PINNACLE WEST CAPITAL CORP

FORM 10-Q
(Quarterly Report)

Filed 05/15/98 for the Period Ending 03/31/98

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

PINNACLE WEST CAPITAL CORP

FORM 10-Q
(Quarterly Report)

Filed 5/15/1998 For Period Ending 3/31/1998

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

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

For the quarterly period ended March 31, 1998

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	86-0512431
(State or other jurisdiction of incorporation or organization)	(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 May 14, 1998: 84,808,018

Glossary

ACC - Arizona Corporation Commission

ACC Staff - Staff of the Arizona Corporation Commission

APS - Arizona Public Service Company

Cholla - Cholla Power Plant

Company - Pinnacle West Capital Corporation

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

EPA - United States Environmental Protection Agency

FERC - Federal Energy Regulatory Commission

Four Corners - Four Corners Power Plant

ITC - Investment tax credit

1997 10-K - Pinnacle West Capital Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 1997

NGS - Navajo Generating Station

Palo Verde - Palo Verde Nuclear Generating Station

Pinnacle West - Pinnacle West Capital Corporation

Power Coordination Agreement - 1955 agreement between the Company and Salt River Project that provides for certain electric system and power sales

Rules - Rules adopted by the ACC for the introduction of retail electric competition in Arizona

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

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"

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

SunCor - SunCor Development Company

Territorial Agreement - 1955 agreement between the Company and Salt River Project that has provided exclusive retail service territories in Arizona as against each other

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

PINNACLE WEST CAPITAL CORPORATION CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands, except per share amounts)

	Three Months Ended March 31, 1998	Three Months Ended March 31, 1997
Operating Revenues		
Electric	$ 380,423	$ 379,021
Real estate	34,161	19,543
Total	414,584	398,564
Fuel Expenses		
Fuel for electric generation	50,328	51,122
Purchased power	23,589	34,347
Total	73,917	85,469
Operating Expenses		
Utility operations and maintenance	96,416	88,016
Real estate operations	30,236	19,762
Depreciation and amortization	92,830	92,602
Taxes other than income taxes	30,348	30,244
Total	249,830	230,624
Operating Income	90,837	82,471
Other Income (Deductions)		
Interest on long-term debt	(39,710)	(39,451)
Other interest	(2,707)	(4,501)
Capitalized interest	4,151	3,834
Preferred stock dividend requirements of APS	(2,878)	(3,626)
Other-net	4,359	4,223
Total	(36,785)	(39,521)
Income Before Income Tax	54,052	42,950
Income Tax Expense	22,966	17,568
Net Income	$ 31,086	$ 25,382
Average Common Shares Outstanding	84,785,309	87,418,663
Earnings Per Average Common Share Outstanding:		
Net income - basic	$ 0.37	$ 0.29
Net income - diluted	$ 0.36	$ 0.29
Dividends Declared Per Share	$ 0.300	$ 0.275

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 March 31, 1998	Twelve Months Ended March 31, 1997
Operating Revenues		
Electric	$ 1,879,955	$ 1,752,032
Real estate	131,091	103,037
Total	2,011,046	1,855,069
Fuel Expenses		
Fuel for electric generation	200,547	239,181
Purchased power	224,528	115,539
Total	425,075	354,720
Operating Expenses		
Utility operations and maintenance	407,834	430,987
Real estate operations	122,102	98,300
Depreciation and amortization	368,513	333,174
Taxes other than income taxes	121,650	118,120
Total	1,020,099	980,581
Operating Income	565,872	519,768
Other Income (Deductions)		
Allowance for equity funds used during construction	--	3,534
Interest on long-term debt	(160,929)	(165,000)
Other interest	(16,879)	(23,419)
Capitalized interest	16,525	10,106
Preferred stock dividend requirements of APS	(12,055)	(16,241)
Other-net	4,705	(4,192)
Total	(168,633)	(195,212)
Income From Continuing Operations Before Income Tax	397,239	324,556
Income Tax Expense	155,679	122,974
Income From Continuing Operations	241,560	201,582
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 $11,341	--	(16,743)
Net Income	$ 241,560	$ 175,300
Average Common Shares Outstanding	84,853,589	87,433,676
Earnings (Loss) Per Average Common Share Outstanding:		
Continuing Operations - Basic	$ 2.85	$ 2.30
Net Income - Basic	$ 2.85	$ 2.00
Continuing Operations - Diluted	$ 2.83	$ 2.29
Net Income - Diluted	$ 2.83	$ 1.99
Dividends Declared Per Share	$ 1.150	$ 1.050

