric generation	209,258	242,319
Purchased power	61,250	65,595
	-----	-----
Total	270,508	307,914
	-----	-----
Operating Expenses		
Utility operations and maintenance	386,160	423,766
Real estate operations	51,406	53,791
Depreciation and amortization	245,361	231,226
Taxes other than income taxes	141,210	141,728
	-----	-----
Total	824,137	850,511
	-----	-----
Operating Income	566,456	539,444
	-----	-----
Other Income (Deductions)		
Allowance for equity funds used during construction	4,749	3,069
Palo Verde accretion income	--	53,058
Interest on long-term debt	(212,175)	(237,137)
Other interest	(16,456)	(15,427)
Allowance for borrowed funds used during construction	8,005	5,299
Preferred stock dividend requirements of APS	(19,242)	(28,399)
Other-net	(7,630)	16,828
	-----	-----
Total	(242,749)	(202,709)
	-----	-----
Income Before Income Tax	323,707	336,735
	-----	-----
Income Tax Expense (Benefit)		
Income tax expense	132,803	155,552
Non-recurring income tax benefit	(26,770)	--
	-----	-----
Total	106,033	155,552
	-----	-----
Net Income	\$ 217,674	\$ 181,183
	=====	=====
Average Common Shares Outstanding	87,402,674	87,396,659
	-----	-----
Earnings Per Average Common Share Outstanding	\$ 2.49	\$ 2.07
	=====	=====
Dividends Declared Per Share	\$ 0.900	\$ 0.800
	=====	=====

See Notes to Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

ASSETS
(Thousands of Dollars)

	September 30, 1995	December 31, 1994
	-----	-----
Current Assets		
Cash and cash equivalents	\$ 52,891	\$ 34,719
Customer and other receivables--net	168,229	136,143
Accrued utility revenues	78,851	55,432
Material and supplies	89,285	89,864
Fossil fuel	27,160	35,735
Deferred income taxes	55,463	68,263
Other current assets	17,595	15,422
	-----	-----
Total current assets	489,474	435,578
	-----	-----
Investments and Other Assets		
Real estate investments--net	418,893	408,505
Other assets	154,756	153,384
	-----	-----
Total investments and other assets	573,649	561,889
	-----	-----
Utility Plant		
Electric plant in service, including nuclear fuel	6,727,865	6,602,799
Construction work in progress	246,515	224,312
	-----	-----
Total utility plant	6,974,380	6,827,111
Less accumulated depreciation and amortization	2,346,527	2,203,038
	-----	-----
Net utility plant	4,627,853	4,624,073
	-----	-----
Deferred Debits		
Regulatory asset for income taxes	544,080	557,049
Palo Verde Unit 3 cost deferral	285,716	292,586
Palo Verde Unit 2 cost deferral	167,389	171,936
Other deferred debits	277,404	266,641
	-----	-----
Total deferred debits	1,274,589	1,288,212
	-----	-----
Total Assets	\$6,965,565	\$6,909,752
	=====	=====

See Notes to Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

LIABILITIES AND EQUITY

(Thousands of Dollars)

	September 30, 1995	December 31, 1994
	-----	-----
Current Liabilities		
Accounts payable	\$ 107,736	\$ 126,842
Accrued taxes	207,192	89,144
Accrued interest	35,399	56,058
Short-term borrowings	62,200	131,500
Current maturities of long-term debt	77,624	78,512
Other current liabilities	68,575	50,060
	-----	-----
Total current liabilities	558,726	532,116
	-----	-----
Non-Current Liabilities		
Long-term debt less current maturities	2,519,791	2,588,525
Other liabilities	11,659	8,679
	-----	-----
Total non-current liabilities	2,531,450	2,597,204
	-----	-----
Deferred Credits and Other		
Deferred income taxes	1,299,137	1,297,298
Deferred investment tax credit	100,041	121,426
Unamortized gain - sale of utility plant	92,658	98,551
Other deferred credits	216,326	218,179
	-----	-----
Total deferred credits and other	1,708,162	1,735,454
	-----	-----
Commitments and Contingencies (Notes 6, 7 and 8)		
Minority Interests		
Non-redeemable preferred stock of APS	193,561	193,561
	-----	-----
Redeemable preferred stock of APS	75,000	75,000
	-----	-----
Common Stock Equity		
Common stock, no par value	1,641,075	1,641,196
Retained earnings	257,591	135,221
	-----	-----
Total common stock equity	1,898,666	1,776,417
	-----	-----
Total Liabilities and Equity	\$6,965,565	\$6,909,752
	=====	=====