See Notes to Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

ASSETS
(Thousands of Dollars)

	March 31, 1998	December 31, 1997
Current Assets		
Cash and cash equivalents	$ 22,119	$ 27,484
Customer and other receivables--net	139,615	183,507
Accrued utility revenues	49,531	58,559
Material and supplies	72,902	70,634
Fossil fuel	10,854	9,621
Deferred income taxes	57,888	57,887
Other current assets	44,007	41,408
Total current assets	396,916	449,100
Investments and Other Assets		
Real estate investments--net	355,857	365,921
Other assets	220,709	215,027
Total investments and other assets	576,566	580,948
Utility Plant		
Electric plant in service and held for future use	7,024,991	7,009,059
Less accumulated depreciation and amortization	2,685,184	2,620,607
Total	4,339,807	4,388,452
Construction work in progress	270,147	237,492
Nuclear fuel, net of amortization	58,737	51,624
Net utility plant	4,668,691	4,677,568
Deferred Debits		
Regulatory asset for income taxes	444,887	458,369
Rate synchronization cost deferrals	345,068	358,871
Other deferred debits	313,480	325,561
Total deferred debits	1,103,435	1,142,801
Total Assets	$ 6,745,608	$ 6,850,417

See Notes to Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

LIABILITIES AND EQUITY
(Thousands of Dollars)

	March 31, 1998	December 31, 1997
Current Liabilities		
Accounts payable	$ 80,038	$ 117,429
Accrued taxes	138,328	84,610
Accrued interest	28,465	32,974
Short-term borrowings	81,000	130,750
Current maturities of long-term debt	8,313	108,695
Customer deposits	30,924	30,672
Other current liabilities	27,962	18,534
Total current liabilities	395,030	523,664
Long-Term Debt Less Current Maturities	2,283,235	2,244,248
Deferred Credits and Other		
Deferred income taxes	1,350,797	1,363,461
Deferred investment tax credit	48,435	50,861
Unamortized gain - sale of utility plant	81,219	82,363
Other	393,697	387,223
Total deferred credits and other	1,874,148	1,883,908
Commitments and Contingencies (Notes 5, 8 and 9)		
Minority Interests		
Non-redeemable preferred stock of APS	141,317	142,051
Redeemable preferred stock of APS	19,110	29,110
Common Stock Equity		
Common stock, no par value	1,553,453	1,553,771
Retained earnings	479,315	473,665
Total common stock equity	2,032,768	2,027,436
Total Liabilities and Equity	$ 6,745,608	$ 6,850,417

See Notes to Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(THOUSANDS OF DOLLARS)