See Notes to Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(THOUSANDS OF DOLLARS)

	Nine Months Ended September 30,	
	1995	1994
	----	----
Cash Flows From Operating Activities		
Net income	\$ 181,367	\$ 164,312
Items not requiring cash		
Depreciation and amortization	208,171	199,585
Deferred income taxes--net	27,608	70,508
Revenue refund reversal	--	(9,308)
Palo Verde accretion income	--	(33,596)
Deferred Investment tax credit	(21,385)	(5,935)
Other--net	478	755
Changes in current assets and liabilities		
Accounts receivable--net	(32,175)	(28,518)
Accrued utility revenues	(23,419)	(23,641)
Materials, supplies and fossil fuel	9,154	9,611
Other current assets	(2,173)	(2,029)
Accounts payable	(8,171)	18,019
Accrued taxes	118,048	84,341
Accrued interest	(20,659)	(6,790)
Other current liabilities	17,934	(29,880)
Decrease (increase) in land held	(12,322)	(653)
Other--net	2,876	(10,968)
	-----	-----
Net Cash Flow Provided By Operating Activities	445,332	395,813
	-----	-----
Cash Flows From Investing Activities		
Capital expenditures	(219,597)	(179,836)
Allowance for equity funds used during construction	3,645	2,837
Other--net	(5,664)	(3,982)
	-----	-----
Net Cash Flow Used For Investing Activities	(221,616)	(180,981)
	-----	-----
Cash Flows From Financing Activities		
Issuance of long-term debt	102,740	528,668
Short-term borrowings--net	(69,300)	(112,500)
Dividends paid on common stock	(58,998)	(52,450)
Repayment of long-term debt	(179,865)	(449,810)
Redemption of preferred stock	(4)	(104,096)
Other--net	(117)	1,915
	-----	-----
Net Cash Flow Used For Financing Activities	(205,544)	(188,273)
	-----	-----
Net Cash Flow	18,172	26,559
Cash and Cash Equivalents at Beginning of Period	34,719	52,127
	-----	-----
Cash and Cash Equivalents at End of Period	\$ 52,891	\$ 78,686
	=====	=====
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest, net of amounts capitalized	\$ 180,366	\$ 176,066
Income taxes	\$ 35,757	\$ 26,100

See Notes to Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. The condensed consolidated financial statements include the accounts of Pinnacle West and its subsidiaries: APS, SunCor and El Dorado. All significant intercompany balances have been eliminated. Consistent with the 1995 presentation, prior year's electric operating revenues and other taxes have been restated to exclude sales tax on electric revenues.
2. In the opinion of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position of Pinnacle West and its subsidiaries as of September 30, 1995, the results of operations for the three months, nine months and twelve months ended September 30, 1995 and 1994, and the cash flows for the nine months ended September 30, 1995 and 1994. It is suggested that these condensed consolidated financial statements and notes to condensed consolidated financial statements be read in conjunction with the consolidated financial statements and notes to consolidated financial statements included in the 1994 10-K.
3. The operations of APS are subject to seasonal fluctuations, with variations occurring in energy usage by customers from season to season and from month to month within a season, primarily as a result of changing weather conditions. For this and other reasons, the results of operations for interim periods are not necessarily indicative of the results to be expected for the full year.
4. See "Liquidity and Capital Resources" in Part I, Item 2 of this report for changes in capitalization since December 31, 1994.
5. In May 1994, the ACC approved a retail rate settlement agreement which provided for a net annual retail rate reduction of approximately \$32.3 million (\$19 million after tax), or 2.2% on average, effective June 1, 1994. As part of the settlement, APS reversed approximately \$20 million of depreciation (\$15 million after tax) related to a 1991 Palo Verde write-off. The 1994 rate settlement also provided for the accelerated amortization of substantially all deferred ITCs over a five-year period beginning in 1995. In addition, the 1994 rate settlement included a moratorium on filing for permanent rate changes, except under certain circumstances, prior to the end of 1996 for both APS and the ACC staff, and an incentive rewarding reduction in fuel and operating and maintenance cost per kilowatt-hour below established targets.
6. The Palo Verde participants have insurance for public liability payments 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. The maximum assessment per reactor under the retrospective rating 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 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 \$2.78 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.