	Three Months Ended March 31, 1998	Three Months Ended March 31, 1997
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 31,086	$ 25,382
Items not requiring cash		
Depreciation and amortization	101,443	100,322
Deferred income taxes--net	(11,419)	(8,816)
Deferred investment tax credit	(2,426)	(2,352)
Other--net	1,325	(5,661)
Changes in current assets and liabilities		
Customer and other receivables--net	44,468	24,718
Accrued utility revenues	9,028	6,244
Materials, supplies and fossil fuel	(3,501)	2,196
Other current assets	(2,585)	(1,133)
Accounts payable	(37,749)	(51,383)
Accrued taxes	53,384	51,438
Accrued interest	(4,509)	(10,900)
Other current liabilities	10,679	(11,916)
Decrease in land held	11,051	1,673
Other--net	8,527	28,286
Net Cash Flow Provided By Operating Activities	208,802	148,098
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(60,848)	(77,129)
Capitalized interest	(4,151)	(3,834)
Other--net	(89)	1,797
Net Cash Flow Used For Investing Activities	(65,088)	(79,166)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of long-term debt	99,375	2,507
Short-term borrowings--net	(49,750)	199,400
Dividends paid on common stock	(25,436)	(24,042)
Repayment of long-term debt	(162,216)	(194,098)
Redemption of preferred stock	(10,599)	(25,980)
Other--net	(453)	(813)
Net Cash Flow Used For Financing Activities	(149,079)	(43,026)
Net Cash Flow	(5,365)	25,906
Cash and Cash Equivalents at Beginning of Period	27,484	26,686
Cash and Cash Equivalents at End of Period	$ 22,119	$ 52,592
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest, net of amounts capitalized	$ 40,942	$ 50,096
Income taxes	$ 4,600	$ 4,001

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. Certain prior year balances have been restated to conform to the current year presentation.

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 March 31, 1998, the results of operations for the three months and twelve months ended March 31, 1998 and 1997, and the cash flows for the three months ended March 31, 1998 and 1997. 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 1997 10-K.

3. The operations of APS are subject to seasonal fluctuations, with variations in energy usage by customers occurring 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 for the three months ended March 31, 1998.

5. Regulatory Matters --- Electric Industry Restructuring

State

ACC Rules. 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 consumers 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 cost 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 1998, the ACC has continued conducting workshops on certain of the 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. On May 6, 1998, an ACC Hearing Officer issued a Recommended Decision in the above proceeding that, although recommending an opportunity for full recovery of APS' stranded costs, would impose certain conditions and restrictions on stranded cost recovery. However, final decisions by the ACC have not yet been made with respect to this issue.

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 partially decided in a manner adverse to those utilities' positions.

Legislative Initiatives. 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. This latter issue (the ability of the ACC to set rates based on the competitive market) was decided in favor of the ACC in the related lawsuits referenced in the preceding paragraph.

In May 1998, the final version of a bill to facilitate implementation of retail electric competition in the state was approved by the House/Senate conference committee of the Arizona legislature. The bill includes the following major provisions: (a) requirements that Arizona's largest government-operated electric utility (Salt River Project) and, at their option, smaller city electric systems
(i) open their service territories to electric service providers to implement retail electric generation competition for 20% of each utility's 1995 retail peak demand by December 31, 1998 and for all retail customers by December 31, 2000; (ii) decrease rates by at least 10% over a ten-year period beginning as early as January 1, 1991; (iii) implement procedures and public processes, including judicial review at the request of either an interested party or the Arizona Attorney General, for establishing the terms, conditions and pricing of electric services as well as certain other decisions affecting retail electric competition, which procedures and processes are comparable to those already applicable to public service corporations; (b) a description of the factors which form the basis of consideration by Salt River Project in determining stranded costs; and (c) a requirement, both for public power entities and public service corporations (including APS), that billing, collection, metering and meter reading services be provided on a competitive basis during the first two years of competition only for customers having demands in excess of one megawatt (and that are eligible for competitive generation services), and thereafter for all customers receiving competitive electric generation.

The legislature will also review and make recommendations for the 1999 Arizona legislature on certain issues, including: whether public power entities excluded from the current bill should be included; taxation issues associated with electric competition; regulation of public power entities outside their service territory; constitutional issues relating to facilitating electric competition; system priority, capacity, capability and reliability; antitrust issues; and public power entities compliance with the code of conduct and affiliate issues between competitive and noncompetitive service electricity providers. The bill now goes to the Arizona House and Senate for a final vote and, if passed, to the Governor for consideration.

Federal

The Energy Policy Act of 1992 and recent rulemakings by 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 recent congressional sessions, which as currently written, would allow consumers to choose their electricity suppliers 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 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' existing regulatory orders and current regulatory environment support its accounting practices related to regulatory assets, which amounted to approximately $0.9 billion at March 31, 1998. 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.