7. APS has encountered tube cracking in the Palo Verde 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 in conjunction with inspections made during scheduled outages of the Palo Verde units. APS' ongoing analyses indicate that it will be economically desirable for APS to replace the Unit 2 steam generators, which have been most affected by tube cracking, in five to ten years. APS expects that the steam generator replacement can be accomplished within financial parameters established before replacement was a consideration, and APS estimates that its share of the replacement costs (in 1995 dollars and including installation and replacement power costs) will be between \$30 million and \$50 million, most of which will be incurred after the year 2000. APS expects that the replacement would be performed in conjunction with a normal refueling outage in order to limit incremental outage time to approximately 50 days. Based on the latest available data, APS estimates that the Unit 1 and Unit 3 steam generators should operate for 40 years (until 2025 and 2027, respectively), although APS will continue its normal periodic assessment of these steam generators.
8. El Paso Electric Company, one of the joint owners of Palo Verde and Four Corners, has been operating under Chapter 11 of the Bankruptcy Code since 1992. On September 29, 1995 EPEC filed with the bankruptcy court a revised plan whereby, among other things, certain issues, including EPEC allegations against APS regarding the 1989-90 Palo Verde outages, will be resolved, and EPEC will assume the joint facilities operating agreements. If the plan is not approved, APS does not expect that there would be a material adverse effect on its operations or financial position.

PINNACLE WEST CAPITAL CORPORATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion relates to Pinnacle West and its subsidiaries: APS, SunCor and El Dorado.

LIQUIDITY AND CAPITAL RESOURCES

Pinnacle West

Pinnacle West's cash requirements and its ability to fund those requirements are discussed under "Capital Needs and Resources" in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of the 1994 10-K.

During September 1995, Pinnacle West prepaid \$16.2 million of its debt, reducing Pinnacle West's outstanding debt to approximately \$382 million. Pinnacle West anticipates incurring substantial prepayment penalties in the refinancing of up to \$100 million of long term-debt in December, 1995. Pinnacle West anticipates that its year-end debt balance will be approximately \$310 million.

The Board declared a quarterly dividend of 25 cents per share of common stock, payable December 1, 1995 to shareholders of record on November 1, 1995, totaling approximately \$21.9 million.

APS

For the nine months ended September 30, 1995, APS incurred approximately \$200 million in construction expenditures, accounting for approximately 71% of the most recently estimated 1995 construction expenditures. APS has estimated total construction expenditures for the years 1995, 1996 and 1997 to be approximately \$280 million, \$244 million, and \$223 million, respectively. These amounts include about \$27 million each year for nuclear fuel expenditures.

Since December 31, 1994, APS has (i) issued \$75 million of its Junior Subordinated Deferrable Interest Debentures ("MIDS"), (ii) incurred approximately \$14 million of long-term debt in connection with a tax-exempt financing, (iii) redeemed on March 2, 1995, \$49.15 million of its First Mortgage Bonds, 10.25% Series due 2000, (iv) repurchased approximately \$23 million of its First Mortgage Bonds, and (v) redeemed on May 1, 1995, \$50 million of its First Mortgage Bonds, 13 1/4% Series due 2007.

Refunding obligations for preferred stock and long-term debt, a capitalized lease obligation, and certain actual and anticipated early redemptions, including premiums thereon, are expected to total approximately \$130 million, \$4 million, and \$164 million for the years 1995, 1996, and 1997, respectively. During the first nine months of 1995, APS refunded approximately \$130 million (100%) of the estimated 1995 total.