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.

General

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.

6. Regulatory Matters --- 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).

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 price reduction of approximately $17 million ($10 million after income taxes), or 1.1%, to become effective July 1, 1998. The amount and timing of the price decrease are subject to ACC approval.

7. Agreement with Salt River Project

On April 25, 1998, APS and Salt River Project entered into a Memorandum of Agreement in anticipation of, and to facilitate, the opening of the Arizona electric industry. The Agreement contains the following major components (some of which are subject to approval of their respective Boards of Directors):

o APS and Salt River Project would amend the Territorial Agreement to remove any barriers to the provision of competitive electricity supply and non-distribution services.

o APS and Salt River Project would amend the Power Coordination Agreement to lower the price that APS will pay Salt River Project for purchased power by approximately $17 million (pretax) in 1999 and by lesser annual amounts through 2006.

o APS and Salt River Project agreed on certain legislative positions regarding electric utility restructuring at the state and federal level.

An ACC docket has been established so that the ACC may review certain provisions of the Agreement. The ACC Staff has requested the ACC Hearing Division to issue a procedural order to govern the proceedings before the ACC on this matter. In its request, the ACC Staff identified certain issues that it believes the ACC should consider, including whether (a) the Territorial Agreement remains in the public interest,

(b) the Agreement is a contract in restraint of trade, and (c) the Agreement will materially lessen the potential for retail electric competition in Arizona. APS cannot predict what action, if any, will result from any ACC hearings that may be held with respect to the Agreement.

The Antitrust Unit of the Arizona Attorney General's Office, which has been involved in the ongoing regulatory and legislative proceedings regarding the restructuring of the Arizona electric industry, has requested clarification of the operation of certain of the Agreement's provisions. APS is currently engaged in discussions with the Arizona Attorney General's Office regarding this matter.

8. 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. 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 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.

9. 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 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 1998 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.

10. In the first quarter of 1998 the Company adopted SFAS No. 130, "Reporting Comprehensive Income." This standard changed the reporting of certain items previously reported in the common stock equity section of the balance sheet. The effects of

adopting SFAS No. 130 were not material to the Company's consolidated financial statements.

The Financial Accounting Standards Board issued SFAS No. 131 on "Disclosures about Segments of an Enterprise and Related Information" and SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," both of which are effective for fiscal years beginning after December 15, 1997. 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. It is not expected to have a material effect on the Company's financial statement disclosures.

PINNACLE WEST CAPITAL CORPORATION

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

Operating Results

The following table shows the income and/or loss of Pinnacle West and its subsidiaries for the three-month and twelve-month periods ended March 31, 1998 and 1997:

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

	Three Months Ended March 31, 1998	Three Months Ended March 31, 1997	Twelve Months Ended March 31, 1998	Twelve Months Ended March 31, 1997
APS	$ 29,057	$ 25,019	$ 242,728	$ 210,269
SunCor	3,239	1,088	7,485	6,452
El Dorado	3,169	3,270	8,089	3,777
Pinnacle West (1)	(4,379)	(3,995)	(16,742)	(45,198)
NET INCOME	$ 31,086	$ 25,382	$ 241,560	$ 175,300

(1) Includes Pinnacle West's interest expense, extraordinary charge for early retirement of debt, discontinued operations and operating expenses, net of income tax benefits. Income tax benefits (expenses) are as follows (in thousands): $(921) and $386 for the three months ended March 31, 1998 and 1997, respectively; and $1,443 and $20,033 for the twelve months ended March 31, 1998 and 1997 respectively.

APS

Operating Results - Three-month period ended March 31, 1998 compared with three-month period ended March 31, 1997

Earnings increased $4 million in the three-month comparison primarily because of strong customer growth, partially offset by increased operations and maintenance expenses.