Provisions in APS' mortgage bond indenture and articles of incorporation require certain coverage ratios to be met before APS can issue additional first mortgage bonds or preferred stock. In addition, the bond indenture limits the amount of additional first mortgage bonds which may be issued to a percentage of net property additions, to the amount of certain first mortgage bonds that have been redeemed or retired, and/or to cash deposited with the mortgage bond trustee. As of September 30, 1995, and adjusting for the repurchase and incurrence of approximately \$9 million and \$4 million, respectively, of long-term debt in connection with a tax-exempt financing, APS estimates that the mortgage bond indenture and the articles of incorporation would have allowed APS to issue up to approximately \$1.501 billion and \$1.028 billion of additional first mortgage bonds and preferred stock, respectively.

The ACC has authority over APS with respect to the issuance of long-term debt and equity securities. Existing ACC orders allow APS to have up to approximately \$2.6 billion in long-term debt and approximately \$501 million of preferred stock outstanding at any one time.

Management does not expect any of the foregoing restrictions to limit APS' ability to meet its capital requirements.

OPERATING RESULTS

The following table shows the income and/or loss of Pinnacle West and its subsidiaries for the three-month, nine-month and twelve-month periods ended September 30, 1995 and 1994:

Income (Loss)
(Unaudited)
(Thousands of Dollars)

	Three Months Ended		Nine Months Ended		Twelve Months Ended	
	September 30,		September 30,		September 30,	
	1995	1994	1995	1994	1995	1994
APS	\$ 123,570	\$ 110,359	\$ 205,271	\$ 200,196	\$ 223,287	\$ 231,132
SunCor	(1,555)	(693)	(201)	(129)	467	(1,932)
El Dorado	(99)	(3,300)	304	(4,183)	480	(4,617)
Pinnacle West(1)	(7,421)	(12,375)	(24,007)	(31,572)	(6,560)	(43,400)
NET INCOME	\$ 114,495	\$ 93,991	\$ 181,367	\$ 164,312	\$ 217,674	\$ 181,183

(1) Includes Pinnacle West's interest expense and operating expenses net of income tax benefits. Income tax benefits are as follows (in thousands): \$3,841 and \$9,333 for the three months ended September 30, 1995 and 1994 respectively; \$11,969 and \$22,697 for the nine months ended September 30, 1995 and 1994, respectively; and \$43,569 and \$31,844 for the twelve months ended September 30, 1995 and 1994, respectively.

Operating Results - Three-month period ended September 30, 1995 compared to three-month period ended September 30, 1994

Earnings increased in the three-month period ended September 30, 1995 primarily due to the accelerated amortization of investment tax credits, customer growth, and lower operations and maintenance expenses. The accelerated investment tax credit amortization was a result of the 1994 rate settlement (see Note 5 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report) and is reflected as a decrease to income tax expense. Operations and maintenance expenses decreased due to various cost reductions. Partially offsetting these positive factors were the write-down of an office building and milder weather.

Operating Results - Nine-month period ended September 30, 1995 compared to nine-month period ended September 30, 1994

Earnings increased in the nine-month period ended September 30, 1995 primarily due to customer growth, accelerated investment tax credit amortization, lower fuel costs, lower operations and maintenance expenses, lower preferred stock dividends, and a gain recognized on the sale of a small subsidiary. The accelerated investment tax credit amortization was a result of the 1994 rate settlement (see Note 5 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report) and is reflected as a decrease to income tax expense. Fuel expense decreased due largely to lower fuel prices and lower average fuel costs resulting from increased nuclear generation. Operations and maintenance expenses were down due to improved nuclear operations, employee severance costs incurred in 1994 and lower fossil plant overhaul costs. Preferred stock dividends decreased due to less preferred stock outstanding. Partially offsetting these positive factors were the absence of non-cash accretion income and revenue refund reversals related to a 1991 rate settlement (see Notes 1J and 1C of Notes to Consolidated Financial Statements in Part II, Item 8 of the 1994 10-K), milder weather, the reversal in 1994 of certain previously-recorded depreciation related to Palo Verde, a retail rate reduction which became effective June 1, 1994, and the write-down of an office building.