Operating revenues increased $1 million because the effects of customer growth ($13 million) and weather ($3 million) offset a decrease in sales for resale ($10 million) and a price reduction ($4 million). See Note 6 of Notes to Condensed Consolidated Financial Statements for information on the price reduction. Sales for resale are wholesale electricity sales to third parties who resell the electricity to their customers. The decrease in sales for resale was a result of changes in power marketing activity, which can vary from period to period without corresponding effects on earnings because of related fluctuations in purchased power costs.

Operation and maintenance expenses increased $8 million as a result of growth and increased expenses due to impending competition, increased outages at coal plants and other miscellaneous factors, partially offset by savings resulting from a 1996 voluntary severance program.

Operating Results - Twelve-month period ended March 31, 1998 compared
with twelve-month period ended March 31, 1997

Earnings increased $32 million in the twelve-month comparison ended March 31, 1998 primarily because of customer growth; a $32 million pretax charge in 1996 for a voluntary severance program; two fuel-related settlements in the third quarter of 1997; and lower financing costs. These positive factors more than offset the effects of the 1996 regulatory agreement with the ACC, which, in the twelve-month comparison, resulted in $27 million of additional regulatory asset amortization and a $28 million revenue decrease caused by two retail price reductions. See Note 6 of Notes to Condensed Consolidated Financial Statements for additional information about the regulatory agreement. In the period ended March 31, 1997, APS also recognized $11 million of income tax benefits associated with capital loss carryforwards.

Operating revenues increased $128 million primarily because of increases in sales for resale ($95 million); customer growth ($59 million) and weather effects ($12 million). As mentioned above, these positive factors were partially offset by the $28 million revenue decrease caused by retail price reductions and by various other factors ($10 million). 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 puchases.

The two fuel-related settlements increased APS' pretax earnings by approximately $21 million. APS' income statement reflects these settlements as reductions in fuel expense and as other income.

Operations and maintenance expenses were lower 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 as a result of growth and competition, and other miscellaneous factors.

Financing costs decreased $10 million because of lower amounts of outstanding debt and preferred stock.

Non-Utility Operations

The parent company's losses decreased in the twelve-month period due to lower interest expense resulting from debt reduction. The twelve-month period ended March 1997 included extraordinary charges related to the early retirement of debt and a loss from discontinued operations on a legal matter related to MeraBank, A Federal Savings Bank (a former subsidiary).

SunCor's earnings increased in both the three-month and twelve-month periods due primarily to an increase in net land and home sales.

El Dorado's increase in earnings in the twelve-month period was the result of investment sales.

Other Income

As part of a 1994 rate settlement with the ACC, APS accelerated amortization of substantially all deferred 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.

Liquidity and Capital Resources

Parent Company

The parent company'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 Operation in Part II, Item 7 of the 1997 10-K.

As a result of the 1996 regulatory agreement (see Note 6 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report), the parent company has invested $50 million in APS in 1996 and 1997 and will invest similar amounts annually in 1998 and 1999.

The Board declared a quarterly dividend of 30 cents per share of common stock, payable June 1, 1998 to shareholders of record on May 1, 1998, totaling approximately $ 25.4 million.

APS

For the three months ended March 31, 1998, APS incurred approximately $60 million in capital expenditures, which is approximately 19% of the most recently estimated 1998 capital expenditures. APS' projected capital expenditures for the next three years are: 1998, $323 million; 1999, $313 million; and 2000, $306 million, respectively. These amounts include about $30 - $35 million each year for nuclear fuel expenditures. In addition, APS is considering expanding certain of its businesses over the next several years, which may result in increased expenditures.

APS' long-term debt and preferred stock redemption requirements and payment obligations on a capitalized lease for the next three years are: 1998, $165 million; 1999, $174 million; and 2000, $109 million. During the three months ended March 31, 1998, APS redeemed approximately $135 million of its long-term debt and approximately $11 million of its preferred stock with cash from operations and long-term and short-term debt. As a result of the 1996 regulatory agreement (see Note 6 of Notes to Condensed Consolidated Financial Statements), the parent company invested $50 million in APS in 1996 and 1997 and will invest similar amounts annually in 1998 and 1999. During the three months ended March 31, 1998, APS issued $100 million of its unsecured debt.