Operating Results - Twelve-month period ended September 30, 1995 compared to twelve-month period ended September 30, 1994

Earnings decreased in the twelve-month period ended September 30, 1995 primarily due to the absence of non-cash accretion income and revenue refund reversals related to a 1991 rate settlement (see Notes 1J and 1C of Notes to Consolidated Financial Statements in Part II, Item 8 of the 1994 10-K), milder weather, a retail rate reduction which became effective June 1, 1994 (see Note 5 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report), the reversal in 1994 of certain previously-recorded depreciation related to Palo Verde, increased depreciation expense, and the write-down of an office building. Depreciation expense increased primarily due to higher plant balances and higher depreciation rates. Partially offsetting these negative factors were lower operations and maintenance expenses, lower fuel costs, customer growth, accelerated investment tax credit amortization, and lower preferred stock dividends. Operations and maintenance expenses decreased due to improved nuclear operations and lower fossil plant overhaul costs. Fuel expense was down due largely to lower average fuel costs resulting from increased nuclear generation and lower fuel prices. The accelerated investment tax credit amortization was a result of the 1994 rate settlement and is reflected as a decrease to income tax expense. Preferred stock dividends decreased due to less preferred stock outstanding.

Non-utility Operations

Pinnacle West's interest expense decreased due to repayment of debt and prior year prepayment penalty in the three-month, nine-month and twelve-month periods. Earnings increased in the twelve-month period due to a non-recurring income tax benefit of approximately \$26.8 million related to change in tax law.

SunCor's earnings decreased in the three-month and nine-month periods due to decreased land sales. The twelve-month period earnings increased as a result of increased net commercial and property management income.

El Dorado's earnings increased in all periods presented due to loss reserves in prior year periods and sale of stock on venture capital investments in the nine-month and twelve-month periods.

Other Income

Other income reflects accounting practices required for regulated public utilities and represents a composite of cash and non-cash items, including AFUDC and accretion income on Palo Verde Unit 3, which APS completed recording in May 1994. See Note 1J of Notes to Consolidated Financial Statements in Part II, Item 8 of the 1994 10-K.

Accounting Issue

In March 1995 the Financial Accounting Standards Board issued SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," which is effective in 1996. This statement requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss would be recognized if the sum of the estimated future undiscounted cash flows to be generated by an asset is less than its carrying value. The amount of the loss would be based on a comparison of book value to fair value. The standard also amends SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," to require write-off of a regulatory asset if it is no longer probable that future revenues will recover the cost of

the asset. This new standard does not impact the Company at this time, however, it will be reviewed on an ongoing basis.

COMPETITION

A significant challenge for APS will be how well it is able to respond to increasingly competitive conditions in the electric utility industry, while continuing to earn an acceptable return for its shareholders. Strategies emphasize managing costs, stabilizing electric rates, negotiating long-term contracts with large customers and capitalizing on the growth characteristics of its service territory.

One of the issues that must be addressed responsibly is the recovery in a more competitive environment of the carrying value of assets acquired or recorded under the existing regulatory environment.

The 1994 rate settlement provided for a study by APS and the ACC staff to develop new procedures to address market conditions and increasing competition in the electric utility industry. APS anticipates filing recommendations with the ACC in late 1995. A separate ACC proceeding on competition was opened by the ACC in mid-1994 and is ongoing.

As the forces of competition continue to impact the industry, it will become clearer as to what customer sectors and what regions will be most affected and what strategies are best to deal with those forces.

PART II. OTHER INFORMATION

The following information relates primarily to Pinnacle West (the "Company") and its principal subsidiary, Arizona Public Service Company ("APS").

ITEM 5. Other Information

Palo Verde Nuclear Generating Station

See Note 7 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report for a discussion of issues regarding the Palo Verde steam generators.

Navajo Nation

Four Corners Power Plant and Navajo Generating Station are located on the Navajo Reservation and are held under easements granted by the federal government as well as leases from the Navajo Tribe. 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"). See "Navajo Nation" in Part II, Item 5 of the June 10-Q. 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 Tribe regarding whether or not the Acts apply to operations of NGS and Four Corners. 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 Tribe 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 parties have requested that the Secretary and the Court stay these proceedings. APS cannot currently predict the outcome of this matter.