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

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.

Competition and Electric Industry Restructuring

See Note 5 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report for discussions of competitive developments and regulatory accounting. See Note 7 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report for a discussion of a proposed amendment to a Power Coordination Agreement with Salt River Project that APS estimates would reduce its pretax costs for purchased power by approximately $17 million in 1999 and by lesser annual amounts through 2006.

Rate Matters

See Note 5 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report for a discussion of a proposed price reduction.

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; and technological developments in the electric industry.

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.

PART II - OTHER INFORMATION

The following information relates primarily to Pinnacle West and its principal subsidiary, APS.

ITEM 5. Other Information

Purported Navajo Environmental Regulation

As previously reported, 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, and APS reviewed the regulations to determine what effect they may have on Four Corners and NGS. See "Environmental Matters --- Purported Navajo Environmental Regulation" in Part I, Item 1 of the 1997 10-K. On April 10, 1998, APS filed a Petition for Review in the United States Court of Appeals for the District of Columbia. Arizona Public Service Company v. United States Environmental Protection Agency, No. 98-1196.

Palo Verde Nuclear Generating Station

See Note 9 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.

Construction and Financing Programs

See "Liquidity and Capital Resources" in Part I, Item 2 of this report for a discussion of the Company's construction and financing programs.

Competition and Electric Industry Restructuring

See Note 5 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report 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.

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit No.	Description
27.1	Financial Data Schedule

(b) Reports on Form 8-K

During the quarter ended March 31, 1998, and the period from April 1 through May 14, 1998, the Company filed no reports on Form 8-K.

SIGNATURES

Pursuant to the requirements of the Securities Exchange 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: May 15, 1998

By: /s/ George A. Schreiber, Jr.

George A. Schreiber, Jr.
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer
and Officer Duly Authorized

to sign this Report)

ARTICLE UT

MULTIPLIER: 1,000

CURRENCY: U.S. Dollars

PERIOD TYPE	3 MOS
FISCAL YEAR END	DEC 31 1998
PERIOD START	JAN 01 1998
PERIOD END	MAR 31 1998
EXCHANGE RATE	1
BOOK VALUE	PER BOOK
TOTAL NET UTILITY PLANT	4,668,691
OTHER PROPERTY AND INVEST	576,566
TOTAL CURRENT ASSETS	396,916
TOTAL DEFERRED CHARGES	1,103,435
OTHER ASSETS	0
TOTAL ASSETS	6,745,608
COMMON	1,553,453
CAPITAL SURPLUS PAID IN	0
RETAINED EARNINGS	479,315
TOTAL COMMON STOCKHOLDERS EQ	2,032,768
PREFERRED MANDATORY	19,110
PREFERRED	141,317
LONG TERM DEBT NET	2,283,235
SHORT TERM NOTES	0
LONG TERM NOTES PAYABLE	0
COMMERCIAL PAPER OBLIGATIONS	81,000
LONG TERM DEBT CURRENT PORT	8,313
PREFERRED STOCK CURRENT	0
CAPITAL LEASE OBLIGATIONS	0
LEASES CURRENT	0
OTHER ITEMS CAPITAL AND LIAB	1,700,550
TOT CAPITALIZATION AND LIAB	6,745,608
GROSS OPERATING REVENUE	414,584
INCOME TAX EXPENSE	22,966
OTHER OPERATING EXPENSES	249,830
TOTAL OPERATING EXPENSES	323,747
OPERATING INCOME LOSS	90,837
OTHER INCOME NET	(36,785)
INCOME BEFORE INTEREST EXPEN	0
TOTAL INTEREST EXPENSE	38,266
NET INCOME	31,086
PREFERRED STOCK DIVIDENDS	0
EARNINGS AVAILABLE FOR COMM	31,086
COMMON STOCK DIVIDENDS	25,436
TOTAL INTEREST ON BONDS	30,028
CASH FLOW OPERATIONS	208,802
EPS PRIMARY	0.37
EPS DILUTED	0.36

End of Filing