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit No.	Description
27	Financial Data Schedule

In addition to the Exhibit shown above, the Company hereby incorporates the following Exhibits pursuant to Exchange Act Rule 12b-32 by reference to the filings set forth below:

Exhibit No.	Description	Previously Filed As Exhibit	File No.	Date Effective
10.1	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
10.2	Second Amendment to Pinnacle West Capital Corporation, Arizona Public Service Company, SunCor Development Company and El Dorado Investment Company Deferred Compensation Plan, effective as of January 1, 1994	10.2 to APS' September 1995 10-Q Report	1-4473	11/14/95
10.3	Amendment to Pinnacle West Capital Corporation, Arizona Public Service Company, SunCor Development Company and El Dorado	10.3 to APS' September 1995 10-Q Report	1-4473	11/14/95

Investment Company
Deferred Compensation
Plan, effective as of
December 1, 1994

10.4 Amendment No. 4 to 10.4 to APS' 1-4473 11/14/95

Pinnacle West Capital September 1995 Corporation, Arizona 10-Q Report Public Service
Company, SunCor
Development Company
and El Dorado
Investment Company
Deferred Compensation
Plan, effective as of
May 17, 1995

(b) Reports on Form 8-K

During the quarter ended September 30, 1995, and the period ended November 13, 1995, the Company filed no reports on Form 8-K.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PINNACLE WEST CAPITAL CORPORATION (Registrant)

Dated: November 14, 1995

By: /s/ Nancy Newquist

*Nancy Newquist
Vice President and Treasurer
(Principal Financial Officer and Officer*

Duly Authorized to sign this Report)

ARTICLE UT

Public Utility Companies and Public Utility Holding Companies (Thousands of Dollars) Fiscal year ended December 31, 1995 For Period January 1, 1995 through September 30, 1995 Nine Months Ended

MULTIPLIER: 1,000

CURRENCY: U.S. DOLLARS

PERIOD TYPE	9 MOS
FISCAL YEAR END	DEC 31 1995
PERIOD START	JAN 01 1995
PERIOD END	SEP 30 1995
EXCHANGE RATE	1
BOOK VALUE	PER BOOK
TOTAL NET UTILITY PLANT	4,627,853
OTHER PROPERTY AND INVEST	573,649
TOTAL CURRENT ASSETS	489,474
TOTAL DEFERRED CHARGES	1,274,589
OTHER ASSETS	0
TOTAL ASSETS	6,965,565
COMMON	1,641,075
CAPITAL SURPLUS PAID IN	0
RETAINED EARNINGS	257,591
TOTAL COMMON STOCKHOLDERS EQ	1,898,666
PREFERRED MANDATORY	75,000
PREFERRED	193,561
LONG TERM DEBT NET	2,519,791
SHORT TERM NOTES	0
LONG TERM NOTES PAYABLE	0
COMMERCIAL PAPER OBLIGATIONS	62,200
LONG TERM DEBT CURRENT PORT	77,624
PREFERRED STOCK CURRENT	0
CAPITAL LEASE OBLIGATIONS	0
LEASES CURRENT	0
OTHER ITEMS CAPITAL AND LIAB	2,138,723
TOT CAPITALIZATION AND LIAB	6,965,565
GROSS OPERATING REVENUE	1,298,101
INCOME TAX EXPENSE	119,002
OTHER OPERATING EXPENSES	604,369
TOTAL OPERATING EXPENSES	814,180
OPERATING INCOME LOSS	483,921
OTHER INCOME NET	(183,552)
INCOME BEFORE INTEREST EXPEN	0
TOTAL INTEREST EXPENSE	165,624
NET INCOME	181,367
PREFERRED STOCK DIVIDENDS	0
EARNINGS AVAILABLE FOR COMM	181,367
COMMON STOCK DIVIDENDS	58,998
TOTAL INTEREST ON BONDS	155,069
CASH FLOW OPERATIONS	445,332
EPS PRIMARY	2.08
EPS DILUTED	0

End of Filing

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